

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 June 30, 2002

Commission File No. 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 North Pepper Road, Barrington, Illinois 60010
(Address of principal executive offices) (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, no par value, 1,190,710 outstanding Shares and CLASS B COMMON STOCK, no par value, 329,670 outstanding Shares, as of June 30, 2002.

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 JUNE 30, 2001 AND 2002. THESE REVISIONS HAVE BEEN MADE REGARDING SUBORDINATED DEBT ROLLFORWARDS, THE RECALCULATION OF EXPENSES ASSOCIATED WITH CERTAIN WARRANTS ISSUED BY THE COMPANY AND THE RECOGNITION OF CERTAIN EXPENSES ASSOCIATED WITH CERTAIN LITIGATION. 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 JUNE 30, 2002 AND DOES NOT REFLECT ANY SUBSEQUENT INFORMATION OR EVENTS OTHER THAN THE RESTATEMENT.

FORM 10-QSB

CTI INDUSTRIES CORPORATION

PART I. FINANCIAL INFORMATION AND MANAGEMENT'S DISCUSSION AND ANALYSIS

Item 1. Financial Statements

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

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 JUNE 30, 2001 AND 2002. THESE REVISIONS HAVE BEEN MADE REGARDING SUBORDINATED DEBT ROLLFORWARDS, THE RECALCULATION OF EXPENSES ASSOCIATED WITH CERTAIN WARRANTS ISSUED BY THE COMPANY AND THE RECOGNITION OF CERTAIN EXPENSES ASSOCIATED WITH CERTAIN LITIGATION. 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 JUNE 30, 2002 AND DOES NOT REFLECT ANY SUBSEQUENT INFORMATION OR EVENTS OTHER THAN THE RESTATEMENT.

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

1. Unaudited Condensed Consolidated Balance Sheet as at June 30, 2002
2. Unaudited Condensed Consolidated Statements of Operations - Three and Six Month Periods Ended June 30, 2002 and June 30, 2001
3. Unaudited Condensed Consolidated Statements of Cash Flows - Six Months Ended June 30, 2002 and June 30, 2001

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. Thereafter, we received comment letters from the SEC relating to the calculation of expenses associated with the issuance of these warrants and, also, related to the timing of the recording of certain litigation settlement expense. After a review of these matters, 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 \$386,353 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 |

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

| | |
|----------------------------------|----------|
| Quarter Ended September 30, 2001 | \$43,243 |
| Quarter Ended December 31, 2001 | \$18,998 |
| Quarter Ended March 31, 2002 | \$ 6,875 |
| Quarter Ended June 30, 2002 | \$ 6,875 |
| Quarter Ended September 30, 2002 | \$ 6,875 |

In April, 2002, the Company entered into an agreement with a former shareholder under which the Company agreed to purchase 74,513 shares of the Company's common stock from the shareholder and two of the shareholder's children at the price of \$3.31 per share and to settle certain pending litigation among the shareholder and the Company without other payment or consideration. Of the total purchase price for the shares, \$75,000 was allocated as expense related to this settlement, and the remaining \$171,000 was recorded as a retirement of shares, thereby increasing the amount reported as treasury stock. This \$75,000 expense was recorded for the period ended June 30, 2002. Management has determined that this expense should have been recorded as an expense in the period ending December 31, 2001.

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 June 30, 2002, net sales were \$10,906,000, compared to net sales of \$6,876,000 for the three months ended June 30, 2001, an increase of 58.6%. During the quarter ended June 30, 2002, sales of laminated and printed films represented 49% of total sales, metalized balloons 31% of total sales and latex balloons 10.4% of total sales. For the same period of the prior year, laminated and printed films represented 37.7% of total sales, metalized balloons 31.9% and latex balloons 24.5%. Net sales for the first six months of fiscal 2002 increased 59.3% to \$20,644,000, compared to net sales of \$12,957,000 for the six months ended June 30, 2001. For the six month period, sales of laminated, specialty and printed films increased from \$4,299,000 to \$10,242,000, an increase of 138% for the period. This increase resulted from an increase in sales principally to two customers, one of which represented 32% of the Company's total sales revenue for the six month period and the other represented 20% of total sales revenue for that same period. During the six month period, sales of metalized balloons also increased by 31% over the same period in the prior year and sales of latex balloons declined by 25% compared to the same period in the prior year. For the six month period ended June 30, 2002, sales of laminated and printed films represented 49.6% of total sales, metalized balloons represented 28.6% of total sales and latex balloons represented 12% of total sales. For the same period in the prior year, laminated and printed films represented 33.2% of sales, metalized balloons 34.7% of sales and latex balloons 25.2% of sales.

2

Cost of Sales. For the fiscal quarter ended June 30, 2002, cost of sales increased to 76.1% of net sales as compared to 73.7% of net sales in the three month period ended June 30, 2001. This increase was the result principally of lower than expected margins in the production and sales of latex balloons. Cost of goods sold was 75.0% of net sales for the first six months of fiscal 2002, compared to 73.5% for the six-month period ended June 30, 2001.

Administrative. For the fiscal quarter ended June 30, 2002, administrative expenses were \$1,127,000, or 10.3% of net sales as compared to \$818,000, or 11.9% of net sales for the three month period ended June 30, 2001. For the first

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

six months of fiscal 2002, administrative expenses were \$2,084,000, or 10.1% of net sales as compared to \$1,565,000, or 12.1% of net sales for the six month period ended June 30, 2001. The increase in administrative expenses is attributable principally to an increase in personnel needed to support the increase in sales volume.

Litigation settlements. In April, 2002, the Company entered into an agreement with a former shareholder under which the Company agreed to purchase 74,513 shares of the Company's common stock from the shareholder and two of the shareholder's children at the price of \$3.31 per share and to settle certain pending litigation among the shareholder and the Company without other payment or consideration. Of the total purchase price for the shares, \$75,000 has been allocated as expense related to this settlement, and the remaining \$171,000 has been recorded as a retirement of shares, thereby increasing the amount reported as treasury stock. These allocations have been deemed a subsequent event to year end 2001 and have previously been reflected in the financial statements to the Company's Report on Form 10-KSB/A for the period ending December 31, 2001, as restated.

On June 28, 2002, the Company entered into a settlement agreement with respect to pending litigation among the Company, Real Fresh, Inc., Packaging Systems, LLC and Honeywell International, Inc. (See Part II, Item 1 - Legal Proceedings). The total amount of expense incurred by the Company during the six month period ended June 30, 2002 in connection with this matter was \$105,000.

Selling. For the fiscal quarter ended June 30, 2002, selling expenses were \$375,000, or 3.4% of net sales, as compared to \$445,000, or 6.5% of net sales for the three month period ended June 30, 2001. For the first six months of fiscal 2002, selling expenses were \$750,000, or 3.6% of net sales as compared to \$871,000, or 6.7% of net sales for the three month period ended June 30, 2001. The decline in selling expense dollars is primarily related to a decrease in commissions and royalty expense, both in total amount and as a percentage of net sales. This decline is the result principally of the relative increase in sales of printed and laminated films for which very little in commissions and no royalties are paid.

Advertising and Marketing. For the fiscal quarter ended June 30, 2002, advertising and marketing expenses were \$441,000, or 4.0% of net sales as compared to \$307,000, or 4.5% of net sales in the three month period ended June 30, 2001. For the first six months of fiscal 2002, advertising and marketing expenses were \$834,000, or 4.0% of sales as compared to \$578,000, or 4.5% of net sales for the six month period ended June 30, 2001.

Other Income or Expense. Interest expense decreased to \$204,000 for the quarter ended June 30, 2002, as compared to \$279,000 for the three month period ended June 30, 2001. Interest expense decreased to \$384,000 for the six months ended June 30, 2002, as compared to \$621,000 for the six month period ended June 30, 2001. The decrease in interest expense for the six months

3

was due to the Company's refinancing of its debt in the first quarter of 2001, and the applicable floating rate of interest on outstanding borrowings.

During the six month period ended June 30, 2002, CTI Mexico incurred expense with respect to currency fluctuation, related to dollar denominated obligations, in the amount of \$214,000. This expense is reflected in the consolidated statement of operations.

Net Income or Loss. For the fiscal quarter ended June 30, 2002, the

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

Company had income before taxes and minority interest of \$155,000 as compared to income before taxes and minority interest of \$50,000 for the three month period ended June 30, 2001. Income tax expense for the second quarter of fiscal 2002 was \$51,000, resulting in net income of \$134,000 after minority interest of \$30,000. The income tax expense for the three month period ended June 30, 2001 was \$4,000, resulting in a net income of \$24,000 after minority interest of (\$22,000). For the six months ended June 30, 2002, net income was \$504,000, as compared to a net loss of \$152,000 for the six month period ended June 30, 2001.

Financial Condition

Cash Flow Items. Cash flow provided by operations during the six months ended June 30, 2002 was \$1,546,000, which was affected by an increase in accounts payable resulting from increased sales volume and an increase in inventory. During the six month period ended June 30, 2001, cash flows used in operations were \$1,046,000, which was affected by an increase in accounts receivable resulting from increased sales volume and an increase in inventory.

Investment Activities. During the six months ended June 30, 2002, cash flow used in investing activities for the purchase of machinery and equipment was \$1,489,000. In the six month period ended June 30, 2001, \$408,000 was used in investing activities, primarily for the purchase of machinery and equipment.

Financing Activities. For the six months ended June 30, 2002, cash flow provided by financing activities was \$522,000. The primary source of this cash flow was an increase in the balance of the companies revolving line of credit. Cash flow provided by financing activities for the six month period ending June 30, 2001 was \$1,104,000, resulting from the net proceeds from new long-term indebtedness (less the payment of prior indebtedness).

Liquidity and Financial Resources. At June 30, 2002, the Company had a cash balance of \$706,000. The Company's current cash management strategy includes maintaining minimal cash balances and utilizing the revolving line of credit for liquidity. At June 30, 2002, the Company had working capital of \$656,000.

Litigation. During April, 2002, the Company entered into an agreement to repurchase 74,513 shares of its common stock from a shareholder and two of his children at the price of \$3.31 per share. The total purchase price of \$246,638 is payable in eight quarterly installments of \$27,705 plus an initial payment totaling \$25,000. At June 30, 2002 \$80,410 has been paid. The full effect of the liability was allowed for in December of 2001, and this is reflected in the Company's Form 10-KSB/A for the period ending December 31, 2001, as restated.

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 metalized balloon product line, sales have historically been seasonal, with approximately 22% to 25% of annual sales of metalized balloons being generated in December and January and 11% to 13% of annual metalized 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 metalized balloons, the effect of this seasonality has been reduced.

Safe Harbor Provision of the Private Securities Litigation Act of 1995 and

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

Forward Looking Statements. The Company operates in a dynamic and rapidly changing environment that involves numerous risks and uncertainties. The market for mylar 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 (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 2002 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 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

5

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

On March 12, 2001 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

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

United States District Court for the Eastern District of California, Fresno Branch. In the action, RealFresh sought 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 laminated 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 filed an answer to the third-party complaint denying the claim and asserting a number of defenses. On July 27, 2001, the Company cross-claimed against the supplier of the base film, Honeywell International, Inc. ("Honeywell"), for indemnity, contribution and breach of contract. On August 20, 2001, Honeywell filed a counterclaim against the Company for the cost of film, which the Company has refused to pay. On June 28, 2002, this action was settled among all parties and has been dismissed. As part of the settlement, the Company acknowledged and paid to Honeywell an amount related to the supply of film by Honeywell to the Company, which has been reflected in the financial statements of the Company for the six month period ended June 30, 2002.

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

The Certifications of the Chief Executive Officer and the Chief Financial Officer of Registrant Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 are attached as Exhibits to this Report on Form 10-QSB.

6

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. | |

7

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.

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

Dated: April 30, 2003

CTI INDUSTRIES CORPORATION

By: /s/ Howard W. Schwan

Howard W. Schwan, President

By: /s/ Stephen M. Merrick

Stephen M. Merrick, Executive
Vice President

8

CERTIFICATIONS

I, Howard W. Schwan, Chief Executive 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

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

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

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

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

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
Chief Financial Officer

CTI Industries Corporation and Subsidiaries
Consolidated Balance Sheets
(Unaudited)

June 30, 2002

| ASSETS | |
|--|--------------|
| Current assets: | |
| Cash | \$ 706,132 |
| Accounts receivable, net | 5,776,202 |
| Inventories | 9,423,430 |
| Deferred tax assets | 5,303 |
| Prepaid expenses and other current assets | 1,032,641 |
| | ----- |
| Total current assets | 16,943,708 |
| Property and equipment: | |
| Machinery and equipment | 14,708,131 |
| Building | 2,541,662 |
| Office furniture and equipment | 1,740,730 |
| Land | 250,000 |
| Leasehold improvements | 161,885 |
| Fixtures and equipment at customer locations | 2,232,285 |
| Projects under construction | 1,200,236 |
| | ----- |
| | 22,834,929 |
| Less : accumulated depreciation | (13,450,957) |
| | ----- |
| Total property and equipment, net | 9,383,972 |

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

| | |
|--|---------------|
| Other assets: | |
| Deferred financing costs, net | 75,252 |
| Goodwill associated with acquisition of CTI Mexico, net | 1,113,108 |
| Deferred tax assets | 457,887 |
| Other assets | 456,180 |
| | ----- |
| Total other assets | 2,102,427 |
| | ----- |
| TOTAL ASSETS | 28,430,107 |
| | ===== |
| LIABILITIES AND STOCKHOLDERS' EQUITY | |
| Current liabilities: | |
| Accounts payable | 8,134,058 |
| Line of credit | 5,868,496 |
| Notes payable - current portion | 318,443 |
| Accrued liabilities | 1,966,825 |
| | ----- |
| Total current liabilities | 16,287,822 |
| Long-term liabilities: | |
| Other liabilities | 1,299,765 |
| Notes payable | 5,007,372 |
| | ----- |
| Total long-term liabilities | 6,307,137 |
| Minority interest | 174,676 |
| Stockholders' equity: | |
| Common stock - no par value, 5,000,000 shares authorized, 1,389,906 shares issued, 1,190,710 shares outstanding | 188,434 |
| Class B Common stock - no par value, 500,000 shares authorized, 329,670 shares issued and outstanding | 1,000,000 |
| Paid-in-capital | 6,621,310 |
| Warrants issued in connection with bank debt | 135,462 |
| Accumulated deficit | (1,479,813) |
| Accumulated other comprehensive earnings | (1,701) |
| Less: | |
| Treasury stock - 199,196 shares | (746,764) |
| Notes receivable from stockholders | (56,456) |
| | ----- |
| Total stockholders' equity | 5,660,472 |
| | ----- |
| TOTAL LIABILITIES & STOCKHOLDERS' EQUITY | \$ 28,430,107 |
| | ===== |

See accompanying notes to consolidated unaudited statements

CTI Industries Corporation and Subsidiaries
Consolidated Statements of Operations
(Unaudited)

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

| | Quarter ended June 30 2002 | 2001 (as restated) |
|---|-------------------------------|-----------------------|
| | ----- | ----- |
| Net Sales | \$ 10,905,748 | \$ 6,876,201 |
| Cost of Sales | 8,299,517 | 5,068,423 |
| | ----- | ----- |
| Gross profit on sales | 2,606,231 | 1,807,778 |
| Operating expenses: | | |
| Administrative | 1,127,178 | 818,264 |
| Litigation settlements expense | 60,000 | 0 |
| Selling | 374,890 | 445,270 |
| Advertising and marketing | 440,989 | 307,111 |
| | ----- | ----- |
| Total operating expenses | 2,003,056 | 1,570,645 |
| | ----- | ----- |
| Income from operations | 603,175 | 237,133 |
| Other income (expense): | | |
| Interest expense | (204,254) | (278,748) |
| Interest income | 420 | -- |
| Gain (loss) on sale of assets | (20,069) | 7,510 |
| Foreign currency (loss) gain | (251,030) | 84,067 |
| Other | 26,338 | -- |
| | ----- | ----- |
| Total other income (expense) | (448,594) | (187,171) |
| | ----- | ----- |
| Income (loss) before income taxes and minority interest | 154,581 | 49,961 |
| Income tax expense | 50,917 | 3,987 |
| | ----- | ----- |
| Income (loss) before minority interest | 103,664 | 45,974 |
| Minority interest in income (loss) of subsidiary | (29,863) | 22,466 |
| | ----- | ----- |
| Net income (loss) | \$ 133,526 | \$ 23,508 |
| | ===== | ===== |
| Basic income (loss) per common share | \$ 0.11 | \$ 0.02 |
| | ===== | ===== |
| Diluted income (loss) per common share | \$ 0.09 | \$ 0.02 |
| | ===== | ===== |
| Weighted average number of shares and equivalent shares of common stock outstanding: | | |
| Basic | 1,263,763 | 1,207,944 |
| | ===== | ===== |

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

Diluted

1,479,644

1,207,944

=====

=====

See accompanying notes to consolidated unaudited statements

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

| | For the Six Month Period Ended | |
|---|--------------------------------|--------------------------------|
| | June 30, 2002 | June 30, 2001 (as restated) |
| | ----- | |
| Cash flows from operating activities: | | |
| Net income (loss) | \$ 503,957 | \$ (152,231) |
| Adjustment to reconcile net income (loss) to cash provided by (used in) operating activities: | | |
| Depreciation and amortization | 718,925 | 719,986 |
| Amortization of Debt Discount | 13,750 | 78,839 |
| Minority interest in loss of subsidiary | (6,155) | (1,021) |
| Gain on sale of fixed assets | 0 | (15,022) |
| Provision for losses on accounts receivable & inventory | 150,000 | 50,000 |
| Deferred income taxes | 199,370 | 0 |
| Change in assets and liabilities: | | |
| Accounts receivable | (918,711) | (1,541,659) |
| Inventory | (1,160,947) | (571,063) |
| Other assets | (522,633) | 382,180 |
| Accounts payable and accrued expenses | 2,568,619 | 3,816 |
| | ----- | |
| Net cash provided by (used in) operating activities | 1,546,175 | (1,046,175) |
| Cash flows from investing activities: | | |
| Purchases of property and equipment | (1,489,446) | (408,243) |
| | ----- | |
| Net cash (used in) investing activities | (1,489,446) | (408,243) |
| Cash flows from financing activities: | | |
| Net change in revolving line of credit | 193,688 | 1,321,574 |
| Proceeds from issuance of long-term debt | 490,880 | 5,808,548 |
| Repayment of long-term debt | (134,916) | (5,086,276) |
| Repayment of short-term debt | (27,949) | (930,000) |
| Repayment of subordinated debt | 0 | (10,000) |
| | ----- | |
| Net cash provided by financing activities | 521,703 | 1,103,846 |
| Effect of exchange rate changes on cash | 17,212 | (11,745) |
| | ----- | |
| Net increase (decrease) in cash | 595,644 | (362,317) |
| Cash and Equivalents at Beginning of Period | 110,488 | 392,534 |
| | ----- | |

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

| | | |
|--|------------|-----------|
| Cash and Equivalents at End of Period | \$ 706,132 | \$ 30,217 |
| | ===== | |
| Schedule of non-cash financing activities: | | |
| Issuance of stock for subordinated debt | \$ 715,000 | \$ -- |

See accompanying notes to consolidated unaudited statements

June 30, 2002

CTI Industries Corporation and Subsidiaries
Notes to Unaudited Condensed Consolidated Financial Statements

Note 1 - Basis of Presentation

The accompanying financial statements are unaudited but in the opinion of management contain all the adjustments (consisting of those of a normal recurring nature) considered to present fairly the financial position and the results of operations and cash flow for the periods presented in conformity with generally accepted accounting principles for interim financial information and the instructions to Form 10-QSB and Article 10 of Regulation S-X. Accordingly, they do not include all the information and footnotes required by generally accepted accounting principles for complete financial statements.

Operating results for the three and six months ended June 30, 2002 are not necessarily indicative of the results that may be expected for the fiscal year ending December 31, 2002. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's annual report on Form 10-KSB for the fiscal year ended December 31, 2001. As further explained in note 5, the company has restated previously reported results for the three and six month periods ended June 30, 2001.

Principles of consolidation and nature of operations:

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, CTI Balloons Limited and CTF International S.A. de C.V., and its majority owned subsidiary CTI Mexico S.A. de C.V. 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.

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and use assumptions that affect certain reported amounts and disclosures. Actual results may differ from those estimates.

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 six months ended June 30, 2002 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,

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

2001. The balance sheet at June 30, 2002 has been derived from the audited financial statement as of and for the year ended December 31, 2001 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, 2001. 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, 2001.

Note 3 - Line of Credit and Notes Payable

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 included 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 eligible 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.

On or about May 22, 2002, the Company entered into an Amendment to the Loan and Security Agreement pursuant to which additional advances of approximately \$491,000 were made to the Company, increasing the balance under the term loan portion of the facility to \$1,578,000.

In May, 2002, the Company entered into a Third Amendment to the Loan and Security Agreement pursuant to which (i) the aggregate amount of the credit facility was increased to \$11,500,000 and (ii) the Company was granted a CapEx Line of Credit in the amount of \$2,000,000. Under the CapEx Line of Credit, the Company is entitled to receive advances in connection with the purchase of capital equipment at the rate of 70% of the invoice amount of the equipment purchased. The Company has partially utilized the CapEx Line of Credit and intends to use all or substantially all of the CapEx Line of Credit in connection with the purchase of capital equipment during the balance of 2002. Outstanding balances under the CapEx Line of Credit will bear interest at the rate of One Percent in excess of the prime rate.

Note 4 - Legal Proceedings

On March 12, 2001 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 United States District Court for the Eastern District of California, Fresno Branch. In the action, RealFresh sought damages from PSI for losses it claims it incurred by reason of PSI supplying defective packaging materials. The Company was a

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

supplier to PSI of certain laminated 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 filed an answer to the third-party complaint denying the claim and asserting a number of defenses. On July 27, 2001, the Company cross-claimed against the supplier of the base film, Honeywell International, Inc. ("Honeywell"), for indemnity, contribution and breach of contract. On August 20, 2001, Honeywell filed a counterclaim against the Company for the cost of film, which the Company has refused to pay. On June 28, 2002, this action was settled among all parties and has been dismissed. As part of the settlement, the Company acknowledged and paid to Honeywell an amount related to the supply of film by Honeywell to the Company, which has been reflected in the financial statements of the Company for the six month period ended June 30, 2002.

In April, 2002, the Company entered into an agreement with a former shareholder under which the Company agreed to purchase 74,513 shares of the Company's common stock from the shareholder and two of the shareholder's children at the price of \$3.31 per share and to settle certain pending litigation among the shareholder and the Company without other payment or consideration. Of the total purchase price for the shares, \$75,000 has been allocated as expense related to this settlement, and the remaining \$171,000 has been recorded as a retirement of shares, thereby increasing the amount reported as treasury stock. These allocations have been deemed a subsequent event to year end 2001 and have previously been reflected in the financial statements to the Company's Report on Form 10-KSB/A for the period ending December 31, 2001, as restated.

Note 5 - Comprehensive Income

Total Comprehensive Income was \$105,000 and \$554,000 for the three and six months ended June 30, 2002 and was \$15,000 and (\$151,000) for the three and six months ended June 30, 2001.

Note 6 - Inventories

| | |
|----------------------------------|--------------|
| Raw material and work in process | \$ 2,297,120 |
| Finished goods | 7,732,084 |
| Inventory, Gross | 10,029,204 |
| Less: Inventory Reserves | (605,774) |
| | ----- |
| Inventory, net | \$ 9,423,430 |
| | ===== |

Note 7 - Adoption of Statement 142

On January 1, 2002, the Company implemented Statement of Financial Accounting Standards No. 142, Goodwill and Other Intangible Assets. Under the provisions of SFAS 142, goodwill is no longer subject to amortization over its estimated useful life, but instead will be subject to at least annual assessments for impairment by applying a fair-value based test. SFAS 142 also requires that an acquired intangible asset should be separately recognized if the benefit of the intangible asset is obtained through contractual or other legal rights, or if the asset can be sold, licensed, rented or exchanged, regardless of the acquirer's intent to do so. The Company has no acquired intangible assets other than goodwill. The Company determined that no transitional impairment loss was required at January 1, 2002.

The gross carrying amount of goodwill as of June 30, 2002 is \$1,113,108.

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

| | Three months ended June 30 2002 | 2001 (as restated) | Year to Date J 2002 |
|-----------------------------------|------------------------------------|-----------------------|------------------------|
| Reported net income (loss) | \$ 133,526 | \$23,508 | \$ 503,957 |
| Add back: Goodwill amortization | -- | 1,388 | -- |
| | ----- | ----- | ----- |
| Adjusted net income (loss) | \$ 133,526 | \$24,896 | \$ 503,957 |
| | ===== | ===== | ===== |
| Basic earnings per share | | | |
| Reported net income (loss) | \$ 0.11 | \$ 0.02 | \$ 0.42 |
| Add back Goodwill amortization | -- | 0 | -- |
| | ----- | ----- | ----- |
| Adjusted net income (loss) | \$ 0.11 | \$ 0.02 | \$ 0.42 |
| | ===== | ===== | ===== |
| Fully diluted earnings per share: | | | |
| Reported net income (loss) | \$ 0.09 | \$ 0.02 | \$ 0.38 |
| Add back: Goodwill amortization | -- | 0 | -- |
| | ----- | ----- | ----- |
| Adjusted net income (loss) | \$ 0.09 | \$ 0.02 | \$ 0.38 |
| | ===== | ===== | ===== |

Note 8 - Recent Accounting Pronouncements

SFAS No. 143, Accounting for Asset Retirement Obligations, addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. The statement requires that the fair value of a liability for an asset retirement obligation be recognized in the period it is incurred if a reasonable estimate of fair value can be made. The associated retirement costs are capitalized as a component of the carrying amount of the long-lived asset and allocated to expense over the useful life of the asset. The statement is effective for financial statements issued for fiscal years beginning after June 15, 2002. Management does not believe the adoption of the statement will have a material impact on the Company's consolidated financial statements.

SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, establishes accounting and reporting standards for the impairment or disposal of long-lived assets. This statement supercedes SFAS No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed. SFAS No. 144 provides one accounting model to be used for long-lived assets to be disposed of by sale, whether previously held for use or newly acquired and broadens the presentation of discontinued operations to include more disposal transactions. The provisions of SFAS No. 144 are effective for financial statements issued for fiscal years beginning after December 15, 2001. The Company adopted the statement as of January 1, 2002 and the implementation of this standard did not have a material impact on the Company's consolidated financial statements.

Note 9 - Property, Plant and Equipment Agreements

At June 30, 2002, the Company had outstanding purchase agreements for equipment with an aggregate purchase price of \$2,911,000, of which approximately \$1,018,000 is being currently reflected as projects under construction on the balance sheet. The purchase of the equipment is being funded principally by the

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

CapEx Line of Credit extended by the Company's principal lender.

Note 10 - Geographic Segment Data

The Company's operate primarily in one business segment which designs, manufactures, and distributes balloon products. The Company's operate in foreign and domestic regions. Information about the Company's operations by geographic areas is as follows.

| | Net Sales to External Customers For the Six Months Ended June 30, | | Long Term Assets at June 30, | |
|----------------|--|--------------|---------------------------------|-------------|
| | 2002 | 2001 | 2002 | 2001 |
| United States | \$18,428,000 | \$10,796,000 | \$6,735,000 | \$5,942,000 |
| Mexico | 1,237,000 | 1,118,000 | 2,638,000 | 2,955,000 |
| United Kingdom | * | * | 11,000 | 18,000 |
| Other | 979,000 | 1,043,000 | -- | -- |
| | | | | |
| | \$20,644,000 | \$12,957,000 | \$9,384,000 | \$8,915,000 |
| | | | | |

Note 11 - Concentration of Credit Risk

Concentration of credit risk with respect to trade accounts receivable is generally limited due to the number of entities comprising the Company's customer base. The Company performs ongoing credit evaluations and provides an allowance for potential credit losses against the portion of accounts receivable which is estimated to be un-collectible. Such losses have historically been within management's expectations. For the six months ended June 30, 2002, the Company had two customers that accounted for approximately 32% and 20%, respectively, of consolidated net sales.

CTI Industries Corporation and Subsidiaries Consolidated Earnings per Share (Unaudited)

| | Quarter Ended June 30 2002 | Quarter Ended June 30 2001 (as restated) | Year to Date Jun 2002 | Year to Date Jun (as restated) |
|---|-------------------------------|--|--------------------------|-----------------------------------|
| | ----- | ----- | ----- | ----- |
| Basic | | | | |
| Average shares outstanding: | | | | |
| Weighted average number of shares of common stock outstanding during the period | 1,263,763 ===== | 1,207,944 ===== | 1,198,957 ===== | 1,198,957 ===== |
| Net income: | | | | |
| Net income (loss) | \$ 133,526 | \$ 23,508 | \$ 503,957 | \$ 503,957 |
| Amount for per share computation | \$ 133,526 | \$ 23,508 | \$ 503,957 | \$ 503,957 |

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

| | | | | |
|--|------------|-----------|------------|----|
| Per share amount | \$ 0.11 | \$ 0.02 | \$ 0.42 | \$ |
| Diluted | | | | |
| Average shares outstanding: | | | | |
| Weighted average number of shares of common stock outstanding during the period | 1,479,644 | 1,207,944 | 1,198,957 | 1 |
| Net additional shares assuming stock options and warrants exercised and proceeds used to purchase treasury stock | 215,881 | -- | 133,653 | |
| Weighted average number of shares and equivalent shares of common stock outstanding during the period | 1,488,651 | 1,207,944 | 1,374,189 | 1 |
| Net income: | | | | |
| Net income (loss) | \$ 133,526 | \$ 23,508 | \$ 503,957 | \$ |
| Amount for per share computation | \$ 133,526 | \$ 23,508 | \$ 503,957 | \$ |
| Per share amount | \$ 0.09 | \$ 0.02 | \$ 0.38 | \$ |

See accompanying notes to consolidated unaudited statements

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 June 30, 2002 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Howard W. 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

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

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 June 30, 2002 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:

- (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/ Stephen M. Merrick

Stephen M. Merrick
Chief Financial Officer