

CTI INDUSTRIES CORP
Form 10-Q
November 13, 2018

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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, 2018

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

For the transition period from _____ to _____

Commission File Number

000-23115

CTI INDUSTRIES CORPORATION

(Exact name of Registrant as specified in its charter)

Illinois
(State or other jurisdiction of

36-2848943
(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, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer
Non-accelerated filer (Do not check if a smaller reporting company)
Smaller reporting company
Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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, 2018 was 3,530,227.

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Condensed Consolidated Balance Sheets**

	September 30, 2018	December 31, 2017
	(unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents (VIE \$2,000 and \$2,000, respectively)	\$273,839	\$181,026
Accounts receivable, (less allowance for doubtful accounts of \$76,000 and \$114,000, respectively)	9,676,660	11,235,834
Inventories, net (VIE \$459,000 and \$498,000, respectively)	19,831,819	18,865,932
Prepaid expenses (VIE \$162,000 and \$80,000, respectively)	1,458,860	887,885
Other current assets	1,397,204	1,120,808
Total current assets	32,638,382	32,291,485
Property, plant and equipment:		
Machinery and equipment	23,582,048	23,439,781
Building	3,367,082	3,367,082
Office furniture and equipment (VIE \$303,000 and \$268,000, respectively)	2,662,556	2,591,159
Intellectual property	752,044	752,044
Land	250,000	250,000
Leasehold improvements	410,683	402,963
Fixtures and equipment at customer locations	518,450	518,450
Projects under construction	360,827	121,241
	31,903,690	31,442,720
Less : accumulated depreciation and amortization (VIE \$91,000 and \$36,000, respectively)	(27,925,082)	(26,886,139)
Total property, plant and equipment, net	3,978,608	4,556,581
Other assets:		
Goodwill (VIE \$440,000 and \$440,000, respectively)	1,473,176	1,473,176
Net deferred income tax asset (VIE \$105,000 and \$52,000, respectively)	1,431,634	1,102,467
Other assets	537,806	560,329
Total other assets	3,442,616	3,135,972
TOTAL ASSETS	\$40,059,606	\$39,984,038
LIABILITIES AND EQUITY		
Current liabilities:		
Checks written in excess of bank balance (VIE \$11,000 and \$16,000, respectively)	\$604,297	\$454,850
Trade payables (VIE \$258,000 and \$144,000, respectively)	5,925,071	5,414,497
Line of credit (VIE \$285,000 and \$338,000, respectively)	14,616,666	13,783,930
Notes payable - current portion	4,867,924	942,533
Notes payable affiliates - current portion	11,028	9,615

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Capital Lease - current portion	-	7,562
Accrued liabilities (VIE \$91,000 and \$92,000, respectively)	2,116,742	2,047,893
Total current liabilities	28,141,728	22,660,880
Long-term liabilities:		
Notes payable - affiliates	192,737	212,545
Notes payable, net of current portion (VIE \$38,000 and \$83,000, respectively)	356,356	4,951,581
Notes payable - officers, subordinated	1,573,302	1,507,362
Deferred gain (non current)	133,447	207,410
Deferred income tax liability	-	-
Total long-term debt, net of current portion	2,255,842	6,878,898
Total long-term liabilities	2,255,842	6,878,898
Equity:		
CTI Industries Corporation stockholders' equity:		
Preferred Stock -- no par value, 3,000,000 shares authorized, 0 shares issued and outstanding	-	-
Common stock - no par value, 15,000,000 shares authorized, 3,573,885 shares issued and 3,530,227 shares outstanding	13,898,494	13,898,494
Paid-in-capital	2,410,711	2,271,261
Accumulated earnings	(51,877)	720,223
Accumulated other comprehensive loss	(5,475,969)	(5,365,364)
Less: Treasury stock, 43,658 shares	(160,784)	(160,784)
Total CTI Industries Corporation stockholders' equity	10,620,575	11,363,830
Noncontrolling interest	(958,539)	(919,570)
Total Equity	9,662,036	10,444,260
TOTAL LIABILITIES AND EQUITY	\$40,059,606	\$39,984,038

See accompanying notes to condensed consolidated unaudited financial statements

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

	For the Three Months		For the Nine Months	
	Ended September 30,		Ended September 30,	
	2018	2017	2018	2017
Net Sales	\$ 11,525,469	\$ 13,225,954	\$ 41,489,372	\$ 41,397,288
Cost of Sales	9,336,935	10,039,044	32,636,925	31,475,520
Gross profit	2,188,534	3,186,910	8,852,447	9,921,768
Operating expenses:				
General and administrative	1,509,804	1,923,315	5,074,340	5,691,186
Selling	728,303	861,856	2,545,635	2,771,150
Advertising and marketing	302,985	454,927	931,475	1,548,709
Gain on sale of assets	(24,061)	(27,426)	(71,474)	(119,127)
Other operating income	-	-	-	(1,416)
Total operating expenses	2,517,031	3,212,672	8,479,976	9,890,502
(Loss) Income from operations	(328,497)	(25,762)	372,471	31,266
Other (expense) income:				
Interest expense	(471,268)	(367,391)	(1,586,108)	(1,100,038)
Interest income	5,423	-	16,467	-
Change in fair value of warrants	-	(3,809)	-	19,999
Foreign currency loss	35,528	(11,430)	53,311	(92,382)
Total other expense, net	(430,317)	(382,630)	(1,516,330)	(1,172,421)
Net (loss) before taxes	(758,814)	(408,392)	(1,143,859)	(1,141,155)
Income tax expense	(212,589)	(125,678)	(332,791)	(313,151)
Net (loss)	(546,225)	(282,714)	(811,068)	(828,004)
Less: Net (loss) income attributable to noncontrolling interest	13,072	(8,014)	(38,968)	(85,645)
Net loss attributable to CTI Industries Corporation	\$(559,297)	\$(274,700)	\$(772,100)	\$(742,359)
Other Comprehensive Income (Loss)				
Foreign currency adjustment	231,827	(260,469)	(110,605)	492,900
Comprehensive Income (Loss)	\$(327,470)	\$(535,169)	\$(882,705)	\$(249,459)

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Basic loss per common share	\$ (0.16) \$ (0.08) \$ (0.22) \$ (0.20)
Diluted loss per common share	\$ (0.16) \$ (0.08) \$ (0.22) \$ (0.20)
Weighted average number of shares and equivalent shares of common stock outstanding:					
Basic	3,530,227	3,641,439	3,530,227	3,641,439	
Diluted	3,530,227	3,641,439	3,530,227	3,789,081	

See accompanying notes to condensed consolidated unaudited financial statements

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

	For the Nine Months Ended September 30,	
	2018	2017
Cash flows from operating activities:		
Net (loss) income	\$(811,068)	\$(828,004)
Depreciation and amortization	981,449	1,163,736
Amortization of debt discount	-	112,622
Change in fair value of warrants	-	(19,999)
Stock based compensation	139,450	-
Amortization of deferred gain on sale/leaseback	(83,394)	(84,759)
Provision for losses on accounts receivable	(40,924)	(20,882)
Provision for losses on inventories	14,250	94,518
Deferred income taxes	(347,725)	(409,621)
Change in assets and liabilities:		
Accounts receivable	1,717,018	5,864,010
Inventories	(819,293)	(324,813)
Prepaid expenses and other assets	(776,294)	16,362