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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 \$1.55 (NASDAQ)

April 20, 2009

	FY2005A	FY2006A	FY2007A	FY2008A	FY2009E
Revenues (Thousands)	\$29,190	\$35,428	\$36,510	\$44,981	\$ 42,234
EPS (fully diluted)	\$(0.17)	\$0.36*	\$0.03	\$0.40	\$0.32

52-Week Range	\$7.30 – 1.20	Fiscal Year Ends	December
Shares Outstanding	2.8 million	Revenues/Share (TTM)	\$15.52
Approximate Float	1.5 million	Price/Sales (TTM)	0.1X
Market Capitalization	\$4 million	Price/Sales (2009)E	0.1X
Tangible Book Value/Share	\$2.40	Price/Earnings (TTM)	3.9X
Price/Tangible book	0.6X	Price/Earnings (2009)E	4.8X

*Adjusted for one-time items

CTI Industries Corp. is an international manufacturer and marketer of mylar and latex balloons, and specialty, laminated, printed films, and pouches used for commercial and industrial applications, as well as consumer use. The Company's products are sold domestically and in several foreign countries.

Key Investment Considerations:

We are maintaining our Speculative Buy rating on shares of CTI Industries (NASDAQ: CTIB); however, we are lowering our 12-month price target to \$2.60 from \$5.00 per share due to a reduction in our 2009 earnings estimate.

The shares are trading at a compelling P/E valuation multiple. Our price target is based on a relative P/E model. The Company is trading below its tangible book value per share of \$2.40. Historically, based on data for the past 10 years, the Company's shares on average have traded to 1.15X book value.

On March 31, 2009, CTI Industries reported fourth quarter results. The Company reported 4Q2008 net revenues of \$9.8 million and net income of \$0.121 million or \$0.04 per share. In the year ago period, CTIB reported revenues of \$10.3 million and net income of \$0.125 million or \$0.05 per share.

With the fourth quarter profit, CTIB was profitable for five straight quarters. Historically, the Company's results have shown tremendous variability from quarter to quarter.

We are adjusting our estimates for fiscal 2009, primarily due to recent results (revenues, margins, product mix, and profits). Our revised full year estimates call for 2009 revenues of \$42.2 million and net income \$1.0 million or \$0.32 per share. Our prior estimate for fiscal 2009 called for revenues of \$53.3 million and net income of \$1.9 million or \$0.64 per share.

We are projecting that the Company will report EBITDA of \$3.8 million in 2009, as compared to \$3.9 million in fiscal 2008.

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

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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, packaging, and container applications.

Products include metalized balloons, latex balloons and related latex toy products, films for packaging applications, and flexible containers for packaging and storage applications.

The Company produces all of its film products for packaging and container applications at its plant in Barrington, Illinois. CTIB produces all of its latex balloons and latex products in Guadalajara, Mexico. Substantially all of the film products for packaging applications and flexible containers for packaging and storage are sold to customers in the United States. The Company markets and sells novelty items - principally metalized balloons and latex balloons - in the United States, Mexico, the United Kingdom, and a number of additional countries.

In 2008, revenues from the three product lines, as a percent of total revenues were: Novelty Products: 57.5% of revenues; Laminated Film Products: 18.3% of revenues; and Flexible Containers: 24.2% of revenues.

Strategy

The Company's operating strategies to grow its business calls for the following:

- Focus on its core assets and expertise;
- Maintain a focus on margin levels and cost controls to enhance profitability;
- Develop new products, product improvements, and technologies; and
- Develop new channels of distribution and new sales relationships.

Recent Results

On March 31, 2009, CTI Industries reported fourth quarter results. The Company reported 4Q2008 net revenues of \$9.8 million and net income of \$0.121 million or \$0.04 per share. In the year ago period, CTIB reported revenues of \$10.3 million and net income of \$0.125 million or \$0.05 per share.

In comparison, Taglich Brothers' estimates called for revenues of \$12.9 million and net income of \$0.321 million or \$0.11 per share.

The fall in revenues as compared to the year ago period was primarily attributable to lower sales of pouches, balloons, and films (see chart). Based on comments in the Company's 10K, we believe sales to SC Johnson during the quarter amounted to \$0.690 million. During 2008, sales to SC Johnson were \$6.990 million.

Segment (\$ 000's)	4Q2007A	4Q2008A
Metalized balloons	4,986	4,799
Films	1,956	1,843
Pouches	1,390	1,238
Latex	1,830	1,859
Helium/other	250	93

The following chart shows the sales (\$ 000's) by quarter to SC Johnson related to the Ziploc product line.

Q1 (3/08)A	Q2 (6/08)A	Q3 (9/08)A	Q4 (12/08)A	FY12/08A
1,060	2,640	2,600	690	6,990

On an operating basis, CTIB reported income of \$0.434 million, as compared to \$0.370 million in the year ago period. EBITDA increased to \$0.856 million from \$0.755 million.

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

- Gross margin increased to 23.76%, resulting in gross profits of \$2.3 million, as compared to gross margin of 23.5% and gross profits of \$2.4 million in the year ago period.
- Operating expenses decreased modestly to \$1.9 million from \$2.1 million due to lower operating activities, while operating margins increased to 4.4% from 3.6%.
- Interest expense decreased to \$0.232 million compared to \$0.309 million;
- Miscellaneous items in the quarter resulted in other expenses of \$0.017 million, as compared to income of \$0.008 million in the year ago period; and
- Income tax expense of \$0.064 million, as compared to \$0.082 million.

The reported profit by the Company enabled CTIB to be profitable for five straight quarters. Historically, the Company's results have shown tremendous variability from quarter to quarter.

Balance Sheet

At December 31, 2008, CTIB had cash of \$0.2 million, working capital of \$1.5 million, long-term liabilities of \$6.0 million, and stockholders' equity of \$7.7 million.

As of December 31, 2008, the outstanding balance on its revolving line of credit was \$8.0 million at an interest rate of prime rate + 0.5%. On November 13, 2007, CTIB and its lender (RBC Citizen) agreed to increase the maximum available under its facility to \$9 million from \$7 million, authorize a capital lease line of \$1.5 million, and relaxed some of the pre-existing loan covenants. The agreement also mandated that two of the Company's officers each personally guarantee \$2 million of the facility.

Management believes that the Company will have sufficient resources to enable the Company to meet its obligations during the next 12-months.

Projections

We are adjusting our estimates for fiscal 2009, primarily due to recent results (revenues, margins, product mix, and profits).

Our revised full year estimates call for 2009 revenues of \$42.2 million and net income \$1.0 million or \$0.32 per share. Our prior estimate for fiscal 2009 called for revenues of \$53.3 million and net income of \$1.9 million or \$0.64 per share.

Due to disappointing sales in the fourth quarter related to the Ziploc product line (SC Johnson), we are now expecting Pouch sales of \$7.4 million (previous estimate was \$15.8 million), as compared to

\$10.9 million in 2008. Sales to SC Johnson are projected to be \$3.5 million, as compared to \$6.99 million in 2008. The following table depicts our revenue mix expectations:

Segment (\$ 000's)	2008A	2009E Previous	2009E Revised
Metalized balloons	17,629	19,435	17,805
Films	8,212	8,912	8,376
Pouches	10,893	15,786	7,403
Latex	7,597	8,434	8,000
Helium/other	650	700	650

We are projecting that the Company will report EBITDA of \$3.8 million in 2009, as compared to \$3.9 million in fiscal 2008.

Our 2009 forecast incorporates the following:

- Slightly higher gross margin based on historical margin trends and Management's comments in the latest 10Q;
- Stable operating expenses based on projected sales levels;
- Stable interest expense based on current interest rate environment; and
- An effective tax rate of 20%. According to the latest 10K, at December 31, 2008, the Company had net operating loss carryforwards of approximately \$6.04 million (expiring in various years through 2025) and approximately \$0.343 million of alternative minimum tax credits, which have no expiration date.

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 and have shown tremendous volatility over the past few quarters. 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 flexibility 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.

On June 6, 2006, CTIB and Cornell Capital Partners, LP. entered into a \$5 million Standby Equity Distribution Agreement (SEDA). Through December 31, 2008, CTIB received \$1.7 million from Cornell Capital in exchange for 341,864 common shares. The commitment of Cornell Capital under this agreement expired on January 28, 2009.

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. Recently, the Company has experienced fluctuation in pricing, in relation to the fluctuation of availability and pricing of certain commodities. The cost of these raw materials represented 43.2% of net revenues in 2008.

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.

During 2008, three customers (SC Johnson, Dollar Tree Stores, and Rapak L.L.C) represented more than 10% of the Company's net sales. The sales to these customers were \$7.0 million or 15.5%, \$9.0 million or 20.0%, and \$7.6 million or 16.9% of consolidated net sales, respectively. The Company's top ten customers represented 70.8% in 2008.

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 \$0.03 per share change in EPS.

Unknown Financial Items

Our estimates do not include any one-time, non-cash (including income tax expense or benefit), 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 issues from other countries) that it would 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.

There are six principal manufacturers of metalized balloons whose products are sold in the United States including Anagram International, Inc., Pioneer Balloon Company, Convertidora International S.A. de C.V., Barton Enterprises Inc., and Betallic, LLC.

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.

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. According to SEC filings, there has been some recent insider buying.

Corporate Governance/ Internal Controls

Management disclosed that following in the Company's 2008 10K:

“On March 5, 2009, in the course of a review by our accounting and production personnel of various production-related expenses, we discovered that, during the years from 1997 through 2008, the Company had received and paid certain invoices for repair and maintenance services and related parts, which had, in fact, never been provided to the Company. We further discovered that an officer of the Company principally owned the company that submitted the invoices. This officer was also responsible for the repair and maintenance activities in the Company and had the authority to approve and did approve such invoices for payment, of which he was the ultimate recipient.

We are conducting a full investigation and review of these circumstances and of our internal controls relating to these events. The officer involved has resigned and has agreed to make full restitution of the amounts wrongfully received by him. The aggregate amount of such payments fraudulently received by such officer from the Company over the eleven-year period was approximately \$1,400,000. The expense recorded in 2008 and 2007 was \$143,000 and \$155,000, respectively. To date, we have received restitution from this former officer in the amount of \$124,000. We believe that, under our control system in effect as of December 31, 2008, these events would have been prevented as the current vendor selection, approval and set up process in the accounting system is much more rigorous and independent, requiring multiple levels of vendor review and approval prior to acceptance and set up in the master vendor file. In addition, a control process was in place that required that an independent review of all invoices submitted for payment is reviewed and procedures performed to ensure the services were performed and goods were received prior to approval for payment. Unfortunately, a breakdown in this control from a performance standpoint had occurred. While the cumulative amount of the improper payments in total may have been substantial, the related losses were reported in cost of sales for the respective periods and discovery of these improper payments has not resulted in changes to any previously reported results. Therefore we do not consider this event to be a material weakness in our internal control over financial reporting.

Management of the Company, in conjunction with the Audit Committee, are conducting an investigation and review concerning these events to gauge the adequacy of the Company's internal controls and to identify and implement changes and improvements in our internal controls to remediate deficiencies in our internal controls. We are considering and planning at least the following changes:

- *Initial and ongoing periodic review of all vendors by individuals who are not involved in the purchasing process with such vendors;*
- *Enhanced documentation and review requirements of invoices prior to authorization for payment*
- *Periodic testing of invoices by individuals not involved in purchasing or in the approval process of the invoices for payment;*
- *Initiation of an internal audit function with respect to purchasing and treasury functions.”*

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 around 1.5 million shares and 15,000 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 shares of CTI Industries (NASDAQ: CTIB); however, we are lowering our 12-month price target to \$2.60 from \$5.50 per share primarily due to lower projected earnings in 2009.

Our price target is based on applying a price to earnings multiple of approximately 8X to our estimated 2009 EPS of \$0.32 per share. We believe that this P/E multiple is appropriate given the Company's recent and projected financial performance, market condition, as well as, current company multiples and industry multiples (see chart). Source for industry multiples is MSN Money.

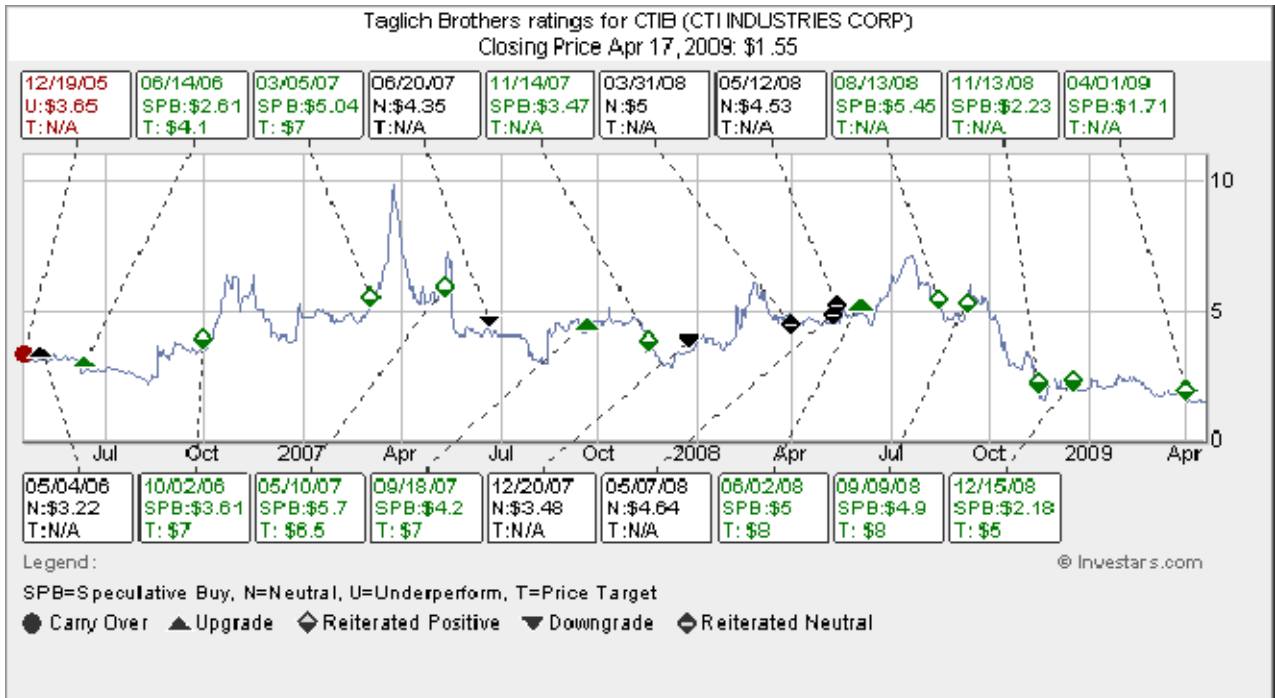
Historic Industry Multiples

TTM	9.5
5 Year High	21.0
5 Year Low	4.5

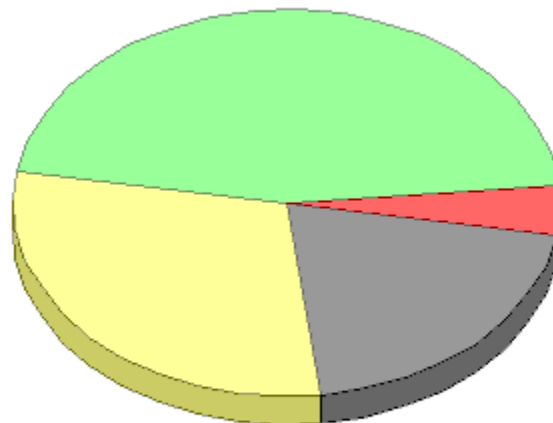
Additionally, the Company is trading below its tangible book value per share of \$2.40. Historically, based on data for the past 10 years, the Company's shares on average have traded 1.15X book value.

Investors should be cognizant that an investment in the shares of CTIB carries many risks and concerns including the following:

- Acceptance of new product offerings;
- Reliance on major customers;
- Raw material issues;
- Growth management;
- Shareholder control;
- Competition;
- Dilution; and
- Microcap risk.



Taglich Brothers' Current Rating Distribution



45.95 % Buy 29.73 % Hold 20.27 % Not Rated 4.05 % Sell

Investment Banking Services for Companies Covered in the Past 12 Months		
Rating	#	%
Buy	2	7.69%
Hold	0	0
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.

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)

	FY12/05A	FY12/06A	FY12/07A	FY12/08A	FY12/09E
Net sales	\$ 29,190	\$ 35,428	\$ 36,510	\$ 44,981	\$ 42,234
Cost of sales	<u>22,726</u>	<u>26,531</u>	<u>27,825</u>	<u>34,658</u>	<u>31,990</u>
Gross profit	6,464	8,897	8,685	10,332	10,244
Gross margin	22.14%	25.11%	23.79%	22.97%	24.26%
General and administrative	3,847	4,554	5,322	5,375	5,650
Selling	1,065	847	868	886	925
Advertising and marketing	<u>777</u>	<u>1,200</u>	<u>1,388</u>	<u>1,678</u>	<u>1,500</u>
Total operating expenses	<u>5,813</u>	<u>6,601</u>	<u>7,578</u>	<u>7,939</u>	<u>8,075</u>
Operating income	651	2,296	1,107	2,383	2,169
Operating margins	2.23%	6.48%	3.03%	5.30%	6.28%
EBITDA	2,239	3,847	2,597	3,975	3,769
Other income (expense)					
Interest expense	(1,231)	(1,711)	(1,306)	(1,031)	(960)
Interest income	-	19	2		
Gain on sale of assets	-	(144)			
Other	<u>45</u>	<u>662</u>	<u>165</u>	<u>50</u>	<u>-</u>
Total other expense	<u>(1,186)</u>	<u>(1,173)</u>	<u>(1,137)</u>	<u>(981)</u>	<u>(960)</u>
Pretax income (loss)	(534)	1,122	(30)	1,401	1,209
Pretax margins	-1.83%	3.17%	-0.08%	3.11%	4.21%
Income tax expense (benefit)	<u>(200)</u>	<u>(774)</u>	<u>(31)</u>	<u>247</u>	<u>242</u>
Tax rate	37.45%	-68.96%	106.08%	17.63%	20.00%
Net income (loss) before minority interes	(334)	1,896	2	1,154	967
Minority interest	-	1	-	-	-
Net income (loss) for common	<u>\$ (333)</u>	<u>\$ 1,895</u>	<u>\$ 2</u>	<u>\$ 1,154</u>	<u>\$ 967</u>
EPS diluted	<u>\$ (0.17)</u>	<u>\$ 0.85</u>	<u>\$ 0.00</u>	<u>\$ 0.40</u>	<u>\$ 0.32</u>
Weighted average shares (diluted)	<u>1,977</u>	<u>2,235</u>	<u>2,377</u>	<u>2,899</u>	<u>3,000</u>
<u>% of revenue</u>					
Cost of sales	77.86%	74.89%	76.21%	77.05%	75.74%
General and administrative	13.18%	12.85%	14.58%	11.95%	13.38%
Selling	3.65%	2.39%	2.38%	1.97%	2.19%
Advertising and marketing	2.66%	3.39%	3.80%	3.73%	3.55%
<u>year / year growth</u>					
revenues	-21.52%	21.37%	3.05%	23.20%	-6.11%

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

	Q1 (3/07)A	Q2 (6/07)A	Q3 (9/07)A	Q4 (12/07)A	FY12/07A
Net sales	\$ 8,279	\$ 9,259	\$ 8,673	\$ 10,299	\$ 36,510
Cost of sales	<u>6,376</u>	<u>6,514</u>	<u>7,055</u>	<u>7,879</u>	<u>27,826</u>
Gross profit	1,903	2,744	1,618	2,420	8,684
Gross margin	22.99%	29.64%	18.66%	23.50%	23.79%
Operating expenses					
General and administrative	1,212	1,297	1,413	1,289	5,211
Selling	206	225	162	161	754
Advertising and marketing	<u>291</u>	<u>396</u>	<u>326</u>	<u>461</u>	<u>1,474</u>
Total operating expenses	<u>1,709</u>	<u>1,918</u>	<u>1,901</u>	<u>1,911</u>	<u>7,439</u>
Operating income	194	826	(283)	508	1,245
Operating margins	2.34%	8.92%	-3.26%	4.93%	3.41%
EBITDA	553	1,188	101	893	2,735
Other income (expense)					
Interest expense	(337)	(293)	(351)	(310)	(1,291)
Interest income	2		2		4
Gain on sale of assets					
Other	<u>52</u>	<u>41</u>	<u>72</u>	<u>8</u>	<u>173</u>
Total other expense	<u>(283)</u>	<u>(252)</u>	<u>(277)</u>	<u>(302)</u>	<u>1,112</u>
Pretax income (loss)	(89)	574	(560)	206	132
Pretax margins	-1.07%	-2.67%	-2.67%	-2.67%	0.36%
Income tax expense (benefit)	<u>(36)</u>	<u>151</u>	<u>(146)</u>	<u>82</u>	<u>51</u>
Tax rate	41.08%	26.31%	0.00%	0.00%	38.33%
Net income (loss) before minority interes	(52)	423	(414)	124	81
Minority interest	-	-	-	-	-
Net income (loss) for common	<u>\$ (52)</u>	<u>\$ 423</u>	<u>\$ (414)</u>	<u>\$ 124</u>	<u>\$ 81</u>
EPS diluted	<u>\$ (0.02)</u>	<u>\$ 0.17</u>	<u>\$ (0.18)</u>	<u>\$ 0.05</u>	<u>\$ 0.03</u>
Weighted average shares (diluted)	<u>2,157</u>	<u>2,541</u>	<u>2,339</u>	<u>2,648</u>	<u>2,590</u>
<u>% of revenue</u>					
Cost of sales	77.01%	70.35%	81.34%	76.50%	76.21%
General and administrative	14.64%	14.01%	16.29%	12.52%	14.27%
Selling	2.49%	2.43%	1.87%	1.56%	2.07%
Advertising and marketing	3.51%	4.28%	3.76%	4.48%	4.04%
<u>year / year growth</u>					
revenues	1.51%	2.91%	0.81%	6.48%	3.05%

CTI Industries
Quarterly Income Statement
For Fiscal Year Ended December 31, 2008
(in thousands)

	Q1 (3/08)A	Q2 (6/08)A	Q3 (9/08)A	Q4 (12/08)A	FY12/08A
Net sales	10,735	\$ 12,461	\$ 11,953	\$ 9,832	\$ 44,981
Cost of sales	<u>8,403</u>	<u>9,548</u>	<u>9,211</u>	<u>7,496</u>	<u>34,658</u>
Gross profit	2,332	2,913	2,742	2,336	10,332
Gross margin	21.72%	23.38%	22.94%	23.76%	22.97%
General and administrative	1,158	1,456	1,449	1,312	5,375
Selling	187	277	246	176	886
Advertising and marketing	<u>347</u>	<u>425</u>	<u>493</u>	<u>413</u>	<u>1,678</u>
Total operating expenses	<u>1,692</u>	<u>2,158</u>	<u>2,189</u>	<u>1,901</u>	<u>7,939</u>
Operating income	640	755	553	434	2,383
Operating margins	5.96%	6.06%	4.63%	4.41%	5.30%
EBITDA	1,006	1,149	964	856	3,975
Other income (expense)					
Interest expense	(270)	(287)	(243)	(232)	(1,031)
Other	<u>30</u>	<u>13</u>	<u>25</u>	<u>17</u>	<u>50</u>
Total other expense	<u>(240)</u>	<u>(274)</u>	<u>(218)</u>	<u>(249)</u>	<u>(981)</u>
Pretax income (loss)	400	480	336	185	1,401
Pretax margins	3.73%	3.85%	2.81%	1.88%	3.11%
Income tax expense (benefit)	120	(5)	66	64	247
Tax rate	30.00%	-1.04%	19.64%	19.96%	17.63%
Net income (loss) for common	<u>\$ 280</u>	<u>\$ 485</u>	<u>\$ 269</u>	<u>\$ 121</u>	<u>\$ 1,154</u>
EPS diluted	<u>\$ 0.10</u>	<u>\$ 0.17</u>	<u>\$ 0.09</u>	<u>\$ 0.04</u>	<u>\$ 0.40</u>
Weighted average shares (diluted)	<u>2,797</u>	<u>2,930</u>	<u>2,969</u>	<u>2,843</u>	<u>2,899</u>
<u>% of revenue</u>					
Cost of sales	78.28%	76.62%	77.06%	76.24%	77.05%
General and administrative	10.79%	11.68%	12.12%	13.34%	11.95%
Selling	1.74%	2.22%	2.06%	1.79%	1.97%
Advertising and marketing	3.23%	3.41%	4.12%	4.20%	3.73%
<u>year / year growth</u>					
revenues	29.67%	34.58%	37.82%	-4.53%	23.20%

CTI Industries
Quarterly Income Statement
For Fiscal Year Ended December 31, 2009
(in thousands)

	Q1 (3/09)E	Q2 (6/09)E	Q3 (9/09)E	Q4 (12/09)E	FY12/09E
Net sales	10,350	\$ 10,806	\$ 10,744	\$ 10,335	\$ 42,234
Cost of sales	<u>7,866</u>	<u>8,159</u>	<u>8,112</u>	<u>7,854</u>	<u>31,990</u>
Gross profit	2,484	2,648	2,632	2,480	10,244
Gross margin	24.00%	24.50%	24.50%	24.00%	24.26%
Operating expenses					
General and administrative	1,350	1,450	1,450	1,400	5,650
Selling	200	250	250	225	925
Advertising and marketing	<u>350</u>	<u>400</u>	<u>400</u>	<u>350</u>	<u>1,500</u>
Total operating expenses	<u>1,900</u>	<u>2,100</u>	<u>2,100</u>	<u>1,975</u>	<u>8,075</u>
Operating income	584	548	532	505	2,169
Operating margins	5.54%	6.42%	6.02%	6.97%	6.28%
EBITDA	984	948	932	905	3,769
Other income (expense)					
Interest expense	(230)	(250)	(250)	(230)	(960)
Pretax income (loss)	354	298	282	275	1,209
Pretax margins	3.42%	2.75%	2.63%	2.66%	4.21%
Income tax expense (benefit)	71	60	56	55	242
Tax rate	20.00%	20.00%	20.00%	20.00%	20.00%
Net income (loss) for common	<u>\$ 283</u>	<u>\$ 238</u>	<u>\$ 226</u>	<u>\$ 220</u>	<u>\$ 967</u>
EPS diluted	<u>\$ 0.09</u>	<u>\$ 0.08</u>	<u>\$ 0.08</u>	<u>\$ 0.07</u>	<u>\$ 0.32</u>
Weighted average shares (diluted)	<u>3,000</u>	<u>3,000</u>	<u>3,000</u>	<u>3,000</u>	<u>3,000</u>
<u>% of revenue</u>					
Cost of sales	76.00%	75.50%	75.50%	76.00%	75.74%
General and administrative	13.04%	13.42%	13.50%	13.55%	13.38%
Selling	1.93%	2.31%	2.33%	2.18%	2.19%
Advertising and marketing	3.38%	3.70%	3.72%	3.39%	3.55%
<u>year / year growth</u>					
revenues	-3.59%	-13.28%	-10.12%	5.11%	-6.11%

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

Current Assets	12/07A	12/08A
Cash	\$ 483	\$ 181
Accounts Receivable	5,951	5,822
Inventories	9,701	10,505
Deferred tax assets	1,014	674
Other	<u>652</u>	<u>506</u>
Total Current Assets	17,801	17,688
Total property and equipment, net	10,096	10,576
Other assets		
Deferred financing costs, net	113	123
Goodwill	989	989
Deferred tax assets	134	342
Other assets	191	271
Total Assets	\$ 29,324	\$ 29,988
Liabilities and Stockholders Equity		
Current liabilities		
Accounts payable	\$ 4,228	\$ 3,153
Over draft	617	680
Line of credit	6,746	7,961
Notes payable- current portion	3,021	2,455
Accrued liabilities	<u>1,872</u>	<u>1,973</u>
Total current liabilities	16,484	16,222
LT Notes payable	6,237	6,019
Total liabilities	22,721	22,241
Minority interest	12	12
Total stockholders' equity	6,591	7,735
Total Liabilities and Stockholders' Equity	\$ 29,324	\$ 29,988

CTI Industries
Consolidated Cash Flows
For Periods Ended
(in thousands)

	<u>FY2007A</u>	<u>FY2008A</u>
<i>Cash Flows from Operating Activities</i>		
Net Income	\$ 82	\$ 1,154
Depreciation & Amortization	1,466	1,593
Other	69	134
Deferred Income Tax	(21)	218
Write-off aand disposals	<u>290</u>	<u>386</u>
	1,886	3,485
<i>Changes In:</i>		
Receivables	338	(587)
Inventories	(1,872)	(1,380)
Prepaid Expense	270	122
Accounts Payable	823	(784)
Accrued Expenses & Other	<u>(89)</u>	<u>(455)</u>
Net Changes in Working Capital	<u>(530)</u>	<u>(3,084)</u>
Net cash Provided by Operations	<u>1,356</u>	<u>401</u>
<i>Cash Flows from Investing Activities</i>		
Capital Expenditures	<u>(2,848)</u>	<u>(2,200)</u>
Net cash used in Investing	<u>(2,848)</u>	<u>(2,200)</u>
<i>Cash Flows from Financing Activities</i>		
Proceeds from stock	1,585	125
Proceeds from Borrowings	1,262	2,518
Payments of Long-term debt	(1,261)	(961)
Other	<u>-</u>	<u>-</u>
Net cash provided by Financing	<u>1,586</u>	<u>1,681</u>
Exchange rate effect	<u>5</u>	<u>(184)</u>
Net change in Cash	99	(302)
Cash Beginning of Period	<u>385</u>	<u>484</u>
Cash End of Period	<u>\$ 484</u>	<u>\$ 181</u>