

CTI INDUSTRIES CORP
Form S-1
December 29, 2006

As filed with the U.S. Securities and Exchange Commission on December 28, 2006

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM S-1
REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933, AS AMENDED

<u>Illinois</u> (State or Other Jurisdiction of Incorporation or Organization)	<u>CTI INDUSTRIES CORPORATION</u> (Name of Registrant in Our Charter)	<u>36-2848943</u> (I.R.S. Employer Identification No.)
22160 North Pepper Road Barrington, Illinois 60010 (847) 382-1000 (Address and telephone number of Principal Executive Offices and Principal Place of Business)	3069 (Primary Standard Industrial Classification Code Number)	Stephen M. Merrick 22160 North Pepper Road Barrington, Illinois 60010 (847) 382-1000 (Name, address and telephone number of agent for service)

With copies to:

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Approximate date of commencement of proposed sale to the public: As soon as practicable after this Registration Statement becomes effective.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, as amended (the "Securities Act") check the following box. o

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act Registration Statement number of the earlier effective Registration Statement for the same offering. o

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act Registration Statement number of the earlier effective Registration Statement for the same offering. o

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act Registration Statement number of the earlier effective Registration Statement for the same offering. o

CALCULATION OF REGISTRATION FEE

Title Of Each Class Of Securities To Be Registered	Amount To Be Registered	Proposed Maximum Offering Price Per Share⁽¹⁾	Proposed Maximum Aggregate Offering Price⁽¹⁾	Amount Of Registration Fee⁽²⁾
Common Stock, no par value	403,500 ⁽³⁾ shares	\$ 4.59	\$ 1,852,065	\$ 198.17
TOTAL	403,500 ⁽³⁾ shares	\$ 4.59	\$ 1,852,065	\$ 198.17

(1) Estimated solely for the purpose of calculating the registration fee pursuant to Rule 457(c) under the Securities Act of 1933, as amended. For the purposes of this table, we have used the last reported sale price at November 27, 2006. (Above calculations are not net of fees.)

(2) 400,000 of these shares are being registered pursuant to the Standby Equity Distribution Agreement (the "SEDA") with Cornell Capital Partners, LP and 3,500 of these shares are being registered pursuant to a Placement Agent Agreement in connection with the SEDA.

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933, as amended, or until this Registration Statement shall become effective on such date as the SEC, acting pursuant to said Section 8(a), may determine.

PROSPECTUS

Subject to completion, dated December 28, 2006

CTI INDUSTRIES CORPORATION
403,500 shares of Common Stock

This prospectus (this “Prospectus”) relates to the sale of up to 403,500 shares of common stock of CTI Industries Corporation (“CTI” or the “Company”) by certain persons who are shareholders of the Company, including (a) Cornell Capital Partners, LP (“Cornell Capital”), a shareholder who intends to sell up to 400,000 shares of common stock pursuant to a Standby Equity Distribution Agreement (also referred to herein as the “SEDA”), dated June 6, 2006, by and between the Company and Cornell Capital and (b) Newbridge Securities Corporation (“Newbridge”), a shareholder who intends to sell 3,500 shares of common stock which have been issued by the Company to Newbridge pursuant to a Placement Agent Agreement in connection with the SEDA. Please refer to “Selling Shareholders” beginning on page 26. All costs associated with this registration will be borne by the Company.

The shares of common stock are being offered for sale by the selling shareholders at prices established on the NASDAQ Capital Market (NASDAQ-CM) during the term of this offering. On November 27, 2006, the last reported sale price of our common stock was \$4.59 per share. Our common stock is quoted on the NASDAQ-CM under the symbol “CTIB”. These prices will fluctuate based on the demand for the shares of common stock.

Cornell Capital is an “underwriter” within the meaning of the Securities Act of 1933, as amended (the “Securities Act”), in connection with the sale of common stock under the Standby Equity Distribution Agreement.

Brokers or dealers effecting transactions in these shares should confirm that the shares are registered under the applicable state law or that an exemption from registration is available.

These securities are speculative and involve a high degree of risk.

Please refer to “Risk Factors” beginning on page 9.

With the exception of Cornell Capital, which is an “underwriter” within the meaning of the Securities Act, no other underwriter or person has been engaged to facilitate the sale of shares of common stock in this offering. This offering will terminate twenty-four (24) months after the accompanying Registration Statement is declared effective by the U.S. Securities and Exchange Commission (the “SEC”). None of the proceeds from the sale of stock by the selling shareholders will be placed in escrow, trust or any similar account.

The SEC and state securities regulators have not approved or disapproved of these securities, or determined if this Prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The information in this Prospectus is not complete and may be changed. Neither the selling shareholder nor we may sell these securities until the Registration Statement filed with the SEC is effective. This Prospectus is not an offer to sell these securities and we are not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

The date of this Prospectus is December 28, 2006.

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PROSPECTUS SUMMARY

Introduction

This offering relates to the sale of common stock by certain persons who are shareholders of the Company, including (a) Cornell Capital, who intends to sell up to 400,000 shares of the Company's common stock under the Standby Equity Distribution Agreement, dated as of June 6, 2006, by and between the Company and Cornell Capital and (b) Newbridge, who intends to sell 3,500 shares of common stock which have been issued by the Company to Newbridge pursuant to a Placement Agent Agreement in connection with the SEDA. The shares of common stock are being offered for sale by the selling shareholders at prices established on the NASDAQ Capital Market during the term of this offering.

Overview

The Company produces film products for novelty, packaging and container applications. These products include metalized balloons, latex balloons and related latex toy products, films for packaging applications, and flexible containers for packaging and storage applications. We produce all of our film products for packaging and container applications at our plant in 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 metalized balloons and latex balloons - in the United States, Mexico, the United Kingdom and a number of additional 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 (i) use them for packaging of food or other items or (ii) market them to consumers who use them for the storage of personal items. We also market containers to and through retail outlets for use by consumers with sealing devices to store food items in their homes. In March 2006, we announced that we are completing the development of, and will produce, market and sell a line of pouches for use by consumers to store food items. The pouches include a resealable closure system and a valve permitting the evacuation of air from the pouch by a small pump device which we will also supply.

We were organized in 1976 and, initially, engaged in the business of manufacturing "bag-in-box" plastic packaging systems. We sold our assets related to bag-in-box packaging systems in 1985. 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 1994, we sold our latex balloon manufacturing equipment to a company in Mexico and entered into an arrangement for that company to manufacture latex balloons for us. Since 1997, we have manufactured latex balloons in Mexico through a majority-owned subsidiary.

We market and sell our metalized 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 and drugstore chains, grocery chains, card and gift shops, and party goods stores, as well as through florists and balloon decorators.

Most of our metalized balloons contain printed characters, designs and social expression messages, such as “Happy Birthday”, “Get Well Soon” and similar items. In a number of cases, we obtain licenses for well-known characters and print those characters and messages on our balloons. Currently, we maintain licenses for Garfield®, Face Offs-Tudes®, Miss Spider and Sunny Patch Friends® and Andrea Mistretta. In the United Kingdom, we maintain licenses on Postman Pat®, The Crazy Frog® and Dream Fairies®.

Balloons and novelty items accounted for fifty-seven percent (57%) of our revenues in 2005. For the nine months ending September 30, 2006 balloon and novelty items accounted for 63% of our sales. The remaining revenues are generated from the sale of laminated film products, generally intended for use in the packaging of foods, liquids and other materials. We provide laminated films, often printed film, 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 consumer storage devices for clothing and other household items, (ii) as vacuumable pouches for household use in storage of food items and (iii) as “dunnage” items which, when inflated, cushion products in a package or container. In 2005, our revenues from these products represented approximately forty percent (40%) of our net revenues.

About Us

Our principal executive offices are located at 22160 North Pepper Road, Barrington, Illinois 60010. Our telephone number is (847) 382-1000. The address of our website is www.ctiindustries.com. Information on our website is not part of this Prospectus.

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THE OFFERING

This offering relates to the sale of common stock by certain persons who are shareholders of the Company, including (a) Cornell Capital, who intends to sell up to 400,000 shares of common stock pursuant to the Standby Equity Distribution Agreement, dated June 6, 2006, by and between the Company and Cornell Capital (also referred to herein as the “SEDA”) and (b) Newbridge, who intends to sell 3,500 shares of common stock which have been issued pursuant to a Placement Agent Agreement in connection with the SEDA.

On June 6, 2006 (the “Closing Date”), the Company entered into the Standby Equity Distribution Agreement with Cornell Capital pursuant to which the Company may, at its discretion, periodically sell to Cornell Capital shares of its common stock, no par value per share, for a total purchase price of up to Five Million Dollars (\$5,000,000). For each share of common stock purchased under the SEDA, Cornell Capital will pay to the Company one hundred percent (100%) of the lowest volume weighted average price (as quoted by Bloomberg, LP) of the Company’s common stock on the principal market (whichever is at such time the principal trading exchange or market for the common stock) during the five (5) consecutive trading days after the Advance Notice Date (as such term is defined in the SEDA). However, the Company and Cornell Capital have agreed that the Company will not sell to Cornell Capital in excess of 400,000 shares unless and until the Company shall have obtained shareholder approval for such sales.

Cornell Capital will retain five percent (5%) of each advance under the SEDA as an underwriting discount. The Company has paid to Yorkville Advisors, LLC (“Yorkville”) a structuring fee equal to Fifteen Thousand Dollars (\$15,000) on the Closing Date and shall pay Five Hundred Dollars (\$500) to Yorkville on each Advance Date directly out of the gross proceeds of each Advance (as such terms are defined in the SEDA). The Company also entered into that certain Placement Agent Agreement (hereinafter the “PAA”), dated as of the Closing Date, by and among the Company, Cornell Capital and Newbridge pursuant to which the Company engaged Newbridge to act as its exclusive placement agent in connection with the SEDA. Upon the execution of the PAA, the Company issued to Newbridge Three Thousand Five Hundred (3,500) shares (the “Newbridge Shares”) of the Company’s common stock. Newbridge is entitled to “piggy-back” registration rights with respect to the Newbridge Shares and such Newbridge Shares are being registered in this offering.

At an assumed offering price of \$4.59 per share (the last reported sale price on November 27, 2006), as determined under the Standby Equity Distribution Agreement, CTI will be able to receive up to \$1,836,000 in gross proceeds, assuming the sale of the entire 400,000 shares being registered in this Registration Statement pursuant to the SEDA. The Company would be required to register 689,325 additional shares to obtain the balance of \$5 million available under the SEDA at an assumed offering price of \$4.59. Based on the limited number of available authorized shares of common stock, CTI may need to obtain shareholder approval to increase the authorized shares of common stock to access additional amounts under the SEDA. If CTI drew down on the entire \$5 million available under the Standby Equity Distribution Agreement, Cornell Capital would receive an aggregate underwriting discount equal to \$250,000.

There are substantial risks to investors as a result of the issuance of shares of common stock under the SEDA. These risks include dilution of shareholders, significant decline in CTI’s stock price and our inability to draw sufficient funds when needed.

Cornell Capital will periodically purchase shares of common stock under the SEDA and will, in turn, sell such shares to investors in the market at the market price. This may cause our stock price to decline, which will require CTI to issue increasing numbers of shares to Cornell Capital to raise the same amount of funds, as our stock price declines. This inverse relationship is demonstrated by the following tables, which show the net cash to be received by CTI and the number of shares to be issued under the SEDA at an assumed offering price of \$4.59 per share and twenty-five percent (25%), fifty percent (50%) and seventy-five percent (75%) discounts to the assumed offering prices.

Net Cash To The Company

	Assumed Offering Price	75% of Assumed Offering Price	50% of Assumed Offering Price	25% of Assumed Offering Price
Purchase Price:	\$ 4.59	\$ 3.44	\$ 2.30	\$ 1.15
No. of Shares ⁽¹⁾ :	400,000	400,000	400,000	400,000
Total Outstanding ⁽²⁾ :	2,542,097	2,542,097	2,542,097	2,542,097
Percent Outstanding ⁽³⁾ :	15.74%	15.74%	15.74%	15.74%
Gross Cash to CTI:	\$ 1,836,000	\$ 1,376,000	\$ 920,000	\$ 460,000
Net Cash to CTI ⁽⁴⁾ :	\$ 1,659,200	\$ 1,222,200	\$ 789,000	\$ 352,000

(1) Represents the number of shares of common stock registered in the accompanying Registration Statement, which may be issued to Cornell Capital under the SEDA at the prices set forth in the table. Does not represent the 3500 shares issued to Newbridge Securities pursuant to the Placement Agent Agreement in connection with the SEDA.

(2) Represents the total number of shares of common stock outstanding at December 11, 2006 after the issuance of the shares to Cornell Capital under the SEDA.

(3) Represents the shares of common stock to be issued as a percentage of the total number of shares outstanding at December 11, 2006.

(4) Net cash equals the gross proceeds minus the five percent (5%) underwriting discount and minus \$85,000 in offering expenses.

Number Of Shares To Be Issued To Receive Gross Proceeds Of \$5 Million

	Assumed Offering Price	75% of Assumed Offering Price	50% of Assumed Offering Price	25% of Assumed Offering Price
Purchase Price:	\$ 4.59	\$ 3.44	\$ 2.30	