

# Taglich Brothers, Inc.

The Standard of Excellence in the Microcap Market

Member: NASD, SIPC

## Research Note

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

### CTI Industries Corp.

Rating: Not Rated

Luis Martins

### CTIBE – \$1.05 (NASDAQ)

May 16, 2005

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

52-Week Range	\$4.34 – 0.50	Fiscal Year Ends	December
Shares Outstanding- (000)	1,954	Revenues/Share (TTM)	\$19.26
Approximate Float (000)	800	Price/Sales (TTM)	0.1X
Insider Holdings	58.9%	Price/Sales (2004)A	0.1X
Tangible Book Value/Share	\$0.79	Price/Earnings (TTM)	NMF
Price/Tangible book	1.3X	Price/Earnings (2004)A	NMF

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

#### Key Investment Considerations:

*We are not rating the shares of CTI Industries (NASDAQ: CTIBE) due to the level of uncertainty in the financial results of the Company.*

*On May 9, 2005, CTI Industries announced fourth quarter net revenues of \$8.581 million and a net loss of \$2.565 million or \$(1.31) per share. In the same period last year, CTIBE reported revenues \$9.006 million and a net loss of \$0.138 million or \$(0.07) per diluted share. In the 4Q04, the Company recognized a \$1.2 million non-cash income tax expense as compared to an income tax benefit of \$0.461 million in the year ago.*

*At December 31, 2004, CTIBE was not in compliance with a credit facility covenant relating to the ratio of EBITDA to fixed charges, but the lender issued a waiver.*

*At the end of the fourth quarter, the Company had cash and cash equivalents of \$0.526 million, a working capital deficit of \$2.79 million, long-term debt of \$5.12 million, total liabilities of \$24.936 million, and stockholders' equity of \$2.95 million. Due to the losses sustained in the quarter, the Company's net tangible book value per share dropped to around \$0.79 per share.*

*In light of the Company not reporting its fiscal 2004 results until May 9, 2005, only days away from reporting its first quarter results, we believe it prudent to withhold estimates for 2005 until we garner additional visibility into the Company's ability to scale up revenues, improve margins, obtain the necessary cash flow or outside financing to fund and grow its business, and deliver on its strategic plans.*

*\* Please view our disclaimer located on page 8.*

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**Recent Results**

On May 9, 2005, CTI Industries announced results for its fourth quarter of 2004, ended December 31, 2004. The Company reported net revenues of \$8.581 million and a net loss of \$2.565 million or \$(1.31) per share. In the same period last year, CTIBE reported revenues \$9.006 million and a net loss of \$0.138 million or \$(0.07) per diluted share.

In comparison, Taglich Brothers had estimated net sales of \$8.4 million and a net loss of \$0.315 million or \$(0.16) per share.

On an operating basis, CTIBE reported a loss of \$1.131 million, as compared to income of \$0.653 million in the year ago period. Additionally, its EBITDA loss increased to \$0.8 million from \$0.1 million.

Investors should note the significant income tax expense as compared to the year ago period. The provision for income taxes of \$1.2 million for the fourth quarter was a non-cash item resulting from management's decision, based on events and circumstances that developed during the fourth quarter, to increase the reserve against the Company's deferred tax asset. It was Management's determination that it cannot assure realization of the deferred tax asset out of future earnings. The Company reported an income tax benefit of \$0.461 million in the year ago.

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

- Gross margin decreased to 5.86% from 11.27%, primarily due to price competition and increased costs;
- Operating expenses were relatively flat at \$1.634 million as compared to \$1.666 million. The following table illustrates operating expenses by major line item:

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

Expense Item	4Q03A	4Q04A
Administrative	995	1169
Selling	409	367
Advertising and Marketing	176	97

- Operating margins declined to -13.2% from -6.5%, primarily due to lower sales and gross margins;
- Interest expense increased to \$0.340 million from \$0.326 million stemming from higher borrowing costs; and
- Miscellaneous items in the quarter resulted in other income of \$0.107 million, as compared to income of \$0.292 million in the year ago period.

*Balance Sheet*

At the end of the fourth quarter, the Company had cash and cash equivalents of \$0.526 million, a working capital deficit of \$2.79 million, long-term debt of \$5.12 million, total liabilities of \$24.936 million, and stockholders' equity of \$2.95 million. Due to the losses sustained in the quarter, the Company's net tangible book value per share dropped to around \$0.79 per share. At December 31, 2003, CTIBE 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.

CTI Industries has a senior loan facility with Cole Taylor Bank of Chicago, Illinois. Under the loan agreement with Cole, CTIBE has both term and revolving loan facilities totaling up to \$11 million, at an interest rate of prime plus 1.5%. The loans are 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. At December 31, 2004, CTIBE was not in compliance with the covenant relating to the ratio of

EBITDA to fixed charges, but the lender issued a waiver. According to the 10K, the Company had an outstanding balance of \$6.401 million under this line of credit.

The Company believes that it has sufficient cash and funding opportunities to meet its operating requirements through January 1, 2006.

### ***Projections***

In light of the Company not reporting its fiscal 2004 results until May 9, 2005, only days away from reporting its first quarter results, we believe it prudent to withhold estimates for 2005 until we garner additionally visibility into the Company's ability to scale up revenues, improve margins, obtain the necessary cash flow or outside financing to fund and grow its business, and deliver on its strategic plans.

We believe that the Company's first quarter results will assist us in developing an intelligent and coherent earnings model for the rest of 2005 and beyond.

### ***Risks***

#### *Balance Sheet*

The Company's balance sheet is highly leveraged. As of the end of the most recent quarter, the Company had a working capital deficit. A significant shortfall in the top-line may negatively impact bottom line results, financial liquidity, and equity value.

The Company's 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.

Investors should also be aware that at the end of the quarter, CTIBE was not in compliance with the covenant relating to the ratio of EBITDA to fixed charges, but the lender issued a waiver. If further non-compliance occurs and the lender does not issue a waiver and the Company is forced to repay outstanding balances, its liquidity could be called into question. The term of this credit facility is for a 2 year period, expiring on December 31, 2005.

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*

Sales to its top 10 customers represented 69.2% of total revenues in 2004. Four customers accounted for approximately 20.1%, 16.8%, 11.7% and 9.2%, respectively, of consolidated net sales. The Company's largest customer for balloons during 2004 was Dollar Tree Stores. Sales to this chain represented \$4.352 million or approximately 11.7% of net sales. The Company's largest customer for commercial film products was Rapak L.L.C., whose purchases from the Company of film products totaled \$7.466 million or about 20.1% of net sales.

CTIBE, 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. Already the Company has publicly stated that two major customers are sharply reducing or virtually eliminating their purchases from the Company.

- The Company had an agreement with Hallmark Cards under which CTIBE:
  - produced balloons of Hallmark designs, and of designs licensed by Hallmark, under authority from Hallmark,
  - sold such balloons, as well as latex balloons, to Hallmark for resale by Hallmark, and

- sold and distributed these balloon designs to customers in the United States.

This arrangement and the agreements related to it expired and were terminated on March 31, 2005. The Company continues to sell balloons bearing these designs from its inventory during an 18 month sell-off period. During 2004, the Company's total sales of metalized and latex balloons to Hallmark were \$3.421 million or approximately 9.2% of net sales. The Company does not anticipate significant sales revenue to Hallmark after March 31, 2005.

- During 2004, the Company had total revenues from the sale of film products and storage bags to ITW Spacebag in the amount of \$6.266 million or 16.8% of net sales. The Company's agreement with ITW Spacebag expires in October 2005. ITW Spacebag had agreed to purchase 65% of its requirements for film for Spacebags, provided that the Company's pricing for the film is competitive. The Company is currently involved in discussions with ITW Spacebag to extend this agreement through 2005 and beyond. Sales to this customer for 2005 are expected to be at levels similar to, or slightly lower than, for 2004.

CTIBE'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.

#### *Dilution/Funding Risk*

In 2004, the Company entered into a standby equity distribution agreement with Cornell Capital Partners, which calls for the Company to sell Cornell Capital Partners up to \$5.0 million worth of common stock at 100% of the market price. If CTIBE taps this facility, it will likely cause existing shareholders to suffer dilution. There are limitations on the amount of funds the Company can obtain in a given period under the equity facility.

If the Company requires capital it may be forced to secure additional outside financing. There is no assurance that it will obtain such financing, or that financing will be available on favorable terms. According to the most recent SEC filings, officers of CTIBE have expressed and showed a willingness to supplement cash flows.

#### *Shares Outstanding*

CTIBE 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 a \$0.05 per share change in EPS.

#### *Unknown Financial Items*

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

#### *International Operations*

CTIBE has operations in the United Kingdom and Mexico. Through its majority owned, Flexo Universal, CTIBE operates a facility in Guadalajara, Mexico which incorporates 43,000 square feet of production, printing, warehouse and office space. Through its wholly-owned subsidiary, CTI Balloons Ltd, the Company conducts warehouse, fulfillment and sales operations in Rugby, United Kingdom for metalized and latex balloons. Sales and fulfillment for all of the United Kingdom, Europe and the Middle East are conducted from this facility. International operations expose the Company to additional risk factors (i.e. currency, legal, and regulatory) that it would not ordinarily be exposed to in the United States.

#### *Competition*

The Company operates in highly competitive and fragmented industries (balloon, novelty industry, and packaging). There are number of competitors that may have greater resources than CTIBE.

*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.

*Federal Reserve*

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

*Liquidity*

The shares of CTIBE 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 43,000 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.

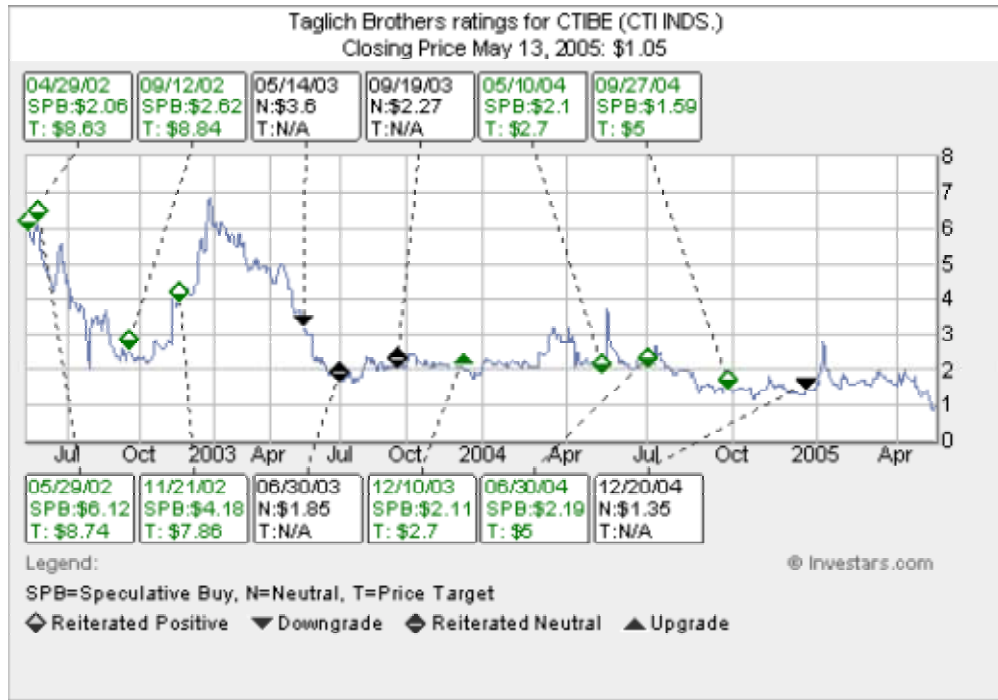
***Conclusion***

**We are not rating the shares of CTI Industries (NASDAQ: CTIBE) due to the level of uncertainty in the financial results of the Company.**

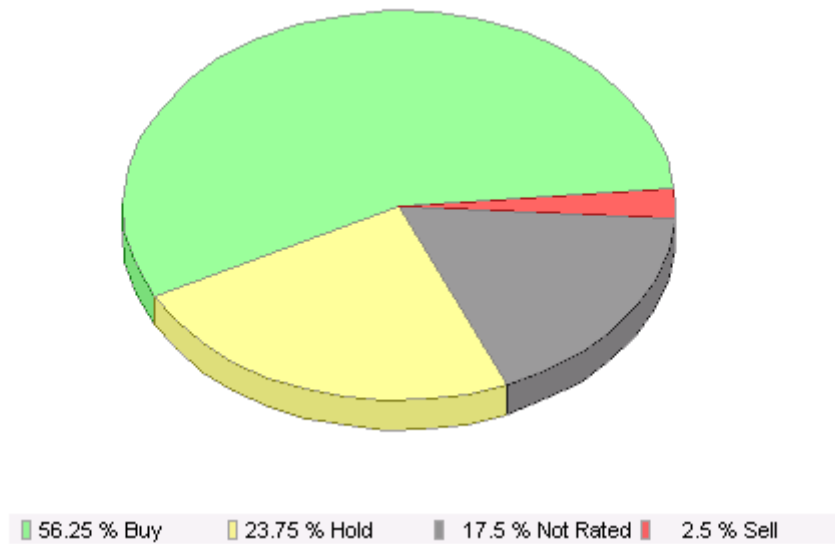
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Taglich Brothers' Current Rating Distribution



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)

	FY12/01A	FY12/02A	FY12/03A	FY 12/04A
Net sales	\$ 27,447	\$ 41,237	\$ 36,260	\$ 37,193
Cost of sales	<u>19,835</u>	<u>32,344</u>	<u>29,627</u>	<u>30,841</u>
Gross profit	7,612	8,893	6,633	6,352
Gross margin	27.73%	21.57%	18.29%	17.08%
Operating expenses				
General and administrative	3,702	4,119	4,054	4,411
Selling	1,760	1,552	1,442	1,495
Advertising and marketing	1,133	1,671	1,816	1,014
Litigation	-	105	-	-
Total operating expenses	<u>6,595</u>	<u>7,765</u>	<u>7,312</u>	<u>6,921</u>
Operating income	1,017	1,445	(679)	(567)
Operating margins	3.71%	3.50%	-1.87%	-1.52%
EBITDA	2,683	3,033	940	1,082
		13%	-69.0%	15.1%
Other income (expense)				
Interest expense	(1,126)	(832)	(1,103)	(1,350)
Interest income	6	3	13	-
Gain on sale of assets	-	-	28	122
Other	89	(281)	392	604
Total other expense	<u>(1,031)</u>	<u>(1,110)</u>	<u>(670)</u>	<u>(624)</u>
		-	-	-
Pretax income (loss)	(14)	335	(1,349)	(1,192)
Pretax margins	-0.05%	0.81%	-3.72%	-3.20%
		-	-	-
Income tax expense (benefit)	<u>276</u>	<u>39</u>	<u>(783)</u>	<u>1,286</u>
Tax rate	-1971.43%	11.64%	58.04%	-107.89%
Net income (loss) before minority interes	(290)	296	(567)	(2,478)
Minority interest	58	(6)	(0)	1
Net income (loss) for common	<u>\$ (232)</u>	<u>\$ 303</u>	<u>\$ (566)</u>	<u>\$ (2,479)</u>
EPS diluted	<u>\$ (0.15)</u>	<u>\$ 0.16</u>	<u>\$ (0.30)</u>	<u>\$ (1.28)</u>
Weighted average shares (diluted)	<u>1,512</u>	<u>1,884</u>	<u>1,918</u>	<u>1,931</u>
<u>% of revenue</u>				
Cost of sales	72.27%	75.08%	81.71%	82.92%
General and administrative	12.64%	10.58%	11.18%	11.86%
Selling	6.41%	3.70%	3.98%	4.02%
Advertising and marketing	4.13%	4.16%	5.01%	2.73%
<u>year / year growth</u>				
revenues	19.45%	54.91%	-12.07%	2.57%

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  
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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)

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

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

	FY12/03A	1Q04(3/04)A	2Q04(6/04)A	3Q04(9/04)A	FY12/04A
<b>Assets</b>					
<b>Current Assets</b>					
Cash	\$ 330	\$ 331	\$ 421	\$ 407	\$ 526
Accounts Receivable	4,620	6,129	5,468	5,231	6,123
Inventories	9,263	9,169	9,389	9,824	8,349
Deferred tax assets	362	362	362	362	-
Other	859	1,125	1,033	1,318	647
<b>Total Current Assets</b>	<b>15,434</b>	<b>17,116</b>	<b>16,673</b>	<b>17,142</b>	<b>15,645</b>
<b>Total property and equipment</b>	<b>12,208</b>	<b>11,979</b>	<b>11,273</b>	<b>10,916</b>	<b>10,589</b>
<b>Other assets</b>					
Deferred financing costs, net	223	204	176	156	121
Goodwill	1,113	1,113	1,113	1,113	1,113
Deferred tax assets	1,012	803	851	944	175
Other assets	279	354	262	98	245
<b>Total other assets</b>	<b>2,627</b>	<b>2,474</b>	<b>2,402</b>	<b>2,311</b>	<b>1,654</b>
<b>Total Assets</b>	<b>\$ 30,270</b>	<b>\$ 31,569</b>	<b>\$ 30,348</b>	<b>\$ 30,369</b>	<b>\$ 27,888</b>
<b>Liabilities and Stockholders Equity</b>					
<b>Current liabilities</b>					
Accounts payable	\$ 6,799	\$ 6,273	\$ 5,659	\$ 6,208	\$ 6,148
Over draft	341	530	731	707	513
Line of credit	3,694	5,930	5,810	5,785	6,401
Notes payable- current port	2,999	2,529	2,529	2,529	3,561
Accrued liabilities	2,307	2,200	1,922	2,254	1,812
<b>Total current liabilities</b>	<b>16,140</b>	<b>17,462</b>	<b>16,651</b>	<b>17,483</b>	<b>18,435</b>
<b>Long-term liabilities</b>					
Non-current liabilities	1,079	874	1,039	882	1,371
Notes payable	7,830	7,557	7,072	6,519	5,120
<b>Total Liabilities</b>	<b>25,049</b>	<b>25,893</b>	<b>24,762</b>	<b>24,884</b>	<b>24,926</b>
Minority interest	9	10	10	10	10
<b>Stockholders' equity</b>					
<b>Total stockholders' equity</b>	<b>\$ 5,212</b>	<b>\$ 5,666</b>	<b>\$ 5,576</b>	<b>\$ 5,475</b>	<b>\$ 2,951</b>
<b>Total Liabilities and Stockholders' Equity</b>	<b>\$ 30,270</b>	<b>\$ 31,569</b>	<b>\$ 30,348</b>	<b>\$ 30,369</b>	<b>\$ 27,888</b>
	1,918	1,918	1,918	1,954	1,954