

CTI INDUSTRIES CORP
Form 10-Q
November 14, 2016

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 September 30, 2016

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 November 1, 2016 was 3,524,354.

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

	September 30, 2016 (unaudited)	December 31, 2015
ASSETS		
Current assets:		
Cash and cash equivalents (VIE \$111,000 and \$82,000, respectively)	\$ 623,880	\$ 346,404
Accounts receivable, (less allowance for doubtful accounts of \$132,000 and \$126,000, respectively) (VIE \$54,000 and \$4,000, respectively)	10,180,931	11,410,999
Inventories, net (VIE \$1,292,000 and \$1,264,000, respectively)	22,942,341	17,869,911
Net deferred income tax asset	749,089	761,096
Prepaid expenses (VIE \$17,000 and \$17,000, respectively)	957,138	1,057,464
Other current assets (VIE \$51,000 and \$33,000, respectively)	845,198	991,297
Total current assets	36,298,577	32,437,171
Property, plant and equipment:		
Machinery and equipment (VIE \$0 and \$546,000, respectively)	26,582,044	26,847,110
Building	3,378,006	3,360,017
Office furniture and equipment (VIE \$120,000 and \$66,000, respectively)	3,614,814	3,512,613
Intellectual property	482,088	482,088
Land	250,000	250,000
Leasehold improvements	405,306	624,902
Fixtures and equipment at customer locations	3,187,724	3,174,535
Projects under construction	629,731	773,985
	38,529,713	39,025,250
Less : accumulated depreciation and amortization (VIE \$27,000 and \$150,000, respectively)	(33,010,749)	(32,471,694)
Total property, plant and equipment, net	5,518,964	6,553,556
Other assets:		
Deferred financing costs, net	67,528	112,615
Goodwill (VIE \$440,000 and \$440,000, respectively)	1,473,176	1,473,176
Net deferred income tax asset	1,171,071	986,181

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Other assets (due from related party \$47,000 and \$46,000, respectively)	467,813	242,270
Total other assets	3,179,588	2,814,242
TOTAL ASSETS	\$ 44,997,129	\$ 41,804,969
LIABILITIES AND EQUITY		
Current liabilities:		
Checks written in excess of bank balance (VIE \$19,000 and \$8,000, respectively)	\$ 1,513,387	\$ 1,481,827
Trade payables (VIE \$235,000 and \$238,000, respectively)	7,420,049	4,271,860
Line of credit (VIE \$426,000 and \$484,000, respectively)	10,362,330	10,952,924
Notes payable - current portion (net discount of \$158,000 and \$171,000, respectively) (VIE \$0 and \$311,000, respectively)	1,754,281	501,710
Notes payable - officers, current portion	900,000	-
Notes payable - affiliates, current portion	8,435	8,670
Capital Lease - current portion	41,623	41,204
Accrued liabilities (VIE \$964,000 and \$655,000, respectively)	2,968,488	2,942,481
Total current liabilities	24,968,593	20,200,676
Long-term liabilities:		
Notes payable - affiliates	223,539	266,835
Notes payable, net of current portion (net of deferred financing fees of \$0 and \$113,000, respectively) (VIE \$357,000 and \$200, respectively)	5,356,747	6,665,700
Notes payable - officers, subordinated	1,392,268	1,323,139
Capital lease	14,283	45,351
Deferred gain	346,074	-
Total long-term debt, net of current portion	7,332,911	8,301,025
Warrants Payable	893,506	714,245
Total long-term liabilities	8,226,417	9,015,270
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, 3,568,012 shares issued and 3,524,354 shares outstanding	13,898,494	13,775,994
Paid-in-capital	2,244,849	1,577,807
Accumulated earnings	1,414,146	1,670,788
Accumulated other comprehensive loss	(4,916,462)	(4,076,318)
Less: Treasury stock, 75,627 shares	(160,784)	(160,784)
Total CTI Industries Corporation stockholders' equity	12,480,243	12,787,487
Noncontrolling interest	(678,124)	(198,464)
Total Equity	11,802,119	12,589,023

TOTAL LIABILITIES AND EQUITY	\$ 44,997,129	\$ 41,804,969
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See accompanying notes to condensed consolidated unaudited financial statements

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

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2016	2015	2016	2015
Net Sales	\$ 13,476,157	\$ 14,880,820	\$ 42,831,655	\$ 43,476,981
Cost of Sales	10,064,066	10,775,500	31,661,039	31,863,004
Gross profit	3,412,091	4,105,320	11,170,616	11,613,977
Operating expenses:				
General and administrative	1,808,299	1,840,643	5,470,523	5,300,418
Selling	977,928	862,587	3,162,083	2,425,677
Advertising and marketing	581,143	689,244	1,643,852	2,005,643
Loss (gain) on sale of assets	(27,700)	-	(27,700)	-
Total operating expenses	3,339,670	3,392,474	10,248,758	9,731,738
Income from operations	72,421	712,846	921,858	1,882,239
Other (expense) income:				
Interest expense	(358,643)	(350,960)	(1,074,295)	(1,067,895)
Interest income	-	5,952	-	30,729
Change in fair value of warrants	47,617	-	(179,261)	-
Foreign currency gain	9,663	43,932	77,341	47,230
Total other expense, net	(301,363)	(301,076)	(1,176,215)	(989,936)
Net (loss) income before taxes	(228,942)	411,770	(254,357)	892,303
Income tax (benefit) expense	(28,655)	161,280	(16,804)	386,514
Net (loss) income	(200,287)	250,490	(237,553)	505,789
Less: Net (loss) income attributable to noncontrolling interest	(19,812)	41,237	19,089	(39,754)
Net (loss) income attributable to CTI Industries Corporation	\$ (180,475)	\$ 209,253	\$ (256,642)	\$ 545,543
Other Comprehensive (Loss)				
Foreign currency adjustment	(236,133)	(547,475)	(840,144)	(1,009,986)

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Comprehensive (loss)	\$ (416,608) \$ (338,222) \$ (1,096,786) \$ (464,443)
Basic (loss) income per common share	\$ (0.05) \$ 0.06	\$ (0.07) \$ 0.17	
Diluted (loss) income per common share	\$ (0.05	) \$ 0.06	\$ (0.07	) \$ 0.16	
Weighted average number of shares and equivalent shares of common stock outstanding:					
Basic	3,541,582	3,301,116	3,541,582	3,301,116	
Diluted	3,714,239	3,446,808	3,703,732	3,447,938	

See accompanying notes to condensed consolidated unaudited financial statements

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

	For the Nine Months Ended September 30,	
	2016	2015
Cash flows from operating activities:		
Net income	\$ (237,553	) \$ 505,789
Adjustment to reconcile net income to cash provided by operating activities:		
Depreciation and amortization	1,153,688	1,379,031
Amortization of debt discount	125,689	107,681
Change in fair value of warrants	179,261	-
Stock based compensation	28,719	25,486
Amortization of deferred gain on sale/leaseback	(27,700) -
Provision for losses on accounts receivable	28,685	32,557
Provision for losses on inventories	(31,259	) 179,901
Deferred income taxes	(170,653	) 92,208
Change in assets and liabilities:		
Accounts receivable	807,687	664,907
Inventories	(5,597,774	) (688,340
Prepaid expenses and other assets	(77,839	) 106,515
Trade payables	3,461,400	923,251
Accrued liabilities	102,981	61,424
Net cash (used in) provided by operating activities	(254,668	) 3,390,410
Cash flows from investing activities:		
Proceeds from equipment sale-leaseback	783,134	-
Cash used in investment in subsidiary	(87,500) -
Purchases of property, plant and equipment	(555,961	) (465,443
Net cash provided by (used in) investing activities	139,673	(465,443
Cash flows from financing activities:		
Change in checks written in excess of bank balance	31,560	(460,401
Net change in revolving line of credit	(590,594	) (1,911,937
Proceeds from issuance of long-term debt	1,180,000	4,715
Repayment of long-term debt (related parties \$0 and \$2,000)	(652,903	) (395,609
Proceeds from issuance of stock	638,324	-
Cash paid for deferred financing fees	-	(8,050
Dividends Paid	-	(10,000
Redemption of Variable Interest Entity members	(455,000) -

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Contributions received by Variable Interest Entity	288,750	-	
Net cash provided by (used in) financing activities	440,137	(2,781,282)
Effect of exchange rate changes on cash	(47,666	)	(21,474
Net increase in cash and cash equivalents	277,476	122,211	
Cash and cash equivalents at beginning of period	346,404	150,332	
Cash and cash equivalents at end of period	\$ 623,880		