

# Taglich Brothers, Inc.

The Standard of Excellence in the Microcap Market

Member: NASD, SIPC

## Research Report-Update

**CTI Industries Corp.**

**Rating: Speculative Buy**

Luis Martins

CTIB – \$2.26 (NASDAQ)

April 29, 2002

|                                   | <u>FY1998A</u> | <u>FY1999A</u> | <u>FY2000A*</u>        | <u>FY2001A</u> | <u>FY2002E</u> | <u>FY2003E</u> |
|-----------------------------------|----------------|----------------|------------------------|----------------|----------------|----------------|
| Revenues (Thousands)              | \$19,953       | \$18,565       | \$22,978               | \$27,447       | \$33,100       | \$39,720       |
| Earnings per share                | \$0.09         | \$(0.86)       | \$(0.73)               | \$(0.03)       | \$0.58         | \$0.77         |
| 52-Week Range                     | \$3.51 – 1.30  |                | Fiscal Year Ends       | December       |                |                |
| Shares Outstanding-full dil (000) | 1,208          |                | Revenues/Share (TTM)   | \$22.72        |                |                |
| Approximate Float (000)           | 500            |                | Price/Sales (TTM)      | 0.10X          |                |                |
| Insider Holdings                  | 59%            |                | Price/Sales (2003)E    | 0.07X          |                |                |
| Tangible Book Value/Share         | \$2.33         |                | Price/Earnings (TTM)   | NM             |                |                |
| Price/Tangible book               | 1.0X           |                | Price/Earnings (2003)E | 2.94X          |                |                |

\*CTIB changed its fiscal year from October to December during fiscal 2000

*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 30 foreign countries.*

### Key Investment Considerations:

- *We are reiterating our Speculative Buy rating for shares of CTI Industries Corp. (CTIB) and establishing a 24-month target price of \$10.27 per share, which we have increased from \$6.69 per share. Our price target is based on a discounted cash flow analysis, using EBITDA as a proxy for cash flows.*
- *Fourth quarter net sales increased to \$7.7 million from \$6.4 million in last year's fourth quarter due to strong demand for the their products.*
- *The Company reported net income of \$53 thousand or \$0.04 per share, which was below our \$0.07 per share estimate due to a higher than expected tax rate.*
- *In February of 2002, CTIB entered into a partnership with Hallmark and its party goods division, Party Express, which we believe is a major stepping stone for CTIB and is likely be a significant catalyst for future growth in revenues and EPS.*
- *We are increasing our EPS estimates for fiscal 2002 to \$0.58 per share from \$0.42 per share based on recent quarterly trends, continued strength in the Company's segments, and potential new business stemming from the recent partnership with Hallmark.*
- *Our EBITDA projections call for \$3.3 million and \$3.7 million in fiscal 2002 and 2003, respectively. This compares to \$2.9 million in fiscal 2001.*

*\* Please view our disclaimer located at the end of the text portion of this report.*

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## ***Company Overview***

CTI Industries Corporation (CTIB) is engaged in the development, manufacturing, sale and distribution of:

- Novelty products; principally balloons, including mylar balloons, latex balloons, punch balls and other inflatable toy items, incorporating such licensed designs as Peanuts, Garfield, Betty Boop, and Monster Trucks. CTIB manufactures over 450 balloon designs; and
- Specialty and printed films primarily for food packaging, specialized consumer uses and various commercial applications such as food packaging and storage. The Company manufactures these products primarily from its Barrington, Illinois facility.

Revenue mix for the fiscal year 2001 consisted of the following:

- Laminated and printed films: 44% of sales
- Metalized balloons: 37% of sales, and
- Latex balloons: 19% of sales.

This compares to fiscal 2000, in which the revenue mix was:

- Laminated and printed films 25% of sales
- Metalized balloons 50% of sales, and
- Latex balloons 25% of sales.

## ***Recent Results- 4<sup>th</sup> Quarter 2001***

On April 2, 2002 CTI Industries announced results for the fourth quarter ended December 31, 2001. Fourth quarter net sales increased to \$7.7 million from \$6.4 million in last year's fourth quarter. The increased revenues were a direct result of strong operating performance in its films segment. Income from operations increased to \$510 thousand from \$283 thousand in the year ago quarter. The Company reported net income of \$53 thousand or \$0.04 per share, which compares to net income of \$14 thousand or \$0.01 per share. Operating margins increased to 6.4% from 4.4% primarily due to increased operating efficiencies as compared to the year ago period.

Taglich Brothers had estimated that the Company would generate net sales of \$6.9 million and net income of \$83 thousand or \$0.07 per share. Revenue exceeded our expectations due strong demand in its films segment. EPS fell short of our expectations due to a higher than expected tax rate. On a pretax comparison, the Company reported \$268 thousand, which exceeded our estimate of pretax income of \$92 thousand.

CTIB had income tax expense of \$277,000. However, this was not a real cash outlay; it was an adjustment to its deferred tax asset. As of December 31, 2001, the Company had \$4.2 million in net operating loss carryforwards and \$338,600 in alternative minimum tax credits.

## ***Miscellaneous Highlights***

- The Company's Mexican operations turned a small profit of \$46,000 in 2001 after reporting a loss of \$380,000, in 2000. This was primarily due to facilities improvements.
- The Company's United States operations increased sales by 29% to \$24.7 million and achieved substantial improvements in operating and net income.
- CTIB's European operation maintained its profitability on an annual basis, however, net income decreased by approximately \$95,200, while revenues decreased by approximately \$358,000.
- Total annual operating expenses remained stable at \$6.4 million, despite a 19.4% increase in annual revenues.
- 2001 EBITDA increased to \$2.92 million as compared to \$1.96 million in 2000.

## ***Balance Sheet***

At December 31, 2001, the Company had a cash balance of \$110 thousand, working capital of \$1.1 million, a current ratio of 1.1X, and a debt to equity ratio of 1.0X. The Company's current cash management strategy includes maintaining minimal cash balances and utilizing its revolving line of credit for liquidity. **The Company's existing capital resources, cash generated from operations, and existing credit facilities will be sufficient to meet its operating requirements for the next 12 months.**

### ***Recent Developments***

**On March 8, 2002, CTIB announced an agreement with Hallmark.** The agreement calls for CTIB to manufacture and distribute foil and latex balloons for Hallmark's Party Express division. Hallmark also sublicensed to CTIB such designs as Blue Clues, Scooby Doo, and Star Wars. In exchange, Hallmark will provide the designs for the balloons, including popular character designs. The products will be distributed to Hallmark retail clients. As part of the agreement, CTIB will also be allowed to sell to its customers balloons incorporating licensed designs from Hallmark. We believe that this agreement is a major stepping stone for CTIB and is likely to be a significant catalyst for future growth in revenues and EPS. We expect that CTIB's market share in the \$500 million highly fragmented balloon market could increase as a result of this agreement.

### ***Outlook & Projections***

**We are increasing our estimates for fiscal 2002 and introducing fiscal 2003 estimates. We are projecting 2002 revenues of \$33.1 million and EPS of \$0.58 per share.** We had previously projected EPS of \$0.42 per share on revenues of \$32.5 million. For fiscal 2003, we are estimating revenues of \$39.7 million and EPS of \$0.77 per share. Our EBITDA projections call for \$3.3 million and \$3.7 million in fiscal 2002 and 2003, respectively. Operating and net margins are expected to increase over the next 24-months as compared to previous fiscal years, as CTIB achieves greater operating leverage as its fixed costs are spread over a larger revenue base.

Our projections are based on:

- Recent quarterly trends in the Company's revenues and expenses;
- Continued strength in the Company's film and laminate business. We believe that the Company should continue to capture revenues in this \$1 billion plus market;
- Potential new business stemming from the recent partnership with Hallmark and its party goods division, Party Express. We believe that this partnership may significantly increase revenues of the Company's balloon products and that there may be further licensing opportunities; and
- The Company's net operating loss carryforwards of \$4.2 million.

### ***Risks***

#### *CTI Mexico*

**CTI Mexico, located in Guadalajara, manufactures latex balloons and latex novelty items.** CTI Mexico has been the midst of an overhaul. CTI has been working to improve the financial and physical condition of CTI Mexico and to increase latex revenues. The completed improvements have already resulted in improved efficiencies and operating profitability over the past two quarters. Further improvements are planned.

#### *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. These concerns are exacerbated in times of earnings shortfalls or uncertainty.

#### *Operating Leverage*

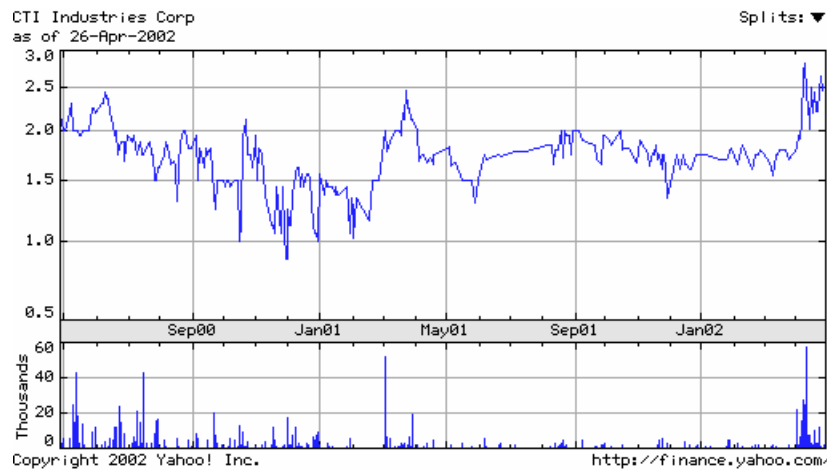
CTIB has a limited number of shares outstanding; therefore any improvement in the top-line could dramatically improve the bottom-line results. However, should there be a shortfall in revenues bottom-line results will be severely impacted on the downside

*Cash concerns*

In the event that operations suffer a setback due to an unforeseen expense or macroeconomic issues, the Company's policy of maintaining minimal a cash balances may restrict the company's financial liquidity and may impact the Company's financial results and growth prospects.

**Conclusion**

**We believe that CTIB is a compelling investment opportunity and are reiterating coverage of CTIB with a Speculative Buy.** We have set a 24-month price target of \$10.27 per share, an increase from our previous price target of \$6.69 per share. Our new price target is based a discounted cash flow analysis, using EBITDA as a proxy for cash flows. Our DCF assumptions include a 21% discount rate and a terminal value multiple of 5X. We have risk-adjusted our valuation by 30% to incorporate microcap and other risks.



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CTI Industries  
Annual Income Statement Model  
For Fiscal Years Ended \*  
(in thousands)

|  | FY1999A          | FY2000A          | FYE2001A         | FY2002E        | FY2003E        |
|--|------------------|------------------|------------------|----------------|----------------|
| Net sales                                  | \$ 18,565        | \$ 22,978        | \$ 27,447        | \$ 33,100      | \$ 39,720      |
| Cost of sales                              | <u>13,447</u>    | <u>16,375</u>    | <u>19,835</u>    | <u>23,625</u>  | <u>28,234</u>  |
| Gross profit                               | 5,117            | 6,603            | 7,612            | 9,475          | 11,486         |
| Gross margin                               | 27.56%           | 28.74%           | 27.73%           | 28.63%         | 28.92%         |
| Operating expenses                         |                  |                  |                  |                |                |
| General and administrative                 | 2,224            | 3,585            | 3,468            | 4,255          | 5,092          |
| Selling                                    | 2,527            | 1,840            | 1,760            | 2,196          | 2,637          |
| Advertising and marketing                  | <u>1,584</u>     | <u>966</u>       | <u>1,133</u>     | <u>1,307</u>   | <u>1,697</u>   |
| Total operating expenses                   | <u>6,335</u>     | <u>6,390</u>     | <u>6,361</u>     | <u>7,758</u>   | <u>9,426</u>   |
| Operating income                           | (1,218)          | 213              | 1,251            | \$ 1,717       | \$ 2,060       |
| Operating margins                          | -6.56%           | 0.93%            | 4.56%            | 5.19%          | 5.19%          |
| Other income (expense)                     |                  |                  |                  |                |                |
| Interest expense                           | (933)            | (1,099)          | (1,001)          | (1,000)        | (1,100)        |
| Interest income                            | 88               | 14               | 1                | -              | -              |
| Gain on sale of assets                     | -                | 30               | 23               | -              | -              |
| Other                                      | <u>250</u>       | <u>(15)</u>      | <u>(86)</u>      | <u>-</u>       | <u>-</u>       |
| Total other expense                        | <u>(595)</u>     | <u>(1,070)</u>   | <u>(1,063)</u>   | <u>(1,000)</u> | <u>(1,100)</u> |
| Pretax income (loss)                       | (1,813)          | (857)            | 174              | 717            | 960            |
| Pretax margins                             | -9.76%           | -3.73%           | 0.63%            | 2.17%          | 2.42%          |
| Income tax expense (benefit)               | <u>(707)</u>     | <u>107</u>       | <u>267</u>       | <u>143</u>     | <u>192</u>     |
| Tax rate                                   | 39.02%           | -12.48%          | 153.45%          | 20.00%         | 20.00%         |
| Net income (loss) before minority interest | (1,105)          | (964)            | (93)             | 573            | 768            |
| Minority interest                          | -                | (87)             | (58)             | (132)          | (159)          |
| Net income (loss) for common               | \$ (1,105)       | \$ (877)         | \$ (35)          | \$ 706         | \$ 927         |
| EPS basic                                  | <u>\$ (0.87)</u> | <u>\$ (0.73)</u> | <u>\$ (0.03)</u> | <u>\$ 0.58</u> | <u>\$ 0.77</u> |
| EPS diluted                                | <u>\$ (0.86)</u> | <u>\$ (0.73)</u> | <u>\$ (0.03)</u> | <u>\$ 0.58</u> | <u>\$ 0.77</u> |
| Weighted average shares (basic)            | 1,269            | 1,208            | 1,208            | 1,208          | 1,208          |
| Weighted average shares (diluted)          | 1,283            | 1,208            | 1,208            | 1,208          | 1,208          |
| % of revenue                               |                  |                  |                  |                |                |
| Cost of sales                              | 72.44%           | 71.26%           | 72.27%           | 71.37%         | 71.08%         |
| General and administrative                 | 11.98%           | 15.60%           | 12.64%           | 12.85%         | 12.82%         |
| Selling                                    | 13.61%           | 8.01%            | 6.41%            | 6.63%          | 6.64%          |
| Advertising and marketing                  | 8.53%            | 4.20%            | 4.13%            | 3.95%          | 4.27%          |
| year / year growth                         |                  |                  |                  |                |                |
| revenues                                   |                  | 23.77%           | 19.45%           | 20.60%         | 20.00%         |
| net margin                                 |                  | NM               | NM               | NM             | 31.34%         |
| EPS  |                  | NM               | NM               | NM             | 31.34%         |

\*CTIB changed its fiscal year from October to December during fiscal 2000

CTI Industries  
Quarterly Income Statement  
For Fiscal Year Ended December 31, 2001  
(in thousands)

|  | Q1(3/01)A        | Q2(6/01)A      | Q3(9/01)A        | Q4(12/01)A     | FY2001A          |
|--|------------------|----------------|------------------|----------------|------------------|
| Net sales                                  | \$ 6,081         | \$ 6,876       | \$ 6,808         | \$ 7,682       | \$ 27,447        |
| Cost of sales                              | <u>4,458</u>     | <u>5,068</u>   | <u>4,851</u>     | <u>5,458</u>   | <u>19,835</u>    |
| Gross profit                               | 1,623            | 1,808          | 1,957            | 2,224          | 7,612            |
| Gross margin                               | 26.69%           | 26.29%         | 28.75%           | 28.95%         | 27.73%           |
| Operating expenses                         |                  |                |                  |                |                  |
| General and administrative                 | 747              | 818            | 857              | 1,046          | 3,468            |
| Selling                                    | 426              | 445            | 492              | 397            | 1,760            |
| Advertising and marketing                  | <u>271</u>       | <u>307</u>     | <u>296</u>       | <u>259</u>     | <u>1,133</u>     |
| Total operating expenses                   | <u>1,444</u>     | <u>1,570</u>   | <u>1,645</u>     | <u>1,714</u>   | <u>6,361</u>     |
| Operating income                           | 179              | 237            | 312              | 510            | 1,251            |
| Operating margins                          | 2.94%            | 3.45%          | 4.58%            | 6.64%          | 4.56%            |
| Other income (expense)                     |                  |                |                  |                |                  |
| Interest expense                           | (300)            | (242)          | (216)            | (243)          | (1,001)          |
| Interest income                            | 1                | -              | -                | -              | 1                |
| Gain on sale of assets                     | 8                | 7              | 8                | -              | 23               |
| Other                                      | <u>(35)</u>      | <u>84</u>      | <u>(136)</u>     | <u>1</u>       | <u>(86)</u>      |
| Total other expense                        | <u>(327)</u>     | <u>(151)</u>   | <u>(344)</u>     | <u>(242)</u>   | <u>(1,063)</u>   |
| Pretax income (loss)                       | (148)            | 86             | (32)             | 268            | 174              |
| Pretax margins                             | -2.43%           | 1.25%          | -0.47%           | 3.49%          | 0.63%            |
| Income tax expense (benefit)               | <u>9</u>         | <u>4</u>       | <u>2</u>         | <u>252</u>     | <u>267</u>       |
| Tax rate                                   | -6.08%           | 4.65%          | 0.00%            | 94.03%         | 153.45%          |
| Net income (loss) before minority interest | (157)            | 82             | (34)             | 16             | (93)             |
| Minority interest                          | (23)             | 22             | (20)             | (37)           | (58)             |
| Net income (loss) for common               | \$ (133)         | \$ 60          | \$ (14)          | \$ 53          | \$ (35)          |
| EPS basic                                  | <u>\$ (0.11)</u> | <u>\$ 0.05</u> | <u>\$ (0.01)</u> | <u>\$ 0.04</u> | <u>\$ (0.03)</u> |
| EPS diluted                                | <u>\$ (0.11)</u> | <u>\$ 0.05</u> | <u>\$ (0.01)</u> | <u>\$ 0.04</u> | <u>\$ (0.03)</u> |
| Weighted average shares (basic)            | 1,208            | 1,208          | 1,208            | 1,208          | 1,208            |
| Weighted average shares (diluted)          | 1,208            | 1,208          | 1,208            | 1,208          | 1,208            |
| <u>% of revenue</u>                        |                  |                |                  |                |                  |
| Cost of sales                              | 73.31%           | 73.71%         | 71.25%           | 71.05%         | 72.27%           |
| General and administrative                 | 12.28%           | 11.90%         | 12.59%           | 13.62%         | 12.64%           |
| Selling                                    | 7.01%            | 6.47%          | 7.23%            | 5.17%          | 6.41%            |
| Advertising and marketing                  | 4.46%            | 4.46%          | 4.35%            | 3.37%          | 4.13%            |
| <u>year / year growth</u>                  |                  |                |                  |                |                  |
| revenues                                   | -13.29%          | 6.59%          | 39.19%           | 20.88%         | 19.45%           |
| net margin                                 | -253.69%         | -136.93%       | 91.03%           | -266.34%       | NM               |
| EPS  | -266.06%         | -144.18%       | 91.03%           | -298.90%       | NM               |

CTI Industries  
Quarterly Income Statement  
For Fiscal Year Ended December 31, 2002  
(in thousands)

|  | Q1(3/02)E      | Q2(6/02)E      | Q3(9/02)E      | Q4(12/02)E     | FY2002E        |
|--|----------------|----------------|----------------|----------------|----------------|
| Net sales                                  | \$ 8,100       | \$ 8,000       | \$ 8,000       | \$ 9,000       | \$ 33,100      |
| Cost of sales                              | <u>5,755</u>   | <u>5,760</u>   | <u>5,720</u>   | <u>6,390</u>   | <u>23,625</u>  |
| Gross profit                               | 2,345          | 2,240          | 2,280          | 2,610          | 9,475          |
| Gross margin                               | 28.95%         | 28.00%         | 28.50%         | 29.00%         | 29.00%         |
| Operating expenses                         |                |                |                |                |                |
| General and administrative                 | 1,053          | 1,012          | 1,020          | 1,170          | 4,255          |
| Selling                                    | 486            | 520            | 560            | 630            | 2,196          |
| Advertising and marketing                  | <u>352</u>     | <u>320</u>     | <u>320</u>     | <u>315</u>     | <u>1,307</u>   |
| Total operating expenses                   | <u>1,891</u>   | <u>1,852</u>   | <u>1,900</u>   | <u>2,115</u>   | <u>7,758</u>   |
| Operating income                           | 454            | 388            | 380            | 495            | 1,717          |
| Operating margins                          | 5.60%          | 4.85%          | 4.75%          | 5.50%          | 5.19%          |
| EBITDA                                     | 849            | 783            | 775            | 890            | 3,297          |
| Other income (expense)                     |                |                |                |                |                |
| Interest expense                           | (250)          | (250)          | (250)          | (250)          | (1,000)        |
|  |                |                |                |                | -              |
| Pretax income (loss)                       | 204            | 138            | 130            | 245            | 717            |
| Pretax margins                             | 2.52%          | 1.73%          | 1.63%          | 2.72%          | 2.17%          |
|  |                |                |                |                | -              |
| Income tax expense (benefit)               | <u>41</u>      | <u>28</u>      | <u>26</u>      | <u>49</u>      | <u>143</u>     |
| Tax rate                                   | 20.00%         | 20.00%         | 20.00%         | 20.00%         | 20.00%         |
| Net income (loss) before minority interest | 163            | 110            | 104            | 196            | 573            |
| Minority interest                          | (32)           | (32)           | (32)           | (36)           | (132)          |
| Net income (loss) for common               | \$ 195         | \$ 142         | \$ 136         | \$ 232         | \$ 706         |
| EPS basic                                  | <u>\$ 0.16</u> | <u>\$ 0.12</u> | <u>\$ 0.11</u> | <u>\$ 0.19</u> | <u>\$ 0.58</u> |
| EPS diluted                                | <u>\$ 0.16</u> | <u>\$ 0.12</u> | <u>\$ 0.11</u> | <u>\$ 0.19</u> | <u>\$ 0.58</u> |
| Weighted average shares (basic)            | 1,208          | 1,208          | 1,208          | 1,208          | 1,208          |
| Weighted average shares (diluted)          | 1,208          | 1,208          | 1,208          | 1,208          | 1,208          |
| <u>% of revenue</u>                        |                |                |                |                |                |
| Cost of sales                              | 71.05%         | 72.00%         | 71.50%         | 71.00%         | 71.37%         |
| General and administrative                 | 11.50%         | 12.65%         | 12.75%         | 13.00%         | 12.85%         |
| Selling                                    | 6.00%          | 6.50%          | 7.00%          | 7.00%          | 6.63%          |
| Advertising and marketing                  | 3.25%          | 3.75%          | 4.00%          | 3.50%          | 3.95%          |
| <u>year / year growth</u>                  |                |                |                |                |                |
| revenues                                   | 33.20%         | 16.35%         | 17.51%         | 17.16%         | 20.60%         |
| net margin                                 | 246.62%        | 137.33%        | NM             | 337.74%        | NM             |
| EPS  | 246.75%        | 137.33%        | NM             | 337.74%        | NM             |

CTI Industries  
Quarterly Income Statement  
For Fiscal Year Ended December 31, 2003  
(in thousands)

|  | Q1(3/03)E      | Q2(6/03)E      | Q3(9/03)E      | Q4(12/03)E     | FY2003E        |
|--|----------------|----------------|----------------|----------------|----------------|
| Net sales                                  | \$ 9,600       | \$ 9,500       | \$ 8,800       | \$ 11,820      | \$ 39,720      |
| Cost of sales                              | <u>6,816</u>   | <u>6,769</u>   | <u>6,257</u>   | <u>8,392</u>   | <u>28,234</u>  |
| Gross profit                               | 2,784          | 2,731          | 2,543          | 3,428          | 11,486         |
| Gross margin                               | 29.00%         | 28.75%         | 28.90%         | 29.00%         | 28.92%         |
| Operating expenses                         |                |                |                |                |                |
| General and administrative                 | 1,248          | 1,202          | 1,118          | 1,525          | 5,093          |
| Selling                                    | 576            | 618            | 616            | 827            | 2,637          |
| Advertising and marketing                  | <u>413</u>     | <u>428</u>     | <u>396</u>     | <u>461</u>     | <u>1,698</u>   |
| Total operating expenses                   | <u>2,237</u>   | <u>2,248</u>   | <u>2,130</u>   | <u>2,813</u>   | <u>9,428</u>   |
| Operating income                           | 547            | 485            | 414            | 615            | \$ 2,058       |
| Operating margins                          | 5.70%          | 5.11%          | 4.70%          | 5.20%          | 5.19%          |
| EBITDA                                     | 947            | 885            | 814            | 1,015          | \$ 3,661       |
| Other income (expense)                     |                |                |                |                |                |
| Interest expense                           | (275)          | (275)          | (275)          | (275)          | (1,100)        |
| Pretax income (loss)                       | 272            | 210            | 139            | 340            | 960            |
| Pretax margins                             | 2.83%          | 2.21%          | 1.58%          | 2.88%          | 2.42%          |
| Income tax expense (benefit)               | <u>54</u>      | <u>42</u>      | <u>28</u>      | <u>68</u>      | <u>192</u>     |
| Tax rate                                   | 20.00%         | 20.00%         | 20.00%         | 20.00%         | 20.00%         |
| Net income (loss) before minority interest | 218            | 168            | 111            | 272            | 768            |
| Minority interest                          | (38)           | (38)           | (35)           | (47)           | (159)          |
| Net income (loss) for common               | \$ 256         | \$ 206         | \$ 146         | \$ 319         | \$ 928         |
| EPS basic                                  | <u>\$ 0.21</u> | <u>\$ 0.17</u> | <u>\$ 0.12</u> | <u>\$ 0.26</u> | <u>\$ 0.77</u> |
| EPS diluted                                | <u>\$ 0.21</u> | <u>\$ 0.17</u> | <u>\$ 0.12</u> | <u>\$ 0.26</u> | <u>\$ 0.77</u> |
| Weighted average shares (basic)            | 1,208          | 1,208          | 1,208          | 1,208          | 1,208          |
| Weighted average shares (diluted)          | 1,208          | 1,208          | 1,208          | 1,208          | 1,208          |
| <b>% of revenue</b>                        |                |                |                |                |                |
| Cost of sales                              | 71.00%         | 71.25%         | 71.10%         | 71.00%         | 71.08%         |
| General and administrative                 | 11.25%         | 12.50%         | 12.65%         | 12.75%         | 12.82%         |
| Selling                                    | 6.00%          | 7.00%          | 7.30%          | 7.00%          | 6.64%          |
| Advertising and marketing                  | 4.00%          | 4.50%          | 4.75%          | 4.50%          | 4.27%          |
| <b>year / year growth</b>                  |                |                |                |                |                |
| revenues                                   | 18.52%         | 18.75%         | 10.00%         | 31.33%         | 20.00%         |
| net margin                                 | 31.18%         | 44.38%         | 7.41%          | 37.50%         | 31.34%         |
| EPS  | 31.18%         | 44.38%         | 7.41%          | 37.50%         | 31.34%         |

CTI Industries  
Consolidated Balance Sheet  
For Fiscal Year Ended  
(in thousands)

|   | FY12/01                 | FY12/00                 | FY10/99                 |
|---|-------------------------|-------------------------|-------------------------|
| <b>Assets</b>                                     |                         |                         |                         |
| <b>Current Assets</b>                             |                         |                         |                         |
| Cash  | \$ 110                  | \$ 393                  | \$ 337                  |
| Accounts Receivable                               | 4,385                   | 2,574                   | 3,226                   |
| Inventories                                       | 8,458                   | 7,061                   | 5,426                   |
| Deferred tax assets                               | 291                     | 66                      | 209                     |
| Other   | <u>898</u>              | <u>659</u>              | <u>754</u>              |
| <b>Total Current Assets</b>                       | <b>14,143</b>           | <b>10,752</b>           | <b>9,952</b>            |
| <b>Total property and equipment, net</b>          | <b>8,700</b>            | <b>9,173</b>            | <b>9,056</b>            |
| <b>Other assets</b>                               |                         |                         |                         |
| Deferred financing costs, net                     | 83                      | 11                      | 29                      |
| Goodwill  | 1,113                   | 1,200                   | -                       |
| Deferred tax assets                               | 362                     | 813                     | 766                     |
| Other assets                                      | <u>264</u>              | <u>270</u>              | <u>111</u>              |
| <b>Total other assets</b>                         | <b><u>1,822</u></b>     | <b><u>2,293</u></b>     | <b><u>2,431</u></b>     |
| <b>Total Assets</b>                               | <b><u>\$ 24,664</u></b> | <b><u>\$ 22,219</u></b> | <b><u>\$ 21,439</u></b> |
| <b>Liabilities and Stockholders Equity</b>        |                         |                         |                         |
| <b>Current liabilities</b>                        |                         |                         |                         |
| Accounts payable                                  | \$ 5,492                | \$ 5,046                | \$ 2,981                |
| Line of credit                                    | 5,698                   | 3,610                   | 3,574                   |
| Notes payable- current portion                    | 318                     | 4,177                   | 1,367                   |
| Accrued liabilities                               | <u>1,608</u>            | <u>1,782</u>            | <u>1,400</u>            |
| <b>Total current liabilities</b>                  | <b>13,117</b>           | <b>14,614</b>           | <b>9,321</b>            |
| <b>Long-term liabilities</b>                      |                         |                         |                         |
| Non-current liabilities                           | 2,536                   | 803                     | 16                      |
| Notes payable                                     | 3,682                   | 1,301                   | 5,535                   |
| Subordinated debt                                 | <u>487</u>              | <u>497</u>              | <u>865</u>              |
| <b>Total long-term liabilities</b>                | <b>6,704</b>            | <b>2,600</b>            | <b>6,416</b>            |
| Redeemable common stock                           |                         | -                       | 413                     |
| Minority interest                                 | 181                     | 239                     |                         |
| <b>Stockholders' equity</b>                       |                         |                         |                         |
| <b>Total stockholders' equity</b>                 | <b><u>4,662</u></b>     | <b><u>4,766</u></b>     | <b><u>5,288</u></b>     |
| <b>Total Liabilities and Stockholders' Equity</b> | <b><u>\$ 24,664</u></b> | <b><u>\$ 22,219</u></b> | <b><u>\$ 21,439</u></b> |