
**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, 2018
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

(State or other jurisdiction of incorporation or organization)

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

(Address of principal executive offices, including zip code)

26-3039436

(I.R.S. Employer Identification No.)

(888) 798-5802

(Registrant's telephone number, including area code)

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	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input checked="" type="checkbox"/>
Emerging growth company	<input checked="" type="checkbox"/>		

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, 2018, there were 21,411,500 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

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

	<u>December 31, 2017</u>	<u>September 30, 2018</u>
Assets		
Current assets:		
Cash and cash equivalents	\$ 21,262	\$ 47,812
Restricted cash	—	20,000
Accounts receivable, net	48,348	36,822
Other receivables	2,898	3,530
Prepaid expenses and other assets	2,121	3,686
Total current assets	<u>\$ 74,629</u>	<u>\$ 111,850</u>
Long-term assets:		
Property and equipment, net	7,319	9,273
Intangible assets, net	528	365
Capitalized software development costs, net	433	1,278
Deferred FI implementation costs, net	13,625	14,203
Other long-term assets, net	4,224	1,104
Total assets	<u>\$ 100,758</u>	<u>\$ 138,073</u>
Liabilities and stockholders' (deficit) equity		
Current liabilities:		
Accounts payable	\$ 1,554	\$ 2,437
Accrued liabilities:		
Accrued compensation	4,638	5,487
Accrued expenses	4,615	3,537
FI Share liability	23,914	20,185
Consumer Incentive liability	7,242	4,830
Deferred billings	132	250
Current portion of long-term debt	44	21
Total current liabilities	<u>\$ 42,139</u>	<u>\$ 36,747</u>
Long-term liabilities:		
Deferred liabilities	\$ 3,670	\$ 3,305
Long-term warrant liability	10,230	—
Long-term debt, net of current portion	56,968	46,794
Total liabilities	<u>\$ 113,007</u>	<u>\$ 86,846</u>

See notes to the condensed consolidated financial statements

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

	<u>December 31, 2017</u>	<u>September 30, 2018</u>
Liabilities and stockholders' (deficit) equity		
Commitments and contingencies (Note 8)		
Redeemable convertible preferred stock:		
Series G' preferred stock, \$0.0001 par value—5,339 shares authorized and 1,296 shares issued and outstanding as of December 31, 2017, no shares authorized, issued or outstanding as of September 30, 2018	\$ 44,672	\$ —
Series G preferred stock, \$0.0001 par value—1,385 shares authorized and 346 shares issued and outstanding as of December 31, 2017, no shares authorized, issued or outstanding as of September 30, 2018	5,110	—
Series F-R preferred stock, \$0.0001 par value—5,000 shares authorized and 1,199 shares issued and outstanding as of December 31, 2017, no shares authorized, issued or outstanding as of September 30, 2018	58,449	—
Series E-R preferred stock, \$0.0001 par value— 7,400 shares authorized and 795 shares issued and outstanding as of December 31, 2017, no shares authorized, issued or outstanding as of September 30, 2018	29,972	—
Series D-R preferred stock, \$0.0001 par value—5,787 shares authorized and 1,396 shares issued and outstanding as of December 31, 2017, no shares authorized, issued or outstanding as of September 30, 2018	32,728	—
Series C-R preferred stock, \$0.0001 par value—6,032 shares authorized and 1,508 shares issued and outstanding as of December 31, 2017, no shares authorized, issued or outstanding as of September 30, 2018	18,366	—
Series B-R preferred stock, \$0.0001 par value—9,596 shares authorized and 2,247 shares issued and outstanding as of December 31, 2017, no shares authorized, issued or outstanding as of September 30, 2018	5,288	—
Series A-R preferred stock, \$0.0001 par value—7,528 shares authorized and 1,857 shares issued and outstanding as of December 31, 2017, no shares authorized, issued or outstanding as of September 30, 2018	1,852	—
Total redeemable convertible preferred stock	<u>\$ 196,437</u>	<u>\$ —</u>
Stockholders' (deficit) equity:		
Common stock, \$0.0001 par value—83,000 and 100,000 shares authorized and 3,439 and 21,411 shares issued and outstanding as of December 31, 2017 and September 30, 2018, respectively	\$ —	\$ 7
Additional paid-in capital	58,693	359,501
Accumulated other comprehensive income	1,066	1,640
Accumulated deficit	(268,445)	(309,921)
Total stockholders' (deficit) equity	<u>(208,686)</u>	<u>51,227</u>
Total liabilities and stockholders' (deficit) equity	<u>\$ 100,758</u>	<u>\$ 138,073</u>

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,	
	2017	2018	2017	2018
Revenue	\$ 31,406	\$ 34,582	\$ 91,099	\$ 102,865
Costs and expenses:				
FI Share and other third-party costs	14,529	17,982	50,886	59,149
Delivery costs	1,646	3,007	5,095	7,509
Sales and marketing expense	8,302	9,452	23,454	27,915
Research and development expense	3,421	4,097	9,527	12,444
General and administration expense	5,276	7,925	14,738	23,486
Depreciation and amortization expense	771	777	2,303	2,471
Total costs and expenses	33,945	43,240	106,003	132,974
Operating loss	(2,539)	(8,658)	(14,904)	(30,109)
Other income (expense):				
Interest expense, net	(1,763)	(254)	(6,427)	(2,995)
Change in fair value of warrant liabilities, net	1,381	801	(412)	(6,760)
Change in fair value of convertible promissory notes	—	—	(1,244)	—
Change in fair value of convertible promissory notes—related parties	—	—	6,213	—
Other income (expense), net	447	(257)	1,189	(1,612)
Total other income (expense)	65	290	(681)	(11,367)
Loss before income taxes	(2,474)	(8,368)	(15,585)	(41,476)
Income tax benefit	—	—	—	—
Net loss	\$ (2,474)	\$ (8,368)	\$ (15,585)	\$ (41,476)
Adjustments to the carrying value of redeemable convertible preferred stock	(350)	—	(5,383)	(157)
Net loss attributable to common stockholders	\$ (2,824)	\$ (8,368)	\$ (20,968)	\$ (41,633)
Net loss per share attributable to common stockholders, basic and diluted	\$ (0.80)	\$ (0.40)	\$ (6.68)	\$ (2.29)
Weighted-average common shares outstanding, basic and diluted	3,542	20,970	3,140	18,150

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,	
	2017	2018	2017	2018
Net loss	\$ (2,474)	\$ (8,368)	\$ (15,585)	\$ (41,476)
Other comprehensive (loss) income:				
Foreign currency translation adjustments	(374)	202	(942)	574
Total comprehensive loss	<u>\$ (2,848)</u>	<u>\$ (8,166)</u>	<u>\$ (16,527)</u>	<u>\$ (40,902)</u>

See notes to the condensed consolidated financial statements

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

Nine Months Ended September 30, 2018:

	Common Stock		Additional Paid-In Capital	Accumulated Other Comprehensive Income	Accumulated Deficit	Total
	Shares	Amount				
Balance – December 31, 2017	3,439	\$ —	\$ 58,693	\$ 1,066	\$ (268,445)	\$ (208,686)
Exercise of common stock options	329	—	1,799	—	—	1,799
Exercise of common stock warrants	1,142	—	—	—	—	—
Stock-based compensation	—	—	16,968	—	—	16,968
Settlement of restricted stock	37	—	—	—	—	—
Issuance of common stock in connection with our IPO	5,821	1	66,100	—	—	66,101
Vesting of common stock warrants	—	—	17,774	—	—	17,774
Conversion of preferred stock to common stock	10,643	6	196,588	—	—	196,594
Conversion of preferred stock warrants to common stock warrants	—	—	1,736	—	—	1,736
Accretion of redeemable convertible preferred stock to redemption value	—	—	(157)	—	—	(157)
Other comprehensive income	—	—	—	574	—	574
Net loss	—	—	—	—	(41,476)	(41,476)
Balance – September 30, 2018	21,411	\$ 7	\$ 359,501	\$ 1,640	\$ (309,921)	\$ 51,227

Three Months Ended September 30, 2018:

	Common Stock		Additional Paid-In Capital	Accumulated Other Comprehensive Income	Accumulated Deficit	Total
	Shares	Amount				
Balance – June 30, 2018	20,316	\$ 7	\$ 336,874	\$ 1,438	\$ (301,553)	\$ 36,766
Exercise of common stock options	265	—	1,655	—	—	1,655
Exercise of common stock warrants	793	—	—	—	—	—
Stock-based compensation	—	—	5,717	—	—	5,717
Settlement of restricted stock	37	—	—	—	—	—
Vesting of common stock warrants	—	—	15,255	—	—	15,255
Other comprehensive income	—	—	—	202	—	202
Net loss	—	—	—	—	(8,368)	(8,368)
Balance – September 30, 2018	21,411	\$ 7	\$ 359,501	\$ 1,640	\$ (309,921)	\$ 51,227

See notes to the condensed consolidated financial statements

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

Nine Months Ended September 30, 2017:

	Common Stock		Additional Paid-In-Capital	Accumulated Other Comprehensive Income	Accumulated Deficit	Total
	Shares	Amount				
Balance – December 31, 2016	2,590	\$ —	\$ 29,867	\$ 2,102	\$ (248,804)	\$ (216,835)
Exercise of common stock options	156	—	597	—	—	597
Stock-based compensation	—	—	3,707	—	—	3,707
Issuance of common stock warrants	—	—	312	—	—	312
Deemed dividend related to beneficial conversion feature	—	—	(4,488)	—	—	(4,488)
Beneficial conversion feature of Series G stock	—	—	4,488	—	—	4,488
Conversion of convertible notes	801	—	24,392	—	—	24,392
Accretion of redeemable stock	—	—	(895)	—	—	(895)
Other comprehensive loss	—	—	—	(942)	—	(942)
Net loss	—	—	—	—	(15,585)	(15,585)
Balance – September 30, 2017	3,547	\$ —	\$ 57,980	\$ 1,160	\$ (264,389)	\$ (205,249)

Three Months Ended September 30, 2017:

	Common Stock		Additional Paid-In-Capital	Accumulated Other Comprehensive Income	Accumulated Deficit	Total
	Shares	Amount				
Balance – June 30, 2017	3,540	\$ —	\$ 56,815	\$ 1,534	\$ (261,915)	\$ (203,566)
Exercise of common stock options	7	—	33	—	—	33
Stock-based compensation	—	—	1,482	—	—	1,482
Accretion of redeemable stock	—	—	(350)	—	—	(350)
Other comprehensive loss	—	—	—	(374)	—	(374)
Net loss	—	—	—	—	(2,474)	(2,474)
Balance – September 30, 2017	3,547	\$ —	\$ 57,980	\$ 1,160	\$ (264,389)	\$ (205,249)

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,	
	2017	2018
Operating activities		
Net loss	\$ (15,585)	\$ (41,476)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	2,303	2,471
Amortization of financing costs charged to interest expense	421	255
Accretion of debt discount and non-cash interest expense	5,434	2,326
Stock-based compensation	3,707	16,968
Change in the fair value of warrant liabilities, net	412	6,760
Change in the fair value of convertible promissory notes	1,244	—
Change in the fair value of convertible promissory notes - related parties	(6,213)	—
Other non-cash (income) expense, net	(1,069)	4,136
Amortization of deferred FI implementation costs	1,110	1,136
Settlement of paid-in-kind interest	—	(8,353)
Change in operating assets and liabilities:		
Accounts receivable	3,256	10,883
Prepaid expenses and other assets	(1,092)	(1,797)
Deferred FI implementation costs	(6,650)	(5,750)
Recovery of deferred FI implementation costs	3,137	4,036
Accounts payable	(991)	221
Other accrued expenses	(333)	24
FI Share liability	(5,153)	(3,728)
Customer Incentive liability	(509)	(2,412)
Net cash used in operating activities	<u>\$ (16,571)</u>	<u>\$ (14,300)</u>
Investing activities		
Acquisition of property and equipment	\$ (971)	\$ (3,190)
Acquisition of patents	(52)	(14)
Capitalized software development costs	(76)	(981)
Net cash used in investing activities	<u>\$ (1,099)</u>	<u>\$ (4,185)</u>
Financing activities		
Proceeds from issuance of debt	\$ 12,500	\$ 47,435
Principal payments of debt	(74)	(52,475)
Proceeds from issuance of common stock	597	72,179
Proceeds from issuance of Series G preferred stock	11,940	—
Equity issuance costs	(2,190)	(1,949)
Debt issuance costs	(142)	(48)
Net cash from financing activities	<u>\$ 22,631</u>	<u>\$ 65,142</u>
Effect of exchange rates on cash, cash equivalents and restricted cash	257	(107)
Net increase in cash, cash equivalents and restricted cash	5,218	46,550
Cash, cash equivalents, and restricted cash — Beginning of period	22,968	21,262
Cash, cash equivalents, and restricted cash — End of period	<u>\$ 28,186</u>	<u>\$ 67,812</u>
Supplemental schedule of non-cash investing and financing activities:		
Amounts accrued for property and equipment	\$ —	\$ 1,697
Amounts accrued for capitalized software development costs	\$ —	\$ 9

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 make marketing more relevant and measurable through our purchase intelligence platform. Using one of the largest aggregations of purchase data through our partnerships with banks and credit unions, we have a secure view into where and when consumers are spending their money. By applying advanced analytics to this massive aggregation of anonymized 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 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.

Initial Public Offering

On February 13, 2018, we closed our initial public offering (“IPO”), in which we issued and sold 5,400,000 shares of common stock at a public offering price of \$13.00 per share, resulting in gross proceeds of \$70.2 million. On February 14, 2018, pursuant to the underwriters’ partial exercise of their over-allotment option to purchase up to an additional 810,000 shares from us, we issued and sold an additional 421,355 shares of our common stock, resulting in additional gross proceeds to us of \$5.5 million. In total, we issued 5,821,355 shares of common stock and raised \$75.7 million in gross proceeds, or \$66.1 million in net proceeds after deducting underwriting discounts and commissions of \$5.3 million and offering costs of \$4.3 million. Upon the closing of the IPO, all of the outstanding shares of redeemable convertible preferred stock automatically converted into shares of common stock and all warrants to purchase shares of redeemable convertible preferred stock were automatically converted into warrants to purchase shares of common stock. Subsequent to the closing of the IPO, there were no shares of preferred stock or warrants to purchase shares of redeemable convertible preferred stock outstanding. The consolidated financial statements as of December 31, 2017, including share and per share amounts, do not give effect to the IPO or conversion of the redeemable convertible preferred stock, as the IPO and such conversions were completed subsequent to December 31, 2017.

Upon the completion of our IPO, our amended and restated certificate of incorporation authorized us to issue up to 100,000,000 shares of common stock, \$0.0001 par value per share, and 10,000,000 shares of preferred stock, \$0.0001 par value per share, all of which shares of preferred stock are undesignated. Our board of directors may establish the rights and preferences of the preferred stock from time to time.

Reverse Stock Split

On January 26, 2018, our board of directors approved an amended and restated certificate of incorporation to (1) effect a reverse split on outstanding shares of our common stock and redeemable convertible preferred stock on a one-for-four basis (the “Reverse Stock Split”), (2) modify the threshold for automatic conversion of our preferred stock into shares of our common stock in connection with an initial public offering to eliminate the requirement of gross proceeds to the Company of not less than \$70.0 million and (3) authorize us to issue up to 100,000,000 shares of common stock, \$0.0001 par value per share and 25,000,000 shares of redeemable convertible preferred stock, \$0.0001 par value per share (collectively, the “Charter Amendment”). The authorized shares and par values of our common stock and redeemable convertible preferred stock were not adjusted as a result of the Reverse Stock Split. The Charter Amendment was approved by the Company’s stockholders on January 26, 2018 and became effective upon the filing of the Charter Amendment with the State of Delaware on January 26, 2018. All issued and outstanding common stock and preferred stock and related share and per share amounts contained in these financial statements have been retroactively adjusted to reflect the Reverse Stock Split for all periods presented.

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 (“U.S. 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 U.S. 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, 2017.

There have been no material changes to our accounting policies from those disclosed in the audited consolidated financial statements and related notes thereto included in our Annual Report for year ended December 31, 2017.

Use of Estimates

The preparation of financial statements in conformity with U.S. 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, derivative instruments, income tax valuation allowance, contingencies and changes in fair value of our convertible promissory notes. We base our estimates on historical experience and also 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.

2. SIGNIFICANT ACCOUNTING POLICIES AND RECENT ACCOUNTING STANDARDS

Consumer Incentives

Our Cardlytics Direct solution is our proprietary native bank advertising channel that enables marketers to reach consumers via their trusted and frequently visited online and mobile banking channels as well as email. 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, which we refer to as Consumer Incentives.

We report our revenue on our condensed consolidated statements of operations net of Consumer Incentives. We generally pay Consumer Incentives only with respect to our Cardlytics Direct service. We do not provide the goods or services that are purchased by our FIs’ customers from the marketers to which the Consumer Incentives relate. Accordingly, the marketer is deemed to be the principal in the relationship with the customer and, therefore, the Consumer Incentive is deemed to be a reduction in the purchase price paid by the customer for the marketer’s goods or services. While we are responsible for remitting Consumer Incentives to our FI partners for further payment to their customers, we function solely as an agent of marketers in these arrangements.

Accounts receivable is recorded at the amount of gross billings to marketers, net of allowances, for the fees and Consumer Incentives that we are responsible to collect. Our accrued liabilities also include the amount of Consumer Incentives due to FI partners. As a result, accounts receivable and accrued liabilities may appear large in relation to revenue, which is reported on a net basis. Consumer Incentives totaled \$14.1 million and \$14.0 million during the three months ended September 30, 2017 and 2018 and totaled \$42.1 million and \$45.9 million during the nine months ended September 30, 2017 and 2018, respectively.

Concentrations of Risk

Financial instruments that potentially subject us to concentrations of credit risk consist primarily of cash and cash equivalents and accounts receivable. Our cash and cash equivalents are held with three financial institutions, which we believe are of high credit quality. We believe that our accounts receivable credit risk exposure is limited as a result of being diversified among a large number of marketers segregated by both geography and industry. Historically, we have not experienced significant write-downs of our accounts receivable. No marketer represented a significant concentration of our accounts receivable as of December 31, 2017 or September 30, 2018. During the nine months ended September 30, 2017 and 2018, a marketer in the U.S. accounted for 7% and 10% of our revenue, respectively. No other marketer accounted for over 10% of revenue during the nine months ended September 30, 2017 and 2018.

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 five 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 the nine months ended September 30, 2017 and 2018, our largest FI partner in the U.S. accounted for approximately 63% and 68% of FI Share, respectively. During the nine months ended September 30, 2017 and 2018, an FI partner in the U.K. accounted for 11% and 9% of FI Share, respectively. No other FI partners accounted for over 10% of FI Share during the nine months ended September 30, 2017 and 2018.

Cash, Cash Equivalents and Restricted Cash

Cash and cash equivalents consist of cash held in checking accounts, upon which we earn up to a 1.0% annual rate of interest as of September 30, 2018. Restricted cash represents deposits held in a blocked account in favor of the lender as additional security for our payment obligations under our 2018 Term Loan, upon which we earn a 0.9% annual rate of interest as of September 30, 2018. See Note 3—Debt, for additional information regarding our 2018 Term Loan.

Cash, cash equivalents and restricted cash as presented on our condensed consolidated statements of cash flows consists of the following (in thousands):

	December 31,		September 30,	
	2016	2017	2017	2018
Cash and cash equivalents	\$ 22,838	\$ 21,262	\$ 28,186	\$ 47,812
Restricted cash	130	—	—	20,000
Cash, cash equivalents and restricted cash	\$ 22,968	\$ 21,262	\$ 28,186	\$ 67,812

Deferred Offering Costs

Deferred offering costs consist of incremental costs directly attributable to equity offerings. Deferred offering costs are included in other long-term assets on our condensed consolidated balance sheets. Upon completion of an offering, these amounts are offset against the proceeds of the offering.

	Nine Months Ended September 30,	
	2017	2018
Beginning balance	\$ —	\$ 3,144
Deferred costs	\$ 2,449	\$ 1,135
Recognized against offering proceeds	—	(4,279)
Ending balance	\$ 2,449	\$ —

Fair Value of Financial Instruments

When required by U.S. GAAP, assets and liabilities are reported at fair value on our condensed consolidated financial statements. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Valuation techniques used to measure fair value must maximize the use of observable inputs and minimize the use of unobservable inputs. Valuation inputs are arranged in a hierarchy that consists of the following levels:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.
- Level 2 inputs are inputs other than Level 1 inputs such as quoted prices for similar assets or liabilities; quoted prices in markets with insufficient volume or infrequent transactions (less active markets); or model-derived valuations in which all significant inputs are observable or can be derived principally from or corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3 inputs are unobservable inputs for the asset or liability.

Our nonfinancial assets that we recognize or disclose at fair value on our condensed consolidated financial statements on a nonrecurring basis include property and equipment, intangible assets, capitalized software development costs and deferred FI implementation costs. The fair values for these assets are evaluated when events or changes in circumstances indicate the carrying value may not be recoverable.

Preferred Stock Warrants

Outstanding warrants to purchase shares of our redeemable convertible preferred stock are accounted for as derivative liabilities in accordance with ASC Topic 815, *Derivatives and Hedging* (“ASC 815”) due to the terms of the warrants and related agreements. We have determined that these warrants do not meet the scope exception of a contract indexed to our stock because of fair value protections contained in agreements governing our redeemable convertible preferred stock. We record preferred stock warrant liabilities on our condensed consolidated balance sheets at their fair value. We record the changes in fair value of such instruments as non-cash gains or losses on our condensed consolidated statements of operations. Upon our IPO, all warrants to purchase shares of our redeemable convertible preferred stock were converted to warrants to purchase shares of our common stock. See Note 6—Fair Value Measurements, for additional information regarding the valuation of warrants to purchase shares of our redeemable convertible preferred stock.

Common Stock Warrants Issued in Connection with the Series G Stock Financing

In connection with the Series G Stock financing, we issued warrants to purchase shares of our common stock that are accounted for as liabilities in accordance with ASC Topic 480, *Distinguishing Liabilities From Equity* due to the terms of the warrants and related agreements. We record these common stock warrant liabilities in our consolidated balance sheets at their fair value. We record the changes in fair value of such instruments as non-cash gains or losses in our statements of operations. In August 2018 we issued warrants to purchase 792,434 shares of common stock at an exercise price of \$0.0004 per share to the cash investors of our Series G financing, pursuant to our Series G stock purchase agreement. The warrants had a valuation of \$15.3 million upon issuance and were subsequently exercised, resulting in the issuance of 792,434 shares of our common stock. See Note 6—Fair Value Measurements, for additional information regarding the valuation of the warrants issued in connection with the Series G Stock financing.

Convertible Promissory Notes

The redemption features included in the terms of the convertible promissory notes were determined to be derivative liabilities as a result of a significant discount within the redemption features for the note holders. Embedded derivatives that are not clearly and closely related to the host contract are required to be bifurcated and recorded at fair value unless the fair value option is elected on the host contract. Under the fair value option, bifurcation of the embedded derivative is not necessary as all related gains (losses) on the host contract and derivative will be reflected in the consolidated statements of operations. We elected the fair value option for the convertible promissory notes upon their issuance. The convertible promissory notes are measured using unobservable inputs that required a high level of judgment to determine fair value, and are therefore classified as Level 3. See Note 6—Fair Value Measurements for additional information regarding the valuation of the convertible promissory notes.

Income Taxes

On December 22, 2017, the Tax Cuts and Jobs Act of 2017 (“Tax Act”) was signed into law making significant changes to the Internal Revenue Code. Changes include, but are not limited to, a corporate tax rate decrease to 21% effective for tax years beginning after December 31, 2017. This change in tax rate resulted in a reduction in our net U.S. deferred tax assets, which was fully offset by a reduction in our valuation allowance. The other provisions of the Tax Act, including the one-time transition tax on the mandatory deemed repatriation of cumulative foreign earnings, did not have a material impact on our financial statements as of December 31, 2017.

As of December 31, 2017, pursuant to guidance provided in Staff Account Bulletin No. 118, we had not completed our accounting for the effects of the Tax Act; however, we made a reasonable estimate of the effects on our existing deferred tax balances and the one-time transition tax, including a provisional reduction in U.S. deferred tax assets, which was fully offset by a reduction in our valuation allowance. We have completed our accounting for the Tax Act and no changes were made to the provisional adjustments recorded as of December 31, 2017.

Recently Adopted Accounting Pronouncements

In May 2017, the FASB issued ASU 2017-09, *Scope of Modification Accounting*, which amends the scope of modification accounting for share-based payment arrangements, provides guidance on the types of changes to the terms or conditions of share-based payment awards to which an entity would be required to apply modification accounting under ASC Topic 718, *Compensation—Stock Compensation*. For all entities, the ASU is effective prospectively for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. We adopted this ASU on January 1, 2018 and it did not have an impact on our condensed consolidated financial statements.

Recently Issued Accounting Pronouncements

In May 2014, the FASB issued Accounting Standards Update (“ASU”) 2014-09, *Revenue from Contracts with Customers (Topic 606)*. ASU 2014-09 supersedes the recognition guidance in ASC Topic 605 and most industry specific revenue guidance and requires an entity to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which it expects to be entitled in exchange for those goods or services. In addition, this ASU requires disclosures of the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. This ASU supersedes most existing GAAP revenue recognition principles, and it permits the use of either the retrospective or modified retrospective transition method. For public entities, this ASU is effective for fiscal years beginning after December 15, 2017, including interim periods within those annual periods. For non-public entities, this ASU is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. We have made the election to use the extended transition period for complying with new or revised accounting standards under Section 102(b)(1) of the Jumpstart Our Business Startups Act of 2012 (“JOBS Act”), therefore we will be required to apply this ASU for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Retrospective application will be required for each period presented through either the recasting of the prior periods for the effects of the adoption of this ASU or retrospectively through a cumulative catch up recognized at the date of adoption. During the first quarter of 2018, we began assessing the impacts, if any, that this ASU may have on our results of operations, current accounting policies, processes, controls, systems and financial statement disclosures. Based on our initial assessment, we expect to adopt this new standard using the modified retrospective transition method, which would result in a cumulative adjustment as of the date of the adoption. We also expect to continue to report our revenue on our condensed consolidated statements of operations net of Consumer Incentives and gross of FI Share. We are continuing to assess the impact of this standard on our financial position, results of operations and related disclosures and have not yet determined whether the effect will be material.

In January 2016, the FASB issued ASU 2016-01, *Financial Instruments-Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*, which is intended to enhance the reporting model for financial instruments to provide users of financial statements with more decision-useful information. This ASU requires equity investments to be measured at fair value with changes in fair values recognized in net earnings, (public entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes), simplifies the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment and eliminates the requirement to disclose fair values, the methods and significant assumptions used to estimate the fair value of financial instruments measured at amortized cost. This ASU also clarifies that management should evaluate the need for a valuation allowance on a deferred tax asset related to available-for-sale debt securities in combination with other deferred tax assets. For public business entities, this ASU is effective for fiscal years beginning after December 15, 2017, including interim periods within those annual periods. For non-public business entities, this ASU is effective for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. Early adoption is permitted. We have made the election to use the extended transition period for complying with new or revised accounting standards under Section 102(b)(1) of the JOBS Act, therefore we will be required to apply this ASU for annual reporting periods beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. We are currently evaluating the potential impact of this recently issued guidance on our condensed consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*, which supersedes ASC Topic 840, *Leases*. The ASU does not significantly change the lessees' recognition, measurement and presentation of expenses and cash flows from the previous accounting standard. The ASU's primary change is the requirement for lessee entities to recognize a lease liability for payments and a right of use asset representing the right to use the leased asset during the term on operating lease arrangements. Lessees are permitted to make an accounting policy election to not recognize the asset and liability for leases with a term of twelve months or less. Lessors' accounting under the ASU is largely unchanged from the previous accounting standard. In addition, the ASU expands the disclosure requirements of lease arrangements. In July 2018, the FASB issued ASU 2018-11, *Leases (Topic 842) - Targeted Improvements*, which provides the option of applying the requirements of the new lease standard in the period of adoption with no restatement to comparative periods. For public entities, this ASU is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. For non-public entities, this ASU is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. We have made the election to use the extended transition period for complying with new or revised accounting standards under Section 102(b)(1) of the JOBS Act, therefore we will be required to adopt this ASU for annual reporting periods beginning after December 15, 2019, including interim periods within those fiscal years. Early adoption is permitted. Although we are currently evaluating the impact of this guidance on our condensed consolidated financial statements, we expect that most of our operating lease commitments will be recognized as operating lease liabilities and right-of-use assets upon adoption of the new guidance.

In August 2018, the SEC issued Release No. 33-10532, *Disclosure Update and Simplification*, that extends to interim periods the annual disclosure requirement in SEC Regulation S-X, Rule 3-04 of presenting changes in stockholders' equity. An analysis of changes in stockholders' equity (deficit) will now be required for the current and comparative quarter-to-date and year-to-date interim periods. In response to this ruling, we have presented consolidated statements of stockholders' equity (deficit) for the three and nine months ended September 30, 2017 and 2018.

3. DEBT

Our debt consists of the following (in thousands):

	December 31, 2017	September 30, 2018
Lines of credit	\$ 25,081	\$ 26,777
Term loans, net of unamortized discount and debt issuance costs of \$1,058 and \$25 at December 31, 2017 and September 30, 2018, respectively	31,830	19,975
Capital leases	101	63
Convertible promissory notes (converted into Series G' Stock in May 2017)	—	—
Total debt	\$ 57,012	\$ 46,815
Less current portion of long-term debt	(44)	(21)
Long-term debt, net of current portion	\$ 56,968	\$ 46,794

Accrued interest included in debt totaled \$6.2 million and zero as of December 31, 2017 and September 30, 2018, respectively. Interest payments during the during the nine months ended September 30, 2017 and 2018 totaled \$0.6 million and \$9.2 million, respectively.

New Loan Facility

On May 21, 2018, we entered into a New Loan Facility consisting of a \$30.0 million asset-based revolving line of credit ("2018 Line of Credit") and a \$20.0 million term loan ("2018 Term Loan") maturing on May 21, 2020. We used the entire \$20.0 million in proceeds from the 2018 Term Loan and an advance of \$27.4 million under the 2018 Line of Credit to repay all outstanding obligations under our 2016 Line of Credit and 2016 Term Loan. Upon repayment, both the 2016 Line of Credit and the 2016 Term Loan were terminated. We deferred \$0.1 million of debt issuance costs associated with obtaining the New Loan Facility and deferred \$0.1 million of unamortized debt issuance costs attributed to our 2016 Line of Credit and 2016 Term Loan.

Under the terms of the New Loan Facility relating to the 2018 Line of Credit, we are able to borrow up to the lesser of \$30.0 million or 85% of the amount of our eligible accounts receivable. Interest on advances under the 2018 Line of Credit varies depending on the amount of unrestricted cash deposits we maintain with the lender on the last day of the month. The interest rate is equal to the prime rate minus 0.75% if our unrestricted deposits exceed \$40.0 million, the prime rate minus 0.50% if our unrestricted deposits are between \$40.0 million and \$20.0 million, and the prime rate if our unrestricted deposits are below \$20.0 million. As of September 30, 2018, the indicative rate for advances on the 2018 Line of Credit was the prime rate minus 0.75%, or 4.50%. In addition, we are required to pay an unused line fee of 0.15% per annum on the average daily unused amount of the \$30.0 million revolving commitment. We are also required to pay the lender a one-time success fee of \$75,000 in the event that we achieve trailing twelve month revenue of \$200.0 million or more at the end of any month after the closing date of the New Loan Facility. Interest accrues on the 2018 Term Loan at an annual rate of interest equal to the prime rate minus 2.75%, or 2.50% as of September 30, 2018.

All of our obligations under the New Loan Facility are also secured by a first priority lien on substantially all of our assets. Under the terms of the New Loan Facility, we are required to maintain a deposit of \$20.0 million in a blocked account in favor of the lender as additional security for our payment obligations. The New Loan Facility contains a moving minimum trailing twelve month revenue covenant, which was \$130.8 million for the period ended September 30, 2018. The New Loan Facility also requires us to maintain a total cash balance plus liquidity under the 2018 Line of Credit of not less than \$5.0 million.

The New Loan Facility includes customary representations, warranties and covenants (affirmative and negative), including restrictive covenants that include restrictions on mergers, acquisitions and dispositions of assets, incurrence of indebtedness and encumbrances on our assets and a prohibition from the payment or declaration of dividends; in each case subject to specified exceptions.

The New Loan Facility also includes standard events of default, including in the event of a material adverse change. Upon the occurrence of an event of default, the lender may declare all outstanding obligations immediately due and payable and take such other actions as are set forth in the New Loan Facility and increase the interest rate otherwise applicable to the 2018 Term Loan or advances under the 2018 Line of Credit by an additional 3.00%.

In August 2018, we repaid \$0.7 million of the outstanding balance under our 2018 Line of Credit. As of September 30, 2018, we had \$3.1 million of unused available borrowings under our 2018 Line of Credit. We were in compliance with all financial covenants as of September 30, 2018.

2016 Line of Credit

In September 2016, we entered into a \$50.0 million loan and security agreement ("2016 Line of Credit") maturing on March 14, 2019. The 2016 Line of Credit facility was repaid and terminated in May 2018 in connection with obtaining our New Loan Facility. We recognized a \$0.1 million loss on extinguishment of debt related to the unamortized debt issuance costs. This expense is included within other income, net in our condensed consolidated statements of operations and is presented in other non-cash expenses on our condensed consolidated statement of statement of cash flows.

2016 Term Loan

In July 2016, we entered into a \$24.0 million credit agreement ("2016 Term Loan") maturing on July 21, 2019. The 2016 Term Loan was repaid and terminated in May 2018 in connection with obtaining our New Loan Facility. We recognized a \$0.8 million loss on extinguishment of debt related to the unamortized discount and unamortized debt issuance costs. This expense is included within other income, net in our condensed consolidated statements of operations and is presented in other non-cash expenses on our condensed consolidated statement of statement of cash flows.

Convertible Promissory Notes

During 2016, we issued unsecured convertible promissory notes with an aggregate principal amount of \$50.7 million. In May 2017, we issued and sold shares of Series G redeemable convertible preferred stock, which resulted in the conversion of the convertible promissory notes into either shares of our common stock or shares of our Series G' Stock. See Note 5—Redeemable Convertible Preferred Stock for a description of the Series G Stock financing that resulted in the conversion of the convertible promissory notes.

The redemption features included in the terms of the convertible promissory notes were determined to be derivative liabilities as a result of a significant discount within the redemption features for the note holders. Embedded derivatives that are not clearly and closely related to the host contract are required to be bifurcated and recorded at fair value unless the fair value option is elected on the host contract. Under the fair value option, bifurcation of the embedded derivative is not necessary as all related gains (losses) on the host contract and derivative will be reflected in the consolidated statements of operations. We elected the fair value option for the convertible promissory notes and recognized losses from their initial measurement during the second and third quarters of 2016. Subsequent changes in fair value of the convertible promissory notes are included in change in fair value of convertible promissory notes on our condensed consolidated statements of operations. See Note 6—Fair Value Measurements for additional information regarding the valuation of the convertible promissory notes.

Paid-in-kind interest related to the convertible promissory notes is recognized in interest expense, net on our condensed consolidated statements of operations and totaled \$1.7 million during the nine months ended September 30, 2017.

Future Payments

Aggregate future payments of principal and interest due upon maturity are as follows (in thousands):

Years Ending December 31,	Debt	Capital leases	Total debt
2018 (remainder of year)	\$ —	\$ 6	\$ 6
2019	—	20	20
2020	46,777	24	46,801
2021	—	13	13
Total principal payments	\$ 46,777	\$ 63	\$ 46,840
Less unamortized debt issuance costs	(25)	—	(25)
Less unamortized debt discount	—	—	—
Total debt	<u>\$ 46,752</u>	<u>\$ 63</u>	<u>\$ 46,815</u>

4. STOCK-BASED COMPENSATION

In May 2017, our board of directors and stockholders approved an increase in the total number of shares of common stock issuable under our 2008 Stock Plan ("2008 Plan") from 3,120,000 to 3,495,000 shares. In January 2018, our board of directors and stockholders approved an increase in the total number of shares of common stock issuable under our 2008 Plan to 4,020,000 shares.

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 IPO was declared effective. We do not expect to grant any additional awards under the 2008 Stock 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). 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.

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The 2018 Plan provides for the grant of stock options, stock appreciation rights, restricted stock awards, restricted stock unit awards, performance-based stock awards and other forms of equity compensation, which are collectively referred to as stock awards. Additionally, the 2018 Plan provides for the grant of performance cash awards.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2018	2017	2018
Delivery costs	\$ 62	\$ 203	\$ 146	\$ 471
Sales and marketing expense	524	1,939	1,390	5,550
Research and development expense	281	915	691	3,141
General and administration expense	615	2,666	1,480	7,806
Total stock-based compensation expense	\$ 1,482	\$ 5,723	\$ 3,707	\$ 16,968

Common Stock Options

Options to purchase shares of common stock generally vest over four years and expire 10 years following the date of grant. A summary of common stock option activity is as follows (in thousands, except per share amounts):

	Shares	Weighted- Average Exercise Price
Options outstanding — December 31, 2016	2,137	\$ 15.00
Granted	799	23.80
Exercised	(154)	3.84
Forfeited	(145)	17.68
Cancelled	(104)	11.29
Options outstanding — September 30, 2017	2,533	\$ 18.44
	Shares	Weighted- Average Exercise Price
Options outstanding — December 31, 2017	2,514	\$ 18.42
Granted	29	24.24
Exercised	(329)	6.27
Forfeited	(154)	24.99
Canceled	(198)	15.87
Options outstanding — September 30, 2018	1,862	\$ 20.38

The weighted-average grant-date fair value of options granted during the nine months ended September 30, 2017 and 2018 was \$12.11 and \$10.00, respectively. The total fair value of options vested during the nine months ended September 30, 2017 and 2018 was approximately \$3.2 million and \$5.0 million, respectively. As of September 30, 2018, \$7.6 million of unrecognized compensation expense related to unvested options will be recognized over a weighted-average period of 2.2 years.

Restricted Stock Units

A summary of restricted stock unit activity is as follows (in thousands, except per share amounts):

	Shares	Weighted-Average Grant Date Fair Value
Unvested — December 31, 2017	—	\$ —
Granted	1,269	20.61
Vested	—	—
Forfeited	(69)	18.07
Canceled	—	—
Unvested — September 30, 2018	<u>1,200</u>	<u>\$ 20.75</u>

During the first quarter of 2018, we granted two separate tranches of performance-based restricted stock units ("PSUs"), each to receive 437,500 shares of common stock, to employees. The vesting of the 875,000 PSUs was contingent upon the completion of our IPO and includes other performance-based conditions. The performance condition in the first tranche will be satisfied if we attain 70.0 million of FI monthly active users ("FI MAUs") within three years of the grant date. The performance condition in the second tranche will be satisfied if we attain 85.0 million of FI MAUs within five years of the grant date. FI MAUs is a performance metric defined within "Management's Discussion and Analysis of Financial Condition and Results of Operations." We recognize stock compensation for these PSUs based upon the expected timing of the achievement of these FI MAU targets. During the nine months ended September 30, 2018, we recognized \$10.7 million in stock-based compensation expense related to these PSUs.

During the first quarter of 2018, we granted 335,562 restricted stock units ("RSUs") to employees and our non-employee directors, which have annual vesting periods ranging from one to four years. During the second quarter of 2018, we granted 32,070 RSUs to employees, which have annual vesting periods of four years. During the third quarter of 2018, we granted 26,590 RSUs to employees, which have annual vesting periods of four years.

As of September 30, 2018, there was approximately \$12.6 million of unrecognized compensation expense related to RSUs and PSUs, which is expected to be recognized over a weighted-average period of 1.15 years.

Subsequent to September 30, 2018, we granted 40,155 RSUs to employees, which have annual vesting periods of four years. The unamortized stock-based compensation expense related to these RSUs is \$0.8 million.

Restricted Securities Units

During 2016, we granted \$1.0 million of restricted securities units to certain executives in lieu of cash bonuses. Upon issuance, the restricted securities units were indexed to the convertible promissory notes. As a result of the Series G Stock financing, the restricted securities units became indexed to our Series G' Stock upon conversion of the convertible promissory notes. Upon the completion of our IPO in February 2018, the restricted securities units became indexed to our common stock.

Vesting requirements include both a service-based condition and a performance-based condition. The service-based condition requires each recipient to remain employed until the earlier of i) the date 6 months from the restricted securities unit grant date, ii) the date of a qualified liquidity event, or iii) date of termination without cause. The performance-based condition requires a sale of the Company or IPO event within a fixed period of time not more than 5 years from the restricted securities units grant date. The restricted securities units are considered liability classified awards, but due to the performance condition relating to sale of the Company or IPO, no compensation cost was recognized until one of these events occurred. These units vested upon the completion of our IPO in February 2018 resulting in a non-cash expense of \$0.5 million and were settled upon the delivery of 37,406 shares of our common stock in August 2018.

Employee Stock Purchase Plan

Our board of directors has adopted and our stockholders have approved our 2018 Employee Stock Purchase Plan ("2018 ESPP"). Our 2018 ESPP became effective on February 8, 2018, the date our registration statement in connection with our IPO was declared effective and enables eligible employees to purchase shares of our common stock at a discount. Purchases will be accomplished through participation in discrete offering periods. On each purchase date, eligible employees will 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. No shares of common stock have been purchased under the 2018 ESPP as the initial offering period has not yet ended.

The maximum number of shares of our common stock that may be issued under our 2018 ESPP is 375,000 shares. 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, beginning on January 1, 2019 and continuing 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. Shares subject to purchase rights granted under our 2018 ESPP that terminate without having been exercised in full will not reduce the number of shares available for issuance under our 2018 ESPP.

5. REDEEMABLE CONVERTIBLE PREFERRED STOCK

Upon the consummation of our IPO, all of the outstanding shares of redeemable convertible preferred stock were automatically converted into shares of common stock. See Note 1—Overview of Business and Basis of Presentation for additional information regarding our IPO.

A summary of the change in carrying amount of the outstanding redeemable convertible preferred stock is as follows (in thousands):

	Series G' Stock		Series G Stock	
	Shares	Amount	Shares	Amount
Balance — December 31, 2017	1,296	\$ 44,672	346	\$ 5,110
Accretion of redeemable convertible preferred stock	—	—	—	108
Conversion of preferred stock to common stock	(1,296)	(44,672)	(346)	(5,218)
Balance — September 30, 2018	—	\$ —	—	\$ —

	Series F-R Stock		Series E-R Stock		Series D-R Stock	
	Shares	Amount	Shares	Amount	Shares	Amount
Balance — December 31, 2017	1,199	\$ 58,449	795	\$ 29,972	1,396	\$ 32,728
Accretion of redeemable convertible preferred stock	—	38	—	1	—	7
Conversion of preferred stock to common stock	(1,199)	(58,487)	(795)	(29,973)	(1,396)	(32,735)
Balance — September 30, 2018	—	\$ —	—	\$ —	—	\$ —

	Series C-R Stock		Series B-R Stock		Series A-R Stock	
	Shares	Amount	Shares	Amount	Shares	Amount
Balance — December 31, 2017	1,508	\$ 18,366	2,247	\$ 5,288	1,857	\$ 1,852
Accretion of redeemable convertible preferred stock	—	3	—	—	—	—
Conversion of preferred stock to common stock	(1,508)	(18,369)	(2,247)	(5,288)	(1,857)	(1,852)
Balance — September 30, 2018	—	\$ —	—	\$ —	—	\$ —

During the second quarter of 2016, we issued convertible promissory notes to our founders and the existing holders of our redeemable convertible preferred stock. Shares of redeemable convertible preferred stock held by investors that participated in the financing were exchanged for shares of replacement preferred stock. These replacement shares have rights and preferences equal to their corresponding original series and are designated as Series A-R Stock, Series B-R Stock, Series C-R Stock, Series D-R Stock, Series E-R Stock and Series F-R Stock. Shares of redeemable convertible preferred stock held by investors that did not participate in the financing were converted to common stock.

In February 2017, we amended and restated our certificate of incorporation reducing the authorized number of shares of our redeemable convertible preferred stock to 82,683,212 and canceled Series A Stock, Series B Stock, Series C Stock, Series D Stock, Series E Stock and Series F Stock. Pursuant to our convertible promissory note financing, these series of preferred stock were either exchanged for shares of replacement preferred stock with rights and preferences equal to their corresponding original series or converted to common stock.

Series G Stock Financing

In May 2017, we amended and restated our certificate of incorporation and increased the authorized number of shares of our common stock to 83,000,000 and increased the authorized number of shares of our redeemable convertible preferred stock to 96,131,002. In May 2017, we issued and sold, for aggregate consideration of \$11.9 million, an aggregate of 346,334 shares of Series G redeemable convertible preferred stock, par value \$0.0001 per share with a stated price of \$34.4758 per share (“Series G Stock”), and warrants to purchase shares of our common stock. Issuance costs incurred in connection with the sale of Series G Stock totaled \$0.1 million.

Conversion of Convertible Promissory Notes into Series G’ Stock

In connection with the Series G Stock financing in May 2017, certain convertible promissory notes converted into 1,295,746 shares of Series G’ redeemable convertible preferred stock, par value \$0.0001 per share (“Series G’ Stock”), at a price per share of \$27.58.

Common Stock Warrants Issued in Connection with the Series G Stock Financing

In connection with the Series G Stock financing, we issued warrants to purchase an aggregate of number of shares of common stock equal to the product obtained by multiplying 346,334 by a fraction, the numerator of which is the difference between \$68.9516 and the volume weighted average closing price of our common stock over the 30 trading days (or such lesser number of days as our common stock has been traded on the Nasdaq Global Market) prior to the date on which such warrants vest and become exercisable and the denominator of which is such volume weighted average closing price, which warrants will become vested and exercisable upon the earlier to occur of the date (i) August 8, 2018, which is 180 days following the date of our IPO and (ii) 10 days prior to a sale of our company, at an exercise price of \$0.0004 per share. In August 2018 we issued warrants to purchase 792,434 shares of common stock at an exercise price of \$0.0004 per share to the cash investors of our Series G financing, pursuant to our Series G stock purchase agreement. The warrants had a valuation of \$15.3 million upon issuance and were immediately exercised. See Note 6—Fair Value Measurements, for additional information regarding the valuation of the warrants issued in connection with the Series G Stock financing.

Beneficial conversion feature

The aggregate proceeds of \$11.9 million from the Series G Stock financing were first allocated to the warrants to purchase shares of our common stock, which qualify as liabilities under ASC 480 and are recorded at fair value, with the residual value of \$4.5 million allocated to our Series G Stock. As a result of this allocation, Series G Stock was determined to contain a beneficial conversion feature with an intrinsic value of \$6.1 million. The amount assigned to the beneficial conversion feature was limited to the \$4.5 million residual value allocated to Series G Stock and is classified as a component of additional paid-in capital. During the second quarter of 2017, we recorded a deemed dividend of \$4.5 million related to the beneficial conversion feature, which is reflected below net loss to arrive at net loss available to common stockholders.

6. FAIR VALUE MEASUREMENTS

Financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The following table summarizes our liabilities measured at fair value on a recurring basis by level within the fair value hierarchy (in thousands):

	December 31, 2017			
	Level 1	Level 2	Level 3	Total
Liabilities:				
Preferred stock warrants	\$ —	\$ —	\$ 2,285	\$ 2,285
Common stock warrants	—	—	7,945	7,945
Convertible promissory notes	—	—	—	—
Total liabilities	\$ —	\$ —	\$ 10,230	\$ 10,230

	September 30, 2018			
	Level 1	Level 2	Level 3	Total
Liabilities:				
Preferred stock warrants	\$ —	\$ —	\$ —	\$ —
Common stock warrants	—	—	—	—
Convertible promissory notes	—	—	—	—
Total liabilities	\$ —	\$ —	\$ —	\$ —

Instruments Recorded at Fair Value Using Level 3 Inputs

Our redeemable convertible preferred stock warrants, common stock warrants issued in connection with the Series G Stock financing and our convertible promissory notes are measured and recorded at fair value on a recurring basis using Level 3 inputs. The table below provides a roll forward of the changes in fair value of Level 3 financial instruments (in thousands):

	Preferred Stock Warrants	Common Stock Warrants	Convertible Promissory Notes
Balance at December 31, 2016	\$ 2,197	\$ —	\$ 72,332
Conversion of convertible promissory notes to Series G ⁷ preferred stock	—	—	(44,672)
Conversion of convertible promissory notes to common stock	—	—	(24,392)
Accrued interest on convertible promissory notes	—	—	1,701
Issuance of common stock warrants	—	7,452	—
Changes in fair value	(119)	531	(4,969)
Balance at September 30, 2017	\$ 2,078	\$ 7,983	\$ —

	Preferred Stock Warrants	Common Stock Warrants	Convertible Promissory Notes
Balance at December 31, 2017	\$ 2,285	\$ 7,945	\$ —
Changes in fair value	(549)	7,309	—
Conversion of preferred stock warrants to common stock warrants	(1,736)	—	—
Exercise of common stock warrants	—	(15,254)	—
Balance at September 30, 2018	\$ —	\$ —	\$ —

In valuing our instruments recorded at fair value using Level 3 inputs, our board of directors determined the equity value of our business generally using a combination of the income approach and the market approach valuation methods.

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The income approach estimates value based on the expectation of future cash flows that a company will generate, such as cash earnings, cost savings, tax deductions and the proceeds from disposition. These future cash flows are discounted to their present values using a discount rate derived based on an analysis of the cost of capital of comparable publicly traded companies in similar lines of business, as of each valuation date, and is adjusted to reflect the risks inherent in our cash flows.

The market approach estimates the fair value of a company by applying market multiples of comparable publicly traded companies in a similar line of business. The market multiples are based on relevant metrics implied by the price that investors have paid for the equity of publicly traded companies. Given our significant focus on investing in and growing our business, we primarily utilized the forward-looking revenue multiple when performing valuation assessments under the market approach and considered both trading and transaction multiples. When considering which companies to include as our comparable industry peer companies, we focused on U.S.-based publicly traded companies that were broadly comparable to us based on consideration of industry, market and line of business. From the comparable companies, a representative market value multiple was determined and applied to our operating results to estimate the value of our company. The market value multiple was determined based on consideration of multiples of revenue to each of the comparable companies' historical and forecasted revenue. In addition, the market approach considers IPO and merger and acquisition transactions involving companies similar to the company's business being valued. Multiples of revenue are calculated for these transactions and then applied to the business being valued, after reduction by an appropriate discount.

Once an equity value was determined, we utilized the option pricing method ("OPM"), or probability-weighted expected return method ("PWERM") to allocate the overall value of equity to the various share classes. The OPM was used in valuations as of and for dates prior to December 31, 2016 and the PWERM was used in all subsequent valuations. The OPM treats common stock and convertible preferred stock as call options on a company's enterprise value with exercise prices based on the liquidation preferences of the convertible preferred stock. Under this method, the common stock only has value if the funds available for distribution to stockholders exceed the value of the liquidation preference at the time of an assumed liquidity event. The value assigned to the common stock is the remaining value after the convertible preferred stock is liquidated. The OPM prices the call option using the Black-Scholes model. The PWERM relies on a forward-looking analysis to predict the possible future value of a company. Under this method, discrete future outcomes, including an IPO and non-IPO scenarios, are weighted based on the estimated probability of each scenario. The PWERM is used when discrete future outcomes can be predicted with reasonable certainty based on a probability distribution. We relied on the PWERM to allocate the value of equity under a liquidity scenario. The projected equity value relied upon in the PWERM scenario was based on (i) guideline IPO transactions involving companies that were considered broadly comparable to us and (ii) our expectation of the pre-money valuation that we needed to achieve to consider an IPO as a viable exit strategy.

The following table summarizes key assumptions used in the PWERM for estimating the fair value of our redeemable convertible preferred stock warrant liability:

	September 30, 2017
Weighted-average cost of capital applicable to preferred stock warrants	21%
Discount for lack of marketability	7% to 13%
Volatility	55%
Risk-free interest rate	1.2% to 1.4%

Preferred Stock Warrants

A summary of our preferred stock warrants is as follows (in thousands, except per share amounts):

Preferred Series	Grant date	Expiration date	Exercise price	Warrants outstanding	
				December 31, 2017	September 30, 2018
Series B-R	2/26/2010	2/25/2020	\$ 2.36	59	—
Series D-R	9/21/2012	9/20/2022	\$ 23.64	38	—
Series D-R	9/21/2012	9/20/2022	\$ 23.64	13	—
Total				110	—

The fair value of the warrants to purchase Series B-R Stock and Series D-R Stock decreased from \$26.80 per share and \$13.63 per share on December 31, 2017 to \$20.18 per share and \$10.57 per share on February 8, 2018, respectively, the date at which they converted to warrants to purchase shares of our common stock and were reclassified to additional paid-in capital on our condensed consolidated balance sheet. The decrease in the fair value of the warrants to purchase Series B-R Stock and Series D-R Stock primarily resulted from the timing of future potential liquidity events, changes to our forecasted financial results and changes in the valuation of comparable companies.

Common Stock Warrants Issued in Connection with the Series G Stock Financing

In connection with the Series G Stock financing, we issued warrants to purchase an aggregate number of shares of common stock equal to the product obtained by multiplying 346,334 by a fraction, the numerator of which is the difference between \$68.9516 and the volume weighted average closing price of our common stock over the 30 trading days (or such lesser number of days as our common stock has been traded on the Nasdaq Global Market) prior to the date on which such warrants vest and become exercisable and the denominator of which is such volume weighted average closing price, which warrants will become vested and exercisable upon the earlier to occur of the date (i) August, 8, 2018, which is 180 days following the date of our IPO and (ii) 10 days prior to a sale of our company, at an exercise price of \$0.0004 per share.

To determine the fair value of our common stock warrant liability issued in connection with our Series G Stock financing, we utilized a Monte Carlo simulation, which allows for the modeling of complex securities and evaluates many possible outcomes to forecast the stock price of the company post-IPO. As part of the valuation, we considered various scenarios related to the pricing, timing and probability of an IPO. We applied an annual equity volatility of 59% and a discount for lack of marketability of 11% to arrive at a valuation of \$7.5 million on the issuance date.

Subsequent to our IPO, the fair value of the common stock warrant liability was estimated based on the fair market value of our common stock at each reporting period, discounted from the date of settlement. In August 2018 we issued warrants to purchase 792,434 shares of common stock at an exercise price of \$0.0004 per share to the cash investors of our Series G financing, pursuant to our Series G stock purchase agreement. The warrants had a valuation of \$15.3 million upon issuance and were subsequently exercised, resulting in the issuance of 792,434 shares of our common stock. As a result of change in fair value of the common stock warrant liability, we recognized a non-cash gain of \$1.2 million during the three months ended September 30, 2017 and a non-cash gain of \$0.8 million during the three months ended September 30, 2018.

Convertible Promissory Notes

The redemption features included in the terms of the convertible promissory notes were determined to be derivative liabilities due to a significant discount within the redemption features for the note holders. Embedded derivatives that are not clearly and closely related to the host contract are required to be bifurcated and recorded at fair value unless the fair value option is elected on the host contract. Under the fair value option, bifurcation of the embedded derivative is not necessary as all related gains (losses) on the host contract and derivative will be reflected in the consolidated statements of operations. We elected the fair value option for the convertible promissory notes, therefore direct costs and fees associated with the issuance were recognized in earnings as incurred and were not deferred.

To determine the fair value of our convertible promissory notes through their conversion in May 2017, we utilized key assumptions from the PWERM, as shown above. Under this method, we considered the redemption features of the convertible promissory notes to determine the fair value under discrete future outcomes, including IPO and non-IPO scenarios. Under certain non-IPO scenarios, holders of the convertible promissory notes will receive two times preference on the outstanding principal amount. We weighted the fair values based on the estimated probability of each scenario to determine the overall fair value of the convertible promissory notes as of the balance sheet date.

See Note 5—Redeemable Convertible Preferred Stock for a description of the Series G Stock financing in May 2017 that resulted in the conversion of the convertible promissory notes into shares of our Series G' Stock.

Performance-based Warrants Issued to FIS

In May 2013, we granted 10-year performance-based warrants to purchase up to 644,365 shares of Series E Stock at an exercise price of \$23.64 per share. Since FIS did not participate in the convertible promissory note 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. We determined the fair value of these common warrants on the date of IPO using the Black-Scholes option pricing model, which is affected by the fair value of our common stock as well as the following significant inputs:

	February 8, 2018
Weighted-average grant date fair value	\$3.91
Significant inputs:	
Value of common stock	\$13.00
Expected term	5.3 years
Volatility	50%
Risk-free interest rate	2.0%
Dividend yield	—%

7. RELATED PARTIES

Series G / Series G'

In May 2017, we issued and sold, for aggregate consideration of \$11.9 million, an aggregate of 346,334 shares of our Series G Stock and warrants to purchase shares of our common stock. In connection with the issuance of our Series G Stock, the principal and accrued interest under the convertible promissory notes converted into an aggregate of 1,295,746 shares of our Series G' redeemable convertible preferred stock and 801,329 shares of our common stock. The following table summarizes the participation in the foregoing transactions by our directors, executive officers and holders of more than 5% of any class of our capital stock as of the date of such transactions (in thousands):

Related Party	Shares of Series G Preferred Stock	Shares of Series G' Preferred Stock	Shares of Common Stock	Warrants to Purchase Common Stock
Entities affiliated with Aimia, Inc. ⁽¹⁾	—	382	801	—
Entities affiliated with Polaris Venture Partners ⁽²⁾	29	212	—	66
Canaan VIII L.P. ⁽³⁾	54	260	—	123
Entities affiliated with Discovery Capital ⁽⁴⁾	—	106	—	—
Scott D. Grimes	—	26	—	—
Lynne M. Laube	—	14	—	—
Entities affiliated with Mark A. Johnson ⁽⁵⁾	35	15	—	80
John Klinck	6	—	—	13
David Adams	3	—	—	7

- (1) Consists of 159,207 shares of Series G' redeemable convertible preferred stock issued to Aeroplan Holdings Europe Sàrl, 223,020 shares of Series G' redeemable convertible preferred stock issued to Aimia EMEA Limited and 801,329 shares of common stock issued to Aimia EMEA Limited.
- (2) Consists of 27,988 shares of Series G redeemable convertible preferred stock purchased by Polaris Venture Partners V, L.P. ("PVP V"), 205,020 shares of Series G' redeemable convertible preferred stock issued to PVP V, 64,038 warrants to purchase common stock issued to PVP V, 545 shares of Series G redeemable convertible preferred stock purchased by Polaris Venture Partners Entrepreneurs' Fund V, L.L. ("PVP EF V"), 3,995 shares of Series G' redeemable convertible preferred stock issued to PVP EF V, 1,247 warrants to purchase common stock issued to PVP EF V, 191 shares of Series G redeemable convertible preferred stock purchased by Polaris Venture Partners Founders' Fund V, L.P. ("PVP FF V"), 1,404 shares of Series G' redeemable convertible preferred stock issued to PVP FF V, 438 warrants to purchase common stock issued to PVP FF V, 280 shares of Series G redeemable convertible preferred stock purchased by Polaris Venture Partners Special Founders' Fund V, L.P. ("PVP SFF V"), 2,050 shares of Series G' redeemable convertible preferred stock issued to PVP SFF V and 641 warrants to purchase common stock issued to PVP SFF V. Polaris Venture Management Co. V, L.L.C. is a general partner of each of PVP V, PVP EF V, PVP FF V and PVP SFF V and may be deemed to have the sole voting and dispositive power over the shares held by PVP V, PVP EF V, PVP FF V and PVP SFF V. Bryce Youngren, a member of our board of directors, is a Managing Partner of Polaris Partners and may be deemed to share voting and dispositive power over the shares held by PVP V, PVP EF V, PVP FF V and PVP SFF V.

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- (3) John V. Balen, a member of our board of directors, is a managing member of Canaan Partners VIII LLC, the general partner of Canaan VIII L.P. Mr. Balen does not have voting or investment power over any shares held directly by Canaan VIII L.P.
- (4) Consists of 95,272 shares of Series G' redeemable convertible preferred stock issued to Discovery Opportunity Master Fund, Ltd. and 11,072 shares of Series G' redeemable convertible preferred stock issued to Discovery Global Focus Master Fund, Ltd.
- (5) Consists of 15,045 shares of Series G' redeemable convertible preferred stock issued to TTP Fund II, L.P., 29,005 shares of Series G redeemable convertible preferred stock purchased by TTV Ivy Holdings, LLC, 66,365 warrants to purchase common stock issued to TTV Ivy Holdings, LLC, 5,801 shares of Series G redeemable convertible preferred stock purchased by Mr. Johnson, and 13,273 warrants to purchase common stock issued to Mr. Johnson. TTV Capital is a provider of management services to TTP GP II, LLC, which is a general partner of TTP Fund II, L.P. TTV Capital is the manager of TTV Ivy Holdings Manager, LLC, which is the general partner of TTV Ivy Holdings, LLC. Mark A. Johnson, a member of our board of directors, is a member of each of TTP GP II, LLC and TTV Ivy Holdings Managers, LLC and holds the title of partner of TTV Capital, and may be deemed to share voting and dispositive power over the shares held by TTP Fund II L.P. and TTV Ivy Holdings, LLC.

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 exchange for a revenue share percentage. We are also obligated to make milestone payments to FIS related to the integration and deployment of our solutions. Prior to our IPO, FIS was entitled to elect a member of our board of directors, who was Robert Legters until his resignation immediately prior to our IPO in February 2018.

In May 2013, FIS purchased 397,515 shares of our Series E Stock. We also granted 10-year performance-based warrants to purchase up to 644,365 shares of Series E Stock at an exercise price of \$23.64 per share. The warrants were exercisable subject to the attainment of certain milestones related to the number of active accounts for which our solutions have been enabled with accelerated vesting upon an IPO. Since FIS did not participate in the convertible promissory note 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. Since the performance conditions were directly related to revenue-producing activities, we recognized this expense in FI Share and other third-party costs on our condensed consolidated statement of operations. This expense is presented in other non-cash expenses on our condensed consolidated statement of statement of cash flows. See Note 6—Fair Value Measurements for additional information regarding the valuation of the performance-based warrants issued to FIS.

8. 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 implementation costs and also result in a cumulative adjustment to accumulated amortization. Scheduled amounts not yet paid to FI partners totaled \$3.5 million as of September 30, 2018.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2018	2017	2018
Beginning balance	\$ 8,754	\$ 12,425	\$ 8,451	\$ 13,625
Deferred costs	3,650	3,500	6,650	5,750
Recoveries through FI Share	(1,185)	(1,344)	(3,137)	(4,036)
Amortization	(365)	(378)	(1,110)	(1,136)
Ending balance	\$ 10,854	\$ 14,203	\$ 10,854	\$ 14,203

During the first half of 2017, we accrued expenses totaling \$3.0 million related to an expected shortfall in meeting a 2017 minimum FI Share commitment recorded in FI Share and other third-party costs on our consolidated statement of operations. In the third quarter of 2017, we amended the agreement with the FI partner and removed the 2017 minimum FI Share commitment, resulting in a non-cash gain of \$3.0 million that was recognized upon the reversal of the accrued shortfall.

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, which were not met as of September 30, 2018. Any expected shortfall 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.

9. EARNINGS PER SHARE

Diluted net loss per share is the same as basic net loss per share for the nine months ended September 30, 2017 and 2018 because the effects of potentially dilutive items were anti-dilutive, given our net loss during these periods. The following securities have been excluded from the calculation of diluted weighted-average common shares outstanding because the effect is anti-dilutive (in thousands):

	September 30,	
	2017	2018
Redeemable convertible preferred stock:		
Series A-R	1,857	—
Series B-R	2,247	—
Series C-R	1,508	—
Series D-R	1,396	—
Series E-R	795	—
Series F-R	1,199	—
Series G	346	—
Series G'	1,296	—
Common stock options	2,533	1,862
Common stock warrants	1,245	868
Common stock warrants issuable pursuant to Series G Stock financing	639	—
Redeemable convertible preferred stock warrants	110	—
Restricted stock units	—	1,200
Common stock issuable pursuant to the ESPP	—	151

10. SEGMENTS

We have three operating segments: our Cardlytics Direct solutions in the United States and United Kingdom and Other Platform Solutions, as determined by the information that both our Chief Executive Officer and President and Chief Operating Officer, who we consider our chief operating decision makers, use to make strategic goals and operating decisions. Our Cardlytics Direct operating segments in the United States and United Kingdom 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 Other Platform Solutions segment represents solutions that enable marketers and marketing service providers to leverage the power of purchase intelligence across all of their marketing investments.

Revenues can be directly attributable to each segment. With the exception of a non-cash equity expense and the amortization and impairment of deferred FI implementation costs, FI Share is also directly attributable to each segment. Our chief operating decision makers allocate resources to, and evaluate the performance of, our operating segments based on revenue and adjusted contribution. The accounting policies of each of our reportable segments are the same as those described in the summary of significant accounting policies.

In early 2018, we began a strategic shift to focus the majority of our efforts and resources to support the growth of Cardlytics Direct. At this time, we have not yet determined what impact this strategic change will have on our reportable segment structure.

The following table provides information regarding our reportable segments (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2018	2017	2018
Cardlytics Direct:				
Adjusted contribution ⁽²⁾⁽³⁾	\$ 16,805	\$ 16,906	\$ 37,673	\$ 47,368
Plus: FI Share and other third-party costs ⁽¹⁾	13,409	17,514	45,942	54,271
Revenue	\$ 30,214	\$ 34,420	\$ 83,615	\$ 101,639
Other Platform Solutions:				
Adjusted contribution	\$ 437	\$ 72	\$ 3,650	\$ 3
Plus: FI Share and other third-party costs ⁽¹⁾	755	90	3,834	1,223
Revenue	\$ 1,192	\$ 162	\$ 7,484	\$ 1,226
Total:				
Adjusted contribution ⁽²⁾⁽³⁾	\$ 17,242	\$ 16,978	\$ 41,323	\$ 47,371
Plus: FI Share and other third-party costs ⁽¹⁾	14,164	17,604	49,776	55,494
Revenue	\$ 31,406	\$ 34,582	\$ 91,099	\$ 102,865

(1) FI Share and other third party costs presented above excludes a non-cash equity expense and amortization and impairment of deferred FI implementation costs, which are detailed below in our reconciliation of U.S. GAAP loss before income taxes to non-GAAP adjusted contribution.

(2) Adjusted contribution includes the impact of a non-cash gain totaling \$3.0 million during the three months ended September 30, 2017 related to the reversal of an accrued expense for an expected shortfall in meeting a minimum FI Share commitment. There was no impact to the nine months ended September 30, 2017 and there was no corresponding accrued expense during the three and nine months ended September 30, 2018.

(3) Adjusted contribution includes the impact of a \$0.8 million gain during the three and nine months ended September 30, 2018 related to the renewal of our agreement with Lloyds, which contains certain amendments that are retroactively applied as of January 1, 2018.

Adjusted Contribution

Adjusted contribution represents our revenue less FI Share and other third-party costs excluding a non-cash equity expense included in FI Share and amortization and impairment of deferred FI implementation costs. During the first quarter of 2018, we refined our definition of adjusted contribution used by our chief operating decision makers to exclude the impact of a non-cash charge related to the issuance of equity to an FI partner and the impact of amortization and impairment of deferred FI implementation costs. We believe these changes are warranted and appropriate since these investments are expected to yield meaningful long-term relationships with our FI partners and provide incentive for our FI partners to invest in the user interfaces that complement our platform. We have recast all historical disclosures of adjusted contribution for the periods presented.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2018	2017	2018
Adjusted contribution	\$ 17,242	\$ 16,978	\$ 41,323	\$ 47,371
Minus:				
Non-cash equity expense included in FI Share ⁽¹⁾	—	—	—	2,519
Amortization of deferred FI implementation costs ⁽¹⁾	365	378	1,110	1,136
Delivery costs	1,646	3,007	5,095	7,509
Sales and marketing expense	8,302	9,452	23,454	27,915
Research and development expense	3,421	4,097	9,527	12,444
General and administration expense	5,276	7,925	14,738	23,486
Depreciation and amortization expense	771	777	2,303	2,471
Total other income (expense)	(65)	(290)	681	11,367
Loss before income taxes	\$ (2,474)	\$ (8,368)	\$ (15,585)	\$ (41,476)

(1) Non-cash equity expense included in FI Share and amortization and impairment of deferred FI implementation costs are excluded from FI Share and other third party costs, which is shown above in our reconciliation of U.S. GAAP revenue to non-GAAP adjusted contribution.

The following table provides geographical information (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2018	2017	2018
Revenue:				
United States	\$ 26,841	\$ 30,884	\$ 80,606	\$ 90,606
United Kingdom	4,565	3,698	10,493	12,259
Total	\$ 31,406	\$ 34,582	\$ 91,099	\$ 102,865
Property and equipment:			December 31, 2017	September 30, 2018
United States			\$ 6,813	\$ 8,955
United Kingdom			506	318
Total			\$ 7,319	\$ 9,273

Capital expenditures within the United Kingdom were \$0.3 million and less than \$0.1 million during the nine months ended September 30, 2017 and 2018, respectively.

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, 2017 included in our Annual Report on Form 10-K, filed with the SEC on March 19, 2018.

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 and tax position; continued enhancements of our platform and new product offerings; our future financial and business performance; anticipated reductions to FI Share payments and anticipated FI Share commitment shortfalls. 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 makes marketing more relevant and measurable through our purchase intelligence platform. Our partnerships with financial institutions ("FIs") provide us with access to their anonymized purchase data and online banking customers. By applying advanced analytics to this 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 are a partner to more than 2,000 FIs, including Bank of America, National Association ("Bank of America"); PNC Bank National Association ("PNC"); Branch Banking and Trust Company; SunTrust Banks, Inc.; Lloyds TSB Bank plc ("Lloyds"); Santander UK plc; and several of the largest bank processors and digital banking providers to reach customers of small and mid-sized FIs.

On May 3, 2018 and May 7, 2018, respectively, we entered into a Master Agreement and Schedule #1 to the Master Agreement (collectively, the "Chase Agreement") with JPMorgan Chase Bank, National Association ("Chase"), pursuant to which we have agreed to a national roll-out of Cardlytics Direct to Chase customers. Under the Agreement, we will provide Chase with access to Cardlytics Direct for an initial term beginning on the date Cardlytics Direct is made generally available to Chase's customers and ending seven years from that date. Chase may terminate the Agreement at any time upon 90 days' written notice. We will share billings that we generate from the sale of advertising within the Chase digital channels with Chase.

During the first quarter of 2018, we launched a pilot implementation of Cardlytics Direct with Wells Fargo & Company ("Wells Fargo"), directed at Wells Fargo customers located in Miami, Florida; Charlotte, North Carolina and San Francisco, California. This pilot ended in July 2018. On August 7, 2018, we entered into Hosted Technology Services Schedule Two (the "Wells Fargo Agreement") with Wells Fargo Bank, National Association ("Wells Fargo"), pursuant to which we have agreed to a national roll-out of Cardlytics Direct to Wells Fargo customers. The initial term of the Agreement ends on July 1, 2022. Wells Fargo may terminate the Agreement at any time upon 180 days' written notice. We will share revenue that we generate from the sale of advertising within the Wells Fargo digital channels with Wells Fargo.

On September 28, 2018, we renewed our Spending Rewards Agreement (the "Lloyds Agreement") with Lloyds, pursuant to which we agreed to continue to provide Cardlytics Direct to Lloyds customers through December 31, 2020. Lloyds may terminate the Agreement at any time upon 9 months' written notice. We will share revenue that we generate from the sale of advertising within the Lloyds digital channels with Lloyds. Included in the renewal of our agreement with Lloyds are certain amendments that are retroactively applied as of January 1, 2018, which resulted in a \$0.8 million gain during the three and nine months ended September 30, 2018 recorded in FI Share and other third-party costs on our consolidated statement of operations.

As the amount of revenue that we can generate from marketers with respect to Cardlytics Direct is primarily a function of the number of active users on our FI partners' digital banking platforms, we believe that the number of monthly active users ("FI MAUs") contributed by any FI partner is indicative of our level of dependence on such FI partner. During the nine months ended September 30, 2017 and 2018, our largest FI partner, Bank of America, contributed 51% and 52% of our total FI MAUs, Digital Insight Corporation, a subsidiary of NCR Corporation ("Digital Insight") contributed 11% and 10% of our total FI MAUs and PNC contributed 8% and 11% of our total FI MAUs, respectively.

We have experienced growth in our revenue since inception. Revenue from sales of Cardlytics Direct, which excludes consumer incentives, was \$83.6 million and \$101.6 million for the nine months ended September 30, 2017 and 2018, respectively, representing a growth rate of 22%. Net loss for the nine months ended September 30, 2017 and 2018 totaled \$15.6 million and \$41.5 million, respectively. Our historical losses have been driven by our substantial investments in our platform and infrastructure, which we believe will enable us to expand the use of our platform by both FIs and marketers. Our net loss for the nine months ended September 30, 2017 includes \$3.7 million of stock-based compensation expense, a \$5.0 million non-cash gain related to the change in fair value of our convertible promissory notes and a \$0.4 million non-cash expense related to the change in fair value of our warrant liabilities. Our net loss for the nine months ended September 30, 2018 includes \$17.0 million of stock-based compensation expense, a \$6.8 million non-cash expense related to the change in fair value of our warrant liabilities and a \$2.5 million non-cash expense related to the vesting of warrants issued to an FI partner that accelerated upon our initial public offering ("IPO").

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 the fourth quarter of 2018, scheduled development payments to a certain FI partner total \$3.5 million, which is expected to be offset by recoveries through FI Share payment reductions of \$1.3 million. Scheduled reductions in FI Share payments to the FI partner during 2019 total \$4.6 million.

During the first and second quarters of 2017, we accrued expenses totaling \$3.0 million related to an expected shortfall in meeting a 2017 minimum FI Share commitment recorded in FI Share and other third-party costs on our consolidated statement of operations. In the third quarter of 2017, we amended the agreement with the FI partner and removed the 2017 minimum FI Share commitment, resulting in a non-cash gain of \$3.0 million that was recognized upon the reversal of the accrued shortfall recorded as of June 30, 2017.

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, which were not met as of September 30, 2018. We currently expect the milestones to be completed in the first half of 2019 and expect a FI Share commitment shortfall of between \$4.0 million and \$6.0 million. The expected shortfall will be accrued during the 12-month commitment period.

Common Stock Warrants Issued in Connection with the Series G Stock Financing

In connection with the issuance of our Series G redeemable convertible preferred stock, we issued warrants to purchase an aggregate number of shares of our common stock, which was determined based on the volume weighted average closing price of our common stock for the 30 trading days up to and including August 7, 2018. Based on this calculation, in August 2018 we issued warrants to purchase 792,434 shares of common stock at an exercise price of \$0.0004 per share to the cash investors of our Series G financing, pursuant to our Series G stock purchase agreement. The warrants had a valuation of \$15.3 million upon issuance and were subsequently exercised, resulting in the issuance of 792,434 shares of our common stock.

Reverse Stock Split

On January 26, 2018, our board of directors approved an amended and restated certificate of incorporation to (1) effect a reverse split on outstanding shares of our common stock and redeemable convertible preferred stock on a one-for-four basis (the "Reverse Stock Split"), (2) modify the threshold for automatic conversion of our preferred stock into shares of our common stock in connection with an initial public offering to eliminate the requirement of gross proceeds to the Company of not less than \$70.0 million and (3) authorize us to issue up to 100,000,000 shares of common stock, \$0.0001 par value per share and 25,000,000 shares of redeemable convertible preferred stock, \$0.0001 par value per share (collectively, the "Charter Amendment"). The authorized shares and par values of our common stock and redeemable convertible preferred stock were not adjusted as a result of the Reverse Stock Split. The Charter Amendment was approved by the Company's stockholders on January 26, 2018 and became effective upon the filing of the Charter Amendment with the State of Delaware on January 26, 2018. All issued and outstanding common stock and preferred stock and related share and per share amounts contained in these financial statements have been retroactively adjusted to reflect the Reverse Stock Split for all periods presented.

Our Business Model

Cardlytics Direct

Our Cardlytics Direct solution is our proprietary native bank advertising channel that enables marketers to reach consumers through their trusted and frequently visited online and mobile banking channels. Working with a 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 predictive analytics, we are able to create compelling Consumer Incentives that have the potential to increase return on advertising spend for marketers. We have generated substantially all of our revenue from sales of Cardlytics Direct since inception.

We price Cardlytics Direct marketing in two primary ways: (1) Cost per Served Sale ("CPS") and (2) Cost per Redemption ("CPR"). We developed our pricing models with the needs of marketers in mind. Given our ability to measure the actual performance of Cardlytics Direct in driving sales, we are able to offer marketers performance-based pricing models where they only pay us based on actual sales influenced by marketing through our native bank channel. These pricing models are designed to ensure that marketers realize an actual return on their advertising spend with us.

- ***CPS.*** Our primary and fastest growing pricing model is CPS, which we created to meet the media buying preferences of marketers. We generate revenue by charging a percentage (the "CPS Rate"), 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 become 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. We seek to optimize the level of Consumer Incentives to retain a greater portion of billings. However, if the amount of Consumer Incentives exceeds the amount of billings that we are paid by the applicable marketer we are still responsible for paying the total Consumer Incentive. This has occurred infrequently and has been immaterial in amount for each of the periods presented.
- ***CPR.*** Our initial pricing model is CPR, where marketers specify and fund the Consumer Incentive and pay us a separate negotiated, fixed marketing fee (the "CPR 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 CPR Fee is either a percentage of qualifying purchases or a flat amount.

We 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 the FIs' customers and certain third-party data costs.

Other Platform Solutions

We also generate revenue from our Other Platform Solutions offerings. Our Other Platform Solutions enable marketers and marketing service providers to leverage the power of purchase intelligence outside the bank channel. For example, we use purchase intelligence to help marketers measure the impact of marketing campaigns outside of the Cardlytics Direct channel on in-store and online sales. To the extent that we use purchase intelligence derived from a specific FI customer's anonymized purchase data in the delivery of our Other Platform Solutions, we pay the applicable FI an FI Share calculated based on the relative contribution of the data provided by the FI to the overall delivery of the solutions. In order to test the efficacy of our Other Platform Solutions, we historically used programmatic vendors to run marketing campaigns outside of the Cardlytics Direct channel, and thereby delivered our Other Platform Solutions primarily as a managed service. This allowed us to gain valuable expertise in leveraging our purchase intelligence outside the banking channel. With regard to delivery of our Other Platform Solutions as a managed service, we charged marketers a fee based on the number of impressions that we delivered for their marketing campaign, calculated on a cost per thousand impressions ("CPM") basis. For the nine months ended September 30, 2017 and 2018, our Other Platform Solutions revenue was \$7.5 million and \$1.2 million, respectively. Revenue from Other Platform Solutions delivered as a managed service represented a significant majority of our total Other Platform Solutions revenue until it was discontinued on July 31, 2017.

In early 2018, we began a strategic shift to focus the majority of our efforts and resources to support the growth of Cardlytics Direct. As a result, we do not expect to generate substantial revenue from Other Platform Solutions for the foreseeable future, and we expect our overall Other Platforms Solutions revenue to decline in future periods compared to prior periods. Accordingly, our total revenue may decline in future periods if we are unable to generate sufficient offsetting revenue from sales of Cardlytics Direct.

Key Factors Affecting Our Performance

Our historical financial performance has been, and we expect our financial performance in the future will be, primarily driven by the following factors:

- **Ability to Increase Spend from Existing Marketers and Acquire New Marketers.** Our performance depends on our ability to continue to increase adoption of our solutions within our existing marketer base and attract new marketers that invest meaningfully in marketing through our solutions. Our ability to increase adoption among existing marketers is particularly important in light of our land-and-expand business model. We believe that we have the opportunity to expand our marketer base with a focus on attracting new brands, retailers, service providers and new categories of marketers that will invest significantly in the use of purchase intelligence. We believe that we also have the opportunity to increase adoption of our solutions across our existing marketers. In order to expand and further penetrate our marketer base, we have made, and plan to continue to make, investments in expanding our direct sales teams and indirect sales channels, and increasing our brand awareness. However, our ability to continue to grow our marketer base is dependent upon our ability to compete within the evolving markets in which we participate.
- **Ability to Drive Additional Revenue from Cardlytics Direct.** The revenue that we generate through our proprietary native bank advertising channels from each of our FI partners varies. This variance is typically a result of how long the program has been active, the user interface for the program and the FI's efforts to promote the program. We continually work with FIs to improve their customers' user experience, increase customer awareness, and leverage additional customer outreach channels like email. However, in certain cases, we may have little control over the design of the user interface that our FI partners choose to use or the extent to which they promote our solution to their customers. To the extent that our FI partners fail to increase engagement with our solutions within their customer bases, we may be unable to attract and retain marketers or their agencies and our revenue would suffer.
- **Ability to Expand our FI Partner Network.** Our ability to maintain and grow our revenue is contingent upon maintaining and expanding our relationships with our FI partners. Each new FI partner increases the size of our data asset, increasing the value of our solutions to both marketers and FIs that are already part of our network. Accordingly, we are focused on the continued expansion of our FI network to ensure that we have robust purchase data to support a broad array of incentive programs with respect to our Cardlytics Direct solution and to enrich our Other Platform Solutions. However, our sales and integration cycle with respect to our FI partners can be costly and long, and it is difficult to predict if or when we will be successful in generating revenue from a new FI relationship.

- Ability to Innovate and Evolve Our Platform.** As we continue to grow our data asset and enhance our platform, we are developing new solutions and increasingly sophisticated analytical capabilities. Our future performance is significantly dependent on the investments that we make in our research and development efforts and in our ability to continue to innovate, improve functionality, and introduce new features and solutions that are compelling to our marketers and FIs. We intend to continue to invest in our platform, including by hiring top technical talent and focusing on innovation within our core technology.

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,	
	2017	2018	2017	2018
	(in thousands, except ARPU)			
FI MAUs	55,433	59,333	53,694	58,942
ARPU	\$ 0.55	\$ 0.58	\$ 1.56	\$ 1.72
Adjusted contribution ⁽¹⁾⁽²⁾	\$ 17,242	\$ 16,978	\$ 41,323	\$ 47,371
Adjusted EBITDA ⁽¹⁾⁽²⁾	\$ 71	\$ (1,663)	\$ (7,665)	\$ (6,903)

(1) Adjusted contribution and Adjusted EBITDA includes the impact of a non-cash gain totaling \$3.0 million during the three months ended September 30, 2017 related to the reversal of an accrued expense for an expected shortfall in meeting a minimum FI Share commitment. There was no impact to the nine months ended September 30, 2017 and there was no corresponding accrued expense during the three and nine months ended September 30, 2018.

(2) Adjusted contribution and Adjusted EBITDA includes the impact of a \$0.8 million gain during the three and nine months ended September 30, 2018 related to the renewal of our agreement with Lloyds, which contains certain amendments that are retroactively applied as of January 1, 2018.

Monthly Active Users

We define FI monthly active users ("FI MAUs"), as customers or accounts of our FI partners that logged in and visited the online or mobile banking applications of, or opened an email 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 average revenue per user ("ARPU"), as the total Cardlytics Direct revenue generated in the applicable period calculated in accordance with generally accepted accounting principles in the United States ("U.S. 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.

Adjusted Contribution

Adjusted contribution represents our revenue less our FI Share and other third-party costs excluding a non-cash equity expense included in FI Share and amortization and impairment of deferred FI implementation costs. During the first quarter of 2018, we refined our definition of adjusted contribution to exclude the impact of a non-cash charge related to the issuance of equity to an FI partner and the impact of amortization and impairment of deferred FI implementation costs. We believe this change is warranted and appropriate since the investment is expected to yield meaningful long-term relationships with our FI partners and provide incentive for our FI partners to invest in the user interfaces that complement our platform. We have recast all historical disclosures of adjusted contribution for the periods presented.

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We review adjusted contribution for internal management purposes and believe that the elimination of our primary cost of revenue, FI Share and other third-party costs, exclusive of a non-cash equity expense included in FI Share and amortization and impairment of deferred FI implementation costs, can provide a useful measure for period-to-period comparisons of our core business. More specifically, we report our revenue gross of FI Share and other third-party costs, but net of any Consumer Incentives that we pay to our FIs' customers. Adjusted contribution is not a measure calculated in accordance with U.S. GAAP.

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. Nevertheless, our use of adjusted contribution 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 U.S. GAAP. Other companies, including companies in our industry that have similar business arrangements, may address the impact of FI Share and other third-party costs differently. See Note 10—Segments to our condensed consolidated financial statements for further details on our adjusted contribution by segment. You should consider adjusted contribution alongside our other U.S. GAAP financial results.

The following table presents a reconciliation of adjusted contribution to revenue, the most directly comparable U.S. GAAP measure, for each of the periods indicated:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2018	2017	2018
	(in thousands)			
Revenue	\$ 31,406	\$ 34,582	\$ 91,099	\$ 102,865
Minus:				
FI Share and other third-party costs ⁽¹⁾	14,164	17,604	49,776	55,494
Adjusted contribution ⁽²⁾⁽³⁾	\$ 17,242	\$ 16,978	\$ 41,323	\$ 47,371

(1) FI Share and other third-party costs presented above excludes a non-cash equity expense included in FI Share and amortization and impairment of deferred FI implementation costs, which are detailed below in our reconciliation of U.S. GAAP net loss to non-GAAP adjusted EBITDA.

(2) Adjusted contribution includes the impact of a non-cash gain totaling \$3.0 million during the three months ended September 30, 2017 related to the reversal of an accrued expense for an expected shortfall in meeting a minimum FI Share commitment. There was no impact to the nine months ended September 30, 2017 and there was no corresponding accrued expense during the three and nine months ended September 30, 2018.

(3) Adjusted contribution includes the impact of a \$0.8 million gain during the three and nine months ended September 30, 2018 related to the renewal of our agreement with Lloyds, which contains certain amendments that are retroactively applied as of January 1, 2018.

Adjusted EBITDA

Adjusted EBITDA represents our net loss before income tax benefit; interest expense, net; depreciation and amortization expense; stock-based compensation expense; change in fair value of warrant liabilities; change in fair value of convertible promissory notes; foreign currency (gain) loss; loss on extinguishment of debt; costs associated with financing events; restructuring costs; amortization and impairment of deferred FI implementation costs; termination of U.K. agreement expense; and a non-cash equity expense recognized in FI Share. We do not consider these excluded items to be indicative of our core operating performance. The items that are non-cash include change in fair value of warrant liabilities, change in fair value of convertible promissory notes, foreign currency (gain) loss, amortization and impairment of FI implementation costs, depreciation and amortization expense, stock-based compensation expense and a non-cash equity expense included in FI Share. 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 U.S. GAAP.

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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 U.S. 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 U.S. GAAP financial results.

The following table presents a reconciliation of adjusted EBITDA to net loss, the most directly comparable U.S. GAAP measure, for each of the periods indicated:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2018	2017	2018
	(in thousands)			
Net loss	\$ (2,474)	\$ (8,368)	\$ (15,585)	\$ (41,476)
Plus:				
Interest expense, net	1,763	254	6,427	2,995
Depreciation and amortization expense	771	777	2,303	2,471
Stock-based compensation expense	1,482	5,723	3,707	16,968
Non-cash equity expense included in FI Share ⁽¹⁾	—	—	—	2,519
Change in fair value of warrant liabilities	(1,381)	(801)	412	6,760
Change in fair value of convertible promissory notes	—	—	(4,969)	—
Foreign currency (gain) loss	(455)	256	(1,199)	682
Loss on extinguishment of debt	—	—	—	924
Costs associated with financing events	—	118	129	118
Amortization and impairment of deferred FI implementation costs ⁽¹⁾	365	378	1,110	1,136
Adjusted EBITDA ⁽²⁾⁽³⁾	\$ 71	\$ (1,663)	\$ (7,665)	\$ (6,903)

- (1) Non-cash equity expense included in FI Share and amortization and impairment of deferred FI implementation costs are excluded from FI Share and other third party costs, which is shown above in our reconciliation of U.S. GAAP revenue to non-GAAP adjusted contribution.
- (2) Adjusted EBITDA includes the impact of a non-cash gain totaling \$3.0 million during the three months ended September 30, 2017 related to the reversal of an accrued expense for an expected shortfall in meeting a minimum FI Share commitment. There was no impact to the nine months ended September 30, 2017 and there was no corresponding accrued expense during the three and nine months ended September 30, 2018.
- (3) Adjusted EBITDA includes the impact of a \$0.8 million gain during the three and nine months ended September 30, 2018 related to the renewal of our agreement with Lloyds, which contains certain amendments that are retroactively applied as of January 1, 2018.

Components of Results of Operations

Revenue

We generate revenue from the sale of our Cardlytics Direct solution and our Other Platform Solutions. We sell our solutions by entering into agreements directly with marketers or their marketing agencies. These agreements state the terms of the arrangement, the agreed-upon fee and, with respect to Cardlytics Direct, the fixed period of time the offers will be available to FI customers. We generally bill for our solutions on a monthly basis following delivery of our solutions. We report revenue net of Consumer Incentives.

Cost and Expense

We classify our expenses into the following categories: FI Share and other third-party costs; delivery costs; sales and marketing expense; research and development expense; general and administrative expense; and depreciation and amortization expense.

FI Share and Other Third-Party Costs

FI Share and other third-party costs consist primarily of the FI Share that we pay our FI partners, media and data costs. FI Share and other third-party costs also include the amortization or impairment of deferred FI implementation costs incurred pursuant to our agreements with certain FI partners and any incremental costs due to FIs as part of revenue commitment arrangements, as well as non-cash expense that we may incur from time to time upon the vesting of warrants issued to FI partners. Please see the section entitled “FI Partner Commitments” above for certain trends we anticipate in the near term relating to certain FI partner commitments.

Delivery Costs

Delivery costs consist primarily of personnel-related costs of our campaign, data operations and production support teams, including salaries, benefits, bonuses, stock-based compensation and payroll taxes. Delivery costs also include hosting facility costs, internally developed and purchased or licensed software costs, outsourcing costs and professional services costs. As we add data center capacity and support personnel in advance of anticipated growth, our delivery costs will increase in absolute dollars and if such anticipated revenue growth does not occur, our delivery costs as a percentage of revenue will be adversely affected.

Sales and Marketing Expense

Sales and marketing expense consists primarily of personnel costs of our sales and marketing employees, including salaries, benefits, bonuses, commissions, stock-based compensation and payroll taxes. Sales and marketing expense also includes professional fees, marketing programs such as trade shows, marketing materials, public relations, sponsorships and other brand building expenses, as well as outsourcing costs, travel and entertainment expenses and company funded consumer testing expenses for certain marketers that are not current customers. We expect that our sales and marketing expense will increase in absolute dollars as a result of hiring new sales representatives and as we invest to enhance our brand. Over time, we expect sales and marketing expenses will decline as a percentage of revenue.

Research and Development Expense

Research and development expense consists primarily of personnel costs of our research and development employees, including salaries, benefits, bonuses, stock-based compensation and payroll taxes. Research and development expense also includes outsourcing costs, software licensing costs, professional fees and travel expenses. We focus our research and development efforts on improving our solutions and developing new ones. We expect research and development expense to increase in absolute dollars as we continue to create new solutions and improve the functionality of our existing solutions.

General and Administrative Expense

General and administrative expense consists of personnel costs and related expenses for executive, finance, legal, compliance, information technology and human resources personnel, including salaries, benefits, bonuses, stock-based compensation and payroll taxes. General and administrative expense also includes professional fees for external legal, accounting and consulting services, financing transaction costs, facilities costs such as rent and utilities, royalties, bad debt expense, travel expense, property taxes and franchise taxes. We expect that general and administrative expenses will increase on an absolute dollar basis but decrease as a percentage of revenue as we focus on processes, systems and controls to enable the our internal support functions to scale with the growth of our business. We also anticipate increases to general and administrative expenses as we incur the costs of compliance associated with being a publicly traded company, including audit and consulting fees, as well as increased costs for directors’ and officers’ liability insurance.

Depreciation and Amortization Expense

Depreciation and amortization expense includes depreciation of property and equipment over the estimated useful life of the applicable asset as well as amortization of deferred patent and capitalized internal-use software development costs.

Interest Expense, Net

Interest expense, net consists of interest incurred on our debt facilities, as well as related discount amortization and financing costs, partially offset by interest income on our cash balances.

Change in Fair Value of Warrant Liabilities

Change in fair value of warrant liabilities represents adjustments to the fair value of certain warrants to purchase either preferred or common stock based upon changes in the fair value of the underlying stock.

Change in Fair Value of Convertible Promissory Notes Including Related Parties

Change in fair value of convertible promissory notes represents adjustments to the fair value of our convertible promissory notes as a result of our election of the fair value option. In May 2017, these convertible promissory notes converted into shares of our redeemable convertible preferred stock.

Other Income (Expense), Net

Other income (expense), net consists primarily of gains and losses on foreign currency transactions and expenses recorded in connection with the extinguishment of debt.

Income Taxes

We have generated losses before income taxes in the United States ("U.S."), United Kingdom ("U.K.") and most U.S. state income tax jurisdictions. We have generated historical net losses and recorded a full valuation allowance against our deferred tax assets. We expect to maintain a full valuation allowance in the near term. Due to our history of losses and our expectation of maintaining a full valuation allowance, we have not recorded an income tax provision or benefit during the periods presented. Realization of any of our deferred tax assets depends upon future earnings, the timing and amount of which are uncertain.

Results of Operations

The following table sets forth our condensed consolidated statements of operations:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2018	2017	2018
	(in thousands)			
Revenue	\$ 31,406	\$ 34,582	\$ 91,099	\$ 102,865
Costs and expenses:				
FI Share and other third-party costs	14,529	17,982	50,886	59,149
Delivery costs ⁽¹⁾	1,646	3,007	5,095	7,509
Sales and marketing expense ⁽¹⁾	8,302	9,452	23,454	27,915
Research and development expense ⁽¹⁾	3,421	4,097	9,527	12,444
General and administrative expense ⁽¹⁾	5,276	7,925	14,738	23,486
Depreciation and amortization expense	771	777	2,303	2,471
Total costs and expenses	33,945	43,240	106,003	132,974
Operating loss	(2,539)	(8,658)	(14,904)	(30,109)
Other income (expense):				
Interest expense, net	(1,763)	(254)	(6,427)	(2,995)
Change in fair value of warrant liabilities, net	1,381	801	(412)	(6,760)
Change in fair value of convertible promissory notes	—	—	(1,244)	—
Change in fair value of convertible promissory notes—related parties	—	—	6,213	—
Other income (expense), net	447	(257)	1,189	(1,612)
Total other income (expense)	65	290	(681)	(11,367)
Loss before income taxes	(2,474)	(8,368)	(15,585)	(41,476)
Income tax benefit	—	—	—	—
Net loss	\$ (2,474)	\$ (8,368)	\$ (15,585)	\$ (41,476)

(1) Includes stock-based compensation expense as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2018	2017	2018
	(in thousands)			
Delivery costs	\$ 62	\$ 203	\$ 146	\$ 471
Sales and marketing expense	524	1,939	1,390	5,550
Research and development expense	281	915	691	3,141
General and administrative expense	615	2,666	1,480	7,806
Total stock-based compensation expense	\$ 1,482	\$ 5,723	\$ 3,707	\$ 16,968

The following table sets forth our condensed consolidated statements of operations expressed as a percentage of revenue (certain figures may not sum due to rounding):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2018	2017	2018
Revenue	100 %	100 %	100 %	100 %
Costs and expenses:				
FI Share and other third-party costs	46	52	56	58
Delivery costs	5	9	6	7
Sales and marketing expense	26	27	26	27
Research and development expense	11	12	10	12
General and administration expense	17	23	16	23
Depreciation and amortization expense	2	2	3	2
Total costs and expenses	108	125	116	129
Operating loss	(8)	(25)	(16)	(29)
Other income(expense):				
Interest expense, net	(6)	(1)	(7)	(3)
Change in fair value of warrant liabilities, net	4	2	—	(7)
Change in fair value of convertible promissory notes	—	—	(1)	—
Change in fair value of convertible promissory notes—related parties	—	—	7	—
Other income (expense), net	1	(1)	1	(2)
Total other income (expense)	—	1	(1)	(11)
Loss before income taxes	(8)	(24)	(17)	(40)
Income tax benefit	—	—	—	—
Net loss	(8)%	(24)%	(17)%	(40)%

Comparison of Three and Nine Months Ended September 30, 2017 and 2018
Revenue

	Three Months Ended September 30,		Change		Nine Months Ended September 30,		Change	
	2017	2018	\$	%	2017	2018	\$	%
	(dollars in thousands)							

Revenue by solution:

Cardlytics Direct	\$	30,214	\$	34,420	\$	4,206	14 %	\$	83,615	\$	101,639	\$	18,024	22 %
Other Platform Solutions		1,192		162		(1,030)	(86)		7,484		1,226		(6,258)	(84)
Total revenue	\$	31,406	\$	34,582	\$	3,176	10 %	\$	91,099	\$	102,865	\$	11,766	13 %

The \$4.2 million increase in Cardlytics Direct revenue during three months ended September 30, 2018 compared to the three months ended September 30, 2017 comprised a \$3.5 million increase in sales to existing marketers and a \$0.7 million increase in sales to new marketers.

The \$18.0 million increase in Cardlytics Direct revenue during nine months ended September 30, 2018 compared to the nine months ended September 30, 2017 comprised a \$14.5 million increase in sales to existing marketers and a \$3.5 million increase in sales to new marketers.

Revenue from Other Platform Solutions during the three and nine months ended September 30, 2017 consisted substantially of revenue from sales of our Other Platform Solutions delivered as a managed service, which was discontinued as of July 31, 2017.

Costs and Expenses
FI Share and Other Third-Party Costs

	Three Months Ended September 30,		Change		Nine Months Ended September 30,		Change	
	2017	2018	\$	%	2017	2018	\$	%
	(dollars in thousands)							

FI Share and other third-party costs by solution:

Cardlytics Direct	\$	16,425	\$	18,275	\$	1,850	11 %	\$	45,942	\$	55,032	\$	9,090	20 %
FI Share commitment shortfall		(3,016)		—		3,016	n/a		—		—		—	n/a
Renewal of Lloyds agreement		—		(761)		(761)	n/a		—		(761)		(761)	n/a
Total Cardlytics Direct		13,409		17,514		4,105	31		45,942		54,271		8,329	18
Other Platform Solutions		755		90		(665)	(88)		3,834		1,223		(2,611)	(68)
Other components of FI Share and other third-party costs:														
Non-cash equity expense included in FI Share		—		—		—	n/a		—		2,519		2,519	n/a
Amortization and impairment of deferred FI implementation costs		365		378		13	4 %		1,110		1,136		26	2
Total FI Share and other third-party costs	\$	14,529	\$	17,982	\$	3,453	24 %	\$	50,886	\$	59,149	\$	8,263	16 %
% of revenue		46%		52%					56%		58%			

Cardlytics Direct FI Share and other third-party costs, exclusive of accrued expenses related to the expected shortfall in meeting a minimum FI Share commitment and the gain related to the renewal of our agreement with Lloyds, increased by \$1.9 million during the three months ended September 30, 2018 compared to the three months ended September 30, 2017 and increased by \$9.1 million during the nine months ended September 30, 2018 compared to the nine months ended September 30, 2017 primarily due to increased revenue from sales of Cardlytics Direct.

During the first and second quarters of 2017, we accrued expenses totaling \$3.0 million related to an expected shortfall in meeting a 2017 minimum FI Share commitment recorded in FI Share and other third-party costs on our consolidated statement of operations. In the third quarter of 2017, we amended the agreement with the FI partner and removed the 2017 minimum FI Share commitment, resulting in a non-cash gain of \$3.0 million that was recognized upon the reversal of the accrued shortfall recorded as of June 30, 2017.

Included in the renewal of our agreement with Lloyds are certain amendments that are retroactively applied as of January 1, 2018, which resulted in a \$0.8 million gain during the three and nine months ended September 30, 2018 recorded in FI Share and other third-party costs on our consolidated statement of operations.

Other Platform Solutions FI Share and other third-party costs decreased during the three and nine months ended September 30, 2018 as we discontinued delivering Other Platform Solutions as a managed service as of July 31, 2017.

Warrants to purchase shares of common stock 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. Since the performance conditions were directly related to revenue-producing activities, we recognized this non-cash expense in FI Share and other third-party costs on our condensed consolidated statement of operations. See Note 6—Fair Value Measurements to our condensed consolidated financial statements for additional information regarding the valuation of the warrants that vested upon our IPO.

Delivery Costs

	Three Months Ended September 30,		Change		Nine Months Ended September 30,		Change	
	2017	2018	\$	%	2017	2018	\$	%
(dollars in thousands)								
Delivery costs	\$ 1,646	\$ 3,007	\$ 1,361	83%	\$ 5,095	\$ 7,509	\$ 2,414	47%
% of revenue	5%	9%			6%	7%		

Delivery costs increased by \$1.4 million during the three months ended September 30, 2018 compared to the three months ended September 30, 2017 primarily due to a \$0.8 million increase in personnel costs associated with additional headcount to host Cardlytics Direct for certain new FI partners, a \$0.2 million increase in hosting-related IT costs and a \$0.1 million increase in stock-based compensation expense and a \$0.3 million increase in other costs such as travel costs, professional service fees and outsourcing costs.

Delivery costs increased by \$2.4 million during the nine months ended September 30, 2018 compared to the nine months ended September 30, 2017 primarily due to a \$1.7 million increase in personnel costs associated with additional headcount to host Cardlytics Direct for certain new FI partners, a \$0.3 million increase in hosting-related IT costs, a \$0.3 million increase in stock-based compensation expense and a \$0.1 million increase in professional fees.

Sales and Marketing Expense

	Three Months Ended September 30,		Change		Nine Months Ended September 30,		Change	
	2017	2018	\$	%	2017	2018	\$	%
(dollars in thousands)								
Sales and marketing expense	\$ 8,302	\$ 9,452	\$ 1,150	14%	\$ 23,454	\$ 27,915	\$ 4,461	19%
% of revenue	26%	27%			26%	27%		

Sales and marketing expense increased by \$1.2 million during the three months ended September 30, 2018 compared to the three months ended September 30, 2017 primarily due to a \$1.4 million increase in stock-based compensation expense, a \$0.1 million increase in professional fees and a \$0.1 million increase in other administrative expenses, partially offset by a \$0.4 million decrease in incentive compensation.

Sales and marketing expense increased by \$4.5 million during the nine months ended September 30, 2018 compared to the nine months ended September 30, 2017 primarily due to a \$4.2 million increase in stock-based compensation expense, a \$0.5 million increase in personnel costs associated with additional headcount, a \$0.2 million increase in recruiting fees and a \$0.1 million increase in travel costs, partially offset by a \$0.5 million decrease in incentive compensation.

Research and Development Expense

	Three Months Ended September 30,		Change		Nine Months Ended September 30,		Change	
	2017	2018	\$	%	2017	2018	\$	%
(dollars in thousands)								
Research and development expense	\$ 3,421	\$ 4,097	\$ 676	20%	\$ 9,527	\$ 12,444	\$ 2,917	31%
% of revenue	11%	12%			10%	12%		

Research and development expense increased by \$0.7 million during the three months ended September 30, 2018 compared to the three months ended September 30, 2017 primarily due to a \$0.6 million increase in stock-based compensation expense and a \$0.1 million increase in other costs such as recruiting fees and consulting fees.

Research and development expense increased by \$2.9 million during the nine months ended September 30, 2018 compared to the nine months ended September 30, 2017 primarily due to a \$2.5 million increase in stock-based compensation expense, a \$0.6 million increase in personnel costs associated with higher research and development headcount, a \$0.2 million increase in recruiting fees and a \$0.1 million increase in IT costs, partially offset by a \$0.5 million decrease in outsourcing costs.

General and Administrative Expense

	Three Months Ended September 30,		Change		Nine Months Ended September 30,		Change	
	2017	2018	\$	%	2017	2018	\$	%
(dollars in thousands)								
General and administration expense	\$ 5,276	\$ 7,925	\$ 2,649	50%	\$ 14,738	\$ 23,486	\$ 8,748	59%
% of revenue	17%	23%			16%	23%		

General and administrative expense increased by \$2.6 million during the three months ended September 30, 2018 compared to the three months ended September 30, 2017 primarily due to a \$2.1 million increase in stock-based compensation expense, a \$0.2 million increase in recruiting fees and a \$0.3 million increase in software and technology costs.

General and administrative expense increased by \$8.7 million during the nine months ended September 30, 2018 compared to the nine months ended September 30, 2017 primarily due to a \$6.3 million increase in stock-based compensation expense, a \$0.6 million increase in personnel costs associated with higher general and administrative headcount, a \$0.5 million increase in software license fees, a \$0.4 million increase in professional fees, a \$0.3 million increase in recruiting fees, a \$0.3 million increase in insurance premiums, a \$0.2 million increase in travel costs and \$0.1 million increase in other costs such as facility costs and non-income based taxes.

Depreciation and Amortization Expense

	Three Months Ended September 30,		Change		Nine Months Ended September 30,		Change	
	2017	2018	\$	%	2017	2018	\$	%

(dollars in thousands)

Depreciation and amortization expense	\$	771	\$	777	\$	6	1%	\$	2,303	\$	2,471	\$	168	7%
% of revenue		2%		2%					3%		2%			

Depreciation and amortization expense was relatively flat during the three months ended September 30, 2018 compared to the three months ended September 30, 2017 and increased by \$0.2 million during the nine months ended September 30, 2018 compared to the nine months ended September 30, 2017 due to our suspension of efforts to obtain certain patents, resulting in the write off of deferred patent costs in 2018.

Interest Expense, Net

	Three Months Ended September 30,		Change		Nine Months Ended September 30,		Change	
	2017	2018	\$	%	2017	2018	\$	%

(dollars in thousands)

Interest expense	\$	(1,803)	\$	(441)	\$	1,362	(76)%	\$	(6,489)	\$	(3,521)	\$	2,968	(46)%
Interest income		40		187		147	368%		62		526		464	748%
Interest expense, net	\$	(1,763)	\$	(254)	\$	1,509	(86)%	\$	(6,427)	\$	(2,995)	\$	3,432	(53)%
% of revenue		(6)%		(1)%					(7)%		(3)%			

Interest expense, net decreased \$1.5 million during the three months ended September 30, 2018 compared to the three months ended September 30, 2017 and decreased by \$3.4 million during the nine months ended September 30, 2018 compared to the nine months ended September 30, 2017 primarily due to the conversion of our convertible promissory notes into shares of our redeemable convertible preferred stock in May 2017 and lower interest rates under our New Loan Facility. Interest income increased \$0.1 million and \$0.5 million during the three and nine months ended September 30, 2018, compared to the three and nine months ended September 30, 2017, respectively, due to increased cash deposits subsequent to our IPO.

Change in Fair Value of Warrant Liabilities

	Three Months Ended September 30,		Change		Nine Months Ended September 30,		Change	
	2017	2018	\$	%	2017	2018	\$	%

(dollars in thousands)

Change in fair value of warrant liabilities	\$	1,381	\$	801	\$	(580)	(42)%	\$	(412)	\$	(6,760)	\$	(6,348)	1,541%
% of revenue		4%		2%					—%		(7)%			

Change in fair value of warrant liabilities reflect the changes in the value of our redeemable convertible preferred stock and common stock. Refer to Note 6—Fair Value Measurements to our condensed consolidated financial statements for additional information regarding the valuation of our warrant liabilities.

Change in Fair Value of Convertible Promissory Notes

	Three Months Ended September 30,		Change		Nine Months Ended September 30,		Change	
	2017	2018	\$	%	2017	2018	\$	%

(dollars in thousands)

Change in fair value of convertible promissory notes	\$	—	\$	—	\$	—	—%	\$	(1,244)	\$	—	\$	1,244	(100)%
% of revenue		—%		—%					(1)%				—%	

Change in fair value of convertible promissory notes reflects the change in the value of our convertible promissory notes, which was driven by periodic valuations. In May 2017, these convertible promissory notes converted into shares of our redeemable convertible preferred stock. Refer to Note 6—Fair Value Measurements to our condensed consolidated financial statements for additional information regarding the valuation of our convertible promissory notes.

Change in Fair Value of Convertible Promissory Notes—Related Parties

	Three Months Ended September 30,		Change		Nine Months Ended September 30,		Change	
	2017	2018	\$	%	2017	2018	\$	%

(dollars in thousands)

Change in fair value of convertible promissory notes—related parties	\$	—	\$	—	\$	—	—%	\$	6,213	\$	—	\$	(6,213)	(100)%
% of revenue		—%		—%					7%				—%	

Change in fair value of convertible promissory notes reflects the change in the value of our convertible promissory notes, which was driven by periodic valuations. In May 2017, these convertible promissory notes converted into shares of our redeemable convertible preferred stock. Refer to Note 6—Fair Value Measurements to our condensed consolidated financial statements for additional information regarding the valuation of our convertible promissory notes.

Other Income (Expense), Net

	Three Months Ended September 30,		Change		Nine Months Ended September 30,		Change	
	2017	2018	\$	%	2017	2018	\$	%

(dollars in thousands)

Foreign currency gain (loss)	\$	455	\$	(256)	\$	(711)	(156)%	\$	1,199	\$	(682)	\$	(1,881)	(157)%
Loss on extinguishment of debt		—		—		—	n/a		—		(924)		(924)	n/a
Other expense	\$	(8)	\$	(1)	\$	7	(88)%	\$	(10)	\$	(6)	\$	4	(40)%
Other income (expense), net	\$	447	\$	(257)	\$	(704)	(157)%	\$	1,189	\$	(1,612)	\$	(2,801)	(236)%
% of revenue		1%		(1)%					1%		(2)%			

Other income (expense), net decreased by \$0.7 million during the three months ended September 30, 2018 compared to the three months ended September 30, 2017 and decreased \$2.8 million during the nine months ended September 30, 2018 compared to the nine months ended September 30, 2017 primarily due to a decrease in the value of the British pound relative to the U.S. dollar. During the nine months ended September 30, 2018, we also recognized a \$0.9 million loss on extinguishment of debt related to the unamortized discount and unamortized debt issuance costs associated with the 2016 Line of Credit and 2016 Term Loan.

Liquidity and Capital Resources

The following table summarizes our cash and cash equivalents, accounts receivable, net and working capital, for the periods indicated (in thousands):

	December 31, 2017	September 30, 2018
Cash and cash equivalents (exclusive of restricted cash)	\$ 21,262	\$ 47,812
Accounts receivable, net	48,348	36,822
Working capital	32,490	75,103

We define working capital as current assets minus current liabilities. Our cash and cash equivalents as of September 30, 2018 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; therefore, our cash and cash equivalents are held in demand deposit accounts upon which we earn up to a 1.4% annual rate of interest.

Through September 30, 2018, we have incurred accumulated net losses of \$309.9 million since inception, including losses of \$15.6 million and \$41.5 million for the nine months ended September 30, 2017 and 2018, 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 our redeemable convertible preferred stock, our initial public offering of our common stock as well as lines of credit and term loans. Through September 30, 2018, we have received net proceeds of \$196.2 million from the issuance of preferred stock and convertible promissory notes and net proceeds of \$66.1 million from our initial public offering. Our historical uses of cash have primarily consisted of cash used in operating activities to fund our operating losses and working capital needs.

As of September 30, 2018, we had \$47.8 million in unrestricted cash and cash equivalents and \$3.1 million of available borrowings under our Line of Credit. As of September 30, 2018, we had \$3.4 million in cash and cash equivalents in the U.K. While our investment in Cardlytics UK Limited is not considered indefinitely invested, we do not plan to repatriate these funds. As of September 30, 2018, we had \$26.8 million outstanding under our 2018 Line of Credit and \$20.0 million outstanding under our 2018 Term Loan.

During the fourth quarter of 2018, scheduled development payments to a certain FI partner total \$3.5 million, which is expected to be offset by recoveries through FI Share payment reductions of \$1.3 million. Scheduled reductions in FI Share payments to the FI partner during 2019 total \$4.6 million.

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, which were not met as of September 30, 2018. We currently expect the milestones to be completed in the first half of 2019 and a FI Share commitment shortfall of between \$4.0 million and \$6.0 million.

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 and the continued market acceptance of our solutions. We expect to continue to incur operating losses for the foreseeable future and may require additional capital resources to continue to grow our business. 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. 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 shows a summary of our cash flows for the periods presented:

	Nine Months Ended September 30,	
	2017	2018
	(in thousands)	
Cash, cash equivalents and restricted cash at beginning of period	\$ 22,968	\$ 21,262
Net cash used in operating activities	(16,571)	(14,300)
Net cash used in investing activities	(1,099)	(4,185)
Net cash from financing activities	22,631	65,142
Effect of exchange rates on cash, cash equivalents and restricted cash	257	(107)
Cash, cash equivalents and restricted cash at end of period	\$ 28,186	\$ 67,812

Sources of Funds

Initial Public Offering

On February 13, 2018, we closed our initial public offering ("IPO"), in which we issued and sold 5,400,000 shares of common stock at a public offering price of \$13.00 per share, resulting in gross proceeds of \$70.2 million. On February 14, 2018, pursuant to the underwriters' partial exercise of their over-allotment option to purchase up to an additional 810,000 shares from us, we issued and sold an additional 421,355 shares of our common stock, resulting in additional gross proceeds to us of \$5.5 million. In total, we issued 5,821,355 shares of common stock and raised \$75.7 million in gross proceeds, or \$66.1 million in net proceeds after deducting underwriting discounts and commissions of \$5.3 million and offering costs of \$4.3 million.

New Loan Facility

On May 21, 2018, we entered into a Loan and Security Agreement with Pacific Western Bank (the "Lender") consisting of a \$30.0 million asset-based revolving line of credit ("2018 Line of Credit") and a \$20.0 million term loan ("2018 Term Loan") maturing on May 21, 2020. We used the entire \$20.0 million in proceeds from the 2018 Term Loan and an advance of \$27.4 million under the 2018 Line of Credit to repay all outstanding obligations under our 2016 Line of Credit and 2016 Term Loan. Upon repayment, both the 2016 Line of Credit and the 2016 Term Loan were terminated.

Under the terms of the New Loan Facility relating to the 2018 Line of Credit, we are able to borrow up to the lesser of \$30.0 million or 85% of the amount of our eligible accounts receivable. Interest on advances under the 2018 Line of Credit varies depending on the amount of unrestricted cash deposits we maintain with the Lender on the last day of the month. The interest rate is equal to the prime rate minus 0.75% if our unrestricted deposits exceed \$40.0 million, the prime rate minus 0.50% if our unrestricted deposits are between \$40.0 million and \$20.0 million, and the prime rate if our unrestricted deposits are below \$20.0 million. As of September 30, 2018, the indicative rate for advances on the 2018 Line of Credit was the prime rate minus 0.75%, or 4.50%. In addition, we are required to pay an unused line fee of 0.15% per annum on the average daily unused amount of the \$30.0 million revolving commitment. We are also required to pay the Lender a one-time success fee of \$75,000 in the event that we achieve trailing twelve month revenue of \$200.0 million or more at the end of any month after the closing date of the New Loan Facility. Interest accrues on the 2018 Term Loan at an annual rate of interest equal to the prime rate minus 2.75%, or 2.50% as of September 30, 2018.

All of our obligations under the New Loan Facility are also secured by a first priority lien on substantially all of our assets. Under the terms of the New Loan Facility, we are required to maintain a deposit of \$20.0 million in a blocked account in favor of the Lender as additional security for our payment obligations. The New Loan Facility contains a moving minimum trailing twelve month revenue covenant, which was \$130.8 million for the period ended September 30, 2018. The New Loan Facility also requires us to maintain a total cash balance plus liquidity under the 2018 Line of Credit of not less than \$5.0 million.

The New Loan Facility includes customary representations, warranties and covenants (affirmative and negative), including restrictive covenants that include restrictions on mergers, acquisitions and dispositions of assets, incurrence of indebtedness and encumbrances on our assets and restrictions on payments of dividends; in each case subject to specified exceptions.

The New Loan Facility also includes standard events of default, including in the event of a material adverse change. Upon the occurrence of an event of default, the Lender may declare all outstanding obligations immediately due and payable and take such other actions as are set forth in the New Loan Facility and increase the interest rate otherwise applicable to the 2018 Term Loan or advances under the 2018 Line of Credit by an additional 3.00%.

We were in compliance with all financial covenants as of September 30, 2018.

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 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 used in operating activities is primarily driven by our operating losses. We expect that we will continue to use cash from operating activities in 2018 as we invest in our business.

Operating activities used \$14.3 million of cash during the nine months ended September 30, 2018, which reflected growth in revenue, offset by continued investment in our operations. Cash used in operating activities reflected our net loss of \$41.5 million and an \$8.4 million payment of paid-in-kind interest on our 2016 Line of Credit and 2016 Term Loan that were extinguished in May 2018, partially offset by \$34.1 million of non-cash charges and a \$1.5 million net increase in our net operating assets and liabilities. The non-cash charges primarily related to stock-based compensation expense, depreciation and amortization expense, the change in fair value of our warrant liabilities, non-cash interest expense and a \$2.5 million non-cash expense related to the vesting of warrants upon completion of our IPO in February 2018. The change in our net operating assets and liabilities was primarily due to a \$10.9 million decrease in accounts receivable, a \$3.7 million decrease in FI Share liability and a \$2.4 million decrease in Consumer Incentive liability resulting from seasonally lower sales during the third quarter of 2018 compared to the fourth quarter of 2017, as well as a \$1.8 million increase in prepaid expenses and other assets and a \$0.2 million increase in accounts payable and accrued expenses. Additionally, we paid \$1.7 million in FI implementation costs, net of the amounts recovered through reductions in FI Share.

Operating activities used \$16.6 million of cash during the nine months ended September 30, 2017, which reflected growth in revenue, offset by continued investment in our operations. Cash used in operating activities reflected our net loss of \$15.6 million and an \$8.3 million net decrease in our operating assets and liabilities partially offset by non-cash charges of \$7.3 million. The non-cash charges primarily related to stock-based compensation expense, depreciation and amortization expense, the change in fair value of our warrant liabilities, the change in fair value of our convertible promissory notes and non-cash interest expense. The change in our net operating assets and liabilities was primarily due to a \$3.3 million decrease in accounts receivable, a \$5.2 million decrease in FI Share liability and a \$0.5 million decrease in Consumer Incentive liability resulting from seasonally lower sales during the third quarter of 2017 compared to the fourth quarter of 2016, as well as a \$1.1 million increase in prepaid expenses and other assets and a \$1.3 million decrease in accounts payable and accrued expenses. Additionally, we paid \$3.5 million in FI implementation costs, net of the amounts recovered through reductions in FI Share.

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 2018 as we continue to invest in and grow our business.

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Investing activities used \$4.2 million in cash in the nine months ended September 30, 2018. Our investing cash flows during this period primarily consisted of purchases of technology hardware and the capitalization of costs to develop internal-use software.

Investing activities used \$1.1 million in cash in the nine months ended September 30, 2017. Our investing cash flows during this period primarily consisted of purchases of technology hardware.

Financing Activities

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

Financing activities provided \$65.1 million in cash during the nine months ended September 30, 2018. Our financing activities during this period primarily consisted of net proceeds from our IPO of \$70.4 million (gross proceeds of \$75.7 million less underwriting discounts and commissions of \$5.3 million) and proceeds from the exercise of options to purchase shares of common stock of \$1.8 million, partially offset by a net \$4.4 million use of cash related to our refinancing in May 2018, payments of equity offering costs of \$1.9 million and a \$0.7 million repayment under our 2018 Line of Credit.

Financing activities provided \$22.6 million in cash during the nine months ended September 30, 2017. Our financing activities during this period primarily consisted of \$12.5 million of borrowings under our 2016 Line of Credit, proceeds of \$11.9 million from the issuance of Series G redeemable convertible preferred stock and proceeds from the exercise of options to purchase shares of common stock of \$0.6 million, partially offset by payments of equity offering costs of \$2.2 million.

Contractual Obligations & Commitments

The following table summarizes our debt payment obligations under the New Loan Facility as of September 30, 2018:

	Less than 1 Year (remaining 2018)	1 to 3 Years (2019 and 2020)	3 to 5 Years (2021 and 2022)	More than 5 Years (thereafter)	Total
	(in thousands)				
Debt ⁽¹⁾	\$ —	\$ 46,777	\$ —	\$ —	\$ 46,777

(1) Amount represents \$26.8 million of our 2018 Line of Credit and \$20.0 million of our 2018 Term Loan.

As of September 30, 2018, other than as described above, 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, 2017 filed with the SEC on March 19, 2018.

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. Our estimates are based on historical experience and various other assumptions that we believe to be reasonable under the circumstances. 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 and the assumptions used in the valuation models to determine the fair value of equity awards and stock-based compensation expense 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. 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, 2017.

Recent Accounting Pronouncements

See Note 2—Significant Accounting Policies and 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.

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 expense rates on our 2018 Term Loan and 2018 Line of Credit are variable. Interest on the 2018 Term Loan bears an interest rate of the prime rate minus 2.75%. Interest on advances under the 2018 Line of Credit varies depending on the amount of unrestricted cash deposits we maintain with the lender on the last day of the month. The interest rate is equal to the prime rate minus 0.75% if our unrestricted deposits exceed \$40.0 million, the prime rate minus 0.50% if our unrestricted deposits are between \$40.0 million and \$20.0 million, and the prime rate if our unrestricted deposits are below \$20.0 million. The current prime rate is 5.25% and a 10% increase in the current prime rate would, for example, result in a \$0.3 million annual increase in interest expense if the maximum borrowable amount under our 2018 Term Loan and 2018 Line of Credit were outstanding for an entire year.

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, 2017 and 2018, our operating expense would have increased by \$0.6 million and \$0.8 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 (the "Exchange Act"), as of the end of the period covered by this Quarterly Report on Form 10-Q. 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.

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 report, and in our other public filings in evaluating our business. 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

We may not be able to sustain our revenue growth rate in the future.

Our revenue increased by 45% from \$77.6 million in 2015 to \$112.8 million in 2016 and 16% from \$112.8 million in 2016 to \$130.4 million in 2017. Our revenue increased 13% from \$91.1 million in the nine months ended September 30, 2017 to \$102.9 million in the nine months ended September 30, 2018. We may not be able to sustain revenue growth consistent with our recent history or at all. You should not consider our revenue growth in recent periods as indicative of our future performance. As we grow our business, we expect our revenue growth rates to slow in future periods due to a number of factors, which may include 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 banks and credit unions, which we refer to as financial institutions ("FIs"), or our failure, for any reason, to capitalize on growth opportunities. If we are unable to maintain consistent revenue or revenue growth, our stock price could be volatile, and it may be difficult for us to achieve and maintain profitability.

We are dependent upon our Cardlytics Direct solution.

We have historically derived substantially all of our revenue from our Cardlytics Direct solution, our proprietary native bank advertising channel, and expect to continue to derive substantially all of our future revenue from sales of Cardlytics Direct for the foreseeable future. Approximately 83%, 87%, 94% and 99% of our revenue in 2015, 2016, 2017 and the nine months ended September 30, 2018, respectively, was derived from sales of Cardlytics Direct. Revenue from our Other Platform Solutions, where we use purchase intelligence outside of the native bank advertising channel, was approximately \$13.2 million, \$15.0 million, \$8.0 million and \$1.2 million in 2015, 2016, 2017 and the nine months ended September 30, 2018, respectively. Substantially all of our total Other Platform Solutions revenue in each of these periods was derived from sales of our Other Platform Solutions delivered as a managed service until it was discontinued on July 31, 2017. Given that we are now focusing the majority of our efforts and resources to support the growth of Cardlytics Direct, we do not expect to generate substantial revenue from Other Platform Solutions for the foreseeable future. Accordingly, our total revenue may decline in future periods if we are unable to generate sufficient offsetting revenue from sales of Cardlytics Direct. Our operating results could also suffer due to:

- lack of continued participation by FI partners in our network or our failure to attract new FI partners;
- 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;
- any decline in demand for our Cardlytics Direct solution by marketers or their agencies;
- 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 our Cardlytics Direct solution does not address; and
- sensitivity to current or future prices offered by us or competing solutions.

In addition, we are required to pay Consumers Incentives with respect to a majority of our 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 Consumers Incentives before we receive payment from the applicable marketer. Accordingly, to the extent that 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 from sales of our Cardlytics Direct solution, our business and operating results would be harmed.

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

Our business is substantially dependent on Bank of America, National Association ("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. As the amount of revenue that we can generate from marketers with respect to Cardlytics Direct is primarily a function of the number of active users on our FI partners' digital banking platforms, we believe that the number of FI MAUs of any FI partner is indicative of our level of dependence on such FI partner. During 2015, 2016, 2017 and the nine months ended September 30, 2018, our largest FI partner, Bank of America, contributed approximately 50%, 47%, 51% and 52% of our total FI MAUs, respectively. Lloyds TSB Bank plc ("Lloyds"), our largest FI partner in the U.K., contributed approximately 9%, 10%, 9% and 8% of our total FI MAUs in 2015, 2016, 2017 and the nine months ended September 30, 2018, respectively. Digital Insight Corporation, a subsidiary of NCR Corporation ("Digital Insight"), contributed approximately 15%, 13%, 11% and 10% of our total FI MAUs in 2015, 2016, 2017 and nine months ended September 30, 2018, respectively. We anticipate that Bank of America, will contribute a significant portion of our total FI MAUs for the foreseeable future.

In addition, we 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 the FIs' customers and certain third-party data costs. During 2015, 2016, 2017 and the nine months ended September 30, 2018, Bank of America accounted for 63%, 64%, 63% and 63% of the total FI Share we paid to all FIs, respectively. Lloyds accounted for 11%, 10%, 12% and 9% of the total FI Share we paid to all FIs in 2015, 2016, 2017 and the nine months ended September 30, 2018, respectively, and Digital Insight accounted for approximately 10%, 9%, 7% and 5% of the total FI Share we paid to all FIs in 2015, 2016, 2017 and the nine months ended September 30, 2018, respectively. We anticipate that Bank of America, will continue to receive a significant portion of our FI Share for the foreseeable future.

Our agreements with a substantial majority of our FI partners, including Bank of America, Lloyds and Digital Insight have three to five 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. In addition, even if our FI partners continued to work with us relating to Cardlytics Direct, our FI partners generally have the ability to cease providing us purchase data or limit the way in which we may potentially use their data outside of the Cardlytics Direct channel at any time since our contracts with our partners do not include any binding commitments to continue to provide purchase data to us for use outside their respective native bank advertising channel. 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 with respect to Bank of America (although Bank of America granted us a waiver) 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, Lloyds, Digital Insight or any other significant FI partner would significantly harm our business, results of operations and financial conditions.

If we fail to attract new FI partners or maintain our relationships with bank processors and digital banking providers, 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 attract new FI partners. A significant percentage of consumer credit and debit card spending is concentrated with the 15 largest FIs in the U.S., four 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 establish relationships with the large FIs that are not currently part of our network and to maintain our relationships with the large FIs that are 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, bank processors and digital banking providers. If we are unable to 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 industry verticals.

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 verticals such as hospitality and travel, and believe that our future success will depend, in part, on our ability to expand adoption of our solutions in new industry verticals. 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 industry verticals. Our success in expanding sales of our solutions to marketers in new industry verticals 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 23% of revenue for each of the years 2015, 2016 and 2017 and 24% for the nine months ended September 30, 2018. 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 27%, 21%, 24% and 27% of accounts receivable as of December 31, 2015, 2016 and 2017, and September 30, 2018, 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 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.

We do not have direct contractual relationships with a substantial majority of our FI partners.

As of September 30, 2018, we had a network in excess of 2,000 FI partners, but only had direct contractual relationships with 17 of these FI partners. Our other FI partners became part of our network through bank processors and digital banking providers, such as Digital Insight and Fidelity Information Services LLC ("FIS"). While FI partners that were part of our network through our relationships with Digital Insight and FIS contributed approximately 11% of our total number of FI MAUs for the nine months ended September 30, 2018, these indirect FI partners represented substantially all of our total FI partners as of September 30, 2018. These indirect FI partners may terminate their relationships with these bank processors or digital banking providers, thereby indirectly terminating their relationships with us, independent of the actual or perceived value of our solutions to them.

Delays in the launch of Cardlytics Direct at JPMorgan Chase or Wells Fargo, or failure to launch at all, may result in our failure to meet expectations with respect to future operating results.

In May 2018, we signed a seven-year agreement for a national launch of Cardlytics Direct with JPMorgan Chase Bank, National Association ("Chase"). In August 2018, we signed a four-year agreement with the initial term expiring on July 1, 2022, for a national launch of Cardlytics Direct with Wells Fargo Bank, National Association ("Wells Fargo"). The implementation of Chase and Wells Fargo may require significant investment in our systems and infrastructure, and we may encounter unforeseen technological issues which could cause delays in the launch, limitations to the scope of the launch or an inability to launch at all. In addition, Chase may terminate the agreement at any time upon 90 days' written notice and Wells Fargo may terminate the agreement at any time upon 180 days' written notice. If the launch of Cardlytics Direct at Chase or Wells Fargo is delayed, limited or terminated, our business, financial condition and operating results could be harmed.

We have a significant amount of debt, which may affect our ability to operate our business and secure additional financing in the future.

As of September 30, 2018, our total indebtedness was approximately \$46.8 million. On May 21, 2018, we entered into a New Loan Facility with Pacific Western Bank consisting of a \$30.0 million asset-based revolving line of credit ("2018 Line of Credit") and a \$20.0 million term loan ("2018 Term Loan") maturing on May 21, 2020. As of September 30, 2018, there was approximately \$26.8 million and \$20.0 million outstanding under the 2018 Line of Credit and 2018 Term Loan, respectively.

Our New Loan Facility is secured by substantially all of our assets and requires us, and any debt instruments we may enter into in the future may require us, to comply with various covenants that limit our ability to, among other things:

- dispose of assets;
- complete mergers or acquisitions;
- incur or guarantee indebtedness;
- sell or encumber certain assets;
- pay dividends or make other distributions to holders of our capital stock, including by way of certain stock buybacks;

- make specified investments;
- engage in different lines of business;
- change certain key management personnel; and
- engage in certain transactions with our affiliates.

We are also required under the New Loan Facility to satisfy and maintain specified financial condition tests. Our ability to meet those financial conditions and tests can be affected by events beyond our control and we may not meet those conditions and tests. These covenants may make it difficult to operate our business. A failure by us to comply with the covenants or financial conditions contained in our New Loan Facility could result in an event of default, which could adversely affect our ability to respond to changes in our business and manage our operations. Upon the occurrence of an event of default, including the occurrence of a material adverse change, the lenders could elect to declare all amounts outstanding to be due and payable and exercise other remedies as set forth in our New Loan Facility. If the indebtedness under our New Loan Facility were to be accelerated, our future financial condition could be materially adversely affected.

We may incur additional indebtedness in the future. The instruments governing such indebtedness could contain provisions that are as, or more, restrictive than our existing debt instruments. If we are unable to repay, refinance or restructure our indebtedness when payment is due, the lenders could proceed against any collateral granted to them to secure such indebtedness or force us into bankruptcy or liquidation.

A breach of the security of our systems could result in 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 FI partners' systems through our systems for the purpose of stealing 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. 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. A security breach could result in operation disruptions that 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 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, which were not met as of September 30, 2018. In 2017, we paid certain of our FI partners an aggregate of approximately \$2.6 million related to 2016 FI Share commitments in excess of the amount of FI Share otherwise payable to such FI partners in the absence of such commitments, and it is possible that we may be required to fund similar shortfalls in future periods. In certain cases, we are also responsible for funding certain development costs for user interface enhancements and implementation costs on behalf of FIs. We paid \$11.2 million in 2017 relating to such development and implementation cost commitments and have total commitments of \$9.3 million in 2018, \$5.8 million of which have been paid as of September 30, 2018. These agreements allow for reimbursements to us through future reductions to FI Share. Scheduled reductions in FI Share payments to the FI partner during the fourth quarter of 2018 and 2019 are \$1.3 million total \$4.6 million, respectively. To the extent that we are unable to generate revenue from marketers sufficient to offset these 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.

Our quarterly operating results may 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 attract and retain marketers, FI partners and bank processor and digital banking provider 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 FI partners to our network;
- the revenue mix between Cardlytics Direct and Other Platform Solutions, as well as between revenue generated from our operations in the U.S. and U.K.;
- changes in the economic prospects of marketers, the industries or verticals 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;
- 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;
- 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.

Each factor above or discussed elsewhere in this Quarterly Report on Form 10-Q 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 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 and bank processor and digital banking provider 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 our Cardlytics Direct solution 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 online spending. We are also reliant on our network of FI partners to promote their online 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 FI customers, FI customers may be less likely to purchase the products or solutions that are featured in 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 also cause us to over-run on campaigns, thus committing us to a higher amount of Consumer Incentives than our marketers approved, which would negatively affect the profitability of the affected campaigns. If sustained or repeated, these performance issues could reduce the attractiveness of our solutions to new and existing marketers and cause existing marketers to reduce or cease using our solutions, which could 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 would 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 generally 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. Our insertion orders may also be canceled by marketers or their marketing agencies prior to the completion of the campaign; 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 or marketing methods that are lower priced or perceived as more effective than our solutions. 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 we do not have long-term agreements 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 \$40.6 million, \$75.7 million, \$19.6 million and \$41.5 million in 2015, 2016, 2017 and the nine months ended September 30, 2018, respectively. As of September 30, 2018, we had an accumulated deficit of \$309.9 million. We have never achieved profitability on an annual or quarterly 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. With respect to our Other Platform Solutions, we compete with a number of established companies, as well as numerous emerging market entrants. 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, such as our nascent Other Platform 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, including the use of cookies;
- 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, 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 our Cardlytics Direct solution, 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 on December 31, 2020, 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.

In the years 2015, 2016, 2017 and the nine months ended September 30, 2018, we derived 11%, 11%, 13% and 12%, respectively, of our revenue outside the U.S. While we have an office in the U.K., substantially all of our operations are located in the U.S. We have, however, announced our intent to open a research and development 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;
- 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.

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, we could lose the innovation, creativity and teamwork fostered by our culture, and our business may be harmed.

As of September 30, 2018, we had 384 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. 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, 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, Scott Grimes, our Chief Executive Officer, and Lynne Laube, our Chief Operating Officer. 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.

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. office in the local currency. Fluctuations in the exchange rates between the U.S. dollar and the British pound 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 business may be subject to additional obligations to collect and remit sales tax and other taxes, and we may be subject to tax liability for past sales. Any successful action by state, local or other authorities to collect additional or past sales tax could adversely harm our business.

We are subject to federal, state and local taxes in the U.S. and similar taxes in foreign jurisdictions. Significant judgment is required in evaluating our tax positions and our worldwide provision for taxes. During the ordinary course of business, there are many activities and transactions for which the ultimate tax determination is uncertain. We may be audited in various jurisdictions, and such jurisdictions may assess additional taxes against us. Although we believe that our tax estimates are reasonable, the final determination of any tax audits or litigation could be materially different from our historical tax provisions and accruals, which could have a material adverse effect on our operating results or cash flows in the period or periods for which a determination is made.

We do not collect sales or other similar taxes in certain states and many of the states do not apply sales or similar taxes to certain of our solutions. State, local and foreign taxing jurisdictions have differing rules and regulations governing sales and use taxes, and these rules and regulations are subject to varying interpretations that may change over time. In particular, the applicability of sales taxes to our solutions in various jurisdictions is unclear. We review these rules and regulations periodically and, when we believe we are subject to sales and use taxes in a particular state, we may voluntarily engage state tax authorities to determine how to comply with their rules and regulations. A successful assertion by one or more states, including states for which we have not accrued tax liability, requiring us to collect sales or other taxes with respect to sales of our solutions could result in substantial tax liabilities for past transactions, including interest and penalties, discourage customers from purchasing our solutions or otherwise harm our business, financial condition and operating results.

Determining our income tax rate is complex and subject to uncertainty.

The computation of provision for income tax is complex, as it is based on the laws of numerous taxing jurisdictions and requires significant judgment on the application of complicated rules governing accounting for tax provisions under generally accepted accounting principles in the U.S. Provision for income tax for interim quarters is based on a forecast of our U.S. and non-U.S. effective tax rates for the year, which includes forward looking financial projections, including the expectations of profit and loss by jurisdiction, and contains numerous assumptions. Various items cannot be accurately forecasted and future events may be treated as discrete to the period in which they occur. Our provision for income tax can be materially impacted, for example, by the geographical mix of our profits and losses, changes in our business, such as internal restructuring and acquisitions, changes in tax laws and accounting guidance and other regulatory, legislative or judicial developments, tax audit determinations, changes in our uncertain tax positions, changes in our intent and capacity to permanently reinvest foreign earnings, changes to our transfer pricing practices, tax deductions attributed to equity compensation and changes in our need for a valuation allowance for deferred tax assets. For these reasons, our actual income taxes may be materially different than our provision for income tax.

Our use of our net operating loss carryforwards may be limited and such carryforwards may expire unutilized or underutilized.

We may be limited in the portion of our net operating loss carryforwards that we can use in the future to offset taxable income for U.S. federal and state income tax purposes. As of December 31, 2017, we had U.S. federal and state net operating loss carryforwards ("NOLs"), of \$220.5 million and \$76.3 million, respectively, which expire in various years beginning in 2028. If we do not earn sufficient taxable income in the future, our NOLs may expire unutilized or underutilized. In addition, under Section 382 of the Internal Revenue Code of 1986, as amended, or the Code, a corporation that undergoes an "ownership change" is subject to limitations on its ability to utilize its existing NOLs to offset future taxable income. We may have experienced "ownership changes" under Section 382 of the Code in the past, and subsequent 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 Section 382 of the Code. If we are or become subject to limitations on our use of NOLs under Section 382 of the Code, our NOLs could expire unutilized or underutilized, even if we earn taxable income against which our NOLs could otherwise be offset. Our NOLs may also be impaired under similar provisions of state law. We have recorded a full valuation allowance related to our NOLs in our financial statements and other net deferred tax assets due to the uncertainty of the ultimate realization of the future benefits of those assets.

Comprehensive tax reform bills could adversely affect our business and financial condition.

The U.S. government recently enacted comprehensive tax legislation that includes significant changes to the taxation of business entities. These changes include, among others, (i) a permanent reduction to the corporate income tax rate, (ii) a partial limitation on the deductibility of business interest expense, (iii) a shift of the U.S. taxation of multinational corporations from a tax on worldwide income to a territorial system (along with certain rules designed to prevent erosion of the U.S. income tax base) and (iv) a one-time tax on accumulated offshore earnings held in cash and illiquid assets, with the latter taxed at a lower rate. Notwithstanding the reduction in the corporate income tax rate, the overall impact of this tax reform is uncertain, and our business and financial condition could be adversely affected. This Quarterly Report on Form 10-Q does not discuss any such tax legislation or the manner in which it might affect purchasers of our common stock. We urge our stockholders to consult with their legal and tax advisors with respect to any such legislation and the potential tax consequences of investing in our common stock.

Unfavorable conditions in the global economy or the vertical markets 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. These conditions make it extremely difficult for marketers and us to accurately forecast and plan future business activities, and could cause marketers to reduce or delay their marketing spending. 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.

In addition, our business may be materially and adversely affected by weak economic conditions in the specific vertical markets 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. 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.

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 and other similar events may significantly disrupt our business, and negatively impact our business, financial condition and operating results.

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. 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.

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 even if they do, any increased revenue 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 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 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.

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 IP 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, the California Consumer Privacy Act of 2018, which will become effective on January 1, 2020, has an expansive definition of “personal information” that may impact our business practices or those of our FI partners.

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. Within the European Union, or EU, where we currently have an active presence in the U.K., Directive 2009/136/EC, commonly referred to as the “Cookie Directive,” directs EU member states to ensure that accessing information on an internet user’s computer, such as through a cookie, is allowed only if the internet user has given his or her consent. In response, some member states have implemented legislation requiring entities to obtain the user’s consent before placing cookies for targeted marketing purposes.

In the U.K., for example, the Privacy and Electronic Communications Regulations 2011, or 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 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 IP 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 performance may decline and we may lose customers and revenue.

Our solutions may use matching technologies, such as cookies, pixels and device identifiers, 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. Our matching technologies may sometimes be “third-party cookies” because they are placed on individual browsers when internet users visit a website that is not part of the Cardlytics.com domain. These matching technologies are placed through an internet browser on an internet user’s computer and correspond with a data set that we retain on our servers. Our matching technologies only record anonymized information and the date that the matching technology was last refreshed. When our matching technologies are present and a user is exposed to marketing content targeted or deployed with our solutions, we are able to gain insight into that user’s interaction with the marketing content. If our access to matching technology data is reduced, our ability to conduct our business in the current manner may be affected and thus undermine the effectiveness of our solutions.

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. If more browser manufacturers and internet users adopt these settings or delete their cookies more frequently than they currently do, our business could be negatively affected. 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, 2018, we had four issued patents and are pursuing five 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 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 Direct 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 and the filing of an encryption registration. 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.

Prior to our initial public offering ("IPO") on February 8, 2018, there was no public market for our common stock. 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 \$11.10 to an intraday high of \$28.29 through September 30, 2018. 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.

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. 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.

Concentration of ownership among our current directors, executive officers and their affiliates may limit an investor's ability to influence significant corporate decisions.

Our directors and executive officers, together with their affiliates, beneficially own a significant portion of our outstanding capital stock. As a result, these stockholders, acting together, will have substantial influence over the outcome of matters submitted to our stockholders for approval, including the election of directors and approval of significant corporate transactions, such as a merger or other sale of our company or its assets. This concentration of ownership could delay, defer or prevent a change in control of the company, merger, consolidation, takeover or other business combination, which in turn could adversely affect the market price of our common stock.

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. 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 U.S. Securities and Exchange Commission ("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.

In particular, in May 2014, the FASB issued Accounting Standards Update ("ASU") 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which supersedes the revenue recognition requirements in Accounting Standards Codification, or ASC, Topic 605, *Revenue Recognition*, and permits the use of either the retrospective or modified retrospective transition method. The core principle of ASU 2014-09 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. As an "emerging growth company," the Jumpstart our Business Startups Act of 2012, or 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 with respect to ASU 2014-09, which will result in ASU 2014-09 becoming applicable to us on January 1, 2019. During the first quarter of 2018, we began assessing the impacts, if any, that this ASU may have on our results of operations, current accounting policies, processes, controls, systems and financial statement disclosures. Based on our initial assessment, we expect to adopt this new standard using the modified retrospective transition method that will result in a cumulative adjustment as of the date of the adoption. We also expect to continue to report our revenue on our condensed consolidated statements of operations net of Consumer Incentives and gross of FI Share. We are continuing to assess the impact of this standard on our financial position, results of operations and related disclosures and have not yet determined whether the effect will be material.

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

We are an “emerging growth company,” as defined in the JOBS Act and we may take 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 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.

As a result of becoming a public company, we will be 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 will be 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, beginning with our 2019 fiscal year. This assessment will need to include disclosure of any material weaknesses identified by our management in our internal control over financial reporting. Our independent registered public accounting firm will not be required to attest to the effectiveness of our internal control over financial reporting until our first annual report required to be filed with the SEC following the date we are no longer an “emerging growth company,” as defined in the JOBS Act. We will be required to disclose significant changes made in our internal control procedures on a quarterly basis.

We have commenced the costly and challenging process of compiling the system and processing documentation necessary to perform the evaluation needed to comply with Section 404, and we may not be able to complete our evaluation, testing and any required remediation in a timely fashion. Our compliance with Section 404 will require that we incur substantial accounting expense and expend significant management efforts. We currently do not have an internal audit group, and we may need to hire additional accounting and financial staff with appropriate public company experience and technical accounting knowledge and compile the system and process documentation necessary to perform the evaluation needed to comply with Section 404.

During the evaluation and testing process of our internal controls, if we identify one or more material weaknesses in our internal control over financial reporting, we will be unable to assert that our internal control over financial reporting is effective. We cannot assure you that there will not be material weaknesses or significant deficiencies in our internal control over financial reporting in the future. Any failure to maintain internal control over financial reporting could severely inhibit our ability to accurately report our financial condition and operating results. If we are unable to conclude that our internal control over financial reporting is effective, or if our independent registered public accounting firm determines we have a material weakness or significant deficiency in our internal control over financial reporting, we could lose investor confidence in the accuracy and completeness of our financial reports, the market price of our common stock could decline, and we could be subject to sanctions or investigations by the SEC or other regulatory authorities. Failure to remedy any material weakness in our internal control over financial reporting, or to implement or maintain other effective control systems required of public companies, could also restrict our future access to the capital markets.

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 will 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 (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. 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

Issuances of Common Stock upon the Settlement of Restricted Securities Unit Awards and Exercise of Warrants

In August 2018, we issued 37,406 shares of common stock to certain of our current and former executive officers in full satisfaction of our obligation pursuant to outstanding restricted securities units. Upon issuance of these awards in 2016, they were indexed to our convertible promissory notes with a face value of \$1.0 million, and as a result of our Series G preferred stock financing in May 2017, the awards became indexed to our Series G' preferred stock. Upon the completion of our IPO in February 2018, the restricted securities units became indexed to our common stock and became fully vested. The issuance of common stock issued in the settlement of these awards was issued pursuant to written compensatory plans or arrangements with our current and former executive officers, in reliance on the exemption from registration provided by Rule 701 promulgated under the Securities Act.

In August 2018, we issued warrants to purchase 792,434 shares of common stock at an exercise price of \$0.0004 per share to the 14 accredited cash investors of our Series G stock financing, pursuant to our Series G stock purchase agreement. The warrants had a fair valuation of \$15.3 million upon issuance and were immediately net exercised, resulting in the issuance of 792,434 shares of common stock. The common stock issued upon these net exercises was issued pursuant to the exemption from registration provided by Section 3(a)(9) of the Securities Act.

Use of Proceeds from Initial Public Offering of Common Stock

On February 13, 2018, we closed our IPO in which we issued and sold 5,400,000 shares of common stock at a public offering price of \$13.00 per share, resulting in gross proceeds of \$70.2 million. On February 14, 2018, pursuant to the underwriters' partial exercise of their over-allotment option to purchase up to an additional 810,000 shares from us, we issued and sold an additional 421,355 shares of our common stock, resulting in incremental gross proceeds of \$5.5 million. All of the shares issued and sold in our IPO were registered under the Securities Act pursuant to a registration statement on Form S-1 (File No. 333-222531), which was declared effective by the SEC on February 8, 2018. Merrill Lynch, Pierce, Fenner & Smith Incorporated and J.P. Morgan Securities LLC acted as joint book-running managers of our IPO. Wells Fargo Securities, LLC and SunTrust Robinson Humphrey, Inc. also acted as book-runners for the IPO. Raymond James & Associates, Inc. and KeyBanc Capital Markets Inc. acted as the co-managers for the IPO.

The net proceeds to us, after deducting underwriting discounts and commission of approximately \$5.3 million and offering expenses of approximately \$4.3 million, were approximately \$66.1 million. No offering expenses were paid directly or indirectly to any of our directors or officers (or their associates) or persons owning ten percent or more of any class of our equity securities or to any other affiliates. There has been no material change in the planned use of proceeds from our IPO from those disclosed in the final prospectus for our IPO dated February 8, 2018 and filed with the SEC pursuant to Rule 424(b)(4) of the Securities Act on February 9, 2018.

Purchases of Equity Securities

We did not purchase any of our registered equity securities during the period covered by this Quarterly Report on Form 10-Q.

ITEM 6. EXHIBITS

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

Exhibit	Exhibit Description	Incorporated by Reference				Filed Herewith
		Schedule /Form	File Number	Exhibit	Filing Date	
3.1	Amended and Restated Certificate of Incorporation of the Registrant	S-1	333-222531	3.2	1/12/2018	
3.2	Amended and Restated Bylaws of the Registrant	S-1	333-222531	3.4	1/12/2018	
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

* 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 13, 2018

By: /s/ Scott D. Grimes
Scott D. Grimes
Chief Executive Officer
(Principal Executive Officer)

Date: November 13, 2018

By: /s/ David T. Evans
David T. Evans
Chief Financial Officer
(Principal Financial and Accounting Officer)

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

I, Scott D. Grimes, 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)) 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. 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
 - c. 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 13, 2018

By: /s/ Scott D. Grimes

Scott D. Grimes
Chief Executive Officer
(Principal Executive Officer)

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

I, David T. Evans, 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)) 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. 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
 - c. 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 13, 2018

By: /s/ David T. Evans

David T. Evans

Chief Financial Officer

(Principal Financial and Accounting Officer)

**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), Scott D. Grimes, Chief Executive Officer of Cardlytics, Inc. (the "Company"), and David T. Evans, 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, 2018 (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 13, 2018

By: /s/ Scott D. Grimes
Scott D. Grimes
Chief Executive Officer
(Principal Executive Officer)

Date: November 13, 2018

By: /s/ David T. Evans
David T. Evans
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.