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

Form 10-Q

(Mark One)

☒ **Quarterly Report Pursuant to Section 13 or 15(d) of the Securities and Exchange Act of 1934**

For the Quarterly Period Ended June 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 001-37584

CPI Card Group Inc.

(Exact name of the registrant as specified in its charter)

Delaware	**26-0344657**
(State or other jurisdiction of incorporation or organization)	(I.R.S. employer identification no.)
10026 West San Juan Way **Littleton, CO**	**80127**
(Address of principal executive offices **)**	**(** Zip Code **)**

(303) 973-9311
(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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 and post such files). Yes☒ No☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer", "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	☐	Accelerated filer	☐
Non-accelerated filer (Do not check if a smaller reporting company)	☐	Smaller reporting company	☒
		Emerging growth company	☒

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

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

Number of shares of Common Stock, $0.001 par value, outstanding as of July 25, 2018: 11,159,71 4

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Item 1. Financial Statement s

CPI Card Group Inc. and Subsidiaries
Condensed Consolidated Balance Sheets
(Dollars in Thousands, Except Share and Per Share Amounts)

	June 30, 2018 (Unaudited)	December 31, 2017
Assets		
Current assets:		
Cash and cash equivalents	$ 17,750	$ 23,205
Accounts receivable, net	43,601	32,531
Inventories	10,455	13,799
Prepaid expenses and other current assets	3,901	3,681
Income taxes receivable	6,718	8,208
Assets of discontinued operation	8,016	20,651
Total current assets	90,441	102,075
Plant, equipment and leasehold improvements, net	40,038	44,436
Intangible assets, net	37,765	40,093
Goodwill	47,150	47,150
Other assets	205	251
Total assets	$ 215,599	$ 234,005
Liabilities and stockholders' deficit		
Current liabilities:		
Accounts payable	$ 15,678	$ 13,239
Accrued expenses	15,705	12,789
Income taxes payable	678	—
Deferred revenue and customer deposits	509	3,342
Liabilities of discontinued operation	7,807	5,669
Total current liabilities	40,377	35,039
Long-term debt	304,841	303,869
Deferred income taxes	7,925	12,168
Other long-term liabilities	2,716	2,503
Total liabilities	355,859	353,579
Commitments and contingencies (Note 13)		
Stockholders' deficit:		
Common stock; $0.001 par value—100,000,000 shares authorized; 11,159,714 and 11,134,714 shares issued and outstanding at June 30, 2018 and December 31, 2017, respectively	11	11
Capital deficiency	(112,377)	(113,081)
Accumulated loss	(22,571)	(1,366)
Accumulated other comprehensive loss	(5,323)	(5,138)
Total stockholders' deficit	(140,260)	(119,574)
Total liabilities and stockholders' deficit	$ 215,599	$ 234,005

See accompanying notes to condensed consolidated financial statements

CPI Card Group Inc. and Subsidiaries
Condensed Consolidated Statements of Operations and Comprehensive Loss
(Dollars in Thousands, Except Share and Per Share Amounts)
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Net sales:				
Products	$ 31,494	$ 26,640	$ 56,238	$ 52,866
Services	29,960	28,196	60,073	52,391
Total net sales	61,454	54,836	116,311	105,257
Cost of sales:				
Products (exclusive of depreciation and amortization shown below)	18,962	17,943	35,280	35,106
Services (exclusive of depreciation and amortization shown below)	19,116	17,533	39,780	33,444
Depreciation and amortization	3,501	2,694	6,949	5,393
Total cost of sales	41,579	38,170	82,009	73,943
Gross profit	19,875	16,666	34,302	31,314
Operating expenses:				
Selling, general and administrative (exclusive of depreciation and amortization shown below)	15,756	14,304	31,084	29,228
Depreciation and amortization	1,465	1,641	2,927	3,277
Total operating expenses	17,221	15,945	34,011	32,505
Income (loss) from operations	2,654	721	291	(1,191)
Other expense, net:				
Interest, net	(5,586)	(5,165)	(11,092)	(10,228)
Foreign currency (loss) gain	(466)	153	(264)	172
Other income, net	3	4	7	6
Total other expense, net	(6,049)	(5,008)	(11,349)	(10,050)
Loss from continuing operations before income taxes	(3,395)	(4,287)	(11,058)	(11,241)
Income tax benefit	2,593	1,014	4,578	3,371
Net loss from continuing operations	(802)	(3,273)	(6,480)	(7,870)
Net (loss) income from discontinued operation, net of tax (see Note 3)	(15,907)	1,112	(17,521)	1,202
Net loss	$ (16,709)	$ (2,161)	$ (24,001)	$ (6,668)
Basic and diluted loss per share:				
Continuing operations	$ (0.07)	$ (0.30)	$ (0.58)	$ (0.71)
Discontinued operation	(1.43)	0.10	(1.57)	0.11
Net loss per share	$ (1.50)	$ (0.20)	$ (2.15)	$ (0.60)
Basic and diluted weighted-average shares outstanding	11,143,230	11,122,436	11,138,972	11,103,655
Dividends declared per common share	$ —	$ 0.225	$ —	$ 0.45
Comprehensive loss:				
Net loss	$ (16,709)	$ (2,161)	$ (24,001)	$ (6,668)
Currency translation adjustment	(495)	586	(185)	787
Total comprehensive loss	$ (17,204)	$ (1,575)	$ (24,186)	$ (5,881)

See accompanying notes to condensed consolidated financial statements

CPI Card Group Inc. and Subsidiaries
Condensed Consolidated Statements of Cash Flows
(Dollars in Thousands)
(Unaudited)

	Six Months Ended June 30,	
	2018	2017
Operating activities		
Net loss	$ (24,001)	$ (6,668)
Adjustments to reconcile net loss to net cash used in operating activities:		
Loss (income) from discontinued operation	17,521	(1,202)
Depreciation and amortization expense	9,876	8,670
Stock-based compensation expense	784	860
Amortization of debt issuance costs and debt discount	972	975
Deferred income taxes	(4,782)	(540)
Other, net	158	94
Changes in operating assets and liabilities:		
Accounts receivable	(6,577)	(6,964)
Inventories	(2,466)	(1,776)
Prepaid expenses and other assets	(299)	(31)
Income taxes	2,284	(3,987)
Accounts payable	2,271	3,399
Accrued expenses	3,093	(1,228)
Deferred revenue and customer deposits	25	555
Other liabilities	(212)	422
Cash used in operating activities - continuing operations	(1,353)	(7,421)
Cash used in operating activities - discontinued operation	(1,152)	(841)
Investing activities		
Acquisitions of plant, equipment and leasehold improvements	(2,109)	(4,343)
Cash used in investing activities - continuing operations	(2,109)	(4,343)
Cash used in investing activities - discontinued operation	(536)	(1,440)
Financing activities		
Payments on capital lease obligations	(306)	—
Dividends paid on common stock	—	(5,026)
Taxes withheld and paid on stock-based compensation awards	—	(339)
Cash used in financing activities	(306)	(5,365)
Effect of exchange rates on cash	1	386
Net decrease in cash and cash equivalents	(5,455)	(19,024)
Cash and cash equivalents, beginning of period	23,205	36,955
Cash and cash equivalents, end of period	$ 17,750	$ 17,931
Supplemental disclosures of cash flow information		
Cash paid during the period for:		
Interest	$ 9,783	$ 9,096
Income taxes, net (refunds) payments	$ (1,504)	$ 1,068
Capital lease obligations incurred for certain machinery and equipment leases	$ 821	$ —
Accounts payable for acquisitions of plant, equipment and leasehold improvements	$ 970	$ 1,233

See accompanying notes to condensed consolidated financial statements

CPI Card Group Inc. and Subsidiaries
Notes to Condensed Consolidated Financial Statements
(Dollars in Thousands, Except Share and Per Share Amounts or as Otherwise Indicated)
(Unaudited)

1. Business Overview and Summary of Significant Accounting Policies

Business Overview

CPI Card Group Inc. (which, together with its subsidiaries, is referred to herein as "CPI" or the "Company") is engaged in the design, production, data personalization, packaging and fulfillment of Financial Payment Cards, which the Company defines as credit cards, debit cards and prepaid debit cards issued on the networks of the Payment Card Brands (Visa, MasterCard, American Express, Discover and Interac (in Canada)) in the United States and Canada. The Company also is engaged in the design, production, data personalization, packaging and fulfillment of retail gift and loyalty cards (primarily in Canada).

As a producer and provider of services for Financial Payment Cards, each of the Company's secure facilities must be certified by one or more of the Payment Card Brands and is therefore subject to specific requirements and conditions. Noncompliance with these requirements would prohibit the individual facilities of the Company from producing Financial Payment Cards for these entities' payment card issuers.

During February 2018, the Company made the decision to consolidate three personalization operations in the United States into two facilities to better enable the Company to optimize operations and achieve market-leading quality and service with a cost-competitive business model. In conjunction with this decision, the Company accelerated the depreciation of certain related assets, which totaled $1,332 for the three months ended June 30, 2018 and $2,132 for the six months ended June 30, 2018, and recorded severance charges of $223 and $552 for these same respective time periods. The Company recorded a lease termination charge of $432 in the three months ended June 30, 2018. The charges were recorded in the U.S. Debit and Credit segment and primarily included in "Cost of sales" on the Condensed Consolidated Statement of Operations.

Basis of Presentation

Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") have been condensed or omitted pursuant to Form 10-Q and Article 10 of Regulation S-X. In the opinion of management, these financial statements reflect all adjustments (consisting of normal recurring adjustments) considered necessary for the fair statement of the results of the interim periods presented. The Condensed Consolidated Balance Sheet as of December 31, 2017 is derived from the audited financial statements as of that date. The accompanying condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and related notes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2017.

During the second quarter of 2018, the Company met the criteria to report a probable business sale of the UK Limited segment as a discontinued operation. On August 3, 2018, the Company completed the sale. See Note 16 "Subsequent Event" for further information. The Company has restated the comparative financial information in conformity with GAAP. Unless otherwise indicated, information in these notes to the unaudited condensed consolidated financial statements relate to continuing operations. See Note 3.

On December 20, 2017, the Company effected a one-for-five reverse stock split of its common stock, whereby each lot of five shares of common stock issued and outstanding immediately prior to the reverse stock split was converted into and became one share of common stock. Share and per share amounts reflect the one-for-five reverse stock split for all periods presented.

Use of Estimates

Management uses estimates and assumptions relating to the reporting of assets and liabilities in its preparation of the condensed consolidated financial statements. Significant items subject to such estimates and assumptions include the carrying amount of property and equipment, goodwill and intangible assets, valuation allowances for inventories and

deferred tax assets, debt, discontinued operations, revenue recognized for period-end work in process and stock-based compensation expense. Actual results could differ from those estimates.

Machinery and Equipment Financing

The Company leases certain machinery and equipment under capital leases. The assets and liabilities under these capital leases are recorded at the lower of the present value of the minimum lease payments or the fair value of the asset. Once ready for their intended use, the assets are depreciated over the lower of their related lease term or their estimated productive lives.

Adoption of New Accounting Standard

As of January 1, 2018, the Company adopted Accounting Standards Update ("ASU") 2014-09, *Revenue from Contracts with Customers* , as amended ("ASU 2014-09"), which 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 the entity expects to be entitled in exchange for those goods or services. ASU 2014-09 also requires an entity to disclose sufficient quantitative and qualitative information to enable users of financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. The Company adopted ASU 2014-09 as of January 1, 2018 to all its contracts using the modified retrospective method and recognized the cumulative effect of adoption as an adjustment to the opening balance of "Accumulated loss" on the Condensed Consolidated Balance Sheet. Under the new guidance, the Company recognizes certain performance obligations over time as the goods are produced, since those products provide value to only a specified customer, have no alternative use and the Company has the right to payment for work completed on such items. This accelerates the timing of revenue recognition for these arrangements, as revenue is recognized as goods are produced rather than upon shipment or delivery of goods. In addition, as a result of adopting the new guidance, the Company has recorded decreases to deferred revenue, and work in process and finished goods inventories, and an increase to accounts receivable. These changes are reflected in the adoption adjustments table below. The comparative financial information has not been restated and continues to be reported under the accounting standards in effect for those periods.

See Note 2 "Revenue" for revenue recognition timing and methodology under ASU 2014-09.

The cumulative effects of the adjustments made to the Company's January 1, 2018 Condensed Consolidated Balance Sheet upon adoption of ASU 2014-09 were as follows:

	December 31, 2017	Adoption Adjustments	January 1, 2018
Assets:			
Accounts receivable, net	$ 32,531	$ 5,991	$ 38,522
Inventories	13,799	(5,929)	7,870
Assets of discontinued operation	20,651	(357)	20,294
Liabilities:			
Deferred revenue and customer deposits	3,342	(3,063)	279
Liabilities of discontinued operation	5,669	(535)	5,134
Deferred income taxes	12,168	479	12,647
Stockholders' deficit:			
Accumulated (loss) earnings	(1,366)	2,824	1,458

In accordance with ASU 2014-09, the impact on the Company's Condensed Consolidated Balance Sheet and Statement of Operations and Comprehensive Loss was as follows:

Balance Sheet	As Reported June 30, 2018	Adjustments	Balances Without Adoption of ASU 2014-09
Assets:			
Accounts receivable, net	$ 43,601	$ (7,115)	$ 36,486
Inventories	10,455	5,217	15,672
Assets of discontinued operation	8,016	229	8,245
Liabilities:			
Deferred revenue and customer deposits	509	—	509
Liabilities of discontinued operation	7,807	390	8,197
Deferred income taxes	7,925	(479)	7,446
Stockholders' deficit:			
Accumulated loss	(22,571)	(1,580)	(24,151)

	Three Months Ended June 30, 2018			Six Months Ended June 30, 2018		
Statement of Operations and Comprehensive Loss	As Reported June 30, 2018	Adjustments	Balances Without Adoption of ASU 2014-09	As Reported June 30, 2018	Adjustments	Balances Without Adoption of ASU 2014-09
Net sales:						
Products	$ 31,494	$ 158	$ 31,652	$ 56,238	$ (656)	$ 55,582
Services	29,960	(588)	29,372	60,073	(365)	59,708
Cost of sales:						
Products (exclusive of depreciation and amortization)	18,962	1	18,963	35,280	(918)	34,362
Services (exclusive of depreciation and amortization)	19,116	(248)	18,868	39,780	(68)	39,712
Gross profit	19,875	(183)	19,692	34,302	(35)	34,267
Income tax benefit	2,593	38	2,631	4,578	7	4,585
Net loss from continuing operations	(802)	(145)	(947)	(6,480)	(28)	(6,508)
Net loss from discontinued operation, net of tax	(15,907)	(28)	(15,935)	(17,521)	(19)	(17,540)

Recently Issued Accounting Pronouncements

In February 2016, the Financial Accounting Standards Board (the "FASB") issued ASU 2016-02, *Leases* ("ASU 2016-02"), which provides guidance for accounting for leases. The new guidance requires companies to recognize the assets and liabilities for the rights and obligations created by leased assets. ASU 2016-02 is effective for annual and interim periods beginning after December 15, 2018 (the Company's fiscal year 2019) with early adoption permitted. The new guidance requires the recognition and measurement of leases at the beginning of the earliest comparative period presented in the financial statements using a modified retrospective approach, with an option to apply the transition provisions of the new guidance at the adoption date without adjusting the comparative periods presented. The Company is considering the method of transition upon adoption of this guidance. The Company is in the process of assessing the impact of ASU 2016-02 on its results of operations, financial position and consolidated financial statements.

During 2017, the Company early adopted ASU 2017-04, *Intangibles – Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment* ("ASU 2017-04") in conjunction with its annual impairment testing effective October 1, 2017. In accordance with ASU 2017-04, an entity should perform its goodwill impairment test by comparing the fair value of the reporting unit with its carrying amount, and recognize an impairment charge for the amount by which the carrying amount of the reporting unit exceeds its fair value.

2. Revenue

The Company disaggregates its revenue by major source as follows:

	Three Months Ended June 30, 2018			Six Months Ended June 30, 2018		
	Products	Services	Total	Products	Services	Total
U.S. Debit and Credit	$ 30,444	$ 13,399	$ 43,843	$ 54,164	$ 26,827	$ 80,991
U.S. Prepaid Debit	—	15,427	15,427	—	30,938	30,938
Other	1,625	1,355	2,980	3,000	2,679	5,679
Intersegment eliminations	(575)	(221)	(796)	(926)	(371)	(1,297)
Total	$ 31,494	$ 29,960	$ 61,454	$ 56,238	$ 60,073	$ 116,311

For periods after January 1, 2018, the Company accounts for its revenue as follows:

Products Revenue

" Products" revenue is recognized when obligations under the terms of a contract with a customer are satisfied. In most instances, this occurs over time as cards are manufactured for specific customers and have no alternative use and the Company has an enforceable right to payment for work performed. For work performed but not completed and unbilled, the Company estimates revenue by taking actual costs incurred and applying historical margins for similar types of contracts. Items included in "Products" revenue are manufactured Financial Payment Cards, including in contact-EMV®, Dual-Interface EMV®, contactless and magnetic stripe cards, private label credit cards and retail gift cards. Card@Once® printers and consumables are also included in "Products" revenue, and their associated revenues are recognized at the time of shipping.

Services Revenue

Revenue is recognized for "Services" as the services are performed. Items included in "Services" revenue include the personalization and fulfillment of Financial Payment Cards, providing tamper-evident secure packaging and fulfillment services to Prepaid Debit Card program managers and software as a service personalization of instant issuance debit cards. For work performed but not completed and unbilled, the Company estimates revenue by taking actual costs incurred and applying historical margins for similar types of contracts.

Customer Contracts

The Company often enters into Master Services Agreements ("MSAs") with its customers. Generally, an MSA requires a customer to place subsequent purchase orders or statements of work to obtain goods or services, thus creating enforceable rights and obligations for goods and services for the parties. The contract term as defined by ASU 2014-09 is the length of time it takes to deliver the goods or services promised under the purchase order or statement of work. As such, the Company's contracts are generally short term in nature.

3. Discontinued Operation

During the second quarter of 2018, the Company met the criteria to report a probable business sale in the U.K. Limited segment as a discontinued operation. On August 3, 2018, the Company completed the sale. See Note 16 "Subsequent Event" for further information. The financial position, results of operations and cash flows have been restated for all periods to conform with the discontinued operation presentation. The Company is not expected to retain significant continuing involvement with the discontinued operation subsequent to the disposal. In connection with the planned sale, the Company performed a goodwill impairment test and recorded a charge of $6,366. The impairment was

a result of continued market softness in the U.K. Limited segment, resulting in lower sales and margins and an expected sales price below the carrying value of the segment. The Company also recorded an impairment charge of $1,249 to customer relationship intangible assets related to the U.K. Limited segment. The Company measured the net assets of the discontinued operation at their fair values less costs to sell, and recorded an additional $7,244 loss on the discontinued operation classification.

The balances of assets and liabilities as presented in the table below are comprised primarily of the discontinued operation. The carrying amounts of the major classes of assets and liabilities of the discontinued operation as of June 30, 2018 were as follows:

	June 30, 2018	December 31, 2017
Assets:		
Accounts receivable	$ 5,244	$ 5,006
Inventories	1,626	2,438
Other assets	506	506
Plant, equipment and leasehold improvements	7,884	4,864
Intangible assets	—	1,379
Goodwill	—	6,458
Loss recognized on discontinued operation classification	(7,244)	—
Total assets of discontinued operation	8,016	20,651
Liabilities:		
Accounts payable	3,754	3,307
Other current liabilities	1,499	1,866
Other long-term liabilities	2,554	496
Total liabilities of discontinued operation	$ 7,807	$ 5,669

The major line items constituting the (loss) income of the discontinued operation for the three and six months ended June 30, 2018 and 2017 were as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Total net sales	$ 4,587	$ 11,010	$ 8,799	$ 16,597
Total cost of sales	4,300	8,391	8,498	12,530
Selling, general and administrative	1,446	1,373	3,066	2,716
Impairments	7,615	—	7,615	—
Other expense (income), net	21	(31)	29	(85)
Pretax (loss) income from discontinued operation	(8,795)	1,277	(10,409)	1,436
Pretax loss on discontinued operation classification	(7,244)	—	(7,244)	—
Total pretax (loss) income on discontinued operation	(16,039)	1,277	(17,653)	1,436
Income tax benefit (expense)	132	(165)	132	(234)
Net (loss) income from discontinued operation	$ (15,907)	$ 1,112	$ (17,521)	$ 1,202

4. Accounts Receivable

Accounts receivable consisted of the following:

	June 30, 2018	December 31, 2017
Trade accounts receivable	$ 37,049	$ 32,579
Unbilled accounts receivable	6,699	—
	43,748	32,579
Less allowance for doubtful accounts	(147)	(48)
	$ 43,601	$ 32,531

5 . Inventories

Inventories are summarized below:

	June 30, 2018	December 31, 2017
Raw materials	$ 7,974	$ 5,718
Work-in-process	—	5,107
Finished goods	2,481	2,974
	$ 10,455	$ 13,799

6. Plant, Equipment and Leasehold Improvements

Plant, equipment and leasehold improvements consisted of the following:

	June 30, 2018	December 31, 2017
Machinery and equipment	$ 54,722	$ 58,595
Machinery and equipment under capital leases	821	—
Furniture, fixtures and computer equipment	3,960	6,288
Leasehold improvements	18,158	19,601
Construction in progress	2,318	1,512
	79,979	85,996
Less accumulated depreciation	(39,941)	(41,560)
	$ 40,038	$ 44,436

Depreciation of plant, equipment and leasehold improvements, including depreciation of assets under capital leases, was $3,802 and $3,163 for the three months ended June 30, 2018 and 2017, respectively, and $7,548 and $6,327 for the six months ended June 30, 2018 and 2017, respectively.

7. Goodwill and Other Intangible Assets

The Company reports all of its goodwill in its U.S. Debit and Credit segment at June 30, 2018 and December 31, 2017.

Intangible assets consist of customer relationships, technology and software, non-compete agreements and trademarks. The changes in the cost basis of the intangibles from December 31, 2017 to June 30, 2018 were related to foreign currency translation adjustments. Intangible amortization expense was $1,164 and $1,172 for the three months ended June 30, 2018 and 2017, respectively, and $2,328 and $2,343 for the six months ended June 30, 2018 and 2017, respectively.

At June 30, 2018 and December 31, 2017, intangible assets, excluding goodwill, were comprised of the following:

		June 30, 2018			December 31, 2017		
	Average Life (Years)	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Customer relationships	12 to 20	$ 55,454	$ (23,949)	$ 31,505	$ 55,454	$ (22,311)	$ 33,143
Technology and software	7 to 10	7,101	(3,560)	3,541	7,101	(3,095)	4,006
Trademarks	7.5 to 10	3,330	(682)	2,648	3,330	(487)	2,843
Non-compete agreements	5 to 8	491	(420)	71	491	(390)	101
Intangible assets subject to amortization		$ 66,376	$ (28,611)	$ 37,765	$ 66,376	$ (26,283)	$ 40,093

The estimated future aggregate amortization expense for the identified amortizable intangibles noted above as of June 30, 2018 was as follows:

2018 (remaining 6 months)	$ 2,343
2019	4,620
2020	4,595
2021	4,352
2022	3,867
Thereafter	17,988
	$ 37,765

8. Fair Value of Financial Instruments

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 (exit price). In determining fair value, the Company utilizes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three broad levels. The following is a brief description of those three levels:

- Level 1—Valuations based on unadjusted quoted prices in active markets for identical assets or liabilities accessible to the reporting entity at the measurement date.
- Level 2— Observable inputs other than Level 1 prices, such as quoted prices in active markets for similar assets and liabilities, quoted prices in markets that are not active or other inputs that are observable or can be corroborated by observable market data for substantially the full term for the assets or liabilities.
- Level 3— Valuations based on unobservable inputs for the asset or liability used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at measurement date.

The Company's financial assets and liabilities that are not required to be remeasured at fair value in the Condensed Consolidated Balance Sheets were as follows:

	Carrying Value as of June 30, 2018	Fair Value as of June 30, 2018	Fair Value Measurement at June 30, 2018 (Using Fair Value Hierarchy)		
			Level 1	Level 2	Level 3
Liabilities:					
First Lien Term Loan	$ 312,500	$ 196,875	$ —	$ 196,875	$ —

	Carrying Value as of December 31, 2017	Fair Value as of December 31, 2017	Fair Value Measurement at December 31, 2017 (Using Fair Value Hierarchy)		
			Level 1	Level 2	Level 3
Liabilities:					
First Lien Term Loan	$ 312,500	$ 228,125	$ —	$ 228,125	$ —

The aggregate fair value of the Company's First Lien Term Loan, as defined in Note 9 "Long-Term Debt and Credit Facility," was based on bank quotes.

The carrying amounts for cash and cash equivalents, accounts receivable and accounts payable each approximate fair value.

Nonrecurring fair value measurements include the Company's goodwill and intangible asset impairments recognized during the quarter ended June 30, 2018 as determined based on unobservable Level 3 inputs. Refer to Note 3 "Discontinued Operation."

9. Long-Term Debt and Credit Facility

At June 30, 2018 and December 31, 2017, long-term debt and credit facilities consisted of the following:

	Interest Rate [1]	June 30, 2018	December 31, 2017
First Lien Term Loan [1]	6.36 %	$ 312,500	$ 312,500
Unamortized discount		(2,786)	(3,122)
Unamortized deferred financing costs		(4,873)	(5,509)
Long-term debt		$ 304,841	$ 303,869

(1) Interest rate at June 30, 2018. Interest rate at December 31, 2017 was 5.96%.

First Lien Credit Facility

On August 17, 2015, the Company entered into a first lien credit facility (the "First Lien Credit Facility") with a syndicate of lenders providing for a $435,000 first lien term loan (the "First Lien Term Loan") and a $40,000 revolving credit facility (the "Revolving Credit Facility"). The First Lien Term Loan and the Revolving Credit Facility have maturity dates of August 17, 2022 and August 17, 2020, respectively.

The First Lien Credit Facility is secured by a first-priority security interest in substantially all of the Company's assets constituting equipment, inventory, receivables, cash and other tangible and intangible property.

Interest rates under the First Lien Credit Facility are based, at the Company's election, on a Eurodollar rate, subject to an interest rate floor of 1.0%, plus a margin of 4.50%, or a base rate plus a margin of 3.50%.

The First Lien Credit Facility contains customary nonfinancial covenants, including among other things, restrictions on indebtedness, issuance of liens, investments, dividends, redemptions and other distributions to equity holders, asset sales, certain mergers or consolidations, sales, transfers, leases or dispositions of substantially all of the Company's assets and affiliate transactions. The First Lien Credit Facility also contains a requirement that, as of the last day of any fiscal quarter, if the amount the Company has drawn under the Revolving Credit Facility is greater than 50% of the aggregate principal amount of all commitments of the lenders thereunder, the Company maintain a first lien net leverage ratio not in excess of 7.0 times trailing twelve month Adjusted EBITDA, as defined in the agreement. As of June 30, 2018, the Company was in compliance with all covenants under the First Lien Credit Facility.

The First Lien Credit Facility also requires prepayment in advance of the maturity date upon the occurrence of certain customary events, including based on an annual excess cash flow calculation, pursuant to the terms of the agreement, with any required payments to be made after the issuance of the Company's annual financial statements. As of June 30, 2018, the Company did not expect to have a required excess cash flow payment related to 2018.

At June 30, 2018, the Company did not have any outstanding amounts under the Revolving Credit Facility and has $19,950 available for borrowing. Additional amounts may be available for borrowing under the term of the Revolving Credit Facility, up to the full $40,000, to the extent the Company's net leverage ratio does not exceed 7.0 times Adjusted EBITDA, as defined in the agreement. The Company has one outstanding letter of credit for $50 relating to the security deposit on a real property lease agreement. The Company pays a fee on outstanding letters of credit at the applicable margin, which was 4.50% as of June 30, 2018 and December 31, 2017, in addition to a fronting fee of 0.125% per annum. In addition, the Company is required to pay an unused commitment fee ranging from 0.375% per annum to 0.50% per annum of the average unused portion of the revolving commitments. The unused commitment fee is determined on the basis of a grid that results in a lower unused commitment fee as the Company's total net leverage ratio declines. The Company recorded accrued interest of $4,526 and $4,296 within "Accrued expenses" on the Condensed Consolidated Balance Sheets at June 30, 2018 and December 31, 2017, respectively.

Deferred Financing Costs

Certain costs incurred with borrowings or the establishment or modification of credit facilities are reflected as a reduction to the long-term debt balance. These costs are amortized as an adjustment to interest expense over the life of the borrowing using the effective-interest rate method.

10. Income Taxes – Continuing Operations

During the three months ended June 30, 2018, the Company recognized an income tax benefit of $2,593 on a pre-tax loss of $3,395, representing an effective income tax rate of 76.4%, compared to an income tax benefit of $1,014 on a pre-tax loss of $4,287, representing an effective tax rate of 23.7% during the three months ended June 30, 2017. During the six months ended June 30, 2018, the Company recognized an income tax benefit of $4,578 on a pre-tax loss of $11,058, representing an effective income tax rate of 41.4%, compared to an income tax benefit of $3,371 on a pre-tax loss of $11,241, representing an effective tax rate of 30.0% during the six months ended June 30, 2017. On December 22, 2017, the U.S. government enacted comprehensive tax reform legislation (the "Tax Act"). In conjunction with the Tax Act, the U.S. federal tax rate reduced from 35.0% in 2017 to 21.0% in 2018. The effective tax rate differs from the federal U.S. statutory rate primarily due to the impact of a tax benefit recorded in the second quarter of 2018 in connection with the U.K. Limited discontinued operation. Partially offsetting the increased tax benefit in the second quarter of 2018 was the establishment of a partial valuation allowance on certain U.S. deferred tax assets primarily related to the limitation on the deductibility of business interest expense.

On March 30, 2018, the Company received a proposed determination regarding a previously unrecognized tax benefit related to state income tax matters. Based on this proposal, the Company expects to pay $678 in the next 12 months and has included this item in "Income taxes payable" in its Condensed Consolidated Balance Sheet as of June 30, 2018.

2017 Tax Reform

The Tax Act includes significant changes to 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) elimination of deduction for income attributable to domestic production activities and (iv) a partial shift of the U.S. taxation of multinational corporations from a tax on worldwide income to a territorial system (along with a transitional rule that taxes certain historic foreign accumulated earnings and certain rules that aim to prevent erosion of U.S. income tax base). In conjunction with the Tax Act's reduction of the U.S. federal tax rate from 35.0% to 21.0%, the Company accrued a $7,057 tax benefit during the year ended December 31, 2017 related to the net change in deferred tax liabilities.

Due to the complexities involved in accounting for the recently enacted Tax Act, the U.S. Securities and Exchange Commission's Staff Accounting Bulletin ("SAB") 118 requires that the Company include in its financial statements the reasonable estimate of the impact of the Tax Act on earnings to the extent such reasonable estimate has been determined. Accordingly, the Company is currently estimating a zero tax liability on foreign unremitted earnings due to a net earnings and profits ("E&P") deficit on accumulated post-1986 deferred foreign income. Therefore, as of June 30, 2018, the Company has not accrued any amount of tax expense for the Tax Act's one-time transition tax on the foreign subsidiaries' accumulated, unremitted earnings going back to 1986. The Company will continue to analyze historical E&P on accumulated post-1986 deferred foreign income and will record any resulting tax adjustment during 2018.

11. Stockholders' Deficit

During the three and six months ended June 30, 2017, the Company paid dividends of $2,499 and $5,026, respectively, representing $0.225 and $0.45 per share, respectively. During August 2017, the Company discontinued its quarterly dividend of $0.225 per share.

12. Loss per Share

Basic and diluted loss per share is computed by dividing net loss by the weighted-average number of common shares outstanding during the period.

The following table sets forth the computation of basic and diluted loss per share:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Numerator:				
Net loss from continuing operations	$ (802)	$ (3,273)	$ (6,480)	$ (7,870)
Net (loss) income from discontinued operation	(15,907)	1,112	(17,521)	1,202
Net loss	$ (16,709)	$ (2,161)	$ (24,001)	$ (6,668)
Denominator:				
Basic and diluted weighted-average common shares outstanding	11,143,230	11,122,436	11,138,972	11,103,655
Basic and diluted loss per share:				
Continuing operations	$ (0.07)	$ (0.30)	$ (0.58)	$ (0.71)
Discontinued operation	(1.43)	0.10	(1.57)	0.11
Net loss	$ (1.50)	$ (0.20)	$ (2.15)	$ (0.60)

The Company reported a net loss for the three and six months ended June 30, 2018 and 2017. Accordingly, the potentially dilutive effect of 957,840 and 417,418 stock options and 98,535 and 54,610 restricted stock units were excluded from the computation of diluted earnings per share as of June 30, 2018 and 2017, respectively, as their inclusion would be anti-dilutive.

13. Commitments and Contingencies

Commitments

The Company incurred rent expense under non-cancellable operating leases of $908 and $880 for the three months ended June 30, 2018 and 2017, respectively, and $1,776 and $1,770 for the six months ended June 30, 2018 and 2017, respectively. During the first quarter of 2018, the Company leased certain machinery and equipment under capital lease obligations, which consisted of the following at June 30, 2018:

	June 30, 2018
Machinery and equipment	$ 748
Less current portion of capital lease obligations	(147)
Total long-term capital lease obligations	$ 601

In its Condensed Consolidated Balance Sheet at June 30, 2018, the Company has recorded the current portion of capital lease obligations in “Accrued expenses” and the long-term capital lease obligations in “Other long-term liabilities”.

Contingencies

In accordance with applicable accounting guidance, the Company establishes an accrued liability when loss contingencies are both probable and estimable. In such cases, there may be an exposure to loss in excess of any amounts accrued. As a matter develops, the Company, in conjunction with any outside counsel handling the matter, evaluates on an ongoing basis whether such matter presents a loss contingency that is probable and estimable. Once the loss contingency is deemed to be both probable and estimable, the Company will establish an accrued liability and record a corresponding amount of litigation-related expense. The Company expenses professional fees associated with litigation claims and assessments as incurred.

In Re CPI Card Group Inc. Securities Litigation , Case No. 1:16-CV-04531 (S.D.N.Y.) (the "Class Action")

On June 15, 2016, two purported CPI stockholders filed putative class action lawsuits captioned Vance, et al. v. CPI Card Group Inc., et al. and Chipman, et al. v. CPI Card Group Inc. in the United States District Court for the Southern District of New York (the "Court") against CPI, certain of its former officers and current and former directors, along with the sponsors of and the financial institutions who served as underwriters for CPI's October 2015 initial public offering ("IPO"). The complaints, purportedly brought on behalf of all purchasers of CPI common stock pursuant to the October 8, 2015 Registration Statement filed in connection with the IPO, assert claims under §§11 and 15 of the Securities Act of 1933, as amended (the "Securities Act") and seek, among other things, damages and costs. In particular, the complaints allege that the Registration Statement contained false or misleading statements or omissions regarding CPI's customers' (i) purchases of Europay, MasterCard and VISA chip cards (collectively, "EMV® cards") during the first half of fiscal year 2015 and resulting EMV® card inventory levels; and (ii) capacity to purchase additional EMV® cards in the fourth quarter of fiscal year 2015, and the remainder of the fiscal year ended December 31, 2015. The complaints allege that these actions artificially inflated the price of CPI common stock issued pursuant to the IPO.

On August 30, 2016, the Court consolidated the Vance and Chipman actions and appointed lead plaintiff and lead counsel pursuant to the Private Securities Litigation Reform Act (the "PSLRA"). On October 17, 2016, lead plaintiff filed a consolidated amended complaint, asserting the same claims for violations of §§11 and 15 of the Securities Act. The amended complaint is based principally on the same theories as the original complaints, but adds allegations that the Registration Statement contained inadequate risk disclosures and failed to disclose (i) small and mid-size issuers' slower-than-anticipated conversion to EMV® technology and (ii) increased pricing pressure and competition CPI faced in the EMV® market.

On November 16, 2016, the Company filed a motion to dismiss the amended complaint, which was denied by the Court on October 30, 2017. On January 12, 2018, the Company filed an answer to the amended complaint. On March 23, 2018, lead plaintiff filed his motion for class certification. On June 11, 2018, the Company filed an opposition to lead plaintiff's motion for class certification.

On July 31, 2018, the parties notified the Court that they had reached an agreement in principle to settle the Class Action. The agreement in principle is subject to confirmatory discovery by the plaintiff, execution of a definitive settlement agreement and supporting documentation and final approval by the Court. The Company recorded an accrued liability as of June 30, 2018, which is not material to the financial statements, and reflects our estimate of the probable loss pursuant to an allocation of the total agreed settlement amount. There was no liability recorded as of December 31, 2017.

Heckermann v. Montross et al. , Case No. 1:17-CV-01673 (D. Del.) (the "Derivative Suit")

On November 20, 2017, a purported CPI stockholder filed a stockholder derivative complaint in the United States District Court for the District of Delaware (the "Court") against certain of CPI's former officers and current and former directors, along with the sponsors of the IPO. CPI is also named as a nominal defendant. The derivative complaint asserts claims under §§10(b) and 20(a) of the Securities Exchange Act of 1934 and SEC Rule 10b-5 and seeks, among other things, injunctive relief, damages and costs. It alleges false or misleading statements and omissions in the Registration Statement filed by CPI in connection with its IPO and subsequent public filings and statements. The derivative complaint also asserts claims for purported breaches of fiduciary duties, unjust enrichment, mismanagement and waste of corporate assets.

On March 28, 2018, the Court entered the parties' stipulated order staying the Derivative Suit pending final determination of the Class Action.

The Company believes these claims are without merit and is defending the Derivative Suit vigorously. Given the current stage of these matters, the range of any potential loss is not probable or estimable and no liability has been recorded as of June 30, 2018 or December 31, 2017.

In addition to the matters described above, the Company is subject to routine legal proceedings in the ordinary course of business. The Company believes that the ultimate resolution of these matters will not have a material adverse effect on its business, financial condition or results of operations.

14. Stock-Based Compensation

CPI Card Group Inc. Omnibus Incentive Plan

On December 20, 2017, the Company effected a one-for-five reverse stock split of its common stock, whereby each lot of five shares of common stock issued and outstanding immediately prior to the reverse stock split was converted into and became one share of common stock. Share and per share amounts below reflect the one-for-five reverse stock split for all periods presented.

During October 2015, the Company adopted the CPI Card Group Inc. Omnibus Incentive Plan (the "Omnibus Plan") pursuant to which cash and equity based incentives may be granted to participating employees, advisors and directors. The Company had reserved 800,000 shares of common stock for issuance under the Omnibus Plan. Effective September 25, 2017, the Omnibus Plan was amended and restated, providing for an increase in the number of shares of common stock authorized for issuance thereunder by 400,000. The increase was made effective in the fourth quarter of 2017 by stockholder approval in accordance with applicable law, after which the Company had reserved 1,200,000 shares of common stock for issuance. As of June 30, 2018, there were 87,346 shares available for grant under the Omnibus Plan.

During the six months ended June 30, 2018, the Company granted awards of non-qualified stock options for 52,755 shares of common stock. All stock option grants have a 10-year term and will generally vest ratably over a three-year period beginning on the first anniversary of the grant date.

The following is a summary of the activity in outstanding stock options under the Omnibus Plan:

	Options	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (in Years)
Outstanding as of December 31, 2017	937,310	$ 17.11	
Granted	52,755	4.16	
Forfeited	(38,825)	19.72	
Outstanding as of June 30, 2018	951,240	$ 16.28	8.75
Options vested and exercisable as of June 30, 2018	116,897	34.53	7.90
Options vested and expected to vest as of June 30, 2018	951,240	16.28	8.75

The following is a summary of the activity in non-vested stock options under the Omnibus Plan:

	Number	Weighted-Average Grant-Date Fair Value
Non-vested as of December 31, 2017	876,903	$ 4.08
Granted	52,755	1.65
Forfeited	(26,616)	4.75
Vested	(68,699)	4.60
Non-vested as of June 30, 2018	834,343	$ 3.86

Unvested options as of June 30, 2018 will vest as follows:

2018	238,126
2019	315,036
2020	262,538
2021	18,643
Total unvested options as of June 30, 2018	834,343

The fair value of the stock option awards granted during the six months ended June 30, 2018 was determined at the date of grant using a Black-Scholes option-pricing model with the following weighted-average assumptions:

	Three Months Ended June 30, 2018
Expected term in years [1]	6.0
Volatility [2]	48.8 %
Risk-free interest rate [3]	2.5 %
Dividend yield [4]	— %

(1) The Company estimated the expected term based on the average of the weighted-average vesting period and the contractual term of the stock option awards by utilizing the "simplified method", as the Company does not have sufficient available historical data to estimate the expected term of these stock option awards.
(2) During the first half of 2018, the Company considered the volatility of its own common stock in determining the fair value of stock option awards, in addition to a peer group average historical volatility over the expected option term. The peer group was based on financial technology companies that completed an initial public offering of common stock within the last 10 years.
(3) The risk-free interest rate was determined by using the United States Treasury rate for the period that coincided with the expected option term.
(4) The Company discontinued its quarterly dividend program during August 2017.

The weighted-average grant-date fair value of options granted was as follows:

	Three Months Ended June 30,	
	2018	2017
Weighted-average grant-date fair value of options granted	$ 1.65	$ 4.31

The following table summarizes the changes in the number of outstanding restricted stock units for the six-month period ended June 30, 2018:

	Units	Weighted-Average Grant-Date Fair Value	Weighted-Average Remaining Amortization Period (in Years)
Outstanding as of December 31, 2017	49,677	$ 16.20	
Granted	75,188	2.66	
Vested	(25,000)	10.00	
Forfeited	(1,330)	22.44	
Outstanding as of June 30, 2018	98,535	$ 7.36	1.35

During the six months ended June 30, 2018, the Company granted awards of restricted stock units for 75,188 shares of common stock. The restricted stock units contain conditions associated with continued employment or service and generally vest one year from the date of grant. On the vesting dates, shares of common stock will be issued to the award recipients.

Unvested restricted stock units as of June 30, 2018 will vest as follows:

2018	—
2019	75,188
2020	23,347
Total unvested restricted stock units as of June 30, 2018	98,535

The following table summarizes the changes in the number of outstanding cash performance units for the six-month period ended June 30, 2018:

	Units
Outstanding as of December 31, 2017	822,915
Granted	—
Vested	(260,093)
Forfeited	(42,636)
Outstanding as of June 30, 2018	520,186

There were no awards of cash performance units during the six months ended June 30, 2018. These awards will settle in cash in three annual payments on the first, second and third anniversaries of the date of grant. The cash performance units are based on the performance of the Company's stock, measured based on the Company's stock price at each of the first, second and third anniversaries of the grant date compared to the Company's stock price on the date of grant. During the first half of 2018, the first tranche of the cash performance units vested. Accordingly, the Company made a cash payment of $137 to the award recipients.

The Company recognizes compensation expense on a straight-line basis for each annual performance period. The cash performance units are accounted for as a liability and remeasured to fair value at the end of each reporting period. As of June 30, 2018, the Company recognized a liability of $83 in "Accrued expenses" and $55 in "Other long-term liabilities" in the Condensed Consolidated Balance Sheet for unsettled cash performance units.

Compensation expense for the Omnibus Plan for the three months ended June 30, 2018 and 2017 was $389 and $546, respectively, and $784 and $860 for the six months ended June 30, 2018 and 2017, respectively. As of June 30, 2018, the total unrecognized compensation expense related to unvested options, restricted stock units and cash performance unit awards under the Omnibus Plan was $1,558, which the Company expects to recognize over an estimated weighted-average period of 1.4 years.

CPI Holdings I, Inc. Amended and Restated 2007 Stock Option Plan

In 2007, the Company's Board of Directors adopted the CPI Holdings I, Inc. Amended and Restated 2007 Stock Option Plan (the "Option Plan"). Under the provisions of the Option Plan, stock options may be granted to employees, directors and consultants at an exercise price greater than or equal to (and not less than) the fair market value of a share on the date the option is granted.

As a result of the Company's adoption of the Omnibus Plan, as further described above, no further awards will be made under the Option Plan. The outstanding stock options under the Option Plan are non-qualified, have a 10-year life and are fully vested as of June 30, 2018.

During the six months ended June 30, 2018, there was no activity under the Option Plan. As such, total shares outstanding and exercisable were 6,600 shares with a weighted-average exercise price of $0.002 per share and a weighted-average remaining contract term of 4.91 years at June 30, 2018.

Compensation expense and unrecorded compensation expense related to options previously granted under the Option Plan, for the three and six months ended June 30, 2018 and 2017, were de minimis.

Other Stock-Based Compensation Awards

During June 2015, the Company issued 38,332 restricted shares of common stock to certain executives of the Company at a weighted-average grant-date fair value of $47.40. There were no outstanding unvested restricted shares of common stock as of June 30, 2018. There was no compensation expense recorded for these awards during the three or six months ended June 30, 2018. During the first quarter of 2017, the executive holding the restricted shares changed employment status to a consultant and the Company remeasured the awards and reduced stock-based compensation expense by $143. Compensation expense recorded for these awards for the three and six months ended June 30, 2017 was $(228) and $(371), respectively.

15. Segment Reporting

The Company has identified reportable segments as those consolidated subsidiaries that represent 10% or more of its revenue, EBITDA (as defined below) or total assets, or when the Company believes information about the segment would be useful to the readers of the financial statements. The Company's chief operating decision maker is its Chief Executive Officer who is charged with management of the Company and is responsible for the evaluation of operating performance and decision making about the allocation of resources to operating segments based on measures, such as revenue and EBITDA.

EBITDA is the primary measure used by the Company's chief operating decision maker to evaluate segment operating performance. As the Company uses the term, EBITDA is defined as income before interest expense, income taxes, depreciation and amortization. The Company's chief operating decision maker believes EBITDA is a meaningful measure and is superior to available GAAP measures as it represents a transparent view of the Company's operating performance that is unaffected by fluctuations in property, equipment and leasehold improvement additions. The Company's chief operating decision maker uses EBITDA to perform periodic reviews and comparison of operating trends and identify strategies to improve the allocation of resources amongst segments.

During the second quarter of 2018, the Company met the criteria to report a probable business sale in the U.K. Limited segment as a discontinued operation. On August 3, 2018, the Company completed the sale. See Note 16 "Subsequent Event" for further information. The Company no longer includes U.K. Limited as a reportable segment, and has restated all periods presented within these financial statements.

During the first quarter of 2018, the Company reorganized its United States business operations and realigned its United States reporting segments to correspond with the manner with which the Company's chief operating decision maker evaluates operating performance and makes decisions as to the allocation of resources. As a result of this realignment, the Company's CPI on Demand business operations have been moved from the U.S. Prepaid Debit segment into the U.S. Debit and Credit reporting segment, consistent with the other related personalization operations. Segment information for previous periods has been restated to conform with this realignment and current period presentation. The restatement of the segment information for the three- and six-month periods ended June 30, 2017 was not material.

As of June 30, 2018, the Company's reportable segments were as follows:

- U.S. Debit and Credit,
- U.S. Prepaid Debit, and
- Other.

The Other category includes the Company's corporate headquarters and a less significant operating segment that derives its revenue from the production of Financial Payment Cards and retail gift cards in Canada.

Performance Measures of Reportable Segments

Revenue and EBITDA of the Company's reportable segments for the three and six months ended June 30, 2018 and 2017 were as follows:

	Revenue			
	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
U.S. Debit and Credit	$ 43,843	$ 42,369	$ 80,991	$ 82,120
U.S. Prepaid Debit	15,427	12,258	30,938	21,757
Other	2,980	3,226	5,679	5,729
Intersegment eliminations	(796)	(3,017)	(1,297)	(4,349)
Total	$ 61,454	$ 54,836	$ 116,311	$ 105,257

	EBITDA			
	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
U.S. Debit and Credit	$ 9,933	$ 7,943	$ 15,651	$ 15,346
U.S. Prepaid Debit	4,687	3,636	9,506	5,649
Other	(7,463)	(6,366)	(15,247)	(13,338)
Total	$ 7,157	$ 5,213	$ 9,910	$ 7,657

The following table provides a reconciliation of total segment EBITDA from continuing operations to net loss for the three and six months ended June 30, 2018 and 2017:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Total segment EBITDA from continuing operations	$ 7,157	$ 5,213	$ 9,910	$ 7,657
Interest, net	(5,586)	(5,165)	(11,092)	(10,228)
Income tax benefit	2,593	1,014	4,578	3,371
Depreciation and amortization	(4,966)	(4,335)	(9,876)	(8,670)
Net (loss) income from discontinued operation	(15,907)	1,112	(17,521)	1,202
Net loss	$ (16,709)	$ (2,161)	$ (24,001)	$ (6,668)

Balance Sheet Data of Reportable Segments

Total assets of the Company's reportable segments at June 30, 2018 and December 31, 2017 were as follows:

	June 30, 2018	December 31, 2017
U.S. Debit and Credit	$ 162,554	$ 164,397
U.S. Prepaid Debit	34,352	33,130
Other	10,677	15,827
Total assets - reportable segments	207,583	213,354
Assets of discontinued operation	8,016	20,651
Total assets	$ 215,599	$ 234,005

Plant, Equipment and Leasehold Improvement Additions of Geographic Locations

Plant, equipment and leasehold improvement additions of the Company's geographical locations for the three and six months ended June 30, 2018 and 2017 were as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
U.S.	$ 2,191	$ 2,775	$ 3,773	$ 5,050
Canada	44	51	46	123
Total plant, equipment and leasehold improvement additions	$ 2,235	$ 2,826	$ 3,819	$ 5,173

Net Sales to Geographic Locations

Net sales to geographic locations for the three and six months ended June 30, 2018 and 2017 were as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
U.S.	$ 58,643	$ 52,339	$ 111,726	$ 100,150
Other [a]	2,811	2,497	4,585	5,107
Total net sales	$ 61,454	$ 54,836	$ 116,311	$ 105,257

(a) Amounts in Other include sales to various countries that individually are not material.

Long-Lived Assets of Geographic Segments

Long-lived assets of the Company's geographic segments at June 30, 2018 and December 31, 2017 were as follows:

	June 30, 2018	December 31, 2017
U.S.	$ 124,402	$ 130,768
Canada	551	911
Total long-lived assets	$ 124,953	$ 131,679

Net Sales by Products and Services

Net sales from products and services sold by the Company for the three and six months ended June 30, 2018 and 2017 were as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Products net sales [a]	$ 31,494	$ 26,640	$ 56,238	$ 52,866
Services net sales [b]	29,960	28,196	60,073	52,391
Total net sales	$ 61,454	$ 54,836	$ 116,311	$ 105,257

(a) " Products" net sales include the design and production of Financial Payment Cards in contact-EMV ® , Dual-Interface EMV ® , contactless and magnetic stripe card formats. The Company also generates "Products" revenue from the sale of Card@Once ® instant issuance systems, private label credit cards and retail gift cards.

(b) " Services" net sales include revenue from the personalization and fulfillment of Financial Payment Cards, providing tamper-evident security packaging and fulfillment services to Prepaid Debit Card program managers and software as a service personalization of instant issuance debit cards. The Company also generates "Services" revenue from personalizing retail gift cards (primarily in Canada) and from click-fees generated from the Company's patented card design software, known as MYCA, which provides customers and cardholders the ability to design cards on the internet and customize cards with individualized digital images.

16. Subsequent Event

On August 3, 2018, the Company completed the sale of its United Kingdom facilities that comprised the U.K. Limited reporting segment, which is reported as a discontinued operation in these financial statements. The Company sold all of the outstanding shares of CPI U.K. Limited to an affiliate of SEA Equity Limited, a private investment firm focused in the United Kingdom and Europe. See Note 3 for further information and financial statement impact from the discontinued operation.

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

References to the "Company," "our," "us" or "we" refer to CPI Card Group Inc. and its subsidiaries. For an understanding of the significant factors that influenced our results, the following discussion should be read in conjunction with our unaudited condensed consolidated financial statements and related notes appearing elsewhere in this report. This management's discussion and analysis should also be read in conjunction with the management's discussion and analysis and consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2017 filed with the Securities and Exchange Commission ("SEC").

Cautionary Statement Regarding Forward-Looking Information

Certain statements and information in this Form 10-Q may constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933, as amended (the "1933 Act") and Section 21E of the Securities Exchange Act of 1934, as amended (the "1934 Act"). The words "believe," "estimate," "project," "expect," "anticipate," "plan," "intend," "foresee," "should," "would," "could" or other similar expressions are intended to identify forward-looking statements, which are generally not historical in nature. These forward-looking statements are based on our current expectations and beliefs concerning future developments and their potential effect on us, and other information currently available. Such statements reflect our current views with respect to future events and are subject to certain risks, uncertainties and assumptions. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those described herein as anticipated, believed, estimated, expected or intended. We are making investors aware that such forward-looking statements, because they relate to future events, are by their very nature subject to many important factors that could cause actual results to differ materially from those contemplated. These risks and uncertainties include, but are not limited to: system security risks, data protection breaches and cyber-attacks; interruptions in our operations, including our IT systems; defects in our software; failure to identify and attract new customers or to retain our existing customers; problems in production quality and process; failure to meet our customers' demands in a timely manner; a loss of market share or a decline in profitability resulting from competition; developing technologies that make our existing technology solutions and products less relevant or a failure to introduce new products and services in a timely manner; disruptions relating to the development and execution of our strategy, or a failure to realize the anticipated benefits of such strategy; our inability to sell, exit, reconfigure or consolidate businesses or facilities that no longer meet with our strategy; our inability to develop, introduce and commercialize new products; our substantial indebtedness, including inability to make debt service payments or refinance such indebtedness; the restrictive terms of our credit facility and covenants of future agreements governing indebtedness; our limited ability to raise capital in the future; our inability to adequately protect our trade secrets and intellectual property rights from misappropriation or infringement; our dependence on the timely supply of materials, products and specialized equipment from third-party suppliers; a competitive disadvantage resulting from chip operating systems developed by our competitors; price erosion in the financial payment card industry; failure to accurately predict demand for our products and services; quarterly variation in our operating results; the effect of legal and regulatory proceedings; infringement of our intellectual property rights, or claims that our technology is infringing on third-party intellectual property; our inability to realize the full value of our long-lived assets; the impact of U.S. tax reform legislation; our failure to operate our business in accordance with data privacy laws, the PCI Security Standards Council ("PCI") security standards or other industry standards, such as Payment Card Brand certification standards; costs relating to product defects; a decline in U.S. and global market and economic conditions; potential imposition of tariffs and/or trade restrictions on goods imported into the United States; economic conditions and regulatory changes leading up to and following the United Kingdom's exit from the European Union; our dependence on licensing arrangements; inability to renew leases for our facilities or renew leases at existing terms; dependence on our senior leadership team; inability to recruit, retain and develop qualified personnel; the continued viability of the Payment Card Brands; non-compliance with, and changes in, laws in the United States and in foreign jurisdictions in which we operate and sell our products; failure to maintain our listing on the NASDAQ and other risks and other risk factors or uncertainties identified from time to time in our filings with the SEC. Although we believe that the expectations reflected in such forward-looking statements are reasonable, we can give no assurance that such expectations will prove to have been correct. Reference is made to a more complete discussion of forward-looking statements and applicable risks contained under the captions "Cautionary Statement Regarding Forward-Looking Information" and "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2017 filed with the SEC on March 13, 2018. CPI Card Group Inc. undertakes no obligation to update or revise any of its forward-looking statements, whether as a result of new information, future events or otherwise.

Overview

We are engaged in the design, production, data personalization, packaging and fulfillment of Financial Payment Cards, which we define as credit cards, debit cards and prepaid debit cards issued on the networks of the Payment Card Brands (Visa, MasterCard, American Express, Discover and Interac (in Canada)) in the United States and Canada. We also are engaged in the design, production, data personalization, packaging and fulfillment of retail gift and loyalty cards (primarily in Canada).

As a producer and provider of services for Financial Payment Cards, each of our secure facilities must be certified by one or more of the Payment Card Brands and is therefore subject to specific requirements and conditions. Noncompliance with these requirements would prohibit the individual facilities from producing Financial Payment Cards for these entities' payment card issuers.

During the second quarter of 2018, we met the criteria to report a probable business sale in the U.K. Limited segment as a discontinued operation. The financial position, results of operations and cash flows have been restated for all periods to conform with discontinued operations presentation. Unless otherwise indicated, information in Management's Discussion and Analysis of Financial Condition and Results of Operations relates to continuing operations.

The major line items constituting the (loss) income of the discontinued operation for the three and six months ended June 30, 2018 and 2017 were as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Total net sales	$ 4,587	$ 11,010	$ 8,799	$ 16,597
Total cost of sales	4,300	8,391	8,498	12,530
Selling, general and administrative	1,446	1,373	3,066	2,716
Impairments	7,615	—	7,615	—
Other expense (income), net	21	(31)	29	(85)
Pretax (loss) income from discontinued operation	(8,795)	1,277	(10,409)	1,436
Pretax loss on discontinued operation classification	(7,244)	—	(7,244)	—
Total pretax (loss) income on discontinued operation	(16,039)	1,277	(17,653)	1,436
Income tax benefit (expense)	132	(165)	132	(234)
Net (loss) income from discontinued operation	$ (15,907)	$ 1,112	$ (17,521)	$ 1,202

U.K. Limited incurred a pre-tax loss from operations of $1.2 million and $2.8 million for the three and six months ended June 30, 2018, respectively, due primarily to the softness in our U.K. Limited retail sector and a decline in sales relating to certain customers. Additionally, we recorded impairment charges of $7.6 million associated with goodwill and customer relationship intangible assets, and recorded a $7.2 million loss on the discontinued operation classification.

During February 2018, we made the decision to consolidate three personalization operations in the United States into two facilities to better enable us to optimize operations and achieve market-leading quality and service with a cost-competitive business model. In conjunction with this decision, we accelerated the depreciation of certain related assets, which totaled $1.3 million for the three months ended June 30, 2018 and $2.1 million for the six months ended June 30, 2018, and recorded severance charges of $0.2 million, and $0.6 million for these same respective time periods.

We recorded a lease termination charge of $0.4 million in the three months ended June 30, 2018. The charges were recorded in our U.S. Debit and Credit segment.

Results of Continuing Operations

The following table presents the components of our condensed consolidated statements of continuing operations for each of the periods presented:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
	(dollars in thousands)			
Net sales:				
Products	$ 31,494	$ 26,640	$ 56,238	$ 52,866
Services	29,960	28,196	60,073	52,391
Total net sales	61,454	54,836	116,311	105,257
Cost of sales	41,579	38,170	82,009	73,943
Gross profit	19,875	16,666	34,302	31,314
Operating expenses	17,221	15,945	34,011	32,505
Income (loss) from operations	2,654	721	291	(1,191)
Other expense, net:				
Interest, net	(5,586)	(5,165)	(11,092)	(10,228)
Foreign exchange (loss) gain	(466)	153	(264)	172
Other income, net	3	4	7	6
Loss from continuing operations before taxes	(3,395)	(4,287)	(11,058)	(11,241)
Income tax benefit	2,593	1,014	4,578	3,371
Net loss from continuing operations	$ (802)	$ (3,273)	$ (6,480)	$ (7,870)

Segment Discussion

During the first quarter of 2018, the Company reorganized its United States business operations and realigned its United States reporting segments to correspond with the manner with which the Company's chief operating decision maker evaluates operating performance and makes decisions as to the allocation of resources. As a result of this realignment, the Company's CPI on Demand business operations have been moved from the U.S. Prepaid Debit segment into the U.S. Debit and Credit reporting segment, consistent with the other related personalization operations. Segment information for previous periods has been restated to conform with this realignment and current year presentation. The restatement of the segment information for the three- and six-month periods ended June 30, 2017 was not material.

Three Months Ended June 30, 2018 Compared With Three Months Ended June 30, 2017

Net Sales

	Three Months Ended June 30,			
	2018	2017	$ Change	% Change
	(dollars in thousands)			
Net sales by segment:				
U.S. Debit and Credit	$ 43,843	$ 42,369	$ 1,474	3.5 %
U.S. Prepaid Debit	15,427	12,258	3,169	25.9 %
Other	2,980	3,226	(246)	(7.6)%
Eliminations	(796)	(3,017)	2,221	* %
Total	$ 61,454	$ 54,836	$ 6,618	12.1 %

* Not meaningful

Net sales for the three months ended June 30, 2018 increased $6.6 million, or 12.1%, to $61.5 million compared to $54.8 million for the three months ended June 30, 2017.

U.S. Debit and Credit:

Net sales for U.S. Debit and Credit for the three months ended June 30, 2018 increased $1.5 million, or 3.5%, to $43.8 million compared to $42.4 million for the three months ended June 30, 2017. The increase in net sales was primarily due to an approximate $4.0 million increase in revenue from our emerging products and solutions, including Card@Once® and metal cards, partially offset by a $2.5 million decrease in Non-EMV and other sales, card personalization and fulfillment, and EMV® card revenues due to lower average selling prices ("ASP").

For the three months ended June 30, 2018, we sold 19.1 million EMV® cards at an ASP of $0.82, compared to 18.8 million EMV® cards at an ASP of $0.86 for the three months ended June 30, 2017. The decrease in ASP during the three months ended June 30, 2018 compared to 2017 was due to lower pricing across our customer base and our customer mix.

U.S. Prepaid Debit:

Net sales for U.S. Prepaid Debit for the three months ended June 30, 2018 increased $3.2 million, or 25.9%, to $15.4 million compared to $12.3 million for the three months ended June 30, 2017. The increase was the result of additional sales volumes from a new portfolio win with an existing customer, along with timing of certain customer sales.

Other:

Other net sales were $3.0 million for the three months ended June 30, 2018 compared to $3.2 million for the three months ended June 30, 2017.

Gross Profit and Gross Profit Margin

	Three Months Ended June 30,					
	2018	% of 2018 Net Sales	2017	% of 2017 Net Sales	$ Change	% Change
	(dollars in thousands)					
Gross profit by segment:						
U.S. Debit and Credit	$13,856	31.6 %	$ 12,089	28.5 %	$ 1,767	14.6 %
U.S. Prepaid Debit	5,305	34.4 %	4,012	32.7 %	1,293	32.2 %
Other	714	24.0 %	565	17.5 %	149	* %
Total	$19,875	32.3 %	$ 16,666	30.4 %	$ 3,209	19.3 %

* Not meaningful; see Other category description in Note 15.

Gross profit for the three months ended June 30, 2018 increased $3.2 million, or 19.3%, to $19.9 million compared to $16.7 million for the three months ended June 30, 2017. Gross profit margin for the three months ended June 30, 2018 increased to 32.3% compared to 30.4% for the three months ended June 30, 2017.

U.S. Debit and Credit:

Gross profit for U.S. Debit and Credit for the three months ended June 30, 2018 increased $1.8 million, or 14.6%, to $13.9 million compared to $12.1 million during the three months ended June 30, 2017. The increase in gross profit for U.S. Debit and Credit was driven primarily by a more profitable sales mix, the increase in net sales and higher overhead cost absorption, partially offset by the acceleration of approximately $1.3 million of depreciation expense relating to the consolidation of our personalization operations. Gross profit margin for U.S. Debit and Credit for the three months ended June 30, 2018 increased to 31.6% compared to 28.5% for the same period in the prior year due to sales mix, higher overhead cost absorption attributed to increased sales, partially offset by the acceleration of depreciation expense.

U.S. Prepaid Debit:

Gross profit for U.S. Prepaid Debit during the three months ended June 30, 2018 increased 32.2% to $5.3 million compared to $4.0 million for the three months ended June 30, 2017. Gross profit margin for U.S. Prepaid Debit

for the three months ended June 30, 2018 increased to 34.4% compared to 32.7% for the three months ended June 30, 2017. The increase in gross profit and margin was attributed primarily to higher sales volumes and favorable overhead cost absorption.

Other:

Other gross profit was $0.7 million for the three months ended June 30, 2018 compared to $0.6 million for the three months ended June 30, 2017.

Operating Expenses

	Three Months Ended June 30,			
	2018	2017	$ Change	% Change
	(dollars in thousands)			
Operating expenses by segment:				
U.S. Debit and Credit	$ 7,220	$ 6,535	$ 685	10.5 %
U.S. Prepaid Debit	1,087	954	133	13.9 %
Other	8,914	8,456	458	* %
Total	$ 17,221	$ 15,945	$ 1,276	8.0 %

* Not meaningful

Operating expenses for the three months ended June 30, 2018 increased $1.3 million, or 8.0%, to $17.2 million compared to $15.9 million for the three months ended June 30, 2017.

U.S. Debit and Credit:

U.S. Debit and Credit operating expenses increased to $7.2 million in the three months ended June 30, 2018 compared to $6.5 million in the three months ended June 30, 2017 primarily due to charges relating to the consolidation of our personalization operations.

U.S. Prepaid Debit:

U.S. Prepaid Debit operating expenses increased $0.1 million, or 13.9%, primarily due to administrative expenses.

Other:

Other operating expenses during the three months ended June 30, 2018 increased $0.5 million compared to the three months ended June 30, 2017. The net increase primarily resulted from increased compensation costs of $1.4 million and consulting and marketing costs of $0.5 million, partially offset by decreased legal costs of $1.4 million.

Income from Operations and Operating Margin

	Three Months Ended June 30,					
	2018	% of 2018 Net Sales	2017	% of 2017 Net Sales	$ Change	% Change
	(dollars in thousands)					
Income from operations by segment:						
U.S. Debit and Credit	$ 6,636	15.1 %	$ 5,554	13.1 %	$ 1,082	19.5 %
U.S. Prepaid Debit	4,218	27.3 %	3,057	24.9 %	1,161	38.0 %
Other	(8,200)	* %	(7,890)	* %	(310)	* %
Total	$ 2,654	4.3 %	$ 721	1.3 %	$ 1,933	268.1 %

* Not meaningful

Income from operations for the three months ended June 30, 2018 was $2.7 million compared to income from operations of $0.7 million for the three months ended June 30, 2017. The Company's operating profit margin for the

three months ended June 30, 2018 increased to 4.3% compared to an operating profit margin of 1.3% for the three months ended June 30, 2017.

U.S. Debit and Credit:

Income from operations for U.S. Debit and Credit for the three months ended June 30, 2018 increased $1.1 million, or 19.5%, to $6.6 million compared to $5.6 million for the three months ended June 30, 2017 due primarily to higher sales volume and the resulting increased overhead cost absorption discussed above, in connection with sales mix. Operating margins for the three months ended June 30, 2018 increased to 15.1% compared to 13.1% for the three months ended June 30, 2017.

U.S. Prepaid Debit:

Income from operations for U.S. Prepaid Debit for the three months ended June 30, 2018 increased 38.0% to $4.2 million compared to $3.1 million for the three months ended June 30, 2017 due to increased sales volumes and the resulting favorable overhead cost absorption discussed above. U.S. Prepaid Debit operating income margin for the three months ended June 30, 2018 increased to 27.3% from 24.9% for the same period in 2017.

Other :

The loss from operations in Other was $8.2 million for the three months ended June 30, 2018 compared to a loss from operations of $7.9 million for the same time period of 2017. The change in the loss from operations was attributable to higher operating expenses in the second quarter of 2018.

Interest, net :

Interest expense for the three months ended June 30, 2018 increased to $5.6 million compared to $5.2 million for the three months ended June 30, 2017. The additional interest expense resulted from a higher average interest rate on the First Lien Term Loan during the three months ended June 30, 2018 compared to the three months ended June 30, 2017.

Income tax benefit:

During the three months ended June 30, 2018, there was an income tax benefit of $2.6 million on pre-tax loss of $3.4 million, compared with an income tax benefit of $1.0 million on pre-tax loss of $4.3 million for the three months ended June 30, 2017. In c onjunction with the Tax Act, the U.S. federal tax rate reduced from 35.0% in 2017 to 21.0% in 2018. The effective tax rate differs from the federal U.S. statutory rate primarily due to the impact of a tax benefit recorded in the second quarter of 2018 in connection with the U.K. Limited discontinued operation. Partially offsetting the increased tax benefit in the second quarter of 2018 was the establishment of a partial valuation allowance on certain U.S. deferred tax assets.

Net loss:

During the three months ended June 30, 2018, net loss was $0.8 million, compared to a net loss of $3.3 million during the three months ended June 30, 2017. The change was primarily due to more profitable sales mix, higher sales volumes and improved resulting gross margin, offset by lower pricing and higher operating expenses as described above.

Six Months Ended June 30, 2018 Compared With Six Months Ended June 30, 2017

Net Sales

	Six Months Ended June 30,			
	2018	2017	$ Change	% Change
	(dollars in thousands)			
Net sales by segment:				
U.S. Debit and Credit	$ 80,991	$ 82,120	$ (1,129)	(1.4)%
U.S. Prepaid Debit	30,938	21,757	9,181	42.2 %
Other	5,679	5,729	(50)	(0.9)%
Eliminations	(1,297)	(4,349)	3,052	* %
Total	$ 116,311	$ 105,257	$ 11,054	10.5 %

* Not meaningful

Net sales for the six months ended June 30, 2018 increased $11.1 million, or 10.5%, to $116.3 million compared to $105.3 million for the six months ended June 30, 2017.

U.S. Debit and Credit:

Net sales for U.S. Debit and Credit for the six months ended June 30, 2018 decreased $1.1 million, or 1.4%, to $81.0 million compared to $82.1 million for the six months ended June 30, 2017. The decrease in net sales was primarily due to a $6.3 million decrease in EMV® card revenue, non-EMV and other sales and card personalization and fulfillment. These decreases were partially offset by a $5.2 million increase in revenue from our emerging products and solutions, including Card@Once® and metal cards.

For the six months ended June 30, 2018, we sold 35.9 million EMV® cards at an ASP of $0.81 compared to 37.1 million EMV® cards at an ASP of $0.85 for the six months ended June 30, 2017. The decrease in ASP during the six months ended June 30, 2018 compared to 2017 was due to lower pricing across our customer base and our customer mix.

U.S. Prepaid Debit:

Net sales for U.S. Prepaid Debit for the six months ended June 30, 2018 increased $9.2 million, or 42.2%, to $30.9 million compared to $21.8 million for the six months ended June 30, 2017. The increase was the result of additional sales volumes predominately from new portfolio wins with two existing customers.

Other:

Other net sales were $5.7 million for both the six months ended June 30, 2018 and 2017.

Gross Profit and Gross Profit Margin

	Six Months Ended June 30,					
	2018	% of 2018 Net Sales	2017	% of 2017 Net Sales	$ Change	% Change
	(dollars in thousands)					
Gross profit by segment:						
U.S. Debit and Credit	$22,340	27.6 %	$ 23,599	28.7 %	$ (1,259)	(5.3)%
U.S. Prepaid Debit	10,673	34.5 %	6,555	30.1 %	4,118	62.8 %
Other	1,289	22.7 %	1,160	20.2 %	129	* %
Total	$34,302	29.5 %	$ 31,314	29.8 %	$ 2,988	9.5 %

* Not meaningful

Gross profit for the six months ended June 30, 2018 increased $3.0 million, or 9.5%, to $34.3 million compared to $31.3 million for the six months ended June 30, 2017. Gross profit margin for the six months ended June 30, 2018 decreased to 29.5% compared to 29.8% for the six months ended June 30, 2017.

U.S. Debit and Credit:

Gross profit for U.S. Debit and Credit for the six months ended June 30, 2018 decreased $1.3 million, or 5.3%, to $22.3 million compared to $23.6 million during the six months ended June 30, 2017. The decrease in gross profit for U.S. Debit and Credit was driven by the acceleration of depreciation expense relating to the consolidation of our personalization operations of $2.1 million, partially offset by higher margin on sales mix. Gross profit margin for U.S. Debit and Credit for the six months ended June 30, 2018 decreased to 27.6% compared to 28.7% for the same period in the prior year due to the acceleration of depreciation expense.

U.S. Prepaid Debit:

Gross profit for U.S. Prepaid Debit during the six months ended June 30, 2018 increased 62.8% to $10.7 million compared to $6.6 million for the six months ended June 30, 2017. Gross profit margin for U.S. Prepaid Debit for the six months ended June 30, 2018 increased to 34.5% compared to 30.1% for the six months ended June 30, 2017. The increase in gross profit and margin was attributed primarily to higher sales volumes and favorable overhead cost absorption.

Other:

Other gross profit was $1.3 million for the six months ended June 30, 2018 compared to $1.2 million for the six months ended June 30, 2017.

Operating Expenses

	Six Months Ended June 30,			
	2018	2017	$ Change	% Change
	(dollars in thousands)			
Operating expenses by segment:				
U.S. Debit and Credit	$ 13,182	$ 13,025	$ 157	1.2 %
U.S. Prepaid Debit	2,129	2,062	67	3.2 %
Other	18,700	17,418	1,282	* %
Total	$ 34,011	$ 32,505	$ 1,506	4.6 %

* Not meaningful

Operating expenses for the six months ended June 30, 2018 increased $1.5 million, or 4.6%, to $34.0 million compared to $32.5 million for the six months ended June 30, 2017.

U.S. Debit and Credit:

U.S. Debit and Credit operating expenses increased to $13.2 million in the six months ended June 30, 2018 compared to $13.0 million in the six months ended June 30, 2017 primarily due to charges relating to the consolidation of our personalization operations, offset partially by cost reduction efforts.

U.S. Prepaid Debit:

U.S. Prepaid Debit operating expenses increased $0.1 million, or 3.2%, primarily due to administrative expenses.

Other:

Other operating expenses during the six months ended June 30, 2018 increased $1.3 million compared to the six months ended June 30, 2017. The net increase primarily resulted from higher compensation costs of $1.7 million,

increased consulting and other administrative costs of $0.8 million, partially offset by a decrease in legal costs of $1.2 million.

Income from Operations and Operating Margin

	Six Months Ended June 30,					
	2018	% of 2018 Net Sales	2017	% of 2017 Net Sales	$ Change	% Change
	(dollars in thousands)					
Income (loss) from operations by segment:						
U.S. Debit and Credit	$ 9,158	11.3 %	$ 10,574	12.9 %	$ (1,416)	(13.4)%
U.S. Prepaid Debit	8,543	27.6 %	4,492	20.6 %	4,051	90.2 %
Other	(17,410)	* %	(16,257)	* %	(1,153)	* %
Total	$ 291	0.3 %	$ (1,191)	(1.1)%	$ 1,482	(124.4)%

* Not meaningful

Income from operations for the six months ended June 30, 2018 was $0.3 million compared to a loss from operations of $1.2 million for the six months ended June 30, 2017. The Company's operating profit margin for the six months ended June 30, 2018 increased to 0.3% compared to an operating loss margin of 1.1% for the six months ended June 30, 2017.

U.S. Debit and Credit:

Income from operations for U.S. Debit and Credit for the six months ended June 30, 2018 decreased $1.4 million, or 13.4%, to $9.2 million compared to $10.6 million for the six months ended June 30, 2017 due primarily to the acceleration of depreciation expense relating to the consolidation of our personalization operations, in addition to lower sales volume. Operating margins for the six months ended June 30, 2018 decreased to 11.3% compared to 12.9% for the six months ended June 30, 2017.

U.S. Prepaid Debit:

Income from operations for U.S. Prepaid Debit for the six months ended June 30, 2018 increased 90.2% to $8.5 million compared to $4.5 million for the six months ended June 30, 2017 due to increased sales volumes and the resulting favorable overhead cost absorption discussed above. U.S. Prepaid Debit operating income margin for the six months ended June 30, 2018 increased to 27.6% from 20.6% for the same period in 2017.

Other :

The loss from operations in Other was $17.4 million for the six months ended June 30, 2018 compared to a loss from operations of $16.3 million for the same time period of 2017. The comparatively larger operating loss was attributable to higher operating expenses in the first half of 2018.

Interest, net :

Interest expense for the six months ended June 30, 2018 increased to $11.1 million compared to $10.2 million for the six months ended June 30, 2017. The additional interest expense resulted from a higher average interest rate on the First Lien Term Loan during the six months ended June 30, 2018 compared to the six months ended June 30, 2017.

Income tax benefit:

During the six months ended June 30, 2018, there was an income tax benefit of $4.6 million on pre-tax loss of $11.1 million, compared with an income tax benefit of $3.4 million on pre-tax loss of $11.2 million for the six months ended June 30, 2017. In c onjunction with the Tax Act, the U.S. federal tax rate reduced from 35.0% in 2017 to 21.0% in 2018. The effective tax rate differs from the federal U.S. statutory rate primarily due to the impact of a tax benefit recorded in the second quarter of 2018 in connection with the U.K. Limited discontinued operation. Partially offsetting the increased tax benefit in the second quarter of 2018 was the establishment of a partial valuation allowance on certain U.S. deferred tax assets.

Net loss:

During the six months ended June 30, 2018, net loss was $6.5 million, compared to a net loss of $7.9 million during the six months ended June 30, 2017. The change was due to higher sales and profit, partially offset by interest expense, and increased operating expenses including costs incurred for the consolidation of our personalization operations.

Liquidity and Capital Resources

At June 30, 2018, we had $17.8 million of cash and cash equivalents. Of this amount, $1.7 million was held in accounts outside of the United States.

Our ability to make investments in and grow our business, service our debt and improve our debt leverage ratios, while maintaining strong liquidity, will depend upon our ability to generate excess operating cash flows through our operating subsidiaries. Although we can provide no assurances, we believe that our cash flows from operations, combined with our current cash levels and available borrowing capacity, will be adequate to fund debt service requirements and provide cash, as required, to support our ongoing operations, capital expenditures, lease obligations and working capital needs.

At June 30, 2018, there was $312.5 million outstanding under the First Lien Term Loan, and we had a $40.0 million Revolving Credit Facility, of which $20.0 million is available for borrowing. Additional amounts may be available for borrowing during the term of the Revolving Credit Facility, up to the full $40.0 million, to the extent our net leverage ratio does not exceed 7.0 times Adjusted EBITDA, as defined in the agreement. The First Lien Term Loan and Revolving Credit Facility mature on August 17, 2022 and August 17, 2020, respectively.

Interest rates under the First Lien Term Loan, at the Company's election, are based on either a Eurodollar rate, subject to an interest rate floor of 1.0%, plus a margin of 4.5%, or a base rate plus a margin of 3.5%. As of June 30, 2018, the interest rate on our First Lien Term Loan was 6.36%.

The First Lien Credit Facility contains customary covenants, including among other things, certain restrictions or limitations on indebtedness, issuance of liens, investments, dividends, redemptions and other distributions to equity holders, asset sales, certain mergers or consolidations, sales, transfers, leases or dispositions of substantially all of our assets and affiliate transactions. As of June 30, 2018, we were in compliance with all covenants under the First Lien Credit Facility. We may also be required to make repayments on the First Lien Term Loan in advance of the maturity date based on a calculation of excess cash flows, as defined in the agreement, with any required payments to be made after the issuance of the Company's annual financial statements. As of June 30, 2018, we did not expect to have a required excess cash flow payment related to 2018.

Operating Activities – Continuing Operations

Cash used in operating activities – continuing operations for the six months ended June 30, 2018 was $1.4 million compared to $7.4 million during the six months ended June 30, 2017. The year over year fluctuation was due primarily to working capital cash flow increases, including income taxes and accrued expenses. Cash inflows from tax refunds of $1.5 million were received during the six months ended June 30, 2018.

Investing Activities – Continuing Operations

Cash used in investing activities – continuing operations for the six months ended June 30, 2018 of $2.1 million was lower than the comparative $4.3 million during the six months ended June 30, 2017. Cash used in investing activities – continuing operations during both periods was related to capital expenditures. In the current year period, capital leases were executed for the acquisition of certain machinery and equipment totaling $0.8 million.

Financing Activities

During the six months ended June 30, 2018, cash used in financing activities was $0.3 million and related to principal payments on capital lease obligations.

Cash used in financing activities during the six months ended June 30, 2017 was $5.4 million and primarily related to dividend payments of $5.0 million. The Company discontinued its quarterly dividend program during August 2017.

Contractual Obligations

During the six months ended June 30, 2018, there were no material changes in our contractual obligations from those reported in our Annual Report on Form 10-K for the year ended December 31, 2017.

Off-Balance Sheet Arrangements

We had no material off-balance sheet arrangements at June 30, 2018.

Critical Accounting Policies and Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts and disclosures in the financial statements and accompanying notes. Actual results could differ from those estimates. Our Critical Accounting Policies and Estimates disclosed in our Annual Report on Form 10-K filed for the year ended December 31, 2017, for which there were no material changes as of June 30, 2018, included:

- Impairment Assessments of Goodwill and Long-Lived Assets,
- Inventory Valuation,
- Stock-Based Compensation and
- Income Taxes.

As of January 1, 2018, we adopted ASU 2014-09, *Revenue from Contracts with Customers* , as amended, which 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 the entity expects to be entitled in exchange for those goods or services. ASU 2014-09 also requires an entity to disclose sufficient quantitative and qualitative information to enable users of financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. We adopted ASU 2014-09 as of January 1, 2018, to all of our contracts using the modified retrospective method and recognized the cumulative effect of application as an adjustment to the opening balance of "Accumulated loss" on the Condensed Consolidated Balance Sheet. The comparative financial information has not been restated and continues to be reported under the accounting standards in effect for those periods.

For periods after January 1, 2018, we account for our revenues as follows:

Products Revenue

" Products" revenue is recognized when obligations under the terms of a contract with a customer are satisfied. In most instances, this occurs over time as cards are manufactured for specific customers and have no alternative use and the Company has an enforceable right to payment for work performed. For work performed but not completed and billed, we estimate revenue by taking actual costs incurred and applying historical margins for similar types of contracts. Items included in "Products" revenue are manufactured Financial Payment Cards, including in contact-EMV®, Dual-Interface EMV®, contactless and magnetic stripe cards, private label credit cards and retail gift cards. Card@Once® printers and consumables are also included in "Products" revenue, and their associated revenues are recognized at the time of shipping.

Services Revenue

Revenue is recognized for "Services" as the services are performed. Items included in "Services" revenue include the personalization and fulfillment of Financial Payment Cards, providing tamper-evident secure packaging and fulfillment services to Prepaid Debit Card program managers and software as a service personalization of instant issuance debit cards. For work performed but not completed and billed, we estimate revenue by taking actual costs incurred and applying historical margins for similar types of contracts.

Customer Contracts

The Company often enters into MSAs with our customers. Generally, a MSA requires a customer to place subsequent purchase orders or statements of work to obtain goods or services, thus creating enforceable rights and obligations for goods and services for the parties. The contract term as defined by ASU 2014-09 is the length of time it takes to deliver the goods or services promised under the purchase order or statement of work. As such, the Company's contracts are generally short term in nature.

Item 3. Quantitative and Qualitative Disclosures About Market Ris k

As of June 30, 2018, there have been no material changes in market risk for key input prices, labor and benefits costs or interest rate risk from those included in our Annual Report on Form 10-K for the year ended December 31, 2017.

Item 4. Controls and Procedure s

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended, (the "Exchange Act")) that are designed to assure that information required to be disclosed in our Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosures. Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures pursuant to Exchange Act Rule 13a-15(b). Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of June 30, 2018.

Changes in Internal Control Over Financial Reporting

Beginning January 1, 2018, we implemented ASU 2014-09, *Revenue from Contracts with Customers* . We developed new accounting policies based on the revenue recognition standard, and implemented changes to our processes related to revenue recognition and the related control activities. Other than as it relates to ASU 2014-09, there has been no change in the Company’s internal control over financial reporting during 2018 that has materially affected, or is reasonably likely to materially affect, the Company’s internal control over financial reporting.

Limitations on Effectiveness of Controls

Our management, including our Chief Executive Officer and Chief Financial Officer, do not expect that our disclosure controls and procedures will prevent all errors and fraud. In designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable, not absolute, assurance of achieving the desired control objectives. Further, the design of a control system must reflect the fact that there are resource constraints, and management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people or by management’s override of the control.

The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Over time, controls may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

PART II – Other Information

Item 1. Legal Proceedings

In Re CPI Card Group Inc. Securities Litigation , Case No. 1:16-CV-04531 (S.D.N.Y.) (the "Class Action")

On June 15, 2016, two purported CPI stockholders filed putative class action lawsuits captioned Vance, et al. v. CPI Card Group Inc., et al. and Chipman, et al. v. CPI Card Group Inc. in the United States District Court for the Southern District of New York (the "Court") against CPI, certain of its former officers and current and former directors, along with the sponsors of and the financial institutions who served as underwriters for CPI's October 2015 initial public offering ("IPO"). The complaints, purportedly brought on behalf of all purchasers of CPI common stock pursuant to the October 8, 2015 Registration Statement filed in connection with the IPO, assert claims under §§11 and 15 of the Securities Act of 1933, as amended (the "Securities Act") and seek, among other things, damages and costs. In particular, the complaints allege that the Registration Statement contained false or misleading statements or omissions regarding CPI's customers' (i) purchases of Europay, MasterCard and VISA chip cards (collectively, "EMV® cards") during the first half of fiscal year 2015 and resulting EMV® card inventory levels: and (ii) capacity to purchase additional EMV® cards in the fourth quarter of fiscal year 2015, and the remainder of the fiscal year ended December 31, 2015. The complaints allege that these actions artificially inflated the price of CPI common stock issued pursuant to the IPO.

On August 30, 2016, the Court consolidated the Vance and Chipman actions and appointed lead plaintiff and lead counsel pursuant to the Private Securities Litigation Reform Act (the "PSLRA"). On October 17, 2016, lead plaintiff filed a consolidated amended complaint, asserting the same claims for violations of §§11 and 15 of the Securities Act. The amended complaint is based principally on the same theories as the original complaints, but adds allegations that the Registration Statement contained inadequate risk disclosures and failed to disclose (i) small and mid-size issuers' slower-than-anticipated conversion to EMV® technology and (ii) increased pricing pressure and competition CPI faced in the EMV® market.

On November 16, 2016, the Company filed a motion to dismiss the amended complaint, which was denied by the Court on October 30, 2017. On January 12, 2018, the Company filed an answer to the amended complaint. On March 23, 2018, lead plaintiff filed his motion for class certification. On June 11, 2018, the Company filed an opposition to lead plaintiff's motion for class certification.

On July 31, 2018, the parties notified the Court that they had reached an agreement in principle to settle the Class Action. The agreement in principle is subject to confirmatory discovery by the plaintiff, execution of a definitive settlement agreement and supporting documentation and final approval by the Court.

Heckermann v. Montross et al. , Case No. 1:17-CV-01673 (D. Del.) (the "Derivative Suit")

On November 20, 2017, a purported CPI stockholder filed a stockholder derivative complaint in the United States District Court for the District of Delaware (the "Court") against certain of CPI's former officers and current and former directors, along with the sponsors of the IPO. CPI is also named as a nominal defendant. The derivative complaint asserts claims under §§10(b) and 20(a) of the Securities Exchange Act of 1934 and SEC Rule 10b-5 and seeks, among other things, injunctive relief, damages and costs. It alleges false or misleading statements and omissions in the Registration Statement filed by CPI in connection with its IPO and subsequent public filings and statements. The derivative complaint also asserts claims for purported breaches of fiduciary duties, unjust enrichment, mismanagement and waste of corporate assets.

On March 28, 2018, the Court entered the parties' stipulated order staying the Derivative Suit pending final determination of the Class Action.

The Company believes these claims are without merit and is defending the Derivative Suit vigorously.

CPI Card Group Inc. v. Multi Packaging Solutions, Inc., et al. (2 cases)

First case. On October 11, 2016, the Company filed a patent infringement suit against Multi Packaging Solutions, Inc. ("MPS") in the United States District Court for the District of Colorado. The complaint asserts that MPS ultrasecure gift card packages sold to at least one customer infringe a Company patent on ultrasecure gift card packages. MPS has answered the complaint and counterclaimed for invalidity and noninfringement. The Company's preliminary injunction request was denied without prejudice after MPS represented that it had voluntarily ceased using the accused technology and will notify CPI before it re-starts. Discovery is underway. MPS's early motion for summary judgment was denied in August 2017 and its motion to dismiss on jurisdictional grounds was denied in July 2018. The Company's subsidiary CPI Card Group-Minnesota, Inc., has been added to the case as plaintiff. The Company's patent will expire in 2028.

In June 2017, MPS filed an Inter Partes Review ("IPR") petition with the United States Patent & Trademark Office's Patent Trial & Appeal Board ("PTAB"). The PTAB instituted the IPR on January 9, 2018. The IPR is now fully briefed. A hearing is scheduled in October 2018, and the Company anticipates a decision by the PTAB by January 2019.

The Company intends to vigorously assert its intellectual property rights in connection with this litigation and the IPR.

Second case. During the summer of 2017, the Company commenced a lawsuit in the District of Minnesota against a former employee, MPS, and two MPS employees (collectively, the Defendants). The former employee was a sales executive who left the Company in 2017 to join MPS. In the lawsuit, the Company alleges that the Defendants misappropriated the Company's trade secrets and confidential information, that the former employee violated his employment agreements with the Company, and that Defendants committed various related business torts. After some early discovery, the Company moved for a preliminary injunction, which the Court granted in December, 2017. The litigation is ongoing .

In addition to the matters described above, the Company is subject to routine legal proceedings in the ordinary course of business. The Company believes that the ultimate resolution of these matters will not have a material adverse effect on our business, financial condition or results of operations.

Item 1A. Risk Factor s

The risk factors disclosed in the section entitled "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2017 set forth information relating to various risks and uncertainties that could materially adversely affect our business, financial condition and operating results. Such risk factors continue to be relevant to an understanding of our business, financial condition and operating results. As of the date of this Quarterly Report on Form 10-Q, there have been no material changes with respect to such risk factors.

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

Unregistered Sales of Equity Securities

None.

Issuer Purchases of Equity Securities

None.

Item 5. Other Information

On August 3, 2018, we completed the sale of our three facilities in the United Kingdom that produce retail cards, such as gift and loyalty cards, for customers in the United Kingdom and continental Europe, and provide personalization, packaging and fulfillment services. The facilities sold included our Colchester, Liverpool and Derby locations. The transaction was structured as a sale of all of the outstanding shares of CPI Card Group – UK Limited, for total consideration of approximately $4.5 million, to an affiliate of SEA Equity Limited, a private investment firm focused on investments in companies in the United Kingdom and Europe. We expect to receive net cash proceeds

of approximately $0.3 million after the repayment of liabilities associated with the United Kingdom facilities, excluding tax benefits related to the structure of the sale.

Item 6. Exhibit s

Exhibit Number	Exhibit Description
2.1*	Share Purchase Agreement, dated August 1, 2018, by and between CPI Card Group – Europe Limited, SEAFOX BIDCO Limited and CPI Acquisition, Inc.
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document.
101.SCH	XBRL Taxonomy Extension Schema Document.
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.

* Annexes, schedules and/or exhibits have been omitted pursuant to Item 601(b)(2) of Regulation S-K. We hereby undertake to furnish supplementally a copy of any of the omitted schedules and exhibits to the SEC on a confidential basis upon request.

SIGNATURE S

Pursuant to the requirement 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.

CPI CARD GROUP INC.

/s/ John Lowe
John Lowe
Chief Financial Officer

August 9, 2018

Exhibit 2.1

DATED AUGUST 1, 2018

(1) CPI CARD GROUP – EUROPE LIMITED

and

(2) SEAFOX BIDCO LIMITED

and

(3) CPI ACQUISITION, INC

SHARE PURCHASE AGREEMENT
in respect of the purchase of
CPI Card Group – UK Limited

Dorsey & Whitney (Europe) LLP
199 Bishopsgate
London EC2M 3UT
www.dorsey.com

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THIS AGREEMENT is made on August 1, 2018

BETWEEN:

1. **CPI CARD GROUP – EUROPE LIMITED** , a company incorporated in England and Wales with number 06656879 whose registered office is at Graphic House Telford Way, Severalls Park, Colchester, Essex, CO4 9QF (the " **Seller** ");

2. **SEAFOX BIDCO LIMITED** , a company incorporated in England and Wales with number 11471416 whose registered office is at 1 Mercer Street, London, WC2H 9QJ (the " **Purchaser** "); and

3. **CPI ACQUISITION, INC.** a company organised and existing under the laws of Delaware with Delaware State file number 4363743 (the **"Guarantor** ").

BACKGROUND

(A) CPI Card Group - UK Limited (" **Company** ") is a private company limited by shares incorporated in England and Wales, further details of which are set out in Schedule 1.

(B) The Seller is the legal and beneficial owner of the Shares (as defined below), comprising the entire issued share capital of the Company.

(C) The Seller has agreed to sell, and the Purchaser has agreed to purchase, the Shares on the terms set out in this Agreement.

(D) The Guarantor has agreed to guarantee the performance of the obligations undertaken by the Seller under this Agreement and the other Transaction Documents to which it is a party.

IT IS HEREBY AGREED as follows:

1. **DEFINITIONS AND INTERPRETATION**

1.1 In this Agreement the following words and expressions shall (except where the context otherwise requires) have the following meanings:

" **Act** " means the Companies Act 2006;

" **Accounts** " means the draft audited accounts of the Company for the accounting period ended on 31 December 2017 and the dormant accounts for the Subsidiary for the accounting period ended on the Accounts Date, copies of which are appended to this Agreement;

" **Accounts Date** " means 31 December 2017;

" **Affiliate** " means in relation to any body corporate (i) its parent undertaking (within the meaning of section 1159 of the Act); or (ii) any subsidiary undertaking (within the meaning of that section) of such body corporate or of its parent undertaking;

" **Agreed Announcement"** means the announcement in the Agreed Form to be released on Completion;

" **Agreed Form** " means, in relation to any document, the form of that document which has been initialled for the purpose of identification by or on behalf of the Seller and the Purchaser and which shall be entered into on Completion (other than the Waivers which shall be conducted prior to Completion);

" **APN** " means an accelerated payment notice as referred to in Chapter 3, Part 4 Finance Act 2014;

" **Assignment Agreement** " means the assignment agreement, in the Agreed Form, to be entered into between CPI Card Group Inc. and the Company on Completion;

" **Authority** " means any applicable competent governmental, administrative, supervisory, regulatory, judicial, determinative, disciplinary, enforcement or tax raising body, authority, agency, board, department, court or tribunal of any applicable jurisdiction and whether supranational, national, regional or local;

" **Bonus Agreements** " means the agreements entered into between the Company and each of Nick Cahn and Jagath de Alwis on 2 January 2018 (as amended on 30 May 2018 and appended hereto) and the agreement entered into between the Company and Alec Smith on 17 July 2018, each as appended hereto;

" **Business** " means the business conducted by the Group at the date of this Agreement in the United Kingdom comprising the design, manufacturing, personalization, packaging and data labelling of chip-less transaction cards (excluding debit and credit cards) for third party customers, primarily retailers, data processors, print managers and transaction card processors;

" **Business Day** " means a day other than a Saturday or Sunday on which banks are open for business in London;

" **Business Intellectual Property** " means all Intellectual Property owned or licensed to a Group Company and used in, or in connection with, the Business;

" **Claim** " means all and any of a Fundamental Warranty Claim, a Warranty Claim or a Tax Claim and any other claim by the Purchaser under the provisions of this Agreement;

" **Completion** " means the performance of all the obligations of the parties to this Agreement set out in Clause 5;

" **Completion Bonuses** " means the aggregate completion bonuses of £281,105 (being the bonus amount plus any applicable national insurance contributions) to be paid by the Company to Nick Cahn, Jagath de Alwis and Alec Smith following Completion in accordance with the Bonus Agreements;

" **Completion Date** " means 3 August 2018 (or such earlier date as is agreed in writing between the Purchaser and the Seller);

" **Computer Systems** " means the computer systems owned by, or leased by or licensed to, the Company, including any computer processors, hardware, associated and peripheral equipment, computer programs, technical and other documentation and data entered created by the foregoing from time to time prior to Completion;

" **Confidential Business Information** " means all information (in whatever form held) relating to the Business including, but not limited to, customer lists, marketing and promotional information and other databases; business plans and forecasts; computer software, accounting and tax records, correspondence, orders and inquiries;

" **Consideration** " means the sum of £250,000 (two hundred and fifty thousand pounds sterling) plus the amount of the Relevant CT Repayment (if any) less the amount of the Remaining Waiver Liability;

“ **CPI Business** ” means the business of the Seller’s Group following Completion, from time to time, excluding the Business;

“ **CPI Liverpool** ” means CPI Card Group – Liverpool Limited a company incorporated in England and Wales with number 02455038 whose registered office is at Graphic House Telford Way, Severalls Park, Colchester, Essex, CO4 9QF;

“ **CPI Petersfield** ” means CPI Card Group – Petersfield Limited a company incorporated in England and Wales with number 08063463 whose registered office is at Graphic House Telford Way, Severalls Park, Colchester, Essex, CO4 9QF;

“ **CTA 10** ” means the Corporation Tax Act 2010;

“ **Data Room** ” means the Project Merlin virtual data room hosted by Merrill Corp. containing the documents (including correspondence and information) made available by or on behalf of the Seller or any Group Company for inspection by or on behalf of the Purchaser (including the Purchaser’s agents and advisers) in relation to, or in connection with, each Group Company and their businesses, a copy of the contents of which are on a USB stick and provided to the Purchaser’s Solicitors and the Seller’s Solicitors on 20 July 2018;

“ **Deed of Release** ” means a deed of release, in the Agreed Form, with respect to the charge over the Subsidiary’s shares;

“ **Disclosed** ” means fairly disclosed in the Disclosure Letter with such detail to enable the Purchaser to identify the nature and scope of the matter so disclosed;

“ **Disclosure Letter** ” means the letter dated the date of this Agreement from the Seller to the Purchaser relating to the Warranties together with any documents annexed to it;

" **EFI"** means Electronics for Imaging, Inc;

" **EFI Licence"** means the term licence agreement between EFI and the Guarantor dated 23 July 2018;

“ **EHS Claim** ” means all or any of:

(a) any claim or demand or any civil, criminal or administrative legislation, arbitration, dispute resolution proceedings, suit, action, notice or other enforcement process brought by an Authority or any other person (including any Group Company);

(b) any official warning, caution, civil sanction, fee for intervention or order; and

(c) any enquiry or investigation by any Authority,

in each case relating to or arising from the Environment and/or human health, safety or welfare;

“ **EHS Laws** ” means all legally binding and applicable:

(a) supranational, national, European Union, federal state or local statutes, directives or other laws or legislation or subordinate legislation;

(b) common laws or civil codes; and

(c) rules, orders (including orders in council and any orders of any Secretary of State), notices, guidelines, guidance notes, codes of practice, circulars or industry agreements or codes,

which has as a purpose or effect the protection or restoration or remediation of or prevention of harm to the Environment or human health, safety or welfare or, provides for remedies or compensation for harm or damage to the Environment or, relates in any way to any Hazardous Substance or packaging, noise, vibration, radiation, odour, nuisance or interference with the use or enjoyment of land or the erection, occupation or use of man-made or natural structures above or below ground and **EHS Law** shall mean any one of them;

" **EHS Permits** " means any permit, licence, authorisation, consent, exemption, exclusion or waiver, registration, notification, credit or allowance or other approval of whatever nature required pursuant to any EHS Law;

" **Encumbrance** " means a mortgage, charge, pledge, lien, option, restriction, equity, right to acquire, right of pre-emption, third party right or interest, other encumbrance or security interest of any kind or any other type of preferential arrangement (including, without limitation, a title transfer and retention arrangement) having similar effect;

" **Environment** " means the natural and man-made environment and all or any of the following media, being land and soil (including without limitation under buildings or other structures, and whether above or below ground), water (including, without limitation, water under or within land or within pipes, drains or sewers) and air (including, without limitation, air within buildings and other natural or man-made structures and whether above or below ground), wherever situate and whether alone or in combination and all human or plant, animal life and living organisms (including the ecosystems which support them or which are supported by such media);

" **Event** " means any event, act, omission or transaction (whether or not a Group Company is a party to such act, omission or transaction) and for the avoidance of doubt includes (without limitation) any change in the residence of any person and the death, winding up or dissolution of any person and any reference to an event occurring on or before a particular date shall include a reference to any event which for tax purposes is deemed to have, or is treated or regarded as having, occurred on or before that date;

" **Expenses** " means the aggregate of any third party costs and expenses and costs and expenses that are reasonably and properly incurred by the Purchaser (excluding, for the avoidance of doubt, management time) in bringing a Claim;

" **Follower Notice** " means a follower notice as referred to in Chapter 2, Part 4 Finance Act 2014;

" **Freehold Properties** " means the freehold properties set out in Part 1 of Schedule 6;

" **FSMA** " means the Financial Services and Markets Act 2000 (as amended);

" **Former Properties** " means any property owned, leased, occupied or used by any Group Company at any time but is not a Property;

" **Fundamental Warranties** " means the Warranties given by the Seller in paragraph 1 of part A of Schedule 2;

" **Fundamental Warranty Claim** " means a claim against the Seller in respect of the Fundamental Warranties;

" **Group** " means the Company and the Subsidiary and "Group Company" means either of them;

" **Hazardous Substance** " means any natural or artificial substance or combination of substances (whether in solid, liquid, gas, vapour or other form whatsoever) capable of causing

harm to the Environment or human health including but not limited to any hazardous, toxic or dangerous substance or article;

" **HMRC** " means HM Revenue and Customs;

" **Intellectual Property** " means all intellectual or industrial property including without limitation patents, inventions, know-how, trade secrets, source code and other confidential information, registered designs, copyrights, data, database rights, design rights, rights to goodwill, rights in the nature of unfair competition rights and rights to sue for passing-off, database rights, design rights, semiconductor topography rights, trade marks, service marks, logos, domain names, business names, trade names, moral rights, and in each case whether registered or unregistered and including all applications (or rights to apply for), and renewals or extensions of, such rights and all similar or equivalent rights or forms of protection which subsist or will subsist now or in the future in any country or jurisdiction;

" **ITEPA** " means the Income Tax (Earning and Pensions) Act 2003;

" **Law** " or " **Laws** " means all applicable legislation, statutes, directives, regulations, judgments, decisions, decrees, orders, instruments, by-laws, and other legislative measures or decisions having the force of law, treaties, conventions and other agreements between states, or between states and the European Union or other supranational bodies, rules of common law, customary law and equity and all civil or other codes and all other laws of, or having effect in, any applicable jurisdiction from time to time;

" **Leakage** " means:

(a) any dividend or distribution declared, paid or made (whether actual or deemed and whether in cash or in specie) by the Company to the Seller;

(b) any payments made by the Company to the Seller or any member of the Seller's Group in respect of any share capital or other securities of the Company being issued, redeemed, purchased, repaid, or any other return of capital;

(c) other than the repayments of an inter-group loan owed by the Seller to the Company of an aggregate sum of £740,994.29, any payments made by or obligations transferred to, or liabilities assumed, guaranteed, indemnified or incurred for the benefit of (whether directly or indirectly) any Group Company to or for the Seller or any member of the Seller's Group (including, for the avoidance of doubt and without limitation, (i) any professional advisor costs relating to the transactions contemplated by this Agreement, (ii) any transaction or sale bonuses, retention payments, change of control payments or similar arrangements with any employee, consultant, director or officer of any Group Company, other than the Completion Bonuses and (iii) and brokerage, finder's or other fees or commissions or payments payable as a result of or in connection with the sale of the Company);

(d) other than the Waivers, any waiver or release by any Group Company of any amount or obligation owed to it (or claim in respect thereof) by the Seller or any member of the Seller's Group;

(e) any payment of management charges or other payments of a similar nature by any Group Company to the Seller or any member of the Seller's Group otherwise than on arms length terms;

(f) the purchase by any Group Company from the Seller or any member of the Seller's Group of assets or services not on arm's length terms or otherwise at an overvalue;

(g) any Tax (excluding recoverable VAT) becoming payable by a Group Company as a result of the matters listed in paragraphs (a) to (f) above; and

(h) any agreement by the Company to do any of the above,

other than the Permitted Payments;

" **Leasehold Properties** " means the leasehold properties set out in Part 2 of Schedule 6 and " **Leasehold Property"** means any one of them or part or parts of any one of them;

" **Licence Agreement** " means the licence agreement, in the Agreed Form, entered into between CPI Card Group Inc. and the Company on Completion;

"Locked Box Accounts" means the balance sheet and profit and loss statement of the Company as at and for the period from 1 January 2018 ending on the Locked Box Date, a copy of which is appended to this Agreement;

" **Locked Box Date** " means 30 June 2018;

" Losses" on an after-Tax basis, an amount equal to all liabilities, losses, damages, payments, compensation, remedial action, remediation, properly incurred legal costs, and properly incurred expenses and any amounts payable in respect of any actions, claims, demands, proceedings, damages, fines and penalties;

" **Master Supply Agreement** " means the master supply agreement, in the Agreed Form, entered into between CPI Card Group-Colorado, Inc. and the Company on Completion;

"Material Contract" means any agreement or arrangement in force as at the date of this Agreement with any of the parties listed as (i) 1-10 in the document contained at 11.9.1 of the Data Room; or (ii) under the heading 'Top 10' in the document contained at 11.9.2 of the Data Room;

" **Non- Perimeter Contract"** means each of:

(a) Rental agreement dated 23 August 2017 between CPI Card Group Ltd and Insight Systems Ltd;

(b) Equipment sales & service agreement dated 22 August 2017 between CPI Card Group Limited and Insight Systems Ltd;

(c) Hire and service agreement dated 18 December 2014 between CPI Card Group Limited and Stanley Security;

(d) Sub-contract for provision of services dated 2012 between Communisis UK Limited and CPI Card Group – Europe Limited;

(e) Purchase agreement dated 24 April 2006 between First Data Corporation and PCC Ltd as amended on 4 November 2010;

(f) Purchase agreement dated 17 July 2017 between JD Sports Fashion plc and CPI Card Group (Europe) Limited; and

(g) Service agreement dated 21 February 2018 between PHS Group and CPI Card Group Ltd,

together being the **Non-Perimeter Contracts** ;

" **Permitted Payments** " means:

(a) any payments made by any Group Company in the ordinary course of trading to the Seller or a member of the Sellers' Group to the extent only that the amount paid by the Company for any service or product received pursuant to such arrangements is no greater than the amount paid or incurred for the same product or service prior to the Locked Box Date; and

(b) any payments made to, or outstanding amounts owed to, any Seller and/or any member of the Sellers' Group under or in connection with this Agreement or any other Transaction Document,

in each case such payments shall include any Taxation applicable as a direct result of any of the above;

" **Properties** " means the Freehold and the Leasehold Properties and references to any of the Properties or a **"Property"** shall mean any one of the Freehold Properties or the Leasehold Properties or any part or parts of any one of them;

" **Purchaser's Group** " means the Purchaser and any Affiliate of the Purchaser from time to time (including, following Completion, the Group);

" **Purchaser's Solicitors** " means Addleshaw Goddard LLP of Milton Gate, 60 Chiswell St, London EC1Y 4AG;

" **Purchaser's Solicitors' Undertaking** " means the undertaking from the Purchaser's Solicitors, in the Agreed Form in respect of the Consideration;

" **Relevant Surrender** " means:

(a) the surrender of any trading losses and/or any other amounts eligible for surrender by way of group relief (which has the meaning given to that expression by section 97 CTA 10);

(b) the surrender of a tax refund being a tax refund relating to an accounting period within the meaning of Chapter 4, Part 22 CTA 10;

(c) any notional or other transfer of any asset or any reallocation of a gain or loss, as the case may be, or any reallocation of a chargeable realisation gain in accordance with the provisions of section 171A TCGA, 179A TCGA or sections 792 and 793 CTA 2009, respectively; and/or

(d) any surrender of any eligible unrelieved foreign tax or equivalent amounts;

" **Relief** " means any relief, loss, allowance, exemption, set-off, deduction or credit in the computation of income, profits or gains for the purposes of any Taxation, and any right to a repayment of Taxation;

" **Remaining Waiver Liability** " means the liability of the Company remaining outstanding to CPI Liverpool following the completion of the Waivers;

" **Restricted Area** " means the United Kingdom;

“ **Seller’s Group** ” means the Seller and any Affiliate of the Seller from time to time (excluding the Group);

“ **Seller’s Solicitors** ” means Dorsey & Whitney (Europe) LLP of 199 Bishopsgate, London EC2M 3UT;

“ **Shares** ” means 2,950 ordinary shares of £1 each in the capital of the Company, being the entire issued share capital of the Company;

"Subsidiary" means Optiscan Graphics Limited, details of which are set out in Schedule 1 to this Agreement;

“ **Tax** ” or “ **Taxation** ” means all forms of taxation, imposts, duties, levies, social security contributions and rates in each case in the nature of taxation whether of the United Kingdom or elsewhere including corporation tax, income tax (including income tax or amounts on account of income tax required to be deducted or withheld from or accounted for in respect of any payment), capital gains tax, inheritance tax, value added tax, national insurance contributions, stamp duty, stamp duty land tax, stamp duty reserve tax, duties of HMRC, any taxes, duties or charges replaced by or replacing any of them (in each case in the nature of taxation), and any other taxes on gross or net income, profits or gains, distributions, receipts, sales, use, occupation, franchise, value added, and personal property, and all levies, imposts, duties, charges or withholdings in each case in the nature of taxation whatsoever chargeable by any Taxation Authority; together with all penalties, charges and interest relating to any of the foregoing;

“ **Tax Authority** ” or “ **Taxation Authority** ” means HMRC and any other governmental or other authority whatsoever competent to impose any liability to Taxation, whether in the United Kingdom or elsewhere;

“ **Tax Claim** ” means any claim in relation to any Tax Warranty and/or any claim in relation to the Tax Covenant;

“ **Tax Covenant** ” means any covenant set out in Schedule 3;

“ **Tax Warranties** ” means the warranties in relation to Taxation set out in Part B of Schedule 2;

“ **TCGA** ” means the Taxation of Chargeable Gains Act 1992;

“ **Transaction Documents** ” means this Agreement, the TSA, the Transitional Trade Mark Licence, the Assignment Agreement, the Licence Agreement, the Purchaser’s Solicitors’ Undertaking, the Deed of Release, the Waivers and the Master Supply Agreement;

“ **Transitional Trade Mark Licence** ” means the transitional trade mark licence agreement, in the Agreed Form, entered into between CPI Card Group Inc. and the Company on Completion;

“ **TSA** ” means the transitional services agreement, in the Agreed Form, entered into between CPI Card Group Inc. and the Company on Completion;

“ **VAT** ” means value added tax charged or imposed pursuant to Council Directive 2006/112/EC or any national legislation implementing such Directive (including for the avoidance of doubt VATA and any related secondary legislation, regardless of whether or not the UK is a member of the European Union or continues to be subject to such Directive), and any similar or analogous sales or turnover tax imposed in any jurisdiction;

" **Waivers** " means:

(i) the waivers by the Company, in the Agreed Form, of: (a) £1,780,047.71 owed by the Seller to the Company; and (b) £3,070,133 owed by CPI Petersfield to the Company; (c) £231,435 owed by CPI Card Group – Colorado, Inc. to the Company; (d) £348 owed by CPI Card Group – Nevada, Inc. to the Company; (e) £1,923 owed by CPI Minnesota to the Company; and (f) £8,282 owed by CPI Holding Co. to the Company; and

(ii) the waiver by CPI Liverpool, in the Agreed Form, of an amount of £511,880 of the aggregate sum of £678,878 owed by the Company to CPI Liverpool,

to take place following the date of this Agreement and prior to Completion;

" **Warranties** " means the warranties set out in Schedule 2; and

" **Warranty Claim** " means any claim in relation to the Warranties.

1.2 In this Agreement, unless otherwise specified:

1.2.1 references to Clauses, sub-Clauses, paragraphs, sub-paragraphs and Schedules are to Clauses, sub-Clauses, paragraphs and sub-paragraphs of or schedules to this Agreement;

1.2.2 the table of contents and headings to Clauses and Schedules are for convenience only and do not affect the interpretation of this Agreement;

1.2.3 the Schedules form part of this Agreement and shall have the same force and effect as if expressly set out in the body of this Agreement, and any reference to this Agreement shall include the Schedules;

1.2.4 a reference to any statute or statutory provision shall be construed as a reference to the same as it may have been, or may from time to time be, consolidated, amended, modified or re-enacted (except to the extent that any consolidation, amendment, modification or re-enactment made after the date of this Agreement would increase or extend the liability of any party under this Agreement);

1.2.5 words and expressions defined in the Act have the same meanings herein;

1.2.6 a person shall be treated as being connected with another if that person is connected with another within the meaning of section 1122 of the CTA 10;

1.2.7 references to writing shall include any modes of reproducing words in a legible and non-transitory form;

1.2.8 references to times of day are to London time;

1.2.9 any statement which refers to the knowledge or knowledge and belief of the Seller or is expressed to be " **so far as the Seller is aware** " or any similar expression shall mean the actual knowledge, belief or awareness of the Seller as at the date of this Agreement, which shall be limited to the actual knowledge of Jagath de Alwis, Nicholas Cahn, Paul Gerrard, Alec Smith and Jenny Chambers; and

1.2.10 the rule known as the ejusdem generis rule shall not apply and accordingly general words introduced by the word "other" shall not be given a restrictive meaning by reason

of the fact that they are preceded by words indicating a particular class of acts, matters or things.

2. SALE AND PURCHASE OF SHARES

2.1 At Completion, the Seller shall sell, and the Purchaser shall purchase, the Shares, free from all Encumbrances and together with all rights of any nature which are now or which may at any time become attached to them or accrue in respect of them including all dividends and distributions declared paid or made in respect of them on or after the date of this Agreement.

2.2 The Seller hereby irrevocably and unconditionally waives any restriction on transfer in respect of the Shares or any of them conferred on him or any other person under the articles of association of the Company or any other document or agreement.

2.3 The Law of Property (Miscellaneous Provisions) Act, 1994 shall not apply for the purposes of this Agreement.

3. CONSIDERATION AND LOCKED BOX

3.1 Subject to adjustment in accordance with this Clause 3, the Consideration payable by the Purchaser for the Shares shall be a sum equal to £250,000 plus the amount of the Relevant CT Repayment less an amount of the Remaining Waiver Liability.

3.2 The Consideration shall be deemed to be reduced by the amount of any payment made to the Purchaser for each and any Claim so far as legally permissible (including, for the avoidance of doubt, any amount paid by the Seller pursuant to Clause 3.6).

3.3 All payments to be made to the Seller under this Agreement shall, unless expressly provided otherwise, be made in pounds sterling by electronic transfer of immediately available funds to the Seller's Solicitors (who are irrevocably and unconditionally authorised by the Seller to receive the same and whose receipt shall be an absolute discharge to the Purchaser of its obligation to pay the sum in question to the Seller).

3.4 All payments to be made to the Purchaser under this Agreement shall, unless expressly provided otherwise, be made in pounds sterling by electronic transfer of immediately available funds to the Purchaser's Solicitors (who are irrevocably and unconditionally authorised by the Purchaser to receive the same and whose receipt shall be an absolute discharge to the Seller of its obligation to pay the sum in question to the Purchaser).

3.5 The Seller undertakes to the Purchaser that neither the Seller nor any member of the Seller's Group has received, or benefitted from, any Leakage from but excluding the Locked Box Date up to (and including) the Completion Date (" **Leakage Undertaking** ").

3.6 The Seller undertakes to pay to the Purchaser an amount in cash equal (on a £ for £ basis) to any Leakage received by the Seller or any member of the Seller's Group (or that otherwise falls within limb (g) of the definition of Leakage), or to which such persons have benefitted from.

3.7 The Seller shall not be liable for any claims by the Purchaser against the Seller for breach of the Leakage Undertaking (" **Leakage Claim** ") under Clause 3.5 unless notice in writing of the Leakage Claim, summarising in reasonable detail the nature of the Leakage Claim and, as far as is reasonably practicable, the amount claimed, has been given to it by or on behalf of the Purchaser within 50 Business Days after the Completion Date. The Purchaser acknowledges and agrees that that the only remedy available to it for breach of Clause 3.5 is contained in Clause 3.6.

3.8 The provisions of Clauses 3.5 and 3.6 shall not apply to any Leakage undertaken at the specific written request or direction of, or with the specific written approval of, the Purchaser or any other member of the Purchaser's Group.

3.9 Save in the case of fraud or wilful concealment, the liability of the Seller under Clauses 3.5 and 3.6 shall not in any circumstances exceed the aggregate amount of the Leakage actually received by the Seller and/ or any member of the Seller's Group (or to which such persons have benefitted from).

3.10 The Relevant CT Repayment (if any) shall be paid in accordance with Clause 24.

4. SIGNING AND PRE-COMPLETION PERIOD

4.1 On signing of this Agreement the parties shall comply with their respective obligations set out in Part 1 of Schedule 4.

4.2 Between the date of this Agreement and Completion, the Seller will procure that the business of the Group is carried on in the ordinary course as carried on immediately prior to the date of this Agreement and that no Group Company will:

4.2.1 admit any person as a member or create any options over, or grant any rights to acquire, any of its shares;

4.2.2 reduce or increase its share capital, share premium account or capital redemption reserve or any other capital account or reserve or redeem, purchase or otherwise acquire any of its shares or other securities;

4.2.3 create or allow to arise any Encumbrance over

(a) its shares; or

(b) any part of its assets and undertakings other than retention of title or other security created by operation of law or security granted as part of hire purchase or finance leasing arrangements in the ordinary course of business;

4.2.4 otherwise than in the ordinary course of business and on arm's length terms enter into any loans (either as lender or borrower) or factor any of its debts or incur any indebtedness;

4.2.5 otherwise than in the ordinary course of business and on arm's length terms, acquire any asset or contract to receive any service or dispose of any asset or contract to provide any service;

4.2.6 otherwise than in the ordinary course of business and on arm's length terms, directly or indirectly dispose of, or dilute its investment in, (including by way of a lease to a third party) an asset having a book or market value greater than £100,000;

4.2.7 directly or indirectly dispose of, or dilute its investment in, (including by way of a lease to a third party) the whole or a significant part of its undertaking;

4.2.8 otherwise than in the ordinary course of business take any steps to vary or terminate or take any steps or intentionally omit to take any steps that will constitute a material breach of any Material Contract; or

4.2.9 appoint or terminate (other than for cause) the employment of any employee whose base salary exceeds £75,000, or alter or permit any alterations (including increases in emoluments) to be made to service agreements and/or terms of employment and/or contracts for services from time to time of any employee whose base salary exceeds £75,000.

4.3 The Seller undertakes to promptly notify the Purchaser in writing of anything which is or is likely to constitute a breach of clause 4.2.

5. COMPLETION

5.1 Completion shall take place on the Completion Date at the offices of the Seller's Solicitors or such other place as the Purchaser and the Seller shall agree, at which time the parties shall perform or procure the performance of its obligations set out in Part II of Schedule 4.

5.2 The Purchaser is not obliged to purchase any of the Shares unless the purchase of all the Shares is completed simultaneously. If the purchase of all Shares cannot be completed simultaneously, the Purchaser may, by notice to the Seller:

5.2.1 set a new date for Completion not more than 10 Business Days after the Completion Date (in which case this clause 5.2 will apply to the deferred Completion); or

5.2.2 proceed to Completion so far as is practicable (without affecting the Purchaser's rights in respect of non-compliance) and set a later date on which the Seller will comply with its respective outstanding obligations.

5.3 The Seller will:

5.3.1 use its reasonable endeavours to secure as soon as practicable after Completion (but with effect from Completion) the release of each Group Company (without cost to any Group Company or the Purchaser) from all security, guarantees, indemnities or similar obligations given or undertaken by any Group Company to secure or support the obligations of the Seller or any member of the Seller's Group; and

5.3.2 indemnify the Purchaser against any claim made under any such security, guarantees, indemnities or similar obligations.

6. TRANSFER OF SELLER GROUP ASSETS

6.1 Subject to clause 6.2, the Company will at Completion assume the obligations of, and become entitled to the benefits of, the relevant member of the Seller's Group under the Non-Perimeter Contracts and the Purchaser will procure that the Company will carry out all the obligations and liabilities created by or arising under the Non- Perimeter Contracts.

6.2 As the novation of the Non-Perimeter Contracts will require the consent of the relevant counterparty, this Agreement will not operate so as to transfer the benefit of any such Non-Perimeter Contracts or any rights under any such Non-Perimeter Contracts and:

6.2.1 the Seller will use reasonable endeavours, and procure that the relevant Seller's Group member will use reasonable endeavours, to assist the Company in obtaining a deed of novation regarding each Non-Perimeter Contract in order effectively to substitute the Company with effect from the date of such deed of novation in place of the Seller's Group member as a party to that Non-Perimeter Contract;

6.2.2 until the Non-Perimeter Contracts are novated to the Company:

(a) the Seller will procure that each relevant member of the Seller's Group which is a counterparty to any Non-Perimeter Contract will continue in its corporate existence and will (to the extent permitted by the Non-Perimeter Contracts) hold the benefits of the Non-Perimeter Contracts from the date of this Agreement on trust for the Company absolutely;

(b) the Seller will procure that the relevant member of the Seller's Group will account promptly to the Company for any consideration or other benefit or goods received by it in relation to each Non-Perimeter Contract without any deduction; and

(c) the Company will perform the obligations and exercise the rights of the relevant member of the Seller's Group under each Non- Perimeter Contract as sub-contractor.

6.2.3 until the relevant Non-Perimeter Contract is novated to the Company, the Seller will give, and will procure that the relevant member of the Seller's Group will give, all such assistance to the Purchaser and/or the Company as the Purchaser reasonably requires to enable the Company to enjoy the benefit and assume the burden of that Non-Perimeter Contract. In particular, the Seller will provide, or procure that the relevant Seller's Group member provides, the Company with access to all relevant documents, if any, held by the relevant Seller's Group member and other information, if applicable, in relation to that Non-Perimeter Contract as the Company may require from time to time.

6.3 The Seller hereby undertakes to procure that CPI Liverpool:

6.3.1 provides to the Purchaser a copy of the bank statement for the accounts in its name at Bank of Scotland plc with account numbers 06003329, 12101564 and 59111030 (the **"Liverpool Accounts"**) on every other Friday following Completion until the date upon which the TSA terminates or such earlier date as the Purchaser notifies in writing; and

6.3.2 shall, on every other Friday, transfer monies owed to the Company which have been paid into any of the Liverpool Accounts to the bank account notified by the Purchaser for such purpose.

6.4 If the legal title to or the beneficial interest in any asset or contract which remains vested in or within the control of the Seller or a member of the Seller's Group incorporated in England and Wales (other than CPI Card Group International Ltd) after Completion (" **Missing Asset(s)** "), the Seller shall, upon becoming aware of such Missing Asset, as soon as practicable and on terms that no consideration is provided by any person for such transfer:

6.4.1 execute, or procure the execution by the relevant member of the Seller's Group of, all such deeds and documents as may be necessary for the purpose of transferring (free of any encumbrance after Completion other than incurred in the ordinary course of business) the relevant interest in the Missing Asset(s) to the Company; and

6.4.2 do or procure to be done all such further reasonable acts or things and procure the execution of all such other documents as the Purchaser may reasonably request for the purpose of vesting the relevant interest in the Missing Asset(s) in the Company,

provided that this clause 6.4 shall not apply to: (a) monies to be paid to CPI Liverpool in accordance with the terms of this Agreement; and (b) any abandoned trademark or patent applications made by CPI Liverpool.

6.5 The Seller shall notify the Purchaser as soon as reasonably practicable upon it becoming aware that there are any Missing Assets in its, or any member of the Seller's Group's, possession or control.

7. WARRANTIES

7.1 The Seller warrants to the Purchaser that, except as Disclosed (save in respect of the Fundamental Warranties, against which there shall be no matters Disclosed), each of the Warranties is true and accurate at the date of this Agreement.

7.2 Each Warranty will be construed as a separate and independent warranty and will not be limited by reference to any other Warranty or any other provision of this Agreement.

7.3 The rights and remedies of the Purchaser in respect of any breach of any of the Warranties shall survive Completion.

7.4 The Warranties (other than the Fundamental Warranties) are subject to:

7.4.1 any matter which is Disclosed in the Disclosure Letter or deemed to be Disclosed pursuant to the terms of the Disclosure Letter;

7.4.2 any matter which is Disclosed in the Data Room;

7.4.3 any matter or thing done or omitted to be done prior to Completion at the written request or direction of, or with the written approval of, the Purchaser or any other member of the Purchaser's Group; and

7.4.4 the provisions of Clause 8.

7.5 The Seller undertakes that if any Claim is made against it under this Agreement, it will not make any claim against:

7.5.1 any Group Company; or

7.5.2 (save in the case of fraud or wilful concealment) any employee, director, agent or advisors of any Group Company.

7.6 The Seller makes no representation and give no warranty or undertaking to the Purchaser save only as and to the extent expressly set out in this Agreement.

8. LIMITATION ON LIABILITY

8.1 Subject to Clause 8.2, the maximum aggregate liability of the Seller for all Warranty Claims (including, for the avoidance of doubt, Fundamental Warranty Claims), Tax Claims and for all other Claims (excluding claims under the Leakage Undertaking) shall not exceed £750,000.

8.2 In no event shall the aggregate liability of the Seller for all Warranty Claims (other than Fundamental Warranty Claims) exceed an amount equal to £500,000.

8.3 The Seller shall not be liable for a Warranty Claim (other than a Fundamental Warranty Claim) unless:

8.3.1 the amount of such Warranty Claim, or series of connected Warranty Claims of which that Warranty Claim is one, exceeds £10,000; and

8.3.2 the aggregate amount of all Warranty Claims (that are not excluded under Clause 8.3.1) for which the Seller would, in the absence of this Clause 8.3.2, be liable shall exceed £160,000, and in such event the Seller shall be liable for the whole amount of all such claims and not just the excess over £160,000 only.

8.4 The Seller shall not be liable for a Warranty Claim (save for a Fundamental Warranty Claim) or Tax Claim unless notice in writing of the same, summarising in reasonable detail the nature of the Warranty Claim or Tax Claim and, as far as is reasonably practicable, the amount claimed, has been given by or on behalf of the Purchaser to the Seller:

8.4.1 in the case of a Tax Claim, on or before the seventh anniversary of Completion; or

8.4.2 in any other case, on or before the date which is 18 months following Completion.

8.5 Any Warranty Claim (other than a claim under the Tax Warranties) notified in accordance with Clause 8.4 shall (if not previously satisfied, settled or withdrawn) be deemed to have been irrevocably withdrawn nine months after the date on which notice of the relevant Warranty Claim was given (and no new Warranty Claim may be made in respect of the same loss) unless on or before that date, legal proceedings have been issued and served on the Seller in respect of the relevant Warranty Claim.

8.6 The Seller shall have no liability in respect of any Claim (other than a Claim under the Tax Warranties and the Tax Covenant where the provisions of the Tax Covenant shall instead apply):

8.6.1 to the extent that any specific allowance, specific provision or specific reserve was made in the Accounts or Locked Box Accounts in respect of the matter or circumstances giving rise to the Claim and the Claim will be limited to the amount by which the loss or damage exceeds the amount of such allowance, provision or reserve;

8.6.2 to the extent that the Claim arises, or is increased, as a result of any increase in rates of Taxation or any change in the law or published practice of a Taxation Authority made after the date of this Agreement with retrospective effect; or

8.6.3 to the extent that the Claim arises or the Seller's liability pursuant to such Claim is increased as a result of a change in any law, legislation, rule or regulation (including any new law, legislation, rule or regulation) that comes into force or otherwise takes effect after the date of this Agreement with retrospective effect; or

8.6.4 to the extent that the matter or circumstance giving rise to such Claim arises, occurs or is otherwise attributable to, or the Seller's liability pursuant to such Claim is increased as a result of:

(a) any voluntary act, omission, transaction or arrangement of the Purchaser or any Group Company (or their respective directors, employees or agents) on or after Completion outside the ordinary course of business of the Group, save that the foregoing shall not apply if the act, omission, transaction or arrangement is undertaken in order to comply with law or pursuant to a legally binding commitment to which a Group Company is subject on or before Completion; or

(b) any change in the accounting bases, policies, practices or methods applied in preparing the audited accounts of the Group compared to those used prior to Completion.

8.7 If the Seller makes a payment to the Purchaser in respect of a Claim (other than a Claim under the Tax Warranties and the Tax Covenant where the provisions of the Tax Covenant shall instead apply) and the Purchaser or the Company subsequently recovers from a third party (including, without limitation, the Company's insurers) a sum which is referable to that Claim, the Purchaser shall promptly repay to the Seller the lower of:

8.7.1 the amount recovered from such third party; and

8.7.2 the amount paid to the Purchaser by the Seller in respect of the relevant Claim,

in each case less all reasonable costs, charges and expenses reasonably and properly incurred by the Purchaser in recovering that sum.

8.8 In the event that the Purchaser or a Group Company is at any time entitled to recover or otherwise claim reimbursement from a third party (including, without limitation, under any insurance policy) in respect of any matter or circumstance giving rise to a Claim (other than a Claim under the Tax Warranties and the Tax Covenant where the provisions of the Tax Covenant shall instead apply) the following provisions shall apply:

8.8.1 subject to clause 8.10, the Purchaser shall (or shall procure that the relevant Group Company shall), if so required by the Seller, take all reasonable steps to enforce such recovery or seek such reimbursement from the relevant third party before any steps are taken against the Seller under this Agreement in respect of such Claim subject to the Seller indemnifying the Purchaser to its reasonable satisfaction in respect of all costs and expenses that are reasonably and properly incurred as a consequence of actions taken at the request of the Seller in accordance with this Clause 8.8.1; and

8.8.2 the liability of the Seller in respect of the related Claim shall be reduced by the amount (if any) actually recovered from the relevant third party (less all reasonable costs, charges and expenses incurred by the Purchaser in recovering that sum).

8.9 The provisions of this Clause 8.9 shall apply in the event that any third party brings or makes (or threatens to bring or make) any claim, demand, action or proceedings against the Purchaser or any Group Company which may give rise to a Claim (other than a Claim under the Tax Warranties and the Tax Covenant where the provisions of the Tax Covenant shall instead apply) (a " **Third Party Claim** ").

8.9.1 In the event of a Third Party Claim, the Purchaser shall:

(a) within 5 Business Days of the date upon which the Purchaser (or the Company) becomes aware of the Third Party Claim give written notice of the Third Party Claim to the Seller, specifying in reasonable detail the nature of the Third Party Claim and, so far as practicable, the amount likely to be claimed in respect of it;

(b) keep the Seller informed of the progress of, and all material developments in relation to, the Third Party Claim; and

(c) provide the Seller with copies of all material information and correspondence relating to the Third Party Claim.

8.9.2 Subject to the Seller indemnifying the Purchaser to its reasonable satisfaction in accordance with Clause 8.9.3 and subject to Clause 8.10, the Purchaser:

(a) shall take (or cause the relevant Group Company to take) such action as the Seller may reasonably request to avoid, dispute, resist, mitigate, compromise or defend the Third Party Claim or to appeal against any judgment given in respect of it; and

(b) shall not (and shall procure that the relevant Group Company shall not) agree any compromise or settlement, or make any admission of liability or payment, in relation to the Third Party Claim without the prior written consent of the Seller (such consent not to be unreasonably withheld).

8.9.3 The Seller shall indemnify the Purchaser to its reasonable satisfaction in respect of all costs, charges and expenses that are reasonably and properly incurred by the Purchaser as a consequence of any actions taken at the request of the Seller in accordance with Clause 8.9.2.

8.10 Notwithstanding Clause 8.8 and Clause 8.9, the Purchaser will not be required to take any action under this Clause 8 if to do so would, in the reasonable opinion of the Purchaser be damaging to the goodwill or financial or business interests of the Group to any material extent;

8.11 The Seller shall not be liable for any Warranty Claim which arises by reason of a liability which, at the time when written notice of the Warranty Claim is given to the Seller, is contingent only or is otherwise not capable of being quantified and the Seller shall not be liable to make any payment in respect of such Warranty Claim unless and until the liability becomes an actual liability or (as the case may be) becomes capable of being quantified. This Clause 8.11 shall not operate to avoid a Warranty Claim made in respect of a contingent or unquantifiable liability by the Purchaser and as long as such Warranty Claim shall have been notified to the Seller in accordance with Clause 8.4, as appropriate, then the nine month period referred to in Clause 8.5 will commence on the day that the liability becomes an actual liability or (as the case may be) becomes capable of being quantified.

8.12 The Purchaser warrants to the Seller that having been given an opportunity to carry out an investigation into the business and affairs of the Company and the Subsidiary, there is no matter or circumstance within its actual knowledge at the date of this Agreement which does or is likely to constitute a breach of any of the Warranties (as qualified by the Disclosure Letter). For the purposes of this Clause 8.12, the "actual knowledge" the Purchaser shall mean the actual knowledge of Elliott Nicholson and Jonas Rave as at the date of this Agreement including, for the avoidance of doubt, having read the due diligence report of the Purchaser's Solicitors in connection with the Group.

8.13 Neither the Purchaser nor any Group Company shall be entitled to recover damages from the Seller under this Agreement or otherwise obtain reimbursement or restitution more than once in respect of the same loss.

8.14 The Purchaser shall take all reasonable steps to mitigate its loss in respect of any Warranty Claim.

8.15 The Purchaser agrees that rescission shall not be available as a remedy for any breach of this Agreement and the Purchaser shall not be entitled to rescind or terminate this Agreement.

8.16 Nothing in this Clause 8 applies to exclude or limit the liability of the Seller to the extent that a Warranty Claim or Tax Claim or Claim arises or increases as a result of fraud or wilful concealment by the Seller.

9. **PROTECTIVE COVENANTS**

9.1 The Seller hereby undertakes to and covenants with the Purchaser that (except with the consent in writing of the Purchaser) it will not, and will procure that no member of the Seller's Group will, at any time after Completion knowingly do or say anything that will or is likely to damage the goodwill and/or reputation of the Business.

9.2 Subject to Clause 9.6, the Seller hereby undertakes to and covenants with the Purchaser that (except with the consent in writing of the Purchaser) it will not and will procure that no member of the Seller's Group will, during the period ending on the date falling 24 months from the Completion Date, whether alone or jointly, and whether as principle or agent, with or on behalf of any other person and whether directly or indirectly:

9.2.1 in the Restricted Area, be concerned with, engaged or interested in any business which is in competition with the Business; and

9.2.2 solicit, attempt to entice or employ any person who was an officer or employed in a senior management capacity of the Group at the date of this Agreement or the Completion Date.

9.3 Subject to Clause 9.69.4, the Seller hereby undertakes to and covenants with the Purchaser that (except with the consent in writing of the Purchaser) it will not and will procure that no member of the Seller's Group will, during the period ending on the date falling 18 months from the Completion Date, whether alone or jointly, and whether as principle or agent, with or on behalf of any other person and whether directly or indirectly:

9.3.1 in competition with the Business, deal or seek to deal in the Restricted Area or in any member state of the European Union with any person who has within the year prior to the Completion Date been a customer of the Group if such dealing causes, or the likely effect of such dealing is to cause, such customer to cease contracting, or materially reduce its acquisition of goods or services from the Group; or

9.3.2 in competition with the Business, deal, seek to deal or interfere with any person who has within the year prior to the Completion Date been a supplier of the Group if such dealing causes, or the likely effect of such dealing is to cause, such supplier to cease supplying, or materially reduce its supply of goods or services to the Group, or to materially adversely vary the terms upon which it conducts business with the Group.

9.4 The Seller agrees with the Purchaser that it will not, and will procure that no other member of the Seller's Group will, at any time, whether alone or jointly, and whether are principle or agent, with or on behalf of any other person and whether directly or indirectly except so far as may be required by law or regulation (including the tax and accounting obligations of the Seller's Group) and in these circumstances only after prior consultation with the Purchaser (to the extent reasonably practicable and permitted by law), disclose to any other person or (in any way which may be detrimental to the Business) use any information which is Confidential Business Information relating to the Business for so long as that information remains Confidential Business Information.

9.5 Each of the covenants contained in Clauses 9.1, 9.2, 9.3 and 9.4 shall constitute entirely separate and independent restrictions on the Seller.

9.6 Nothing in this Clause 9 shall prohibit the Seller or any member of the Seller's Group from:

9.6.1 holding shares or stock in any company whose securities are quoted or dealt in on a recognised investment exchange (as defined in FSMA) so long as not more than 3 per cent. of the shares or stock of such company is so held;

9.6.2 (i) employing any person whose employment, arrangement or engagement with the Group is terminated by the Group after Completion; or (ii) advertising generally to the public for staff and taking any candidate who applies as a result of such bona fide advertisement;

9.6.3 doing anything with the Purchaser's prior consent or at the direction of the Purchaser or complying with or fulfilling its obligations under this Agreement;

9.6.4 conducting and continuing to conduct the CPI Business as at Completion;

9.6.5 carrying out its contractual obligations in accordance with the terms of any of the Transaction Documents; or

9.6.6 acquiring another company, business or undertaking which has as a part of its business, a business which competes with the Business (whether directly or indirectly) provided that such competitive business comprises 5 per cent. or less of the turnover of the acquired company, business or undertaking.

9.7 The Seller agrees that the restrictions in this Clause 9 are reasonable and no more than necessary to protect the interests of the Purchaser and each Group Company. Nevertheless, if any restrictions are found to be void but would be valid if reduced in scope or deleted in part, the relevant restriction will apply with such reduction or deletion as is necessary to make it valid and enforceable.

10. GUARANTEE

10.1 In consideration of the Purchaser entering into this Agreement, the Guarantor irrevocably and unconditionally:

10.1.1 guarantees to the Purchaser the performance of all obligations of the Seller under this Agreement (including, for the avoidance of doubt, any obligations of the Seller which may, in accordance with the provisions of this Agreement, arise after the date of this Agreement) and the TSA, the Transitional Trade Mark Licence and the Licence Agreement (" **Guaranteed Obligations"**);

10.1.2 undertakes with the Purchaser that if at any time and for any reason the Seller defaults in the performance of any of the Guaranteed Obligations, the Guarantor will on demand perform, or procure the performance of, the relevant Guaranteed Obligation as it was required to be performed under this Agreement or any other Transaction Document as if the Guarantor were the principal obligor in respect of the relevant Guaranteed Obligation;

10.1.3 agrees with the Purchaser that if, for any reason:

(a) any Guaranteed Obligation is or becomes unenforceable, invalid or illegal; and/or

(b) any amount claimed by the Purchaser under this clause 10 is not recoverable on the basis of a guarantee,

it will, as a principal debtor and primary obligor, indemnify the Purchaser, on demand, in respect of any breach of the Guaranteed Obligations as if the relevant Guaranteed Obligation were not unenforceable, invalid or illegal and/or the amount claimed by the Purchaser under this clause 10 were recoverable on the basis of a guarantee. The amount resulting from such indemnification shall not, under any circumstances, exceed the amount which the Purchaser would otherwise have been entitled to receive from the Seller; and

10.1.4 Each of the above sub-paragraphs of this clause 10 will be deemed to be separate and independent obligations and the Purchaser may make more than one demand on the Guarantor under this clause 10 .

10.2 The Guarantor's obligations under clause 10 are continuing obligations and will extend to the ultimate balance of the Guaranteed Obligations, regardless of any intermediate payment or discharge of the Guaranteed Obligations in whole or in part.

10.3 The Guarantor's liability and obligations under this clause 10 will not be affected by any act, omission, matter or thing which, but for this clause 10 might release the Guarantor from any of its obligations or otherwise reduce or affect such obligations, including any of the following, whether or not known to the Guarantor or to the Purchaser:

10.3.1 any amendment (however fundamental) or replacement of, or any novation or extension of, or supplement to, this Agreement or any other Transaction Document;

10.3.2 any time, indulgence, waiver or consent given to, or composition with, the or any other person at any time;

10.3.3 any legal limitation, disability or incapacity relating to the Seller or any other person;

10.3.4 any irregularity, unenforceability or invalidity of any Guaranteed Obligation;

10.3.5 any bankruptcy, dissolution, amalgamation, reconstruction, reorganisation, insolvency, winding-up or similar proceedings relating to the Seller or any other person;

10.3.6 any intermediate payment or settlement of account; or

10.3.7 any change in the constitution or control of the Seller or any other person.

10.4 Until all the Guaranteed Obligations have been irrevocably discharged and/or paid in full and unless the Purchaser otherwise directs, the Guarantor will not exercise any rights which it may have by reason of the performance by it of its obligations in respect of the Guaranteed Obligations or by reason of any amount being payable, or liability arising, under this this clause 9, to claim or prove as a creditor or the Seller in priority to or competition with the Purchaser.

10.5 If the Guarantor receives any benefit, payment or distribution in relation to such rights it will hold that benefit, payment or distribution to the extent necessary to enable all amounts which may be or become payable to the Purchaser by the Seller to be repaid in full on trust for the Purchaser and will promptly pay or transfer the same to the Purchaser for application towards the Guaranteed Obligations.

10.6 If, at any time, any provision of this clause 9 is or becomes illegal, invalid or unenforceable in any respect under any law of any jurisdiction, neither the legality, validity or enforceability of the remaining provisions nor the legality, validity or enforceability of such provision under the law of any other jurisdiction will in any way be affected or impaired.

10.7 No failure to exercise, nor any delay in exercising, on the part of the Purchaser, any right or remedy available to it under this clause 9 or otherwise in respect of the Guaranteed Obligations will operate as a waiver, nor will any single or partial exercise of any right or remedy prevent any further or other exercise or the exercise of any other right or remedy. The rights and remedies provided in this clause 9 and in any other agreement providing for or entered into in connection with the Guaranteed Obligations are cumulative and not exclusive of any rights or remedies provided by law.

11. CONFIDENTIAL INFORMATION

11.1 Subject to Clause 11.2, each party shall treat the following information as confidential to the extent obtained as a result of or in connection with entering into this Agreement:

11.1.1 details of the provisions of this Agreement and any other agreement or arrangement entered into pursuant to or in connection with this Agreement;

11.1.2 information relating to the negotiations leading to the execution of this Agreement and any other agreement or arrangement entered into pursuant to or in connection with this Agreement;

11.1.3 in the case of the Seller, any information received or held by the Seller or any of its officers, employees, agents or advisers which relates to the Purchaser and/or the Purchaser Group or, following Completion, any of the Group Companies; and

11.1.4 in the case of the Purchaser, any information received or held by the Purchaser, any member of the Purchaser's Group (including the Group) or any of their respective officers, employees, agents or advisers which relates to the Seller and/or any member of the Seller's Group,

(together, " **Confidential Information** "), provided that each party shall always be permitted to confirm that the transaction effected by this Agreement has taken place without providing any further information.

11.2 Any party may disclose information otherwise required by Clause 11.1 to be treated as confidential:

11.2.1 if and to the extent required by Law;

11.2.2 if and to the extent required by any Authority or securities exchange in any relevant jurisdiction;

11.2.3 to the extent required to enable such party to carry out his or its obligations under this Agreement;

11.2.4 in the case of the Purchaser, to members of the Purchaser's Group, and to their employees, officers, agents, professional advisers, auditors, bankers, investors or potential providers of finance in each case from time to time;

11.2.5 in the case of the Seller, to the members the Seller's Group, and to their employees, officers, agents, professional advisers, auditors or bankers in each case from time to time;

11.2.6 if and to the extent such information is or comes into the public domain through no fault of that party; or

11.2.7 if and to the extent each other party has given prior written consent to the disclosure.

11.3 Each party shall ensure that any person to whom Confidential Information is disclosed pursuant to Clause 11.2.4 or Clause 11.2.5 is made aware of the obligations of confidentiality contained in this Clause 11.

12. **INDEMNITIES**

12.1 The Seller agrees to indemnify the Purchaser in relation to any Losses which may be suffered or incurred by any Group Company that arise as a result of:

12.1.1 a claim made against a Group Company by a third party in respect of the Company and the Subsidiary not having maintained the statutory registers that are required to be maintained pursuant to the Companies Act 2006; or

12.1.2 any claim by or on behalf of any of the employees based at the Company's Norwich site whose employment transferred or is alleged to have transferred from the Company to CPI Card Group International Limited on or around 18 July 2018 by operation of the Transfer of Undertakings (Protection of Employment) Regulations 2006 (the " **Regulations** "), that the Company or CPI Card Group International Limited failed to comply with any requirements under the Regulations in connection with that transfer.

12.2 The Purchaser agrees to indemnify the Seller in relation to any Losses up to a maximum aggregate amount of £250,000 which may be suffered or incurred by the Guarantor as a direct consequence of a successful claim by EFI pursuant to the indemnity contained at paragraph 4 of the EFI Licence.

13. **GROSS UP**

13.1 If the Seller or Guarantor is required to make any deduction or withholding as a result of any obligation to any Taxation Authority in respect of withholding tax from any sum payable by the Seller, or Guarantor, to the Purchaser under this Agreement or in relation to any breach of this Agreement (each such sum being a **"Seller Payment"**) then the amount of the Seller Payment will be increased to the extent necessary to ensure that, after the making of such withholding or deduction, the Purchaser receives, on the due date for such payment, a net sum equal to the sum which it would have received had no such deduction or withholding been required to be made.

13.2 If the Seller or Guarantor makes an increased payment pursuant to Clause 13.1 in respect of which the Purchaser receives or is granted any credit against, relief for or repayment of any Tax payable by it which it would not otherwise have been received or granted, then at the time the payment is received or credit is utilised so as to reduce or eliminate a payment in respect of Tax that the Purchaser would otherwise have been required to make (and the Purchaser shall take reasonable steps to obtain the payment or utilise the credit at the earliest opportunity), the Purchaser shall reimburse the Seller the lower of:

13.2.1 such amount as shall leave the Purchaser in no worse position than it would have been had there been no such deduction or withholding; and

13.2.2 the amount so received by the Purchaser or saved by them as a result of the utilisation of the credit.

The Purchaser shall promptly notify the Seller any such credit, relief or repayment it receives and such reimbursement shall be made no later than five Business Days after the Purchaser

receives or is granted such credit, relief or repayment. The Purchaser shall take reasonable steps to obtain and retain any such credit, relief or repayment.

14. **FURTHER ASSURANCE**

If requested by the Purchaser, the Seller shall at its expense, so far as it is reasonably able, from time to time on reasonable request, do or procure the doing of all such acts and/or execute or procure the execution of all such documents or deeds reasonably required to give full effect to this Agreement and the matters contemplated by it.

15. **ENTIRE AGREEMENT**

15.1 This Agreement (together with the documents, including the Transaction Documents, to be executed and delivered at Completion) constitutes the entire, whole and only agreement and understanding between the parties in respect of its subject matter to the exclusion of any terms implied by law (to the extent that such terms may lawfully be excluded by contract) and supersedes any and all previous written or oral agreement or understanding between the parties in relation to its subject matter.

15.2 Each party acknowledges that, in entering into this Agreement and any documents referred to in it, it does not rely on, and shall have no rights or remedies in respect of, any statement, representation, assurance or warranty (whether made innocently or negligently) that is not set out in this Agreement.

15.3 Each party agrees that it shall not have any claim for innocent or negligent misrepresentation based on any statement or warranty in this Agreement.

16. **NO PARTNERSHIP**

Nothing in this Agreement shall create a partnership or establish a relationship of principal and agent or any other fiduciary relationship between or among any of the parties.

17. **REMEDIES AND WAIVERS**

17.1 No delay or omission by any party to this Agreement in exercising any right, power or remedy provided by law or under this Agreement or any other documents referred to in it shall affect such right, power or remedy, or operate as a waiver of it.

17.2 The single or partial exercise of any right, power or remedy provided by law or under this Agreement shall not preclude any other or further exercise of it or the exercise of any other right, power or remedy.

17.3 The rights, powers and remedies provided in this Agreement are cumulative and not exclusive of any rights, powers and remedies provided by law.

18. **NOTICES**

18.1 A notice under this Agreement shall only be effective if it is in writing signed by or on behalf of the party giving it. E-mail is permitted, provided that the e-mail clearly states that it is a formal notice under this Agreement.

18.2 Notices under this Agreement shall be sent to a party at its address set out below:

Notice Party	Address	E-mail Address
Seller	10368 W Centennial Rd, Littleton, CO 80127	general@cpicardgroup.com with a copy to: skilgore@cpicardgroup.com
Guarantor	10368 W Centennial Rd, Littleton, CO 80127	general@cpicardgroup.com with a copy to: skilgore@cpicardgroup.com
Purchaser	1 Mercer Street, London WC2H 9QJ	elliott.nicholson@seaequity.com with a copy to: jonas.rave@seaequity.com
Process Agent	Suite 4, Floor Two And A Half St Georges Works, 51 Colegate, Norwich, United Kingdom, NR3 1DD	general@cpicardgroup.com with a copy to: skilgore@cpicardgroup.com

provided that a party may change its notice details on giving notice to the other parties of the change in accordance with this Clause. Such notice shall only be effective on the date falling five Business Days after the notification has been received or such later date as may be specified in the notice.

18.3 Any notice given under this Agreement shall, in the absence of earlier receipt, be deemed to have been duly given as follows:

18.3.1 if delivered personally or by hand, on delivery;

18.3.2 if sent by first class post, two (2) clear Business Days after the envelope containing the notice or other document was properly addressed, stamped and posted; or

18.3.3 if sent by an e-mail, two (2) hours after the e-mail was sent, provided that the e-mail was properly addressed and sent (an electronic confirmation receipt setting out each recipient to whom the message was sent being proof for such purpose) and further provided that the sender does not receive a notification that delivery has not been made or has been delayed.

18.4 Any notice given under this Agreement outside working hours in the place to which it is addressed shall be deemed not to have been given until the start of the next period of working hours in such place.

18.5 Each notice, demand, request, statement, instrument, certificate, or other communication given, delivered or made in connection with this Agreement shall be in English.

19. **VARIATION**

No variation of this Agreement shall be valid unless it is in writing and signed by or on behalf of each of the parties.

20. **ANNOUNCEMENTS**

20.1 Save for the Agreed Announcement or any agreement by any party to its customers, suppliers or employees which does not include the details of or terms of this Agreement, no party may make any press release or other public announcement about this Agreement or the transactions contemplated by it except with the prior written consent of each other party (which shall not be unreasonably withheld or delayed).

20.2 Clause 20.1 shall not apply to a press release or other public announcement if and to the extent:

20.2.1 such announcement is required by Law or required by any Authority (including, for the avoidance of doubt, any Taxation Authority) or securities exchange in any relevant jurisdiction; or

20.2.2 such announcement is required in order to facilitate any assignment or proposed assignment of the whole or any part of the rights and benefits under this Agreement which is permitted by Clause 26,

provided that the party required to make such a press release or announcement shall first notify each other party and take such steps as may be legally permissible and reasonably practicable in the circumstances to consult with each other party before the relevant release or announcement is made, and shall take into account their reasonable comments.

21. **COSTS AND EXPENSES**

Each party shall pay its own costs and expenses in relation to the negotiations leading up to the sale of the Shares, and to the preparation, execution and carrying into effect of this Agreement and all other documents referred to in it or the matters contemplated by it.

22. **RECORDS**

For the period of seven years following Completion, the Purchaser hereby undertakes that it shall provide the Seller (or any member of the Seller's Group) (at the Seller's cost) with access at reasonable times to (and the right to take copies of whether in paper or electronic form) the books, accounts and other records held by the Purchaser or any Group Company after Completion to the extent that they relate to the Business and the Group and to the period up to Completion which may reasonably be required by the Seller in order to comply with any legal, accounting, taxation, or regulatory requirements. The Purchaser further undertakes that neither it nor any Group Company shall dispose of or destroy any such books, accounts and records without first giving the Seller at least two months' notice of its intention to do so and giving the Seller a reasonable opportunity to remove and retain them (at the Seller's expense).

23. **UNDERTAKINGS**

23.1 The Seller hereby undertakes to the Purchaser that it shall use all reasonable endeavours to:

23.1.1 transfer, or procure that a member of the Seller's Group shall transfer, within 90 days from the Completion Date, all customer data relating to the Company residing in the Seller's Group's "Sales Cloud" as at the date of this Agreement;

23.1.2 notify, or shall procure that a member of the Seller's Group shall notify, for a period of 90 days following Completion, users of the CPI website that the Company has been acquired by the Purchaser and provide such users with relevant contact details for the Company (such contact details to be agreed between the Purchaser and the Seller in writing);

23.1.3 transfer, or shall procure that a member of the Seller's Group shall transfer, within 90 days from the Completion Date, the entire mailbox for each Company employee with an email account on the Seller's Group's O365 environment to the Purchaser's O365 Environment provided an appropriate O365 Environment is established by the Purchaser within such 90 day period or to such other environment as the Purchaser may reasonably request;

23.1.4 forward, or shall procure that a member of the Seller's Group shall forward, for a period of 90 days from Completion, the emails of Company employees to an account nominated by the Purchaser in writing; and

23.1.5 provide, or shall procure that a member of the Seller's Group shall provide, within 10 Business Days from the Completion Date, the Company with a data file of all completions relating to the Company's ISO27001 accreditation which are available to the Seller.

23.2 The Seller hereby undertakes to the Purchaser that it shall, or shall procure that the relevant member of the Seller's Group shall, subject only to prior receipt of such amount from the Company pursuant to the TSA, in satisfaction of the Guarantor's obligation under paragraph 2 of the EFI Licence, pay to EFI each month during the Term (as defined therein) the sum of US$3,000.

23.3 The Purchaser hereby undertakes to the Seller that, to the extent reasonably practicable and with effect from Completion:

23.3.1 it shall procure that the Completion Bonuses are paid by the Company in accordance with the terms of the Bonus Arrangements;

23.3.2 it shall procure that, within 10 Business Days of Completion, the Company shall give written notice to each of Ticketmaster and Arcadia informing them of the termination of the MyCa platform, expected to occur on or around 31 August 2018;

23.3.3 and to the extent that the Purchaser is able to do so, it shall procure that the Company provides the Seller's Group, for such time as he remains an employee of the Company, such reasonable access and on reasonable notice to Paul Roberts as the Seller reasonably requires in connection with the items listed in Schedule 6 save that, nothing in this clause 23.3.2 shall constitute an obligation on the Purchaser to procure Paul Roberts to take any steps or actions or require Paul Roberts to breach the duty of confidentiality owed to the Company pursuant to his employment agreement, it being acknowledged that, prior to Completion, Paul Roberts carried out work for the Seller's group in the course of his duties; and

23.3.4 it shall enter into good faith discussions with a suitable ERP provider as soon as practicable following Completion with the intention to enter into a binding agreement by 30 April 2019.

23.4 The Purchaser hereby undertakes that, if by 30 April 2019, the Company has not entered into an agreement with EFI for the purchase or licence of, or has not otherwise acquired from EFI the right to use, the software, hardware or documentation the subject of the EFI Licence,

promptly upon expiry of the Term (as defined in the EFI Licence) it shall procure that the Company shall provide written confirmation to EFI that, with effect from expiry of the Term, it has no right, title or licence to use or possess any hardware, software or documentation the subject of the EFI Licence.

24. TAX REFUND

24.1 The Purchaser shall pay to the Seller, by way of additional Consideration, an amount equal to the amount of any repayment of corporation tax actually received by the Company from HMRC as a result of overpayment by the Company of corporation tax in respect of the financial year ending 31 December 2017 (" **Relevant CT Repayment** ").

24.2 Payment shall be made by the Purchaser to the Seller under Clause 24.1 no later than 5 Business Days after the date on which the Company receives the benefit of such Relevant CT Repayment. The Company shall be treated as receiving the benefit of the Relevant CT Repayment on the date of actual receipt thereof, or the first date on which it would have been obliged to make payment of corporation tax but for a credit or set-off of the Relevant CT Repayment.

25. COUNTERPARTS

This Agreement may be executed in any number of counterparts, and by the parties on separate counterparts, but shall not be effective until each party has executed at least one counterpart. Each counterpart shall constitute an original of this Agreement, but all the counterparts shall together constitute but one and the same instrument.

26. ASSIGNMENT

26.1 Subject to the further provisions of this Clause 26, no party shall assign, transfer, mortgage, charge, declare a trust of, or deal in any other manner with any or all of its rights and obligations under this Agreement.

26.2 Either party may assign or transfer its rights (but not its obligations) under this Agreement to:

26.2.1 an Affiliate for so long as that company remains an Affiliate, save that if the assignee ceases to be an Affiliate, the relevant party shall procure that the assignee assigns any rights assigned to it in accordance with this Clause 26 back to the relevant party or to an Affiliate of such party as it may nominate immediately before the assignee ceases to be an Affiliate; and/or

26.2.2 by way of security for the benefit of any person who provides bank or other facilities to any member of the Purchaser's Group or the Seller's Group, as appropriate, in connection with the transactions effected under this Agreement, and any such security or encumbrance may be enforced or released.

26.3 If there is an assignment or encumbrance under this Clause 26, the amount of loss, damage or other amount recoverable by the assignee or encumbrancer will be no greater than if no assignment had taken place.

27. INVALIDITY

27.1 If at any time any provision of this Agreement is or becomes illegal, invalid or unenforceable in any respect under the law of any jurisdiction that shall not affect or impair:

27.1.1 the legality, validity or enforceability in that jurisdiction of any other provision of this Agreement; or

27.1.2 the legality, validity or enforceability under the law of any other jurisdiction of that or any other provision of this Agreement.

28. **SEVERANCE**

If any provision of this Agreement shall be found by any court or administrative body of competent jurisdiction to be illegal, invalid or unenforceable, such illegality, invalidity or unenforceability shall not affect the other provisions of this Agreement which shall remain in full force and effect.

29. **CUMULATIVE RIGHTS**

The rights, powers, privileges and remedies provided by this Agreement are cumulative and (except as otherwise provided in this Agreement) are not exclusive of any rights, powers, privileges or remedies provided by Law.

30. **CONTRACTS (RIGHTS OF THIRD PARTIES) ACT 1999**

Save where specifically provided for, the parties to this Agreement do not intend that any term of this Agreement should be enforceable, by virtue of the Contracts (Rights of Third Parties) Act 1999 or otherwise, by any person who is not a party to this Agreement (save for any permitted assigns pursuant to the terms of this Agreement).

31. **GOVERNING LAW AND JURISDICTION**

31.1 This Agreement and all matters relating to, or contemplated by it (including any dispute, claim or obligation (whether contractual or non-contractual) arising out of, or in connection with, it, its subject matter or formation) shall be governed by, and construed in accordance with, English law.

31.2 Each party irrevocably agrees that the Courts of England shall have exclusive jurisdiction in relation to any dispute or claim arising out of or in connection with this Agreement or its subject matter, existence, negotiation, validity, termination or enforceability (including non-contractual disputes or claims).

31.3 Each party irrevocably waives any right that it may have to object on any ground to an action being brought in the English courts, to claim that the action brought in the English courts has been brought in an inconvenient forum, or to claim that the English courts do not have jurisdiction (and the waiver contained in this Clause 31.3 includes a waiver of all formal and substantive requirements of any otherwise competent jurisdiction in relation to this Clause 31.3).

31.4 The Seller and the Guarantor each:

31.4.1 irrevocably appoint CPI Card Group International Ltd. and any successor in business (" **Process Agent** ") as its agent to accept service of process in England and Wales in relation to any document initiating or otherwise connected with any court proceedings arising out of or in connection with this Agreement;

31.4.2 agrees to notify the Purchaser in writing of any change of address of such Process Agent within 10 Business Days of the change of address; and

31.4.3 if such Process Agent ceases to be able to act under this Clause 31 or ceases to have an address in England and Wales, irrevocably agrees to appoint a replacement process agent (" **New Process Agent** ") reasonably acceptable to the Purchaser and after such

appointment reference to the Process Agent in this clause will be read as reference to the New Process Agent and to give to the Purchaser notice of such appointment within 10 Business Days.

31.5 Any such document will be validly served on the Seller by being sent by pre-paid first class post to or delivered to the Process Agent or left at the Process Agent's address set out in this Clause 31, whether or not forwarded to or received by the Seller.

31.6 Without affecting the effectiveness of service under any other method set out in Clause 18, service of such process upon the Process Agent at its address given in Clause 18.2 or elsewhere within the jurisdiction of the courts of England and Wales for the time being in force will constitute good service on the Seller.

IN WITNESS of which the parties or their duly authorised representatives have executed this agreement as a deed.

[SCHEDULES NOT INCLUDED]

EXECUTED as a **DEED** and **DELIVERED** by)
CPI ACQUISITION, INC. acting)
by an authorized signatory, in the presence of:)

Authorised Signatory

Witness Signature: _____

Witness Name: _____

Witness Address: _____

_____

EXECUTED as a **DEED** and **DELIVERED** by)
CPI CARD GROUP-EUROPE LIMITED acting)
by an authorised signatory, in the presence of:)

Authorised Signatory

Witness Signature: _____

Witness Name: _____

Witness Address: _____

_____

EXECUTED as a **DEED** and **DELIVERED** by)
SEAFOX BIDCO LIMITED acting)
by an authorised signatory, in the presence of:)

Authorised Signatory

Witness Signature: _____

Witness Name: _____

Witness Address: _____

_____

Exhibit 31.1

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

I, Scott Scheirman, certify that:

1. I have reviewed this quarterly report on Form 10-Q of CPI Card Group Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal controls over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer 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: August 9, 2018

/s/ Scott Scheirman

Scott Scheirman
President and Chief Executive Officer

Exhibit 31.2

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

I, John Lowe, certify that:

1. I have reviewed this quarterly report on Form 10-Q of CPI Card Group Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal controls over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer 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: August 9, 2018

/s/ John Lowe
John Lowe
Chief Financial Officer

Exhibit 32.1

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report on Form 10-Q of CPI Card Group Inc. (the "Company") for the period ended June 30, 2018, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Scott Scheirman, President and Chief Executive Officer of the Company, certify to the best of my knowledge, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, and

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

/s/ Scott Scheirman
Scott Scheirman
President and Chief Executive Officer

Date: August 9, 2018

Exhibit 32.2

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report on Form 10-Q of CPI Card Group Inc. (the "Company") for the period ended June 30, 2018, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, John Lowe, Chief Financial Officer of the Company, certify to the best of my knowledge, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, and

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

/s/ John Lowe
John Lowe
Chief Financial Officer

Date: August 9, 2018