

## Research Report – Update

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

### CTI Industries Corp.

**Rating: Speculative Buy**

Luis Martins

**CTIB \$5.70 (NASDAQ)**

May 10, 2007

	<u>FY2003A</u>	<u>FY2004A</u>	<u>FY2005A</u>	<u>FY2006A</u>	<u>FY2007E</u>
Revenues (Thousands)	\$36,260	\$37,193	\$29,190	\$35,428	\$39,214
EPS (fully diluted)	\$(0.30)	\$(1.28)	\$(0.17)	\$0.36*	\$0.43

52-Week Range	\$10.39 – 2.20	Fiscal Year Ends	December
Shares Outstanding	2.19 million	Revenues/Share (TTM)	\$15.85
Approximate Float	1.11 million	Price/Sales (TTM)	0.4X
Market Capitalization	\$12 million	Price/Sales (2007)E	0.4X
Tangible Book Value/Share	\$1.78	Price/Earnings (TTM)	15.8X
Price/Tangible book	3.2X	Price/Earnings (2007)E	13.2X

\*Adjusted for one-time items

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

#### Key Investment Considerations:

*We are maintaining our Speculative Buy rating on CTI Industries (NASDAQ: CTIB); however, we are lowering our 12-month price target to \$6.50 from \$7.00 per share. Our price target is based on applying a multiple of 15X to our estimated 2007 EPS of \$0.43 per share.*

*On June 6, 2006, CTIB and Cornell Capital Partners, LP. entered into a \$5 million Standby Equity Distribution Agreement (SEDA). On January 26, 2007, the registration statement was declared effective. As of March 20, 2007, CTIB had received \$0.217 million in net proceeds from Cornell Capital in exchange for 45,306 common shares. If the Company further taps the SEDA, it may result in dilution.*

*On March 22, 2007, CTIB reported fourth quarter net revenues of \$9.672 million and net income of \$1.154 million (after an income tax benefit of \$0.834 million) or \$0.49 per diluted share. In the year ago period, CTIB reported revenues of \$6.480 million and net income of \$0.052 million (after an income tax benefit of \$0.209 million) or \$0.02 per share.*

*We are adjusting our estimates for fiscal 2007. Our revised estimates call for revenues of \$39.2 million and net income \$1.081 million or \$0.43 per share. Our prior estimates called for revenues of \$37.2 million and net income \$0.855 million or \$0.40 per share.*

*We are projecting that the Company will report EBITDA of \$4.4 million in 2007, as compared to \$3.8 million in fiscal 2006. This translates to 15% year-over-year growth.*

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

## ***Company Overview***

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

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

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

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

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

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

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

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

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

## ***Strategy***

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

- Focus on its core assets and expertise;
- Develop operating efficiencies to enhance profitability;
- Develop new products, product improvements and technologies; and
- Develop new channels of distribution and new sales relationships.

**Recent Results**

**On March 22, 2007**, CTI Industries reported results for its fourth quarter, ended December 31, 2006.

The Company reported net revenues of \$9.672 million and net income of \$1.154 million (after an income tax benefit of \$0.834 million or \$0.35 per share) or \$0.49 per diluted share. In the year ago period, CTIB reported revenues of \$6.480 million and net income of \$0.052 million (after an income tax benefit of \$0.209 million or \$0.09 per share) or \$0.02 per share.

In comparison, Taglich Brothers' estimates called for revenues of \$8.495 million and a net loss of \$0.086 million or \$(0.04) per share.

The year-over-year increase in revenues was due to higher sales of metalized and latex balloons, as well as films.

On an operating basis, CTIB reported income of \$0.696 million, as compared to \$0.378 million in the year ago period. Additionally, EBITDA increased to \$1.1 million from \$0.9 million.

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

- Gross margin decreased to 25.8%, resulting in gross profits of \$2.5 million, as compared to gross margin of 27.3% and gross profits of \$1.8 million in the year ago period;
- Operating expenses increased to \$1.8 million, as compared to \$1.4 million primarily due to higher G&A expenses associated with personnel expenses and audit costs;
- Operating margins increased to 7.1% from 5.8%, primarily due to higher revenues and lower SG&A costs as a percentage of revenues.

The following table illustrates operating expenses by major line item:

Actual Operating Expenses (\$ 000's)		
Expense Item	4Q05A	4Q06A
Administrative	819	1,229
Selling	269	223
Advertising and Marketing	174	355

- Interest expense increased to \$0.414 million from \$0.363 million stemming from higher borrowing costs; and
- Miscellaneous items in the quarter resulted in other income of \$0.045 million, as compared to expenses of \$0.171 million in the year ago period.

**Balance Sheet**

At December 31, 2006, CTIB had cash of \$0.385 million, working capital of \$1.848 million, long-term liabilities of \$6.887 million, and stockholders' equity of \$5.102 million. As of December 31, 2006, the outstanding balance on its revolving line of credit was \$6.3 million at an interest rate of 8.5%.

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

**Projections**

**We are adjusting our estimates for fiscal 2007 primarily due to the results (revenues, margins, and profits) observed during 2006.** Our revised estimates call for revenues of \$39.2 million and net income \$1.081 million or \$0.43 per share. Our prior estimates called for revenues of \$37.2 million and net income \$0.855 million or \$0.40 per share.

If our projections are achieved, the Company's EPS (adjusted for one-time items) will grow 20% from \$0.36 per share in 2006.

Based on our assumptions, we are projecting that the Company will report EBITDA of \$4.4 million in 2007, as compared to \$3.8 million in fiscal 2006. This translates to 15% year-over-year growth.

Our forecast incorporates the following:

- Higher revenue primarily due to recent trends and developments observed over the past several quarters (i.e. customer relationships and demand). We would note modest projected revenue increase of 10.7% for fiscal 2007. In an effort to remain conservative, the fiscal 2007 projected increase is one half the growth rate of 2006;
- Gross margins of around 26%, based on historical margin trends and Management's efforts to improve the Company's gross margins;
- Higher operating expenses of \$7.4 million (as compared to \$6.6 million in fiscal 2006) based on 2006 results and Management's comments in the Company's SEC filings including the following:
  - Additional depreciation expense in 2007, as compared to 2006, reflecting anticipated investments in plant and equipment during 2007;
  - Additional general and administrative expenses during 2007, as operations are expanded related to the production of its new vacuumable zippered pouches product line and enhancement of accounting and administrative functions; and
  - Additional advertising and marketing expenses during 2007, stemming from the introduction, marketing and sale of the vacuumable zippered pouches product line.
- Similar interest expense based on recent borrowing trends;
- Comments made by Management in the Company's SEC indicating that during 2007, Management anticipates:
  - Increased levels of investing activities as it invests in both plant and equipment to improve and develop production facilities for new zippered vacuumable pouch line and expanded production of latex balloons; and
  - Further increases in both accounts receivable and trade payables particularly during the second half of 2007, due to an anticipated inventory build-up and sales of the new zippered vacuumable pouch product line.
- Increase in the shares outstanding as the Company taps into the Standby Equity Distribution Agreement (SEDA) with Cornell Capital. As of March 20, 2007, CTIB had received \$0.217 million in net proceeds from Cornell Capital in exchange for 45,306 common shares.

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

## **Risks**

### *Balance Sheet*

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

The Company's credit facilities and debt agreements feature variable interest rates tied to the prime rate. If interest rates rise or the Company becomes increasingly indebted, debt service will increase. This will adversely impact the Company's financial results. According to the loan agreement, the interest rate, which can vary from prime + 0% to prime +1%, is tied to the level of senior debt to EBITDA. The rate was initially set at prime +1%; however, as of December 31, 2006, the interest rate was prime + 0.25% (or 8.50%).

### *Raw Materials*

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

### *Reliance on Major Customers*

CTIB derives a significant portion of revenues from a few customers. Therefore, any significant disruption or deterioration of any of the Company's relationships with these customers may significantly reduce its revenues and operating results. The loss of any of these relationships could have severe consequences on its financial condition and equity value. Generally, CTIB does not have long term contracts with customers. CTIB's results could also be adversely impacted by purchasing and inventory policies of its customers or its customers' customers. This could lead to lower revenues, margins, and income.

Sales to its top 10 customers represented 61.2% of 2006 net sales. Sales to the top three customers (Dollar Tree, Repak, and ITW) represented 51.5% of 2006 net sales.

### *Dilution/Funding Risk*

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

**According to SEC filings on January 26, 2007, the registration statement was declared effective. Through March 20, 2007, CTIB received \$0.217 million in net proceeds from Cornell Capital in exchange for 45,306 common shares.**

### *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 \$0.04 per share change in EPS.

### *Unknown Financial Items*

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

### *International Operations*

CTIB has operations in the United Kingdom and Mexico. International operations expose the Company to additional risk factors (i.e. currency; legal and regulatory issues from other countries) that it would ordinarily be exposed to in the U.S.

### *Competition*

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

### *Growth Management*

As the Company becomes increasingly successful, it must meet the challenges associated with growth. If the Company is not successful in meeting these challenges, its business or financial results will be adversely impacted.

### *Shareholder Control*

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

### *Corporate Governance*

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

### *Federal Reserve*

Between mid-2004 and 2006, the Federal Reserve raised the Discount Rate and its target rate for Fed Funds by 0.25 after 17 meeting. Such a monetary policy is theoretically and empirically bad news for equity prices and valuations, particularly for smaller cap stocks. At its last 8 meeting, the Federal Reserve held rates steady.

### *Liquidity*

The shares of CTIB have risks common to those of the microcap segment of the market. Often these risks cause microcap stocks to trade at discounts to their peers. The most common of these risks is liquidity risk, which is typically caused by small trading floats and very low trading volume and can lead to large spreads and high volatility in stock price. The Company's float is around 1.11 million shares and 59,000 shares, on average, are traded daily.

*Miscellaneous Risks*

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

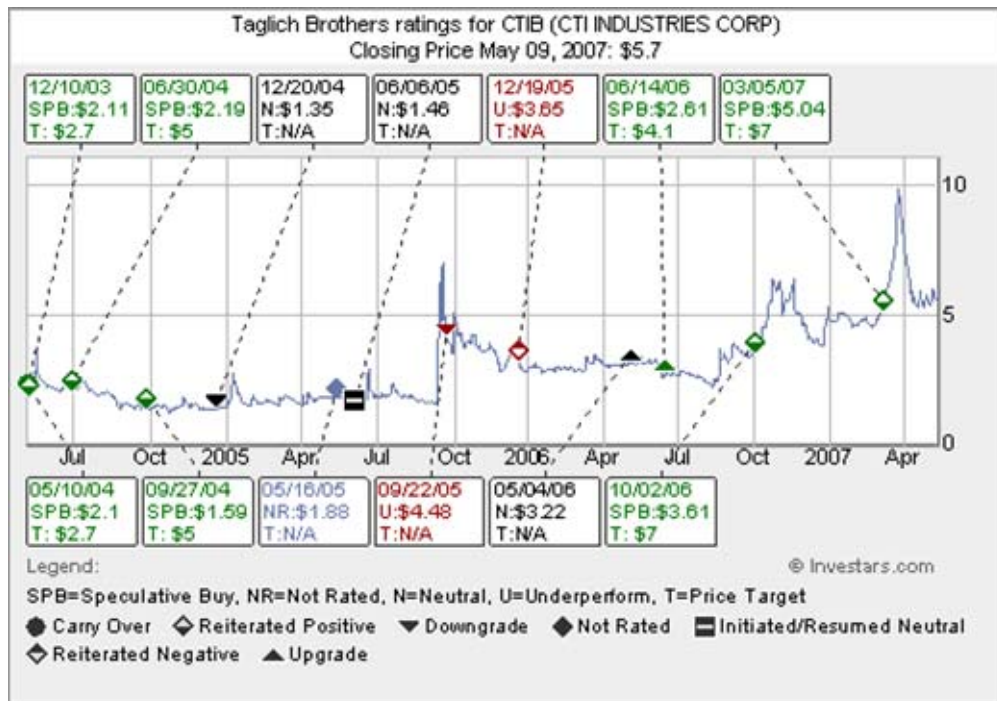
***Conclusion***

**We are maintaining our Speculative Buy rating on CTI Industries (NASDAQ: CTIB); however, we are decreasing our 12-month price target to \$6.50 from \$7.00 per share.**

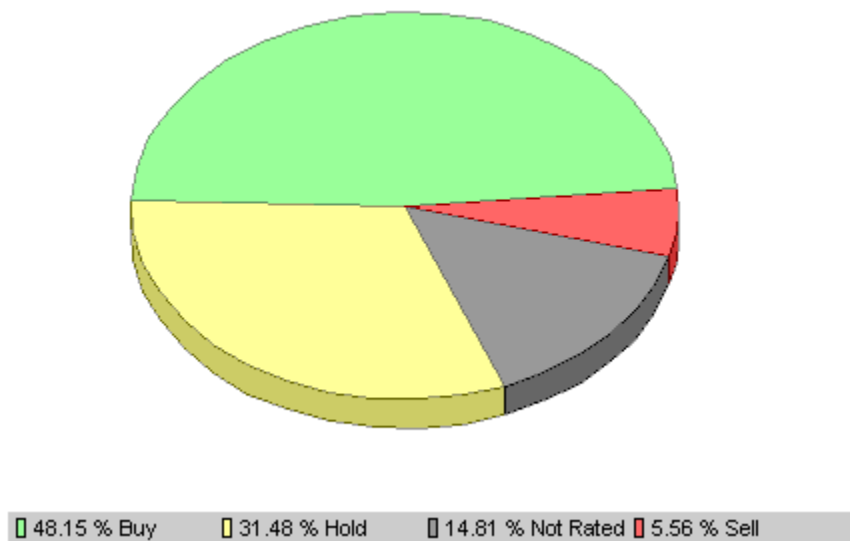
Our price target is based on applying a multiple of 15X to our estimated 2007 EPS of \$0.43 per share. We derived our valuation multiple by discounting by approximately 25% the Company's projected annual EPS growth rate of 20% (adjusted for one-time items).

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

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



Taglich Brothers' Current Rating Distribution



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

Rating	#	%
Buy	1	3.45%
Hold	0	0
Sell	0	0
Not Rated	0	0

### Meaning of Ratings

#### *Buy*

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

#### *Speculative Buy*

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

#### *Neutral*

We will remain neutral pending certain developments.

#### *Underperform*

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

#### *Sell*

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

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

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

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

Public Companies Mentioned in this Report

None

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

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

	FY12/03A	FY12/04A	FY12/05A	FY12/06A	FY12/07E
Net sales	\$ 36,260	\$ 37,193	\$ 29,190	\$ 35,428	\$ 39,214
Cost of sales	29,627	30,841	22,726	26,531	29,018
Gross profit	6,633	6,352	6,464	8,897	10,196
Gross margin	18.29%	17.08%	22.14%	25.11%	26.00%
Operating expenses					
General and administrative	4,054	4,342	3,847	4,554	5,040
Selling	1,442	1,515	1,065	847	900
Advertising and marketing	1,816	1,167	777	1,200	1,425
Asset Impairment Loss	-	-	124	-	-
Total operating expenses	7,312	6,921	5,813	6,601	7,365
Operating income	(679)	(567)	651	2,296	2,831
Operating margins	-1.87%	-1.52%	2.23%	6.48%	7.22%
EBITDA	940	1,178	2,239	3,847	4,431
Other income (expense)					
Interest expense	(1,103)	(1,350)	(1,231)	(1,711)	(1,750)
Interest income	13	-	-	19	-
Gain on sale of assets	28	15	-	(144)	-
Other	392	711	45	662	-
Total other expense	(670)	(624)	(1,186)	(1,173)	(1,750)
Pretax income (loss)	(1,349)	(1,192)	(534)	1,122	1,081
Pretax margins	-3.72%	-3.20%	-1.83%	3.17%	2.76%
Income tax expense (benefit)	(783)	1,286	(200)	(774)	-
Tax rate	58.04%	-107.89%	37.45%	-68.96%	0.00%
Net income (loss) before minority interes	(567)	(2,478)	(334)	1,896	1,081
Minority interest	(0)	1	-	1	
Net income (loss) for common	\$ (566)	\$ (2,479)	\$ (333)	\$ 1,895	\$ 1,081
EPS diluted	\$ (0.30)	\$ (1.28)	\$ (0.17)	\$ 0.85	\$ 0.43
Weighted average shares (diluted)	1,918	1,931	1,977	2,235	2,500
<u>% of revenue</u>					
Cost of sales	81.71%	82.92%	77.86%	74.89%	74.00%
General and administrative	11.18%	11.67%	13.18%	12.85%	12.85%
Selling	3.98%	4.07%	3.65%	2.39%	2.30%
Advertising and marketing	5.01%	3.14%	2.66%	3.39%	3.63%
<u>year / year growth</u>					
revenues	-12.07%	2.57%	-21.52%	21.37%	10.69%

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	729	492	159	859	2,239
Other income (expense)					
Interest expense	(305)	(282)	(281)	(363)	(1,231)
Interest income					-
Gain on sale of assets					-
Other	<u>58</u>	<u>162</u>	<u>(4)</u>	<u>(171)</u>	<u>45</u>
Total other expense	<u>(247)</u>	<u>(120)</u>	<u>(285)</u>	<u>(534)</u>	<u>(1,186)</u>
Pretax income (loss)	80	(15)	(442)	(157)	(534)
Pretax margins	0.88%	-2.67%	-2.67%	-2.67%	-1.83%
Income tax expense (benefit)	<u>(4)</u>	<u>38</u>	<u>(26)</u>	<u>(209)</u>	<u>(200)</u>
Tax rate	-5.00%	0.00%	0.00%	0.00%	37.45%
Net income (loss) before minority interes	84	(53)	(416)	52	(334)
Minority interest	-	-	-	-	-
Net income (loss) for common	<u>\$ 84</u>	<u>\$ (53)</u>	<u>\$ (416)</u>	<u>\$ 52</u>	<u>\$ (333)</u>
EPS diluted	<u>\$ 0.04</u>	<u>\$ (0.03)</u>	<u>\$ (0.21)</u>	<u>\$ 0.02</u>	<u>\$ (0.17)</u>
Weighted average shares (diluted)	<u>1,970</u>	<u>1,954</u>	<u>1,964</u>	<u>2,211</u>	<u>1,977</u>
<u>% of revenue</u>					
Cost of sales	79.41%	79.10%	79.42%	72.76%	77.86%
General and administrative	11.19%	13.48%	16.36%	12.65%	13.18%
Selling	3.34%	3.24%	4.09%	4.15%	3.65%
Advertising and marketing	2.46%	2.81%	2.75%	2.69%	2.66%
<u>year / year growth</u>					
revenues	-16.43%	-21.05%	-25.74%	-24.49%	-21.52%

Taglich Brothers, Inc.

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

	Q1(3/06)A	Q2(6/06)A	Q3(9/06)A	Q4(12/06)A	FY12/06A
Net sales	\$ 8,156	\$ 8,997	\$ 8,603	\$ 9,672	\$ 35,428
Cost of sales	<u>6,203</u>	<u>6,800</u>	<u>6,350</u>	<u>7,178</u>	<u>26,531</u>
Gross profit	1,953	2,197	2,253	2,494	8,897
Gross margin	23.95%	24.42%	26.19%	25.79%	25.11%
Operating expenses					
General and administrative	1,017	1,092	1,216	1,229	4,554
Selling	177	234	213	223	847
Advertising and marketing	<u>218</u>	<u>267</u>	<u>361</u>	<u>354</u>	<u>1,200</u>
Total operating expenses	<u>1,412</u>	<u>1,593</u>	<u>1,790</u>	<u>1,806</u>	<u>6,601</u>
Operating income	541	604	463	688	2,296
Operating margins	6.63%	6.71%	5.38%	7.11%	6.48%
EBITDA	892	1,004	863	1,088	3,847
Other income (expense)					
Interest expense	(336)	(440)	(521)	(414)	(1,711)
Interest income	5	8	6		19
Gain on sale of assets			(141)	(3)	(144)
Other	<u>48</u>	<u>43</u>	<u>523</u>	<u>48</u>	<u>662</u>
Total other expense	<u>(283)</u>	<u>(388)</u>	<u>(133)</u>	<u>(369)</u>	<u>(1,173)</u>
Pretax income (loss)	258	215	330	319	1,122
Pretax margins	3.16%	-2.67%	-2.67%	-2.67%	3.17%
Income tax expense (benefit)	<u>38</u>	<u>9</u>	<u>12</u>	<u>(833)</u>	<u>(774)</u>
Tax rate	14.73%	4.19%	0.00%	0.00%	-68.96%
Net income (loss) before minority interes	220	206	318	1,152	1,896
Minority interest	-		3	(2)	1
Net income (loss) for common	<u>\$ 220</u>	<u>\$ 206</u>	<u>\$ 315</u>	<u>\$ 1,154</u>	<u>\$ 1,895</u>
EPS diluted	<u>\$ 0.10</u>	<u>\$ 0.10</u>	<u>\$ 0.15</u>	<u>\$ 0.49</u>	<u>\$ 0.85</u>
Weighted average shares (diluted)	<u>2,167</u>	<u>2,121</u>	<u>2,130</u>	<u>2,374</u>	<u>2,235</u>
<u>% of revenue</u>					
Cost of sales	76.05%	75.58%	73.81%	74.21%	74.89%
General and administrative	12.47%	12.14%	14.13%	12.71%	12.85%
Selling	2.17%	2.60%	2.48%	2.31%	2.39%
Advertising and marketing	2.67%	2.97%	4.20%	3.66%	3.39%
<u>year / year growth</u>					
revenues	-10.40%	18.80%	42.58%	49.26%	21.37%

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

	Q1 (3/07)E	Q2 (6/07)E	Q3 (9/07)E	Q4 (12/07)E	FY12/07E
Net sales	\$ 9,411	\$ 9,803	\$ 9,411	\$ 10,588	\$ 39,214
Cost of sales	<u>7,011</u>	<u>7,255</u>	<u>6,917</u>	<u>7,835</u>	<u>29,018</u>
Gross profit	2,400	2,549	2,494	2,753	10,196
Gross margin	25.50%	26.00%	26.50%	26.00%	26.00%
Operating expenses					
General and administrative	1,200	1,250	1,275	1,315	5,040
Selling	220	210	225	245	900
Advertising and marketing	<u>310</u>	<u>360</u>	<u>375</u>	<u>380</u>	<u>1,425</u>
Total operating expenses	<u>1,730</u>	<u>1,820</u>	<u>1,875</u>	<u>1,940</u>	<u>7,365</u>
Operating income	670	729	619	813	2,831
Operating margins	7.12%	7.43%	6.58%	7.68%	7.22%
EBITDA	670	729	619	813	4,431
Other income (expense)					
Interest expense	(415)	(425)	(450)	(460)	(1,750)
Pretax income (loss)	255	304	169	353	1,081
Pretax margins	2.71%	-2.67%	-2.67%	-2.67%	2.76%
Income tax expense (benefit)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Tax rate	0.00%	0.00%	0.00%	0.00%	0.00%
Net income (loss) before minority interes	255	304	169	353	1,081
Minority interest	-	-	-	-	-
Net income (loss) for common	<u>\$ 255</u>	<u>\$ 304</u>	<u>\$ 169</u>	<u>\$ 353</u>	<u>\$ 1,081</u>
EPS diluted	<u>\$ 0.10</u>	<u>\$ 0.12</u>	<u>\$ 0.07</u>	<u>\$ 0.14</u>	<u>\$ 0.43</u>
Weighted average shares (diluted)	<u>2,500</u>	<u>2,500</u>	<u>2,500</u>	<u>2,500</u>	<u>2,500</u>
<u>% of revenue</u>					
Cost of sales	74.50%	74.00%	73.50%	74.00%	74.00%
General and administrative	12.75%	12.75%	13.55%	12.42%	12.85%
Selling	2.34%	2.14%	2.39%	2.31%	2.30%
Advertising and marketing	3.29%	3.67%	3.98%	3.59%	3.63%
<u>year / year growth</u>					
revenues	15.39%	8.96%	9.39%	9.47%	10.69%

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

	FY12/05A	FY12/06A
<b>Assets</b>		
<b>Current Assets</b>		
Cash	\$ 262	\$ 385
Accounts Receivable	4,344	6,443
Inventories	7,023	7,974
Other	707	1,690
<b>Total Current Assets</b>	<b>12,335</b>	<b>16,492</b>
<b>Total property and equipment, net</b>	<b>9,617</b>	<b>8,592</b>
<b>Other assets</b>		
Deferred financing costs, net	74	207
Goodwill	989	989
Deferred tax assets	353	101
Other assets	168	264
<b>Total other assets</b>	<b>1,584</b>	<b>1,561</b>
<b>Total Assets</b>	<b>\$ 23,536</b>	<b>\$ 26,445</b>
<b>Liabilities and Stockholders Equity</b>		
<b>Current liabilities</b>		
Accounts payable	\$ 4,718	\$ 3,411
Over draft	500	109
Line of credit	5,051	6,318
Notes payable- current portion	3,567	3,104
Accrued liabilities	926	1,702
<b>Total current liabilities</b>	<b>14,761</b>	<b>14,644</b>
<b>Long-term liabilities</b>		
Non-current liabilities	1,644	1,294
Notes payable	4,394	5,593
<b>Total Liabilities</b>	<b>20,799</b>	<b>6,887</b>
Minority interest	10	13
<b>Stockholders' equity</b>		
<b>Total stockholders' equity</b>	<b>\$ 2,726</b>	<b>\$ 5,102</b>
<b>Total Liabilities and Stockholders' Equity</b>	<b>\$ 23,536</b>	<b>\$ 26,645</b>
	2,036	2,142

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

	<u>FY2005A</u>	<u>FY2006A</u>
<i>Cash Flows from Operating Activities</i>		
Net Income	\$ (333)	\$ 1,895
Depreciation & Amortization	1,480	1,424
Other	237	104
Deferred Income Tax	(200)	(774)
Write-off aand disposals	<u>474</u>	<u>95</u>
	1,658	2,744
<i>Changes In:</i>		
Receivables	1,681	(2,440)
Inventories	1,130	(1,063)
Prepaid Expense	167	106
Accounts Payable	(825)	(1,352)
Accrued Expenses & Other	<u>(1,151)</u>	<u>652</u>
Net Changes in Working Capital	<u>1,002</u>	<u>(4,097)</u>
<b>Net cash Provided by Operations</b>	<b><u>2,659</u></b>	<b><u>(1,353)</u></b>
<i>Cash Flows from Investing Activities</i>		
Capital Expenditures	(551)	(553)
Sale of PPE	<u>151</u>	<u>-</u>
<b>Net cash used in Investing</b>	<b><u>(400)</u></b>	<b><u>(553)</u></b>
<i>Cash Flows from Financing Activities</i>		
Proceeds from stock	54	101
Proceeds from Borrowings	231	3,915
Payments of Long-term debt	(2,602)	(1,323)
Other	<u>(155)</u>	<u>(646)</u>
<b>Net cash provided by Financing</b>	<b><u>(2,474)</u></b>	<b><u>2,045</u></b>
<b>Exchange rate effect</b>	<b><u>(49)</u></b>	<b><u>(17)</u></b>
Net change in Cash	(264)	122
Cash Beginning of Period	<u>526</u>	<u>262</u>
Cash End of Period	<b><u>\$ 262</u></b>	<b><u>\$ 385</u></b>