

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: Speculative Buy

Luis Martins

CTIB – \$1.59 (NASDAQ)

September 27, 2004

	<u>FY2001A</u>	<u>FY2002A</u>	<u>FY2003A</u>	<u>FY2004E</u>	<u>FY2005E</u>
Revenues (Thousands)	\$27,447	\$41,236	\$36,260	\$38,985	\$43,396
EPS (fully diluted)	\$(0.15)	\$0.16	\$(0.30)	\$0.14	\$0.21

52-Week Range	\$4.34 – 1.37	Fiscal Year Ends	December
Shares Outstanding- (000)	1,918	Revenues/Share (TTM)	\$19.25
Approximate Float (000)	800	Price/Sales (TTM)	0.1X
Insider Holdings	58.3%	Price/Sales (2005)E	0.1X
Tangible Book Value/Share	\$2.23	Price/Earnings (TTM)	15.9X
Price/Tangible book	0.7X	Price/Earnings (2005)E	7.6X

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 Speculative Buy rating on shares of CTI Industries (NASDAQ: CTIB) and establishing a 12-month price target of \$2.20 per share. Our prior 12-month price target was \$5.00 per share.

The change in our price target is primarily due to our reduced expectations for 2005. Our revised fiscal 2005 estimates call for EBITDA of \$3.9 million and net income of \$0.458 million or \$0.21 per share. Our previous projections called for EBITDA of \$4.5 million and net income of \$0.893 million or \$0.42 per share.

The stock is trading at relatively low and attractive trailing and forward P/E, P/S, and P/B multiples.

On August 24, 2004, CTI Industries announced second quarter net revenues of \$9.592 million and a net loss of \$0.136 million or \$(0.07) per share. In the same period last year, CTIB reported revenues of \$8.662 million and net income of \$0.133 million or \$0.06 per diluted share.

We are adjusting our estimates for fiscal 2004 and 2005, based on recent and projected operational and financial trends.

In July 2004, the Company entered into an agreement with Cornell Capital for a \$5.0 million standby equity distribution agreement. The two year agreement will allow CTIB to access additional monies for general and special corporate purposes, as well as increase liquidity in the Company's shares.

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

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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, latex balloons, punch balls and other inflatable toy items); and
- Specialty and printed films primarily for food packaging, specialized consumer uses, and various commercial applications.

The Company's products are grouped into three categories, Commercial films/containers, Metalized balloons, and Latex balloons. During 2003, these three categories accounted for 48%, 34%, and 11% of overall sales, respectively. The remaining 7% of revenues were derived from the sale of helium, accessories, and related items. The sales mix in the first six months of 2004 was 36%, 45%, 14%, and 5%, respectively, of total sales.

The Company's product categories are described in more detail below:

Metalized Balloons

Through this product line, CTIB manufactures over 450 balloon designs, including Superloons, Ultraloons, Miniloons, Card-B-Loons, Shape-A-Loons, Minishapes, and Walk-about. Balloons are manufactured in varying shapes and sizes, as well as, printed designs or messages containing well known designs, figures, and licensed characters. The Company maintains many of its own licenses for several characters and under an arrangement with Hallmark Cards manufactures and distributes balloons featuring a number of additional licensed characters.

Featured characters include: Garfield, Precious Moments, Party Express, Kinka, Head First, Scooby Doo, Batman, Spirit, Nascar, Hotwheels, Major League Baseball, Justice League, Star Wars, Butt Ugly Martians, Madeline, Mucha Lucha, Boohbah, and Shrek.

Latex Balloons

In this product category, CTIB manufactures and sells a high end line of latex balloons under the Hi-Tex product line name and a standard line of latex balloons marketed under the Partyloons product line name. The product line also consists of toy balloon products including punch balls, water bombs, and "Animal Twisties."

The Company sells and distributes its balloon products principally through a network of approximately 600 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.

Commercial Films and Containers

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 customers who utilize the films for packaging applications. These products are mostly converted by clients to bags or pouches for the packaging of food products.

The Company's custom film operations include inflatable pouches used to cushion commercial and industrial products in packages (or dunnage bags) and flexible containers for the storage of clothing and personal items.

The Company markets and sells its printed and laminated films, as well as, converted film products directly and through independent sales representatives. Its custom film products, including dunnage bags and consumer storage bags, are sold directly to customers.

Strategy

The Company's strategy for growth calls for management to devote time and resources to:

- Increase sales of existing product categories;
- Control and reduce manufacturing costs, particularly factory overhead and direct labor costs;
- Develop new products and improve existing products and technologies; and
- Develop new sales and marketing channels and relationships.

If the Company successfully executes its growth strategy, it should be well positioned to capture additional market share in its industry segments and improve revenues and profits.

Recent Results

On August 24, 2004, CTI Industries announced results for its second quarter of 2004, ended June 30, 2004. The Company reported net revenues of \$9.592 million and a net loss of \$0.136 million or \$(0.07) per share. In the same period last year, CTIB reported revenues of \$8.662 million and net income of \$0.133 million or \$0.06 per diluted share. In comparison, Taglich Brothers had estimated net sales of \$9.425 million and net income of \$0.163 million or \$0.08 per share.

The following chart illustrates revenue by major product category:

Chart of Actual Revenue by Product Line (\$ 000's)

Product Line	2Q03A	2Q04A
Laminated and Printed Films	4,315	3,615
Metalized Balloons	2,241	4,297
Latex Balloons	1,552	1,195
Other	554	485

Investors should note: 1) the significant drop in the sales of laminated and printed films. Management attributed the decline to lower sales to a large customer, ITW Spacebag, primarily due to ITW Spacebag engaging in pouch production internally and CTIB not supplying ITW a component of the pouches. According to Management, sales to this customer declined to \$1.178 million for the second quarter of 2004, as compared to sales of \$2.532 million for the second quarter of 2003; and 2) the considerable increase in metalized balloons. Management attributed the increase in sales to new customers.

On an operating basis, CTIB reported income of \$0.218 million, as compared to a loss of \$0.023 million in the year ago period. Additionally, EBITDA increased to \$0.618 million from \$0.339 million. Improved operating income and EBITDA resulted from a higher revenue base and an improved cost structure. Taglich Brothers' projections called for operating income and EBITDA of \$0.500 million and \$1.025 million, respectively.

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

- Gross margin decreased slightly to 21.18% from 22.00%, primarily due to a shift toward lower margin products;
- Operating expenses decreased to \$1.814 million from \$1.929 million, primarily due to reduced advertising costs stemming from lower personnel, trade show, and catalog expenses. The following table illustrates operating expenses by line item:

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

Expense Item	2Q03A	2Q04A
Administrative	1,051	1,175
Selling	217	357
Advertising and Marketing	661	282

- Operating margins improved to 2.27% from -0.27%, primarily due to lower operating expenses and increased revenues;
- Interest expense increased to \$0.338 million from \$0.274 million stemming from higher borrowing costs;
- Miscellaneous items in the quarter resulted in other expenses of \$0.074 million, as compared to income of \$0.301 million in the year ago period; and
- The Company reported an income tax benefit of \$0.058 million versus an income tax benefit of \$0.130 million in the year ago.

Balance Sheet

At the end of the second quarter, the Company had cash and cash equivalents of \$0.421 million, working capital of \$0.022 million, long-term debt of \$7.072 million, total liabilities of \$24.762 million, and stockholders' equity of \$5.572 million. At December 31, 2003, CTIB 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 two year senior loan facility with Cole Taylor Bank of Chicago, Illinois. Under the loan agreement with Cole, CTIB has both term and revolving loans totaling up to \$11 million, at an interest rate of prime plus 1.5%. The loans are to be 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.

Additionally, in July 2004, the Company entered into an agreement with Cornell Capital for a \$5 million standby equity distribution agreement. The two year agreement will allow CTIB to access additional capital for general and special corporate purposes, as well as increase liquidity in the Company's shares.

We believe that the Company has adequate resources to meet anticipated future requirements for working capital and operating expenses for at least the next 18 months given: 1) the current level of operations, 2) anticipated operating cash flow, 3) available borrowings under its revolving facility, and 4) available funds from the new equity facility.

Projections

We are adjusting our estimates for fiscal 2004 and 2005 based on recent operating results and the outlook for the next 18-months. The adjustments to our model primarily dealt with adjusting for prevailing revenue, margin, operating expense, and non-operating trends.

Our revised fiscal 2004 estimates call for revenues of \$38.96 million, EBITDA of \$3.2 million, and net income of \$0.288 million or \$0.14 per share. Our previous projections called for revenues of \$38.82 million, EBITDA of \$3.8 million, and net income of \$0.698 million or \$0.33 per share.

Our revised fiscal 2005 estimates call for revenues of \$43.39 million, EBITDA of \$3.9 million, and net income of \$0.458 million or \$0.21 per share. Our previous projections called for revenues of \$43.10 million, EBITDA of \$4.5 million, and net income of \$0.893 million or \$0.42 per share.

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 has at times dramatically impacted the Company's historical net income and EPS results. These items are almost always only known to Management at the later stages of compiling consolidated results. Therefore, we believe that operating income and EBITDA are better measures of the true performance of the Company. The Company's net income results, at least on a historical basis, have had a propensity to contain one-time, non-cash, and extraordinary charges which mask the Company's true operating performance.

Chart of Estimated EBITDA (\$ 000's)

Year	EBITDA
2003A	940
2004E	3,195
2005E	3,922

Our current model assumes:

- Increased revenues in 2004 and 2005 on a year-over-year basis, primarily due to the Company's growth strategy, recent revenue trends, and customer demand for the Company's product lines. The following is the projected revenue mix by product line;

Chart of Estimated Revenue by Product Line (\$ 000's)

Product Line	2004E	2005E
Laminated and Printed Films	14,889	16,000
Metalized Balloons	16,828	19,857
Latex Balloons	5,280	5,500
Other	1,989	2,039

- Slightly higher gross margins, primarily due to improved manufacturing efficiencies and productivity, offset by pricing pressures and raw material costs. We are projecting gross margins of 21.53% in fiscal 2005, as compared to 21.14% in fiscal 2004;
- Operating expenses of \$6.9 million and \$7.4 million in fiscal 2004 and 2005, respectively, with operating margins of 3.4% and 4.5%, respectively. Improved operating margins should be achieved due to Management's efforts to reduce factory overhead and direct labor costs. The following is a chart of projected operating expenses by line item;

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

Expense Item	2004E	2005E
Administrative	4,214	4,500
Selling	1,448	1,600
Advertising and Marketing	1,245	1,282

- Interest expense of \$1.36 million and \$1.54 million in 2004 and 2005, respectively, based on recent financing efforts and a higher interest rate environment. After its June and August 2004 meetings, the Federal Reserve raised the Discount Rate and its target rate for Fed Funds by 0.25 after each meeting; and
- Average shares outstanding (fully diluted) of 2.061 million and 2.140 million in 2004 and 2005, respectively.

Risks

Balance Sheet

The Company's balance sheet is highly leveraged. A significant shortfall in the top-line may negatively impact bottom line results, financial liquidity, and equity 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.

Dilution

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 CTIB taps this facility, it will likely cause existing shareholders to suffer dilution.

Funding Risk

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 above this limit it may be forced to secure additional financing. There is no assurance that it will obtain such financing, or that financing will be available on favorable terms.

Reliance on Major Customers

The Company's top four customers make up a significant portion of its business or about 53% of total revenues in the first six months of 2004. These four customers also accounted for 44% of the Company's accounts receivables. CTIB, 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. 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 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 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

CTIB has operations in the United Kingdom and Mexico. Through its majority owned, Flexo Universal, CTIB 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 CTIB.

In the balloon business there are presently six principal domestic manufacturers of metalized balloons including Anagram International, Pioneer Balloon, Convertidora International, Barton Enterprises, and Betallic. Additionally, several companies market and sell metalized balloons designed by them and manufactured by others for them. There are at least seven manufacturers of latex balloons whose products are sold in the United States.

Mergers, acquisitions, and alliances may significantly alter the competitive dynamics of the industry in question. Investors should be aware of the following recent developments:

- In April 2004, JC Penny (NYSE: JCP) agreed to sell Eckerd Drug Stores, a major CTIB customer, to CVS (NYSE: CVS) and Jean Coutu Group; and

- In March 2004, Amscan entered into an agreement to recapitalize and merge with AHH Holdings (controlled by Berkshire Partners and Westin Presidio).

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 June, August, and September 2004 meetings, the Federal Reserve raised the Discount Rate and its target rate for Fed Funds by 0.25 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 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 0.8 million shares and 16,454 shares, on average are traded daily.

Miscellaneous Risks

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

Conclusion

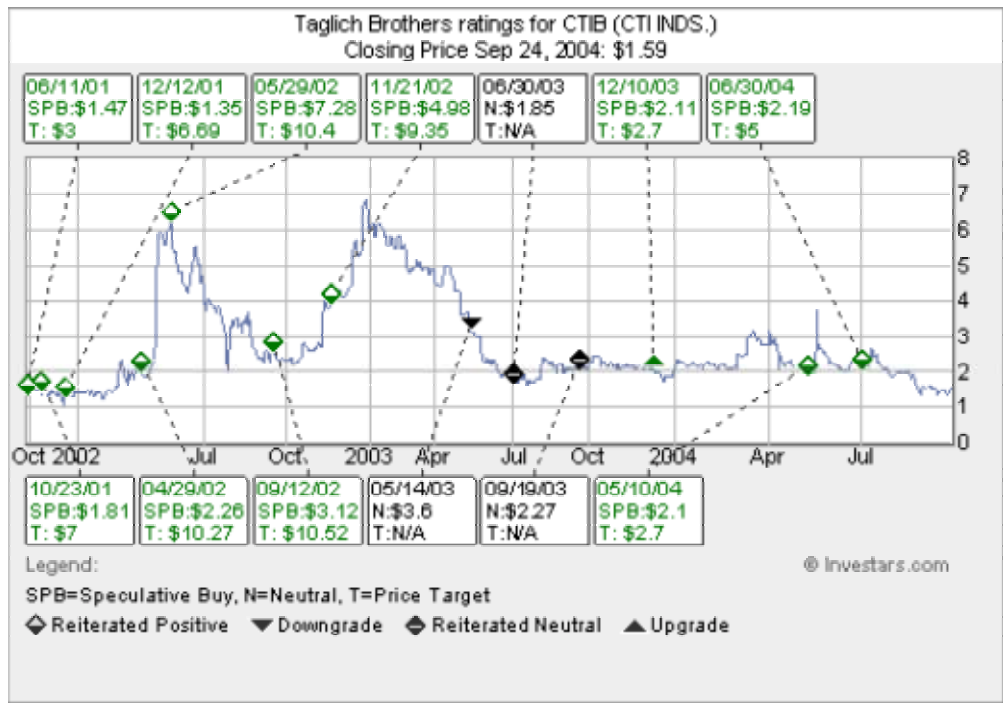
We are maintaining our Speculative Buy rating on shares of CTI Industries (NASDAQ: CTIB) and establishing a 12-month price target of \$2.20 per share. Our prior target was \$5.00 per share. The change in our price target is primarily due to our reduced expectations for 2005.

Our price target is based on applying:

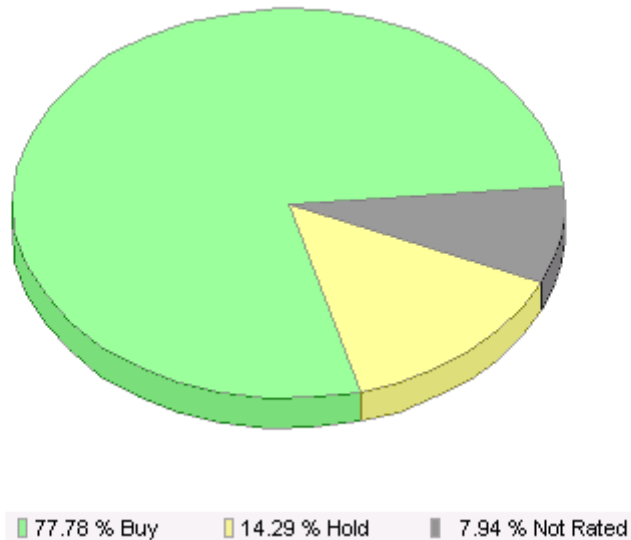
- A P/E multiple of 15X 2005 EPS estimate of \$0.21 per share (which does not include unknown one-time, non-cash, or extraordinary items); and
- Discounting the valuation by 30% to incorporate the Company's risk factors.

We derived the P/E multiple from the Company's 5 year compounded annual growth rate for EBITDA. We believe that investors should focus their attention on the Company's EBITDA growth rate, rather than net income or EPS growth rates. The Company's EBITDA growth rate is a better gauge of the ongoing operations of CTIB. Its historical net income and EPS figures have been impacted by one-time adjustments, charges, and credits that may mask the operating performance and growth of the Company.

Our rating is based on the risk/reward scenario over the next 18-months. The stock is trading at relatively low and attractive trailing and forward P/E, P/S, and P/B multiples. Nevertheless, shares of CTIB are only suited for risk tolerant investors. The operations and shares are sensitive to Company's risk factors, macroeconomic events, and market dynamics.



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.

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

CVS (NYSE: CVS)

Illinois Tool Works (NYSE: ITW)

JC Penny (NYSE: JCP)

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

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

	FY12/01A	FY12/02A	FY12/03A	FY12/04E	FY12/05E
Net sales	\$ 27,447	\$ 41,237	\$ 36,260	\$ 38,985	\$ 43,396
Cost of sales	<u>19,835</u>	<u>32,344</u>	<u>29,627</u>	<u>30,742</u>	<u>34,051</u>
Gross profit	7,612	8,893	6,633	8,243	9,344
Gross margin	27.73%	21.57%	18.29%	21.14%	21.53%
Operating expenses					
General and administrative	3,702	4,119	4,054	4,214	4,500
Selling	1,760	1,552	1,442	1,448	1,600
Advertising and marketing	1,133	1,671	1,816	1,245	1,282
Litigation	-	105	-	-	-
Total operating expenses	<u>6,595</u>	<u>7,765</u>	<u>7,312</u>	<u>6,907</u>	<u>7,382</u>
Operating income	1,017	\$ 1,445	(679)	1,336	1,962
Operating margins	3.71%	3.50%	-1.87%	3.43%	4.52%
EBITDA	2,683	3,033	940	3,195	3,922
		13%	-69.0%	239.9%	22.8%
Other income (expense)					
Interest expense	(1,126)	(832)	(1,103)	(1,360)	(1,500)
Interest income	6	3	13	-	-
Gain on sale of assets	-	-	28	15	-
Other	89	(281)	392	475	-
Total other expense	<u>(1,031)</u>	<u>(1,110)</u>	<u>(670)</u>	<u>(870)</u>	<u>(1,500)</u>
Pretax income (loss)	(14)	335	(1,349)	466	462
Pretax margins	-0.05%	0.81%	-3.72%	1.20%	1.06%
Income tax expense (benefit)	<u>276</u>	<u>39</u>	<u>(783)</u>	<u>175</u>	<u>-</u>
Tax rate	-1971.43%	11.64%	58.04%	37.55%	0.00%
Net income (loss) before minority interes	(290)	296	(567)	291	462
Minority interest	58	(6)	(0)	3	4
Net income (loss) for common	<u>\$ (232)</u>	<u>\$ 303</u>	<u>\$ (566)</u>	<u>\$ 288</u>	<u>\$ 458</u>
EPS diluted	<u>\$ (0.15)</u>	<u>\$ 0.16</u>	<u>\$ (0.30)</u>	<u>\$ 0.14</u>	<u>\$ 0.21</u>
Weighted average shares (diluted)	<u>1,512</u>	<u>1,884</u>	<u>1,918</u>	<u>2,061</u>	<u>2,140</u>
<u>% of revenue</u>					
Cost of sales	72.27%	75.08%	81.71%	78.86%	78.47%
General and administrative	12.64%	10.58%	11.18%	10.81%	10.37%
Selling	6.41%	3.70%	3.98%	3.71%	3.69%
Advertising and marketing	4.13%	4.16%	5.01%	3.19%	2.96%
<u>year / year growth</u>					
revenues	19.45%	54.91%	-12.07%	7.52%	11.31%

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)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))

	Q1(3/04)A	Q2(6/04)A	Q3(9/04)E	Q4(12/04)E	FY12/04E
Net sales	\$ 10,893	\$ 9,592	\$ 9,100	\$ 9,400	\$ 38,985
Cost of sales	8,746	7,560	7,099	7,337	30,742
Gross profit	2,147	2,032	2,001	2,063	8,243
Gross margin	19.71%	21.18%	21.99%	21.95%	21.14%
Operating expenses					
General and administrative	989	1,175	1,000	1,050	4,214
Selling	391	357	350	350	1,448
Advertising and marketing	393	282	285	285	1,245
Total operating expenses	1,773	1,814	1,635	1,685	6,907
Operating income	374	218	366	378	1,336
Operating margins	3.43%	2.27%	4.02%	4.02%	3.43%
Other income (expense)					
Interest expense	(331)	(339)	(340)	(350)	(1,360)
Gain on sale of assets	-	15	-	-	15
Other	564	(89)	-	-	475
Total other expense	233	(413)	(340)	(350)	(870)
Pretax income (loss)	607	(195)	26	28	466
Pretax margins	5.57%	-2.03%	0.29%	0.30%	1.20%
Income tax expense (benefit)	233	(58)	-	-	175
Tax rate	38.39%	0.00%	0.00%	0.00%	37.55%
Net income (loss) before minority interes	374	(137)	26	28	291
Minority interest	2	(1)	1	1	3
Net income (loss) for common	\$ 372	\$ (136)	\$ 25	\$ 27	\$ 288
EPS diluted	\$ 0.18	\$ (0.07)	\$ 0.01	\$ 0.01	\$ 0.14
Weighted average shares (diluted)	2,045	1,918	2,140	2,140	2,061
<u>% of revenue</u>					
Cost of sales	80.29%	78.82%	78.01%	78.05%	78.86%
General and administrative	9.08%	12.25%	10.99%	11.17%	10.81%
Selling	3.59%	3.72%	3.85%	3.72%	3.71%
Advertising and marketing	3.61%	2.94%	3.13%	3.03%	3.19%
<u>year / year growth</u>					
revenues	7.19%	10.74%	7.96%	4.37%	7.52%

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

	FY12/02A	FY12/03A	1Q04(3/04)A	2Q04(6/04)A
Assets				
Current Assets				
Cash	\$ 160	\$ 330	\$ 331	\$ 421
Accounts Receivable	5,385	4,620	6,129	5,468
Inventories	10,034	9,263	9,169	9,389
Deferred tax assets	248	362	362	362
Other	311	859	1,125	1,033
Total Current Assets	16,138	15,434	17,116	16,673
Total property and equipment, net	11,715	12,208	11,979	11,273
Other assets				
Deferred financing costs, net	52	223	204	176
Goodwill	1,113	1,113	1,113	1,113
Deferred tax assets	442	1,012	803	851
Other assets	813	279	354	262
Total other assets	2,419	2,627	2,474	2,402
Total Assets	\$ 30,272	\$ 30,270	\$ 31,569	\$ 30,348
Liabilities and Stockholders Equity				
Current liabilities				
Accounts payable	\$ 9,581	\$ 6,799	\$ 6,273	\$ 5,659
Over draft	113	341	530	731
Line of credit	5,643	3,694	5,930	5,810
Notes payable- current portion	1,743	2,999	2,529	2,529
Accrued liabilities	1,966	2,307	2,200	1,922
Total current liabilities	19,045	16,140	17,462	16,651
Long-term liabilities				
Non-current liabilities	710	1,079	874	1,039
Notes payable	5,016	7,830	7,557	7,072
Total Liabilities	24,771	25,049	25,893	24,762
Minority interest	26	9	10	10
Stockholders' equity				
Total stockholders' equity	\$ 5,475	\$ 5,212	\$ 5,666	\$ 5,576
Total Liabilities and Stockholders' Equity	\$ 30,272	\$ 30,270	\$ 31,569	\$ 30,348
	1,910	1,918	1,918	1,918