**UNITED STATES**
**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**FORM 8-K**

**CURRENT REPORT**

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

Date of Report (Date of earliest event reported): February 25, 2021

**CPI CARD GROUP INC.**
(Exact name of registrant as specified in its charter)

| | | |
|---|---|---|
| **Delaware**<br>(State or other jurisdiction<br>of incorporation) | **001-37584**<br>(Commission<br>File Number) | **26-0344657**<br>(I.R.S. Employer<br>Identification No.) |

**CPI Card Group Inc.**
**10368 W Centennial Road,**
**Littleton, CO** **80127**
(Address of principal executive offices) (Zip Code)

**(720) 681-4304**
(Registrant's telephone number, including area code)

**N/A**
(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Securities registered pursuant to Section 12(b) of the Securities Exchange Act of 1934: None

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (§230.405 of this chapter) or Rule 12b-2 of the Securities Exchange Act of 1934 (§240.12b-2 of this chapter).

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. ☐

**Item 2.02 Results of Operations and Financial Condition.***

On February 25, 2021, CPI Card Group Inc. (the "Company") issued a press release announcing financial results for its fiscal quarter and full year ended December 31, 2020 (the "Earnings Release"). A copy of the Earnings Release is attached hereto as Exhibit 99.1.

**Item 7.01 Regulation FD Disclosure.***

In connection with the issuance of the Earnings Release, the Company is providing the supplemental investor commentary attached hereto as Exhibit 99.2, which will be included on the investor relations portion of the Company's website, www.epicardgroup.com.

**Item 9.01 Financial Statements and Exhibits.**

**(d) Exhibits:**

| Exhibit Number | Exhibit Description |
|---|---|
| 99.1* | Press release issued February 25, 2021 announcing the fourth quarter and full year results |
| 99.2* | Supplemental Investor Commentary of the Company dated February 25, 2021 |

*The information furnished under Item 2.02 and Item 7.01 of this Current Report on Form 8-K, including Exhibits 99.1 and 99.2, is being furnished and shall not be deemed to be "filed" for the purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), or incorporated by reference in any filing under the Securities Act of 1933, as amended, or the Exchange Act, except as shall be expressly set forth by specific reference in such a filing.

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

CPI CARD GROUP INC.

Dated: February 25, 2021

By: /s/ Sarah J. Kilgore
Name: Sarah J. Kilgore
Title: Chief Legal and Compliance Officer

# CPI Card Group Inc. Reports Fourth Quarter and Full Year 2020 Results

**Date:** February 25, 2021

*Strong Net Sales Growth, Significantly Improved Bottom-Line Performance*

*Net Sales Up 16% and 12% Year Over Year in the Fourth Quarter and Full Year, Respectively*

*Net Income of $7.3 Million and $16.1 Million, Improving 404% and 415% in the Fourth Quarter and Full Year, Respectively*

*Adjusted EBITDA of $17.5 Million and $57.5 Million, Up 99% and 53% in the Fourth Quarter and Full Year, Respectively*

*Cash of $58 Million at Year End*

**Littleton, CO.** February 25, 2021 – CPI Card Group Inc. (OTCQX: PMTS; TSX: PMTS) ("CPI" or the "Company") today reported financial results for the fourth quarter and full year ended December 31, 2020.

"Our 2020 results were strong, driven by another year of solid execution of our customer-centric strategy whereby net sales increased 12% and our profitability significantly increased," said Scott Scheirman, President and Chief Executive Officer of CPI. "Despite challenges presented by the COVID-19 pandemic, we believe we gained overall market share in 2020 and executed key initiatives to even better position CPI to meet market and customer needs in 2021 and beyond."

Scheirman continued, "We believe we are well-positioned to capitalize on market opportunities, including the ongoing transition to contactless cards in the U.S. and the market demand for innovative and differentiated products such as our eco-focused Second Wave® contactless product, a debit or credit card featuring a core made with recovered ocean-bound plastic, and Card@Once®, our Software-as-a-Service instant issuance solution that enables financial institutions to instantly issue debit and credit cards in branch."

**Fourth Quarter and Full Year 2020 Financial Highlights**

Net sales increased 16% and 12% year-over-year to $84.1 million and $312.2 million in the fourth quarter and full year 2020, respectively. Gross profit increased 41% and 21% year-over-year in the fourth quarter and full year 2020, respectively. Gross profit margin increased to 36.8% in the fourth quarter of 2020, compared to 30.2% in the prior year period. Gross profit margin increased to 35.3% from 32.8% in the full year 2020 compared to the prior year.

Income from operations was $12.4 million and $38.4 million in the fourth quarter and full year 2020, respectively, compared with $3.7 million and $24.7 million in the fourth quarter and full year 2019, respectively. In the second quarter of 2019, the Company recognized a $6.0 million gain related to the cash settlement of litigation, which was included in income from operations.

Fourth quarter 2020 net income was $7.3 million, or $0.64 per diluted share, compared to a net loss of $2.4 million, or a $0.21 loss per diluted share, in the fourth quarter of 2019. For the full year

2020, net income was $16.1 million, or $1.44 per diluted share, compared to a net loss of $5.1 million, or a $0.46 loss per diluted share, in 2019.

Adjusted EBITDA increased 99% and 53% year-over-year to $17.5 million and $57.5 million in the fourth quarter and full year 2020, respectively.

**Fourth Quarter and Full Year 2020 Segment Information**

*Debit and Credit:*

Debit and Credit Segment net sales increased 13% year over year to $69.6 million in the fourth quarter and 18% to $250.4 million for full year 2020. Growth for the fourth quarter and full year 2020 was driven primarily by higher volumes of contactless 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 higher volumes from our existing customers, new customers and from COVID-19 related government disbursement work. This growth was partially offset primarily by COVID-19 impacts, including reduced volumes in card personalization stemming from fewer new accounts and requests for replacement cards. Card@Once® product sales were also primarily impacted by COVID-19 due to reduced hours of operation, lack of access or closure of certain bank branches.

*Prepaid Debit:*

Prepaid Debit Segment net sales increased 34% year over year to $14.9 million in the fourth quarter and decreased 1% to $63.6 million for full year 2020. Growth for the fourth quarter was primarily due to increased customer demand. For the full year, the decrease was the result of lower sales volumes primarily associated with COVID-19 impacts, including lower retail store traffic.

**Balance Sheet, Liquidity, and Cash Flow**

As of December 31, 2020, cash and cash equivalents was $57.6 million. Cash provided by operating activities was $11.9 million and capital expenditures were $3.8 million in the fourth quarter of 2020, yielding Adjusted Free Cash Flow of $8.1 million. For the full year 2020, cash provided by operating activities was $22.1 million and capital expenditures were $7.1 million, yielding Adjusted Free Cash Flow of $15.0 million. This compares with the full year 2019 when cash provided by operating activities was $3.0 million, or a $3.0 million cash usage when excluding the $6.0 million cash received from a litigation settlement, and capital expenditures were $4.2 million, resulting in Adjusted Free Cash Flow use of $7.2 million. For the full year 2020, cash provided by operating activities and Adjusted Free Cash Flow increased $19.1 million and $22.2 million year-over-year, respectively.

Total debt principal outstanding, comprised of the Company's $30 million Senior Credit Facility and its $312.5 million First Lien Term Loan, was $342.5 million at December 31, 2020. As of December 31, 2020, $8.0 million of debt principal was classified as a current liability as a result of an excess free cash flow calculation, which the company will offer to prepay pursuant to the terms of the debt agreements. Net of debt issuance costs and discount, total long-term debt, net of current maturities, was $328.7 million as of December 31, 2020. The Company's Senior Credit Facility matures in May 2022 and the First Lien Term Loan matures in August 2022.

"Solid execution led to strong top-line growth and further leveraging of our business model, enabling us to significantly improve our bottom line and generate positive free cash flow", said John Lowe, Chief Financial Officer. "Our full year financial and operating performance is reflective of solid progress against our key strategic priorities. We believe we are well positioned and have adequate cash and liquidity to support our business plan moving forward."

**Additional Investor Commentary**

The Company has provided additional written commentary regarding its fourth quarter and full year performance and other business matters. This earnings press release and the additional written commentary are available at investor.cpicardgroup.com.

**Non-GAAP Financial Measures**

In addition to financial results reported in accordance with U.S. generally accepted accounting principles ("GAAP"), we have provided the following non-GAAP financial measures in this release, all reported on a continuing operations basis: EBITDA, Adjusted EBITDA, Adjusted EBITDA margin, and Adjusted Free Cash Flow. These non-GAAP financial measures are utilized by management in comparing our operating performance on a consistent basis between fiscal periods. We believe that these financial measures are appropriate to enhance an overall understanding of our underlying operating performance trends compared to historical and prospective periods and our peers. Management also believes that these measures are useful to investors in their analysis of our results of operations and provide improved comparability between fiscal periods. Non-GAAP financial measures should not be considered in isolation from, or as a substitute for, financial information calculated in accordance with GAAP. Our non-GAAP measures may be different from similarly titled measures of other companies. Investors are encouraged to review the reconciliation of these historical non-GAAP measures to their most directly comparable GAAP financial measures included in Exhibit E to this press release.

*Adjusted EBITDA*

Adjusted EBITDA is presented on a continuing operations basis and is defined as EBITDA (which represents earnings before interest, taxes, depreciation and amortization, all on a continuing operations basis) adjusted for litigation and related charges incurred in connection with certain patent and shareholder litigation; stock-based compensation expense; estimated sales tax expense (benefit); restructuring and other charges; loss on Revolving Credit Facility termination; foreign currency gain or loss; litigation settlement gain; and other items that are unusual in nature, infrequently occurring or not considered part of our core operations, as set forth in the reconciliation on Exhibit E. Adjusted EBITDA is also a defined computation in our First Lien Term Loan and Senior Credit Facility agreements, which generally conforms to the definition above, and impacts certain credit measures and covenants, including a covenant requiring the Company to have at least $25 million Adjusted EBITDA (as defined in our Senior Credit Facility) for the previous four consecutive fiscal quarters in total, at the end of each quarterly period ending on or after March 31, 2020. Adjusted EBITDA is intended to show our unleveraged, pre-tax operating results and therefore reflects our financial performance based on operational factors, excluding non-operational, unusual or non-recurring losses or gains. Adjusted EBITDA has important limitations as an analytical tool, and you should not consider it in isolation, or as a substitute for, analysis of our results as reported under GAAP. For example, Adjusted EBITDA does not reflect: (a) our capital expenditures, future requirements for capital expenditures or contractual commitments; (b) changes in, or cash requirements for, our working capital needs; (c) the significant interest expenses or the cash requirements necessary to service interest or principal payments on our debt; (d) tax payments that represent a reduction in cash available to us; (e) any cash requirements for the assets being depreciated and amortized that may have to be replaced in the future; (f) the impact of earnings or charges resulting from matters that we and the lenders under our credit agreement may not consider indicative of our ongoing operations; or (g) the impact of any discontinued operations. In particular, our definition of Adjusted EBITDA allows us to add back certain non-operating, unusual or non-recurring charges that are deducted in calculating net (loss) income, even though these are expenses that may recur, vary greatly and are difficult to predict and can represent the effect of long-term strategies as opposed to short-term results.

In addition, certain of these expenses represent the reduction of cash that could be used for other purposes. Further, although not included in the calculation of Adjusted EBITDA presented in this release, the measure as defined in our credit facilities may at times allow us to add estimated cost savings and operating synergies related to operational changes ranging from acquisitions to dispositions to restructurings and/or exclude one-time transition expenditures that we anticipate we will need to incur to realize cost savings before such savings have occurred. Adjusted EBITDA margin percentage as shown in Exhibit E is computed as Adjusted EBITDA divided by total net sales.

*Adjusted Free Cash Flow*

We define Adjusted Free Cash Flow as cash flow provided by (used in) operating activities - continuing operations, less capital expenditures from continuing operations, adjusted for cash received from a litigation settlement gain in the second quarter of 2019. We use this metric in analyzing our ability to service and repay our debt. However, this measure does not represent funds available for investment or other discretionary uses since it does not deduct cash used to service our debt, nor does it reflect the cash impacts of our discontinued operations. Adjusted Free Cash Flow should not be considered in isolation, or as a substitute for, cash (used in) provided by operating activities - continuing operations or any other measures of liquidity derived in accordance with GAAP.

**About CPI Card Group Inc.**

CPI Card Group® is a payment technology company and leading provider of credit, debit and prepaid solutions delivered physically, digitally and on-demand. CPI helps our customers foster connections and build their brands through innovative and reliable solutions, including financial payment cards, personalization, and Software-as-a-Service (SaaS) instant issuance. CPI has more than 20 years of experience in the payments market and is a trusted partner to financial institutions and payments services providers. Serving customers from locations throughout the United States, CPI has a large network of high security facilities, each of which is registered as PCI compliant by one or more of the payment brands: Visa, Mastercard®, American Express® and Discover®. Learn more at www.cpicardgroup.com.

**Forward-Looking Statements**

Certain statements and information in this release (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; 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; 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; a disruption or other failure in our supply chain; the effects of current or additional U.S. government tariffs as well as economic downturns or disruptions, including delays or interruptions in our ability to source raw materials and components used in our products from foreign countries; system security risks, data protection breaches and cyber-attacks; 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; failure to comply with regulations, customer contractual requirements and evolving industry standards regarding consumer privacy and data use and security; disruptions in production at one or more of our facilities; our failure to retain our existing customers or identify and attract new customers; our inability to recruit, retain and develop qualified personnel, including key personnel; our inability to adequately protect our trade secrets and intellectual property rights from misappropriation or infringement claims and risks related to open source software; defects in our software; problems in production quality, materials and process; a loss of market share or a decline in profitability resulting from competition; our inability to develop, introduce and commercialize new products; new and developing technologies that make our existing technology solutions and products obsolete or less relevant or our failure to introduce new products and services in a timely manner; 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, as well as new U.S. tax legislation increasing the corporate income tax rate and challenges to our income tax positions; 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; 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; a decline in U.S. and global market and economic conditions and resulting decreases in consumer and business spending; costs relating to product defects and any related product liability and/or warranty claims; 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 and services; the effect of legal and regulatory proceedings; our 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; the influence of securities analysts over the trading market for and price of our common stock; our inability to sell, exit, reconfigure or consolidate businesses or facilities that no longer meet with our strategy; potential conflicts of interest that may arise due to our board of directors being comprised in part of directors who are principals of our majority stockholders; certain provisions of our organizational documents and other contractual provisions that may delay or prevent a change in control and make it difficult for stockholders other than our majority stockholders to change the composition of our board of directors; and other risks that are described in Part I, Item 1A – Risk Factors of our Form 10-K and our other reports filed from time to time with the Securities and Exchange Commission (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.

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**For more information:**

CPI encourages investors to use its investor relations website as a way of easily finding information about the company. CPI promptly makes available on this website, free of charge, the reports that the company files or furnishes with the SEC, corporate governance information and press releases. CPI uses its investor relations site (http://investor.cpicardgroup.com) as a means of disclosing material information and for complying with its disclosure obligations under Regulation FD.

**CPI Card Group Inc. Investor Relations:**
(877) 369-9016
InvestorRelations@cpicardgroup.com

**CPI Card Group Inc. Media Relations:**
Media@cpicardgroup.com

**CPI Card Group Inc. Earnings Release Supplemental Financial Information**

| | |
|---|---|
| Exhibit A | Condensed Consolidated Statements of Operations and Comprehensive Income (Loss) - Unaudited for the three months and full years ended December 31, 2020 and 2019 |
| Exhibit B | Condensed Consolidated Balance Sheets – Unaudited as of December 31, 2020 and December 31, 2019 |
| Exhibit C | Condensed Consolidated Statements of Cash Flows - Unaudited for the years ended December 31, 2020 and 2019 |
| Exhibit D | Segment Summary Information – Unaudited for the three months and full years ended December 31, 2020 and 2019 |
| Exhibit E | Supplemental GAAP to Non-GAAP Reconciliations - Unaudited for the three months and full years ended December 31, 2020 and 2019 |

cpi card group

EXHIBIT A

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

| | Three Months Ended December 31, | | Year Ended December 31, | |
|---|---|---|---|---|
| | 2020 | 2019 | 2020 | 2019 |
| Net sales: | | | | |
| Products | $ 46,928 | $ 44,096 | $ 171,968 | $ 143,941 |
| Services | 37,212 | 28,529 | 140,221 | 134,132 |
| Total net sales | 84,140 | 72,625 | 312,189 | 278,073 |
| Cost of sales: | | | | |
| Products (exclusive of depreciation and amortization shown below) | 27,862 | 29,120 | 107,642 | 94,889 |
| Services (exclusive of depreciation and amortization shown below) | 22,552 | 18,752 | 85,538 | 80,894 |
| Depreciation and amortization | 2,763 | 2,817 | 10,701 | 11,220 |
| Total cost of sales | 53,177 | 50,689 | 203,881 | 187,003 |
| Gross profit | 30,963 | 21,936 | 110,308 | 91,070 |
| Operating expenses: | | | | |
| Selling, general and administrative (exclusive of depreciation and amortization shown below) | 16,898 | 16,787 | 65,791 | 66,328 |
| Depreciation and amortization | 1,628 | 1,492 | 6,126 | 6,031 |
| Litigation settlement gain | | | | (6,000) |
| Total operating expenses, net | 18,526 | 18,279 | 71,917 | 66,359 |
| Income from operations | 12,437 | 3,657 | 38,391 | 24,711 |
| Other expense, net: | | | | |
| Interest, net | (6,239) | (6,044) | (25,397) | (24,891) |
| Foreign currency gain (loss) | 3 | (15) | (7) | (1,335) |
| Other income (expense), net | (12) | (29) | (102) | (4) |
| Total other expense, net | (6,248) | (6,088) | (25,506) | (26,230) |
| Income (loss) before income taxes | 6,189 | (2,431) | 12,885 | (1,519) |
| Income tax benefit (expense) | 1,127 | 144 | 3,305 | (3,474) |
| Net income (loss) from continuing operations | 7,316 | (2,287) | 16,190 | (4,993) |
| Discontinued operations: | | | | |
| Net loss from discontinued operation, net of tax | (31) | (108) | (61) | (124) |
| Net income (loss) | $ 7,285 | $ (2,395) | $ 16,129 | $ (5,117) |
| Basic net income (loss) per share from continuing operations: | $ 0.65 | $ (0.20) | $ 1.44 | $ (0.45) |
| Basic net income (loss) per share: | $ 0.65 | $ (0.21) | $ 1.44 | $ (0.46) |
| Diluted net income (loss) per share from continuing operations: | $ 0.65 | $ (0.20) | $ 1.44 | $ (0.45) |
| Diluted net income (loss) per share: | $ 0.64 | $ (0.21) | $ 1.44 | $ (0.46) |
| Basic weighted-average shares outstanding: | 11,230,482 | 11,224,191 | 11,228,707 | 11,196,710 |
| Diluted weighted-average shares outstanding: | 11,326,078 | 11,224,191 | 11,232,004 | 11,196,710 |
| Comprehensive income (loss) | | | | |
| Net income (loss) | $ 7,285 | $ (2,395) | $ 16,129 | $ (5,117) |
| Reclassification adjustment to foreign currency loss | — | — | — | 1,329 |
| Currency translation adjustment | | | — | 31 |
| Total comprehensive income (loss) | $ 7,285 | $ (2,395) | $ 16,129 | $ (3,757) |

EXHIBIT B

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

| | December 31, 2020 | December 31, 2019 |
|---|---|---|
| **Assets** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 57,603 | $ 18,682 |
| Accounts receivable, net of allowances of $289 and $395, respectively | 54,592 | 42,832 |
| Inventories | 24,796 | 20,192 |
| Prepaid expenses and other current assets | 5,032 | 6,345 |
| Income taxes receivable | 10,511 | 4,164 |
| Total current assets | 152,534 | 92,215 |
| Plant, equipment, leasehold improvements and operating leases right-of-use assets, net | 39,403 | 41,612 |
| Intangible assets, net | 26,207 | 30,802 |
| Goodwill | 47,150 | 47,150 |
| Other assets | 857 | 1,232 |
| Total assets | $ 266,151 | $ 213,011 |
| **Liabilities and stockholders' deficit** | | |
| Current liabilities: | | |
| Accounts payable | $ 18,883 | $ 16,482 |
| Accrual expenses | 28,149 | 24,735 |
| Current portion of Long-term debt | 8,027 | — |
| Deferred revenue and customer deposits | 1,868 | 468 |
| Total current liabilities | 56,927 | 41,685 |
| Long-term debt | 328,681 | 307,778 |
| Deferred income taxes | 7,409 | 6,366 |
| Other long-term liabilities | 11,171 | 11,478 |
| Total liabilities | 404,188 | 367,307 |
| Commitments and contingencies | | |
| Series A Preferred Stock, $0.001 par value—100,000 shares authorized; 0 shares issued and outstanding | — | — |
| 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 December 31, 2020 and 2019, respectively | 11 | 11 |
| Capital deficiency | (111,858) | (111,988) |
| Accumulated loss | (26,190) | (42,319) |
| Total stockholders' deficit | (138,037) | (154,296) |
| Total liabilities and stockholders' deficit | $ 266,151 | $ 213,011 |

EXHIBIT C

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

| | Year Ended December 31, | |
|---|---|---|
| | **2020** | **2019** |
| **Operating activities** | | |
| Net income (loss) | $ 16,129 | $ (5,117) |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities: | | |
| Loss from discontinued operations | 61 | 124 |
| Depreciation and amortization expense | 16,827 | 17,251 |
| Stock-based compensation expense | 136 | 250 |
| Amortization of debt issuance costs and debt discount | 3,453 | 1,960 |
| Deferred income taxes | 1,043 | 969 |
| Reclassification adjustment to foreign currency loss | — | 1,329 |
| Other, net | 1,834 | 153 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | (11,662) | (688) |
| Inventories | (6,105) | (30,410) |
| Prepaid expenses and other assets | 494 | (1,328) |
| Income taxes | (6,346) | 1,369 |
| Accounts payable | 1,657 | 1,127 |
| Accrued expenses | 2,958 | (3,810) |
| Deferred revenue and customer deposits | 1,404 | (446) |
| Other liabilities | 182 | 222 |
| Cash provided by operating activities - continuing operations | 22,075 | 2,965 |
| Cash used in operating activities - discontinued operations | (61) | (124) |
| **Investing activities** | | |
| Capital expenditures for plant, equipment and leasehold improvements | (7,093) | (4,175) |
| Cash received from sale of Canadian subsidiary | — | 1,451 |
| Other | — | 150 |
| Cash used in investing activities | (7,093) | (2,574) |
| **Financing activities** | | |
| Proceeds from Senior Credit Facility, net of discount | 29,100 | — |
| Debt issuance costs | (2,507) | — |
| Proceeds from revolving credit facility | — | 11,500 |
| Principal payment on revolving credit facility | — | (11,500) |
| Payments on financing leases | (2,616) | (1,926) |
| Cash provided by (used in) financing activities | 23,977 | (1,926) |
| Effect of exchange rates on cash | 23 | 30 |
| Net increase (decrease) in cash and cash equivalents | 38,921 | (1,609) |
| Cash and cash equivalents, beginning of period | 18,682 | 20,291 |
| Cash and cash equivalents, end of period | $ 57,603 | $ 18,682 |
| **Supplemental disclosures of cash flow information** | | |
| Cash paid during the period for: | | |
| Interest | $ 22,750 | $ 22,036 |
| Income tax payments, net | $ 1,047 | $ 788 |
| Right-of-use assets obtained in exchange for lease obligations: | | |
| Operating leases | $ 3,260 | $ 8,533 |
| Financing leases | $ 1,718 | $ 6,438 |
| Accounts payable and accrued expenses for capital expenditures for plant, equipment and leasehold improvements | $ 1,052 | $ 308 |

EXHIBIT D

**CPI Card Group Inc. and Subsidiaries**
**Segment Summary Information**
**For the Three Months and Year Ended December 31, 2020 and 2019**
**(Dollars in Thousands)**
**(Unaudited)**

**Net Sales**

| | Three Months Ended December 31, | | | |
|---|---|---|---|---|
| | 2020 | 2019 | $ Change | % Change |
| Net sales by segment: | | | | |
| Debit and Credit | $ 69,572 | $ 61,624 | $ 7,948 | 12.9 % |
| Prepaid Debit | 14,916 | 11,168 | 3,748 | 33.6 % |
| Eliminations | (348) | (167) | (181) | * % |
| Total | $ 84,140 | $ 72,625 | $ 11,515 | 15.9 % |

* Calculation not meaningful

| | Year Ended December 31, | | | |
|---|---|---|---|---|
| | 2020 | 2019 | $ Change | % Change |
| Net sales by segment: | | | | |
| Debit and Credit | $ 250,427 | $ 213,141 | $ 37,286 | 17.5 % |
| Prepaid Debit | 63,596 | 64,330 | (734) | (1.1)% |
| Other | — | 1,679 | (1,679) | * % |
| Eliminations | (1,834) | (1,077) | (757) | * % |
| Total | $ 312,189 | $ 278,073 | $ 34,116 | 12.3 % |

* Calculation not meaningful

**Gross Profit**

| | Three Months Ended December 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2020 | % of Net Sales | 2019 | % of Net Sales | $ Change | % Change |
| Gross profit by segment: | | | | | | |
| Debit and Credit | $ 25,152 | 36.2 % | $ 18,893 | 30.7 % | $ 6,259 | 33.1 % |
| Prepaid Debit | 5,811 | 39.0 % | 3,043 | 27.2 % | 2,768 | 91.0 % |
| Total | $ 30,963 | 36.8 % | $ 21,936 | 30.2 % | $ 9,027 | 41.2 % |

* Calculation not meaningful

| | Year Ended December 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2020 | % of Net Sales | 2019 | % of Net Sales | $ Change | % Change |
| Gross profit by segment: | | | | | | |
| Debit and Credit | $ 85,833 | 34.3 % | $ 66,353 | 31.1 % | $ 19,480 | 29.4 % |
| Prepaid Debit | 24,475 | 38.5 % | 24,814 | 38.6 % | (339) | (1.4)% |
| Other | — | * % | (97) | (5.8)% | 97 | * % |
| Total | $ 110,308 | 35.3 % | $ 91,070 | 32.8 % | $ 19,238 | 21.1 % |

* Calculation not meaningful

**Income from Operations**

| | Three Months Ended December 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2020 | % of Net Sales | 2019 | % of Net Sales | $ Change | % Change |
| Income (loss) from Operations by segment: | | | | | | |
| Debt and Credit | $ 16,934 | 24.3 % | $ 11,112 | 18.0 % | $ 5,822 | 52.4 % |
| Prepaid Debit | 4,563 | 30.6 % | 1,878 | 16.8 % | 2,685 | 143.0 % |
| Other | (9,060) | * % | (9,333) | * % | 273 | 2.9 % |
| Total | $ 12,437 | 14.8 % | $ 3,657 | 5.0 % | $ 8,780 | 240.1 % |

* Calculation not meaningful

| | Year Ended December 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2020 | % of Net Sales | 2019 | % of Net Sales | $ Change | % Change |
| Income (loss) from Operations by segment: | | | | | | |
| Debt and Credit | $ 54,848 | 21.9 % | $ 35,149 | 16.5 % | $ 19,699 | 56.0 % |
| Prepaid Debit | 19,942 | 31.4 % | 20,383 | 31.7 % | (441) | (2.2)% |
| Other | (36,399) | * % | (30,821) | * % | (5,578) | (18.1)% |
| Total | $ 38,391 | 12.3 % | $ 24,711 | 8.9 % | $ 13,680 | 55.4 % |

* Calculation not meaningful

**EBITDA**

| | Three Months Ended December 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2020 | % of Net Sales | 2019 | % of Net Sales | $ Change | % Change |
| EBITDA by segment | | | | | | |
| Debt and Credit | $ 19,449 | 28.0 % | $ 13,643 | 22.1 % | $ 5,806 | 42.6 % |
| Prepaid Debit | 5,182 | 34.7 % | 2,455 | 22.0 % | 2,727 | 111.1 % |
| Other | (7,812) | * % | (8,176) | * % | 364 | 4.5 % |
| Total | $ 16,819 | 20.0 % | $ 7,922 | 10.9 % | $ 8,897 | 112.3 % |

* Calculation not meaningful

| | Year Ended December 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2020 | % of Net Sales | 2019 | % of Net Sales | $ Change | % Change |
| EBITDA by segment | | | | | | |
| Debt and Credit | $ 64,522 | 25.8 % | $ 45,635 | 21.4 % | $ 18,887 | 41.4 % |
| Prepaid Debit | 22,156 | 34.8 % | 22,456 | 34.9 % | (300) | (1.3)% |
| Other | (31,569) | * % | (27,468) | * % | (4,101) | (14.9)% |
| Total | $ 55,109 | 17.7 % | $ 40,623 | 14.6 % | $ 14,486 | 35.7 % |

* Calculation not meaningful

**Reconciliation of Income (loss) from Operations by Segment to EBITDA by Segment**

| | Three Months Ended December 31, 2020 | | | |
|---|---|---|---|---|
| | Debit and Credit | Prepaid Debit | Other | Total |
| EBITDA by segment: | | | | |
| Income (loss) from operations | $ 16,934 | $ 4,563 | $ (9,060) | $ 12,437 |
| Depreciation and amortization | 2,522 | 617 | 1,252 | 4,391 |
| Other (expenses) income | (7) | 2 | (4) | (9) |
| EBITDA | $ 19,449 | $ 5,182 | $ (7,812) | $ 16,819 |

| | Three Months Ended December 31, 2019 | | | |
|---|---|---|---|---|
| | Debit and Credit | Prepaid Debit | Other | Total |
| EBITDA by segment: | | | | |
| Income (loss) from operations | $ 11,112 | $ 1,878 | $ (9,333) | $ 3,657 |
| Depreciation and amortization | 2,554 | 579 | 1,176 | 4,309 |
| Other (expenses) income | (23) | (2) | (19) | (44) |
| EBITDA | $ 13,643 | $ 2,455 | $ (8,176) | $ 7,922 |

| | Year Ended December 31, 2020 | | | |
|---|---|---|---|---|
| | Debit and Credit | Prepaid Debit | Other | Total |
| EBITDA by segment: | | | | |
| Income (loss) from operations | $ 54,848 | 19,942 | (36,399) | 38,391 |
| Depreciation and amortization | 9,729 | 2,216 | 4,882 | 16,827 |
| Other (expenses) income | (55) | (2) | (52) | (109) |
| EBITDA | $ 64,522 | $ 22,156 | $ (31,569) | $ 55,109 |

| | Year Ended December 31, 2019 | | | |
|---|---|---|---|---|
| | Debit and Credit | Prepaid Debit | Other | Total |
| EBITDA by segment: | | | | |
| Income (loss) from operations | $ 35,149 | 20,383 | (30,821) | 24,711 |
| Depreciation and amortization | 10,520 | 2,004 | 4,637 | 17,251 |
| Other (expenses) income | (34) | (21) | (1,284) | (1,339) |
| EBITDA | $ 45,635 | $ 22,406 | $ (27,468) | $ 40,623 |

EXHIBIT E

**CPI Card Group Inc. and Subsidiaries**
**Supplemental GAAP to Non-GAAP Reconciliation**
**(Dollars in Thousands)**
**(Unaudited)**

| | Three Months Ended December 31, | | Year Ended December 31, | |
|---|---|---|---|---|
| | **2020** | **2019** | **2020** | **2019** |
| **Reconciliation of net income (loss) from continuing operations (GAAP) to EBITDA and Adjusted EBITDA** | | | | |
| Net income (loss) from continuing operations | $ 7,316 | $ (2,287) | $ 16,190 | $ (4,993) |
| Interest expense, net | 6,239 | 6,044 | 25,397 | 24,891 |
| Income tax (benefit) expense | (1,127) | (144) | (3,305) | 3,474 |
| Depreciation and amortization | 4,391 | 4,309 | 16,827 | 17,251 |
| **EBITDA** | $ 16,819 | $ 7,922 | $ 55,109 | $ 40,623 |
| | | | | |
| **Adjustments to EBITDA** | | | | |
| Litigation and related charges [1] | — | 18 | — | 46 |
| Sales tax expense[2] | 633 | 189 | 926 | 584 |
| Stock-based compensation expense | 52 | (66) | 136 | 250 |
| Restructuring and other charges [3] | 40 | 720 | 1,269 | 720 |
| Loss on Revolving Credit Facility termination[4] | — | — | 92 | — |
| Litigation settlement gain [5] | — | — | — | (6,000) |
| Foreign currency (gain) loss [6] | (3) | 18 | 7 | 1,335 |
| Subtotal of adjustments to EBITDA | 722 | 876 | 2,430 | (3,065) |
| **Adjusted EBITDA** | $ 17,541 | $ 8,798 | $ 57,539 | $ 37,558 |
| Net income (% change 2020 vs. 2019) | 404.2% | | 415.2% | |
| Adjusted EBITDA Margin (% of Net Sales) | 20.8% | 12.1% | 18.4% | 13.5% |
| Adjusted EBITDA growth (% change 2020 vs. 2019) | 99.4% | | 53.2% | |

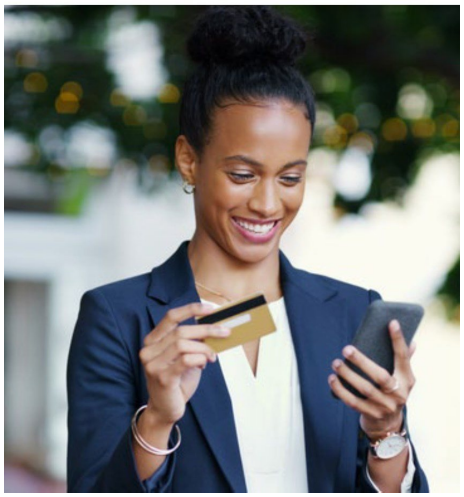
| | Three Months Ended December 31, | | Year Ended December 31, | |
|---|---|---|---|---|
| | **2020** | **2019** | **2020** | **2019** |
| **Reconciliation of cash provided by operating activities - continuing operations (GAAP) to adjusted free cash flow:** | | | | |
| Cash provided by operating activities - continuing operations | $ 11,867 | $ 5,964 | $ 22,075 | $ 2,965 |
| Capital expenditures for plant, equipment and leasehold improvements | (3,773) | (877) | (7,088) | (4,175) |
| Cash received from litigation settlement [5] | — | — | — | (6,000) |
| Adjusted free cash flow - continuing operations | $ 8,094 | $ 5,087 | $ 14,987 | $ (7,210) |

Note that tables in this exhibit are presented on a continuing operations basis.
(1) Represents net legal costs incurred in connection with certain patent and shareholder litigation.
(2) The Company revised its prior period financial statements to adjust immaterial items, primarily due to estimated sales tax expense relating to 2017 through 2020. Refer to Note 2 of the Form 10-K for the year ended December 31, 2020 for an explanation of the immaterial prior period adjustments.
(3) Represents restructuring severance charges.
(4) The Company terminated its prior Revolving Credit Facility during the first quarter of 2020 and expensed the remaining unamortized deferred financing costs.
(5) During the second quarter of 2019, the Company recognized in operating income a $6.0 million gain related to the cash settlement of litigation.
(6) Foreign currency loss includes the release of the cumulative translation adjustment from the balance sheet to the statement of operations, done in connection with the disposition of the Company's Canadian subsidiary in 2019.

Exhibit 99.2

cpi card group®

# Investor Commentary
## Fourth Quarter and Full Year 2020
February 25, 2021



## Table of Contents



The commentary that follows is issued in conjunction with the earnings release dated February 25, 2021. Certain statements and information in this document (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. Please see the Cautionary Statement on Forward Looking Statements at the end of this document.

## COVID-19 Update

As we continue to navigate these unprecedented times, we remain committed to supporting our employees, customers and the communities in which we operate.

CPI Card Group Inc. ("CPI" or the "Company"), like many other businesses, closely monitors information available regarding the COVID-19 pandemic and the broader economic implications to understand and address the impact on our employees, customers, partners and the community. We established and follow response protocols across our business based on the recommendations of the Centers for Disease Control and Prevention and state and local government health orders and guidelines.

Throughout the pandemic, all of our facilities have remained operational and continue to provide essential services to our customers. Our operations provide direct and critical support to the financial services sector, including the production and fulfillment of debit and credit, payroll, government benefit and health savings account cards, as well as payment cards used by the unbanked to pay for daily expenses and bills. These products enable people to access fundamental financial services.

Vaccination availability remains limited and each state in which we operate has established vaccination prioritization categories which vary significantly in terms of the prioritization of essential service or manufacturing workers. We strongly encourage our employees to become fully vaccinated as vaccines become available to them, consistent with the advice of their individual health care provider.

**We continue to extend gratitude to our employees for their dedication and commitment to safety and serving our customers through these unprecedented times.**

## Vision and Strategic Priorities

Our vision is to be the partner of choice by providing market-leading quality products and customer service with a market-competitive business model.

### Deep Customer Focus

We strive to be the trusted partner in payments and exceed expectations through high quality, collaboration and innovative products.

### Market-Leading Quality Products and Customer Service

We are committed to continually raising the bar on delivering high quality products and exceptional service while making it easy to do business with CPI®.

### Continuous Innovation

We collaborate with our customers to deliver unique and differentiated products and solutions that elevate their customers' experience and enhance their brands.

### Market-Competitive Business Model

We drive efficiency and productivity throughout our business with ongoing process improvements, operational automation, technology and equipment advancement.

## U.S. Payment Solutions Market Overview

CPI is a payment technology company and leading provider of comprehensive financial payment card solutions in the United States. We have established a leading position in the large and attractive U.S. Payment Solutions Market through more than 20 years of experience. We design and produce over 250 million cards annually, including EMV® contact and contactless[1] and magnetic stripe payment cards, including prepaid debit cards and cards for applications such as travel, ticketing, lodging and entertainment. Additionally, we provide services including the personalization and fulfillment of financial payment cards, tamper-evident prepaid debit card packaging, and Software-as-a-Service (SaaS) personalization of instantly issued financial payment cards.

### We Define The U.S. Payment Solutions Market As Including:

#### Secure Card

- The secure card market encompasses the production of EMV® contact and contactless payment cards issued on a major payment brand network (Visa, Mastercard®, American Express® and Discover). Secure cards contain all the necessary technology (i.e. integrated circuits, contact plates, RFID antennas) to interface with point of sale terminals. Secure cards are traditionally made with layers of PVC plastic, but can also include metal or eco-focused materials, such as upcycled plastic. Secure cards include a variety of design elements unique to customer specifications.
- We define the secure card market as including all U.S. EMV® contact and contactless payment cards manufactured and shipped by a card manufacturer. This includes debit, credit and private label cards for both large and small and medium enterprise (SME) issuers[2].

#### Personalization


- The personalization market encompasses the data preparation and card data personalization for debit, credit and prepaid debit payment cards in EMV® contact, contactless and magnetic stripe card formats. Personalization services require secure data transmission and often provide a high level of customization, using advanced processes to personalize (encode, program and emboss with data such as cardholder name and account number) and fulfill cards to individual cardholders.
- We define the Personalization market as including all U.S. payment cards personalized for small and medium enterprise issuers by an outsourced provider. This includes personalization of debit, credit and prepaid debit cards inclusive of magnetic stripe, EMV® contact and contactless cards.

[1] Contactless payment cards are also referred to as "tap and pay" or dual interface cards
[2] Small and Medium Enterprise Issuers, defined as not in the top 10 largest U.S. card issuers

## U.S. Payment Solutions Market Overview

### Prepaid

- The prepaid debit cards that CPI produces are debit cards issued on the networks of the major payment card brands, but not linked to a traditional bank account. In addition to the production of these cards, we provide data preparation as well as tamper-evident retail packaging. Examples of retail channels where these cards are sold include grocery stores, pharmacies and general merchandise retailers. These cards are typically displayed near check-out locations.
- Prepaid debit cards are considered general-purpose, open-loop payment cards that can be used anywhere the payment brand (Visa, Mastercard®, American Express®, Discover) on which it is issued is accepted. These are not closed loop cards, which are limited to purchases at specified companies or retailers.
- We define the prepaid market as U.S. secure (open loop) prepaid cards and packages manufactured and shipped by a prepaid package manufacturer for sale at a physical retail location.

### Instant Issuance

- Instant issuance provides card issuing financial institutions the ability to issue a completely personalized, permanent debit or credit card within the bank branch to individual cardholders upon demand. Instant issuance requires data to be securely transferred to the card branch to encode a magnetic stripe or EMV® contact or contactless payment card and personalize the card on a desktop printer. This process results in a payment card that can immediately be used by a cardholder.
- We define the instant issuance market as solutions that offer card issuing financial institutions the ability to issue, in-branch, a completely personalized, permanent debit or credit card to individual customers upon demand.

### We Believe The U.S. Payment Solutions Market Presents A Growing Addressable Market Of Over $1 Billion In Annual Revenue

- There are an estimated 1.8 billion EMV® contact, contactless and magnetic stripe debit and credit cards[3] currently in circulation, which we expect to grow approximately 3% annually
- We believe approximately 90% of payment card demand is driven by existing card replacement[3], with approximately 60% attributable to card reissuances and expirations, 15% to lost or stolen card replacements and 15% to portfolio churn (switching financial institutions)
- Each year, an estimated 600 million debit and credit EMV ® cards[4] are produced, which we expect to expand with the overall market
- The majority of the addressable market revenue is driven by SME issuers

[3] Debit, credit and private label cards in circulation includes EMV® (contact and contactless) and magnetic stripe cards
[4] Based on average number of EMV® (contact and contactless cards) shipped 2018-2020

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

## U.S. Payment Solutions Market Overview

We believe that secular trends in payments will be positive for the U.S. Payment Solutions Market. *These favorable trends include:*

### Growing Preference For Card Payments Over Cash

- Payment card transactions are estimated to grow at a 6% CAGR from 63% to 65% of U.S. consumer-to-business (C2B) transactions from 2020 through 2024 primarily at the expense of cash payments.[5]
- Payment cards (including debit, credit and prepaid) gained an estimated 6% share of U.S. C2B payment transactions in 2020 compared to 2019.[5] We believe the COVID-19 pandemic accelerated the rate of use of payment cards, including a growing preference for contactless payment card solutions.

### The U.S. Is In The Early Stages Of A Gradual Transition To Contactless Cards

- We estimate the number of contactless-enabled cards in the U.S. was approximately 30% of total cards in circulation at year end 2020, representing approximately 500 million cards. We expect this number to grow in a gradual transition to around 80%, or 1.65 billion contactless-enabled cards, by 2025.
- We estimate that 45% of the cards issued by large financial institutions and 10% of the cards issued by small and medium enterprise financial institutions, were contactless enabled in 2020. By 2025, we believe these numbers will grow to 95% of cards issued by large financial institutions and 60% of cards issued by small and medium enterprise financial institutions.
- We expect the transition to contactless cards to be gradual and to increase the average payment card selling price.

### Payment Cards Are The Preferred Payment Method For Issuers And Consumers

- We believe digital payments are unlikely to significantly impact card issuance in the next 5-10 years. Payment card transactions as a percent of U.S. C2B transactions is expected to expand from 63% to 65% from 2020 to 2024, while the percent of U.S. C2B card payments conducted in person with a mobile wallet[6] is expected to expand from 6% to 8% of C2B card payments in the same period.[5]
- Our research supports this view, indicating:
  - ✓ *Consumers view cards as more convenient*
  - ✓ *Issuers and payment brands may offer mobile wallet capability as an additional feature, but issuers prefer card transactions due to better economics and "top of wallet" status of payment cards*
  - ✓ *The percent of debit cards enrolled in mobile wallets is relatively low, as is the usage rate of enrolled cards*

### Consumer Preferences And Issuer ESG Goals Drive Shift In Payment Cards

- CPI estimates the number of eco-focused payment cards shipped annually in the U.S. will grow industry-wide to approximately 100 million cards by 2025. An industry research firm estimates this number will exceed 185 million cards in North America and more than 700 million globally, by 2025.[7]
- A recent CPI Consumer Insights Study indicates consumers' strong desire for financial institutions to be more environmentally conscious and interest in having a more eco-focused payment card solution.[8]

[5] McKinsey U.S. Payments Map, Q4 2020. C2B POS payments including both in-person and remote; excludes bill payment
[6] Mobile wallet payments include payments made with digital wallets (e.g., Apple Pay), NFT (e.g., Samsung Pay) and QR code (e.g., Starbucks).
[7] ABI Research: "Sustainable Materials for Payment Cards" Q4 2020
[8] CPI Consumer Insights Study Fielded 2/12/2020-2/28/2020 n=1,303

## Business Overview and Update

### U.S. Debit and Credit Segment

#### Secure Card

- We believe we currently stand as the number two secure card provider among small and medium enterprise financial institutions and are third with large financial institutions. We remain focused on our core strategies by building on our portfolio of innovative and highly differentiated solutions. Our Second Wave® payment cards, featuring a core made with recovered ocean-bound plastic, offer a solution to support the Environmental, Sustainability and Governance (ESG) goals of our customers and help meet the demands of their customers for more environmentally conscious payment card products. As the leading eco-focused card provider in the U.S., we estimate that CPI produced more than 80% of all U.S. eco-focused cards in 2020.

#### Personalization

- We have invested in broadening our personalization capabilities, including CPI On-Demand®. We believe our enhanced capabilities and a high level of customer service will enable us to win incremental business from our current customers and expand our customer base, building on our position as a leading personalization provider for small and medium enterprise financial institutions in the U.S.

#### Card@Once®

- As the leading SaaS-based instant issuance provider in the U.S., our 11,000 Card@Once® SaaS-based instant issuance solutions are installed across over 1,600 financial institutions. We believe we will continue to win new business and expand the Card@Once instant issuance addressable market by expanding relationships with small and medium enterprise financial institutions, bank platforms and processors, and by providing differentiated solutions to our customers, including the recently launched Spectrum by Card@Once® printer which produces high-quality cards with retransfer printing capability.

### U.S. Prepaid Segment

#### Prepaid

- As the leader in the U.S. prepaid debit card solutions market, we provide market-leading quality and innovative solutions to our customers, including differentiated card materials and tamper-evident and sustainable packaging capabilities. We believe we will continue to expand our share by expanding existing relationships and forging new customer relationships.

## Business Overview and Update

### Winning New Customers and Expanding Relationships

We value the strength of our customer relationships. Our relentless focus on customer service, market-leading quality and innovative and differentiated solutions have translated into new customers and expanded relationships with existing accounts. We have collaborated with our top 10 customers for more than ten years, on average.

**Our trusted relationships include:**

- ✓ **5 of the Top 10 U.S. Card Issuers**
- ✓ **5 of the Top 6 U.S. Prepaid Debit Program Managers**
- ✓ **6 of the Top U.S. FinTechs**
- ✓ **Strategic Relationships with the Top 3 U.S. Bank Platforms**

We believe these efforts have resulted in CPI profitably gaining overall market share each year from 2018 to 2020. We remain committed to being our customers' partner of choice by providing market-leading quality products and customer service with a market-competitive business model.

## Fourth Quarter and Full Year 2020 Highlights

We had a strong fourth quarter and full year of 2020, increasing net sales 16% and 12% year-over-year to $84.1 million and $312.2 million, respectively.

**During the full year of 2020, we:**

- **Grew Net Income to $16.1 million, up 415% year-over-year**
- **Delivered Adjusted EBITDA[10] of $57.5 million, up 53% year-over-year**
- **Ended the year with $58 million in cash**

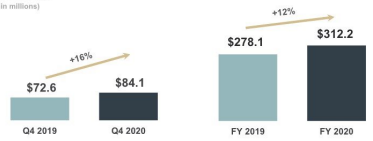
These strong results underscore the resilience of our business and reflect the continued execution on our four key strategies: deep customer focus, market-leading quality products and customer service, continuous innovation and a market-competitive business model.

We believe we are well positioned to capitalize on market opportunities as we execute on our strategic priorities and continue to collaborate with our customers to deliver unique, high-quality and innovative products and solutions to elevate their customers' experience and enhance their brands.

[10] Adjusted EBITDA and Adjusted EBITDA margin are not measurements of financial performance prepared in accordance with GAAP. Adjusted EBITDA for the periods shown above exclude the $6.6 million cash litigation settlement gain recorded in the quarter ended June 30, 2019. See "Non-GAAP Financial Measures" at the end of this document for more information and reconciliations to the most directly comparable GAAP financial measures.

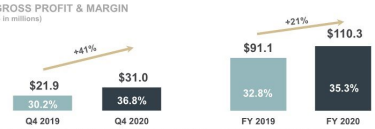
## Fourth Quarter and Full Year Financial Review

**NET SALES**
($ in millions)




Net sales increased 16% and 12% year-over-year to $84.1 million and $312.2 million in the fourth quarter and full year of 2020, respectively. Growth across both periods was driven primarily by higher volumes of contactless EMV® card sales, including Second Wave® cards. In addition, net sales increased from CPI On-Demand® card personalization due to new customers, higher volumes from our existing customers and from COVID-19 related government disbursement work. This growth was partially offset by COVID-19 impacts, including reduced sales volumes in Prepaid due to lower retail store traffic and reduced volumes in card personalization stemming from fewer new accounts and requests for replacement cards. Card@Once product sales were also impacted by COVID-19 primarily due to reduced hours of operation and lack of access to or closure of certain bank branches. Overall, we believe COVID-19 had a net negative impact relative to our full year expectations.

**GROSS PROFIT & MARGIN**
($ in millions)



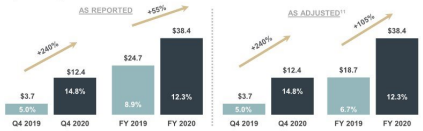

For the fourth quarter and full year of 2020 gross profit increased 41% and 21% year-over-year, respectively. This increase was driven primarily by higher sales volumes of contactless EMV® cards, including Second Wave cards, higher sales from CPI On-Demand card personalization and COVID-19 related government disbursement work. Gross profit margin increased to 36.8% in the fourth quarter of 2020, compared to 30.2% in the prior year primarily due to operating leverage from higher contactless card sales and CPI On-Demand net sales. Gross profit margin expanded to 35.3% from 32.8% in the full year of 2020, primarily due to the same reasons described above.

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

## Fourth Quarter and Full Year Financial Review

### INCOME FROM OPERATIONS & OPERATING MARGIN

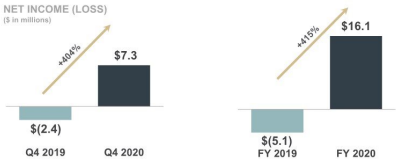
($ in millions)




Fourth quarter and full year 2020 income from operations was $12.4 million and $38.4 million, respectively. Impacting year-over-year comparisons, the Company recorded a cash litigation settlement gain in the second quarter of 2019. Excluding this item, income from operations increased 105% year-over-year for the full year to $38.4 million and operating margin expanded 560 basis points.[1] Improvement for both periods is primarily due to growth in net sales in the Debit and Credit segment and operating efficiency gains.

[1] Income from Operations As Adjusted and Operating Margin As Adjusted are not measurements of financial performance prepared in accordance with GAAP. Income from Operations As Adjusted and Operating Margin As Adjusted for the periods shown above exclude the cash litigation settlement gain recorded in the quarter ended June 30, 2019. See "Non-GAAP Financial Measures" at the end of this document for more information and reconciliations to the most directly comparable GAAP financial measures.

## Fourth Quarter and Full Year Financial Review




Net income was $7.3 million and $16.1 million for the fourth quarter and full year of 2020, respectively. The change in the fourth quarter was primarily due to higher net sales and gross profit in the Debit and Credit segment. The increase for the full year of 2020 was primarily due to higher net sales and gross profit and an income tax benefit versus income tax expense during the prior year, partially offset by the cash litigation settlement gain recorded in the prior year.

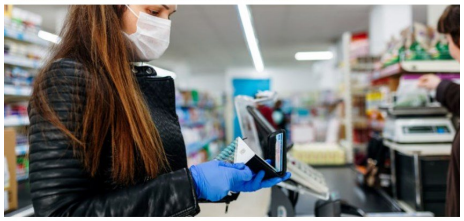

Adjusted EBITDA increased 99% and 53% year-over-year to $17.5 million and $57.5 million and Adjusted EBITDA margin expanded 870 basis points in the fourth quarter and 490 basis points in the full year year-over-year, respectively. The increases are primarily due to year-over-year growth in net sales driving operating leverage as well as ongoing efficiency initiatives, which included restructuring initiatives in the full year of 2020.

[12] Adjusted EBITDA and Adjusted EBITDA margin are not measurements of financial performance prepared in accordance with GAAP. Adjusted EBITDA for the periods shown above exclude the $6.6 million cash litigation settlement gain recorded in the quarter ended June 30, 2019. See "Non-GAAP Financial Measures" at the end of this document for more information and reconciliations to the most directly comparable GAAP financial measures.

## Segment Performance

### Debit and Credit Segment


Debit and Credit Segment net sales increased 13% year over year to $69.6 million in the fourth quarter and 18% to $250.4 million for full year 2020. Growth for the fourth quarter and full year 2020 was driven primarily by higher volumes of contactless 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 higher volumes from our existing customers, new customers and from COVID-19 related government disbursement work. This growth was partially offset primarily by COVID-19 impacts, including reduced volumes in card personalization stemming from fewer new accounts and requests for replacement cards. Card@Once product sales were also impacted by COVID-19 primarily due to reduced hours of operation, lack of access or closure of certain bank branches. Approximately 2/3 of net sales in the Debit and Credit Segment are attributed to our SME customers.



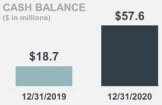
## Segment Performance

### Prepaid Debit Segment


Prepaid Debit Segment net sales increased 34% year over year to $14.9 million in the fourth quarter and decreased 1% to $63.6 million for full year 2020. Growth for the fourth quarter was primarily due to increased customer demand. For the full year, the decrease was the result of lower sales volumes primarily associated with COVID-19 impacts, including lower retail store traffic.

## Balance Sheet, Liquidity and Cash Flow

### CASH BALANCE
($ in millions)




Our cash balance as of December 31, 2020 was $58 million. This amount includes $27 million in net proceeds from the Senior Credit Facility entered into in March 2020.

### ADJUSTED FREE CASH FLOW[13]
($ in millions)

| | Q4 2019 | Q4 2020 | FY 2019 | FY 2020 |
|---|---|---|---|---|
| OPERATING CASH FLOW | $ 6.0 | $ 11.9 | $ 3.0 | $ 22.1 |
| CAPEX | (0.9) | (3.8) | (4.2) | (7.1) |
| CASH RECEIVED FROM LITIGATION SETTLEMENT | - | - | (6.0) | - |
| **ADJUSTED FREE CASH FLOW (USE)** | **$ 5.1** | **$ 8.1** | **$ (7.2)** | **$ 15.0** |

Fourth quarter 2020 cash provided by operating activities was $11.9 million due primarily to higher net income. Capital expenditures during the quarter were $3.8 million, bringing Adjusted Free Cash Flow for the quarter to $8.1 million.

In the full year of 2020, cash provided by operating activities was $22.1 million primarily due to increased profitability. Capital expenditures during the full year were $7.1 million, bringing Adjusted Free Cash Flow to $15.0 million.

[13] Adjusted free cash flow is not a measurement of financial performance prepared in accordance with GAAP. See "Non-GAAP Financial Measures" at the end of this document for more information and reconciliation to the most directly comparable GAAP financial measure.

## Balance Sheet, Liquidity and Cash Flow

### CAPITAL STRUCTURE

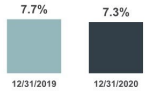
#### NET LEVERAGE RATIO[14]


As of December 31, 2020, our Net Leverage Ratio was 5.0x, an improvement from 8.0x at year-end 2019 and 10.9x at year-end 2018. Our Net Leverage Ratio has improved primarily due to higher Adjusted EBITDA for the last 12 months.

#### TOTAL DEBT
($ in millions)

| | December 31, 2020 | Maturity |
|---|---|---|
| SENIOR CREDIT FACILITY | $ 30.0 | May 2022 |
| FIRST LIEN TERM LOAN | 312.5 | August 2022 |
| TOTAL DEBT | **$ 342.5** | |

#### WEIGHTED AVERAGE EFFECTIVE INTEREST RATE[15]




Our Weighted Average Effective Interest Rate decreased 40 basis points year-over-year to 7.3% in the fourth quarter of 2020. Our Weighted Average Effective Interest Rate decreased primarily due to the lower interest rate on our First Lien Term Loan in the current year, partially offset by the additional interest incurred on the Senior Credit Facility entered into on March 6, 2020.

**Our capital priorities are:**

- Maintaining ample liquidity
- Investing in business initiatives
- Deleveraging the balance sheet

[14] Net Leverage Ratio is not a measurement of financial performance prepared in accordance with GAAP. See "Supplemental Financial Measures" at the end of this document for more information and reconciliation to the most directly comparable GAAP financial measure.

[15] Weighted Average Effective Interest Rate is not a measurement of financial performance prepared in accordance with GAAP. See "Supplemental Financial Measures" at the end of this document for more information and reconciliation to the most directly comparable GAAP financial measure.

## Summary

We are proud of the way our organization has demonstrated an unwavering commitment to the health and safety of our employees while exhibiting extraordinary agility to continue to support our customers.

We aim to scale our solutions, diversify our offerings and expand our customer base through continued execution of our strategies. Our goals remain focused on leveraging and building upon the market-leading and innovative solutions CPI is known for, including contactless secure cards, more eco-focused solutions, SaaS-based instant issuance, personalization and prepaid solutions.

As we enter 2021 and look ahead, our objective is to profitably gain market share by capitalizing on the successes we've had and growing through continued focus on our four strategic priorities. We believe we are well-equipped to build upon our position as a partner of choice.

## Cautionary Statement on Forward-Looking Statements

Certain statements and information in this presentation (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; 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; 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; a disruption or other failure in our supply chain; the effects of current or additional U.S. government tariffs as well as economic downturns or disruptions, including delays or interruptions in our ability to source raw materials and components used in our products from foreign countries; system security risks, data protection breaches and cyber-attacks; 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; failure to comply with regulations, customer contractual requirements and evolving industry standards regarding consumer privacy and data use and security; disruptions in production at one or more of our facilities; our failure to retain our existing customers or identify and attract new customers; our inability to recruit, retain and develop qualified personnel, including key personnel; our inability to adequately protect our trade secrets and intellectual property rights from misappropriation or infringement claims and risks related to open source software; defects in our software; problems in production quality, materials and process; a loss of market share or a decline in profitability resulting from competition; our inability to develop, introduce and commercialize new products; new and developing technologies that make our existing technology solutions and products obsolete or less relevant or our failure to introduce new products and services in a timely manner; 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, as well as new U.S. tax legislation increasing the corporate income tax rate and challenges to our income tax positions; 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; 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; a decline in U.S. and global market and economic conditions and resulting decreases in consumer and business spending; costs relating to product defects and any related product liability and/or warranty claims; 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 and services; the effect of legal and regulatory proceedings; our 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; the influence of securities analysts over the trading market for and price of our common stock; our inability to sell, exit, reconfigure or consolidate businesses or facilities that no longer meet with our strategy; potential conflicts of interest that may arise due to our board of directors being comprised in part of directors who are principals of our majority stockholders; certain provisions of our organizational documents and other contractual provisions that may delay or prevent a change in control and make it difficult for stockholders other than our majority stockholders to change the composition of our board of directors; and other risks that are described in Part I, Item 1A – Risk Factors of our Annual Report on Form 10-K for the year ended December 31, 2020 and our other reports filed from time to time with the Securities and Exchange Commission.

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.

## Non-GAAP Financial Measures

In addition to financial results reported in accordance with U.S. generally accepted accounting principles ("GAAP"), we have provided the following non-GAAP financial measures in this commentary, all reported on a continuing operations basis: Adjusted EBITDA, Adjusted EBITDA Margin, Net Leverage Ratio, Adjusted Free Cash Flow, Weighted Average Effective Interest Rate, Income from Operations excluding litigation settlement gain and operating margin excluding litigation settlement gain. These non-GAAP financial measures are utilized by management in comparing our operating performance on a consistent basis between fiscal periods. We believe that these financial measures are appropriate to enhance an overall understanding of our underlying operating performance trends compared to historical and prospective periods and our peers. Management also believes that these measures are useful to investors in their analysis of our results of operations and provide improved comparability between fiscal periods. Non-GAAP financial measures should not be considered in isolation from, or as a substitute for, financial information calculated in accordance with GAAP. Our non-GAAP measures may be different from similarly titled measures of other companies. Investors are encouraged to review the reconciliation of these historical non-GAAP measures to their most directly comparable GAAP financial measures included herein. Additional information relating to certain financial measures, including our non-GAAP financial measures, is available in our most recent earnings release and on our website at http://investor.cpicardgroup.com.

# Reconciliations of Non-GAAP Financial Measures

## Adjusted EBITDA and Adjusted EBITDA Margin

EBITDA represents earnings before interest, taxes, depreciation and amortization, all on a continuing operations basis. Adjusted EBITDA is presented on a continuing operations basis and is defined as EBITDA adjusted for litigation and related charges incurred in connection with certain patent and shareholder litigation; stock-based compensation expense; estimated sales tax expense, restructuring and other charges; loss on Revolving Credit Facility termination; foreign currency gain or loss; litigation settlement gain; and other items that are unusual in nature, infrequently occurring or not considered part of our core operations. Adjusted EBITDA is also a defined computation in our First Lien Term Loan and Senior Credit Facility agreements, which generally conforms to the definition above, and impacts certain credit measures and covenants, including a covenant requiring the Company to have at least $25 million Adjusted EBITDA (as defined in our Senior Credit Facility) for the previous four consecutive fiscal quarters in total at the end of each quarterly period ending on or after March 31, 2020. Adjusted EBITDA is intended to show our unleveraged, pre-tax operating results and therefore reflects our financial performance based on operational factors, excluding non-operational, unusual or non-recurring losses or gains. Adjusted EBITDA has important limitations as an analytical tool, and you should not consider it in isolation, or as a substitute for, analysis of our results as reported under GAAP. For example, Adjusted EBITDA does not reflect: (a) our capital expenditures, future requirements for capital expenditures or contractual commitments; (b) changes in, or cash requirements for, our working capital needs; (c) the significant interest expenses or the cash requirements necessary to service interest or principal payments on our debt; (d) tax payments that represent a reduction in cash available to us; (e) any cash requirements for the assets being depreciated and amortized that may have to be replaced in the future; (f) the impact of earnings or charges resulting from matters that we and the lenders under our credit agreement may not consider indicative of our ongoing operations; or (g) the impact of any discontinued operations. In particular, our definition of Adjusted EBITDA allows us to add back certain non-operating, unusual or non-recurring charges that are deducted in calculating net (loss) income, even though these are expenses that may recur, vary greatly and are difficult to predict and can represent the effect of long-term strategies as opposed to short-term results.

In addition, certain of these expenses represent the reduction of cash that could be used for other purposes. Further, although not included in the calculation of Adjusted EBITDA presented in this commentary, the measure as defined in our credit facilities may at times allow us to add estimated cost savings and operating synergies related to operational changes ranging from acquisitions to dispositions to restructurings and/or exclude one-time transition expenditures that we anticipate we will need to incur to realize cost savings before such savings have occurred.

| | Three Months Ended December 31, | | Twelve Months Ended December 31, | |
|---|---|---|---|---|
| | 2020 | 2019 | 2020 | 2019 |
| | *($ in millions)* | | *($ in millions)* | |
| **Reconciliation of net income (loss) from continuing operations to EBITDA and Adjusted EBITDA:** | | | | |
| Net income (loss) from continuing operations | $ 7.3 | $ (2.3) | $ 16.2 | $ (5.0) |
| Interest expense, net | 6.2 | 8.0 | 25.4 | 24.9 |
| Income tax expense (benefit) | (1.1) | (8.1) | (3.3) | 3.5 |
| Depreciation and amortization | 4.4 | 4.3 | 16.8 | 17.3 |
| **EBITDA** | $ 16.8 | $ 7.9 | $ 55.1 | $ 40.6 |
| **Adjustments to EBITDA:** | | | | |
| Litigation and related charges [1] | — | — | — | — |
| Stock-based compensation expense | 0.1 | (0.1) | 0.1 | 0.3 |
| Sales tax expense [2] | 0.8 | 0.2 | 0.9 | 0.6 |
| Restructuring and other charges [3] | — | 0.7 | 1.3 | 0.7 |
| Loss on Revolving Credit Facility termination [4] | — | — | 0.1 | — |
| Litigation settlement gain [5] | — | — | — | (6.0) |
| Foreign currency loss [6] | — | — | — | 1.3 |
| Subtotal of adjustments to EBITDA | 0.7 | 0.8 | 2.4 | (3.1) |
| **Adjusted EBITDA - continuing operations** | $ 17.5 | $ 8.8 | $ 57.5 | $ 37.5 |
| *Adjusted EBITDA margin (% of net sales)* | *20.8%* | *12.1%* | *18.4%* | *13.5%* |
| *Adjusted EBITDA growth (% change 2020 vs 2019)* | *99.4%* | | *53.2%* | |
| *Net income % change 2020 vs 2019)* | *404.2%* | | *415.2%* | |

(1) Represents net legal costs incurred in connection with certain patent and shareholder litigation.
(2) The Company revised its prior period financial statements to adjust immaterial items, primarily due to estimated sales tax expense relating to 2017 through 2020. Refer to Note 2 of the Form 10-K for the year ended December 31, 2020 for an explanation of the immaterial prior period adjustments.
(3) Represents restructuring severance charges.
(4) The Company terminated the Revolving Credit Facility during the first quarter of 2020 and expensed the remaining unamortized deferred financing costs.
(5) During the second quarter of 2019, the Company recognized in operating income a $6.0 million gain related to the cash settlement of litigation.
(6) Foreign currency loss includes the release of the cumulative translation adjustment from the balance sheet to the statement of operations, done in connection with the disposition of the Company's Canadian subsidiary in 2019.

# Reconciliations of Non-GAAP Financial Measures

## LTM Adjusted EBITDA

We define LTM Adjusted EBITDA as Adjusted EBITDA (defined previously) for the last twelve months.

| | Twelve Months Ended December 31, | | |
|---|---|---|---|
| | 2020 | 2019 | 2018 |
| **Reconciliation of net income from continuing operations to LTM EBITDA and Adjusted EBITDA** | *($ in millions)* | *($ in millions)* | *($ in millions)* |
| Net income/(loss) from continuing operations | $ 16.2 | $ (5.0) | $ (15.5) |
| Interest expense, net | 25.4 | 24.9 | 23.4 |
| Income tax expense (benefit) | (3.3) | 3.5 | (4.5) |
| Depreciation and amortization | 16.8 | 17.3 | 18.6 |
| **EBITDA** | $ 55.1 | $ 40.8 | $ 22.0 |
| **Adjustments to EBITDA:** | | | |
| Litigation and related charges [1] | $ — | $ 0.0 | $ 1.0 |
| Stock-based compensation expense | 0.1 | 0.3 | 1.0 |
| Sales tax liability [2] | 0.9 | 0.6 | 0.7 |
| Restructuring and other charges [3] | 1.3 | 0.7 | 2.1 |
| Loss on Revolving Credit Facility termination [4] | 0.1 | — | — |
| Litigation settlement gain [5] | — | (6.0) | — |
| Foreign currency loss [6] | — | 1.3 | 0.3 |
| Subtotal of adjustments to EBITDA | $ 2.4 | $ (3.1) | $ 5.0 |
| **LTM Adjusted EBITDA - continuing operations** | **$ 57.5** | **$ 37.6** | **$ 27.1** |

## Adjusted Free Cash Flow

We define Adjusted Free Cash Flow as cash flow from continuing operations less capital expenditures from continuing operations, adjusted for cash received from a litigation settlement gain in the second quarter of 2019. We use this metric in analyzing our ability to service and repay our debt. However, this measure does not represent funds available for investment or other discretionary uses since it does not deduct cash used to service our debt, nor does it reflect the cash impacts of our discontinued operations.

| | Three Months Ended December 31, | | Twelve Months Ended December 31, | |
|---|---|---|---|---|
| | 2020 | 2019 | 2020 | 2019 |
| | *($ in millions)* | | *($ in millions)* | |
| **Reconciliation of cash provided by operating activities - continuing operations (GAAP) to Adjusted Free Cash Flow:** | | | | |
| Cash provided by operating activities - continuing operations | $ 11.9 | $ 6.0 | $ 22.1 | $ 3.0 |
| Acquisitions of plant, equipment and leasehold improvements | (3.8) | (0.9) | (7.1) | (4.2) |
| Cash received from litigation settlement [5] | — | — | — | (8.0) |
| **Adjusted Free Cash Flow - continuing operations** | $ 8.1 | $ 5.1 | $ 15.0 | $ (7.2) |

(1) Represents net legal costs incurred in connection with certain patent and shareholder litigation.
(2) The Company revised its prior period financial statements to adjust immaterial items, primarily due to estimated sales tax expense relating to 2017 through 2020. Refer to Note 2 of the Form 10-K for the year ended December 31, 2020 for an explanation of the immaterial prior period adjustments.
(3) Restructuring and other charges, net.
(4) The Company terminated the Revolving Credit Facility during the first quarter of 2020 and expensed the remaining unamortized deferred financing costs.
(5) During the second quarter of 2019, the Company recognized in operating income a $6.0 million gain related to the cash settlement of litigation.
(6) Foreign currency loss includes the release of the cumulative translation adjustment from the balance sheet to the statement of operations, done in connection with the disposition of the Company's Canadian subsidiary in 2019.

# Reconciliations of Non-GAAP Financial Measures

## Income from Operations and Operating Margin Excluding $6.0 Million Cash Litigation Settlement Gain

Income from Operations and Operating Margin excluding the $6.0 million cash litigation settlement gain are non-GAAP financial measures utilized by management in comparing our operating performance on a consistent basis between fiscal periods. We believe that this financial measure is appropriate to enhance an overall understanding of our underlying operating performance trends compared to historical and prospective periods and our peers.

| | Three Months Ended December 31, | | Twelve Months Ended December 31, | |
|---|---|---|---|---|
| | 2020 | 2019 | 2020 | 2019 |
| **Reconciliation of Income from Operations excluding litigation settlement gain:** | *($ in millions)* | *($ in millions)* | *($ in millions)* | *($ in millions)* |
| Income from operations | $ 12.4 | $ 3.7 | $ 38.4 | $ 24.7 |
| Less: Litigation settlement gain [5] | | | | (6.0) |
| **Income from Operations excluding litigation settlement gain** | $ 12.4 | $ 3.7 | $ 38.4 | $ 18.7 |
| **Net sales** | $ 84.1 | $ 72.6 | $ 312.2 | $ 278.1 |
| *Operating margin excluding litigation settlement gain (% of net sales)* | *14.8%* | *5.0%* | *12.3%* | *6.7%* |
| *Income from Operations excluding litigation settlement gain (% change 2020 vs 2019)* | *240%* | | *105%* | |

*Footnotes to Non-GAAP Financial Measures Tables:*

(1) Represents net legal costs incurred in connection with certain patent and shareholder litigation.
(2) The Company revised its prior period financial statements to adjust immaterial items, primarily due to estimated sales tax expense relating to 2017 through 2020. Refer to Note 2 of the Form 10-K for the year ended December 31, 2020 for an explanation of the immaterial prior period adjustments.
(3) Represents restructuring severance charges.
(4) The Company terminated the Revolving Credit Facility during the first quarter of 2020 and expensed the remaining unamortized deferred financing costs.
(5) During the second quarter of 2019, the Company recognized in operating income a $6.0 million gain related to the cash settlement of litigation.
(6) Foreign currency loss includes the release of the cumulative translation adjustment from the balance sheet to the statement of operations, done in connection with the disposition of the Company's Canadian subsidiary during 2019.

# Supplemental Financial Measures

## Weighted Average Effective Interest Rate

Management and various investors use the weighted average interest rate to consider the aggregate rate of interest paid on all debt. Weighted Average Effective Interest Rate is computed as interest expense for the quarter divided by average debt outstanding during the quarter. For 2020, this includes the $312.5 million First Lien Term Loan and $30 million Senior Credit Facility entered into on March 6, 2020, multiplied by four.

| | As of December 31, | |
|---|---|---|
| | 2020 | 2019 |
| **Weighted Average Interest Rate** | *($ in millions)* | *($ in millions)* |
| Interest Expense (a) | $ 6.2 | $ 6.0 |
| Term Loan | 312.5 | 312.5 |
| Senior Credit Facility | 30.0 | — |
| Total Debt at Quarter End | 342.5 | 312.5 |
| Average Debt Balance during quarter (b) | 342.5 | 312.5 |
| Weighted Average Interest Rate (a/ b * 4) | 7.3% | 7.7% |

## Net Leverage Ratio

Management and various investors use the ratio of total debt, plus finance lease obligations, plus unreimbursed letters of credit, less cash to LTM Adjusted EBITDA, or "Net Leverage Ratio," as a measure of our financial strength when making key investment decisions and evaluating us against peers. Net Leverage Ratio is defined in our Senior Credit Facility and First Lien Term Loan.

| | As of December 31, | | |
|---|---|---|---|
| | 2020 | 2019 | 2018 |
| **Calculation of Net Leverage Ratio:*** | *($ in millions)* | *($ in millions)* | *($ in millions)* |
| Consolidated Net Debt: | | | |
| Term Loan | $ 312.5 | $ 312.5 | $ 312.5 |
| Senior Credit Facility | 30.0 | — | — |
| Unreimbursed letters of credit | — | 0.1 | 0.1 |
| Finance lease obligations | 5.2 | 6.1 | 1.6 |
| Total Consolidated Net Debt | 347.7 | 318.7 | 314.1 |
| Less: Cash and cash equivalents | (57.6) | (18.7) | (20.3) |
| Total Consolidated Secured Indebtedness (a) | $ 290.1 | $ 300.0 | $ 293.8 |
| LTM Adjusted EBITDA (b) | $ 57.5 | $ 37.6 | $ 27.1 |
| **Net Leverage Ratio (a)/(b)** | **5.0** | **8.0** | **10.8** |

* Net leverage ratio is defined in our First Lien Term Loan and Senior Credit Facility