

CTI INDUSTRIES CORP  
Form 10-Q  
August 15, 2011  
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 June 30, 2011

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)

Illinois  
(State or other jurisdiction of  
incorporation or organization)

36-2848943  
(I.R.S. Employer Identification Number)

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

60010  
(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

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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 August 1, 2011 was 3,138,848.

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## FORWARD-LOOKING STATEMENTS

This quarterly report includes both historical and “forward-looking statements” within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended. We have based these forward-looking statements on our current expectations and projections about future results. Words such as “may,” “should,” “could,” “would,” “expect,” “plan,” “anticipate,” “believe,” “estimate,” “predict,” “potential,” “continue,” or similar words are intended to identify forward-looking statements, although not all forward-looking statements contain these words. Although we believe that our opinions and expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements, and our actual results may differ substantially from the views and expectations set forth in this quarterly report on Form 10-Q. We disclaim any intent or obligation to update any forward-looking statements after the date of this quarterly report to conform such statements to actual results or to changes in our opinions or expectations.

## PART 1 - FINANCIAL INFORMATION

## Item 1. Financial Statements

CTI Industries Corporation and Subsidiaries  
Condensed Consolidated Balance Sheets

	June 30, 2011 (unaudited)	December 31, 2010
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents (VIE \$6,000 and \$38,000, respectively)	\$ 493,559	\$ 761,874
Accounts receivable, (less allowance for doubtful accounts of \$65,000 and \$59,000, respectively)	7,908,907	8,533,626
Inventories, net	11,642,078	10,368,037
Net deferred income tax asset	773,398	750,485
Prepaid expenses and other current assets	1,549,902	1,012,067
<b>Total current assets</b>	<b>22,367,844</b>	<b>21,426,089</b>
Property, plant and equipment:		
Machinery and equipment	23,888,526	22,900,460
Building	3,291,999	3,260,201
Office furniture and equipment	2,812,122	2,718,425
Intellectual property	345,092	345,092
Land	250,000	250,000
Leasehold improvements	455,615	443,630
Fixtures and equipment at customer locations	2,632,852	2,629,902
Projects under construction (VIE \$652,000 and \$587,000, respectively)	1,217,871	1,601,682
	34,894,077	34,149,392
Less : accumulated depreciation and amortization	(25,477,253 )	(24,489,624 )
<b>Total property, plant and equipment, net</b>	<b>9,416,824</b>	<b>9,659,768</b>
Other assets:		
Deferred financing costs, net	49,998	63,634
Goodwill	1,033,077	1,033,077
Net deferred income tax asset	319,888	360,830
Other assets (due from related party \$31,000 and \$213,000, respectively)	148,421	317,990
<b>Total other assets</b>	<b>1,551,384</b>	<b>1,775,531</b>
<b>TOTAL ASSETS</b>	<b>\$ 33,336,052</b>	<b>\$ 32,861,388</b>
<b>LIABILITIES AND EQUITY</b>		
Current liabilities:		
Checks written in excess of bank balance	\$ 1,059,410	\$ 692,141
Trade payables (VIE \$28,000 and \$58,000, respectively)	5,094,649	4,307,358
Line of credit (VIE \$0 and \$700,000, respectively)	6,093,810	8,225,900

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Notes payable - current portion	222,130	276,667
Notes payable - officers, current portion, net of debt discount of \$0 and \$5,000	1,424,923	1,410,807
Capital lease - current portion	5,117	5,117
Notes Payable Affiliates - current portion	7,514	6,754
Accrued liabilities	2,790,969	3,027,298
<b>Total current liabilities</b>	<b>16,698,522</b>	<b>17,952,042</b>
<b>Long-term liabilities:</b>		
Notes Payable - Affiliates	163,988	155,648
Notes payable, net of current portion	3,873,173	2,611,127
Capital Lease	-	2,559
Notes payable - officers, subordinated, net of debt discount of \$0 and \$0	103,391	360,351
<b>Total long-term liabilities</b>	<b>4,140,552</b>	<b>3,129,685</b>
<b>Equity:</b>		
<b>CTI Industries Corporation stockholders' equity:</b>		
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, 3,209,975 and 3,209,475 shares issued and 3,137,848 and 3,137,348 outstanding, respectively	13,397,275	13,394,940
Paid-in-capital	887,144	817,138
Dividends	-	(314,441 )
Accumulated deficit	(383,188 )	(379,210 )
Accumulated other comprehensive loss	(1,198,090 )	(1,592,798 )
Less: Treasury stock, 72,127 shares and 72,127 shares	(141,289 )	(141,289 )
<b>Total CTI Industries Corporation stockholders' equity</b>	<b>12,561,852</b>	<b>11,784,340</b>
Noncontrolling interest	(64,874 )	(4,679 )
<b>Total Equity</b>	<b>12,496,978</b>	<b>11,779,661</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>\$ 33,336,052</b>	<b>\$ 32,861,388</b>

See accompanying notes to condensed consolidated unaudited financial statements

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2011	2010	2011	2010
Net Sales	\$ 11,964,764	\$ 12,964,203	\$ 24,662,419	\$ 25,374,969
Cost of Sales	9,894,922	10,091,153	20,121,805	19,457,347
Gross profit	2,069,842	2,873,050	4,540,614	5,917,622
Operating expenses:				
General and administrative	1,349,726	1,307,771	2,679,680	2,568,450
Selling	206,521	218,394	420,776	558,819
Advertising and marketing	363,883	457,225	692,016	940,637
Total operating expenses	1,920,130	1,983,390	3,792,472	4,067,906
Income from operations	149,712	889,660	748,142	1,849,716
Other (expense) income:				
Interest expense	(147,958 )	(300,658 )	(289,193 )	(549,061 )
Interest income	3,923	4,263	5,952	8,593
Foreign currency gain (loss)	15,150	(21,463 )	26,268	(34,687 )
Total other expense, net	(128,885 )	(317,858 )	(256,973 )	(575,155 )
Net Income before taxes	20,827	571,802	491,169	1,274,561
Income tax expense (benefit)	35,472	(21,036 )	240,901	95,324
Net (loss) income	(14,645 )	592,838	250,268	1,179,237
Less: Net loss attributable to noncontrolling interest	(28,000 )	(13,929 )	(60,195 )	(26,373 )
Net income attributable to CTI Industries Corporation	\$ 13,355	\$ 606,767	\$ 310,463	\$ 1,205,610
Other Comprehensive (Loss) Income				
Unrealized gain on derivative instruments	\$ -	\$ 154,418	\$ -	\$ 188,615
Foreign currency adjustment	\$ (57,923 )	\$ (291,017 )	\$ 394,708	\$ (71,225 )
Comprehensive (loss) income	\$ (44,568 )	\$ 470,168	\$ 705,171	\$ 1,323,000
Basic income per common share	\$ 0.00	\$ 0.21	\$ 0.10	\$ 0.43

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Diluted income per common share	\$ 0.00	\$ 0.20	\$ 0.10	\$ 0.42
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Dividends per share	\$ -	\$ 0.05	\$ -	\$ 0.05
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Weighted average number of shares and equivalent shares of common stock outstanding:

Basic	3,137,848	2,898,811	3,137,842	2,834,265
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Diluted	3,187,779	2,959,952	3,193,213	2,877,102
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See accompanying notes to condensed consolidated unaudited financial statements



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CTI Industries Corporation and Subsidiaries  
Condensed Consolidated Statements of Cash Flows (Unaudited)

	For the Six Months Ended June 30,	
	2011	2010
Cash flows from operating activities:		
Net income	\$ 250,268	\$ 1,179,237
Adjustment to reconcile net income to cash provided by operating activities:		
Depreciation and amortization	925,100	1,052,661
Amortization of debt discount	5,042	44,334
Stock based compensation	70,006	81,251
Provision for losses on accounts receivable	5,773	29,651
Provision for losses on inventories	54,577	10,482
Deferred income taxes	72,752	65,324
Change in assets and liabilities:		
Accounts receivable	763,223	(711,092 )
Inventories	(1,209,154 )	239,113
Prepaid expenses and other assets	(373,611 )	98,070
Trade payables	678,337	370,245
Accrued liabilities	(167,919 )	151,241
Net cash provided by operating activities	1,074,394	2,610,517
Cash used in investing activity - purchases of property, plant and equipment		
	(545,473 )	(418,434 )
Net cash used in investing activity	(545,473 )	(418,434 )
Cash flows from financing activities:		
Change in checks written in excess of bank balance	364,703	(705,403 )
Net change in revolving line of credit	(1,433,108 )	449,384
Repayment of long-term debt (related parties \$268,000 and \$373,000)	(438,457 )	(1,279,473 )
Proceeds from issuance of long-term debt	679,734	-
Proceeds from exercise of stock options and warrants	2,335	72,561
Cash received from investment in subsidiary	-	42,299
Dividends paid	-	(156,135 )
Cash paid for deferred financing fees	-	(189,032 )
Net cash used in financing activities	(824,793 )	(1,765,799 )
Effect of exchange rate changes on cash	27,557	(11,632 )
Net (decrease) increase in cash and cash equivalents	(268,315 )	414,652
Cash and cash equivalents at beginning of period	761,874	914,765

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Cash and cash equivalents at end of period	\$ 493,559	\$ 1,329,417
Supplemental disclosure of cash flow information:		
Cash payments for interest	\$ 247,901	\$ 475,508
Cash payments for taxes	\$ 42,250	\$ 30,000
Supplemental Disclosure of non-cash investing and financing activity Exercise of Warrants and Payment of Subordinated Debt		
	\$ -	\$ 1,027,000
Property, Plant & Equipment acquisitions funded by liabilities	\$ 82,591	\$ 88,940
Reclassification of line of credit to long-term debt	\$ 700,000	\$ -

See accompanying notes to condensed consolidated unaudited financial statements

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
<b>Basic</b>				
Average shares outstanding:				
Weighted average number of common shares outstanding	3,137,848	2,898,811	3,137,842	2,834,265
<b>Net income:</b>				
Net income attributable to CTI Industries Corporation				
	\$ 13,355	\$ 606,767	\$ 310,463	\$ 1,205,610
Per share amount	\$ 0.00	\$ 0.21	\$ 0.10	\$ 0.43
<b>Diluted</b>				
Average shares outstanding:				
Weighted average number of common shares outstanding	3,137,848	2,898,811	3,137,842	2,834,265
Effect of dilutive shares	49,931	61,141	55,371	42,837
Weighted average number of shares and equivalent shares of common stock outstanding	3,187,779	2,959,952	3,193,213	2,877,102
<b>Net income:</b>				
Net income attributable to CTI Industries Corporation				
	\$ 13,355	\$ 606,767	\$ 310,463	\$ 1,205,610
Per share amount	\$ 0.00	\$ 0.20	\$ 0.10	\$ 0.42

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 and six months ended June 30, 2011 are not necessarily indicative of the results that may be expected for the fiscal year ending December 31, 2011. 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, 2010.

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. The Company has 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 June 30, 2011 and 2010, shares to be issued upon the exercise of options aggregated 206,000 and 160,405, respectively. There are no longer any warrants to be exercised. The number of anti-dilutive shares (not included in the determination of earnings on a diluted basis) for the three and six months ended June 30, 2011 were 81,500 and 81,500, respectively, all of which were represented by options. The number of anti-dilutive shares (not included in the determination of earnings on a diluted basis) for the three and six months ended June 30, 2010 were 6,000 and 59,000, 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, 2010. There were no significant changes to these accounting policies during the three and six months ended June 30, 2011 and the Company does not expect that the adoption of other recent accounting pronouncements will have a material impact in its consolidated financial statements.

Note 2 - Stock-Based Compensation; Changes in Equity

We have adopted Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 718 which requires all share-based payments to employees, including grants of employee stock options, to be recognized in the condensed consolidated financial statements based on their grant-date fair values.

We have applied the Black-Scholes model to value stock-based awards. That model incorporates various assumptions in the valuation of stock-based awards relating to the risk-free rate of interest to be applied, the estimated dividend yield and expected volatility of our common stock. The risk-free rate of interest is the related U.S. Treasury yield curve for periods within the expected term of the option at the time of grant. The dividend yield on our common stock is estimated to be 1.66%. The expected volatility is based on historical volatility of the Company's common stock.

The Company's net income for the three months ended June 30, 2011 and 2010 includes approximately \$35,000 and \$34,000, respectively of compensation costs related to share based payments. The Company's net income for the six months ended June 30, 2011 and 2010 includes approximately \$70,000 and \$81,000, respectively of compensation costs related to share based payments. As of June 30, 2011 there is \$261,000 of unrecognized compensation expense related to non-vested stock option grants and stock grants. We expect approximately \$64,000 to be recognized over the remainder of 2011, \$88,000 to be recognized during 2012, and \$59,000 to be recognized during 2013, \$41,000 to be recognized during 2014 and \$9,000 to be recognized during 2015.

As of June 30, 2011, the Company had four stock-based compensation plans pursuant to which stock options were, or may be, granted. The Plans provide for the award of options, which may either be incentive stock options ("ISOs") within the meaning of Section 422A of the Internal Revenue Code of 1986, as amended (the "Code") or non-qualified options ("NQOs") which are not subject to special tax treatment under the Code.

On April 12, 2001, the Board of Directors approved for adoption, effective December 27, 2001, the 2001 Stock Option Plan ("2001 Plan"). The 2001 Plan authorizes the grant of options to purchase up to an aggregate of 119,050, shares of the Company's Common Stock. As of June 30, 2011, 139,958 shares have been granted and were fully vested at the time of grant. Options to purchase 7,500 remain outstanding.

On April 24, 2002, the Board of Directors approved for adoption, effective October 12, 2002, the 2002 Stock Option Plan ("2002 Plan"). The 2002 Plan authorizes the grant of options to purchase up to an aggregate of 142,860 shares of the Company's Common Stock. As of June 30, 2011, 123,430 shares have been granted and were fully vested at the time of grant, 27,500 remain outstanding.

On April 30, 2007, the Board of Directors approved for adoption, effective October 1, 2007, the 2007 Stock Option Plan ("2007 Plan"). The 2007 Plan authorizes the grant of options to purchase up to an aggregate of 150,000 shares of the Company's Common Stock. As of June 30, 2011, 165,750 options had been granted and 89,500 remain outstanding.

On April 10, 2009, the Board of Directors approved for adoption, and on June 5, 2009, the shareholders of the Corporation approved, a 2009 Stock Incentive Plan ("2009 Plan"). The 2009 Plan authorizes the issuance of up to 250,000 shares of stock or options to purchase stock of the Company. As of June 30, 2011, 82,000 options had been granted and 81,500 remain outstanding.

A summary of the Company's stock option activity and related information is as follows:

	Shares under Option	Weighted Average Exercise Price	Weighted Average Contractual Life	Aggregate Intrinsic Value
Balance at December 31, 2010	202,750	\$4.28		
Granted	8,000	\$5.96		
Cancelled	(4,250 )	\$4.67		
Exercised	(500 )	\$6.12		
Outstanding at June 30, 2011	206,000	\$4.31	2.90	\$ 265,120
Exercisable at June 30, 2011	107,875	\$3.30	2.00	\$ 210,381

During the three and six months ended June 30, 2011 there was no activity related to stock warrants.

A summary of the Company's stock option activity by grant date as of June 30, 2011 is as follows:

Options by Grant Date	Options Outstanding				Options Vested			
	Shares	Wtd Avg	Remain. Life	Intrinsic Val	Shares	Wtd Avg	Remain. Life	Intrinsic Val
Dec 2005	35,000	\$2.88	4.5	\$82,950	35,000	\$2.88	4.5	\$82,950
Oct 2007	40,500	\$4.70	0.3	\$22,089	40,500	\$4.70	0.3	\$22,089
Oct 2008	2,500	\$4.97	1.3	\$700	1,875	\$4.97	1.3	\$525
Nov 2008	46,500	\$1.82	1.4	\$159,381	30,500	\$1.81	1.4	\$104,817
Dec 2010								