

# Taglich Brothers, Inc.

The Standard of Excellence in the Microcap Market

Member: NASD, SIPC

## 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 – \$1.85 (NASDAQ)**

June 30, 2003

	<u>FY2000A</u>	<u>FY2001A</u>	<u>FY2002A</u>	<u>FY2003E</u>	<u>FY2004E</u>
Revenues (Thousands)	\$22,978	\$27,447	\$41,236	\$43,797	\$48,548
EPS (fully diluted)	\$(0.88)	\$(0.15)	\$0.16	\$(0.33)	\$0.06

52-Week Range	\$6.93 – 1.83	Fiscal Year Ends	December
Shares Outstanding- FD (000)	1,918	Revenues/Share (TTM)	\$22.92
Approximate Float (000)	750	Price/Sales (TTM)	0.08X
Insider Holdings	61%	Price/Sales (2004)E	0.08X
Tangible Book Value/Share	\$2.12	Price/Earnings (TTM)	NM
Price/Tangible book	0.9X	Price/Earnings (2004)E	30.8X

*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 Neutral rating and no price target, pending further developments. Our rating is based on concerns relative to: 1) Our estimates for 2003 and 2004, 2) The Company's balance sheet leverage and working capital deficit 3) Valuation, 4) The Company's ability to manage its growth and upgrade its internal control structures and computers systems; and 4) CTIB's failure to file its SEC filings in a timely fashion.*

*1Q03 net sales increased to \$10.16 million from \$9.74 million in last year's first quarter. However, the Company reported a net loss of \$0.7 million or \$(0.36) per share as compared to net income of \$0.37 million or \$0.30 per share in the year ago period.*

*We are lowering our estimates for fiscal 2003 and introducing estimates for 2004. Our revised 2003 projections call for revenues of \$43.8 million and a net loss per share of \$(0.33) per diluted share. We previously projected revenues of \$45.9 million and EPS of \$0.08 per diluted share.*

*The Company disclosed in its 1Q2003 10Q filing that there were deficiencies in its internal controls. As a result, it is adding staff and upgrading its internal control structures and computers systems.*

*At March 31, 2003, CTIB had cash of \$0.718 million, a working capital deficit of \$3.6 million, long-term debt of \$6.8 million (including current portion), and stockholders' equity of \$5.23 million.*

*\* Please view our disclaimer located on page 9.*

**Company Overview**

CTI Industries Corporation (CTIB), through its facilities in Illinois, Mexico, and the United Kingdom, 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**

On May 27, 2003, CTI Industries (CTIB) announced results for its first quarter of 2003. CTIB reported a net loss of \$0.7 million or \$(0.36) per share as compared to net income of \$0.37 million or \$0.30 per share in the year ago period. The Company also reported that:

- ❑ Net sales increased to \$10.16 million from \$9.74 million in last year's first quarter due to increased sales in the Company's metalized balloon segment;

Chart of Actual Revenue and Revenue Growth

Segment	1Q03A	% Change
Laminated and Printed Films	4,187	-16%
Metalized Balloons	4,712	75%
Latex Balloons	992	-31%

- ❑ Gross margins declined to 19.1% from 26.2% due to low margin product sales to two customers in the metalized balloon segment;
- ❑ Operating expenses increased to \$2.250 million from \$1.77 million due to higher administrative, selling and adverting expenses;

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

Expense Item	1Q02A	1Q03A
Administrative	1,002	1,259
Selling	375	402
Advertising and Selling	456	589

- ❑ Operating margins declined to -3.1% from 8.1%; and
- ❑ Interest and other expenses increased to \$0.345 million from \$0.142 million due to increased borrowings and currency exchange losses stemming from its Mexican operations.

In comparison, Taglich Brothers had estimated that the Company would post net sales of \$10.12 million and a net loss of \$0.35 million or \$(0.18) per share. Gross margins, operating margins, and net margins were also below our expectations.

Chart of Actual and Expected Margins

Margin	1Q02A	1Q03A	1Q03E
Gross Margin	26.2%	19.1%	19.3%
Operating Margin	8.1%	-3.1%	-1.0%
Net Margin	3.8%	-6.8%	-3.5%

*Balance Sheet*

At March 31, 2003, CTIB had cash of \$0.718 million, a working capital deficit of \$3.6 million, long-term debt of \$6.8 million, total liabilities of \$26.55 million, and stockholders' equity of \$5.23 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. During 1Q03, \$2.3 million of long-term debt maturing in January 2004 was re-classified as short-term debt. However, the maturity may be extended for another year.

We continue to be concerned with the Company's balance sheet due to substantial leverage and lack of significant liquidity. Nevertheless, Management disclosed in its 10Q filing that it believes that the Company has sufficient resources to meet the Company's capital and operating requirements for the next 12-months.

*Recent Financings*

In February and March 2003, two members of Management (Stephen Merrick and John Schwan) entered into agreements to loan \$1.630 million to CTIB. These funds were to be used to re-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.

Additionally, in March and April 2003, the Company borrowed an additional \$0.69 million at 9% per annum from an officer. However, only \$0.395 million was received by March 31, 2003.

Subsequent to the end of the quarter, the Company entered into a \$2.912 million secured mortgage note with a bank to refinance an outstanding promissory note of \$2.638 million. The new note bears interest at 6.25% and is secured by CTIB's Illinois property. The terms of the note also call for the Company to pay \$19,209 per month and make a final payment on May 5, 2008.

**Outlook**

Although the Company will likely continue to face challenges (relative to gross margins and managing its operating expense and balance sheet), we are forecasting continued revenue improvement in 2003 and 2004. We are estimating revenue growth of 6.2% and 10.9% in 2003 and 2004, respectively: Our growth estimates are based on the following estimates for revenue and revenue growth:

Chart of Estimated 2003 and 2004 Revenues by Segment (\$ 000's)

Segment	FY2003E	FY2004E
Films	21,583	24,281
Metalized	17,922	19,911
Latex	4,292	4,356

Chart of Estimated 2003 and 2004 Revenues Growth by Segment

Segment	FY2003E	FY2004E
Films	10.0%	12.5%
Metalized	9.3%	11.1%
Latex	-17.8%	1.5%

## ***Projections***

**We are lowering our estimates for fiscal 2003 and introducing 2004 estimates.** For fiscal 2003, our revised projections call for revenues of \$43.8 million and a net loss of \$0.64 million or \$(0.33) per diluted share. We previously projected revenues of \$45.9 million and net income of \$0.169 million or \$0.08 per diluted share. Our 2004 estimates call for revenues of \$48.5 million and net income of \$0.126 million or \$0.06 per share. Our estimates are based on the following assumption:

- Increased revenues (as discussed in the outlook section) driven by increased sales to major customers, such as Hallmark;
- Stable gross margins. We believe that year-over year gross margins will be flat due to the offsetting factors - improved manufacturing efficiencies and productivity versus lower margin product sales to major customers;
- Increased operating expenses due to increased costs associated with growth. We are forecasting operating expenses of \$8.6 million and \$9.0 million in fiscal 2003 and 2004, respectively;
- Operating margins of 1.54% and 2.98% in 2003 and 2004, respectively; and
- Interest expense of \$1.03 million and \$1.2 million.

## ***Risks***

### *Timeliness of SEC filings*

The Company did not file its 2002 10K and its 1Q 2003 10Q in a timely fashion. As a result, the shares faced possible delisting from the NASDAQ. If the shares were to be de-listed, 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 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.

### *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. The Company disclosed in its 1Q 2003 10Q filing that there are deficiencies in its internal controls, particularly in its accounting department. As a result, Management added three members to its accounting departments and is seeking an additional employee. Also, the Company will be upgrading its internal control structures and computers systems. We believe that these are necessary steps; however, additional staff and upgrades will increase the Company's cost structure and adversely impact financial results.

### *Economic Risk*

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. 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 lower revenues, margins, and income.

#### *Shares*

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

#### *International Operations*

CTIB has operations in the United Kingdom and Mexico. These operations expose to the Company to additional risk factors that it would not ordinarily be exposed to in the United States. During the first quarter of 2003, CTIB incurred a currency fluctuation loss of \$0.109 million. This compared to a gain of \$0.037 million in the year-ago period.

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 manufacturing, office, and warehouse space in Guadalajara, Mexico. We believe that this transaction was consummated to improve the Company's Mexican operations. However, there can be no assurance that the Company will be able to improve its operations.

#### *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.

#### *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.

#### *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;
- 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.

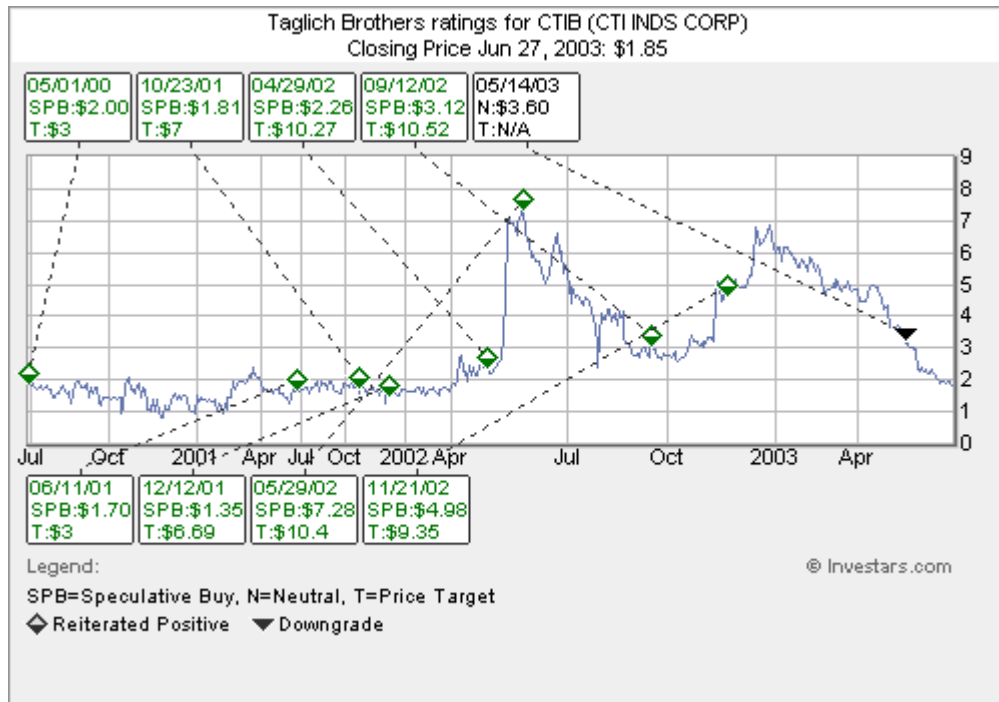
**Conclusion**

Although the Company continues to report revenue increases and improved production and margins, we are maintaining our Neutral rating on the shares of CTI Industries Corp.

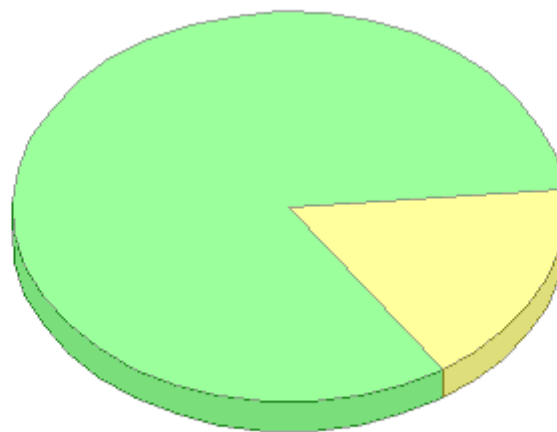
Our rating will be maintained at Neutral until the following concerns are alleviated:

- Our decreased estimates for 2003, which project the Company to report a net loss per share of \$(0.33) per share;
- Our estimates for 2004, which project CTIB to be only marginally profitable;
- Valuation. The shares are trading at a price to estimated 2004 EPS multiple of 30.8X;
- The Company's balance sheet leverage and working capital deficit;
- The Company's ability to successfully upgrade its internal control structures and computers systems; and
- CTIB's failure to file its SEC filings in a timely fashion.

CTI Industries Corp.



Taglich Brothers' Current Rating Distribution



82.98 % Buy 17.02 % 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.**

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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)

	<b>FY12/00A</b>	<b>FY12/01A</b>	<b>FY12/02A</b>	<b>FY12/03E</b>	<b>FY12/04E</b>
Net sales	\$ 22,978	\$ 27,447	\$ 41,237	\$ 43,797	\$ 48,548
Cost of sales	<u>16,375</u>	<u>19,835</u>	<u>32,344</u>	<u>34,509</u>	<u>38,076</u>
Gross profit	6,603	7,612	8,893	9,288	10,473
Gross margin	28.74%	27.73%	21.57%	21.21%	21.57%
Operating expenses					
General and administrative	3,585	3,702	4,119	4,684	4,978
Selling	1,840	1,760	1,552	1,648	1,627
Advertising and marketing	<u>966</u>	<u>1,133</u>	<u>1,671</u>	<u>2,281</u>	<u>2,424</u>
Total operating expenses	<u>6,390</u>	<u>6,595</u>	<u>7,765</u>	<u>8,613</u>	<u>9,028</u>
Operating income	213	1,017	1,445	675	1,444
Operating margins	0.93%	3.71%	3.50%	1.54%	2.98%
Other income (expense)					
Interest expense	(1,281)	(1,126)	(832)	(1,027)	(1,200)
Interest income	14	6	3	-	-
Gain on sale of assets	30	-	-	-	-
Other	<u>(15)</u>	<u>89</u>	<u>(281)</u>	<u>(248)</u>	<u>(100)</u>
Total other expense	<u>(1,252)</u>	<u>(1,031)</u>	<u>(1,110)</u>	<u>(1,275)</u>	<u>(1,300)</u>
Pretax income (loss)	(1,039)	(14)	335	(600)	144
Pretax margins	-4.52%	-0.05%	0.81%	-1.37%	0.30%
Income tax expense (benefit)	<u>107</u>	<u>276</u>	<u>39</u>	<u>41</u>	<u>19</u>
Tax rate	-10.30%	-1971.43%	11.64%	-6.84%	12.86%
Net income (loss) before minority interes	(1,146)	(290)	296	(642)	126
Minority interest	87	58	(6)	(2)	-
Net income (loss) for common	<u>\$ (1,059)</u>	<u>\$ (232)</u>	<u>\$ 303</u>	<u>\$ (640)</u>	<u>\$ 126</u>
EPS diluted	<u>\$ (0.88)</u>	<u>\$ (0.15)</u>	<u>\$ 0.16</u>	<u>\$ (0.33)</u>	<u>\$ 0.06</u>
Weighted average shares (diluted)	<u>1,208</u>	<u>1,512</u>	<u>1,884</u>	<u>1,918</u>	<u>2,130</u>
% of revenue					
Cost of sales	71.26%	72.27%	75.08%	78.79%	78.43%
General and administrative	15.60%	12.64%	10.58%	10.69%	10.25%
Selling	8.01%	6.41%	3.70%	3.76%	3.35%
Advertising and marketing	4.20%	4.13%	4.16%	5.21%	4.99%
year / year growth					
revenues	23.77%	19.45%	54.91%	6.21%	10.85%

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)E	Q3(9/03)E	Q4(12/03)E	FY12/03E
Net sales	\$ 10,162	\$ 11,093	\$ 10,296	\$ 12,246	\$ 43,797
Cost of sales	<u>8,225</u>	<u>8,767</u>	<u>7,971</u>	<u>9,547</u>	<u>34,509</u>
Gross profit	1,937	2,326	2,325	2,699	9,288
Gross margin	19.06%	20.97%	22.58%	22.04%	21.21%
Operating expenses					
General and administrative	1,259	1,100	1,050	1,275	4,684
Selling	402	410	386	450	1,648
Advertising and marketing	<u>589</u>	<u>555</u>	<u>537</u>	<u>600</u>	<u>2,281</u>
Total operating expenses	<u>2,250</u>	<u>2,065</u>	<u>1,974</u>	<u>2,325</u>	<u>8,613</u>
				\$	-
Operating income	(313)	261	352	374	\$ 675
Operating margins	-3.08%	2.36%	3.42%	3.06%	1.54%
Other income (expense)					
Interest expense	(202)	(275)	(275)	(275)	(1,027)
Other	<u>(143)</u>	<u>(35)</u>	<u>(35)</u>	<u>(35)</u>	<u>(248)</u>
Total other expense	<u>(345)</u>	<u>(310)</u>	<u>(310)</u>	<u>(310)</u>	<u>(1,275)</u>
					-
Pretax income (loss)	(658)	(49)	42	64	(600)
Pretax margins	-6.48%	-0.44%	0.41%	0.53%	-1.37%
					-
Income tax expense (benefit)	<u>34</u>	<u>-</u>	<u>-</u>	<u>7</u>	<u>41</u>
Tax rate	-5.17%	0.00%	0.00%	11.00%	-6.84%
Net income (loss) before minority interest	(692)	(49)	42	57	(642)
Minority interest	(2)	-	-	-	(2)
Net income (loss) for common	<u>\$ (690)</u>	<u>\$ (49)</u>	<u>\$ 42</u>	<u>\$ 57</u>	<u>\$ (640)</u>
EPS diluted	<u>\$ (0.36)</u>	<u>\$ (0.03)</u>	<u>\$ 0.02</u>	<u>\$ 0.03</u>	<u>\$ (0.33)</u>
Weighted average shares (diluted)	<u>1,918</u>	<u>1,918</u>	<u>2,130</u>	<u>2,130</u>	<u>1,918</u>
%					
% of revenue					
Cost of sales	80.94%	79.03%	77.42%	77.96%	78.79%
General and administrative	12.39%	9.92%	10.20%	10.41%	10.69%
Selling	3.96%	3.70%	3.75%	3.67%	3.76%
Advertising and marketing	5.80%	5.00%	5.22%	4.90%	5.21%
year / year growth					
revenues	4.35%	1.71%	-5.30%	26.00%	6.21%

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	FY12/04E
Net sales	\$ 11,322	\$ 12,366	\$ 12,025	\$ 12,836	\$ 48,548
Cost of sales	<u>8,909</u>	<u>9,685</u>	<u>9,404</u>	<u>10,077</u>	<u>38,076</u>
Gross profit	2,412	2,680	2,621	2,759	10,473
Gross margin	21.31%	21.68%	21.80%	21.49%	21.57%
Operating expenses					
General and administrative	1,132	1,286	1,251	1,309	4,978
Selling	385	396	397	449	1,627
Advertising and marketing	<u>594</u>	<u>618</u>	<u>601</u>	<u>610</u>	<u>2,424</u>
Total operating expenses	<u>2,111</u>	<u>2,300</u>	<u>2,249</u>	<u>2,368</u>	<u>9,028</u>
Operating income	301	380	373	391	\$ 1,444
Operating margins	2.66%	3.08%	3.10%	3.04%	2.98%
Other income (expense)					
Interest expense	(300)	(300)	(300)	(300)	(1,200)
Other	<u>(25)</u>	<u>(25)</u>	<u>(25)</u>	<u>(25)</u>	<u>(100)</u>
Total other expense	<u>(325)</u>	<u>(325)</u>	<u>(325)</u>	<u>(325)</u>	<u>(1,300)</u>
					-
Pretax income (loss)	(24)	55	48	66	144
Pretax margins	-0.22%	0.45%	0.40%	0.51%	0.30%
					-
Income tax expense (benefit)	<u>-</u>	<u>6</u>	<u>5</u>	<u>7</u>	<u>19</u>
Tax rate	0.00%	11.00%	11.00%	11.00%	12.86%
Net income (loss) for common	<u>\$ (24)</u>	<u>\$ 49</u>	<u>\$ 42</u>	<u>\$ 58</u>	<u>\$ 126</u>
EPS diluted	<u>\$ (0.01)</u>	<u>\$ 0.02</u>	<u>\$ 0.02</u>	<u>\$ 0.03</u>	<u>\$ 0.06</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	78.69%	78.32%	78.20%	78.51%	78.43%
General and administrative	10.00%	10.40%	10.40%	10.20%	10.25%
Selling	3.40%	3.20%	3.30%	3.50%	3.35%
Advertising and marketing	5.25%	5.00%	5.00%	4.75%	4.99%
year / year growth					
revenues	11.41%	11.48%	16.79%	4.81%	10.85%
net margin	NM	NM	1.36%	2.07%	NM
EPS	NM	NM	1.36%	2.07%	NM

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

	FY12/01A	FY12/02A	Q1(3/03)A
<b>Assets</b>			
<b>Current Assets</b>			
Cash	\$ 110	\$ 160	\$ 718
Accounts Receivable	4,385	5,385	6,217
Inventories	8,458	10,034	10,350
Deferred tax assets	291	248	480
Other	<u>898</u>	<u>311</u>	<u>741</u>
<b>Total Current Assets</b>	<b>14,143</b>	<b>16,138</b>	<b>18,506</b>
<b>Total property and equipment, net</b>	<b>8,700</b>	<b>11,715</b>	<b>11,630</b>
<b>Other assets</b>			
Deferred financing costs, net	83	52	36
Goodwill	1,113	1,113	1,113
Deferred tax assets	362	442	259
Other assets	<u>264</u>	<u>813</u>	<u>258</u>
<b>Total other assets</b>	<b><u>1,822</u></b>	<b><u>2,419</u></b>	<b><u>1,666</u></b>
<b>Total Assets</b>	<b><u>\$ 24,664</u></b>	<b><u>\$ 30,272</u></b>	<b><u>\$ 31,802</u></b>
<b>Liabilities and Stockholders Equity</b>			
<b>Current liabilities</b>			
Accounts payable	\$ 5,492	\$ 9,581	\$ 10,223
Over draft	-	113	-
Line of credit	5,698	5,643	6,182
Notes payable- current portion	318	1,743	3,014
Accrued liabilities	<u>1,608</u>	<u>1,966</u>	<u>2,675</u>
<b>Total current liabilities</b>	<b>13,117</b>	<b>19,045</b>	<b>22,094</b>
<b>Long-term liabilities</b>			
Non-current liabilities	2,536	710	671
Notes payable	3,682	5,016	3,784
Subordinated debt	<u>487</u>	<u>-</u>	<u>-</u>
<b>Total Liabilities</b>	<b>19,822</b>	<b>24,771</b>	<b>26,549</b>
Minority interest	181	26	23
<b>Stockholders' equity</b>			
<b>Total stockholders' equity</b>	<b><u>\$ 4,662</u></b>	<b><u>\$ 5,475</u></b>	<b><u>\$ 5,230</u></b>
<b>Total Liabilities and Stockholders' Equity</b>	<b><u>\$ 24,664</u></b>	<b><u>\$ 30,272</u></b>	<b><u>\$ 31,802</u></b>
	1,208	1,910	1,918