

## Research Report - Update

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

### CTI Industries Corp.

**Rating: Neutral**

Luis Martins

May 4, 2006

**CTIB \$3.22 (NASDAQ)**

	<u>FY2001A</u>	<u>FY2002A</u>	<u>FY2003A</u>	<u>FY2004A</u>	<u>FY2005A</u>
Revenues (Thousands)	\$27,447	\$41,236	\$36,260	\$37,193	\$29,190
EPS (fully diluted)	\$(0.15)	\$0.16	\$(0.30)	\$(1.28)	\$(0.17)

52-Week Range	\$7.67 – 0.50	Fiscal Year Ends	December
Shares Outstanding- (000)	2,036	Revenues/Share (TTM)	\$14.76
Approximate Float (000)	700	Price/Sales (TTM)	0.2X
Insider Holdings	79.5%	Price/Sales (2006)E	NMF
Tangible Book Value/Share	\$0.85	Price/Earnings (TTM)	NMF
Price/Tangible book	3.8X	Price/Earnings (2006)E	NMF

*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 upgrading to a Neutral from an Underperform shares of CTI Industries (NASDAQ: CTIB), pending further business and financial developments.*

*On April 13, 2006, CTI Industries reported fourth quarter revenues of \$6.5 million and net income of \$0.052 million or \$0.02 per share. In the year ago quarter, CTIB reported revenues of \$8.6 million and a net loss of \$2.6 million or \$(1.31) per share.*

*During 2005, the Company reduced domestic production costs by \$1.5 million and SG&A expenses by \$1.2 million. Management believes that it will be able to increase gross and operating margins in 2006, contingent upon stable or declining raw material pricing and additional reductions in the Company's costs.*

*On February 6, 2006, CTI Industries disclosed that it entered into a Loan Agreement with Charter One Bank, Chicago, Illinois. Additional working capital was also obtained subsequent to the end of the year. Two officers entered into a \$1 million subordinated debt agreement with the Company.*

*There seems to be a changing tide at CTIB. Over the past several months, there have been a series of positive developments that are a clear departure from the series of negative happenings from prior quarters, including:*

- *Entering into a new 4-year agreement with ITW Spacebag to provide ITW with pouches, as well as competitively priced film;*
- *Replacing lost balloon sales to Hallmark via its relationship with Dollar Tree Stores; and*
- *Introducing new products.*

*\* 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 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 March 2006, CTIB announced that a line of resealable, valved bags for storage and vacuum sealing of food items in the household. These storage bags will function with a small hand or powered pump to evacuate air when the bag is sealed.

## ***Recent Results***

**On April 13, 2006, CTI Industries reported results for its fourth quarter, ended December 31, 2005.** The Company reported revenues of \$6.5 million and net income of \$0.052 million or \$0.02 per share. In the year ago quarter, CTIB reported revenues of \$8.6 million and a net loss of \$2.6 million or \$(1.31) per share.

In comparison, Taglich Brothers' estimates called for revenues of \$6.1 million and a net loss of \$0.530 million per share of \$(0.26) per share.

On an operating basis, CTIB reported income of \$0.378 million, as compared to a loss of \$1.130 million in the year ago period. Additionally, EBITDA increased to \$0.859 million (excluding a charge of \$0.124 million related to asset impairment) from a loss of \$0.706 million. The asset impairment charge resulted from a consulting firm

doing a valuation on the Company's Mexican subsidiary, Flexo Universal. The firm concluded that Flexo's fair value was impaired by \$0.124 million.

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

- Gross margin increased to 27.2%, resulting in gross profits of \$1.8 million, as compared to gross margin of 5.9%, resulting in gross profits of \$0.5 million in the year ago period;
- Operating expenses decreased to \$1.4 million, as compared to \$1.5 million. Operating margins increased to 5.8% from -13.2%, 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	4Q04A	4Q05A
Administrative	1,169	819
Selling	368	269
Advertising and Marketing	96	174
Asset Impairment	-	124

Lower expenses were associated with the Company's effort to reduce overhead and operating expenses. In fact, during 2005, the Company reduced domestic production costs by \$1.5 million and SG&A expenses by \$1.2 million. According to SEC filings, Management believes that it will be able to increase gross and operating margins in 2006, compared to the full year 2005. Margin gains will be contingent upon stable or declining raw material pricing and additional reductions in the Company's product costs.

- Interest expense increased to \$0.363 million from \$0.340 million stemming from lower borrowing costs;
- Miscellaneous items in the quarter resulted in other expense of \$0.172 million, as compared to income of \$0.107 million in the year ago period; and
- Income taxes resulted in a benefit of \$0.208 million, as compared to an expense of \$1.202 million.

#### *Balance Sheet*

The Company maintains a minimal cash balance and utilizes its credit facility for liquidity. At December 31, 2005, CTIB had cash of \$0.26 million, a working capital deficit of \$2.43 million, long-term debt of \$6.04 million, total liabilities of \$20.80 million, and stockholders' equity of \$2.73 million.

**On February 6, 2006, CTI Industries disclosed, through an 8K filing, that it entered into a Loan Agreement with Charter One Bank, Chicago, Illinois.** The agreement called for the Bank to issue CTIB a line of credit in the amount of \$12.8 million consisting of a mortgage loan of \$2.8 million, a term loan of \$3.5 million and a revolving line of credit providing for maximum advances of \$6.5 million. Charter One Bank advanced a total of \$10.4 million to CTIB. The proceeds were used to pay off loan balances to Cole Taylor Bank in the amount of \$7.4 million and to Banco Popular in the amount of \$2.9 million.

Additional working capital was also obtained subsequent to the end of the year. Two officers entered into a \$1 million subordinated debt agreement with the Company.

#### **Outlook**

There seems to be a changing tide at CTIB. Over the past several months, there have been a series of positive developments that are a clear departure from the series of negative happenings from prior quarters. The following are examples of such developments:

- Entering into a new 4-year agreement with ITW Spacebag to provide ITW with pouches, as well as competitively priced film;

- Extending a supply agreement with Rapak until at least October 31, 2008, which calls for among other details, CTIB providing for Rapak with at least 65% of Rapak's patented film requirements;
- Replacing lost balloon sales to Hallmark via its relationship with Dollar Tree Stores (NASDAQ: DLTR);
- Reducing production and operating expenses during the year in an effort to align its cost structure with the Company's revenue trend;
- Introducing new products; and
- Entering into a new credit agreement with a new lender and securing additional capital from senior managers.

These developments may give investors hope that the Company is setting the stage for profitable future growth. Additionally, it appears that recent trends and developments have given Management the confidence to state its goal is to achieve profitability at current revenues and expense levels, as well as the possibility of future growth. Management's strategies to maintain and grow operations include:

- Focus on core assets and expertise;
- Develop operating efficiencies;
- Develop new products, as well as product improvements and technologies; and
- Seek new channels and relationships to distribute products.

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.

### ***Projections***

We are refraining from issuing estimates for fiscal 2006. Our mindset is based on:

- Our desire to gauge the sustainability of the Company's results; and
- The late stage in the quarterly cycle (i.e. almost a month into the second quarter of 2006).

Once Management discloses first quarter results, we believe we will be in a better position to gauge important trends in the Company's operations for the rest of 2006.

### ***Risks***

#### ***Balance Sheet***

The Company's balance sheet is highly leveraged. As of the end of the most recent quarter, the Company had a working capital deficit. 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 impact the Company's financial results.

#### ***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. According to its SEC filings, raw material costs represent 41% of the Company's revenues.

*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. Additionally, 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 2005, Rapak, Dollar Tree Stores, and ITW represented 24%, 14%, and 13% of the Company's revenues, respectively.

*Dilution/Funding Risk*

If the Company requires capital it may be forced to secure additional outside financing. There is no assurance that it will obtain such financing, or that financing will be available on favorable terms.

*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. Through its majority owned, Flexo Universal, CTIB operates a facility in Guadalajara, Mexico which incorporates 43,000 square feet of production, printing, warehouse and office space. Through its wholly-owned subsidiary, CTI Balloons Ltd, the Company conducts warehouse, fulfillment and sales operations in Rugby, United Kingdom for metalized and latex balloons. Sales and fulfillment for all of the United Kingdom, Europe and the Middle East are conducted from this facility. 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 United States.

*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.

### *Stock-based Compensation*

In December 2004, the FASB issued SFAS No. 123R, SHARE-BASED PAYMENT, a revision of SFAS No. 123, Accounting for Stock-based Compensation and Superseding APB opinion no. 25, accounting for stock issued to employees. SFAS No. 123R requires the Company to expense grants made under the stock option plans. That cost will be recognized over the vesting period of the plans. For public entities that are small business issuers the implementation of this Statement, is required as of the beginning of the first interim or annual reporting period after December 15, 2005. Management is required to implement this statements beginning in fiscal year beginning on January 1, 2006 and they are currently evaluating the impact of implementation of this statement on the Company but believes that it will not materially impact financial results.

### *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*

After its last fifteen meetings, the Federal Reserve raised the Discount Rate and its target rate for Fed Funds by 0.25 points after each meeting, the first such increases in four years. Such a monetary policy is theoretically and empirically bad news for equity prices and valuations, particularly for smaller cap stocks.

### *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 0.7 million shares and 23,195 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 upgrading to a Neutral from an Underperform shares of CTI Industries (NASDAQ: CTIB), pending further business and financial developments.**

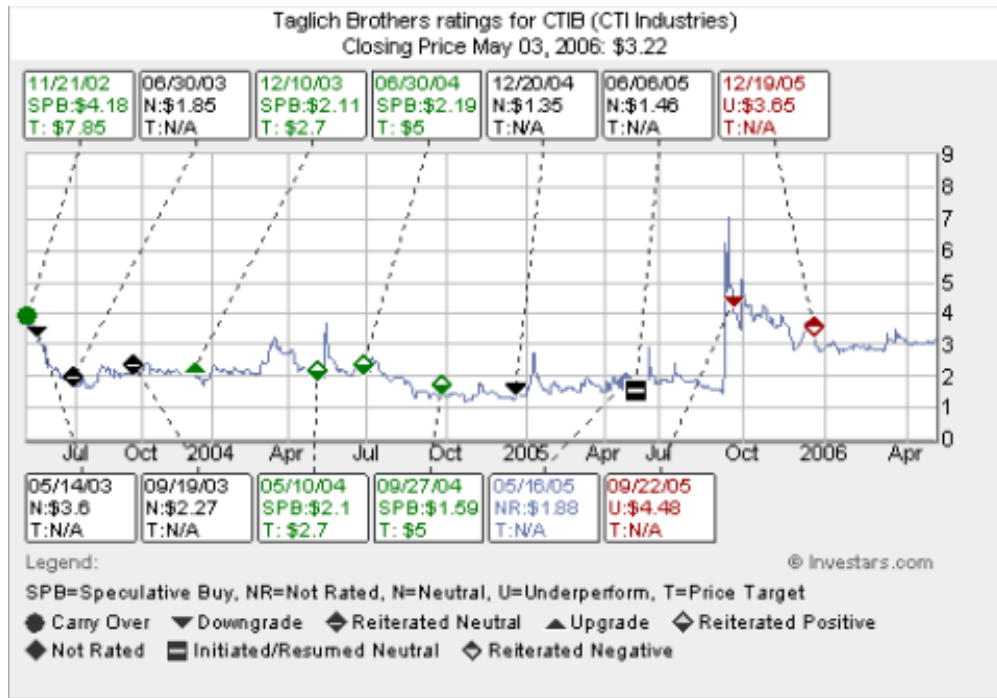
We believe that the tide is changing at CTIB. Over the past several months, there have been a series of positive developments:

- Entering into a new 4-year agreement with ITW Spacebag to provide it with pouches, as well as competitively priced film;
- Extending a supply agreement with Rapak until at least October 31, 2008, which calls for among other details, CTIB providing for Rapak with at least 65% of Rapak's patented film requirements;

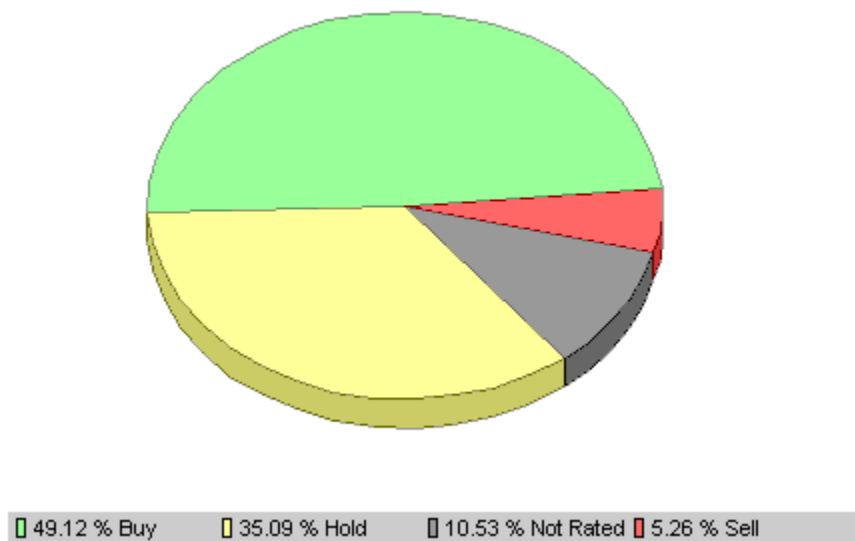
- Replacing lost balloon sales to Hallmark via its relationship with Dollar Tree Stores;
- Reducing production and operating expenses during the year in an effort to align its cost structure with the Company's revenue trend;
- Introducing new products; and
- Entering into a new credit agreement with a new lender and securing additional capital from senior managers.

Nevertheless, we are refraining from issuing estimates for fiscal 2006 based on a "wait and see" mindset. Once Management discloses first quarter results, we will be in a better position to gauge important trends in the Company's operations for the rest of 2006, as well as the sustainability in the recent improvements in the Company's revenues and expenses. Investors should also 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;
- Growth management;
- Shareholder control; and
- Microcap risk.



Taglich Brothers' Current Rating Distribution



**Investment Banking Services for Companies Covered in the Past 12 Months**

Rating	#	%
Buy	0	0
Hold	0	0
Sell	0	0
Not Rated	1	9.09%

### 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

Dollar Tree Stores (NASDAQ: DLTR)

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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)

	<u>FY12/01A</u>	<u>FY12/02A</u>	<u>FY12/03A</u>	<u>FY12/04A</u>	<u>FY12/05A</u>
Net sales	\$ 27,447	\$ 41,237	\$ 36,260	\$ 37,193	\$ 29,190
Cost of sales	<u>19,835</u>	<u>32,344</u>	<u>29,627</u>	<u>30,841</u>	<u>22,726</u>
Gross profit	7,612	8,893	6,633	6,352	6,464
Gross margin	27.73%	21.57%	18.29%	17.08%	22.14%
Operating expenses					
General and administrative	3,702	4,119	4,054	4,342	3,847
Selling	1,760	1,552	1,442	1,515	1,065
Advertising and marketing	1,133	1,671	1,816	1,167	777
Litigation	-	105	-	-	-
Asset Impairment Loss	-	-	-	-	124
Total operating expenses	<u>6,595</u>	<u>7,765</u>	<u>7,312</u>	<u>6,921</u>	<u>5,813</u>
Operating income	1,017	\$ 1,445	(679)	(567)	651
Operating margins	3.71%	3.50%	-1.87%	-1.52%	2.23%
EBITDA	2,683	3,033	940	1,178	2,239
Other income (expense)					
Interest expense	(1,126)	(832)	(1,103)	(1,350)	(1,231)
Interest income	6	3	13	-	-
Gain on sale of assets	-	-	28	15	-
Other	89	(281)	392	711	45
Total other expense	<u>(1,031)</u>	<u>(1,110)</u>	<u>(670)</u>	<u>(624)</u>	<u>(1,186)</u>
Pretax income (loss)	(14)	335	(1,349)	(1,192)	(534)
Pretax margins	-0.05%	0.81%	-3.72%	-3.20%	-1.83%
Income tax expense (benefit)	<u>276</u>	<u>39</u>	<u>(783)</u>	<u>1,286</u>	<u>(200)</u>
Tax rate	-1971.43%	11.64%	58.04%	-107.89%	37.45%
Net income (loss) before minority interes	(290)	296	(567)	(2,478)	(334)
Minority interest	58	(6)	(0)	1	-
Net income (loss) for common	<u>\$ (232)</u>	<u>\$ 303</u>	<u>\$ (566)</u>	<u>\$ (2,479)</u>	<u>\$ (333)</u>
EPS diluted	<u>\$ (0.15)</u>	<u>\$ 0.16</u>	<u>\$ (0.30)</u>	<u>\$ (1.28)</u>	<u>\$ (0.17)</u>
Weighted average shares (diluted)	<u>1,512</u>	<u>1,884</u>	<u>1,918</u>	<u>1,931</u>	<u>1,977</u>
<u>% of revenue</u>					
Cost of sales	72.27%	75.08%	81.71%	82.92%	77.86%
General and administrative	12.64%	10.58%	11.18%	11.67%	13.18%
Selling	6.41%	3.70%	3.98%	4.07%	3.65%
Advertising and marketing	4.13%	4.16%	5.01%	3.14%	2.66%
<u>year / year growth</u>					
revenues	19.45%	54.91%	-12.07%	2.57%	-21.52%

CTI Industries  
Quarterly Income Statement  
For Fiscal Year Ended December 31, 2004  
(in thousands)

	Q1(3/04)A	Q2(6/04)A	Q3(9/04)A	Q4(12/04)A	FY12/04A
Net sales	\$ 10,893	\$ 9,592	\$ 8,126	\$ 8,582	\$ 37,193
Cost of sales	8,746	7,560	6,456	8,079	30,841
Gross profit	2,147	2,032	1,670	503	6,352
Gross margin	19.71%	21.18%	20.55%	5.86%	17.08%
Operating expenses					
General and administrative	989	1,175	1,078	1,169	4,411
Selling	391	357	380	367	1,495
Advertising and marketing	393	282	242	97	1,014
Total operating expenses	1,773	1,814	1,700	1,634	6,921
Operating income	374	218	(30)	(1,131)	(567)
Operating margins	3.43%	2.27%	-0.37%	-13.18%	-1.52%
EBITDA	883	618	383	(802)	1,082
Other income (expense)					
Interest expense	(331)	(339)	(340)	(340)	(1,350)
Gain on sale of assets	-	15	108	(1)	122
Other	564	(89)	21	108	604
Total other expense	233	(413)	(211)	(233)	(624)
Pretax income (loss)	607	(195)	(241)	(1,363)	(1,192)
Pretax margins	5.57%	-2.03%	-2.97%	-15.88%	-3.20%
Income tax expense (benefit)	233	(58)	(91)	1,202	1,286
Tax rate	38.39%	0.00%	0.00%	0.00%	-107.89%
Net income (loss) before minority interes	374	(137)	(150)	(2,565)	(2,478)
Minority interest	2	(1)	-	-	1
Net income (loss) for common	\$ 372	\$ (136)	\$ (150)	\$ (2,565)	\$ (2,479)
EPS diluted	\$ 0.18	\$ (0.07)	\$ (0.08)	\$ (1.31)	\$ (1.28)
Weighted average shares (diluted)	2,045	1,918	1,933	1,954	1,931
<u>% of revenue</u>					
Cost of sales	80.29%	78.82%	79.45%	94.14%	82.92%
General and administrative	9.08%	12.25%	13.27%	13.62%	11.86%
Selling	3.59%	3.72%	4.68%	4.28%	4.02%
Advertising and marketing	3.61%	2.94%	2.98%	1.13%	2.73%
<u>year / year growth</u>					
revenues	7.19%	10.74%	-3.59%	-4.71%	2.57%

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%

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

	FY12/04A	FY12/05A
<b>Assets</b>		
<b>Current Assets</b>		
Cash	\$ 526	\$ 262
Accounts Receivable	6,123	4,344
Inventories	8,349	7,023
Other	647	707
<b>Total Current Assets</b>	<b>15,645</b>	<b>12,335</b>
<b>Total property and equipment, net</b>	<b>10,589</b>	<b>9,617</b>
<b>Other assets</b>		
Deferred financing costs, net	121	74
Goodwill	1,113	989
Deferred tax assets	175	353
Other assets	245	168
<b>Total other assets</b>	<b>1,654</b>	<b>1,584</b>
<b>Total Assets</b>	<b>\$ 27,888</b>	<b>\$ 23,536</b>
<b>Liabilities and Stockholders Equity</b>		
<b>Current liabilities</b>		
Accounts payable	\$ 6,148	\$ 4,718
Over draft	513	500
Line of credit	6,401	5,051
Notes payable- current portion	3,561	3,567
Accrued liabilities	1,812	926
<b>Total current liabilities</b>	<b>18,435</b>	<b>14,761</b>
<b>Long-term liabilities</b>		
Non-current liabilities	1,371	1,644
Notes payable	5,120	4,394
<b>Total Liabilities</b>	<b>24,926</b>	<b>6,038</b>
Minority interest	10	10
<b>Stockholders' equity</b>		
<b>Total stockholders' equity</b>	<b>\$ 2,951</b>	<b>\$ 2,726</b>
<b>Total Liabilities and Stockholders' Equity</b>	<b>\$ 27,888</b>	<b>\$ 23,536</b>
	1,954	1,954