

Taglich Brothers, Inc.

The Standard of Excellence in the Microcap Market

Member: NASD, SIPC

Research Report

Speculative Buy

CTI Industries Corp
CTIB \$ 1.63

Laura A. Conroy
January 26, 2000

	FYE (10/98)	FYE (10/99) E	FYE (10/00) E	FYE (10/01) E
Revenues	\$20.0	\$17.6	\$27.0	\$30.8
Earnings per share (diluted)	\$0.09	\$(0.86)	\$0.48	\$0.68

52week range	7 1/8 -- 1 1/8	Fiscal year ends:	October
Shares outstanding	1.3 million	Revenue/shares (TTM)	\$13.45
Trading float	0.56 million	Price/Sales (TTM)	0.12X
Institutional ownership	1.34%	Price/Sales (00)	0.08X
Book value/share	\$4.99	Price/Earnings (TTM)	NM
Price/Book	0.33X	Price/Earnings (00)	3.4X

CTI Industries manufactures and sells mylar balloons. Mylar balloons are the popular helium balloons with a metallized coating which usually have printed messages and designs often with characters such as Garfield, Peanuts and Precious Moments, which CTIB maintains licenses to. CTIB also sells latex balloons, toy products and produces laminated and specialty films for food packaging and other commercial uses.

Key Investment Considerations:

- **We are initiating coverage of CTI Industries, Ltd. (CTIB) with a Speculative Buy and have set our 12-18 month target price range at \$3.00 to \$4.00;**
- **Trading at less than 4X estimated fiscal 2000 earnings, less than 1X sales and less than 1X book value;**
- **Company expects to return to profitability by the first quarter of fiscal 2000 and remain profitable thereafter;**
- **CTI expects latex sales to double through increased equity investment in Mexican operations;**
- **Highly seasonal business dependent upon the Social Expression industry. A higher concentration of sales occur in the first half of the fiscal year;**
- **Big opportunities for printed and specialty films segment of business which should help counteract some of the cyclicalities of the business;**
- **Invested \$5.3 million in machinery, equipment and a facility in 1998;**
- **Completed a 1 for 3 reverse split in November 1999. A small change in earnings can have a big influence on EPS.**

The information and statistical data contained herein have been obtained from sources which we believe to be reliable but in no way are warranted by us as to accuracy or completeness. We do not undertake to advise you as to change in figures or our views. This is not a solicitation of any order to buy or sell. We, our affiliates, and any officer, director or stockholder, or any member of their families, may have a position in and may from time to time purchase or sell any of the above-mentioned or related securities. Since February 2000, the company pays a monthly monetary fee of \$1,000 (USD) to Taglich Brothers, Inc. for the creation and dissemination of research reports.

1370 Avenue of the Americas, 31st Floor, New York, N.Y. 10019
(800) 456-1220 • Fax (212) 265-4744
www.taglichbrothers.com

Company

CTI Industries Corp, incorporated in 1983, is a leading manufacturer and seller of mylar and latex balloons, novelty items and laminated and specialty films. Mylar balloons are nylon-based balloons that are coated with metallized and polyethylene coatings and contain printed messages and designs. The Company maintains licenses for Garfield®, Peanuts®, Precious Moments® and Hallmark trademarks and others. CTI also produces laminated and specialty films for food packaging and other commercial use. The Company's products are sold through retail outlets in the United States and 30 foreign countries. The retail outlets include Eckerd Drug, Safeway, Winn Dixie and Hallmark.

CTI has had many faces and seen many changes since its inception in 1983. The Company was originally incorporated as Container Technologies in 1976 and later changed its name to CTI Industries Corporation. In 1996, CTI Balloons Ltd., wholly owned subsidiary was formed and incorporated in the UK. In March 1996 there was a change in control and management of CTI when a group of investors made an equity investment of \$1.0 million in exchange for approximately 1.1 million shares of Convertible Preferred stock. In July 1997 the Company went through a recapitalization without a formal reorganization and the Board approved the creation of a Class B common stock, a 1 for 2.6 reverse split on both the common and preferred stock. Also all outstanding Convertible Preferred stock was converted into 1.1 million shares of Class B common stock at this time. In November 1997 the Company completed its initial public offering of 1.725 million shares at approximately \$4.00 per share.

New management set out to implement a business plan that would increase revenues, reduce the cost of operations, increase liquidity and achieve profitability. With the proceeds of the IPO and loans, the Company made capital investments of \$5.3 million in plant and equipment upgrades to increase production capacity. Initially, they were quite successful in executing their plan. They showed increased revenues of 20% on average of 20% in 1997 and 1998 and reduced operating expenses by \$5 million from 1996 to 1997. Unfortunately this success was short lived. In 1998 operating costs increased again because of increased advertising and marketing activity and then in 1999 revenues began to decline. Sales decreased even after increased advertising and marketing efforts because downward pressure on the price of balloons by lower cost producers made balloons a commodity good. Although the volume of balloons sold increased in 1999, the level of sales was less due to lower prices.

In August 1999, CTI was notified by the NASDAQ that its stock would be delisted from the SmallCap Market if it continued to close below \$1.00 per share as it had several times since April 1, 1999. Consequently, to prevent delisting, the Board approved a one-for-three reverse split of the common stock. The reverse split was approved by the board and was effective as of November 5, 1999.

Subsidiaries

CTI Mexico

CTI Mexico, formerly P&TF (Pulidos et Terminados), is a 72% owned CTI subsidiary located in Guadalajara, Mexico. In 1995, CTI sold CTI Mexico its latex balloon manufacturing equipment and CTI Mexico agreed to supply CTI with latex balloons exclusively in the U.S. and Canada for ten (10) years. However, under the agreement, CTI Mexico can manufacture balloons for two (2) other U.S. companies. In 1998, CTI and CTI Mexico struck up another agreement where CTI took control of 45% of CTI Mexico's outstanding stock. Under the agreement, the equipment purchase agreement for two (2) of the latex balloon manufacturing

Taglich Brothers, Inc.

machines was cancelled and CTI began to lease the equipment to CTI Mexico. The stock purchase was paid for using advances that CTI loaned to CTI Mexico prior to the purchase, and extinguished debt from the cancelled equipment purchase agreement. This past November, CTI increased its ownership to 72%. CTI Mexico runs seven (7) latex balloon manufacturing machines and occupies two (2) manufacturing facilities that total approximately 60,000 feet of manufacturing, office and warehouse space.

CTF International

CTF is a Mexican corporation, which is owned equally by CTI and CTI Mexico. CTF's primary business is the packaging and printing of latex balloons for CTI and CTI Mexico.

Industry and the Competitive Environment

CTI's primary targets retail card and gift shops, grocery stores, mass market chains and floral distributors which in some respects cater to the "Social Expression" Industry. Potential competitors include other balloon manufacturers, and other companies that supply products geared toward addressing specific social events. Between 75% and 80% of CTI's business is conducted in this industry through the sale of mylar and latex balloons and related novelty products. The social expression industry is highly fragmented and competitive.

CTI has estimated that the global wholesale market for mylar balloons was approximately \$120 million in 1998. The domestic market is about \$100 million per year and there are at least seven companies that manufacture and sell mylar balloons in the U.S. The reason that over 90% of mylar sales occur in the U.S. is because the U.S. the only place that helium is reasonably priced.

Mylar balloons surfaced in the 1970's and increased in popularity throughout the 1980's. By the mid-80's these balloons which had only been sold to individual vendors, small retail outlets and at special events, broke into the social expression industry with new graphic designs, characters and messages like the ones found on greeting cards. Distribution became more widespread as companies began licensing character and cartoon images for printing on the balloons. Soon mylar balloons were found in just about every card and gift shop, drug store chain, party goods store and florist. CTI now manufactures over 380 balloon designs in different shapes and sizes.

The worldwide market for latex balloons was estimated to exceed \$450 million in 1998 and the domestic market is between \$250 to \$300 million. There are at least seven manufacturers of latex balloons whose products are sold in the United States. Latex balloons come in three different product lines: 1) high quality decorator balloons, 2) standard novelty balloons and 3) printed balloons. High quality decorator balloons are sold primarily through balloon decorators and are of better quality and higher price than the standard line. Standard lines are sold through retail stores.

Although the number of balloon units sold continues to increase, there are a few variables that have affected the balloon market over the past year or two. Some foreign producers, primarily in Mexico, have been driving down the price of latex balloons because they can produce them at lower prices. As a result, U.S. producers have had to retaliate with lower priced balloons. In addition, there has been a consolidating trend among the balloon industry and competitors like Anagram International have been acquired and are now part of larger companies that have bigger budgets and access to more resources. Anagram was acquired by Amscan Holdings, Inc. in August 1998 for more than 10X EBITDA.

Business segments

Mylar Balloons

CTI's mylar balloons vary in size, shape and the content of the printed media that appears on the balloon. Aside from the well-known figures and characters mentioned above, CTI also has licenses with Ziggy®, Grimmy®, Elephantz®, Paddington®, Postman Pat®, WCW® and Betty Boop®. These balloons can be as big as 34 inches and as small as 2 1/2 inches. The smaller balloons are usually sold on a stick, used in floral arrangements or sold with a container of candy. Specialty balloons such as Walk-about® which have attached arms and anchored legs to enable the balloon to "walk" and You Name It® balloons that enable the customer to print a personalized message on the balloon are also produced by CTI.

Latex Balloons

CTI sells a high-end line of latex balloons under the product line name Hi-Tex® and a standard line of latex balloons marketed under the name Partyloons®. We estimate that close to 14% or \$3.5 million of CTI's business came from latex balloons in 1999. With additional ownership of CTI Mexico, we believe that latex sales could double in fiscal 2000. CTI has also branched out into the toy market with its standard line of latex balloons, punch balls and water bombs.

Printed & Specialty films

This segment includes packaging films and custom film products. Packaging films are printed films that the Company makes for use in food packaging. These films use water-based ink and are usually used for candy and snack items but the Company plans to extend this business line.

Custom film products include fabricated films for industrial and commercial use. Typically these custom films are inflatable (also called dunnage bags) and are used in the packaging of goods and bags for the storage of clothing items. One of these products is the popular "Space Bag", which can commonly be seen on television infomercials. The space bag can be filled with for example, clothes and a valve on the bag enables you to suck the air out of the bag with a vacuum to shrink it down for easier storage. The Company also mentioned a new product that has the same premise but serves as a garment bag. This segment is expected to grow upwards of 25% in 2000 to approximately \$4 million from nearly \$3.2 million.

Recent Financials

The following is a year over year comparison of the quarter and nine months ended July 31:

- For the quarter, sales declined by 11% to \$3.9 million from \$4.4 million in 1998. For the nine month period, sales declined by 14% to \$13.8 million from \$15.7 million last year.
- For the quarter, gross margins decreased to 19% from 47% and for the nine month period, gross margins declined to 28% from 43% last year.
- For the quarter there was an operating loss of (\$752,000) versus operating income of \$324,000 last year. For the nine month period there was an operating loss of (\$851,000) versus operating income of \$1.3 million last year.

Taglich Brothers, Inc.

- Net income (loss) for the quarter was (\$457,000) or (\$0.36) per share versus \$136,000 last year or \$0.10 per share. For the nine month period net income (loss) was (\$792,000) or (\$0.62) versus \$699,000 or \$0.51. (All earnings per share data have been adjusted to reflect the 1 for 3 reverse split that occurred in November.)

The decline in sales can be attributed to a 15% decrease in metallized balloon sales for the quarter. For the first nine months of the year metallized balloon sales have contributed to the revenue short fall but that decline was offset by a 14% increase in sales of printed laminated and specialty film products. Gross margins fell dramatically because of lower sales volumes and additional expenses incurred from the purchase of new equipment. During fiscal 1998, the Company invested \$5.3 million in machinery and equipment, a new facility and merchandize displays at customer locations. Total operating costs decreased year over year but part of that is due to a decline in sales. CTI reported a net loss of (\$792,000) for the first nine months but the company is cash flow positive.

As of July 31, 1999, CTI's cash balance was \$404,445, the long-term debt-to-equity ratio was 1.1:1 and interest coverage was negative. CTI's line of credit has a \$4.5 million cap and as of the end of the third quarter, approximately \$1.3 million was available. We expect sales to increase and margins to climb back up to former levels in fiscal 2000 but we are concerned that if things remain at the levels they are at now, CTI could run into problems financing its business operations in the future.

Management

Stephen M. Merrick — Chief Executive Officer and Secretary, Director. Mr. Merrick served as President of the Company from January 1996 to June 1997. Mr. Merrick is a principal of the law firm of Merrick & Klimek, P.C. of Chicago, IL and has practiced law for more than 30 years. He is also a director and member of the management committee of Reliv International, Inc. (RELV: NASDAQ), a manufacturer and direct marketer of nutritional supplements and food products.

John H. Schwan — Chairman, Director. Mr. Schwan has been a director and officer of the Company since 1996. He is responsible principally for sales and marketing functions. Mr. Schwan is also President of Packaging Systems, LLC. a manufacturer of specialty packaging systems in the Chicago area.

Howard W. Schwan — President, Director. Mr. Schwan has been associated with the Company for over 18 years mainly in the management of production and engineering operations. He was appointed Vice President in 1990, director in 1996 and President in June 1997.

Sharon Konny — Manager of Finance and Administration. Ms. Konny has served in this capacity since October 1996. Prior to her employment with CTI, she was an Assistant Vice President of First Chicago Corporation initially as Loan Servicing Manager of the Mortgage Division and in December 1994, achieved the position of Manager of Financial Administration for the First Card Division. Ms. Konny is a Certified Public Accountant.

Brent Anderson — Vice President of Manufacturing. Mr. Anderson has been with CTI since 1989 and has held a number of engineering positions including Plant Engineer and Plant Manager. In these positions Mr. Anderson was responsible for the design and manufacture of the Company's manufacturing equipment. He was appointed Vice President of Manufacturing in June 1997.

Outlook

The downward pressure on the price of balloons and the increased competitiveness of the industry has negatively effected CTI's balloon business over the last two years. CTI's increased advertising and marketing costs in 1998 were meant to combat some of this competition and move ahead in the market. However, the market turned and prices went down and revenues followed suit. CTI recently hired a new manager to overhaul its advertising and marketing initiative. Only with the company for a few weeks, the new manager is still developing a plan but promises that the traditional trade shows, trade publications, and annual mailings will not be the extent of future marketing.

There is still a significant amount of market share for CTI to pursue with respect to mylar and latex balloons. CTI has captured about 10% of the mylar market and less than 1% of the latex market. The mylar business is highly cyclical and most of the company's mylar sales take place in the first half of the fiscal year when holidays like Valentines Day, Mothers Day and events like graduations occur. Latex balloons are far more common and CTI believes that eventually, latex will be a bigger business for the Company than mylar.

A shift in the balloon product mix to more latex than mylar should certainly help to combat the viscous cyclicity that CTI currently experiences. The laminates business can also help the fight against seasonality. CTI believes we will see explosive growth in that segment over the next few years. CTI plans to expand the specialty films portion of the business by branching out to new products. Management anticipates that it can achieve dramatic increases in the printed and specialty films segment, especially the industrial and commercial films, that sales will be up to \$20 million or more per year in three (3) years.

More near term, we expect the first quarter and the remainder of fiscal 2000 to be profitable. The recent increase in ownership of CTI Mexico should boost latex balloon sales this year and we believe that new advertising and marketing efforts should help to increase mylar sales. We expect increases in the printed and specialty films business in the area of 25% in 2000 through increase food packaging and the addition of more industrial and commercial products that are in the pipeline. According to our projections, CTI should be profitable throughout 2000 and generate EBITDA of approximately \$3.0 million.

Other Considerations

As mentioned earlier, the Company's current business is seasonal and a considerable portion of sales occur in the first half of the fiscal year resulting in profitability while the second half of the year the Company usually experiences a short fall that can negatively effect operations. CTI has been trying to combat this problem but there is no guarantee that its printed and specialty films business will pick up at the rate expected or when its new advertising and marketing programs will make a big difference. In addition, the industry as a whole has suffered a decline in sales, a result of lower priced competition, and changes to raw material prices could negatively affect the Company's profitability. In the event that operations do not improve as expected, the Company's ability to procure additional financing will also greatly effect its future business prospects.

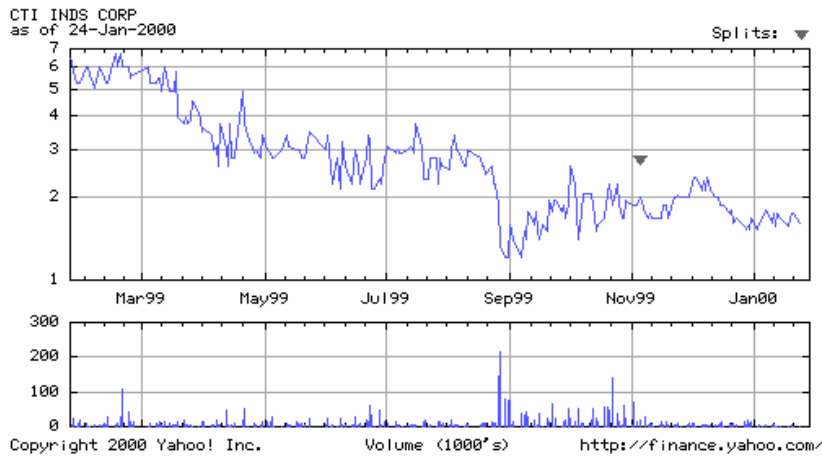
Conclusion

Based on our expectations, we believe that CTI can earn \$0.48 per share in fiscal 2000. While this seems very aggressive in comparison to fiscal 1998 and estimated fiscal 1999, keep in mind that as a result of the few shares outstanding, slight fluctuations in earnings can dramatically affect earnings per share. CTI's stock is currently trading at 0.12X TTM sales and 3.4X our estimated fiscal 2000 earnings. CTI's direct peers are

CTI Industries Corp

privately held companies or have been acquired by larger companies with capital structures extremely different from CTI and therefore not necessarily comparable in a valuation analysis. A complication also arises when comparing CTI to the Fabricated Plastic and Rubber Industry for similar reasons. If you consider the consolidating trend in the balloon industry over the past few years, companies have been willing to pay more than 10X EBITDA as evidenced by the acquisition of Anagram by Amscan in 1998. At the time of the acquisition, Anagram had revenues in the area of \$65 million and an earnings margin of 13%. CTI is about a third of the size and has an earnings margin of about 3%. An argument can be made that because CTI is not as sizable or as profitable as Anagram, it should be trading at less than 10X EBITDA and is correctly valued at its current price. Nonetheless, we expect CTI to return to profitability in 2000 and continue to improve from then on and believe there is limited downside to CTI at its current price. Applying a conservative multiple of 7X earnings, we have set our 12-18 month target price range at \$3.00 to \$4.00.

(Chart courtesy of Yahoo, Inc.)



Taglich Brothers, Inc.

CTI Industries Corp
Consolidated Balance Sheets
(in thousands)

	July 31, 1999	October 31, 1998
Assets		
Current Assets		
Cash	\$ 404	\$ 235
Accounts Receivable	2,939	3,277
Inventories	6,078	7,641
Deferred tax assets	177	177
Other	1,568	1,089
Total Current Assets	11,165	12,419
Property and equipment		
Machinery and equipment	9,648	6,812
Building	3,564	3,504
Office furniture and equipment	1,578	1,557
Land	535	535
Leasehold improvements	162	162
Fixtures and equipment at customer locations	2,032	1,907
Projects under construction	466	1,523
	17,985	16,000
less accum depreciation	(8,700)	(7,674)
Total property and equipment, net	9,285	8,325
Other assets		
Deferred financing costs, net	33	44
Investment in joint venture	-	78
Investment in subsidiary	920	880
Note receivable	715	715
Deferred tax assets	391	391
Non-current assets	103	-
Total other assets	2,163	2,109
Total Assets	\$ 22,613	\$ 22,854
Liabilities and Stockholders Equity		
Current liabilities		
Accounts payable	\$ 3,148	\$ 3,071
Line of credit	3,361	4,178
Notes payable- current portion	1,426	818
Accrued liabilities	1,230	1,040
Total current liabilities	9,165	9,106
Long-term liabilities		
Non-current liabilities	17	-
Notes payable	5,812	5,281
Subordinated debt	865	865
Total long-term liabilities	6,694	6,146
Redeemable common stock	413	413
Stockholders' equity		
Common stock	188	188
Class B common stock	1,000	1,000
Paid-in capital	5,554	5,554
Retained earnings	509	1,301
Foreign currency translation	10	26
less:		
Treasury stock	(447)	(407)
Redeemable common stock	(413)	(413)
Stock subscription receivable	(5)	(5)
Notes receivable from stockholders	(56)	(56)
Total stockholders' equity	6,340	7,188
Total Liabilities and Stockholders' Equity	\$ 22,613	\$ 22,854

Taglich Brothers, Inc.

CTI Industries Corp
Annual Income Statement Model
For the Years Ended October 31,

	FYE (10/98)A	FYE (10/99)E	FYE (10/00)E	FYE (10/01)E
Net sales	\$ 19,953	\$ 18,565	\$ 27,000	\$ 30,780
Cost of sales	<u>12,707</u>	<u>13,447</u>	<u>18,833</u>	<u>21,353</u>
Gross profit	7,246	5,117	8,168	9,427
<i>Gross margin</i>	36.32%	27.56%	30.25%	30.63%
Operating expenses				
General and administrative	2,353	2,224	2,300	2,450
Selling	2,587	2,527	2,907	3,260
Advertising and marketing	<u>1,805</u>	<u>1,584</u>	<u>1,620</u>	<u>1,847</u>
Total operating expenses	<u>6,745</u>	<u>6,335</u>	<u>6,827</u>	<u>7,557</u>
Operating income	501	(1,218)	1,341	1,870
<i>Operating margins</i>	2.51%	-6.56%	4.97%	6.08%
Other income (expense)				
<i>Ιντερεστ εξπενσε</i>	(765)	(933)	(800)	(700)
<i>Ιντερεστ ινχομ ε</i>	161	88	100	100
<i>Οηερ</i>	<u>285</u>	<u>250</u>	<u>320</u>	<u>200</u>
<i>Τοπωλοηερ εξπενσε</i>	<u>(319)</u>	<u>(595)</u>	<u>(355)</u>	<u>(400)</u>
Pretax income (loss)	182	(1,813)	986	1,470
<i>Pretax margins</i>	0.91%	-9.76%	3.65%	4.78%
Income tax expense (benefit)	<u>60</u>	<u>(707)</u>	<u>385</u>	<u>573</u>
<i>Tax rate</i>	32.99%	39.02%	39.00%	39.00%
Net income (loss)	122	(1,105)	601	897
Preferred stock dividends	-	-	-	-
Net income (loss) for common	<u>\$ 122</u>	<u>\$ (1,105)</u>	<u>\$ 601</u>	<u>\$ 897</u>
EPS basic	\$ 0.10	\$ (0.87)	\$ 0.48	\$ 0.68
EPS diluted	<u>\$ 0.09</u>	<u>\$ (0.86)</u>	<u>\$ 0.48</u>	<u>\$ 0.68</u>
Weighted average shares (basic)	1,266	1,269	1,263	1,315
Weighted average shares (diluted)	<u>1,374</u>	<u>1,283</u>	<u>1,263</u>	<u>1,315</u>
<i>% of revenue</i>				
<i>Cost of sales</i>	63.68%	72.44%	69.75%	69.37%
<i>General and administrative</i>	11.79%	11.98%	8.52%	7.96%
<i>Selling</i>	12.97%	13.61%	10.76%	10.59%
<i>Advertising and marketing</i>	9.05%	8.53%	6.00%	6.00%
<i>year / year growth</i>				
<i>revenues</i>	21.44%	-6.96%	45.44%	14.00%
<i>net margin</i>	-88.30%	-1007.04%	154.41%	-49.13%
<i>EPS (diluted)</i>	-82.68%	-1071.41%	155.28%	43.14%

Taglich Brothers, Inc.

CTI Industries Corp
Quarterly Income Statement Model
For the Year Ended October 31, 1999

	Q1 (1/99)	Q2 (4/99)	Q3 (7/99)	Q4 (10/99)E	FYE (10/99)E
Net sales	\$ 4,988	\$ 4,862	\$ 3,899	\$ 4,815	\$ 18,565
Cost of sales	<u>3,077</u>	<u>3,604</u>	<u>3,155</u>	<u>3,611</u>	<u>13,447</u>
Gross profit	1,911	1,258	744	1,204	5,117
<i>Gross margin</i>	38.32%	25.87%	19.09%	25.00%	27.56%
Operating expenses					
General and administrative	532	557	565	570	2,224
Selling	645	656	600	625	2,527
Advertising and marketing	<u>478</u>	<u>400</u>	<u>331</u>	<u>375</u>	<u>1,584</u>
Total operating expenses	<u>1,655</u>	<u>1,613</u>	<u>1,497</u>	<u>1,570</u>	<u>6,335</u>
Operating income	256	(355)	(752)	(366)	(1,218)
<i>Operating margins</i>	5.13%	-7.30%	-19.29%	-7.61%	-6.56%
Other income (expense)					
Interest expense	(221)	(214)	(248)	(250)	(933)
Interest income	22	23	21	22	88
Other	<u>16</u>	<u>67</u>	<u>86</u>	<u>80</u>	<u>250</u>
Total other expense	<u>(182)</u>	<u>(124)</u>	<u>(141)</u>	<u>(148)</u>	<u>(595)</u>
Pretax income (loss)	74	(479)	(893)	(514)	(1,813)
<i>Pretax margins</i>	1.48%	-9.86%	-22.90%	-10.68%	-9.76%
Income tax expense (benefit)	<u>13</u>	<u>(84)</u>	<u>(436)</u>	<u>(201)</u>	<u>(707)</u>
<i>Tax rate</i>	18.01%	17.49%	48.85%	39.00%	39.02%
Net income (loss)	60	(395)	(457)	(314)	(1,105)
Preferred stock dividends	-	-	-	-	-
Net income (loss) for common	<u>\$ 60</u>	<u>\$ (395)</u>	<u>\$ (457)</u>	<u>\$ (314)</u>	<u>\$ (1,105)</u>
EPS basic	<u>\$ 0.05</u>	<u>\$ (0.31)</u>	<u>\$ (0.36)</u>	<u>\$ (0.25)</u>	<u>\$ (0.87)</u>
EPS diluted	<u>\$ 0.05</u>	<u>\$ (0.31)</u>	<u>\$ (0.36)</u>	<u>\$ (0.25)</u>	<u>\$ (0.86)</u>
Weighted average shares (basic)	1,278	1,278	1,274	1,245	1,269
Weighted average shares (diluted)	<u>1,334</u>	<u>1,278</u>	<u>1,274</u>	<u>1,245</u>	<u>1,283</u>
<i>% of revenue</i>					
Cost of sales	61.68%	74.13%	80.91%	75.00%	72.44%
General and administrative	10.67%	11.45%	14.50%	11.84%	11.98%
Selling	12.93%	13.50%	15.39%	12.98%	13.61%
Advertising and marketing	9.58%	8.22%	8.50%	7.79%	8.53%
<i>year/year growth</i>					
revenues	-14.57%	-11.48%	-11.02%	13.59%	-6.96%
net margin	-81.43%	-266.13%	-489.29%	-43.85%	-1007.04%
EPS (diluted)	-81.04%	-281.02%	-518.85%	-38.24%	-1071.41%

Taglich Brothers, Inc.

CTI Industries Corp
Quarterly Income Statement Model
For the Year Ended October 31, 2000

	Q1 (1/00)E	Q2 (4/00)E	Q3 (7/00)E	Q4 (10/00)E	FYE (10/00)E
Net sales	\$ 7,449	\$ 7,325	\$ 6,188	\$ 6,038	\$ 27,000
Cost of sales	<u>5,195</u>	<u>5,109</u>	<u>4,317</u>	<u>4,212</u>	<u>18,833</u>
Gross profit	2,254	2,216	1,872	1,826	8,168
<i>Gross margin</i>	30.26%	30.26%	30.24%	30.24%	30.25%
Operating expenses					
General and administrative	575	575	575	575	2,300
Selling	789	777	677	664	2,907
Advertising and marketing	<u>454</u>	<u>437</u>	<u>373</u>	<u>356</u>	<u>1,620</u>
Total operating expenses	<u>1,817</u>	<u>1,789</u>	<u>1,625</u>	<u>1,595</u>	<u>6,827</u>
Operating income	437	427	247	231	1,341
<i>Operating margins</i>	5.86%	5.83%	3.98%	3.82%	4.97%
Other income (expense)					
Interest expense	(200)	(200)	(200)	(175)	(800)
Interest income	25	25	25	25	100
Other	<u>80</u>	<u>80</u>	<u>80</u>	<u>80</u>	<u>320</u>
Total other expense	<u>(95)</u>	<u>(95)</u>	<u>(95)</u>	<u>(70)</u>	<u>(355)</u>
Pretax income (loss)	342	332	152	161	986
<i>Pretax margins</i>	4.58%	4.53%	2.45%	2.67%	3.65%
Income tax expense (benefit)	<u>133</u>	<u>129</u>	<u>59</u>	<u>63</u>	<u>385</u>
<i>Tax rate</i>	39.00%	39.00%	39.00%	39.00%	39.00%
Net income (loss) for common	<u>\$ 208</u>	<u>\$ 203</u>	<u>\$ 92</u>	<u>\$ 98</u>	<u>\$ 601</u>
EPS basic	\$ 0.17	\$ 0.16	\$ 0.07	\$ 0.07	\$ 0.48
EPS diluted	<u>\$ 0.17</u>	<u>\$ 0.16</u>	<u>\$ 0.07</u>	<u>\$ 0.07</u>	<u>\$ 0.48</u>
Weighted average shares (basic)	1,245	1,245	1,245	1,315	1,263
Weighted average shares (diluted)	<u>1,245</u>	<u>1,245</u>	<u>1,245</u>	<u>1,315</u>	<u>1,263</u>
<i>% of revenue</i>					
Cost of sales	69.74%	69.74%	69.76%	69.76%	69.75%
General and administrative	7.72%	7.85%	9.29%	9.52%	8.52%
Selling	10.59%	10.60%	10.95%	10.99%	10.76%
Advertising and marketing	6.09%	5.97%	6.02%	5.90%	6.00%
<i>year / year growth</i>					
revenues	49.34%	50.65%	58.70%	25.39%	45.44%
net margin	244.85%	151.22%	120.24%	131.29%	154.41%
EPS (diluted)	269.59%	152.59%	120.71%	129.61%	155.28%

Taglich Brothers, Inc.

CTI Industries Corp
Quarterly Income Statement Model
For the Year Ended October 31, 2001

	Q1 (1/01)E	Q2 (4/01)E	Q3 (7/01)E	Q4 (10/01)E	FYE (10/01)E
Net sales	\$ 8,501	\$ 8,356	\$ 7,047	\$ 6,876	\$ 30,780
Cost of sales	<u>5,896</u>	<u>5,796</u>	<u>4,890</u>	<u>4,771</u>	<u>21,353</u>
Gross profit	2,605	2,560	2,157	2,105	9,427
<i>Gross margin</i>	30.64%	30.64%	30.61%	30.61%	30.63%
Operating expenses					
General and administrative	613	613	613	613	2,450
Selling	888	875	756	741	3,260
Advertising and marketing	<u>517</u>	<u>499</u>	<u>425</u>	<u>406</u>	<u>1,847</u>
Total operating expenses	<u>2,018</u>	<u>1,986</u>	<u>1,793</u>	<u>1,760</u>	<u>7,557</u>
Operating income	<u>587</u>	<u>574</u>	<u>364</u>	<u>345</u>	<u>1,870</u>
<i>Operating margins</i>	6.91%	6.87%	5.16%	5.02%	6.08%
Other income (expense)					
Interest expense	(175)	(175)	(175)	(175)	(700)
Interest income	25	25	25	25	100
Other	<u>50</u>	<u>50</u>	<u>50</u>	<u>50</u>	<u>200</u>
Total other expense	<u>(100)</u>	<u>(100)</u>	<u>(100)</u>	<u>(100)</u>	<u>(400)</u>
Pretax income (loss)	487	474	264	245	1,470
<i>Pretax margins</i>	5.73%	5.68%	3.74%	3.56%	4.78%
Income tax expense (benefit)	<u>190</u>	<u>185</u>	<u>103</u>	<u>96</u>	<u>573</u>
<i>Tax rate</i>	39.00%	39.00%	39.00%	39.00%	39.00%
Net income (loss) for common	<u>\$ 297</u>	<u>\$ 289</u>	<u>\$ 161</u>	<u>\$ 149</u>	<u>\$ 897</u>
EPS basic	\$ 0.23	\$ 0.22	\$ 0.12	\$ 0.11	\$ 0.68
EPS diluted	<u>\$ 0.23</u>	<u>\$ 0.22</u>	<u>\$ 0.12</u>	<u>\$ 0.11</u>	<u>\$ 0.68</u>
Weighted average shares (basic)	1,315	1,315	1,315	1,315	1,315
Weighted average shares (diluted)	<u>1,315</u>	<u>1,315</u>	<u>1,315</u>	<u>1,315</u>	<u>1,315</u>
<i>% of revenue</i>					
Cost of sales	69.36%	69.36%	69.39%	69.39%	69.37%
General and administrative	7.21%	7.33%	8.69%	8.91%	7.96%
Selling	10.45%	10.47%	10.73%	10.78%	10.59%
Advertising and marketing	6.08%	5.97%	6.03%	5.91%	6.00%
<i>year / year growth</i>					
revenues	14.12%	14.08%	13.87%	13.89%	14.00%
net margin	-42.68%	-42.84%	-74.10%	-52.25%	-49.13%
EPS (diluted)	-35.05%	-35.20%	-64.79%	-52.25%	43.14%

Deleted:

Taglich Brothers, Inc.