

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 \$4.17 (NASDAQ)

September 18, 2007

	<u>FY2004A</u>	<u>FY2005A</u>	<u>FY2006A</u>	<u>FY2007E</u>	<u>FY2008E</u>
Revenues (Thousands)	\$37,193	\$29,190	\$35,428	\$36,438	\$39,095
EPS (fully diluted)	\$(1.28)	\$(0.17)	\$0.36*	\$0.38	\$0.46

52-Week Range	\$10.39 – 2.88	Fiscal Year Ends	December
Shares Outstanding	2.3 million	Revenues/Share (TTM)	\$15.57
Approximate Float	1.2 million	Price/Sales (TTM)	0.3X
Market Capitalization	\$10 million	Price/Sales (2008)E	0.4X
Tangible Book Value/Share	\$2.19	Price/Earnings (TTM)	9.9X
Price/Tangible book	1.9X	Price/Earnings (2008)E	9.1X

*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 upgrading our rating on CTI Industries (NASDAQ: CTIB) to a Speculative Buy from a Neutral and establishing a 12-month price target of \$7.00 per share.

During the second quarter of 2007, the Company commenced marketing and sales efforts for a new line of zippered vacuum pouches (ZipVac) directed to the sportsman market. In August 2007, the Company received a purchase order from one retail chain and indications of interest from several others.

On August 15, 2007, CTI Industries reported 2Q07 net revenues of \$9.3 million and net income of \$0.423 million or \$0.17 per share. In the year ago period, CTIB reported revenues of \$9.0 million and net income of \$0.206 million or \$0.09 per share. In comparison, Taglich Brothers' estimates called for revenues of \$9.2 million and net income of \$0.144 million or \$0.06 per share.

We are adjusting our estimates for fiscal 2007 primarily due to recent results and a re-evaluation of the Company's near-term prospects. Our revised 2007 estimates call for revenues of \$36.4 million and net income \$0.955 million or \$0.38 per share. Our prior estimates called for revenues of \$36.9 million and net income \$0.463 million or \$0.18 per share.

Through June 30, 2007, CTIB had received \$0.599 million in net proceeds for an aggregate of 140,223 common shares issued under a SEDA with Cornell Capital.

** 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).

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 Developments

During the second quarter of 2007, the Company:

- Commenced marketing and sales efforts for a new line of zippered vacuum pouches directed to the sportsman market which is being offered under the name and trademark ZipVac™. The product line includes a package containing three quart and two gallon zippered vacuum pouches, a hand pump, and a battery operated pump. Additional pouches are offered in a separate container. The pouches are intended

Taglich Brothers, Inc.

for use in the storage and vacuum sealing of food and other items to protect against exposure and to extend freshness or useful life;

- Engaged in a development and evaluation program for zippered vacuum bags with a consumer products company and have produced and sold some pouches to this company as a part of the evaluation program; and
- Purchased three pouch converting machines for the production of zippered vacuum pouches. Also, CTIB installed one of those machines and commenced production on that machine. Based upon the level of orders placed for these products or commitments received, CTIB may purchase additional pouch converting machines.

During August 2007, the Company received a purchase order (for the ZipVac line) from one retail chain and indications of interest from several others. Management anticipates sales and deliveries of the ZipVac line will commence in the third quarter of 2007.

Recent Results

On August 15, 2007, CTI Industries reported results for its second quarter, ended June 30, 2007. The Company reported net revenues of \$9.3 million and net income of \$0.423 million or \$0.17 per share. In the year ago period, CTIB reported revenues of \$9.0 million and net income of \$0.206 million or \$0.09 per share.

In comparison, Taglich Brothers' estimates called for revenues of \$9.2 million and net income of \$0.144 million or \$0.06 per share.

The increase in revenues was primarily attributed to higher sales of latex balloons. The following chart illustrates revenue mix.

Actual Revenues (\$ 000's)		
Revenue Item	2Q06A	2Q07A
Metalized Balloons	4,583	4,114
Films	2,099	1,960
Pouches	902	1,302
Latex Balloons	1,135	1,607
Helium/other	278	276

On an operating basis, CTIB reported income of \$0.826 million, as compared to \$0.603 million in the year ago period. Additionally, EBITDA increased to \$1.2 million from \$1.0 million.

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

- Gross margin increased to 29.6%, resulting in gross profits of \$2.7 million, as compared to gross margin of 24.4% and gross profits of \$2.2 million in the year ago period. This improvement in gross margin resulted from:
 - A change in product mix in which a larger percentage of sales were higher margin pouch products;
 - New sales in the novelty product group at a margin higher than historical levels; and
 - Higher margins at its foreign subsidiaries.
- Operating expenses increased to \$1.9 million, as compared to \$1.6 million primarily due to higher G&A expenses associated with additions to administrative staff, compensation rate adjustments for existing staff, increases in travel expenses related to pouch project, and consulting fees relating to financial reporting and general management;

- Operating margins increased to 8.9% from 6.7%, primarily due to higher revenues and gross margin. The following table illustrates operating expenses by major line item:

Actual Operating Expenses (\$ 000's)		
Expense Item	2Q06A	2Q07A
Administrative	1,092	1,297
Selling	234	225
Advertising and Marketing	267	396

- Interest expense decreased to \$0.297 million from \$0.440 million stemming from lower borrowing costs; and
- Miscellaneous items in the quarter resulted in other income of \$0.044 million, as compared to \$0.051 million in the year ago period.

Balance Sheet

At June 30, 2007, CTIB had cash of \$0.529 million, working capital of \$2.565 million, long-term liabilities of \$6.367 million, and stockholders' equity of \$6.264 million. 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 June 30, 2007, the outstanding balance on its revolving line of credit was \$5.9 million at an interest rate of 8.5%. 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 recent results (revenues, margins, and profits) and a re-evaluation of the Company's near-term prospects. We are also introducing estimates for 2008.

Our revised full year estimates call for 2007 revenues of \$36.4 million and net income \$0.955 million or \$0.38 per share. Our prior estimates called for revenues of \$36.9 million and net income \$0.463 million or \$0.18 per share.

Based on our assumptions, we are projecting that the Company will report EBITDA of \$3.7 million in 2007, as compared to \$3.8 million in fiscal 2006. Previously, we had projected 2007 EBITDA of \$3.4 million.

Our estimates for 2008 call for revenues of \$39.1 million, EBITDA of \$4.1 million, and net income \$1.4 million or \$0.46 per share.

Our forecasts for 2007 and 2008 incorporate the following:

- Modest revenue growth primarily due to recent trends and developments observed over the past quarter, as well as revenues from new products (according to SEC filings, management anticipates sales and deliveries of the ZipVac line will commence in the third quarter of 2007).
- Modest gains in gross margin based on historical margin trends and Management's efforts to improve the Company's cost structure;
- Higher operating expenses based on recent results and Management's comments in the Company's SEC filings.
- Lower interest expense based on recent borrowing trends and interest rate environment;
- Increase in the shares outstanding as the Company taps into the Standby Equity Distribution Agreement (SEDA) with Cornell Capital. As of June 30, 2007, CTIB had received \$0.599 million in net proceeds from the issuance of 140,223 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

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. Between January and June 30, 2007, CTIB received \$0.599 million in net proceeds in exchange for 140,223 shares of common stock.

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 June 30, 2007, the interest rate was prime (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. During the six months ending June 30, 2007, there were three customers whose purchases represented more than 10% of the Company's sales. The sales to each of these customers for the six months ended June 30, 2007 were \$3.340 million or 19.0%, \$3.146 million or 17.9% and \$1.763 million or 10.1% of consolidated net sales, respectively.

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.

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 1.2 million shares and 51,000 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

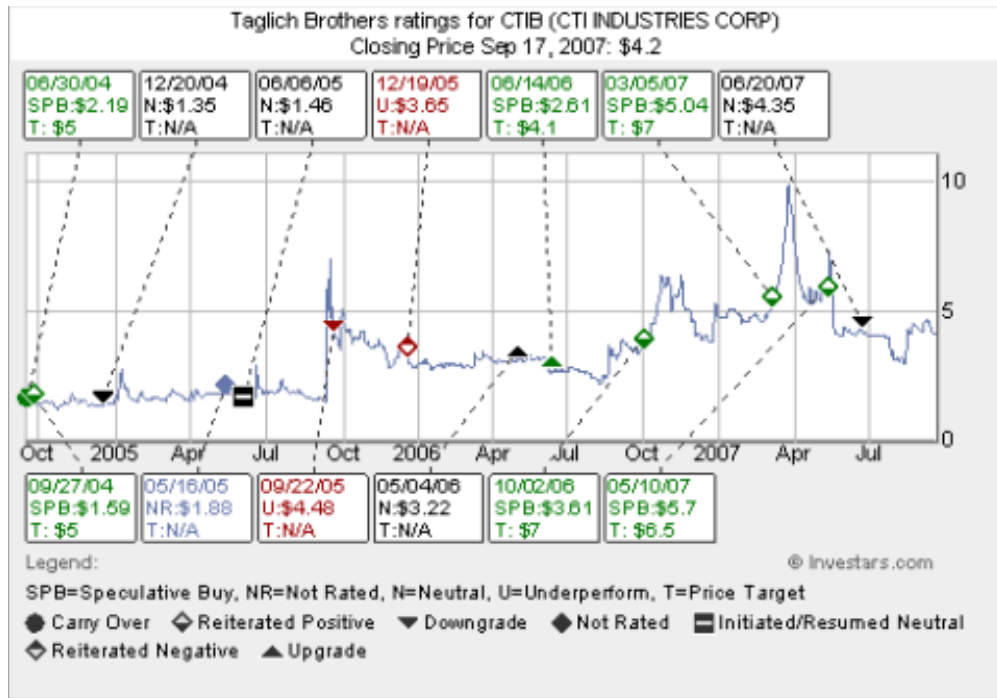
We are upgrading our rating on CTI Industries (NASDAQ: CTIB) to a Speculative Buy from a Neutral and establishing a 12-month price target of \$7.00 per share.

Our upgrade is based on the Company's ability to regain profitability by improving its revenues and margins, as well as our initial outlook for the Company calling for continued growth through 2008.

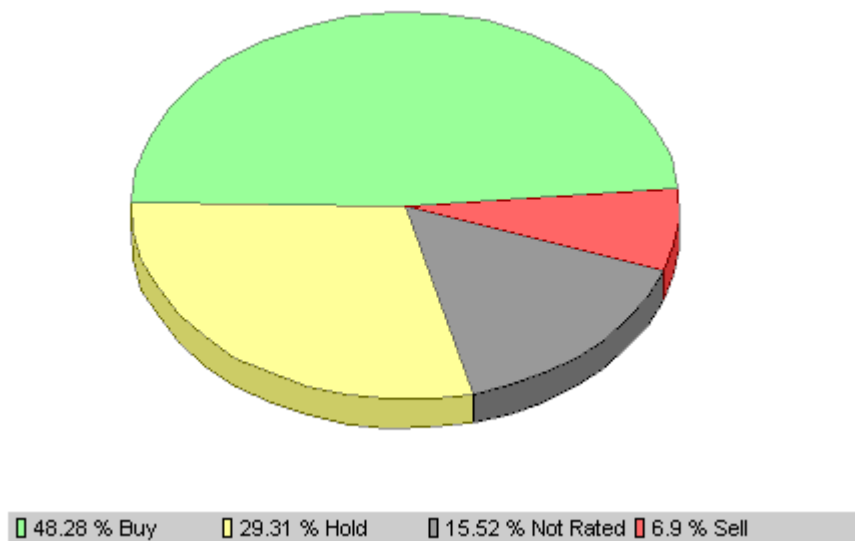
Our price target is based on applying a multiple of 15X to our estimated 2008 EPS of \$0.46 per share. We derived our valuation multiple by discounting by about 30% the Company's projected 2-year compounded annual EPS growth rate of 22.5%.

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	0	0
Hold	1	5.56%
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.

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

* The information and statistical data contained herein have been obtained from sources, which we believe to be reliable but in no way are warranted by us as to accuracy or completeness. We do not undertake to advise you as to change in figures or our views. This is not a solicitation of any order to buy or sell. Taglich Brothers, Inc. is fully disclosed with its clearing firm, Pershing, LLC, is not a market maker and does not sell to or buy from customers on a principal basis. The above statement is the opinion of Taglich Brothers, Inc. and is not a guarantee that the target price for the stock will be met or that predicted business results for the company will occur. There may be instances when fundamental, technical and quantitative opinions contained in this report are not in concert. We, our affiliates, any officer, director or stockholder or any member of their families may from time to time purchase or sell any of the above-mentioned or related securities. Analysts and members of the Research Department are prohibited from buying or selling securities issued by the companies that Taglich Brothers, Inc. has a research relationship with, except if ownership of such securities was prior to the start of such relationship, then an analyst or member of the Research Department may sell such securities after obtaining expressed written permission from the Director of Research. As of the date of this report, we, our affiliates, any officer, director or stockholder, or any member of their families do not have a position in the stock of the Company mentioned in this report. All research issued by Taglich Brothers, Inc. is based on public information. Taglich Brothers, Inc. does not currently have an Investment Banking relationship with the company and was not a manager or co-manager of any offering for the company within the last three years. Since February 2000, the company pays a monthly monetary fee of \$1,000 (USD) to Taglich Brothers, Inc. for the creation and dissemination of research reports.

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)

	FY12/04A	FY12/05A	FY12/06A	FY12/07E	FY12/08E
Net sales	\$ 37,193	\$ 29,190	\$ 35,428	\$ 36,438	\$ 39,095
Cost of sales	30,841	22,726	26,531	26,688	28,148
Gross profit	6,352	6,464	8,897	9,750	10,946
Gross margin	17.08%	22.14%	25.11%	26.76%	28.00%
Operating expenses					
General and administrative	4,342	3,847	4,554	5,184	5,500
Selling	1,515	1,065	847	900	1,000
Advertising and marketing	1,167	777	1,200	1,462	1,850
Total operating expenses	6,921	5,813	6,601	7,546	8,350
Operating income	(567)	651	2,296	2,204	2,596
Operating margins	-1.52%	2.23%	6.48%	6.05%	6.64%
Other income (expense)					
Interest expense	(1,350)	(1,231)	(1,711)	(1,230)	(1,200)
Interest income	-	-	19	2	-
Gain on sale of assets	15	-	(144)	-	-
Other	711	45	662	93	-
Total other expense	(624)	(1,186)	(1,173)	(1,135)	(1,200)
Pretax income (loss)	(1,192)	(534)	1,122	1,069	1,396
Pretax margins	-3.20%	-1.83%	3.17%	2.93%	3.57%
Income tax expense (benefit)	1,286	(200)	(774)	115	-
Tax rate	-107.89%	37.45%	-68.96%	10.72%	0.00%
Net income (loss) before minority interes	(2,478)	(334)	1,896	955	1,396
Minority interest	1	-	1	-	-
Net income (loss) for common	\$ (2,479)	\$ (333)	\$ 1,895	\$ 955	\$ 1,396
EPS diluted	\$ (1.28)	\$ (0.17)	\$ 0.85	\$ 0.38	\$ 0.46
Weighted average shares (diluted)	1,931	1,977	2,235	2,510	3,020
<u>% of revenue</u>					
Cost of sales	82.92%	77.86%	74.89%	73.24%	72.00%
General and administrative	11.67%	13.18%	12.85%	14.23%	14.07%
Selling	4.07%	3.65%	2.39%	2.47%	2.56%
Advertising and marketing	3.14%	2.66%	3.39%	4.01%	4.73%
<u>year / year growth</u>					
revenues	2.57%	-21.52%	21.37%	2.85%	7.29%

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)A	Q2 (6/07)A	Q3 (9/07)E	Q4 (12/07)E	FY12/07E
Net sales	\$ 8,279	\$ 9,259	\$ 8,900	\$ 10,000	\$ 36,438
Cost of sales	6,376	6,514	6,497	7,300	26,688
Gross profit	1,903	2,744	2,403	2,700	9,750
Gross margin	22.99%	29.64%	27.00%	27.00%	26.76%
Operating expenses					
General and administrative	1,212	1,297	1,275	1,400	5,184
Selling	206	225	225	244	900
Advertising and marketing	291	396	375	400	1,462
Total operating expenses	1,709	1,918	1,875	2,044	7,546
Operating income	194	826	528	656	2,204
Operating margins	2.34%	8.92%	5.93%	6.56%	6.05%
Other income (expense)					
Interest expense	(337)	(293)	(300)	(300)	(1,230)
Interest income	2				2
Other	52	41	-	-	93
Total other expense	(283)	(252)	(300)	(300)	(1,135)
Pretax income (loss)	(89)	574	228	356	1,069
Pretax margins	-1.07%	-2.67%	-2.67%	-2.67%	2.93%
Income tax expense (benefit)	(36)	151	-	-	115
Tax rate	41.08%	26.31%	0.00%	0.00%	10.72%
Net income (loss) before minority interes	(52)	423	228	356	955
Minority interest	-	-	-	-	-
Net income (loss) for common	\$ (52)	\$ 423	\$ 228	\$ 356	\$ 955
EPS diluted	\$ (0.02)	\$ 0.17	\$ 0.09	\$ 0.13	\$ 0.38
Weighted average shares (diluted)	2,157	2,541	2,600	2,740	2,510
<u>% of revenue</u>					
Cost of sales	77.01%	70.35%	73.00%	73.00%	73.24%
General and administrative	14.64%	14.01%	14.33%	14.00%	14.23%
Selling	2.49%	2.43%	2.53%	2.44%	2.47%
Advertising and marketing	3.51%	4.28%	4.21%	4.00%	4.01%
<u>year / year growth</u>					
revenues	1.51%	2.91%	3.45%	3.39%	2.85%

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

	FY12/05A	FY12/06A	1Q07A	2Q07A
Assets				
Current Assets				
Cash	\$ 262	\$ 385	\$ 466	\$ 529
Accounts Receivable	4,344	6,443	5,998	5,642
Inventories	7,023	7,974	8,234	8,930
Other	<u>707</u>	<u>1,690</u>	<u>1,842</u>	<u>1,980</u>
Total Current Assets	12,335	16,492	16,540	17,081
Total property and equipment, net	9,617	8,592	8,549	8,708
Other assets				
Deferred financing costs, net	74	207	185	165
Goodwill	989	989	989	989
Deferred tax assets	353	101	188	6
Other assets	<u>168</u>	<u>264</u>	<u>228</u>	<u>211</u>
Total other assets	1,584	1,561	1,590	1,371
Total Assets	<u>\$ 23,536</u>	<u>\$ 26,445</u>	<u>\$ 26,679</u>	<u>\$ 27,160</u>
Liabilities and Stockholders Equity				
Current liabilities				
Accounts payable	\$ 4,718	\$ 3,411	\$ 3,527	\$ 3,961
Over draft	500	109	202	179
Line of credit	5,051	6,318	6,221	5,942
Notes payable- current portion	3,567	3,104	3,077	2,993
Accrued liabilities	<u>926</u>	<u>1,702</u>	<u>1,690</u>	<u>1,441</u>
Total current liabilities	14,761	14,644	14,717	14,516
Long-term liabilities				
Non-current liabilities	1,644	1,294	1,229	1,168
Notes payable	<u>4,394</u>	<u>5,593</u>	<u>5,417</u>	<u>5,199</u>
Total Liabilities	20,799	21,531	21,363	20,883
Minority interest	10	13	13	13
Stockholders' equity				
Total stockholders' equity	<u>\$ 2,726</u>	<u>\$ 5,102</u>	<u>\$ 5,303</u>	<u>\$ 6,264</u>
Total Liabilities and Stockholders' Equity	<u>\$ 23,536</u>	<u>\$ 26,645</u>	<u>\$ 41,396</u>	<u>\$ 27,160</u>
	2,036	2,142	2,221	2,334

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

	<u>FY2005A</u>	<u>FY2006A</u>	<u>6M07A</u>
<i>Cash Flows from Operating Activities</i>			
Net Income	\$ (333)	\$ 1,895	\$ 371
Depreciation & Amortization	1,480	1,424	721
Other	237	104	15
Deferred Income Tax	(200)	(774)	115
Write-off aand disposals	<u>474</u>	<u>95</u>	<u>54</u>
	1,658	2,744	1,276
<i>Changes In:</i>			
Receivables	1,681	(2,440)	722
Inventories	1,130	(1,063)	(924)
Prepaid Expense	167	106	(20)
Accounts Payable	(825)	(1,352)	542
Accrued Expenses & Other	<u>(1,151)</u>	<u>652</u>	<u>(383)</u>
Net Changes in Working Capital	<u>1,002</u>	<u>(4,097)</u>	<u>(63)</u>
Net cash Provided by Operations	<u>2,659</u>	<u>(1,353)</u>	<u>1,213</u>
<i>Cash Flows from Investing Activities</i>			
Capital Expenditures	(551)	(553)	(785)
Sale of PPE	<u>151</u>	<u>-</u>	<u>-</u>
Net cash used in Investing	<u>(400)</u>	<u>(553)</u>	<u>(785)</u>
<i>Cash Flows from Financing Activities</i>			
Proceeds from stock	54	101	676
Proceeds from Borrowings	231	3,915	-
Payments of Long-term debt	(2,602)	(1,323)	(1,025)
Other	<u>(155)</u>	<u>(646)</u>	<u>61</u>
Net cash provided by Financing	<u>(2,474)</u>	<u>2,045</u>	<u>(289)</u>
Exchange rate effect	<u>(49)</u>	<u>(17)</u>	<u>5</u>
Net change in Cash	(264)	122	144
Cash Beginning of Period	<u>526</u>	<u>262</u>	<u>385</u>
Cash End of Period	<u>\$ 262</u>	<u>\$ 385</u>	<u>\$ 529</u>