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

Form 10-Q

(Mark One)

☒ **Quarterly Report Pursuant to Section 13 or 15(d) of the Securities and Exchange Act of 1934**
For the Quarterly Period Ended June 30, 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 July 29, 2024: 11,076,131

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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)

	June 30, 2024	December 31, 2023
Assets		
Current assets:		
Cash and cash equivalents	$ 7,479	$ 12,413
Accounts receivable, net	76,425	73,724
Inventories, net	85,907	70,594
Prepaid expenses and other current assets	9,934	8,647
Total current assets	179,745	165,378
Plant, equipment, leasehold improvements and operating lease right-of-use assets, net of accumulated depreciation of $69,578 and $66,436 respectively	60,773	63,053
Intangible assets, net of accumulated amortization of $ 53,640 and $51,763 respectively	12,245	14,122
Goodwill	47,150	47,150
Other assets	21,533	3,980
Total assets	$ 321,446	$ 293,683
Liabilities and stockholders' deficit		
Current liabilities:		
Accounts payable	$ 20,279	$ 12,802
Accrued expenses	47,350	35,803
Deferred revenue and customer deposits	1,320	840
Total current liabilities	68,949	49,445
Long-term debt	269,654	264,997
Deferred income taxes	4,958	7,139
Other long-term liabilities	22,442	24,038
Total liabilities	366,003	345,619
Commitments and contingencies (Note 12)		
Series A Preferred Stock; $0.001 par value—100,000 shares authorized; 0 shares issued and outstanding at June 30, 2024 and December 31, 2023	—	—
Stockholders' deficit:		
Common stock; $0.001 par value—100,000,000 shares authorized; 11,186,596 and 11,446,155 shares issued and outstanding at June 30, 2024 and December 31, 2023, respectively	11	11
Capital deficiency	(106,300)	(102,223)
Accumulated earnings	61,732	50,276
Total stockholders' deficit	(44,557)	(51,936)
Total liabilities and stockholders' deficit	$ 321,446	$ 293,683

See accompanying notes to condensed consolidated financial statements

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 June 30, 2024	Three Months Ended June 30, 2023	Six Months Ended June 30, 2024	Six Months Ended June 30, 2023
Net sales:				
Products	$ 63,844	$ 63,946	$ 122,002	$ 139,736
Services	54,974	51,014	108,752	96,076
Total net sales	118,818	114,960	230,754	235,812
Cost of sales:				
Products (exclusive of depreciation and amortization shown below)	41,893	41,308	79,695	87,288
Services (exclusive of depreciation and amortization shown below)	31,743	30,214	61,672	59,618
Depreciation and amortization	2,794	2,613	5,481	4,987
Total cost of sales	76,430	74,135	146,848	151,893
Gross profit	42,388	40,825	83,906	83,919
Operating expenses:				
Selling, general and administrative (exclusive of depreciation and amortization shown below)	26,225	21,885	52,268	42,951
Depreciation and amortization	1,254	1,448	2,584	2,878
Total operating expenses	27,479	23,333	54,852	45,829
Income from operations	14,909	17,492	29,054	38,090
Other expense, net:				
Interest, net	(6,530)	(6,740)	(12,955)	(13,521)
Other expense, net	(78)	(78)	(143)	(192)
Total other expense, net	(6,608)	(6,818)	(13,098)	(13,713)
Income before income taxes	8,301	10,674	15,956	24,377
Income tax expense	(2,300)	(4,151)	(4,500)	(6,981)
Net income	$ 6,001	$ 6,523	$ 11,456	$ 17,396
Basic and diluted earnings per share:				
Basic earnings per share	$ 0.54	$ 0.57	$ 1.03	$ 1.52
Diluted earnings per share	$ 0.51	$ 0.55	$ 0.97	$ 1.46
Basic weighted-average shares outstanding	11,049,968	11,427,404	11,158,334	11,411,162
Diluted weighted-average shares outstanding	11,776,894	11,876,568	11,817,584	11,888,219
Comprehensive income:				
Net income	$ 6,001	$ 6,523	$ 11,456	$ 17,396
Total comprehensive income	$ 6,001	$ 6,523	$ 11,456	$ 17,396

See accompanying notes to condensed consolidated financial statements

CPI Card Group Inc. and Subsidiaries
Condensed Consolidated Statements of Stockholders' Deficit
(in thousands, except per share amounts)
(Unaudited)

	Common Stock Shares	Common Stock Amount	Capital deficiency	Accumulated earnings	Total
March 31, 2024	11,391,476	$ 11	$ (104,193)	$ 55,731	$ (48,451)
Shares issued under stock-based compensation plans	79,612	—	(1,177)	—	(1,177)
Stock-based compensation		—	2,094	—	2,094
Repurchase and retirement of common shares	(284,492)	—	(3,024)	—	(3,024)
Components of comprehensive income:					
Net income		—	—	6,001	6,001
June 30, 2024	11,186,596	$ 11	$ (106,300)	$ 61,732	$ (44,557)

	Common Stock Shares	Common Stock Amount	Capital deficiency	Accumulated earnings	Total
December 31, 2023	11,446,155	$ 11	$ (102,223)	$ 50,276	$ (51,936)
Shares issued under stock-based compensation plans	93,191	—	(1,286)	—	(1,286)
Stock-based compensation		—	5,154	—	5,154
Repurchase and retirement of common shares	(352,750)	—	(7,945)	—	(7,945)
Components of comprehensive income:					
Net income		—	—	11,456	11,456
June 30, 2024	11,186,596	$ 11	$ (106,300)	$ 61,732	$ (44,557)

	Common Stock Shares	Common Stock Amount	Capital deficiency	Accumulated earnings	Total
March 31, 2023	11,424,628	$ 11	$ (107,907)	$ 37,164	$ (70,732)
Shares issued under stock-based compensation plans	5,617	—	(51)	—	(51)
Stock-based compensation		—	1,290	—	1,290
Components of comprehensive income:					
Net income		—	—	6,523	6,523
June 30, 2023	11,430,245	$ 11	$ (106,668)	$ 43,687	$ (62,970)

	Common Stock Shares	Common Stock Amount	Capital deficiency	Accumulated earnings	Total
December 31, 2022	11,390,355	$ 11	$ (108,379)	$ 26,291	$ (82,077)
Shares issued under stock-based compensation plans	39,890	—	(120)	—	(120)
Stock-based compensation		—	1,831	—	1,831
Components of comprehensive income:					
Net income		—	—	17,396	17,396
June 30, 2023	11,430,245	$ 11	$ (106,668)	$ 43,687	$ (62,970)

See accompanying notes to condensed consolidated financial statements

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

	Six Months Ended June 30, 2024	Six Months Ended June 30, 2023
Operating activities		
Net income	$ 11,456	$ 17,396
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation expense	6,188	5,931
Amortization expense	1,877	1,934
Stock-based compensation expense	5,154	1,831
Amortization of debt issuance costs and debt discount	917	936
Loss on debt extinguishment	—	218
Deferred income taxes	(2,181)	426
Other, net	302	253
Changes in operating assets and liabilities:		
Accounts receivable, net	(2,720)	5,287
Inventories	(15,584)	(7,351)
Prepaid expenses and other assets	(20,316)	(1,381)
Income taxes, net	1,598	(772)
Accounts payable	7,079	(1,758)
Accrued expenses and other liabilities	9,858	(9,784)
Deferred revenue and customer deposits	480	(2,844)
Cash provided by operating activities	4,108	10,322
Investing activities		
Capital expenditures for plant, equipment and leasehold improvements, net	(2,744)	(6,594)
Other	—	128
Cash used in investing activities	(2,744)	(6,466)
Financing activities		
Principal payments on 2026 Senior Notes	—	(14,877)
Proceeds from 2026 ABL Revolver	4,000	13,000
Payments on finance lease obligations	(2,413)	(1,739)
Common stock repurchased	(6,481)	—
Other	(1,404)	(120)
Cash used in financing activities	(6,298)	(3,736)
Effect of exchange rates on cash	—	11
Net (decrease) increase in cash and cash equivalents	(4,934)	131
Cash and cash equivalents, beginning of period	12,413	11,037
Cash and cash equivalents, end of period	$ 7,479	$ 11,168
Supplemental disclosures of cash flow information		
Cash paid (refunded) during the period for:		
Interest	$ 12,332	$ 13,135
Income taxes paid	$ 6,481	$ 7,408
Income taxes refunded	$ (272)	$ (26)
Right-of-use assets obtained in exchange for lease obligations:		
Operating leases	$ 1,292	$ 168
Financing leases	$ 983	$ 2,169
Accounts payable and accrued expenses for capital expenditures for plant, equipment and leasehold improvements	$ 500	$ 368
Unsettled share repurchases included in accrued expenses	$ 2,197	$ —

See accompanying notes to condensed consolidated financial statements

CPI Card Group Inc. and Subsidiaries
Notes to Condensed Consolidated Financial Statements
(dollars in thousands, except share and per share amounts or as otherwise indicated)
(Unaudited)

1. Business Overview and Summary of Significant Accounting Policies

Business Overview

CPI Card Group Inc. (which, together with its subsidiary companies, is referred to herein as “CPI” or the “Company”) is a 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 (“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 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, 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, 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 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 for fiscal years beginning after December 15, 2023. The Company is evaluating the impact of adoption of this standard and does not anticipate that the application of ASU 2023-07 will have a material impact on the Company's consolidated financial position, results of 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 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 June 30, 2024		
	Products	Services	Total
Debit and Credit	$ 64,461	$ 31,159	$ 95,620
Prepaid Debit	—	23,815	23,815
Intersegment eliminations	(617)	—	(617)
Total	$ 63,844	$ 54,974	$ 118,818

	Six Months Ended June 30, 2024		
	Products	Services	Total
Debit and Credit	$ 122,832	$ 60,761	$ 183,593
Prepaid Debit	—	48,013	48,013
Intersegment eliminations	(830)	(22)	(852)
Total	$ 122,002	$ 108,752	$ 230,754

	Three Months Ended June 30, 2023		
	Products	Services	Total
Debit and Credit	$ 64,001	$ 29,193	$ 93,194
Prepaid Debit	—	21,821	21,821
Intersegment eliminations	(55)	—	(55)
Total	$ 63,946	$ 51,014	$ 114,960

	Six Months Ended June 30, 2023		
	Products	Services	Total
Debit and Credit	$ 140,033	$ 55,146	$ 195,179
Prepaid Debit	—	40,951	40,951
Intersegment eliminations	(297)	(21)	(318)
Total	$ 139,736	$ 96,076	$ 235,812

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 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 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:

	June 30, 2024	December 31, 2023
Trade accounts receivable	$ 68,170	$ 69,245
Unbilled accounts receivable	8,499	4,725
	76,669	73,970
Less allowance for credit losses	(244)	(246)
	$ 76,425	$ 73,724

4. Inventories

Inventories consisted of the following:

	June 30, 2024	December 31, 2023
Raw materials	$ 81,475	$ 66,210
Finished goods	7,481	7,162
Inventory reserve	(3,049)	(2,778)
	$ 85,907	$ 70,594

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:

	June 30, 2024	December 31, 2023
Machinery and equipment	$ 69,120	$ 67,506
Machinery and equipment under financing leases	24,757	23,774
Furniture, fixtures and computer equipment	448	107
Leasehold improvements	18,374	16,335
Construction in progress	841	1,778
Operating lease right-of-use assets	16,811	19,989
	130,351	129,489
Less accumulated depreciation and amortization	(69,578)	(66,436)
	$ 60,773	$ 63,053

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 June 30, 2024	Estimated Fair Value as of June 30, 2024	Fair Value Measurement at June 30, 2024 (Using Fair Value Hierarchy)		
			Level 1	Level 2	Level 3
Liabilities:					
2026 Senior Notes	$ 267,897	$ 273,818	$ —	$ 273,818	$ —
2026 ABL Revolver	$ 4,000	$ 4,000	$ —	$ 4,000	$ —

	Carrying Value as of December 31, 2023	Estimated Fair Value as of December 31, 2023	Fair Value Measurement at December 31, 2023 (Using Fair Value Hierarchy) Level 1	Level 2	Level 3
Liabilities:					
2026 Senior Notes	$ 267,897	$ 261,834	$ —	$ 261,834	$ —
2026 ABL Revolver	$ —	$ —	$ —	$ —	$ —

The aggregate fair value of the Company's 2026 Senior Notes (as defined in Note 8, "Long-Term Debt") was based on bank quotes. The fair value measurement associated with the 2026 ABL Revolver (as defined in Note 8, "Long-Term Debt") approximates its carrying value as of June 30, 2024, given the applicable variable interest rates.

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

7. Accrued Expenses

Accrued expenses consisted of the following:

	June 30, 2024	December 31, 2023
Accrued payroll and related employee expenses	$ 7,885	$ 11,431
Accrued employee performance bonuses	2,843	667
Employer payroll taxes	438	298
Accrued rebates	2,594	2,919
Capitalized contract costs payable	10,000	—
Accrued interest	6,739	6,830
Current operating and financing lease liabilities	7,391	7,318
Accrued share repurchases	2,197	733
Other	7,263	5,607
Total accrued expenses	$ 47,350	$ 35,803

Other accrued expenses as of June 30, 2024, and December 31, 2023, consisted primarily of miscellaneous accruals for invoices not yet received, executive retention and severance, and self-insurance claims that have yet to be reported.

8. Long-Term Debt

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

	June 30, 2024	December 31, 2023
2026 Senior Notes (1)	$ 267,897	$ 267,897
2026 ABL Revolver (2)	4,000	—
Unamortized deferred financing costs	(2,243)	(2,900)
Total long-term debt	269,654	264,997
Less current maturities	—	—
Long-term debt, net of current maturities	$ 269,654	$ 264,997

(1) The 2026 Senior Notes bear interest at a fixed rate of 8.625%.

(2) The 2026 ABL Revolver bears interest at a variable rate of6.679% as of June 30, 2024.

2026 Senior Notes

On March 15, 2021, the Company completed 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 "2026 Senior Notes") and related guarantees. The 2026 Senior Notes bear interest at a rate of 8.625% per annum and mature on March 15, 2026. Interest is payable on the 2026 Senior Notes on March 15 and September 15 of each year.

The Company had obligations to make an offer to repay the 2026 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 years ended December 31, 2023 and 2022, respectively.

Refer to Note 15, "Subsequent Events" for information on the refinancing of the 2026 Senior Notes that occurred in July 2024.

2026 ABL Revolver

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 (the "2026 ABL Revolver"). The 2026 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 2026 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 2026 ABL Revolver. The Amendment, among other things, increased the available borrowing capacity under the 2026 ABL Revolver to $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 2026 ABL Revolver to adjust certain monthly document delivery terms and to clarify the treatment of certain inventory.

Borrowings under the amended 2026 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 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 2026 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).

Refer to Note 15, "Subsequent Events" for information on the refinancing of the 2026 ABL Revolver that occurred in July 2024.

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 2026 Senior Notes were $2.2 million and are reported as a reduction to the long-term debt balance as of June 30, 2024. The remaining unamortized net discount and debt issuance costs on the 2026 ABL Revolver and related Amendment were $0.8 million and are recorded as other assets (current and long-term) on the consolidated balance sheet as of June 30, 2024.

9. Income Taxes

The Company's effective tax rates on pre-tax income were 27.7% and 38.9% for the three months ended June 30, 2024 and 2023, respectively, and 28.2% and 28.6% for the six months ended June 30, 2024 and 2023, respectively. The decrease in the effective tax rate for the three months ended June 30, 2024, compared to the corresponding period in the prior year was primarily due to limitation of executive compensation deductibility related to the former CEO's retention agreement recognized in the second quarter of 2023. The effective tax rate for the six months ended June 30, 2024 was consistent with the rate in the comparable period in the prior year as the limitation of executive compensation deductibility recognized in the second quarter of 2023 was offset by a reduction in a valuation allowance related to interest deductibility due to a state tax law change recognized in the first quarter of 2023.

For the six months ended June 30, 2024 and 2023, the effective tax rate differs from the U.S. federal statutory income tax rate as follows:

	June 30,	
	2024	2023
Tax at federal statutory rate	21.0 %	21.0 %
State taxes, net	6.2	5.1
Valuation allowance	—	(1.4)
Permanent items [1]	1.9	4.7
Other	(0.9)	(0.8)
Effective income tax rate	28.2 %	28.6 %

(1) Includes the deductibility limitations on excess compensation.

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 six months ended June 30, 2024, the Company repurchased 352,750 shares of its common stock at an average price of $ 18.14 per share, excluding commissions, or $6.4 million in aggregate, on a trade date basis. This amount includes 244,314 shares purchased from a stockholder that is part of our majority stockholder group at an average price of $18.03 per share, in accordance with the Stock Repurchase Agreements entered into with Tricor Pacific Capital Partners (Fund IV) US, LP ("Parallel49"). As of June 30, 2024, the Company is obligated to repurchase an additional 120,534 shares at an average price of $18.23 per share from Parallel49. This obligation is based on a multiple of the number of shares the Company purchased in the open market between April 1, 2024 and June 30, 2024, payment for which is due in the third quarter of 2024. As of June 30, 2024, the Company had an authorized amount of $11.2 million remaining under the share repurchase plan.

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 120,534 shares that the Company repurchased from Parallel49 in July 2024. Shares excluded from the calculation of diluted earnings per share because their inclusion would be anti-dilutive were 15,185 and 105,884 for the three months ended June 30, 2024 and 2023, respectively, and 24,298 and 132,594 for the six months ended June 30, 2024 and 2023, respectively.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2024	2023	2024	2023
Numerator:				
Net income	$ 6,001	$ 6,523	$ 11,456	$ 17,396
Denominator:				
Basic weighted-average common shares outstanding	11,049,968	11,427,404	11,158,334	11,411,162
Dilutive shares	726,926	449,164	659,250	477,057
Diluted weighted-average common shares outstanding	11,776,894	11,876,568	11,817,584	11,888,219
Basic earnings per share	$ 0.54	$ 0.57	$ 1.03	$ 1.52
Diluted earnings per share	$ 0.51	$ 0.55	$ 0.97	$ 1.46

12. Commitments and Contingencies

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 alleged that the Company infringed four patents that SPS has exclusively licensed from Feinics AmaTech Teoranta. The patents all relate to antenna technology. SPS alleged that the Company incorporates the patented technology into its products that use contactless communication. On June 3, 2024 the Delaware District Court entered an order dismissing the litigation against the Company.

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.

13. Stock-Based Compensation

In October 2015, the Company adopted the CPI Card Group Inc. Omnibus Incentive Plan (as amended and supplemented, the “Omnibus Plan”) pursuant to which cash and equity-based incentives may be granted to participating employees, advisors, and directors. Effective January 30, 2024, the Company’s stockholders approved an amendment to the Omnibus Plan to 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 3,200,000 shares issuable under the Omnibus Plan. As of June 30, 2024, there were 957,803 shares of Common Stock available for grant under the Omnibus Plan.

In June 2023, the Company 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 of the awards was granted in June 2023, the second one-third was granted in August 2023, and the remainder 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 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 June 30, 2024, there were 858,855 options outstanding at a weighted average exercise price of $ 19.54. No options were granted during the six months ended June 30, 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 six months ended June 30, 2024, the Company granted 125,879 restricted stock units at a weighted average grant date fair value of $20.55, and as of June 30, 2024, there were 701,264 outstanding restricted stock units at a weighted average grant date fair value of $ 20.43.

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 required to be measured at 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 the forfeited shares. Upon the exercise of stock options, shares of common stock are issued from authorized common shares.

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 June 30, 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 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 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.

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 six months ended June 30, 2024 and 2023, were as follows:

	Three Months Ended June 30, 2024				
	Debit and Credit	**Prepaid Debit**	**Other**	**Intersegment Eliminations**	**Total**
Net sales	$ 95,620	$ 23,815	$ —	$ (617)	$ 118,818
Cost of sales	61,456	15,591	—	(617)	76,430
Gross profit	34,164	8,224	—	—	42,388
Operating expenses	8,775	1,315	17,389	—	27,479
Income (loss) from operations	$ 25,389	$ 6,909	$ (17,389)	$ —	$ 14,909
EBITDA by segment:					
Income (loss) from operations	$ 25,389	$ 6,909	$ (17,389)	$ —	$ 14,909
Depreciation and amortization	2,237	895	916	—	4,048
Other income (expense)	(1)	(1)	(76)	—	(78)
EBITDA	$ 27,625	$ 7,803	$ (16,549)	$ —	$ 18,879

	Six Months Ended June 30, 2024				
	Debit and Credit	Prepaid Debit	Other	Intersegment Eliminations	Total
Net sales	$ 183,593	$ 48,013	$ —	$ (852)	$ 230,754
Cost of sales	117,934	29,766	—	(852)	146,848
Gross profit	65,659	18,247	—	—	83,906
Operating expenses	17,516	2,593	34,743	—	54,852
Income (loss) from operations	$ 48,143	$ 15,654	$ (34,743)	$ —	$ 29,054
EBITDA by segment:					
Income (loss) from operations	$ 48,143	$ 15,654	$ (34,743)	$ —	$ 29,054
Depreciation and amortization	4,387	1,766	1,912	—	8,065
Other income (expense)	(63)	(2)	(78)	—	(143)
EBITDA	$ 52,467	$ 17,418	$ (32,909)	$ —	$ 36,976

	Three Months Ended June 30, 2023				
	Debit and Credit	Prepaid Debit	Other	Intersegment Eliminations	Total
Net sales	$ 93,194	$ 21,821	$ —	$ (55)	$ 114,960
Cost of sales	60,156	14,034	—	(55)	74,135
Gross profit	33,038	7,787	—	—	40,825
Operating expenses	7,957	159	15,217	—	23,333
Income (loss) from operations	$ 25,081	$ 7,628	$ (15,217)	$ —	$ 17,492
EBITDA by segment:					
Income (loss) from operations	$ 25,081	$ 7,628	$ (15,217)	$ —	$ 17,492
Depreciation and amortization	2,353	704	1,004	—	4,061
Other income (expense)	21	1	(100)	—	(78)
EBITDA	$ 27,455	$ 8,333	$ (14,313)	$ —	$ 21,475

	Six Months Ended June 30, 2023				
	Debit and Credit	Prepaid Debit	Other	Intersegment Eliminations	Total
Net sales	$ 195,179	$ 40,951	$ —	$ (318)	$ 235,812
Cost of sales	123,957	28,254	—	(318)	151,893
Gross profit	71,222	12,697	—	—	83,919
Operating expenses	16,115	1,392	28,322	—	45,829
Income (loss) from operations	$ 55,107	$ 11,305	$ (28,322)	$ —	$ 38,090
EBITDA by segment:					
Income (loss) from operations	$ 55,107	$ 11,305	$ (28,322)	$ —	$ 38,090
Depreciation and amortization	4,514	1,328	2,023	—	7,865
Other income (expense)	26	1	(219)	—	(192)
EBITDA	$ 59,647	$ 12,634	$ (26,518)	$ —	$ 45,763

	Three Months Ended June 30,		Six Months Ended June 30,	
	2024	2023	2024	2023
Net income	$ 6,001	$ 6,523	$ 11,456	$ 17,396
Interest, net	6,530	6,740	12,955	13,521
Income tax expense	2,300	4,151	4,500	6,981
Depreciation and amortization	4,048	4,061	8,065	7,865
EBITDA	$ 18,879	$ 21,475	$ 36,976	$ 45,763

15. Subsequent Events

On July 11, 2024 (the “Closing Date”), the Company completed a private offering by its wholly-owned subsidiary, CPI CG Inc., of $ 285.0 million aggregate principal amount of 10.000% senior secured notes due 2029 (the “2029 Senior Notes”) and related guarantees at an issue price of 100%. The notes and related guarantees were offered and sold in a private transaction exempt from the registration requirements of the Securities Act of 1933, as amended, to persons reasonably believed to be qualified institutional buyers in accordance with Rule 144A.

Net proceeds from the 2029 Senior Notes, together with cash on hand, were used to redeem the entire principal balance of $ 267.9 million of 2026 Senior Notes as of the Closing Date, and to pay related fees, the early redemption premium of 102.156%, and expenses. As part of the redemption, the Company expensed the remaining unamortized debt issuance costs related to the 2026 Senior Notes of $2.2M as of the Closing Date. The 2029 Senior Notes bear interest at a rate of 10.000% per annum and mature on July 15, 2029. Interest is payable on the 2029 Senior Notes on January 15 and July 15 of each year, beginning on January 15, 2025.

In addition, on the Closing Date, the Company and CPI CG Inc. as borrower, entered into a credit agreement (the “2029 ABL Revolver”) with JPMorgan Chase Bank, N.A., as lender, administrative agent and collateral agent, providing for an asset-based, senior secured revolving credit facility of up to $75.0 million, consisting of revolving loans, letters of credit and swing line loans provided by lenders, with a sublimit on letters of credit outstanding at any time of $10.0 million. The 2029 ABL Revolver also includes an uncommitted accordion feature whereby the borrower may increase the 2029 ABL Revolver commitment by an aggregate amount not to exceed $25.0 million, subject to certain conditions. The 2029 ABL Revolver matures on the earliest to occur of July 11, 2029 and the date that is 91 days prior to the maturity of the 2029 Senior Notes.

As of the Closing Date, the Company had $ 4.0 million of outstanding borrowings under the 2026 ABL Revolver. The Company used initial borrowings under the 2029 ABL Revolver, together with cash on hand and proceeds under the notes, to repay in full and terminate the existing credit facilities evidenced by the 2026 ABL Revolver.

Borrowings under the 2029 ABL Revolver bear interest at a rate per annum that ranges from Adjusted Term SOFR plus 1.50% to 1.75%, based on the average daily borrowing capacity under the 2029 ABL Revolver over the most recently completed month. The unused portion of the 2029 Revolver commitment accrues a commitment fee, which ranges from 0.375% to 0.50% per annum, based on the average daily borrowing capacity under the 2029 ABL Revolver over the immediately preceding month.

The 2029 Senior Notes and 2029 ABL Revolver are guaranteed by the Company and essentially secured by substantially all of the assets of the Company and its subsidiaries.

In connection with both the 2029 Senior Notes and the 2029 ABL Revolver, as of June 30, 2024, the Company recorded $ 1.3 million of accrued debt issuance costs included in “Prepaid expenses and other assets”, “Accounts payable” and “Accrued expenses and other liabilities” in the Condensed Consolidated Statements of Cash Flows which will be paid in the third quarter of 2024.

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

References to the "Company," "our," "us" or "we" refer to CPI Card Group Inc. and its subsidiaries. For an understanding of the significant factors that influenced our results, the following discussion should be read in conjunction with our unaudited condensed consolidated financial statements and related notes appearing elsewhere in this Quarterly Report on Form 10-Q for the quarter ended June 30, 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, 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 June 30, 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 (the "Exchange Act"). The words "believe," "estimate," "project," "expect," "anticipate," "affirm," "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.

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; a disruption or other failure in our supply chain, including as a result of 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 inability to recruit, retain and develop qualified personnel, including key personnel, and implement effective succession processes; adverse conditions in the banking system and financial markets, including the failure of banks and 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 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 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; 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; our inability to renew licenses with key technology licensors; the highly competitive, saturated and consolidated nature of our marketplace; 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; 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, 2023 filed with the SEC on 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 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 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 ("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.

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 Uncertainties That May Affect our Financial Performance

We have experienced reduced demand from some of our customers for certain products and services during 2023 through the first half of 2024. This reduced demand impacted our financial and operating results during this period and may continue to have an impact on future periods. This reduced demand appears to have been the result of some of the following factors:

- Some of our customers, particularly in the banking and financial services industry, have had and may continue to have concerns about the broader economic environment, which has resulted in reduced overall spending or delayed spending 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 improved, and given the economic concerns noted above, we believe some customers became more focused on reducing their inventory levels and may continue to do so in the future.
- Certain banks experienced negative liquidity events, including takeover by industry regulators and deposit outflows, or increased loan loss reserves, each of which had the effect of deteriorating share prices and 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 and we may experience reduced demand again if such events occur in the future.

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 June 30, 2024	Three Months Ended June 30, 2023	$ Change	% Change	Six Months Ended June 30, 2024	Six Months Ended June 30, 2023	$ Change	% Change
	(dollars in thousands)							
Net sales: (1)								
Products	$ 63,844	$ 63,946	$ (102)	(0.2)%	$ 122,002	$ 139,736	$ (17,734)	(12.7)%
Services	54,974	51,014	3,960	7.8 %	108,752	96,076	12,676	13.2 %
Total net sales	118,818	114,960	3,858	3.4 %	230,754	235,812	(5,058)	(2.1)%
Cost of sales (1)	76,430	74,135	2,295	3.1 %	146,848	151,893	(5,045)	(3.3)%
Gross profit	42,388	40,825	1,563	3.8 %	83,906	83,919	(13)	(0.0)%
Operating expenses	27,479	23,333	4,146	17.8 %	54,852	45,829	9,023	19.7 %
Income from operations	14,909	17,492	(2,583)	(14.8)%	29,054	38,090	(9,036)	(23.7)%
Other expense, net:								
Interest, net	(6,530)	(6,740)	210	(3.1)%	(12,955)	(13,521)	566	(4.2)%
Other expense, net	(78)	(78)	—	— %	(143)	(192)	49	(25.5)%
Income before taxes	8,301	10,674	(2,373)	(22.2)%	15,956	24,377	(8,421)	(34.5)%
Income tax expense	(2,300)	(4,151)	1,851	(44.6)%	(4,500)	(6,981)	2,481	(35.5)%
Net income	$ 6,001	$ 6,523	$ (522)	(8.0)%	$ 11,456	$ 17,396	$ (5,940)	(34.1)%
Gross profit margin	35.7%	35.5%			36.4%	35.6%		

(1) For the three months ended June 30, 2024 and 2023, net sales and cost of sales each include $0.6 million and less than $0.1 million of intersegment eliminations, respectively. For the six months ended June 30, 2024 and 2023, net sales and cost of sales each include $0.9 million and $0.3 million of intersegment eliminations, respectively.

The following discussion of our consolidated results of operations and segment results refers to the three and six months ended June 30, 2024, compared to the corresponding periods 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 increased for the three months ended June 30, 2024, primarily due to increased Services net sales in both our Debit and Credit and Prepaid Debit segments.

Net sales decreased for the six months ended June 30, 2024, primarily due to decreased Products net sales driven by lower card volumes in our Debit and Credit segment, partially offset by higher Services net sales in both our Prepaid Debit and Debit and Credit segments.

Gross Profit and Gross Profit Margin:

Gross profit increased for the three months ended June 30, 2024, primarily due to higher net sales and gross profit margin was relatively consistent.

Gross profit was relatively consistent for the six months ended June 30, 2024, and gross profit margin increased. 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.

Operating Expenses:

Operating expenses increased for the three months ended June 30, 2024, primarily due to increased compensation related expenses in our Other and Debit and Credit segments, including increased stock compensation.

Operating expenses increased for the six months ended June 30, 2024, primarily due to increased compensation related expenses, including increased stock compensation, severance, and compensation related to an executive retention agreement entered into in June 2023. Retention expense in 2024 includes approximately $2.0 million related to an executive retention package announced in 2023, including stock compensation, compared to $1.0 million in the comparable prior year period.

Operating expenses for both the three and six months ended June 30, 2024 were impacted by higher expenses in our Prepaid Debit segment.

Interest, net:

Interest expense decreased for the three and six months ended June 30, 2024, primarily due to lower outstanding principal balances on our borrowings.

Other Expense, net:

Other expense, net was relatively consistent for both the three and six months ended June 30, 2024.

Income Tax Expense:

Our effective tax rates on pre-tax income were 27.7% and 38.9% for the three months ended June 30, 2024 and 2023, respectively, and 28.2% and 28.6% for the six months ended June 30, 2024 and 2023, respectively. The decrease in our effective tax rate for the three months ended June 30, 2024, compared to the corresponding period in the prior year was primarily due to limitation of executive compensation deductibility related to the former CEO's retention agreement, recognized in the second quarter of 2023. The effective tax rate for the six months ended June 30, 2024, was consistent with the rate in the comparable period in the prior year as the limitation of executive compensation deductibility recognized in the second quarter of 2023 was offset by a reduction in a valuation allowance related to interest deductibility due to a state tax law change recognized in the first quarter of 2023.

Segment Discussion

Debit and Credit:

	Three Months Ended June 30,				Six Months Ended June 30,			
	2024	2023	$ Change	% Change	2024	2023	$ Change	% Change
	(dollars in thousands)							
Net sales	$ 95,620	$ 93,194	$ 2,426	2.6 %	$ 183,593	$ 195,179	$ (11,586)	(5.9)%
Gross profit	$ 34,164	$ 33,038	$ 1,126	3.4 %	$ 65,659	$ 71,222	$ (5,563)	(7.8)%
Income from operations	$ 25,389	$ 25,081	$ 308	1.2 %	$ 48,143	$ 55,107	$ (6,964)	(12.6)%
Gross profit margin	35.7%	35.5%			35.8%	36.5%		

Net Sales:

Net sales for Debit and Credit increased for the three months ended June 30, 2024, primarily due to higher personalization and Card@Once services.

Net sales for Debit and Credit decreased for the six months ended June 30, 2024, primarily due to a decrease in Products net sales, partially offset by increased Services net sales. The decrease in Products net sales was driven by volume declines in contactless and EMV cards. The increase in Services net sales was driven by higher personalization and Card@Once services.

Gross Profit and Gross Profit Margin:

Gross profit for Debit and Credit increased for the three months ended June 30, 2024, primarily due to higher net sales. Gross profit margin was relatively consistent for the three months ended June 30, 2024.

Gross profit and gross profit margin for Debit and Credit decreased for the six months ended June 30, 2024, primarily due to lower net sales.

Income from Operations:

Income from operations for Debit and Credit for the three and six months ended June 30, 2024, was impacted primarily by the factors discussed in "Gross Profit and Gross Profit Margin" above, as well as increased compensation-related operating expenses.

Prepaid Debit:

	Three Months Ended June 30,				Six Months Ended June 30,			
	2024	2023	$ Change	% Change	2024	2023	$ Change	% Change
				(dollars in thousands)				
Net sales	$ 23,815	$ 21,821	$ 1,994	9.1 %	$ 48,013	$ 40,951	$ 7,062	17.2 %
Gross profit	$ 8,224	$ 7,787	$ 437	5.6 %	$ 18,247	$ 12,697	$ 5,550	43.7 %
Income from operations	$ 6,909	$ 7,628	$ (719)	(9.4)%	$ 15,654	$ 11,305	$ 4,349	38.5 %
Gross profit margin	34.5%	35.7%			38.0%	31.0%		

Net Sales:

Net sales for Prepaid Debit increased for the three and six months ended June 30, 2024, primarily due to increased sales to existing customers.

Gross Profit and Gross Profit Margin:

Gross profit for Prepaid Debit increased for the three months ended June 30, 2024, primarily due to higher net sales, partially offset by increased labor costs. Gross profit margin decreased compared to the prior year period primarily due to increased labor costs.

Gross profit and gross profit margin for Prepaid Debit increased for the six months ended June 30, 2024, primarily due to higher net sales. Gross profit and gross profit margin in the prior year period were 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.

Income from Operations:

Income from operations for Prepaid Debit for the three and six months ended June 30, 2024, was impacted primarily by the factors discussed in "Gross Profit and Gross Profit Margin" above and higher operating expenses in the second quarter of 2024.

Other:

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

	Three Months Ended June 30, 2024	Three Months Ended June 30, 2023	$ Change	% Change	Six Months Ended June 30, 2024	Six Months Ended June 30, 2023	$ Change	% Change
	(dollars in thousands)							
Operating expenses	$ 17,389	$ 15,217	$ 2,172	14.3 %	$ 34,743	$ 28,322	$ 6,421	22.7 %

Operating Expenses:

Other operating expenses increased for the three and six months ended June 30, 2024, primarily due to an increase in compensation related expenses, including the factors discussed in consolidated “Operating Expenses” above, partially offset by lower professional fees for the six months ended June 30, 2024.

Liquidity and Capital Resources

At June 30, 2024, we had $7.5 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, share repurchases (including the repurchase of incremental shares from Parallel49), payments of employee incentive programs and interest payments on our outstanding debt, 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, 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 “2026 ABL Revolver”) with available borrowing capacity of $69.6 million as of June 30, 2024, will be adequate to fund debt service requirements and provide cash, as required, to support our ongoing operations, capital expenditures, lease obligations, share 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 decreased for the six months ended June 30, 2024 to $4.1 million from $10.3 million for the six months ended June 30, 2023 primarily due to lower net income and changes in working capital. Working capital changes included incentives related to a customer contract entered into in the first quarter of 2024, and 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, partially offset by lower employee performance incentive compensation payments in 2024 related to 2023 performance as compared to those made in 2023 related to 2022 performance. 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 fourth quarter of 2024 due to incentives related to the customer contract as described above.

Financing

As of June 30, 2024, we had the following outstanding borrowings:

	June 30, 2024	December 31, 2023
	(dollars in thousands)	
2026 Senior Notes	$ 267,897	$ 267,897
2026 ABL Revolver	4,000	—
Unamortized deferred financing costs	(2,243)	(2,900)
Total long-term debt	$ 269,654	$ 264,997

2026 Senior Notes

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

2026 ABL Revolver

On March 15, 2021, we entered into a Credit Agreement with Wells Fargo Bank, National Association providing for the 2026 ABL Revolver. On March 3, 2022, we entered into Amendment No. 1 to the Credit Agreement, which amended the 2026 ABL Revolver. The amendment, among other things, increased the available borrowing capacity to $75.0 million, increased the uncommitted accordion feature to $25.0 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, we entered into Amendment No. 2 to the Credit Agreement, which amended the 2026 ABL Revolver to adjust certain monthly document delivery terms and to clarify the treatment of certain inventory. We primarily utilize our 2026 ABL Revolver to provide general liquidity and to support shorter term financing requirements.

Borrowings under the amended 2026 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 term SOFR, which is adjusted for a credit spread of 0.10% to 0.30% depending on the term selected. The applicable interest rate margin ranges from 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 2026 ABL Revolver commitment accrues a monthly unused line fee, between 0.375% to 0.50% per annum, multiplied by the aggregate amount of Revolver commitments less the average Revolver usage during the immediately preceding month.

Amounts borrowed and outstanding under the 2026 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 2026 Senior Notes (and may be subject to earlier mandatory prepayment upon certain events).

Other

Refer to Note 15, “Subsequent Events” of the Condensed Consolidated Financial Statements in this report for information regarding the refinancing of both the 2026 Senior Notes and the 2026 ABL Revolver that occurred in July 2024.

Cash Priorities

Capital Expenditures

We primarily use cash in investing activities for capital expenditures. During the six months ended June 30, 2024, capital expenditures, including investments to support the business, such as machinery and information technology equipment, totaled $2.7 million.

During 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 investing activities 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.

During the six months ended June 30, 2024, the Company repurchased 352,750 shares of its common stock at an average price of $18.14 per share, excluding commissions, or $6.4 million in aggregate, on a trade date basis. This amount includes 244,314 shares purchased from one of our majority shareholders at an average price of $18.03 per share, in accordance with the Stock Repurchase Agreements entered into with Tricor Pacific Capital Partners (Fund IV) US, LP (“Parallel49”). As of June 30, 2024, the Company is obligated to repurchase an additional 120,534 shares at an average price of $18.23 per share from Parallel49. This obligation is based on a multiple of the number of shares the Company purchased in the open market between April 1, 2024 and June 30, 2024, payment for which is due in the third quarter of 2024.

We had $11.2 million remaining in our share repurchase authorization as of June 30, 2024. We may purchase shares through open market purchases or through privately negotiated transactions, the extent and timing of which will depend upon a variety of factors, including market conditions, regulatory requirements and 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 described in Note 15, “Subsequent Events” of the Condensed Consolidated Financial Statements in this report, we refinanced our 2026 Senior Notes and 2026 ABL Revolver in July 2024. As of July 11, 2024, the total projected principal and interest payments on our borrowings are $433.9 million, primarily related to the 2029 Senior Notes, of which $15.0 million of interest is expected to be paid in the next 12 months. These expected interest payments do not include premium and accrued interest of $13.2 million that was paid in connection with the refinancing of the 2026 Senior Notes.

The remaining interest payments are expected to be paid over the remaining term of the 2029 Senior Notes, which mature in 2029, and the principal is due upon maturity. We have estimated our future interest payments assuming no additional borrowings under the 2029 ABL Revolver, no early redemptions of principal on the 2029 Senior Notes, and no debt issuances or renewals upon the maturity dates of our notes. However, we may borrow additional amounts under the 2029 ABL Revolver, redeem principal on the 2029 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. 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, 2023 for details on our leasing arrangements, including future maturities of our operating lease liabilities.

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 June 30, 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, 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, 2023, for which there were no material changes as of June 30, 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.

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 Exchange Act of 1934) as of June 30, 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 June 30, 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.

PART II – Other Information

Item 1. Legal Proceedings

Refer to Note 12, "Commitments and Contingencies" of the Condensed Consolidated Financial Statements in this report for information regarding legal proceedings.

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, 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 no material changes with respect to such risk factors.

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

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. 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 Exchange Act. The extent and timing of repurchases will depend upon a variety of factors, including market conditions, regulatory requirements and other corporate considerations, as determined by the Company.

On December 6, 2023, the Company entered into a Stock Repurchase Agreement with Parallel49, which is one of the Company's majority stockholders. 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 open market from time to time from non-Parallel49 holders during the period commencing from the date of the agreement and ending on March 31, 2024 up to a maximum of 325,000 shares. Pursuant to this agreement, the Company repurchased 244,314 shares at an average price of $18.03 per share on April 5, 2024.

On March 14, 2024, the Company entered into a similar Stock Repurchase Agreement with Parallel49, effective for the period commencing from April 1, 2024 and ending on June 30, 2024 pursuant to which the Company could purchase up to a maximum of 325,000 shares during such period.

The following table sets forth share repurchases for each of the three months of the quarter ended June 30, 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)
April 1 - 30	273,087	$ 18.02	273,087	$ 12,058
May 1 - 31	11,405	$ 20.13	11,405	$ 11,154
June 1 - 30	—	$ —	—	$ 11,154
Total	284,492	$ 18.11	284,492	

(a) Reflects shares repurchased and retired under the 2023 repurchase authorization and the stock repurchase agreements. This amount does not include the 120,534 shares that were repurchased from Parallel49 in July 2024 in accordance with the stock repurchase agreement entered into on March 14, 2024.
(b) Reflects the $20.0 million repurchase authorization less completed open market purchases and $2.2 million allocated to repurchases from Parallel49, representing 120,534 shares, in accordance with the stock repurchase agreement entered into on March 14, 2024.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

During the three and six months ended June 30, 2024, no directors or officers of the Company adopted or terminated any Rule 10b5-1 trading arrangements or non-Rule 10b5-1 trading arrangements (each as defined in Item 408(a) of Regulation S-K).

Item 6. Exhibits

Exhibit Number	Exhibit Description
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 XBRL docume
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).

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.
August 5, 2024	/s/ John Lowe John Lowe *President and Chief Executive Officer* (Principal Executive Officer)
August 5, 2024	/s/ Jeffrey Hochstadt Jeffrey Hochstadt *Chief Financial Officer* (Principal Financial Officer)
August 5, 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, 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: August 5, 2024

/s/ John Lowe
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: August 5, 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 June 30, 2024, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, 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/ John Lowe
John Lowe
President and Chief Executive Officer
(Principal Executive Officer)

Date: August 5, 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 June 30, 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: August 5, 2024