

Edgar Filing: CTI INDUSTRIES CORP - Form 10QSB/A

CTI INDUSTRIES CORP
Form 10QSB/A
May 01, 2003

FORM 10-QSB/A

Amendment No. 1

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2001

Commission File No. 000-23115

CTI INDUSTRIES CORPORATION
(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

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

22160 North Pepper Road, Barrington, Illinois
(Address of principal executive offices)

60010
(Zip Code)

(847) 382-1000
(Registrant's telephone number, including area code)

Registrant 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 and has been subject to such filing requirements for the past 90 days.

APPLICABLE ONLY TO CORPORATE ISSUERS:

COMMON STOCK, \$.195 par value, 841,644 outstanding Shares and CLASS B COMMON STOCK, \$2.73 par value, 366,300 outstanding Shares, as of September 30, 2001.

THIS FORM 10-QSB/A IS BEING FILED FOR THE PURPOSE OF AMENDING AND RESTATING PARTS OF FORM 10-QSB TO REFLECT THE RESTATEMENT OF OUR CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE PERIODS ENDED SEPTEMBER 30, 2000 AND 2001. THESE REVISIONS RELATE TO SUBORDINATED DEBT ROLLFORWARDS AND THE RECALCULATION OF EXPENSES ASSOCIATED WITH CERTAIN WARRANTS ISSUED BY THE COMPANY. ALL PORTIONS OF THE FORM 10-QSB THAT ARE EFFECTED BY THESE REVISIONS HAVE BEEN ADJUSTED ACCORDINGLY. ALL INFORMATION IN THIS FORM 10-QSB/A IS AS OF SEPTEMBER 30, 2001 AND DOES NOT REFLECT ANY SUBSEQUENT INFORMATION OR EVENTS OTHER THAN THE RESTATEMENT.

1

Part I. FINANCIAL INFORMATION

Item 1. Financial Statements

THIS FORM 10-QSB/A IS BEING FILED FOR THE PURPOSE OF AMENDING AND

Edgar Filing: CTI INDUSTRIES CORP - Form 10QSB/A

RESTATING PARTS OF FORM 10-QSB TO REFLECT THE RESTATEMENT OF OUR CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE PERIODS ENDED SEPTEMBER 30, 2000 AND 2001. THESE REVISIONS RELATE TO SUBORDINATED DEBT ROLLFORWARDS AND THE RECALCULATION OF EXPENSES ASSOCIATED WITH CERTAIN WARRANTS ISSUED BY THE COMPANY. ALL PORTIONS OF THE FORM 10-QSB THAT ARE EFFECTED BY THESE REVISIONS HAVE BEEN ADJUSTED ACCORDINGLY. ALL INFORMATION IN THIS FORM 10-QSB/A IS AS OF SEPTEMBER 30, 2001 AND DOES NOT REFLECT ANY SUBSEQUENT INFORMATION OR EVENTS OTHER THAN THE RESTATEMENT.

The following consolidated financial statements of the Registrant are attached to this Form 10-QSB:

1. Interim Balance Sheet as of September 30, 2001 and Balance Sheet as of December 31, 2000.
2. Interim Statements of Operations for the three and nine month periods ending September 30, 2001, and September 30, 2000.
3. Interim Statements of Cash Flows for the nine month periods ending September 30, 2001 and September 30, 2000.

The Financial Statements reflect all adjustments which are, in the opinion of management, necessary to a fair statement of results for the periods presented.

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

On August 19, 2002, we reported that we had discovered accounting inaccuracies in certain prior period financial statements requiring restatement of the financial statements for those periods. This statement involved inaccuracies related to the recording of expenses associated with the issuance of certain warrants by the Company. We are restating our statements of operations, cash flows, and stockholders' equity for the years ended December 31, 2001 and 2000 and for the interim periods ended March 31, June 30 and September 30 of 2001 and 2002, and the balance sheets as of December 31, 2001 and 2000.

We have determined that in 2000 and 2001, the Company did not record the proper amount of expense associated with the issuance of warrants by the Company in connection with the issuance of certain subordinated debt and certain senior debt by the Company. Based upon the fair value of the warrants at the time of issuance, a debt discount was to be recorded in the amount of such warrant value with respect to the subordinated and senior debt with which the warrants were associated. This discount was to be amortized and expensed over the term of the debt. The total amount of this debt discount related to the warrants was \$487,440 and was to be recorded over the period from November, 1999 through September 30, 2002. During that time, the total amount actually recorded was \$14,273, which was recorded for the quarter ended December 31, 2001.

We have determined that the amount of such expense should have been recorded in the following periods for the following amounts:

| | |
|------------------------------------|----------|
| Two Months Ended December 31, 1999 | \$42,556 |
| Quarter Ended March 31, 2000 | \$45,523 |
| Quarter Ended June 30, 2000 | \$45,523 |
| Quarter Ended September 30, 2000 | \$45,523 |
| Quarter Ended December 31, 2000 | \$45,523 |
| Quarter Ended March 31, 2001 | \$42,471 |
| Quarter Ended June 30, 2001 | \$36,368 |
| Quarter Ended September 30, 2001 | \$43,243 |
| Quarter Ended December 31, 2001 | \$18,998 |

Edgar Filing: CTI INDUSTRIES CORP - Form 10QSB/A

| | |
|----------------------------------|----------|
| Quarter Ended March 31, 2002 | \$ 6,875 |
| Quarter Ended June 30, 2002 | \$ 6,875 |
| Quarter Ended September 30, 2002 | \$ 6,875 |

The restated financial statements in this Report incorporate the proper entries for these expenses and all necessary adjustments have been made to the statement of operations, cash flows, stockholders' equity and balance sheet in the financial statements.

Results of Operations

Net Sales. For the fiscal quarter ended September 30, 2001, net sales were \$6,808,000, compared to net sales of \$4,891,000 for the three months ended September 30, 2000, an increase of 39%. Net sales for the first nine months of fiscal 2001 increased 13% to \$19,765,000, compared to net sales of \$17,477,000 for the nine months ended September 30, 2000. This increase is attributable primarily to an increase in sales of laminated, specialty and printed films of 84% compared to the same period of the prior year.

Cost of Sales. For the fiscal quarter ended September 30, 2001, cost of sales decreased to 71% of net sales as compared to 72% of net sales in the three month period ended September 30, 2000. Cost of goods sold was 72.7% of net sales for the first nine months of fiscal 2001, compared to 69% for the nine month period ended September 30, 2000, reflecting a change in the product mix and margins on certain products for that period.

Administrative. For the fiscal quarter ended September 30, 2001, administrative expenses were \$857,000, or 12.6% of net sales as compared to \$815,000, or 16.6% of net sales for the three month period ended September 30, 2000. For the first nine months of fiscal 2001, administrative expenses were \$2,422,000, or 12.3% of net sales as compared to \$2,530,000, or 14.5% of net sales for the nine month period ended September 30, 2000.

Selling. For the fiscal quarter ended September 30, 2001, selling expenses were \$492,000 or 7.2% of net sales, as compared to \$382,000, or 7.2% of net sales for the three month period ended September 30, 2000. For the first nine months of fiscal 2001, selling expenses were \$1,363,000, or 6.9% of net sales as compared to \$1,460,000, or 8.4% of net sales for the three month period ended September 30, 2000.

2

Advertising and Marketing. For the fiscal quarter ended September 30, 2001, advertising and marketing expenses were \$296,000, or 4.3% of net sales as compared to \$277,000, or 5.7% of net sales in the three month period ended September 30, 2000. For the first nine months of fiscal 2001, advertising and marketing expenses were \$874,000, or 4.4% of sales as compared to \$902,000, or 5.2% of net sales for the nine month period ended September 30, 2000.

Other Income or Expense. Interest expense decreased to \$259,000 for the quarter ended September 30, 2001, as compared to \$284,000 for the three month period ended September 30, 2000. Interest expense increased to \$880,000 for the nine months ended September 30, 2001, as compared to \$841,000 for the nine month period ended September 30, 2000. The increase in interest expense for the nine month period is attributable to a higher overall level of borrowings.

Net Income or Loss. For the fiscal quarter ended September 30, 2001, the Company incurred a loss before taxes and minority interest of \$76,000 as compared to a loss before taxes and minority interest of \$359,000 for the three month period ended September 30, 2000. Income tax expense for the third quarter

Edgar Filing: CTI INDUSTRIES CORP - Form 10QSB/A

of fiscal 2001 was \$2,000, resulting in a net loss (after provision for minority interest) of \$58,000. The income tax expense for the three month period ended September 30, 2000 was (\$158,000), resulting in a net loss (after provision for minority interest) of \$202,000. For the nine months ended September 30, 2001, the net loss was \$210,000, as compared to a net loss of \$438,000 for the nine month period ended September 30, 2000.

Financial Condition

Liquidity and Capital Resources. Cash flow used in operations during the nine months ended September 30, 2001 was \$853,000, which was affected by increases in both accounts receivable and inventory resulting from increased sales volume and a decrease in the amount of depreciation expense. During the nine month period ended September 30, 2000, cash flows provided by operations were \$1,399,000.

Investment Activities. During the nine months ended September 30, 2001, cash flow used in investing activities for the purchase of machinery and equipment was \$682,000. In the nine month period ended September 30, 2000, \$1,396,000 was used in investing activities, primarily for the purchase of an interest in CTI Mexico.

Financing Activities. For the nine months ended September 30, 2001, cash flow provided by financing activities was \$1,248,000. The primary source of this cash flow was the net proceeds from new long-term indebtedness (offset by the payment of prior indebtedness) as well as an increase in the amount advanced under the Company's revolving line of credit. Cash flow provided by financing activities for the nine month period ending September 30, 2000 was \$195,000, resulting primarily from the repayment of long term debt.

At September 30, 2001, the Company had a cash balance of \$237,000. The Company's current cash management strategy includes maintaining minimal cash balances and utilizing the revolving line of credit for liquidity. At December 31, 2000, the Company had cash and cash equivalents of \$338,000. At September 30, 2001, the Company had a working capital deficit of (\$338,000), and at December 31, 2000, a working capital deficit of (\$3,862,000).

3

The Company believes that existing capital resources and cash generated from operations will be sufficient to meet the Company's requirements for at least 12 months.

Seasonality. In the metallized balloon product line, sales have historically been seasonal, with approximately 20% to 27% of annual sales of metallized balloons being generated in December and January and 11% to 13% of annual mylar sales being generated in June and July in recent years. The sale of latex balloons and laminated film products have not historically been seasonal. As sales of latex balloons and laminated film products have increased in relation to sales of metallized balloons, the effect of this seasonality has been reduced.

Safe Harbor Provision of the Private Securities Litigation Act of 1995 and Forward Looking Statements. The Company operates in a dynamic and rapidly changing environment that involves numerous risks and uncertainties. The market for foil and latex balloon products is generally characterized by intense competition, frequent new product introductions and changes in customer tastes which can render existing products unmarketable. The statements contained in Item 2 (Management's Discussion and Analysis of Financial Condition and Results of Operation) that are not historical facts may be forward-looking statements

Edgar Filing: CTI INDUSTRIES CORP - Form 10QSB/A

(as such term is defined in the rules promulgated pursuant to the Securities Exchange Act of 1934) that are subject to a variety of risks and uncertainties more fully described in the Company's filings with the Securities and Exchange Commission including, without limitation, those described under "Risk Factors" in the Company's Form SB-2 Registration Statement (File No. 333-31969) effective November 5, 1997. The forward-looking statements are based on the beliefs of the Company's management, as well as assumptions made by, and information currently available to the Company's management. Accordingly, these statements are subject to significant risks, uncertainties and contingencies which could cause the Company's actual growth, results, performance and business prospects and opportunities in 2001 and beyond to differ materially from those expressed in, or implied by, any such forward-looking statements. Wherever possible, words such as "anticipate," "plan," "expect," "believe," "estimate," and similar expressions have been used to identify these forward-looking statements, but are not the exclusive means of identifying such statements. These risks, uncertainties and contingencies include, but are not limited to, the Company's limited operating history on which expectations regarding its future performance can be based, competition from, among others, national and regional balloon, packaging and custom film product manufacturers and sellers that have greater financial, technical and marketing resources and distribution capabilities than the Company, the availability of sufficient capital, the maturation and success of the Company's strategy to develop, market and sell its products, risks inherent in conducting international business, risks associated with securing licenses, changes in the Company's product mix and pricing, the effectiveness of the Company's efforts to control operating expenses, general economic and business conditions affecting the Company and its customers in the United States and other countries in which the Company sells and anticipates selling its products and services and the Company's ability to (i) adjust to changes in technology, customer preferences, enhanced competition and new competitors; (ii) protect its intellectual property rights from infringement or misappropriation; (iii) maintain or enhance its relationships with other businesses and vendors; and (iv) attract and retain key employees. There can be no assurance that the Company will be able to identify, develop, market, sell or support new products successfully, that any such new products will gain market acceptance, or that the Company will be able to respond effectively to changes in customer preferences. There can be no assurance that the Company will not encounter technical or other difficulties that could delay introduction of new or updated products

4

in the future. If the Company is unable to introduce new products and respond to industry changes or customer preferences on a timely basis, its business could be materially adversely affected. The Company is not obligated to update or revise these forward-looking statements to reflect new events or circumstances.

Part II. OTHER INFORMATION

Item 1. Legal Proceedings

During the quarter, the Company was served as a third-party defendant in a pending action filed by RealFresh, Inc., a California corporation, ("RealFresh") against Packaging Systems, LLC, an Illinois limited liability company ("PSI"). In the action, RealFresh seeks damages from PSI for losses it claims it incurred by reason of PSI supplying defective packaging materials. The Company was a supplier to PSI of certain films utilized by PSI in these packaging materials. PSI initiated a third-party claim against the Company for indemnity, contribution and breach of contract. The Company believes the third-party claim against it is without merit and intends to maintain a vigorous defense. The Company has notified its insurance carrier of the claim. Final outcome of this

Edgar Filing: CTI INDUSTRIES CORP - Form 10QSB/A

matter is uncertain, and a range of loss (beyond any claims that may be covered by insurance) cannot reasonably be estimated at this time.

Item 2. Changes in Securities

Not applicable.

Item 3. Defaults Upon Senior Securities

Not applicable.

Item 4. Submission of Matters to a Vote of Security Holders

Not applicable.

Item 5. Other Information

Not applicable.

5

Item 6. Exhibits and Reports on Form 8-K

| | |
|-------------------------------------------------|-----|
| (a) Exhibits* | No. |
| Statement re: Computation of Per Share Earnings | 11 |

(b) The Company has not filed a Current Report on Form 8-K during the quarter covered by this report.

* Also incorporated by reference the Exhibits filed as part of the SB-2 Registration Statement of the Registrant, effective November 5, 1997, and subsequent periodic filings.

6

SIGNATURES

Pursuant to the requirements 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.

Dated: April 30, 2003

CTI INDUSTRIES CORPORATION

By: /s/ Stephen M. Merrick

Stephen M. Merrick
Executive Vice President and
Chief Financial Officer

7

CERTIFICATIONS

I, Howard W. Schwan, Chief Executive Officer of CTI Industries

Edgar Filing: CTI INDUSTRIES CORP - Form 10QSB/A

Corporation, certify that:

1. I have reviewed this quarterly report on Form 10-QSB/A of CTI Industries Corporation.

2. Based on my knowledge, this quarterly 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 quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly 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 quarterly report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:

a) Designed such disclosure controls and procedures 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 quarterly report is being prepared;

b) Evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

c) Presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as the Evaluation Date;

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

a) All significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: April 30, 2003

/s/ Howard W. Schwan

Howard W. Schwan
Chief Executive Officer

Edgar Filing: CTI INDUSTRIES CORP - Form 10QSB/A

CERTIFICATIONS

I, Stephen M. Merrick, Executive Vice President and Chief Financial Officer of CTI Industries Corporation, certify that:

1. I have reviewed this quarterly report on Form 10-QSB/A of CTI Industries Corporation.

2. Based on my knowledge, this quarterly 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 quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly 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 quarterly report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:

a) Designed such disclosure controls and procedures 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 quarterly report is being prepared;

b) Evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

c) Presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as the Evaluation Date;

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

a) All significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: April 30, 2003

/s/ Stephen M. Merrick

Stephen M. Merrick
Executive Vice President and

Edgar Filing: CTI INDUSTRIES CORP - Form 10QSB/A

Chief Financial Officer

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

In connection with the Quarterly Report of CTI Industries Corporation (the "Company") on Form 10-QSB/A for the period ending September 30, 2001 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, John H. Schwan, Chief Executive Officer of the Company, certify, 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 result of operations of the Company.

/s/ Howard W. Schwan

Howard W. Schwan
Chief Executive Officer

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

In connection with the Quarterly Report of CTI Industries Corporation (the "Company") on Form 10-QSB/A for the period ending September 30, 2001 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Stephen M. Merrick, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (3) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (4) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

/s/ Stephen M. Merrick

Stephen M. Merrick
Chief Financial Officer

CTI Industries Corporation and Subsidiaries
Consolidated Statements of Cash Flows

Edgar Filing: CTI INDUSTRIES CORP - Form 10QSB/A

| | For the nine mo 2001 (Unaudited) ----- |
|-----------------------------------------------------------------------------------------|-------------------------------------------------|
| Cash flows from operating activities: | |
| Net loss | \$ (209,969) |
| Adjustment to reconcile net loss to cash (used in) provided by operating activities: | |
| Depreciation and amortization | 1,106,493 |
| Amortization of Debt Discount | 122,082 |
| Equity in loss of subsidiary and joint venture | -- |
| Minority interest in loss of subsidiary | 21,114 |
| Gain on sale of fixed assets | (22,534) |
| Change in assets and liabilities: | |
| Accounts receivable | (1,833,704) |
| Inventory | (1,416,596) |
| Other assets | 548,803 |
| Accounts payable and accrued expenses | 781,149 |
| | ----- |
| Net cash (used in) provided by operating activities | (853,162) |
| Cash flows from investing activities: | |
| Proceeds from sale of property and equipment | -- |
| Purchases of property and equipment | (682,135) |
| Purchase additional interest in CTI Mexico | -- |
| | ----- |
| Net cash used in investing activities | (682,135) |
| Cash flows from financing activities: | |
| Net change in revolving line of credit | 1,469,728 |
| Proceeds from issuance of long-term debt | 5,296,264 |
| Repayment of long-term debt | (4,577,989) |
| Repayment of short-term debt | (930,000) |
| Repayment of subordinated debt | (10,000) |
| | ----- |
| Net cash provided by financing activities | 1,248,003 |
| Effect of exchange rate changes on cash | 131,596 |
| | ----- |
| Net (decrease) increase in cash | (155,698) |
| Cash and Equivalents at Beginning of Period | 392,534 |
| | ----- |
| Cash and Equivalents at End of Period | \$ 236,836 ===== |

CTI Industries Corporation and Subsidiaries
Consolidated Balance Sheets

September 30, 2

Edgar Filing: CTI INDUSTRIES CORP - Form 10QSB/A

| | ----- (Unaudited) ----- |
|-------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------|
| ASSETS | |
| Current assets: | |
| Cash | \$ 236,836 |
| Accounts receivable (less allowance for doubtful accounts of \$353,065 and \$312,572 at September 30, 2001 and December 31, 2000, respectively) | 4,588,691 |
| Inventories | 8,136,124 |
| Deferred tax assets | 208,926 |
| Other | 534,513 |
| | ----- |
| Total current assets | 13,705,090 |
| Property and equipment: | |
| Machinery and equipment | 14,117,067 |
| Building | 2,388,229 |
| Office furniture and equipment | 1,634,343 |
| Land | 250,000 |
| Leasehold improvements | 161,885 |
| Fixtures and equipment at customer locations | 2,202,742 |
| Projects under construction | 517,325 |
| | ----- |
| Less: accumulated depreciation | (12,335,266) |
| | ----- |
| Total property and equipment, net | 8,936,325 |
| Other assets: | |
| Deferred financing costs, net | 94,964 |
| Goodwill associated with acquisition of CTI Mexico, net | 1,134,773 |
| Deferred tax assets | 649,134 |
| Other assets | 326,629 |
| | ----- |
| Total other assets | 2,205,500 |
| | ----- |
| TOTAL ASSETS | \$ 24,846,915 ===== |

See accompanying notes

CTI Industries Corporation and Subsidiaries
Consolidated Balance Sheets

| | |
|--------------------|------------|
| September 30, 2001 | Decem A |
| ----- | ----- |
| (Unaudited) | (|
| ----- | ----- |

LIABILITIES AND STOCKHOLDERS' EQUITY

Edgar Filing: CTI INDUSTRIES CORP - Form 10QSB/A

| | | |
|------------------------------------------------------------------------------------------------------------------|---------------|-------|
| Current liabilities: | | |
| Accounts payable | \$ 5,982,568 | \$ |
| Line of credit | 5,079,269 | |
| Notes payable - current portion | 953,595 | |
| Accrued liabilities | 2,174,909 | |
| | ----- | ----- |
| Total current liabilities | 14,190,341 | 1 |
| Long-term liabilities: | | |
| Other liabilities | 1,434,205 | |
| Notes payable | 3,704,003 | |
| Subordinated debt | 702,877 | |
| | ----- | ----- |
| Total long-term liabilities | 5,841,085 | |
| Redeemable common stock | -- | |
| Minority interest | 217,673 | |
| Stockholders' equity: | | |
| Common stock - .195 par value, 5,000,000 shares authorized, 966,327 shares issued, 841,644 shares outstanding | 188,434 | |
| Class B Common stock - 2.73 par value, 500,000 shares authorized, 366,300 shares issued and outstanding | 1,000,000 | |
| Paid-in-capital | 5,554,332 | |
| Warrants issued in connection with subordinated debt and bank debt | 487,440 | |
| Accumulated deficit | (1,961,447) | (|
| Accumulated other comprehensive earnings | (34,403) | |
| Less: | | |
| Treasury stock -- 124,683 shares | (575,384) | |
| Stock subscription receivable | (4,700) | |
| Notes receivable from stockholders | (56,456) | |
| | ----- | ----- |
| Total stockholders' equity | 4,597,816 | |
| | ----- | ----- |
| TOTAL LIABILITIES & STOCKHOLDERS' EQUITY | \$ 24,846,915 | \$ 2 |
| | ===== | ===== |

See accompanying notes

CTI Industries Corporation and Subsidiaries
Consolidated Statements of Operations

| | Quarter ended September 30 | |
|---------------|----------------------------|--------------|
| | 2001 | 2000 |
| | (Unaudited) | (Unaudited) |
| | ----- | ----- |
| Net Sales | \$ 6,807,731 | \$ 4,890,866 |
| Cost of Sales | 4,850,569 | 3,523,455 |
| | ----- | ----- |

Edgar Filing: CTI INDUSTRIES CORP - Form 10QSB/A

| | | |
|-----------------------------------------------------------------------------------------|-------------|--------------|
| Gross profit on sales | 1,957,162 | 1,367,411 |
| Operating expenses: | | |
| Administrative | 856,827 | 798,609 |
| Selling | 492,183 | 382,346 |
| Advertising and marketing | 295,809 | 277,352 |
| | ----- | ----- |
| Total operating expenses | 1,644,819 | 1,458,307 |
| | ----- | ----- |
| Income (loss) from operations | 312,343 | (90,896) |
| Other income (expense): | | |
| Interest expense | (258,912) | (283,722) |
| Interest income | (0) | 1,104 |
| Gain on sale of assets | 7,512 | -- |
| Other | (136,606) | 14,933 |
| | ----- | ----- |
| Total other income (expense) | (388,011) | (267,685) |
| | ----- | ----- |
| Loss before income taxes and minority interest | (75,668) | (358,581) |
| Income tax expense (benefit) | 2,163 | (158,444) |
| | ----- | ----- |
| Loss before minority interest | (77,831) | (200,137) |
| Minority interest in profit (loss) of subsidiary | (20,093) | 1,870 |
| | ----- | ----- |
| Net (Loss) | \$ (57,738) | \$ (202,007) |
| | ===== | ===== |
| (Loss) applicable to common shares | \$ (57,738) | \$ (202,007) |
| | ===== | ===== |
| Basic (loss) per common and common equivalent shares | \$ (0.05) | \$ (0.12) |
| | ===== | ===== |
| Diluted (loss) per common and common equivalent shares | \$ (0.05) | \$ (0.12) |
| | ===== | ===== |
| Weighted average number of shares and equivalent shares of common stock outstanding: | | |
| Basic | 1,207,944 | 1,207,944 |
| | ===== | ===== |
| Diluted | 1,207,944 | 1,207,944 |
| | ===== | ===== |

See accompanying notes

September 30, 2001

Note 1 - Basis of Presentation

Edgar Filing: CTI INDUSTRIES CORP - Form 10QSB/A

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-QSB and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the nine month period ended September 30, 2001 are not necessarily indicative of the results that may be expected for the year ended December 31, 2001. For further information, refer to the consolidated financial statements and footnotes thereto included in the Registrant Company and Subsidiaries' annual report on Form 10-KSB for the year ended December 31, 2000.

In the opinion of management, all adjustments, consisting only of normal recurring adjustments considered necessary for a fair presentation, have been included. The results of operations for the three months and nine months ended September 30, 2001 are not necessarily indicative of the results to be expected for the full year or for any future periods. The accompanying unaudited, condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements contained in the Company's Annual Report on Form 10-KSB/A filed with the Securities and Exchange Commission on December 31, 2000. The balance sheet at September 30, 2001 has been derived from the audited financial statement as of and for the year ended December 31, 2000 but does not include all the information and footnotes required by generally accepted accounting principles for complete financial statements.

Note 2 - Restatement

The Company restated its balance sheet as of December 31, 2000. The restatement is further discussed in Note 3 of the Notes to the Consolidated Financial Statements on Form 10-KSB/A for the year ended December 31, 2000.

Note 3 - Company Debt Restructure

In January 2001, the Company entered into a Loan and Security Agreement with a new lender under which the lender has provided the Company with a credit facility in the amount of \$9,500,000, secured by equipment, inventory, receivables, and other assets of the Company. The credit facility includes a term loan of \$1,426,000, at an interest rate of prime plus 0.75%, and a revolving line of credit at an interest rate of prime plus 0.50%, the amount of which is based on advances of up to 85% of eligible receivables and 50% of the value of the Company's inventory. The credit facility is secured by substantially all assets of the Company. The term of this credit facility is for a period of three years, which may be extended by either party for an additional year.

Also in January 2001, another lender loaned to the Company the sum of \$2,873,000 in a refinance of the Company's principal office building and property situated in Barrington, Illinois. The loan is secured by the aforementioned building and property, and has been made in the form of two notes. The first note is in the principal amount of \$2,700,000, bears interest at the rate of 9.75%, and has a term of five years with an amortization period of 25 years. The second note is in the principal amount of \$173,000 with an interest rate of 10%, and has a term of three years.

Note 4 - Warrants Issued

In July, 2001, warrants to purchase up to 100,000 shares of the Company's Common Stock at \$1.78 were issued. The new warrants expire on July 17, 2006.

Note 5 - Change of State of Incorporation

Edgar Filing: CTI INDUSTRIES CORP - Form 10QSB/A

On October 30, 2001, the Company filed the necessary documentation with the Illinois and Delaware Secretaries of State in order to complete its migratory merger/state of incorporation change from Delaware to Illinois. As a consequence of the merger, all shares of the Company's authorized and issued capital stock shall be of no par value.

Note 6 - Recent Accounting Pronouncements

SFAS NO. 141 "BUSINESS COMBINATIONS", AND SFAS 142, "GOODWILL AND INTANGIBLE ASSETS"

On July 20, 2001, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) 141, Business Combinations, and SFAS 142, Goodwill and Intangible Assets. SFAS 141 is effective for all business combinations completed after June 30, 2001. SFAS 142 is effective for fiscal years beginning after December 15, 2001; however, certain provisions of this Statement apply to goodwill and other intangible assets acquired between July 1, 2001 and the effective date of SFAS 142.

Although it is still reviewing the provisions of these Statements, management's preliminary assessment is that these Statements will not have a material impact on the Company's financial position or results of operations

Note 7 - Earnings Per Share

The Company adopted SFAS No. 128, "Earnings per Share," for the year ended October 31, 1998. Adoption of this pronouncement did not have a material impact on the Company's financial statements.

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

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

Earnings per share for the periods ended June 30, 2001 and 2000 was computed as follows: