

CTI INDUSTRIES CORP  
Form 10-Q  
May 15, 2012

**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 EXCHANGE  
ACT OF 1934**

For the quarterly period ended March 31, 2012

**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

**000-23115**

**CTI INDUSTRIES CORPORATION**

(Exact name of Registrant as specified in its charter)

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Illinois 36-2848943  
(State or other jurisdiction of (I.R.S. Employer Identification Number)  
incorporation or organization)

22160 N. Pepper Road  
Lake Barrington, Illinois 60010  
(Address of principal executive offices) (Zip Code)

(847) 382-1000

(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller Reporting Company

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

The number of shares outstanding of the Registrant's common stock as of May 1, 2012 was 3,204,506.

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**PART 1 - FINANCIAL INFORMATION****Item 1. Financial Statements****CTI Industries Corporation and Subsidiaries****Condensed Consolidated Balance Sheets**

	March 31, 2012 (unaudited)	December 31, 2011
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents (VIE \$14,000 and \$11,000, respectively)	\$ 365,683	\$ 338,523
Accounts receivable, (less allowance for doubtful accounts of \$80,000 and \$70,000, respectively)	7,562,290	7,091,194
Inventories, net	13,541,981	13,338,317
Net deferred income tax asset	757,117	760,241
Prepaid expenses (VIE \$13,000 and \$10,000)	1,286,040	1,345,223
Other current assets (VIE \$91,000 and \$83,000)	550,726	427,471
<b>Total current assets</b>	<b>24,063,837</b>	<b>23,300,969</b>
Property, plant and equipment:		
Machinery and equipment	24,620,561	24,333,989
Building	3,329,174	3,329,174
Office furniture and equipment	3,031,060	3,022,719
Intellectual property	432,070	432,070
Land	250,000	250,000
Leasehold improvements	435,759	415,663
Fixtures and equipment at customer locations	2,784,419	2,629,902
Projects under construction	506,681	502,021
	35,389,724	34,915,538
Less : accumulated depreciation and amortization	(26,622,366 )	(26,071,629 )
<b>Total property, plant and equipment, net</b>	<b>8,767,358</b>	<b>8,843,909</b>
Other assets:		
Deferred financing costs, net	35,283	42,986
Goodwill	1,033,077	1,033,077
Net deferred income tax asset	18,459	197,243
Other assets, due from related party \$79,000 and \$79,000, respectively	210,725	197,338

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Total other assets	1,297,544	1,470,644
<b>TOTAL ASSETS</b>	<b>\$ 34,128,739</b>	<b>\$ 33,615,522</b>
<b>LIABILITIES AND EQUITY</b>		
Current liabilities:		
Checks written in excess of bank balance	\$ 1,208,164	\$ 154,501
Trade payables	5,692,979	6,359,757
Line of credit	6,692,627	7,298,363
Notes payable - current portion (VIE \$93,000 and \$91,000, respectively)	453,780	362,927
Notes payable - officers, current portion, net of debt discount of \$0 and \$5,000	1,127,614	1,424,923
Capital lease - current portion	1,279	2,559
Notes Payable Affiliates - current portion	7,564	6,718
Accrued liabilities	2,554,852	2,079,246
<b>Total current liabilities</b>	<b>17,738,859</b>	<b>17,688,994</b>
Long-term liabilities:		
Notes Payable - Affiliates	145,966	134,919
Notes payable, net of current portion	3,795,045	3,932,032
Capital Lease	-	426
Notes payable - officers, subordinated	104,186	103,656
<b>Total long-term liabilities</b>	<b>4,045,197</b>	<b>4,171,033</b>
Equity:		
CTI Industries Corporation stockholders' equity:		
Preferred Stock -- no par value 2,000,000 shares authorized 0 shares issued and outstanding	-	-
Common stock - no par value, 5,000,000 shares authorized, 3,276,633 and 3,276,633 shares issued and 3,204,506 and 3,137,348 outstanding, respectively		
Paid-in-capital	13,704,890	13,704,890
Dividends	972,910	950,968
Accumulated equity (deficit)	20,507	(368,122)
Accumulated other comprehensive loss	(2,127,503)	(2,285,679)
Less: Treasury stock, 72,127 shares	(141,289)	(141,289)
<b>Total CTI Industries Corporation stockholders' equity</b>	<b>12,429,515</b>	<b>11,860,768</b>
Noncontrolling interest	(84,832)	(105,273)
<b>Total Equity</b>	<b>12,344,683</b>	<b>11,755,495</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>\$ 34,128,739</b>	<b>\$ 33,615,522</b>

See accompanying notes to condensed consolidated unaudited financial statements

**CTI Industries Corporation and Subsidiaries****Condensed Consolidated Statements of Operations and Comprehensive Income (Unaudited)**

	For the Three Months Ended March	
	31, 2012	2011
Net Sales	\$ 13,807,144	\$ 12,697,655
Cost of Sales	10,712,073	10,226,883
Gross profit	3,095,071	2,470,772
Operating expenses:		
General and administrative	1,332,294	1,329,954
Selling	411,569	214,254
Advertising and marketing	508,445	328,133
Total operating expenses	2,252,308	1,872,341
Income from operations	842,763	598,431
Other (expense) income:		
Interest expense	(186,523	) (141,235
Interest income	5,536	2,029
Foreign currency gain	2,225	11,117
Total other expense, net	(178,762	) (128,089
Net Income before taxes	664,001	470,342
Income tax expense	254,931	205,429
Net Income	409,070	264,913
Less: Net income (loss) attributable to noncontrolling interest	20,442	(32,195
Net income attributable to CTI Industries Corporation	\$ 388,628	\$ 297,108
Other Comprehensive Income		
Foreign currency adjustment	158,176	452,631
Comprehensive income	\$ 546,804	\$ 749,739
Basic income per common share	\$ 0.12	\$ 0.09

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Diluted income per common share	\$ 0.12	\$ 0.09
Weighted average number of shares and equivalent shares of common stock outstanding:		
Basic	3,204,506	3,137,837
Diluted	3,244,976	3,198,742

See accompanying notes to condensed consolidated unaudited financial statements

## CTI Industries Corporation and Subsidiaries

## Condensed Consolidated Statements of Cash Flows (Unaudited)

	For the Three Months Ended March	
	31,	
	2012	2011
Cash flows from operating activities:		
Net income	\$ 409,070	\$ 264,913
Adjustment to reconcile net income to cash (used in) provided by operating activities:		
Depreciation and amortization	414,339	454,306
Amortization of debt discount	-	5,042
Change in value of swap agreement	158,090	-
Stock based compensation	21,942	35,003
Provision for losses on accounts receivable	9,754	7,275
Provision for losses on inventories	180,792	51,572
Deferred income taxes	181,909	69,952
Change in assets and liabilities:		
Accounts receivable	(269,223 )	(1,416,729 )
Inventories	(122,936 )	(621,125 )
Prepaid expenses and other assets	(13,615 )	(465,295 )
Trade payables	(808,666 )	721,348
Accrued liabilities	(25,396 )	306,682
Net cash provided by (used in) operating activities	136,060	(587,056 )
Cash used in investing activities - purchases of property, plant and equipment	(213,239 )	(253,262 )
Cash flows from financing activities:		
Change in checks written in excess of bank balance	1,051,948	(83,765 )
Net change in revolving line of credit	(620,076 )	290,175
Proceeds from issuance of long-term debt	-	598,296
Repayment of long-term debt (related parties \$297,000 and \$227,000)	(353,916 )	(345,536 )
Proceeds from exercise of stock options and warrants	-	2,335
Net cash provided by financing activities	77,956	461,505
Effect of exchange rate changes on cash	26,383	17,883
Net increase (decrease) in cash and cash equivalents	27,160	(360,930 )
Cash and cash equivalents at beginning of period	338,523	761,874
Cash and cash equivalents at end of period	\$ 365,683	\$ 400,944



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Supplemental disclosure of cash flow information:		
Cash payments for interest	\$ 306,767	\$ 127,448
Cash payments for taxes	\$ 5,000	\$ 25,000
Supplemental Disclosure of non-cash investing and financing activity		
Property, Plant & Equipment acquisitions funded by liabilities	\$ 49,380	\$ 33,550

See accompanying notes to condensed consolidated unaudited financial statements

**CTI Industries Corporation and Subsidiaries****Condensed Consolidated Earnings per Share (unaudited)**

	Three Months Ended March 31,	
	2012	2011
<b>Basic</b>		
Average shares outstanding:		
Weighted average number of common shares outstanding	3,204,506	3,137,837
<b>Net income:</b>		
Net income attributable to CTI Industries Corporation	\$ 388,628	\$ 297,108
Per share amount	\$ 0.12	\$ 0.09
<b>Diluted</b>		
Average shares outstanding:		
Weighted average number of common shares outstanding	3,204,506	3,137,837
Effect of dilutive shares	40,470	60,905
Weighted average number of shares and equivalent shares of common stock outstanding	3,244,976	3,198,742
<b>Net income:</b>		
Net income attributable to CTI Industries Corporation	\$ 388,628	\$ 297,108
Per share amount	\$ 0.12	\$ 0.09

See accompanying notes to condensed consolidated unaudited financial statements

CTI Industries Corporation and Subsidiaries

Notes to Unaudited Condensed Consolidated Financial Statements

Note 1 - Basis of Presentation

The accompanying condensed consolidated financial statements are unaudited but in the opinion of management contain all the adjustments (consisting of those of a normal recurring nature) considered necessary to present fairly the consolidated financial position and the consolidated results of operations and consolidated cash flows for the periods presented in conformity with generally accepted accounting principles for interim consolidated financial information and the instructions to Form 10-Q and Article 8 of Regulation S-X. Accordingly, they do not include all the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. Operating results for the three months ended March 31, 2012 are not necessarily indicative of the results that may be expected for the fiscal year ending December 31, 2012. It is suggested that these condensed financial statements be read in conjunction with the consolidated financial statements and notes thereto included in the Company's annual report on Form 10-K for the fiscal year ended December 31, 2011.

Principles of consolidation and nature of operations:

The condensed consolidated financial statements include the accounts of CTI Industries Corporation and its wholly-owned subsidiaries, CTI Balloons Limited, CTI Helium, Inc. and CTF International S.A. de C.V., its majority-owned subsidiaries CTI Mexico S.A. de C.V., Flexo Universal, S.A. de C.V. and CTI Europe gmbH, as well as the accounts of Venture Leasing S. A. de R. L. and Venture Leasing L.L.C (the "Company"). The last two entities have been consolidated as variable interest entities. All significant intercompany transactions and accounts have been eliminated in consolidation. The Company (i) designs, manufactures and distributes balloon products throughout the world and (ii) operates systems for the production, lamination, coating and printing of films used for food packaging and other commercial uses and for conversion of films to flexible packaging containers and other products.

Variable Interest Entities ("VIE's"):

The determination of whether or not to consolidate a variable interest entity under U.S. GAAP requires a significant amount of judgment concerning the degree of control over an entity by its holders of variable interest. To make these judgments, management has conducted an analysis of the relationship of the holders of variable interest to each other, the design of the entity, the expected operations of the entity, which holder of variable interests is most "closely associated" to the entity and which holder of variable interests is the primary beneficiary required to consolidate the

entity. Upon the occurrence of certain events, management reviews and reconsiders its previous conclusion regarding the status of an entity as a variable interest entity. Upon the adoption of amended accounting guidance applicable to variable interest entities on January 1, 2010, management continually reconsiders whether we are deemed to be a variable interest entity's primary beneficiary who consolidates such entity. There are two entities that have been consolidated as variable interest entities.

Use of estimates:

In preparing condensed consolidated financial statements in conformity with accounting principles generally accepted in the United States of America, management makes estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the condensed consolidated financial statements and the reported amount of revenue and expenses during the reporting period in the condensed consolidated financial statements and accompanying notes. Actual results may differ from those estimates. The Company's significant estimates include reserves for doubtful accounts, reserves for the lower of cost or market of inventory, reserves for deferred tax assets and recovery value of goodwill.

Earnings per share:

Basic earnings per share is computed by dividing net income by the weighted average number of shares of common stock outstanding during each period.

Diluted earnings per share is computed by dividing the net income by the weighted average number of shares of common stock and equivalents (stock options and warrants), unless anti-dilutive, during each period.

As of March 31, 2012 and 2011, shares to be issued upon the exercise of options aggregated 162,500 and 206,000, respectively. The number of anti-dilutive shares (not included in the determination of earnings on a diluted basis) for the three months ended March 31, 2012 and 2011, were 84,000 and 20,000, respectively, all of which were represented by options.

New Accounting Pronouncements:

The Company's significant accounting policies are summarized in Note 2 of the Company's consolidated financial statements for the year ended December 31, 2011. There were no significant changes to these accounting policies during the three months ended March 31, 2012.