

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 March 31, 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 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, \$.195 par value, 841,644 outstanding Shares and CLASS B COMMON STOCK, \$2.73 par value, 366,300 outstanding Shares, as of March 31, 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 MARCH 31, 2000 AND 2001. THESE REVISIONS HAVE BEEN MADE CONCERNING 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 MARCH 31, 2001 AND DOES NOT REFLECT ANY SUBSEQUENT INFORMATION OR EVENTS OTHER THAN THE RESTATEMENT.

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

Part I. FINANCIAL INFORMATION

Item 1. Financial Statements

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 MARCH 31, 2000 AND 2001. THESE REVISIONS HAVE BEEN MADE CONCERNING 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 MARCH 31, 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 March 31, 2001 and Balance Sheet as of December 31, 2000.
2. Interim Statements of Operations for the three month periods ending March 31, 2001, and March 31, 2000.
3. Interim Statements of Cash Flows for the three month periods ending March 31, 2001 and March 31, 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

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

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
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 three months ended March 31, 2001, net sales were \$6,081,000, as compared to sales of \$7,162,000 for the three months ended March 31, 2000, a decrease of 15.1%. The decline in sales is due to a decrease in metallized balloon sales of approximately \$1,400,000, which was partially offset by an increase in printed and laminated film sales of \$350,000.

Cost of Sales. For the three months ended March 31, 2001, cost of sales increased to 73.3% of net sales as compared to 69.1% of net sales for the same period in 2000. The increase was primarily the result of lower than expected margins in the production and sale of latex balloons.

Administrative. For the three months ended March 31, 2001, administrative expenses were \$747,000 or 12.3% of sales as compared to \$858,000, or 12.0% of sales for the same period in 2000. The majority of the decrease in administrative expense dollars came from reduced expenditures in the Company's Mexico operation.

Selling. For the three months ended March 31, 2001, selling expenses were \$426,000 or 7.0% of sales, as compared to \$523,000, or 7.3% of net sales for the same period in 2000. The decline in selling expense dollars is primarily related to the decline in sales volume and the selling expenses directly associated with those sales.

Advertising and Marketing. For the three months ended March 31, 2001, advertising and marketing expenses were \$271,000 or 4.5% of net sales as compared to \$314,000 or 4.4% of net sales in the same period 2000. The decrease in advertising and marketing expense dollars came from several items, mainly reduced spending for printed

2

advertising media, and reduced expenditures related to the Company's participation in trade shows.

Other Income or Expense. Interest expense increased to \$342,000 for the three months ended March 31, 2001, as compared to \$331,000 for the three months ended March 31, 2000. The increase in interest expense is due to the Company's increased level of borrowings.

Net Income or Loss. For the three months ended March 31, 2001, the Company had a loss before taxes and minority interest of \$190,000, as compared to income before taxes and minority interest of \$217,000 for the same three month period in 2000. The provision for income taxes for the three-month period ended March

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

31, 2001 was \$9,000, resulting in a net loss of \$176,000. The provision for income taxes for the three-month period ended March 31, 2000 was \$57,000, resulting in net income of \$131,000.

Financial Condition

Liquidity and Capital Resources. Cash flow used in operations during the three months ended March 31, 2001 was \$1,085,000, which resulted principally from an increase accounts receivable. During the three months ended March 31, 2000, cash flow provided by operations was \$86,000, mainly a result of non-cash depreciation and amortization expense and lower inventory levels.

Investment Activities. During the three months ended March 31, 2001 cash flow used in investing activities for the purchase of machinery and equipment was \$82,000. In the three months ended March 31, 2000, \$152,000 was used in investing activities, primarily for the purchase of machinery and equipment, and the purchase of additional equity ownership in CTI Mexico.

Financing Activities. For the three months ended March 31, 2001, cash flow provided by financing activities was \$1,208,000. The two primary sources of this cash flow were the refinancing of the Company's debt which netted additional cash of approximately \$800,000, and the cash flow provided by the short-term revolving line of credit. Cash flow provided by financing activities for the three months ended March 31, 2000 was \$171,000, resulting from the use of the short-term revolving line of credit.

At March 31, 2001, the Company had a cash balance of \$435,000. 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 \$393,000. At March 31, 2001, the Company had working capital of (\$1,180,000), and at December 31, 2000, working capital was (\$3,862,000).

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 mylar product line, sales have historically been seasonal with approximately 20% to 27% of annual sales of mylar being generated in December and January and 11% to 13% of annual mylar sales being generated in June and July in recent

3

years. The sale of latex balloons and laminated film products have not historically been seasonal.

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 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"

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

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 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.

4

Part II. OTHER INFORMATION

Item 1. Legal Proceedings

Not applicable.

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.

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

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/ Howard W. Schwan

Howard W. Schwan, President

7

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

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

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

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

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

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
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 March 31, 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:

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

- (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 March 31, 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 Balance Sheets

	March 31, 2001 (Unaudited)	December 31, 2000 (Audited) As Restated
	-----	-----
ASSETS		
Current assets:		
Cash	\$ 434,803	\$ 392,534
Accounts receivable (less allowance for doubtful accounts of \$328,086 and \$312,572 at March 31, 2001 and December 31, 2000, respectively)	4,150,754	2,573,577
Inventories	6,930,016	7,060,996
Deferred tax assets	65,700	65,700
Other	727,888	659,371
	-----	-----
Total current assets	12,309,161	10,752,178

Property and equipment:

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

Machinery and equipment	13,482,893	13,472,187
Building	2,383,530	2,370,644
Office furniture and equipment	1,672,143	1,652,823
Land	250,000	250,000
Leasehold improvements	161,885	161,885
Fixtures and equipment at customer locations	2,202,743	2,202,743
Projects under construction	495,155	405,748
	-----	-----
	20,648,349	20,516,030
Less: accumulated depreciation	(11,720,171)	(11,342,792)
	-----	-----
Total property and equipment, net	8,928,178	9,173,238
Other assets:		
Deferred financing costs, net	125,958	11,412
Goodwill associated with acquisition of CTI Mexico, net	1,179,493	1,199,771
Deferred tax assets	811,202	812,591
Other assets	360,765	269,600
	-----	-----
Total other assets	2,477,418	2,293,374
	-----	-----
TOTAL ASSETS	\$ 23,714,757	\$ 22,218,790
	=====	=====

See accompanying notes

LIABILITIES AND STOCKHOLDERS' EQUITY

	March 31, 2001 (Unaudited)	December 31, 2000 (Audited) As Restated
	-----	-----
Current liabilities:		
Accounts payable	\$ 5,123,753	\$ 5,045,773
Line of credit	4,520,311	3,609,541
Notes payable - current portion	1,715,918	4,176,934
Accrued liabilities	2,129,481	1,781,985
	-----	-----
Total current liabilities	13,489,463	14,614,233
Long-term liabilities:		
Other liabilities	824,809	802,596
Notes payable	4,091,362	1,301,022
Subordinated debt	630,141	597,670
	-----	-----
Total long-term liabilities	5,546,312	2,701,288
Minority interest	215,300	238,787
Stockholders' equity:		
Common stock - \$.195 par value, 5,000,000		

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

shares authorized, 966,327 shares issued, 841,644 shares outstanding	188,434	188,434
Class B Common stock - \$2.73 par value, 500,000 shares authorized, 366,300 shares issued and outstanding	1,000,000	1,000,000
Paid-in-capital	5,554,332	5,554,332
Warrants issued in connection with subordinated debt	351,978	351,978
Accumulated deficit	(1,927,218)	(1,751,478)
Accumulated other comprehensive earnings	(67,306)	(42,244)
Less:		
Treasury stock - 124,683 shares	(575,384)	(575,384)
Stock subscription receivable	(4,700)	(4,700)
Notes receivable from stockholders	(56,456)	(56,456)
	-----	-----
Total stockholders' equity	4,463,682	4,664,482
	-----	-----
TOTAL LIABILITIES & STOCKHOLDERS' EQUITY	\$ 23,714,757	\$ 22,218,790
	=====	=====

See accompanying notes

CTI Industries Corporation and Subsidiaries
Consolidated Statements of Operations

	Quarter Ended March 31	
	2001	2000
	(Unaudited)	(Unaudited)
	-----	-----
Net Sales	\$ 6,080,573	\$ 7,162,326
Cost of Sales	4,457,778	4,948,329
	-----	-----
Gross profit on sales	1,622,795	2,213,997
Operating expenses:		
Administrative	746,925	857,522
Selling	425,581	522,774
Advertising and marketing	271,199	314,226
	-----	-----
Total operating expenses	1,443,705	1,694,522
	-----	-----
Income from operations	179,090	519,475
Other income (expense):		
Interest expense	(342,375)	(330,934)
Interest income	741	9,580
Gain on sale of assets	7,512	7,512
Other	(35,072)	11,592
	-----	-----
Total other income (expense)	(369,194)	(302,250)
	-----	-----
Income (loss) before income taxes and minority interest	(190,104)	217,225
Income tax expense	9,123	57,251

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

Income (loss) before minority interest	(199,227)	159,974
Minority interest in profit (loss) of subsidiary	(23,487)	29,287
Net income (loss)	\$ (175,740)	\$ 130,687
Income (loss) applicable to common shares	\$ (175,740)	\$ 130,687
Basic income (loss) per common and common equivalent shares	\$ (0.15)	\$ 0.11
Diluted income (loss) per common and common equivalent shares	\$ (0.15)	\$ 0.10
Weighted average number of shares and equivalent shares of common stock outstanding:		
Basic	1,207,944	1,207,944
Diluted	1,207,944	1,315,442

See accompanying notes

CTI Industries Corporation and Subsidiaries
Consolidated Statements of Cash Flows

	Quarter Ended March 31 2001 (Unaudited)	2000 (Unaudited)
	-----	-----
Cash flows from operating activities:		
Net income (loss)	\$ (175,740)	\$ 130,687
Adjustment to reconcile net income (loss) to cash (used in) provided by operating activities:		
Depreciation and amortization	390,936	440,293
Amortization of Debt Discount	42,471	45,523
Minority interest in profit (loss) of subsidiary	(23,487)	29,287
Gain on sale of fixed assets	(7,512)	(7,512)
Provision for losses on accounts receivable & inventory	50,000	49,500
Change in assets and liabilities:		
Accounts receivable	(1,338,556)	(478,582)
Inventory	(215,727)	286,218
Other assets	204,184	(153,813)
Accounts payable and accrued expenses	(11,642)	(255,323)
Net cash (used in) provided by operating activities	(1,085,073)	86,278
Cash flows from investing activities:		
Purchases of property and equipment	(81,938)	(66,752)
Purchase additional interest in CTI Mexico	--	(85,652)

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

Net cash (used in) investing activities	(81,938)	(152,404)
Cash flows from financing activities:		
Net change in revolving line of credit	910,770	422,166
Proceeds from issuance of long-term debt	4,655,035	--
Proceeds from issuance of short-term debt	1,131,819	--
Repayment of long-term debt	(4,464,216)	(236,654)
Repayment of short-term debt	(1,014,920)	--
Repayment of subordinated debt	(10,000)	(15,000)
	-----	-----
Net cash provided by financing activities	1,208,488	170,512
Effect of exchange rate changes on cash	792	8,475
	-----	-----
Net increase in cash	42,269	112,861
Cash and Equivalents at Beginning of Period	392,534	130,103
	-----	-----
Cash and Equivalents at End of Period	\$ 434,803	\$ 242,964
	=====	=====

See accompanying notes

March 31, 2001

Note 1 - Basis of Presentation

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 three month period ended March 31, 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 ended March 31, 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 March 31, 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.

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

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 3 - 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 March 31, 2001 and 2000 was computed as follows:

CTI Industries Corporation and Subsidiaries

	Quarter Ended March 31	
	2001	2000
	(Unaudited)	(Unaudited)
	-----	-----
Basic		
Average shares outstanding:		
Weighted average number of shares of		

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

common stock outstanding during the period	1,207,944 =====	1,207,944 =====
Net income:		
Net income (loss)	\$ (175,740)	\$ 130,687
Amount for per share computation	\$ (175,740) =====	\$ 130,687 =====
Per share amount	\$ (0.15) =====	\$ 0.11 =====
Diluted		
Average shares outstanding:		
Weighted average number of shares of common stock outstanding during the period	1,207,944	1,207,944
Net additional shares assuming stock options and warrants exercised and proceeds used to purchase treasury stock	-- -----	107,498 -----
Weighted average number of shares and equivalent shares of common stock outstanding during the period	1,207,944 =====	1,315,442 =====
Net income:		
Net income (loss)	\$ (175,740)	\$ 130,687
Amount for per share computation	\$ (175,740) =====	\$ 130,687 =====
Per share amount	\$ (0.15) =====	\$ 0.10 =====