

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: Neutral

Luis Martins

CTIB – \$3.60 (NASDAQ)

May 14, 2003

	<u>FY2000A*</u>	<u>FY2001A</u>	<u>FY2002A</u>	<u>FY2003E</u>
Revenues (Thousands)	\$22,978	\$27,447	\$41,236	\$45,851
EPS (fully diluted)	\$(0.88)	\$(0.15)	\$0.16	\$0.08

52-Week Range	\$6.93 – 1.89	Fiscal Year Ends	December
Shares Outstanding- FD (000)	2,130	Revenues/Share (TTM)	\$21.89
Approximate Float (000)	831	Price/Sales (TTM)	0.16X
Insider Holdings	61%	Price/Sales (2003)E	0.16X
Tangible Book Value/Share	\$2.25	Price/Earnings (TTM)	22.5X
Price/Tangible book	1.6X	Price/Earnings (2003)E	45.0X

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

CTI Industries Corp. is an international manufacturer and marketer of mylar and latex balloons, and specialty, laminated, and printed film. The Company's products are sold domestically and in 30 foreign countries.

Key Investment Considerations:

We are downgrading our rating on the shares of CTI Industries Corp (CTIB) to a Neutral from a Speculative Buy, pending further developments. Additionally, we are withholding a price target.

Our downgrade is based on: the Company's weakened fundamentals, our decreased earnings estimates, valuation concerns, the need for additional visibility into the Company's capital expenditure and re-financing programs, and CTIB's failure to file its SEC filings in a timely fashion.

4Q02 net sales increased to \$9.72 million from \$7.68 million in last year's fourth quarter. However, the Company reported a net loss of \$0.59 million or \$(0.28) per share as compared to a net loss of \$0.02 million or \$(0.01) per share in the year ago period.

We are lowering our estimates for fiscal 2003. Our revised projections call for revenues of \$45.9 million and EPS of \$0.08 per diluted share. We previously projected revenues of \$48.33 million and EPS of \$0.90 per diluted share. Our revised estimates are based on revenue growth of 11.2%, a modest increase in gross margins, and operating margins of 3.13%.

On February 22, 2003, CTI Mexico effected a spin-off of a portion of the assets, liabilities, and capital of CTI Mexico to a newly-organized entity, Flexo Universal.

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

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Company Overview

CTI Industries Corporation (CTIB), through its facilities in Illinois, Mexico, and England, is 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) incorporating over 450 designs. In March 2002, the Company entered into an arrangement with Hallmark and its Party Express Division. The agreement calls for CTIB to produce metalized balloons incorporating designs provided by Party Express as well as licensed character designs under licenses held by Hallmark. The Company is also entitled to market and sell balloons incorporating these designs to its other customers; and
- Specialty and printed films primarily for food packaging, specialized consumer uses and various commercial applications such as food packaging and storage. The Company manufactures these products primarily from its Barrington, Illinois facility.

Recent Results

Fourth Quarter 2002

On May 1, 2003, CTI Industries (CTIB) announced results for its fourth quarter of 2002. Net sales increased to \$9.72 million from \$7.68 million in last year's fourth quarter. The Company reported a 4Q02 net loss of \$0.59 million or \$(0.28) per share. In the fourth quarter of 2001, CTIB reported a net loss of \$0.02 million or \$(0.01) per share. Results were negatively impacted by manufacturing inefficiencies, increased production costs, and low margin product sales to a major customer. This resulted in gross margins decreasing to 10.8% from 29.0% in the year ago quarter.

The Company's revenues and net income were below our estimates. Taglich Brothers had estimated that the Company would post net sales of \$11.0 million and net income of \$0.34 million or \$0.19 per share. Gross margins, operating margins, and net margins were also below our expectations. We had expected margins to increase as CTIB achieved greater operating leverage and its operations became more efficient as a result of its capital improvement projects.

Chart of Actual and Expected Margins

Margin	4Q01A	4Q02A	4Q02E
Gross Margin	28.95%	10.76%	25.00%
Operating Margin	3.76%	-9.37%	6.00%
Net Margin	-0.00%	-6.05%	3.10%

Fiscal 2002

For 2002, the Company reported revenues of \$41.24 million and net income of \$0.16 per share. In 2001, CTIB reported revenues of \$27.45 million and a net loss of 0.23 million or \$(0.19) per share. The year-over-year increase was due to:

- A 72% increase in sales of printed and laminated films to \$19.62 million from \$11.44 million in 2001. Increased sales in this segment were primarily due to increased sales to two large customers; and
- A 61% increase in sales of metalized balloons to \$16.39 million from \$10.16 million in 2001. Sales growth was primarily due to increases in sales to a major customer (Hallmark). In 2002, sales to Hallmark were \$5.111 million or 12.4% of the Company's total sales revenue.

Segment Sales Mix Comparison 2002 versus 2001

Segment	2001	2002
Metalized Balloons	37%	40%
Laminated & Printed Films	44%	48%
Latex Balloons	19%	12%

Balance Sheet

Over the past year, the Company's balance sheet has deteriorated. At the end of the year, 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. This compares to the end of 2001, in which the Company had cash of \$0.11 million, working capital of \$1.026 million, long-term debt of \$4.169 million, total liabilities of \$20.34 million, and stockholders' equity of \$4.662 million.

Credit Facilities

As of December 31, 2003, the Company had \$5.65 million outstanding under an \$11 million credit facility. Additionally, the Company had two terms loans of \$1.426 million and \$1.74 million with the same lender.

Management Loans

In February and March 2003, two members of Management (Stephen Merrick and John Schwan) entered into agreements to loan \$1.630 million to CTIB. According to the Company's 10K, the funds were to be used to finance a \$0.88 million loan to its Mexican operations and to provide funds for capital investment and working capital. The terms of the loan were:

- Two-year notes bearing interest at 9% per annum; and
- Five-year warrants to purchase up to 163,000 shares at \$4.87 per share.

Subsequently, in March and April 2003, the Company borrowed an additional \$0.69 million at 8% per annum from an officer.

Stock Dividend

On December 13, 2002, the Board of Directors declared a stock dividend of one share of Common Stock for each 5.25 shares of Common Stock outstanding.

Recent Developments - Mexico*CTI Mexico*

During 2002, CTIB purchased an additional 28.4% interest in CTI Mexico and now owns 98% of the subsidiary. The terms of the deal called for CTIB to pay \$150,000. We believe CTIB increased its stake due to the realization that the subsidiary has become an integral part of the overall organization and to better control the decision making process at CTI Mexico.

Flexo Universal

On February 22, 2003, CTI Mexico effected a spin-off of a portion of the assets, liabilities, and capital of CTI Mexico to a newly-organized entity, Flexo Universal, S.A. de C.V., controlled 98% by CTIB. Flexo entered into a lease for a 43,000 square feet of manufacturing, office, and warehouse space in Guadalajara, Mexico and as of March 1, 2003, conducts latex balloon manufacturing, printing, and packaging activities. We believe that this transaction was consummated to improve the Company's Mexican operations.

Outlook & Projections

We are lowering our estimates for fiscal 2003 primarily due to the results of the fourth quarter and the continuing pressures on the operations of the Company. For fiscal 2003, our revised projections call for revenues of \$45.9 million and net income of \$0.169 million or \$0.08 per diluted share. We previously projected revenues of \$48.3 million and \$1.57 million or \$0.90 per diluted share. Our estimates are based on the following assumption:

- Revenue growth of 11.2% based on:
 - 10% growth in the Company's Films segment. This is much lower growth than in previous years but investors should accept that CTIB may not be able to maintain the high growth rates of the past two years;
 - 15.9% growth in the Metalized segment. We believe that the catalyst for further growth will be the continuing relationship with Hallmark. Our estimates include an approximate 50% increase in sales to Hallmark as compared to 2002; and
 - Flat growth in the Latex segment.

Chart of Estimated 2003 Revenues by Segment (\$ 000's)

Segment	Q1E	Q2E	Q3E	Q4E	FY2003E
Films	4,317	5,612	5,612	6,043	21,583
Metalized	4,748	4,748	3,798	5,698	18,992
Latex	1,055	1,372	1,372	1,477	5,276

- A modest increase in gross margins. We believe that gross margins may start to stabilize and firm up as compared to the fourth quarter of 2002. During the fourth quarter, the Company encountered difficulty managing its capital improvements projects which lead to manufacturing inefficiencies and increased production costs.
- An increase in operating expenses to \$8.7 million from \$7.8 million in the year ago quarter due to increased revenues;
- Operating margins of 3.13%, as compared to operating margins of 3.50% in fiscal 2002;
- A flat effective tax rate of approximately 11%; and
- Average shares outstanding of 2.13 million as compared to 1.884 million in 2002.

Beyond 2003, we believe that the Company may be able to achieve increased financial results; however, at this time, we are not comfortable forecasting beyond 2003 and will wait to do so until the Company reports its 2003 first quarter results. At which point, we will be further evaluating the Company's ability to:

- 1) Normalize its production and margins; and
- 2) Successfully implement its restructuring and re-financing plans.

Investors should note that on May 1, 2003, the Company stated in a press release that it is starting to enjoy the fruits of its capital investments. According to Management, there have already been improvements in production capacity, manufacturing efficiencies, and quality improvements.

Restatement

On August 19, 2002, CTIB announced the discovery of accounting inaccuracies related to the recording of expenses associated with the issuance of certain warrants and the timing of the recording of certain litigation settlement expense. The Company announced that its financial statements for the affected periods would need to be restated.

Investors should consult the Company's amended SEC filings for further information.

Risks

Timeliness of SEC filings

The Company did not file its 2002 10K in a timely fashion. As a result, the shares faced possible delisting from the NASDAQ. If the shares were to be delisted, it may present increased risk and liquidity concerns. Additionally, untimely SEC filings may cause investors to re-evaluate their investment in the Company, as there may be a perception that Management may not have a handle on its operations or that its financial results may not measure up to expectations.

Capital Expenditures

The Company may need to obtain additional funds, equipment, facilities, and employees to facilitate and manage growth. Although the Company has invested significant capital for equipment upgrades of its balloon business, its films segment may require additional capital expenditures. This may be particularly true if the segment's sales growth remains at high levels.

Macroeconomics

The economy is in the midst of an uncertain period. Although, the Company's operations are thought to be largely unaffected by economic slowdowns (novelty types of businesses receive increased attention and focus during these times), a severe decline in general economic conditions may lead to reduced consumer demand for its product offerings. This could adversely affect the Company's business and liquidity.

Reliance on major customers

CTIB has four major customers that make up a significant portion of their business. Investors should also note that the Company does not have any long-term contracts with these customers.

Sales in 2002 to the top three customers accounted for \$24.197 million or about 59% of overall sales. On an individual customer basis, the sales concentration was as follows:

- \$12.086 million or 29% of total sales to a customer of consumer storage bags (Films segment),
- \$7.0 million or 17% of total sales to a customer of packaging films, and
- \$5.111 million or 12.4% of total sales to a customer of metalized balloons.

The Company also sells balloons and related products to retail chain stores. Eckerd Drug Stores (a unit of J.C. Penney (NYSE:JCP)) is the Company's largest chain store customer.

The loss of any of the above customers would 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 unforeseen pressures on the Company's net revenues, margins, income, and balance sheet.

Shares

CTIB has a limited number of shares outstanding; therefore, any change in the top-line could dramatically impact the bottom-line results.

Competition

The Company operates in highly competitive and fragmented industries. A number of these competitors have greater resources than CTIB. Most recently, one of its competitors in the Balloon Industry (Amscan Holdings) attempted an IPO. However, due to market conditions it abandoned such efforts.

Growth Management

The Company must successfully execute its business plan to maintain profitability and growth. As the Company continues to grow, there may be unexpected growing pains.

Balance Sheet

The Company's balance sheet is highly leveraged. A significant shortfall in the top-line may negatively impact the Company's 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.

Corporate Governance

Recently, 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.

Some notable transaction with corporate governance ramifications include:

- Stephen Merrick, Executive Vice President of CTIB, is a principal of Merrick & Klimek, P.C., a law firm that serves as the Company's general counsel;
- John Schwan, an officer of CTIB, is President of Packaging Systems, Inc., which sells packaging materials to the Company;
- From time to time, certain officers of CTIB have extended loans to the Company; and
- Certain officers and directors of the Company are shareholders of Pepper Road, Inc, which leases warehouse and office space to CTIB.

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.

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 downgrading our rating on the shares of CTI Industries Corp. (CTIB) to a Neutral from a Speculative Buy, pending further developments. Additionally, we are withholding a price target.

Our downgrade in rating is based on:

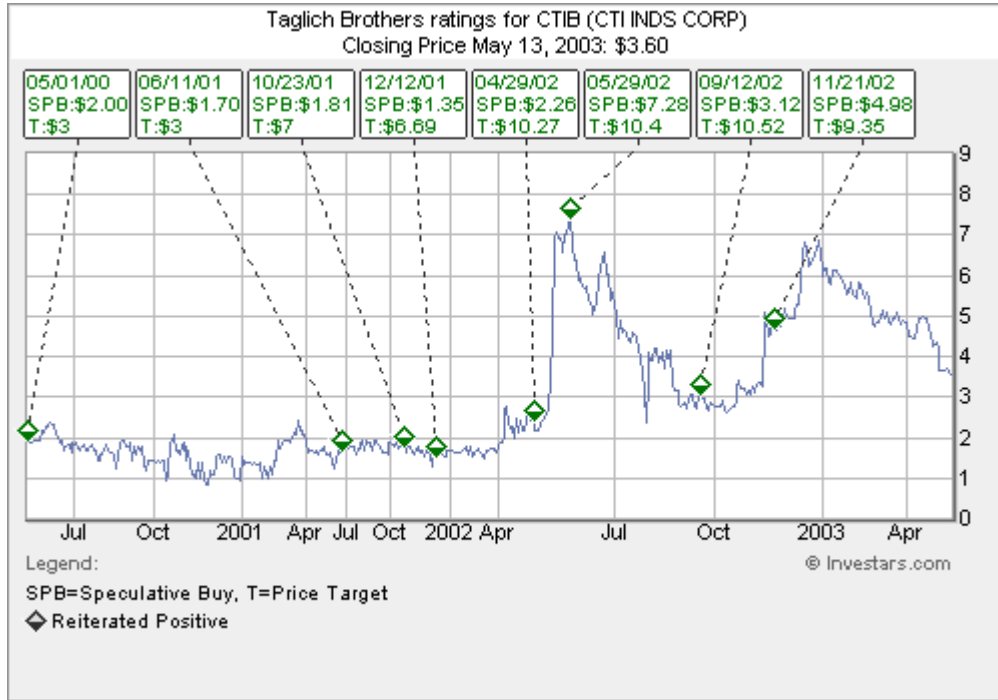
- The Company's weakened fundamentals;
- Our decreased estimates for 2003;
- Valuation concerns. The shares are trading at a 6.6X multiple of Enterprise Value to trailing twelve month EBITDA and a 45.0X P/E multiple based on our 2003 EPS estimate;
- The need for additional visibility into the Company's capital expenditure and re-financing programs; and

- CTIB's failure to file its SEC filings in a timely fashion, which could have resulted in possible delisting from the NASDAQ.

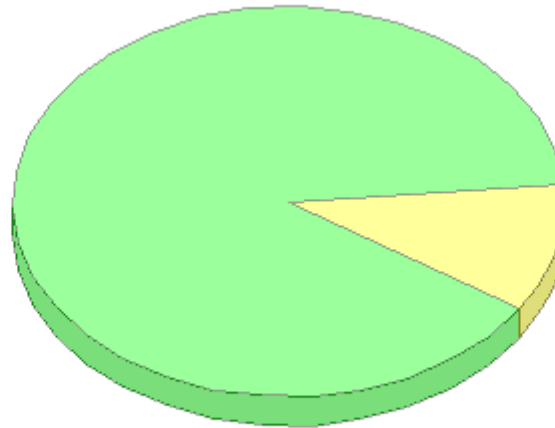
Although we have downgraded our rating, we believe that in the long-term the Company may be poised for profitable growth. We will re-evaluate our rating if:

- 1) Management successfully tackles near-term concerns, such as filing its SEC filings on a timely basis;
- 2) The Company continues to achieve solid top-line growth and successfully manages this growth; and
- 3) Its capital expenditure and financing programs are effectively put into place and bear fruit.

CTI Industries Corp.



Taglich Brothers' Current Rating Distribution



89.36 % Buy | 10.64 % 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.

Not rated

There is too much uncertainty in the Company's finances or business model for us to currently form an investment conclusion.

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.

Public Companies Mentioned in this Report:

J.C. Penney (NYSE: JCP)

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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 Model
For Year Ended
(In thousands)

	FY12/00A	FY12/01A	FY12/02A	FY12/03E
Net sales	\$ 22,978	\$ 27,447	\$ 41,237	\$ 45,851
Cost of sales	<u>16,375</u>	<u>19,835</u>	<u>32,344</u>	<u>35,729</u>
Gross profit	6,603	7,612	8,893	10,122
Gross margin	28.74%	27.73%	21.57%	22.08%
Operating expenses				
General and administrative	3,585	3,702	4,119	5,144
Selling	1,840	1,760	1,552	1,679
Advertising and marketing	966	1,133	1,671	1,865
Litigation	<u>-</u>	<u>-</u>	<u>105</u>	<u>-</u>
Total operating expenses	<u>6,390</u>	<u>6,595</u>	<u>7,765</u>	<u>8,689</u>
Operating income	213	1,017	\$ 1,445	\$ 1,434
Operating margins	0.93%	3.71%	3.50%	3.13%
EBITDA	1,964	2,683	3,033	\$ 3,174
Other income (expense)				
Interest expense	(1,281)	(1,126)	(832)	(1,100)
Interest income	14	6	3	-
Gain on sale of assets	30	-	-	-
Other	<u>(15)</u>	<u>89</u>	<u>(281)</u>	<u>(100)</u>
Total other expense	<u>(1,252)</u>	<u>(1,031)</u>	<u>(1,110)</u>	<u>(1,200)</u>
			-	-
Pretax income (loss)	(1,039)	(14)	335	234
Pretax margins	-4.52%	-0.05%	0.81%	0.51%
			-	-
Income tax expense (benefit)	<u>107</u>	<u>276</u>	<u>39</u>	<u>64</u>
Tax rate	-10.30%	-1971.43%	11.64%	27.49%
Net income (loss) before minority interest	(1,146)	(290)	296	169
Minority interest	87	58	(6)	-
Net income (loss) for common	<u>\$ (1,059)</u>	<u>\$ (232)</u>	<u>\$ 303</u>	<u>\$ 169</u>
EPS diluted	<u>\$ (0.88)</u>	<u>\$ (0.15)</u>	<u>\$ 0.16</u>	<u>\$ 0.08</u>
Weighted average shares (diluted)	<u>1,208</u>	<u>1,512</u>	<u>1,884</u>	<u>2,130</u>
% of revenue				
Cost of sales	71.26%	72.27%	75.08%	77.92%
General and administrative	15.60%	12.64%	10.58%	11.22%
Selling	8.01%	6.41%	3.70%	3.66%
Advertising and marketing	4.20%	4.13%	4.16%	4.07%
year / year growth				
revenues	23.77%	19.45%	54.91%	11.19%

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>
<u>% of revenue</u>					
Cost of sales	73.31%	73.71%	71.25%	71.05%	72.27%
General and administrative	12.28%	11.90%	12.59%	13.62%	12.64%
Selling	7.01%	6.47%	7.23%	5.17%	6.41%
Advertising and marketing	4.46%	4.46%	4.35%	3.37%	4.13%
<u>year / year growth</u>					
revenues	-13.29%	6.59%	39.19%	20.88%	19.45%

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)E	Q2(6/03)E	Q3(9/03)E	Q4(12/03)E	FY12/03E
Net sales	\$ 10,120	\$ 11,731	\$ 10,782	\$ 13,218	\$ 45,851
Cost of sales	<u>8,170</u>	<u>9,162</u>	<u>8,239</u>	<u>10,158</u>	<u>35,729</u>
Gross profit	1,950	2,570	2,543	3,060	10,122
Gross margin	19.27%	21.91%	23.59%	23.15%	22.08%
Operating expenses					
General and administrative	1,200	1,290	1,200	1,454	5,144
Selling	400	425	404	450	1,679
Advertising and marketing	<u>450</u>	<u>469</u>	<u>450</u>	<u>496</u>	<u>1,865</u>
Total operating expenses	<u>2,050</u>	<u>2,185</u>	<u>2,054</u>	<u>2,400</u>	<u>8,689</u>
Operating income	(100)	385	489	660	\$ 1,434
Operating margins	-0.99%	3.28%	4.53%	5.00%	3.13%
Other income (expense)					
Interest expense	(225)	(275)	(300)	(300)	(1,100)
Other	<u>(25)</u>	<u>(25)</u>	<u>(25)</u>	<u>(25)</u>	<u>(100)</u>
Total other expense	<u>(250)</u>	<u>(300)</u>	<u>(325)</u>	<u>(325)</u>	<u>(1,200)</u>
Pretax income (loss)	(350)	85	164	335	234
Pretax margins	-3.46%	0.73%	1.52%	2.54%	0.51%
Income tax expense (benefit)	<u>-</u>	<u>9</u>	<u>18</u>	<u>37</u>	<u>64</u>
Tax rate	0.00%	11.00%	11.00%	11.00%	27.49%
Net income (loss) before minority interest	(350)	76	146	298	169
Minority interest	-	-	-	-	-
Net income (loss) for common	<u>\$ (350)</u>	<u>\$ 76</u>	<u>\$ 146</u>	<u>\$ 298</u>	<u>\$ 169</u>
EPS diluted	<u>\$ (0.18)</u>	<u>\$ 0.04</u>	<u>\$ 0.07</u>	<u>\$ 0.14</u>	<u>\$ 0.08</u>
Weighted average shares (diluted)	<u>1,918</u>	<u>2,130</u>	<u>2,130</u>	<u>2,130</u>	<u>2,130</u>
% of revenue					
Cost of sales	80.73%	78.09%	76.41%	76.85%	77.92%
General and administrative	11.86%	11.00%	11.13%	11.00%	11.22%
Selling	3.95%	3.62%	3.75%	3.40%	3.66%
Advertising and marketing	4.45%	4.00%	4.17%	3.75%	4.07%
year / year growth					
revenues	3.92%	7.57%	-0.84%	36.00%	11.19%

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

	FY12/01	FY12/02
Assets		
Current Assets		
Cash	\$ 110	\$ 160
Accounts Receivable	4,385	5,385
Inventories	8,458	10,034
Deferred tax assets	291	248
Other	<u>898</u>	<u>311</u>
Total Current Assets	14,143	16,138
Total property and equipment, net	8,700	11,715
Other assets		
Deferred financing costs, net	83	52
Goodwill	1,113	1,113
Deferred tax assets	362	442
Other assets	<u>264</u>	<u>813</u>
Total other assets	<u>1,822</u>	<u>2,419</u>
Total Assets	<u>\$ 24,664</u>	<u>\$ 30,272</u>
Liabilities and Stockholders Equity		
Current liabilities		
Accounts payable	\$ 5,492	\$ 9,581
Over draft	-	113
Line of credit	5,698	5,643
Notes payable- current portion	318	1,743
Accrued liabilities	<u>1,608</u>	<u>1,966</u>
Total current liabilities	13,117	19,045
Long-term liabilities		
Non-current liabilities	2,536	710
Notes payable	3,682	5,016
Subordinated debt	<u>487</u>	<u>-</u>
Total long-term liabilities	6,704	24,771
Minority interest	181	26
Stockholders' equity		
Total stockholders' equity	<u>\$ 4,662</u>	<u>\$ 5,475</u>
Total Liabilities and Stockholders' Equity	<u>\$ 24,664</u>	<u>\$ 30,272</u>
	1,208	1,910