

CTI INDUSTRIES CORP  
Form 8-K  
September 11, 2006

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**  
Washington, D.C. 20549

**FORM 8-K**

**CURRENT REPORT**

Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): **September 5, 2006**

**CTI INDUSTRIES CORPORATION**  
(Exact name of registrant as specified in its charter)

<b><u>Illinois</u></b>	<b><u>0-23115</u></b>	<b><u>36-2848943</u></b>
(State or other jurisdiction of incorporation)	(Commission File Number)	(IRS Employer Identification No.)

<b><u>22160 North Pepper Road, Barrington, IL</u></b>	<b><u>60010</u></b>
(Address of principal executive offices)	(Zip Code)

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

**N/A**  
(Former name or former address, if changed since last report.)

Check the appropriate box below if the Form 8-K is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- ☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
  - ☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17CFR 240.14a-12)
  - ☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
  - ☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
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Item No. 4.02 - Non-Reliance on Previously Issued Financial Statements or a Related Audit Report or Completed Interim Review

(a) On September 5, 2006, in connection with a review of comments received from the Securities and Exchange Commission related to the Company's Annual Report on Form 10-K for the year ended December 31, 2005 and its Report on Form 10-Q for the quarterly period ended March 31, 2006, after consultation with the Company's independent registered public accounting firm, management and the Board of Directors determined that there were incorrect classifications in the calculation of Loss from Operations in the Company's Consolidated Statement of Operations for the years ended December 31, 2004 and 2003, and that there were incorrect classifications in the calculation of certain items in the Consolidated Statements of Cash Flows for the years ended December 31, 2005, 2004 and 2003.

With respect to the incorrect classifications in the calculation of Loss from Operations for 2004 and 2003, the incorrect classifications resulted from the fact that certain items of gain from the sale of assets and other items of income were classified as Other Income Expense and were not included in Loss from Operations. These incorrect classifications in classification did not result in any error in the reporting of Net Loss or Loss per share for those years.

With respect to the incorrect classifications in the calculation of items in the Consolidated Cash Flows for the years ended December 31, 2005, 2004 and 2003, the incorrect classifications resulted from the method used to calculate the effect of changes in the exchange rate of foreign currencies on items of cash flow.

Management and the Board of Directors of the Company have discussed the matters disclosed in this Report with the Company's independent registered public accounting firms, Weiser LLP pertaining to 2005 and 2004, and Eisner LLP pertaining to 2003.

Accordingly, the audited Consolidated Statements of Cash Flows and Statements of Operations incorporated in the Company's Annual Report on Form 10-K for the year ended December 31, 2005 should not be relied upon. The Company intends to effect the restatement through filing an amended Annual Report on Form 10-K for the year ended December 31, 2005.

The Company issued a press release on September 11, 2006, a copy of which is attached as Exhibit 99 hereto and is incorporated herein by reference.

The following tables summarize the impact of the restatements:

Item No. 9.01 - Financial Statements and Exhibits**CTI Industries Corporation and  
Subsidiaries****2005 Summary Consolidated  
Statement of Cash Flows**

	As Reported	Adjustments	As Restated
Cash flows from operating activities:			
Net loss	\$ (333,209)	0	(333,209)
Adjustment to reconcile net loss to cash provided by (used in) operating activities:			
Depreciation and amortization	1,463,369	16,547	1,479,916
Deferred gain on sale/leaseback	0	0	
Amortization of debt discount	35,967	0	35,967
Minority interest in loss of subsidiary	65	0	65
Loss on asset impairment	124,000	0	124,000
Provision for losses on accounts receivable	145,000	0	145,000
Provision for losses on inventories	205,000	0	205,000
Shares issued for services	200,916	0	200,916
Deferred income taxes	(200,392)	0	(200,392)
Change in operating assets and liabilities:		0	
Accounts receivable	1,634,466	46,151	1,680,617
Inventories	1,120,925	8,669	1,129,594
Other assets	205,731	(38,399)	167,332
Trade payables, accrued and other liabilities	(1,862,861)	(113,446)	(1,976,307)
Net cash provided by (used in) operating activities	2,738,977	(80,478)	2,658,499
Cash flows from investing activities:			
Purchases of property, plant and equipment	(549,547)	(1,709)	(551,256)
Proceeds from sale of property, plant and equipment	151,206	0	151,206
Net cash used in investing activities	(398,341)	(1,709)	(400,050)
Cash flows from financing activities:			
Checks written in excess of bank balance	(13,378)	(847)	(14,225)
Net change in revolving line of credit	(1,350,472)	0	(1,350,472)
	300,439	(69,047)	231,392

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Proceeds from issuance of long-term  
debt (Received from related parties  
559,000)

Repayment of long-term debt	(811,776)	(39,210)	(850,986)
Repayment of short-term debt (Related parties 60,000 in 2005)	(402,324)	0	(402,324)
Proceeds from exercise of stock options	53,501	0	53,501
Collection of stockholder note	0	0	
Cash paid for deferred financing fees	(141,316)	0	(141,316)
Net cash (used in) provided by financing activities	(2,365,326)	(109,104)	(2,474,430)
Effect of exchange rate changes on cash	(239,797)	191,291	(48,506)
Net (decrease) increase in cash	(264,487)	0	(264,487)