

CTI INDUSTRIES CORP
Form 10-Q
May 15, 2014

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2014

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)

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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)

(847) 382-1000

(Registrant's telephone number, including area code)

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 Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) 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 whether the Registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer, or a smaller reporting company. See definition of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

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

The number of shares outstanding of the Registrant's common stock as of May 1, 2014 was 3,301,116.

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PART 1 - FINANCIAL INFORMATION**Item 1. Financial Statements****CTI Industries Corporation and Subsidiaries****Condensed Consolidated Balance Sheets**

	March 31, 2014 (unaudited)	December 31, 2013
ASSETS		
Current assets:		
Cash and cash equivalents (VIE \$6,000 and \$54,000, respectively)	\$ 427,601	\$ 666,616
Accounts receivable, (less allowance for doubtful accounts of \$220,000 and \$217,000, respectively) (VIE \$33,000 and \$0, respectively)	9,236,593	8,883,106
Inventories, net (VIE \$543,000 and \$390,000, respectively)	15,842,318	15,428,413
Net deferred income tax asset	827,735	931,245
Prepaid expenses (VIE \$3,000 and \$3,000, respectively)	1,139,525	1,315,384
Other current assets (VIE \$76,000 and \$76,000, respectively)	765,842	945,914
Total current assets	28,239,614	28,170,678
Property, plant and equipment:		
Machinery and equipment (VIE \$723,000 and \$723,000, respectively)	26,984,326	26,639,722
Building	3,360,017	3,360,017
Office furniture and equipment (VIE \$40,000 and \$39,000, respectively)	3,381,277	3,287,951
Intellectual property	482,088	482,088
Land	250,000	250,000
Leasehold improvements	657,340	586,515
Fixtures and equipment at customer locations	2,784,419	2,784,419
Projects under construction	916,924	1,009,623
	38,816,391	38,400,335
Less : accumulated depreciation and amortization	(30,244,809)	(29,718,564)
Total property, plant and equipment, net	8,571,582	8,681,771
Other assets:		
Deferred financing costs, net	179,318	197,585
Goodwill (VIE \$440,000 and \$440,000, respectively)	1,473,176	1,473,176
Net deferred income tax asset	553,020	317,639
Other assets (due from related party \$24,000 and \$24,000, respectively)	176,380	230,651

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Total other assets	2,381,894	2,219,051
TOTAL ASSETS	\$ 39,193,090	\$ 39,071,500
LIABILITIES AND EQUITY		
Current liabilities:		
Checks written in excess of bank balance	\$ 433,570	\$ 704,757
Trade payables (VIE \$238,000 and \$94,000, respectively)	5,768,264	3,573,007
Line of credit (VIE \$499,000 and \$219,000, respectively)	6,881,023	8,769,024
Notes payable - current portion (net discount of \$130,000 and \$125,000, respectively) (VIE \$109,000 and \$107,000, respectively)	339,669	342,931
Notes payable - officers, current portion	-	-
Notes payable affiliates - current portion	9,347	9,079
Capital Lease - current portion	31,010	30,487
Accrued liabilities (VIE \$79,000 and \$73,000, respectively)	3,046,196	3,003,704
Total current liabilities	16,509,079	16,432,989
Long-term liabilities:		
Notes payable - affiliates	296,439	281,148
Notes payable, net of current portion (net discount of \$395,000 and \$430,000, respectively) (VIE \$413,000 and \$441,000, respectively)	7,427,630	7,511,383
Notes payable - officers, subordinated	1,175,368	1,155,705
Capital Lease	101,719	109,670
Total long-term debt, net of current portion	9,001,156	9,057,906
Warrants Payable	778,667	816,480
Total long-term liabilities	9,779,823	9,874,386
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, 3,376,743 and 3,320,773 shares issued and 3,304,616 and 3,248,646 outstanding, respectively	13,775,994	13,775,994
Paid-in-capital	1,488,244	1,165,549
Accumulated earnings	154,560	109,137
Accumulated other comprehensive loss	(2,441,593)	(2,253,501)
Less: Treasury stock, 72,127 shares	(141,289)	(141,289)
Total CTI Industries Corporation stockholders' equity	12,835,916	12,655,890
Noncontrolling interest	68,272	108,235
Total Equity	12,904,188	12,764,125
TOTAL LIABILITIES AND EQUITY	\$ 39,193,090	\$ 39,071,500

See accompanying notes to condensed consolidated unaudited financial statements

CTI Industries Corporation and Subsidiaries
Condensed Consolidated Statements of Comprehensive Income (Unaudited)

	For the Three Months Ended March	
	31, 2014	2013
Net Sales	\$ 14,920,330	\$ 13,344,766
Cost of Sales	11,422,921	10,370,749
Gross profit	3,497,409	2,974,017
Operating expenses:		
General and administrative	1,907,709	1,553,046
Selling	761,876	460,203
Advertising and marketing	501,874	430,617
Total operating expenses	3,171,459	2,443,866
Income from operations	325,950	530,151
Other (expense) income:		
Interest expense	(307,023) (473,511
Interest income	5,536	5,536
Foreign currency (loss) gain	(5,179) 144,524
Total other expense, net	(306,666) (323,451
Net income before taxes	19,284	206,700
Income tax (benefit) expense	(2,177) 85,768
Net income	21,461	120,932
Less: Net income attributable to noncontrolling interest	(23,962) (9,400
Net income attributable to CTI Industries Corporation	\$ 45,423	\$ 130,332
Other Comprehensive (Loss) Income		
Foreign currency adjustment	(188,092) (30,400
Comprehensive (loss) income	\$ (142,669) \$ 99,932
Basic income per common share	\$ 0.01	\$ 0.04

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Diluted income per common share	\$ 0.01	\$ 0.04
Weighted average number of shares and equivalent shares of common stock outstanding:		
Basic	3,249,268	3,248,646
Diluted	3,413,800	3,415,911

See accompanying notes to condensed consolidated unaudited financial statements

CTI Industries Corporation and Subsidiaries

Condensed Consolidated Statements of Cash Flows (Unaudited)

	For the Three Months Ended March 31,	
	2014	2013
Cash flows from operating activities:		
Net income	\$ 21,461	\$ 120,932
Adjustment to reconcile net income to cash provided by operating activities:		
Depreciation and amortization	542,573	479,403
Amortization of debt discount	29,570	26,968
Change in value of swap agreement	(19,132)	(14,012)
Stock based compensation	22,695	36,620
Provision for losses on accounts receivable	35,480	19,611
Provision for losses on inventories	24,160	57,455
Deferred income taxes	(134,870)	(15,924)
Change in assets and liabilities:		
Accounts receivable	(375,098)	(549,557)
Inventories	(432,763)	60,167
Prepaid expenses and other assets	411,858	251,099
Trade payables	2,077,911	(360,535)
Accrued liabilities	(180,272)	3,037
Net cash provided by operating activities	2,023,573	115,264
Cash used in investing activities - purchases of property, plant and equipment		
	(304,096)	(460,170)
Cash flows from financing activities:		
Change in checks written in excess of bank balance	(271,986)	512,706
Net change in revolving line of credit	(1,887,980)	57,657
Proceeds from issuance of long-term debt	34,664	9,461
Repayment of long-term debt (related parties \$12,000 and \$29,000)	(123,427)	(145,584)
Dividends paid	(14,299)	-
Proceeds from issuance of stock, net	300,000	-
Net cash (used in) provided by financing activities	(1,963,028)	434,240
Effect of exchange rate changes on cash	4,536	7,534
Net (decrease) increase in cash and cash equivalents	(239,015)	96,868
Cash and cash equivalents at beginning of period	666,616	351,064
Cash and cash equivalents at end of period	\$ 427,601	\$ 447,932

Supplemental disclosure of cash flow information:

Cash payments for interest	\$ 314,724	\$ 288,313
Cash payments for taxes	\$ 55,466	\$ 25,000
Supplemental Disclosure of non-cash investing and financing activity		
Property, Plant & Equipment acquisitions funded by liabilities	\$ 135,498	\$ 106,793

See accompanying notes to condensed consolidated unaudited financial statements

CTI Industries Corporation and Subsidiaries**Condensed Consolidated Earnings per Share (unaudited)**

	For the Three Months Ended March	
	31,	
	2014	2013
Basic		
Average shares outstanding:		
Weighted average number of common shares outstanding	3,249,268	3,248,646
Net income:		
Net income attributable to CTI Industries Corporation	\$ 45,423	\$ 130,332
Per share amount	\$ 0.01	\$ 0.04
Diluted		
Average shares outstanding:		
Weighted average number of common shares outstanding	3,249,268	3,248,646
Effect of dilutive shares	164,532	167,265
Weighted average number of shares and equivalent shares of common stock outstanding	3,413,800	3,415,911
Net income:		
Net income attributable to CTI Industries Corporation	\$ 45,423	\$ 130,332
Per share amount	\$ 0.01	\$ 0.04

See accompanying notes to condensed consolidated unaudited financial statements

CTI Industries Corporation and Subsidiaries

Notes to Unaudited Condensed Consolidated Financial Statements

Note 1 - Basis of Presentation

The accompanying condensed (a) consolidated balance sheet as of December 31, 2013, which has been derived from audited consolidated financial statements, and (b) the unaudited interim condensed consolidated financial statements have been prepared and, in the opinion of management, contain all the adjustments (consisting of those of a normal recurring nature) considered necessary to present fairly the consolidated financial position and the consolidated statements of comprehensive income and consolidated cash flows for the periods presented in conformity with generally accepted accounting principles for interim consolidated financial information and the instructions to Form 10-Q and Article 8 of Regulation S-X. Accordingly, they do not include all the information and footnotes required by accounting principles generally accepted in the United States of America. Operating results for the three months ended March 31, 2014 are not necessarily indicative of the results that may be expected for the fiscal year ending December 31, 2014. It is suggested that these condensed consolidated financial statements be read in conjunction with the consolidated financial statements and notes thereto included in the Company's annual report on Form 10-K for the fiscal year ended December 31, 2013.

Principles of consolidation and nature of operations:

The condensed consolidated financial statements include the accounts of CTI Industries Corporation and its wholly-owned subsidiaries, CTI Balloons Limited, CTI Helium, Inc. and CTF International S.A. de C.V., its majority-owned subsidiaries CTI Mexico S.A. de C.V., Flexo Universal, S.A. de C.V. and CTI Europe gmbH, as well as the accounts of Venture Leasing S. A. de R. L., Venture Leasing L.L.C and Clever Container Company, L.L.C. (the "Company"). The last three entities have been consolidated as variable interest entities. All significant intercompany transactions and accounts have been eliminated in consolidation. The Company (i) designs, manufactures and distributes balloon products throughout the world and (ii) operates systems for the production, lamination, coating and printing of films used for food packaging and other commercial uses and for conversion of films to flexible packaging containers and other products.

Variable Interest Entities ("VIE's"):

The determination of whether or not to consolidate a variable interest entity under U.S. GAAP requires a significant amount of judgment concerning the degree of control over an entity by its holders of variable interest. To make these judgments, management has conducted an analysis of the relationship of the holders of variable interest to each other,

the design of the entity, the expected operations of the entity, which holder of variable interests is most “closely associated” to the entity and which holder of variable interests is the primary beneficiary required to consolidate the entity. Upon the occurrence of certain events, management reviews and reconsiders its previous conclusion regarding the status of an entity as a variable interest entity. There are three entities that have been consolidated as variable interest entities.

Use of estimates:

In preparing condensed consolidated financial statements in conformity with accounting principles generally accepted in the United States of America, management makes estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the condensed consolidated financial statements and the reported amount of revenue and expenses during the reporting period in the condensed consolidated financial statements and accompanying notes. Actual results may differ from those estimates. The Company's significant estimates include reserves for doubtful accounts, reserves for the lower of cost or market of inventory, reserves for deferred tax assets and recovery value of goodwill.

Earnings per share:

Basic earnings per share is computed by dividing net income by the weighted average number of shares of common stock outstanding during each period.

Diluted earnings per share is computed by dividing the net income by the weighted average number of shares of common stock and equivalents (stock options and warrants), unless anti-dilutive, during each period.

As of March 31, 2014 and 2013, shares to be issued upon the exercise of options and warrants aggregated 368,548 and 358,548, respectively. The number of anti-dilutive shares (not included in the determination of earnings on a diluted basis) for the three months ended March 31, 2014 and 2013, were 90,000 and 80,000, respectively, all of which were represented by options.

Significant Accounting Policies:

The Company's significant accounting policies are summarized in Note 2 of the Company's consolidated financial statements for the year ended December 31, 2013. There were no significant changes to these accounting policies during the three months ended March 31, 2014.

Note 2 - Stock-Based Compensation; Changes in Equity

The Company has adopted Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) Topic 718 which requires all share-based payments to employees, including grants of employee stock options, to be recognized in the condensed consolidated financial statements based on their grant-date fair values.

The Company has applied the Black-Scholes model to value stock-based awards and issued warrants related to notes payable. That model incorporates various assumptions in the valuation of stock-based awards relating to the risk-free rate of interest to be applied, the estimated dividend yield and expected volatility of our common stock. The risk-free rate of interest is the related U.S. Treasury yield curve for periods within the expected term of the option at the time of grant. The dividend yield on our common stock is estimated to be 0%, as the Company did not issue dividends during 2014 and 2013. The expected volatility is based on historical volatility of the Company’s common stock.

The Company's net income for the three months ended March 31, 2014 and 2013 includes approximately \$23,000 and \$37,000, respectively of compensation costs related to share based payments. As of March 31, 2014 there is \$98,000 of unrecognized compensation expense related to non-vested stock option grants and stock grants. We expect approximately \$55,000 of additional stock-based compensation expense to be recognized over the remainder of 2014, \$29,000 to be recognized during 2015, \$11,000 to be recognized during 2016, and \$3,000 to be recognized during 2017.

As of March 31, 2014, the Company had three stock-based compensation plans pursuant to which stock options were, or may be, granted. The Plans provide for the award of options, which may either be incentive stock options ("ISOs") within the meaning of Section 422A of the Internal Revenue Code of 1986, as amended (the "Code") or non-qualified options ("NQOs") which are not subject to special tax treatment under the Code, as well as for stock grants.

On April 12, 2001, the Board of Directors approved for adoption, effective December 27, 2001, the 2001 Stock Option Plan ("2001 Plan"). The 2001 Plan authorizes the grant of options to purchase up to an aggregate of 119,050, shares of the Company's Common Stock. As of March 31, 2014, options for 139,958 shares (including cancelled shares re-issued under the Plan) have been granted and were fully vested at the time of grant and options for 2,000 shares remain outstanding.

On April 24, 2002, the Board of Directors approved for adoption, effective October 12, 2002, the 2002 Stock Option Plan ("2002 Plan"). The 2002 Plan authorizes the grant of options to purchase up to an aggregate of 142,860 shares of the Company's Common Stock. As of March 31, 2014, options for 123,430 shares have been granted and were fully vested at the time of grant and options for 27,500 shares remain outstanding.

On April 10, 2009, the Board of Directors approved for adoption, and on June 5, 2009, the shareholders of the Corporation approved, a 2009 Stock Incentive Plan ("2009 Plan"). The 2009 Plan authorizes the issuance of up to 250,000 shares of stock or options to purchase stock of the Company. As of March 31, 2014, options for 201,000 shares had been granted and options for 199,000 shares remain outstanding.

A summary of the Company's stock option activity and related information is as follows:

	Shares under Option	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life	Aggregate Intrinsic Value
Balance at December 31, 2013	228,500	\$ 5.23	3.0	\$ 161,250
Granted	-	-		
Cancelled	-	-		
Exercised	-	-		
Outstanding at March 31, 2014	228,500	\$ 5.23	2.8	\$ 122,955
Exercisable at March 31, 2014	96,382	\$ 4.84	2.2	\$ 88,075

On July 17, 2012, the Company entered into a Note and Warrant Purchase Agreement with BMO Equity pursuant to which (i) BMO Equity advanced to the Company the sum of \$5 million and (ii) the Company issued to BMO Equity a warrant to purchase up to Four Percent (4%) of the outstanding shares of common stock of the Company on a fully-diluted basis (140,048 shares of common stock of the Company) at the price of One Cent (\$0.01) per share. The term of the loan provided for in this Agreement is five and a half years. Interest is payable on the outstanding balance of the loan at the rate of 11.5% per annum.

On April 12, 2013, the Company entered into Amendment No. 1 to the Note and Warrant Purchase Agreement among the Company and BMO Equity. In the Amendment, non-compliance with financial covenants prior to the date of the Amendment were waived and the Note and Warrant Purchase Agreement was amended (i) to modify the Senior Leverage Ratio and Total Leverage Ratio requirements for the fiscal quarter ending June 30, 2013 and each quarter thereafter during the term of the Note and Warrant Purchase Agreement and (ii) to modify the definitions of EBITDA and Total Funded Debt.

A summary of the Company's stock warrant activity and related information is as follows:

	Shares under Warrant	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life	Aggregate Intrinsic Value
Balance at December 31, 2013	140,048	\$ 0.01	8.5	\$ 816,480
Granted	-	-		
Cancelled	-	-		

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Exercised	-	-		
Outstanding at March 31, 2014	140,048	\$ 0.01	8.3	\$ 778,667
Exercisable at March 31, 2014	-	-	-	-

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A summary of the Company's stock option activity by grant date as of March 31, 2014 is as follows:

Options by Grant Date	Options Outstanding				Options Vested			
	Shares	Weighted Avg.	Remain. Life	Intrinsic Val	Shares	Weighted Avg.	Remain. Life	Intrinsic Val
Dec 2005	29,500	\$ 2.88	1.8	\$79,355	29,500	\$ 2.88	1.8	\$ 79,355
Dec 2010	72,000	6.14	1.8	-	39,750	5.97	1.8	-
Jan 2011	8,000	5.96	1.8	-	5,332	5.96	1.8	-
Nov 2012	109,000	5.17	3.7	\$43,600	21,800	5.17	3.7	8,720
Nov 2013	10,000	5.75	4.6	-	-	-	-	-
TOTAL	228,500	\$ 5.23	2.8	\$122,955	96,382	\$ 4.84	2.2	\$ 88,075

The aggregate intrinsic value in the tables above represents the total pre-tax intrinsic value (the difference between the closing price of the Company's common stock on the last trading day of the quarter ended March 31, 2014 and the exercise price, multiplied by the number of in-the-money options) that would have been received by the option holders had all the holders exercised their options on March 31, 2014.

On August 16, 2013, the Company exchanged outstanding indebtedness of Flexo Universal, S.A. de C.V., the Company's majority-owned subsidiary ("Flexo"), to the Company in the principal amount of \$3,098,726 in exchange and subscription for 39,857,357 ordinary nominative shares, Series B of variable capital stock of Flexo having a par value of One Mexican Peso per share.

Note 3 - Legal Proceedings

The Company is party to certain claims or actions arising in the normal course of business. The ultimate outcome of these matters is unknown but, in the opinion of management, the resolution of these matters is not expected to have a significant effect on the future financial position or results of operations of the Company.

Note 4 - Other Comprehensive Income

In the three months ended March 31, 2014 the company had a comprehensive loss of \$188,000, respectively, all from foreign currency translation adjustments.

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The following table sets forth the accumulated balance of other comprehensive loss and each component.

	Foreign Currency Items	Total Accumulated Other Comprehensive Loss
Beginning balance as of January 1, 2014	\$ (2,253,501)	\$ (2,253,501)
Current period change, net of tax	(188,092)	(188,092)
Ending Balance as of March 31, 2014	\$ (2,441,593)	\$ (2,441,593)

Note 5 - Inventories, Net

	March 31, 2014	December 31, 2013
Raw materials	\$3,986,121	\$3,342,528
Work in process	1,447,394	1,149,704
Finished goods	11,170,779	11,673,872
Allowance for excess quantities	(761,976)	(737,691)
Total inventories	\$15,842,318	\$15,428,413

Note 6 - Geographic Segment Data

The Company has determined that it operates primarily in one business segment which designs, manufactures and distributes film and film related products for use in packaging, storage and novelty balloon products. The Company operates in foreign and domestic regions. Information about the Company's operations by geographic areas is as follows:

	Net Sales to Outside Customers For the Three Months Ended		Total Assets at	
	March 31, 2014	2013	March 31, 2014	December 31, 2013
United States	\$ 10,770,000	\$ 9,871,000	\$27,589,000	\$ 28,758,000
Europe	394,000	242,000	1,252,000	1,145,000
Mexico	2,830,000	2,586,000	8,624,000	8,144,000
United Kingdom	926,000	646,000	1,728,000	1,025,000
	\$ 14,920,000	\$ 13,345,000	\$39,139,000	\$ 39,072,000

Note 7 - Concentration of Credit Risk

Concentration of credit risk with respect to trade accounts receivable is generally limited due to the large number of entities comprising the Company's customer base. The Company performs ongoing credit evaluations and provides an allowance for potential credit losses against the portion of accounts receivable which is estimated to be uncollectible. Such losses have historically been within management's expectations. During the three months ended March 31, 2014, there were two customers whose purchases represented more than 10% of the Company's consolidated net sales. During the three ended March 31, 2013, there was one customer whose purchases represented more than 10% of the

Company's consolidated net sales, respectively. Sales to these customers for the three months ended March 31, 2014 and 2013 are as follows:

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Customer	Three Months Ended March 31, 2014		Three Months Ended March 31, 2013	
	Net Sales	% of Net Sales	Net Sales	% of Net Sales
Customer A	\$4,227,000	28.3%	\$4,873,000	36.5%
Customer B	\$1,784,000	12.0%	N/A	N/A

As of March 31, 2014, the total amounts owed to the Company by these customers were \$3,318,000 or 35.9%, and \$1,655,000 or 17.9% of the Company's consolidated net accounts receivable, respectively. The amount owed at March 31, 2013 by this customer was \$1,931,000 or 23.0% of the Company's consolidated net accounts receivable.

Note 8 - Related Party Transactions

Stephen M. Merrick, President of the Company, is of counsel to the law firm of Vanasco Genelly and Miller PC which provides legal services to the Company. Legal fees paid by the Company to this firm for the three months ended March 31, 2014 and 2013, respectively, were \$25,000 and \$33,000.

John H. Schwan, Chief Executive Officer of the Company, during a portion of 2013, was a principal of Shamrock Specialty Packaging and affiliated companies. The Company made payments for packaging materials, rent and temporary employees supplied by Shamrock of approximately \$454,000 during the three months ended March 31, 2014 and \$817,000 during the three months ended March 31, 2013. At March 31, 2014 and 2013, outstanding accounts payable balances were \$438,000 and \$523,000, respectively.

Interest payments have been made to John H. Schwan for loans made to the Company. During the three months ended March 31, 2014 and 2013 these interest payments totaled \$20,000 and \$19,000, respectively.

On July 1, 2011, Flexo Universal, S.A. de C.V. ("Flexo") entered into a lease agreement with Venture Leasing S.A. de R.L. ("Venture Leasing Mexico") for the lease of balloon production equipment financed and owned by Venture Leasing Mexico and used by Flexo for the production of latex balloons. Venture Leasing Mexico is wholly owned by entities owned by John H. Schwan, Chief Executive Officer of the Company and Stephen M. Merrick, President of the Company. Venture Leasing Mexico and Venture Leasing L.L.C., also owned by entities owned by Mr. Schwan and Mr. Merrick, are deemed variable interest entities and are consolidated with the accounts of the Company. During the three months ended March 31, 2014, Flexo made lease payments to Venture Leasing Mexico totaling \$36,000.

Note 9 - Derivative Instruments; Fair Value

The following tables represents information about the Company's assets and liabilities measured at fair value on a recurring basis as of March 31, 2014 and December 30, 2013, and indicate the fair value hierarchy of the valuation techniques utilized by the Company to determine such fair value:

Description	Amount as of			
	3/31/2014	Level 1	Level 2	Level 3
Interest Rate Swap	\$ 41,000	\$ -	\$41,000	\$ -
Warrant Liability	779,000	-	779,000	-
	\$ 820,000	\$ -	\$820,000	\$ -

Description	Amount as of			
	12/31/2013	Level 1	Level 2	Level 3
Interest Rate Swap	\$ 60,000	\$ -	\$60,000	\$ -
Warrant Liability	816,000	-	816,000	-
	\$ 876,000		\$876,000	

The Company is exposed to certain market risks including the effect of changes in interest rates. The Company uses derivative instruments to manage financial exposures that occur in the normal course of business. It does not hold or issue derivatives for speculative trading purposes. The Company is exposed to non-performance risk from the counterparties in its derivative instruments. This risk would be limited to any unrealized gains on current positions. To help mitigate this risk, the Company transacts only with counterparties that are rated as investment grade or higher and all counterparties are monitored on a continuous basis. The fair value of the Company's derivatives reflects this credit risk.

On July 1, 2011, the Company entered into a swap agreement with BMO Capital Markets with respect to \$6,780,000 of our loan balances with BMO Harris Bank N.A. This swap agreement limits the Company's exposure to interest rate fluctuations on the Company's floating rate loans. The swap agreement has the effect of fixing the interest rate on the loan balances covered by the swap at 4.65% per annum. The swap agreement is a derivative financial instrument and we determine and record the fair market value of the swap agreement each quarter. The value is recorded on the balance sheet of the Company and the amount of the unrealized gain or loss for each period is recorded as interest income or expense.

Fair Values of Derivative Instruments in the Statement of Financial Position

	Liability Derivatives as of		December 31, 2013	
	March 31, 2014		December 31, 2013	
Derivatives not designated as hedging instruments under Statement 133	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Interest Rate Contracts	Accrued Liabilities	\$41,000	Accrued Liabilities	\$60,000

The Effect of Derivative Instruments on the Statement of Financial Performance

	For the three months ended		March 31, 2013	
	March 31, 2014		March 31, 2013	
Derivatives not Designated as Hedging Instruments under Statement 133	Location of Gain (Loss) Recognized in Income on Derivative	Amount of Gain (Loss) Recognized in Income on Derivative	Location of Gain (Loss) Recognized in Income on Derivative	Amount of Gain (Loss) Recognized in Income on Derivative
Interest Rate Contracts	Interest Expense	\$1,000	Interest Expense	\$(5,000)
Interest on fixed/variable rate variances		\$21,000		\$19,000

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Forward Looking Statements

This quarterly 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 quarterly report on Form 10-Q. We disclaim any intent or obligation to update any forward-looking statements after the date of this quarterly report to conform such statements to actual results or to changes in our opinions or expectations.

Overview

We produce film products for novelty, packaging and container applications. These products include foil balloons, latex balloons and related latex toy products, films for packaging and custom product applications, and flexible containers for packaging and consumer storage applications. We produce all of our film products for packaging, container applications and foil balloons at our plant 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 and custom product applications are sold to customers in the United States. We market and sell our novelty items and flexible containers for consumer use in the United States, Mexico, Latin America, and Europe. We also market and sell vacuum sealing machines which we purchase from a supplier.

Results of Operations

Net Sales. For the three months ended March 31, 2014, net sales were \$14,920,000 compared to net sales of \$13,345,000 for the same period of 2013, an increase of 11.8%. For the quarters ended March 31, 2014 and 2013, net sales by product category were as follows:

Three Months Ended	
March 31, 2014	March 31, 2013

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Product Category	\$ (000) Omitted	% of Net Sales	\$ (000) Omitted	% of Net Sales
Foil Balloons	7,273	49%	6,782	51%
Latex Balloons	2,876	19%	2,992	22%
Vacuum Sealing Products	2,781	19%	1,929	15%
Film Products	851	6%	1,188	9%
Other Sales	1,139	7%	454	3%
Total	14,920	100%	13,345	100%

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Foil Balloons. During the three months ended March 31, 2014 revenues from the sale of foil balloons increased by 7.2% compared to the prior year period from \$6,782,000 to \$7,273,000. During the three months ended March 31, 2014, foil balloon sales to our largest customer decreased to \$4,125,000 from \$4,630,000 in the first quarter last year. However, sales of foil balloons to other customers were \$3,148,000 compared to \$2,152,000 for the same period last year. These included sales to various customers in the United States, Mexico, the United Kingdom and Europe, including increases in sales to existing customers and new customers in the United Kingdom and Europe.

Latex Balloons. During the three months ended March 31, 2014 revenues from the sale of latex balloons decreased by 3.9% compared to the prior year period from \$2,992,000 to \$2,876,000. The decrease is attributable to a decline in latex sales to various customers in the U.S. from \$778,000 during the three months ended March 31, 2013 to \$444,000 during the three months ended March 31, 2014.

Vacuum Sealing Products. During the three months ended March 31, 2014 revenues from the sale of pouches and vacuum sealing machines increased by 44.2% compared to the prior year from \$1,929,000 to \$2,781,000. Our sales in this product line in 2014 and 2013 have been in two product categories: (i) zippered pouches and (ii) vacuum sealing systems incorporating vacuum sealing machines and associated pouches and rolls of film. For the three months ended 2014 and 2013, sales of pouch products (and vacuum sealing machines) in these categories have been as follows:

	Three Months Ended March 31,	
	2014	2013
Zippered Pouches	\$ 806,000	\$ 698,000
Vacuum Sealing Products	1,975,000	1,231,000
Total	\$ 2,781,000	\$ 1,929,000

Zippered Pouches. Most of our sales of zippered pouches have been of branded products to a principal customer, although we have had limited sales of our ZipVac® pouch line as well.

Vacuum Sealing Systems. Since 2012, we have offered a line of vacuum sealing systems which include vacuum sealing machines and associated pouches and rolls of film.

In December, 2011, we entered into a Trademark License Agreement with S.C. Johnson & Son, Inc. pursuant to which we received a license to market and sell vacuum sealing machines as well as pouches and rolls of film for use with those machines, under the Ziploc brand name. In the first quarter 2012, we introduced and began to market and sell that branded line of vacuum sealing machines and associated open-top bags and rolls. Since that time, we have

offered our branded vacuum sealing system lines of product principally to chain stores in the United States, including several major chains.

Our sales of our branded vacuum sealing products increased from \$1.2 million during the three months ended March 31, 2013 to \$2.0 million during the same period this year, principally as the result of sales to a number of retail chain stores.

Films. During the three months ended March 31, 2014 revenues from the sale of laminated film products decreased by 28.4% compared to the prior year period from \$1,188,000 to \$851,000. The increase is attributable to a decrease in sales to a principal customer. Approximately 98.4% of the sales of laminated film products during the three months ended March 31, 2014 were to a principal customer.

Other Revenues. During the three months ended March 31, 2014, we had revenues from the sale of various other products totaling \$1,139,000 compared to revenues from other products in the same period during 2013 of \$454,000. The revenues from the sale of such other products during 2014 include (i) sales by a variable interest entity which we now consolidate with our financial results in the amount of \$541,000, (ii) sales of a line of “Candy Blossoms” and “Candy loons” consisting of candy and small inflated balloons sold in small containers, and (iii) the sale of accessories and supply items related to balloon products.

Sales to a limited number of customers continue to represent a large percentage of our net sales. The table below illustrates the impact on sales of our top three and ten customers for the three months ended March 31, 2014 and 2013.

	Three Months Ended March 31, % of Sales	
	2014	2013
Top 3 Customers	45.9%	50.8%
Top 10 Customers	64.3%	69.9%

During the three months ended March 31, 2014, there were two customers whose purchases represented more than 10% of the Company’s consolidated net sales. Sales to these customers for the three months ended March 31, 2014 were \$4,227,000 or 28.3%, and \$1,784,000 or 12.0%, of consolidated net sales, respectively. During the three months ended March 31, 2013, there was one customer whose purchases represented more than 10% of the Company’s consolidated net sales. Sales to this customer for the three months ended March 31, 2013, was \$4,873,000 or 36.5% of consolidated net sales. As of March 31, 2014, the total amounts owed to the Company by the top two customers were \$3,318,000 or 35.9%, and \$1,655,000 or 17.9%, of the Company’s consolidated net accounts receivable, respectively. The amount owed at March 31, 2013 by our largest customer was \$1,931,000 or 23.0%, of the Company’s consolidated net accounts receivable.

Cost of Sales. During the three months ended March 31, 2014, the cost of sales represented 76.6% of net sales compared to 77.7% for the three months ended March 31, 2013. The improvement in gross margins is attributable to (i) the sales by our Company, and the variable interest entity now consolidated with our financial results, of products having a greater gross margin rate than other products, and (ii) an increase in the gross margin at our Mexico subsidiary.

General and Administrative. During the three months ended March 31, 2014, general and administrative expenses were \$1,908,000 or 12.8% of net sales, compared to \$1,553,000 or 11.6% of net sales for the same period in 2013. The increase in general and administrative expenses is attributable principally to administrative expenses of \$272,000 of a variable interest entity which was consolidated with our financial statements beginning in the fourth quarter of 2013.

Selling. During the three months ended March 31, 2014, selling expenses were \$762,000 or 5.1% of net sales, compared to \$460,000 or 3.4% of net sales for the same period in 2013. The increase in selling expenses for the three month period is attributable principally to (i) an increase in royalty expenses of \$123,000, (ii) an increase in outside services of \$63,000, and (iii) selling expenses of a variable interest entity consolidated with our financial statements in the amount of \$50,000.

Advertising and Marketing. During the three months ended March 31, 2014, advertising and marketing expenses were \$502,000 or 3.4% of net sales for the period, compared to \$431,000 or 3.2% of net sales for the same period of 2013. The increase in advertising and marketing expense is attributable to (i) an increase in advertising related to the vacuum sealer machines of \$52,000, and (ii) an increase in artwork and films expense of \$31,000.

Other Income (Expense). During the three months ended March 31, 2014, the Company incurred net interest expense of \$301,000, compared to net interest expense during the same period of 2013 in the amount of \$468,000. The decrease in interest expense for the three months ended March 31, 2014 is attributable to a reduction in the amount of amortized debt discount we were required to recognize in relation to our mezzanine loan financing.

For the three months ended March 31, 2014, the Company had a foreign currency transaction loss of \$5,000 compared to a foreign currency transaction gain of \$145,000 during the same period of 2013.

Income Taxes. For the three months ended March 31, 2014, the Company reported a consolidated income tax benefit of \$2,000, compared to a consolidated income tax expense of \$86,000 for the same period of 2013. For the three months ended March 31, 2014, this income tax expense was composed of an income tax benefit in the United States, income tax expense in Mexico of Flexo Universal, our Mexican subsidiary, income tax expense in the United Kingdom of CTI Balloons Limited, our United Kingdom subsidiary, and income tax expense in Germany of CTI Europe, our Germany subsidiary.

Net Income. For the three months ended March 31, 2014, the Company had net income of \$45,000 or \$0.01 per share (basic and diluted), compared to net income of \$130,000 for the same period of 2013 or \$0.04 per share (basic and diluted). In the first quarter this year, the Company had income from operations of \$326,000 compared to income from operations in the first quarter of 2013 of \$530,000.

Financial Condition, Liquidity and Capital Resources

Cash Flow Items.

Operating Activities. During the three months ended March 31, 2014, net cash provided by operations was \$2,024,000, compared to net cash provided by operations during the three months ended March 31, 2013 of \$115,000.

Significant changes in working capital items during the three months ended March 31, 2014 consisted of (i) an increase in accounts receivable of \$375,000, (ii) an increase in inventories of \$433,000, (iii) depreciation and amortization in the amount of \$543,000, (iv) an increase in trade payables of \$2,078,000, and (v) a decrease in prepaid expenses and other assets of \$412,000.

Investing Activity. During the three months ended March 31, 2014, cash used in investing activity was \$304,000, compared to \$460,000 in the same period of 2013. Substantially all of this expense is related to equipment acquisitions and capitalized maintenance, leasehold improvements, tooling and related expense.

Financing Activities. During the three months ended March 31, 2014, cash used in financing activities was \$1,963,000 compared to cash provided by financing activities for the same period of 2013 in the amount of \$434,000. During the three months ended March 31, 2014, financing activities included proceeds from issuance of short-term debt of \$169,000, payment of \$123,000 on long-term debt obligations, and proceeds from issuance of stock of \$300,000.

Liquidity and Capital Resources. At March 31, 2014, the Company had cash balances of \$428,000 compared to cash balances of \$448,000 for the same period in 2013 and there was \$2,819,000 available to advance under the Company's revolving line of credit.

At March 31, 2014, the Company had a working capital balance of \$11,731,000 compared to a working capital balance of \$11,738,000 at December 31, 2013.

The Company's liquidity is dependent significantly on its bank financing and the Company relies on its revolving line of credit to maintain liquidity. On April 29, 2010, the Company entered into a Credit Agreement with BMO Harris Bank N.A. ("BMO Harris"). Under the Credit Agreement, BMO Harris agreed to provide loans and credits to the Company in the aggregate maximum amount of \$14,417,000. The arrangement included:

- i. A revolving credit up to a maximum amount of \$9,000,000 based upon a borrowing base of 85% of eligible receivables and 60% of eligible inventory (up to a maximum of \$5,000,000);
- ii. A mortgage loan in the principal amount of \$2,333,350, amortized over 25 years, the principal balance due on April 29, 2013;
- iii. A term loan in the principal amount of \$583,333 maturing in monthly principal installments of \$58,333; and
- iv. An equipment loan commitment in the amount of up to \$2,500,000 providing for loan advances from time to time until April 29, 2012 based upon 100% of the purchase price of equipment purchased, the loans to be amortized on a five year basis commencing April 29, 2012, the balance due on April 29, 2013.

The Credit Agreement included various representations, warranties and covenants of the Company, including various financial covenants.

In connection with the Credit Agreement, the Company executed and delivered to Harris, a Term Loan Note, a Mortgage Loan Note, an Equipment Note and a Revolving Note, as well as a form of Mortgage, Security Agreement, Pledge Agreement (pursuant to which shares of capital stock of the Registrant's Mexico subsidiary were pledged as security for the loans), Patent Security Agreement and Trademark Security Agreement. Two officers and principal shareholders of the Company, John H. Schwan and Stephen M. Merrick each executed Limited Guaranties of the loans and also executed Subordination Agreements with respect to obligations of the Company to them.

The Credit Agreement, as amended, provides that the outstanding balance of all loans under the agreement will bear interest with reference to a base rate or, at the option of the Company, with reference to an adjusted LIBOR. At March 31, 2014, the effective rate on the outstanding loan balances was 4.0%.

As of March 31, 2014, the outstanding balances on the loans with BMO Harris were: (i) revolving line of credit, \$6,217,000, (ii) mortgage loan, \$1,968,000, and (iii) equipment loan, \$804,000.

On July 1, 2011, we entered into a swap agreement with BMO Capital Markets with respect to \$6,780,000 of our loan balances with BMO Harris. This swap agreement is designated as a cash flow hedge to hedge the Company's exposure to interest rate fluctuations on the Company's floating rate loans. The swap agreement has the effect of fixing the interest rate on the loan balances covered by the swap at 4.65% per annum. The swap agreement is a derivative financial instrument and we will determine and record the fair market value of the swap agreement each quarter. This value will be recorded on the balance sheet of the Company and the amount of the unrealized gain or loss for each period will be recorded as interest income or expense.

On July 17, 2012, the Company entered into Amendment Number 3 to the Credit Agreement among the Company and BMO Harris pursuant to which (i) the amount of the loan commitment on the revolver loan of BMO Harris was increased from \$9 million to \$12 million, (ii) BMO Harris consented to a transaction among the Company and BMO Private Equity (U.S.), Inc. ("BMO Equity") and (iii) the term of credit and loans to the Company provided in the Credit Agreement and BMO Harris was extended to July 17, 2017.

Also, on July 17, 2012, the Company entered into a Note and Warrant Purchase Agreement with BMO Equity pursuant to which (i) BMO Equity advanced to the Company the sum of \$5 million and (ii) the Company issued to BMO Equity a warrant to purchase up to Four Percent (4%) of the outstanding shares of common stock of the Company on a fully-diluted basis (140,048 shares of common stock of the Company) at the price of One Cent (\$0.01) per share. The term of the loan provided for in this Agreement is five and a half years. Interest is payable on the

outstanding balance of the loan at the rate of 11.5% per annum.

The Note and Warrant Purchase Agreement included provisions for:

- (i) a closing fee of \$100,000

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- (ii) payment of the principal amount in five and a half years with optional prepayment subject to certain prepayment premiums;
- (iii) security for the note obligations in all assets of the Company junior to the security interest of BMO Harris;
- (iv) various representations and warranties and covenants of the Company;
- (v) financial covenants including an applicable senior leverage ratio, fixed charge coverage ratio and tangible net worth amount.

On April 12, 2013, the Company entered into Amendment No. 4 to the Credit Agreement among the Company and BMO Harris, and Amendment No. 1 to the Note and Warrant Purchase Agreement among the Company and BMO Equity. In the Amendments, non-compliance with financial covenants prior to the date of the Amendments was waived and both the Credit Agreement and the Note and Warrant Purchase Agreement were amended (i) to modify the Senior Leverage Ratio and Total Leverage Ratio requirements for the fiscal quarter ending June 30, 2013 and each quarter thereafter during the term of the Credit Agreement and the Note and Warrant Purchase Agreement and (ii) to modify the definitions of EBITDA and Total Funded Debt in the Credit Agreement and the Note and Warrant Purchase Agreement.

Management believes that the funds provided by the Credit Agreement, as amended, as well as internally generated funds, will be sufficient for the Company to meet its working capital needs for at least the next 12 months and that the Company will meet the revised financial covenants of the Credit Agreement and the Note and Warrant Purchase Agreement during this period, as well.

As of March 31, 2014, the Company was in compliance with all of the revised financial covenants of the Credit Agreement and Note and Warrant Purchase Agreement.

Seasonality

In recent years, sales in the foil balloon product line have historically been seasonal with approximately 40% occurring in the period from December through March and 24% being generated in the period from July through October. The sales of latex balloons and laminated film products have not historically been seasonal.

Critical Accounting Policies

Please see pages 25-28 of our Annual Report on Form 10-K for the year ended December 31, 2013 for a description of policies that are critical to our business operations and the understanding of our results of operations. The impact and any associated risks related to these policies on our business operations is discussed throughout Management's Discussion and Analysis of Financial Condition and Results of Operations where such policies affect our reported and expected financial results. No material changes to such information have occurred during the three months ended March 31, 2014.

Regulatory Matters

In August 2012, the U.S. Securities and Exchange Commission (SEC) issued a rule under Section 1502 of the Dodd-Frank Wall Street Reform and Consumer Protection Act requiring companies to publicly disclose their use of conflict minerals that originated in the Democratic Republic of the Congo (DRC) or an adjoining country. Under the rule, issuers are required to conduct a reasonable country of origin inquiry and, if necessary, exercise due diligence process to ascertain the source of conflict minerals, defined as tantalum, tin, gold or tungsten, that are necessary to the functionality or production of their manufactured or contracted to be manufactured products. Companies are required to provide this disclosure on a new form to be filed with the SEC called Form SD. Companies are required to file Form SD on May 31, 2014 for the 2013 calendar period and annually on May 31 every year thereafter.

Item 3. Quantitative and Qualitative Disclosures Regarding Market Risk

Not applicable.

Item 4. Controls and Procedures

Our management, under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, has reviewed and evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of March 31, 2014. Based on such review and evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that the disclosure controls and procedures were effective as of March 31, 2014, to ensure that the information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934, as amended, (a) is recorded, processed, summarized and reported within the time period specified in the SEC's rules and forms and (b) is accumulated and communicated to our management, including the officers, as appropriate to allow timely decisions regarding required disclosure. There were no material changes in our internal control over financial reporting during the first quarter of 2014 that have materially affected or are reasonably likely to materially affect our internal controls over financial reporting.

Part II. OTHER INFORMATION

Item 1. Legal Proceedings

None.

Item 1A. Risk Factors

Not applicable.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Not applicable.

Item 3. Defaults Upon Senior Securities

Not applicable.

Item 4. Submission of Matters to a Vote of Security Holders

Not applicable.

Item 5. Other Information

The Certifications of the Chief Executive Officer and the Chief Financial Officer of Registrant Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 are attached as Exhibits to this Report on Form 10-Q.

Item 6. Exhibits

The following are being filed as exhibits to this report:

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Exhibit Number	Description
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 Commission on October 25, 1999).
3.2	By-laws of CTI Industries Corporation (incorporated by reference to Exhibit 3.1 contained in Registrant’s Form SB-2 Registration Statement (File No. 333-31969) effective November 5, 1997).
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).
101	Interactive Data Files, including the following materials from the Company’s Quarterly Report on Form 10-Q for the quarter ended March 31, 2014, formatted in XBRL: (i) the Consolidated Balance Sheets, (ii) the Consolidated Statements of Income, (iii) the Consolidated Statements of Cash Flows, and (iv) the Notes to Consolidated Financial Statements.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Dated: May 15, 2014 CTI INDUSTRIES
CORPORATION

By: /s/ John H. Schwan
 John H. Schwan
 Chief Executive
 Officer

By: /s/ Stephen M. Merrick
 Stephen M. Merrick
 President

By: /s/ Timothy S.
 Patterson
 Timothy S. Patterson
 Senior Vice President
 Finance
 Chief Financial Officer

Exhibit Index

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