REFINITIV

DELTA REPORT

10-Q

PMTS - CPI CARD GROUP INC.

10-Q - MARCH 31, 2024 COMPARED TO 10-Q - SEPTEMBER 30, 2023

The following comparison report has been automatically generated

TOTAL DELTAS	886
CHANGES	85
DELETIONS	446
ADDITIONS	355

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

Form 10-Q

(Mark One)

☒ Quarterly Report Pursuant to Section 13 or 15(d) of the Securities and Exchange Act of 1934
For the Quarterly Period Ended September 30, 2023 March 31, 2024

or

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

Commission File Number: 001-37584

CPI Card Group Inc.
(Exact name of the registrant as specified in its charter)

Delaware	**26-0344657**
(State or other jurisdiction of incorporation or organization)	(I.R.S. employer identification no.)
10368 W. Centennial Road **Littleton, CO**	**80127**
(Address of principal executive offices)	(Zip Code)

(720) 681-6304
(Registrant's telephone number, including area code)

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, $0.001 par value	PMTS	Nasdaq Global Market

Securities registered pursuant to Section 12(g) of the Act: None

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

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

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

Large accelerated filer	☐	Accelerated filer	☒
Non-accelerated filer	☐	Smaller reporting company	☒

Emerging growth company ☐

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

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

Yes ☐ No ☒

Number of shares of Common Stock, $0.001 par value, outstanding as of November 1, 2023 April 30, 2024: 11,456,146 11,122,466

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PART I - Financial Information

Item 1. Financial Statements

CPI Card Group Inc. and Subsidiaries

Condensed Consolidated Balance Sheets

(in thousands, except share and per share amounts)

(Unaudited)

	September 30, 2023	December 31, 2022	March 31, 2024	December 31, 2023
Assets				
Current assets:				
Cash and cash equivalents	$ 10,473	$ 11,037	$ 17,144	$ 12,413
Accounts receivable, net	67,546	80,583	68,539	73,724
Inventories, net	74,080	68,399	83,381	70,594
Prepaid expenses and other current assets	8,747	7,551	11,862	8,647
Total current assets	160,846	167,570	180,926	165,378
Plant, equipment, leasehold improvements and operating lease right-of-use assets, net of accumulated depreciation of $66,437 and $61,922, respectively	62,643	57,178		
Intangible assets, net of accumulated amortization of $50,797 and $47,897, respectively	15,088	17,988		
Plant, equipment, leasehold improvements and operating lease right-of-use assets, net of accumulated depreciation of $70,039 and $66,436 respectively			61,033	63,053
Intangible assets, net of accumulated amortization of $52,731 and $51,763 respectively			13,154	14,122
Goodwill	47,150	47,150	47,150	47,150
Other assets	6,388	6,780	17,517	3,980
Total assets	$ 292,115	$ 296,666	$ 319,780	$ 293,683
Liabilities and stockholders' deficit				
Current liabilities:				
Accounts payable	$ 16,876	$ 24,371	$ 23,643	$ 12,802
Accrued expenses	27,967	40,070	49,203	35,803
Deferred revenue and customer deposits	787	3,571	1,172	840
Total current liabilities	45,630	68,012	74,018	49,445
Long-term debt	272,669	285,522	265,326	264,997
Deferred income taxes	7,920	6,808	6,742	7,139
Other long-term liabilities	22,616	18,401	22,145	24,038
Total liabilities	348,835	378,743	368,231	345,619
Commitments and contingencies (Note 11)				
Series A Preferred Stock; $0.001 par value—100,000 shares authorized; 0 shares issued and outstanding at September 30, 2023 and December 31, 2022	—	—		
Commitments and contingencies (Note 12)				
Series A Preferred Stock; $0.001 par value—100,000 shares authorized; 0 shares issued and outstanding at March 31, 2024 and December 31, 2023			—	—
Stockholders' deficit:				
Common stock; $0.001 par value—100,000,000 shares authorized; 11,453,549 and 11,390,355 shares issued and outstanding at September 30, 2023 and December 31, 2022, respectively	11	11		

Common stock; $0.001 par value—100,000,000 shares authorized; 11,391,476 and 11,446,155 shares issued and outstanding at March 31, 2024 and December 31, 2023, respectively			11	11
Capital deficiency	(104,275)	(108,379)	(104,193)	(102,223)
Accumulated earnings	47,544	26,291	55,731	50,276
Total stockholders' deficit	(56,720)	(82,077)	(48,451)	(51,936)
Total liabilities and stockholders' deficit	$ 292,115	$ 296,666	$ 319,780	$ 293,683

See accompanying notes to condensed consolidated financial statements

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CPI Card Group Inc. and Subsidiaries

Condensed Consolidated Statements of Operations and Comprehensive Income

(in thousands, except share and per share amounts)

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,		Three Months Ended March 31,	
	2023	2022	2023	2022	2024	2023
Net sales:						
Products	$ 55,689	$ 71,606	$ 195,425	$ 208,867	$ 58,158	$ 75,790
Services	50,174	52,971	146,250	140,442	53,778	45,062
Total net sales	105,863	124,577	341,675	349,309	111,936	120,852
Cost of sales:						
Products (exclusive of depreciation and amortization shown below)	37,540	42,702	124,828	128,851	37,802	45,980
Services (exclusive of depreciation and amortization shown below)	29,574	31,190	89,192	85,625	29,929	29,404
Depreciation and amortization	2,597	2,245	7,584	6,564	2,687	2,374
Total cost of sales	69,711	76,137	221,604	221,040	70,418	77,758
Gross profit	36,152	48,440	120,071	128,269	41,518	43,094
Operating expenses:						
Selling, general and administrative (exclusive of depreciation and amortization shown below)	21,783	23,403	64,734	67,335	26,043	21,066
Depreciation and amortization	1,408	1,592	4,286	4,454	1,330	1,430
Total operating expenses	23,191	24,995	69,020	71,789	27,373	22,496
Income from operations	12,961	23,445	51,051	56,480	14,145	20,598
Other expense, net:						
Interest, net	(6,714)	(7,323)	(20,235)	(22,334)	(6,425)	(6,781)
Other expense, net	(53)	(63)	(245)	(474)	(65)	(114)
Total other expense, net	(6,767)	(7,386)	(20,480)	(22,808)	(6,490)	(6,895)
Income before income taxes	6,194	16,059	30,571	33,672	7,655	13,703
Income tax expense	(2,337)	(4,149)	(9,318)	(9,609)	(2,200)	(2,830)
Net income	$ 3,857	$ 11,910	$ 21,253	$ 24,063	$ 5,455	$ 10,873

Basic and diluted earnings per share:						
Basic earnings per share	$ 0.34	$ 1.06	$ 1.86	$ 2.14	$ 0.48	$ 0.95
Diluted earnings per share	$ 0.33	$ 1.01	$ 1.79	$ 2.05	$ 0.46	$ 0.91
Basic weighted-average shares outstanding	11,432,794	11,265,767	11,418,372	11,259,655	11,266,699	11,394,919
Diluted weighted-average shares outstanding	11,827,816	11,788,921	11,861,868	11,730,668	11,769,364	11,901,581
Comprehensive income:						
Net income	$ 3,857	$ 11,910	$ 21,253	$ 24,063	$ 5,455	$ 10,873
Total comprehensive income	$ 3,857	$ 11,910	$ 21,253	$ 24,063	$ 5,455	$ 10,873

See accompanying notes to condensed consolidated financial statements

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CPI Card Group Inc. and Subsidiaries

Condensed Consolidated Statements of Stockholders' Deficit

(in thousands, except per share amounts)

(Unaudited)

	Common Stock		Capital	Accumulated		Common Stock		Capital	Accumulated	
	Shares	Amount	deficiency	earnings	Total	Shares	Amount	deficiency	earnings	Total
June 30, 2023	11,430,245	$ 11	$ (106,668)	$ 43,687	$ (62,970)					
December 31, 2023						11,446,155	$ 11	$ (102,223)	$ 50,276	$ (51,936)
Shares issued under stock-based compensation plans	23,304	—	(207)	—	(207)	13,579	—	(109)	—	(109)
Stock-based compensation	—	—	2,600	—	2,600	—	—	3,060	—	3,060
Repurchase and retirement of common shares						(68,258)	—	(4,921)	—	(4,921)
Components of comprehensive income:										
Net income	—	—	—	3,857	3,857	—	—	—	5,455	5,455
September 30, 2023	11,453,549	$ 11	$ (104,275)	$ 47,544	$ (56,720)					
March 31, 2024						11,391,476	$ 11	$ (104,193)	$ 55,731	$ (48,451)

	Common Stock		Capital	Accumulated		Common Stock		Capital	Accumulated	
	Shares	Amount	deficiency	earnings	Total	Shares	Amount	deficiency	earnings	Total
December 31, 2022	11,390,355	$ 11	$ (108,379)	$ 26,291	$ (82,077)	11,390,355	$ 11	$ (108,379)	$ 26,291	$ (82,077)
Shares issued under stock-based compensation plans	63,194	—	(327)	—	(327)	34,273	—	(69)	—	(69)
Stock-based compensation	—	—	4,431	—	4,431	—	—	541	—	541
Components of comprehensive income:										
Net income	—	—	—	21,253	21,253	—	—	—	10,873	10,873
September 30, 2023	11,453,549	$ 11	$ (104,275)	$ 47,544	$ (56,720)					

	Common Stock		Capital	Accumulated	
	Shares	Amount	deficiency	earnings	Total
June 30, 2022	11,262,688	$ 11	$ (108,880)	$ 1,904	$ (106,965)
Shares issued under stock-based compensation plans	25,221	—	(171)	—	(171)
Stock-based compensation	—	—	966	—	966
Components of comprehensive income:					
Net income	—	—	—	11,910	11,910
September 30, 2022	11,287,909	$ 11	$ (108,085)	$ 13,814	$ (94,260)

	Common Stock		Capital	Accumulated	
	Shares	Amount	deficiency	earnings (loss)	Total
December 31, 2021	11,255,466	$ 11	$ (110,782)	$ (10,249)	$ (121,020)
Shares issued under stock-based compensation plans	32,443	—	(231)	—	(231)
Stock-based compensation	—	—	2,928	—	2,928
Components of comprehensive income:					
Net income	—	—	—	24,063	24,063
September 30, 2022	11,287,909	$ 11	$ (108,085)	$ 13,814	$ (94,260)
March 31, 2023	11,424,628	$ 11	$ (107,907)	$ 37,164	$ (70,732)

See accompanying notes to condensed consolidated financial statements

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CPI Card Group Inc. and Subsidiaries

Condensed Consolidated Statements of Cash Flows

(in thousands)

(Unaudited)

	Nine Months Ended September 30,	
	2023	2022
Operating activities		
Net income	$ 21,253	$ 24,063
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation expense	8,970	8,118
Amortization expense	2,900	2,900
Stock-based compensation expense	4,431	2,928
Amortization of debt issuance costs and debt discount	1,397	1,449
Loss on debt extinguishment	243	395
Deferred income taxes	1,112	1,192
Other, net	(156)	437
Changes in operating assets and liabilities:		
Accounts receivable	12,988	(14,862)

Inventories	(5,806)	(13,916)
Prepaid expenses and other assets	422	1,501
Income taxes, net	(1,616)	(1,577)
Accounts payable	(7,805)	(440)
Accrued expenses and other liabilities	(13,283)	(3,208)
Deferred revenue and customer deposits	(2,784)	2,733
Cash provided by operating activities	22,266	11,713
Investing activities		
Capital expenditures for plant, equipment and leasehold improvements, net	(6,076)	(14,440)
Other	183	95
Cash used in investing activities	(5,893)	(14,345)
Financing activities		
Principal payments on Senior Notes	(16,954)	(20,000)
Principal payments on ABL Revolver	(10,000)	(10,000)
Proceeds from ABL Revolver	13,000	35,000
Payments on debt extinguishment and other	(327)	(1,093)
Proceeds from finance lease financing	—	2,074
Payments on finance lease obligations	(2,655)	(2,457)
Cash (used in) provided by financing activities	(16,936)	3,524
Effect of exchange rates on cash	(1)	(68)
Net (decrease) increase in cash and cash equivalents	(564)	824
Cash and cash equivalents, beginning of period	11,037	20,683
Cash and cash equivalents, end of period	$ 10,473	$ 21,507
Supplemental disclosures of cash flow information		
Cash paid (refunded) during the period for:		
Interest	$ 25,307	$ 27,026
Income taxes paid	$ 9,994	$ 10,859
Income taxes refunded	$ (25)	$ (449)
Right-of-use assets obtained in exchange for lease obligations:		
Operating leases	$ 2,641	$ 816
Financing leases	$ 6,989	$ 7,783
Accounts payable and accrued expenses for capital expenditures for plant, equipment and leasehold improvements	$ 977	$ 1,781

	Three Months Ended March 31,	
	2024	2023
Operating activities		
Net income	$ 5,455	$ 10,873
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation expense	3,049	2,837
Amortization expense	968	967
Stock-based compensation expense	3,060	541
Amortization of debt issuance costs and debt discount	459	473
Loss on debt extinguishment	—	119
Deferred income taxes	(397)	(271)
Other, net	223	12
Changes in operating assets and liabilities:		
Accounts receivable, net	5,171	4,335
Inventories	(12,984)	(1,464)
Prepaid expenses and other assets	(17,610)	310
Income taxes, net	728	550
Accounts payable	10,681	1,533
Accrued expenses and other liabilities	9,730	(11,358)
Deferred revenue and customer deposits	332	(1,456)
Cash provided by operating activities	8,865	8,001

Investing activities		
Capital expenditures for plant, equipment and leasehold improvements, net	(1,506)	(4,145)
Other	—	50
Cash used in investing activities	(1,506)	(4,095)
Financing activities		
Principal payments on Senior Notes	—	(7,903)
Proceeds from ABL Revolver	—	8,000
Other	(109)	(69)
Payments on finance lease obligations	(1,269)	(820)
Common stock repurchased	(1,250)	—
Cash used in financing activities	(2,628)	(792)
Effect of exchange rates on cash	—	6
Net increase in cash and cash equivalents	4,731	3,120
Cash and cash equivalents, beginning of period	12,413	11,037
Cash and cash equivalents, end of period	$ 17,144	$ 14,157
Supplemental disclosures of cash flow information		
Cash paid (refunded) during the period for:		
Interest	$ 11,903	$ 12,608
Income taxes paid	$ 16	$ 28
Income taxes refunded	$ (163)	$ —
Right-of-use assets obtained in exchange for lease obligations:		
Operating leases	$ —	$ 168
Financing leases	$ —	$ 2,169
Accounts payable and accrued expenses for capital expenditures for plant, equipment and leasehold improvements	$ 263	$ 422
Unsettled share repurchases included in accrued expenses	$ 4,404	$ —

See accompanying notes to condensed consolidated financial statements

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CPI Card Group Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements

(dollars in thousands, except share and per share amounts or as otherwise indicated)

(Unaudited)

1. Business Overview and Summary of Significant Accounting Policies

Business Overview

CPI Card Group Inc. (which, together with its subsidiary companies, is referred to herein as “CPI” or the “Company”) is a payment payments technology company and leading provider of comprehensive Financial Payment Card solutions in the United States. CPI is engaged in the design, production, data personalization, packaging and fulfillment of Financial Payment Cards, which the Company defines as credit, debit and Prepaid Debit Cards (defined below) issued on the networks of the Payment Card Brands (Visa, Mastercard®, American Express® and Discover®). CPI defines “Prepaid Debit Cards” as debit cards issued on the networks of the Payment Card Brands, but not linked to a traditional bank account. CPI also offers an instant card issuance solution, which provides customers the ability to issue a personalized debit or credit card within the bank branch to individual cardholders.

CPI serves its customers through a network of high-security production and card services facilities in the United States, each of which is audited for compliance with the standards of the Payment Card Industry Security Standards Council (the "PCI ("PCI Security Standards Council") by one or more of the Payment Card Brands. CPI's network of high-security production facilities allows the Company to optimize its solutions offerings and serve its customers.

The Company's business consists of the following reportable segments: Debit and Credit, Prepaid Debit and Other. The Debit and Credit segment primarily produces Financial Payment Cards and provides integrated card services for to card-issuing financial institutions primarily in the United States. The Prepaid Debit segment primarily provides integrated card services to Prepaid Debit Card program managers primarily in the United States. The Company's "Other" segment includes corporate expenses.

Basis of Presentation

Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") have been condensed or omitted pursuant to Form 10-Q and Article 8 of Regulation S-X. In the opinion of management, these financial statements reflect all adjustments (consisting of normal recurring adjustments) considered necessary for the fair statement of the results of the interim periods presented. The condensed consolidated balance sheet as of December 31, 2022 December 31, 2023 is derived from the audited financial statements as of that date. The accompanying condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and related notes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2022 December 31, 2023.

Use of Estimates

Management uses estimates and assumptions relating to the reporting of assets and liabilities at the date of the financial statements, the reported revenues and expenses recognized during the reporting period, and certain financial statement disclosures in the preparation of the condensed consolidated financial statements. Significant items subject to such estimates and assumptions include the carrying amount of property and equipment, goodwill and intangible assets, leases, valuation allowances for inventories and deferred taxes, revenue recognized for work performed but not completed and uncertain tax positions. Actual results could differ from those estimates.

Recent Accounting Pronouncements

Recently Adopted Accounting Pronouncements

In June 2016, the Financial Accounting Standards Board issued Accounting Standards Update ("ASU") *2016-13,Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, which changes the criteria under which credit losses on financial instruments (such as the Company's trade receivables) are measured. The ASU introduces a new credit reserve model known as the Current Expected Credit Loss ("CECL") model, which replaces the incurred loss impairment methodology previously used under GAAP with an expected loss

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methodology. Effective January 1, 2023,**Recent Accounting Pronouncements**

Recently Issued Accounting Pronouncements

In November 2023, the Financial Accounting Standards Board issued ASU 2023-07, Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures, which will require enhanced segment disclosures. Adoption of this accounting standard is effective for the

Company adopted for fiscal years beginning after December 15, 2023. The Company has elected not to early adopt this accounting standard. The Company is evaluating the CECL model. The impact of adoption of this standard and does not anticipate that the model did not application of ASU 2023-07 will have a material impact on the Company's consolidated financial position, or results of operations. operations, or cash flows.

In December 2023, the Financial Accounting Standards Board issued ASU 2023-09, Income Taxes (Topic 740): Improvements to Income Tax Disclosures which will require a disaggregated rate reconciliation disclosure as well as additional information regarding taxes paid. Adoption of this accounting standard is effective for the Company for fiscal years beginning after December 15, 2024. The Company has elected not to early adopt this accounting standard. The Company is evaluating the impact of adoption of this standard and does not anticipate that the application of ASU 2023-09 will have a material impact on the Company's consolidated financial position, results of operations, or cash flows.

2. Net Sales

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

	Three Months Ended September 30, 2023			Three Months Ended March 31, 2024		
	Products	Services	Total	Products	Services	Total
	(dollars in thousands)					
Debit and Credit	$ 55,934	$ 27,846	$ 83,780	$ 58,371	$ 29,602	$ 87,973
Prepaid Debit	—	22,335	22,335	—	24,198	24,198
Intersegment eliminations	(245)	(7)	(252)	(213)	(22)	(235)
Total	$ 55,689	$ 50,174	$ 105,863	$ 58,158	$ 53,778	$ 111,936

	Nine Months Ended September 30, 2023			Three Months Ended March 31, 2023		
	Products	Services	Total	Products	Services	Total
	(dollars in thousands)					
Debit and Credit	$ 195,967	$ 82,992	$ 278,959	$ 76,032	$ 25,953	$ 101,985
Prepaid Debit	—	63,286	63,286	—	19,130	19,130
Intersegment eliminations	(542)	(28)	(570)	(242)	(21)	(263)
Total	$ 195,425	$ 146,250	$ 341,675	$ 75,790	$ 45,062	$ 120,852

	Three Months Ended September 30, 2022		
	Products	Services	Total
	(dollars in thousands)		
Debit and Credit	$ 71,857	$ 27,655	$ 99,512
Prepaid Debit	—	25,335	25,335
Intersegment eliminations	(251)	(19)	(270)
Total	$ 71,606	$ 52,971	$ 124,577

	Nine Months Ended September 30, 2022		
	Products	Services	Total
	(dollars in thousands)		
Debit and Credit	$ 209,236	$ 76,472	$ 285,708
Prepaid Debit	—	64,010	64,010
Intersegment eliminations	(369)	(40)	(409)
Total	$ 208,867	$ 140,442	$ 349,309

Products Net Sales

"Products" net sales are recognized when obligations under the terms of a contract with a customer are satisfied. In most instances, this occurs over time as cards are produced for specific customers and have no alternative use and the Company has an enforceable right to payment for work performed. For unbilled work performed but not completed and unbilled, the Company estimates revenue by taking actual costs incurred and applying historical margins for similar types of contracts. Items included in "Products" net sales are the design and production of Financial Payment Cards, including contact-EMV®, contactless dual-interface EMV, contactless and magnetic stripe cards, CPI's eco-focused solutions, including Second Wave® and Earthwise® cards made with upcycled plastic, metal cards, private label credit cards and retail gift cards. Card@Once® printers and consumables are also included in "Products" net sales, and their associated revenues are recognized at the time of shipping. The Company includes gross shipping and handling revenue in net sales, and shipping and handling costs in cost of sales.

Europay, Mastercard and Visa ("EMV®") is a global technical standard maintained by EMV Co, LLC. EMV® is a registered trademark in the U.S. and other countries and an unregistered trademark elsewhere. The EMV trademark is owned by EMV Co, LLC.

Services Net Sales

Net sales are recognized for "Services" as the services are performed. Items included in "Services" net sales include the personalization and fulfillment of Financial Payment Cards, providing tamper-evident secure packaging and fulfillment services to Prepaid Debit Card program managers, and software-as-a-service personalization of instant

issuance debit cards. As applicable, for unbilled work performed but not completed and unbilled, the Company estimates revenue by taking actual costs incurred and applying historical margins for similar types of contracts.

Customer Contracts

The Company often enters into Master Services Agreements ("MSAs") with its customers. Generally, enforceable rights and obligations for goods and services occur only when a customer places a purchase order or statement of work to obtain goods or services under an MSA. The contract term as defined by ASC 606, *Revenue from Contracts with Customers*, is the length of time it takes to deliver the goods or services promised under the purchase order or statement of work. As such, the Company's contracts are generally short term in nature.

Costs to Obtain a Contract with a Customer

Costs to obtain a contract ("contract costs") include only those costs incurred to obtain a contract that the Company would not have incurred if the contract had not been obtained. For contracts where the term is greater than one year, these costs are recorded as an asset and amortized consistent with the timing of the related revenue over the life of the contract. The current portion of the asset is included in "prepaid expenses and other current assets" and the noncurrent portion is included in "other assets" on the Company's condensed consolidated balance sheets. Contract costs incurred but unpaid are included in "accrued expenses" on the Company's condensed consolidated balance sheets. Contract costs are expensed as incurred when the amortization period is one year or less.

3. Accounts Receivable

Accounts receivable consisted of the following:

	September 30, 2023	December 31, 2022	March 31, 2024	December 31, 2023
	(dollars in thousands)			
Trade accounts receivable	$ 58,402	$ 68,886	$ 59,788	$ 69,245
Unbilled accounts receivable	9,375	11,915	8,997	4,725
	67,777	80,801	68,785	73,970
Less allowance	(231)	(218)		
Less allowance for credit losses			(246)	(246)
	$ 67,546	$ 80,583	$ 68,539	$ 73,724

4. Inventories

Inventories consisted of the following:

	September 30, 2023	December 31, 2022	March 31, 2024	December 31, 2023
	(dollars in thousands)			
Raw materials	$ 67,742	$ 61,434	$ 79,825	$ 66,210
Finished goods	9,799	10,300	6,531	7,162
Inventory reserve	(3,461)	(3,335)	(2,975)	(2,778)
	$ 74,080	$ 68,399	$ 83,381	$ 70,594

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

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

	September 30, 2023	December 31, 2022	March 31, 2024	December 31, 2023
	(dollars in thousands)			
Machinery and equipment	$ 65,846	$ 64,786	$ 68,466	$ 67,506
Machinery and equipment under financing leases	21,205	15,717	23,774	23,774
Furniture, fixtures and computer equipment	2,357	3,072	160	107

Leasehold improvements	15,480	14,703	17,419	16,335
Construction in progress	4,511	3,304	1,264	1,778
Operating lease right-of-use assets	19,681	17,518	19,989	19,989
	129,080	119,100	131,072	129,489
Less accumulated depreciation and amortization	(66,437)	(61,922)	(70,039)	(66,436)
	$ 62,643	$ 57,178	$ 61,033	$ 63,053

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6. Fair Value of Financial Instruments

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (exit price). In determining fair value, the Company utilizes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three broad levels. The following is a brief description of those three levels:

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

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

	Carrying Value as of September 30, 2023	Estimated Fair Value as of September 30, 2023	Fair Value Measurement at September 30, 2023 (Using Fair Value Hierarchy)			Carrying Value as of March 31, 2024	Estimated Fair Value as of March 31, 2024	Fair Value Measurement at March 31, 2024 (Using Fair Value Hierarchy)		
			Level 1	Level 2	Level 3			Level 1	Level 2	Level 3
	(dollars in thousands)									
Liabilities:										
Senior Notes	$ 267,897	$ 264,548	$ —	$ 264,548	$ —	$ 267,897	$ 267,147	$ —	$ 267,147	$ —
ABL Revolver	$ 8,000	$ 8,000	$ —	$ 8,000	$ —					

	Carrying Value as of	Estimated Fair Value as of	Fair Value Measurement at December 31, 2022	Carrying Value as of	Estimated Fair Value as of	Fair Value Measurement at December 31, 2023

	December 31, 2022	December 31, 2022	(Using Fair Value Hierarchy) Level 1	Level 2	Level 3	December 31, 2023	December 31, 2023	(Using Fair Value Hierarchy) Level 1	Level 2	Level 3
	(dollars in thousands)									
Liabilities:										
Senior Notes	$ 285,000	$ 281,438	$ —	$ 281,438	$ —	$ 267,897	$ 261,834	$ —	$ 261,834	$ —
ABL Revolver	$ 5,000	$ 5,000	$ —	$ 5,000	$ —					

The aggregate fair value of the Company's Senior Notes (as defined in Note 8, "Long-Term Debt") was based on bank quotes. The fair value measurement associated with the ABL Revolver (as defined in Note 8, "Long-Term Debt") approximates its carrying value as of September 30, 2023, given the applicable variable interest rates and nature of the security interest in Company assets.

The carrying amounts for cash and cash equivalents, accounts receivable and accounts payable each approximate fair value due to their short-term nature.

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7. Accrued Expenses

Accrued expenses consisted of the following:

	September 30, 2023	December 31, 2022	March 31, 2024	December 31, 2023
	(dollars in thousands)			
Accrued payroll and related employee expenses	$ 10,098	$ 7,727	$ 8,146	$ 11,431
Accrued employee performance bonuses	1,038	8,576	2,009	667
Employer payroll taxes	913	1,092	1,377	298
Accrued rebates	3,977	2,668	1,540	2,919
Estimated sales tax liability	458	622		
Capitalized contract costs payable			15,000	—
Accrued interest	970	7,275	999	6,830
Current operating and financing lease liabilities	6,652	5,697	7,195	7,318
Accrued share repurchases			4,404	733
Other	3,861	6,413	8,533	5,607
Total accrued expenses	$ 27,967	$ 40,070	$49,203	$ 35,803

Other accrued expenses as of September 30, 2023 March 31, 2024, and December 31, 2022 December 31, 2023, consisted primarily of miscellaneous federal income and sales tax accruals, for invoices not yet received, as well as self-insurance claims that have yet to be reported, and accrued property taxes.

reported.

8. Long-Term Debt

As of September 30, 2023 March 31, 2024, and December 31, 2022 December 31, 2023, long-term debt consisted of the following:

	Interest Rate (1)	September 30, 2023	December 31, 2022	March 31, 2024	December 31, 2023
		(dollars in thousands)			
Senior Notes	8.625 %	$ 267,897	$ 285,000		
ABL Revolver	6.674 %	8,000	5,000		
Senior Notes (1)				$ 267,897	$ 267,897
Unamortized deferred financing costs		(3,228)	(4,478)	(2,571)	(2,900)
Total long-term debt		272,669	285,522	265,326	264,997
Less current maturities		—	—	—	—
Long-term debt, net of current maturities		$ 272,669	$ 285,522	$ 265,326	$ 264,997

(1) The Senior Notes bear interest at a fixed rate and the ABL Revolver bears interest at a variable rate. of 8.625%.

Senior Notes

On March 15, 2021, the Company completed a private an offering by its wholly-owned subsidiary, CPI CG Inc., of $310.0 million aggregate principal amount of 8.625% Senior Secured Notes due 2026 (the “Senior Notes”) and related guarantees. The Senior Notes bear interest at a rate of 8.625% per annum and mature on March 15, 2026. Interest is payable on the Senior Notes on March 15 and September 15 of each year.

The Company has obligations to make an offer to repay the Senior Notes, requiring prepayment in advance of the maturity date, upon the occurrence of certain events including a change of control, certain asset sales and based on an annual excess cash flow calculation. The annual excess cash flow calculation is determined pursuant to the terms of that certain Indenture, dated as of March 15, 2021, by and among CPI CG Inc., the Company, the subsidiary guarantors and U.S. Bank National Association, as trustee, with any required prepayments to be made after the issuance of the Company’s annual financial statements. No such payment is required to be made in 2024 and was not required to be made in 2023 based on the Company’s operating results for the year years ended December 31, 2022. December 31, 2023 and 2022, respectively.

During the nine months ended September 30, 2023, the Company used cash on hand and available borrowing capacity under the *ABL Revolver (defined below) to retire a portion of the Senior Notes totaling $17.1 million of the principal amount thereof plus accrued and unpaid interest thereon to the retirement dates.*

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ABL

On March 15, 2021, the Company and CPI CG Inc., as borrower, entered into a Credit Agreement with Wells Fargo Bank, National Association, as lender, administrative agent and collateral agent, providing for an asset-based, senior secured revolving credit facility of up to $50.0 million (the “ABL Revolver”). The ABL Revolver matures on the earliest to occur of March 15, 2026 and the date that is 90 days prior to the maturity of the Senior Notes. On March 3, 2022, the Company and CPI CG Inc. entered into Amendment No. 1 to the Credit Agreement (the “Amendment”), which amended the ABL Revolver. The Amendment, among other things, increased the available borrowing capacity under the ABL Revolver to $75.0 million,

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$75.0 million, increased the uncommitted accordion feature to $25.0 million from $15.0 million, and revised the interest rate provisions to replace the prior LIBOR benchmark with updated benchmark provisions using the secured overnight financing rate ("SOFR") as administered by the Federal Reserve Bank of New York. On October 11, 2022, the Company and CPI CG Inc. entered into Amendment No. 2 to the Credit Agreement, which amended the ABL Revolver to adjust certain monthly document delivery terms and to clarify the treatment of certain inventory.

Borrowings under the amended ABL Revolver bear interest at a rate per annum equal to the applicable term SOFR adjusted for a credit spread, plus an applicable interest rate margin. The Company may select a one, three or six month six-month term SOFR, which is adjusted for a credit spread of 0.10% to 0.30% depending on the term selected. Through March 31, 2023, the applicable interest rate margin ranged from 1.50% to 1.75% depending on the average excess availability of the facility for the most recently completed quarter. The unused portion of the ABL Revolver commitment accrued a monthly unused line fee, 0.50% per annum through March 31, 2023, multiplied by the aggregate amount of Revolver commitments less the average Revolver usage during the immediately preceding month. The interest rate margin and unused line fee percentage changed, effective April 1, 2023, to between 1.25% and 1.75% (interest rate margin) and 0.375% and 0.50% (unused line fee).

Deferred Financing Costs and Discount

Certain costs and discounts incurred with borrowings are reflected as a reduction to the long-term debt balance. These costs are amortized as an adjustment to interest expense over the life of the borrowing using the effective-interest rate method. The remaining unamortized debt issuance costs recorded on the Senior Notes were $3.2 million $2.6 million and are reported as a reduction to the long-term debt balance as of September 30, 2023 March 31, 2024. The remaining unamortized net discount and debt issuance costs on the ABL Revolver and related Amendment were $1.1 million $0.9 million and are recorded as other assets (current and long-term) on the condensed consolidated balance sheet as of September 30, 2023 March 31, 2024.

9. Income Taxes

The Company's effective tax rate rates on pre-tax income was 37.7% were 28.7% and 25.8% 20.7% for the three months ended September 30, 2023, March 31, 2024 and 2022, respectively, and 30.5% and 28.5% for the nine months ended September 30, 2023, and 2022, 2023, respectively. The increase in the effective tax rate for the three and nine months ended September 30, 2023, March 31, 2024 compared to the corresponding period in the prior year primarily was due to tax deduction limitations on executive compensation. The effective tax rate for the three months ended September 30, 2023, also increased due to the reduction of the federal a valuation allowance recorded in the third first quarter of 2022 as a result of increased deductibility of interest costs due 2023 related to a tax election made by the Company in the third quarter of 2022.

state's law change.

For the nine three months ended September 30, 2023, March 31, 2024 and 2022, 2023, the effective tax rate differs from the U.S. federal statutory income tax rate as follows:

	September 30,		March 31,	
	2023	2022	2024	2023
Tax at federal statutory rate	21.0 %	21.0 %	21.0 %	21.0 %
State taxes, net	5.3	5.5	6.1	4.7
Valuation allowance	(1.1)	—	—	(5.2)
Permanent items	2.0	1.3	3.0	1.2
Deductibility limitations on excess compensation	4.0	0.7	(1.8)	0.1
Other	(0.7)	—	0.4	(1.1)

Effective income tax rate	30.5 %	28.5 %	28.7 %	20.7 %

10. Stockholders' Deficit

Share Repurchases

On November 2, 2023, the Company's board of directors approved a share repurchase plan authorizing the Company to repurchase up to $20.0 million of the Company's common stock, par value $0.001 per share. This authorization expires on December 31, 2024.

During the three months ended March 31, 2024, the Company repurchased 68,258 shares of its common stock at an average price of $18.29 per share, excluding commissions, or $1.2 million in aggregate, on a trade date basis. In accordance with the Stock Repurchase Agreement entered into on December 6, 2023, the Company is obligated to purchase 244,314 shares from Tricor Pacific Capital Partners (Fund IV) US, LP, which is one of the Company's majority stockholders and affiliated with Parallel49 Equity, at an average price of $18.03 per share, as of March 31, 2024. This

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obligationis based on a multiple of the number of shares the Company purchased in the open market from the date of the agreement through March 31, 2024, payment for which is due in the second quarter of 2024. As of March 31, 2024, the Company had an authorized amount of $14.1 million remaining under the share repurchase plan.

10.11. Earnings per Share

Basic and diluted earnings per share is computed by dividing net income by the weighted-average number of common shares outstanding during the period. The Company's calculation of weighted-average shares outstanding has been reduced by 244,314 shares that the Company is obligated to repurchase from Parallel49 in April 2024. Shares excluded from the calculation of diluted earnings per share because their inclusion would be anti-dilutive were 160,384 39,933 and 5,425 28,831 for the three months ended September 30, 2023, March 31, 2024 and 2022, respectively, and 210,457 and 12,841 for the nine months ended September 30, 2023, and 2022, 2023, respectively.

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

	Three Months Ended September 30,		Nine Months Ended September 30,		Three Months Ended March 31,	
	2023	2022	2023	2022		
	(dollars in thousands)				2024	2023
Numerator:						
Net income	$ 3,857	$ 11,910	$ 21,253	$ 24,063	$ 5,455	$ 10,873
Denominator:						
Basic weighted-average common shares outstanding	11,432,794	11,265,767	11,418,372	11,259,655	11,266,699	11,394,919
Dilutive shares	395,022	523,154	443,496	471,013	502,665	506,662
Diluted weighted-average common shares outstanding	11,827,816	11,788,921	11,861,868	11,730,668	11,769,364	11,901,581
Basic earnings per share	$ 0.34	$ 1.06	$ 1.86	$ 2.14	$ 0.48	$ 0.95

Diluted earnings per share	$	0.33	$	1.01	$	1.79	$	2.05	$	0.46	$	0.91

11 12. Commitments and Contingencies

Commitments

During the normal course of business, the Company enters into non-cancellable agreements to purchase goods and services, including production equipment and information technology systems. The Company leases real property for its facilities under non-cancellable operating lease agreements. Land and facility leases expire at various dates between 2024 and 2029 and contain various provisions for rental adjustments and renewals. The leases typically require the Company to pay property taxes, insurance and normal maintenance costs. The Company's financing leases expire at various dates between 2023 and 2028 and contain purchase options which the Company may exercise to keep the machinery in use.

Contingencies

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

Smart Packaging Solutions SA v. CPI Card Group Inc.

On April 20, 2021, Smart Packaging Solutions, SA ("SPS") filed a patent infringement lawsuit against the Company in the United States District Court for the District of Delaware seeking an unspecified amount of damages and equitable relief. In the complaint, SPS alleges that the Company infringed four patents that SPS has exclusively licensed from Feinics AmaTech Teoranta. The patents all relate to antenna technology. SPS alleges that the Company incorporates the patented technology into its products that use contactless communication. The Company does not produce antennas; it purchases certain antenna-related components from SPS and a number of other suppliers. The Company's motion to dismiss the complaint is currently pending. Additionally, a third party, Infineon, filed requests for Inter Parties Review ("IPR") proceedings concerning each of the four patents. As a result, the Delaware District Court stayed the case pending resolution of the requests for review. The United States Patent Office has instituted proceedings with respect to all of the IPR requests and requests; three of the patents have been invalidated in the IPR proceedings and one remains under review. The any remaining proceedings claims in the fourth patent office that are scheduled relevant to run through November 2023. Should the remaining patent survive review by the United States Patent Office, the Company intends have also been invalidated. While no assurance can be given that this matter will be resolved favorably, the patent owner has dismissed its appeals related to defend the suit three previously invalidated patents and the Company expects the pending litigation will be dismissed as a result of these developments.

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vigorously. However, no assurance can be given that this matter will be resolved favorably. Due to the stage of this matter, the Company is unable to predict the outcome or the possible loss or range of loss, if any, associated with this matter, and no liability has been recorded as of September 30, 2023.

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

Voluntary Disclosure Program

The Company is subject to unclaimed or abandoned property (escheat) laws which require it to turn over to state governmental authorities the property of others held by the Company that has been unclaimed for specified periods of time. Property subject to escheat laws generally relates to uncashed checks, trade accounts receivable credits and unpaid payable balances. During the second quarter of 2022, the Company received a letter from the Delaware Secretary of State inviting the Company to participate in the Delaware Secretary of State's Abandoned or Unclaimed Property Voluntary Disclosure Agreement Program to avoid being sent an audit notice by the Delaware Department of Finance. On August 31, 2022, the Company entered into Delaware's Voluntary Disclosure Agreement Program in order to voluntarily comply with Delaware's abandoned property law in exchange for certain protections and benefits. The Company intends to work in good faith to complete a review of its books and records related to unclaimed or abandoned property during the periods required under the program. Any potential loss, or range of loss, that may result from this matter is not currently reasonably estimable.

12. 13. Stock-Based Compensation

In October 2015, the Company adopted the CPI Card Group Inc. Omnibus Incentive Plan (the (as amended and supplemented, the "Omnibus Plan") pursuant to which cash and equity-based incentives may be granted to participating employees, consultants, advisors, and directors. On May 27, 2021 Effective January 30, 2024, the Company's stockholders approved an amendment and restatement of to the Omnibus Plan to among other things, increase the total number of shares of the Company's Common Stock reserved and available for issuance thereunder by 1,000,000 shares, resulting in a total of 2,200,000 3,200,000 shares issuable under the Omnibus Plan. As of March 31, 2024, there were 962,285 shares of Common Stock issuable available for grant under the Omnibus Plan.

Beginning in the first quarter of 2023, the Company's employees that participate in the Company's long-term incentive program will receive a quarterly grant comprising one-fourth of the annual equity-based incentive component of their total compensation. Executive awards will consist of a mix of restricted stock units and nonqualified stock options, and other employee awards will be comprised solely of restricted stock units. The number of shares awarded will be determined based on the grant-date fair value for nonqualified stock options and on a value tied to the monthly average closing price of the Company's common stock for restricted stock units.

In June 2023, the Company implemented an additional long-term incentive program under the Omnibus Plan, independent of the quarterly awards described above, designed to retain and incentivize executive officers and certain key employees, excluding the Company's President and Chief Executive Officer ("CEO"), comprised of restricted stock units. The first tranche was awarded in June 2023 and the second tranche was awarded in August 2023. The third and final tranche will be awarded in November 2023, subject to continued employment at that date. The awards vest ratably over a three-year period, subject to continued employment.

In June 2023, the Company also announced an award comprised of 25% nonqualified stock options and 75% restricted stock units to its CEO at the time as an incentive to remain employed by the Company through February 28, 2024. The first one-third one-third of the awards was granted in June 2023, the second one-third one-third was granted in August 2023, and the remainder will be was granted in November 2023. All of these awards will vest ratably over a two-year period irrespective of employment status with expense related to these awards to be recognized by the Company through February 28, 2024. As part of the CEO's incentive package, the requisite service and exercise periods for his awards granted in 2023 prior to June 2023 were also modified with expense related to the modification being recognized in June 2023 through February 2024.

During 2024, executives will receive a quarterly restricted stock unit grant comprising one-fourth of the annual equity-based incentive component of their total compensation. The number of shares awarded will be determined based on a value tied to the monthly average closing price of the Company's common stock.

As of March 31, 2024, there were 904,438 options outstanding at a weighted average exercise price of $18.87. No options were granted during the three months ended March 31, 2024. Options have 7-year terms and are issued with exercise prices equal to the fair market value of the Company's common stock on the grant date.

During the three months ended March 31, 2024, the Company granted 89,452 restricted stock units at a weighted average grant date fair value of $18.25, and as of March 31, 2024, there were 786,673 outstanding restricted stock units at a weighted average grant date fair value of $20.55.

In January 2024, the Company granted 60,000 performance stock units (PSU) in connection with the appointment of its CEO, with a grant date fair value of $0.9 million using a Monte Carlo simulation model. The PSU award will vest, subject to continuous employment, in equal one-third increments upon the attainment of the rolling weighted average closing price of the Company's common stock equaling or exceeding each of $35.00, $50.00, and $65.00, in each case, for at least 90 consecutive trading days during the five-year performance period commencing on the grant date.

All equity awards are contingent and issued only upon approval by the compensation committee of the Company's board of directors, or as otherwise permitted under the Omnibus Plan. The Company accounts for stock-based compensation pursuant to ASC 718, Share-Based

Payments. All stock-based compensation is measured at fair value and expensed on a straight-line basis over the requisite service period for each tranche of the award. required to be

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During the nine months ended September 30, 2023, the Company granted 92,655 options measured at a weighted average exercise price of $24.48. As of September 30, 2023, there were 865,834 options outstanding at a weighted average exercise price of $18.82.

During the nine months ended September 30, 2023, the Company granted 429,655 restricted stock units at a weighted average grant date fair value and expensed over the requisite service period, generally defined as the applicable vesting period. The Company accounts for forfeitures as they occur and reverses previously recognized expense for the unvested portion of $23.65, and as the forfeited shares. Upon the exercise of September 30, 2023, there were 450,747 outstanding restricted stock units at a weighted average grant date fair value options, shares of $23.39. common stock are issued from authorized common shares.

13. 14. Segment Reporting

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

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

As of September 30, 2023 March 31, 2024, the Company's reportable segments were as follows:

- *Debit and Credit*
- *Prepaid Debit*
- *Other*

Debit and Credit Segment

The Debit and Credit segment primarily produces Financial Payment Cards and provides integrated card services, including digital services, for card-issuing financial institutions primarily in the United States. Products produced by this segment primarily include EMV and non-EMV Financial Payment Cards, including contact and contactless cards, and Earth Elements™ Eco-Focused Cards. The Company also sells Card@Once instant card issuance solutions, and private label credit cards that are not issued on the networks of the Payment Card Brands. The Company provides print-on-demand services, where images, personalized payment cards, and related collateral are produced on a one-by-one, on demand basis for customers. This segment also provides a variety of integrated card services, including card personalization and fulfillment services and instant issuance services. The Debit and Credit segment facilities and operations are audited for compliance with the standards of the PCI Security Standards Council by multiple Payment Card Brands.

Prepaid Debit Segment

The Prepaid Debit segment primarily provides integrated prepaid card services to Prepaid Debit Card program managers providers primarily in the United States, including tamper-evident security packaging. This segment also produces Financial Payment Cards issued on the networks of the Payment Card Brands that are included in the tamper-evident security packages. The Prepaid Debit segment facilities and operations are audited for compliance with the standards of the PCI Security Standards Council by multiple Payment Card Brands.

Other

The Other segment includes corporate expenses.

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Performance Measures of Reportable Segments

Net sales and EBITDA of the Company's reportable segments, as well as a reconciliation of total segment EBITDA to income from operations and net income for the three and nine months ended September 30, 2023 March 31, 2024 and 2022, 2023, were as follows:

	Three Months Ended September 30, 2023				
	Debit and Credit	Prepaid Debit	Other	Intersegment Eliminations	Total
	(dollars in thousands)				
Net sales	$ 83,780	$ 22,335	$ —	$ (252)	$ 105,863
Cost of sales	55,399	14,564	—	(252)	69,711
Gross profit	28,381	7,771	—	—	36,152
Operating expenses	7,590	1,140	14,461	—	23,191
Income (loss) from operations	$ 20,791	$ 6,631	$ (14,461)	$ —	$ 12,961
EBITDA by segment:					
Income (loss) from operations	$ 20,791	$ 6,631	$ (14,461)	$ —	$ 12,961
Depreciation and amortization	2,322	675	1,008	—	4,005
Other expense, net	(27)	(2)	(24)	—	(53)
EBITDA	$ 23,086	$ 7,304	$ (13,477)	$ —	$ 16,913

	Nine Months Ended September 30, 2023				
	Debit and Credit	Prepaid Debit	Other	Intersegment Eliminations	Total
	(dollars in thousands)				
Net sales	$ 278,959	$ 63,286	$ —	$ (570)	$ 341,675
Cost of sales	179,356	42,818	—	(570)	221,604
Gross profit	99,603	20,468	—	—	120,071
Operating expenses	23,705	2,532	42,783	—	69,020
Income (loss) from operations	$ 75,898	$ 17,936	$ (42,783)	$ —	$ 51,051
EBITDA by segment:					

Income (loss) from operations	$ 75,898	$ 17,936	$ (42,783)	$ —	$ 51,051
Depreciation and amortization	6,836	2,003	3,031	—	11,870
Other expense, net	(1)	(1)	(243)	—	(245)
EBITDA	$ 82,733	$ 19,938	$ (39,995)	$ —	$ 62,676

	Three Months Ended September 30, 2022				
	Debit and Credit	Prepaid Debit	Other	Intersegment Eliminations	Total
	(dollars in thousands)				
Net sales	$ 99,512	$ 25,335	$ —	$ (270)	$ 124,577
Cost of sales	61,441	14,966	—	(270)	76,137
Gross profit	38,071	10,369	—	—	48,440
Operating expenses	8,653	1,260	15,082	—	24,995
Income (loss) from operations	$ 29,418	$ 9,109	$ (15,082)	$ —	$ 23,445
EBITDA by segment:					
Income (loss) from operations	$ 29,418	$ 9,109	$ (15,082)	$ —	$ 23,445
Depreciation and amortization	2,271	529	1,037	—	3,837
Other expense, net	(14)	—	(49)	—	(63)
EBITDA	$ 31,675	$ 9,638	$ (14,094)	$ —	$ 27,219

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	Nine Months Ended September 30, 2022					Three Months Ended March 31, 2024				
	Debit and Credit	Prepaid Debit	Other	Intersegment Eliminations	Total	Debit and Credit	Prepaid Debit	Other	Intersegment Eliminations	Total
	(dollars in thousands)									
Net sales	$ 285,708	$ 64,010	$ —	$ (409)	$ 349,309	$ 87,973	$24,198	$ —	$ (235)	$111,936
Cost of sales	181,319	40,130	—	(409)	221,040	56,478	14,175	—	(235)	70,418
Gross profit	104,389	23,880	—	—	128,269	31,495	10,023	—	—	41,518
Operating expenses	25,542	3,487	42,760	—	71,789	8,741	1,278	17,354	—	27,373
Income (loss) from operations	$ 78,847	$ 20,393	$ (42,760)	$ —	$ 56,480	$ 22,754	$ 8,745	$ (17,354)	$ —	$ 14,145
EBITDA by segment:										
Income (loss) from operations	$ 78,847	$ 20,393	$ (42,760)	$ —	$ 56,480	$ 22,754	$ 8,745	$ (17,354)	$ —	$ 14,145
Depreciation and amortization	6,202	1,711	3,105	—	11,018	2,150	871	996	—	4,017
Other expense, net	(7)	(3)	(464)	—	(474)					
Other income (expense)						(62)	(1)	(2)	—	(65)
EBITDA	$ 85,042	$ 22,101	$ (40,119)	$ —	$ 67,024	$ 24,842	$ 9,615	$(16,360)	$ —	$ 18,097

	Three Months Ended March 31, 2023				
	Debit and Credit	Prepaid Debit	Other	Intersegment Eliminations	Total
Net sales	$101,985	$19,130	$ —	$ (263)	$120,852
Cost of sales	63,801	14,220	—	(263)	77,758
Gross profit	38,184	4,910	—	—	43,094
Operating expenses	8,158	1,233	13,105	—	22,496
Income (loss) from operations	$ 30,026	$ 3,677	$ (13,105)	$ —	$ 20,598
EBITDA by segment:					
Income (loss) from operations	$ 30,026	$ 3,677	$ (13,105)	$ —	$ 20,598
Depreciation and amortization	2,161	624	1,019	—	3,804
Other income (expense)	5	—	(119)	—	(114)
EBITDA	$ 32,192	$ 4,301	$ (12,205)	$ —	$ 24,288

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
	(dollars in thousands)			
Total segment EBITDA	$ 16,913	$ 27,219	$ 62,676	$ 67,024
Interest, net	(6,714)	(7,323)	(20,235)	(22,334)
Income tax expense	(2,337)	(4,149)	(9,318)	(9,609)
Depreciation and amortization	(4,005)	(3,837)	(11,870)	(11,018)
Net income	$ 3,857	$ 11,910	$ 21,253	$ 24,063

	Three Months Ended March 31,	
	2024	2023
Net income	$ 5,455	$ 10,873
Interest, net	6,425	6,781
Income tax expense	2,200	2,830
Depreciation and amortization	4,017	3,804
EBITDA	$ 18,097	$ 24,288

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

References to the "Company," "our," "us" or "we" refer to CPI Card Group Inc. and its subsidiaries. For an understanding of the significant factors that influenced our results, the following discussion should be read in conjunction with our unaudited condensed consolidated financial statements and related notes appearing elsewhere in this Quarterly Report on Form 10-Q for the quarter ended September 30, 2023 March 31, 2024. This management's discussion and analysis should also be read in conjunction with the management's discussion and analysis and consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2022 December 31, 2023 filed with the Securities and Exchange Commission ("SEC").

Cautionary Statement Regarding Forward-Looking Information

Certain statements and information in this Quarterly Report on Form 10-Q for the quarter ended September 30, 2023 March 31, 2024 (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. amended (the "Exchange Act"). The words "believe," "estimate," "project," "expect," "anticipate," "plan," "intend," "foresee," "should," "would," "could," "continue," "committed," "attempt," "aim," "target," "objective," "guides," "seek," "focus," "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, including statements about our strategic initiatives and market opportunities, 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.

contemplated .

These risks and uncertainties include, but are not limited to: a deterioration in general economic conditions, including inflationary conditions and resulting in reduced consumer confidence and business spending, and a decline in consumer credit worthiness impacting demand for our products; the unpredictability of our operating results, including an inability to anticipate changes in customer inventory management practices and its impact on our business; adverse conditions in the banking system and financial markets, including the failure of banks and financial institutions; a disruption or other failure in our supply chain, including as a result of the Russia-Ukraine or other foreign conflicts and with respect to single source suppliers, or the failure or inability of suppliers to comply with our code of conduct or contractual requirements, or political unrest in countries in which our suppliers operate, or inflationary pressures, resulting in increased costs and inability to pass those costs on to our customers and extended production lead times and difficulty meeting customers' delivery expectations; our failure to retain our existing customers or identify and attract new customers; our status as an accelerated filer and complying with Section 404 of the Sarbanes-Oxley Act of 2002 and the costs associated with such compliance and implementation of procedures thereunder; our failure to maintain effective internal control over financial reporting; our inability to recruit, retain and develop qualified personnel, including key personnel; personnel, and implement effective succession processes; adverse conditions in the potential effects banking system and financial markets, including the failure of COVID-19 banks and responses thereto on our business, including our supply chain, customer demand, workforce, operations; financial institutions; system security risks, data protection breaches and cyber-attacks; interruptions in our operations, including our information technology systems, or in the operations of the third parties that operate computing infrastructure on which we rely; our inability to develop, introduce and commercialize new products; products and services; the usage, or lack thereof, of artificial intelligence technologies; our substantial indebtedness, including inability to make debt service payments or refinance such indebtedness; the restrictive terms of our indebtedness and covenants of future agreements governing indebtedness and the resulting restraints on our ability to pursue our business strategies; our status as an accelerated filer and complying with the Sarbanes-Oxley Act of 2002 and the costs associated with such compliance and implementation of procedures thereunder; our failure to maintain effective internal control over financial reporting; disruptions in production at one or more of our facilities; problems in production quality, materials and process and costs relating to product defects in our software; and any related product liability and/or warranty claims; environmental, social and governance ("ESG") preferences and demands of various stakeholders and our ability to conform to such preferences and demands and to comply with any related regulatory requirements; the effects of climate change, negative perceptions of our products due to the impact of our products and production processes on the environment and other ESG-related risks; damage to our reputation or brand image; disruptions in production due to weather conditions, climate change, political instability or social unrest; our inability to adequately protect our trade secrets and intellectual property rights from misappropriation, infringement claims brought against us and risks related to open source software; defects in our software and computing systems; our limited ability to raise capital; problems in production quality, materials and process; 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 or unclaimed property, as well as potential new U.S. tax legislation increasing the corporate income tax rate and challenges to our income tax positions; our inability to successfully execute on our divestitures or acquisitions; our inability to realize the full value of our long-lived assets; costs relating to product defects and any related product liability and/or warranty claims; our inability to renew licenses with key technology licensors; the highly competitive,

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the highly competitive, saturated and consolidated nature of our marketplace; the effects of restrictions, delays or interruptions in our ability to source raw materials and components used in our products from foreign countries; the effects on the global economy of the ongoing military action by Russia in Ukraine and other foreign conflicts; costs and potential liabilities associated with compliance or failure to comply with regulations, customer contractual requirements and evolving industry standards regarding consumer privacy and data use and security; 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; quarterly variation in our operating results; our failure to operate our business in accordance with the Payment Card Industry Security Standards Council security standards or other industry standards; the effects of restrictions, delays or interruptions in our ability to source raw materials and components used in our products from foreign countries; the effects on the global economy of ongoing foreign conflicts; our failure to comply with environmental, health and safety laws and regulations that apply to our products and the raw materials we use in our production processes; risks associated with the majority stockholders' ownership of our stock; potential conflicts of interest that may arise due to our board of directors being comprised in part of directors who are principals of our majority stockholders; the influence of securities analysts over the trading market for and price of our common stock; failure to meet the continued listing standards of the Nasdaq Global Market; the impact of stockholder activism or securities litigation on the trading price and volatility of our common stock; our inability to fully execute on our share repurchase program strategy; 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; our ability to comply with a wide variety of complex laws and regulations and the exposure to liability for any failure to comply; the effect of legal and regulatory proceedings; and other risks that are described in Part I, Item 1A – Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2022 December 31, 2023 filed with the SEC on March 8, 2023 March 7, 2024, in Part II, Item 1A – Risk Factors of this Quarterly Report on Form 10-Q and our other reports filed from time to time with the SEC.

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 or other events to differ materially from the expectations and beliefs contained herein. We undertake no obligation to publicly update or revise any forward-looking statements after the date they are made, whether as a result of new information, future events or otherwise.

Overview

We are a payment payments technology company and leading provider of comprehensive Financial Payment Card solutions in the United States. We define "Financial Payment Cards" as credit, debit and Prepaid Debit Cards (as defined below) issued on the networks of the "Payment Card Brands" (Visa, Mastercard®, American Express® and Discover®). We define "Prepaid Debit Cards" as debit cards issued on the networks of the Payment Card Brands, but not linked to a traditional bank account. We also offer an instant card issuance solution, which provides customers the ability to issue a personalized debit or credit card within the bank branch to individual cardholders. We have established a leading position in the Financial Payment Card solutions market through more than 20 years of experience.

We serve a diverse set of several thousand customers which includes direct customers and indirect customer relationships whereby CPI provides Financial Payment Card solutions to a customer through a Group Service Provider (as defined below). Our customers include some of the largest issuers of debit and credit cards in the United States, the largest Prepaid Debit Card program managers in the United States, numerous financial technology companies ("fintechs"), as well as independent community banks, credit unions and Group Service Providers. We define "Group Service Providers" as reseller or card processor organizations that assist small card issuers, such as credit unions, with managing their credit and debit card programs, including managing the Financial Payment Card issuance process, core banking operations and other financial services.

We serve our customers through a network of high-security production and card services facilities in the United States, each of which is audited for compliance with the standards of the Payment Card Industry Security Standards Council (the "PCI Security Standards Council") by one or more of the Payment Card Brands. Many of our customers require us to comply with PCI Security Standards Council requirements that relate to the provision of our products and services. Our network of high-security production facilities allows us to optimize our solutions offerings and to serve the needs of our diverse customer base.

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

- the U.S. prepaid debit market, including the largest U.S. Prepaid Debit Card program managers;
- the U.S. small-to mid-sized financial institutions market, which includes independent community banks and credit unions;
- the U.S. large issuer market, serving some of the largest U.S. debit and credit card issuers; and
- the U.S. fintech market, where we produce and personalize Financial Payment Cards for financial technology companies.

Our business consists of the following reportable segments:

- Debit and Credit, which primarily produces Financial Payment Cards and provides integrated card services, including digital services, to card-issuing financial institutions primarily in the United States;
- Prepaid Debit, which primarily provides integrated prepaid card services to Prepaid Debit Card program managers primarily in the United States; and
- "Other," which includes corporate expenses.

Trends and Key Factors Affecting Uncertainties That May Affect our Financial Performance

We believe the following key factors may have a meaningful impact on our business performance and may negatively influence our financial and operating results:

We believe some customers have temporarily reduced demand for our products and services and we may experience reduced demand from customers in the future due to the following:

- Some large banks point toward the possibility that the U.S. economy will may experience an economic slowdown in the near future, which we believe has caused, and may continue to cause, some of our customers, particularly in the banking and financial services industry, to have concerns about the broader economic environment and therefore reduce overall spending, delay spending into future periods, or request pricing concessions, including on card programs or other products and services we offer.
- Some of our customers anticipated supply-chain-related delays and correspondingly increased their own inventory of the Company's products on hand during 2022. As supply-chain lead times have improved, and given the economic concerns noted above, we believe some customers are now became and continue to remain more focused on reducing their inventory levels.

- Certain banks have experienced negative liquidity events, including some being taken over takeover by industry regulators and others experiencing deposit outflows, or increased loan loss reserves, each of which had the effect of deteriorating share prices and limited limiting access to capital, leading to cautionary signals and uncertainty in the financial services industry. Following some of these events, we experienced reduced demand in the Debit and Credit segment. segment and may experience reduced demand in the future.

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Results of Operations

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

	Three Months Ended September 30, 2023	Three Months Ended September 30, 2022	$ Change	% Change	Nine Months Ended September 30, 2023	Nine Months Ended September 30, 2022	$ Change	% Change
	(dollars in thousands)							
Net sales: (1)								
Products	$ 55,689	$ 71,606	$ (15,917)	(22.2)%	$ 195,425	$ 208,867	$ (13,442)	(6.4)%
Services	50,174	52,971	(2,797)	(5.3)%	146,250	140,442	5,808	4.1 %
Total net sales	105,863	124,577	(18,714)	(15.0)%	341,675	349,309	(7,634)	(2.2)%
Cost of sales (1)	69,711	76,137	(6,426)	(8.4)%	221,604	221,040	564	0.3 %
Gross profit	36,152	48,440	(12,288)	(25.4)%	120,071	128,269	(8,198)	(6.4)%
Operating expenses	23,191	24,995	(1,804)	(7.2)%	69,020	71,789	(2,769)	(3.9)%
Income from operations	12,961	23,445	(10,484)	(44.7)%	51,051	56,480	(5,429)	(9.6)%
Other expense, net:								
Interest, net	(6,714)	(7,323)	609	(8.3)%	(20,235)	(22,334)	2,099	(9.4)%
Other expense, net	(53)	(63)	10	*	(245)	(474)	229	(48.3)%
Income before taxes	6,194	16,059	(9,865)	(61.4)%	30,571	33,672	(3,101)	(9.2)%
Income tax expense	(2,337)	(4,149)	1,812	(43.7)%	(9,318)	(9,609)	291	(3.0)%
Net income	$ 3,857	$ 11,910	$ (8,053)	(67.6)%	$ 21,253	$ 24,063	$ (2,810)	(11.7)%
Gross profit margin	34.1%	38.9%			35.1%	36.7%		

** Calculation not meaningful*

	Three Months Ended March 31, 2024	Three Months Ended March 31, 2023	$ Change	% Change
	(dollars in thousands)			
Net sales: (1)				
Products	$ 58,158	$ 75,790	$ (17,632)	(23.3)%
Services	53,778	45,062	8,716	19.3 %
Total net sales	111,936	120,852	(8,916)	(7.4)%
Cost of sales (1)	70,418	77,758	(7,340)	(9.4)%
Gross profit	41,518	43,094	(1,576)	(3.7)%
Operating expenses	27,373	22,496	4,877	21.7 %
Income from operations	14,145	20,598	(6,453)	(31.3)%

Other expense, net:				
Interest, net	*(6,425)*	*(6,781)*	*356*	*(5.2)%*
Other expense, net	*(65)*	*(114)*	*49*	*(43.0)%*
Income before taxes	*7,655*	*13,703*	*(6,048)*	*(44.1)%*
Income tax expense	*(2,200)*	*(2,830)*	*630*	*(22.3)%*
Net income	*$ 5,455*	*$ 10,873*	*$ (5,418)*	*(49.8)%*
Gross profit margin	*37.1%*	*35.7%*		

(1) For both the three months ended September 30, 2023, March 31, 2024 and 2022, 2023, net sales and cost of sales each include $0.3 million of intersegment eliminations. For the nine months ended September 30, 2023, $0.2 million and 2022, net sales and cost of sales each include $0.6 million and $0.4 million $0.3 million of intersegment eliminations, respectively.

The following discussion of our consolidated results of operations and segment results refers to the three and nine months ended September 30, 2023 March 31, 2024, compared to the corresponding periods period in the prior year. The results of operations should be read in conjunction with the discussion of our segment results of operations, which provide more detailed discussions concerning certain components of the Condensed Consolidated Statements of Income.

Net Sales:

Net sales decreased for the three months ended September 30, 2023 March 31, 2024, primarily due to decreased Products net sales driven by lower volumes in our Debit and Credit segment due to lower volumes.

Net sales decreased for the nine months ended September 30, 2023, primarily due to decreased Products net sales due to lower volumes, partially offset by higher personalization Services net sales in both our Prepaid Debit and Card@Once services, in our Debit and Credit segment. Net sales also benefited from price increases, which were primarily implemented in 2022.

segments.

Gross Profit and Gross Profit Margin:

Gross profit and gross profit margin decreased for the three months ended September 30, 2023 March 31, 2024, primarily due to lower net sales, and higher partially offset by lower production costs.

Gross profit in the prior year period was negatively impacted by expenses related to the implementation of a change in our production staffing model as we completed the transition of temporary worker positions to permanent employee positions in our Prepaid Debit segment.

Gross profit and gross profit margin decreased increased for the nine three months ended September 30, 2023 March 31, 2024, primarily due to higher lower production costs.

Operating Expenses:

Operating expenses increased for the three months ended March 31, 2024, primarily due to compensation related expenses including executive retention and severance, as well as other increased stock compensation. Retention expense includes approximately $2.0 million related to an executive retention package announced in 2023, including stock compensation.

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Operating Expenses:

Operating expenses decreased for the three and nine months ended September 30, 2023. For the three months ended September 30, 2023, the decrease was primarily due to a decrease in professional services. Compensation expenses decreased, as lower employee short-term incentive compensation was offset by the impacts of compensation related to an executive retention agreement, increased employee headcount and salary increases.

For the nine months ended September 30, 2023, the decrease was primarily due to a decrease in professional services, partially offset by an increase in compensation expenses. Compensation expenses increased due to the impacts of compensation related to an executive retention agreement and increased employee headcount and salary increases, partially offset by lower employee short-term incentive compensation.

Interest, net:

Interest expense decreased for the three and nine months ended September 30, 2023 March 31, 2024, primarily due to lower outstanding principal balances on our borrowings. For the nine months ended September 30, 2022, interest expense also included a $0.6 million premium paid relating to the $20.0 million early redemption of the 8.625% Senior Secured Notes due 2026 (the "Senior Notes").

Other Expense, net:

Other expense, net was relatively consistent for both the three and nine months ended September 30, 2023 March 31, 2024.

Income Tax Expense:

Our effective tax rate rates on pre-tax income was 37.7% were 28.7% and 25.8% 20.7% for the three months ended September 30, 2023, March 31, 2024 and 2022, respectively, and 30.5% and 28.5% for the nine months ended September 30, 2023, and 2022, 2023, respectively. The increase Our tax rate in the effective tax rate for the three and nine months ended September 30, 2023, first quarter of 2023 was due to tax deduction limitations on executive compensation. The effective tax rate for the three months ended September 30, 2023, also increased due to positively impacted by the reduction of the federal a valuation allowance as a result of increased deductibility of interest costs due related to a tax election made by the Company in the third quarter of 2022. state's law change.

Segment Discussion

Debit and Credit:

	Three Months Ended September 30,				Nine Months Ended September 30,				Three Months Ended March 31,			
	2023	2022	$ Change	% Change	2023	2022	$ Change	% Change	2024	2023	$ Change	% Change
	(dollars in thousands)								(dollars in thousands)			
Net sales	$83,780	$99,512	$(15,732)	(15.8)%	$278,959	$285,708	$(6,749)	(2.4)%	$87,973	$101,985	$(14,012)	(13.7)%
Gross profit	$28,381	$38,071	$ (9,690)	(25.5)%	$ 99,603	$104,389	$(4,786)	(4.6)%	$31,495	$ 38,184	$ (6,689)	(17.5)%
Income from operations	$20,791	$29,418	$ (8,627)	(29.3)%	$ 75,898	$ 78,847	$(2,949)	(3.7)%	$22,754	$ 30,026	$ (7,272)	(24.2)%

Gross profit margin	33.9%	38.3%	35.7%	36.5%	35.8%	37.4%

Net Sales:

Net sales for Debit and Credit decreased for the three months ended September 30, 2023 March 31, 2024, primarily due to a decrease in Products net sales, driven by volume declines in contactless cards, including eco-focused, as well as EMV cards.

Net sales for Debit and Credit decreased for the nine months ended September 30, 2023, primarily due to a decrease in Products net sales, driven by volume declines in eco-focused and EMV cards, partially offset by increased sales of other contactless higher personalization and non-EMV cards. The decrease in Products net sales was partially offset by an increase in

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Services net sales due to higher card personalization sales and higher Card@Once services driven by a higher printer installation base. Net sales also benefited from price increases, which were primarily implemented in 2022.

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Gross Profit and Gross Profit Margin:

Gross profit and gross profit margin for Debit and Credit decreased for the three months ended September 30, 2023 March 31, 2024, primarily due to lower net sales and higher production costs.

Gross profit and gross profit margin for Debit and Credit decreased for the nine months ended September 30, 2023, primarily due to higher production costs.

sales.

Income from Operations:

Income from operations for Debit and Credit decreased for the three and nine months ended September 30, 2023 March 31, 2024, primarily due to the factors discussed in "Gross Profit and Gross Profit Margin" above, partially offset by decreases in as well as increased compensation-related operating expenses related to compensation related expenses and professional services. expenses.

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Prepaid Debit:

	Three Months Ended September 30,				Nine Months Ended September 30,				Three Months Ended March 31,			
	2023	2022	$ Change	% Change	2023	2022	$ Change	% Change	2024	2023	$ Change	% Change
	(dollars in thousands)								(dollars in thousands)			
Net sales	$ 22,335	$ 25,335	$ (3,000)	(11.8)%	$ 63,286	$ 64,010	$ (724)	(1.1)%	$24,198	$19,130	$ 5,068	26.5 %
Gross profit	$ 7,771	$ 10,369	$ (2,598)	(25.1)%	$ 20,468	$ 23,880	$ (3,412)	(14.3)%	$10,023	$ 4,910	$ 5,113	104.1 %
Income from operations	$ 6,631	$ 9,109	$ (2,478)	(27.2)%	$ 17,936	$ 20,393	$ (2,457)	(12.0)%	$ 8,745	$ 3,677	$ 5,068	137.8 %
Gross profit margin	34.8%	40.9%			32.3%	37.3%			41.4%	25.7%		

Net Sales:

Net sales for Prepaid Debit decreased increased for the three and nine months ended September 30, 2023 March 31, 2024, primarily due to decreased increased volumes from existing customers. For the nine months ended September 30, 2023, the decrease in net sales was offset by the benefit of price increases, which were primarily implemented in 2022.

Gross Profit and Gross Profit Margin:

Gross profit and gross profit margin for Prepaid Debit decreased increased for the three months ended September 30, 2023 March 31, 2024, primarily due to lower higher net sales and increased labor costs as a result of a change in our lower production staffing model.

costs. Gross profit and gross profit margin for Prepaid Debit decreased for in the nine months ended September 30, 2023, primarily due prior year period were negatively impacted by expenses related to increased labor costs and other expenses as a result the implementation of a change in our production staffing model as well as lower net sales.

Income from Operations:

Income from operations for Prepaid Debit decreased increased for the three and nine months ended September 30, 2023 March 31, 2024, primarily due to the factors discussed in "Gross Profit and Gross Profit Margin" above. For the nine months ended September 30, 2023, income from operations also benefited from lower operating expenses.

Other:

As the Other segment is comprised entirely of corporate expenses, income from operations for Other consists of operating expenses shown below.

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	Three Months Ended September 30,				Nine Months Ended September 30,				Three Months Ended March 31,			
	2023	2022	$ Change	% Change	2023	2022	$ Change	% Change	2024	2023	$ Change	% Change
	(dollars in thousands)								(dollars in thousands)			
Operating expenses	$ 14,461	$ 15,082	$ (621)	(4.1)%	$ 42,783	$ 42,760	$ 23	0.1 %	$17,354	$13,105	$ 4,249	32.4 %

Operating Expenses:

Other operating expenses decreased increased for the three months ended September 30, 2023 March 31, 2024, primarily due to lower employee short-term incentive compensation and decreased professional services, partially offset by increased compensation expenses driven by an increase in compensation related to an executive retention agreement, increased employee headcount and salary increases.

Other operating expenses, were relatively consistent for including the nine months ended September 30, 2023, as increased compensation expenses as a result of compensation related to an executive retention agreement and increased employee headcount and salary increases, were offset by decreases factors discussed in professional services, employee short-term incentive compensation and employee healthcare expenses.
consolidated "Operating Expenses" above.

Liquidity and Capital Resources

As of September 30, 2023 At March 31, 2024, we had $10.5 million $17.1 million of cash and cash equivalents. Our primary source of liquidity has been cash generated from our operating activities, which has been driven from net income and fluctuations in working capital. Our working capital fluctuates primarily due to the timing of tax payments, timing of receipts from customers, inventory purchases, payments of employee incentive programs and interest payments on our 8.625% Senior Secured Notes due 2026 (the "Senior Notes"), with the interest payments being due in the first and third quarters of the year.

Our ability to make investments in and grow our business, service our debt and improve our debt leverage ratios, while maintaining strong liquidity, will depend upon depends on our ability to generate excess operating cash flows through our operating subsidiaries. Although we can provide no assurances, we believe that our cash flows from operations, combined with our current cash levels, and our senior secured revolving credit facility (the "ABL Revolver") with available borrowing capacity of $74.7 million as of March 31, 2024, will be adequate to fund debt service requirements and provide cash, as required, to support our ongoing operations, capital expenditures, lease obligations, share

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repurchases and working capital needs. Our future cash flows could be impacted by a variety of factors, some of which are beyond our control. These factors include, but are not limited to, changes in economic conditions, especially those impacting our customers, and the pricing, terms and availability of goods and services that we purchase, and financings that we enter into.

Cash Flows from Operating Activities

Cash provided by operating activities increased for the three months ended March 31, 2024 to $8.9 million from $8.0 million for the three months ended March 31, 2023 primarily due to lower employee performance incentive compensation payments in 2024 related to 2023 performance as compared to those made in 2023 related to 2022 performance, partially offset by a $5.0 million payment pursuant to an agreement entered into on June 2, 2023 with the Company's prior Chief Executive Officer, who departed in the first quarter of 2024, as well as increased inventory purchases. We anticipate inventory levels to continue to be higher in 2024 compared to 2023 levels as a result of the capacity reservation agreement we entered into with one of our suppliers in 2022, which will be in effect through 2025. Additionally, we anticipate cash flows from operating activities to be negatively impacted in the second and fourth quarters of 2024 due to incentives related to a customer contract entered into in the first quarter of 2024.

Financing

As of March 31, 2024, we had the following outstanding borrowings:

	March 31, 2024	December 31, 2023
	(dollars in thousands)	
Senior Notes	$ 267,897	$ 267,897
Unamortized deferred financing costs	(2,571)	(2,900)
Total long-term debt	$ 265,326	$ 264,997

Senior Notes

On March 15, 2021, we completed a private an offering of $310.0 million aggregate principal amount of the Senior Notes and related guarantees at an issue price of 100%. The Senior Notes bear interest at a rate of 8.625% per annum and mature on March 15, 2026. Interest is payable on the Senior Notes on March 15 and September 15 of each year.

The Company has obligations to make an offer to repay the Senior Notes, requiring prepayment in advance of the maturity date, upon the occurrence of certain events including a change of control, certain asset sales and based on an annual excess cash flow calculation. The annual excess cash flow calculation is determined based on an adjusted net income calculation pursuant to the terms of the indenture, and varies based on the Company's annual net leverage ratio. The Company is required to offer to pay 50% of excess cash flow if the net leverage ratio exceeds 4.5 to 1; 25% if the net leverage ratio is between 4 to 1 and 4.5 to 1, and 0% if the net leverage ratio is less than or equal to 4 to 1. Any required prepayments are to be made within 125 days after the issuance of the Company's annual financial statements. No such payment was required to be made in 2023 based on the Company's operating results for the year ended December 31, 2022.

As permitted by the indenture governing the Senior Notes, the Company we may also from time to time repurchase some or all of the Senior Notes in open market transactions, in privately negotiated transactions or otherwise. Beginning March 15, 2023, the Company We may redeem some or all of the Senior Notes pursuant in 2024, subject to market and other conditions. Pursuant to the terms of the indenture, redemptions would be priced at a redemption price initially set at 104.313% 102.156% of the principal amount of the any notes to be redeemed from March 16, 2024 through March 15, 2025, and reducing over time to 100%, thereafter, in each case plus accrued and unpaid interest. The timing and amount of any such redemptions or repurchases will depend upon market conditions, contractual commitments, the Company's our capital needs and other factors.

As of September 30, 2023, the Company had $267.9 million aggregate principal amount outstanding on the Senior Notes, plus accrued and unpaid interest.

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ABL Revolver

On March 15, 2021, we entered into a Credit Agreement with Wells Fargo Bank, National Association providing for an ABL Revolver of up to $50.0 million. Revolver. On March 3, 2022, we entered into Amendment No. 1 to the Credit Agreement, which amended the ABL Revolver to Revolver. The amendment, among other things, increase increased the available borrowing capacity to $75.0 million, increase increased the uncommitted accordion feature to $25.0 million and revise revised the interest rate provisions to replace the prior LIBOR benchmark with updated benchmark provisions using the secured overnight financing rate ("SOFR") as administered by the Federal Reserve Bank of New York. On October 11, 2022, we entered into Amendment No. 2 to the Credit Agreement, which amended the ABL Revolver to adjust certain monthly document delivery terms and to clarify the treatment of certain inventory.

We primarily utilize our ABL Revolver to provide general liquidity and to support shorter term financing requirements.

Borrowings under the amended ABL Revolver bear interest at a rate per annum equal to the applicable term SOFR adjusted for a credit spread, plus an applicable interest rate margin. We may select a one, three or six month six-month term SOFR, which is adjusted for a credit spread of 0.10% to 0.30% depending on the term selected. Through March 31, 2023, the The applicable interest rate margin ranged ranges from 1.50% 1.25% to 1.75% depending on the average excess availability of the facility for the most recently completed quarter. The unused portion of the ABL Revolver commitment accrued accrues a monthly unused line fee,

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between 0.375% to 0.50% per annum, through March 31, 2023, multiplied by the aggregate amount of Revolver commitments less the average Revolver usage during the immediately preceding month. The interest rate margin and unused line fee percentage changed, effective April 1, 2023, to between 1.25% and 1.75% (interest rate margin) and 0.375% and 0.50% (unused line fee).

Amounts borrowed and outstanding under the ABL Revolver are required to be repaid in full, together with any accrued and unpaid interest, on the earliest to occur of March 15, 2026 and the date that is 90 days prior to the maturity of the Senior Notes (and may be subject to earlier mandatory prepayment upon certain events).

Cash Priorities

As of September 30, 2023, the Company had $8.0 million in ABL Revolver borrowings outstanding, plus accrued and unpaid interest.

Operating Activities

Capital Expenditures

Cash provided by operating activities for the nine months ended September 30, 2023 was $22.3 million compared to $11.7 million during the nine months ended September 30, 2022.

The increase in We primarily use cash provided by operating activities compared to the prior year period was primarily generated by reductions in accounts receivable, due to collections on outstanding receivables as of the prior year end, and a decrease in inventory purchases in 2023 as inventory levels were increased in 2022 to help mitigate supply-chain constraints. These positive increases to cash flow were partially offset by higher employee performance incentive compensation payments in 2023 related to 2022 performance.

Investing Activities

Cash used in investing activities for capital expenditures. During the nine three months ended September 30, 2023 was $5.9 million March 31, 2024, compared to $14.3 million during the nine months ended September 30, 2022. Cash used in investing activities was related primarily to capital expenditures, including investments to support the business, such as machinery and information technology equipment, although at a slower pace than in the prior year. As presented in our supplemental disclosures of non-cash information on the statement of cash flows, finance leases were executed for the acquisition of right-of-use machinery and equipment assets totaling $7.0 million during the nine months ended September 30, 2023, compared to $7.8 million during the corresponding period in the prior year.

Financing Activities

totaled $1.5 million.

During the nine months ended September 30, 2023, 2023, we commenced work on relocating and modernizing our production facility in Indiana. We anticipate this project will extend into 2025. Total capital expenditures, net for this project are anticipated to increase cash used in financing investing activities was $16.9 million and assets acquired under lease arrangements in both 2024 and 2025.

Share Repurchase Authorization and Activity

On November 2, 2023, our board of directors approved a share repurchase plan authorizing us to repurchase up to $20.0 million of our common stock, par value $0.001 per share. This authorization expires on December 31, 2024. Proceeds

During the three months ended March 31, 2024, we repurchased 68,258 shares of our common stock at an average price of $18.29 per share excluding commissions, or $1.2 million in aggregate, on a trade date basis. In accordance with the Stock Repurchase Agreement entered into on December 6, 2023, we are obligated to purchase from the ABL Revolver of $13.0 million were offset by payments of $10.0 million on the ABL Revolver and payments of $17.0 million to retire a portion Tricor Pacific Capital Partners (Fund IV) US, LP ("Parallel49"), which is one of the Senior Notes, and $2.7 million Company's majority stockholders, three times the number of principal on financing leases.

During the nine months ended September 30, 2022, cash provided by financing activities was $3.5 million. Net proceeds from the ABL Revolver were $25.0 million and we paid $0.3 million of debt issuance costs in connection with

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the Amendment to the ABL Revolver. A portion shares of the proceeds Company's common stock acquired by the Company in the open market over the period December 6, 2023 through March 31, 2024 from non-Parallel49 holders. As of March 31, 2024, the ABL Revolver were used Company was obligated to redeem $20.0 million repurchase 244,314 shares from Parallel49 at an average price of Senior Notes $18.03 per share, and to pay $0.6 million the related payment of early redemption costs. $4.4 million was made in April 2024.

We received $2.1 million and paid $2.5 million of principal on financing leases.

Working Capital

Our working capital had $14.1 million remaining in our share repurchase authorization as of September 30, 2023 was $115.2 million, compared to $99.6 million as of December 31, 2022 March 31, 2024. The increase in our working capital as of September 30, 2023 was primarily due to a decrease in accrued expenses of $12.1 million, a decrease in accounts payable of $7.5 million, an increase in inventories of $5.7 million, We may purchase shares through open market purchases or through privately negotiated transactions, the extent and decreased deferred revenue and customer deposits of $2.8 million, partially offset by decreased accounts receivable of $13.0 million. Our working capital *needs are typically highest in the first and third quarters due to the timing of payments for interest on outstanding borrowings which will depend upon a variety of factors, including market conditions, regulatory requirements and employee incentive compensation.other corporate considerations, as determined by us.*

Material Cash Requirements

Our material cash requirements include interest payments on our long-term debt, operating and finance lease payments, and purchase obligations to support our operations.

Debt Service Requirements

As of September 30, 2023 March 31, 2024, the total projected principal and interest payments on our borrowings were $335.0 million $314.8 million, primarily related to the Senior Notes, of which $24.1 million $23.5 million of interest is expected to be paid in the next 12 months. The remaining interest payments are expected to be paid over the remaining term of the Senior Notes, which mature in 2026, and the principal is due upon maturity. We have estimated our future interest payments assuming no additional borrowings under the ABL Revolver, no early redemptions of principal on the Senior Notes, no early voluntary or required repayment of the borrowings under the ABL Revolver within the next twelve months, and no debt issuances or renewals upon the maturity dates of our notes. However, we may borrow additional amounts under the ABL Revolver, redeem principal on the Senior Notes early or refinance all or a portion of our borrowings in future periods.

Leases

We lease equipment and real property for production and services, in addition to equipment. services. Refer to Part II, Item 8, Financial Statements and Supplementary Data, Note 9, Financing and Operating Leases, in our Annual Report on Form 10-K for the year ended December 31, 2022 December 31, 2023 for details on our leasing arrangements, including future maturities of our operating lease liabilities.

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In February 2024, we entered into a build-to-suit lease agreement to relocate and modernize our operations at our Fort Wayne, Indiana production facility, which is set to commence the later of: (i) the landlord's delivery of exclusive possession of the premises and (ii) March 1, 2025. Under this lease agreement, we will pay an annual base rent of $0.9 million subject to an annual rent increase of 2.0%. The lease is for ten years and includes two consecutive options to extend the term of the lease by five years for each such option.

Purchase Obligations

A purchase obligation is an agreement to purchase goods or services that is enforceable, legally binding, and specifies all significant terms. As of September 30, 2023 March 31, 2024, there have not been any material changes to the purchase obligations disclosed in our Annual Report on Form 10-K for the fiscal year ended December 31, 2022 December 31, 2023.

Critical Accounting Policies and Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts and disclosures in the financial statements and accompanying notes. Actual results could differ from those estimates. Our Critical Accounting Policies and Estimates disclosed in our Annual Report on Form 10-K for the year ended December 31, 2022 December 31, 2023, for which there were no material changes as of September 30, 2023 March 31, 2024, included:

- Revenue recognition, including estimates of work performed but not completed, and
- Income taxes, including estimates regarding future compensation for covered individuals, valuation allowances and uncertain tax positions.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Not required due to smaller reporting company status.

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Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our management, under the supervision and with the participation of the Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our controls and procedures related to our reporting and disclosure obligations (as defined by Rules 13a-15(e) and 15d-15(e) within the Securities Exchange Act of 1934, as amended (the "Exchange Act")) 1934) as of September 30, 2023 March 31, 2024, which is the end of the period covered by this Quarterly Report on Form 10-Q. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that, as of September 30, 2023 March 31, 2024, the disclosure controls and procedures were effective to ensure that information required to be disclosed by us in the reports we file or submit under the Exchange Act, is recorded, processed, summarized and reported, as applicable, within the time periods specified in the rules and forms of the Securities and Exchange Commission, and are designed to ensure that information required to be disclosed by us in the reports that we file or submit is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting

There were no changes that occurred during the fiscal quarter covered by this Quarterly Report on Form 10-Q that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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PART II – Other Information

Item 1. Legal Proceedings

Smart Packaging Solutions SA v. CPI Card Group Inc.

On April 20, 2021, Smart Packaging Solutions, SA ("SPS") filed a patent infringement lawsuit against the Company in the United States District Court for the District of Delaware seeking an unspecified amount of damages and equitable relief. In the complaint, SPS alleges that the Company infringed four patents that SPS has exclusively licensed from Feinics AmaTech Teoranta. The patents all relate Refer to antenna technology. SPS alleges that the Company incorporates the patented technology into its products that use contactless communication. The Company does not produce antennas; it purchases certain antenna-related components from SPS and a number of other suppliers. The Company's motion to dismiss the complaint is currently pending. Additionally, a third party, Infineon, filed requests for Inter Parties Review ("IPR") proceedings concerning each Note 12 of the four patents. As a result, the Delaware District Court stayed the case pending resolution of the requests Condensed Consolidated Financial Statements in this report for review. The United States Patent Office has instituted proceedings with respect to all of the IPR requests and three of the patents have been invalidated in the IPR proceedings and one remains under review. The remaining proceedings in the patent office are scheduled to run through November 2023. Should the remaining patent survive review by the United States Patent Office, the Company intends to defend the suit vigorously. However, no assurance can be given that this matter will be resolved favorably.

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

Item 1A. Risk Factors

The risk factors disclosed in Part I, Item 1A Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2022 December 31, 2023 set forth information relating to various risks and uncertainties that could materially adversely affect our business, financial condition and operating results. Such risk factors continue to be relevant to an understanding of our business, financial condition and operating results. As of the date of this Quarterly Report on Form 10-Q, there have been the following no material changes with respect to such risk factors.

Conditions in the banking systemItem 2. Unregistered Sales of Equity Securities and financial markets, including the failure Use of banks and financial institutions, could have an adverse effect on our business, financial condition and results of operations.Proceeds

Events involving limited liquidity, defaults, non-performance or other adverse developments that affect financial institutions, transactional counterparties or other companies in the financial services industry or the financial services industry generally, or concerns or rumors about any events of these kinds or other similar risks, have in the past and may in the future lead to market-wide liquidity problems. For example, on March 10 and March 12, 2023 On November 2, 2023, the Federal Deposit Insurance Corporation took control and was appointed receiver Company's board of Silicon Valley Bank and Signature Bank, respectively, after each bank was unable directors approved a share repurchase plan authorizing the Company to continue their operations, and more recently, assisted repurchase up to $20.0 million of the Company's common stock, par value $0.001 per share. This authorization expires on December 31, 2024. Under the share repurchase plan, the Company may purchase shares through privately negotiated transactions or through open market purchases, including through plans complying with Rule 10b5-1 under the assumption of First Republic Bank's deposits and assets by JP Morgan Chase. These events exposed vulnerabilities in the banking sector, including uncertainties, significant volatility and contagion risk, any or all of which could have an adverse effect on our business, financial condition and results of operations.

In addition to the market-wide impacts, our reliance on financial institutions and non-traditional financial service providers such as fintechs as our primary customers expose us to additional risk from adverse events affecting the industry. Exchange Act. The failure of financial institutions, the migration of deposits from smaller financial institutions to larger ones due to reduced confidence in or concerns about the stability of smaller financial institutions or non-traditional financial service providers, as well as consumers opening fewer new accounts at these institutions, may impact the quantity extent and timing of orders for our products. Additionally, repurchases will depend upon a variety of factors, including market conditions, regulatory requirements and other corporate considerations, as determined by the recent uncertainty Company.

On December 6, 2023, the Company entered into a Stock Repurchase Agreement with Parallel49, which is one of the Company's majority stockholders. Pursuant to this agreement, the Company has agreed to purchase from Parallel49, and Parallel49 has agreed to sell to the Company, three times the number of shares of the Company's common stock acquired by the Company in the banking sector, as well as broader economic conditions in general, open market from time to time from non-Parallel49 holders during the period commencing from the date of this agreement and ending on March 31, 2024, up to a maximum of 325,000 shares. On March 14, 2024, the Company entered into a similar agreement with Parallel49 for the period commencing from April 1, 2024 and ending on June 30, 2024, pursuant to which the Company may cause banks and financial institutions purchase up to implement precautionary measures a maximum of 325,000 shares during such as reducing spending on card programs or being more selective about issuing or renewing cards to customers. Any period.

The following table sets forth share repurchases for each of the foregoing events could result three months of the quarter ended March 31, 2024:

Period	Total Number of Shares Purchased		Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (a)		Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs (in thousands) (b)
January 1 - 31	23,876	$	18.58	23,876	$	17,270
February 1 - 29	22,650	$	18.96	22,650	$	15,578
March 1 - 31	21,732	$	17.28	21,732	$	14,098
Total	68,258	$	18.29	68,258		

(a) Reflects shares repurchased and retired under the 2023 repurchase authorization and does not include the 244,314 shares that were repurchased from Parallel49 in lower demand for our products, which April 2024 in turn could have a material adverse effect accordance with the Stock Repurchase Agreement entered into on our business, financial condition December 6, 2023.

(b) Reflects the $20.0 million repurchase authorization less completed open market purchases and results of operations. $4.4 million allocated to repurchases from Parallel49, representing 244,314 shares, in accordance with the Stock Repurchase Agreement entered into on December 6, 2023.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

the loss of any significant supplier relationships, could result in material adverse impacts on our business, financial condition and results of operations. **Item 5. Other Information**

Item 6. Exhibits

Exhibit Number	Exhibit Description
10.1	Employment Agreement, dated January 25, 2024, by and between CPI Card Group Inc. and John Lowe (incorporated by reference to the Company's Annu
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

101.INS XBRL Instance Document – the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XB

101.SCH Inline XBRL Taxonomy Extension Schema Document.

101.CAL Inline XBRL Taxonomy Extension Calculation Linkbase Document.

101.LAB Inline XBRL Taxonomy Extension Label Linkbase Document.

101.PRE Inline XBRL Taxonomy Extension Presentation Linkbase Document.

101.DEF Inline XBRL Taxonomy Extension Definition Linkbase Document.

104 Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101).

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SIGNATURES

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

	CPI CARD GROUP INC.
November May 7, 2023 2024	*/s/ Scott Scheirman John Lowe*
	Scott Scheirman John Lowe *President and Chief Executive Officer* *(Principal Executive Officer)*
November May 7, 2023 2024	*/s/ Jeffrey Hochstadt*
	Jeffrey Hochstadt *Chief Financial Officer* *(Principal Financial Officer)*
November May 7, 2023 2024	*/s/ Donna Abbey Carmignani*
	Donna Abbey Carmignani *Chief Accounting Officer* *(Principal Accounting Officer)*

Exhibit 31.1

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

I, Scott Scheirman, John Lowe, certify that:

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

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

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

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

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

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

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

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

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 7, 2023 May 7, 2024

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

(Principal Executive Officer)

Exhibit 31.2

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

I, Jeffrey Hochstadt, certify that:

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

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

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

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

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

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

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

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

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 7, 2023 May 7, 2024

/s/ Jeffrey Hochstadt

Jeffrey Hochstadt
Chief Financial Officer
(Principal Financial Officer)

Exhibit 32.1

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

In connection with the Quarterly Report on Form 10-Q of CPI Card Group Inc. (the "Company") for the period ended September 30, 2023 March 31, 2024, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Scott Scheirman, John Lowe, President and Chief Executive Officer of the Company, certify to the best of my knowledge, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

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

/s/ Scott Scheirman John Lowe
Scott Scheirman John Lowe
President and Chief Executive Officer
(Principal Executive Officer)

Date: November 7, 2023 May 7, 2024

Exhibit 32.2

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

In connection with the Quarterly Report on Form 10-Q of CPI Card Group Inc. (the "Company") for the period ended September 30, 2023 March 31, 2024, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Jeffrey Hochstadt, Chief Financial Officer of the Company, certify to the best of my knowledge, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

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

/s/ Jeffrey Hochstadt
Jeffrey Hochstadt
Chief Financial Officer
(Principal Financial Officer)

Date: November 7, 2023 May 7, 2024

DISCLAIMER

THE INFORMATION CONTAINED IN THE REFINITIV CORPORATE DISCLOSURES DELTA REPORT™ IS A COMPARISON OF TWO FINANCIALS PERIODIC REPORTS. THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORT INCLUDING THE TEXT AND THE COMPARISON DATA AND TABLES. IN NO WAY DOES REFINITIV OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED IN THIS REPORT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S ACTUAL SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.