

CTI INDUSTRIES CORP
Form 10-K
April 02, 2018

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FORM 10-K

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2017

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)

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

Securities Registered pursuant to sections 12(b) of the Act:

<u>Title of Each Class</u>	<u>Name of Each Exchange on Which Registered</u>
Common Stock, No Par	NASDAQ Capital Market

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes No

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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 Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Based upon the closing price of \$5.68 per share of the Registrant's Common Stock as reported on NASDAQ Capital Market tier of The NASDAQ Stock Market on June 30, 2017, the aggregate market value of the voting common stock held by non-affiliates of the Registrant was then approximately \$10,452,000. (The determination of stock ownership by non-affiliates was made solely for the purpose of responding to the requirements of the Form and the Registrant is

not bound by this determination for any other purpose.)

The number of shares outstanding of the Registrant's Common Stock as of March 1, 2018 was 3,530,227 (excluding treasury shares).

DOCUMENTS INCORPORATED BY REFERENCE

<u>Document</u>	<u>Part of Form 10-K into Which Document Is Incorporated</u>
Sections of the registrant's Proxy Statement	Part III
To be filed on or before April 30, 2018 for the Annual Meeting of Stockholders	

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FORWARD-LOOKING STATEMENTS

This annual report includes both historical and “forward-looking statements” within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended. We have based these forward-looking statements on our current expectations and projections about future results. Words such as “may,” “should,” “could,” “would,” “expect,” “plan,” “anticipate,” “believe,” “estimate,” “predict,” “potential,” “continue,” or similar words are intended to identify forward-looking statements, although not all forward-looking statements contain these words. Although we believe that our opinions and expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements, and our actual results may differ substantially from the views and expectations set forth in this annual report. We disclaim any intent or obligation to update any forward-looking statements after the date of this annual report to conform such statements to actual results or to changes in our opinions or expectations. These forward-looking statements are affected by factors, risks, uncertainties and assumptions that we make, including, without limitation, our participation in highly competitive markets, potential changes in the cost or availability of raw materials, our dependence on a limited number of suppliers, the possible inability to obtain an adequate supply of raw materials, our reliance on a limited number of key customers, the loss of one or more of our key customers, changing consumer demands, developments or changes in technology, risks of international operations and political environments, dependence on our intellectual property, compliance with federal, state or local regulations, the resolution of litigation or other legal proceedings to which we may become involved, restrictions included in the Company’s credit facility, the availability of funds under the Company’s credit facility, damage to or destruction of one or both of the Company’s principal plants, our ability to service our indebtedness, our ability to invest in needed plant or equipment.

PART I

Item No. 1 – Description of Business

Business Overview

We develop, produce and distribute a number of consumer products and sell these products throughout the United States and in over 30 other countries, and we produce film products for commercial and industrial uses in the United States. Many of our products utilize flexible films and, for a number of years, we have been a leading developer of innovative products which employ flexible films including novelty balloons, pouches and rolls of film for vacuum sealing and storage of products in the home as well as films for commercial packaging applications.

Our principal lines of products include:

Novelty Products consisting principally of foil and latex balloons and other inflatable toy items.

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Vacuum Sealing Containers and Sealing Devices for home and consumer use to vacuum seal, store and preserve food and personal items.

Flexible Films for food and other commercial and packaging applications.

In addition to these principal product lines, for the past several years, we have engaged in (i) the assembly and sale of Candy Blossoms (small gift bouquets of arranged candy items often including ribbons and/or a small foil balloon), (ii) the distribution in Mexico of party goods products, and (iii) the sale and distribution of home containers and organizing products (some of which we produce) to and through a related entity which distributes these products through a network of independent distributors.

We leverage our technology to design and develop proprietary products which we market and sell and which we develop for our customers. We have been engaged in the business of developing flexible film products for over 40 years and have acquired significant technology and know-how in that time. We currently hold several patents, related to flexible film products including specific films, zipper closures, valves and other features of these products.

We print, process and convert flexible film into finished products and we produce latex balloons and novelty items. Our principal production processes include:

Coating and laminating rolls of flexible film. Generally, we adhere polyethylene film to another film such as nylon or polyester.

Printing film and latex balloons. We print both plastic and latex films, with a variety of graphics, for use as packaging film or for balloons.

Converting printed film to balloons.

Converting film to flexible containers.

Producing latex balloons and other latex novelty items.

Assembling and inflating of novelty products and balloons and Candy Blossoms.

In 1978, we began manufacturing metalized balloons (often referred to as "foil" balloons), which are balloons made of a base material (usually nylon or polyester) often having vacuum deposited aluminum and polyethylene coatings. These balloons remain buoyant when filled with helium for much longer periods than latex balloons and permit the printing of graphic designs on the surface. In 1985, we began marketing latex balloons and, in 1988, we began manufacturing latex balloons. In 1999, we acquired an extrusion coating and laminating machine and began production of coated and laminated films, which we have produced since that time.

For more than 20 years, we have been engaged in the production of flexible containers for the storage of liquids, food products, household goods and other items, and in the coating, laminating and printing of flexible films for our novelty and container products and for the production of laminated and printed films we supply to others.

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We market and sell our foil and latex balloons and related novelty items throughout the United States, Canada and Mexico and in a number of other countries in Latin America and Europe. We supply directly to retail stores and chains and through distributors, who in turn sell to retail stores and chains. Our balloon and novelty products are sold to consumers through a wide variety of retail outlets including general merchandise, discount and drugstore chains, grocery chains, card and gift shops, and party goods stores, as well as through florists and balloon decorators.

Most of our foil balloons contain printed characters, designs and social expression messages, such as “Happy Birthday,” “Get Well” and similar items. For some of our balloon designs, we obtain licenses for well-known characters and print those characters and messages on our balloons.

We produce flexible containers and rolls of film for use as flexible containers in a variety of applications, including (i) zippered pouches with valves for vacuum sealing of food and household products and (ii) pouches and rolls of film for use with vacuum sealing machines to vacuum seal, store and protect food and household items. We market and sell flexible containers and rolls of film for consumer storage uses through retail chains and outlets throughout the United States, and we provide flexible containers to others for resale. We market and sell vacuum sealing machines for use with pouches and rolls of film for the vacuum storage of food and household products.

We provide customized laminated films and printed films to customers who utilize the film to produce bags or pouches for the packaging of food, liquids and other items.

Commencing in 2014, we began assembling and producing Candy Blossoms - containers including candy items and, at times, air-inflated balloons. Since 2014, we have distributed home container and organizing products, some of which we produce, to and through a related entity which distributes those products through a network of independent distributors in the United States. In 2015, we commenced the distribution of party goods in Mexico.

In 2017, our revenues from our product lines, as a percent of total revenues were:

Novelty Products 69% of revenues
Vacuum Sealing Containers and Devices 14% of revenues
Flexible Film Products 4% of revenues
Other Products 13% of revenues

We are an Illinois corporation with our principal offices and plant at 22160 N. Pepper Road, Lake Barrington, Illinois.

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Business Strategies and Developments

Our business strategies, and recent developments related to our business, include:

Management. Significant management changes occurred on or about November 30, 2017. Our then CEO, John Schwan, retired from that role. Mr. Schwan continued as Chairman of the Board. Mr. Stephen Merrick, then President, assumed the role as CEO. Mr. Jeffrey Hyland joined CTI as President. Messrs. Merrick and Hyland both report directly the Board of Directors. Mr. Frank Cesario joined as CFO, and Mr. Jeffrey Memenga joined as Plant Manager for all of our domestic locations. Finally, the Manager of our European operations (based in Germany), Mr. Manfred Jakobi, was promoted to be the Manager over both our European and U.K. operations.

Financing. During December 2017, we secured new financing from PNC Bank, National Association, and immediately repaid all tranches of our prior credit facility including senior debt, term debt, and mezzanine debt.

Initial Strategy. As an initial strategy, our management determined to focus on achieving growth and profitability within the current scope of our core product lines – foil balloons, latex balloons, vacuum sealing products and systems and film products for commercial and packaging applications. We reviewed our operations and, during 2017, eliminated more than \$2 million in operating costs on an annualized basis. We are aggressively pursuing additional revenues in our core product lines both from existing and new customers in the United States, Latin America and Europe.

Focus on our Core Assets and Expertise. We have been engaged in the development, production and sale of film and container products for 40 years and have developed assets, technology and expertise which, we believe, enable us to develop, manufacture, purchase, market and sell innovative products of high quality within our areas of knowledge and expertise. We plan to focus our efforts on these core assets and areas of expertise – film novelty products, consumer vacuum storage systems, specialty film products, container products, laminated films and printed films – to develop new products, to market and sell our products and to build our revenues.

Develop New Products, Product Improvements and Technologies. We engage in research, design, innovation and development for the purpose of developing, and improving, products, materials, methods and technologies within our core product categories. We work to develop and identify new products, to improve existing products and to develop new technologies within our core product areas in order to enhance our competitive position and increase our sales. We seek to leverage our technology to develop innovative and proprietary products. In our novelty product lines, our development work includes new designs, new character licenses, new product developments, new materials and improved production methods. In our consumer storage product lines, we have developed new pouch closure systems and valves and new film methods for packaging applications. We have received several patents for these developments. We developed and introduced a line of resealable pouches with a valve and pump system for household storage and vacuum sealing of food items. We designed and introduced a line of vacuum sealing equipment for the vacuum sealing of pouches for food and household items and are engaged in development efforts to create new and enhanced vacuum sealing machines, accessories and related products. We work with customers to

develop custom film products which serve the unique needs or requirements of the customer.

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Develop New Channels of Distribution and New Sales Relationships. We seek to organically develop new channels of distribution and new sales relationships, both for existing and new products. Over the past several years, we have developed new distributors and customers for our pouch and novelty products, in the United States and in Europe, Mexico, Latin America and Australia, expanding the scope and level of our international sales and activities. In 2013, we introduced a line of vacuum sealing systems for the storage and preservation of food and other items in the home under the Ziploc® Brand Vacuum Sealer System. We market and sell the vacuum sealing machines, pouches and rolls of film under the brand throughout the United States, Canada and Mexico. During recent years, we developed a relationship with a related company engaged in the sale of home containers and organization products and have become a supplier of products, some of which we produce, to that company. During 2015, we became a distributor in Mexico for a major party goods company.

Enhance Our Productive Capacity. We invest in new plant and equipment when appropriate to expand the range and volume of products we produce. During 2008 and 2009, we acquired, installed and commenced operation of equipment which enabled us to produce the pouches and rolls of film for our vacuum sealing storage business we developed. During 2010 and 2011, we designed, assembled and installed latex balloon production equipment which significantly enhanced our production capacity for latex balloons to support our growing sales of this product line. We significantly expanded our warehouse, packaging and fulfillment facilities and operations during 2013. During the first quarter of 2014, we acquired printing equipment which almost doubled printing capacity to support our growing sales of foil balloons. We acquired and installed a new latex balloon production machine in Mexico which became operational in August 2016; this machine has enhanced our latex balloon production capacity by approximately 30%. At the end of 2017 we initiated a repair and maintenance, and quality improvement, program. This program includes the addition of two automated balloon converting machines during the first quarter of 2018 which will enhance our foil balloon capacity by 30% and will further our quality program.

Product and Line Extensions. Upon achieving our initial strategic goals, beginning in 2018, we intend to pursue new product lines and product line extensions, through internal developments, purchase and acquisitions. We believe that the acquisition and integration of targeted opportunities could benefit our Company in a meaningful way.

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Products

Foil Balloons. We have designed, produced and sold foil balloons since 1979 and, we believe, are the second largest manufacturer of foil balloons in the United States. Currently, we produce several hundred foil balloon designs, in different shapes and sizes.

In addition to size and shape, a principal element of the Company's foil balloon products is the printed design or message contained on the balloon. These designs include figures and licensed characters many of which are well known. We maintain licenses for several well-known characters.

We recognize that consumer trends and preferences, and competing products, are constantly changing. In order to compete effectively in this product line we must constantly innovate and develop new designs, shapes and products.

Latex Balloons. Through our subsidiary in Guadalajara, Mexico, Flexo Universal, S. de R.L. de C.V. ("Flexo Universal"), we manufacture latex balloons in a wide variety of sizes and colors. Many of these balloons are marketed under the name Partyloons® and balloons are also marketed on a private label basis. We also manufacture toy balloon products including punch balls, water bombs and "Animal Twisties."

Vacuum Sealing Pouches and Systems. We produce, market and sell consumer vacuum storage pouches and systems for the vacuum storage of food and other household items. We produce (i) vacuum sealable bags and rolls of film for use with vacuum sealing devices for household storage and (ii) valved, resealable bags also for vacuum storage uses. Our valved, resealable bags function with a small hand or battery-powered pump to evacuate air from the bag when it is sealed. Since 2012, we have produced and marketed vacuum sealable bags and rolls of film under the Ziploc® brand. We also market vacuum sealing machines, produced for us, under the Ziploc® Brand Vacuum Sealer System. We have produced and marketed a line of valved, resealable bags under our Zipvac™ line and a line of valved, resealable bags, including a line of vacuum sealing canisters sold under the brand Clever Fresh™ by our affiliate, Clever Container Company.

Packaging Films and Custom Film Products. A large and increasing number of both consumer and commercial products are packaged in pouches or containers utilizing flexible films. Often such containers include printed labels and designs. We produce and sell films that may be utilized for the packaging of a wide variety of products and liquids. We laminate, extrusion coat and adhesive coat flexible films for these purposes and we provide flexographic printing for the films we produce. We can produce a variety of customized film products, and printing services, to meet the specific packaging needs of a wide variety of customers.

Other Products. We now distribute, and to some degree produce, home organization and container products for Clever Container Company, an entity consolidated with our company as a variable interest entity. Clever Container engages in the direct sale of such products through a network of independent distributors. In 2014, we began assembly and sale of our Candy Blossom product line. In 2015, we began to distribute party goods in Mexico.

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Markets

Foil Balloons

The foil balloon came into existence in the late 1970s. During the 1980s, the market for foil balloons grew rapidly. Initially, the product was sold principally to individual vendors, small retail outlets and at fairs, amusement parks, shopping centers and other outdoor facilities and functions. Foil balloons remain buoyant when filled with helium for extended periods of time and they permit the printing and display of graphics and messages. As a result, the product has significant appeal as a novelty and message item. Foil balloons became part of the "social expression" industry, carrying graphics designs, characters and messages like greeting cards. In the mid-1980s, we and other participants in the market began licensing character and cartoon images for printing on the balloons and directed marketing of the balloons to retail outlets including grocery, general merchandise, discount and drug store chains, card and gift shops, party goods stores as well as florists and balloon decorators. These outlets now represent the principal means for the sale of foil balloons throughout the United States and in a number of other countries, although individual "vendors" remain a means of distribution in a number of areas.

Foil balloons are now sold in virtually every region of the world. The United States, however, remains the largest market for these products.

Foil balloons are sold in the United States and foreign countries directly by producers to retail outlets and through distributors and wholesalers. Often the sale of foil balloons by the wholesalers/distributors is accompanied by related products including latex balloons, floral supplies, candy containers, mugs, plush toys, baskets and a variety of party goods.

Latex Balloons

For a number of years, latex balloons and related novelty/toy latex items have been marketed and sold throughout the United States and in many other countries. Latex balloons are sold as novelty/toy items, for decorative purposes, as part of floral designs and as party goods and favors. In addition to standard size and shape balloons, inflatable latex items include punch balls, water bombs, balloons to be twisted into shapes, and other specialty designs. Often, latex balloons include printed messages or designs.

Latex balloons are sold principally in retail outlets, including party goods stores, general merchandise stores, discount chains, gift stores and drugstore chains. Latex balloons are also purchased by balloon decorators and floral outlets for

use in decorative or floral designs. Printed latex balloons are sold both in retail outlets and for balloon decoration purposes including floral designs.

Latex balloons are sold both through distributors and directly to retail outlets by the producers.

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Flexible Containers/Pouches

The market for flexible containers and pouches is large and diverse. Many companies engaged in the production of food items package their products in flexible containers or pouches, and, therefore, represent a market for these containers.

Flexible containers and pouches are sold and utilized in the consumer market in numerous forms. They include simple open-top plastic bags, resealable bags and zippered bags. The market also includes containers and pouches of special design or purpose, including vacuumable bags for storage of food or household items or commercial uses.

We participate in a segment of the market for vacuum sealing and storage of food and household items. These products generally are sold in retail chain stores, and to some degree, in grocery stores, and, recently, in a direct sales channel. The product lines sold include (i) zippered, resealable bags, incorporating a valve through which air can be evacuated by a hand pump or other device; (ii) pouches or rolls of film which can be sealed by vacuum sealing devices and (iii) vacuum sealing devices.

Printed and Specialty Films

The industry and market for printed and specialty films are fragmented and include many participants. There are hundreds of manufacturers of printed and specialty film products in the United States and in other markets. In many cases, companies who provide food and other products in film packages also produce or process the films used for their packages. The market for the Company's film products consists principally of companies who utilize the films for the packaging of their products, including food products and other items, usually by converting the film to a flexible container.

Marketing, Sales and Distribution

Balloon Products

We work in collaboration with our customers on designs, promotions, and other elements of marketing and selling. Our customers are typically retailers who sell our products to ultimate customers. These relationships generally can be terminated unilaterally by our customers. We must maintain good relationships with our customers if this sales model

is to be successful.

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We market and sell our foil balloon, latex balloon and related novelty products throughout the United States and in a number of other countries. We maintain marketing, sales and support staff and a customer service department in the United States. Sales in the United Kingdom are conducted by CTI Balloons Ltd. (“CTI Balloons”), the Company's subsidiary located in Rugby, England. Sales in Europe are conducted by CTI Europe GmbH (“CTI Europe”), the Company’s subsidiary located in Heusenstamm, Germany. Flexo Universal, our subsidiary in Mexico, conducts sales and marketing activities for the sale of balloon products in Mexico, Latin America, and certain other markets. Sales in other foreign countries are made generally to distributors in those countries and are managed at the Company's principal offices.

We sell and distribute our balloon products (i) by our employed staff of sales and customer service personnel in the United States, Mexico, the UK and Germany, (ii) through a network of distributors and wholesalers in the United States, Mexico, the UK and Europe, (iii) through several groups of independent sales representatives, and (iv) to retail chains. Our balloon products are generally sold through retail outlets including grocery, general merchandise and drug store chains, card and gift shops, party goods stores as well as florists and balloon decorators.

We engage in a variety of advertising and promotional activities to promote the sale of our balloon products. We produce a complete catalog of our balloon products, and also prepare various flyers and brochures for special or seasonal products, which we disseminate to thousands of customers, potential customers and others. We participate in several trade shows for the gift, novelty, balloon and other industries and advertise in several trade and other publications. We maintain websites which show images of our products.

Flexible Containers/Pouches

We market several lines of flexible containers or pouches for household use to vacuum seal, store and preserve food and other household items.

We developed and, for several years, we have produced and sold a line of pouches and rolls of film for use with vacuum sealing machines to vacuum seal food and household items. Initially, we marketed these products through various retail channels under our brand or on a private label basis. On December 14, 2011, the Company entered into a Trademark License Agreement with SC Johnson under which the Company is licensed to manufacture and sell a line of vacuum sealing machines and pouches under the Ziploc® Brand Vacuum Sealer System. The agreement was initially for a three year term expiring on December 31, 2014 and was extended to December 31, 2017 and then to December 31, 2019. The licensed product line includes vacuum sealing machines manufactured for the Company and pouches and rolls manufactured by the Company for use in the home to vacuum seal food items to preserve freshness and help prevent freezer burn.

During 2007, we introduced a line of re-sealable pouches incorporating a valve permitting the evacuation of air from the sealed pouch by use of a hand pump supplied with the pouches. This line of products has been marketed under the brand name ZipVac®. We now produce a line of resealable pouches under the brand Clever Fresh™ which we provide to our affiliate Clever Container Company for sale and distribution to its network of independent distributors.

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Printed and Specialty Films

We market and sell printed and laminated films directly and through independent sales representatives throughout the United States. We sell laminated and printed films to companies that utilize these films to produce packaging for a variety of products, including food products, in both solid and liquid form, such as cola syrup, coffee, juices and other items. We seek to identify and maintain customer relationships in which we provide added value in the form of technology or systems.

Other Products

Other products are sold through both our internal sales force directly to customers and through independent sales representatives. These products are generally sold directly to consumers or to retail outlets.

Production and Operations

We conduct our operations at our facilities including: (i) our 68,000 square foot facility in Lake Barrington, Illinois, incorporating our headquarters office, production and warehouse space, (ii) our 118,000 square foot facility in Lake Zurich, Illinois consisting of warehouse, packaging and office space (iii) a 73,000 square foot facility in Guadalajara, Mexico, consisting of office, warehouse and production space, (iv) a 9,000 square foot facility in Rugby, England consisting of office and warehouse/assembly space, and (v) a 13,000 square foot facility in Heusenstamm, Germany (near Frankfurt), consisting of office and warehouse/assembly space.

Our production operations include (i) lamination and extrusion coating of films, (ii) slitting of film rolls, (iii) printing on film and on latex balloons, (iv) converting film to completed products including balloons, flexible containers and pouches, (v) producing latex balloon products, (vi) inflating of air-filled balloons, and (vii) assembling Candyblossoms. We perform all of the lamination, extrusion coating and slitting activities in our Lake Barrington, Illinois plant and produce all of our latex balloon products at our Guadalajara, Mexico plant. We print on films in Lake Barrington, Illinois and we print on latex balloons in Guadalajara, Mexico. We complete air-filling and assembly of balloons in all our facilities except Lake Barrington, Illinois. We assemble Candyblossoms in our Lake Zurich, Illinois facility.

We warehouse raw materials at our plants in Lake Barrington, Illinois and Guadalajara, Mexico and we warehouse finished goods at our facilities in Lake Barrington, Illinois; Lake Zurich, Illinois; Guadalajara, Mexico; Rugby, England and Heusenstamm, Germany. We maintain customer service and fulfillment operations at each of our warehouse locations. We conduct sales operations for the United States and for all other markets, except those handled by our Mexico, Germany and England facilities, at the Lake Barrington, Illinois facility. Sales for Mexico and Latin

America are handled at our Guadalajara, Mexico facility; sales for the United Kingdom are handled at our Rugby, England facility; sales for Europe are conducted from our facilities in Heusenstamm, Germany. In addition to warehouse and sales activities at these locations, we engage in some assembly, balloon inflation and related activities.

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We maintain a graphic arts and development department at our Lake Barrington, Illinois facility which designs our balloon products and graphics. Our creative department operates a networked, computerized graphic arts system for the production of these designs and of printed materials including catalogues, advertisements and other promotional materials. As many of our products are custom designed or created to fulfill promotional schedules, we sometimes have excess inventory that must be sold at a discount or disposed of. Any such disposition will typically negatively impact our profit margin.

We conduct administrative and accounting functions at our headquarters in Lake Barrington, Illinois and at our facilities in Guadalajara, Mexico, Rugby, England and Heusenstamm, Germany.

Raw Materials

The principal raw materials we use in manufacturing our products are (i) petroleum or natural gas-based films, (ii) petroleum or natural gas-based resin, (iii) latex, and (iv) printing inks. The cost of raw materials represents a significant portion of the total cost of our products, with the result that fluctuations in the cost of raw materials have a material effect on our profitability. During the past several years, we have experienced significant fluctuations in the cost of these raw materials. We do not have any long-term agreements for the supply of raw materials and may experience wide fluctuations in the cost of raw materials in the future. Further, although we have been able to obtain adequate supplies of raw materials in the past, there can be no assurance that we will be able to obtain adequate supplies of one or more of our raw materials in the future.

Many of the foil balloons we produce and sell are intended to be filled with helium in order to be buoyant. Over the past several years, the price of helium has fluctuated substantially and the availability of helium has, on occasion, been limited. Limited availability or an increase in the cost of helium could adversely affect our sales of foil balloons in the future.

Competition

The balloon and novelty industry is highly competitive, with numerous competitors. We believe there are presently five principal manufacturers of foil balloons whose products are sold in the United States including Anagram International, Inc., Pioneer Balloon Company, Convertidora International S.A. de C.V., and Betallic, LLC. Several companies market and sell foil balloons designed by them and manufactured by others for them. In addition, there are several additional foil balloon manufacturers in Europe and China who participate in our markets.

We compete for the sale of latex balloons in the United States, Canada, Mexico, Latin America, the United Kingdom, Australia and Europe. There are a number of other companies situated in the United States, Mexico, Asia, South America and Europe who manufacture latex balloons and with whom we compete in the markets in which we participate. The markets are highly competitive with respect to price, quality and terms.

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Our company competes principally in the United States and Canada for the sale of vacuum sealing products. There are several companies who compete in those markets.

The market for films, packaging, flexible containers and custom products is fragmented, and competition in this area is difficult to gauge. However, there are numerous participants in this market and the Company can expect to experience intense quality and price competition.

Many of the companies in these markets offer products and services that are the same or similar to those offered by us and our ability to compete depends on many factors within and outside our control. There are a number of well-established competitors in each of our product lines, several of which possess substantially greater financial, marketing and technical resources and have established extensive, direct and indirect channels of distribution for their products and services. As a result, such competitors may be able to respond more quickly to new developments and changes in customer requirements, or devote greater resources to the development, promotion and sale of their products and services than we can. Competitive pressures include, among other things, price competition, new designs and product development and copyright licensing.

Patents, Trademarks and Copyrights

We have developed or acquired a number of intellectual property rights which we believe are significant to our business. As of December 31, 2017, we held 9 issued patents in the United States and 7 issued patents in foreign countries. Of these, 1 US patent is due to expire during 2018, while the other patents are not scheduled to expire until various times during the 2020s. While these intellectual property rights are helpful, their degree of protection is uncertain. Competitors may violate our intellectual property rights, forcing us to decide whether to challenge them. Such rights may or may not withstand challenge. Conversely, entities may charge us with violating their intellectual property rights. Failure to protect our rights, or conflict with the rights of one or more other entities, may negatively impact our financial and competitive position.

Proprietary Designs and Copyright Licenses. We design the shapes and graphic designs of most of our foil balloon products. We also maintain licenses on certain characters and designs for our balloon products.

Trademarks. We own five registered trademarks in the United States relating to our balloon products. Many of these trademarks are registered in foreign countries, principally in the European Union.

Patent Rights. We own, or have license rights under, or have applied for, patents related to our balloon products, certain film products and certain flexible container products. These include (i) several foil balloon design patents, (ii) patents and applications related to the design and structure of, and method of, inserting and affixing, zipper-closure systems in a bag, (iii) patents related to one-way valves for pouches, (iv) a patent related to methods of embossing film and utilizing such film to produce pouches with fitments, (v) a patent related to vacuumable storage bags with fitments, and (vi) a patent application related to vacuum sealing equipment.

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Research and Development

We maintain a product development and research group for the development or identification of new products, product designs, product components and sources of supply. Research and development includes (i) creative product development and design, (ii) creative marketing, and (iii) engineering development. During each of the fiscal years ended December 31, 2017 and 2016, we estimate that the total amount spent on research and development activities was approximately \$344,000 and \$496,000, respectively.

Employees

As of December 31, 2017, the Company had 105 full-time employees in the United States, of whom 19 are executive or supervisory, 3 are in sales, 62 are in manufacturing or warehouse functions and 21 are clerical. As of that same date, we had 17 full-time employees in England, of whom 1 is executive or supervisory, 4 are in sales, 11 are in warehousing and 1 is clerical. At Flexo Universal, our Mexico subsidiary, as of December 31, 2017, we had 335 full-time employees, of whom 8 are executive or supervisory, 16 are in the warehouse, 6 are in sales, 296 are in manufacturing and 9 are clerical. As of December 31, 2017, the Company had 7 full-time employees in Germany, of whom two are executive or supervisory, 1 is in warehousing and 4 are clerical. The Company is not a party to any collective bargaining agreement in the United States, has not experienced any work stoppages, and believes that its relationship with its employees is satisfactory.

Regulatory Matters

Our manufacturing operations in the United States are subject to the U.S. Occupational Safety and Health Act ("OSHA"). We believe we are in material compliance with OSHA. The Company generates liquid, gaseous and solid waste materials in its operations in Lake Barrington, Illinois and the generation, emission or disposal of such waste materials are, or may be, subject to various federal, state and local laws and regulations regarding the generation, emission or disposal of waste materials. We believe we are in material compliance with applicable environmental rules and regulations. Several states have enacted laws limiting or restricting the release of helium filled foil balloons. We do not believe such legislation will have any material effect on our operations.

In August 2012, the U.S. Securities and Exchange Commission (SEC) issued a rule under Section 1502 of the Dodd-Frank Wall Street Reform and Consumer Protection Act requiring companies to publicly disclose their use of conflict minerals that originated in the Democratic Republic of the Congo (DRC) or an adjoining country. Under the rule, issuers are required to conduct a reasonable country of origin inquiry and, if necessary, exercise due diligence process to ascertain the source of conflict minerals, defined as tantalum, tin, gold or tungsten, which are necessary to the functionality or production of their manufactured or contracted to be manufactured products. Companies are

required to provide this disclosure on Form SD. Companies were required to file Form SD on May 31, 2014 for the 2013 calendar period and annually on May 31 every year thereafter. The Company files Form SD annually.

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An increasing number of regulations and actions relate to the integrity and security of individually identifiable data. Additionally, we require the effective use of data in running our business. While we are not aware of losses in the past, access of such data by unauthorized persons may expose us to costs, fines, penalties, and loss of customer confidence.

International Operations

We conduct operations in three locations outside of the United States:

Flexo Universal, a 99%-owned subsidiary in Guadalajara, Mexico. Flexo Universal maintains a plant, offices and warehouse in Guadalajara, Mexico where we produce latex and foil balloons and print latex balloons. Flexo Universal conducts sales, warehousing and fulfillment operations, servicing principally the Company and other customers in the United States, our subsidiaries in the United Kingdom and Europe, customers in Mexico and Latin America and certain customers in Europe.

CTI Balloons, a wholly-owned subsidiary located in Rugby, England. CTI Balloons maintains offices and a warehouse in Rugby, conducts certain packaging and inflation activities there and conducts sales, warehousing and fulfillment activities for customers principally in the United Kingdom.

CTI Europe, a majority-owned subsidiary located in Heusenstamm, Germany. CTI Europe maintains offices and a warehouse in Heusenstamm, Germany (near Frankfurt), conducts certain packaging and inflation activities there and conducts sales, warehousing and fulfillment activities for customers principally in Europe.

We rely, and are dependent, on our operations in Mexico for the supply of latex balloons in the United States, Mexico, Europe and other markets. Interruption of that supply would have a materially adverse effect on the business of the Company.

Our domestic and international sales to outside customers and assets by area over the period 2016-2017 have been as follows:

United States	United Kingdom (UK)	Europe (Excluding Mexico UK)	Consolidated
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Year ended 12/31/17

Sales to outside customers	\$41,165,000	\$1,908,000	\$4,142,000	\$9,022,000	\$56,237,000
Total Assets	\$27,784,000	\$923,000	\$2,989,000	\$8,288,000	\$39,984,000

	United States	United Kingdom (UK)	Europe (Excluding Mexico)	Consolidated
Year ended 12/31/16				
Sales to outside customers	\$51,792,000	\$2,427,000	\$2,590,000	\$64,268,000
Total Assets	\$33,108,000	\$1,324,000	\$2,418,000	\$43,914,000

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Available Information

We maintain our corporate website at www.ctiindustries.com and we make available, free of charge, through this website our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports that we file with, or furnish to, the Securities and Exchange Commission (“SEC”), as soon as reasonably practicable after we electronically file that material with, or furnish it to, the SEC. You may also read and copy material filed by us with the SEC at the SEC’s Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549, and you may obtain information on the operation of the Public Reference Room by calling the SEC in the U.S. at 1-800-SEC-0330. In addition, the SEC maintains an Internet website, www.sec.gov, which contains reports, proxy and information statements and other information that we file electronically with the SEC. Our website also includes corporate governance information, including our Code of Ethics and our Board Committee Charters. The information contained on our website does not constitute a part of this report.

Item No. 1B – Unresolved Staff Comments

As of the filing of this Annual report on Form 10-K, we had no unresolved comments from the staff of the Securities and Exchange Commission.

Item No. 2 – Properties

We own our principal plant and offices located in Lake Barrington, Illinois, approximately 45 miles northwest of Chicago, Illinois. The facility includes approximately 68,000 square feet of office, manufacturing and warehouse space. This facility was subject to a mortgage loan with an initial principal of \$2,300,000 as of April 29, 2010, and a balance due of approximately \$1,664,000 when it was incorporated into our December 2017 refinancing.

In September 2012, we entered into a lease agreement, expiring on February 28, 2017 to rent approximately 118,000 square feet of warehouse and office space in Lake Zurich, Illinois. Effective March 1, 2017, this lease was renewed for three years, at a basic rental cost per month of:

<u>Lease period</u>	Amount per month
November 1, 2016 – February 28, 2017	\$36,000
March 1, 2017 – February 28, 2018	\$38,000

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March 1, 2018 – February 28, 2019	\$40,000
March 1, 2019 – February 29, 2020	\$42,000

In August 2015, CTI Balloons, entered into a 5-year lease agreement for approximately 9,000 square feet of office and warehouse space in Rugby, England at a cost of \$6,000 per month. This facility is utilized to warehouse balloon products and to manage and service the Company's operations in England.

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In August 2011, Flexo Universal entered into a 5-year lease agreement, expiring July 31, 2016, for the lease of approximately 73,000 square feet of manufacturing, warehouse and office space in Guadalajara, Mexico at a cost of \$22,000 per month. The lease was extended to February 28, 2017. Effective March 1, 2017, Flexo Universal entered into a five year lease for these premises at a cost of 493,090 Mexican Pesos per month (approximately \$26,000 per month).

On November 22, 2016, CTI Europe entered into a lease agreement for 13,000 square feet of office and warehouse space in Heusenstamm, Germany for a term commencing on February 1, 2017 and ending on February 1, 2022, at a rate per month of \$9,000.

We believe that our properties have been adequately maintained, are in generally good condition and are suitable for our business as presently conducted. We believe our existing facilities provide sufficient production capacity for our present needs and for our presently anticipated needs in the foreseeable future. We also believe that, with respect to leased properties, upon the expiration of our current leases, we will be able to either secure renewal terms or to enter into leases for alternative locations at market terms.

Item No. 3 – Legal Proceedings

The Company may be party to certain lawsuits or claims arising in the normal course of business. The ultimate outcome of these matters is unknown but, in the opinion of management, we do not believe any of these proceedings will have, individually or in the aggregate, a material adverse effect upon our financial condition, cash flows or future results of operation.

In July, 2017, God's Little Gift, Inc. (d\ba) Helium and Balloons Across America and Gary Page ("Claimants") filed an action against the Company in the North Carolina State Court. This action was removed to the United States District Court in North Carolina. The Company filed an answer and motion to dismiss this action. The Court stayed the action based upon an arbitration clause in the agreement on which part of the action was based. On December 18, 2017, Claimants filed an arbitration claim against the Company before the American Arbitration Association in Chicago, Illinois. The Statement of Claim includes claims for alleged breach of two agreements among the parties, essentially for alleged failure by the Company to pay disputed commission amounts. Claimants also included counts for alleged unjust enrichment and tortious interference with contract. The Company has filed a response to the Statement of Claim denying all of the claims. The Company believes the claims are without merit and intends to defend all of the claims vigorously. The Company has not accrued any amounts in respect of this matter and cannot estimate the possible loss, if any, that the Company may incur with respect to it, as the proceedings are at an early stage and discovery has not yet commenced.

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PART II

Item No. 5 – Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Market Information

The Company's Common Stock was admitted to trading on the NASDAQ SmallCap Market (now the NASDAQ Capital Market) under the symbol CTIB on November 5, 1997.

The high and low sales prices for the last eight fiscal quarters according to the NASDAQ Stock Market's Stock Price History Report were:

	High	Low
January 1, 2016 to March 30, 2016	6.56	4.61
April 1, 2016 to June 30, 2016	6.94	5.85
July 1, 2016 to September 30, 2016	7.60	5.75
October 1, 2016 to December 31, 2016	6.99	5.01
January 1, 2017 to March 30, 2017	6.83	5.55
April 1, 2017 to June 30, 2017	6.20	5.55
July 1, 2017 to September 30, 2017	6.00	3.83
October 1, 2017 to December 31, 2017	4.50	3.25

As of December 31, 2017 there were approximately 42 holders of record of the Company's Common Stock. The Company's total number of beneficial owners of common stock of the Company was approximately 459.

The Company did not pay any cash dividends on its Common Stock during 2017 or 2016. Under the terms of the Company's current loan agreements, the amount of dividends the Company may pay is limited by the terms of the financial covenants.

Item No. 7 – Management's Discussion and Analysis of Financial Condition and Results of Operations

Overview

The Company produces film products for novelty, packaging container and custom film product applications. These products include foil balloons, latex balloons and related latex toy products, films for packaging applications, flexible containers for packaging and storage applications and custom film products. We produce all of our film products for packaging and container applications at our facilities in Lake Barrington, Illinois. We produce all of our latex balloons and latex products at our facility in Guadalajara, Mexico. Substantially all of our film products for packaging applications and flexible containers for packaging and storage are sold to customers in the United States. We market and sell our novelty items – principally foil balloons and latex balloons – in the United States, Mexico, the United Kingdom and a number of additional countries. In addition, the Company assembles and sells Candy Blossoms (containers of arranged candy items) in the United States, distributes party goods in Mexico and provides home organization and container products to an affiliated company who markets and sells these products in the United States to a network of independent distributors. These additional products, and certain accessory products sold by the Company, are recorded as “Other Products” in the following product category table.

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Our revenues from each of our product categories in each of the past two years have been as follows:

Product Category	(000 Omitted)					
	2017	% of Net Sales		2016	% of Net Sales	
Foil Balloons	29,103	52	%	26,530	41	%
Latex Balloons	9,400	17	%	8,250	13	%
Vacuum Sealing Products	7,866	14	%	17,455	27	%
Film Products	2,602	4	%	4,856	8	%
Other Products	7,266	13	%	7,177	11	%
Total	56,237	100.0	%	64,268	100.0	%

Our primary expenses include the cost of products sold and selling, general and administrative expenses.

Cost of products sold primarily consists of expenses related to raw materials, labor, quality control and overhead expenses such as supervisory labor, depreciation, utilities expense and facilities expense directly associated with production of our products, warehousing and fulfillment expenses and shipping costs relating to the shipment of products to customers. Cost of products sold is impacted by the cost of the raw materials used in our products, the cost of shipping, along with our efficiency in managing the production of our products.

Selling, general and administrative expenses include the compensation and benefits paid to our employees, all other selling expenses, marketing, promotional expenses, travel and other corporate administrative expenses. These other corporate administrative expenses include professional fees, depreciation of equipment and facilities utilized in administration, occupancy costs, communication costs and other similar operating expenses. Selling, general and administrative expenses can be affected by a number of factors, including staffing levels and the cost of providing competitive salaries and benefits, the cost of regulatory compliance and other administrative costs.

Purchases by a limited number of customers represent a significant portion of our total revenues. In 2017, sales to our top 10 customers represented 65% of net revenues. During 2017 and 2016, there were two customers to whom our sales represented more than 10% of net revenues.

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Our principal customer sales for 2017 and 2016 were:

Customer	Product	2017 Sales	% of	2016 Sales	% of
			2017		2016
			Revenues		Revenues
Wal-Mart	Vacuum Sealing Products; Balloons	\$9,524,000	16.9 %	\$17,990,000	28.0 %
Dollar Tree Stores	Balloons	\$15,481,000	27.5 %	\$15,802,000	24.6 %

The loss of one or both of these principal customers, or a significant reduction in purchases by one or both of them, could have a material adverse effect on our business.

We generally do not have agreements with our customers under which customers are obligated to purchase any specific or minimum amount of product from us.

Year Ended December 31, 2017 Compared to Year Ended December 31, 2016Net Sales

For the fiscal year ended December 31, 2017, consolidated net sales from the sale of all products were \$56,237,000 compared to consolidated net sales of \$64,268,000 for the year ended December 31, 2016, a decrease of 12.5%.

Sales of foil balloons were \$26,530,000 in 2016 and \$29,103,000 in 2017, an increase of 9.7%. Our largest customer for foil balloons was Dollar Tree Stores. The remaining sales were made to nearly 900 customers including distributors and retail stores or chains in the United States, Canada, Mexico, the United Kingdom, Europe and Latin America. Sales to these other customers increased by 50.9% from \$10,762,000 in 2016 to \$16,245,000 in 2017.

Sales of latex balloons were \$8,250,000 in 2016 and \$9,400,000 in 2017, an increase of 13.9%.

Sales of vacuum sealing products including pouch and related products and vacuum sealing machines were \$17,455,000 in 2016 and \$7,866,000 in 2017, a decrease of 54.9%. Our sales of vacuum sealing systems during 2016 and 2017 have been made principally to two retail chains in the United States. In 2016, \$7.85 million of our sales of vacuum sealing systems were to one retail chain for a promotional sales program at that chain in November 2016. This event was not repeated during 2017. Additionally, 2017 revenue was negatively impacted by that large program during November 2016.

Sales of film products were \$4,856,000 in 2016 and \$2,602,000 in 2017, a decrease of 46.4%. Approximately 95% of these sales were to Rapak, L.L.C. but includes sales to four other customers.

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Sales of other products increased from \$7,177,000 in 2016 to \$7,266,000 in 2017, an increase of 1.2%. This category includes (i) sales of helium and accessory items for our balloon products, (ii) sales of Candy Blossoms, (iii) sales by Clever Container Company, L.L.C. which engages in the direct sale of container and organizing products through a network of independent distributors and (iv) sales of party goods in Mexico by Flexo Universal.

Cost of Sales

Cost of sales decreased from \$47,149,000 in 2016 to \$42,482,000 in 2017. The decrease in total sales was the primary reason for this decrease. Additionally, the reduction in sales volume negatively impacted our ability to absorb fixed/overhead costs.

General and Administrative Expenses

General and administrative expenses increased from \$7,378,000 in 2016 to \$7,657,000 in 2017. Costs associated with extending our prior credit facility until we secured our new credit facility in December 2017, and subsequently resolving our prior credit facility, was the primary cause of this net increase.

Selling

Selling expenses decreased from \$4,748,000 in 2016 to \$3,638,000 in 2017. Spending on external consultants and related commissions and royalties decreased, both related to sales volume and due to changes in structure and design.

Other Income or Expense

During 2017, we incurred net interest expense of \$1,576,000 compared to net interest expense of \$1,455,000 during 2016. Total borrowings were higher during 2017, and interest rates in the United States increased during 2017, which impacted the Company's floating rate facilities.

During 2017, we realized a foreign currency loss in the amount of \$145,000 compared to foreign currency gain in 2016 of \$43,000.

Income Taxes

In 2017, the Company income tax expense, on a consolidated basis, totaled \$712,000, compared to \$703,000 in 2016. Due to changes in U.S. tax law, we recorded a valuation reserve of \$0.6 million related to foreign tax credits that may no longer be useable in the future as a result of this legislation.

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Financial Condition, Liquidity and Capital Resources

Cash Provided By Operating Activities During fiscal 2017, cash provided by operating activities amounted to \$1,259,000, compared to cash used in operating activities during fiscal 2016 of \$449,000. Significant changes in working capital items affecting cash flow used in operating activities were:

Depreciation and amortization of \$1,659,000 compared to depreciation and amortization for 2016 of \$1,592,000.

An increase in inventories of \$222,000 compared to an increase of inventories of \$1,364,000 in 2016.

A decrease in accounts receivable of \$3,878,000 compared to an increase in accounts receivable of \$4,083,000 in 2016.

An increase in prepaid expenses and other assets of \$690,000 compared to a decrease in prepaid expenses and other assets of \$473,000 in 2016.

A decrease in trade payables of \$564,000 compared to an increase in trade payables of \$2,070,000 in 2016.

Cash Used In Investing Activities During fiscal 2017, cash used in investing activities amounted to \$753,000 compared to cash provided by investing activities during fiscal 2016 of \$65,000.

Cash Provided By Financing Activities During fiscal 2017, cash provided by financing activities amounted to \$302,000, compared to cash provided by financing activities of \$681,000 during fiscal 2016.

Until December 2017, we had in place a series of credit facility and related agreements with BMO Harris Bank, N.A. and BMO Private Equity (U.S.), (collectively, “BMO”), in the aggregate amount of approximately \$17 million. During December 2017, we terminated those agreements and fully repaid all amounts owed to BMO under those agreements, including associated fees and costs related to termination, as we entered in new financing agreements with PNC Bank, National Association (“PNC”). The “PNC Agreements” include a \$6 million term loan and an \$18 million revolving credit facility, with a termination date of December 2022.

Available credit under the Revolving Credit facility is determined by eligible receivables and inventory at CTI Industries (U.S.) and Flexo Universal (Mexico).

Certain terms of the PNC Agreements include:

Restrictive Covenants: The Credit Agreement includes several restrictive covenants under which we are prohibited from, or restricted in our ability to:

- o Borrow money;
- o Pay dividends and make distributions;
- o Make certain investments;
- o Use assets as security in other transactions;
- o Create liens;
- o Enter into affiliate transactions;
- o Merge or consolidate; or
 - o Transfer and sell assets.

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Financial Covenants: The Credit Agreement includes a series of financial covenants we are required to meet including:

We are required to maintain a "Leverage Ratio", which is defined as the ratio of (a) Funded Debt (other than the Shareholder Subordinated Loan) as of such date of determination to (b) EBITDA (as defined in the PNC Agreements) for the applicable period then ended. The highest values for this ratio allowed by the PNC Agreements are:

Fiscal Quarter Ratio

December 31, 2017	4.75 to 1.00
March 31, 2018	4.50 to 1.00
June 30, 2018	4.25 to 1.00
September 30, 2018	3.75 to 1.00
December 31, 2018	3.50 to 1.00
March 31, 2019	3.25 to 1.00
June 30, 2019	3.00 to 1.00
September 30, 2019 and thereafter	2.75 to 1.00

We are required to maintain a "Fixed Charge Coverage Ratio", which is defined as the ratio of (a) EBITDA for such fiscal period, minus Unfinanced Capital Expenditures made during such period, minus distributions (including tax distributions) and dividends made during such period, minus cash taxes paid during such period to (b) all Debt Payments made during such period. This ratio must not exceed 1.1 : 1.0 for any quarterly calculation.

The credit agreement provides for interest at varying rates in excess of the prime rate, depending on the level of senior debt to EBITDA over time. We also entered into a swap agreement with PNC Bank to fix the interest for \$3 million over 3 years.

On September 30, 2016, John H. Schwan advanced to the Company the sum of \$530,000 and on the same date, Stephen M. Merrick advanced to the Company the sum of \$370,000 to provide short-term working capital to the Company to fund the Company's obligation to purchase and produce inventory for a substantial order for vacuum sealing systems to be delivered in November 2016. In consideration of such advances, the Company issued a Promissory Note to Mr. Schwan in the principal amount of \$530,000 and to Mr. Merrick in the amount of \$370,000 dated September 30, 2016 and bearing interest at the rate of 6% per annum. The principal balance of these notes was paid in December 2016 and January 2017.

As of December 2017, Mr. Schwan was owed a total of \$1,099,091, with additional accrued interest of \$399,731, by the Company. As part of the December 2017 financing with PNC, Mr. Schwan executed a subordination agreement related to these amounts due him, as evidenced by a related note.

Current Assets. As of December 31, 2017, the total current assets of the Company were \$32,291,000, compared to total current assets of \$34,959,000 at December 31, 2016.

Current Liabilities. Total current liabilities decreased from \$23,880,000 as of December 31, 2016 to \$22,661,000 as of December 31, 2017.

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Liquidity and Capital Resources; Working Capital. As of December 31, 2017, our current assets exceeded our current liabilities by \$9,630,000; we had cash and cash equivalents of \$181,000 and the potential for additional credit under our PNC Agreements. Management believes that these available funds, our internally generated funds and the borrowing capacity under our revolving line of credit facility will be sufficient to meet working capital requirements for the remainder of 2018. We believe that the financial covenants in the PNC Agreements will be challenging for the Company to meet unless and until it begins performing at a higher level, and any failure could result in a higher rate of interest (2% higher default rate) or other penalties up to and including the potential loss of the facility. Any such result could negatively impact the value of the facility on our liquidity, and if left uncorrected, ultimately impact our ability to continue as a going concern.

CTI Industries Corporation Stockholders' Equity. Stockholders' equity was \$11,364,000 as of December 31, 2017 compared to \$12,717,000 as of December 31, 2016.

Seasonality

In the foil balloon product line, sales have historically been seasonal with approximately 40% occurring in the period from December through March of the succeeding year and 24% being generated in the period July through October in recent years. Vacuum sealing product sales are also seasonal; approximately 60% of sales in this product line occur in the period from July through December.

Critical Accounting Policies

The financial statements of the Company are based on the selection and application of significant accounting policies which require management to make various estimates and assumptions. The following are some of the more critical judgment areas in the application of our accounting policies that currently affect our financial condition and results of operation.

Revenue Recognition. Substantially all of the Company's revenues are derived from the sale of products. With respect to the sale of products, revenue from a transaction is recognized when (i) persuasive evidence of an arrangement exists, (ii) delivery of the product has occurred, (iii) the price to the buyer has been fixed or is determinable, and (iv) collectability is reasonably assured. The Company generally recognizes revenue for the sale of products when the products have been shipped and invoiced. In some cases, product is provided on consignment to customers. In those cases, revenue is recognized when the customer reports a sale of the product.

Allowance for Doubtful Accounts. We estimate our allowance for doubtful accounts based on an analysis of specific accounts, an analysis of historical trends, payment and write-off histories. Our credit risks are continually reviewed and management believes that adequate provisions have been made for doubtful accounts. However, unexpected changes in the financial condition of customers or changes in the state of the economy could result in write-offs which exceed estimates and negatively impact our financial results.

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Inventory Valuation. Inventories are stated at the lower of cost or net realizable value. Cost is determined using standard costs which approximate costing determined on a first-in, first out basis. Standard costs are reviewed and adjusted at the time of introduction of a new product or design, periodically and at year-end based on actual direct and indirect production costs. On a periodic basis, the Company reviews its inventory levels for estimated obsolescence or unmarketable items, in reference to future demand requirements and shelf life of the products. As of December 31, 2017, the Company had established a reserve for obsolescence, marketability or excess quantities with respect to inventory in the aggregate amount of \$500,000. As of December 31, 2016, the amount of the reserve was \$794,000. In addition, on a periodic basis, the Company disposes of inventory deemed to be obsolete or unsaleable and, at such time, charges reserve for the value of such inventory. We record freight income as a component of net sales and record freight costs as a component of cost of goods sold.

Valuation of Long-Lived Assets. We evaluate whether events or circumstances have occurred which indicate that the carrying amounts of long-lived assets (principally property and equipment and goodwill) may be impaired or not recoverable. Significant factors which may trigger an impairment review include: changes in business strategy, market conditions, the manner of use of an asset, underperformance relative to historical or expected future operating results, and negative industry or economic trends. We apply the provisions of generally accepted accounting principles in the United States of America (“U.S. GAAP”) U.S. GAAP, under which goodwill is evaluated at least annually for impairment. We performed a quantitative assessment for the year ended December 31, 2017 in which we considered the assets and liabilities of the Company as one operating segment, both recognized and unrecognized, as well as the cash flows necessary to operate the business relating to the assets and liabilities. We conducted a quantitative assessment of our goodwill in our consolidated balance sheet for the year ended December 31, 2016. From this quantitative assessment and from the quantitative assessment for December 31, 2017, we determined the fair value of the subsidiary exceeds the carrying amount initially recorded, and was therefore not impaired.

Foreign Currency Translation. All balance sheet accounts are translated using the exchange rates in effect at the balance sheet date. Statements of operations amounts are translated using the average exchange rates for the year-to-date periods. The gains and losses resulting from the changes in exchange rates during the period have been reported in other comprehensive income or loss, except that, on November 30, 2012, the Company determined that it does have an expectation of receiving payment with respect to indebtedness of Flexo Universal to the Company, and accordingly, as of and after that date foreign currency gains and losses with respect to such indebtedness will be reported in the statement of operations.

Stock-Based Compensation. We follow U.S. GAAP which requires all stock-based payments to employees, including grants of employee stock options, to be recognized in the consolidated financial statements based on their grant-date fair values.

We use the Black-Scholes option pricing model to determine the fair value of stock options which requires us to estimate certain key assumptions. In accordance with the application of U.S. GAAP, we incurred employee stock-based compensation cost of \$21,000 for the year ended December 31, 2017. At December 31, 2017, we had \$364,000 of unrecognized compensation cost relating to stock options.

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On July 17, 2012, the Company issued detachable warrants in connection with the Note and Warrant Purchase Agreement with BMO Equity. The fair value of the detachable warrants was estimated on the date of the grant using the Black-Scholes option-pricing model. Changes in the fair value of the warrants were recognized in the consolidated statement of operations.

Income Taxes and Deferred Tax Assets. Income taxes are accounted for as prescribed in U.S. GAAP. Under the asset and liability method of U.S. GAAP, the Company recognizes the amount of income taxes currently payable. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities, and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years these temporary differences are expected to be recovered or settled.

We evaluate all available positive and negative evidence in each tax jurisdiction regarding the recoverability of any asset recorded in our Consolidated Balance Sheets and provide valuation allowances to reduce our deferred tax assets to an amount we believe is more likely than not to be realized. We regularly review our deferred tax assets for recoverability considering historical profitability, our ability to project future taxable income, the expected timing of the reversals of existing temporary differences and tax planning strategies. If we continue to operate at a loss in certain jurisdictions or are unable to generate sufficient future taxable income within the defined lives of such assets, we could be required to increase our valuation allowance against all or a significant portion of our deferred tax assets. This increase in valuation allowance could result in substantial increases in our effective tax rate and could have a material adverse impact on our operating results. Conversely, if and when our operations in some jurisdictions become sufficiently profitable before what we have estimated in our current forecasts, we would be required to reduce all or a portion of our current valuation allowance and such reversal would result in an increase in our earnings in such period.

As of December 31, 2017, the Company had net deferred tax assets of \$1,102,000 representing the amount the Company may recover in future years from future taxable income. As of December 31, 2016, the amount of the net deferred tax asset was \$1,697,000. Each quarter and year-end, management makes a judgment to determine the extent to which the deferred tax asset will be recovered from future taxable income. This value was reduced, in large part, due to changes in US tax law effective 2018 which will impact the value of future deductions.

Fair Value Measurements. U.S. GAAP defines fair value, establishes a framework for measuring fair value, establishes a fair value hierarchy based on the quality of inputs used to measure fair value and enhances disclosure requirements for fair value measurements. U.S. GAAP clarifies that fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. U.S. GAAP also requires that a fair value measurement reflect the assumptions market participants would use in pricing an asset or liability based upon the best information available. In February 2008, the FASB issued guidance now codified in U.S. GAAP which provides for delayed application of certain guidance related to non-financial assets and non-financial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually).

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Item No. 7A – Qualitative and Quantitative Disclosures Regarding Market Risk

Not applicable.

Item No. 8 – Financial Statements and Supplementary Data

Reference is made to the Consolidated Financial Statements contained in Part IV hereof.

Item No. 9 – Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item No. 9A – Controls and Procedures

Disclosure Controls and Procedures

As required by Rule 13a-15(b) under the Exchange Act, we conducted an evaluation, under the supervision and with the participation of our management, including our Principal Executive Officer and Principal Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of December 31, 2017, the end of the period covered by this report. Based upon that evaluation, the Principal Executive Officer and Principal Financial Officer concluded that our disclosure controls and procedures were effective as of December 31, 2017, to ensure that the information required to be disclosed by us in the reports that we file or submit under Security Exchange Act of 1934, as amended, (a) is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and (b) is accumulated and communicated to our management, including officers, as appropriate, to allow for timely decisions regarding required disclosure. There were no material changes in our internal control over financial reporting during the fourth quarter of 2017 that have materially affected or are reasonably likely to materially affect our internal controls over financial reporting.

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Management's Report on Internal Control over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles. Internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of assets; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. generally accepted accounting principles, and that receipts and expenditures are being made only in accordance with authorizations of the management and the Board; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of Company assets that could have a material effect on the financial statements.

Our management conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in Internal Control – Integrated Framework issued by the Committee Sponsoring Organizations of the Treadway Commission. This evaluation included review of the documentation of controls, evaluation of the design effectiveness of controls, testing of the operation effectiveness of controls and a conclusion on this evaluation. Although there are inherent limitations in the effectiveness of any system of internal controls over financial reporting, based on our evaluation, management has concluded our internal controls over financial reporting were effective as of December 31, 2017.

This annual report does not include an attestation report of the company's registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the company's registered public accounting firm pursuant to temporary rules of the Securities and Exchange Commission that permit the company to provide only management's report in this annual report.

Item No. 9B – Other Information

None

PART III

Item No. 10 – Directors and Executive Officers of the Registrant

Information called for by Item 9 of Part III is incorporated by reference to the definitive Proxy Statement for the 2018 Annual Meeting of Shareholders which is expected to be filed with the Commission within 120 days after December 31, 2017.

Item No. 11 – Executive Compensation

Information called for by Item 10 of Part III is incorporated by reference to the definitive Proxy Statement for the 2018 Annual Meeting of Shareholders which is expected to be filed with the Commission within 120 days after December 31, 2017.

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Item No. 12 – Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

Information called for by Item 11 of Part III is incorporated by reference to the definitive Proxy Statement for the 2018 Annual Meeting of Shareholders which is expected to be filed with the Commission within 120 days after December 31, 2017.

Item No. 13 – Certain Relationships and Related Transactions

Information called for by Item 12 of Part III is incorporated by reference to the definitive Proxy Statement for the 2018 Annual Meeting of Shareholders which is expected to be filed with the Commission within 120 days after December 31, 2017.

Item No. 14 – Principal Accountant Fees and Services

Information called for by Item 13 of Part III is incorporated by reference to the definitive Proxy Statement for the 2018 Annual Meeting of Shareholders which is expected to be filed with the Commission within 120 days after December 31, 2017.

PART IV

Item No. 15 – Exhibits and Financial Statement Schedules

¹ The Consolidated Financial Statements filed as part of this report on Form 10-K are listed on the accompanying Index to Consolidated Financial Statements and Consolidated Financial Statement Schedules.

2. Financial schedules required to be filed by Item 8 of this form, and by Item 15(d) below:

Schedule II Valuation and qualifying accounts

All other financial schedules are not required under the related instructions or are inapplicable and therefore have been omitted.

3.Exhibits:

Exhibit

Document

Number

- 3.1 Restated Articles of Incorporation (Incorporated by reference to Exhibit A to Registrant's Schedule 14A Definitive Proxy Statement filed April 29, 2015).
- 3.2 Amended and Restated By-Laws of CTI Industries Corporation (Incorporated by reference to Exhibit 3.2, contained in Registrant's Form 8-K filed on March 17, 2017).
- 4.1 Form of CTI Industries Corporation's common stock certificate (Incorporated by reference to Exhibit 4.1 contained in Registrant's Report on Form 10-K dated March 31, 2017).

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- 10.1 CTI Industries Corporation 2002 Stock Option Plan (Incorporated by reference to Appendix A contained in Registrant's Schedule 14A Definitive Proxy Statement, as filed with the Commission on May 15, 2002).
- 10.2 CTI Industries Corporation 2009 Stock Incentive Plan (Incorporated by reference to Schedule A contained in Registrant's Schedule 14A Definitive Proxy Statement, as filed with the Commission on April 30, 2009).
- 10.3 Credit Agreement between Harris N.A. and CTI Industries Corporation dated April 29, 2010 (Incorporated by reference to Exhibit 10.2 contained in Registrant's Report on Form 10-Q dated May 14, 2010).
- 10.4 Mortgage and Security Agreement between Harris N.A. and the Company dated April 29, 2010 (Incorporated by reference to Exhibit 10.3 contained in Registrant's Report on Form 10-Q dated May 14, 2010).
- 10.5 Security Agreement between Harris N.A. and the Company dated April 29, 2010 (Incorporated by reference to Exhibit 10.4 contained in Registrant's Report on Form 10-Q dated May 14, 2010).
- 10.6 Pledge Agreement between Harris N.A. and the Company dated April 29, 2010 (Incorporated by reference to Exhibit 10.5 contained in Registrant's Report on Form 10-Q dated May 14, 2010).
- 10.7 Trademark License Agreement between S.C. Johnson & Son, Inc. and the Company dated December 14, 2011 (Incorporated by reference to Exhibit 10.14 contained in Registrant's Report on Form 10-K dated March 29, 2012).
- 10.8 Third Amendment to Credit Agreement between BMO Harris Bank, N.A. and the Company dated July 17, 2012 (Incorporated by reference to Exhibit 10.1 contained in Registrant's Report on Form 10-Q dated August 14, 2012).
- 10.9 Replacement Revolving Note between BMO Harris Bank, N.A. and the Company dated July 17, 2012 (Incorporated by reference to Exhibit 10.2 contained in Registrant's Report on Form 10-Q dated August 14, 2012).
- 10.10 Note and Warrant Purchase Agreement between BMO Private Equity, Inc. and the Company dated July 17, 2012 (Incorporated by reference to Exhibit 10.3 contained in Registrant's Report on Form 10-Q dated August 14, 2012).
- 10.11 Warrant Agreement between BMO Private Equity (U.S.), Inc. and the Company dated July 17, 2012 (Incorporated by reference to Exhibit 10.4 contained in Registrant's Report on Form 10-Q dated August 14, 2012).
- 10.12 Senior Secured Subordinated Promissory Note between BMO Private Equity (U.S.), Inc. and the Company dated July 17, 2012 (Incorporated by reference to Exhibit 10.5 contained in Registrant's Report on Form 10-Q dated August 14, 2012).

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- 10.13 Lease Agreement between Schultz Bros. Co. and the Company dated September 19, 2012 (Incorporated by reference to Exhibit 10.8 contained in Registrant’s Report on Form 10-Q dated November 14, 2012).
- 10.14 Fourth Amendment to Credit Agreement between BMO Harris Bank, N.A. and the Company dated April 12, 2013. (Incorporated by reference to Exhibit 10.1 contained in Registrant’s Report on Form 10-Q dated May 15, 2013).
- 10.15 First Amendment to Note and Warrant Purchase Agreement between BMO Private Equity (U.S.), Inc. and the Company dated April 12, 2013. (Incorporated by reference to Exhibit 10.2 contained in Registrant’s Report on Form 10-Q dated May 15, 2013).
- 10.16 Consignment and Pay by Scan Agreement between Food Lion L.L.C. and CTI Supply, Inc. dated December 10, 2014. (Incorporated by reference to Exhibit 10.18 contained in Registrant’s Report on Form 10-K dated March 30, 2015).
- 10.17 Fifth Amendment to Credit Agreement between BMO Harris Bank, N.A. and the Company dated December 23, 2014. (Incorporated by reference to Exhibit 10.19 contained in Registrant’s Report on Form 10-K dated March 30, 2015).
- 10.18 Second Amendment to Note and Warrant Purchase Agreement between BMO Private Equity (U.S.), Inc. and the Company dated December 23, 2014. (Incorporated by reference to Exhibit 10.20 contained in Registrant’s Report on Form 10-K dated March 30, 2015).
- 10.19 Sixth Amendment to Credit Agreement between BMO Harris Bank, N.A. and the Company dated October 13, 2015 (Incorporated by reference to Exhibit 10.1 contained in Registrant’s Report on Form 10-Q dated November 12, 2015).
- 10.20 Eighth Amendment to Credit Agreement between BMO Harris Bank, N.A. and the Company dated August 8, 2016 (Incorporated by reference to Exhibit 10.1 contained in Registrant’s Report on Form 10-Q dated August 22, 2016).
- 10.21 Replacement Revolving Note between BMO Harris Bank, N.A. and the Company dated August 8, 2016 (Incorporated by reference to Exhibit 10.2 contained in Registrant’s Report on Form 10-Q dated August 22, 2016).
- 10.22 Third Amendment to Note and Warrant Purchase Agreement between BMO Private Equity (U.S.), Inc. and the Company dated August 8, 2016 (Incorporated by reference to Exhibit 10.3 contained in Registrant’s Report on Form 10-Q dated August 22, 2016).
- 10.23 Securities Purchase Agreement between [Purchaser] and the Company (Incorporated by reference to Exhibit 10.4 contained in Registrant’s Report on Form 10-Q dated August 22, 2016).

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- 10.24 Stock Purchase Warrant to Purchase Common Stock of CTI Industries Corporation (Incorporated by reference to Exhibit 10.5 contained in Registrant’s Report on Form 10-Q dated August 22, 2016).
- 10.25 Registration Rights Agreement between [Purchaser] and the Company (Incorporated by reference to Exhibit 10.6 contained in Registrant’s Report on Form 10-Q dated August 22, 2016).
- 10.26 Promissory Note between CTI Industries and Stephen M. Merrick dated September 30, 2016 (Incorporated by reference to Exhibit 10.1 contained in Registrant’s Report on Form 10-Q dated November 14, 2016).
- 10.27 Promissory Note between CTI Industries and John H. Schwan dated September 30, 2016 (Incorporated by reference to Exhibit 10.2 contained in Registrant’s Report on Form 10-Q dated November 14, 2016).
- 10.28 Ninth Amendment to Credit Agreement between BMO Harris Bank, N.A. and the Company dated September 30, 2016 (Incorporated by reference to Exhibit 10.3 contained in Registrant’s Report on Form 10-Q dated November 14, 2016).
- 10.29 Fourth Amendment to Note and Warrant Purchase Agreement between BMO Private Equity (U.S.), Inc. and the Company dated September 30, 2016 (Incorporated by reference to Exhibit 10.4 contained in Registrant’s Report on Form 10-Q dated November 14, 2016).
- 10.30 Subordination Agreement between CTI Industries, Stephen M. Merrick, John H. Schwan and BMO Harris Bank, N.A. effective September 30, 2016 (Incorporated by reference to Exhibit 10.5 contained in Registrant’s Report on Form 10-Q dated November 14, 2016).
- 10.31 Subordination Agreement between CTI Industries, Stephen M. Merrick, John H. Schwan and BMO Private Equity (U.S.), Inc. effective September 30, 2016 (Incorporated by reference to Exhibit 10.6 contained in Registrant’s Report on Form 10-Q dated November 14, 2016).
- 10.32 Amendment No. 10 to Credit Agreement between BMO Harris Bank, N.A., BMO Private Equity (U.S.) Inc. and the Company dated July 28, 2017 (Incorporated by reference to Exhibit 10.1, contained in Registrant’s Form 10-Q filed on August 14, 2017).
- 10.33 Consent and Acknowledgment among BMO Harris Bank, N.A. and the Company dated July 28, 2017 (Incorporated by reference to Exhibit 10.2, contained in Registrant’s Form 10-Q filed on August 14, 2017).
- 10.34 Amendment No. 5 to Note and Warrant Purchase Agreement between BMO Private Equity (U.S.) Inc. and the Company dated July 28, 2017 (Incorporated by reference to Exhibit 10.3, contained in Registrant’s Form 10-Q filed on August 14, 2017).
- 10.35 Senior Secured Subordinated Warrant Conversion Note between BMO Private Equity (U.S.) Inc. and the Company dated August 17, 2017 (Incorporated by reference to Exhibit 10.1, contained in Registrant’s Form 10-Q filed on November 14, 2017).
- 10.36 Amendment No. 11 to Credit Agreement between BMO Harris Bank, N.A., BMO Private Equity (U.S.) Inc. and the Company dated October 17, 2017 (Incorporated by reference to Exhibit 10.2, contained in Registrant’s Form 10-Q filed on November 14, 2017).
- 10.37 Amendment No. 6 to Note and Warrant Purchase Agreement between BMO Private Equity (U.S.) Inc. and the Company dated October 17, 2017 (Incorporated by reference to Exhibit 10.3, contained in Registrant’s Form 10-Q filed on November 14, 2017).
- 10.38 Employment Agreement between Jeffrey S. Hyland and the Company dated December 1, 2017 (filed herewith).
- 10.39 Revolving Credit, Term Loan, and Security Agreement dated December 14, 2017 (Incorporated by reference to Exhibit 10.1, contained in Registrant’s Form 8-K filed on December 19, 2017).
- 10.40 Revolving Credit Note dated December 14, 2017 (Incorporated by reference to Exhibit 10.2, contained in Registrant’s Form 8-K filed on December 19, 2017).
- 10.41 Term Note dated December 14, 2017 (Incorporated by reference to Exhibit 10.3, contained in Registrant’s Form 8-K filed on December 19, 2017).
- 10.42 Promissory Note dated December 14, 2017 (Incorporated by reference to Exhibit 10.4, contained in Registrant’s Form 8-K filed on December 19, 2017).
- 10.43 Real Property Mortgage dated December 14, 2017 (Incorporated by reference to Exhibit 10.5, contained in Registrant’s Form 8-K filed on December 19, 2017).

- 10.44 Subordination Agreement dated December 14, 2017 (Incorporated by reference to Exhibit 10.6, contained in Registrant's Form 8-K filed on December 19, 2017).
- 14 Code of Ethics (Incorporated by reference to Exhibit contained in the Registrant's Form 10-K/A Amendment No. 2, as filed with the Commission on October 13, 2004).
- 21 Subsidiaries (description incorporated in Form 10-K under Item No. 1).
- 23.1 Consent of Independent Registered Public Accounting Firm, Plante & Moran, PLLC.
- 31.1 Certification of Chief Executive Officer pursuant to Rule 13a-14(a) and rule 15d-14(a) of the Securities Exchange Act, as amended (filed herewith).

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31.2 Certification of Chief Financial Officer pursuant to Rule 13a-14(a) and rule 15d-14(a) of the Securities Exchange Act, as amended (filed herewith).

32 Certification of Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith).

99 Audited financial statements of the Company's subsidiary, Flexo Universal, S. de R.L. de C.V. for the year ended December 31, 2017.

101 Interactive Data Files, including the following materials from the Company's Annual Report on Form 10-K for the year ended December 31, 2017, formatted in XBRL: (i) the Consolidated Balance Sheets, (ii) the Consolidated Statements of Operations, (iii) the Consolidated Statements of Cash Flows, and (iv) the Notes to Consolidated Financial Statements.

(a) The Exhibits listed in subparagraph (a)(3) of this Item 15 are attached hereto unless incorporated by reference to a previous filing.

(b) The Schedule listed in subparagraph (a)(2) of this Item 15 is attached hereto.

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In accordance with Section 13 or 15(d) of the Exchange Act the Registrant caused this report to be signed on its behalf by the undersigned thereunto duly authorized on April 2, 2018.

CTI INDUSTRIES CORPORATION

By: /s/ Stephen M. Merrick

Stephen M. Merrick, Chief Executive Officer

In accordance with the Exchange Act, this report has been signed below by the following persons on behalf of the Registrant in the capacities and on the dates indicated.

Signatures	Title	Date
<u>/s/ Stephen M. Merrick</u> Stephen M. Merrick	Chief Executive Officer, Secretary and Director	April 2, 2018
<u>/s/ Jeffrey S. Hyland</u> Jeffrey S. Hyland	President and Director	April 2, 2018
<u>/s/ Frank J. Cesario</u> Frank J. Cesario	Chief Financial Officer	April 2, 2018
<u>/s/ John H. Schwan</u> John H. Schwan	Chairman of the Board	April 2, 2018
<u>/s/ Stanley M. Brown</u> Stanley M. Brown	Director	April 2, 2018
<u>/s/ Bret Tayne</u> Bret Tayne	Director	April 2, 2018
<u>/s/ John L. Collins</u>	Director	April 2, 2018

John I. Collins

/s/ John Klimek

Director

April 2, 2018

John Klimek

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CTI Industries Corporation
and Subsidiaries

Consolidated Financial Statements

Years ended December 31, 2017 and 2016

Contents

Consolidated Financial Statements:

<u>Report of Independent Registered Public Accounting Firm</u>	F-1
<u>Consolidated Balance Sheets as of December 31, 2017 and 2016</u>	F-2
<u>Consolidated Statements of Comprehensive Income for the years ended December 31, 2017 and 2016</u>	F-3
<u>Consolidated Statements of Stockholders' Equity as of December 31, 2017 and 2016</u>	F-4
<u>Consolidated Statements of Cash Flows for the years ended December 31, 2017 and 2016</u>	F-5
<u>Notes to Consolidated Financial Statements for the years ended December 31, 2017 and 2016</u>	F-6

Financial Statement Schedule:

<u>Schedule II – Valuation and Qualifying Accounts for the years ended December 31, 2017 and 2016</u>	F-27
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All other schedules for which a provision is made in the applicable accounting regulation of the Securities and Exchange Commission are not required under the related instructions or are inapplicable and, therefore, have been omitted.

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Report of Independent Registered Public Accounting Firm

To the Stockholders and Board of Directors of CTI Industries Corporation and Subsidiaries

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of CTI Industries Corporation and Subsidiaries (the “Company”) as of December 31, 2017, and 2016, and the related consolidated statements of comprehensive income, stockholders' equity, and cash flows for each of the years in the two-year period ended December 31, 2017 and 2016 and the related notes and financial Schedule II – Valuation and Qualifying Accounts (collectively referred to as the “consolidated financial statements”). We did not audit the 2017 or 2016 financial statements of Flexo Universal S. de R.L. de C.V., a 99.82 percent owned subsidiary, whose statements reflect total assets and revenue constituting 21 percent and 16 percent of the related consolidated totals, respectively, as of and for the year ended December 31, 2017, and total assets and revenue constituting 19 percent and 14 percent of the related consolidated totals as of and for the year ended December 31, 2016. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for Flexo Universal S. de R.L. de C.V., is based solely on the report of the other auditors. In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2017, and 2016 and the results of its operations and its cash flows for each of the years in the two-year period ended December 31, 2017 and 2016 in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

The Company’s management is responsible for these consolidated financial statements. Our responsibility is to express an opinion on the Company’s consolidated financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (“PCAOB”) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Plante & Moran, PLLC

We have served as the Company's auditor since 2007.

Chicago, Illinois

April 2, 2018

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Table of Contents**CTI Industries Corporation and Subsidiaries****Consolidated Balance Sheets**

	December 31, 2017	December 31, 2016
ASSETS		
Current assets:		
Cash and cash equivalents (VIE \$2,000 and \$51,000, respectively)	\$181,026	\$563,043
Accounts receivable, (less allowance for doubtful accounts of \$114,000 and \$137,000 respectively) (VIE \$28,000 and \$6,000, respectively)	11,235,834	14,838,978
Inventories, net (VIE \$498,000 and \$719,000, respectively)	18,865,932	18,348,011
Prepaid expenses (VIE \$80,000 and \$18,000, respectively)	887,885	678,689
Other current assets	1,120,808	530,669
Total current assets	32,291,485	34,959,390
Property, plant and equipment:		
Machinery and equipment	23,439,781	26,348,443
Building	3,367,082	3,379,636
Office furniture and equipment (VIE \$268,000 and \$154,000, respectively)	2,591,159	3,597,158
Intellectual property	752,044	482,088
Land	250,000	250,000
Leasehold improvements	402,963	395,603
Fixtures and equipment at customer locations	518,450	3,302,868
Projects under construction	121,241	493,859
	31,442,720	38,249,655
Less : accumulated depreciation and amortization (VIE \$36,000 and \$29,000, respectively)	(26,886,139)	(32,938,267)
Total property, plant and equipment, net	4,556,581	5,311,388
Other assets:		
Goodwill (VIE \$440,000 and \$440,000 respectively)	1,473,176	1,473,176
Net deferred income tax asset	1,102,467	1,696,690
Other assets (due from related party \$53,000 and \$47,000, respectively)	560,329	473,095
Total other assets	3,135,972	3,642,961
TOTAL ASSETS	\$39,984,038	\$43,913,739
LIABILITIES AND EQUITY		
Current liabilities:		
Checks written in excess of bank balance (VIE \$16,000 and \$11,000, respectively)	\$454,850	\$1,688,675
Trade payables (VIE \$144,000 and \$92,000, respectively)	5,414,497	5,861,932

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Line of credit (net of deferred financing costs of \$0 and \$62,000, respectively) (VIE \$338,000 and \$408,000, respectively)	13,783,930	11,263,531
Notes payable - current portion (net discount of \$0 and \$113,000, respectively)	942,533	1,709,220
Notes Payable Officers - current portion	-	180,000
Notes Payable Affiliates - current portion	9,615	8,141
Capital Lease - current portion	7,562	40,660
Accrued liabilities (VIE \$96,000 and \$140,000, respectively)	2,047,893	3,127,425
Total current liabilities	22,660,880	23,879,584
Long-term liabilities:		
Notes Payable - Affiliates (VIE 144,000 and 153,000 respectively)	212,545	218,858
Notes payable, net of current portion (net discount of \$0 and \$0, respectively) (VIE \$83,000 and \$301,000, respectively)	4,951,581	5,301,491
Notes payable - officer, subordinated	1,507,362	1,416,138
Capital Lease	-	4,690
Deferred gain (non current) (VIE \$31,000 and \$39,000, respectively)	207,410	297,521
Total long-term debt, net of current portion	6,878,898	7,238,698
Warrants Payable		817,880
Total long-term liabilities	6,878,898	8,056,578
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, 3,568,885 issued and 3,525,227 outstanding on December 31, 2017 and 2016	13,898,494	13,898,494
Paid-in-capital	2,271,261	2,250,235
Accumulated earnings	720,223	2,323,326
Accumulated other comprehensive loss	(5,365,364)	(5,593,878)
Less: Treasury stock - 43,658 shares as of December 31, 2017 and 2016	(160,784)	(160,784)
Total CTI Industries Corporation stockholders' equity	11,363,830	12,717,393
Noncontrolling interest	(919,570)	(739,816)
Total Equity	10,444,260	11,977,577
TOTAL LIABILITIES AND EQUITY	\$39,984,038	\$43,913,739

See accompanying notes to consolidated financial statements

Table of Contents**CTI Industries Corporation and Subsidiaries****Consolidated Statements of Comprehensive Income**

	For the Year Ended	
	December 31,	
	2017	2016
Net Sales	\$56,236,560	\$64,268,367
Cost of Sales	42,481,710	47,149,360
Gross profit	13,754,850	17,119,007
Operating expenses:		
General and administrative	7,657,338	7,378,296
Selling	3,638,241	4,748,061
Advertising and marketing	1,971,420	2,189,620
Gain on sale of assets	(140,494)	(36,745)
Other operating income	(1,416)	-
Total operating expenses	13,125,089	14,279,232
Income from operations	629,761	2,839,775
Other (expense) income:		
Interest expense	(1,576,229)	(1,454,589)
Change in fair value of warrants	19,999	(103,636)
Foreign currency (loss) gain	(144,855)	43,263
Total other expense, net	(1,701,085)	(1,514,962)
(Loss) Income before taxes	(1,071,324)	1,324,813
Income tax (benefit) expense	711,533	702,877
Net (Loss) Income	(1,782,857)	621,936
Less: Net (loss) attributable to noncontrolling interest	(179,754)	(30,602)
Net (loss) income attributable to CTI Industries Corporation	\$(1,603,103)	\$652,538