
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 September 30, 2020.

or

Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the Transition Period from to

Commission File Number 001-37584

CPI Card Group Inc.

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

Delaware

(State or other jurisdiction of incorporation or organization)

26-0344657

(I.R.S. employer identification no.)

10026 West San Juan Way

Littleton, CO

(Address of principal executive offices)

80127

(Zip Code)

(720) 681-6304

(Registrant's telephone number, including area code)

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, \$0.001 par value	PMTS	OTC Markets Group Inc.

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Emerging growth company

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

Number of shares of Common Stock, \$0.001 par value, outstanding as of October 22, 2020: 11,230,482

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PART I - Financial Information
Item 1. Financial Statements

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

	<u>September 30,</u> <u>2020</u>	<u>December 31,</u> <u>2019</u>
Assets		
Current assets:		
Cash and cash equivalents	\$ 50,349	\$ 18,682
Accounts receivable, net of allowances of \$291 and \$395, respectively	59,093	42,832
Inventories	20,166	20,192
Prepaid expenses and other current assets	4,267	6,345
Income taxes receivable	7,795	4,164
Total current assets	141,670	92,215
Plant, equipment, leasehold improvements and operating lease right-of-use assets, net	35,473	41,612
Intangible assets, net	27,355	30,802
Goodwill	47,150	47,150
Other assets	2,040	1,232
Total assets	<u>\$ 253,688</u>	<u>\$ 213,011</u>
Liabilities and stockholders' deficit		
Current liabilities:		
Accounts payable	\$ 17,223	\$ 16,482
Accrued expenses	29,527	24,735
Deferred revenue and customer deposits	885	468
Total current liabilities	47,635	41,685
Long-term debt	335,759	307,778
Deferred income taxes	6,656	6,366
Other long-term liabilities	9,012	11,478
Total liabilities	399,062	367,307
Commitments and contingencies (Note 15)		
Series A Preferred Stock; \$0.001 par value—100,000 shares authorized; 0 shares issued and outstanding at September 30, 2020 and December 31, 2019	-	-
Stockholders' deficit:		
Common stock; \$0.001 par value—100,000,000 shares authorized; 11,230,482 and 11,224,191 shares issued and outstanding at September 30, 2020 and December 31, 2019, respectively	11	11
Capital deficiency	(111,910)	(111,988)
Accumulated loss	(33,475)	(42,319)
Total stockholders' deficit	(145,374)	(154,296)
Total liabilities and stockholders' deficit	<u>\$ 253,688</u>	<u>\$ 213,011</u>

See accompanying notes to condensed consolidated financial statements

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Net sales:				
Products	\$ 43,462	\$ 33,963	\$ 125,040	\$ 99,845
Services	39,240	37,718	103,009	105,603
Total net sales	<u>82,702</u>	<u>71,681</u>	<u>228,049</u>	<u>205,448</u>
Cost of sales:				
Products (exclusive of depreciation and amortization shown below)	27,490	22,182	79,780	65,769
Services (exclusive of depreciation and amortization shown below)	22,133	21,329	60,986	62,142
Depreciation and amortization	2,472	2,813	7,938	8,403
Total cost of sales	<u>52,095</u>	<u>46,324</u>	<u>148,704</u>	<u>136,314</u>
Gross profit	30,607	25,357	79,345	69,134
Operating expenses, net:				
Selling, general and administrative (exclusive of depreciation and amortization shown below)				
	15,617	16,104	48,893	49,541
Depreciation and amortization	1,508	1,513	4,498	4,539
Litigation settlement gain	—	—	—	(6,000)
Total operating expenses, net	<u>17,125</u>	<u>17,617</u>	<u>53,391</u>	<u>48,080</u>
Income from operations	13,482	7,740	25,954	21,054
Other expense, net:				
Interest, net	(6,298)	(6,085)	(19,158)	(18,847)
Foreign currency gain (loss)	23	(40)	(10)	(1,320)
Other income (expense), net	4	14	(90)	25
Total other expense, net	<u>(6,271)</u>	<u>(6,111)</u>	<u>(19,258)</u>	<u>(20,142)</u>
Income from continuing operations before income taxes	7,211	1,629	6,696	912
Income tax (expense) benefit	(1,402)	(2,258)	2,178	(3,618)
Net income (loss) from continuing operations	5,809	(629)	8,874	(2,706)
Net (loss) income from discontinued operation, net of tax (Note 3)	—	(28)	(30)	(16)
Net income (loss)	<u>\$ 5,809</u>	<u>\$ (657)</u>	<u>\$ 8,844</u>	<u>\$ (2,722)</u>
Basic and Diluted net income (loss) per share from continuing operations:				
	\$ 0.52	\$ (0.06)	\$ 0.79	\$ (0.24)
Basic and Diluted net income (loss) per share:				
	\$ 0.52	\$ (0.06)	\$ 0.79	\$ (0.24)
Basic weighted-average shares outstanding:				
	11,230,028	11,223,715	11,228,116	11,187,550
Diluted weighted-average shares outstanding:				
	11,231,821	11,223,715	11,235,098	11,187,550
Comprehensive income (loss):				
Net income (loss)	\$ 5,809	\$ (657)	\$ 8,844	\$ (2,722)
Currency translation adjustment	—	—	—	31
Reclassification adjustment to foreign currency loss	—	—	—	1,329
Total comprehensive income (loss)	<u>\$ 5,809</u>	<u>\$ (657)</u>	<u>\$ 8,844</u>	<u>\$ (1,362)</u>

See accompanying notes to condensed consolidated financial statements

CPI Card Group Inc. and Subsidiaries
Condensed Consolidated Statements of Stockholders' Deficit
(Dollars in Thousands)
(Unaudited)

	Common Stock		Capital deficiency	Accumulated earnings (loss)	Accumulated other comprehensive loss	Total
	Shares	Amount				
June 30, 2020	11,229,819	\$ 11	\$ (111,935)	\$ (39,284)	\$ —	\$ (151,208)
Shares issued under stock-based compensation plans	663	—	—	—	—	—
Stock-based compensation	—	—	25	—	—	25
Components of comprehensive (loss) income:						
Net income	—	—	—	5,809	—	5,809
September 30, 2020	11,230,482	\$ 11	\$ (111,910)	\$ (33,475)	\$ —	\$ (145,374)

	Common Stock		Capital deficiency	Accumulated earnings (loss)	Accumulated other comprehensive loss	Total
	Shares	Amount				
December 31, 2019	11,224,191	\$ 11	\$ (111,988)	\$ (42,319)	\$ —	\$ (154,296)
Shares issued under stock-based compensation plans	6,291	—	—	—	—	—
Stock-based compensation	—	—	78	—	—	78
Components of comprehensive (loss) income:						
Net income	—	—	—	8,844	—	8,844
September 30, 2020	11,230,482	\$ 11	\$ (111,910)	\$ (33,475)	\$ —	\$ (145,374)

	Common Stock		Capital deficiency	Accumulated earnings (loss)	Accumulated other comprehensive loss	Total
	Shares	Amount				
June 30, 2019	11,223,528	\$ 11	\$ (111,939)	\$ (39,267)	\$ —	\$ (151,195)
Shares issued under stock-based compensation plans	663	—	—	—	—	—
Stock-based compensation	—	—	9	—	—	9
Components of comprehensive (loss) income:						
Net loss	—	—	—	(657)	—	(657)
Reclassification adjustment to foreign currency loss	—	—	—	—	—	—
September 30, 2019	11,224,191	\$ 11	\$ (111,930)	\$ (39,924)	\$ —	\$ (151,843)

	Common Stock		Capital deficiency	Accumulated earnings (loss)	Accumulated other comprehensive loss	Total
	Shares	Amount				
December 31, 2018	11,160,377	\$ 11	\$ (112,223)	\$ (37,202)	\$ (1,360)	\$ (150,774)
Shares issued under stock-based compensation plans	63,814	—	—	—	—	—
Stock-based compensation	—	—	293	—	—	293
Components of comprehensive (loss) income:						
Net loss	—	—	—	(2,722)	—	(2,722)
Currency translation adjustment	—	—	—	—	31	31
Reclassification adjustment to foreign currency loss	—	—	—	—	1,329	1,329
September 30, 2019	11,224,191	\$ 11	\$ (111,930)	\$ (39,924)	\$ —	\$ (151,843)

See accompanying notes to condensed consolidated financial statements

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

	Nine Months Ended September 30,	
	2020	2019
Operating activities	\$	\$
Net income (loss)	8,844	(2,722)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Loss from discontinued operations	30	16
Depreciation and amortization expense	12,436	12,942
Stock-based compensation expense	84	316
Amortization of debt issuance costs and debt discount	2,503	1,469
Deferred income taxes	290	2,531
Reclassification adjustment to foreign currency loss	—	1,329
Other, net	1,345	(6)
Changes in operating assets and liabilities:		
Accounts receivable	(16,165)	(2,605)
Inventories	(1,109)	(12,279)
Prepaid expenses and other assets	49	1,659
Income taxes receivable, net	(3,630)	331
Accounts payable	921	(358)
Accrued expenses	4,112	(5,167)
Deferred revenue and customer deposits	417	(472)
Other liabilities	81	17
Cash provided by (used in) operating activities - continuing operations	10,208	(2,999)
Cash used in operating activities - discontinued operations	(30)	(16)
Investing activities		
Acquisitions of plant, equipment and leasehold improvements	(3,320)	(3,298)
Cash received for sale of Canadian subsidiary	—	1,451
Cash used in investing activities - continuing operations	(3,320)	(1,847)
Financing activities		
Proceeds from Senior Credit Facility, net of discount	29,100	—
Debt issuance costs	(2,507)	—
Proceeds from Revolving Credit Facility	—	11,500
Payments on Revolving Credit Facility	—	(11,500)
Payments on finance lease obligations	(1,782)	(1,175)
Cash provided by (used in) financing activities	24,811	(1,175)
Effect of exchange rates on cash	(2)	36
Net increase (decrease) in cash and cash equivalents	31,667	(6,001)
Cash and cash equivalents, beginning of period	18,682	20,291
Cash and cash equivalents, end of period	\$ 50,349	\$ 14,290
Supplemental disclosures of cash flow information		
Cash paid during the period for:		
Interest	\$ 17,454	\$ 17,315
Income taxes	\$ 946	\$ 675
Right-to-use assets obtained in exchange for lease obligations:		
Operating leases	\$ 141	\$ 8,533
Financing leases	\$ 1,618	\$ 5,196
Accounts payable, and accrued expenses for acquisitions of plant, equipment and leasehold improvements	\$ 127	\$ 159

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 subsidiary companies, is referred to herein as “CPI” or the “Company,”) is a payment technology company and leading provider of comprehensive Financial Payment Card solutions in the United States. The Company defines “Financial Payment Cards” as credit, debit and Prepaid Debit Cards issued on the networks of the “Payment Card Brands” (Visa, Mastercard®, American Express® and Discover® in the United States and Interac, in Canada). The Company defines “Prepaid Debit Cards” as debit cards issued on the networks of the Payment Card Brands, but not linked to a traditional bank account. The Company also offers an instant card issuance solution, which provide card issuing bank customers the ability to issue a personalized debit or credit card within the bank branch to individual cardholders.

As a producer and provider of services for Financial Payment Cards, each of the Company’s secure facilities must be compliant and registered with 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.

In the fourth quarter of 2018, the Company entered into a definitive agreement to sell the Company’s Canadian subsidiary to Allcard Limited, a provider of card solutions to the gift and loyalty sectors. The sale did not include the portions of the business relating to Financial Payment Cards, as that business migrated to the Company’s operations in the Debit and Credit segment or to other service providers in 2019. The transaction closed on April 1, 2019, and the Company received cash proceeds of \$1,451. After the payment of liabilities and transaction costs, including employee termination costs, the sale did not have a significant impact on cash, and no significant loss on sale was recorded. In connection with the disposition of the Canadian subsidiary, the Company released the related cumulative translation adjustment of \$1,329 from “Accumulated Other Comprehensive Loss” on the condensed consolidated balance sheet into “Foreign Currency Loss” on the condensed consolidated statement of operations during the nine months ended September 30, 2019. The Canadian subsidiary was not a significant operating segment and was part of the Other reportable segment.

COVID-19 Update

On March 11, 2020, the World Health Organization (“WHO”) characterized the novel coronavirus disease (“COVID-19”) as a pandemic. Further, on March 13, 2020, the President of the United States declared the COVID-19 pandemic a national emergency, invoking powers under the Stafford Act – the legislation that directs federal emergency disaster response. The broader and long-term implications of COVID-19 on the Company’s results of operations and overall financial performance remain uncertain. The adverse effects of the COVID-19 pandemic have become widespread, including in the locations where the Company operates and its customers and suppliers conduct business. The health and safety of CPI’s employees remains paramount, and the Company continues to follow response protocols based on precautions and other appropriate measures recommended by the Centers for Disease Control and Prevention as well as various state and local executive orders, health orders and guidelines. All of CPI’s operations remain open and continue to provide direct and essential support to the financial services industry. The Company may experience constrained supply, curtailed customer demand or impacts on CPI’s workforce that could materially adversely impact the business, results of operations and overall financial performance in future periods. While CPI’s net sales in the third quarter and first nine months of 2020 increased over the prior year, the Company experienced lower customer demand than expected (which CPI believes is primarily attributable to the COVID-19 pandemic), and the Company may experience further effects in the Company’s results of operations and overall financial performance in future periods. There can be no assurance that the Company’s strategies will be successful in effectively managing the Company’s resources and mitigating the negative impact of the COVID-19 pandemic on the business and operating results. See Part II, Item 1A – Risk Factors in this Quarterly Report on Form 10-Q for the quarter ended September 30, 2020 for further discussion of the possible impact of the COVID-19 pandemic on the business.

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On March 27, 2020, the President of the United States signed the Coronavirus Aid, Relief, and Economic Security (CARES) Act into law. The CARES Act, among other things, includes provisions relating to refundable payroll tax credits, deferment of employer side social security payments, changes in net operating loss carryback periods, alternative minimum tax credit refunds, modifications to the net interest deduction limitations and technical corrections to tax depreciation methods for qualified improvement property. CPI is continuing to evaluate and apply certain provisions of the CARES Act that may benefit the Company. Refer to Note 12, Income Taxes – Continuing Operations, for a discussion of the CARES Act income tax impacts. In addition, the Company has deferred employer side social security payments starting with the second quarter of 2020. While the Company is participating in certain programs under the CARES Act, the Act and its guidance are subject to change.

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 8 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, 2019 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, 2019.

Use of Estimates

Management uses estimates and assumptions relating to the reporting of assets and liabilities at the date of the financial statements, the reported revenues and expenses recognized during the reporting period, and certain financial statement disclosures, in the 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, leases, liability for sales tax, valuation allowances for inventories and deferred taxes, revenue recognized for work performed but not completed, and uncertain tax positions. Actual results could differ from those estimates.

Recent Accounting Standards

Recently Adopted Accounting Standards

In February 2016, the Financial Accounting Standards Board (the “FASB”) issued Accounting Standards Codification (“ASC”) Topic 842, *Leases* (“ASC 842”), 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. ASC 842 is effective for annual and interim periods beginning after December 15, 2018 (the Company’s fiscal year 2019) with early adoption permitted. The guidance required 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. In July 2018, the FASB issued additional accounting standard updates clarifying certain provisions, as well as providing for a second transition method allowing entities to initially apply the standard at the adoption date and recognize a cumulative-effect adjustment to the opening balance of retained earnings. The Company adopted the new guidance on January 1, 2019 and used the adoption date as the date of initial application as allowed under ASC 842. Refer to Note 10, Financing and Operating Leases.

Recently Issued Accounting Standards

In June 2016, the FASB issued Accounting Standards Update (“ASU”) 2016-13, *Measurement of Credit Losses on Financial Instruments* (“ASU 2016-13”). This ASU changes the model for the recognition of credit losses from an incurred loss model, which recognized credit losses only if it was probable that a loss had been incurred, to an expected loss model, which requires the Company to estimate the total credit losses expected on the portfolio of financial instruments. The effective date of ASU 2016-13 was amended by ASU 2019-10, *Credit Losses Effective Dates*. Since CPI is a smaller reporting company, adoption of this accounting standard is effective for the Company for fiscal years beginning after December 15, 2022, and interim periods therein, with early adoption permitted. The Company has elected not to early adopt this accounting standard in the current fiscal year 2020. The Company is evaluating the impact

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of adoption of this standard, and does not anticipate the application of ASU 2016-13 will have a material impact on the Company's consolidated financial position and results of operations.

Adjustment of Prior Period Financial Statements for Immaterial Items

In accordance with Securities and Exchange Commission Staff Accounting Bulletin 99, Materiality, codified in ASC 250, Presentation of Financial Statements, the Company corrected two immaterial items relating to estimated sales tax expense and depreciation expense for all prior periods presented by revising the condensed consolidated financial statements and other financial information included herein. The total impact on prior years for estimated sales tax expense was \$1,907 and depreciation expense was \$476. These adjustments represent the expenses pertaining to the period of 2017 to 2020, including an increase to estimated sales tax expense recorded in Selling, General and Administrative expenses ("SG&A") of \$168 and \$396, and depreciation expense in Cost of sales of \$62 and \$187, for the three and nine months ended September 30, 2019, respectively. In addition, the Company recorded sales tax expense in SG&A of \$293 and depreciation expense of \$124 for the nine months ended September 30, 2020. The estimated sales tax expense determined during the quarter ended June 30, 2020 was \$2,700, and the estimate reduced primarily due to probable customer collections of \$500, resulting in \$2,200 estimated expense recorded to the prior periods of 2017 to 2020.

2. Net Sales

The Company disaggregates its net sales by major source as follows:

	Three Months Ended September 30, 2020		
	Products	Services	Total
Debit and Credit	\$ 44,056	\$ 18,654	\$ 62,710
Prepaid Debit	—	20,604	20,604
Intersegment eliminations	(594)	(18)	(612)
Total	<u>\$ 43,462</u>	<u>\$ 39,240</u>	<u>\$ 82,702</u>

	Nine Months Ended September 30, 2020		
	Products	Services	Total
Debit and Credit	\$ 126,507	\$ 54,348	\$ 180,855
Prepaid Debit	—	48,680	48,680
Intersegment eliminations	(1,467)	(19)	(1,486)
Total	<u>\$ 125,040</u>	<u>\$ 103,009</u>	<u>\$ 228,049</u>

	Three Months Ended September 30, 2019		
	Products	Services	Total
Debit and Credit	\$ 34,218	\$ 17,284	\$ 51,502
Prepaid Debit	—	20,452	20,452
Intersegment eliminations	(255)	(18)	(273)
Total	<u>\$ 33,963</u>	<u>\$ 37,718</u>	<u>\$ 71,681</u>

	Nine Months Ended September 30, 2019		
	Products	Services	Total
Debit and Credit	\$ 100,338	\$ 51,179	\$ 151,517
Prepaid Debit	—	53,162	53,162
Other	397	1,282	1,679
Intersegment eliminations	(890)	(20)	(910)
Total	<u>\$ 99,845</u>	<u>\$ 105,603</u>	<u>\$ 205,448</u>

Products Net Sales

"Products" net sales are 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

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unbilled, the Company estimates revenue by taking actual costs incurred and applying historical margins for similar types of contracts. Items included in “Products” net sales are manufactured Financial Payment Cards, including contact-EMV[®], dual-interface EMV, contactless and magnetic stripe cards, Second Wave[™], metal, private label credit cards and retail gift cards. Card@Once[®] printers and consumables are also included in “Products” net sales, and their associated revenues are recognized at the time of shipping. The Company includes gross shipping and handling revenue in net sales, and shipping and handling costs in cost of sales.

EMV[®] is a registered trademark in the U.S. and other countries and an unregistered trademark elsewhere. The EMV trademark is owned by EMV Co, LLC.

Services Net Sales

Net sales are recognized for “Services” as the services are performed. Items included in “Services” net sales 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 and credit cards. The Company also generates “Services” net sales from usage-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. 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, enforceable rights and obligations for goods and services occur only when a customer places a purchase order or statement of work to obtain goods or services under an MSA. The contract term as defined by ASC 606, *Revenue from Contracts with Customers*, 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

On August 3, 2018, the Company completed the sale of its three facilities in the United Kingdom that produced retail cards, such as gift and loyalty cards, for customers in the United Kingdom and continental Europe, and provided personalization, packaging and fulfillment services. The facilities sold included Colchester, Liverpool and Derby locations. The Company reported the U.K. Limited reporting segment as discontinued operations and restated the comparative financial information for all periods presented in conformity with GAAP. Unless otherwise indicated, information in these notes to the unaudited condensed consolidated financial statements relate to continuing operations. The Company did not retain significant continuing involvement with the discontinued operation subsequent to the disposal. The impact of the discontinued operations was insignificant to the Company’s condensed consolidated statement of operations for the three and nine months ended September 30, 2020 and 2019.

4. Accounts Receivable

Accounts receivable consisted of the following:

	<u>September 30, 2020</u>	<u>December 31, 2019</u>
Trade accounts receivable	\$ 50,971	\$ 39,004
Unbilled accounts receivable	8,413	4,223
	<u>59,384</u>	<u>43,227</u>
Less allowance for doubtful accounts	(291)	(395)
	<u>\$ 59,093</u>	<u>\$ 42,832</u>

5. Inventories

Inventories consisted of the following:

	<u>September 30, 2020</u>	<u>December 31, 2019</u>
Raw materials	\$ 18,025	\$ 16,492
Finished goods	4,623	5,047
Inventory reserve	(2,482)	(1,347)
	<u>\$ 20,166</u>	<u>\$ 20,192</u>

6. Plant, Equipment, Leasehold Improvements and Operating Lease Right-of-Use Assets

Plant, equipment, leasehold improvements and operating lease right-of-use assets consisted of the following:

	<u>September 30, 2020</u>	<u>December 31, 2019</u>
Machinery and equipment	\$ 53,224	\$ 52,212
Machinery and equipment under financing leases	9,874	8,256
Furniture, fixtures and computer equipment	4,171	4,749
Leasehold improvements	14,941	14,905
Construction in progress	658	455
	<u>82,868</u>	<u>80,577</u>
Less accumulated depreciation and amortization	(52,054)	(45,277)
Operating lease right-of-use assets, net of accumulated amortization	4,659	6,312
	<u>\$ 35,473</u>	<u>\$ 41,612</u>

Depreciation expense of plant, equipment and leasehold improvements, including depreciation of assets under financing leases, was \$2,831 and \$3,167 for the three months ended September 30, 2020 and 2019, respectively, and \$8,989 and \$9,455 for the nine months ended September 30, 2020 and 2019, respectively.

Operating lease right-of-use assets, net of accumulated amortization, are further described in Note 10, Financing and Operating Leases.

7. Goodwill and Other Intangible Assets

The Company reports all of its goodwill in the Debit and Credit segment at September 30, 2020 and December 31, 2019. Goodwill is tested for impairment at least annually on October 1 or more frequently when an event occurs or circumstances change that indicates the carrying value may not be recoverable. The Company did not identify a triggering event requiring a quantitative test for impairment as of September 30, 2020.

Intangible assets consist of customer relationships, technology and software, trademarks and non-compete agreements. Intangible amortization expense was \$1,149 and \$1,159 for the three months ended September 30, 2020 and 2019, respectively, and \$3,447 and \$3,487 for the nine months ended September 30, 2020 and 2019.

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At September 30, 2020 and December 31, 2019, intangible assets, excluding goodwill, were comprised of the following:

	Weighted Average Life (Years)	September 30, 2020			December 31, 2019		
		Gross Book Value	Accumulated Amortization	Net Book Value	Gross Book Value	Accumulated Amortization	Net Book Value
Customer relationships	17.2	\$ 55,454	\$ (31,323)	\$ 24,131	\$ 55,454	(28,865)	\$ 26,589
Technology and software	8	7,101	(5,649)	1,452	7,101	(4,952)	2,149
Trademarks	8.7	3,330	(1,558)	1,772	3,330	(1,266)	2,064
Non-compete agreements	5	491	(491)	—	491	(491)	—
Intangible assets subject to amortization		<u>\$ 66,376</u>	<u>\$ (39,021)</u>	<u>\$ 27,355</u>	<u>\$ 66,376</u>	<u>\$ (35,574)</u>	<u>\$ 30,802</u>

The estimated future aggregate amortization expense for the identified amortizable intangibles noted above as of September 30, 2020 was as follows:

2020 (excluding the nine months ended September 30, 2020)	\$ 1,148
2021	4,352
2022	3,867
2023	3,867
2024	3,530
Thereafter	10,591
	<u>\$ 27,355</u>

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.

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The Company's financial assets and liabilities that are not required to be re-measured at fair value in the condensed consolidated balance sheets were as follows:

	Carrying Value as of September 30, 2020	Fair Value as of September 30, 2020	Fair Value Measurement at September 30, 2020 (Using Fair Value Hierarchy)		
			Level 1	Level 2	Level 3
Liabilities:					
First Lien Term Loan	\$ 312,500	\$ 275,391	\$ —	\$ 275,391	\$ —
Senior Credit Facility	\$ 30,000	\$ 30,000	\$ —	\$ —	\$ 30,000

	Carrying Value as of December 31, 2019	Fair Value as of December 31, 2019	Fair Value Measurement at December 31, 2019 (Using Fair Value Hierarchy)		
			Level 1	Level 2	Level 3
Liabilities:					
First Lien Term Loan	\$ 312,500	\$ 234,375	\$ —	\$ 234,375	\$ —

The aggregate fair value of the Company's First Lien Term Loan (as defined in Note 11, Long-Term Debt) was based on bank quotes. The fair value measurement associated with the Senior Credit Facility (as defined in Note 11, Long-Term Debt) is based on significant unobservable Level 3 inputs, which require management judgment and estimation. The Senior Credit Facility ranks senior in priority to the Company's First Lien Term Loan, and was valued using market data from companies with similar credit ratings.

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

9. Accrued Liabilities

Accrued liabilities consisted of the following:

	September 30, 2020	December 31, 2019
Accrued payroll and related employee expenses	\$ 5,152	\$ 3,954
Accrued employee performance bonus	3,717	3,920
Employer payroll tax, including social security deferral	2,008	368
Accrued rebates	3,931	1,573
Sales tax liability	2,100	1,907
Accrued interest	4,137	4,951
Operating and financing lease liability (current portion)	4,901	4,494
Other	3,581	3,568
Total accrued expenses	\$ 29,527	\$ 24,735

The estimated sales tax liability is further described in Note 15, Commitments and Contingencies and Note 1, Business Overview and Summary of Significant Accounting Policies.

10. Financing and Operating Leases

CPI adopted ASC 842 effective January 1, 2019. The Company elected the 'package of practical expedients', which permits the Company not to reassess under the new standard its prior conclusions about lease identification, lease classification, and initial direct costs. Right-of-use ("ROU") represents the right to use an underlying asset for the lease term, and lease liabilities represent the Company's obligation to make lease payments arising from the lease. Operating lease ROU assets and liabilities are recognized at commencement date based on the present value of lease payments over the lease term. A lease is deemed to exist when the Company has the right to control the use of identified property, plant or equipment, as conveyed through a contract, for a certain period of time and consideration paid. The right to control is deemed to occur when the Company has the right to obtain substantially all of the economic benefits of the identified assets and the right to direct the use of such assets. As a result of the adoption of ASC 842, the Company recorded

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\$8,025 of operating ROU assets, and corresponding operating lease liabilities of \$8,813 on January 1, 2019, relating to existing real estate operating leases.

The components of operating and finance lease costs were as follows:

	Three Months Ended September 30, 2020	Three Months Ended September 30, 2019
Total operating lease costs	\$ 664	\$ 659
Finance lease cost:		
Right-of-use amortization expense	\$ 326	\$ 273
Interest on lease liabilities	110	98
Total financing lease costs	\$ 436	\$ 371
	Nine Months Ended September 30, 2020	Nine Months Ended September 30, 2019
Total operating lease costs	\$ 2,006	\$ 1,967
Finance lease cost:		
Right-of-use amortization expense	\$ 982	\$ 574
Interest on lease liabilities	356	160
Total financing lease costs	\$ 1,338	\$ 734

The following table reflects balances for operating and financing leases:

	September 30, 2020	December 31, 2019
Operating leases		
Operating lease right-of-use assets, net of amortization	\$ 4,659	\$ 6,312
Operating lease liability (current)	\$ 2,489	\$ 2,283
Long-term operating liability	2,773	5,067
Total operating lease liabilities	\$ 5,262	\$ 7,350
Financing leases		
Property, equipment and leasehold improvements	\$ 9,874	\$ 8,256
Accumulated depreciation	(2,072)	(1,094)
Total property, equipment and leasehold improvements, net	\$ 7,802	\$ 7,162
Financing lease liability (current)	\$ 2,412	\$ 2,211
Long-term financing liability	3,500	3,886
Total financing lease liabilities	\$ 5,912	\$ 6,097

Finance and operating lease ROU assets are recorded in “Plant, equipment, leasehold improvements, and operating lease right-of-use assets, net”. Financing and operating lease liabilities are recorded in “Accrued expenses” and “Other long-term liabilities.”

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Future cash payment with respect to lease obligations as of September 30, 2020 were as follows:

	Operating Lease	Financing Leases
2020 (excluding nine months ended September 30, 2020)	\$ 744	\$ 711
2021	2,632	2,470
2022	1,150	1,983
2023	823	1,032
2024	582	258
Thereafter	-	2
Total lease payments	5,931	6,456
Less imputed interest	(669)	(544)
Total	<u>\$ 5,262</u>	<u>\$ 5,912</u>

11. Long-Term Debt

At September 30, 2020 and December 31, 2019, long-term debt consisted of the following:

	Interest Rate ⁽¹⁾	September 30, 2020	December 31, 2019
First Lien Term Loan	5.50 %	\$ 312,500	\$ 312,500
Senior Credit Facility	9.50 %	30,000	—
Unamortized discount		(2,312)	(1,770)
Unamortized deferred financing costs		(4,429)	(2,952)
Total Long-term debt		<u>\$ 335,759</u>	<u>\$ 307,778</u>
Less current maturities		—	—
Long-term debt, net of current maturities		<u>335,759</u>	<u>307,778</u>

(1) The interest rate on the First Lien Term Loan was 5.5%, and 6.71% as of September 30, 2020, and December 31, 2019, respectively. The interest rate on the Senior Credit Facility, which was entered into on March 6, 2020, was 9.5% as of September 30, 2020.

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 matures on August 17, 2022 and the Revolving Credit Facility was terminated concurrently with the Company entering into a new senior credit facility on March 6, 2020.

On March 6, 2020, the Company and its wholly owned subsidiary, CPI Acquisition, Inc. (now known as CPI CG Inc.) (the “Borrower”), entered into a super senior credit agreement with Guggenheim Credit Services, LLC (“Guggenheim”), Vector Capital Credit Opportunity Master Fund, L.P., Guggenheim, as administrative agent and collateral agent, and certain other lenders from time to time party thereto (the “Senior Credit Agreement” and together with all ancillary documents thereto, the “Senior Credit Facility”). The Senior Credit Facility matures on May 17, 2022, and provides for the extension of credit to the Borrower in the form of super senior term loans in an aggregate principal amount of \$30,000, and ranks senior in priority to the Company’s First Lien Term Loan.

The Senior Credit Facility and the First Lien Term Loan are secured by substantially all of the Company’s assets constituting equipment, inventory, receivables, cash and other tangible and intangible property.

The Senior Credit Facility and the First Lien Term Loan contain customary representations, covenants and events of default, including certain covenants that limit or restrict the Company’s and certain of its subsidiaries’ ability to incur indebtedness, grant certain types of security interests, incur certain types of liens, sell or transfer assets or enter into a merger or consolidate with another company, enter into sale and leaseback transactions, make certain types of investments, declare or make dividends or distributions, engage in certain affiliate transactions, or modify organizational documents, among other restrictions and subject to certain exceptions. In accordance with the Senior Credit Facility, the Company is also required to have adjusted EBITDA, as defined in the agreement, of \$25,000 for the previous four consecutive fiscal quarters in total, at the end of each quarterly period ending on or after March 31, 2020.

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The Senior Credit Facility and the First Lien Term Loan also require 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 respective agreement, with any required payments to be made after the issuance of the Company's annual financial statements. The Company was not required to make any prepayments of the First Lien Term Loan with respect to our 2019 annual financial statements.

Interest rates under the Senior 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 8.5% or a base rate plus a margin of 7.5%. Prepayments made prior to February 15, 2022 are subject to a make-whole premium. Interest rates under the First Lien Term Loan are based, at the Company's election, on a Eurodollar rate, subject to an interest rate floor of 1.0%, plus a margin of 4.5%, or a base rate plus a margin of 3.5%.

The term loans made under the Senior Credit Facility would be accelerated and become immediately due and payable if an event of default (as defined in the Senior Credit Agreement) were to occur. Tricor Pacific Capital Partners (Fund IV), Limited Partnership and Tricor Pacific Capital Partners (Fund IV) US, Limited Partnership (collectively, the "Tricor Funds"), own approximately 37% and 22% of the Company's common stock, respectively, as of December 31, 2019. If the Tricor Funds were to sell or otherwise dispose of more than 25% of CPI's outstanding common stock, or otherwise cease to own at least 30% of CPI's outstanding common stock, other than by means of distributing CPI common stock to the participants in Tricor Funds, a "change of control" event of default would occur. Additionally, certain proposed changes to the Senior Credit Facility require the consent of lenders representing more than 50% of the outstanding term loans, and if a lender does not consent to such proposed changes, then, among other options, CPI may be required to pre-pay the non-consenting lender's portion of the loan, including accrued interest, fees and other amounts payable, as well as a make-whole premium.

The proceeds of the Senior Credit Facility may be used by the Company to provide for the working capital and general corporate requirements of the Company and its subsidiaries, including to pay any fees and expenses in connection with the Senior Credit Facility and other related loan documents.

Deferred Financing Costs and Discount

Certain costs and discounts 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. The discount on the Senior Credit Facility was \$1,400, and financing costs were \$3,215, and both were recorded as a reduction to the long-term debt balance in the quarter ended March 31, 2020. The net discount and debt issuance costs on the Senior Credit Facility as included within financing activities on the condensed consolidated statement of cash flows relates to cash flows during the nine months ended September 30, 2020.

12. Income Taxes – Continuing Operations

During the three months ended September 30, 2020, the Company recognized an income tax expense of \$1,402 on a pre-tax income of \$7,211, compared to an income tax expense of \$2,258 on a pre-tax income of \$1,629 for the prior year period. During the nine months ended September 30, 2020, the Company recognized an income tax benefit of \$2,178 on a pre-tax income of \$6,696, representing an effective income tax rate of (32.5%). For the nine months ended September 30, 2019, the Company recognized an income tax expense of \$3,618 on a pre-tax income of \$912, representing an effective income tax rate of 396.7%.

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For the nine months ended September 30, 2020 and 2019, the effective tax rate differs from the U.S. federal statutory income tax rate as follows:

	September 30,	
	2020	2019
Tax at federal statutory rate	21.0 %	21.0 %
State taxes, net	7.4	62.3
Valuation allowance	(18.1)	290.2
Permanent items	7.2	6.5
Tax benefit CARES Act	(54.7)	—
Other	4.7	16.7
Effective income tax rate	(32.5)%	396.7 %

In March 2020, the CARES Act was signed into law. The CARES Act allows companies with net operating losses (“NOLs”) originating in 2018, 2019, or 2020 to carry back those losses for five years and temporarily eliminates the tax law provision that limits the use of NOLs to 80% of taxable income. The CARES Act increases the Internal Revenue Code Section 163(j) interest deduction limit for 2019 and 2020, and allows for the acceleration of refunds of alternative minimum tax credits. For the nine months ended September 30, 2020, the Company estimated a tax benefit for certain provisions in the CARES Act including the carryback of losses and the increase to the interest deduction limitation, resulting in a tax rate benefit of 54.7%. In addition, the Company has adjusted the partial valuation allowance due to the limitation on the deductibility of interest expense with an income tax rate benefit during for the nine months ended September 30, 2020. The Company’s income tax receivable on the condensed consolidated balance sheet as of September 30, 2020, relates primarily to U.S. federal income tax receivables relating to prior tax years, including NOL carrybacks relating to the CARES Act income tax refund. Additionally, the income tax receivable relates to tax benefits based on our pre-tax income and income tax provision through September 30, 2020. In the nine months ended September 30, 2019, the effective tax rate differs from the federal U.S. statutory rate primarily due to the impact of tax expense recorded related to the partial valuation allowance due to the limitation on the deductibility of interest expense.

13. Stockholders’ Deficit

Common Stock

Common Stock has a par value of \$0.001 per share. Holders of Common Stock are entitled to receive dividends and distributions subject to the participation rights of holders of all classes of stock at the time outstanding, as such holders may have prior rights as to dividends pursuant to the rights of any series of Preferred Stock. Upon any liquidation, dissolution, or winding up of the Company, after required payments are made to holders of any series of Preferred Stock, any remaining assets of the Company will be distributed ratably to the holders of Common Stock. Holders of Common Stock are entitled to one vote per share.

14. Income (Loss) per Share

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Numerator:				
Net income (loss) from continuing operations	\$ 5,809	\$ (629)	\$ 8,874	\$ (2,706)
Net (loss) income from discontinued operation	—	(28)	(30)	(16)
Net income (loss)	<u>\$ 5,809</u>	<u>\$ (657)</u>	<u>\$ 8,844</u>	<u>\$ (2,722)</u>
Denominator:				
Basic weighted-average common shares outstanding	11,230,028	11,223,715	11,228,116	11,187,550
Dilutive shares	1,793	—	6,982	—
Diluted weighted-average common shares outstanding	11,231,821	11,223,715	11,235,098	11,187,550
Net income (loss) per share from continuing operations - Basic:	\$ 0.52	\$ (0.06)	\$ 0.79	\$ (0.24)
Net income (loss) per share from discontinued operations - Basic:	—	(0.00)	(0.00)	(0.00)
Net income (loss) per share - Basic:	<u>\$ 0.52</u>	<u>\$ (0.06)</u>	<u>\$ 0.79</u>	<u>\$ (0.24)</u>
Net income (loss) per share from continuing operations - Diluted:	\$ 0.52	\$ (0.06)	\$ 0.79	\$ (0.24)
Net income (loss) per share from discontinued operations - Diluted:	—	(0.00)	(0.00)	(0.00)
Net income (loss) per share - Diluted:	<u>\$ 0.52</u>	<u>\$ (0.06)</u>	<u>\$ 0.79</u>	<u>\$ (0.24)</u>

The Company reported a net loss for the three and nine months ended September 30, 2019. Accordingly, the potentially dilutive effect of 840,819 stock options and 9,256 restricted stock units were excluded from the computation of diluted earnings per share as of September 30, 2019, as their inclusion would be anti-dilutive.

15. Commitments and Contingencies; Litigation Settlement

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 expense. The Company expenses professional fees associated with litigation claims and assessments as incurred.

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Derivative Suit

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 CPI’s October 2015 initial public offering (“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 Securities and Exchange Commission 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 December 18, 2019, the parties filed a Stipulation and Agreement of Settlement to resolve and dismiss the Derivative Suit, and on April 1, 2020, the Court granted final approval of the settlement set forth therein and dismissed with prejudice all claims (the “Settlement”). Under the Settlement, (i) all claims that were or could have been asserted in the Derivative Suit were resolved and discharged, (ii) the Company agreed to implement certain corporate governance reforms, and (iii) the Company’s insurer agreed to pay fees and expenses awarded to the plaintiff’s counsel in the amount of \$343 and a service award to the plaintiff of a nominal amount. There was no liability necessary to be recorded for the Settlement as of September 30, 2020, or December 31, 2019.

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

Estimated Sales Tax Liability

The Company is evaluating a state sales tax liability analysis for states in which it has economic nexus, and collecting exemption documentation from its customers. It is probable that the Company will be subject to sales tax liabilities plus interest and penalties relating to historical activity in certain states. The liability for sales tax was estimated and recorded during the quarter ended June 30, 2020, and the Company has estimated a liability of \$2,100 as of September 30, 2020, which is recorded in accrued expenses in the condensed consolidated balance sheets. Due to the estimates involved in the analysis, the Company expects that the estimated liability will change in the future, and could exceed the original estimate. Additionally, the liability may be reduced by the payment of sales tax directly to the applicable states. Amounts that are recovered from customers will reduce the estimated expense when probable of collection. Future changes to the liability estimate that impact the condensed consolidated statements of operations will be recorded within selling, general, and administrative expenses.

Litigation Settlement

CPI Card Group Inc. v. Multi Packaging Solutions, Inc., et al. Second Case

During the summer of 2017, the Company and its subsidiary, CPI Card Group – Minnesota, Inc. (together, the “Company Plaintiffs”), commenced a lawsuit in the United States District Court for the District of Minnesota against a former employee, Multi Packaging Solutions, Inc. (“MPS”), and two MPS employees as individuals (collectively, the “Defendants”). On June 12, 2019, the Company Plaintiffs and the Defendants reached a settlement pursuant to which the case was resolved and dismissed by mutual agreement on terms that provided for, among other things, a cash payment to the Company. The Company received a \$6,000 cash settlement payment during the second quarter of 2019, and recorded the gain within income from operations, in the Other segment. The case was dismissed in its entirety, with prejudice, by court order on July 12, 2019.

16. Stock-Based Compensation

CPI Card Group Inc. Omnibus Incentive Plan

In 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 March 25,

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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 September 30, 2020, there were 365,967 shares available for grant under the Omnibus Plan.

During the nine months ended September 30, 2020, and during the fiscal year ended December 31, 2019, the Company did not grant any awards of non-qualified stock options. 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, 2019	793,084	\$ 14.91	
Forfeited	(86,712)	\$ 12.61	
Outstanding as of September 30, 2020	<u>706,372</u>	\$ 15.20	6.69
Options vested and exercisable as of September 30, 2020	661,053	\$ 16.08	6.62
Options vested and expected to vest as of September 30, 2020	706,372	\$ 15.20	6.69

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

	Options	Weighted-Average Grant-Date Fair Value
Unvested as of December 31, 2019	250,571	\$ 1.90
Forfeited	(16,028)	2.33
Vested	(189,224)	2.05
Unvested as of September 30, 2020	<u>45,319</u>	\$ 1.10

Unvested options as of September 30, 2020, will vest as follows:

2020 (excluding nine months ended September 30, 2020)	—
2021	45,319
Total unvested options as of September 30, 2020	<u>45,319</u>

The following table summarizes the changes in the number of outstanding restricted stock units:

	Units	Weighted-Average Grant-Date Fair Value	Weighted-Average Remaining Amortization Period (in Years)
Outstanding as of December 31, 2019	7,347	\$ 22.49	
Vested	(7,144)	22.51	
Forfeited	(203)	21.75	
Outstanding as of September 30, 2020	<u>—</u>	<u>\$ —</u>	-

During the nine months ended September 30, 2020, and during the fiscal year ended December 31, 2019, the Company did not grant any awards of restricted stock units. Outstanding restricted stock units have vested entirely as of September 30, 2020. On October 2, 2020, the Company granted 180,001 restricted stock units to employees. The restricted stock unit awards contain conditions associated with continued employment or service, and generally vest two years from the date of grant. On the vesting date, shares of common stock will be issued to the award recipients.

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During the year ended December 31, 2017, the Company granted awards of 932,837 cash performance units with a grant-date fair value of \$663. These awards settled in cash in three annual payments on the first, second and third anniversaries of the date of grant. The cash performance units were 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. The Company recognized compensation expense on a straight-line basis for each annual performance period. The cash performance units were accounted for as a liability and remeasured to fair value at the end of each reporting period. During the nine months ended September 30, 2020, the third tranche of the cash performance units vested and the Company made a cash payment of \$68 to the award recipients. There are no outstanding cash performance units as of September 30, 2020.

Compensation expense for the Omnibus Plan for the three months ended September 30, 2020 and 2019 was \$25 and \$9, respectively. Compensation expense for the nine months ended September 30, 2020 and 2019 was \$84 and \$317, respectively. As of September 30, 2020, the total unrecognized compensation expense related to unvested options, and restricted stock units is not significant, and the expense is expected to be recognized over an estimated weighted-average period of less than one year.

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 could 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 was granted. Following the Company's adoption of its Omnibus Plan, no awards have been made under the Option Plan. All options under the Option Plan were exercised, and there were no outstanding shares remaining. As such, there were no outstanding shares remaining as of December 31, 2019 or September 30, 2020. There was no compensation expense related to options previously granted under the Option Plan, for the three and nine months ended September 30, 2020 and 2019.

17. Segment Reporting

The Company has identified reportable segments as those consolidated subsidiaries that represent 10% or more of its net sales, 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 net sales 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 useful as a supplement to 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 to identify strategies to improve the allocation of resources amongst segments.

As of September 30, 2020, the Company's reportable segments were as follows:

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

The Other category includes the Company's corporate office and, for the three and nine months ended September 30, 2019, a less significant operating segment that historically derived its revenue from the production of financial payment cards and retail gift cards in Canada. The Company's Canadian subsidiary was sold on April 1, 2019. The sale did not include the portions of the business relating to Financial Payment Cards, as those business customers of the Canadian subsidiary migrated to the Company's operations in the Debit and Credit segment or to other service providers in 2019.

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Performance Measures of Reportable Segments

Net Sales and EBITDA of the Company's reportable segments for the three and nine months ended September 30, 2020 and 2019, were as follows:

	Net Sales			
	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Debit and Credit	\$ 62,710	\$ 51,502	\$ 180,855	\$ 151,517
Prepaid Debit	20,604	20,452	48,680	53,162
Other	—	—	—	1,679
Intersegment eliminations	(612)	(273)	(1,486)	(910)
Total	\$ 82,702	\$ 71,681	\$ 228,049	\$ 205,448

	EBITDA			
	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Debit and Credit	\$ 16,993	\$ 11,249	\$ 45,073	\$ 31,992
Prepaid Debit	8,332	8,342	16,974	20,001
Other	(7,836)	(7,551)	(23,757)	(19,292)
Total	\$ 17,489	\$ 12,040	\$ 38,290	\$ 32,701

The following table provides a reconciliation of total segment EBITDA from continuing operations to net income (loss) from continuing operations for the three and nine months ended September 30, 2020 and 2019:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Total segment EBITDA from continuing operations	\$ 17,489	\$ 12,040	\$ 38,290	\$ 32,701
Interest, net	(6,298)	(6,085)	(19,158)	(18,847)
Income tax benefit (expense)	(1,402)	(2,258)	2,178	(3,618)
Depreciation and amortization	(3,980)	(4,326)	(12,436)	(12,942)
Net income (loss) from continuing operations	\$ 5,809	\$ (629)	\$ 8,874	\$ (2,706)

Balance Sheet Data of Reportable Segments

Total assets of the Company's reportable segments at September 30, 2020 and December 31, 2019, were as follows:

	September 30, 2020	December 31, 2019
Debit and Credit	\$ 209,579	\$ 176,020
Prepaid Debit	32,498	25,259
Other	11,611	11,732
Total assets	\$ 253,688	\$ 213,011

Net Sales to Geographic Locations, Property, Equipment and Leasehold Improvements and Long-Lived Assets

Subsequent to the sale of the Company's U.K. Limited segment and reclassification to discontinued operations, and the sale of the Company's Canada operations on April 1, 2019, the Company's Net Sales, Property, Equipment and Leasehold Improvements, and Long-Lived assets relating to geographic locations outside of the United States is insignificant.

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

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 Quarterly Report on Form 10-Q for the quarter ended September 30, 2020. 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, 2019 filed with the Securities and Exchange Commission (“SEC”).

Cautionary Statement Regarding Forward-Looking Information

Certain statements and information in this Quarterly Report on Form 10-Q for the quarter ended September 30, 2020 (as well as information included in other written or oral statements we make from time to time) may contain or 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, and Section 21E of the Securities Exchange Act of 1934, as amended. The words “believe,” “estimate,” “project,” “expect,” “anticipate,” “plan,” “intend,” “foresee,” “should,” “would,” “could,” “guides,” “provides guidance,” “provides outlook,” or other similar expressions are intended to identify forward-looking statements, which are 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 forward-looking statements, because they relate to future events, are by their very nature subject to many important risks and uncertainties that could cause actual results or other events to differ materially from those contemplated.

These risks and uncertainties include, but are not limited to: the potential effects of COVID-19 on our business, including our supply-chain, customer demand, workforce, operations and ability to comply with certain covenants in our credit facilities; a decline in U.S. and global market and economic conditions and resulting decreases in consumer and business spending; our lack of eligibility to participate in government relief programs related to COVID-19 or inability to realize material benefits from such programs; our substantial indebtedness, including inability to make debt service payments or refinance such indebtedness; costs and impacts to our financial results relating to the obligatory collection of sales tax and claims for uncollected sales tax in states that impose sales tax collection requirements on out-of-state businesses, and challenges to our income tax positions; the restrictive terms of our credit facilities and covenants of future agreements governing indebtedness and the resulting restraints on our ability to pursue our business strategies; our limited ability to raise capital in the future; system security risks, data protection breaches and cyber-attacks; failure to comply with regulations, customer contractual requirements and evolving industry standards regarding consumer privacy and data use and security, including with respect to possible exposure to litigation and/or regulatory penalties under applicable data privacy and other laws for failure to so comply; interruptions in our operations, including our IT systems, or in the operations of the third parties that operate the data centers or computing infrastructure on which we rely; disruptions in production at one or more of our facilities; our inability to adequately protect our trade secrets and intellectual property rights from misappropriation or infringement, claims that our technology is infringing on the intellectual property of others, and risks related to open source software; defects in our software; problems in production quality, materials and process; a disruption or other failure in our supply chain; our failure to retain our existing customers or identify and attract new customers; a loss of market share or a decline in profitability resulting from competition; our inability to recruit, retain and develop qualified personnel, including key personnel; 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; the effect of legal and regulatory proceedings; failure to meet the continued listing standards of the Toronto Stock Exchange or the rules of the OTCQX® Best Market; a continued decrease in the value of our common stock combined with our common stock no longer being traded on a United States national securities exchange, which may prevent investors or potential investors from investing or achieving a meaningful degree of liquidity; developing technologies that make our existing technology solutions and products obsolete or less relevant or a failure to introduce new products and services in a timely manner; quarterly variation in our operating results; our inability to realize the full value of our long-lived assets; our failure to operate our business in accordance with the Payment Card Industry (“PCI”) Security Standards Council security standards or other industry standards; costs relating to product defects and any related product liability and/or warranty claims; maintenance and further imposition of tariffs and/or trade restrictions on, or slow-downs or interruptions in our ability to obtain, goods imported into the United States; our dependence on licensing arrangements; risks associated with international operations; non-compliance with, and changes in, laws in the United States and in foreign jurisdictions in which we operate and sell our products; our

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ability to comply with a wide variety of environmental, health and safety laws and regulations and the exposure to liability for any failure to comply; risks associated with the controlling stockholders' ownership of our stock; potential conflicts of interest that may arise due to our board of directors being comprised in part of directors who are principals of our largest stockholder; and other risks that are described in Part I, Item 1A – Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2019 filed with the Securities and Exchange Commission (the “SEC”) on March 6, 2020, Part II, Item 1A – Risk Factors in this Quarterly Report on Form 10-Q for the quarter ended September 30, 2020, and our other reports filed from time to time with the SEC.

We caution and advise readers not to place undue reliance on forward-looking statements, which speak only as of the date hereof. These statements are based on assumptions that may not be realized and involve risks and uncertainties that could cause actual results to differ materially from the expectations and beliefs contained herein. We undertake no obligation to publicly update or revise any forward-looking statements after the date they are made, whether as a result of new information, future events or otherwise.

Overview

We are a payment technology company and leading provider of comprehensive Financial Payment Card solutions in the United States. We define “Financial Payment Cards” as credit, debit and Prepaid Debit Cards issued on the networks of the “Payment Card Brands” (Visa, Mastercard, American Express and Discover in the United States and Interac, in Canada). We define “Prepaid Debit Cards” as debit cards issued on the networks of the Payment Card Brands, but not linked to a traditional bank account. We also offer an instant card issuance solution, which provide card issuing bank customers the ability to issue a personalized debit or credit card within the bank branch to individual cardholders. We have established a leading position in the Financial Payment Card market through more than 20 years of experience. We serve a diverse set of over 2,000 direct customers and several thousand indirect customers, including some of the largest issuers of debit and credit cards in the United States, and the largest Prepaid Debit Card program managers, as well as thousands of independent community banks, credit unions, “Group Service Providers” (organizations that assist small card issuers, such as credit unions, with managing their credit and debit card programs, including managing the Financial Payment Card issuance process, core banking operations and other financial services) and card processors.

We serve our customers through a network of production and card services facilities, including high-security facilities in the United States which are audited for compliance by one or more of the Payment Card Brands. Many of our customers require us to comply with the standards of the PCI Security Standards Council. This leading network of high-security production facilities allows us to optimize our solutions offerings and to serve the needs of our diverse customer base.

Driven by a combination of our strong relationships, quality, technology, and innovation, we believe we have strong positions in the following markets:

- the U.S. prepaid debit market, serving several of the top U.S. Prepaid Debit Card program managers;
- the U.S. small to mid-sized issuer market, which includes independent community banks and credit unions; and
- the U.S. large issuer market, serving some of the largest debit and credit card issuers.

Our business consists of the following reportable segments: Debit and Credit, which primarily produces Financial Payment Cards and provides integrated card services to card-issuing banks primarily in the United States, and Prepaid Debit, which primarily provides integrated card services to Prepaid Debit Card program managers primarily in the United States. Businesses not considered part of these segments are considered “Other” and included our operations in Canada prior to the sale and disposition of our Canadian operations and corporate expenses.

In the fourth quarter of 2018, we entered into a definitive agreement to sell our Canadian subsidiary. The sale did not include the portions of the business relating to Financial Payment Cards, as that business migrated to our operations in the Debit and Credit segment or to other service providers in 2019. The transaction closed on April 1, 2019, and we received cash proceeds of \$1.5 million. After the payment of liabilities and transaction costs, including employee termination costs (the majority of which were expensed in 2018), the sale did not have a significant impact on cash, and no significant loss on the sale was recorded. In connection with the disposition of the Canadian subsidiary, the



Company released the related cumulative translation adjustment of \$1.3 million from “Accumulated Other Comprehensive Loss” on the condensed consolidated balance sheet into “Foreign Currency Loss” on the condensed consolidated statement of operations during the nine months ended September 30, 2019. The Canadian subsidiary was not a significant operating segment and the financial results of this business through the transaction closing date were presented as part of the Other reportable segment.

COVID-19 Update

On March 11, 2020, WHO characterized COVID-19 as a pandemic. Further, on March 13, 2020, the President of the United States declared the COVID-19 pandemic a national emergency, invoking powers under the Stafford Act – the legislation that directs federal emergency disaster response. The broader and long-term implications of COVID-19 on our results of operations and overall financial performance remain uncertain. The adverse effects of the COVID-19 pandemic have become widespread, including in the locations where we, our customers and our suppliers conduct business. The health and safety of our employees remains paramount, and we continue to follow response protocols based on precautions and other appropriate measures recommended by the Centers for Disease Control and Prevention as well as various state and local executive orders, health orders and guidelines. All of CPI’s operations remain open and continue to provide direct and essential support to the financial services industry. We may experience constrained supply, curtailed customer demand or impacts on our workforce that could materially adversely impact our business, results of operations and overall financial performance in future periods. While CPI’s net sales in the third quarter and first nine months of 2020 increased over the prior year, we experienced lower customer demand than expected (which we believe is primarily attributable to the COVID-19 pandemic), and we may experience further effects in the Company’s results of operations and overall financial performance in future periods. There can be no assurance that the Company’s strategies will be successful in effectively managing the Company’s resources and mitigating the negative impact of the COVID-19 pandemic on our business and operating results. See Part II, Item 1A – Risk Factors in this Quarterly Report on Form 10-Q for the quarter ended September 30, 2020 for further discussion of the possible impact of the COVID-19 pandemic on the business.

On March 27, 2020, the President of the United States signed the Coronavirus Aid Relief, and Economic Security (CARES) Act into law. The CARES Act, among other things, includes provisions relating to refundable payroll tax credits, deferment of employer side social security payments, changes in net operating loss carryback periods, alternative minimum tax credit refunds, modifications to the net interest deduction limitations and technical corrections to tax depreciation methods for qualified improvement property. CPI is continuing to evaluate and apply certain provisions of the CARES Act that may benefit the Company. Refer to Note 12, Income Taxes – Continuing Operations, for a discussion of the CARES Act income tax impacts. In addition, we have deferred employer side social security payments starting with the second quarter of 2020. While we are participating in certain programs under the CARES Act, the Act and its guidance are subject to change.

The Company evaluates goodwill for impairment at least annually on October 1, or more frequently when an event occurs or circumstances change such that the carrying value may not be recoverable. The potential negative implications of COVID-19, and a related potential decline in the Company’s total fair value of invested capital and financial performance for reporting units with goodwill, could require the Company to perform a quantitative test for goodwill impairment in future quarters. As of September 30, 2020, all of the Company’s \$47.2 million of goodwill is included within reporting units in the 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 September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
	(dollars in thousands)			
Net sales:				
Products	\$ 43,462	\$ 33,963	\$ 125,040	\$ 99,845
Services	39,240	37,718	103,009	105,603
Total net sales	82,702	71,681	228,049	205,448
Cost of sales	52,095	46,324	148,704	136,314
Gross profit	30,607	25,357	79,345	69,134
Operating expenses	17,125	17,617	53,391	54,080
Litigation settlement gain ⁽¹⁾	—	—	—	(6,000)
Income from operations	13,482	7,740	25,954	21,054
Other expense, net:				
Interest, net	(6,298)	(6,085)	(19,158)	(18,847)
Foreign currency gain (loss)	23	(40)	(10)	(1,320)
Other income (expense), net	4	14	(90)	25
Income (loss) from continuing operations before income taxes	7,211	1,629	6,696	912
Income tax benefit (expense)	(1,402)	(2,258)	2,178	(3,618)
Net income (loss) from continuing operations	\$ 5,809	\$ (629)	\$ 8,874	\$ (2,706)

Note: The Company revised its prior year financial statements to adjust immaterial items, relating to estimated sales tax expense and depreciation expense. Refer to Note 1, Business Overview and Summary of Accounting Policies, for an explanation of the immaterial prior period adjustments.

⁽¹⁾ Refer to Note 15, Commitments and Contingencies, for further information regarding the cash litigation settlement gain recorded in the second quarter of 2019.

Segment Discussion

Three Months Ended September 30, 2020 Compared With Three Months Ended September 30, 2019

Net Sales

	Three Months Ended September 30,		\$ Change	% Change
	2020	2019		
	(dollars in thousands)			
Net sales by segment:				
Debit and Credit	\$ 62,710	\$ 51,502	\$ 11,208	21.8 %
Prepaid Debit	20,604	20,452	152	0.7 %
Eliminations	(612)	(273)	(339)	* %
Total	\$ 82,702	\$ 71,681	\$ 11,021	15.4 %

* Not meaningful

Net sales for the three months ended September 30, 2020 increased \$11.0 million, or 15.4%, to \$82.7 million compared to \$71.7 million for the three months ended September 30, 2019, due to an increase in sales from the Debit and Credit segment.

[Table of Contents](#)*Debit and Credit:*

Net sales for Debit and Credit for the three months ended September 30, 2020 increased \$11.2 million, or 21.8%, to \$62.7 million compared to \$51.5 million for the three months ended September 30, 2019. The net sales increase was primarily due to higher volumes of dual-interface EMV card sales, including Second Wave cards featuring a core made with recovered ocean bound plastic. In addition, net sales increased from CPI On-Demand card personalization due to new customer wins and higher volumes from our existing customers, and from COVID-19 related government disbursement work. Dual-interface EMV cards have additional technology to process contactless transactions and generally have a higher selling price than contact-only EMV cards, which benefitted the current year sales increase compared to the prior year period. Partially offsetting these increases were reductions in volumes of Card@Once instant issuance product sales and card personalization sales in the third quarter of 2020. The decline in volumes was primarily as a result of ongoing impacts from COVID-19 including reduced hours of operation, lack of access or closure of certain bank branches, and fewer new accounts and requests for replacement cards.

Prepaid Debit:

Net sales for Prepaid Debit for the three months ended September 30, 2020, increased \$0.2 million, or 0.7%, to \$20.6 million, compared to \$20.5 million for the three months ended September 30, 2019. The increase was primarily due to timing of certain customer sales, partially offset by reduced sales volumes primarily associated with COVID-19 impacts, including lower retail store traffic.

Gross Profit and Gross Profit Margin

	Three Months Ended September 30,					
	2020	% of 2020 Net Sales	2019	% of 2019 Net Sales	\$ Change	% Change
(dollars in thousands)						
Gross profit by segment:						
Debit and Credit	\$ 21,720	34.6 %	\$ 16,441	31.9 %	\$ 5,279	32.1 %
Prepaid Debit	8,887	43.1 %	8,916	43.6 %	(29)	(0.3)%
Total	<u>\$ 30,607</u>	37.0 %	<u>\$ 25,357</u>	35.4 %	<u>\$ 5,250</u>	20.7 %

Gross profit for the three months ended September 30, 2020, increased \$5.3 million, or 20.7%, to \$30.6 million compared to \$25.4 million for the three months ended September 30, 2019. Gross profit margin for the three months ended September 30, 2020 increased to 37.0% compared to 35.4% for the three months ended September 30, 2019, due to an increase in gross profit margins in the Debit and Credit segment.

Debit and Credit:

Gross profit for Debit and Credit for the three months ended September 30, 2020, increased \$5.3 million, or 32.1%, to \$21.7 million compared to \$16.4 million during the three months ended September 30, 2019. The increase in gross profit for the Debit and Credit segment was driven primarily by higher sales volumes and pricing of dual interface EMV cards, including Second Wave cards. In addition, higher sales from CPI On-Demand card personalization and COVID-19 related government disbursement work contributed to an improvement in gross profit compared to the prior year. Gross profit margin increased to 34.6% during the three months ended September 30, 2020, compared to 31.9% in the prior year period, due primarily to operating leverage from higher dual interface card sales including Second Wave and CPI On-Demand net sales.

Prepaid Debit:

Gross profit for Prepaid Debit during the three months ended September 30, 2020 was flat at \$8.9 million compared to the three months ended September 30, 2019. Gross profit margin for Prepaid Debit for the three months ended September 30, 2020, decreased to 43.1% compared to 43.6% for the three months ended September 30, 2019. The decrease in gross profit and margin was primarily attributed to product mix.

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Operating Expenses, net

	Three Months Ended September 30,				\$ Change	% Change
	2020	% of 2020 Net Sales	2019	% of 2019 Net Sales		
(dollars in thousands)						
Operating expenses, net, by segment:						
Debit and Credit	\$ 6,986	11.1 %	\$ 7,817	15.2 %	\$ (831)	(10.6)%
Prepaid Debit	1,059	5.1 %	1,100	5.4 %	(41)	(3.7)%
Other	9,080	* %	8,700	* %	380	4.4 %
Total	\$ 17,125	20.7 %	\$ 17,617	24.6 %	\$ (492)	(2.8)%

* Not meaningful

Operating expenses, net, for the three months ended September 30, 2020, decreased \$0.5 million, or 2.8%, to \$17.1 million compared to \$17.6 million for the three months ended September 30, 2019.

Debit and Credit:

Debit and Credit operating expenses decreased \$0.8 million to \$7.0 million in the three months ended September 30, 2020 compared to \$7.8 million in the three months ended September 30, 2019. The decrease was due primarily to cost reductions during the three months ended September 30, 2020.

Prepaid Debit:

Prepaid Debit operating expenses decreased slightly for the three months ended September 30, 2020 when compared to the three months ended September 30, 2019 primarily due to certain cost reductions.

Other:

Other operating expenses during the three months ended September 30, 2020 increased \$0.4 million compared to the three months ended September 30, 2019. The increase in operating expenses was due to certain costs including self insurance medical expense, partially offset by cost reductions.

Income from Operations and Operating Margin

	Three Months Ended September 30,				\$ Change	% Change
	2020	% of 2020 Net Sales	2019	% of 2019 Net Sales		
(dollars in thousands)						
Income (loss) from operations by segment:						
Debit and Credit	\$ 14,734	23.5 %	\$ 8,628	16.8 %	\$ 6,106	70.8 %
Prepaid Debit	7,829	38.0 %	7,815	38.2 %	14	0.2 %
Other	(9,081)	* %	(8,703)	* %	(378)	(4.3)%
Total	\$ 13,482	16.3 %	\$ 7,740	10.8 %	\$ 5,742	74.2 %

* Not meaningful

Income from operations for the three months ended September 30, 2020 was \$13.5 million compared to income from operations of \$7.7 million for the three months ended September 30, 2019. The Company's operating income margin for the three months ended September 30, 2020 increased to 16.3% compared to 10.8% for the three months ended September 30, 2019.

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Debit and Credit:

Income from operations for Debit and Credit for the three months ended September 30, 2020 increased \$6.1 million, to \$14.7 million compared to \$8.6 million for the three months ended September 30, 2019 due primarily to higher sales volumes and pricing of dual interface EMV cards including Second Wave cards, and CPI On-Demand card personalization including COVID-19 related government disbursement work. In addition, lower operating expenses during the three months ended September 30, 2020 contributed to an improvement in income from operations. The lower operating expenses were a result of cost reductions in the third quarter of 2020. Operating margins for the three months ended September 30, 2020 increased to 23.5% compared to 16.8% for the three months ended September 30, 2019 due to the higher net sales and decrease in operating expenses.

Prepaid Debit:

Income from operations for Prepaid Debit for the three months ended September 30, 2020 was \$7.8 million, an increase of 0.2% compared to \$7.8 million for the three months ended September 30, 2019. The minor increase was the result of lower operating expenses. The Prepaid Debit segment had reduced sales volumes primarily from COVID-19 impacts from lower retail store traffic during the three months ended September 30, 2020. Operating income margin for the three months ended September 30, 2020 decreased to 38.0% from 38.2% for the same period in 2019, due to lower operating expenses.

Other:

The loss from operations in Other was \$9.1 million for the three months ended September 30, 2020 compared to a loss from operations of \$8.7 million for the same time period in 2019. The loss from operations was higher in the third quarter of 2020 by \$0.4 million, primarily due to an increase in operating expenses from certain costs including self insurance medical expense, partially offset by cost reductions.

Interest, net:

Interest expense for the three months ended September 30, 2020 increased to \$6.3 million compared to \$6.1 million for the three months ended September 30, 2019. Interest expense is higher in the third quarter of 2020 as a result of interest incurred on the new \$30.0 million Senior Credit Facility entered into on March 6, 2020. Partially offsetting this additional expense is a decline in the interest incurred on our First Lien Term Loan due to lower average interest rates for the three months ended September 30, 2020 compared to the same period in 2019.

Income tax benefit (expense):

During the three months ended September 30, 2020, we recorded an income tax expense of \$1.4 million on pre-tax income of \$7.2 million, representing an effective income tax rate of 19.4%. During the three months ended September 30, 2019, we recorded an income tax expense of \$2.3 million on pre-tax income of \$1.6 million, representing an effective tax rate of 138.6%. For the quarter ended September 30, 2020, the effective tax rate differs from the federal U.S. statutory rate of 21.0% primarily due to the impact of a partial valuation allowance for the limitation on the deductibility of interest expense in 2020, offset by permanent items and state taxes.

Net income (loss) from continuing operations:

During the three months ended September 30, 2020, net income from continuing operations was \$5.8 million, compared to a net loss of \$0.6 million during the three months ended September 30, 2019. The change was primarily due to higher net sales and gross profit in the Debit and Credit segment.

Nine Months Ended September 30, 2020 Compared With Nine Months Ended September 30, 2019

Net Sales

	<u>Nine Months Ended September 30,</u>		<u>\$ Change</u>	<u>% Change</u>
	<u>2020</u>	<u>2019</u>		
	(dollars in thousands)			
Net sales by segment:				
Debit and Credit	\$ 180,855	\$ 151,517	\$ 29,338	19.4 %
Prepaid Debit	48,680	53,162	(4,482)	(8.4)%
Other	—	1,679	(1,679)	(100.0)%
Eliminations	(1,486)	(910)	(576)	* %
Total	<u>\$ 228,049</u>	<u>\$ 205,448</u>	<u>\$ 22,601</u>	11.0 %

* Not meaningful

Net sales for the nine months ended September 30, 2020 increased \$22.6 million, or 11.0%, to \$228.0 million compared to \$205.4 million for the nine months ended September 30, 2019.

Debit and Credit:

Net sales for Debit and Credit for the nine months ended September 30, 2020 increased \$29.3 million, or 19.4%, to \$180.9 million compared to \$151.5 million for the nine months ended September 30, 2019. The net sales increase was primarily due to higher volumes of dual-interface EMV card sales, including Second Wave cards featuring a core made with recovered ocean bound plastic. In addition, net sales increased from CPI On-Demand card personalization due to new customer wins and higher volumes from our existing customers, and from COVID-19 related government disbursement work. Dual-interface EMV cards have additional technology to process contactless transactions and generally have a higher selling price than contact-only EMV cards, which benefitted the current year sales increase compared to the prior year period. Partially offsetting these increases were reductions in volumes from card personalization and Card@Once instant issuance product sales. The decline in volumes was primarily as a result of impacts from COVID-19 including fewer new accounts and requests for replacement cards, and reduced hours of operation, lack of access or closure of certain bank branches.

Prepaid Debit:

Net sales for Prepaid Debit for the nine months ended September 30, 2020 decreased \$4.5 million, or 8.4%, to \$48.7 million, compared to \$53.2 million for the nine months ended September 30, 2019. The decrease was primarily a result of reduced sales volumes primarily from COVID-19 impacts, including lower retail store traffic.

Other:

There were no Other net sales for the nine months ended September 30, 2020, compared to \$1.7 million for the nine months ended September 30, 2019. In April 2019, we sold the Canadian subsidiary, which was the only operation contributing to Other segment net sales.

Gross Profit and Gross Profit Margin

	<u>Nine Months Ended September 30,</u>		<u>\$ Change</u>	<u>% Change</u>
	<u>2020</u>	<u>2019</u>		
	<u>% of 2020</u>	<u>% of 2019</u>		
	<u>Net Sales</u>	<u>Net Sales</u>		
	(dollars in thousands)			
Gross profit by segment:				
Debit and Credit	\$ 60,681	33.6 %	\$ 47,460	31.3 %
Prepaid Debit	18,664	38.3 %	21,771	41.0 %
Other	—	— %	(97)	* %
Total	<u>\$ 79,345</u>	<u>34.8 %</u>	<u>\$ 69,134</u>	<u>33.7 %</u>

* Not meaningful



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Gross profit for the nine months ended September 30, 2020 increased \$10.2 million, or 14.8%, to \$79.3 million compared to \$69.1 million for the nine months ended September 30, 2019. Gross profit margin for the nine months ended September 30, 2020 increased to 34.8% compared to 33.7% for the nine months ended September 30, 2019.

Debit and Credit:

Gross profit for Debit and Credit for the nine months ended September 30, 2020 increased \$13.2 million, or 27.9%, to \$60.7 million compared to \$47.5 million during the nine months ended September 30, 2019. The increase in gross profit was driven primarily by higher sales volumes and pricing of dual interface EMV cards, including Second Wave cards. In addition, higher sales from CPI On-Demand card personalization and COVID-19 related government disbursement work contributed to an improvement in gross profit compared to the prior year. Gross profit margin increased to 33.6% during the nine months ended September 30, 2020, compared to 31.3% in the prior year period, due primarily to operating leverage from higher dual interface card sales and CPI On-Demand net sales.

Prepaid Debit:

Gross profit for Prepaid Debit during the nine months ended September 30, 2020 decreased 14.3% to \$18.7 million compared to \$21.8 million for the nine months ended September 30, 2019. Gross profit margin for Prepaid Debit for the nine months ended September 30, 2020 decreased to 38.3% compared to 41.0% for the nine months ended September 30, 2019. The decrease in gross profit and margin was attributed to lower sales primarily from COVID-19 impacts which resulted in unfavorable cost absorption.

Other:

There was no gross profit for the nine months ended September 30, 2020 compared to gross loss of \$0.1 million for the nine months ended September 30, 2019. In April 2019, we sold our Canadian subsidiary and no longer have any operations contributing to Other segment net sales or gross profit.

Operating Expenses, net

	Nine Months Ended September 30,				S Change	% Change
	2020	% of 2020 Net Sales	2019	% of 2019 Net Sales		
	(dollars in thousands)					
Operating expenses, net, by segment:						
Debit and Credit	\$ 22,767	12.6 %	\$ 23,423	15.5 %	\$ (656)	(2.8)%
Prepaid Debit	3,286	6.8 %	3,266	6.1 %	20	0.6 %
Other	27,338	* %	27,392	* %	(54)	(0.2)%
Other-litigation settlement	—	—	(6,000)	*	6,000	* %
Total	<u>\$ 53,391</u>	23.4 %	<u>\$ 48,081</u>	23.4 %	<u>\$ 5,310</u>	11.0 %

* Not meaningful

Operating expenses, net, for the nine months ended September 30, 2020 increased \$5.3 million, or 11.0%, to \$53.4 million compared to \$48.1 million for the nine months ended September 30, 2019. The increase was primarily due to the cash litigation settlement gain of \$6.0 million recorded in the second quarter of 2019, which was a reduction to net operating expenses.

Debit and Credit:

Debit and Credit operating expenses decreased \$0.7 million to \$22.8 million in the nine months ended September 30, 2020 compared to \$23.4 million in the nine months ended September 30, 2019, primarily due to cost reductions.



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Prepaid Debit:

Prepaid Debit operating expenses were \$3.3 million for the nine months ended September 30, 2020, a minor increase of 0.6% when compared to the nine months ended September 30, 2019.

Other:

Other operating expenses were down \$0.1 million for the nine months ended September 30, 2020, when compared to the nine months ended September 30, 2019. The reduction in operating expenses was primarily due to certain cost reductions and expense savings from the sale of our Canadian subsidiary, partially offset by restructuring severance charges and other costs incurred in 2020. During the nine months ended September 30, 2019, we received \$6.0 million cash, which was recorded as a reduction to net operating expenses, related to a litigation settlement.

Income from Operations and Operating Margin

	Nine Months Ended September 30,		Nine Months Ended September 30,		\$ Change	% Change
	2020	% of 2020 Net Sales	2019	% of 2019 Net Sales		
(dollars in thousands)						
Income (loss) from operations by segment:						
Debit and Credit	\$ 37,914	21.0 %	\$ 24,037	15.9 %	\$ 13,877	57.7 %
Prepaid Debit	15,379	31.6 %	18,505	34.8 %	(3,126)	(16.9)%
Other	(27,339)	* %	(21,488)	* %	(5,851)	(27.2)%
Total	<u>\$ 25,954</u>	11.4 %	<u>\$ 21,054</u>	10.2 %	<u>\$ 4,900</u>	23.3 %

* Not meaningful

Income from operations for the nine months ended September 30, 2020 was \$26.0 million compared to income from operations of \$21.1 million for the nine months ended September 30, 2019. The Company's operating profit margin for the nine months ended September 30, 2020 increased to 11.4% compared to an operating profit margin of 10.2% for the nine months ended September 30, 2019. In the prior year period, we reached a litigation settlement and received \$6.0 million cash which was recorded through income from operations within the Other segment.

Debit and Credit:

Income from operations for Debit and Credit for the nine months ended September 30, 2020 increased \$13.9 million, to \$37.9 million compared to \$24.0 million for the nine months ended September 30, 2019. The increase in income from operations was driven primarily by higher sales volumes and pricing of dual interface EMV cards including Second Wave cards, and CPI On-Demand card personalization and COVID-19 related government disbursement work. Operating margins for the nine months ended September 30, 2020 increased to 21.0% compared to 15.9% for the nine months ended September 30, 2019.

Prepaid Debit:

Income from operations for Prepaid Debit for the nine months ended September 30, 2020 decreased to \$15.4 million compared to \$18.5 million for the nine months ended September 30, 2019. The decrease in income from operations was due to reduced sales volumes primarily due to COVID-19 impacts from lower retail store traffic. Operating income margin for the nine months ended September 30, 2020 decreased to 31.6% from 34.8% for the same period in 2019, primarily as a result of unfavorable cost absorption from lower sales, impacting gross profit and operating expenses.

Other:

The loss from operations in Other was \$27.3 million for the nine months ended September 30, 2020, compared to a loss from operations of \$21.5 million for the same time period in 2019. The 2019 loss benefited from the \$6.0 million cash litigation settlement gain, and was partially offset by lower net current year operating expenses.

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Interest, net:

Interest expense for the nine months ended September 30, 2020 increased to \$19.2 million compared to \$18.8 million for the nine months ended September 30, 2019. Interest expense was higher in 2020 primarily as a result of interest incurred on the new \$30.0 million Senior Credit Facility entered into on March 6, 2020. This additional expense was partially offset by a decline in the interest incurred on our First Lien Term Loan due to lower average interest rates for the nine months ended September 30, 2020 compared to the same period in 2019.

Income tax benefit (expense):

During the nine months ended September 30, 2020, there was an income tax benefit of \$2.2 million on pre-tax income of \$6.7 million, representing an effective income tax rate of (32.5)%. During the nine months ended September 30, 2019, we recorded an income tax expense of \$3.6 million on pre-tax income of \$0.9 million, representing an effective tax rate of 396.7%. The effective tax rate differs from the federal U.S. statutory rate in 2020 primarily due to the impact of the CARES Act which was signed into law in March 2020. The CARES Act allows companies with net operating losses (“NOLs”) originating in 2018, 2019, or 2020 to carry back those losses for five years and temporarily eliminates the tax law provision that limits the use of NOLs to 80% of taxable income. The CARES Act increases the Internal Revenue Code Section 163(j) interest deduction limit for 2019 and 2020, and allows for the acceleration of refunds of alternative minimum tax credits. For the nine months ended September 30, 2020, the Company estimated a tax benefit for certain provisions in the CARES Act including the carryback of losses and the increase to the interest deduction limitation, resulting in a tax rate benefit of 54.7%. In addition, the effective tax rate differs from the federal U.S. statutory rate of 21.0% due to the impact of a partial valuation allowance for the limitation on the deductibility of interest expense, permanent items, and state taxes. In the prior year period, the effective tax rate differs from the federal U.S. statutory rate primarily due to the impact of the partial valuation allowance for the limitation on the deductibility of interest expense.

Net income (loss) from continuing operations:

During the nine months ended September 30, 2020, net income from continuing operations was \$8.9 million, compared to a \$2.7 million loss during the nine months ended September 30, 2019. The change was primarily due to higher net sales and gross profit, and the income tax benefit for the nine months ended September 30, 2020, partially offset by the cash litigation settlement gain recorded in the prior year.

Liquidity and Capital Resources

At September 30, 2020, we had \$50.3 million of cash and cash equivalents. Of this amount, \$0.5 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, 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.

The Company is party to a First Lien Credit Facility, dated as of August 17, 2015, that includes a First Lien Term Loan that matures on August 17, 2022. On March 6, 2020, the Company entered into a new \$30 million Senior Credit Facility which matures on May 17, 2022. The Senior Credit Facility ranks senior in priority to the Company’s First Lien Term Loan, which had \$312.5 million outstanding as of September 30, 2020. The Company’s Revolving Credit Facility was terminated concurrently with the new Senior Credit Facility on March 6, 2020. The Revolving Credit Facility had no borrowings outstanding as of the termination date.

The Senior Credit Facility and the First Lien Term Loan contain customary representations, covenants and events of default, including certain covenants that limit or restrict the Company’s and certain of its subsidiaries’ ability to incur indebtedness, grant certain types of security interests, incur certain types of liens, sell or transfer assets or enter into a merger or consolidate with another company, enter into sale and leaseback transactions, make certain types of investments, declare or make dividends or distributions, engage in certain affiliate transactions, or modify organizational



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documents, among other restrictions and subject to certain exceptions. In accordance with the Senior Credit Facility, the Company is also required to have adjusted EBITDA, as defined in the agreement, of \$25 million for the previous four consecutive fiscal quarters in total at the end of each quarterly period ending on or after March 31, 2020.

The Senior Credit Facility and the First Lien Term Loan also require 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 respective agreement, with any required payments to be made after the issuance of the Company's annual financial statements. The Company was not required to make any prepayments of the First Lien Term Loan with respect to our 2019 annual financial statements.

Interest rates under the Senior 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 8.5% or a base rate plus a margin of 7.5%. As of September 30, 2020, the interest rate on our Senior Credit Facility was 9.5%. 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 September 30, 2020, the interest rate on our First Lien Term Loan was 5.5%.

Operating Activities – Continuing Operations

Cash provided by operating activities – continuing operations for the nine months ended September 30, 2020 was \$10.2 million compared to a usage of \$3.0 million during the nine months ended September 30, 2019. The year over year improvement was due primarily to net income during the nine months ended September 30, 2020 of \$8.8 million compared to a net loss of \$2.7 million in the prior year period. For the nine months ended September 30, 2020, we had a working capital cash usage of \$16.2 million relating to an increase in accounts receivable due primarily to higher sales in the period and timing. For the nine months ended September 30, 2019, we had a working capital cash usage relating primarily to payments for employee performance incentive compensation earned in 2018 and increases in inventory to support the growth of our business.

Investing Activities – Continuing Operations

Cash used in investing activities – continuing operations for the nine months ended September 30, 2020 was \$3.3 million, compared to a usage of \$1.8 million during the nine months ended September 30, 2019. Cash used in investing activities – continuing operations was related primarily to capital expenditures, including investments to support the growth of the business, such as machinery and information technology equipment. In the prior year period, partially offsetting the capital expenditure outflows, we received cash of \$1.5 million for the sale of our Canadian subsidiary. As presented in our supplemental disclosures of non-cash information on the statement of cash flows, finance leases were executed for the acquisition of right-of-use machinery and equipment assets totaling \$1.6 million during the nine months ended September 30, 2020, compared to \$5.2 million during the prior year period.

Financing Activities

During the nine months ended September 30, 2020, cash provided by financing activities was \$24.8 million. The Senior Credit Facility provided \$29.1 million of cash, net of discount, partially offset by \$2.5 million of associated debt issuance costs during the nine months ended September 30, 2020. The Company paid \$1.8 million and \$1.2 million of principal on finance leases during the nine months ended September 30, 2020 and 2019, respectively. For working capital purposes, we borrowed and repaid \$11.5 million on the Revolving Credit Facility during the nine months ended September 30, 2019.

Off-Balance Sheet Arrangements

We had no material off-balance sheet arrangements at September 30, 2020.

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

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Policies and Estimates disclosed in our Annual Report on Form 10-K filed for the year ended December 31, 2019, for which there were no material changes as of September 30, 2020, included:

- Impairment Assessments of Goodwill and Long-Lived Assets,
- Revenue Recognition, including estimates of work performed but not completed,
- Inventory Valuation,
- Income Taxes, including valuation allowances and uncertain tax positions, and
- Lease accounting, including incremental borrowing rate estimates.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Not required due to smaller reporting company status.

Item 4. Controls and Procedures

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 September 30, 2020.

Changes in Internal Control over Financial Reporting

Except as noted in the following sentence, there have not been any changes in the Company's internal control over financial reporting that occurred during the third quarter of 2020 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting. During the third quarter of 2020, the Company continued to enhance internal controls to appropriately determine compliance with, and accounting for, certain state and local sales tax regulations.

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 resource constraints, which require management 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

The Company may be subject to routine legal proceedings in the ordinary course of business. The Company believes that the ultimate resolution of any such matters will not have a material adverse effect on our business, financial condition or results of operations.

Item 1A. Risk Factors

The risk factors disclosed in Part I, Item 1A Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2019 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 the following material changes with respect to such risk factors.

The ongoing COVID-19 pandemic and responses thereto may, or may continue to, adversely affect our supply chain, workforce, overall operations and financial condition, and our ability to access capital markets and refinance indebtedness, each of which may have a material adverse effect on our business.

Since December 2019, COVID-19 has spread to multiple countries, including the United States and all of the primary markets where we conduct business. As a result, earlier this year almost all U.S. states and many local jurisdictions issued “stay-at-home” orders, quarantine requirements, and executive and other governmental orders, restrictions and recommendations for residents and businesses (some of which are still in place) in an effort to control the spread of COVID-19, including mandating closures of certain businesses not deemed “essential.” CPI was deemed essential in all jurisdictions where we operate and thus was not required to suspend any of our operations. Nevertheless, it is possible that those orders, restrictions or recommendations that are currently no longer in effect may be reinstated and/or that additional orders, restrictions or recommendations may be issued due to the continued outbreak of COVID-19. Such orders, restrictions and recommendations may again result in widespread closures of businesses, work stoppages, slowdowns and delays, work-from-home policies, travel restrictions and cancellations of events, as well as adverse impacts on the national and global economies. Disruptions to our activities and operations resulting from such governmental orders, restrictions and recommendations would negatively impact our business, operating results and financial condition. There is also a risk that government actions will not be effective at containing COVID-19 and that government actions intended to contain the spread of COVID-19 will have a devastating long-term negative impact on the national and world economies, in which case the risks to our sales, operating results and financial condition described herein would be elevated significantly.

The longer term impact of COVID-19 on our business may be difficult to assess or predict. The widespread pandemic may result for an extended period in significant disruption of global financial markets, which may reduce or eliminate our ability to access capital markets and/or to refinance our existing indebtedness, which would negatively affect our liquidity. Further, the actual and potential governmental orders, restrictions and recommendations described above (which may include travel and import restrictions) in response to COVID-19 have resulted in delays in certain of our suppliers’ deliveries to us and could continue to disrupt our supply chain and thus our ability to obtain materials needed to manufacture our products. Any import or other cargo restrictions related to our products or the materials used to manufacture our products would restrict our ability to manufacture products and thereby harm our business, financial condition and results of operations. Also, such orders, restrictions and recommendations have resulted and may continue to result in increased transportation costs for materials from our suppliers (for which we are responsible), which may negatively impact our cash flows, as well as increased transportation costs for our products that we ship to our customers (for which our customers are responsible), which may adversely affect customer demand. Additionally, if we are required to disrupt operations at or to close any of our facilities, or if we elect to do so to protect our employees from an actual or potential outbreak of COVID-19 at any facility, such disruption or closure could impair our ability to fulfill customer orders and may have a material adverse impact on our revenues and increase our costs and expenses. In the event of such a disruption or closure at one of our facilities, our other facilities may not be able to effectively assume the production activities of such impacted facility due to insufficient capacity, lack of necessary specialized equipment, higher production costs and/or significant time needed to increase production, any of which may result in failure to meet our customers’ requirements, resulting in negative impact to our business, results of operations and/or financial condition. Moreover, our key personnel and other employees could be affected by COVID-19, potentially reducing their

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availability. We may also delay or reduce certain capital spending and related projects until the impacts of COVID-19 begin to abate, which would delay the completion of such projects.

Customer demand for and our ability to sell and market our products may be adversely affected by the COVID-19 pandemic and responses thereto.

As discussed above, earlier this year state and local governments imposed orders, restrictions and recommendations resulting in closures of businesses, work stoppages, travel restrictions, social distancing practices and cancellations of gatherings and events, some of which are still in place. The reinstating of those orders, restrictions and recommendations that are currently no longer in effect and/or the issuance of additional orders, restrictions and recommendations, combined with fears of the spreading of COVID-19, may (i) cause certain of our customers to delay, cancel or reduce orders of our products and services, and (ii) result in temporary or permanent closures or reduced hours of operation of certain of our customers' branches and/or increased consumer utilization of digital banking services, which could adversely impact Card@Once and other product or service sales. A sustained deterioration in general economic conditions may adversely affect our profits, revenue and financial performance if credit card issuers reduce credit limits, close accounts, and become more selective with respect to whom they issue credit cards as a result thereof. We are unable to accurately predict how these factors will reduce our sales going forward and when orders, restrictions and recommendations that are in place or may be put in place will be relaxed or lifted. There can be no assurances that our customers will resume purchases of our products and services upon termination of orders, restrictions and recommendations, particularly if there remains any continued community outbreak of COVID-19. A prolonged economic contraction or recession may also result in our customers seeking to reduce their costs and expenditures, which could result in lower demand for our products or a shift to demand for lower margin products. If our sales decline, or if such lost sales are not recoverable in the future, our business and results of operations will be significantly adversely affected. Additionally, our sales and marketing personnel often rely on in-person meetings and interaction with our customers. COVID-19 related restrictions have thus harmed our sales and marketing efforts, and continued restrictions could have a negative impact on our sales and results of operations.

As a result of all of the foregoing, we may, in the future, take actions including reductions to salary and work hours, furloughs, restructuring or layoffs, which may negatively impact our workforce and our business.

We may not be eligible to participate in the relief programs provided under the Coronavirus Aid, Relief, and Economic Security (CARES) Act, and even if we are eligible we may not realize any material benefits from participating in such programs.

On March 27, 2020, the President of the United States signed the Coronavirus Aid Relief, and Economic Security ("CARES") Act into law. The CARES Act, among other things, includes provisions relating to refundable payroll tax credits, deferment of employer side social security payments, net operating loss carryback periods, alternative minimum tax credit refunds, modifications to the net interest deduction limitations and technical corrections to tax depreciation methods for qualified improvement property. We are continuing to evaluate and apply certain provisions of the CARES Act that provide benefit to the Company, and the potential impacts thereof on our business. While we are participating in certain programs under the CARES Act, the CARES Act and its guidance are subject to change, and there is no guarantee that any government relief programs will provide meaningful benefit to our business or that we will meet eligibility requirements of any additional requirements of any additional relief programs for which we may determine to apply.

The global outbreak of COVID-19 continues to rapidly evolve. The ultimate impact of the COVID-19 outbreak is highly uncertain and subject to change. We do not yet know the full extent of potential delays or impacts on our business or the economy as a whole. However, these effects may harm our business, financial condition and results of operations in the near term and could have a continuing material impact on our operations, sales and ability to continue as a going concern.

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Item 6. Exhibits

Exhibit Number	Exhibit Description
10.1	Form of Executive Retention Agreement
10.2	2021 Executive Retention Agreement, dated October 2, 2020, between CPI Card Group, Inc. and Scott Scheirman
10.3	Form of Executive Restricted Stock Unit Agreement
10.4	Restricted Stock Unit Agreement, dated October 2, 2020, between CPI Card Group Inc. and Scott Scheirman
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 – the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the XBRL 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.

SIGNATURES

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.

November 3, 2020

/s/ John Lowe

John Lowe
Chief Financial Officer
(Principal Financial Officer)

CPI Card Group Inc.
2021 Executive Retention Agreement

Personal and Confidential

October 2, 2020

Re: Retention Bonus

Dear [Executive]:

On behalf of CPI Card Group Inc. and its subsidiaries (or their respective successors) (collectively, the “**Company**”), I am pleased to offer you the opportunity to receive a retention bonus if you agree to the terms and conditions contained in this letter agreement (this “**Agreement**”), which shall be effective as of the date you execute and return a copy of this Agreement (such date, the “**Effective Date**”).

1. **Retention Bonus.** Subject to the terms and conditions set forth herein, you will receive a cash lump sum payment in the amount of \$XXX (the “**Retention Bonus**”) as soon as administratively feasible following the Effective Date. The Retention Bonus will vest and become non-forfeitable on the earlier of March 15, 2022 or a Change of Control (the “**Vesting Date**”). You agree that in the event your employment with the Company terminates for any reason other than a Qualifying Termination (a “**Termination**”) before the Vesting Date, you will be required to repay to the Company within **ten (10)** business days of such termination 100% of the gross amount of the Retention Bonus. Notwithstanding anything to the contrary contained herein, in the event of your Qualifying Termination before the Vesting Date and if you execute and do not revoke a customary release of claims in a form reasonably satisfactory to the Company, you will not be required to repay any portion of the Retention Bonus.

2. **Definitions.** For purposes of this Agreement:

“**Cause**” means your (i) material breach of your duties and responsibilities, including but not limited to your refusal or neglect to substantially perform your employment related duties, which is not remedied promptly after the Company gives you written notice specifying such breach, (ii) commission of a felony, (iii) commission of or engaging in any act of fraud, embezzlement, theft, a material breach of trust or any material act of dishonesty, incompetence, or willful misconduct involving the Company or its subsidiaries, (iv) significant violation of the code of conduct of the Company or its subsidiaries or of any statutory or common law duty of loyalty to the Company or its subsidiaries, or (v) your material breach of any written covenant or agreement with the Company or its subsidiaries not to disclose any confidential information related to the Company or its subsidiaries, or not to compete or interfere with the Company or its subsidiaries, which, in each case that, if susceptible to remedy, is not remedied within thirty (30) days after the Company gives the Participant written notice specifying such breach.

“**Change of Control**” shall have the meaning set forth in the Company’s current Omnibus Incentive Plan, as amended and restated effective September 25, 2017.

“**Disability**” means your inability, due to physical or mental incapacity, to perform the essential functions of your job, for one hundred eighty (180) consecutive days.

“**Good Reason**” means any of the following, in each case, without your consent: (i) a change in your title or any material diminution of your responsibilities or authority or the assignment of any duties inconsistent with your position, in each case, compared to what was in effect as of the Effective Date; (ii) a reduction of your annual base salary and/or target bonus as in effect on the Effective Date; or (iii) a relocation of your principal office location more than fifty (50) miles from the Company’s offices at which you are based as of the Effective Date (except for required travel on the Company’s business to an extent substantially consistent with your business travel obligations as of the Effective Date), provided that any requirement that you perform your work for the Company remotely shall not constitute Good Reason hereunder or under any other bonus, incentive or other employee compensation or benefit plan of the Company, or under any other retention bonus agreement between you and the Company. Notwithstanding the foregoing, the occurrence of an event that would otherwise constitute Good Reason will cease to be an event constituting Good Reason upon any of the following: (x) your failure to provide written notice to the Company within thirty (30) days of the first occurrence of such event; (y) substantial correction of such occurrence by the Company within thirty (30) days following receipt of your written notice described in (x); or (z) your failure to actually terminate employment within the ten (10) day period following the expiration of the Company’s thirty (30)-day cure period.

“**Qualifying Termination**” means the termination of your employment (i) by the Company for a reason other than Cause, (ii) by you for Good Reason, or (iii) due to your death or Disability.

3. **Release.** As a condition to receiving the Retention Bonus, you hereby agree to release any and all Claims (as defined below) against the Company, its affiliates and their respective directors, officers and employees. “**Claims**” means claims, charges or complaints for, or related to, any breach of contract, violation of any statute or law, or tortious conduct occurring, or based on events occurring, on or before the date of this Amendment; provided that Claims do not include, and you are not releasing: (a) any claims that may not be released as a matter of law, (b) any claims or rights that arise after you sign this Agreement (including claims based on an event occurring after the date you sign this Agreement), (c) any claims or rights with respect to accrued compensation or benefits, (d) any claims or rights for indemnification, advancement of defense costs or other fees and expenses and related matters, arising as a matter of law or under the organizational documents of the Company or its affiliates or under any applicable insurance policy with respect to your liability as an employee, director, manager or officer of the Company or its affiliates; and (e) any claims or rights under the directors and officers and other insurance policies of the Company and its affiliates.

4. **Withholding Taxes.** The Company may withhold from any and all amounts payable to you hereunder such federal, state and local taxes as the Company determines in its sole discretion may be required to be withheld pursuant to any applicable law or regulation.

5. **No Right to Continued Employment.** Nothing in this Agreement will confer upon you any right to continued employment with the Company (or its subsidiaries or their respective successors) or to interfere in any way with the right of the Company (or its subsidiaries or their respective successors) to terminate your employment at any time. You hereby acknowledge and

agree that you will provide the Company with at least sixty (60) days advance written notice of your intent to terminate your employment with the Company for any reason.

6. **Other Benefits.** The Retention Bonus is a special payment to you and will not be taken into account in computing the amount of salary or compensation for purposes of determining any bonus, incentive, pension, retirement, death or other benefit under any other bonus, incentive, pension, retirement, insurance or other employee benefit plan of the Company, unless such plan or agreement expressly provides otherwise.

7. **Governing Law.** This Agreement will be governed by, and construed under and in accordance with, the internal laws of the State of Colorado, without reference to rules relating to conflicts of laws.

8. **Counterparts.** This Agreement may be executed in one or more counterparts, each of which shall be deemed to be an original but all of which together shall constitute one and the same instrument.

9. **Entire Agreement; Amendment.** This Agreement constitutes the entire agreement between you and the Company with respect to the Retention Bonus and supersedes any and all prior agreements or understandings between you and the Company with respect to the Retention Bonus, whether written or oral. This Agreement may be amended or modified only by a written instrument executed by you and the Company.

10. **Section 409A Compliance.** Although the Company does not guarantee the tax treatment of the Retention Bonus, the intent of the parties is that the Retention Bonus be exempt from the requirements of Section 409A of the Internal Revenue Code of 1986, as amended and the regulations and guidance promulgated thereunder, and accordingly, to the maximum extent permitted, this Agreement shall be interpreted in a manner consistent therewith.

[REMAINDER OF PAGE LEFT INTENTIONALLY BLANK]

This Agreement is intended to be a binding obligation on you and the Company. If this Agreement accurately reflects your understanding as to the terms and conditions of the Retention Bonus, please sign, date, and return to me one copy of this Agreement. You should make a copy of the executed Agreement for your records.

Very truly yours,

Scott Scheirman
President and CEO
CPI Card Group Inc.

The above terms and conditions accurately reflect our understanding regarding the terms and conditions of the Retention Bonus, and I hereby confirm my agreement to the same.

NAME

SIGNATURE

DATE

Signature Page to Agreement

CPI Card Group Inc.
2021 Executive Retention Agreement

Personal and Confidential

October 2, 2020

Re: Retention Bonus

Dear Scott Scheirman:

On behalf of CPI Card Group Inc. and its subsidiaries (or their respective successors) (collectively, the “**Company**”), I am pleased to offer you the opportunity to receive a retention bonus if you agree to the terms and conditions contained in this letter agreement (this “**Agreement**”), which shall be effective as of the date you execute and return a copy of this Agreement (such date, the “**Effective Date**”).

1. **Retention Bonus.** Subject to the terms and conditions set forth herein, you will receive a cash lump sum payment in the amount of \$562,215 (the “**Retention Bonus**”) as soon as administratively feasible following the Effective Date. The Retention Bonus will vest and become non-forfeitable on the earlier of March 15, 2022 or a Change in Control (the “**Vesting Date**”). You agree that in the event your employment with the Company terminates for any reason other than a Qualifying Termination before the Vesting Date, you will be required to repay to the Company within **ten (10)** business days of such termination 100% of the gross amount of the Retention Bonus. Notwithstanding anything to the contrary contained herein, in the event of your Qualifying Termination before the Vesting Date and if you execute and do not revoke the release described in Section 6.2(e) of the Employment Agreement, you will not be required to repay any portion of the Retention Bonus.

2. Definitions. For purposes of this Agreement:

“**Annual Base Salary**”, “**Annual Bonus**”, “**Cause**”, “**Disability**” and “**Target Bonus**” shall each have the meaning set forth in your Employment and Non-Competition Agreement, dated September 25, 2017 (the “**Employment Agreement**”).

“**Change in Control**” shall have the meaning set forth in the Company’s current Omnibus Incentive Plan, as amended and restated effective September 25, 2017.

“**Good Reason**” means any of the following, in each case, without your consent: (i) a change in your title or any material diminution of your duties, responsibilities or authority or the assignment of any duties or responsibilities inconsistent with your position, in each case, compared to what was in effect as of the Effective Date; (ii) a reduction of your Annual Base Salary or a failure to provide you a Target Bonus opportunity for 2021 of at least \$1,259,800; (iii) a relocation of your principal office location more than fifty (50) miles from the Company’s offices at which you are based as of the Effective Date (except for required travel on the Company’s business to an extent substantially consistent with your business travel obligations as of the Effective Date),

provided that any requirement that you perform your work for the Company remotely shall not constitute Good Reason hereunder or under any other bonus, incentive or other employee compensation or benefit plan of the Company, or under any other retention bonus agreement between you and the Company; (iv) you are not elected to or are removed from the Company's Board of Directors; or (v) any other action or inaction by the Company which constitutes a material breach of this Agreement, the Employment Agreement or any other agreement with the Company. Notwithstanding the foregoing, the occurrence of an event that would otherwise constitute Good Reason will cease to be an event constituting Good Reason upon any of the following: (x) your failure to provide written notice to the Company within thirty (30) days of the first occurrence of such event; or (y) correction of such occurrence by the Company within thirty (30) days following receipt of your written notice described in (x).

“Qualifying Termination” means the termination of your employment (i) by the Company for a reason other than Cause (including termination as a result of the Company's election not to renew the Term pursuant to Section 2.1 of the Employment Agreement), (ii) by you for Good Reason, or (iii) due to your death or Disability.

3. **Release.** As a condition to receiving the Retention Bonus, you hereby agree to release any and all Claims (as defined below) against the Company, its affiliates and their respective directors, officers and employees (the **“Released Parties”**). **“Claims”** means claims, charges or complaints for, or related to, any breach of contract, violation of any statute or law, or tortious conduct occurring, or based on events occurring, on or before the date of this Agreement; provided that Claims do not include, and you are not releasing: (a) any claims that may not be released as a matter of law, (b) any claims or rights that arise after you sign this Agreement (including claims based on an event occurring after the date you sign this Agreement), (c) any claims or rights with respect to accrued compensation or benefits, (d) any claims or rights for indemnification, advancement of defense costs or other fees and expenses and related matters, arising as a matter of law or under the Employment Agreement, the organizational documents of the Company or its affiliates or under any applicable insurance policy with respect to your liability as an employee, director, manager or officer of the Company or its affiliates; and (e) any claims or rights under the directors and officers and other insurance policies of the Company and its affiliates. As additional consideration for your agreement to release the Released Parties, the Company, on behalf of itself and each of the Released Parties, hereby releases any and all Claims that the Company or its subsidiaries may have against you that are known by any member of the Board (other than you), excluding Claims described in (a) and (b) and Claims based on fraud or illegal conduct.

4. **Employment Agreement.** For 2021 only, you hereby acknowledge and agree that your opportunity to be paid and retain the Retention Bonus, as well as your opportunity to participate in an executive incentive plan to be adopted by the Company following the Effective Date with an annualized Target Bonus of no less than \$1,259,800 on an annualized basis (and that otherwise satisfies the provisions of Section 2.3(b) of the Employment Agreement), shall satisfy the Company's obligations under Sections 2.3(b) and (c) of the Employment Agreement. Except as otherwise specifically provided herein, all terms of the Employment Agreement remain in full force and effect. For the avoidance of doubt, in the event of your termination of employment, the provisions of Section 6.2 of the Employment Agreement shall apply, and your right to retain the

Retention Bonus pursuant to this Agreement shall be in addition to, and not in lieu of, any payments or benefits to which you may be entitled under Section 6.2.

5. **Withholding Taxes.** The Company may withhold from any and all amounts payable to you hereunder such federal, state and local taxes as the Company determines in its sole discretion may be required to be withheld pursuant to any applicable law or regulation.

6. **No Right to Continued Employment.** Nothing in this Agreement will confer upon you any right to continued employment with the Company (or its subsidiaries or their respective successors) or to interfere in any way with the right of the Company (or its subsidiaries or their respective successors) to terminate your employment at any time.

7. **Other Benefits.** The Retention Bonus is a special payment to you and will not be taken into account in computing the amount of salary or compensation for purposes of determining any bonus, incentive, pension, retirement, death or other benefit under any other bonus, incentive, pension, retirement, insurance or other employee benefit plan of the Company, unless such plan or agreement expressly provides otherwise.

8. **Governing Law.** This Agreement will be governed by, and construed under and in accordance with, the internal laws of the State of Colorado, without reference to rules relating to conflicts of laws.

9. **Counterparts.** This Agreement may be executed in one or more counterparts, each of which shall be deemed to be an original but all of which together shall constitute one and the same instrument.

10. **Entire Agreement; Amendment.** This Agreement constitutes the entire agreement between you and the Company with respect to the Retention Bonus and supersedes any and all prior agreements or understandings between you and the Company with respect to the Retention Bonus, whether written or oral. This Agreement may be amended or modified only by a written instrument executed by you and the Company.

11. **Section 409A Compliance.** Although the Company does not guarantee the tax treatment of the Retention Bonus, the intent of the parties is that the Retention Bonus be exempt from the requirements of Section 409A of the Internal Revenue Code of 1986, as amended and the regulations and guidance promulgated thereunder, and accordingly, to the maximum extent permitted, this Agreement shall be interpreted in a manner consistent therewith.

12. **Miscellaneous.** The provisions of Sections 8.3 (Notices), 8.4 (Assignment), 8.6 Severability), 8.7 (Waivers), 8.9 (Third Parties), 8.13 (Survival), 8.14 (Legal Counsel), 8.15 (Attorneys' Fees), and 8.16 (Headings) of the Employment Agreement shall apply to this Agreement in the same manner as such provisions apply to the Employment Agreement.

[REMAINDER OF PAGE LEFT INTENTIONALLY BLANK]

This Agreement is intended to be a binding obligation on you and the Company. If this Agreement accurately reflects your understanding as to the terms and conditions of the Retention Bonus, please sign, date, and return to me one copy of this Agreement. You should make a copy of the executed Agreement for your records.

Very truly yours,
/s/ Nicholas Peters

Nicholas Peters

**Chairman, CPI Card Group Inc.
Compensation Committee of the Board of Directors**

The above terms and conditions accurately reflect our understanding regarding the terms and conditions of the Retention Bonus, and I hereby confirm my agreement to the same.

Scott Scheirman

NAME

/s/ Scott Scheirman

SIGNATURE

10/19/2020

DATE

Signature Page to Agreement

**CPI CARD GROUP INC.
OMNIBUS INCENTIVE PLAN**

RESTRICTED STOCK UNIT AGREEMENT

This RESTRICTED STOCK UNIT AGREEMENT (this “**Agreement**”) is made effective as of October 2, 2020 (the “**Grant Date**”) by and between CPI Card Group Inc., a Delaware corporation (the “**Company**”), and [Executive] (the “**Participant**”), pursuant to the CPI Card Group Inc. Omnibus Incentive Plan, as in effect and as amended from time to time (the “**Plan**”). Capitalized terms that are not defined herein shall have the meanings given to such terms in the Plan.

WHEREAS, the Company desires from time to time to grant Awards with respect to Shares to certain key Employees, Directors and Consultants of the Company and its Subsidiaries or Affiliates;

WHEREAS, the Company has adopted the Plan in order to effect such Awards; and

WHEREAS, the Participant is an Eligible Recipient as contemplated by the Plan, and the Committee has determined that it is in the interest of the Company to grant this Award to the Participant.

NOW, THEREFORE, in consideration of the premises and subject to the terms and conditions set forth herein and in the Plan, the parties hereto agree as follows:

1. Grant and Vesting of Restricted Stock Units.

(a) As of the Grant Date, the Participant will be credited with XXX Restricted Stock Units. Each Restricted Stock Unit is a notional amount that represents one unvested Share and constitutes the right, subject to the terms and conditions of the Plan and this Agreement, to distribution of a Share if and when the Restricted Stock Unit vests.

(b) The Restricted Stock Units shall fully vest on the date that is two years after the Grant Date. Such vesting period is subject to the Participant’s continuous service with the Company or a Subsidiary or Affiliate thereof, as applicable, whether as an Employee, Director or Consultant (“**Service**”), from the Grant Date through such vesting date, except as may otherwise be provided in Sections 3 and 4 hereof.

2. Rights as a Stockholder.

(a) Unless and until a Restricted Stock Unit has vested and the Share underlying it has been distributed to the Participant, the Participant will not be entitled to vote in respect of that Restricted Stock Unit or that Share.

(b) If the Company declares a cash dividend on its Shares, then, on the payment date of the dividend, the Participant will be credited with dividend equivalents equal to the amount of cash dividend per Share multiplied by the number of Restricted Stock Units credited to the

Participant through the record date. The dollar amount credited to the Participant under the preceding sentence will be credited to an account (“**Account**”) established for the Participant for bookkeeping purposes only on the books of the Company. The balance in the Account will be subject to the same terms regarding vesting and forfeiture as the Participant’s Restricted Stock Units awarded under this Agreement, and will be paid in cash in a single sum at the time that the Shares associated with the Participant’s Restricted Stock Units are delivered (or forfeited at the time that the Participant’s Restricted Stock Units are forfeited).

3. Termination of Service.

(a) Continuous Service Required. Except as may otherwise be provided in the Participant’s employment or other services agreement with the Company, the Participant shall forfeit the unvested Restricted Stock Units upon a termination of Service occurring for any reason prior to the vesting of the Restricted Stock Units as described in Section 1.(b) (including for or without Cause or due to the Participant’s voluntary resignation for any reason), other than due to the Participant’s (i) death or Disability or (ii) Qualifying Termination (as defined below).

(b) Termination due to Death or Disability. Notwithstanding the foregoing, in the event that the Participant’s Service terminates by reason of the Participant’s death or Disability prior to the vesting of the Restricted Stock Units as described in Section 1(b), the unvested Restricted Stock Units shall vest in full as of the date of such termination of Service.

4. Qualifying Terminations Following a Change in Control.

(a) Qualifying Termination. Notwithstanding any language in the Plan or the Participant’s employment or other services agreement with the Company to the contrary, the Restricted Stock Units will not vest solely upon a Change in Control unless the Restricted Stock Units are not assumed by the Company’s successor or converted to an equivalent value award upon substantially the same terms effective immediately following the Change in Control. However, if the Participant experiences a Qualifying Termination, the unvested Restricted Stock Units will immediately vest in full. A “**Qualifying Termination**” occurs if, within two (2) years following a Change in Control, the Participant’s Service is terminated (i) by the Company without Cause or (ii) by the Participant for Good Reason.

(b) Good Reason. For purposes of this Agreement, “Good Reason” shall have the same meaning set forth in the Participant’s employment or other services agreement with the Company. If the Participant is not party to such an agreement that defines such term, “**Good Reason**” shall mean the occurrence of any of the following circumstances or events:

(i) a material reduction by the Company of the Participant’s base compensation (other than pursuant to an across-the-board reduction in base compensation applicable to similarly situated service providers of the Company);

(ii) the transfer of the Participant’s principal place of Service to a location fifty (50) or more miles from its location immediately preceding the transfer, provided that any requirement for the Participant to perform his/her work for the Company remotely shall not constitute Good Reason hereunder; or

(iii) the material diminution by the Company of the Participant's duties or responsibilities with respect to his or her Service.

The Participant will provide the Company with written notice describing which of the circumstances above is cause for the Good Reason termination within thirty (30) calendar days after the occurrence of the event giving rise to the notice. The Company will have thirty (30) calendar days from the receipt of such notice to cure the event prior to the Participant exercising his or her right to terminate for Good Reason and, if not cured, the Participant's termination will be effective upon the expiration of such cure period.

5. Timing and Form of Payment.

Once a Restricted Stock Unit vests, the Participant will be entitled to receive a Share in its place. Delivery of the Share will be made as soon as administratively feasible following the vesting of the associated Restricted Stock Unit. Shares will be credited to an account established for the benefit of the Participant with the Company's administrative agent. The Participant will have full legal and beneficial ownership of the Shares at that time.

6. Tax Withholding.

The Company or any Affiliate thereof shall have the power to withhold, or require the Participant to remit to the Company or such Affiliate thereof, cash or Shares that are distributable to the Participant with respect to the Restricted Stock Units in an amount sufficient to satisfy the federal, state, and local withholding tax requirements, both domestic and foreign, relating to such transaction, and the Company or such Affiliate thereof may defer payment of cash or issuance of Shares until such requirements are satisfied; provided, however, that such amount may not exceed the maximum statutory withholding rate. The Participant shall be entitled to satisfy the amount of any such required tax withholding by having the Company withhold from the Shares otherwise distributable to the Participant upon vesting of the Restrictive Stock Units a number of Shares having a Fair Market Value equal to the amount of such required tax withholdings.

7. Non-Competition, Non-Solicitation and Non-Disparagement.

(a) Restrictive Covenants. In exchange for good and valuable consideration, including the Restricted Stock Units granted herein, the sufficiency of which is acknowledged, the Participant agrees as follows (the "**Restrictive Covenants**"):

(i) Duties of Confidentiality. In recognition of the Confidential Information as outlined below, the Participant agrees that until the Confidential Information becomes publicly available (other than through a breach by the Participant or by anyone else who has a legal obligation to maintain confidentiality), the Participant shall: (i) hold and safeguard all Confidential Information in trust for the Company and its successors and assigns; (ii) not appropriate or disclose or make available to anyone for use outside of the Company's organization at any time, either during the Participant's Service with the Company or subsequent to the Participant's termination of Service with the Company for any reason, any Confidential Information, whether or not developed by the Participant, except as required in the performance of the Participant's duties to the Company; (iii) keep in strictest confidence any Confidential Information; and (iv) not disclose or divulge, or

allow to be disclosed or divulged by any person within the Participant's control, to any person, firm, or corporation, or use directly or indirectly, for the Participant's own benefit or the benefit of others, any Confidential Information.

(ii) Non-Disclosure. At all times during the Participant's Service and thereafter, the Participant shall not, without the Company's prior written consent: (i) use or exploit for any purpose not related to the Participant's duties as an employee of the Company, or (ii) disclose to any person or entity, other than an officer, director, or employee of the Company to whom disclosure is reasonably necessary or appropriate in connection with the performance by the Participant of his or her duties for the Company, or

(A) which is under a duty of confidentiality to the Company to maintain the confidentiality of the Company's information or

(B) to which the Company was instructed by a third party to disclose such third party's Confidential information,

any Confidential Information belonging to the Company or its clients or business partners or marketing partners; provided, however, that Confidential Information shall not include any information known or readily available to the public (other than as a result of an unauthorized disclosure by the Participant).

(iii) Inventions and Intellectual Property. The Participant hereby assigns to Company, the Participant's entire right, title, and interest in any Intellectual Property Developments. The Participant will promptly disclose Intellectual Property Developments to Company's management as appropriate and will, on the Company's request, promptly execute a specific assignment of title to the Company, and do anything else reasonably necessary to enable the Company to secure a patent, copyright or other form of protection therefor in the United States and in other countries. The Company is not required to designate the Participant as author of any design, computer program or related documentation, or other work of authorship assigned by the Participant to the company when distributed publicly or otherwise, nor to make any distribution. The Participant waives and releases, to the extent permitted by law, all of the Participant's rights to the foregoing.

(iv) Trade Secrets; Whistleblower Protection.

(A) 18 U.S.C. § 1833(b) provides: "An individual shall not be held criminally or civilly liable under any Federal or State trade secret law for the disclosure of a trade secret that—(A) is made—(i) in confidence to a Federal, State, or local government official, either directly or indirectly, or to an attorney; and (ii) solely for the purpose of reporting or investigating a suspected violation of law; or (B) is made in a complaint or other document filed in a lawsuit or other proceeding, if such filing is made under seal." Nothing in this Agreement is intended to conflict with 18 U.S.C. § 1833(b) or create liability for disclosures of trade secrets that are expressly allowed by 18 U.S.C. § 1833(b). Accordingly, the parties to this Agreement have the right to disclose in confidence trade secrets to federal, state,

and local government officials, or to an attorney, for the sole purpose of reporting or investigating a suspected violation of law. The parties also have the right to disclose trade secrets in a document filed in a lawsuit or other proceeding, but only if the filing is made under seal and protected from public disclosure.

(B) Notwithstanding anything to the contrary contained herein, no provision of this Agreement shall be interpreted so as to impede the Participant (or any other individual) from reporting possible violations of federal law or regulation to any governmental agency or entity, including, but not limited to, the Department of Justice, the Securities and Exchange Commission, the Congress, and any agency Inspector General, or making other disclosures under the whistleblower provisions of federal law or regulation. The Participant does not need the prior authorization of the Company to make any such reports or disclosures and the Participant shall not be required to notify the Company that such reports or disclosures have been made.

(v) Non-Competition and Non-Solicitation. During the period of the Participant's Service and for one (1) year following the termination thereof (the "Restricted Period"), the Participant shall not and shall cause each of his or her Affiliates not to, directly or indirectly, without the Company's prior written consent:

(A) Provide Competitive Products or Services to any other person or entity who competes with, or within the Restricted Period commences to compete with, the Company in the Business within the Restricted Area;

(B) Call on or solicit, or assist any other person or entity in calling on or soliciting, for Competitive Products or Services, any Restricted Customers/Business Partners;

(C) Provide Competitive Products or Services to any Restricted Customers/Business Partners; or

(D) Solicit, recruit, hire, or encourage, or attempt to or assist others to solicit, recruit, hire, or encourage, any person employed by the Company to provide services to any other person or entity who competes with, or within the Restricted Period commences to compete with, the Company in the Business.

(vi) Participant's Duties on Termination. In the event of termination of Service with the Company, regardless of the circumstances of the termination, the Participant agrees to deliver promptly to the Company all of its property and all Confidential Information, in whatsoever form, including, but not limited to equipment, software, data files, databases, notebooks, documents, memoranda, reports, files, samples, books, correspondence, lists, or other written or graphics records relating to the Company which are or have been in his/her possession or under his/her control.

(vii) Other Covenants. For the avoidance of doubt, the Restrictive Covenants are in addition to, and not in lieu of, any restrictive covenants to which the Participant may

otherwise be subject, whether under the terms of his or her employment or services agreement or otherwise.

(viii) *Acknowledgement*. The Participant acknowledges that these Restrictive Covenants are reasonably necessary to protect the Company's and its clients' and business partners' legitimate business interests. The Participant also acknowledges that by serving in the position of [TITLE], he/she is in an executive/management level position and has been entrusted with access to trade secrets and confidential information that, if made available to non-Company employees, would cause the Company to suffer damages which will be difficult if not impossible to calculate because of the significant time, effort and expense the Company expended in developing such trade secrets and confidential information. The Participant shall confirm, in writing, that he/she is complying with the terms of this provision in response to any inquiry by the Company.

(b) Definitions. For purposes of this Agreement:

(i) **"Business"** means: (i) the manufacture of financial payment cards, both secure and non-secure; (ii) the personalization and fulfillment of financial payment cards, including the products and services associated with instant issuance and digital card offerings; (iii) the provision of prepaid card solutions, including packaging and fulfillment; or (iv) any other service or product offering of the Company.

(ii) **"Competitive Products or Services"** means products or services of the type in which the Participant was involved on behalf of the Company at any time during the two (2) year period preceding the termination of the Participant's employment with the Company.

(iii) **"Confidential Information"** means all proprietary and confidential information belonging to the Company and its clients, business partners, and manufacturing partners, including, but not limited to, trade secrets, as well as: (A) the Company's products, technology or processes, whether now existing or hereafter developed by the Company; (B) the names, addresses, telephone numbers of customers, their buying habits, terms of sale extended to customers, including credit terms, if any, or other practices of any Company customers; (C) the Company's prospective customer lists; (D) any and all information related to the pricing of the Company's products; (E) any and all information regarding the Company's marketing or branding strategies and/or campaigns and the costs thereof; (F) information related to the Company's design, manufacture, and distribution of its products; (G) information pertaining to the identity of and contact information for the Company's business partners and manufacturing partners; (H) information (such as designs and marketing plans) belonging to the Company's customers and business partners that is not yet made available to the public; (I) identity of employees, consultants, and agents of the Company and their respective terms of employment or engagement; (J) information concerning customers or customer accounts of the Company's clients and other customer information, including "Personally Identifiable Financial Information" as defined under Regulation P, 12 C.F.R. 216, or under the Gramm-Leach-Bliley Act, 15 U.S.C. §§ 6801, *et seq.*; and (K) information that if

disclosed would give the Company's competitors in the financial cards business an unfair competitive advantage over the Company in the marketplace.

(iv) **"Intellectual Property Developments"** means any idea, invention, design of a useful article (whether the design is ornamental or otherwise), computer program and related documentation, and other work of authorship hereafter made or conceived solely or jointly by the Participant, or created wholly or in part by the Participant (whether or not such Intellectual Property Developments are patentable, copyrightable or susceptible to other forms of protection) if such Intellectual Property Developments relate to the actual or anticipated business or research or development of the Company, or are suggested by or result from any task assigned to the Participant or work performed by the Participant for or on behalf of the Company. Excluded from the definition of "Intellectual Property Developments" are any matters: (A) that the Participant cannot assign to the Company, because of prior agreement with a third party; or (B) which were previously made or conceived solely or jointly by the Participant; or (C) which were written wholly or in part by the Participant, but neither published nor filed in any patent office. The Participant has identified all such matters on the Conflict of Interest Disclosure Statement attached hereto, if any, specifying for each the nature and date of conception and any document evidencing such matter (by date, title and witness on document).

(v) **"Restricted Customers/Business Partners"** means the Company's customers and/or business partners with whom the Participant had any business-related contact or about whom the Participant had access to any Confidential Information within the two (2) years preceding the Participant's termination of employment with the Company for any reason.

(vi) **"Restricted Area"** means the United States, including Hawaii and Alaska.

(c) Reasonableness of Restrictions. The Participant agrees that the scope and duration of the Restrictive Covenants are reasonable and necessary to protect the legitimate business interests of the Company. The Participant also agrees that these Restrictive Covenants will not preclude the Participant from obtaining other gainful employment in his or her profession.

(d) Remedies for Breach.

(i) Forfeiture of Award. In the event of the Participant's breach of any of the Restrictive Covenants, the Restricted Stock Units (whether vested or unvested) shall immediately be forfeited.

(ii) Recovery of Shares. In the event of the Participant's breach of any of the Restrictive Covenants, the Company shall be entitled to recover any Shares acquired upon the vesting of the Restricted Stock Units and, if the Participant has previously sold any Shares derived from the Restricted Stock Units, the Company shall also have the right to recover from the Participant the economic value thereof.

(iii) Other Relief. In the event of the Participant's actual or threatened breach of this Agreement, the Participant agrees that the Company will be entitled to provisional and injunctive relief in addition to any other available remedies at law or equity.

8. Nontransferability of Restricted Stock Units.

The Restricted Stock Units granted hereunder may not be sold, transferred, pledged, assigned, encumbered or otherwise alienated or hypothecated, other than by will or by the laws of descent and distribution or, on such terms and conditions as the Committee shall establish, to a permitted transferee.

9. Beneficiary Designation.

The Participant may from time to time name any beneficiary or beneficiaries (who may be named contingently or successively) by whom any right under the Plan and this Agreement is to be exercised in case of his or her death. Each designation will revoke all prior designations by the Participant, shall be in a form reasonably prescribed by the Committee, and will be effective only when filed by the Participant in writing with the Committee during his or her lifetime.

10. Transfer of Data.

The Participant consents to the Company or any Affiliate thereof processing data relating to the Participant for legal, personnel, administrative and management purposes and in particular to the processing of any sensitive personal data relating to the Participant. The Company may make such information available to any Affiliate thereof, those who provide products or services to the Company or any Affiliate thereof (such as advisers and payroll administrators), regulatory authorities, potential purchasers of the Company or the business in which the Participant works, and as may be required by law.

11. Securities Law Requirements.

(a) The Restricted Stock Units are subject to the further requirement that, if at any time the Committee determines in its discretion that the listing or qualification of the Shares subject to the Restricted Stock Units under any securities exchange requirements or under any applicable law, or the consent or approval of any governmental regulatory body, is necessary as a condition of, or in connection with, the issuance of Shares under it, then Shares will not be issued under the Restricted Stock Units, unless the necessary listing, qualification, consent or approval has been effected or obtained free of any conditions not acceptable to the Committee.

(b) No person who acquires Shares pursuant to the Restricted Stock Units reflected in this Agreement may, during any period of time that person is an affiliate of the Company (within the meaning of the rules and regulations of the Securities and Exchange Commission under the Securities Act of 1933 (the “1933 Act”)) sell the Shares, unless the offer and sale is made pursuant to (i) an effective registration statement under the 1933 Act, which is current and includes the Shares to be sold, or (ii) an appropriate exemption from the registration requirements of the 1933 Act, such as that set forth in Rule 144 promulgated under the 1933 Act. With respect to individuals subject to Section 16 of the Exchange Act, transactions under this Agreement are intended to comply with all applicable conditions of Rule 16b-3, or its successors under the Exchange Act. To the extent any provision of this Agreement or action by the Committee fails to so comply, the Committee may determine, to the extent permitted by law, that the provision or action will be null and void.

12. No Guarantee of Continued Service.

Nothing in the Plan or in this Agreement shall interfere with or limit in any way the right of the Company or an Affiliate thereof to terminate the Participant's Service at any time or confer upon the Participant any right to continued Service.

13. No Rights as a Stockholder.

Except as provided in Section 2 above or as otherwise required by law, the Participant shall not have any rights as a stockholder with respect to any Shares covered by the Restricted Stock Units granted hereunder prior to the date on which he or she is recorded as the holder of those Shares on the records of the Company.

14. Interpretation; Construction.

Any determination or interpretation by the Committee under or pursuant to this Agreement shall be final and conclusive on all persons affected hereby. Except as otherwise expressly provided in the Plan, in the event of a conflict between any term of this Agreement and the terms of the Plan, the terms of the Plan shall control.

15. Amendments.

The Committee may, in its sole discretion, at any time and from time to time, alter or amend this Agreement and the terms and conditions of the unvested portion of the Restricted Stock Units (but not any portion of the Restricted Stock Units that has previously vested) in whole or in part, including without limitation, amending the criteria for vesting set forth in Section 1 hereof and substituting alternative vesting criteria; *provided that* such alteration, amendment, suspension or termination shall not adversely alter or impair the rights of the Participant under the Restricted Stock Units without the Participant's consent. The Company shall give written notice to the Participant of any such alteration or amendment of this Agreement as promptly as practicable after the adoption thereof. This Agreement may also be amended by a writing signed by both the Company and the Participant.

16. Miscellaneous.

(a) Notices. All notices, requests, demands, letters, waivers and other communications required or permitted to be given under this Agreement shall be in writing and shall be deemed to have been duly given if (A) delivered personally, (B) mailed, certified or registered mail with postage prepaid, (C) sent by next-day or overnight mail or delivery, or (D) sent by fax, as follows:

(i) If to the Company:

CPI Card Group Inc.
10026 West San Juan Way
Littleton, CO 80127
Attention: Chief Human Resources Officer

Phone: 720-681-6271

(ii) If to the Participant, to the Participant's last known home address,

or to such other person or address as any party shall specify by notice in writing to the Company. All such notices, requests, demands, letters, waivers and other communications shall be deemed to have been received (w) if by personal delivery on the day after such delivery, (x) if by certified or registered mail, on the fifth business day after the mailing thereof, (y) if by next-day or overnight mail or delivery, on the day delivered, or (z) if by fax, on the day delivered, *provided that* such delivery is confirmed.

(b) Binding Effect; Benefits. This Agreement shall be binding upon and inure to the benefit of the parties to this Agreement and their respective successors and assigns. Nothing in this Agreement, express or implied, is intended or shall be construed to give any person other than the parties to this Agreement or their respective successors or assigns any legal or equitable right, remedy or claim under or in respect of any agreement or any provision contained herein.

(c) No Guarantee of Future Awards. This Agreement does not guarantee the Participant the right to or expectation of future Awards under the Plan or any future plan adopted by the Company.

(d) Waiver. Either party hereto may by written notice to the other (i) extend the time for the performance of any of the obligations or other actions of the other under this Agreement, (ii) waive compliance with any of the conditions or covenants of the other contained in this Agreement and (iii) waive or modify performance of any of the obligations of the other under this Agreement. Except as provided in the preceding sentence, no action taken pursuant to this Agreement, including, without limitation, any investigation by or on behalf of either party, shall be deemed to constitute a waiver by the party taking such action of compliance with any representations, warranties, covenants or agreements contained herein. The waiver by either party hereto of a breach of any provision of this Agreement shall not operate or be construed as a waiver of any preceding or succeeding breach and no failure by either party to exercise any right or privilege hereunder shall be deemed a waiver of such party's rights or privileges hereunder or shall be deemed a waiver of such party's rights to exercise the same at any subsequent time or times hereunder.

(e) Code Section 409A Compliance. The Restricted Stock Units are intended to be exempt from or comply with the requirements of Code Section 409A and this Agreement shall be interpreted accordingly. Notwithstanding any provision of this Agreement, to the extent that the Committee determines that any portion of the Restricted Stock Units granted under this Agreement is subject to Code Section 409A and fails to comply with the requirements of Code Section 409A, notwithstanding anything to the contrary contained in the Plan or in this Agreement, the Committee reserves the right to amend, restructure, terminate or replace such portion of the Restricted Stock Units in order to cause such portion of the Restricted Stock Units to either not be subject to Code Section 409A or to comply with the applicable provisions of such section.

(f) Applicable Law. This Agreement shall be governed by and construed in accordance with the law of the State of Delaware, regardless of the law that might be applied under principles of conflict of laws. The Company and the Participant agree that the jurisdiction and venue for any disputes arising under, or any action brought to enforce (or otherwise relating to), this Agreement

shall be exclusively in the courts in the State of Colorado, County of Arapahoe or Denver, including the Federal Courts located therein (should Federal jurisdiction exist), and the Company and the Participant hereby submit and consent to said jurisdiction and venue.

(g) Section and Other Headings. The section and other headings contained in this Agreement are for reference purposes only and shall not affect the meaning or interpretation of this Agreement.

(h) Counterparts. This Agreement may be executed in any number of counterparts, each of which shall be deemed to be an original and all of which together shall be deemed to be one and the same instrument.

(i) Erroneously Awarded Compensation. Notwithstanding any provision in the Plan or in this Agreement to the contrary, this Award shall be subject to any compensation recovery and/or recoupment policy adopted and amended from time to time by the Company to comply with applicable law, including, without limitation, the Dodd-Frank Wall Street Reform and Consumer Protection Act, or to comport with good corporate governance practices.

— *Signature page follows* —

Notwithstanding anything in this Agreement or in the Plan to the contrary, the Committee hereby reserves the right, in its sole discretion, to terminate and cancel this Award if the Participant fails to accept this Agreement on or prior to October 30, 2020.

IN WITNESS WHEREOF, the Company and the Participant have duly executed this Agreement as of the date first above written.

CPI CARD GROUP INC.

By: Lori Frasier

Signature: _____

PARTICIPANT

Name: _____

Signature: _____

Note to Participant: Any conflicts of interest or other disclosures to be made by Participant at the time of signing this Agreement shall be set forth on a Conflicts of Interest Disclosure Statement attached to this Agreement. Participant has not made any disclosures if there is no such statement attached.

There is is not a Conflicts of Interest Disclosure Statement attached to this Agreement.

Participant's Initials: _____

**CPI CARD GROUP INC.
OMNIBUS INCENTIVE PLAN**

RESTRICTED STOCK UNIT AGREEMENT

This RESTRICTED STOCK UNIT AGREEMENT (this “**Agreement**”) is made effective as of October 2, 2020 (the “**Grant Date**”) by and between CPI Card Group Inc., a Delaware corporation (the “**Company**”), and Scott Scheirman (the “**Participant**”), pursuant to the CPI Card Group Inc. Omnibus Incentive Plan, as in effect and as amended from time to time (the “**Plan**”). Capitalized terms that are not defined herein shall have the meanings given to such terms in the Plan.

WHEREAS, the Company desires from time to time to grant Awards with respect to Shares to certain key Employees, Directors and Consultants of the Company and its Subsidiaries or Affiliates;

WHEREAS, the Company has adopted the Plan in order to effect such Awards; and

WHEREAS, the Participant is an Eligible Recipient as contemplated by the Plan, and the Committee has determined that it is in the interest of the Company to grant this Award to the Participant.

NOW, THEREFORE, in consideration of the premises and subject to the terms and conditions set forth herein and in the Plan, the parties hereto agree as follows:

1. Grant and Vesting of Restricted Stock Units.

(a) As of the Grant Date, the Participant will be credited with 54,757 Restricted Stock Units. Each Restricted Stock Unit is a notional amount that represents one unvested Share and constitutes the right, subject to the terms and conditions of the Plan and this Agreement, to distribution of a Share if and when the Restricted Stock Unit vests.

(b) The Restricted Stock Units shall fully vest on the date that is two years after the Grant Date. Such vesting period is subject to the Participant’s continuous service with the Company or a Subsidiary or Affiliate thereof, as applicable, whether as an Employee, Director or Consultant (“**Service**”), from the Grant Date through such vesting date, except as may otherwise be provided in Sections 3 and 4 hereof.

2. Rights as a Stockholder.

(a) Unless and until a Restricted Stock Unit has vested and the Share underlying it has been distributed to the Participant, the Participant will not be entitled to vote in respect of that Restricted Stock Unit or that Share.

(b) If the Company declares a cash dividend on its Shares, then, on the payment date of the dividend, the Participant will be credited with dividend equivalents equal to the amount of cash dividend per Share multiplied by the number of Restricted Stock Units credited to the Participant through the record date. The dollar amount credited to the Participant under the

preceding sentence will be credited to an account (“**Account**”) established for the Participant for bookkeeping purposes only on the books of the Company. The balance in the Account will be subject to the same terms regarding vesting and forfeiture as the Participant’s Restricted Stock Units awarded under this Agreement, and will be paid in cash in a single sum at the time that the Shares associated with the Participant’s Restricted Stock Units are delivered (or forfeited at the time that the Participant’s Restricted Stock Units are forfeited).

3. Termination of Service.

(a) Continuous Service Required. Except as may otherwise be provided in the Participant’s employment or other services agreement with the Company, the Participant shall forfeit unvested Restricted Stock Units upon a termination of Service occurring for any reason prior to the vesting of the Restricted Stock Units as described in Section 1(b) (including for or without Cause or due to the Participant’s voluntary resignation for any reason), other than due to the Participant’s (i) death or Disability or (ii) Qualifying Termination (as defined below). For purposes of this Agreement, the terms “Cause” and “Disability” shall have the meanings set forth in that certain Employment and Non-Competition Agreement by and between the Participant and the Company, dated September 25, 2017 (the “Employment Agreement”).

(b) Termination due to Death or Disability. Notwithstanding the foregoing, in the event that the Participant’s Service terminates by reason of the Participant’s death or Disability prior to the vesting of the Restricted Stock Units as described in Section 1(b), unvested Restricted Stock Units shall vest in full as of the date of such termination of Service.

4. Qualifying Terminations Following a Change in Control.

(a) Qualifying Termination. Notwithstanding any language in the Plan or the Participant’s employment or other services agreement with the Company to the contrary, the Restricted Stock Units will not vest solely upon a Change in Control unless the Restricted Stock Units are not assumed by the Company’s successor or converted to an equivalent value award upon substantially the same terms effective immediately following the Change in Control. However, if the Participant experiences a Qualifying Termination, unvested Restricted Stock Units will immediately vest in full. A “**Qualifying Termination**” occurs if, within six (6) months prior to or two (2) years following a Change in Control, the Participant’s Service is terminated (i) by the Company for a reason other than Cause or Disability (including termination as a result of the Company’s election not to renew the Term pursuant to Section 2.1 of the Employment Agreement) or (ii) by the Participant for Good Reason.

(b) Good Reason. For purposes of this Agreement, “Good Reason” shall have the same meaning set forth in that certain 2021 Executive Retention Agreement, dated as of October 2, 2020, between the parties.

5. Timing and Form of Payment.

Once a Restricted Stock Unit vests, the Participant will be entitled to receive a Share in its place. Delivery of the Share will be made as soon as administratively feasible following the vesting of the associated Restricted Stock Unit. Shares will be credited to an account established for the

benefit of the Participant with the Company's administrative agent. The Participant will have full legal and beneficial ownership of the Shares at that time.

6. Tax Withholding.

The Company or any Affiliate thereof shall have the power to withhold, or require the Participant to remit to the Company or such Affiliate thereof, cash or Shares that are distributable to the Participant with respect to the Restricted Stock Units in an amount sufficient to satisfy the federal, state, and local withholding tax requirements, both domestic and foreign, relating to such transaction, and the Company or such Affiliate thereof may defer payment of cash or issuance of Shares until such requirements are satisfied; provided, however, that such amount may not exceed the maximum statutory withholding rate. The Participant shall be entitled to satisfy the amount of any such required tax withholding by having the Company withhold from the Shares otherwise distributable to the Participant upon vesting of the Restrictive Stock Units a number of Shares having a Fair Market Value equal to the amount of such required tax withholdings.

7. Non-Competition, Non-Solicitation and Non-Disparagement.

(a) Restrictive Covenants. In exchange for good and valuable consideration, including the Restricted Stock Units granted herein, the sufficiency of which is acknowledged, the Participant agrees as follows (the "**Restrictive Covenants**"):

(i) Duties of Confidentiality. In recognition of the Confidential Information as outlined below, the Participant agrees that until the Confidential Information becomes publicly available (other than through a breach by the Participant or by anyone else who has a legal obligation to maintain confidentiality), the Participant shall: (i) hold and safeguard all Confidential Information in trust for the Company and its successors and assigns; (ii) not appropriate or disclose or make available to anyone for use outside of the Company's organization at any time, either during the Participant's Service with the Company or subsequent to the Participant's termination of Service with the Company for any reason, any Confidential Information, whether or not developed by the Participant, except as required in the performance of the Participant's duties to the Company; (iii) keep in strictest confidence any Confidential Information; and (iv) not disclose or divulge, or allow to be disclosed or divulged by any person within the Participant's control, to any person, firm, or corporation, or use directly or indirectly, for the Participant's own benefit or the benefit of others, any Confidential Information.

(ii) Non-Disclosure. At all times during the Participant's Service and thereafter, the Participant shall not, without the Company's prior written consent: (i) use or exploit for any purpose not related to the Participant's duties as an employee of the Company, or (ii) disclose to any person or entity, other than an officer, director, or employee of the Company to whom disclosure is reasonably necessary or appropriate in connection with the performance by the Participant of his or her duties for the Company, or

(A) which is under a duty of confidentiality to the Company to maintain the confidentiality of the Company's information or

(B) to which the Company was instructed by a third party to disclose such third party's Confidential information,

any Confidential Information belonging to the Company or its clients or business partners or marketing partners; provided, however, that Confidential Information shall not include any information known or readily available to the public (other than as a result of an unauthorized disclosure by the Participant).

(iii) Trade Secrets; Whistleblower Protection.

(A) 18 U.S.C. § 1833(b) provides: "An individual shall not be held criminally or civilly liable under any Federal or State trade secret law for the disclosure of a trade secret that—(A) is made—(i) in confidence to a Federal, State, or local government official, either directly or indirectly, or to an attorney; and (ii) solely for the purpose of reporting or investigating a suspected violation of law; or (B) is made in a complaint or other document filed in a lawsuit or other proceeding, if such filing is made under seal." Nothing in this Agreement is intended to conflict with 18 U.S.C. § 1833(b) or create liability for disclosures of trade secrets that are expressly allowed by 18 U.S.C. § 1833(b). Accordingly, the parties to this Agreement have the right to disclose in confidence trade secrets to federal, state, and local government officials, or to an attorney, for the sole purpose of reporting or investigating a suspected violation of law. The parties also have the right to disclose trade secrets in a document filed in a lawsuit or other proceeding, but only if the filing is made under seal and protected from public disclosure.

(B) Notwithstanding anything to the contrary contained herein, no provision of this Agreement shall be interpreted so as to impede the Participant (or any other individual) from reporting possible violations of federal law or regulation to any governmental agency or entity, including, but not limited to, the Department of Justice, the Securities and Exchange Commission, the Congress, and any agency Inspector General, or making other disclosures under the whistleblower provisions of federal law or regulation. The Participant does not need the prior authorization of the Company to make any such reports or disclosures and the Participant shall not be required to notify the Company that such reports or disclosures have been made.

(iv) Non-Competition and Non-Solicitation. During the period of the Participant's Service and for one (1) year following the termination thereof (the "Restricted Period"), the Participant shall not commit any of the acts described in Sections 3.3, 3.4 or 3.5 of the Employment Agreement, without the Company's prior written consent.

(v) Participant's Duties on Termination. In the event of termination of Service with the Company, regardless of the circumstances of the termination, the Participant agrees to deliver promptly to the Company all of its property and all Confidential Information, in whatsoever form, including, but not limited to equipment, software, data files, databases, notebooks, documents, memoranda, reports, files, samples, books,

correspondence, lists, or other written or graphics records relating to the Company which are or have been in his/her possession or under his/her control.

(vi) Other Covenants. For the avoidance of doubt, the Restrictive Covenants are in addition to, and not in lieu of, any restrictive covenants to which the Participant may otherwise be subject, whether under the terms of his or her employment or services agreement or otherwise.

(vii) Acknowledgement. The Participant acknowledges that these Restrictive Covenants are reasonably necessary to protect the Company's and its clients' and business partners' legitimate business interests. The Participant also acknowledges that by serving in the position of President and Chief Executive Officer, he/she is in an executive/management level position and has been entrusted with access to trade secrets and confidential information that, if made available to non-Company employees, would cause the Company to suffer damages which will be difficult if not impossible to calculate because of the significant time, effort and expense the Company expended in developing such trade secrets and confidential information. The Participant shall confirm, in writing, that he/she is complying with the terms of this provision in response to any inquiry by the Company. The Participant further acknowledges and agrees that the Participant's award of the Restricted Stock Units pursuant to this Agreement shall satisfy the Company's obligations with respect to 2021 pursuant to Section 2.3(c) of the Employment Agreement.

(b) Reasonableness of Restrictions. The Participant agrees that the scope and duration of the Restrictive Covenants are reasonable and necessary to protect the legitimate business interests of the Company. The Participant also agrees that these Restrictive Covenants will not preclude the Participant from obtaining other gainful employment in his or her profession.

(c) Remedies for Breach.

(i) Forfeiture of Award. In the event of the Participant's material breach of any of the Restrictive Covenants, the Restricted Stock Units (whether vested or unvested) shall immediately be forfeited.

(ii) Recovery of Shares. In the event of the Participant's material breach of any of the Restrictive Covenants, the Company shall be entitled to recover any Shares acquired upon the vesting of the Restricted Stock Units and, if the Participant has previously sold any Shares derived from the Restricted Stock Units, the Company shall also have the right to recover from the Participant the economic value thereof.

(iii) Other Relief. In the event of the Participant's actual or threatened breach of this Agreement, the Participant agrees that the Company will be entitled to seek provisional and injunctive relief in addition to any other available remedies at law or equity.

8. Nontransferability of Restricted Stock Units

The Restricted Stock Units granted hereunder may not be sold, transferred, pledged, assigned, encumbered or otherwise alienated or hypothecated, other than by will or by the laws of

descent and distribution or, on such terms and conditions as the Committee shall establish, to a permitted transferee.

9. Beneficiary Designation.

The Participant may from time to time name any beneficiary or beneficiaries (who may be named contingently or successively) by whom any right under the Plan and this Agreement is to be exercised in case of his or her death. Each designation will revoke all prior designations by the Participant, shall be in a form reasonably prescribed by the Committee, and will be effective only when filed by the Participant in writing with the Committee during his or her lifetime.

10. Transfer of Data.

The Participant consents to the Company or any Affiliate thereof processing data relating to the Participant for legal, personnel, administrative and management purposes and in particular to the processing of any sensitive personal data relating to the Participant. The Company may make such information available to any Affiliate thereof, those who provide products or services to the Company or any Affiliate thereof (such as advisers and payroll administrators), regulatory authorities, potential purchasers of the Company or the business in which the Participant works, and as may be required by law.

11. Securities Law Requirements.

(a) The Restricted Stock Units are subject to the further requirement that, if at any time the Committee determines in its discretion that the listing or qualification of the Shares subject to the Restricted Stock Units under any securities exchange requirements or under any applicable law, or the consent or approval of any governmental regulatory body, is necessary as a condition of, or in connection with, the issuance of Shares under it, then Shares will not be issued under the Restricted Stock Units, unless the necessary listing, qualification, consent or approval has been effected or obtained free of any conditions not acceptable to the Committee. If the Committee determines that such listing, qualification, consent or approval cannot be so obtained, the Company will pay the Participant an amount equal to the fair market value on the date on which the Restricted Stock Units vested of a number of Shares equal to the number of vested Restricted Stock Units, less applicable tax withholding.

(b) No person who acquires Shares pursuant to the Restricted Stock Units reflected in this Agreement may, during any period of time that person is an affiliate of the Company (within the meaning of the rules and regulations of the Securities and Exchange Commission under the Securities Act of 1933 (the “**1933 Act**”)) sell the Shares, unless the offer and sale is made pursuant to (i) an effective registration statement under the 1933 Act, which is current and includes the Shares to be sold, or (ii) an appropriate exemption from the registration requirements of the 1933 Act, such as that set forth in Rule 144 promulgated under the 1933 Act. With respect to individuals subject to Section 16 of the Exchange Act, transactions under this Agreement are intended to comply with all applicable conditions of Rule 16b-3, or its successors under the Exchange Act. To the extent any provision of this Agreement or action by the Committee fails to so comply, the Committee may determine, to the extent permitted by law, that the provision or action will be null and void.

12. No Guarantee of Continued Service.

Nothing in the Plan or in this Agreement shall interfere with or limit in any way the right of the Company or an Affiliate thereof to terminate the Participant's Service at any time or confer upon the Participant any right to continued Service.

13. No Rights as a Stockholder.

Except as provided in Section 2 above or as otherwise required by law, the Participant shall not have any rights as a stockholder with respect to any Shares covered by the Restricted Stock Units granted hereunder prior to the date on which he or she is recorded as the holder of those Shares on the records of the Company.

14. Interpretation; Construction.

Any determination or interpretation by the Committee under or pursuant to this Agreement shall be final and conclusive on all persons affected hereby; provided that any dispute over the reason for the Participant's termination of employment, or whether the Participant has violated any provision of Section 7 of this Agreement, shall be resolved as if such dispute had arisen under the Employment Agreement (including Section 8.15 thereof). Except as otherwise expressly provided in this Agreement or the Plan, in the event of a conflict between any term of this Agreement and the terms of the Plan, the terms of the Plan shall control.

15. Amendments.

The Committee may, in its sole discretion, at any time and from time to time, alter or amend this Agreement and the terms and conditions of the unvested portion of the Restricted Stock Units (but not any portion of the Restricted Stock Units that has previously vested) in whole or in part, including without limitation, amending the criteria for vesting set forth in Section 1 hereof and substituting alternative vesting criteria; *provided that* such alteration, amendment, suspension or termination shall not adversely alter or impair the rights of the Participant under the Restricted Stock Units without the Participant's consent. The Company shall give written notice to the Participant of any such alteration or amendment of this Agreement as promptly as practicable after the adoption thereof. This Agreement may also be amended by a writing signed by both the Company and the Participant.

16. Miscellaneous.

(a) Notices. All notices, requests, demands, letters, waivers and other communications required or permitted to be given under this Agreement shall be in writing and shall be deemed to have been duly given if (A) delivered personally, (B) mailed, certified or registered mail with postage prepaid, (C) sent by next-day or overnight mail or delivery, or (D) sent by fax, as follows:

(i) If to the Company:

CPI Card Group Inc.
10026 West San Juan Way
Littleton, CO 80127

Attention: Chief Human Resources Officer
Phone: 720-681-6271

(ii) If to the Participant, to the Participant's last known home address,

or to such other person or address as any party shall specify by notice in writing to the Company. All such notices, requests, demands, letters, waivers and other communications shall be deemed to have been received (w) if by personal delivery on the day after such delivery, (x) if by certified or registered mail, on the fifth business day after the mailing thereof, (y) if by next-day or overnight mail or delivery, on the day delivered, or (z) if by fax, on the day delivered, *provided that* such delivery is confirmed.

(b) Binding Effect; Benefits. This Agreement shall be binding upon and inure to the benefit of the parties to this Agreement and their respective successors and assigns. Nothing in this Agreement, express or implied, is intended or shall be construed to give any person other than the parties to this Agreement or their respective successors or assigns any legal or equitable right, remedy or claim under or in respect of any agreement or any provision contained herein.

(c) No Guarantee of Future Awards. This Agreement does not guarantee the Participant the right to or expectation of future Awards under the Plan or any future plan adopted by the Company.

(d) Waiver. Either party hereto may by written notice to the other (i) extend the time for the performance of any of the obligations or other actions of the other under this Agreement, (ii) waive compliance with any of the conditions or covenants of the other contained in this Agreement and (iii) waive or modify performance of any of the obligations of the other under this Agreement. Except as provided in the preceding sentence, no action taken pursuant to this Agreement, including, without limitation, any investigation by or on behalf of either party, shall be deemed to constitute a waiver by the party taking such action of compliance with any representations, warranties, covenants or agreements contained herein. The waiver by either party hereto of a breach of any provision of this Agreement shall not operate or be construed as a waiver of any preceding or succeeding breach and no failure by either party to exercise any right or privilege hereunder shall be deemed a waiver of such party's rights or privileges hereunder or shall be deemed a waiver of such party's rights to exercise the same at any subsequent time or times hereunder.

(e) Code Section 409A Compliance. The Restricted Stock Units are intended to be exempt from or comply with the requirements of Code Section 409A and this Agreement shall be interpreted accordingly. Notwithstanding any provision of this Agreement, to the extent that the Committee determines that any portion of the Restricted Stock Units granted under this Agreement is subject to Code Section 409A and fails to comply with the requirements of Code Section 409A, notwithstanding anything to the contrary contained in the Plan or in this Agreement, the Committee reserves the right to amend, restructure, terminate or replace such portion of the Restricted Stock Units in order to cause such portion of the Restricted Stock Units to either not be subject to Code Section 409A or to comply with the applicable provisions of such section.

(f) Applicable Law. This Agreement shall be governed by and construed in accordance with the law of the State of Delaware, regardless of the law that might be applied under principles of conflict of laws. The Company and the Participant agree that the jurisdiction and venue for any disputes arising under, or any action brought to enforce (or otherwise relating to), this Agreement shall be exclusively in the courts in the State of Colorado, County of Arapahoe or Denver, including the Federal Courts located therein (should Federal jurisdiction exist), and the Company and the Participant hereby submit and consent to said jurisdiction and venue.

(g) Section and Other Headings. The section and other headings contained in this Agreement are for reference purposes only and shall not affect the meaning or interpretation of this Agreement.

(h) Counterparts. This Agreement may be executed in any number of counterparts, each of which shall be deemed to be an original and all of which together shall be deemed to be one and the same instrument.

(i) Erroneously Awarded Compensation. Notwithstanding any provision in the Plan or in this Agreement to the contrary, this Award shall be subject to any compensation recovery and/or recoupment policy adopted and amended from time to time by the Company to comply with applicable law, including, without limitation, the Dodd-Frank Wall Street Reform and Consumer Protection Act, or to comport with good corporate governance practices.

— *Signature page follows* —

Notwithstanding anything in this Agreement or in the Plan to the contrary, the Committee hereby reserves the right, in its sole discretion, to terminate and cancel this Award if the Participant fails to accept this Agreement on or prior to October 30, 2020.

IN WITNESS WHEREOF, the Company and the Participant have duly executed this Agreement as of the date first above written.

CPI CARD GROUP INC.

By: Nicholas Peters, Compensation Committee of
the Board of Directors

Signature: /s/ Nicholas Peters

PARTICIPANT

Name: Scott Scheirman

Signature: /s/ Scott Scheirman

Note to Participant: Any conflicts of interest or other disclosures to be made by Participant at the time of signing this Agreement shall be set forth on a Conflicts of Interest Disclosure Statement attached to this Agreement. Participant has not made any disclosures if there is no such statement attached.

There is is not a Conflicts of Interest Disclosure Statement attached to this Agreement.

Participant's Initials: Scott Scheirman

**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 control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 3, 2020

/s/ Scott Scheirman

Scott Scheirman

President and Chief Executive Officer

(Principal Executive Officer)

**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 control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 3, 2020

/s/ John Lowe
John Lowe
Chief Financial Officer
(Principal Financial Officer)

**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 September 30, 2020, 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
(Principal Executive Officer)

Date: November 3, 2020

**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 September 30, 2020, 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

(Principal Financial Officer)

Date: November 3, 2020
