

CTI INDUSTRIES CORP
Form 10-K
March 31, 2011

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, 2010

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
incorporation or organization)

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

22160 N. Pepper Road
Lake Barrington, Illinois
(Address of principal executive offices)

60010
(Zip Code)

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

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

Title of Each Class

Name of Each Exchange on Which Registered

Common Stock, No Par

NASDAQ Capital Market

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

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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 ☒

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, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☐ Accelerated filer ☐ Non-accelerated filer ☐ Smaller Reporting Company ☒

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 \$6.75 per share of the Registrant's Common Stock as reported on NASDAQ Capital Market tier of The NASDAQ Stock Market on June 30, 2010, the aggregate market value of the voting common stock held by non-affiliates of the Registrant was then approximately \$11,338,000. (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, 2011 was 3,137,848 (excluding treasury shares).

DOCUMENTS INCORPORATED BY REFERENCE

Document	Part of Form 10-K into Which Document Is Incorporated
Sections of the registrant's Proxy Statement To be filed on or before April 30, 2011 for the Annual Meeting of Stockholders	Part III

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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, 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 are a leading developer, manufacturer and supplier of innovative flexible film products. We provide value-added design, engineering and production for flexible film products. We have developed, designed, and produced a number of innovative products utilizing flexible films including: novelty foil balloons, zippered pouches for food and home storage, specialty films for packaging and unique film products for medical applications.

We produce, market and sell four principal lines of products:

- Novelty Products, principally balloons, including foil balloons, latex balloons, punch balls and other inflatable toy items,

- Flexible Containers for home and consumer use for the storage and preservation of food and personal items,
 - Flexible Films for food and other packaging and commercial applications, and,
- Specialty Film Products of unique design for various applications including for medical uses.

Our design and development services, and the application of our technical expertise to the development of flexible film products, represent a significant component of our business activity. 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 35 years and have acquired significant technology and know-how in that time. Presently, we hold 11 patents, and have several patent applications pending, relating to flexible film products including specific films, zipper closures, valves and other features of these products.

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

- Coating and laminating plastic film. Generally, we adhere polyethylene film to another film such as nylon or polyester.
- Printing plastic film and latex balloons. We print films, both plastic and latex with a variety of graphics for use as packaging film or for balloons.
 - Converting printed plastic film to balloons.
 - Converting plastic film to flexible containers.
 - Producing latex balloons and other latex novelty items.

We market and sell foil and latex balloons in the United States and in several other countries. We supply coated, laminated and printed films to a number of companies who generally convert these films into containers for the packaging of food and other items. We supply flexible containers to companies who market them to consumers who use them for the storage of food and personal items. We also market containers to and through retail outlets for use by consumers that include a resealable closure system and a valve permitting the evacuation of air from the pouch by a small pump device, which we also supply.

In 1978, we began manufacturing metalized balloons (sometimes referred to as "foil" balloons), which are balloons made of a base material (usually nylon or polyester) 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.

During the period from 1976 to 1986 and from 1996 to the present, we have produced flexible containers for the storage of liquids, food products, household goods and other items.

We market and sell our foil and latex balloons and related novelty items 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 a number of our balloon designs, we obtain licenses for well-known characters and print those characters and messages on our balloons.

We provide laminated films and printed films to a number of customers who utilize the film to produce bags or pouches for the packaging of food, liquids and other items. We also produce finished products – pouches and bags – which are used for a variety of applications, including (i) as vacuumable pouches for household use in storage of food items, (ii) as vacuumable consumer storage devices for clothing and other household items, and (iii) custom and medical applications.

In 2010, our revenues from our product lines, as a percent of total revenues were:

·	Novelty Products	66.3% of revenues
·	Film Products	15.5% of revenues
·	Flexible Containers	18.2% of revenues

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

Business Strategies

Our essential business strategies are as follows:

- Focus on our Core Assets and Expertise. We have been engaged in the development, production and sale of film products for 35 years and have developed assets, technology and expertise which, we believe, enable us to develop, manufacture, market and sell innovative products of high quality within our area of knowledge and expertise. We plan to focus our efforts on these core assets and areas of expertise – laminated films, printed films, pouches, specialty film products and film novelty products – to develop new products, to market and sell our products and to build our revenues.

- **Maintain a Focus on Margin Levels and Cost Controls in Order to Establish and Maintain Profitability.** We engage in constant review and effort to control our production, and our selling, general and administrative expenses in order to establish and enhance profitability.
- **Develop New Products, Product Improvements and Technologies.** We work to develop new products, to improve existing products and to develop new technologies within our core product areas in order to enhance our competitive position and our sales. We seek to leverage our technology to develop innovative and proprietary products. In the novelty line, our development work includes new designs, new character licenses and new product developments. In our commercial line, over the past several years we have developed new pouch closure systems and valves and new film methods for packaging applications. We have received eleven patents for these developments and have several patent applications pending. Recently we introduced a line of resealable pouches with a valve and pump system for household storage and vacuum sealing of food items. We work with customers to develop custom film products which serve the unique needs or requirements of the customer. We have participated in the development of, and are now producing a new product for a medical application.
- **Develop New Channels of Distribution and New Sales Relationships.** In order to increase sales, we endeavor to develop new channels of distribution and new sales relationships, both for existing and new products. On February 1, 2008, we entered into a Supply and License Agreement with S.C. Johnson & Son, Inc (“SC Johnson”) to manufacture and supply to SC Johnson certain home food management products to be sold under the SC Johnson ZipLoc® brand. In February 2011, SC Johnson renewed this agreement for an additional two-year term commencing on July 1, 2011. During 2009 and 2010, we developed new distributors and customers for our pouch and novelty products in Europe, Mexico, Latin America, Australia and New Zealand, expanding the scope and level of our international sales and activities. During 2010, we established an office and warehouse in Germany to support the extension of our sales and fulfillment activities in Europe.
- **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 enables us to produce in the range of 60 million pouches annually. During 2010, we designed, assembled and installed latex balloon production equipment which has enhanced our production capacity for latex balloons by approximately 70%.

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 over 500 foil balloon designs, in different shapes and sizes, including the following:

- Superloons® - 18" foil balloons in round or heart shape, generally made to be filled with helium and remain buoyant for long periods. This is the predominant foil balloon size.
 - Ultraloons® - 31" jumbo foil balloons made to be filled with helium and remain buoyant.
 - Miniloons® - 9" foil balloons made to be air-filled and sold on holder-sticks or for use in decorations.
- Card-B-Loons® - 4 ½" air-filled foil balloons, often sold on a stick, used in floral arrangements or with a container of candy.
 - Shape-A-Loons® - "18 to 48" shaped foil balloons made to be filled with helium.
- Minishapes - 11" to 16" small shaped foil balloons designed to be air filled and sold on sticks as toys or inflated characters.
- Balloon Jamz™ - 20" to 40" round and shaped foil balloons which emit and amplify sound through a speaker attached to the balloon.

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.

Latex Balloons. Through our majority-owned subsidiary in Guadalajara, Mexico, Flexo Universal, S.A. de C.V. ("Flexo Universal"), we manufacture latex balloons in 11 shapes and 46 colors. These balloons are marketed under the name Partyloons®. We also manufacture toy balloon products including punch balls, water bombs and "Animal Twisties."

Packaging Films and Custom Film Products. We produce and sell films that are utilized for the packaging of various products, principally food products. We laminate, extrusion coat and print films and sell them to customers who utilize the films for packaging applications. Our customers generally use these film products to convert them to bags or pouches for the packaging of food and other products. We develop and produce for customers unique products composed of flexible film, including products for medical applications.

Pouches and Bags. We produce a variety of completed film products, generally in the form of a bag or pouch. These products include (i) valved, resealable pouches for storage of household items, (ii) vacuum sealable bags for food storage, and (iii) resealable, valved bags for storage and vacuum sealing of food items in the household. During 2008, we introduced a line of resealable, valved bags for storage and vacuum sealing of food items in the household. These storage bags function with a small hand or powered pump to evacuate air when the bag is sealed. This product line is marketed under the brand ZipVac®.

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 "vendors" remain a significant 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 most 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 included 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. "Toy" balloons include novelty balloons sold in toy departments or stores, punch balls, water bombs and other specialty designs.

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

Printed and Specialty Films

The industry and market for printed and specialty films is fragmented and includes 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. In addition to the packaging of food products, flexible containers are used for medical purposes (such as colostomy bags, containers for saline solution and other items), "dunnage" (to cushion products being packaged), storage of personal and household items and other purposes.

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. Many of these companies purchase film – often printed film – and convert the film to pouches or packages at their own facilities while others purchase completed containers from suppliers.

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, medical bags, or commercial uses.

Marketing, Sales and Distribution

Balloon Products

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 a marketing, sales and support staff of eight individuals and a customer service department of three individuals in the United States. Sales in the United Kingdom are conducted by CTI Balloons, the Company's subsidiary located in Rugby, England. In January 2010, we commenced the sale of balloon products through a facility in Heusenstamm, Germany. Flexo Universal 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 selected retail chains. The distributors and wholesalers are generally engaged principally in the sale of balloons and related products (including such items as plush toys, mugs, containers, floral supplies and other items) and sell balloons and related products to retail outlets including grocery, general merchandise and drug store chains, card and gift shops, party goods stores as well as florists and balloon decorators.

Our largest customer for balloons during 2010 was Dollar Tree Stores. Sales to this chain in 2010 represented \$13,722,000 or approximately 28.7% of our consolidated net sales.

We engage in a variety of advertising and promotional activities to promote the sale of our balloon products. Each year, 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.

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. Our largest customer for film products is Rapak, L.L.C. ("Rapak") to whom we provide a patented embossed film, as well as other film products. During 2010, our sales to Rapak totaled \$6,766,000, representing 14.2% of our consolidated net sales. Under our agreement with Rapak, which continues through October 31, 2011, Rapak is committed to purchase at least 75% of its requirements for embossed film from us.

Flexible Containers/Pouches

We market flexible containers and pouches to various companies for commercial packaging purposes and we market lines of consumer storage packages both to a principal customer and to retail chains and outlets.

On February 1, 2008, we entered into a License and Supply Agreement with SC Johnson. The agreement provides for the Company to manufacture and sell to SC Johnson (or its designee, Goodwill Commercial Services, Inc.) certain home food management products to be sold under the SC Johnson ZipLoc® brand. The agreement is for a term initially expiring on June 30, 2011 and provides for two renewal terms of two years each at the option of SC Johnson. In February 2011, SC Johnson renewed the agreement for an additional two-year term commencing on July 1, 2011. During 2010, our sales to SC Johnson totaled \$5,870,000, representing 12.3% of our consolidated net sales.

During 2005, we introduced a line of universal vacuumable bags for household storage of food products. These bags are designed to be used with existing vacuum and sealing devices. We market these bags through various retail channels and introduced this line of products to additional retail chains in 2010.

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 is marketed under the brand name ZipVac®. We market this line of products to various distributors and retail outlets.

Production and Operations

We conduct our operations at our facilities: (i) our headquarters, offices and plant in Lake Barrington, Illinois, consisting of a total of approximately 75,000 square feet of office, production and warehouse space, (ii) a warehouse in Elgin, Illinois consisting of approximately 30,000 square feet, (iii) a plant, office and warehouse in Guadalajara, Mexico, consisting of approximately 43,000 square feet of office, warehouse and production space, (iv) an office and warehouse facility in Rugby, England, consisting of approximately 16,000 square feet of space, and (v) an office and warehouse facility in Heusenstamm, Germany, consisting of approximately 3,000 square feet.

We conduct production operations at our plants in Lake Barrington, Illinois and Guadalajara, Mexico. At our plants, 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 of film to completed products including balloons, flexible containers and pouches, and (v) production of latex balloon products. 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 films in Lake Barrington, Illinois and we print latex balloons in Guadalajara, Mexico.

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; Elgin, 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 facility in Heusenstamm, Germany.

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.

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

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 has a material effect on our profitability. The cost of our raw materials represented 45% of our net revenues in 2010 compared to 43.9% in 2009. 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.

Information Technology Systems

Our corporate headquarters in Lake Barrington, Illinois and our warehouse facility in Elgin, Illinois are serviced by a PC-based local area network. We connect the facilities via a high speed T1 line that carries both voice and data communications. Access to the network is available to all appropriate employees but is secured through four Microsoft servers running Active Directory authentication. The network allows us to leverage printing resources, create shared file areas for cross-departmental functions and allows for a single source backup of critical business files. On the network we run Macola financial system software. Macola is a modular software system. We presently use the general ledger, order entry, inventory management, purchase order, manufacturing costing, controls and inventory controls, electronic data exchange and custom report writing modules of that system. Internal and external employee communications are handled by industry standard Microsoft Exchange email, allowing us to communicate with customers and vendors all over the world. We also provide a secure, firewall protected, load balanced and redundant T1 and cable internet connection allowing employees to use e-mail, research issues, support customers and securely move data.

At each of our Mexico and England facilities, we operate server computers and local area networks, accessible to employees at those facilities. At each of those facilities, we operate separate integrated financial, order entry and inventory management systems.

Competition

The balloon and novelty industry is highly competitive, with numerous competitors. We believe there are presently six 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., Barton Enterprises Inc., and Betallic, LLC. Several companies market and sell foil balloons designed by them and manufactured by others for them.

We believe there are approximately five manufacturers of latex balloons whose products are sold in the United States and numerous others whose products are sold in other countries.

We also compete with other manufacturers of foil and latex balloons in Europe, Latin America and Asia.

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 these companies 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.

Copyright Licenses. We maintain licenses on certain popular characters and designs for our balloon products. We presently maintain a number of licenses and produce balloon designs utilizing the characters or designs covered by the licenses. Licenses are generally maintained for a one or two-year term, although the Company has maintained long term relationships with several of its licensors.

Trademarks. We own 9 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) ownership of two patents, relating to self-sealing valves for foil balloons and methods of making balloons with such valves, (ii) several foil balloon design patents, (iii) patents and applications related to the design and structure of, and method of, inserting and affixing, zipper-closure systems in a bag, (iv) patents related to one-way valves for pouches, (v) a patent related to methods of embossing film and utilizing such film to produce pouches with fitments, and (vi) patent applications related to vacuumable storage bags with fitments.

Research and Development

We maintain a product development and research department of five individuals for the development or identification of new products, product components and sources of supply. Research and development includes (i) creative product development, (ii) creative marketing, and (iii) engineering development. During each of the fiscal years ended December 31, 2010 and 2009, we estimate that the total amount spent on research and development activities was approximately \$443,000 and \$360,000, respectively.

Employees

As of December 31, 2010, the Company had 112 full-time employees in the United States, of whom 21 are executive or supervisory, 8 are in sales, 64 are in manufacturing or warehouse functions and 19 are clerical. As of that same date, we had 13 full-time employees in England, of whom 4 are executive or supervisory, 3 are in sales, 4 are in warehousing and 2 are clerical. At Flexo Universal, our Mexico subsidiary, as of December 31, 2010, we had 242 full-time employees, of whom 5 are executive or supervisory, 3 are in sales, 223 are in manufacturing and 11 are clerical. As of December 31, 2010, the Company had 3 full-time employees in Germany, of whom one is in sales, one is in warehousing and one is 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.

International Operations

We sell balloon products in a number of countries outside of the United States. Our facility and personnel in Rugby, England handle the sales of these products in the United Kingdom. Our facility and personnel in Guadalajara, Mexico handle the sales of these products in Mexico and Latin America. In January 2010, we commenced the sale of novelty products in Europe through a facility in Heusenstamm, Germany. In other countries, we sell balloon products through distributors located in those countries. We conduct production, packaging, warehousing and sales operations in Mexico. We conduct warehousing and sales operations in the United Kingdom and Germany. 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 2009 - 2010 have been as follows:

	United States	United Kingdom (UK)	Europe (Excluding UK)	Mexico	Consolidated
Year ended 12/31/10					
Sales to outside customers	\$ 36,721,000	\$ 2,387,000	\$ 108,000	\$8,532,000	\$47,748,000
Total Assets	\$ 24,711,000	\$ 977,000	\$ 220,000	\$6,953,000	\$32,861,000

	United States	United Kingdom (UK)	Europe (Excluding UK)	Mexico	Consolidated
Year ended 12/31/09					
Sales to outside customers	\$ 31,873,000	\$ 1,971,000	\$ -	\$7,451,000	\$41,295,000
Total Assets	\$ 23,801,000	\$ 733,000	\$ -	\$5,861,000	\$30,395,000

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 that were received not less than 180 days before the end of our 2010 fiscal year.

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 75,000 square feet of office, manufacturing and warehouse space. This facility is subject to a mortgage loan with an initial principal of \$2,300,000, having a term of 5 years, with payments amortized over 25 years.

We have entered into a month-to-month agreement to rent approximately 30,000 square feet of warehouse space as required in Elgin, Illinois.

CTI Balloons, Ltd. leases approximately 15,000 square feet of office and warehouse space in Rugby, England at a cost of \$4,000 per month, expiring in 2019. This facility is utilized to warehouse balloon products and to manage and service the Company's operations in England.

In February 2008, Flexo Universal entered into a 3-year lease agreement for the lease of approximately 43,000 square feet of manufacturing, warehouse and office space in Guadalajara, Mexico at a cost of \$19,000 per month. In February 2010, Flexo Universal extended the lease an additional five years at a cost of \$20,000 per month.

In September 2010, CTI Europe GmbH entered into a 3-year lease agreement for a facility located in Heusenstamm, Germany located approximately 15 miles from Frankfurt International Airport. The facility includes approximately 3,000 square feet of office and warehouse space at a cost of \$2,000 per month.

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 is 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.

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, 2009 to March 31, 2009	2.65	1.20
April 1, 2009 to June 30, 2009	2.50	1.23
July 1, 2009 to September 30, 2009	2.65	1.75
October 1, 2009 to December 31, 2009	2.84	1.95
January 1, 2010 to March 31, 2010	4.70	2.26
April 1, 2010 to June 30, 2010	7.60	2.77
July 1, 2010 to September 30, 2010	9.05	4.87
October 1, 2010 to December 31, 2010	9.75	5.03

As of December 31, 2010 there were approximately 54 holders of record of the Company's Common Stock. The Company believes that its total number of beneficial owners of common stock of the Company exceeds 640.

During 2010, the Company declared and paid dividends of five cents (\$0.05) per share on the Company's outstanding common stock to shareholders of record on June 18, 2010 and December 20, 2010. The total amount of the dividends paid on June 28, 2010 was \$156,135 and on December 28, 2010 was \$158,306. Under the terms of its current loan agreement, the amount of dividends the Company may pay is limited by the terms of the financial covenants our Credit Agreement with Harris N.A.

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

Overview

The Company produces film products for novelty, packaging and container and custom 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.

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

Product Category	(000 Omitted)			
	\$ 2010	% of Net Sales	\$ 2009	% of Net Sales
Metalized Balloons	21,915	45.9%	19,824	48.0%
Film Products	7,428	15.5%	6,913	16.7%
Pouches	8,676	18.2%	6,895	16.7%
Latex Balloons	8,589	18.0%	7,024	17.0%
Other	1,140	2.4%	639	1.6%
Total	47,748	100.0%	41,295	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, as well as 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 2010, sales to our top 10 customers represented 71.9% of net revenues. During 2010, there were three customers to whom our sales represented more than 10% of net revenues. Our principal customers sales for 2010 and 2009 were:

Customer	Product	2010 Sales	% of 2010 Revenues	2009 Sales	% of 2009 Revenues
Dollar Tree Stores	Balloons	\$ 13,722,000	28.7%	\$ 11,437,000	27.7%
Rapak L.L.C	Films	\$ 6,766,000	14.2%	\$ 6,360,000	15.4%
S.C. Johnson & Son, Inc	Pouches	\$ 5,870,000	12.3%	\$ 4,583,000	11.1%

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

Except as previously described (see page 8-9), 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.

Results of Operations

The following table sets forth selected results of our operations expressed as a percentage of net sales for the years ended December 31, 2010 and 2009. Our results of operations for the periods described below are not necessarily indicative of results of operations for future periods.

	Year ended December 31,	
	2010	2009
Net sales	100.0%	100.0%
Costs and expenses:		
Cost of products sold	77.8	77.7
Operating Expenses	15.8	16.9
Income from operations	6.4	5.4
Interest expense	(2.0)	(2.7)
Other income	0.0	0.0
Income before income taxes	4.4	2.7
Provision for income taxes	0.7	0.3
Net profit	3.7%	2.4%

Year Ended December 31, 2010 Compared to Year Ended December 31, 2009

Net Sales

For the fiscal year ended December 31, 2010, consolidated net sales from the sale of all products were \$47,748,000 compared to consolidated net sales of \$41,295,000 for the year ended December 31, 2009, an increase of 15.6%.

Sales of foil balloons increased by 10.5% from \$19,824,000 in 2009 to \$21,915,000 in 2010. Most of the increase is attributable to an increase in 2010 in our sales to Dollar Tree Stores of \$2,286,000 over 2009 sales. Of our total foil balloon sales of \$21,915,000 in 2010, \$13,722,000 was to Dollar Tree. The remaining sales were made to over 500 customers including distributors and retail stores or chains in the United States, Mexico, the United Kingdom, Europe and Latin America. Sales to these other customers decreased from \$8,387,000 in 2009 to \$8,193,000 in 2010.

Sales of film products increased by 7.4% from \$6,913,000 in 2009 to \$7,428,000 in 2010. This increase includes an increase in sales to Rapak, L.L.C. of \$406,000 as well as sales to 12 other customers including sales of a medical bag device.

Sales of pouch products increased by 25.8% from \$6,895,000 in 2009 to \$8,676,000 in 2010. This increase is attributable principally to an increase in pouch sales to Goodwill Commercial Services (for S.C. Johnson & Son, Inc.) from \$4,583,000 in 2009 to \$5,870,000 in 2010. Other pouch sales in 2010 included (i) sales of our ZipVac Brand line, (ii) sales of our universal bag line and (iii), during the first quarter 2010, sales of a zippered vacuum pouch line to a former customer.

Sales of latex balloons increased by 22.3% from \$7,024,000 in 2009 to \$8,589,000 in 2010. The increase is attributable to an increase in latex sales in Mexico from \$5,675,000 in 2009 to \$6,727,000 in 2010.

Cost of Sales

Cost of sales increased slightly from 77.7% of sales in 2009 to 77.8% of sales in 2010. A mix of factors affected cost of goods including (i) an increase in the cost of raw materials from 43.9% of sales in 2009 to 45% of sales in 2010 and (ii) increases in product selling prices which offset the increases in raw materials costs to some degree. Margins are also affected by changes in the mix of products sold.

General and Administrative Expenses

General and administrative expenses increased from \$4,539,000 in 2009 or 11.0% of net sales to \$4,921,000 or 10.3% of net sales in 2010. This increase is attributable to (i) CTI Europe's administrative expenses of \$156,000 and (ii) an increase in administrative salaries by \$200,000.

Selling

Selling expenses increased from \$871,000 or 2.1% of sales in 2009 to \$915,000 or 1.9% of sales in 2010. This increase is attributable principally to selling expenses incurred by CTI Europe, our new subsidiary in Germany.

Advertising and Marketing

Advertising and marketing expenses increased from \$1,576,000 or 3.8% of sales in 2009 to \$1,720,000 or 3.6% of sales in 2010. This increase is attributable principally to (i) an increase in service fees related to metalized balloons of \$168,000 and (ii) an increase in advertising and marketing salaries of \$57,000.

Other Income or Expense

During 2010, we incurred net interest expense of \$919,000 compared to net interest expense of \$1,085,000 during 2009.

During 2010, we realized a foreign currency loss in the amount of \$31,000 compared to foreign currency loss in 2009 of \$20,000.

Net Income or Loss

During 2010, we had net income of \$1,827,000 compared to net income of \$1,003,000 in 2009. The increase in income is attributable principally to a 15.6% increase in revenues for the year, offset by a 0.10% decrease in gross margin and a decrease of 1.10% in operating expenses. In the fourth quarter 2010, the Company utilized the remainder of the valuation allowance on its deferred tax asset. In that quarter and going forward the Company will incur income tax expense.

Income Taxes

In 2010, the Company recognized income tax expense, on a consolidated basis, of \$343,000. This income tax expense is composed of an income tax expense in the United States of \$166,000, an income tax benefit realized by CTI Balloons, our United Kingdom subsidiary, in the amount of \$5,000, an income tax benefit realized by CTI Europe, our Germany subsidiary, in the amount of \$73,000 and an income tax expense by Flexo Universal, our Mexico subsidiary, in the amount of \$255,000. In 2009, the Company recognized income tax expense, on a consolidated basis, of \$114,000. This income tax expense was composed of an income tax benefit realized by CTI Balloons, our United Kingdom subsidiary, in the amount of \$96,000 and an income tax expense by Flexo Universal, our Mexico subsidiary, in the amount of \$210,000. The Company did not recognize any income tax expense in the United States in 2009 by reason of its net operating loss carryforward and adjustments to the Company's reserve in its deferred tax asset account. In 2010, in the United States, the Company did recognize income tax expense, representing the amount of the reduction in its deferred tax asset account arising from its U.S. income for the year, but will not be required to pay tax for 2010 by reason of the balance of its tax loss carryforward account. During the fourth quarter 2010, the Company utilized the remainder of the reserve on its deferred tax asset. The amount of the valuation allowance released in 2010 and 2009 was \$529,000 and \$373,000, respectively.

Financial Condition, Liquidity and Capital Resources

Cash Flow Provided by Operating Activities During fiscal 2010, cash provided by operating activities amounted to \$3,362,000, compared to cash flow provided by operating activities during fiscal 2009 of \$3,113,000. Significant changes in working capital items affecting cash flow provided by operating activities were:

- Depreciation and amortization of \$1,909,000
- An increase in net inventory of \$626,000
- An increase in accounts receivable of \$1,093,000
- An increase in prepaid expenses and other assets of \$336,000
- An increase in accrued liabilities of \$280,000

We do not anticipate significant changes in inventory levels during 2011. The increase in accounts receivable reflects a temporary increase due to high levels of sales in December 2010. Accordingly, we expect the receivables level to decline during the first half of 2011.

Cash Used in Investing Activities During fiscal 2010, cash used in investing activities amounted to \$1,965,000 compared to cash used in investing activities during fiscal 2009 of \$732,000. Cash used in investing activities was principally for maintenance expenditures and for the purchase of production equipment. Although we do not presently have any commitments for capital expenditures, we do anticipate that we will incur some level of capital expenditures in 2010 in excess of maintenance capital expenditure levels of approximately \$500,000.

Cash Provided by Financing Activities During fiscal 2010, cash used in financing activities amounted to \$1,375,000, compared to cash provided by financing activities of \$1,728,000 during fiscal 2009. During 2010, we repaid long-term debt of \$1,721,000 and reduced by \$73,000 the amount outstanding under our revolving line of credit.

On April 29, 2010, we entered into a Credit Agreement and associated documents with Harris N.A. ("Harris") under which Harris agreed to extend to the Company a credit facility in the aggregate amount of \$14,417,000. The facility includes (i) a Revolving Credit providing for maximum advances to the Company, and letters of credit, based upon the level of availability measured by levels of eligible receivables and inventory of the Company of \$9,000,000, (ii) an Equipment Loan of up to \$2,500,000 providing for loans for the purchase of equipment, (iii) a Mortgage Loan of \$2,333,350, and (iv) a Term Loan in the amount of \$583,333. The amount we can borrow on the Revolving Credit includes 85% of eligible accounts and 60% of eligible inventory (up to a maximum of \$9,000,000). The Mortgage Loan is amortized over a term of 25 years. The maturity date of the facility is April 30, 2013.

On April 30, 2010, the loan transaction was closed and loan advances were made by Harris in the aggregate amount of \$11,964,739 to pay off all loan balances and lease obligations of the Company with Charter One Bank, N.A. and RBS Asset Finance, Inc. The advances included \$8,548,000 under the Revolving Credit and \$500,000 under the Equipment Loan.

Certain terms of the loan agreement include:

- **Restrictive Covenants:** The Loan 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.

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

- o We are required to maintain a tangible net worth (plus Subordinated Debt) in excess of \$7,100,000 plus 50% of cumulative net income of the Company after January 1, 2010;
- o We are required to maintain specified ratios of senior debt to EBITDA on an annual basis and determined quarterly; and,
- o We are required to maintain a level of adjusted EBITDA to fixed charges on an annual basis determined quarterly of not less than 1.1 to 1. Adjusted EBITDA is EBITDA minus (i) taxes paid, (ii) dividends paid, (iii) payments for the purchase or redemption of stock, and (iv) unfunded capital expenditures.

As of December 31, 2010 the Company was in compliance with these financial covenants.

The loan agreement provides for interest at varying rates in excess of the prime rate, depending on the level of senior debt to EBITDA over time. The initial interest rate under the loan was 4.00% per annum. On a quarterly basis, this ratio will be measured and the interest rate changed in accordance to the table below.

When Senior Debt to EBITDA is:	The Premium to the Prime Rate is:
Greater than or equal to 3.25 to 1.00	1.25 %
Greater than or equal to 2.25 to 1.00; Less than 3.25 to 1.00	0.75 %
Less than or equal to 2.25 to 1.00	0.50 %

At December 31, 2010 the Company was paying the minimum premium of 0.50% over prime.

John H. Schwan and Stephen M. Merrick each, as officers, directors and principal shareholders of the Company have personally guaranteed the obligations of the Company to Harris up to \$1,750,000. In the agreement, the amount of the maximum liability to each decreases to \$1,500,000 if the senior leverage ratio requirement is met. At December 31, 2010, the Company had met this requirement.

On February 1, 2006, two principal officers and shareholders of our Company each loaned to our Company the sum of \$500,000 in exchange for (i) Promissory Notes due on demand and bearing interest at the rate of 2% per annum in excess of the prime rate determined quarterly and (ii) five year Warrants to purchase up to 151,515 shares of common stock of the Company at the price of \$3.30 per share (110% of the closing market price on the day preceding the date of the loans). On May 28, 2010, each of these officer/shareholders exercised the Warrants to purchase 151,515 shares each of common stock of the Company in exchange for cancellation of indebtedness of the Company to them in the amount of the purchase price for the shares.

Current Assets. As of December 31, 2010, the total current assets of the Company were \$21,426,000, compared to total current assets of \$19,148,000 at December 31, 2009. The change in current assets reflects, principally, (i) an increase in net inventories of \$724,000, (ii) an increase in accounts receivable of \$1,213,000, (iii) an increase in the net deferred income tax asset of \$44,000, and (iv) an increase in prepaid expenses and other current assets of \$405,000.

Current Liabilities. Total current liabilities increased from \$16,740,000 as of December 31, 2009 to \$17,952,000 as of December 31, 2010. Accrued other liabilities includes \$137,000 in payroll accruals. Changes in current liabilities included: (i) an increase of \$1,071,000 in trade payables, (ii) a decrease of the line of credit of \$73,000, and (iii) an increase in accrued and other liabilities in the amount of \$344,000.

Liquidity and Capital Resources; Working Capital. As of December 31, 2010, our current assets exceeded our current liabilities by \$3,474,000, we had cash and cash equivalents of \$762,000 and there was available under our line of credit up to \$1,180,000 in additional funds. 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 2011.

CTI Industries Corporation Stockholders' Equity. Stockholders' equity was \$11,784,000 as of December 31, 2010 compared to \$8,763,000 as of December 31, 2009.

Seasonality

In the foil 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. The sale of latex balloons, pouches and laminated film products have not historically been seasonal, and as sales in these products lines have increased as a percentage of total sales, the seasonality of the Company's total net sales has decreased.

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) a definitive arrangement exists for the sale of the product, (ii) delivery of the product has occurred, (iii) the price to the buyer has been fixed or is determinable, and (iv) collectibility 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.

Inventory Valuation. Inventories are stated at the lower of cost or market. 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, 2010, the Company had established a reserve for obsolescence, marketability or excess quantities with respect to inventory in the aggregate amount of \$376,000. As of December 31, 2009, the amount of the reserve was \$342,000. In addition, on a periodic basis, the Company disposes of inventory deemed to be obsolete or unsaleable and, at such time, records an expense 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 FASB GAAP USA under which goodwill is evaluated at least annually for impairment. We conducted a valuation analysis of our goodwill in our Mexico subsidiary for the year ended December 31, 2010 and 2009 and determined that the recorded value of the Company's interest in Flexo Universal as recorded for December 31, 2006 was 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.

Stock-Based Compensation. We have adopted FASB GAAP USA 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 FASB GAAP USA, we incurred employee stock-based compensation cost of \$131,000 for the year ended December 31, 2010. At December 31, 2010, we had \$463,000 of unrecognized compensation cost relating to stock options.

Income Taxes and Deferred Tax Assets. Income taxes are accounted for as prescribed in FASB GAAP USA. Under the asset and liability method of GAAP USA, 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.

As of December 31, 2010, the Company had a net deferred tax asset of \$1,111,000 representing the amount the Company may recover in future years from future taxable income. As of December 31, 2009, the amount of the net deferred tax asset (deferred tax assets of \$1,597,000, less a valuation allowance of \$529,000) was \$1,068,000. 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. Management reduced the valuation allowance related to the deferred tax asset to zero in 2010 from \$529,000 as of December 31, 2009.

Fair Value Measurements

In September 2006, the FASB issued FASB GAAP USA which 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. FASB GAAP USA 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. FASB GAAP USA 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 FASB GAAP USA 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).

In February 2007, the FASB issued FASB GAAP USA which permits companies to choose to measure certain financial instruments and other items at fair value. The standard requires that unrealized gains and losses are reported in earnings for items measured using the fair value option. FASB GAAP USA was effective for us on January 1, 2008. We did not elect the fair value option for any assets or liabilities that were not previously carried at fair value. Accordingly, the adoption of FASB GAAP USA had no impact on our consolidated financial statements.

In October 2008, the FASB issued clarification to FASB GAAP USA which clarifies the application of FASB GAAP USA in a market that is not active, and addresses application issues such as the use of internal assumptions when relevant observable data does not exist, the use of observable market information when the market is not active, and the use of market quotes when assessing the relevance of observable and unobservable data. FASB GAAP USA is effective for all periods presented in accordance with FASB GAAP USA. The adoption of FASB GAAP USA did not have a significant impact on our consolidated financial statements.

Reclassifications and Adoption of New Accounting Pronouncements

As of January 1, 2009 we adopted a new generally accepted accounting principle related to noncontrolling interest in the consolidated financial statements that required retrospective application, in which all periods presented reflect the necessary changes.

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 Chief Executive Officer and Chief Financial Officer (together the “Certifying Officers”), of the effectiveness of the design and operation of our disclosure controls and procedures as of December 31, 2010, the end of the period covered by this report. Based upon that evaluation, the Certifying Officers concluded that our disclosure controls and procedures were effective as of December 31, 2010 to provide reasonable assurance that the information required to be disclosed in our Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms and that such information is accumulated and communicated to our management, including our Certifying 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 2010 that have materially affected or are reasonably likely to materially affect our internal controls over financial reporting.

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, 2010.

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 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 2011 Annual Meeting of Shareholders which is expected to be filed with the Commission within 120 days after December 31, 2010.

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 2011 Annual Meeting of Shareholders which is expected to be filed with the Commission within 120 days after December 31, 2010.

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 2011 Annual Meeting of Shareholders which is expected to be filed with the Commission within 120 days after December 31, 2010.

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 2011 Annual Meeting of Shareholders which is expected to be filed with the Commission within 120 days after December 31, 2010.

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 2011 Annual Meeting of Shareholders which is expected to be filed with the Commission within 120 days after December 31, 2010.

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
Number

Document

- | | |
|------|--|
| 3.1 | Third Restated Certificate of Incorporation of CTI Industries Corporation (Incorporated by reference to Exhibit A contained in Registrant's Schedule 14A Definitive Proxy Statement for solicitation of written consent of shareholders, as filed with the Commission on October 25, 1999) |
| 3.2 | By-Laws of CTI Industries Corporation (Incorporated by reference to Exhibits, contained in Registrant's Form SB-2 Registration Statement (File No. 333-31969) effective November 5, 1997) |
| 4.1 | Form of CTI Industries Corporation's common stock certificate (Incorporated by reference to Exhibits, contained in Registrant's Form SB-2 Registration Statement (File No. 333-31969) effective November 5, 1997) |
| 10.1 | CTI Industries Corporation 1999 Stock Option Plan (Incorporated by reference to Exhibit contained in Registrant's Schedule 14A Definitive Proxy Statement, as filed with the Commission on March 26, 1999) |
| 10.2 | CTI Industries Corporation 2001 Stock Option Plan (Incorporated by reference to Exhibit contained in Registrant's Schedule 14A Definitive Proxy Statement, as filed with the Commission on May 21, 2001) |
| 10.3 | CTI Industries Corporation 2002 Stock Option Plan (Incorporated by reference to Exhibit contained in Registrant's Schedule 14A Definitive Proxy Statement, as filed with the Commission on May 15, 2002) |
| 10.4 | CTI Industries Corporation 2007 Stock Incentive Plan (Incorporated by reference to Exhibit contained in Registrant's Schedule 14A Definitive Proxy Statement, as filed with the Commission on April 30, 2007) |

- 10.5 CTI Industries Corporation 2009 Stock Incentive Plan (Incorporated by reference to Exhibit contained in Registrant's Schedule 14A Definitive Proxy Statement, as filed with the Commission on April 30, 2009)
- 10.6 Employment Agreement dated June 30, 1997, between CTI Industries Corporation and Howard W. Schwan (Incorporated by reference to Exhibits, contained in Registrant's Form SB-2 Registration Statement (File No. 333-31969) effective November 5, 1997)
- 10.7 Loan and Security Agreement between RBS Citizens, N.A. and the Company dated February 1, 2006 (Incorporated by reference to Exhibits contained in Registrant's Report on Form 8-K dated February 3, 2006)
- 10.8 Warrant dated February 1, 2006, to purchase 151,515 shares of Common Stock – John H. Schwan (Incorporated by reference to Exhibits contained in Registrant's Report on Form 8-K dated February 3, 2006)
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- 10.14 Third Amendment to Loan Agreement between RBS Citizens, N.A. and the Company dated November 13, 2007 (Incorporated by reference to Exhibit contained in Registrant's Report on Form 10-Q dated November 13, 2007)
- 10.15 Supply and License Agreement among Registrant and S.C. Johnson & Son, Inc. dated February 1, 2008 (Incorporated by reference to Exhibit contained in Registrant's Report on Form 8-K/A dated March 19, 2008)

- 10.16 Agreement between Babe Winkelman Productions Inc and the Company dated April 10, 2008
(Incorporated by reference to Exhibit contained in Registrant's Report on Form 8-K dated April 14, 2008)
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- 10.23 Pledge Agreement between Harris N.A. and the Company dated April 29, 2010 (Incorporated by reference to Exhibit contained in Registrant's Report on Form 10-Q dated May 14, 2010)
- 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 8, 2004)
- 21 Subsidiaries (description incorporated in Form 10-K under Item No. 1)
- 23.1 Consent of Independent Registered Public Accounting Firm, Blackman Kallick, LLP
- 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)
- 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)

(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.

SIGNATURES

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 March 31, 2011.

CTI INDUSTRIES CORPORATION

By: /s/ Howard W. Schwan
Howard W. Schwan, President

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
/s/ Howard W. Schwan Howard W. Schwan	President and Director	March 31, 2011
/s/ John H. Schwan John H. Schwan	Chairman and Director	March 31, 2011
/s/ Stephen M. Merrick Stephen M. Merrick	Executive Vice President, Secretary, Chief Financial Officer and Director	March 31, 2011
/s/ Stanley M. Brown Stanley M. Brown	Director	March 31, 2011
/s/ Bret Tayne Bret Tayne	Director	March 31, 2011
/s/ John I. Collins John I. Collins	Director	March 31, 2011
/s/ Phil Roos Phil Roos	Director	March 31, 2011

EXHIBIT INDEX

Exhibit

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CTI Industries Corporation
and Subsidiaries

Consolidated Financial Statements

Years ended December 31, 2010 and 2009

Contents

Consolidated Financial Statements:

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Consolidated Statements of Stockholders' Equity and Comprehensive Income (Loss) for the years ended December 31, 2010 and 2009	F-4
Consolidated Statements of Cash Flows for the years ended December 31, 2010 and 2009	F-5
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Financial Statement Schedule:

Schedule II – Valuation and Qualifying Accounts for the years ended December 31, 2010 and 2009	F-31
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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.

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
CTI Industries Corporation

We have audited the accompanying consolidated balance sheets of CTI Industries Corporation and Subsidiaries (the “Company”) as of December 31, 2010 and 2009, and the related consolidated statements of operations, stockholders’ equity and comprehensive income (loss) and cash flows for the years then ended. Our audits also included the financial statement schedule listed in the Index at item 15(a). These consolidated financial statements and consolidated schedule are the responsibility of the Company’s management. Our responsibility is to express an opinion on these consolidated financial statements and consolidated schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). 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. The Company has determined that it is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, 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. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of CTI Industries Corporation and Subsidiaries as of December 31, 2010 and 2009, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the related consolidated financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

/s/ Blackman Kallick, LLP
Chicago, Illinois
March 31, 2011

CTI Industries Corporation and Subsidiaries
Consolidated Balance Sheets

	December 31, 2010	December 31, 2009
ASSETS		
Current assets:		
Cash and cash equivalents (VIE \$38,000 and \$0, respectively)	\$ 761,874	\$ 870,446
Accounts receivable, (less allowance for doubtful accounts of \$59,000 and \$57,000, respectively)	8,533,626	7,320,181
Inventories, net	10,368,037	9,643,914
Net deferred income tax asset	750,485	706,754
Prepaid expenses and other current assets	1,012,067	607,127
Total current assets	21,426,089	19,148,422
Property, plant and equipment:		
Machinery and equipment	22,900,460	22,390,891
Building	3,260,201	3,183,795
Office furniture and equipment	2,718,425	2,677,476
Intellectual property	345,092	345,092
Land	250,000	250,000
Leasehold improvements	443,630	428,864
Fixtures and equipment at customer locations	2,629,902	2,541,881
Projects under construction (VIE \$587,000 and \$0, respectively)	1,601,682	270,131
	34,149,392	32,088,130
Less : accumulated depreciation and amortization	(24,489,624)	(22,554,719)
Total property, plant and equipment, net	9,659,768	9,533,411
Other assets:		
Deferred financing costs, net	63,634	11,846
Goodwill	1,033,077	989,108
Net deferred income tax asset	360,830	361,457
Other assets (due from related party \$213,000 and \$79,000, respectively)	317,990	351,065
Total other assets	1,775,531	1,713,476
TOTAL ASSETS	\$ 32,861,388	\$ 30,395,309
LIABILITIES AND EQUITY		
Current liabilities:		
Checks written in excess of bank balance	\$ 692,141	\$ 735,257
Trade payables (VIE \$58,000 and \$0, respectively)	4,307,358	3,236,607
Line of credit (VIE \$700,000 and \$0, respectively)	8,225,900	7,598,671
Notes payable - current portion	276,667	811,996
Notes payable - officers, current portion, net of debt discount of \$5,000 and \$89,000	1,410,807	1,368,964
Capital lease - current portion	5,117	299,311

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Notes Payable Affiliates - current portion	6,754	5,793
Accrued liabilities	3,027,298	2,683,714
Total current liabilities	17,952,042	16,740,313
Long-term liabilities:		
Notes Payable - Affiliates	155,648	120,503
Notes payable, net of current portion	2,611,127	2,375,435
Capital Lease	2,559	733,414
Notes payable - officers, subordinated, net of debt discount of \$0 and \$7,000	360,351	1,646,423
Total long-term liabilities	3,129,685	4,875,775
Equity:		
CTI Industries Corporation stockholders' equity:		
Preferred Stock — no par value 2,000,000 shares authorized 0 shares issued and outstanding	-	-
Common stock - no par value, 5,000,000 shares authorized, 3,209,475 and 2,808,720 shares issued and 3,137,348 and 2,738,063 outstanding, respectively	13,394,940	11,771,839
Paid-in-capital	817,138	686,127
Warrants issued in connection with subordinated debt and bank debt	-	443,313
Dividends	(314,441)	-
Accumulated deficit	(379,210)	(2,206,728)
Accumulated other comprehensive loss	(1,592,798)	(1,803,442)
Less: Treasury stock, 72,127 shares and 70,657 shares	(141,289)	(128,446)
Total CTI Industries Corporation stockholders' equity	11,784,340	8,762,663
Noncontrolling interest	(4,679)	16,558
Total Equity	11,779,661	8,779,221
TOTAL LIABILITIES AND EQUITY	\$ 32,861,388	\$ 30,395,309

See accompanying notes to consolidated financial statements

CTI Industries Corporation and Subsidiaries
Consolidated Statements of Operations

	For the Year Ended December 31,	
	2010	2009
Net Sales	\$ 47,747,611	\$ 41,295,152
Cost of Sales	37,145,439	32,081,779
Gross profit	10,602,172	9,213,373
Operating expenses:		
General and administrative	4,921,457	4,539,494
Selling	914,698	871,258
Advertising and marketing	1,719,509	1,576,225
Total operating expenses	7,555,664	6,986,977
Income from operations	3,046,508	2,226,396
Other (expense) income:		
Interest expense	(936,769)	(1,102,662)
Interest income	17,599	17,555
Foreign currency loss	(31,382)	(19,956)
Total other expense, net	(950,552)	(1,105,063)
Income before taxes	2,095,956	1,121,333
Income tax expense	342,688	114,391
Net Income	1,753,268	1,006,942
Less: Net (loss) income attributable to noncontrolling interest	(74,250)	3,802
Net income attributable to CTI Industries Corporation	\$ 1,827,518	\$ 1,003,140
Other Comprehensive Income		
Adjustment to accumulated balance on swap termination (2010); unrealized gain on derivative instruments (2009)	\$ 188,615	\$ 152,830
Foreign currency adjustment	22,029	9,858
Comprehensive income attributable to CTI Industries Corporation	\$ 2,038,162	\$ 1,165,828
Basic income per common share	\$ 0.61	\$ 0.36
Diluted income per common share	\$ 0.60	\$ 0.36

Weighted average number of shares and equivalent shares of common
stock outstanding:

Basic	2,981,188	2,765,277
Diluted	3,039,442	2,775,062

See accompanying notes to consolidated financial statements

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CTI Industries Corporation and Subsidiaries

Consolidated Statements of Stockholders' Equity and Comprehensive Income (Loss)

CTI Industries Corporation									
	Common Stock		Value of warrants		Accumulated		Less		Noncontrolling
	Shares	Amount	Paid-in Capital	issued in connection with subordinated debt	accumulated deficit	Other Comprehensive Loss	Treasury Shares	Stock Amount	Interest
Balance, December 31, 2008	2,808,720	\$3,764,020	\$8,703,265	\$443,313	\$(3,209,868)	\$(1,966,130)	-	\$-	\$12,7
Adjustment to stock issued for services in the prior year			\$(96,688)						
Compensation relating to Option Issuance			\$87,369						
Stock Buybacks							(70,657)	\$(128,446)	
Net Income					\$1,003,140				\$3,80
Other comprehensive income, net of taxes									
Unrealized gain on derivative instruments						\$152,830			
Foreign currency translation						\$9,858			
Total comprehensive income									
Balance, December 31, 2009	2,808,720	\$3,764,020	\$8,693,946	\$443,313	\$(2,206,728)	\$(1,803,442)	(70,657)	\$(128,446)	\$16,5
Adjustment to Paid-in-Capital for no-par		\$8,007,819	\$(8,007,819)						

shares