

## Research Report - Update

*Investors should consider this report as only a single factor in making their investment decision.*

### CTI Industries Corp.

**Rating: Speculative Buy**

Luis Martins

**CTIB \$5.04 (NASDAQ)**

March 5, 2007

	<u>FY2003A</u>	<u>FY2004A</u>	<u>FY2005A</u>	<u>FY2006E</u>	<u>FY2007E</u>
Revenues (Thousands)	\$36,260	\$37,193	\$29,190	\$34,251	\$37,220
EPS (fully diluted)	\$(0.30)	\$(1.28)	\$(0.17)	\$0.31	\$0.40

52-Week Range	\$8.23 – 2.20	Fiscal Year Ends	December
Shares Outstanding	2.13 million	Revenues/Share (TTM)	\$15.13
Approximate Float	1.08 million	Price/Sales (TTM)	0.3X
Market Capitalization	\$11 million	Price/Sales (2007)E	0.2X
Tangible Book Value/Share	\$1.40	Price/Earnings (TTM)	NMF
Price/Tangible book	3.6X	Price/Earnings (2007)E	12.6X

*CTI Industries Corp. is an international manufacturer and marketer of mylar and latex balloons, and specialty, laminated, and printed film. The Company's products are sold domestically and in several foreign countries.*

#### Key Investment Considerations:

*We are maintaining our Speculative Buy rating on CTI Industries (NASDAQ: CTIB) and 12-month price target of \$7.00 per share. Our price target is based on applying a multiple of 18X to our estimated 2007 EPS of \$0.40 per share.*

*On November 17, 2006, CTIB reported results for its third quarter, ended September 30, 2006. The Company reported net revenues of \$8.602 million and net income of \$0.315 million or \$0.15 per diluted share. Excluding one time items, net income would have been essentially break-even. In the year ago period, CTIB reported revenues of \$6.034 million and a net loss of \$0.416 million or \$(0.21) per share.*

*On an operating basis, CTIB reported income of \$0.463 million, as compared to a loss \$0.157 million in the year ago period. Additionally, EBITDA increased to \$0.8 million from \$0.2 million.*

*We are adjusting our estimates for fiscal 2006. Our revised estimates call for revenues of \$34.3 million and net income \$0.655 million or \$0.31 per share. Our prior estimates called for revenues of \$34.6 million and net income \$0.545 million or \$0.25 per share. We are introducing estimates for 2007, which call for revenues of \$37.2 million and net income \$0.855 million or \$0.40 per share.*

*We are projecting that the Company will report EBITDA of \$3.4 and \$3.8 million for fiscal 2006 and 2007. If the Company achieves these figures, EBITDA would have grown by almost 30%, as compared to 2005.*

*On June 6, 2006, CTIB and Capital Partners, LP. entered into a \$5 million Standby Equity Distribution Agreement. On January 26, 2007, the registration statement was declared effective. If the Company does tap into the SEDA, it may result in dilution.*

*\* Please view our disclaimer located on page 10.*

## ***Company Overview***

CTI Industries Corporation (NASDAQ: CTIB), through its facilities in Illinois, Mexico, and the United Kingdom, is primarily engaged in the development, manufacture, sale, and distribution of:

- Novelty products, principally balloons (including mylar balloons and latex balloons), punch balls and other inflatable toy items.

CTIB manufactures metalized balloons with over 650 balloon designs, in different shapes and sizes containing varying printed designs or messages. CTIB is the second largest manufacturer of metalized balloons in the United States.

The Company manufactures and sells a line of latex balloons under the Partyloons product line name in 6 shapes and sizes and 40 colors.

The Company's novelty products are sold and distributed directly and through a network of distributors and wholesalers located throughout the United States and in several foreign countries. The end users of CTIB's balloons and toys purchase them in retail outlets such as general merchandise chains, drugstore chains, grocery chains, card and gift shops, and party goods stores, as well as through florists and balloon decorators.

- Specialty and printed films primarily for food packaging, specialized consumer uses, and various commercial applications.

In this product line, CTIB is involved in the production and selling of films utilized for the packaging of various products, principally food products such as cola syrup, coffee, and juices. The Company also laminates, extrusion coats, and prints films and sells them to various customers who utilize the films for packaging applications.

- Pouches used for commercial and industrial applications, as well as consumer use including:
  - valved, resealable pouches for storage of household items;
  - vacuum sealable bags for food storage;
  - resealable, valved bags for storage and vacuum sealing of household food items; and
  - "dunnage" bags (inflatable pouches used to cushion products in packages).

During June 2005, the Company introduced a line of consumer food storage bags for use in the home under the Simply Smart(TM) brand. In 2006, CTIB announced that a line of resealable, valved bags for storage and vacuum sealing of food items in the household. These storage bags function with a small hand or powered pump to evacuate air when the bag is sealed.

## ***Recent Results***

**On November 17, 2006**, CTI Industries reported results for its third quarter, ended September 30, 2006. The Company reported net revenues of \$8.602 million and net income of \$0.315 million or \$0.15 per diluted share. In the year ago period, CTIB reported revenues of \$6.034 million and a net loss of \$0.416 million or \$(0.21) per share. Investors should note one time items impacting the Company's 3Q06 financials results consisting of:

- A \$0.142 million loss on the disposal of fixed assets in two Mexican subsidiaries; and
- A \$0.460 million benefit to income arising from the settlement of items recorded as obligations of one of the above mentioned Mexican subsidiaries, and the determination that certain items recorded as tax obligations are not due or payable

Excluding these items, net income would have been essentially break-even.

In comparison, Taglich Brothers' estimates called for revenues of \$8.691 million and net income of \$0.003 million or \$0.00 per share.

The year-over-year increase in revenues was due to higher sales of metalized and latex balloons, as well as films. The following table illustrates the Company's revenue mix for the third quarters of 2005 and 2006:

Revenue item	3Q2005A	3Q2006A
Metalized balloons	2,035	4,120
Films	1,582	2,066
Pouches	1,099	698
Latex Balloons	1,145	1,641
Other	173	78

On an operating basis, CTIB reported income of \$0.463 million, as compared to a loss \$0.157 million in the year ago period. Additionally, EBITDA increased to \$0.8 million from \$0.2 million.

The Company also reported that as compared to the year ago period:

- Gross margin increased to 26.2%, resulting in gross profits of \$2.3 million, as compared to gross margin of 20.6% and gross profits of \$1.2 million in the year ago period. The increase in gross margin was attributed to product mix and increased unit production;
- Operating expenses increased to \$1.8 million (or 20.8% of revenues), as compared to \$1.4 million (or 23.2% of revenues). Operating margins increased to 5.4% from -2.6%, primarily due to higher revenues and lower costs as a percentage of revenues.

The following table illustrates operating expenses by major line item:

Actual Operating Expenses (\$ 000's)		
Expense Item	3Q05A	3Q06A
Administrative	987	1,216
Selling	247	213
Advertising and Marketing	166	361

- Interest expense increased to \$0.521 million from \$0.281 million stemming from higher borrowing costs;
- Miscellaneous items in the quarter resulted in other income of \$0.381 million, as compared to income of \$0.004 million in the year ago period. 3Q06 items consisted primarily of one-time items previously discussed, as well as a foreign exchange gain of \$0.063 million, as compared to a foreign exchange loss of \$0.004 million in the year ago period; and
- Income taxes resulted in an expense of \$0.013 million, as compared to a benefit of \$0.026 million.

#### *Balance Sheet*

The Company maintains a minimal cash balance and utilizes its credit facility for liquidity. At September 30, 2006, CTIB had cash of \$0.320 million, working capital of \$0.858 million, long-term liabilities of \$7.228 million, and stockholders' equity of \$3.975 million.

Management believes that based on the nine months results and its own projected results of operations for the remainder of 2006, CTIB will be in compliance with all applicable financial covenants of the loan agreement and will have sufficient funds to enable the Company to meet its obligations during the next 12-months.

## ***Projections***

**We are adjusting our estimates for fiscal 2006 primarily due to the results (revenues, margins, and profits) observed during the first nine months of 2006.** Our revised estimates (inclusive of one-time items) call for revenues of \$34.3 million and net income \$0.655 million or \$0.31 per share. Our prior estimates called for revenues of \$34.6 million and net income \$0.545 million or \$0.25 per share.

We are introducing estimates for 2007, which call for revenues of \$37.2 million and net income \$0.855 million or \$0.40 per share.

Based on our assumptions, we are projecting that the Company will report an EBITDA of \$3.4 and \$3.8 million for fiscal 2006 and 2007, respectively. If the Company achieves these figures, EBITDA (compounded over a 2-year period) would have grown by almost 30%, as compared to 2005.

Our optimism continues to be based on Management's recent success to improve the Company's financial results. In recent quarters, Management set out to lower expenses by reducing overhead and operating expenses, as well as restore the Company to profitability. Additionally, its strategic initiatives and recent announcement concerning new and extended customer relationships, as well as a new credit facility have also influenced us in a positive fashion.

Our forecast incorporates the following:

- Higher revenue primarily due to recent trends and developments observed over the past several quarters (i.e. customer relationships). We would note modest projected revenue increases of 17% and 7% for fiscal 2006 and 2007, respectively. In an effort to remain conservative, the fiscal 2007 projected increase is one half the growth rate of 2006;
- Gross margins of around 25%, based on historical margin trends and Management's efforts to improve the Company's gross margins;
- Higher operating expenses of \$6.5 and \$7.0 million (as compared to \$5.8 million in fiscal 2005) based on first nine months costs trends and Management's comments in the Company's 10Q; and
- Lower non-operating expenses primarily due to lower interest expense stemming from the credit facility's variable interest rate tied to the Company achieving certain financial metrics. According to the loan agreement, the interest rate, which can vary from prime + 0% to prime +1%, is tied to the level of senior debt to EBITDA, as well as the prime rate. The rate was initially set at prime +1%; however, as of September 30, 2006, the interest rate was prime + 0.5% (or 8.75%).

Investors should be keenly aware that the Company's revenues and operating results for any particular quarter may not be indicative of its performance in future quarters. CTIB's sales and operating results may be subject to very substantial periodic variations. Additionally, the Company's results are subject to seasonality.

## ***Risks***

### *Balance Sheet*

The Company's balance sheet is highly leveraged. A significant shortfall in the top-line may negatively impact bottom line results, financial liquidity, and equity value. The Company's policy of maintaining a minimal cash balance and utilizing its credit facility for liquidity may restrict its financial liquidity and may impact financial results and growth prospects.

The Company's credit facilities and debt agreements feature variable interest rates tied to the prime rate. If interest rates rise or the Company becomes increasingly indebted, debt service will increase. This will adversely

Taglich Brothers, Inc.

impact the Company's financial results. According to the loan agreement, the interest rate, which can vary from prime + 0% to prime +1%, is tied to the level of senior debt to EBITDA. The rate was initially set at prime +1%; however, as of September 30, 2006, the interest rate was prime + 0.5% (or 8.75%).

#### *Raw Materials*

The principal raw materials used by the Company are petroleum-based films, petroleum-based resin, latex, and printing inks. If there are inflationary pricing pressures and the Company is not able to pass along these increases to its customers, its financial results will be adversely impacted.

#### *Reliance on Major Customers*

CTIB derives a significant portion of revenues from a few customers. Therefore, any significant disruption or deterioration of any of the Company's relationships with these customers may significantly reduce its revenues and operating results. The loss of any of these relationships could have severe consequences on its financial condition and equity value. CTIB's results could also be adversely impacted by purchasing and inventory policies of its customers or its customers' customers. This could lead to lower revenues, margins, and income.

Sales to its top ten customers during the first nine months of 2006 represented 60% of total net sales. Sales to the top two customers represented 43% of total net sales in the first nine months of 2006.

#### *Dilution/Funding Risk*

On June 6, 2006, CTIB and Capital Partners, LP. entered into a \$5 million Standby Equity Distribution Agreement (SEDA). The agreement allows CTIB to periodically sell shares of its common stock over a 24 month period in amounts not to exceed \$100,000 per draw. If the Company requires capital it may be forced to secure additional outside financing or tap into its SEDA with Cornell Capital. There is no assurance that it will obtain financing, or that financing will be available on favorable terms. If the Company does tap into the SEDA, it may result in dilution.

**According to SEC filings on January 26, 2007, the registration statement was declared effective. As of the date of this report, there has not been any public information regarding any draw down on the SEDA.**

#### *Shares Outstanding*

CTIB has a limited number of shares outstanding; therefore, any change in the top-line could dramatically impact bottom-line results. Based on the current fully diluted shares outstanding, a \$0.1 million change in net income would result in an approximate \$0.05 per share change in EPS.

#### *Unknown Financial Items*

Our estimates do not include any one-time, non-cash, or extraordinary items which may impact the financial results of the Company. The presence of such items will likely have a dramatic impact on the bottom line results of the Company. These items are almost always never known to the public until the Company reports its actual results and known mainly to Management at the later stages of compiling consolidated results.

#### *International Operations*

CTIB has operations in the United Kingdom and Mexico. International operations expose the Company to additional risk factors (i.e. currency, legal, and regulatory) that it would not ordinarily be exposed to in the U.S.

#### *Competition*

The Company operates in highly competitive and fragmented industries (balloon, novelty industry, and packaging). These industries are known for strong price competition and relatively low margins. There are number of competitors that may have greater resources than CTIB. Some competitors may develop more extensive or specialized resources and/or respond more quickly to new or emerging technologies. These actions may restrict the Company's ability to obtain additional market share and improve financial results. Moreover, there can be no assurance that the Company's competitors will not obtain patent protection or other intellectual property rights that would limit the marketability of the CTIB's products and technology. Furthermore,

acquisitions by other companies could enhance competitors' resources and/or market position and make it harder for CTIB to accomplish its business and financial goals. There can be no assurance that CTIB can continue to compete effectively against competitors or maintain its competitive advantages or market share.

#### *Growth Management*

As the Company becomes increasingly successful, it must meet the challenges associated with growth. If the Company is not successful in meeting these challenges, its business or financial results will be adversely impacted. Recently, media outlets reported a helium shortage which is anticipated to adversely impact sales of balloons.

#### *Shareholder Control*

A few investors, consisting of Management and Directors, own a majority substantial stake in CTIB. Small investors should be aware that investors with significant stakes can control the outcome of certain shareholder votes. These outcomes may not be in the best interests of all shareholders. If a sizable stake is liquidated in the open market, there could be substantial selling pressure on the shares.

#### *Corporate Governance*

Wall Street has increased its focus on corporate governance and placed increased emphasis on the accountability of Management and Directors to shareholders. These events have brought about the passage of the Sarbanes-Oxley Act of 2002 by Congress and signage by the President. Corporate governance may be an issue facing the Company in light of new rules and regulations being issued by government regulatory agencies. This could mean that the Company will eventually be required to hire additional personnel in order to diversify various operational, management, and compliance functions, as well as spend monies to comply with the various aspects of the Act. Related party transactions also face additional scrutiny and investors should consult the Company's SEC filings to evaluate such matters.

#### *Federal Reserve*

Between mid-2004 and 2006, the Federal Reserve raised the Discount Rate and its target rate for Fed Funds by 0.25 after 17 meeting. Such a monetary policy is theoretically and empirically bad news for equity prices and valuations, particularly for smaller cap stocks. At its last 6 meeting, the Federal Reserve held rates steady.

#### *Liquidity*

The shares of CTIB have risks common to those of the microcap segment of the market. Often these risks cause microcap stocks to trade at discounts to their peers. The most common of these risks is liquidity risk, which is typically caused by small trading floats and very low trading volume and can lead to large spreads and high volatility in stock price. The Company's float is 1 million shares and 83,000 shares, on average are traded daily.

#### *Miscellaneous Risks*

The Company's financial results and equity values are subject to other risks and uncertainties known and unknown, including but not limited to competition, operations, financial markets, regulatory risk, and/or other events. These risks may cause actual results to differ from expected results.

**Conclusion**

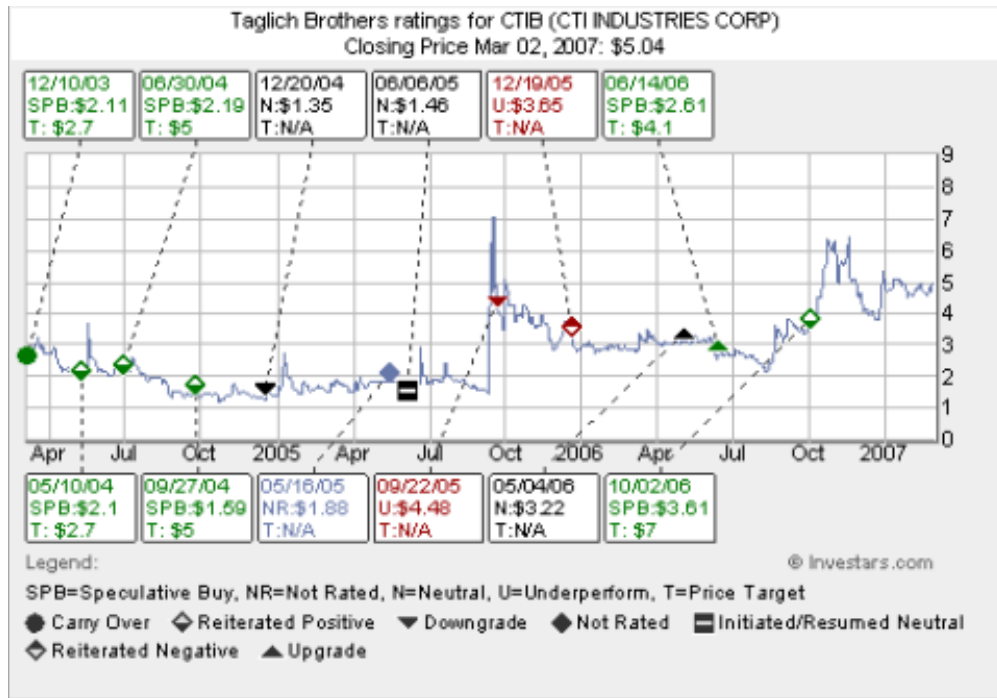
**We are maintaining our Speculative Buy rating on CTI Industries (NASDAQ: CTIB) and our 12-month price target of \$7.00 per share.**

Our price target is based on applying a multiple of 18X to our estimated 2007 EPS of \$0.40 per share. We derived our valuation multiple by discounting by about 60% the Company's projected 2-year compounded annual EBITDA growth rate of 30%.

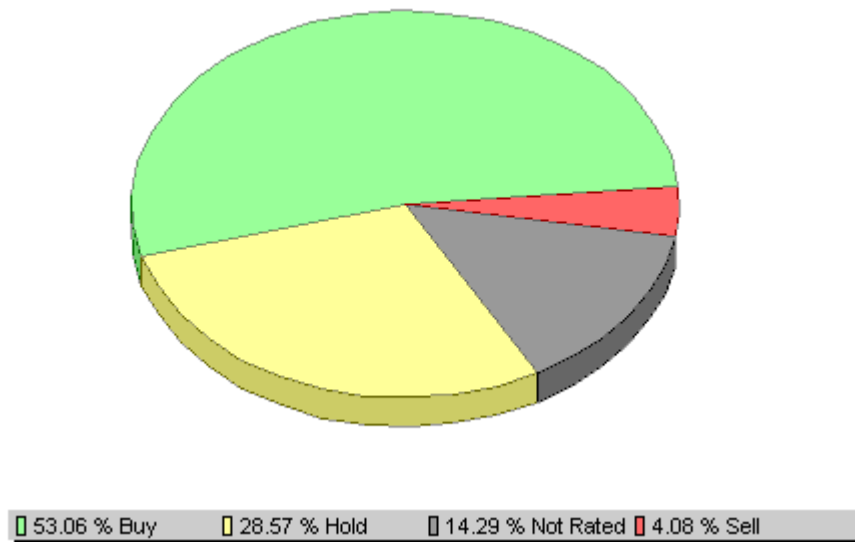
Despite our positive rating, investors should be cognizant that an investment in the shares of CTIB carries many risks including the following risks and concerns:

- Reliance on major customers;
- Leveraged and illiquid balance sheet;
- Raw material pricing;
- Growth management;
- Shareholder control;
- Competition;
- Dilution; and
- Microcap risk.

**On June 6, 2006, CTIB and Capital Partners, LP. entered into a \$5 million Standby Equity Distribution Agreement (SEDA). According to SEC filings on January 26, 2007, the registration statement was declared effective. As of the date of this report, there has not been any public information regarding any draw down on the SEDA. If the Company does tap into the SEDA, it may result in dilution.**



Taglich Brothers' Current Rating Distribution



<b>Investment Banking Services for Companies Covered in the Past 12 Months</b>		
Rating	#	%
Buy	2	6.45%
Hold	1	7.14%
Sell	0	0
Not Rated	0	0

### Meaning of Ratings

#### *Buy*

We believe the Company is undervalued relative to its market and peers. We believe its risk reward ratio strongly advocates purchase of the stock relative to other stocks in the marketplace. Remember, with all equities there is always downside risk.

#### *Speculative Buy*

We believe that the long run prospects of the Company are positive. We believe its risk reward ratio advocates purchase of the stock. We feel the investment risk is higher than our typical “buy” recommendation. In the short run, the stock may be subject to high volatility and continue to trade at a discount to its market.

#### *Neutral*

We will remain neutral pending certain developments.

#### *Underperform*

We believe that the Company may be fairly valued based on its current status. Upside potential is limited relative to investment risk.

#### *Sell*

We believe that the Company is significantly overvalued based on its current status. The future of the Company's operations may be questionable and there is an extreme level of investment risk relative to reward.

### **Some notable Risks within the Microcap Market**

**Stocks in the Microcap segment of the market have many risks that are not as prevalent in Large-cap, Blue Chips or even Small-cap stocks. Often it is these risks that cause Microcap stocks to trade at discounts to their peers. The most common of these risks is liquidity risk, which is typically caused by small trading floats and very low trading volume which can lead to large spreads and high volatility in stock price. In addition, Microcaps tend to have significant company specific risks that contribute to lower valuations. Investors need to be aware of the higher probability of financial default and higher degree of financial distress inherent in the microcap segment of the market.**

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From time to time our analysts may choose to withhold or suspend a rating on a company. We continue to publish informational reports on such companies; however, they have no ratings or price targets. In general, we will not rate any company that has too much business or financial uncertainty for our analysts to form an investment conclusion, or that is currently in the process of being acquired.

Public Companies Mentioned in this Report

None

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**I, Luis Martins, the research analyst of this report, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities and issuers; and that no part of my compensation was, is, or will be directly or indirectly related to the specific recommendations or views contained in this report.**

CTI Industries  
Annual Income Statement  
For Fiscal Year Ended December 31  
(in thousands)

	FY12/03A	FY12/04A	FY12/05A	FY12/06E	FY12/07E
Net sales	\$ 36,260	\$ 37,193	\$ 29,190	\$ 34,251	\$ 37,220
Cost of sales	<u>29,627</u>	<u>30,841</u>	<u>22,726</u>	<u>25,729</u>	<u>27,915</u>
Gross profit	6,633	6,352	6,464	8,522	9,305
Gross margin	18.29%	17.08%	22.14%	24.88%	25.00%
General and administrative	4,054	4,342	3,847	4,500	4,850
Selling	1,442	1,515	1,065	874	900
Advertising and marketing	1,816	1,167	777	1,126	1,200
Litigation	-	-	-	-	-
Asset Impairment Loss	-	-	124	-	-
Total operating expenses	<u>7,312</u>	<u>6,921</u>	<u>5,813</u>	<u>6,500</u>	<u>6,950</u>
Operating income	(679)	(567)	651	2,022	2,355
Operating margins	-1.87%	-1.52%	2.23%	5.90%	6.33%
EBITDA	940	1,178	2,239	3,445	3,755
	-69.0%	25.3%	90.1%	53.88%	8.99%
Other income (expense)					
Interest expense	(1,103)	(1,350)	(1,231)	(1,797)	(1,500)
Interest income	13	-	-	19	-
Gain on sale of assets	28	15	-	-	-
Other	392	711	45	614	-
Total other expense	<u>(670)</u>	<u>(624)</u>	<u>(1,186)</u>	<u>(1,304)</u>	<u>(1,500)</u>
	-	-	-	-	-
Pretax income (loss)	(1,349)	(1,192)	(534)	717	855
Pretax margins	-3.72%	-3.20%	-1.83%	2.09%	-
Income tax expense (benefit)	<u>(783)</u>	<u>1,286</u>	<u>(200)</u>	<u>59</u>	<u>-</u>
Tax rate	58.04%	-107.89%	37.45%	8.22%	0.00%
Net income (loss) before minority interes	(567)	(2,478)	(334)	658	855
Minority interest	(0)	1	-	3	-
Net income (loss) for common	<u>\$ (566)</u>	<u>\$ (2,479)</u>	<u>\$ (333)</u>	<u>\$ 655</u>	<u>\$ 855</u>
EPS diluted	<u>\$ (0.30)</u>	<u>\$ (1.28)</u>	<u>\$ (0.17)</u>	<u>\$ 0.31</u>	<u>\$ 0.40</u>
Weighted average shares (diluted)	<u>1,918</u>	<u>1,931</u>	<u>1,977</u>	<u>2,137</u>	<u>2,130</u>
<u>% of revenue</u>					
Cost of sales	81.71%	82.92%	77.86%	75.12%	75.00%
General and administrative	11.18%	11.67%	13.18%	13.14%	13.03%
Selling	3.98%	4.07%	3.65%	2.55%	2.42%
Advertising and marketing	5.01%	3.14%	2.66%	3.29%	3.22%
<u>year / year growth</u>					
revenues	-12.07%	2.57%	-21.52%	17.34%	8.67%

CTI Industries  
Quarterly Income Statement  
For Fiscal Year Ended December 31, 2005  
(in thousands)

	Q1(3/05)A	Q2(6/05)A	Q3(9/05)A	Q4(12/05)A	FY12/05A
Net sales	\$ 9,103	\$ 7,573	\$ 6,034	\$ 6,480	\$ 29,190
Cost of sales	<u>7,229</u>	<u>5,990</u>	<u>4,792</u>	<u>4,715</u>	<u>22,726</u>
Gross profit	1,874	1,583	1,242	1,765	6,464
Gross margin	20.59%	20.90%	20.58%	27.24%	22.14%
Operating expenses					
General and administrative	1,019	1,021	987	820	3,847
Selling	304	245	247	269	1,065
Advertising and marketing	224	213	166	174	777
Asset Impairment Loss	-	-	-	124	124
Total operating expenses	<u>1,547</u>	<u>1,479</u>	<u>1,400</u>	<u>1,387</u>	<u>5,813</u>
Operating income	327	104	(157)	378	651
Operating margins	3.59%	1.37%	-2.60%	5.83%	2.23%
EBITDA	402	388	316	357	\$ 1,463
	729	492	159	859	2,239
					90.1%
Other income (expense)					
Interest expense	(305)	(282)	(281)	(363)	(1,231)
Interest income					-
Gain on sale of assets					-
Other	58	162	(4)	(171)	45
Total other expense	<u>(247)</u>	<u>(120)</u>	<u>(285)</u>	<u>(534)</u>	<u>(1,186)</u>
Pretax income (loss)	80	(15)	(442)	(157)	(534)
Pretax margins	0.88%	-2.67%	-2.67%	-2.67%	-1.83%
Income tax expense (benefit)	<u>(4)</u>	<u>38</u>	<u>(26)</u>	<u>(209)</u>	<u>(200)</u>
Tax rate	-5.00%	0.00%	0.00%	0.00%	37.45%
Net income (loss) before minority interes	84	(53)	(416)	52	(334)
Minority interest	-	-	-	-	-
Net income (loss) for common	<u>\$ 84</u>	<u>\$ (53)</u>	<u>\$ (416)</u>	<u>\$ 52</u>	<u>\$ (333)</u>
EPS diluted	<u>\$ 0.04</u>	<u>\$ (0.03)</u>	<u>\$ (0.21)</u>	<u>\$ 0.02</u>	<u>\$ (0.17)</u>
Weighted average shares (diluted)	<u>1,970</u>	<u>1,954</u>	<u>1,964</u>	<u>2,211</u>	<u>1,977</u>
<u>% of revenue</u>					
Cost of sales	79.41%	79.10%	79.42%	72.76%	77.86%
General and administrative	11.19%	13.48%	16.36%	12.65%	13.18%
Selling	3.34%	3.24%	4.09%	4.15%	3.65%
Advertising and marketing	2.46%	2.81%	2.75%	2.69%	2.66%
<u>year / year growth</u>					
revenues	-16.43%	-21.05%	-25.74%	-24.49%	-21.52%

Taglich Brothers, Inc.

CTI Industries  
Quarterly Income Statement  
For Fiscal Year Ended December 31, 2006  
(in thousands)

	Q1(3/06)A	Q2(6/06)A	Q3(9/06)A	Q4(12/06)E	FY12/06E
Net sales	\$ 8,156	\$ 8,997	\$ 8,603	\$ 8,495	\$ 34,251
Cost of sales	<u>6,203</u>	<u>6,800</u>	<u>6,350</u>	<u>6,376</u>	<u>25,729</u>
Gross profit	1,953	2,197	2,253	2,119	8,522
Gross margin	23.95%	24.42%	26.19%	24.95%	24.88%
General and administrative	1,017	1,092	1,216	1,175	4,500
Selling	177	234	213	250	874
Advertising and marketing	218	267	361	280	1,126
Total operating expenses	<u>1,412</u>	<u>1,593</u>	<u>1,790</u>	<u>1,705</u>	<u>6,500</u>
Operating income	541	604	463	414	2,022
Operating margins	6.63%	6.71%	5.38%	4.88%	5.90%
EBITDA	892	1,004	785	764	3,445
Other income (expense)					
Interest expense	(336)	(440)	(521)	(500)	(1,797)
Interest income	5	8	6		19
Gain on sale of assets			(141)		(141)
Other	<u>48</u>	<u>43</u>	<u>523</u>	<u>-</u>	<u>614</u>
Total other expense	<u>(283)</u>	<u>(388)</u>	<u>(133)</u>	<u>(500)</u>	<u>(1,304)</u>
Pretax income (loss)	258	215	330	(86)	717
Pretax margins	3.16%	-2.67%	-2.67%	-2.67%	2.09%
Income tax expense (benefit)	<u>38</u>	<u>9</u>	<u>12</u>	<u>-</u>	<u>59</u>
Tax rate	14.73%	4.19%	0.00%	0.00%	8.22%
Net income (loss) before minority interes	220	206	318	(86)	658
Minority interest	-	-	3	-	3
Net income (loss) for common	<u>\$ 220</u>	<u>\$ 206</u>	<u>\$ 315</u>	<u>\$ (86)</u>	<u>\$ 655</u>
EPS diluted	<u>\$ 0.10</u>	<u>\$ 0.10</u>	<u>\$ 0.15</u>	<u>\$ (0.04)</u>	<u>\$ 0.31</u>
Weighted average shares (diluted)	<u>2,167</u>	<u>2,121</u>	<u>2,130</u>	<u>2,130</u>	<u>2,137</u>
<u>% of revenue</u>					
Cost of sales	76.05%	75.58%	73.81%	75.05%	75.12%
General and administrative	12.47%	12.14%	14.13%	13.83%	13.14%
Selling	2.17%	2.60%	2.48%	2.94%	2.55%
Advertising and marketing	2.67%	2.97%	4.20%	3.30%	3.29%
<u>year / year growth</u>					
revenues	-10.40%	18.80%	42.58%	31.10%	17.34%

CTI Industries  
Quarterly Income Statement  
For Fiscal Year Ended December 31, 2007  
(in thousands)

	Q1(3/07)E	Q2(6/07)E	Q3(9/07)E	Q4(12/07)E	FY12/07E
Net sales	\$ 8,933	\$ 9,677	\$ 9,491	\$ 9,119	\$ 37,220
Cost of sales	<u>6,700</u>	<u>7,258</u>	<u>7,118</u>	<u>6,839</u>	<u>27,915</u>
Gross profit	2,233	2,419	2,373	2,280	9,305
Gross margin	25.00%	25.00%	25.00%	25.00%	25.00%
General and administrative	1,125	1,225	1,275	1,225	4,850
Selling	220	225	225	230	900
Advertising and marketing	<u>300</u>	<u>300</u>	<u>300</u>	<u>300</u>	<u>1,200</u>
Total operating expenses	<u>1,645</u>	<u>1,750</u>	<u>1,800</u>	<u>1,755</u>	<u>6,950</u>
Operating income	588	669	573	525	2,355
Operating margins	6.58%	6.92%	6.03%	5.75%	6.33%
EBITDA	938	1,019	923	875	3,755
Interest expense	(400)	(375)	(375)	(350)	(1,500)
Total other expense	<u>(400)</u>	<u>(375)</u>	<u>(375)</u>	<u>(350)</u>	<u>(1,500)</u>
Pretax income (loss)	188	294	198	175	855
Pretax margins	2.11%	-2.67%	-2.67%	-2.67%	
Income tax expense (benefit)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Tax rate	0.00%	0.00%	0.00%	0.00%	0.00%
Net income (loss) before minority interes	188	294	198	175	855
Minority interest	-	-	-	-	-
Net income (loss) for common	<u>\$ 188</u>	<u>\$ 294</u>	<u>\$ 198</u>	<u>\$ 175</u>	<u>\$ 855</u>
EPS diluted	<u>\$ 0.09</u>	<u>\$ 0.14</u>	<u>\$ 0.09</u>	<u>\$ 0.08</u>	<u>\$ 0.40</u>
Weighted average shares (diluted)	<u>2,130</u>	<u>2,130</u>	<u>2,130</u>	<u>2,130</u>	<u>2,130</u>
<u>% of revenue</u>					
Cost of sales	75.00%	75.00%	75.00%	75.00%	75.00%
General and administrative	12.59%	12.66%	13.43%	13.43%	13.03%
Selling	2.46%	2.33%	2.37%	2.52%	2.42%
Advertising and marketing	3.36%	3.10%	3.16%	3.29%	3.22%
<u>year / year growth</u>					
revenues	9.52%	7.56%	10.32%	7.35%	8.67%

CTI Industries  
Consolidated Balance Sheet  
For Periods Ended  
(in thousands)

	FY12/05A	1Q06A	2Q06A	3Q06A
<b>Assets</b>				
<b>Current Assets</b>				
Cash	\$ 262	\$ 640	\$ 628	\$ 320
Accounts Receivable	4,344	5,546	5,609	5,550
Inventories	7,023	7,336	7,808	8,027
Other	<u>707</u>	<u>561</u>	<u>812</u>	<u>662</u>
<b>Total Current Assets</b>	<b>12,335</b>	<b>14,083</b>	<b>14,857</b>	<b>14,560</b>
<b>Total property and equipment, net</b>	<b>9,617</b>	<b>9,293</b>	<b>9,062</b>	<b>8,679</b>
<b>Other assets</b>				
Deferred financing costs, net	74	240	255	228
Goodwill	989	989	989	989
Deferred tax assets	353	315	305	293
Other assets	<u>168</u>	<u>165</u>	<u>163</u>	<u>170</u>
<b>Total other assets</b>	<b>1,584</b>	<b>1,709</b>	<b>1,712</b>	<b>1,680</b>
<b>Total Assets</b>	<b><u>\$ 23,536</u></b>	<b><u>\$ 25,085</u></b>	<b><u>\$ 25,633</u></b>	<b><u>\$ 24,919</u></b>
<b>Liabilities and Stockholders Equity</b>				
<b>Current liabilities</b>				
Accounts payable	\$ 4,718	\$ 4,356	\$ 3,467	\$ 3,444
Over draft	500	159	135	112
Line of credit	5,051	4,835	5,696	5,682
Notes payable- current portion	3,567	3,484	3,278	3,154
Accrued liabilities	<u>926</u>	<u>1,017</u>	<u>1,696</u>	<u>1,309</u>
<b>Total current liabilities</b>	<b>14,761</b>	<b>13,851</b>	<b>14,272</b>	<b>13,701</b>
<b>Long-term liabilities</b>				
Non-current liabilities	1,644	1,638	1,658	1,363
Notes payable	<u>4,394</u>	<u>6,166</u>	<u>6,310</u>	<u>5,865</u>
<b>Total Liabilities</b>	<b>20,799</b>	<b>21,655</b>	<b>22,240</b>	<b>20,929</b>
Minority interest	10	10	11	14
<b>Stockholders' equity</b>				
<b>Total stockholders' equity</b>	<b><u>\$ 2,726</u></b>	<b><u>\$ 3,421</u></b>	<b><u>3,690</u></b>	<b><u>3,975</u></b>
<b>Total Liabilities and Stockholders' Equity</b>	<b><u>\$ 23,536</u></b>	<b><u>\$ 25,086</u></b>	<b><u>\$ 25,633</u></b>	<b><u>\$ 24,919</u></b>
	1,954	2,036	2,121	2,130