

Taglich Brothers, Inc.

The Standard of Excellence in the Microcap Market

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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 – \$2.10 (NASDAQ)

May 10, 2004

	<u>FY2000A</u>	<u>FY2001A</u>	<u>FY2002A</u>	<u>FY2003A</u>	<u>FY2004E</u>
Revenues (Thousands)	\$22,978	\$27,447	\$41,236	\$36,260	\$40,816
EPS (fully diluted)	\$(0.88)	\$(0.15)	\$0.16	\$(0.30)	\$0.12

52-Week Range	\$4.28 – 1.67	Fiscal Year Ends	December
Shares Outstanding- FD (000)	2,140	Revenues/Share (TTM)	\$18.91
Approximate Float (000)	815	Price/Sales (TTM)	0.1X
Insider Holdings	62%	Price/Sales (2004)E	0.1X
Tangible Book Value/Share	\$1.81	Price/Earnings (TTM)	NM
Price/Tangible book	1.2X	Price/Earnings (2004)E	17.5X

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 maintaining our Speculative Buy rating on shares of CTI Industries (NASDAQ: CTIB) and establishing a 12-month price target of \$2.50 per share. Our prior 12-month price target was \$2.70 per share.

The Company reported 2003 net revenues of \$36.260 million and a net loss of \$0.566 million or \$(0.30) per share. In 2002, CTIB reported revenues of \$41.236 million and net income of \$0.302 million or \$0.26 per diluted share. On an operating basis, CTIB reported a 2003 loss of \$0.679 million as compared to income of \$1.445 million in the year ago period.

On December 30, 2003, CTI Industries completed a new two year senior loan facility with Cole Taylor Bank of Chicago, Illinois. Under the loan agreement with Cole, CTIB was provided with both term and revolving loans totaling up to \$11 million, at an interest rate of prime plus 1.5%. The new facility replaced an expiring facility with another lender.

We are adjusting our estimates for fiscal 2004 based on recent results and projected operational and financial trends for the next 12-months. Our revised fiscal 2004 estimates call for revenues of \$40.82 million, EBITDA of \$3.3 million, and net income of \$0.333 million or \$0.12 per share. Our previous projections called for revenues of \$40.82 million, EBITDA of \$3.7 million, and net income of \$0.56 million or \$0.26 per share.

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

405 Lexington Avenue, 51st Floor, New York, N.Y. 10174

(800) 383-8464-1220 Fax (631) 757-1333

www.taglichbrothers.com

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, latex balloons, punch balls and other inflatable toy items); and
- Specialty and printed films primarily for food packaging, specialized consumer uses, and various commercial applications.

The Company's products are grouped into three categories, Commercial films/containers, Metalized balloons, and Latex balloons. During 2003, these three categories accounted for 48%, 34%, and 11% of overall sales, respectively. The balance of revenues (7%) were derived from the sale of helium, accessories, and related items.

The Company's product categories are described in more detail below:

Metalized Balloons

Through this product line, CTIB manufactures over 450 balloon designs, including Superloons, Ultraloons, Miniloons, Card-B-Loons, Shape-A-Loons, Minishapes, and Walk-about. Balloons are manufactured in varying shapes and sizes, as well as, printed designs or messages containing well known designs, figures, and licensed characters. The Company maintains many of its own licenses for several characters and under an arrangement with Hallmark Cards manufactures and distributes balloons featuring a number of additional licensed characters.

Featured characters include: Garfield, Precious Moments, Party Express, Kinka, Head First, Scooby Doo, Batman, Spirit, Nascar, Hotwheels, Major League Baseball, Justice League, Star Wars, Butt Ugly Martians, Madeline, Mucha Lucha, Boohbah, and Shrek.

Latex Balloons

In this product category, CTIB manufactures and sells a high end line of latex balloons under the Hi-Tex product line name and a standard line of latex balloons marketed under the Partyloons product line name. The product line also consists of toy balloon products including punch balls, water bombs, and "Animal Twisties."

Commercial Films and Containers

In this product line, CTIB is involved in the production and selling of films utilized for the packaging of various products, principally food products. The Company also laminates, extrusion coats, and prints films and sells them to customers who utilize the films for packaging applications. These products are mostly converted by clients to bags or pouches for the packaging of food products.

The Company's custom film operations include inflatable pouches used to cushion commercial and industrial products in packages (or dunnage bags) and flexible containers for the storage of clothing and personal items.

Recent Results

On April 15, 2004, CTI Industries announced results for its fiscal year, ended December 31, 2003. The Company reported net revenues of \$36.260 million and a net loss of \$0.566 million or \$(0.30) per share. In 2002, CTIB reported revenues of \$41.236 million and net income of \$0.302 million or \$0.26 per diluted share. Management attributed the revenue decline to lower sales to major customers.

On an operating basis, CTIB reported a 2003 loss of \$0.679 million, as compared to income of \$1.445 million in the year ago period

The following chart (on the next page) illustrates revenue by major product category:

Chart of Actual Revenue by Product Line (\$ 000's)

Product Line	2002A	2003A
Laminated and Printed Films	19,621	17,439
Metalized Balloons	16,392	12,405
Latex Balloons	4,948	4,125

Although revenues from commercial films and containers declined in 2003, the Company has increased sales dramatically from this category since 1998.

As compared to the year ago period:

- Gross margin declined to 18.29% from 21.57%, primarily due to increased production overhead expenses, as well as, lower margin sales due to price competition in the Company's balloon business. The following table illustrates gross margin by product line:

	2002A	2003A
Laminated and Printed Films	27.5%	34.9%
Metalized Balloons	24.3%	10.4%
Latex Balloons	17.5%	9.1%

- Operating expenses decreased to \$7.312 million from \$7.765 million, primarily due to reduced administrative and advertising costs stemming from lower personnel, consulting, and audit expenses. We believe that this trend is noteworthy, as a streamlined cost structure should position the Company to improve profitability. Additionally, CTIB is actively reducing its factory overhead as demonstrated in the fourth quarter of 2003. Management intends to continue these efforts and achieve additional reductions in factory overhead and direct labor costs during 2004.

The following table illustrates operating expenses by line item:

Chart of Actual Operating Expenses (\$ 000's)

Expense Item	2002A	2003A
Administrative	4,225	4,055
Selling	1,552	1,442
Advertising and Marketing	1,671	1,816

- Operating margins declined to -1.87% from 3.50%, primarily due to a lower revenue base and lower gross margins in 2003. As a result, EBITDA decreased to a loss of \$0.679 million from a gain of \$1.445 million;
- Interest expense increased to \$1.103 million from \$0.832 million due to increased borrowings;
- Miscellaneous items in the quarter resulted in other income of \$0.420 million, as compared to expenses of \$0.281 million in the year ago period. This principally resulted from a gain on sale of assets and a gain on the forgiveness of debt; and
- The Company reported an income tax benefit of \$0.783 million versus an income tax expense of \$0.039 million in the year ago.

In comparison, Taglich Brothers had estimated net sales of \$36.167 million and a net loss of \$0.338 million or \$(0.18) per share. On an operating basis, our expectations called for an operating gain of \$0.301 million.

Balance Sheet

At December 31, 2003, CTIB had cash of \$0.33 million, a working capital deficit of \$0.71 million, long-term debt of \$7.83 million, total liabilities of \$25.36 million, and stockholders' equity of \$5.21 million. At the end of

December 31, 2002, CTIB had cash and cash equivalents of \$0.161 million, a working capital deficit of approximately \$2.9 million, long-term debt of \$5.02 million, total liabilities of \$24.77 million, and stockholders' equity of \$5.47 million.

On December 30, 2003, CTI Industries completed a new two year senior loan facility with Cole Taylor Bank of Chicago, Illinois. The new facility replaced an expiring facility with another lender. Under the loan agreement with Cole, CTIB was provided with both term and revolving loans totaling up to \$11 million, at an interest rate of prime plus 1.5%. The loans are to be secured by equipment, inventory, receivables, and other assets. The term loan of \$3.5 million is based on the appraised value of equipment, while the revolving line of credit, totaling a maximum of \$7.5 million, is based on advances of up to 85% of eligible receivables and up to 50% of the value of inventory.

The Company believes that it has adequate resources to meet anticipated future requirements for working capital and operating expenses for at least the next 12 months given: 1) the current level of operations, 2) anticipated operating cash flow, and 3) available borrowings under its revolving facility. Investors should note that the CTIB has total contractual obligations of \$3.7 million in 2004.

Strategy

The Company's strategy for growth calls for management to devote time and resources to:

- Increase sales of existing product categories;
- Control and reduce manufacturing costs, particularly factory overhead and direct labor costs;
- Develop new products and improve existing products and technologies; and
- Develop new sales and marketing channels and relationships.

If the Company successfully executes its growth strategy, it should be well positioned to capture additional market share in its industry segments and improve revenues and profits.

Projections

We are adjusting our estimates for fiscal 2004 based on recent results and projected operational and financial trends for the next 12-months.

Our revised fiscal 2004 estimates call for revenues of \$40.82 million, EBITDA of \$3.3 million, and net income of \$0.333 million or \$0.12 per share. Our previous projections called for revenues of \$40.82 million, EBITDA of \$3.7 million, and net income of \$0.56 million or \$0.26 per share.

The adjustments made to our 2004 model primarily consisted of lowering expectations for gross margins and operating expenses. As observed above, we remain comfortable with our 2004 revenue estimate.

The following charts illustrate our quarterly EPS projections for fiscal 2004:

2004 Quarterly EPS Projections

Quarter	Previous	Revised
1Q04	0.00	(0.07)
2Q04	0.06	0.09
3Q04	0.08	0.08
4Q04	0.12	0.02

Our current 2004 model assumes:

- Increased revenues in 2004, based on the Company's growth strategy;

- Slightly higher gross margins, primarily due to improved manufacturing efficiencies and productivity, offset by pricing pressures and raw material costs. We are projecting gross margins of 18.83% in fiscal 2004, as compared to 18.29% in fiscal 2003;
- Operating expenses of \$6.2 million in fiscal 2004, with operating margins of 3.59%. This should be accomplished through Management's efforts to achieve reductions in factory overhead and direct labor costs;
- Interest expense of \$1.2 million based on recent financing efforts; and
- Average shares outstanding (fully diluted) of 2.140 million in 2004.

Management

John H. Schwan is the Chairman of the Company. Mr. Schwan has been an Officer and Director of the Company since January 1996. Mr. Schwan has been the President and principal executive officer of Packaging Systems and affiliated companies for over the last 15 years. Mr. Schwan has over 20 years of general management experience, including manufacturing, marketing and sales. He also served in the U.S. Army Infantry in Vietnam from 1966 to 1969, where he attained the rank of First Lieutenant.

Howard W. Schwan is the President of the Company. Mr. Schwan has been associated with the Company for 21 years, principally in the management of the production and engineering operations. Mr. Schwan was appointed Vice President of Manufacturing in November 1990, a Director in January 1996, and President in June 1997.

Stephen M. Merrick is an Executive Vice President and the Chief Financial Officer and Secretary of the Company. Mr. Merrick was President of the Company from January 1996 to June 1997 when he became Chief Executive Officer of the Company. In October 1999, Mr. Merrick became Executive Vice President. Mr. Merrick is a principal of the law firm of Merrick & Klimek, P.C. of Chicago, Illinois and has been engaged in the practice of law for more than 35 years. Mr. Merrick is also Senior Vice President, Director and a member of the Management Committee of Reliv International, Inc., a manufacturer and direct marketer of nutritional supplements and food products.

Mark Van Dyke is a Senior Vice President of the Company. Mr. Van Dyke rejoined the Company in August, 2001. Mr. Van Dyke has over 25 years experience in the balloon industry and was previously employed by the Company for 12 years. Prior to rejoining the Company, Mr. Van Dyke was employed by M&D Balloons, Inc. for eight years.

Timothy Patterson is the Vice President of Finance and Administration of the Company. Mr. Patterson has been employed by the Company as Vice President of Finance and Administration since September 2003. Prior to his employment with the Company, Mr. Patterson was Manager of Controllers for the Thermoforming Group at Solo Cup Company for two years. Prior to that, Mr. Patterson was Manager of Corporate Accounting for Transilwrap Company for three years. Mr. Patterson received a Bachelor of Science degree in Finance from Northern Illinois University and an MBA from the University of Illinois at Chicago.

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 values.

The Company's credit facilities 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.

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

Reliance on Major Customers

The Company's top 10 major customers make up a significant portion of their business or about 68% of total 2003 revenues. One customer of storage containers represented 28% of overall revenues, one customer of packaging film represented 14.7% of overall revenues, and one customer of metalized balloons represented 11% of overall revenues. CTIB, for the most part, does not have long-term purchase agreements or commitments and the risk exists that sales to such customers will decline or terminate. The loss of any major customer will likely have an adverse impact on the operating performance of the Company. Additionally, CTIB's results could be adversely impacted by purchasing and inventory policies of its customers or its customers' customers. This could lead to lower revenues, margins, and income.

Shares

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 \$100,000 change in net income would result in a \$0.05 per share change in EPS.

International Operations

CTIB has operations in the United Kingdom and Mexico. These operations expose the Company to additional risk factors (i.e. currency, legal, and regulatory) and 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). There are number of competitors that may have greater resources than CTIB.

In the balloon business there are presently six principal domestic manufacturers of metalized balloons including Anagram International, Pioneer Balloon, Convertidora International, Barton Enterprises, and Betallic. Additionally, several companies market and sell metalized balloons designed by them and manufactured by others for them. There are at least seven manufacturers of latex balloons whose products are sold in the United States.

Mergers, acquisitions, and alliances may significantly alter the competitive dynamics of the industry in question. Investors should be aware of the following recent developments:

- In April 2004, JC Penny (NYSE: JCP) agreed to sell Eckerd Drug Stores, a major CTIB customer, to CVS (NYSE: CVS) and Jean Coutu Group; and
- In March 2004, Amscan entered into an agreement to recapitalize and merge with AHH Holdings (controlled by Berkshire Partners and Westin Presidio).

Seasonality

The Company is subject to a degree of seasonality. Approximately 20% to 30% of annual sales of metalized balloons were generated in December and January, and 11% to 13% of annual metalized balloon sales were generated in June and July.

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 0.8 million shares and 9,590 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

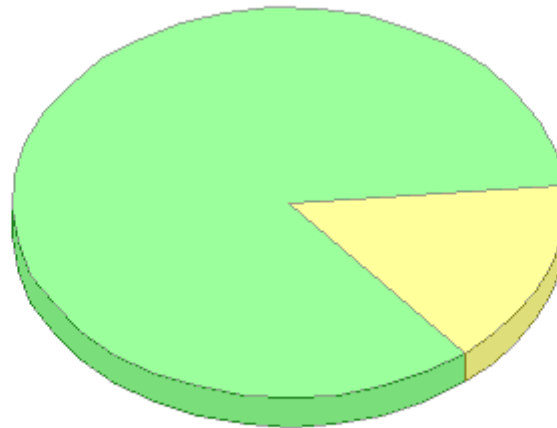
We are maintaining our Speculative Buy rating on shares of CTI Industries (NASDAQ: CTIB) and establishing a 12-month price target of \$2.50 per share. Our price target is based on applying:

- A multiple of 6X EV/2004 EBITDA;
- A P/E multiple of 30X 2004 EPS (Based on the sector's multiple);
- A P/S multiple of 0.24X 2004 sales, based on a modest expansion of the Company's current P/S multiple; and
- Discounting the average of the above by 30% to incorporate the Company's risk factors.

Shares of CTIB are only suited for risk tolerant investors. The operations and shares are sensitive to Company's risk factors, macroeconomic events, and market dynamics.



Taglich Brothers' Current Rating Distribution



84.62 % Buy | 15.38 % Hold

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

JC Penny (NYSE: JCP)

CVS (NYSE: CVS)

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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)

	FY12/00A	FY12/01A	FY12/02A	FY12/03A	FYE 12/04E
Net sales	\$ 22,978	\$ 27,447	\$ 41,237	\$ 36,260	\$ 40,816
Cost of sales	<u>16,375</u>	<u>19,835</u>	<u>32,344</u>	<u>29,627</u>	<u>33,132</u>
Gross profit	6,603	7,612	8,893	6,633	7,684
Gross margin	28.74%	27.73%	21.57%	18.29%	18.83%
Operating expenses					
General and administrative	3,585	3,702	4,119	4,054	3,750
Selling	1,840	1,760	1,552	1,442	1,520
Advertising and marketing	966	1,133	1,671	1,816	950
Litigation	-	-	105	-	-
Total operating expenses	<u>6,390</u>	<u>6,595</u>	<u>7,765</u>	<u>7,312</u>	<u>6,220</u>
Operating income	213	1,017	\$ 1,445	(679)	1,464
Operating margins	0.93%	3.71%	3.50%	-1.87%	3.59%
EBITDA	1,964	2,683	3,033	940	3,304
Total other expense	<u>(1,252)</u>	<u>(1,031)</u>	<u>(1,110)</u>	<u>(670)</u>	<u>(1,200)</u>
Pretax income (loss)	(1,039)	(14)	335	(1,349)	264
Pretax margins	-4.52%	-0.05%	0.81%	-3.72%	0.65%
Income tax expense (benefit)	<u>107</u>	<u>276</u>	<u>39</u>	<u>(783)</u>	<u>-</u>
Tax rate	-10.30%	-1971.43%	11.64%	58.04%	0.00%
Net income (loss) before minority interes	(1,146)	(290)	296	(567)	264
Minority interest	87	58	(6)	(0)	-
Net income (loss) for common	<u>\$ (1,059)</u>	<u>\$ (232)</u>	<u>\$ 303</u>	<u>\$ (566)</u>	<u>\$ 264</u>
EPS diluted	<u>\$ (0.88)</u>	<u>\$ (0.15)</u>	<u>\$ 0.16</u>	<u>\$ (0.30)</u>	<u>\$ 0.12</u>
Weighted average shares (diluted)	<u>1,208</u>	<u>1,512</u>	<u>1,884</u>	<u>1,918</u>	<u>2,140</u>
<u>% of revenue</u>					
Cost of sales	71.26%	72.27%	75.08%	81.71%	81.17%
General and administrative	15.60%	12.64%	10.58%	11.18%	9.19%
Selling	8.01%	6.41%	3.70%	3.98%	3.72%
Advertising and marketing	4.20%	4.13%	4.16%	5.01%	2.33%
<u>year / year growth</u>					
revenues	23.77%	19.45%	54.91%	-12.07%	12.56%

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	FY12/01A
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	1,280	3,702
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>1,936</u>	<u>6,595</u>
Operating income	<u>179</u>	<u>237</u>	<u>312</u>	<u>289</u>	<u>1,017</u>
Operating margins	2.94%	3.45%	4.58%	3.76%	3.71%
Other income (expense)					
Interest expense	(342)	(279)	(259)	(246)	(1,126)
Interest income	1	-	-	5	6
Gain on sale of assets	8	8	8	(24)	-
Other	<u>(35)</u>	<u>84</u>	<u>(137)</u>	<u>177</u>	<u>89</u>
Total other expense	<u>(369)</u>	<u>(187)</u>	<u>(388)</u>	<u>(88)</u>	<u>(1,031)</u>
Pretax income (loss)	(190)	50	(76)	201	(14)
Pretax margins	-3.12%	0.73%	-1.12%	2.62%	-0.05%
Income tax expense (benefit)	<u>9</u>	<u>4</u>	<u>2</u>	<u>261</u>	<u>276</u>
Tax rate	-4.74%	8.00%	-2.63%	129.85%	-1971.43%
Net income (loss) before minority interest	(199)	46	(78)	(59)	(290)
Minority interest	(23)	22	(20)	(37)	58
Net income (loss) for common	<u>\$ (176)</u>	<u>\$ 24</u>	<u>\$ (58)</u>	<u>\$ (22)</u>	<u>\$ (232)</u>
EPS diluted	<u>\$ (0.15)</u>	<u>\$ 0.02</u>	<u>\$ (0.05)</u>	<u>\$ (0.01)</u>	<u>\$ (0.15)</u>
Weighted average shares (diluted)	<u>1,208</u>	<u>1,208</u>	<u>1,208</u>	<u>1,512</u>	<u>1,512</u>
% of revenue					
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%
year / year growth					
revenues	-13.29%	6.59%	39.19%	20.88%	19.45%

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

	Q1(3/02)A	Q2(6/02)A	Q3(9/02)A	Q4(12/02)A	FY12/02A
Net sales	\$ 9,738	\$ 10,906	\$ 10,873	\$ 9,719	\$ 41,237
Cost of sales	<u>7,184</u>	<u>8,300</u>	<u>8,188</u>	<u>8,673</u>	<u>32,344</u>
Gross profit	2,554	2,606	2,685	1,046	8,893
Gross margin	26.23%	23.90%	24.70%	10.76%	21.57%
Operating expenses					
General and administrative	957	1,127	1,168	867	4,119
Selling	375	375	408	394	1,552
Advertising and marketing	<u>393</u>	<u>441</u>	<u>459</u>	<u>378</u>	<u>1,671</u>
Total operating expenses	<u>1,770</u>	<u>2,003</u>	<u>2,035</u>	<u>1,957</u>	<u>7,765</u>
Operating income	784	603	650	(911)	\$ 1,445
Operating margins	8.05%	5.53%	5.97%	-9.37%	3.50%
Other income (expense)					
Interest expense	(180)	(204)	(220)	(226)	(832)
Interest income	0	-	1	2	3
Gain on sale of assets	(10)	(20)	(1)	-	-
Other	<u>48</u>	<u>(225)</u>	<u>(14)</u>	<u>259</u>	<u>(281)</u>
Total other expense	<u>(142)</u>	<u>(449)</u>	<u>(234)</u>	<u>35</u>	<u>(1,110)</u>
Pretax income (loss)	641	154	415	(876)	335
Pretax margins	6.58%	1.41%	3.82%	-9.01%	0.81%
Income tax expense (benefit)	<u>247</u>	<u>51</u>	<u>27</u>	<u>(286)</u>	<u>39</u>
Tax rate	38.53%	32.99%	6.50%	32.65%	11.64%
Net income (loss) before minority interest	394	103	388	(590)	296
Minority interest	24	(30)	1	(1)	(6)
Net income (loss) for common	<u>\$ 370</u>	<u>\$ 133</u>	<u>\$ 387</u>	<u>\$ (588)</u>	<u>\$ 303</u>
EPS diluted	<u>\$ 0.30</u>	<u>\$ 0.09</u>	<u>\$ 0.22</u>	<u>\$ (0.28)</u>	<u>\$ 0.16</u>
Weighted average shares (diluted)	<u>1,221</u>	<u>1,480</u>	<u>1,742</u>	<u>2,130</u>	<u>1,884</u>
% of revenue					
Cost of sales	73.77%	76.10%	75.30%	75.00%	75.08%
General and administrative	10.29%	10.33%	10.74%	10.91%	10.58%
Selling	3.85%	3.44%	3.75%	3.77%	3.70%
Advertising and marketing	4.04%	4.04%	4.22%	4.32%	4.16%
year / year growth					
revenues	60.14%	58.61%	59.71%	43.19%	54.91%

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

	Q1(3/03)A	Q2(6/03)A	Q3(9/03)A	Q4(12/03)A	FY12/03A
Net sales	\$ 10,162	\$ 8,662	\$ 8,429	\$ 9,006	\$ 36,260
Cost of sales	8,225	6,756	6,654	7,992	29,627
Gross profit	1,937	1,906	1,775	1,015	6,633
Gross margin	19.06%	22.00%	21.06%	11.27%	18.29%
Operating expenses					
General and administrative	1,259	1,051	749	995	4,054
Selling	402	217	414	409	1,442
Advertising and marketing	589	661	390	176	1,816
Total operating expenses	2,250	1,929	1,553	1,666	7,312
Operating income	(313)	(23)	222	(651)	(679)
Operating margins	-3.08%	-0.27%	2.63%	-7.23%	-1.87%
Other income (expense)					
Interest expense	(202)	(274)	(301)	(326)	(1,103)
Interest income	-	1	1	11	13
Gain on sale of assets	-	8	0	20	28
Other	(143)	293	(19)	261	392
Total other expense	(345)	28	(319)	(34)	(670)
Pretax income (loss)	(658)	5	(97)	(566)	(1,349)
Pretax margins	-6.48%	0.06%	-1.15%	-6.28%	-3.72%
Income tax expense (benefit)	34	(130)	(226)	(461)	(783)
Tax rate	-5.17%	0.00%	0.00%	0.00%	58.04%
Net income (loss) before minority interes	(692)	135	129	(105)	(567)
Minority interest	(2)	2	1	(1)	(0)
Net income (loss) for common	\$ (690)	\$ 133	\$ 129	\$ (138)	\$ (566)
EPS diluted	\$ (0.36)	\$ 0.06	\$ 0.06	\$ (0.07)	\$ (0.30)
Weighted average shares (diluted)	1,918	2,140	1,997	1,918	1,918
<u>% of revenue</u>					
Cost of sales	80.94%	78.00%	78.94%	88.74%	81.71%
General and administrative	12.39%	12.13%	8.89%	11.05%	11.18%
Selling	3.96%	2.51%	4.91%	4.54%	3.98%
Advertising and marketing	5.80%	7.63%	4.63%	1.95%	5.01%
<u>year / year growth</u>					
revenues	4.35%	-20.58%	-22.48%	-7.34%	-12.07%

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

	Q1(3/04)E	Q2(6/04)E	Q3(9/04)E	Q4(12/04)E	FYE 12/04E
Net sales	\$ 9,435	\$ 10,430	\$ 10,067	\$ 10,884	\$ 40,816
Cost of sales	7,764	8,442	7,982	8,944	33,132
Gross profit	1,671	1,988	2,085	1,940	7,684
Gross margin	17.71%	19.06%	20.71%	17.83%	18.83%
Operating expenses					
General and administrative	950	900	900	1,000	3,750
Selling	350	350	420	400	1,520
Advertising and marketing	200	250	300	200	950
Total operating expenses	1,500	1,500	1,620	1,600	6,220
Operating income	171	488	465	340	1,464
Operating margins	1.81%	4.68%	4.61%	3.12%	3.59%
EBITDA	631	948	925	800	3,304
Total other expense	(300)	(300)	(300)	(300)	(1,200)
Pretax income (loss)	(129)	188	165	40	264
Pretax margins	-1.37%	1.80%	1.63%	0.37%	0.65%
Income tax expense (benefit)	-	-	-	-	-
Tax rate	0.00%	0.00%	0.00%	0.00%	0.00%
Net income (loss) before minority interes	(129)	188	165	40	264
Minority interest	-	-	-	-	-
Net income (loss) for common	(129)	188	165	40	264
EPS diluted	\$ (0.07)	\$ 0.09	\$ 0.08	\$ 0.02	\$ 0.12
Weighted average shares (diluted)	1,940	2,140	2,140	2,140	2,140
<u>% of revenue</u>					
Cost of sales	82.29%	80.94%	79.29%	82.17%	81.17%
General and administrative	10.07%	8.63%	8.94%	9.19%	9.19%
Selling	3.71%	3.36%	4.17%	3.68%	3.72%
Advertising and marketing	2.12%	2.40%	2.98%	1.84%	2.33%
<u>year / year growth</u>					
revenues	-7.15%	20.41%	19.43%	20.85%	12.56%

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

	FY12/02A	FY12/03A
Assets		
Current Assets		
Cash	\$ 160	\$ 330
Accounts Receivable	5,385	4,620
Inventories	10,034	9,263
Deferred tax assets	248	362
Other	311	859
Total Current Assets	16,138	15,434
Total property and equipment, net	11,715	12,208
Other assets		
Deferred financing costs, net	52	223
Goodwill	1,113	1,113
Deferred tax assets	442	1,012
Other assets	813	279
Total other assets	2,419	2,627
Total Assets	\$ 30,272	\$ 30,270
Liabilities and Stockholders Equity		
Current liabilities		
Accounts payable	\$ 9,581	\$ 6,799
Over draft	113	341
Line of credit	5,643	3,694
Notes payable- current portion	1,743	2,999
Accrued liabilities	1,966	2,307
Total current liabilities	19,045	16,140
Long-term liabilities		
Non-current liabilities	710	1,079
Notes payable	5,016	7,830
Total Liabilities	24,771	25,049
Minority interest	26	9
Stockholders' equity		
Total stockholders' equity	\$ 5,475	\$ 5,212
Total Liabilities and Stockholders' Equity	\$ 30,272	\$ 30,270
	1,910	1,918