UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2020

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: **001-38386**

CARDLYTICS, INC.

(Exact Name of Registrant as Specified in its Charter)

Delaware	**26-3039436**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

675 Ponce de Leon Ave. NE, Ste 6000 **Atlanta** **Georgia** **30308**

(Address of principal executive offices, including zip code)

(888) 792-5802

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Securities Exchange Act of 1934:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock	CDLX	NASDAQ

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, 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 October 31, 2020, there were 27,464,399 shares outstanding of the registrant's common stock, par value $0.0001.

CARDLYTICS, INC.
QUARTERLY REPORT ON FORM 10-Q
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PART I. FINANCIAL INFORMATION
ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

See notes to the condensed consolidated financial statements

CARDLYTICS, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)
(Amounts in thousands, except par value amounts)

	December 31, 2019	September 30, 2020
Assets		
Current assets:		
Cash and cash equivalents	$ 104,458	$ 287,639
Restricted cash	129	109
Accounts receivable, net	81,452	53,392
Other receivables	3,908	5,678
Prepaid expenses and other assets	5,783	7,125
Total current assets	195,730	353,943
Long-term assets:		
Property and equipment, net	14,290	13,338
Right-of-use assets under operating leases, net	—	9,669
Intangible assets, net	389	424
Capitalized software development costs, net	3,815	5,585
Deferred FI implementation costs, net	8,383	4,743
Other long-term assets, net	1,706	1,720
Total assets	$ 224,313	$ 389,422
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	$ 1,229	$ 1,738
Accrued liabilities:		
Accrued compensation	8,186	8,305
Accrued expenses	6,018	3,203
FI Share liability	41,956	26,477
Consumer Incentive liability	19,861	14,293
Deferred revenue	1,127	542
Current operating lease liabilities	—	3,678
Current finance lease liabilities	24	19
Total current liabilities	78,401	58,255
Long-term liabilities:		
Convertible senior notes, net	—	171,529
Deferred liabilities	2,632	—
Long-term operating lease liabilities	—	9,280
Long-term finance lease liabilities	13	—
Total liabilities	81,046	239,064
Stockholders’ equity:		
Common stock, $0.0001 par value—100,000 shares authorized and 26,547 and 27,426 shares issued and outstanding as of December 31, 2019 and September 30, 2020, respectively.	8	8
Additional paid-in capital	480,578	535,863
Accumulated other comprehensive income	1,312	1,763
Accumulated deficit	(338,631)	(387,276)
Total stockholders’ equity	143,267	150,358
Total liabilities and stockholders’ equity	$ 224,313	$ 389,422

See notes to the condensed consolidated financial statements

CARDLYTICS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)
(Amounts in thousands, except per share amounts)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	**2020**	**2019**	**2020**
Revenue	$ 56,419	$ 46,079	$ 141,137	$ 119,810
Costs and expenses:				
FI Share and other third-party costs	32,470	27,971	79,094	70,920
Delivery costs	3,070	3,498	9,686	10,403
Sales and marketing expense	11,074	11,432	31,458	32,805
Research and development expense	3,018	4,627	8,741	12,444
General and administration expense	12,218	12,757	27,558	35,235
Depreciation and amortization expense	1,167	1,933	3,181	5,809
Total costs and expenses	63,017	62,218	159,718	167,616
Operating loss	(6,598)	(16,139)	(18,581)	(47,806)
Other (expense) income:				
Interest expense, net	(218)	(283)	(860)	(9)
Foreign currency (loss) gain	(931)	1,066	(1,130)	(830)
Total other (expense) income	(1,149)	783	(1,990)	(839)
Loss before income taxes	(7,747)	(15,356)	(20,571)	(48,645)
Income tax benefit	—	—	—	—
Net loss	(7,747)	(15,356)	(20,571)	(48,645)
Net loss attributable to common stockholders	$ (7,747)	$ (15,356)	$ (20,571)	$ (48,645)
Net loss per share attributable to common stockholders, basic and diluted	$ (0.33)	$ (0.56)	$ (0.90)	$ (1.80)
Weighted-average common shares outstanding, basic and diluted	23,561	27,343	22,936	27,048

See notes to the condensed consolidated financial statements

CARDLYTICS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS (UNAUDITED)
(Amounts in thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	**2020**	**2019**	**2020**
Net loss	$ (7,747)	$ (15,356)	$ (20,571)	$ (48,645)
Other comprehensive income (loss):				
Foreign currency translation adjustments	565	(951)	642	451
Total comprehensive loss	$ (7,182)	$ (16,307)	$ (19,929)	$ (48,194)

See notes to the condensed consolidated financial statements

CARDLYTICS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (UNAUDITED)
(Amounts in thousands)

Nine Months Ended September 30, 2020:

	Common Stock		Additional Paid-In Capital	Accumulated Other Comprehensive Income	Accumulated Deficit	Total
	Shares	Amount				
Balance – December 31, 2019	26,547	$ 8	$ 480,578	$ 1,312	$ (338,631)	$ 143,267
Exercise of common stock options	324	—	6,371	—	—	6,371
Exercise of common stock warrants	9	—	—	—	—	—
Stock-based compensation	—	—	22,636	—	—	22,636
Settlement of restricted stock	518	—	—	—	—	—
Issuance of common stock pursuant to the ESPP	28	—	1,312	—	—	1,312
Equity component of convertible senior notes, net of issuance cost	—	—	51,416	—	—	51,416
Purchase of capped calls related to convertible senior notes	—	—	(26,450)	—	—	(26,450)
Other comprehensive income	—	—	—	451	—	451
Net loss	—	—	—	—	(48,645)	(48,645)
Balance – September 30, 2020	27,426	$ 8	$ 535,863	$ 1,763	$ (387,276)	$ 150,358

Three Months Ended September 30, 2020:

	Common Stock		Additional Paid-In Capital	Accumulated Other Comprehensive Income	Accumulated Deficit	Total
	Shares	Amount				
Balance – June 30, 2020	27,275	$ 8	$ 499,663	$ 2,714	$ (371,920)	$ 130,465
Exercise of common stock options	49	—	945	—	—	945
Stock-based compensation	—	—	10,289	—	—	10,289
Settlement of restricted stock	102	—	—	—	—	—
Issuance of common stock pursuant to the ESPP	—	—	—	—	—	—
Equity component of convertible senior notes, net of issuance cost	—	—	51,416	—	—	51,416
Purchase of capped calls related to convertible senior notes	—	—	(26,450)	—	—	(26,450)
Other comprehensive loss	—	—	—	(951)	—	(951)
Net loss	—	—	—	—	(15,356)	(15,356)
Balance – September 30, 2020	27,426	$ 8	$ 535,863	$ 1,763	$ (387,276)	$ 150,358

See notes to the condensed consolidated financial statements

Nine Months Ended September 30, 2019:

	Common Stock		Additional Paid-In Capital	Accumulated Other Comprehensive Income	Accumulated Deficit	Total
	Shares	Amount				
Balance – December 31, 2018	22,466	$ 7	$ 371,463	$ 1,992	$ (321,487)	$ 51,975
Exercise of common stock options	215	—	2,850	—	—	2,850
Exercise of common stock warrants	821	—	17,659	—	—	17,659
Stock-based compensation	—	—	12,292	—	—	12,292
Settlement of restricted stock	164	—	—	—	—	—
Issuance of Common Stock	1,904	1	61,308	—	—	61,309
Issuance of common stock pursuant to the ESPP	94	—	1,165	—	—	1,165
Other comprehensive income	—	—	—	642	—	642
Net loss	—	—	—	—	(20,571)	(20,571)
Balance – September 30, 2019	25,664	$ 8	$ 466,737	$ 2,634	$ (342,058)	$ 127,321

Three Months Ended September 30, 2019:

	Common Stock		Additional Paid-In-Capital	Accumulated Other Comprehensive Income	Accumulated Deficit	Total
	Shares	Amount				
Balance – June 30, 2019	22,828	$ 7	$ 378,773	$ 2,069	$ (334,311)	$ 46,538
Exercise of common stock options	104	—	1,502	—	—	1,502
Exercise of common stock warrants	821	—	17,659	—	—	17,659
Stock-based compensation	—	—	7,495	—	—	7,495
Settlement of restricted stock	7	—	—	—	—	—
Issuance of common stock	1,904	1	61,308	—	—	61,309
Other comprehensive income	—	—	—	565	—	565
Net loss	—	—	—	—	(7,747)	(7,747)
Balance – September 30, 2019	25,664	$ 8	$ 466,737	$ 2,634	$ (342,058)	$ 127,321

See notes to the condensed consolidated financial statements

CARDLYTICS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
(Amounts in thousands)

	Nine Months Ended September 30,	
	2019	**2020**
Operating activities		
Net loss	$ (20,571)	$ (48,645)
Adjustments to reconcile net loss to net cash used in operating activities:		
Bad debt expense	1,066	1,281
Depreciation and amortization	3,181	5,809
Amortization of financing costs charged to interest expense	72	290
Amortization of right-of-use assets	—	2,639
Stock-based compensation expense	12,266	24,811
Other non-cash expense, net	1,368	1,166
Amortization and impairment of deferred FI implementation costs	2,173	3,640
Change in operating assets and liabilities:		
Accounts receivable	(5,789)	25,010
Prepaid expenses and other assets	(1,368)	(1,412)
Recovery of deferred FI implementation costs	3,469	—
Accounts payable	(401)	115
Other accrued expenses	1,453	(6,871)
FI Share liability	6,041	(15,479)
Consumer Incentive liability	4,397	(5,568)
Net cash received from (used in) operating activities	7,357	(13,214)
Investing activities		
Acquisition of property and equipment	(4,561)	(2,691)
Acquisition of patents	(14)	(50)
Capitalized software development costs	(1,836)	(3,519)
Net cash used in investing activities	(6,411)	(6,260)
Financing activities		
Principal payments of debt	(46,692)	(17)
Proceeds from issuance of convertible senior notes, net of issuance costs paid of $6,900	—	223,100
Purchase of capped calls related to convertible senior notes	—	(26,450)
Proceeds from issuance of common stock	81,922	6,380
Equity issuance costs	(38)	—
Debt issuance costs	(143)	—
Net cash received from financing activities	35,049	203,013
Effect of exchange rates on cash, cash equivalents and restricted cash	(435)	(378)
Net increase in cash, cash equivalents and restricted cash	35,560	183,161
Cash, cash equivalents, and restricted cash — Beginning of period	59,870	104,587
Cash, cash equivalents, and restricted cash — End of period	$ 95,430	$ 287,748

See notes to the condensed consolidated financial statements

CARDLYTICS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
(Amounts in thousands)

	Nine Months Ended September 30,	
	2019	**2020**
Reconciliation of cash, cash equivalents and restricted cash to the condensed consolidated balance sheet:		
Cash and cash equivalents	$ 95,184	$ 287,639
Restricted cash	246	109
Total cash, cash equivalents and restricted cash — End of period	$ 95,430	$ 287,748
Supplemental schedule of non-cash investing and financing activities:		
Cash paid for interest	$ 1,259	$ 48
Cash paid for income taxes	$ —	$ —
Amounts accrued for issuance costs of convertible senior notes	$ —	$ 375
Amounts accrued for property and equipment	$ 991	$ 775

See notes to the condensed consolidated financial statements

CARDLYTICS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

1. OVERVIEW OF BUSINESS AND BASIS OF PRESENTATION

Cardlytics, Inc. (“we,” “our,” “us,” the “Company,” or “Cardlytics”) is a Delaware corporation and was formed on June 26, 2008. We operate an advertising platform within financial institutions’ (“FIs”) digital channels, which include online, mobile, email, and various real-time notifications. Our partnerships with FIs provide us with access to their anonymized purchase data and digital banking customers. By applying advanced analytics to this aggregation of purchase data, we make it actionable, helping marketers identify, reach and influence likely buyers at scale, and measure the true sales impact of their marketing spend. We have strong relationships with leading marketers across a variety of industries, including national and regional restaurant and retail chains, large providers of cable satellite television and wireless services, and increasingly, travel and hospitality, grocery, e-commerce and luxury brands. Using our purchase intelligence presents customers with offers to save money at a time when they are thinking of their finances.

We also operate in the United Kingdom through Cardlytics UK Limited, a wholly-owned and operated subsidiary registered as a private limited company in England and Wales, and in India through Cardlytics Services India Private Limited, a wholly-owned and operated subsidiary registered as a private limited company in India.

Unaudited Interim Results

The accompanying unaudited interim condensed consolidated financial statements and information have been prepared in accordance with generally accepted accounting principles in the United States (“GAAP”) and in accordance with the rules and regulations of the Securities and Exchange Commission. Accordingly, they do not include all of the information and disclosures required by GAAP for complete financial statements. In the opinion of management, these financial statements contain all normal and recurring adjustments considered necessary to present fairly the financial position, results of operations, and cash flows for the periods presented. The results for interim periods presented are not necessarily indicative of the results to be expected for the full year due to the seasonality of our business, which has been historically impacted by higher consumer spending during the fourth quarter. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and related notes thereto included on our Annual Report on Form 10-K ("Annual Report") for the fiscal year ended December 31, 2019.

2020 Convertible Senior Notes

In September 2020, we issued convertible senior notes with an aggregate principal amount of $230.0 million bearing an interest rate of 1.00% due in 2025 (the "Notes"). Refer to Note 5—Debt and Financing Arrangements for further details.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements. Significant items subject to such estimates and assumptions include revenue recognition, internal-use software development costs, income taxes, stock-based compensation, allowance for doubtful accounts, income tax valuation allowance and contingencies. We base our estimates on historical experience and on assumptions that we believe are reasonable. Changes in facts or circumstances may cause us to change our assumptions and estimates in future periods and it is possible that actual results could differ from our current or revised future estimates.

Internal-Use Software Development Costs

During 2019, we began capitalizing costs related to the development of new technology for building and launching marketing campaigns. During the nine months ended September 30, 2020, we redesigned certain elements of this project and wrote off development costs totaling $1.0 million recognized in depreciation and amortization expense on our condensed consolidated statement of operations.

Restructuring

During the first quarter of 2020, we began a strategic shift within our organization to increase productivity and optimize performance. This plan has resulted in severance and medical benefits totaling $0.4 million and $1.3 million during the three and nine months ended September 30, 2020, respectively. We recognize these costs when the extent of our actions is determined and the costs can be estimated. These charges are reflected on our condensed consolidated statement of operations for the nine months ended September 30, 2020, as follows: $1.1 million in sales and marketing expense, $0.1 million in general and administrative expense and $0.1 million in research and development expense. Severance and medical benefits of $0.5 million have been paid to former employees through September 30, 2020.

Impacts of COVID-19 Pandemic

The COVID–19 pandemic resulted in a global slowdown of economic activity that decreased demand for a broad variety of goods and services and consumer discretionary spending, including spending by consumers with our marketers, and such decreased demand is likely to continue. Estimates and assumptions about future events and their effects cannot be determined with certainty and therefore require the exercise of judgment. Actual results could differ from those estimates and any such differences may be material to our financial statements.

Revenue growth for the three and nine months ended September 30, 2020 was unfavorably affected by the COVID-19 pandemic and its impact on both consumer discretionary spending and marketers' ability to spend advertising budgets on our solution. During the nine months ended September 30, 2020, we deferred $0.3 million of revenue and recorded bad debt expense of $1.3 million associated with billings to marketers that we believe are likely to be materially and adversely affected by the slowdown in economic activity resulting from the COVID-19 pandemic. We expect both a reduction in consumer spending and a reduction in marketing campaigns in the near term, which will result in a decline in our revenue and an increase in our net loss in future periods. The severity and duration of this decline is difficult to estimate given the uncertainty that the impacts of COVID-19 will continue to have on the global economy.

The following table summarizes changes in the allowance for doubtful accounts (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2020	2019	2020
Beginning balance	$ 572	$ 1,020	$ 169	$ 255
Bad debt expense (reversal)	414	(45)	1,066	1,281
Write-offs, net of recoveries	(537)	15	(786)	(546)
Ending balance	$ 449	$ 990	$ 449	$ 990

2. RECENT ACCOUNTING STANDARDS

Recently Adopted Accounting Pronouncements

In February 2016, the Financial Accounting Standards Board ("FASB") issued ASU 2016-02, *Leases (Topic 842)* to increase the transparency and comparability among organizations as it relates to lease assets and lease liabilities, by requiring lessees to recognize a right-of-use asset and lease liability for all leases with terms of more than 12 months, with exceptions. Effective January 1, 2020, we early adopted this guidance using a modified retrospective approach, which was required for all leases that exist at or commence after the date of the initial application with an option to use certain practical expedients. We have elected to use these practical expedients, which allow us to treat all components of our leases as a single component, not to reassess lease classification or whether an arrangement is or contains a lease and not to reassess its initial accounting for direct lease costs. The adoption of the new lease standard at January 1, 2020 resulted in the recognition of right-of-use assets and lease liabilities of $10.3 million and $13.5 million, respectively, consisting primarily of operating leases related to the rental of office and data center space. The adoption of this guidance did not have a significant impact on our condensed consolidated statements of operations or cash flows.

On January 1, 2020, we adopted ASU 2015-05, *Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40): Customer's Accounting for Fees Paid in a Cloud Computing Arrangement*, to help entities evaluate the accounting for fees paid by a customer in a cloud computing arrangement (hosting arrangement) by providing guidance for determining when the arrangement includes a software license. The adoption of this guidance did not have a material effect on our condensed consolidated financial statements.

On January 1, 2020, we adopted ASU 2018-15, *Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement that is a Service Contract*, which addresses the accounting for implementation, setup and other upfront costs incurred in a hosting arrangement. The adoption of this guidance did not have a material effect on our condensed consolidated financial statements.

Except for the adoption of ASU 2016-02, ASU 2015-05 and ASU 2018-15, there have been no changes to our accounting policies, and these unaudited interim condensed consolidated financial statements have been prepared on a basis consistent with that used to prepare our audited annual consolidated financial statements for the year ended December 31, 2019, and include, in the opinion of management, all adjustments, consisting of normal recurring items, necessary for the fair statement of the condensed consolidated financial statements.

Recently Issued Accounting Pronouncements

In August 2020, the FASB issued ASU 2020-06, *Debt—Debt with Conversion Options ("Subtopic 470-20") and Derivatives and Hedging—Contracts in Entity's Own Equity ("Subtopic 815-40")*, which simplifies the accounting for certain financial instruments with characteristics of liabilities and equity, including convertible instruments and contracts on an entity's own equity. ASU 2020-06 also improves and amends the related Earnings Per Share guidance for both Subtopics. The ASU is part of the FASB's simplification initiative, which aims to reduce unnecessary complexity in U.S. GAAP. ASU 2020-06 will be effective for annual reporting periods beginning after December 15, 2021. Early adoption is permitted, but not before annual reporting periods beginning after December 15, 2020. We are currently evaluating the impact of the new guidance on our consolidated financial statements.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, which is intended to provide more decision-useful information about expected credit losses on financial instruments and other commitments to extend credit held by a reporting entity at each reporting date. ASU 2016-13 revises the impairment model to utilize an expected loss methodology in place of the currently used incurred loss methodology, which will result in more timely recognition of losses on financial instruments, including, but not limited to, available for sale debt securities and accounts receivable. In November 2018, the FASB issued ASU 2018-19, *Codification Improvements to Topic 326, Financial Instruments - Credit Losses*, and in April 2019, the FASB issued ASU No. 2019-04, C*odification Improvements to Topic 326, Financial Instruments – Credit Losses*, Topic 815, *Derivatives and Hedging, and Topic 825, Financial Instruments*. These ASUs provide supplemental guidance and clarification to ASU 2016-13 and must be adopted concurrently with the adoption of ASU 2016-13, cumulatively referred to as "Topic 326." We will lose "emerging growth company" status effective December 31, 2020, and thus Topic 326 is effective for annual reporting periods beginning after December 15, 2019, including interim periods within that reporting period. We are currently evaluating the impact of this guidance on our consolidated financial statements.

3. REVENUE

Cardlytics Direct is our bank advertising channel that enables marketers to reach consumers through the FIs' trusted and frequently visited online and mobile banking channels. Working with the marketer, we design a campaign that targets customers based on their purchase history. The consumer is offered an incentive to make a purchase from the marketer within a specified period. We use a portion of the fees that we collect from marketers to provide these consumer incentives to our FIs' customers after they make qualifying purchases ("Consumer Incentives"). Leveraging our powerful purchase intelligence platform, we are able to create compelling Consumer Incentives that have the potential to increase return on advertising spend for marketers and measure the effectiveness of the advertising. Consumer Incentives totaled $26.3 million and $16.0 million during the three months ended September 30, 2019 and 2020, respectively, and totaled $73.9 million and $49.6 million during the nine months ended September 30, 2019 and 2020, respectively. We generally pay our FI partners an FI Share, which is a negotiated and fixed percentage of our billings to marketers less any Consumer Incentives that we pay to FIs' customers and certain third-party data costs. Revenue on our condensed consolidated statements of operation is presented net of Consumer Incentives and gross of FI Share.

Cardlytics Direct is priced predominantly in two ways: (1) Cost per Served Sale ("CPS"), and (2) Cost per Redemption ("CPR").

- **CPS.** Our primary pricing model is CPS, which we created to meet the media buying preferences of marketers. We generate revenue by charging a percentage of all purchases from the marketer by consumers (1) who are served marketing and (2) subsequently make a purchase from the marketer during the campaign period, regardless of whether consumers select the marketing and thereby becomes eligible to earn the applicable Consumer Incentive. We set CPS rates for marketers based on our expectation of the marketer's return on spend for the relevant campaign. Additionally, we set the amount of the Consumer Incentives payable for each campaign based on our estimation of our ability to drive incremental sales for the marketer.
- **CPR.** Under our CPR pricing model, marketers specify and fund the Consumer Incentive and pay us a separate negotiated, fixed marketing fee for each purchase that we generate. We generate revenue if the consumer (1) is served marketing, (2) selects the marketing and thereby becomes eligible to earn the applicable Consumer Incentive and (3) makes a qualifying purchase from the marketer during the campaign period. We set the CPR fee for marketers based on our estimation of the marketers' return on spend for the relevant campaign.

The following table summarizes revenue by pricing model (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	**2020**	**2019**	**2020**
Cost per Served Sale	$ 40,000	$ 33,618	$ 94,558	$ 84,817
Cost per Redemption	15,611	12,004	43,851	33,411
Other	808	457	2,728	1,582
Revenue	$ 56,419	$ 46,079	$ 141,137	$ 119,810

4. LEASES

Effective January 1, 2020, we early adopted ASU 2016-02, *Leases (Topic 842)*. This standard requires us to recognize a right-of-use asset and a lease liability for all leases with an initial term in excess of twelve months. The asset reflects the present value of unpaid fixed lease payments coupled with initial direct costs, prepaid lease payments, and lease incentives. The amount of the lease liability is calculated as the present value of unpaid fixed lease payments. We evaluate each of our lease and service arrangements at inception to determine if the arrangement is, or contains, a lease and the appropriate classification of each identified lease. A lease exists if we obtain substantially all of the economic benefits of and have the right to control the use of an asset for a period of time. Right-of-use assets represent our right to use an underlying asset for the lease term, and lease liabilities represent our obligation to make lease payments arising from the lease agreement. Lease costs are recognized as expense on a straight-line basis over the lease term. We consider a termination or renewal option in the determination of the lease term when it is reasonably certain that we will exercise that option. We adopted ASU 2016-02 using a modified retrospective approach and did not restate comparative periods. We elected to take the package of practical expedients allowing us to not reassess (i) whether any expired or existing contracts are or contain leases, (ii) the lease classification for any expired or existing leases and (iii) initial direct costs for any existing leases. We have elected to account for all components in a contract as part of the single lease component to which they are related. Significant assumptions and judgments in calculating the right-of-use assets and lease liability include the determination of the applicable borrowing rate for each lease. Because our leases generally do not provide a readily determinable implicit interest rate, we use an incremental borrowing rate to measure the lease liability and associated right-of-use asset at the lease commencement date. The incremental borrowing rate used is a fully collateralized rate that considers our credit rating, market conditions and the term of the lease at the lease commencement date.

Upon the adoption of ASU 2016-02, we recorded right-of-use assets of $10.3 million, lease liabilities of $13.5 million and eliminated deferred rent liabilities of $3.2 million. As of the adoption date, our office and data center leases have remaining lease terms ranging from one to six years.

During the second quarter of 2020, we renewed certain data center lease agreements resulting in a lease modification and the recognition of additional right-of-use assets and lease liabilities of $2.1 million.

During the nine months ended September 30, 2020, we made cash payments of $2.8 million for operating leases which are included in cash flows received from (used in) operating activities in our condensed consolidated statement of cash flows.

The following table summarizes activity related to our leases (in thousands):

	Three Months Ended September 30, 2020	Nine Months Ended September 30, 2020
Operating lease expense	$ 1,012	$ 2,925
Variable lease expense	198	670
Short-term lease expense	29	186

The following table presents our weighted average borrowing rate and weighted average lease term:

	September 30, 2020
Weighted average borrowing rate	3.4 %
Weighted average remaining lease term (years)	3.62

The following table summarizes future maturities of lease liabilities as of September 30, 2020 (in thousands):

	Amount
2020 (remainder of year)	$ 1,004
2021	4,025
2022	3,991
2023	2,352
2024	1,807
Thereafter	611
Total lease payments	13,790
Imputed interest	832
Total operating lease liabilities	$ 12,958

The following table summarizes future payments for operating leases as of December 31, 2019, prior to our adoption of ASU 2016-02 (in thousands):

	Minimum Lease Payments
2020	$ 3,040
2021	2,759
2022	2,808
2023	1,847
2024	1,807
Thereafter	611
Total	$ 12,872

5. DEBT AND FINANCING ARRANGEMENTS

2020 Convertible Senior Notes

On September 22, 2020, we issued convertible senior notes with an aggregate principal amount of $230.0 million bearing an interest rate of 1.00% due in 2025 (the “Notes”), including the exercise in full of the initial purchasers’ option to purchase up to an additional $30.0 million principal amount of the Notes. The Notes were issued pursuant to an indenture, dated September 22, 2020 (the “Indenture”), between us and U.S. Bank National Association, as trustee.

The Notes are general senior, unsecured obligations and will mature on September 15, 2025, unless earlier converted, redeemed or repurchased. The Notes bear interest at a rate of 1.00% per year, payable semiannually in arrears on March 15 and September 15 of each year, beginning on March 15, 2021. The Notes are convertible at the option of the holders at any time prior to the close of business on the business day immediately preceding June 15, 2025, only under the following circumstances: (1) during any calendar quarter commencing after the calendar quarter ending on December 31, 2020 (and only during such calendar quarter), if the last reported sale price of our common stock, for at least 20 trading days (whether or not consecutive) during a period of 30 consecutive trading days ending on, and including, the last trading day of the immediately preceding calendar quarter is greater than or equal to 130% of the conversion price for the Notes on each applicable trading day; (2) during the five business day period after any ten consecutive trading day period (the "measurement period") in which the trading price (as defined in the Indenture) per $1,000 principal amount of the Notes for each trading day of the measurement period was less than 98% of the product of the last reported sale price of common stock and the conversion rate for the Notes on each such trading day; (3) if we call such Notes for redemption, at any time prior to the close of business on the scheduled trading day immediately preceding the redemption date; or (4) upon the occurrence of specified corporate events as set forth in the Indenture. On or after June 15, 2025 until the close of business on the second scheduled trading day immediately preceding the maturity date, holders of the Notes may convert all or any portion of their Notes at any time, regardless of the foregoing circumstances. Upon conversion, we may satisfy our conversion obligation by paying and/or delivering, as the case may be, cash, shares of common stock or a combination of cash and shares of common stock, at our election, in the manner and subject to the terms and conditions provided in the Indenture. We currently intend to settle the principal amount of the Notes with cash.

The conversion rate for the Notes will initially be 11.7457 shares of common stock per $1,000 principal amount of Notes, which is equivalent to an initial conversion price of approximately $85.14 per share of common stock. The conversion rate for the Notes is subject to adjustment under certain circumstances in accordance with the terms of the Indenture. In addition, following certain corporate events that occur prior to the maturity date of the Notes or if we deliver a notice of redemption in respect of the Notes, we will, in certain circumstances, increase the conversion rate of the Notes for a holder who elects to convert its Notes in connection with such a corporate event or convert its notes called for redemption during the related redemption period (as defined in the Indenture), as the case may be.

We may not redeem the Notes prior to September 20, 2023. We may redeem for cash all or any portion of the Notes, at its option, on or after September 20, 2023 and prior to the 36th scheduled trading day immediately preceding the maturity date, if the last reported sale price of our common stock has been at least 130% of the conversion price for the Notes then in effect for at least 20 trading days (whether or not consecutive) during any 30 consecutive trading day period (including the last trading day of such period) ending on, and including, the trading day immediately preceding the date on which we provide notice of redemption at a redemption price equal to 100% of the principal amount of the Notes to be redeemed, plus accrued and unpaid interest to, but excluding, the redemption date. No sinking fund is provided for the Notes. If we elect to redeem less than all of the Notes, at least $75.0 million aggregate principal amount of Notes must be outstanding and not subject to redemption as of the relevant redemption notice date.

If we undergo a Fundamental Change (as defined in the Indenture), then, except as set forth in the Indenture, holders may require, subject to certain exceptions, us to repurchase for cash all or any portion of their Notes at a fundamental change repurchase price equal to 100% of the principal amount of the Notes to be repurchased, plus accrued and unpaid interest to, but excluding, the fundamental change repurchase date.

The Indenture includes customary covenants and sets forth certain events of default after which the Notes may be declared immediately due and payable and sets forth certain types of bankruptcy or insolvency events of default involving us after which the Notes become automatically due and payable. The following events are considered "events of default" under the Indenture:

- default in any payment of interest on any Note when due and payable and the default continues for a period of 30 days;
- default in the payment of principal of any Note when due and payable at its stated maturity, upon optional redemption, upon any required repurchase, upon declaration of acceleration or otherwise;
- failure by us to comply with our obligation to convert the Notes in accordance with the Indenture upon exercise of a holder's conversion right, and such failure continues for three business days;
- failure by us to give a fundamental change notice, notice of a make-whole fundamental change or notice of a specified corporate event, in each case when due and such failure continues for one business day;
- failure by us to comply with its obligations in respect of any consolidation, merger or sale of assets;
- failure by us to comply with any of our other agreements in the Notes or the Indenture for 60 days after written notice of such failure from the trustee or the holders of at least 25% in principal amount of the Notes then outstanding;

- default by us or any of our significant subsidiaries (as defined in the Indenture) with respect to any mortgage, agreement or other instrument under which there may be outstanding, or by which there may be secured or evidenced, any indebtedness for money borrowed in excess of $35,000,000 (or its foreign currency equivalent), in the aggregate of us and/or any such significant subsidiary, whether such indebtedness now exists or shall hereafter be created, (i) resulting in such indebtedness becoming or being declared due and payable prior to its stated maturity date or (ii) constituting a failure to pay the principal of any such indebtedness when due and payable (after the expiration of all applicable grace periods) at its stated maturity, upon required repurchase, upon declaration of acceleration or otherwise, and in the cases of clauses (i) and (ii), such acceleration shall not have been rescinded or annulled or such failure to pay or default shall not have been cured or waived, or such indebtedness is not paid or discharged, as the case may be, within 30 days after written notice to us by the trustee or to us and the trustee by holders of at least 25% in aggregate principal amount of the Notes then outstanding in accordance with the Indenture; and
- certain events of bankruptcy, insolvency or reorganization of us or any of our significant subsidiaries.

If certain bankruptcy and insolvency-related events of default with respect to us occur, the principal of, and accrued and unpaid interest on, all of the then outstanding Notes shall automatically become due and payable. If an event of default with respect to the Notes, other than certain bankruptcy and insolvency-related events of default with respect to us, occurs and is continuing, the trustee by notice to us or the holders of at least 25% in principal amount of the outstanding Notes by notice to us and the trustee, may, and the trustee at the request of such holders shall, declare the principal of, and accrued and unpaid interest on, all of the then-outstanding Notes to be due and payable. Notwithstanding the foregoing, the Indenture provides that, to the extent we so elect, the sole remedy for an event of default relating to certain failures by us to comply with certain reporting covenants in the Indenture will, for the first 365 days after the occurrence of such event of default, consist exclusively of the right to receive additional interest on the Notes at a rate equal to 0.25% per annum of the principal amount of the Notes outstanding for each day during the first 180 days after the occurrence of such an event of default and 0.50% per annum of the principal amount of the Notes outstanding from the 181st day to, and including, the 365th day following the occurrence of such event of default, as long as such event of default is continuing (in addition to any additional interest that may accrue as a result of a registration default (as set forth in the Indenture).

The Indenture provides that we shall not consolidate with or merge with or into, or sell, convey, transfer or lease all or substantially all of the consolidated properties and assets of our subsidiaries, taken as a whole, to, another person (other than any such sale, conveyance, transfer or lease to one or more of our direct or indirect wholly owned subsidiaries), unless: (i) the resulting, surviving or transferee person (if not us) is a corporation organized and existing under the laws of the United States of America, any State thereof or the District of Columbia, and such corporation (if not us) expressly assumes by supplemental indenture all of our obligations under the Notes and the Indenture; and (ii) immediately after giving effect to such transaction, no default or event of default has occurred and is continuing under the Indenture.

The net proceeds from this offering were $222.7 million, after deducting the initial purchasers’ discounts and commissions and the offering expenses payable by us. We used $26.5 million of the net proceeds to pay the cost of the capped call transactions described below.

The Notes are accounted for in accordance with FASB ASC Subtopic 470-20, *Debt with Conversion and Other Options*. Pursuant to ASC Subtopic 470-20, issuers of certain convertible debt instruments, such as the Notes, that have a net settlement feature and may be settled wholly or partially in cash upon conversion are required to separately account for the liability (debt) and equity (conversion option) components of the instrument. The carrying amount of the liability component of the instrument was computed using a discount rate of 6.50%, which was determined by estimating the fair value of a similar liability without the conversion option. The amount of the equity component is then calculated by deducting the fair value of the liability component from the principal amount of the instrument. The difference between the principal amount and the liability component represents a debt discount that is amortized to interest expense over the respective term of the Notes using the effective interest rate method. The equity component is not remeasured as long as it continues to meet the conditions for equity classification. In accounting for the issuance costs related to the Notes, the allocation of issuance costs incurred between the liability and equity components was based on their relative values.

The net carrying amount of the liability component of the Notes was as follows (in thousands):

	September 30, 2020
Principal	$ 230,000
Minus: Unamortized debt discount	(52,894)
Minus: Unamortized issuance costs	(5,577)
Net carrying amount of the liability component	$ 171,529

The net carrying amount of the equity component of the Notes was as follows (in thousands):

	September 30, 2020
Proceeds allocated to the conversion options (debt discount)	$ 53,096
Minus: Issuance costs	(1,680)
Net carrying amount of the equity component	$ 51,416

Interest expense recognized related to the Notes is as follows (in thousands):

	September 30, 2020
Contractual interest expense (due in cash)	$ 51
Amortization of debt discount	201
Amortization of debt issuance costs	17
Total interest expense related to the Notes	$ 269

Capped Call Transactions

In connection with the issuance of the Notes, we entered into privately negotiated capped call transactions (the "Capped Calls") with an affiliate of one of the initial Note purchasers and certain other financial institutions. The Capped Calls are intended to reduce potential dilution to our common stock upon any conversion of Notes and/or offset any cash payments we are required to make in excess of the principal amount of converted Notes, as the case may be. The Capped Calls are recorded in stockholders' equity and are not accounted for as derivatives. The cost of $26.5 million incurred to purchase the Capped Calls was recorded as a reduction to additional paid-in capital in the accompanying condensed consolidated balance sheet.

The Capped Calls each have an initial strike price of $85.14 per share, subject to certain adjustments, which corresponds to the initial conversion price of the Notes. The Capped Calls have an initial cap price of $128.51 per share, subject to certain adjustments.

2018 Loan Facility

In September 2020, we amended our loan facility with Pacific Western Bank ("2018 Loan Facility") to allow for the issuance of the Notes. We have made no borrowings or repayments on our asset-based revolving line of credit ("2018 Line of Credit") during the nine months ended September 30, 2020. As of September 30, 2020, we had no outstanding borrowings on our 2018 Line of Credit and had $40.0 million of unused borrowings available. Under the terms of the 2018 Line of Credit, we are able to borrow up to the lesser of $40.0 million or 85% of the amount of our eligible accounts receivable. Interest on advances bears an interest rate equal to the prime rate minus 0.50%, or 2.75% as of September 30, 2020. In addition, we are required to pay an unused line fee of 0.15% per annum on the average daily unused amount of the $40.0 million revolving commitment.

On May 14, 2019, we amended our 2018 Loan Facility to increase the capacity of our 2018 Line of Credit and decrease the capacity of our term loan ("2018 Term Loan"). This amendment also extended the maturity date of the term loan from May 21, 2020 to May 14, 2021. We repaid $10.0 million of the principal balance of the 2018 Term Loan upon the execution of the amendment in May 2019 and repaid the remaining $10.0 million principal balance in September 2019. Interest accrued on the 2018 Term Loan at an annual interest rate equal to the prime rate minus 2.75%, or 2.00% at the date of repayment in September 2019. We believe that we were in compliance with all financial covenants as of September 30, 2020.

6. STOCK-BASED COMPENSATION

Our board of directors has adopted and our stockholders have approved our 2018 Equity Incentive Plan ("2018 Plan"). Our 2018 Plan became effective on February 8, 2018, the date our registration statement in connection with our initial public offering ("IPO") was declared effective. We do not expect to grant any additional awards under our 2008 Stock Plan ("2008 Plan"). Any awards granted under the 2008 Plan will remain subject to the terms of our 2008 Plan and applicable award agreements.

Initially, the aggregate number of shares of our common stock that may be issued pursuant to stock awards under the 2018 Plan is the sum of (i) 1,875,000 shares plus (ii) 61,247 shares reserved, and remaining available for issuance, under our 2008 Plan at the time our 2018 Plan became effective and (iii) the number of shares subject to stock options or other stock awards granted under our 2008 Plan that would have otherwise returned to our 2008 Plan (such as upon the expiration or termination of a stock award prior to vesting). As of December 31, 2019, there were 1,345,631 shares of our common stock reserved for issuance under our 2018 Plan. The number of shares of our common stock reserved for issuance under our 2018 Plan will automatically increase on January 1 of each year, beginning on January 1, 2019 and continuing through and including January 1, 2028, by 5% of the total number of shares of our capital stock outstanding on December 31 of the preceding calendar year, or a lesser number of shares determined by our board of directors. Accordingly, the number of shares of our common stock reserved for issuance under our 2018 Plan increased by 1,327,352 shares on January 1, 2020.

The following table summarizes the allocation of stock-based compensation in the condensed consolidated statements of operations (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2020	2019	2020
Delivery costs	$ 176	$ 365	$ 539	$ 897
Sales and marketing expense	1,432	3,791	3,091	7,627
Research and development expense	638	1,510	1,204	3,514
General and administration expense	5,240	5,912	7,432	12,773
Total stock-based compensation expense	$ 7,486	$ 11,578	$ 12,266	$ 24,811

During the nine months ended September 30, 2019 and 2020 we capitalized less than $0.1 million and $0.4 million of stock-based compensation expense for software development, respectively.

As of September 30, 2020, we have accrued $2.6 million of stock-based compensation for bonus and commissions in lieu of cash compensation which has not been settled. This amount is presented within accrued compensation on our condensed consolidated balance sheet.

During the three months ended September 30, 2020, we recognized $2.0 million of stock-based compensation expense in general and administrative expense on our condensed consolidated statements of operations related to the accelerated vesting of certain RSU and performance-based RSU awards for which the performance-based vesting condition was met.

Common Stock Options

Options to purchase shares of common stock generally vest over four years and expire 10 years following the date of grant. The following table summarizes changes in common stock options:

	Shares (in thousands)	Weighted-Average Exercise Price	Weighted Average Contractual Life (in years)	Aggregate Intrinsic Value[(1)] (in thousands)
Options outstanding — December 31, 2019	1,000	$ 22.99		
Granted	—	—		
Exercised	(324)	19.66		$ 17,774
Forfeited	(17)	28.10		
Canceled	(1)	20.67		
Options outstanding — September 30, 2020	658	24.49	5.88	$ 30,321
Exercisable — September 30, 2020	595	$ 24.32	5.79	$ 27,516

(1) The aggregate intrinsic value represents the total pre-tax intrinsic value based on the $70.57 per share closing price of our common stock as reported on the Nasdaq Global Market on September 30, 2020, that would have been received by option holders had all in-the-money options been exercised on that date.

The total fair value of options vested during the nine months ended September 30, 2020 was $1.9 million. As of September 30, 2020, unamortized stock-based compensation expense related to unvested common stock options was $0.7 million, and the weighted-average period over which such stock-based compensation expense will be recognized was 0.5 years.

Restricted Stock Units

We grant restricted stock units ("RSUs") to employees and our non-employee directors. The following table summarizes changes in RSUs, inclusive of performance-based RSUs:

	Shares (in thousands)	Weighted-Average Grant Date Fair Value	Weighted-Average Remaining Contractual Term (in years)	Unamortized Compensation Costs (in thousands)
Unvested — December 31, 2019	1,741	$ 18.55		
Granted	1,671	40.86		
Vested[1]	(616)	24.41		
Forfeited	(251)	22.88		
Unvested — September 30, 2020	2,545	$ 31.35	3.40	$ 63,299

(1) Includes 98 RSUs that have vested but have not been settled.

During the nine months ended September 30, 2020, we granted 1,170,517 RSUs to employees, executives and non-employee directors, which have annual vesting periods ranging from one to four years.

During the nine months ended September 30, 2020, we granted 24,112 immediately vesting RSUs to employees in lieu of cash-based incentive compensation. Stock-based compensation expense related to these RSUs totaled $1.1 million.

Subsequent to September 30, 2020, we granted 63,100 RSUs to employees, which have annual vesting periods ranging from two to four years. Unamortized stock-based compensation expense related to these RSUs totaled $5.0 million.

Performance-based RSUs

In April 2019, we granted 1,252,500 performance-based restricted stock units (“2019 PSUs”). The 2019 PSUs are composed of four equal tranches, each of which have an independent performance-based vesting condition. The vesting criteria for the four tranches are as follows:

- a minimum growth rate in adjusted contribution over a trailing 12-month period,
- a minimum number of advertisers that are billed above a specified amount over a trailing 12-month period,
- a minimum cumulative adjusted EBITDA target over a trailing 12-month period, and
- a minimum trailing 30-day average closing price of our common stock.

The vesting conditions of each of the four tranches must be achieved within four years of the grant date. Upon a vesting event, 50% of the related tranche vests immediately, 25% of the related tranche vests six months after the achievement date and 25% of the related tranche vests 12 months after the achievement date. Adjusted EBITDA and adjusted contribution are performance metrics defined within Item 2. "Management's Discussion and Analysis of Financial Condition and Results of Operations." In August and November 2019, the compensation committee of our board of directors certified that the target minimum trailing 30-day average closing price of our common stock and target minimum cumulative adjusted EBITDA target over a trailing 12-month period, respectively, were achieved resulting in the immediate vesting of 50% of the related PSU tranches. In February 2020, 25% of the 30-day average closing price of our common stock PSU tranche vested upon the six-month anniversary of the tranche's achievement date and the remaining 25% of the tranche vested in August 2020 upon the twelve-month anniversary of the tranche's achievement date. In May 2020, 25% of the adjusted EBITDA tranche vested upon the six-month anniversary of the tranche's achievement date, and the remaining 25% of the tranche will vest in November 2020 upon the twelve-month anniversary of the tranche's achievement date.

In April 2020, we granted 476,608 performance-based restricted stock units ("2020 PSUs"), of which 443,276 units have a performance-based vesting condition based on a minimum average Cardlytics Direct revenue per user ("ARPU") target over a trailing 12-month period and 33,332 units have the same performance-based vesting conditions as those that remain unmet under the 2019 PSUs described above. ARPU is a performance metric defined within Item 2. "Management's Discussion and Analysis of Financial Condition and Results of Operations." The ARPU vesting condition must be achieved within four years of the grant date. Upon the vesting event, 50% of the award vests immediately, 25% of the award vests six months after achievement date and 25% of the award vests 12 months after the achievement date.

Employee Stock Purchase Plan

Our 2018 Employee Stock Purchase Plan ("2018 ESPP") enables eligible employees to purchase shares of our common stock at a discount. Purchases are accomplished through participation in discrete offering periods. On each purchase date, participating employees purchase our common stock at a price per share equal to 85% of the lesser of the fair market value of our common stock on the first trading day of the offering period or the date of purchase.

As of December 31, 2019, 267,823 shares of common stock were reserved for issuance pursuant to our 2018 ESPP. Additionally, the number of shares of our common stock reserved for issuance under our 2018 ESPP will automatically increase on January 1 of each year, which began on January 1, 2019 and will continue through and including January 1, 2026, by the lesser of (i) 1% of the total number of shares of our common stock outstanding on December 31 of the preceding calendar year, (ii) 500,000 shares of our common stock or (iii) such lesser number of shares of common stock as determined by our board of directors. Accordingly, the number of shares of our common stock reserved for issuance under our 2018 ESPP increased by 265,470 shares on January 1, 2020. Shares subject to purchase rights granted under our 2018 ESPP that terminate without having been issued in full will not reduce the number of shares available for issuance under our 2018 ESPP. During the nine months ended September 30, 2019 and 2020, 93,584 and 28,097 shares of common stock were purchased by employees under the 2018 ESPP, respectively.

7. COMMON STOCK WARRANTS

We have granted warrants to purchase shares of our common stock to a certain lender that include a time-based vesting condition. These warrants are accounted for under ASC Topic 505-50, *Equity-Based Payments to Non-Employees*.

The following table summarizes changes in our common stock warrants (in thousands, except per share amounts):

	Shares	Weighted-average exercise price per share
Warrants outstanding — December 31, 2019	12	$ 23.64
Exercised	(9)	23.64
Forfeited/canceled	(3)	23.64
Warrants outstanding — September 30, 2020	—	$ —

8. RELATED PARTIES

Agreements with Fidelity Information Services, LLC

We are party to a reseller agreement with Fidelity Information Services, LLC ("FIS"). Pursuant to the reseller agreement, FIS markets and sells our services to financial institutions that are current or potential customers of FIS.

In 2013, FIS purchased shares of our redeemable convertible preferred stock and we also granted performance-based warrants to purchase preferred stock with accelerated vesting upon an IPO. Since FIS did not participate in a subsequent financing, their warrants to purchase preferred stock were converted to warrants to purchase common stock. The warrants vested upon the completion of our IPO in February 2018, resulting in a non-cash expense of $2.5 million based on the vesting-date fair value of our common stock underlying these warrants.

In September 2019, FIS exercised all of their warrants to purchase common stock, resulting in cash proceeds of $15.2 million and the issuance of 644,365 shares of our common stock. As of September 2019, FIS was no longer a related party.

9. COMMITMENTS AND CONTINGENCIES

FI Implementation Costs

Agreements with certain FI partners require us to fund the development of user interface enhancements, pay for certain implementation fees, or make milestone payments upon the deployment of our solution. Amounts paid to FI partners are included in deferred FI implementation costs on our condensed consolidated balance sheets the earlier of when paid or earned and are amortized over the remaining term of the related contractual arrangements. Amortization is included in FI Share and other third-party costs on our condensed consolidated statements of operations and is presented in amortization and impairment of deferred FI implementation costs on our condensed consolidated statement of cash flows. Certain of these agreements provide for future reductions in FI Share due to the FI partner. These reductions in FI Share are recorded as a reduction to deferred FI implementation costs and also result in a cumulative adjustment to accumulated amortization. The scheduled FI Share payment reductions were completed in December 2019.

During the three months ended September 30, 2020, one of our FI partners notified us of plans to end the use of a certain user interface enhancements prior to the end of our contractual arrangement with the FI partner. As a result, we recognized a write off of deferred FI implementation costs totaling $0.7 million in FI Share and other third-party costs on our consolidated statements of operations.

The following table summarizes changes in deferred FI implementation costs (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2020	2019	2020
Beginning balance	$ 12,181	$ 6,384	$ 15,877	$ 8,383
Recoveries through FI Share	(1,157)	—	(3,469)	—
Amortization	(789)	(958)	(2,173)	(2,957)
Impairment	—	(683)	—	(683)
Ending balance	$ 10,235	$ 4,743	$ 10,235	$ 4,743

We have an FI Share commitment to a certain FI partner totaling $10.0 million over a 12-month period following the completion of certain milestones by the FI partner, which were not met as of September 30, 2020. Any expected shortfall penalty will be accrued during the 12-month period following the completion of the milestones.

Litigation

From time to time, we may become involved in legal actions arising in the ordinary course of business including, but not limited to, intellectual property infringement and collection matters. We make assumptions and estimates concerning the likelihood and amount of any potential loss relating to these matters using the latest information available. We record a liability for litigation if an unfavorable outcome is probable and the amount of loss or range of loss can be reasonably estimated. If an unfavorable outcome is probable and a reasonable estimate of the loss is a range, we accrue the best estimate within the range. If no amount within the range is a better estimate than any other amount, we accrue the minimum amount within the range. If an unfavorable outcome is probable but the amount of the loss cannot be reasonably estimated, we disclose the nature of the litigation and indicates that an estimate of the loss or range of loss cannot be made. If an unfavorable outcome is reasonably possible and the estimated loss is material, we disclose the nature and estimate of the possible loss of the litigation. We do not disclose information with respect to litigation where an unfavorable outcome is considered to be remote or where the estimated loss would not be material. Based on current expectations, such matters, both individually and in the aggregate, are not expected to have a material adverse effect on our liquidity, results of operations, business or financial condition.

10. EARNINGS PER SHARE

Diluted net loss per share is the same as basic net loss per share for the nine months ended September 30, 2019 and 2020 because the effects of potentially dilutive items were anti-dilutive, given our net loss during these periods. The following securities as of September 30, 2019 and 2020 have been excluded from the calculation of diluted weighted-average common shares outstanding because the effect is anti-dilutive (in thousands):

	September 30,	
	2019	2020
Common stock options	1,505	658
Convertible Senior Notes	—	2,701
Common stock warrants	13	—
Unvested restricted stock units	1,737	2,545
Common stock issuable pursuant to the ESPP	49	26

11. SEGMENTS

As of September 30, 2020, we have two operating segments: Cardlytics Direct in the U.S. and U.K., as determined by the information that our Chief Executive Officer, who we consider our chief operating decision-maker, uses to make strategic goals and operating decisions. Our Cardlytics Direct operating segments in the U.S. and U.K. represent our proprietary native bank advertising channels and are aggregated into one reportable segment given their similar economic characteristics, nature of service, types of customers and method of distribution.

Our chief operating decision maker allocates resources to, and evaluates the performance of, our operating segments based on revenue and adjusted contribution.

The following table provides information regarding our Cardlytics Direct reportable segment (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2020	2019	2020
Adjusted contribution	$ 24,738	$ 19,749	$ 64,216	$ 52,530
Plus: Adjusted FI Share and other third-party costs[1]	31,681	26,330	76,921	67,280
Revenue	$ 56,419	$ 46,079	$ 141,137	$ 119,810

(1) Adjusted FI Share and other third-party costs presented above represents GAAP FI Share and other third-party data costs less amortization and impairment of deferred FI implementation costs, which is detailed below in our reconciliation of GAAP loss before income taxes to adjusted contribution.

Adjusted Contribution

Adjusted contribution measures the degree by which revenue generated from our marketers exceeds the cost to obtain the purchase data and the digital advertising space from our FI partners. Adjusted contribution demonstrates how incremental marketing spend on our platform generates incremental amounts to support our sales and marketing, research and development, general and administration and other investments. Adjusted contribution is calculated by taking our total revenue less our FI Share and other third-party costs exclusive of amortization and impairment of deferred FI implementation costs, which is a non-cash cost. Adjusted contribution does not take into account all costs associated with generating revenue from advertising campaigns, including sales and marketing expenses, research and development expenses, general and administrative expenses and other expenses, which we do not take into consideration when making decisions on how to manage our advertising campaigns.

The following table presents a reconciliation of loss before income taxes presented in accordance with GAAP to adjusted contribution (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2020	2019	2020
Adjusted contribution	$ 24,738	$ 19,749	$ 64,216	$ 52,530
Minus:				
Amortization and impairment of deferred FI implementation costs[(1)(2)]	789	1,641	2,173	3,640
Delivery costs	3,070	3,498	9,686	10,403
Sales and marketing expense	11,074	11,432	31,458	32,805
Research and development expense	3,018	4,627	8,741	12,444
General and administration expense	12,218	12,757	27,558	35,235
Depreciation and amortization expense	1,167	1,933	3,181	5,809
Total other expense (income)	1,149	(783)	1,990	839
Loss before income taxes	$ (7,747)	$ (15,356)	$ (20,571)	$ (48,645)

(1) Amortization and impairment of deferred FI implementation costs is excluded from adjusted FI Share and other third-party costs, which is shown above in our reconciliation of GAAP revenue to adjusted contribution.
(2) Amortization and impairment of deferred FI implementation costs for the three and nine months ended September 30, 2020 includes the impact of a $0.7 million write off related to certain user interface enhancements.

The following tables provide geographical information (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2020	2019	2020
Revenue:				
United States	$ 50,997	$ 43,462	$ 125,468	$ 110,240
United Kingdom	5,422	2,617	15,669	9,570
Total	$ 56,419	$ 46,079	$ 141,137	$ 119,810

	December 31, 2019	September 30, 2020
Property and equipment, net:		
United States	$ 12,052	$ 10,044
United Kingdom	2,010	3,130
India	228	164
Total	$ 14,290	$ 13,338

Capital expenditures within the United Kingdom and India totaled $0.3 million and $1.3 million during the nine months ended September 30, 2019 and 2020, respectively.

Concentrations of Risk

Cash and Cash Equivalents

Financial instruments that potentially subject us to concentrations of credit risk consist primarily of cash and cash equivalents and accounts receivable. A majority of our cash and cash equivalents are held in fully FDIC–insured demand deposit accounts that distribute funds, and credit risk, over a vast number of financial institutions. Our remaining cash and cash equivalents are held with three financial institutions, which we believe are of high credit quality.

Customers

Our accounts receivable are diversified among a large number of marketers segregated by both geography and industry. During the nine months ended September 30, 2019 and 2020, our top five marketers accounted for 29% and 40% of our revenue, respectively, with one customer accounting for over 10% during each period. As of September 30, 2019 and 2020 our top five marketers accounted for 26% and 45% of our accounts receivable, respectively, with one marketer representing over 10% as of September 30, 2020.

FI Partners

Our business is substantially dependent on a limited number of FI partners. We require participation from our FI partners in Cardlytics Direct and access to their purchase data in order to offer our solutions to marketers and their agencies. We must have FI partners with a sufficient number of customers and levels of customer engagement to ensure that we have robust purchase data and marketing space to support a broad array of incentive programs for marketers. Our agreements with a substantial majority of our FI partners have terms of three to seven years but are generally terminable by the FI partner on 90 days or less prior notice. If an FI partner terminates its agreement with us, we would lose that FI as a source of purchase data and online banking customers.

During both the nine months ended September 30, 2019 and 2020, Bank of America, National Association (“Bank of America”) and JPMorgan Chase Bank, National Association (“Chase”) combined to account for over 75% of the total FI Share we paid to all FIs, with each representing over 30%. No other FI partner accounted for over 10% of FI Share during these periods.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with (1) our consolidated financial statements and related notes appearing elsewhere in this Quarterly Report on Form 10–Q and (2) the audited consolidated financial statements and the related notes and management's discussion and analysis of financial condition and results of operations for the fiscal year ended December 31, 2019 included in our Annual Report on Form 10-K, filed with the SEC on March 3, 2020.

This Quarterly Report on Form 10-Q contains "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, or the Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act. These statements are often identified by the use of words such as "anticipate," "believe," "continue," "could," "estimate," "expect," "intend," "may," "plan," "project," "will," "would" or the negative or plural of these words or similar expressions or variations, and such forward-looking statements include, but are not limited to, statements with respect to our business strategy, plans and objectives for future operations, including our expectations regarding our expenses; continued enhancements of our platform and new product offerings; our future financial and business performance; the anticipated continued decline in ARPU as a result of significant FI MAU growth due to Wells Fargo and Chase launching the Cardlytics Direct program; anticipated FI Share commitment shortfall penalty; the timing of the phased launch of Cardlytics Direct by U.S. Bank; and the uncertain negative impacts that COVID–19 may have on our business, financial condition, results of operations and changes in overall level of spending and volatility in the global economy. The events described in these forward-looking statements are subject to a number of risks, uncertainties, assumptions and other factors that could cause actual results and the timing of certain events to differ materially from future results expressed or implied by the forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those identified herein, and those discussed in the section titled "Risk Factors," set forth in Part II, Item 1A of this Quarterly Report on Form 10-Q and in our other SEC filings. You should not rely upon forward-looking statements as predictions of future events. Furthermore, such forward-looking statements speak only as of the date of this report. Except as required by law, we undertake no obligation to update any forward-looking statements to reflect events or circumstances after the date of such statements.

Overview

Cardlytics operates an advertising platform within financial institutions' ("FIs") digital channels, which include online, mobile, email, and various real-time notifications. Our partnerships with FIs provide us with access to their anonymized purchase data and digital banking customers. By applying advanced analytics to this aggregation of purchase data, we make it actionable, helping marketers identify, reach and influence likely buyers at scale, and measure the true sales impact of their marketing spend. We have strong relationships with leading marketers across a variety of industries, including national and regional restaurant and retail chains, large providers of cable satellite television and wireless services, and increasingly, travel and hospitality, grocery, e-commerce, and luxury brands. Using our purchase intelligence, we present customers with offers to save money at a time when they are thinking of their finances.

We have historically derived substantially all of our revenue from sales of Cardlytics Direct. Cardlytics Direct is our proprietary native bank advertising channel that enables marketers to reach consumers through the FIs' trusted and frequently visited digital banking channels. Working with a marketer, we design a campaign that targets consumers based on their purchase history. The consumer is offered an incentive to make a purchase from the marketer within a specified period. We use a portion of the fees that we collect from marketers to provide these consumer incentives to our FIs' customers after they make qualifying purchases ("Consumer Incentives"). We report our revenue on our condensed consolidated statements of operations net of Consumer Incentives since we do not provide the goods or services that are purchased by our FIs' customers from the marketers to which the Consumer Incentives relate.

We generally pay our FI partners a negotiated and fixed percentage of our billings to marketers less any Consumer Incentives that we pay to the FIs' customers and certain third-party data costs ("FI Share"). We report our revenue gross of FI Share. FI Share costs are included in FI Share and other third-party costs in our consolidated statements of operations, rather than as a reduction of revenue, because we and not our FI partners act as the principal in our arrangements with marketers.

We run campaigns offering compelling Consumer Incentives to drive an expected rate of return on advertising spend for marketers. At times, we may collaborate with an FI partner to enhance the level of Consumer Incentives to their respective FIs' customers funded by their FI Share. We believe that these investments by our FI partners positively impact our platform by making FIs' customers more highly engaged with our platform. However, these investments negatively impact our GAAP revenue, which is reported net of Consumer Incentives.

Revenue, which is reported net of Consumer Incentives and gross of FI Share and other third-party costs, was $56.4 million and $46.1 million during the three months ended September 30, 2019 and 2020, respectively, representing a decline of 18%. Billings, a non-GAAP measure that represents the gross amount billed to marketers and is reported gross of both Consumer Incentives and FI Share, was $82.8 million and $62.1 million during the three months ended September 30, 2019 and 2020, respectively, representing a decline of 25%. Gross profit, which represents revenue less FI Share and other third-party costs and less delivery costs, was $20.9 million and $14.6 million during the three months ended September 30, 2019 and 2020, respectively, representing a decline of 30%. Adjusted contribution, a non GAAP measure that represents our revenue less our adjusted FI Share and other third-party costs, was $24.7 million and $19.7 million during the three months ended September 30, 2019 and 2020, respectively, representing a decline of 20%.

Billings and adjusted contribution are further defined under the heading "Non-GAAP Measures and Other Performance Metrics" below. We believe these non-GAAP measures, alongside our GAAP revenue and GAAP gross profit, provide useful information to investors for period-to-period comparisons of our core business and in understanding and evaluating our results of operations in the same manner as our management and board of directors.

The following table summarizes our results (dollars in thousands):

	Three Months Ended September 30,		Change		Nine Months Ended September 30,		Change	
	2019	2020	$	%	2019	2020	$	%
Billings[1]	$ 82,792	$ 62,093	$ (20,699)	(25)%	$ 215,118	$ 169,390	$ (45,728)	(21)%
Consumer Incentives	26,373	16,014	(10,359)	(39)	73,981	49,580	(24,401)	(33)
Revenue	56,419	46,079	(10,340)	(18)	141,137	119,810	(21,327)	(15)
Adjusted FI Share and other third-party costs[1]	31,681	26,330	(5,351)	(17)	76,921	67,280	(9,641)	(13)
Adjusted contribution[1]	24,738	19,749	(4,989)	(20)	64,216	52,530	(11,686)	(18)
Delivery costs	3,070	3,498	428	14	9,686	10,403	717	7
Amortization and impairment of deferred FI implementation costs[2]	789	1,641	852	108	2,173	3,640	1,467	68
Gross profit	$ 20,879	$ 14,610	$ (6,269)	(30)%	$ 52,357	$ 38,487	$ (13,870)	(26)%

(1) Billings, adjusted FI Share and other third-party costs and adjusted contribution are non-GAAP measures, as detailed below in our reconciliations of GAAP revenue to billings and GAAP gross profit to adjusted contribution.
(2) Amortization and impairment of deferred FI implementation costs for the three and nine months ended September 30, 2020 includes the impact of a $0.7 million write off related to certain user interface enhancements.

During the three months ended September 30, 2019 and 2020, our net loss was $7.7 million and $15.4 million, respectively. Our historical losses have been driven by our substantial investments in our purchase intelligence platform and infrastructure, which we believe will enable us to expand the use of our platform by both FIs and marketers. During the three months ended September 30, 2019 and 2020, our net loss included stock-based compensation expense of $7.5 million and $11.6 million, respectively.

FI Partners

Our FI partners include Bank of America, National Association ("Bank of America"), JPMorgan Chase Bank, National Association (“Chase”) and Wells Fargo Bank, National Association (“Wells Fargo”) in the U.S. and Lloyds Bank plc (“Lloyds”) and Santander UK plc (“Santander”) in the U.K., as well as many other national and regional financial institutions, including several of the largest bank processors and digital banking providers to reach customers of small and mid-sized FIs. Wells Fargo began a phased launch of our platform in the fourth quarter of 2019 that was completed in the second quarter of 2020. Additionally, in the first quarter of 2020, we entered into an agreement with U.S. Bank, National Association (“U.S. Bank”), pursuant to which we have agreed to a national rollout of Cardlytics Direct to U.S. Bank. We expect U.S. Bank to begin a phased launch of the Cardlytics Direct program in the first half of 2021.

For the three months ended September 30, 2019 and 2020, our average FI monthly active users ("FI MAUs") were 128.3 million and 161.6 million and our average Cardlytics Direct revenue per user ("ARPU"), was $0.44 and $0.29, respectively. FI MAU and ARPU are performance metrics defined under the heading "Non-GAAP Measures and Other Performance Metrics" below. The increase in FI MAUs is largely due to Wells Fargo completing their phased launch in the second quarter of 2020 and Chase launching our Cardlytics Direct program for its online banking channel in the second quarter of 2019. We expect a continued increase in FI MAUs year over year as a result of the launch of Wells Fargo. We expect a continued decline in ARPU year over year as a result of significant FI MAU growth and a decline in revenue as a result of the COVID-19 pandemic.

FI Partner Commitments

Agreements with certain FI partners require us to fund the development of user interface enhancements, pay for certain implementation fees, or make milestone payments upon the deployment of our solution. Certain of these agreements provide for future reductions in FI Share due to the FI partner. During 2019, we recovered $4.6 million through FI Share payment reductions, $3.5 million of which had been recovered through September 30, 2019. The scheduled FI Share payment reductions were completed in December 2019.

During the three months ended September 30, 2020, one of our FI partners notified us of plans to end the use of a certain user interface enhancement prior to the end of our contractual arrangement with the FI partner. As a result, we wrote off deferred FI implementation costs totaling $0.7 million to FI Share and other third-party costs on our consolidated statements of operation.

We have a minimum FI Share commitment with a certain FI partner totaling $10.0 million over a 12-month period following the completion of certain milestones by the FI partner, which were not met as of September 30, 2020. The timing of the completion of the milestones is uncertain; however, we do not currently believe the FI partner will complete the milestones in 2020. Any expected shortfall penalty will be accrued during the 12-month period following the completion of the milestones.

Impacts of COVID-19 Pandemic

We remain focused on supporting our marketers, FIs partners, employees and communities during the COVID-19 pandemic. The impact of COVID-19 on the global economy and on our business continues to be a fluid situation. We responded quickly to adopt a virtual corporate strategy to enable all of our employees to work productively from home, guard the health and safety of our team, support our marketers and FI partners, mitigate risk and maximize our financial performance. We are focused on ensuring continuity for our marketers and FI partners.

Revenue growth for the three and nine months ended September 30, 2020 was unfavorably affected by the COVID-19 pandemic and its impact on both consumer discretionary spending and marketers' ability to spend advertising budgets on our solution. During the nine months ended September 30, 2020, we deferred $0.3 million of revenue and recorded bad debt expense of $1.3 million associated with billings to marketers that we believe are likely to be materially and adversely affected by the slowdown in economic activity resulting from the COVID-19 pandemic. We expect both a reduction in consumer spending and a reduction in marketing campaigns on a year-over-year basis in the near term, which will result in a year-over-year decline in our revenue and a year-over-year increase in our net loss in future periods.

The extent of the impact of COVID-19 on our operational and financial performance will depend on certain developments, including the duration and spread of the outbreak, its impact on industry events, and its effect on consumer spending, our marketers, FI partners, suppliers and vendors and other parties with whom we do business, all of which are uncertain and cannot be predicted at this time. To the extent possible, we are conducting business as usual, with necessary or advisable modifications to employee travel, employee work locations, and cancellation of marketing events. We will continue to actively monitor the rapidly evolving situation related to COVID-19 and may take actions that alter our business operations, including those that may be required by federal, foreign, state or local authorities, or that we determine are in the best interests of our employees, marketers, FI partners, suppliers, vendors and stockholders. At this point, the extent to which the COVID-19 pandemic may impact our business, results of operations and financial condition is uncertain. See “Risk Factors” for further discussion of the adverse impacts of the COVID-19 pandemic on our business.

Non-GAAP Measures and Other Performance Metrics

We regularly monitor a number of financial and operating metrics in order to measure our current performance and estimate our future performance. Our metrics may be calculated in a manner different than similar metrics used by other companies.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2020	2019	2020
	(in thousands, except ARPU)			
FI MAUs	128,315	161,570	118,969	153,190
ARPU	$ 0.44	$ 0.29	$ 1.19	$ 0.78
Billings	$ 82,792	$ 62,093	$ 215,118	$ 169,390
Adjusted contribution	$ 24,738	$ 19,749	$ 64,216	$ 52,530
Adjusted EBITDA	$ 2,967	$ (596)	$ (838)	$ (12,273)

FI Monthly Active Users

We define FI MAUs as targetable customers or accounts of our FI partners that logged in and visited the online or mobile banking applications of, or opened an email containing our offers from, our FI partners during a monthly period. We then calculate a monthly average of these FI MAUs for the periods presented. We believe that FI MAUs is an indicator of our and our FI partners' ability to drive engagement with Cardlytics Direct and is reflective of the marketing base that we offer to marketers through Cardlytics Direct.

Average Revenue per User

We define ARPU as the total Cardlytics Direct revenue generated in the applicable period calculated in accordance with generally accepted accounting principles in the United States ("GAAP"), divided by the average number of FI MAUs in the applicable period. We believe that ARPU is an indicator of the value of our relationships with our FI partners with respect to Cardlytics Direct.

Billings

Billings represents the gross amount billed to marketers for advertising campaigns in order to generate revenue. Billings is reported gross of both Consumer Incentives and FI Share. Our GAAP revenue is recognized net of Consumer Incentives and gross of FI Share.

We review billings for internal management purposes. We believe that billings provides useful information to investors for period-to-period comparisons of our core business and in understanding and evaluating our results of operations in the same manner as our management and board of directors. Nevertheless, our use of billings has limitations as an analytical tool, and you should not consider it in isolation or as a substitute for analysis of our financial results as reported under GAAP. Other companies, including companies in our industry that have similar business arrangements, may address the impact of Consumer Incentives differently. You should consider billings alongside our other GAAP financial results.

The following table presents a reconciliation of billings to revenue, the most directly comparable GAAP measure (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	**2020**	**2019**	**2020**
Revenue	$ 56,419	$ 46,079	$ 141,137	$ 119,810
Plus:				
Consumer Incentives	26,373	16,014	73,981	49,580
Billings	$ 82,792	$ 62,093	$ 215,118	$ 169,390

Adjusted Contribution

Adjusted contribution measures the degree by which revenue generated from our marketers exceeds the cost to obtain the purchase data and the digital advertising space from our FI partners. Adjusted contribution demonstrates how incremental marketing spend on our platform generates incremental amounts to support our sales and marketing, research and development, general and administration and other investments. Adjusted contribution is calculated by taking our total revenue less our FI Share and other third-party costs exclusive of amortization and impairment of deferred FI implementation costs, which is a non-cash cost. Adjusted contribution does not take into account all costs associated with generating revenue from advertising campaigns, including sales and marketing expenses, research and development expenses, general and administrative expenses and other expenses, which we do not take into consideration when making decisions on how to manage our advertising campaigns.

We use adjusted contribution extensively to measure the efficiency of our advertising platform, make decisions to manage advertising campaigns and evaluate our operational performance. Adjusted contribution is also used to determine the vesting of performance-based equity awards and is used to determine the achievement of quarterly and annual bonuses across our entire global employee base, including executives. We view adjusted contribution as an important operating measure of our financial results. We believe that adjusted contribution provides useful information to investors and others in understanding and evaluating our results of operations in the same manner as our management and board of directors. Adjusted contribution should not be considered in isolation from, or as an alternative to, measures prepared in accordance with GAAP. Adjusted contribution should be considered together with other operating and financial performance measures presented in accordance with GAAP. Also, adjusted contribution may not necessarily be comparable to similarly titled measures presented by other companies. Refer to Note 11—Segments to our condensed consolidated financial statements for further details on our adjusted contribution.

The following table presents a reconciliation of adjusted contribution to gross profit, the most directly comparable GAAP measure, for each of the periods indicated (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2020	2019	2020
Revenue	$ 56,419	$ 46,079	$ 141,137	$ 119,810
Minus:				
FI Share and other third-party costs	32,470	27,971	79,094	70,920
Delivery costs[1]	3,070	3,498	9,686	10,403
Gross profit	20,879	14,610	52,357	38,487
Plus:				
Delivery costs[1]	3,070	3,498	9,686	10,403
Amortization and impairment of deferred FI implementation costs[2]	789	1,641	2,173	3,640
Adjusted contribution	$ 24,738	$ 19,749	$ 64,216	$ 52,530

(1) Stock-based compensation expense recognized in delivery costs totaled $0.2 million and $0.4 million for the three months ended September 30, 2019 and 2020, respectively, and $0.5 million and $0.9 million for the nine months ended September 30, 2019 and 2020, respectively.
(2) Amortization and impairment of deferred FI implementation costs is excluded from adjusted FI Share and other third-party costs as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2020	2019	2020
FI Share and other third-party costs	$ 32,470	$ 27,971	$ 79,094	$ 70,920
Minus:				
Amortization and impairment of deferred FI implementation costs[1]	789	1,641	2,173	3,640
Adjusted FI Share and other third-party costs	$ 31,681	$ 26,330	$ 76,921	$ 67,280

(1) Amortization and impairment of deferred FI implementation costs for the three and nine months ended September 30, 2020 includes the impact of a $0.7 million write off related to certain user interface enhancements.

Adjusted EBITDA

Adjusted EBITDA represents our net loss before income tax benefit; interest expense, net; depreciation and amortization expense; stock-based compensation expense; foreign currency (loss) gain; amortization and impairment of deferred FI implementation costs; restructuring costs and loss on extinguishment of debt . We do not consider these excluded items to be indicative of our core operating performance. The items that are non-cash include foreign currency loss, amortization and impairment of deferred FI implementation costs, depreciation and amortization expense and stock-based compensation expense. Notably, any impacts related to minimum FI Share commitments in connection with agreements with certain FI partners are not added back to net loss in order to calculate adjusted EBITDA. Adjusted EBITDA is a key measure used by management to understand and evaluate our core operating performance and trends and to generate future operating plans, make strategic decisions regarding the allocation of capital and invest in initiatives that are focused on cultivating new markets for our solution. In particular, the exclusion of certain expenses in calculating adjusted EBITDA facilitates comparisons of our operating performance on a period-to-period basis. Adjusted EBITDA is not a measure calculated in accordance with GAAP.

We believe that adjusted EBITDA provides useful information to investors and others in understanding and evaluating our operating results in the same manner as our management and board of directors. Nevertheless, use of adjusted EBITDA has limitations as an analytical tool, and you should not consider it in isolation or as a substitute for analysis of our financial results as reported under GAAP. Some of these limitations are: (1) adjusted EBITDA does not reflect changes in, or cash requirements for, our working capital needs; (2) adjusted EBITDA does not reflect the potentially dilutive impact of stock-based compensation and equity instruments issued to our FI partners; (3) adjusted EBITDA does not reflect tax payments or receipts that may represent a reduction or increase in cash available to us; and (4) other companies, including companies in our industry, may calculate adjusted EBITDA or similarly titled measures differently, which reduces the usefulness of the metric as a comparative measure. Because of these and other limitations, you should consider adjusted EBITDA alongside our net loss and other GAAP financial results.

The following table presents a reconciliation of adjusted EBITDA to net loss, the most directly comparable GAAP measure (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2020	2019	2020
Net loss	$ (7,747)	$ (15,356)	$ (20,571)	$ (48,645)
Plus:				
Income tax benefit	—	—	—	—
Interest expense, net	218	283	860	8
Depreciation and amortization expense	1,167	1,933	3,181	5,809
Stock-based compensation expense	7,486	11,578	12,266	24,811
Foreign currency loss (gain)	903	(1,066)	1,079	828
Amortization and impairment of deferred FI implementation costs	789	1,641	2,173	3,640
Restructuring costs	—	391	—	1,276
Loss on extinguishment of debt	28	—	51	—
Costs associated with financing events	123	—	123	—
Adjusted EBITDA	$ 2,967	$ (596)	$ (838)	$ (12,273)

Results of Operations

The following table presents our condensed consolidated statements of operations (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2020	2019	2020
Revenue	$ 56,419	$ 46,079	$ 141,137	$ 119,810
Costs and expenses:				
FI Share and other third-party costs	32,470	27,971	79,094	70,920
Delivery costs	3,070	3,498	9,686	10,403
Sales and marketing expense	11,074	11,432	31,458	32,805
Research and development expense	3,018	4,627	8,741	12,444
General and administrative expense	12,218	12,757	27,558	35,235
Depreciation and amortization expense	1,167	1,933	3,181	5,809
Total costs and expenses	63,017	62,218	159,718	167,616
Operating loss	(6,598)	(16,139)	(18,581)	(47,806)
Other (expense) income:				
Interest expense, net	(218)	(283)	(860)	(9)
Foreign currency (loss) gain	(931)	1,066	(1,130)	(830)
Total other (expense) income	(1,149)	783	(1,990)	(839)
Loss before income taxes	(7,747)	(15,356)	(20,571)	(48,645)
Income tax benefit	—	—	—	—
Net loss	$ (7,747)	$ (15,356)	$ (20,571)	$ (48,645)

Comparison of Three and Nine Months Ended September 30, 2019 and 2020

Revenue

	Three Months Ended September 30,		Change		Nine Months Ended September 30,		Change	
	2019	2020	$	%	2019	2020	$	%
Revenue	$ 56,419	$ 46,079	$ (10,340)	(18)%	$ 141,137	$ 119,810	$ (21,327)	(15)%

The $10.3 million decrease in revenue during the three months ended September 30, 2020 compared to the three months ended September 30, 2019 was comprised of a $14.9 million decrease in sales to existing marketers, partially offset by a $4.5 million increase in sales to new marketers. Revenue for the three months ended September 30, 2020 was unfavorably affected by the COVID-19 pandemic and its negative impact on both consumer spending and marketers' ability to spend advertising budgets on our solution.

The $21.3 million decrease in revenue during the nine months ended September 30, 2020 compared to the nine months ended September 30, 2019 comprised of a $30.0 million decrease in sales to existing marketers, partially offset with a $8.6 million increase in sales to new marketers. Revenue for the nine months ended September 30, 2020 was unfavorably affected by the COVID-19 pandemic and its negative impact on both consumer spending and marketers' ability to spend advertising budgets on our solution. During the nine months ended September 30, 2020, we deferred $0.3 million of revenue associated with billings to marketers that we believe are likely to be most affected by the slowdown in economic activity resulting from the COVID-19 pandemic.

We expect both a reduction in consumer spending and a reduction in marketing campaigns in the near term on a year-over-year basis, which we believe will result in a year-over-year decline in our revenue in future periods. The severity and duration of this decline is difficult to estimate given the uncertainty that the impacts of COVID–19 will continue to have on the global economy.

Costs and Expenses

FI Share and Other Third-Party Costs

	Three Months Ended September 30,		Change		Nine Months Ended September 30,		Change	
	2019	2020	$	%	2019	2020	$	%
	(dollars in thousands)							
FI Share and other third-party costs:								
Adjusted FI Share and other third-party costs	$ 31,681	$ 26,330	$ (5,351)	(17)%	$ 76,921	$ 67,280	$ (9,641)	(13)%
Amortization and impairment of deferred FI implementation costs	789	1,641	852	108	2,173	3,640	1,467	68
Total FI Share and other third-party costs	$ 32,470	$ 27,971	$ (4,499)	(14)%	$ 79,094	$ 70,920	$ (8,174)	(10)%
% of revenue	58 %	61 %			56 %	59 %		

Adjusted FI Share and other third-party costs decreased by $4.5 million during the three months ended September 30, 2020 compared to the three months ended September 30, 2019 primarily due to decreased revenue from sales of Cardlytics Direct. Amortization and impairment of deferred FI implementation costs increased by $0.9 million during the three months ended September 30, 2020 compared to the three months ended September 30, 2019 primarily due to a write off of deferred FI implementation costs totaling $0.7 million relating to the discontinued use of certain user interface enhancements.

Adjusted FI Share and other third-party costs decreased by $8.2 million during the nine months ended September 30, 2020 compared to the nine months ended September 30, 2019 primarily due to decreased revenue from sales of Cardlytics Direct. Amortization and impairment of deferred FI implementation costs increased by $1.5 million during the nine months ended September 30, 2020 compared to the nine months ended September 30, 2019 primarily due to an increase in the value of enhancements placed in service by our FI partners and a write off of deferred FI implementation costs totaling $0.7 million relating to the discontinued use of certain user interface enhancements.

We believe the near-term fluctuations in revenue caused by the economic impact of COVID–19 would also result in similar percentage fluctuations in adjusted FI Share and other third-party costs in future periods.

Delivery Costs

	Three Months Ended September 30,		Change		Nine Months Ended September 30,		Change	
	2019	**2020**	**$**	**%**	**2019**	**2020**	**$**	**%**
	(dollars in thousands)							
Delivery costs	$ 3,070	$ 3,498	$ 428	14 %	$ 9,686	$ 10,403	$ 717	7 %
% of revenue	5 %	8 %			7 %	9 %		

Delivery costs increased by $0.4 million during the three months ended September 30, 2020 compared to the three months ended September 30, 2019, primarily due to a $0.3 million increase in personnel costs associated with headcount and a $0.1 million increase in costs associated with hosting Cardlytics Direct for certain FI partners.

Delivery costs increased by $0.7 million during the nine months ended September 30, 2020 compared to the nine months ended September 30, 2019, primarily due to a $0.3 million increase in costs associated with hosting Cardlytics Direct for certain FI partners and a $0.4 million increase in stock-based compensation expense.

Sales and Marketing Expense

	Three Months Ended September 30,		Change		Nine Months Ended September 30,		Change	
	2019	**2020**	**$**	**%**	**2019**	**2020**	**$**	**%**
	(dollars in thousands)							
Sales and marketing expense	$ 11,074	$ 11,432	$ 358	3 %	$ 31,458	$ 32,805	$ 1,347	4 %
% of revenue	20 %	25 %			22 %	27 %		

Sales and marketing expense increased by $0.4 million during the three months ended September 30, 2020 compared to the three months ended September 30, 2019 primarily due to a $2.4 million increase in stock-based compensation expense and a $1.0 million increase in personnel costs associated with additional headcount, partially offset by a decrease of $2.7 million in incentive compensation and a $0.3 million decrease in travel and entertainment.

Sales and marketing expense increased by $1.3 million during the nine months ended September 30, 2020 compared to the nine months ended September 30, 2019 primarily due to a $4.5 million increase in stock-based compensation expense and a $2.3 million increase in personnel costs associated with headcount, partially offset by a decrease of $4.9 million in incentive compensation and a $0.6 million decrease in travel and entertainment.

Research and Development Expense

	Three Months Ended September 30,		Change		Nine Months Ended September 30,		Change	
	2019	2020	$	%	2019	2020	$	%
	(dollars in thousands)							
Research and development expense	$ 3,018	$ 4,627	$ 1,609	53 %	$ 8,741	$ 12,444	$ 3,703	42 %
% of revenue	5 %	10 %			6 %	10 %		

Research and development expense increased by $1.6 million during the three months ended September 30, 2020 compared to the three months ended September 30, 2019 primarily due to a $0.9 million increase in stock-based compensation expense, a $1.0 million increase in personnel due to headcount partially offset by a $0.3 million decrease in personnel costs due to higher capitalization and a $0.2 million increase in professional fees, partially offset by a $0.2 million decrease in incentive compensation.

Research and development expense increased by $3.7 million during the nine months ended September 30, 2020 compared to the nine months ended September 30, 2019 primarily due to a $2.3 million increase in stock-based compensation expense, a $2.3 million increase in personnel due to headcount partially offset by a $1.0 million decrease in personnel costs due to higher capitalization and a $0.9 million increase in professional fees, partially offset by a $0.7 million decrease in incentive compensation and a $0.1 million decrease in travel and entertainment.

General and Administrative Expense

	Three Months Ended September 30,		Change		Nine Months Ended September 30,		Change	
	2019	2020	$	%	2019	2020	$	%
	(dollars in thousands)							
General and administrative expense	$ 12,218	$ 12,757	$ 539	4 %	$ 27,558	$ 35,235	$ 7,677	28 %
% of revenue	22 %	28 %			20 %	29 %		

General and administrative expense increased by $0.5 million during the three months ended September 30, 2020 compared to the three months ended September 30, 2019 primarily due to a $0.7 million increase in stock-based compensation expense, a $0.3 million increase in software licensing costs, a $0.3 million increase in personnel costs associated with additional headcount and a $0.2 million increase in professional fees, partially offset by a $0.5 million decrease in incentive compensation and $0.5 million decrease in bad debt expense.

General and administrative expense increased by $7.7 million during the nine months ended September 30, 2020 compared to the nine months ended September 30, 2019 primarily due to a $5.4 million increase in stock-based compensation expense, a $1.2 million increase in software licensing costs, a $1.4 million increase in personnel costs associated with additional headcount, a $0.5 million increase in professional fees, a $0.3 million increase in bad debt, a $0.3 million increase in facility costs and a $0.3 million increase in insurance premiums partially offset by a $1.2 million decrease in incentive compensation and a $0.5 million decrease in travel and entertainment.

We will continue to actively monitor the rapidly evolving situation related to COVID–19 and may further adjust our allowance for doubtful accounts in the future.

Stock-based Compensation Expense

The following table summarizes the allocation of stock-based compensation in the consolidated statements of operations (in thousands):

	Three Months Ended September 30,		Change		Nine Months Ended September 30,		Change	
	2019	2020	$	%	2019	2020	$	%
Delivery costs	$ 176	$ 365	$ 189	107 %	$ 539	$ 897	$ 358	66 %
Sales and marketing expense	1,432	3,791	2,359	165	3,091	7,627	4,536	147
Research and development expense	638	1,510	872	137	1,204	3,514	2,310	192
General and administrative expense	5,240	5,912	672	13	7,432	12,773	5,341	72
Total stock-based compensation expense	$ 7,486	$ 11,578	$ 4,092	55 %	$ 12,266	$ 24,811	$ 12,545	102 %
% of revenue	13 %	25 %			9 %	21 %		

Stock-based compensation expense increased by $4.1 million during the three months ended September 30, 2020 compared to the three months ended September 30, 2019 due to a strategic shift of incentive compensation to stock based compensation as well as the accelerated vesting of certain restricted stock unit awards. As of September 30, 2020, we have accrued $2.6 million of stock-based compensation for bonus and commissions in lieu of cash incentive compensation which has not been settled.

Stock-based compensation expense increased by $12.5 million during the nine months ended September 30, 2020 compared to the nine months ended September 30, 2019 due to an increase in expense relating to the 2020 performance stock units, which were granted in April 2020, a strategic shift of incentive compensation to stock based compensation as well as the accelerated vesting of certain restricted stock unit awards. As of September 30, 2020, we have accrued $2.6 million of stock-based compensation for bonus and commissions in lieu of cash incentive compensation which has not been settled.

Depreciation and Amortization Expense

	Three Months Ended September 30,		Change		Nine Months Ended September 30,		Change	
	2019	2020	$	%	2019	2020	$	%
	(dollars in thousands)							
Depreciation and amortization expense	$ 1,167	$ 1,933	$ 766	66 %	$ 3,181	$ 5,809	$ 2,628	83 %
% of revenue	2 %	4 %			2 %	5 %		

Depreciation and amortization expense increased by $0.8 million during the three months ended September 30, 2020 compared to the three months ended September 30, 2019 primarily due to additional hardware and software purchased in 2020.

Depreciation and amortization expense increased by $2.6 million during the nine months ended September 30, 2020 compared to the nine months ended September 30, 2019 primarily due to additional hardware and software purchased in 2020 and the suspension of certain development efforts that resulted in a $1.0 million write off of capitalized internal-use software development costs.

Interest Expense, Net

	Three Months Ended September 30,		Change		Nine Months Ended September 30,		Change	
	2019	2020	$	%	2019	2020	$	%
	(dollars in thousands)							
Interest expense	$ (379)	$ (311)	$ 68	(18)%	$ (1,337)	$ (391)	$ 946	(71)%
Interest income	161	27	(134)	(83)	477	381	(96)	(20)
Interest expense, net	$ (218)	$ (283)	$ (65)	30 %	$ (860)	$ (9)	$ 851	(99)%
% of revenue	— %	(1)%			(1)%	— %		

Interest expense decreased $0.1 million during the three months ended September 30, 2020 compared to the three months ended September 30, 2019, driven by a decrease in the amount outstanding on our 2018 Line of Credit and 2018 Term Loan partially offset by an increase in interest expense related to the Notes, and interest income decreased $0.1 million during the three months ended September 30, 2020 compared to the three months ended September 30, 2019, due to a lower interest rate earned on the cash held in our fully FDIC-insured demand deposit accounts.

Interest expense decreased $0.9 million during the nine months ended September 30, 2020 compared to the nine months ended September 30, 2019 driven by a decrease in the amount outstanding on our 2018 Line of Credit and 2018 Term Loan partially offset by an increase in interest expense related to the Notes, and interest income decreased $0.1 million during the nine months ended September 30, 2020 compared to the nine months ended September 30, 2019., due to a lower interest rate earned on the cash held in our fully FDIC-insured demand deposit accounts.

Foreign Currency (Loss) Gain

	Three Months Ended September 30,		Change		Nine Months Ended September 30,		Change	
	2019	2020	$	%	2019	2020	$	%
	(dollars in thousands)							
Foreign currency (loss) gain	$ (903)	$ 1,066	$ 1,969	(218)%	$ (1,079)	$ (830)	$ 249	(23)%
Other	(28)	—	28	n/a	(51)	—	51	—
Total foreign currency (loss) gain	$ (931)	$ 1,066	$ 1,997	(215)%	$ (1,130)	$ (830)	$ 300	(27)%
% of revenue	(2)%	2 %			(1)%	(1)%		

Foreign currency (loss) gain increased by $2.0 million during the three months ended September 30, 2020 compared to the three months ended September 30, 2019 primarily due to an increase in the value of the British pound relative to the U.S. dollar.

Foreign currency loss increased by $0.3 million during the nine months ended September 30, 2020 compared to the nine months ended September 30, 2019 primarily due to an increase in the value of the British pound relative to the U.S. dollar.

Liquidity and Capital Resources

The following table summarizes our cash and cash equivalents, accounts receivable, working capital and unused available borrowings (in thousands):

	December 31, 2019	September 30, 2020
Cash and cash equivalents	$ 104,458	$ 287,639
Accounts receivable, net	81,452	53,392
Working capital[(1)]	117,329	295,688
Unused available borrowings	40,000	40,000

(1) We define working capital as current assets less current liabilities. See our consolidated financial statements for further details regarding our current assets and current liabilities.

Our cash and cash equivalents are available for working capital purposes. We do not enter into investments for trading purposes, and our investment policy is to invest any excess cash in short-term, highly liquid investments that limit the risk of principal loss. Currently, the majority of our cash and cash equivalents are held in money market accounts and fully FDIC-insured demand deposit accounts. As of September 30, 2020, our demand deposit accounts earned up to a 0.25% annual rate of interest. As of September 30, 2020, $5.5 million of our cash and cash equivalents were in the United Kingdom. While our investment in Cardlytics UK Limited is not considered indefinitely invested, we do not plan to repatriate these funds.

Through September 30, 2020, we have incurred accumulated net losses of $387.3 million since inception, including net losses of $20.6 million and $48.6 million for the nine months ended September 30, 2019 and 2020, respectively. We expect to incur additional operating losses as we continue our efforts to grow our business. We have historically financed our operations and capital expenditures through convertible note financings, private placements of preferred stock, public offerings of our common stock, lines of credit and term loans and convertible senior notes. Through September 30, 2020, we have received net proceeds of $222.7 million from the issuance of convertible senior notes, net proceeds of $196.2 million from the issuance of preferred stock and convertible promissory notes and net proceeds of $127.1 million from public equity offerings.

Our future capital requirements will depend on many factors, including our growth rate, the timing and extent of spending to support research and development efforts, the continued expansion of sales and marketing activities, the enhancement of our platform, the introduction of new solutions, the continued market acceptance of our solutions and the extent of the impact of COVID-19 on our operational and financial performance. We expect to continue to incur operating losses for the foreseeable future and may require additional capital resources to continue to grow our business. Despite the economic impacts of COVID-19, we believe that current cash and cash equivalents will be sufficient to fund our operations and capital requirements for at least the next 12 months following the date our consolidated financial statements were issued. However, if our access to capital is restricted or our borrowing costs increase, our operations and financial condition could be materially and adversely impacted. In the event that additional financing is required from outside sources, we may not be able to raise such financing on terms acceptable to us or at all.

The following table summarizes our cash flows (in thousands):

	Nine Months Ended September 30,	
	2019	2020
Cash, cash equivalents and restricted cash — Beginning of period	$ 59,870	$ 104,587
Net cash received from (used in) operating activities	7,357	(13,214)
Net cash used in investing activities	(6,411)	(6,260)
Net cash received from financing activities	35,049	203,013
Effect of exchange rates on cash, cash equivalents and restricted cash	(435)	(378)
Cash, cash equivalents and restricted cash — End of period	$ 95,430	$ 287,748

Sources of Funds

2020 Convertible Senior Notes

In September 2020, we issued convertible senior notes with an aggregate principal amount of $230.0 million bearing an interest rate of 1.00% due in 2025 (the "Notes"). The net proceeds from this offering were $222.7 million, after deducting the initial purchasers' discounts and commissions and the estimated offering expenses payable by us. We used $26.5 million of the net proceeds to pay the cost of capped call transactions (the "Capped Calls") described under the *Financing Activities* section below. We intend to use the remainder of the net proceeds for working capital or other general corporate purposes, which may include potential acquisitions and strategic transactions.

Proceeds from Issuance of Common Stock

On September 13, 2019, we closed a public equity offering in which we sold 1,904,154 shares of common stock, which included 404,154 shares sold pursuant to the exercise by the underwriters of an option to purchase additional shares, at a public offering price of $34.00 per share. We received total net proceeds of $61.3 million after deducting underwriting discounts and commissions of $3.2 million and offering costs of $0.2 million. Selling stockholders, including certain of our executive officers and entities affiliated with certain of our directors, sold 1,194,365 shares of common stock in the offering at a public offering price of $34.00. We did not receive any proceeds from the sale of common stock by the selling stockholders. In addition to public offerings of stock, we received $20.4 million and $6.4 million from the exercise of stock options and warrants during the nine months ended September 30, 2019 and 2020, respectively.

2018 Loan Facility

On May 14, 2019, we amended our loan facility with Pacific Western Bank to increase the capacity of our asset-based revolving line of credit ("2018 Line of Credit") and decreased the capacity of our term loan ("2018 Term Loan"). This amendment also extended the maturity date of the term loan from May 21, 2020 to May 14, 2021. We repaid $10.0 million of the principal balance of the 2018 Term Loan upon the execution of the amendment in May 2019 and repaid the remaining $10.0 million principal balance in September 2019. As of September 30, 2020, we had $40.0 million of unused borrowings available under our 2018 Line of Credit and had no outstanding borrowings. Under the amended terms, we are able to borrow up to the lesser of $40.0 million or 85% of the amount of our eligible accounts receivable. Interest on advances bears an interest rate equal to the prime rate minus 0.50%, or 2.75% as of September 30, 2020. In addition, we are required to pay an unused line fee of 0.15% per annum on the average daily unused amount of the $40.0 million revolving commitment. Interest accrued on the 2018 Term Loan at an annual rate of interest equal to the prime rate minus 2.75%, or 2.00% at the date of repayment in September 2019. We believe that we were in compliance with all financial covenants as of September 30, 2020.

Uses of Funds

Our collection cycles can vary from period to period based on the payment practices of our marketers and their agencies. We are generally obligated to pay Consumer Incentives with respect to our Cardlytics Direct solution between one and three months following redemption, regardless of whether we have collected payment from a marketer or its agency. We are generally obligated to pay our FI partners' FI Share either three months following marketer billings, regardless of whether we have collected payment from a marketer or its agency, or by the end of the month following our collection of payment from the applicable marketer or its agency. As a result, timing of cash receipts from our marketers can significantly impact our operating cash flows for any period. Further, the timing of payment of commitments and implementation fees to our FI partners may also result in variability of our operating cash flows for any period.

Our operating cash flows also vary from quarter to quarter due to the seasonal nature of our marketers' advertising spending. Many marketers tend to devote a significant portion of their marketing budgets to the fourth quarter of the calendar year to coincide with consumer holiday spending and reduce marketing spend in the first quarter of the calendar year. Any lag between the timing of our payment of Consumer Incentives and our receipt of payment from marketers and their agencies can exacerbate our need for working capital during the first quarter of the calendar year.

Operating Activities

Cash received from (used in) operating activities is primarily driven by our operating losses and changes in working capital. We expect that we will continue to use cash from operating activities in 2020 as we invest in our business.

Operating activities used $13.2 million of cash during the nine months ended September 30, 2020, which reflected our net loss of $48.6 million and a $4.2 million change in our net operating assets and liabilities, partially offset by $39.6 million of non-cash charges. The non-cash charges primarily related to stock-based compensation expense, depreciation and amortization expense, amortization of right–of–use assets, amortization and impairment of deferred FI implementation costs and bad debt expense. The change in our net operating assets and liabilities was primarily due to a $25.0 million decrease in accounts receivable, partially offset by a $15.5 million decrease in FI Share liability and a $5.6 million decrease in our Consumer Incentive liability. These decreases were primarily a result of significantly lower sales during the third quarter of 2020, primarily caused by the COVID–19 pandemic, compared to the fourth quarter of 2019.

Operating activities provided $7.4 million of cash during the nine months ended September 30, 2019, which reflected growth in revenue, offset by continued investment in our operations. Cash used in operating activities reflected our net loss of $20.6 million, partially offset by $20.1 million of non-cash charges and a $3.1 million change in our net operating assets and liabilities. The non-cash charges primarily related to stock-based compensation expense, depreciation and amortization expense, and amortization of deferred FI implementation costs. The change in our net operating assets and liabilities was primarily due to a $5.8 million increase in accounts receivable, offset by a $6.0 million increase in FI Share liability and a $4.4 million increase in our Consumer Incentive liability as a result of longer payment terms negotiated within more recent contracts with our FI partners as of September 30, 2019 compared to December 31, 2018, as well as recoveries of development payments to a certain FI partner through FI Share payment reductions of $3.5 million.

Investing Activities

Our cash flows from investing activities are primarily driven by our investments in, and purchases of, property and equipment and costs to develop internal-use software. We expect that we will continue to use cash for investing activities in 2020 as we continue to invest in and grow our business.

Investing activities used $6.4 million and $6.3 million in cash during the nine months ended September 30, 2019 and 2020, respectively. Our investing cash flows during these periods primarily consisted of purchases of technology hardware and the capitalization of costs to develop internal-use software.

Financing Activities

Our cash flows from financing activities have primarily been composed of net proceeds from our borrowings under our debt facilities, the issuance of the Notes and the issuance of common and preferred stock.

Financing activities provided $203.0 million in cash during the nine months ended September 30, 2020. Our financing activities during this period primarily consisted of $223.1 million of net proceeds from our issuance of the Notes, of which we used $26.5 million to purchase the Capped Calls and proceeds from the exercise of options to purchase shares of common stock. The Capped Calls are intended to reduce potential dilution to our common stock upon any conversion of Notes and/or offset any cash payments we are required to make in excess of the principal amount of converted Notes, as the case may be.

Financing activities provided $35.0 million in cash during the nine months ended September 30, 2019. During the nine months ended September 30, 2019, we raised net proceeds of $61.0 million from our public equity offering and received $20.5 million in proceeds from the exercise of options and warrants to purchase shares of common stock. We also reduced our outstanding borrowings under our 2018 Line of Credit by $26.7 million.

Contractual Obligations & Commitments

In the second quarter of 2020, we renewed certain data center lease agreements. Refer to Note 4—Leases to our condensed consolidated financial statements for a description of the impact.

In September 2020, we issued $230.0 million aggregate principal amount of our Notes in a private placement to qualified institutional buyers pursuant to Rule 144A under the Securities Act. The Notes will mature on September 15, 2025, unless earlier converted, redeemed or repurchased. For more information on the Notes, refer to Note 5—Debt and Financing Arrangements to our condensed consolidated financial statements.

Aside from the aforementioned data center lease agreements and Notes, there have been no material changes in our contractual obligations and commitments from those disclosed in our Annual Report on Form 10-K for the year ended December 31, 2019 filed with the SEC on March 3, 2020.

Off-Balance Sheet Arrangements

We did not have any off-balance sheet arrangements as defined in Item 303(a)(4)(ii) of Regulation S-K.

Critical Accounting Policies and Estimates

Our condensed consolidated financial statements are prepared in accordance with GAAP. The preparation of these condensed consolidated financial statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, expenses and related disclosures. We evaluate our estimates and assumptions on an ongoing basis. The future effects of the COVID-19 pandemic on our results of operations, cash flows, and financial position are unclear, however we believe we have used reasonable estimates and assumptions in preparing our condensed consolidated financial statements. Our actual results could differ from these estimates.

We believe that the assumptions and estimates associated with the evaluation of revenue recognition criteria, including the determination of revenue recognition as net versus gross in our revenue arrangements, the assumptions used in the valuation models to determine the fair value of equity awards and stock-based compensation expense, and the assumptions required in determining any valuation allowance recorded against deferred tax assets have the greatest potential impact on our condensed consolidated financial statements.

Therefore, we consider these to be our critical accounting policies and estimates. By their nature, estimates are subject to an inherent degree of uncertainty. Actual results could differ materially from these estimates. Except for the adoption of ASU 2016-02, *Leases (Topic 842)* described in Note 2—Recent Accounting Standards to our condensed consolidated financial statements, which resulted in the recognition of right-of-use assets and lease liabilities of $10.3 million and $13.5 million, respectively, there have been no material changes to our critical accounting policies and estimates from those disclosed in our Annual Report on Form 10-K for the year ended December 31, 2019.

Recent Accounting Pronouncements

Refer to Note 2—Recent Accounting Standards to our condensed consolidated financial statements for a description of recent accounting pronouncements.

Emerging Growth Company Status

In April 2012, the Jumpstart Our Business Startups Act of 2012 ("JOBS Act") was enacted. Section 107 of the JOBS Act provides that an "emerging growth company" can take advantage of the extended transition period provided in Section 7(a)(2)(B) of the Securities Act for complying with new or revised accounting standards. Thus, an emerging growth company can delay the adoption of certain accounting standards until those standards would otherwise apply to private companies. We have elected to avail ourselves of this extended transition period and, as a result, we may not adopt new or revised accounting standards on the relevant dates on which adoption of such standards is required for other public companies. We will lose "emerging growth company" status effective December 31, 2020.

ITEM 3. QUALITATIVE AND QUANTITATIVE DISCLOSURES ABOUT MARKET RISK

Market risk represents the risk of loss that may impact our financial position due to adverse changes in financial market prices and rates. Our market risk exposure is primarily the result of fluctuations in interest rates and foreign exchange rates.

Interest Rate Risk

The interest rates under the 2018 Line of Credit are variable. Interest on advances under the 2018 Line of Credit bears an interest rate of the prime rate minus 0.50%, or 2.75%. As of September 30, 2020, the prime rate was 3.25% and a 10% increase in the current prime rate would, for example, result in a $0.1 million annual increase in interest expense if the maximum borrowable amount under the 2018 Line of Credit were outstanding for an entire year. The interest rate on the 2020 Convertible Senior Notes is fixed at 1.00%.

Foreign Currency Exchange Risk

Both revenue and operating expense of Cardlytics UK Limited are denominated in British pounds, and we bear foreign currency risks related to these amounts. For example, if the average value of the British pound had been 10% higher relative to the U.S. dollar during the nine months ended September 30, 2019 and 2020, our operating expense would have increased by $0.5 million and $0.7 million, respectively.

Inflation Risk

We do not believe that inflation has had a material effect on our business, financial condition or results of operations. If our costs were to become subject to significant inflationary pressures, we may not be able to fully offset such higher costs through price increases. Our inability or failure to do so could harm our business, financial condition and results of operations.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our principal executive officer and principal financial officer, has evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended ("Exchange Act"), as of September 30, 2020. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on such evaluation, our principal executive officer and principal financial officer have concluded that as of such date, our disclosure controls and procedures were effective at the reasonable assurance level.

Changes in Internal Control Over Financial Reporting

There was no change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during the period covered by this Quarterly Report on Form 10-Q that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

In response to the COVID-19 pandemic, our teams have been working remotely since March 2020. We took precautionary measures to ensure our internal control over financial reporting addressed risks working in a remote environment. We are continually monitoring and assessing the potential effects of COVID-19 on the design and operating effectiveness of our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

From time to time we may become involved in legal proceedings or be subject to claims arising in the ordinary course of our business. We are not presently a party to any legal proceedings that, if determined adversely to us, would individually or taken together have a material adverse effect on our business, operating results, financial condition or cash flows. Regardless of the outcome, litigation can have an adverse impact on us because of defense and settlement costs, diversion of management resources and other factors.

ITEM 1A. RISK FACTORS

Investing in our common stock involves a high degree of risk. You should consider carefully the risks and uncertainties described below, together with all of the other information contained in this Quarterly Report, including our condensed consolidated financial statements and related notes. Our business, financial condition, operating results, cash flow, and prospects could be materially and adversely affected by any of these risks or uncertainties. In that event, the market price of our common stock could decline and you could lose part or all of your investment.

Our Business and Industry

The ongoing COVID-19 pandemic could materially and adversely affect our business, results of operations and financial condition.

In March 2020, the World Health Organization declared the outbreak of COVID-19 a pandemic, which continues to spread throughout the United States and the world and has resulted in authorities implementing numerous measures to contain the virus, including travel bans and restrictions, quarantines, shelter-in-place orders, and business limitations and shutdowns. While we are unable to accurately predict the full impact that COVID-19 will have on our results from operations, financial condition, liquidity and cash flows due to numerous uncertainties, including the duration and severity of the pandemic and containment measures, our compliance with these measures has impacted our day-to-day operations and could disrupt our business and operations, as well as that of our marketers, FI partners, suppliers and others with whom we work, for an indefinite period of time. To support the health and well-being of our employees, marketers, FI partners and communities, our employees began working remotely in March 2020 and are still all working from home. In addition, many of our marketers and prospective marketers, as well as our FI partners, are working remotely. The disruptions to our operations caused by COVID-19 may result in inefficiencies, delays and additional costs that we cannot fully mitigate through remote or other alternative work arrangements. In addition, given the economic uncertainty created by COVID-19, we have and may continue to see delays in our sales cycle, failures of marketers to renew at all or to renew at a reduced scope their agreements with us, requests from marketers for payment term deferrals as well as pricing concessions, which, if significant, could materially and adversely affect our business, results of operations and financial condition. The extent of the impact of COVID-19 on our operational and financial performance will depend on certain developments, including the duration and spread of the outbreak, its impact on industry events, and its effect on consumer spending, our marketers, FI partners, suppliers and vendors and other parties with whom we do business, all of which are uncertain and cannot be predicted at this time. To the extent possible, we are conducting business as usual, with necessary or advisable modifications to employee travel, employee work locations, and cancellation of marketing events. We will continue to actively monitor the rapidly evolving situation related to COVID-19 and may take actions that alter our business operations, including those that may be required by federal, foreign, state or local authorities, or that we determine are in the best interests of our employees, marketers, FI partners, suppliers, vendors and stockholders. At this point, the extent to which the COVID-19 pandemic may impact our business, results of operations and financial condition is uncertain.

More generally, the pandemic raises the possibility of an extended global economic downturn and has caused volatility in financial markets, which could materially and adversely affect demand for our solution and materially and adversely impact our results and financial condition even after the pandemic is contained and the shelter-in-place orders are lifted. For example, we may be unable to collect receivables from those marketers significantly impacted by COVID-19, which may be more pronounced in industry verticals more directly impacted by the COVID-19 pandemic. The pandemic may also have the effect of heightening many of the other risks described in this “Risk Factors” section, including risks associated with our guidance, our marketers, our potential marketers, our market opportunity, renewals and sales cycle, among others. We will continue to evaluate the nature and extent of the impact of COVID-19 on our business.

The full extent of COVID-19's impact on our operations and financial performance depends on future developments that are uncertain and unpredictable, including the duration and spread of the pandemic, a possible resurgences of the virus, the potential development of a vaccine or effective therapeutics for the virus, the virus' impact on capital and financial markets, the timing of an economic recovery and any new information that may emerge concerning the severity of the virus, its spread to other regions as well as the actions taken to contain it, among others. Any of these impacts could have a material adverse impact on our business, results of operations and financial condition and ability to execute and capitalize on our strategies. Due to the current uncertainty regarding the severity and duration of the COVID-19 pandemic, we cannot predict whether our response to date or the actions we may take in the future will be effective in mitigating the effects of COVID-19 on our business, results of operations or financial condition.

Unfavorable conditions in the global economy or the industries we serve could limit our ability to grow our business and negatively affect our operating results.

General worldwide economic conditions have experienced significant instability in recent years including the recent global economic uncertainty and financial market conditions caused by the COVID-19 pandemic. These conditions make it extremely difficult for marketers and us to accurately forecast and plan future business activities and could cause marketers to continue to reduce or delay their marketing spending. For example, there has been an impact from the COVID-19 pandemic on spending by our marketers. We have also seen disruption in consumer spending in our data and it is impossible to predict the duration of the disruption. At this time, the potential impact on marketer spend and consumer spending from the COVID-19 pandemic is difficult to predict and, therefore, it is not possible to fully determine the impact on our future results. Historically, economic downturns have resulted in overall reductions in marketing spending. If macroeconomic conditions deteriorate or are characterized by uncertainty or volatility, marketers may curtail or freeze spending on marketing in general and for services such as ours specifically, which could have a material and adverse impact on our business, financial condition and operating results.

In addition, our business may be materially and adversely affected by weak economic conditions in the industries that we serve. We have historically generated a substantial majority of our revenue from marketers in the restaurant, brick and mortar retail, telecommunications and cable industries, and have recently entered new industries such as travel and hospitality, grocery, e-commerce and luxury brands. All of these industries have been negatively impacted by the pandemic and certain precautions taken to control the pandemic. We cannot predict the timing, strength or duration of any economic slowdown or recovery. In addition, we cannot predict the timing, strength or duration of any economic slowdown or recovery. In addition, even if the overall economy is robust, we cannot assure you that the market for services such as ours will experience growth or that we will experience growth.

Our quarterly operating results have fluctuated and may continue to vary from period to period, which could result in our failure to meet expectations with respect to operating results and cause the trading price of our stock to decline.

Our operating results have historically fluctuated and our future operating results may vary significantly from quarter to quarter due to a variety of factors, many of which are beyond our control. Period-to-period comparisons of our operating results should not be relied upon as an indication of our future performance. Given our relatively short operating history and the rapidly evolving purchase intelligence industry, our historical operating results may not be useful in predicting our future operating results.

Factors that may impact our quarterly operating results include the factors set forth in this “Risk Factors” section, as well as the following:

- our ability to maintain and grow our business in light of the global COVID-19 pandemic and precautions taken to reduce the risk of this virus;
- our ability to attract and retain marketers and FI partners;
- the amount and timing of revenue, operating costs and capital expenditures related to the operations and expansion of our business, particularly with respect to our efforts to attract new marketers and FI partners to our network;
- the revenue mix revenue generated from our operations in the U.S. and U.K.;
- decisions made by our FI partners to increase Consumer Incentives or use their FI share to fund their Consumer Incentives;
- changes in the economic prospects of marketers, the industries that we primarily serve, or the economy generally, which could alter marketers’ spending priorities or budgets;
- the termination or alteration of relationships with our FI partners in a manner that impacts ongoing or future marketing campaigns;
- reputational harm;
- the amount and timing of expenses required to grow our business, including the timing of our payments of FI Share and FI Share commitments as compared to the timing of our receipt of payments from our marketers;
- changes in demand for our solutions or similar solutions;
- seasonal trends in the marketing industry, including concentration of marketer spend in the fourth quarter of the calendar year and declines in marketer spend in the first quarter of the calendar year;
- competitive market position, including changes in the pricing policies of our competitors;
- exposure related to our international operations and foreign currency exchange rates;
- quarantine, private travel limitation, or business disruption in regions affecting our operations, stemming from actual, imminent or perceived outbreak of contagious disease, including the COVID-19 pandemic;
- expenses associated with items such as litigation, regulatory changes, cyberattacks or security breaches;
- the introduction of new technologies, products or solution offerings by competitors; and
- costs related to acquisitions of other businesses or technologies.

Fluctuations in our quarterly operating results, non-GAAP metrics and other metrics and the price of our common stock may be particularly pronounced in the current economic environment due to the uncertainty caused by and the unprecedented nature of the current COVID-19 pandemic. Each factor above or discussed elsewhere in this "Risk Factors" section or the cumulative effect of some of these factors may result in fluctuations in our operating results. This variability and unpredictability could result in our failure to meet expectations with respect to operating results, or those of securities analysts or investors, for a particular period. If we fail to meet or exceed expectations for our operating results for these or any other reasons, the market price of our stock could fall and we could face costly lawsuits, including securities class action suits.

We may not be able to return to or sustain our revenue and billings growth rate in the future.

Our revenue decreased 18% from $56.4 million to $46.1 million in the three months ended September 30, 2019 and 2020, respectively. Our revenue decreased 15% from $141.1 million to $119.8 million in the nine months ended September 30, 2019 and 2020, respectively. Our billings decreased 25% from $82.8 million to $62.1 million in the three months ended September 30, 2019 and 2020, respectively. Our billings decreased 21% from $215.1 million to $169.4 million in the nine months ended September 30, 2019 and 2020, respectively. We may not be able to resume year-over-year revenue and billings growth in the near term or at all. We expect revenue and billings growth rates will be negatively impacted by the COVID-19 pandemic and you should not consider our revenue and billings growth in recent periods as indicative of our future performance. Our revenue and billings may be negatively impacted in future periods due to a number of factors, including slowing demand for our solutions, increasing competition, decreasing growth of our overall market, our inability to engage and retain a sufficient number of marketers or FI partners, or our failure, for any reason, to capitalize on growth opportunities. If we are unable to maintain consistent revenue, revenue growth or billings growth, our stock price could be volatile, and it may be difficult for us to achieve and maintain profitability.

We are dependent upon Cardlytics Direct.

All of our revenue and billings during 2019 and the nine months ended September 30, 2020 was derived from sales of Cardlytics Direct. We have historically derived substantially all of our revenue and billings from Cardlytics Direct and expect to continue to derive substantially all of our future revenue and billings from sales of Cardlytics Direct for the foreseeable future. Our operating results could suffer due to:

- lack of continued participation by FI partners in our network or our failure to attract new FI partners;
- any decline in demand for Cardlytics Direct by marketers or their agencies;
- failure by our FI partners to increase engagement with our solutions within their customer bases, improve their customers' user experience, increase customer awareness, leverage additional customer outreach channels like email or otherwise promote our incentive programs on their websites and mobile applications, including by making the programs difficult to access or otherwise diminishing their prominence;
- our failure to offer compelling incentives to our FIs' customers;
- FI partners may elect to use their FI share to fund their Consumer Incentives;
- the introduction by competitors of products and technologies that serve as a replacement or substitute for, or represent an improvement over, Cardlytics Direct;
- FIs developing their own technology to support purchase intelligence marketing or other incentive programs;
- technological innovations or new standards that Cardlytics Direct does not address; and
- sensitivity to current or future prices offered by us or competing solutions.

In addition, we are required to pay a majority of Consumer Incentives associated with Cardlytics Direct marketing campaigns regardless of whether the amount of such Consumer Incentives exceeds the amount of billings that we are paid by the applicable marketer. Further, we are often required to pay such Consumer Incentives before we receive payment from the applicable marketer. Accordingly, if the amount of Consumer Incentives that we are required to pay materially exceeds the billings that we receive or we encounter any significant failure to ultimately collect payment, our business, financial condition and operating results could be adversely affected.

If we are unable to grow our revenue and billings from sales of Cardlytics Direct, our business and operating results would be harmed.

We are substantially dependent on Chase, Bank of America and a limited number of other FI partners.

We require participation from our FI partners in Cardlytics Direct and access to their purchase data in order to offer our solutions to marketers and their agencies. We must have FI partners with a sufficient number of customers and levels of customer engagement to ensure that we have robust purchase data and marketing space to support a broad array of incentive programs for marketers.

In addition, we pay most of our FI partners an FI Share, which is a negotiated and fixed percentage of our billings less certain costs. During both the nine months ended September 30, 2019 and 2020, Bank of America and Chase combined to account for over 75% of the total FI Share we paid to all FIs, with each representing over 30%. No other FI partner accounted for over 10% of FI Share during these periods.

Our agreements with a substantial majority of our FI partners have three- to seven-year terms but are generally terminable by the FI partner on 90 days or less prior notice. If an FI partner terminates its agreement with us, we would lose that FI as a source of purchase data and online banking customers. Our FI partners may elect to withhold from us or limit the use of their purchase data for many reasons, including:

- a change in the business strategy;
- if there is a competitive reason to do so;
- if new technical requirements arise;
- consumer concern over use of purchase data;
- if they choose to develop and use in-house solutions or use a competitive solution in lieu of our solutions; and
- if legislation is passed restricting the dissemination, or our use, of the data that is currently provided to us or if judicial interpretations result in similar limitations.

To the extent that we breach or are alleged to have breached the terms of our agreement with any FI partner, or a disagreement arises with an FI partner regarding the interpretation of our contractual arrangements, which has occurred in the past and may occur again in the future, such FI partner may be more likely to cease providing us data or to terminate its agreement with us. The loss of Bank of America, Chase or any other significant FI partner would significantly harm our business, results of operations and financial conditions.

We may fail to meet our publicly announced guidance or other expectations about our business and future operating results, which would cause our stock price to decline.

We have provided and may continue to provide guidance about our business, future operating results and other business metrics. In developing this guidance, our management must make certain assumptions and judgments about our future performance. Some of those key assumptions relate to the impact of COVID-19 and the associated economic uncertainty on our business and the timing and scope of economic recovery globally, which are inherently difficult to predict. Furthermore, analysts and investors may develop and publish their own projections of our business, which may form a consensus about our future performance. Our business results may vary significantly from such guidance or that consensus due to a number of factors, many of which are outside of our control, including due to the global economic uncertainty and financial market conditions caused by the COVID-19 pandemic, which could adversely affect our operations and operating results. Furthermore, if we make downward revisions of any publicly announced guidance, or if our publicly announced guidance of future operating results fails to meet expectations of securities analysts, investors or other interested parties, the price of our common stock would decline.

Bringing new FI partners into our network may impede our ability to accurately forecast the performance of our network.

Bringing new FI partners into our network may impede our ability to accurately predict how certain marketing campaigns will perform, and thus may impede our ability to accurately forecast the performance of our network. Such inaccurate predictions could result in marketing campaigns underperforming, which impact the total fees we can collect from marketers, or overperforming, which may result is us paying certain Consumer Incentives to consumers without adequate compensation from the marketers. The amount of time it will take us to be able to understand the impact of a new FI partner on our network is uncertain and difficult to predict. Additionally, our understanding of the impact of any given FI is subject to change at any time, as such understanding can be impacted by factors such as changes to an FI’s business strategy, changes to an FI’s user interface, or changes in the behavior or makeup of an FI's consumer base.

If we fail to maintain our relationships with current FI partners or attract new FI partners, we may not be able to sufficiently grow our revenue, which could significantly harm our business, results of operations and financial condition.

Our ability to grow our revenue depends on our ability to maintain our relationships with current FI partners and attract new FI partners. A significant percentage of consumer credit and debit card spending is concentrated with the 10 largest FIs in the U.S., five of which are currently part of our network, while the balance of card spending is spread across thousands of smaller FIs. Accordingly, our ability to efficiently grow our revenue will specifically depend on our ability to maintain our relationships with the large FIs that are currently part of our network and establish relationships with the large FIs that are not currently part of our network. In addition, we must continue to maintain our relationships with our existing bank processor and digital banking provider partners and attract new such partners because these partners aggregate smaller FIs into our network. We have in the past and may in the future be unsuccessful in attempts to establish and maintain relationships with large FIs. If we are unable to maintain our relationships with current FI partners and attract new FI partners, maintain our relationships with our existing bank processor and digital banking provider partners or attract new bank processor and digital provider partners, our business, results of operations and financial condition would be significantly harmed and we may fail to capture a material portion of the native bank advertising market opportunity.

Our future success will depend, in part, on our ability to expand into new industries.

We have historically generated a substantial majority of our revenue from marketers in the restaurant, brick and mortar retail, telecommunications and cable industries, and have recently entered new industries such as travel and hospitality, grocery, e-commerce and luxury brands, and believe that our future success will depend, in part, on our ability to expand adoption of our solutions in new industries. As we market to a wider group of potential marketers and their agencies, we will need to adapt our marketing strategies to meet the concerns and expectations of customers in these new industries. Our success in expanding sales of our solutions to marketers in new industries will depend on a variety of factors, including our ability to:

- tailor our solutions so that they that are attractive to businesses in such industries;
- hire personnel with relevant industry-vertical experience to lead sales and services teams; and
- develop sufficient expertise in such industries so that we can provide effective and meaningful marketing programs and analytics.

If we are unable to successfully market our solutions to appeal to marketers and their agencies in new industries, we may not be able to achieve our growth or business objectives.

We derive a material portion of our revenue from a limited number of marketers, and the loss of one or more of these marketers could adversely impact our business, results of operations and financial conditions.

Our marketer base is concentrated with our top five marketers representing 29% and 40% of revenue for the nine months ended September 30, 2019 and 2020. We do not have long-term commitments from most of these marketers. If we were to lose one or more of our significant marketers, our revenue may significantly decline. In addition, revenue from significant marketers may vary from period-to-period depending on the timing or volume of marketing spend. The loss of one or more of our significant marketers could adversely affect our business, results of operations and financial conditions.

Further, our top five marketers represented 26% and 45% of accounts receivable as of December 31, 2019 and September 30, 2020, respectively. Accordingly, our credit risk is concentrated among a limited number of marketers and the failure of any significant marketer to satisfy its obligations to us, on a timely basis or at all, could materially and adversely affect our business, results of operations and financial conditions.

If we do not effectively grow and train our sales team, we may be unable to add new marketers or increase sales to our existing marketers and our business will be adversely affected.

We continue to be substantially dependent on our sales team to obtain new marketers and to drive sales with respect to our existing marketers. We believe that the characteristics and skills of the best salespeople for our solutions are still being defined, as our market is relatively new. Further, we believe that there is, and will continue to be, significant competition for sales personnel with the skills and technical knowledge that we require. Our ability to achieve significant revenue growth will depend, in large part, on our success in recruiting, training, integrating and retaining sufficient numbers of sales personnel to support our growth. New hires require significant training and it may take significant time before they achieve full productivity. Our recent hires and planned hires may not become productive as quickly as we expect, and we may be unable to hire or retain sufficient numbers of qualified individuals in the markets where we do business or plan to do business. In addition, as we continue to grow, a large percentage of our sales team will be new to our company and our solutions. If we are unable to hire and train sufficient numbers of effective sales personnel, or the sales personnel are not successful in obtaining new marketers or increasing sales to our existing marketers, our business will be adversely affected.

A breach of the security of our systems could result in a disruption of our operations, or a third-party's entry into our FI partners' systems, which would be detrimental to our business, financial condition and operating results.

We leverage our FI partners' purchase data and infrastructures to deliver our solutions. We do not currently receive any personally identifiable information ("PII") from our FI partners, although we may obtain PII in the future as our business evolves. However, because of the interconnected nature of our infrastructure with that of our FI partners, there is a risk that third parties may attempt to gain access to our systems, or our FI partners' systems through our systems, for the purpose of stealing sensitive or proprietary data or disrupting our or their respective operations. In turn, we may be a more visible target for cyberattacks and/or physical breaches of our databases or data centers, and we may in the future suffer from such attacks or breaches.

Current or future criminal capabilities, discovery of existing or new vulnerabilities in our systems and attempts to exploit those vulnerabilities or other developments may compromise or breach the technology protecting our systems. Due to a variety of both internal and external factors, including defects or misconfigurations of our technology, our services could become vulnerable to security incidents (both from intentional attacks and accidental causes) that cause them to fail to secure networks and detect and block attacks. In the event that our protection efforts are unsuccessful, and our systems are compromised such that a third-party gains entry to our or any of our FI partners' systems, we could suffer substantial harm. In addition, due to the COVID-19 pandemic, we have transitioned all of our employees to work remotely which may make us more vulnerable to cyberattacks. A security breach could result in operational or administrative disruptions, or impair our ability to meet our marketers' requirements, which could result in decreased revenue. Also, our reputation could suffer irreparable harm, causing our current and prospective marketers and FI partners to decline to use our solutions in the future. Further, we could be forced to expend significant financial and operational resources in response to a security breach, including repairing system damage, increasing cybersecurity protection costs by deploying additional personnel and protection technologies, dealing with regulatory scrutiny, and litigating and resolving legal claims, all of which could divert resources and the attention of our management and key personnel away from our business operations. In any event, a breach of the security of our systems or data could materially harm our business, financial condition and operating results.

If we fail to generate sufficient revenue to offset our contractual commitments to FIs, our business, results of operations and financial conditions could be harmed.

We have a minimum FI Share commitment with a certain FI partner totaling $10.0 million over a 12-month period following the completion of certain milestones by the FI partner, which were not met as of September 30, 2020. The timing of the completion of the milestones is uncertain; however, we do not currently believe the FI partner will complete the milestones in 2020. Any expected shortfall penalty will be accrued during the 12-month period following the completion of the milestones.

To the extent that we are unable to generate revenue from marketers sufficient to offset our FI Share commitments and other obligations, our business, results of operations and financial conditions could be harmed.

Bringing new FI partners into our network can require considerable time and expense and can be long and unpredictable.

Our FI partners and FI partner prospects engage in highly regulated businesses, are often slow to adopt technological innovation and have rigorous standards with respect to providing third parties, like us, with access to their data. Our operating results depend in part on expanding our FI network to maintain and enhance the scale of our solutions. The length of time that it takes to add an FI partner to our network, from initial evaluation to integration into our network, varies substantially from FI to FI and may take several years. Our sales and integration cycle with respect to our FI partners is long and unpredictable, requires considerable time and expense and may not ultimately be successful. It is difficult to predict exactly when, or even if, a new FI partner will join our network and we may not generate revenue from a new FI partner in the same period as we incurred the costs associated with acquiring such FI partner, or at all. Once an FI partner has agreed to work with us, it may take a lengthy period of time for the implementation of our solutions to be prioritized and integrated into the FI partner's infrastructure. Because a substantial portion of our expenses are relatively fixed in the short-term, our operating results will suffer if revenue falls below our expectations in a particular quarter, which could cause the price of our stock to decline. Ultimately, if additions to our FI network are not realized in the time period expected or not realized at all, or if an FI partner terminates its agreement with us, our business, financial condition and operating results could be adversely affected.

We have a short operating history, which makes it difficult to evaluate our future prospects and may increase the risk that we will not be successful.

We have a relatively short operating history, which limits our ability to forecast our future operating results and subjects us to a number of uncertainties, including with respect to our ability to plan for and model future growth. We have encountered and will continue to encounter risks and uncertainties frequently experienced by growing companies in developing industries. If our assumptions regarding these uncertainties, which we use to manage our business, are incorrect or change in response to changes in our markets, or if we do not address these risks successfully, our operating and financial results could differ materially from our expectations, our business could suffer and our stock price could decline. Any success that we may experience in the future will depend in large part on our ability to, among other things:

- maintain and expand our network of FI partners.
- build and maintain long-term relationships with marketers and their agencies;
- develop and offer competitive solutions that meet the evolving needs of marketers;
- expand our relationships with FI partners to enable us to use their purchase data for new solutions;
- improve the performance and capabilities of our solutions;
- successfully expand our business;
- successfully compete with other companies that are currently in, or may in the future enter, the markets for our solutions;
- increase market awareness of our solutions and enhance our brand;
- manage increased operating expenses as we continue to invest in our infrastructure to scale our business and operate as a public company; and
- attract, hire, train, integrate and retain qualified and motivated employees.

Any failure of our FI partners to effectively deliver and promote the online incentive programs that comprise Cardlytics Direct could materially and adversely affect our business.

We have spent the last several years and significant resources building out technology integrations with our FI partners to facilitate the delivery of incentive programs to our FIs' customers and measuring those customers subsequent in-store or digital spending. We are also reliant on our network of FI partners to promote their digital incentive programs, increase customer awareness and leverage additional customer outreach channels like email, all of which can increase customer engagement, as well as expand our network of FI partners. We believe that key factors in the success and effectiveness of our incentive program include the level of accessibility and prominence of the program on the FI partners' website and mobile applications, as well as the user interface through which a customer is presented with marketing content. In certain cases, we have little control over the prominence of the incentive program and design of the user interface that our FI partners choose to use. To the extent that our FI partners deemphasize incentive programs, make incentive programs difficult to locate on their website and/or mobile applications and/or fail to provide a user interface that is appealing to FIs' customers, FIs' customers may be less likely to engage with the incentive programs, which could negatively impact the amount of fees that we are able to charge our marketer customers in connection with marketing campaigns, and, therefore, our revenue. In addition, a failure by FIs to properly deliver or sufficiently promote marketing campaigns would reduce the efficacy of our solutions and impair our ability to attract and retain marketers and their agencies. As a result, the revenue we generate from our Cardlytics Direct solution may be adversely affected, which would materially and adversely affect our business, financial condition and results of operations.

Our business could be adversely affected if marketers or their agencies are not satisfied with our solutions or our systems and infrastructure fail to meet their needs.

We derive nearly all of our revenue from marketers and their agencies. Accordingly, our business depends on our ability to satisfy marketers and their agencies with respect to their marketing needs. With respect to Cardlytics Direct, we rely on our Offer Management System ("OMS") to facilitate the creation of marketing campaigns and evaluate the results of campaigns, and our Offer Placement System ("OPS"), to track impressions, engagement, activation and redemptions and to target consumers and present offers. Any failure of, or delays in the performance of, our systems, including without limitation our OMS or OPS, could cause service interruptions or impaired system performance. Such failures in our systems could cause us to maximize our earning potential with respect to any given marketing campaign. Such failures in our systems could also cause us to over-run on campaigns, thus committing us to higher redemptions, which may negatively affect the profitability of the affected campaigns. If sustained or repeated, these performance issues could adversely affect our business, financial condition or operating results, and further reduce the attractiveness of our solutions to new and existing marketers and cause existing marketers to reduce or cease using our solutions, which could also adversely affect our business, financial condition or operating results. In addition, negative publicity resulting from issues related to our marketer relationships, regardless of accuracy, may damage our business by adversely affecting our ability to attract new marketers or marketing agencies and maintain and expand our relationships with existing marketers.

If the use of our solutions increases, or if marketers or FI partners demand more advanced features from our solutions, we will need to devote additional resources to improving our solutions, and we also may need to expand our technical infrastructure at a more rapid pace than we have in the past. This may involve purchasing or leasing data center capacity and equipment, upgrading our technology and infrastructure and introducing new or enhanced solutions. It may take a significant amount of time to plan, develop and test changes to our infrastructure, and we may not be able to accurately forecast demand or predict the results we will realize from such improvements. There are inherent risks associated with changing, upgrading, improving and expanding our technical infrastructure. Any failure of our solutions to operate effectively with future infrastructure and technologies could reduce the demand for our solutions, resulting in marketer or FI partner dissatisfaction and harm to our business. Also, any expansion of our infrastructure would likely require that we appropriately scale our internal business systems and services organization, including without limitation implementation and support services, to serve our growing marketer base. If we are unable to respond to these changes or fully and effectively implement them in a cost-effective and timely manner, our solutions may become ineffective, we may lose marketers and/or FI partners, and our business, financial condition and operating results may be negatively impacted.

We generally do not have long-term commitments from marketers, and if we are unable to retain and increase sales of our solutions to marketers and their agencies or attract new marketers and their agencies, our business, financial condition and operating results would be adversely affected.

Most marketers do business with us by placing insertion orders for particular marketing campaigns, either directly or through marketing agencies that act on their behalf. We often do not have any commitment from a marketer beyond the campaign governed by a particular insertion order, and we frequently must compete to win further business from a marketer. In most circumstances, our insertion orders may be canceled by marketers or their marketing agencies prior to the completion of all the campaigns contemplated in the insertion orders; provided that marketers or their agencies are required to pay us for services performed prior to cancellation. As a result, our success is dependent upon our ability to outperform our competitors and win repeat business from existing marketers, while continually expanding the number of marketers for which we provide services. To maintain and increase our revenue, we must encourage existing marketers and their agencies to increase their use of our solutions and add new marketers. Many marketers and marketing agencies, however, have only just begun using our solutions for a limited number of marketing campaigns, and our future revenue growth will depend heavily on these marketers and marketing agencies expanding their use of our solutions across campaigns and otherwise increasing their spending with us. Even if we are successful in convincing marketers and their agencies to use our solutions, it may take several months or years for them to meaningfully increase the amount that they spend with us. Further, larger marketers with multiple brands typically have individual marketing budgets and marketing decision makers for each of their brands, and we may not be able to leverage our success in securing a portion of the marketing budget of one or more of a marketer’s brands into additional business with other brands. Moreover, marketers may place internal limits on the allocation of their marketing budgets to digital marketing, to particular campaigns, to a particular provider or for other reasons. In addition, we are reliant on our FI network to have sufficient marketing inventory within Cardlytics Direct to place the full volume of advertisements contracted for by our marketers and their agencies. Any failure to meet these demands may hamper the growth of our business and the attractiveness of our solutions.

Our ability to retain and increase sales of our solutions and attract new marketers and their agencies may be adversely affected by competitive offerings, marketing methods that are lower priced or perceived as more effective than our solutions, or a general continued reduction or decline in spending by marketers due to the global economic uncertainty and financial market conditions caused by the COVID-19 pandemic. Larger marketers may themselves have a substantial amount of purchase data and they may also seek to augment their own purchase data with additional purchase, impression and/or demographic data acquired from third-party data providers, which may allow them to develop, individually or with partners, internal targeting and measurement capabilities.

Because many of our agreements are not long-term with our marketers or their agencies, we may not be able to accurately predict future revenue streams, and we cannot guarantee that our current marketers will continue to use our solutions, or that we will be able to replace departing marketers with new marketers that provide us with comparable revenue. If we are unable to retain and increase sales of our solutions to existing marketers and their agencies or attract new marketers and their agencies for any of the reasons above or for other reasons, our business, financial condition and operating results would be adversely affected.

We have a history of losses and may not achieve profitability in the future.

We have incurred net losses since inception and expect to incur net losses in the future. We incurred net losses of $7.7 million and $15.4 million in the three months ended September 30, 2019 and 2020, respectively, and $20.6 million and $48.6 million in the nine months ended September 30, 2019 and 2020, respectively. As of September 30, 2020, we had an accumulated deficit of $387.3 million. We have never achieved profitability on an annual basis, and we do not know if we will be able to achieve or sustain profitability. Although our revenue has increased substantially in recent periods, we also do not expect to maintain this rate of revenue growth. We plan to continue to invest in our research and development and sales and marketing efforts, and we anticipate that our operating expenses will continue to increase as we scale our business and expand our operations. We also expect our general and administrative expense to increase as a result of our growth and operating as a public company. Our ability to achieve and sustain profitability is based on numerous factors, many of which are beyond our control. We may never be able to generate sufficient revenue to achieve or sustain profitability.

We operate in an emerging industry and future demand and market acceptance for our solutions is uncertain.

We believe that our future success will depend in large part on the growth, if any, in the market for purchase intelligence. Utilization of consumer purchase data to inform marketing is an emerging industry and future demand and market acceptance for this type of marketing is uncertain. If the market for purchase intelligence does not continue to develop or develops more slowly than we expect, our business, financial condition and operating results could be harmed.

The market in which we participate is competitive and we may not be able to compete successfully with our current or future competitors.

The market for purchase intelligence is nascent and we believe that there is no one company with which we compete directly across our range of solutions. With respect to Cardlytics Direct, we believe that we are the only company that enables marketing through FI channels at scale. In the future, we may face competition from online retailers, credit card companies, established enterprise software companies, advertising and marketing agencies, digital publishers and mobile pay providers with access to a substantial amount of consumer purchase data. While we may successfully partner with a wide range of companies that are to some extent currently competitive to us, these companies may become more competitive to us in the future. As we introduce new solutions, as our existing solutions evolve and as other companies introduce new products and solutions, we are likely to face additional competition.

Some of our actual and potential competitors may have advantages over us, such as longer operating histories, significantly greater financial, technical, marketing or other resources, stronger brand and recognition, larger intellectual property portfolios and broader global distribution and presence. In addition, our industry is evolving rapidly and is becoming increasingly competitive. Larger and more established companies may focus on purchase intelligence marketing and could directly compete with us. Smaller companies could also launch new products and services that we do not offer and that could gain market acceptance quickly.

Our competitors may be able to respond more quickly and effectively than we can to new or changing opportunities, technologies, standards or customer requirements. Larger competitors are also often in a better position to withstand any significant reduction in capital spending and will therefore not be as susceptible to economic downturns. In addition, current or potential competitors may be acquired by third parties with greater available resources. As a result of such relationships and acquisitions, our current or potential competitors might be able to adapt more quickly to new technologies and customer needs, devote greater resources to the promotion or sale of their products and services, initiate or withstand substantial price competition, take advantage of other opportunities more readily or develop and expand their product and service offerings more quickly than we do. For all of these reasons, we may not be able to compete successfully against our current or future competitors.

If we fail to identify and respond effectively to rapidly changing technology and industry needs, our solutions may become less competitive or obsolete.

Our future success depends on our ability to adapt and innovate. To attract, retain and increase new marketers and FI partners, we will need to expand and enhance our solutions to meet changing needs, add functionality and address technological advancements. If we are unable to adapt our solutions to evolving trends in the marketing industry, if we are unable to properly identify and prioritize appropriate solution development projects or if we fail to develop and effectively market new solutions or enhance existing solutions to address the needs of existing and new marketers and FI partners, we may not be able to achieve or maintain adequate market acceptance and penetration of our solutions, and our solutions may become less competitive or obsolete.

In addition, new, more effective or less costly technologies may emerge that use data sources that we do not have access to, that use entirely different analytical methodologies than we do or that use other indicators of purchases by consumers. If existing and new marketers and their agencies perceive greater value in alternative technologies or data sources, our ability to compete for marketers and their agencies could be materially and adversely affected.

A number of factors could impair our ability to collect the significant amounts of data that we use to deliver our solutions.

Our ability to collect and use data may be restricted or prevented by a number of other factors, including:

- the failure of our network or software systems, or the network or software systems of our FI partners;
- decisions by our FI partners to restrict our ability to collect data from them (which decision they may make at their discretion) or to refuse to implement the mechanisms that we request to ensure compliance with our legal obligations or technical requirements;
- decisions by our FI partners to limit our ability to use their purchase data outside of the applicable banking channel;
- decisions by our FIs' customers to opt out of the incentive program or to use technology, such as browser settings, that reduces our ability to deliver relevant advertisements;
- interruptions, failures or defects in our or our FI partners' data collection, mining, analysis and storage systems;
- changes in regulations impacting the collection and use of data;
- changes in browser or device functionality and settings, and other new technologies, which impact our FI partners' ability to collect and/or share data about their customers; and
- changes in international laws, rules, regulations and industry standards or increased enforcement of international laws, rules, regulations, and industry standards.

Any of the above-described limitations on our ability to successfully collect, utilize and leverage data could also materially impair the optimal performance of our solutions and severely limit our ability to target consumers or bill marketers for our services, which would harm our business, financial condition and operating results.

The efficacy of some of our solutions depends upon third-party data providers.

We rely on several third parties to assist us in matching our anonymized identifiers, which we call Cardlytics IDs, with third-party identifiers. This matching process enables us to use purchase intelligence to measure in-store and online campaign sales impact or provide marketers with valuable visibility into the behaviors of current or prospective customers both within and outside the context of their marketing efforts. If any of these key data providers were to withdraw or withhold their identifiers from us, our ability to provide our solutions could be adversely affected. Replacements for these third-party identifiers may not be available in a timely manner or under economically beneficial terms, or at all.

Defects, errors or delays in our solutions could harm our reputation, which would harm our operating results.

The technology underlying our solutions may contain material defects or errors that can adversely affect our ability to operate our business and cause significant harm to our reputation. This risk is compounded by the complexity of the technology underlying our solutions and the large amounts of data that we leverage and process. In addition, with regard to Cardlytics Direct, if we are unable to attribute Consumer Incentives to our FIs' customers in a timely manner, our FI partners may limit or discontinue their use of our solutions. Any such error, failure, malfunction, disruption or delay could result in damage to our reputation and could harm our business, financial condition and operating results.

Significant system disruptions or loss of data center capacity could adversely affect our business, financial condition and operating results.

Our business is heavily dependent upon highly complex data processing capabilities. We contract with our primary third-party data center, located in Atlanta, Georgia, and our redundancy data center, located in Suwanee, Georgia, pursuant to agreements that expire in 2023, subject to earlier termination upon material breach and a failure to cure. If for any reason our arrangements with our third-party data centers are terminated, or if we are unable to renew our agreements on commercially reasonable terms, we may be required to transfer that portion of our operations to new data center facilities, and we may incur significant costs and possible service interruption in connection with doing so. Further, protection of our third-party data centers against damage or interruption from fire, flood, tornadoes, power loss, telecommunications or equipment failure or other disasters and events beyond our control is important to our continued success. Any damage to, or failure of, the systems of the data centers that we utilize, or of our own equipment located within such data centers, could result in interruptions to the availability or functionality of our solutions. In addition, the failure of the data centers that we utilize to meet our capacity requirements could result in interruptions in the availability or functionality of our solutions or impede our ability to scale our operations. Any damage to the data centers that we utilize, or to our own equipment located within such data centers, that causes loss of capacity or otherwise causes interruptions in our operations could materially adversely affect our ability to quickly and effectively respond to our marketers' or FI partners' requirements, which could result in loss of their confidence, adversely impact our ability to attract new marketers and/or FI partners and force us to expend significant resources. The occurrence of any such events could adversely affect our business, financial condition and operating results.

Seasonal fluctuations in marketing activity could adversely affect our cash flows.

We expect our revenue, operating results, cash flows from operations and other key performance metrics to vary from quarter to quarter in part due to the seasonal nature of our marketers' spending on digital marketing campaigns. For example, many marketers tend to devote a significant portion of their budgets to the fourth quarter of the calendar year to coincide with consumer holiday spending and to reduce spend in the first quarter of the calendar year. Seasonality could have a material impact on our revenue, operating results, cash flow from operations and other key performance metrics from period to period.

Our international sales and operations subject us to additional risks that can adversely affect our business, operating results and financial condition.

During the nine months ended September 30, 2019 and 2020, we derived 12% and 8% of our revenue outside the U.S., respectively. While substantially all of our operations are located in the U.S., we have an office in the U.K. and a research and development and support office in Visakhapatnam, India and may continue to expand our international operations as part of our growth strategy. Our ability to convince marketers to expand their use of our solutions or renew their agreements with us is directly correlated to our direct engagement with such marketers or their agencies. To the extent that we are unable to engage with non-U.S. marketers and agencies effectively with our limited sales force capacity, we may be unable to grow sales to existing marketers to the same degree we have experienced in the U.S.

Our international operations subject us to a variety of risks and challenges, including:

- localization of our solutions, including adaptation for local practices;
- increased management, travel, infrastructure and legal compliance costs associated with having international operations;
- fluctuations in currency exchange rates and related effect on our operating results;
- longer payment cycles and difficulties in collecting accounts receivable or satisfying revenue recognition criteria, especially in emerging markets;
- increased financial accounting and reporting burdens and complexities;
- general economic conditions in each country or region;
- the global economic uncertainty and financial market conditions caused by the COVID–19 pandemic;
- impact of Brexit;
- reduction in billings, foreign currency exchange rates, and trade with the European Union;
- contractual and legislative restrictions or changes;
- economic uncertainty around the world;
- compliance with foreign laws and regulations and the risks and costs of non-compliance with such laws and regulations;

- compliance with U.S. laws and regulations for foreign operations, including the Foreign Corrupt Practices Act, the U.K. Bribery Act, import and export control laws, tariffs, trade barriers, economic sanctions and other regulatory or contractual limitations on our ability to sell our software in certain foreign markets, and the risks and costs of non-compliance;
- heightened risks of unfair or corrupt business practices in certain geographies and of improper or fraudulent sales arrangements that may impact financial results and result in restatements of financial statements and irregularities in financial statements;
- difficulties in repatriating or transferring funds from or converting currencies in certain countries;
- cultural differences inhibiting foreign employees from adopting our corporate culture;
- reduced protection for intellectual property rights in some countries and practical difficulties of enforcing rights abroad; and
- compliance with the laws of foreign taxing jurisdictions and overlapping of different tax regimes.

Any of these risks could adversely affect our international operations, reduce our international revenues or increase our operating costs, adversely affecting our business, financial condition and operating results.

Legal, political and economic uncertainty surrounding the exit of the U.K. from the European Union may be a source of instability in international markets, create significant currency fluctuations, adversely affect our operations in the U.K. and pose additional risks to our business, revenue, financial condition and results of operations.

On January 31, 2020, the U.K. withdrew from the EU. The U.K.'s withdrawal from the EU is commonly referred to as Brexit. Under the withdrawal agreement agreed between the U.K. and the EU, the U.K. will be subject to a transition period until December 31, 2020 (the "Transition Period"), during which EU rules will continue to apply. During the Transition Period, negotiations between the U.K. and the EU are expected to continue in relation to the future customs and trading relationship between the U.K. and the EU following the expiration of the Transition Period. [Due to the current COVID-19 global pandemic, negotiations between the U.K. and the EU that were scheduled for March and April were either being postponed or occurring in a reduced forum via video conference. There is, therefore, an increased likelihood that the Transition Period may need to be extended beyond December 31, 2020 (although it remains the position of the U.K. government that it will not be extended).

The uncertainty concerning the U.K.'s legal, political and economic relationship with the EU after the Transition Period may be a source of instability in the international markets, create significant currency fluctuations, and/or otherwise adversely affect trading agreements or similar cross-border cooperation arrangements (whether economic, tax, fiscal, legal, regulatory or otherwise).

These developments, or the perception that any of them could occur, have had and may continue to have a significant adverse effect on global economic conditions and the stability of global financial markets, and could significantly reduce global market liquidity and limit the ability of key market participants to operate in certain financial markets. In particular, it could also lead to a period of considerable uncertainty in relation to the U.K. financial and banking markets, as well as on the regulatory process in Europe. Asset valuations, currency exchange rates and credit ratings may also be subject to increased market volatility.

If the U.K. and the EU are unable to negotiate acceptable trading and customs terms or if other EU Member States pursue withdrawal, barrier-free access between the U.K. and other EU Member States or among the European Economic Area ("EEA") overall could be diminished or eliminated. The long-term effects of Brexit will depend on any agreements (or lack thereof) between the U.K. and the EU and, in particular, any arrangements for the U.K. to retain access to EU markets after the Transition Period.

Such a withdrawal from the EU is unprecedented, and it is unclear how the U.K.'s access to the European single market for goods, capital, services and labor within the EU (referred to as the "single market"), and the wider commercial, legal and regulatory environment, will impact our U.K. operations and customers. Our U.K. operations service marketers in the U.K. as well as in other countries in the EU and EEA, and these operations could be disrupted by Brexit, particularly if there is a change in the U.K.'s relationship to the single market following the Transition Period.

There may continue to be economic uncertainty surrounding the consequences of Brexit which could adversely impact customer confidence resulting in customers reducing their spending budgets on our solutions, which could adversely affect our business, revenue, financial condition, results of operations and could adversely affect the market price of our common stock.

If we do not manage our growth effectively, the quality of our solutions may suffer, and our business, financial condition and operating results may be negatively affected.

The recent, growth in our business has placed, and is expected to continue to place, a significant strain on our managerial, administrative, operational and financial resources, as well as our infrastructure. We rely heavily on information technology ("IT") systems to manage critical functions such as data storage, data processing, matching and retrieval, revenue recognition, budgeting, forecasting and financial reporting. To manage our growth effectively, we must continue to improve and expand our infrastructure, including our IT, financial and administrative systems and controls. In particular, we may need to significantly expand our IT infrastructure as the amount of data we store and transmit increases over time, which will require that we both utilize existing IT products and adopt new technologies. If we are not able to scale our IT infrastructure in a cost-effective and secure manner, our ability to offer competitive solutions will be harmed and our business, financial condition and operating results may suffer.

We must also continue to manage our employees, operations, finances, research and development and capital investments efficiently. Our productivity and the quality of our solutions may be adversely affected if we do not integrate and train our new employees quickly and effectively or if we fail to appropriately coordinate across our executive, research and development, technology, service development, analytics, finance, human resources, marketing, sales, operations and customer support teams. If we continue our rapid growth, we will incur additional expenses, and our growth may continue to place a strain on our resources, infrastructure and ability to maintain the quality of our solutions. If we do not adapt to meet these evolving challenges, or if the current and future members of our management team do not effectively manage our growth, the quality of our solutions may suffer and our corporate culture may be harmed. Failure to manage our future growth effectively could cause our business to suffer, which, in turn, could have an adverse impact on our business, financial condition and operating results.

Our corporate culture has contributed to our success, and if we cannot maintain it as we grow, or our corporate culture is negatively impacted by the COVID-19 pandemic, we could lose the innovation, creativity and teamwork fostered by our culture, and our business may be harmed.

As of September 30, 2020, we had 486 full-time employees. We intend to further expand our overall headcount and operations, with no assurance that we will be able to do so while effectively maintaining our corporate culture. Additionally, our corporate culture may be negatively impacted by the COVID-19 pandemic. We believe our corporate culture is one of our fundamental strengths as it enables us to attract and retain top talent and deliver superior results for our customers. As we grow and change, and as the COVID-19 pandemic continues, we may find it difficult to preserve our corporate culture, which could reduce our ability to innovate and operate effectively. In turn, the failure to preserve our culture could negatively affect our ability to attract, recruit, integrate and retain employees, continue to perform at current levels and effectively execute our business strategy.

We are dependent on the continued services and performance of our senior management and other key personnel, the loss of any of whom could adversely affect our business.

Our future success depends in large part on the continued contributions of our senior management and other key personnel, including our two founders, Lynne Laube and Scott Grimes. In particular, the leadership of key management personnel is critical to the successful management of our company, the development of our solutions and our strategic direction. We do not maintain “key person” insurance for any member of our senior management team or any of our other key employees. Our senior management and key personnel are all employed on an at-will basis, which means that they could terminate their employment with us at any time, for any reason and without notice. The loss of any of our key management personnel could significantly delay or prevent the achievement of our development and strategic objectives and adversely affect our business. Further, if members of our management and other key personnel in critical functions across our organization are unable to perform their duties or have limited availability due to COVID–19, we may not be able to execute on our business strategy and/or our operations may be negatively impacted.

If we are unable to attract, integrate and retain additional qualified personnel, including top technical talent, our business could be adversely affected.

Our future success depends in part on our ability to identify, attract, integrate and retain highly skilled technical, managerial, sales and other personnel, including top technical talent from the industry and top research institutions. We face intense competition for qualified individuals from numerous other companies, including other software and technology companies, many of whom have greater financial and other resources than we do. These companies also may provide more diverse opportunities and better chances for career advancement. Some of these characteristics may be more appealing to high-quality candidates than those we have to offer. In addition, new hires often require significant training and, in many cases, take significant time before they achieve full productivity. We may incur significant costs to attract and retain qualified personnel, including significant expenditures related to salaries and benefits and compensation expenses related to equity awards and we may lose new employees to our competitors or other companies before we realize the benefit of our investment in recruiting and training them. Moreover, new employees may not be or become as productive as we expect, as we may face challenges in adequately or appropriately integrating them into our workforce and culture. In addition, as we move into new geographies, we will need to attract and recruit skilled personnel in those areas. We have little experience with recruiting in geographies outside of the U.S., and may face additional challenges in attracting, integrating and retaining international employees. If we are unable to attract, integrate and retain suitably qualified individuals who are capable of meeting our growing technical, operational and managerial requirements, on a timely basis or at all, our business will be adversely affected.

If currency exchange rates fluctuate substantially in the future, the results of our operations could be adversely affected.

Due to our international operations, we may be exposed to the effects of fluctuations in currency exchange rates. We generate revenue and incur expenses for employee compensation and other operating expenses at our U.K. and Indian offices in the local currency. Fluctuations in the exchange rates between the U.S. dollar, British pound and Indian rupee could result in the dollar equivalent of such revenue and expenses being lower, which could have a negative net impact on our reported operating results. Although we may in the future decide to undertake foreign exchange hedging transactions to cover a portion of our foreign currency exchange exposure, we currently do not hedge our exposure to foreign currency exchange risks.

Our ability to use net operating losses and certain other tax attributes to offset future taxable income may be limited.

Our net operating loss ("NOL"), carryforwards could expire unused and be unavailable to offset future tax liabilities because of their limited duration or because of restrictions under U.S. tax law. As of December 31, 2019, we had U.S. federal and state NOLs of $266.8 million and $98.4 million, respectively. Our NOLs generated in tax years ending on or prior to December 31, 2017 are only permitted to be carried forward for 20 years under applicable U.S. tax law. Under the Tax Cuts and Jobs Act ("the Tax Act"), as modified by the CARES Act, our federal NOLs generated in tax years ending after December 31, 2017 may be carried forward indefinitely, but the deductibility of federal NOLs, particularly for tax years beginning after December 31, 2020, may be limited. It is uncertain if and to what extent various states will conform to the Tax Act and the CARES Act.

In addition, under Section 382 and Section 383 of the Internal Revenue Code of 1986, as amended, ("the Code") and corresponding provisions of state law, if a corporation undergoes an “ownership change,” which is generally defined as a greater than 50% change, by value, in its equity ownership over a three-year period, the corporation’s ability to use its pre-change net operating loss carryforwards and other pre-change tax attributes to offset its post-change income or taxes may be limited. We have experienced “ownership changes” under IRC Section 382 in the past, and future changes in ownership of our stock, including by reason of future offerings, as well as other changes that may be outside of our control, could result in future ownership changes under IRC Section 382. If we are or become subject to limitations on our use of NOLs under IRC Section 382, our NOLs could expire unutilized or underutilized, even if we earn taxable income against which our NOLs could otherwise be offset. Similar provisions of state tax law may also apply to limit our use of accumulated state tax attributes. In addition, at the state level, there may be periods during which the use of NOLs is suspended or otherwise limited, which could accelerate or permanently increase state taxes owed.

Future acquisitions could disrupt our business and adversely affect our business, financial condition and operating results.

We may choose to expand by making acquisitions that could be material to our business, financial condition or operating results. Our ability as an organization to successfully acquire and integrate technologies or businesses is unproven. Acquisitions involve many risks, including the following:

- an acquisition may negatively affect our business, financial condition, operating results or cash flows because it may require us to incur charges or assume substantial debt or other liabilities, may cause adverse tax consequences or unfavorable accounting treatment, may expose us to claims and disputes by third parties, including intellectual property claims and disputes, or may not generate sufficient financial return to offset additional costs and expenses related to the acquisition;

- we may encounter difficulties or unforeseen expenditures in integrating the business, technologies, products, personnel or operations of any company that we acquire, particularly if key personnel of the acquired company decide not to work for us;
- an acquisition, whether or not consummated, may disrupt our ongoing business, divert resources, increase our expenses and distract our management;
- an acquisition may result in a delay or reduction of purchases for both us and the company that we acquired due to uncertainty about continuity and effectiveness of solution from either company;
- we may encounter difficulties in, or may be unable to, successfully sell any acquired products or solutions;
- an acquisition may involve the entry into geographic or business markets in which we have little or no prior experience or where competitors have stronger market positions;
- challenges inherent in effectively managing an increased number of employees in diverse locations;
- the potential strain on our financial and managerial controls and reporting systems and procedures;
- potential known and unknown liabilities associated with an acquired company;
- our use of cash to pay for acquisitions would limit other potential uses for our cash;
- if we incur debt to fund such acquisitions, such debt may subject us to material restrictions on our ability to conduct our business as well as financial maintenance covenants;
- the risk of impairment charges related to potential write-downs of acquired assets or goodwill in future acquisitions; and
- to the extent that we issue a significant amount of equity or convertible debt securities in connection with future acquisitions, existing stockholders may be diluted and earnings (loss) per share may decrease (increase).

We may not succeed in addressing these or other risks or any other problems encountered in connection with the integration of any acquired business. The inability to integrate successfully the business, technologies, products, personnel or operations of any acquired business, or any significant delay in achieving integration, could have a material adverse effect on our business, financial condition and operating results.

Natural or man-made disasters, pandemics and other similar events may significantly disrupt our business, and negatively impact our business, financial condition and operating results.

A significant public health crisis, epidemic or pandemic (including the ongoing COVID-19 pandemic), or a natural disaster, such as an earthquake, fire or a flood, or a significant power outage could have a material adverse impact on our business, operating results and financial condition. A significant portion of our employee base, operating facilities and infrastructure are centralized in Atlanta, Georgia. Any of our facilities may be harmed or rendered inoperable by natural or man-made disasters, including earthquakes, tornadoes, hurricanes, wildfires, floods, nuclear disasters, acts of terrorism or other criminal activities, infectious disease outbreaks and power outages, which may render it difficult or impossible for us to operate our business for some period of time. Our facilities would likely be costly to repair or replace, and any such efforts would likely require substantial time. Any disruptions in our operations could negatively impact our business, financial condition and operating results, and harm our reputation. In addition, we may not carry business insurance or may not carry sufficient business insurance to compensate for losses that may occur. Any such losses or damages could have a material adverse effect on our business, financial condition and operating results. In addition, the facilities of significant marketers, FI partners or third-party data providers may be harmed or rendered inoperable by such natural or man-made disasters, which may cause disruptions, difficulties or material adverse effects on our business.

We may require additional capital to support growth, and such capital might not be available on terms acceptable to us, if at all, which may in turn hamper our growth and adversely affect our business.

We intend to continue to make investments to support our business growth and may require additional funds to respond to business challenges, including the need to develop new solutions or enhance our solutions, improve our operating infrastructure or acquire complementary businesses and technologies. Accordingly, we may need to engage in equity, equity-linked or debt financings to secure additional funds. If we raise additional funds through future issuances of equity or equity-linked securities, including convertible debt securities, our existing stockholders could suffer significant dilution, and any new equity securities that we issue could have rights, preferences and privileges superior to those of holders of our common stock. Any debt financing that we secure in the future could involve restrictive covenants relating to our capital-raising activities and other financial and operational matters, including the ability to pay dividends or repurchase shares of our capital stock. This may make it more difficult for us to obtain additional capital, to pursue business opportunities, including potential acquisitions, or to return capital to our stockholders. We also may not be able to obtain additional financing on terms favorable to us, if at all. For example, while the potential impact and duration of the COVID-19 pandemic on the global economy and our business in particular may be difficult to assess or predict, the pandemic has resulted in, and may continue to result in significant disruption of global financial markets, reducing our ability to access capital, which could in the future negatively affect our liquidity. If we are unable to obtain adequate financing or financing on terms satisfactory to us when we require it, our ability to continue to support our business growth, service our indebtedness and respond to business challenges could be significantly impaired, and our business may be adversely affected. Regulatory, legislative or self-regulatory developments regarding Internet privacy matters could adversely affect our ability to conduct our business.

If we are not able to maintain and enhance our brand, our business, financial condition and operating results may be adversely affected.

We believe that developing and maintaining awareness of the Cardlytics brand in a cost-effective manner is critical to achieving widespread acceptance of our existing solutions and future solutions and is an important element in attracting new marketers and FI partners. Furthermore, we believe that the importance of brand recognition will increase as competition in our market increases. Successful promotion of our brand will depend largely on the effectiveness of our marketing efforts and on our ability to deliver valuable solutions for our marketers, their agencies and our FI partners. In the past, our efforts to build our brand have involved significant expense. Brand promotion activities may not yield increased revenue and billings, and even if they do, any increased revenue and billings may not offset the expenses that we incurred in building our brand. If we fail to successfully promote and maintain our brand or incur substantial expenses in an unsuccessful attempt to promote and maintain our brand, we may fail to attract enough new marketers or FI partners or retain our existing marketers or FI partners and our business could suffer.

Risks Related to our Outstanding Convertible Senior Notes

Servicing our debt may require a significant amount of cash. We may not have sufficient cash flow from our business to pay our indebtedness, and we may not have the ability to raise the funds necessary to settle for cash conversions of the Notes or to repurchase the Notes for cash upon a fundamental change, which could adversely affect our business and results of operations.

In September 2020, we issued convertible senior notes with an aggregate principal amount of $230.0 million bearing an interest rate of 1.00% due in 2025 (the "Notes"). The interest rate is fixed at 1.00% per annum and is payable semi-annually in arrears on March 15 and September 15 of each year, beginning on March 15, 2021. Our ability to make scheduled payments of the principal of, to pay interest on or to refinance our indebtedness, including the Notes, depends on our future performance, which is subject to economic, financial, competitive and other factors beyond our control. Our business may not generate cash flows from operations in the future that are sufficient to service our debt. If we are unable to generate such cash flows, we may be required to adopt one or more alternatives, such as selling assets, restructuring debt or obtaining additional debt financing or equity capital on terms that may be onerous or highly dilutive. Our ability to refinance any future indebtedness will depend on the capital markets and our financial condition at such time. We may not be able to engage in any of these activities or engage in these activities on desirable terms, which could result in a default on our debt obligations. In addition, any of our future debt agreements may contain restrictive covenants that may prohibit us from adopting any of these alternatives. Our failure to comply with these covenants could result in an event of default which, if not cured or waived, could result in the acceleration of our debt.

Holders of the Notes have the right to require us to repurchase their Notes upon the occurrence of a fundamental change (as defined in the indenture governing the Notes) at a repurchase price equal to 100% of the principal amount of the Notes to be repurchased, plus accrued and unpaid interest, if any. Upon conversion, unless we elect to deliver solely shares of our common stock to settle such conversion (other than paying cash in lieu of delivering any fractional share), we will be required to make cash payments in respect of the Notes being converted. We may not have enough available cash or be able to obtain financing at the time we are required to make repurchases in connection with such conversion and our ability to pay may additionally be limited by law, by regulatory authority or by agreements governing our existing and future indebtedness. Our failure to repurchase the

Notes at a time when the repurchase is required by the indenture governing the Notes or to pay any cash payable on future conversions as required by such indenture would constitute a default under such indenture. A default under the indenture or the fundamental change itself could also lead to a default under agreements governing our existing and future indebtedness. If the repayment of the related indebtedness were to be accelerated after any applicable notice or grace periods, we may not have sufficient funds to repay the indebtedness and repurchase the Notes or make cash payments upon conversions thereof.

In addition, our indebtedness, combined with our other financial obligations and contractual commitments, could have other important consequences. For example, it could:

- make us more vulnerable to adverse changes in general U.S. and worldwide economic, industry, and
- competitive conditions and adverse changes in government regulation;
- limit our flexibility in planning for, or reacting to, changes in our business and our industry;
- place us at a disadvantage compared to our competitors who have less debt;
- limit our ability to borrow additional amounts for funding acquisitions, for working capital, and for other general corporate purposes; and
- make an acquisition of our company less attractive or more difficult.

Any of these factors could harm our business, results of operations, and financial condition. In addition, if we incur additional indebtedness, the risks related to our business and our ability to service or repay our indebtedness would increase.

The conditional conversion feature of the Notes, if triggered, may adversely affect our financial condition and results of operations.

In the event the conditional conversion feature of the Notes is triggered, holders of Notes will be entitled to convert the Notes at any time during specified periods at their option. If one or more holders elect to convert their Notes, unless we elect to satisfy our conversion obligation by delivering solely shares of our common stock (other than paying cash in lieu of delivering any fractional share), we would be required to settle a portion or all of our conversion obligation through the payment of cash, which could adversely affect our liquidity. In addition, even if holders do not elect to convert their Notes, we could be required under applicable accounting rules to reclassify all or a portion of the outstanding principal of the Notes as a current rather than long-term liability, which would result in a material reduction of our net working capital.

Transactions relating to our Notes may affect the value of our common stock.

The conversion of some or all of the Notes would dilute the ownership interests of existing stockholders to the extent we satisfy our conversion obligation by delivering shares of our common stock upon any conversion of such Notes. Our Notes may become in the future convertible at the option of their holders under certain circumstances. If holders of our Notes elect to convert their Notes, we may settle our conversion obligation by delivering to them a significant number of shares of our common stock, which would cause dilution to our existing stockholders.

In addition, in connection with the pricing of the Notes, we entered into capped call transactions (the "Capped Calls") with certain financial institutions (the "Option Counterparties"). The Capped Calls are expected generally to reduce the potential dilution to our common stock upon any conversion or settlement of the Notes and/or offset any cash payments we are required to make in excess of the principal amount of converted Notes, as the case may be, with such reduction and/or offset subject to a cap.

In connection with establishing their initial hedges of the Capped Calls, the Option Counterparties or their respective affiliates entered into various derivative transactions with respect to our common stock and/or purchased shares of our common stock concurrently with or shortly after the pricing of the Notes.

From time to time, the Option Counterparties or their respective affiliates may modify their hedge positions by entering into or unwinding various derivative transactions with respect to our common stock and/or purchasing or selling our common stock or other securities of ours in secondary market transactions prior to the maturity of the Notes (and are likely to do so following any conversion of the Notes, any repurchase of the Notes by us on any fundamental change repurchase date, any redemption date, or any other date on which the Notes are retired by us, in each case, if we exercise our option to terminate the relevant portion of the Capped Calls). This activity could cause a decrease and/or increased volatility in the market price of our common stock.

We do not make any representation or prediction as to the direction or magnitude of any potential effect that the transactions described above may have on the price of the Notes or our common stock. In addition, we do not make any representation that the Option Counterparties will engage in these transactions or that these transactions, once commenced, will not be discontinued without notice.

We are subject to counterparty risk with respect to the Capped Calls.

The Option Counterparties are financial institutions, and we will be subject to the risk that any or all of them might default under the Capped Calls. Our exposure to the credit risk of the Option Counterparties will not be secured by any collateral. Past global economic conditions have resulted in the actual or perceived failure or financial difficulties of many financial institutions. If an Option Counterparty becomes subject to insolvency proceedings, we will become an unsecured creditor in those proceedings with a claim equal to our exposure at that time under the Capped Calls with such Option Counterparty. Our exposure will depend on many factors but, generally, an increase in our exposure will be correlated to an increase in the market price and in the volatility of our common stock. In addition, upon a default by an Option Counterparty, we may suffer adverse tax consequences and more dilution than we currently anticipate with respect to our common stock. We can provide no assurances as to the financial stability or viability of the Option Counterparties.

The accounting method for convertible debt securities that may be settled in cash, such as the Notes, could have a material effect on our reported financial results.

The accounting method for reflecting the notes on our balance sheet, accruing interest expense for the notes and reflecting the underlying shares of our common stock in our reported diluted earnings per share may adversely affect our reported earnings and financial condition. We expect that, under applicable accounting principles, the initial liability carrying amount of the notes will be the fair value of a similar debt instrument that does not have a conversion feature, valued using our cost of capital for straight, unconvertible debt. We expect to reflect the difference between the net proceeds from this offering and the initial carrying amount as a debt discount for accounting purposes, which will be amortized into interest expense over the term of the notes. As a result of this amortization, the interest expense that we expect to recognize for the notes for accounting purposes will be greater than the cash interest payments we will pay on the notes, which will result in lower reported income or higher reported loss. The lower reported income or higher reported loss resulting from this accounting treatment could depress the trading price of our common stock and the notes. However, in August 2020, the Financial Accounting Standards Board published an Accounting Standards Update ("ASU") 2020-06, eliminating the separate accounting for the debt and equity components as described above. ASU 2020-06 will be effective for SEC-reporting entities for fiscal years beginning after December 15, 2021 (or, in the case of smaller reporting companies, December 15, 2023), including interim periods within those fiscal years. However, early adoption is permitted in certain circumstances for fiscal years beginning after December 15, 2020, including interim periods within those fiscal years. When effective, we expect the elimination of the separate accounting described above to reduce the interest expense that we expect to recognize for the notes for accounting purposes.

If accounting standards change in the future and we are not permitted to use the treasury stock method, then our diluted earnings per share may decline. For example, the Financial Accounting Standards Board's ASU described above amends these accounting standards, effective as of the dates referred to above, to eliminate the treasury stock method for convertible instruments that can be settled in whole or in part with equity and instead require application of the "if-converted" method. Under that method, diluted earnings per share would generally be calculated assuming that all the notes were converted solely into shares of common stock at the beginning of the reporting period, unless the result would be anti-dilutive. The application of the if-converted method may reduce our reported diluted earnings per share.

Furthermore, if any of the conditions to the convertibility of the notes is satisfied, then we may be required under applicable accounting standards to reclassify the liability carrying value of the notes as a current, rather than a long-term, liability. This reclassification could be required even if no noteholders convert their notes and could materially reduce our reported working capital.

Risks Related to Regulatory and Intellectual Property Matters

Regulatory, legislative or self-regulatory developments regarding Internet privacy matters could adversely affect our ability to conduct our business.

We, our FI partners and our marketers are subject to a number of domestic and international laws, rules and regulations that apply to online services and the Internet generally. These laws, rules and regulations address a range of issues including data privacy and cybersecurity, and restrictions or technological requirements regarding the collection, use, storage, protection, retention or transfer of data.

In the U.S., the rules and regulations to which we, directly or contractually through our FI partners, or our marketers may be subject include those promulgated under the authority of the Federal Trade Commission, the Electronic Communications Privacy Act, Computer Fraud and Abuse Act, Health Insurance Portability and Accountability Act, the Gramm-Leach-Bliley Act and state cybersecurity and breach notification laws, as well as regulator enforcement positions and expectations reflected in federal and state regulatory actions, settlements, consent decrees and guidance documents. Internationally, virtually every jurisdiction in which we operate has established its own data security and privacy legal frameworks with which we, directly or contractually through our FI partners, or our marketers may be required to comply, including the Data Protection Directive established in the European Union. Further, many federal, state and foreign government bodies and agencies have introduced, and are currently considering, additional laws and regulations. If passed, we will likely incur additional expenses and costs associated with complying with such laws. The costs of compliance with, and other burdens imposed by, the laws, rules, regulations and policies that are applicable to the businesses of our FI partners or marketers may limit the use and adoption of, and reduce the overall demand for, our solutions.

For example, the European Commission adopted the European General Data Protection Regulation ("GDPR"), which went into effect in May 2018. The GDPR imposes additional obligations and risk upon our business and increases substantially the penalties to which we could be subject in the event of any non–compliance. Administrative fines under the GDPR can amount up to 20 million Euros or four percent of the group’s annual global turnover, whichever is highest. These existing and proposed laws, regulations and industry standards can be costly to comply with and can delay or impede the development of new solutions, result in negative publicity and reputational harm, increase our operating costs, require significant management time and attention, increase our risk of non-compliance and subject us to claims or other remedies, including fines or demands that we modify or cease existing business practices.

Legislation and regulation of online businesses, including privacy and data protection regimes, is expansive, not clearly defined and rapidly evolving. Such regulation could create unexpected costs, subject us to enforcement actions for compliance failures, or restrict portions of our business or cause us to change our business model.

Government regulation and industry standards may increase the costs of doing business online. Federal, state, municipal and foreign governments and agencies have adopted and could in the future adopt, modify, apply or enforce laws, policies, regulations and standards covering user privacy, data security, technologies such as cookies that are used to collect, store and/or process data, online marketing, the use of data to inform marketing, the taxation of products and services, unfair and deceptive practices, and the collection (including the collection of information), use, processing, transfer, storage and/or disclosure of data associated with unique individual Internet users.

Although we have not collected or retained data that is traditionally considered PII under U.S. law, such as names, email addresses, addresses, phone numbers, social security numbers, credit card numbers, financial data or health data, we typically do collect and store Internet Protocol addresses and other device identifiers, which are or may be considered personal data in some jurisdictions or otherwise may be the subject of legislation or regulation. Furthermore, we may elect to use PII in the future for our current solutions or solutions we may introduce. In addition, certain U.S. laws impose requirements on the collection and use of information from or about users or their devices. Other existing laws may in the future be revised, or new laws may be passed, to impose more stringent requirements on the use of identifiers to collect user information, including information of the type that we collect. Changes in regulations could affect the type of data that we may collect; restrict our ability to use identifiers to collect information, and, thus, affect our ability to actually collect that information; the costs of doing business online, and, therefore, the demand for our solutions; the ability to expand or operate our business; and harm our business. For instance, California enacted the California Consumer Privacy Act ("CCPA") on June 28, 2018, which took effect on January 1, 2020. The CCPA gives California residents expanded rights to request access to and deletion of their personal information, opt out of certain personal information sharing, and receive detailed information about how their personal information is used. The CCPA provides for civil penalties for violations, as well as a private right of action for data breaches includes statutorily defined damages of up to $750 per citizen and that is expected to increase data breach litigation. The CCPA may increase our compliance costs and potential liability, and many similar laws have been proposed at the federal level and in other states. In the event that we are subject to or affected by the CCPA or other domestic privacy and data protection laws, any liability from failure to comply with the requirements of these laws could adversely affect our financial condition. Additionally, our FI partners may choose to alter or discontinue our program in light of the CCPA, which could adversely affect our financial condition.

In particular, there has been increasing public and regulatory concern and public scrutiny about the use of PII. Because the interpretation and application of privacy and data protection laws are still uncertain, it is possible that these laws may be interpreted and applied in a manner that is inconsistent with our existing data management practices or our solutions or that the definition of “PII” is expanded in the future. If this is the case, in addition to the possibility of fines, lawsuits and other claims, we could be required to fundamentally change our business activities and practices or modify our solutions, which could have a material adverse effect on our business, financial condition or operating results. Any inability to adequately address privacy concerns, even if unfounded, or comply with applicable privacy or data protection laws, regulations, policies or standards could result in additional cost and liability to us; damage our reputation; affect our ability to attract new marketers and FI partners and maintain relationships with our existing marketers and FI partners; and adversely affect our business, financial condition or operating results. Privacy and security concerns, whether valid or not, may inhibit market adoption of our solutions.

U.S. and non-U.S. regulators also may implement “Do-Not-Track” legislation, particularly if the industry does not implement a standard. Effective January 1, 2014, the California Governor signed into law an amendment to the California Online Privacy Protection Act of 2003. Such amendment requires operators of commercial websites and online service providers, under certain circumstances, to disclose in their privacy policies how such operators and providers respond to browser “do not track” signals.

Some of our activities may also be subject to the laws of foreign jurisdictions, whether or not we are established or based in such jurisdictions. In the U.K., for example, the Privacy and Electronic Communications Regulations 2011 ("PECR"), implement the requirements of Directive 2009/136/EC (which amended Directive 2002/58/EC), which is known as the ePrivacy Directive. The PECR regulates various types of electronic direct marketing that use cookies and similar technologies. The PECR also imposes sector-specific breach reporting requirements, but only as applicable to providers of particular public electronic communications services. Additional EU member state laws of this type may follow.

We may be required to, or otherwise may determine that it is advisable to, develop or obtain additional tools and technologies for validation of certain of our limited sales related to online purchases to compensate for a potential lack of cookie data. Even if we are able to do so, such additional tools may be subject to further regulation, time consuming to develop or costly to obtain, and less effective than our current use of cookies. In addition, certain information, such as Internet Protocol addresses as collected and used by us may constitute “personal data” in certain non-U.S. jurisdictions, including in the U.K., and therefore certain of our activities could be subject to EU laws applicable to the processing and use of personal data.

More generally, the regulatory framework for online services and data privacy and security issues worldwide can vary substantially from jurisdiction to jurisdiction, is rapidly evolving and is likely to remain uncertain for the foreseeable future. Many federal, state and foreign government bodies and agencies have adopted or are considering adopting laws, rules, regulations and standards regarding the collection, use, storage and disclosure of information, web browsing and geolocation data collection and data analytics. Interpretation of these laws, rules and regulations and their application to our solutions in the U.S. and foreign jurisdictions is ongoing and cannot be fully determined at this time.

In addition, the regulatory environment for the collection and use of consumer data by marketers is evolving in the U.S. and internationally and is currently a self-regulatory framework, which relies on market participants to ensure self-compliance. The voluntary nature of this self-regulatory framework may change.

The U.S. and foreign governments have enacted, considered or are considering legislation or regulations that could significantly restrict industry participants’ ability to collect, augment, analyze, use and share anonymous data, such as by regulating the level of consumer notice and consent required before a company can place cookies or other tracking technologies. A number of existing bills are pending in the U.S. Congress that contain provisions that would regulate how companies can use cookies and other tracking technologies to collect and utilize user information.

In addition to government regulation, privacy advocates and industry groups may propose new and different self-regulatory standards that either legally or contractually apply to us. We may also be subject to claims of liability or responsibility for the actions of third parties with whom we interact or upon whom we rely in relation to various solutions, including but not limited to our marketers and their agencies and our FI partners. If this were to occur, in addition to the possibility of fines, lawsuits and other claims, we could be required to fundamentally change our business activities and practices or modify our solutions, which could have an adverse effect on our business. Any inability to adequately address privacy and security concerns, even if unfounded, or comply with applicable privacy or data protection laws, regulations and policies, could result in additional cost and liability to us, damage our reputation, inhibit sales and adversely affect our business.

In addition, if we were to gain knowledge that we inadvertently received PII from our FI partners, our failure to comply with applicable laws and regulations, or to protect personal data, could result in enforcement action against us, including fines, imprisonment of our officers and public censure, claims for damages by consumers and other affected individuals, damage to our reputation and loss of goodwill, any of which could have a material adverse impact on our operations, financial performance and business. Even the perception of privacy or security concerns, whether or not valid, may harm our reputation and inhibit adoption of our solution by current and future marketers and marketing agencies.

If the use of matching technologies, such as cookies, pixels and device identifiers, is rejected by Internet users, restricted or otherwise subject to unfavorable terms, such as by non-governmental entities, our validation methodologies could be impacted and we may lose customers and revenue.

Our solution can be utilized by in-store and online marketers; however, a large majority of consumer purchases continue to be made in-store. For validation of certain of these limited online purchases, our solutions may use digital matching technologies, such as mobile advertising identifiers, pixels and cookies to match the Cardlytics IDs we have assigned to our FIs' customers with their digital presence outside of the FI partners' websites and mobile applications. In most cases, the matching technologies we use relate to mobile advertising identifiers that we use in limited cases to validate that we influenced an online purchase. If our access to matching technology data is reduced, our ability to validate certain online purchases in the current manner may be affected and thus undermine the effectiveness of our solutions.

On occasion, "third-party cookies" may be placed through an Internet browser to validate online purchases. Internet users may easily block and/or delete cookies (e.g., through their browsers or "ad blocking" software). The most commonly used Internet browsers allow Internet users to modify their browser settings to prevent cookies from being accepted by their browsers, or are set to block third-party cookies by default. Further, Google recently announced its plans to eliminate third-party cookies from its browser in 2022. If more browser providers and Internet users adopt these settings or delete their cookies more frequently than they currently do, our practices related to the validation of limited online purchases could be impacted, which could result in us needing to implement other available methodologies. Some government regulators and privacy advocates have suggested creating a "Do Not Track" standard that would allow Internet users to express a preference, independent of cookie settings in their browser, not to have website browsing recorded. If Internet users adopt a "Do Not Track" browser setting and the standard either gets imposed by state or federal legislation or agreed upon by standard-setting groups, it may curtail or prohibit us from using non-personal data as we currently do. This could hinder growth of marketing on the Internet generally and cause us to change our business practices and adversely affect our business, financial condition and operating results. In addition, browser manufacturers could replace cookies with their own product and require us to negotiate and pay them for use of such product to record information about Internet users' interactions with our marketers, which may not be available on commercially reasonable terms, or at all.

Failure to protect our proprietary technology and intellectual property rights could substantially harm our business, financial condition and operating results.

Our future success and competitive position depend in part on our ability to protect our intellectual property and proprietary technologies. To safeguard these rights, we rely on a combination of patent, trademark, copyright and trade secret laws and contractual protections in the U.S. and other jurisdictions, all of which provide only limited protection and may not now or in the future provide us with a competitive advantage.

As of September 30, 2020, we had four issued patents and are pursuing ten additional patents. We cannot assure you that any patents will issue from any patent applications, that patents that issue from such applications will give us the protection that we seek or that any such patents will not be challenged, invalidated, or circumvented. Any patents that may issue in the future from our pending or future patent applications may not provide sufficiently broad protection and may not be enforceable in actions against alleged infringers. We have registered the "Cardlytics" name and logo in the U.S. and certain other countries. We have registrations and/or pending applications for additional marks in the U.S. and other countries; however, we cannot assure you that any future trademark registrations will be issued for pending or future applications or that any registered trademarks will be enforceable or provide adequate protection of our proprietary rights. We also license software from third parties for integration into our products, including open source software and other software available on commercially reasonable terms. We cannot assure you that such third parties will maintain such software or continue to make it available.

In order to protect our unpatented proprietary technologies and processes, we rely on trade secret laws and confidentiality agreements with our employees, consultants, vendors and others. Despite our efforts to protect our proprietary technology and trade secrets, unauthorized parties may attempt to misappropriate, reverse engineer or otherwise obtain and use them. Bank of America also has a right to purchase some of the source code underlying Cardlytics Direct upon the occurrence of specified events, which could compromise the proprietary nature of our platform and/or allow Bank of America to discontinue the use of our solutions. Additionally, other FIs have a right to obtain the source code underlying Cardlytics OPS through the release of source code held in escrow upon the occurrence of specified events, which could compromise the proprietary nature of our platform and/or allow these FIs to discontinue the use of our solutions.

In addition, others may independently discover our trade secrets, in which case we would not be able to assert trade secret rights or develop similar technologies and processes. Further, the contractual provisions that we enter into may not prevent unauthorized use or disclosure of our proprietary technology or intellectual property rights and may not provide an adequate remedy in the event of unauthorized use or disclosure of our proprietary technology or intellectual property rights. Moreover, policing unauthorized use of our technologies, trade secrets and intellectual property is difficult, expensive and time-consuming, particularly in foreign countries where the laws may not be as protective of intellectual property rights as those in the U.S. and where mechanisms for enforcement of intellectual property rights may be weak. We may be unable to determine the extent of any unauthorized use or infringement of our solutions, technologies or intellectual property rights.

From time to time, legal action by us may be necessary to enforce our patents and other intellectual property rights, to protect our trade secrets, to determine the validity and scope of the intellectual property rights of others or to defend against claims of infringement or invalidity. Such legal action could result in substantial costs and diversion of resources and could negatively affect our business, financial condition and operating results.

Assertions by third parties of infringement or other violations by us of their intellectual property rights, whether or not correct, could result in significant costs and harm our business, financial condition and operating results.

Patent and other intellectual property disputes are common in our industry. We have in the past and may in the future be subject to claims alleging that we have misappropriated, misused, or infringed other parties' intellectual property rights. Some companies, including certain of our competitors, own larger numbers of patents, copyrights and trademarks than we do, which they may use to assert claims against us. Third parties may also assert claims of intellectual property rights infringement against our FI partners, whom we are typically required to indemnify. As the numbers of solutions and competitors in our market increases and overlap occurs, claims of infringement, misappropriation and other violations of intellectual property rights may increase. Any claim of infringement, misappropriation or other violation of intellectual property rights by a third-party, even those without merit, could cause us to incur substantial costs defending against the claim and could distract our management from our business.

The patent portfolios of our most significant competitors are larger than ours. This disparity may increase the risk that they may sue us for patent infringement and may limit our ability to counterclaim for patent infringement or settle through patent cross-licenses. In addition, future assertions of patent rights by third parties, and any resulting litigation, may involve patent holding companies or other adverse patent owners who have no relevant product revenues and against whom our own patents may therefore provide little or no deterrence or protection. There can be no assurance that we will not be found to infringe or otherwise violate any third-party intellectual property rights or to have done so in the past.

An adverse outcome of a dispute may require us to:

- pay substantial damages, including treble damages, if we are found to have willfully infringed a third-party's patents or copyrights;
- cease developing or selling solutions that rely on technology that is alleged to infringe or misappropriate the intellectual property of others;
- expend additional development resources to attempt to redesign our solutions or otherwise develop non-infringing technology, which may not be successful;
- enter into potentially unfavorable royalty or license agreements in order to obtain the right to use necessary technologies or intellectual property rights; and
- indemnify our FI partners and other third parties.

In addition, royalty or licensing agreements, if required or desirable, may be unavailable on terms acceptable to us, or at all, and may require significant royalty payments and other expenditures. Some licenses may also be non-exclusive, and therefore our competitors may have access to the same technology licensed to us. Any of the foregoing events could seriously harm our business, financial condition and operating results.

Our use of open source software could negatively affect our ability to sell our solutions and subject us to possible litigation.

We use open source software to deliver our solutions and expect to continue to use open source software in the future. Some of these open source licenses may require that source code subject to the license be made available to the public and that any modifications or derivative works to open source software continue to be licensed under open source licenses. This may require that we make certain proprietary code available under an open source license. We may face claims from others claiming ownership of, or seeking to enforce the license terms applicable to such open source software, including by demanding release of the open source software, derivative works or our proprietary source code that was developed using such software. Few of the licenses applicable to open source software have been interpreted by courts, and there is a risk that these licenses could be construed in a manner that could impose unanticipated conditions or restrictions on our ability to commercialize our products. These claims could also result in litigation, require us to purchase costly licenses or require us to devote additional research and development resources to change the software underlying our solutions, any of which would have a negative effect on our business, financial condition and operating results and may not be possible in a timely manner. We and our customers may also be subject to suits by parties claiming infringement due to the reliance by our solutions on certain open source software, and such litigation could be costly for us to defend or subject us to an injunction. In addition, if the license terms for the open source code change, we may be forced to re-engineer our software or incur additional costs. Finally, we cannot assure you that we have not incorporated open source software into the software underlying our solutions in a manner that may subject our proprietary software to an open source license that requires disclosure, to customers or the public, of the source code to such proprietary software. In the event that portions of our proprietary technology are determined to be subject to an open source license, we could be required to publicly release portions of our source code, re-engineer all or a portion of our technologies, or otherwise be limited in the licensing of our technologies, each of which could reduce or eliminate the value of our solutions and technologies and materially and adversely affect our ability to sustain and grow our business. Many open source licenses also limit our ability to bring patent infringement lawsuits against open source software that we use without losing our right to use such open source software. Therefore, the use of open source software may limit our ability to bring patent infringement lawsuits, to the extent we ever have any patents that cover open source software that we use.

We are subject to government regulation, including import, export, economic sanctions and anti-corruption laws and regulations that may expose us to liability and increase our costs.

Various of our products are subject to U.S. export controls, including the U.S. Department of Commerce's Export Administration Regulations and economic and trade sanctions regulations administered by the U.S. Treasury Department's Office of Foreign Assets Controls. These regulations may limit the export of our products and provision of our solutions outside of the U.S., or may require export authorizations, including by license, a license exception or other appropriate government authorizations, including annual or semi-annual reporting. Export control and economic sanctions laws may also include prohibitions on the sale or supply of certain of our products to embargoed or sanctioned countries, regions, governments, persons and entities. In addition, various countries regulate the importation of certain products, through import permitting and licensing requirements, and have enacted laws that could limit our ability to distribute our products. The exportation, reexportation, and importation of our products and the provision of solutions, including by our partners, must comply with these laws or else we may be adversely affected, through reputational harm, government investigations, penalties and a denial or curtailment of our ability to export our products or provide solutions. Complying with export control and sanctions laws may be time consuming and may result in the delay or loss of sales opportunities. Although we take precautions to prevent our products from being provided in violation of such laws, our products may have previously been, and could in the future be, provided inadvertently in violation of such laws, despite the precautions we take. If we are found to be in violation of U.S. sanctions or export control laws, it could result in substantial fines and penalties for us and for the individuals working for us. Changes in export or import laws or corresponding sanctions, may delay the introduction and sale of our products in international markets, or, in some cases, prevent the export or import of our products to certain countries, regions, governments, persons or entities altogether, which could adversely affect our business, financial condition and results of operations.

We are also subject to various domestic and international anti-corruption laws, such as the U.S. Foreign Corrupt Practices Act and the U.K. Bribery Act, as well as other similar anti-bribery and anti-kickback laws and regulations. These laws and regulations generally prohibit companies and their employees and intermediaries from authorizing, offering or providing improper payments or benefits to officials and other recipients for improper purposes. We rely on certain third parties to support our sales and regulatory compliance efforts and can be held liable for their corrupt or other illegal activities, even if we do not explicitly authorize or have actual knowledge of such activities. Although we take precautions to prevent violations of these laws, our exposure for violating these laws increases as our international presence expands and as we increase sales and operations in foreign jurisdictions.

Risks Related to Ownership of Our Common Stock

An active trading market for our common stock may not develop or be sustained.

Although our common stock is listed on the Nasdaq Global Market, we cannot assure you that an active trading market for our shares will be sustained. If an active market for our common stock is not sustained, it may be difficult for investors in our common stock to sell shares without depressing the market price for the shares or to sell the shares at all.

The market price of our common stock has been and is likely to continue to be volatile.

The market price of our common stock may be highly volatile and may fluctuate substantially as a result of a variety of factors, some of which are related in complex ways. Since shares of our common stock were sold in our initial public offering in February 2018 at a price of $13.00 per share, our stock price has ranged from an intraday low of $9.80 to an intraday high of $107.50 through October 31, 2020. Factors that may affect the market price of our common stock include:

- actual or anticipated fluctuations in our financial condition and operating results;
- variance in our financial performance from expectations of securities analysts or investors;
- changes in the prices of our solutions;
- changes in laws or regulations applicable to our solutions;
- announcements by us or our competitors of significant business developments, acquisitions or new offerings;
- our involvement in litigation;
- our sale of our common stock or other securities in the future;
- changes in senior management or key personnel;
- trading volume of our common stock;
- changes in the anticipated future size and growth rate of our market; and
- general economic, regulatory and market conditions.

Recently, the stock markets have experienced extreme price and volume fluctuations that have affected and continue to affect the market prices of equity securities of many companies due to, among other factors, the actions of market participants or other actions outside of our control, including general market volatility caused by the COVID–19 pandemic. These fluctuations have often been unrelated or disproportionate to the operating performance of those companies. Broad market and industry fluctuations, as well as general economic, political, regulatory and market conditions, may negatively impact the market price of our common stock. In the past, companies that have experienced volatility in the market price of their securities have been subject to securities class action litigation. We may be the target of this type of litigation in the future, which could result in substantial costs and divert our management's attention.

We do not intend to pay dividends for the foreseeable future and, as a result, your ability to achieve a return on your investment will depend on appreciation in the price of our common stock.

We have never declared or paid any cash dividends on our common stock and do not intend to pay any cash dividends in the foreseeable future. We anticipate that we will retain all of our future earnings for use in the development of our business and for general corporate purposes. Any determination to pay dividends in the future will be at the discretion of our board of directors. Accordingly, investors must rely on sales of their common stock after price appreciation, which may never occur, as the only way to realize any future gains on their investments.

Future sales of our common stock in the public market could cause our share price to decline.

Sales of a substantial number of shares of our common stock in the public market, or the perception that these sales might occur, could depress the market price of our common stock and could impair our ability to raise capital through the sale of additional equity securities. We are unable to predict the effect that sales, particularly sales by our directors, executive officers, and significant stockholders, may have on the prevailing market price of our common stock. All of our outstanding shares of common stock are available for sale in the public market, subject only to the restrictions of Rule 144 under the Securities Act in the case of our affiliates. In addition, the shares of common stock subject to outstanding options under our equity incentive plans and the shares reserved for future issuance under our equity incentive plans, as well as shares issuable upon vesting of restricted stock unit awards, will become eligible for sale in the public market in the future, subject to certain legal and contractual limitations. In addition, certain holders of our common stock have the right, subject to various conditions and limitations, to request we include their shares of our common stock in registration statements we may file relating to our securities.

We may issue common stock or other securities if we need to raise additional capital. The number of new shares of our common stock issued in connection with raising additional capital could constitute a material portion of our then-outstanding shares of our common stock.

If securities or industry analysts do not publish research or reports about our business, or publish negative reports about our business, our stock price and trading volume could decline.

The trading market for our common stock will depend, in part, on the research and reports that securities or industry analysts publish about us or our business. We do not have any control over these analysts. If our financial performance fails to meet analyst estimates or one or more of the analysts who cover us downgrade our stock or change their opinion of our business or market value, our share price would likely decline. If one or more of these analysts cease coverage of us or fail to regularly publish reports on us, we could lose visibility in the financial markets, which could cause our share price or trading volume to decline.

Our reported financial results may be adversely affected by changes in accounting principles generally accepted in the U.S.

Generally accepted accounting principles in the U.S. are subject to interpretation by the Financial Accounting Standards Board ("FASB"), the SEC, and various bodies formed to promulgate and interpret appropriate accounting principles. A change in these principles or interpretations could have a significant effect on our reported financial results, and could affect the reporting of transactions completed before the announcement of a change.

We will no longer qualify as an "emerging growth company" as of December 31, 2020 and as a result we will no longer be able to avail ourselves from certain reduced reporting and disclosure requirements.

We are currently an "emerging growth company," as defined in the JOBS Act and have taken advantage of certain exemptions from various reporting requirements that are applicable to other public companies that are not "emerging growth companies" including, but not limited to, the auditor attestation requirements of Section 404 of the Sarbanes-Oxley Act ("Section 404"), reduced disclosure obligations regarding executive compensation in our periodic reports and proxy statements, and exemptions from the requirements of holding a nonbinding advisory vote on executive compensation and stockholder approval of any golden parachute payments not previously approved. We cannot predict if investors will find our common stock less attractive if we choose to rely on these exemptions. If some investors find our common stock less attractive as a result, there may be a less active trading market for our common stock and our stock price may be more volatile.

As an "emerging growth company," the JOBS Act allows us to delay adoption of new or revised accounting pronouncements applicable to public companies until such pronouncements are made applicable to private companies. We have elected to use this extended transition period under the JOBS Act. As a result, our consolidated financial statements may not be comparable to the financial statements of issuers who are required to comply with the effective dates for new or revised accounting standards that are applicable to public companies, which may make our common stock less attractive to investors. We will lose "emerging growth company" status effective December 31, 2020.

We have incurred and will continue to incur increased costs as a result of being a public company.

As a newly public company, and particularly after we are no longer an "emerging growth company," we have incurred and we will continue to incur significant legal, accounting and other expenses that we did not incur as a private company. The Sarbanes-Oxley Act, the Dodd-Frank Wall Street Reform and Consumer Protection Act, the listing requirements of the Nasdaq Stock Market and other applicable securities rules and regulations impose various requirements on public companies. We expect that compliance with these requirements will continue to increase certain of our expenses and make some activities more time-consuming than they have been in the past when we were a private company. Such additional costs going forward could negatively affect our financial results Furthermore, those costs are likely to increase after we are no longer an "emerging growth company" under the JOBS Act. We will lose "emerging growth company status" effective December 31, 2020.

As a public company, we are obligated to develop and maintain proper and effective internal control over financial reporting and any failure to maintain the adequacy of these internal controls may adversely affect investor confidence in our company and, as a result, the value of our common stock.

We are required, pursuant to Section 404, to furnish a report by management on, among other things, the effectiveness of our internal control over financial reporting on an annual basis. Following our loss of "emerging growth company" status effective December 31, 2020, our independent registered public accounting firm will be required to attest to the effectiveness of our internal control over financial reporting in our annual report for the year ending December 31, 2020.

Anti-takeover provisions in our charter documents and under Delaware law could make an acquisition of us more difficult, limit attempts by our stockholders to replace or remove our current management and limit the market price of our common stock.

Provisions in our amended and restated certificate of incorporation and amended and restated bylaws may have the effect of delaying or preventing a change in control or changes in our management. Our amended and restated certificate of incorporation and amended and restated bylaws include provisions that:

- authorize our board of directors to issue preferred stock without further stockholder action and with voting liquidation, dividend and other rights superior to our common stock;
- require that any action to be taken by our stockholders be effected at a duly called annual or special meeting and not by written consent, and limit the ability of our stockholders to call special meetings;
- establish an advance notice procedure for stockholder proposals to be brought before an annual meeting, including proposed nominations of persons for director nominees;
- establish that our board of directors is divided into three classes, with directors in each class serving three-year staggered terms;
- require the approval of holders of two-thirds of the shares entitled to vote at an election of directors to adopt, amend or repeal our amended and restated bylaws or amend or repeal the provisions of our amended and restated certificate of incorporation regarding the election and removal of directors and the ability of stockholders to take action by written consent or call a special meeting;
- prohibit cumulative voting in the election of directors; and
- provide that vacancies on our board of directors may be filled only by a majority of directors then in office, even though less than a quorum.

These provisions may frustrate or prevent any attempts by our stockholders to replace or remove our current management by making it more difficult for stockholders to replace members of our board of directors, which is responsible for appointing the members of our management. In addition, because we are incorporated in Delaware, we are governed by the provisions of Section 203 of the Delaware General Corporation Law, which generally prohibits a Delaware corporation from engaging in any of a broad range of business combinations with any “interested” stockholder for a period of three years following the date on which the stockholder became an “interested” stockholder. Any of the foregoing provisions could limit the price that investors might be willing to pay in the future for shares of our common stock, and they could deter potential acquirers of our company, thereby reducing the likelihood that you would receive a premium for your shares of our common stock in an acquisition.

Our amended and restated certificate of incorporation designates the Court of Chancery of the State of Delaware as the exclusive forum for certain litigation that may be initiated by our stockholders, which could limit our stockholders’ ability to obtain a favorable judicial forum for disputes with us.

Pursuant to our amended and restated certificate of incorporation, unless we consent in writing to the selection of an alternative forum, the Court of Chancery of the State of Delaware will be the sole and exclusive forum for the following types of actions or proceedings under Delaware statutory or common law. (1) any derivative action or proceeding brought on our behalf, (2) any action asserting a claim of breach of a fiduciary duty owed by any of our directors, officers or other employees to us or our stockholders, (3) any action asserting a claim arising pursuant to any provision of the Delaware General Corporation Law, our amended and restated certificate of incorporation or our amended and restated bylaws or (4) any action asserting a claim governed by the internal affairs doctrine. However, this exclusive forum provision would not apply to suits brought to enforce a duty or liability created by the Securities Act or the Exchange Act. The forum selection clause in our amended and restated certificate of incorporation may limit our stockholders’ ability to obtain a favorable judicial forum for disputes with us.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Recent Sales of Unregistered Securities

None.

Issuer Purchases of Equity Securities

None.

ITEM 6. EXHIBITS

The exhibits listed below are filed or incorporated by reference into this Quarterly Report on Form 10-Q.

		Incorporated by Reference				
Exhibit	Exhibit Description	Schedule /Form	File Number	Exhibit	Filing Date	Filed Herewith
10.1	Fifth Amendment to Loan and Security Agreement, dated September 17, 2020, amount Cardlytics, Inc., as Borrower and Pacific Western Bank, as Lender					X
10.2	Separation and Release Agreement between David T. Evans and Cardlytics, Inc.					X
10.3	Indenture, dated as of September 22, 2020, by and between Cardlytics, Inc. and U.S. Bank National Association, as Trustee.	8-K	001-38386	4.1	9-22-2020	
10.4	Form of Global Note, representing Cardlytics, Inc.'s 1.00% Convertible Senior Notes due 2025 (included as Exhibit A to the Indenture filed as Exhibit 4.1).	8-K	001-38386	4.2	9-22-2020	
31.1	Certification of Principal Executive Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002					X
31.2	Certification of Principal Financial Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002					X
32.1*	Certification of Principal Executive Officer and Principal 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	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	XBRL Taxonomy Schema Linkbase Document					X
101.cal	XBRL Taxonomy Calculation Linkbase Document					X
101.def	XBRL Taxonomy Definition Linkbase Document					X
101.lab	XBRL Taxonomy Label Linkbase Document					X
101.pre	XBRL Taxonomy Presentation Linkbase Document					X
104	Cover page formatted as Inline XBRL and contained in Exhibit 101					X

* The certifications furnished in Exhibit 32.1 hereto are deemed to accompany this Quarterly Report on Form 10-Q and will not be deemed “filed” for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, except to the extent that the registrant specifically incorporates it by reference.

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.

Cardlytics, Inc.

Date:	November 2, 2020	By:	/s/ Lynne M. Laube
			Lynne M. Laube Chief Executive Officer *(Principal Executive Officer)*
Date:	November 2, 2020	By:	/s/ Andrew Christiansen
			Andrew Christiansen Chief Financial Officer *(Principal Financial and Accounting Officer)*

Fifth Amendment to Loan and Security Agreement

Borrower: Cardlytics, Inc.

Date: September 15, 2020

This **FIFTH AMENDMENT TO LOAN AND SECURITY AGREEMENT** (this "Amendment") is entered into between PACIFIC WESTERN BANK, a California state-chartered bank ("PWB"), as Agent and Lender, the other lenders from time to time party to the Loan Agreement, and the borrower named above ("Borrower"). PWB and lenders that may hereafter join as lenders under the Loan Agreement (as defined below) are herein sometimes collectively referred to as "Lenders" and individually as a "Lender". PWB, in its capacity as administrative and collateral Agent for the Lenders, is referred to herein as the "Agent" (which term shall include any successor Agent in accordance with terms hereof).

Agent, Lenders and Borrower agree to amend the Loan and Security Agreement between them, dated May 21, 2018 (as amended, the "Loan Agreement"), as follows, effective as of the date hereof. (Capitalized terms used but not defined in this Amendment shall have the meanings set forth in the Loan Agreement.)

1. **2020 Convertible Notes.**

1.1 **"Permitted Indebtedness".** Clause (viii) of the definition of "Permitted Indebtedness" is renumbered as clause (ix), and a new clause (viii) is added to the definition of "Permitted Indebtedness" as follows:

"(viii) Indebtedness consisting of the 2020 Convertible Notes;"

1.2 **Additional definitions.** The following additional definition are added to Section 8 of the Loan Agreement:

" '2020 Convertible Notes' means Borrower's convertible senior notes due 2025 in a principal amount not to exceed $230 million, which are on substantially the terms set forth in the offering memorandum for the convertible notes provided to the Lender on or prior to teh date of the Fifth Amendment"

" 'Fifth Amendment' means that Fifth Amendment to Loan and Security Agreement, dated as of September 15, 2020 by and between Borrower and Lender."

1.3 **"Change in Control".** A new clause (v) is added to the definition of "Change in Control" in Section 8 of the Loan Agreement as follows:

"(v) a 'fundamental change' or other event occurs which gives any holders of the 2020 Convertible Notes a right to require the Borrower to repurchase any 2020 Convertible Notes."

1.4 **Permitted Investments**. A new clause (x) is added to the definition of "Permitted Investments" in Section 8 of the Loan Agreement as follows:

"(x) an Investment consisting of the purchase of a capped call transaction in connection with the offering of the 2020 Convertible Notes, which provides Borrower the right to require the dealer counterparty to deliver cash or shares of Borrower's stock as a result of conversion of the notes; provided that the premium for such transaction shall not exceed 15% of the gross proceeds from the sale of the 2020 Convertible Notes, provided the same does not impose any liability on

the part of the Borrower, other than the payment of the premium at the time of consummation of the transaction."

1.5 **Negative Covenant.** A new subclause (g) is added to clause (xi) of Section 5.5 of the Loan Agreement as follows:

"(g) Borrower may purchase a capped call transaction in connection with the offering of the 2020 Convertible Notes, as provided in clause (x) of the definition of 'Permitted Investments'."

1.6 **Negative Covenant.** A new clause (xviii) is added to Section 5.5 of the Loan Agreement, as follows:

"(xviii) prepay any principal of or interest on, or redeem any of the 2020 Convertible Notes (other than a repurchase or settlement upon conversion on the occurrence of a 'fundamental change,' and other than settlement upon conversion of the 2020 Convertible Notes in accordance with their terms, so long as in connection with any such settlement in cash Borrower shall have, on a pro forma basis after giving effect to such settlement, unrestricted cash in deposit accounts with Lender in an amount equal to or greater than the principal amount of the Loans then outstanding, plus $20,000,000), or effect any amendment to the terms of the 2020 Convertible Notes which has the effect of shortening the maturity thereof to a date prior to September 2025, or otherwise shortening any dates upon which payments of principal or interest are due thereon, or increasing the interest rate

thereon, or changing the redemption, mandatory prepayment, or shortening the date after which Borrower may optionally redeem any of the 2020 Convertible Notes, or other material provisions thereof in a manner that makes them more restrictive or adverse as to Borrower."

2. **Representations True.** Borrower represents and warrants to Agent and Lenders that all representations and warranties set forth in the Loan Agreement, as amended hereby, are true and correct in all material respects, except as to representations and warranties that relate to a different date, in which case said representations and warranties continue to be true in all material respects as of said date and those representations and warranties that are conditioned by materiality, which shall be true and correct in all respects.

3. **General Release.** In consideration for Agent and Lenders entering into this Amendment, Borrower hereby irrevocably releases and forever discharges Agent, Lenders, and their successors, assigns, agents, shareholders, directors, officers, employees, agents, attorneys, parent corporations, subsidiary corporations, affiliated corporations, affiliates, participants, and each of them (collectively, the "Releasees"), from any and all claims, debts, liabilities, demands, obligations, costs, expenses, actions and causes of action, of every nature and description, known and unknown, which Borrower now has or at any time may hold, by reason of any matter, cause or thing occurred, done, omitted or suffered to be done prior to the date of this Amendment arising under or in any way related to the Loan Agreement, this Amendment or any other Loan Document or any of the transactions contemplated herein or therein (collectively, the "Released Claims"). Borrower hereby irrevocably waives the benefits of any and all statutes and rules of law to the extent the same provide in substance that a general release does not extend to claims which the creditor does not know or suspect to exist in its favor at the time of executing the release. Borrower represents and warrants that it has not assigned to any other Person any Released Claim, and agrees to indemnify Agent and Lenders against any and all actions, demands, obligations, causes of action, decrees, awards, claims, liabilities, losses and costs, including but not limited to reasonable attorneys' fees of counsel of Lenders' choice and

   costs, which Lenders may sustain or incur as a result of a breach or purported breach of the foregoing representation and warranty.

4. **No Waiver.** Nothing herein constitutes a waiver of any default or Event of Default under the Loan Agreement or any other Loan Documents, whether or not known to Bank.

5. **General Provisions.** Borrower hereby ratifies and confirms the continuing validity, enforceability and effectiveness of the Loan Agreement and all other Loan Documents. This Amendment, the Loan Agreement, any prior written amendments to the Loan Agreement signed by Agent, Lenders and Borrower, and the other written documents and agreements between Agent, Lenders and Borrower set forth in full all of the representations and agreements of the parties with respect to the subject matter hereof and supersede all prior discussions, representations, agreements and understandings between the parties with respect to the subject hereof. Except as herein expressly amended, all of the terms and provisions of the Loan Agreement, and all other documents and agreements between Agent and Lenders on the one hand and Borrower on the other hand shall continue in full force and effect and the same are hereby ratified and confirmed. This Amendment may be executed in multiple counterparts, by different parties signing separate counterparts, and all of the same taken together shall constitute one and the same agreement.

6. **Mutual Waiver of Jury Trial. AGENT AND LENDERS AND BORROWER EACH ACKNOWLEDGE THAT THE RIGHT TO TRIAL BY JURY IS A CONSTITUTIONAL RIGHT, BUT THAT IT MAY BE WAIVED. EACH OF THE PARTIES, AFTER CONSULTING OR HAVING HAD THE OPPORTUNITY TO CONSULT, WITH COUNSEL OF THEIR CHOICE, KNOWINGLY, VOLUNTARILY AND INTENTIONALLY WAIVES ANY RIGHT IT MAY HAVE TO A TRIAL BY JURY IN ANY LITIGATION BASED UPON OR ARISING OUT OF THIS AMENDMENT, THE LOAN AGREEMENT, OR ANY RELATED INSTRUMENT OR LOAN DOCUMENT OR ANY OF THE TRANSACTIONS CONTEMPLATED BY THIS AGREEMENT OR ANY COURSE OF CONDUCT, DEALING, STATEMENTS (WHETHER ORAL OR WRITTEN), ACTION OR INACTION OF ANY OF THEM. THESE PROVISIONS SHALL NOT BE DEEMED TO HAVE BEEN MODIFIED IN ANY RESPECT OR RELINQUISHED BY ANY PARTY HERETO, EXCEPT BY A WRITTEN INSTRUMENT EXECUTED BY EACH OF THEM. IF FOR ANY REASON THE PROVISIONS OF THIS SECTION ARE VOID, INVALID OR UNENFORCEABLE, THE SAME SHALL NOT AFFECT ANY OTHER TERM OR PROVISION OF THIS AGREEMENT, AND ALL OTHER TERMS AND PROVISIONS OF THIS AGREEMENT SHALL BE UNAFFECTED BY THE SAME AND CONTINUE IN FULL FORCE AND EFFECT.**

Borrower:	**Agent and Lender:**
CARDLYTICS, INC.	PACIFIC WESTERN BANK
/s/ Andrew Christiansen	/s/ Mykas Degesys
Andrew Christiansen	Mykas Degesys
Chief Financial Officer *(Principal Financial and Accounting Officer)*	*SVP*

Exhibit 10.2

Separation and Release Agreement

This Separation and Release Agreement (the "Agreement"), by and between Cardlytics, Inc. (the "Company") and David Evans ("You" or "Your") (collectively referred to as the "Parties"), is entered into and effective as of July 28, 2020 (the "Effective Date").

1. Termination of Separation Agreement. As of the Effective Date, the Parties acknowledge and agree that all prior agreements related to separation benefits or severance, including but not limited to, the Amended and Restated Separation Pay Agreement between You and the Company dated January 26, 2018 (the "Separation Agreement") shall terminate. The termination of the Separation Agreement does not and will not result in the vesting, acceleration, or triggering of any employment benefit in Your favor, including, but not limited to, any post-termination payment obligation or any separation payment or benefit, or any other right which You may have under the Separation Agreement.

2. Separation Date. You acknowledge and agree that Your employment with the Company will terminate effective as of September 30, 2020 (the "Separation Date").

3. Accrued Salary. On the next regular payroll following the Separation Date, the Company will pay You all accrued wages, earned through the Separation Date, subject to all required payroll deductions and withholdings. You are entitled to these payments regardless of whether or not You sign this Agreement.

4. Separation Payments. Provided that You satisfy the conditions of this Agreement, including the return of all Company property, and do not revoke this Agreement, the Company shall:

a. Pay You a separation payment equal to Three Hundred Thousand Dollars and Zero Cents ($300,000.00), minus all applicable withholdings, including taxes and Social Security (the "Separation Payment"). The Separation Payment shall be divided and paid in equal installments (each of which shall constitute a separate payment for purposes of §409A of the Internal Revenue Code) over a period of twelve (12) months in accordance with the Company's current payroll schedule, beginning on the first Company payroll date that is at least eight (8) days after You return an executed version of this Agreement to the Company's Chief Legal and Privacy Officer, Kirk Somers, located a 675 Ponce de Leon Avenue, Suite 6000, Atlanta, Georgia, 30308;

b. Pay You a pro-rated portion of Your annual bonus for calendar year 2020, if any, that would have been payable to You for such calendar year had You remained employed by the Company for the entire calendar year, calculated by multiplying the bonus by a fraction, the numerator of which is the number of days in calendar year 2020 preceding October 1, 2020, and the denominator of which is 365, all as determined in the sole and absolute discretion of the Company (the "Annual Bonus"). The Annual Bonus, if any, shall be subject to all applicable withholdings, and shall be paid on the same date the Company pays all such other bonuses for calendar year 2020;

c. Pay You the bonus You would have earned for the third quarter 2020 based on the Company's performance but only if similarly situated executives are actually paid such a bonus (the "Third Quarter Bonus"). The Third Quarter Bonus, if any, will be subject to all applicable withholdings, and will be paid on the same date the Company pays all such other bonuses for third quarter 2020;

d. Allow you to keep the laptop and screens provided to you by the Company, provided You certify, in writing, on or before the Separation Date that you have completely wiped-clean and removed all Company documents from your laptop (or had the Company complete such task);

e. Subject to Your timely election of continuation coverage under the Consolidated Omnibus Budget Reconciliation Act of 1985, as amended ("COBRA"), reimburse Your COBRA premium under the Company's major medical group health plan on a monthly basis through September 30, 2021, up to a maximum monthly reimbursement equal to the monthly amount the Company paid for such coverage on Your behalf prior to the Effective Date; provided, however, that in the event that You obtain other employment that offers group health benefits, the Company's obligation to reimburse such premiums (but not the ability to continue COBRA coverage at Your sole expense) shall immediately cease when You become eligible to participate in such group health benefit plan;

) through (e), collectively, constitute the "Separation Benefits"). Because You are no longer employed, Your rights to any particular employee benefit shall be governed by applicable law and the terms and provisions of the Company's various employee benefit plans and arrangements. You acknowledge that the Separation Date shall be the date used in determining benefits under all Company employee benefit plans. The Company's obligations to provide the Separation Benefits listed above shall terminate immediately upon any breach by You of this Agreement or any other post-termination obligations to which You are subject. Notwithstanding anything to the contrary set forth above, if You breach this Agreement or any post-termination obligations to which You are subject, You acknowledge and agree that (i) You shall return to the Company ninety-five percent (95%) of any amounts You received, were reimbursed, or were paid on Your behalf under this Section above within ten (10) calendar days after receiving notice from the Company of such breach, as such amounts are not deemed earned absent Your compliance with this Agreement, and (ii) the remaining five percent (5%) shall constitute full and complete consideration sufficient to support enforcement of this Agreement against You, including, but not limited to, enforcement of Your release of claims set forth below.

1. Release. In exchange for the consideration set forth above, You release and discharge the Company[1] from any and all claims or liability, whether known or unknown, arising out of any event, act or omission occurring on or before the day You sign this Agreement, including, but not limited to, claims arising out of Your employment or the cessation of Your employment, claims arising out of or related to the Separation Agreement, claims arising out of the Employment Retirement Income Security Act of 1974 (ERISA), 29 U.S.C. §§ 1001-1461, claims for breach of contract, tort, negligent hiring, negligent training, negligent supervision, negligent retention, employment discrimination, retaliation, or harassment, as well as any other statutory or common law claims, at law or in equity, recognized under any federal, state, or local law. You also release any claims for unpaid back pay, sick pay, vacation pay, expenses, bonuses, claims arising out of or relating to equity or other ownership interest in the Company, claims to commissions, attorneys' fees, or any other compensation. You agree that You are not entitled to any additional payment or benefits from the Company, except as set forth in this Agreement. You further agree that You have suffered no harassment, retaliation, employment discrimination, or work-related injury or illness, and that You do not believe that this Agreement is a subterfuge to avoid disclosure of sexual harassment or gender discrimination or to waive such claims. You acknowledge and represent that You (i) have been fully paid (including, but not limited to, any overtime to which You are entitled, if any) for hours You worked for the Company and (ii) do not claim that the Company violated or denied Your rights under the Fair Labor Standards Act. Notwithstanding the foregoing, the release of claims set forth above does not waive Your right to receive benefits under the Company's 401(k) or pension plans, if any, that either (a) have accrued or vested prior to the Effective Date, or (b) are intended, under the terms of such plans, to survive Your separation from the Company.

2. ADEA/OWBPA Waiver. By agreeing to this provision, You release and waive any right or claim against the Company[1] arising out of Your employment or the termination of Your employment with the Company under the Age Discrimination in Employment Act, as amended, 29 U.S.C. § 621 et seq. ("ADEA"), and the Older Workers Benefit Protection Act, 29 U.S.C. § 621 et seq. ("OWBPA"), and the Georgia Prohibition of Age Discrimination in Employment, O.C.G.A. § 34-1-2 (such release and waiver referred to as the "Waiver"). You understand and agree that, (a) this Agreement is written in a manner that You understand; (b) You do not release or waive rights or claims that may arise after You sign this Agreement; (c) You waive rights and claims You may have had under the OWBPA and the ADEA, but only in exchange for payments and/or benefits in addition to anything of value to which You are already entitled; (d) You are advised to consult with an attorney before signing this Agreement; (e) You have twenty-one (21) calendar days (the "Offer Period") from receipt of this Agreement to consider whether to sign it. If You sign before the end of the Offer Period, You acknowledge that Your decision to do so was knowing, voluntary, and not induced by fraud, misrepresentation, or a threat to withdraw, alter, or provide different terms prior to the expiration of the Offer Period. You agree that changes or revisions to this Agreement, whether material or immaterial, do not restart the running of the Offer Period; (f) You have seven (7) calendar days after signing this Agreement to revoke this Agreement (the "Revocation Period"). If You revoke, the Agreement shall not be effective or enforceable, and You shall not be entitled to the consideration set forth in this Agreement. To be effective, the revocation must be in writing and received by the Company's Chief Legal and People Officer, Kirk Somers, 675 Ponce de Leon Ave, Suite 6000, Atlanta, Georgia 30308, prior to expiration of the Revocation Period; and (g) this Waiver shall not become effective or enforceable until the Revocation Period has expired.

3. No Admission of Liability. This Agreement is not an admission of liability by the Company.[1] The Company denies any liability whatsoever. You and the Company enter into this Agreement to reach a mutual agreement concerning Your separation from the Company.

4. Non-Disparagement/Future Employment. You shall not make any disparaging or defamatory statements, whether written or oral, regarding the Company.[1] You agree that the Company has no obligation to consider You for employment should You apply in the future.

5. Expense Reimbursement. You agree that, within ten (10) days of the Separation Date, You will submit a final expense reimbursement statement and supporting documentation reflecting all business expenses You incurred through the Separation Date for which You seek reimbursement, if any. The Company shall review and reimburse You for these business expenses pursuant to its regular business practice. The Company shall not reimburse You for any business expenses submitted more than ten (10) days after the Separation Date.

6. Confidentiality. You acknowledge and agree that neither You nor anyone acting on Your behalf has made or will make any disclosures concerning the existence or terms of this Agreement to any person or entity, including, but not limited to, any representative of the media, Internet web page, social networking site, “blog” or “chat room,” judicial or administrative agency or body, business entity or association, except: (a) Your spouse; (b) Your attorneys, accountants, or financial advisors; or (c) any court or government agency pursuant to an official request by such government agency, court order or legally enforceable subpoena. If You are contacted, served or learn that You will be served with a subpoena to compel Your testimony or the production of documents concerning this Agreement or Your employment with the Company, You agree to immediately notify the Company’s Chief Legal and People Officer by telephone and as soon as possible thereafter in writing. If You disclose the existence or terms of this Agreement pursuant to sub-clauses (a) or (b) of this paragraph, You shall inform such person or entity (i) of this confidentiality provision, and (ii) to maintain the same level of confidentiality required by this provision. Any breach of this provision by such person or entity shall be considered a breach by You. You may not use this Agreement as evidence, except in a proceeding in which a breach of this Agreement is alleged.

7. Return of Company Property. Except for the items identified in paragraph 4(d) above, You shall immediately return to the Company all of the Company’s property, including, but not limited to, computers, computer equipment, office equipment, mobile phone, keys, passcards, credit cards, confidential or proprietary lists (including, but not limited to, customer, supplier, licensor, and client lists), tapes, laptop computer, electronic storage device, software, computer files, marketing and sales materials, and any other property, record, document, or piece of equipment belonging to the Company. You shall not (a) retain any copies of the Company’s property, including any copies existing in electronic form, which are in Your possession, custody, or control, or (b) destroy, delete, or alter any Company property, including, but not limited to, any files stored electronically, without the Company’s prior written consent. The obligations contained in this Section shall also apply to any property which belongs to a third party, including, but not limited to, (i) any entity which is affiliated or related to the Company, or (ii) the Company’s customers, licensors, or suppliers.

8. Attorneys’ Fees. In the event of litigation relating to this Agreement other than a challenge to the Waiver, the prevailing party shall be entitled to recover attorneys’ fees and costs of litigation, in addition to all other remedies available at law or in equity.

9. Non-Interference. Notwithstanding anything to the contrary set forth in this Agreement or in any other agreement between You and the Company, nothing in this Agreement or in any other agreement shall limit Your ability, or otherwise interfere with Your rights, to (a) file a charge or complaint with the Equal Employment Opportunity Commission, the National Labor Relations Board, the Occupational Safety and Health Administration, the Securities and Exchange Commission, or any other federal, state, or local governmental agency or commission (each a “Government Agency”), (b) communicate with any Government Agency or otherwise participate in any investigation or proceeding that may be conducted by any Government Agency, including providing documents or other information, without notice to the Company, (c) receive an award for information provided to any Government Agency, or (d) engage in activity specifically protected by Section 7 of the National Labor Relations Act, or any other federal or state statute or regulation.

10. Entire Agreement. This (a) Agreement, (b) the Restricted Stock Unit Grant dated March 24, 2020, (c) the Restricted Stock Unit Amendment dated July 28, 2020, (d) the Covenants Agreement executed by You on August 11, 2014 and (e) the Confidential Information and Inventions Assignment Agreement executed by You on August 11, 2014 (collectively items (b), (c), (d), and (e), the "Prior Agreements") (collectively the "Agreements") constitute the entire agreement between the Parties. The Prior Agreements are incorporated by reference, and each of the Parties post-termination rights and obligations contained in the Prior Agreements shall remain in full force and effect, and shall survive cessation of Your employment. Each of the Parties acknowledge that their respective post-termination rights and obligations contained in the Prior Agreements are valid, enforceable, and reasonably necessary to protect the interests of each Party, and each Party agrees to abide by such obligations. These Agreements supersede any prior communications, agreements, or understandings, whether oral or written, between the Parties arising out of or relating to the subject matter of this Agreement. Other than this Agreement, no other representation, promise, or agreement has been made with You to cause You to sign this Agreement.

11. Governing Law/Consent to Jurisdiction and Venue. The laws of the State of Georgia shall govern this Agreement. If Georgia's conflict of law rules would apply another state's laws, the Parties agree that Georgia law shall still govern. You agree that any claim arising out of or relating to this Agreement shall solely and exclusively be (i) brought in the Superior Court of Fulton County, Georgia, or (ii) brought in or removed to the United States District Court for the Northern District of Georgia, Atlanta Division. You consent to the personal jurisdiction of the courts identified above. You waive (i) any objection to jurisdiction or venue, or (ii) any defense claiming lack of jurisdiction or venue, in any action brought in such courts.

12. Voluntary Agreement. You acknowledge the validity of this Agreement and represent that You have the legal capacity to enter into this Agreement. You acknowledge and agree You have carefully read the Agreement, know and understand the terms and conditions, including its final and binding effect, and sign it voluntarily.

13. Execution. This Agreement may be executed in one or more counterparts, including, but not limited to, facsimiles and scanned images. Each counterpart shall for all purposes be deemed to be an original, and each counterpart shall constitute this Agreement.

If the terms set forth in this Agreement are acceptable, please initial each page, sign below, and return the signed original to the Company on or before the 21st day after You receive this Agreement. You understand that this Agreement may be revoked by You at any time before expiration of the Offer Period. If the Company does not revoke and does not receive a signed original on or before the 21st day after You receive this Agreement, then this offer is automatically revoked, and You shall not be entitled to the consideration set forth in this Agreement.

[1] For purposes of footnoted section of this Agreement, the term "Company" includes the Company, the Company's parents, subsidiaries, affiliates and all related companies, as well as their respective officers, directors, shareholders, members, managers, employees, agents and any other representatives, any employee benefits plan of the Company, and any fiduciary of those plans.

Cardlytics, Inc.	**David Evans**
/s/ Kirk Somers	/s/ David Evans
Kirk Somers	David Evans
Chief of Legal and Privacy Officer	
Date: July 28, 2020	Date: July 28, 2020

Exhibit 31.1

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Lynne M. Laube, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Cardlytics, Inc. (the "registrant");
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.

Date: November 2, 2020

By: /s/ Lynne M. Laube
Lynne M. Laube
Chief Executive Officer
(Principal Executive Officer)

Exhibit 31.2

CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Andrew Christiansen, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Cardlytics, Inc. (the “registrant”);

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.

Date: November 2, 2020

By: /s/ Andrew Christiansen
Andrew Christiansen
Chief Financial Officer
(Principal Financial and Accounting Officer)

Exhibit 32.1

CERTIFICATIONS OF
PRINCIPAL EXECUTIVE OFFICER AND PRINCIPAL FINANCIAL OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

Pursuant to the requirement set forth in Rule 13a-14(b) of the Securities Exchange Act of 1934, as amended, (the “Exchange Act”) and Section 1350 of Chapter 63 of Title 18 of the United States Code (18 U.S.C. §1350), Lynne M. Laube, Chief Executive Officer of Cardlytics, Inc. (the “Company”), and Andrew Christiansen, Chief Financial Officer of the Company, each hereby certifies that, to the best of his knowledge:

1. The Company’s Quarterly Report on Form 10-Q for the period ended September 30, 2020 (the "Report"), fully complies with the requirements of Section 13(a) or Section 15(d) of the Exchange Act; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 2, 2020

By: /s/ Lynne M. Laube
Lynne M. Laube
Chief Executive Officer
(Principal Executive Officer)

Date: November 2, 2020

By: /s/ Andrew Christiansen
Andrew Christiansen
Chief Financial Officer
(Principal Financial and Accounting Officer)

This certification accompanies the Report to which it relates, is not deemed filed with the Securities and Exchange Commission and is not to be incorporated by reference into any filing of the Company under the Securities Act of 1933, as amended, or the Exchange Act, whether made before or after the date of this Report, irrespective of any general incorporation language contained in such filing.

A signed original of this written statement required by Section 906 of the Sarbanes-Oxley Act of 2002 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.