

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 \$3.61 (NASDAQ)

October 2, 2006

	<u>FY2002A</u>	<u>FY2003A</u>	<u>FY2004A</u>	<u>FY2005A</u>	<u>FY2006E</u>
Revenues (Thousands)	\$41,236	\$36,260	\$37,193	\$29,190	\$34,648
EPS (fully diluted)	\$0.16	\$(0.30)	\$(1.28)	\$(0.17)	\$0.25

52-Week Range	\$6.99 – 2.20	Fiscal Year Ends	December
Shares Outstanding- (000)	2,121	Revenues/Share (TTM)	\$14.00
Approximate Float (000)	700	Price/Sales (TTM)	0.3X
Insider Holdings	67%	Price/Sales (2006)E	0.2X
Tangible Book Value/Share	\$1.27	Price/Earnings (TTM)	NMF
Price/Tangible book	2.8X	Price/Earnings (2006)E	14.4X

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 several foreign countries.

Key Investment Considerations:

We are maintaining our Speculative Buy rating on CTI Industries (NASDAQ: CTIB) and increasing our 12-month price target to \$7.00 per share from \$4.10 per share.

On August 21, 2006, CTI Industries reported second quarter revenues of \$9.0 million and net income of \$0.206 million or \$0.10 per share. In the year ago quarter, CTIB reported revenues of \$7.6 million and a net loss of \$0.053 million or \$(0.03) per share.

The year-over-year increase in revenues was due to higher sales of metalized balloons stemming from additional sales to a top customer and several chain retail accounts.

On an operating basis, CTIB reported income of \$0.603 million, as compared to \$0.104 million in the year ago period. EBITDA increased to \$1.0 million from \$0.5 million.

We are increasing our estimates for fiscal 2006. Our revised estimates call for revenues of \$34.6 million and net income \$0.545 million or \$0.25 per share. Our prior estimates called for revenues of \$31.6 million and net income \$0.364 million or \$0.17 per share.

If the Company achieves our estimates, the Company would have grown revenues and EBITDA by over 18% and 57%, respectively, as compared to 2005.

** 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).

During June 2005, the Company introduced a line of consumer food storage bags for use in the home under the Simply Smart(TM) brand. In 2006, CTIB announced that a line of resealable, valved bags for storage and vacuum sealing of food items in the household. These storage bags function with a small hand or powered pump to evacuate air when the bag is sealed.

Recent Results

On August 21, 2006, CTI Industries reported results for its second quarter, ended June 30, 2006. The Company reported revenues of \$9.0 million and net income of \$0.206 million or \$0.10 per share. In the year ago quarter, CTIB reported revenues of \$7.6 million and a net loss of \$0.053 million or \$(0.03) per share.

In comparison, Taglich Brothers' estimates called for revenues \$8.1 million and net income of \$0.121 million or \$0.06 million.

The year-over-year increase in revenues was due to higher sales of metalized balloons stemming from additional sales to a top customer and several chain retail accounts. The following table illustrates the Company's revenue mix for the second quarters of 2005 and 2006:

Revenue item	2Q2005A	2Q2006A
Metalized balloons	2,896	4,583
Films	1,976	2,099
Pouches	1,278	902
Latex Balloons	1,215	1,135
Other	208	278

On an operating basis, CTIB reported income of \$0.603 million, as compared to \$0.104 million in the year ago period. Additionally, EBITDA increased to \$1.0 million from \$0.5 million.

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

- Gross margin increased to 24.4%, resulting in gross profits of \$2.197 million, as compared to gross margin of 20.9% and gross profits of \$1.583 million in the year ago period;
- Operating expenses increased to \$1.6 million, as compared to \$1.5 million. Operating margins increased to 6.7% from 1.4%, primarily due to higher revenues and lower costs as a percentage of revenues.

The following table illustrates operating expenses by major line item:

Actual Operating Expenses (\$ 000's)		
Expense Item	2Q05A	2Q06A
Administrative	1,021	1,092
Selling	244	235
Advertising and Marketing	213	267

- Interest expense increased to \$0.336 million from \$0.305 million stemming from higher borrowing costs;
- Miscellaneous items in the quarter resulted in other income of \$0.053 million, as compared to income of \$0.058 million in the year ago period; and
- Income taxes resulted in an expense of \$0.038 million, as compared to a benefit of \$0.004 million.

Balance Sheet

The Company maintains a minimal cash balance and utilizes its credit facility for liquidity. At June 30, 2006, CTIB had cash of \$0.64 million, working capital of \$0.232 million, long-term liabilities of \$7.80 million, and stockholders' equity of \$3.42 million.

On February 6, 2006, CTI Industries entered into a Loan Agreement with Charter One Bank, Chicago, Illinois. The agreement called for the bank to issue CTIB a line of credit in the amount of \$12.8 million consisting of a mortgage loan of \$2.8 million, a term loan of \$3.5 million and a revolving line of credit providing for maximum advances of \$6.5 million. In order to be permitted to make advances under the line of credit, CTIB is required to meet various financial covenants.

Management believes that based on the first half results and its own projected results of operations for the remainder of 2006, Management believes CTIB will be in compliance with all applicable financial covenants of the loan agreement and will have sufficient funds to enable the Company to meet its obligations during the balance of 2006.

Projections

We are increasing our estimates for fiscal 2006 primarily due to the results (revenues, margins, and profits) observed in the first half of 2006. Our revised estimates call for revenues of \$34.6 million and net income \$0.545 million or \$0.25 per share. Our prior estimates called for revenues of \$31.6 million and net income \$0.364 million or \$0.17 per share.

Based on our assumptions, we are projecting that the Company will report an EBITDA of \$3.5 million for the year. If the Company achieves these figures, it would have grown revenues and EBITDA by over 18% and 57%, respectively, as compared to 2005. Net income would increase by almost \$0.9 million.

Our optimism is based on Management's recent success to improve the Company's financial results. In recent quarters, Management set out to lower expenses by reducing overhead and operating expenses, as well as restore the Company to profitability. Additionally, its strategic initiatives and recent announcement concerning new and extended customer relationships, as well as a new credit facility have also influenced us in a positive fashion.

Our forecast for 2006 incorporates the following:

- Higher revenue primarily due to recent trends and developments observed over the past several months (i.e. customer relationships);
- Gross margins of around 24%, based on historical margin trends, resulting in gross profits of \$8.3 million in 2006;
- Higher operating expenses of \$6.4 million (as compared to \$5.8 million in fiscal 2005) based on first half costs trends and Management's comments in the Company's 10Q; and
- Lower non-operating expenses in the second half of 2006 primarily due to lower interest expense stemming from the credit facility's variable interest rate tied to the Company achieving certain financial metrics. 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, as well as the prime rate. The rate was initially set at prime +1%; however, as of June 30, 2006, the interest rate was prime + 0% (or 8.25%).

Beyond 2006

We are not projecting beyond 2006 until we can better ascertain the sustainability of the Company's revenue and profit momentum. 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

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 of June 30, 2006, the interest rate was prime + 0% (or 8.25%).

Taglich Brothers, Inc.

Restatement of Financial Statements

In consultation with the SEC and other interested parties (i.e. auditors), the Company determined that 1) there were incorrect classifications in the calculation of Loss from Operations in the Company's Consolidated Statement of Operations for the years ended December 31, 2004 and 2003, and 2) there were incorrect classifications in the calculation of certain items in the Consolidated Statements of Cash Flows for the years ended December 31, 2005, 2004, and 2003. According to an 8K filing:

- The incorrect classifications in the calculation of Loss from Operations for 2004 and 2003, resulted from the fact that certain items of gain from the sale of assets and other items of income were classified as Other Income Expense and were not included in Loss from Operations. **Investors should note that the incorrect classifications in classification did not result in any error in the reporting of Net Loss or Loss per share for those years.** Given that our financial modeling is intended to forecast ongoing results and not an official financial statement we have chosen not to modify historical income statements in our model.
- The incorrect classifications in the calculation of items in the Consolidated Cash Flows for the years ended December 31, 2005, 2004, and 2003, resulted from the method used to calculate the effect of changes in the exchange rate of foreign currencies on items of cash flow.

Investors should consult the pertinent SEC filings for additional information.

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. 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.

During 2005, Rapak, Dollar Tree Stores, and ITW represented 24%, 14%, and 13% of the Company's revenues, respectively. Sales to its top ten customers during the first half of 2006 represented 59% of total net sales. Sales to the top three customers represented 50% of total net sales in the first six months of 2006. The sales to the top two customers were 42% of sales in the first half of 2006.

Dilution/Funding Risk

On June 6, 2006, CTIB and 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 financing, or that financing will be available on favorable terms. If the Company does tap into the SEDA it may result in dilution.

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 \$0.05 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. 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 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. Recently, media outlets reported a helium shortage which is anticipated to adversely impact sales of balloons.

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.

Federal Reserve

Since mid-2004, the Federal Reserve raised the Discount Rate and its target rate for Fed Funds by 0.25 points after 17 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 0.7 million shares and 23,195 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.

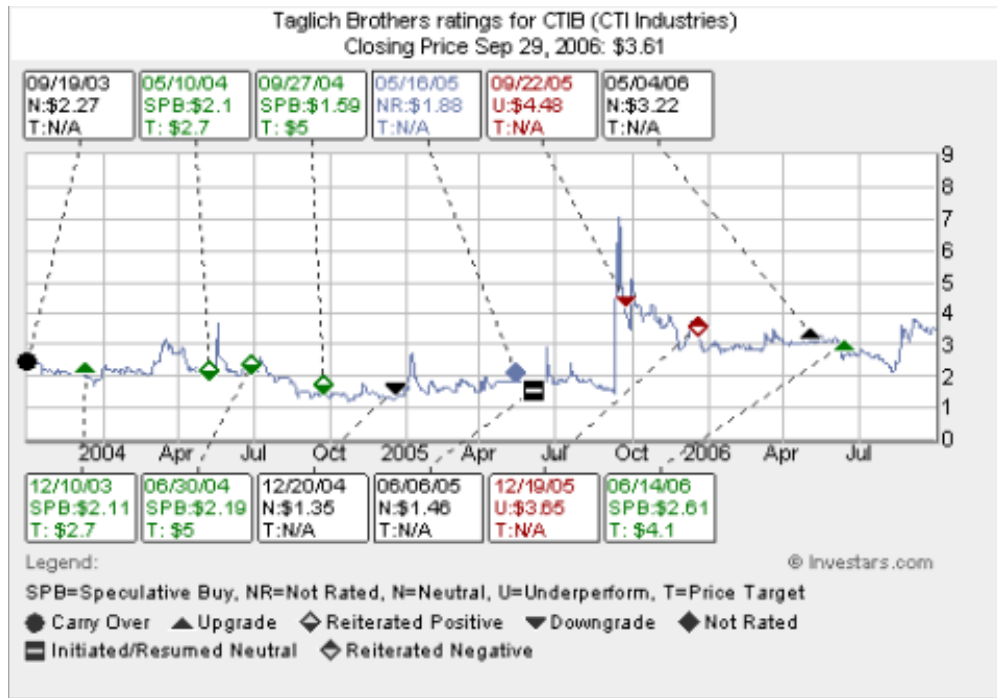
Conclusion

We are maintaining our Speculative Buy rating on CTI Industries (NASDAQ: CTIB) and increasing our 12-month price target to \$7.00 per share from \$4.10 per share.

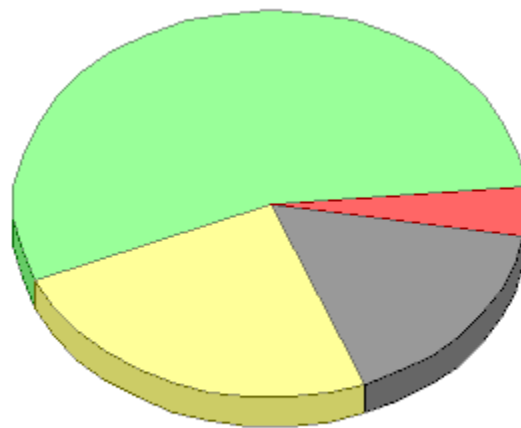
Our price target is based on applying a multiple of 28X to our estimated 2006 EPS of \$0.25 per share. We derived our valuation multiple by discounting by about 50% the Company's projected 2006 EBITDA growth rate of 57%.

Despite our positive rating, 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



55.1 % Buy 24.49 % Hold 16.33 % Not Rated 4.08 % Sell

Investment Banking Services for Companies Covered in the Past 12 Months

Rating	#	%
Buy	1	3.33%
Hold	0	0
Sell	0	0
Not Rated	1	7.14%

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

Dollar Tree Stores (NASDAQ: DLTR)

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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)

	FY12/02A	FY12/03A	FY12/04A	FY12/05A	FY12/06E
Net sales	\$ 41,237	\$ 36,260	\$ 37,193	\$ 29,190	\$ 34,648
Cost of sales	32,344	29,627	30,841	22,726	26,308
Gross profit	8,893	6,633	6,352	6,464	8,339
Gross margin	21.57%	18.29%	17.08%	22.14%	24.07%
Operating expenses					
General and administrative	4,119	4,054	4,342	3,847	4,409
Selling	1,552	1,442	1,515	1,065	936
Advertising and marketing	1,671	1,816	1,167	777	1,030
Litigation	105	-	-	-	-
Asset Impairment Loss	-	-	-	124	-
Total operating expenses	7,765	7,312	6,921	5,813	6,375
Operating income	\$ 1,445	(679)	(567)	651	1,964
Operating margins	3.50%	-1.87%	-1.52%	2.23%	5.67%
EBITDA	3,033	940	1,178	2,239	3,515
	13%	-69.0%	25.3%	90.1%	56.99%
Other income (expense)					
Interest expense	(832)	(1,103)	(1,350)	(1,231)	(1,476)
Interest income	3	13	-	-	13
Gain on sale of assets	-	28	15	-	-
Other	(281)	392	711	45	91
Total other expense	(1,110)	(670)	(624)	(1,186)	(1,371)
	-	-	-	-	-
Pretax income (loss)	335	(1,349)	(1,192)	(534)	592
Pretax margins	0.81%	-3.72%	-3.20%	-1.83%	1.71%
	-	-	-	-	-
Income tax expense (benefit)	39	(783)	1,286	(200)	47
Tax rate	11.64%	58.04%	-107.89%	37.45%	7.94%
Net income (loss) before minority interes	296	(567)	(2,478)	(334)	545
Minority interest	(6)	(0)	1	-	-
Net income (loss) for common	\$ 303	\$ (566)	\$ (2,479)	\$ (333)	\$ 545
EPS diluted	\$ 0.16	\$ (0.30)	\$ (1.28)	\$ (0.17)	\$ 0.25
Weighted average shares (diluted)	1,884	1,918	1,931	1,977	2,146
<u>% of revenue</u>					
Cost of sales	75.08%	81.71%	82.92%	77.86%	75.93%
General and administrative	10.58%	11.18%	11.67%	13.18%	12.73%
Selling	3.70%	3.98%	4.07%	3.65%	2.70%
Advertising and marketing	4.16%	5.01%	3.14%	2.66%	2.97%
<u>year / year growth</u>					
revenues	54.91%	-12.07%	2.57%	-21.52%	18.70%

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	402	388	316	357	\$ 1,463
	729	492	159	859	2,239
					90.1%
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(3/03)A	Q2(6/06)A	Q3(9/06)E	Q4(12/06)E	FY12/06E
Net sales	\$ 8,156	\$ 8,997	\$ 8,691	\$ 8,804	\$ 34,648
Cost of sales	<u>6,203</u>	<u>6,800</u>	<u>6,699</u>	<u>6,607</u>	<u>26,308</u>
Gross profit	1,953	2,197	1,993	2,197	8,339
Gross margin	23.95%	24.42%	22.93%	24.95%	24.07%
Operating expenses					
General and administrative	1,017	1,092	1,125	1,175	4,409
Selling	177	234	250	275	936
Advertising and marketing	<u>218</u>	<u>267</u>	<u>265</u>	<u>280</u>	<u>1,030</u>
Total operating expenses	<u>1,412</u>	<u>1,593</u>	<u>1,640</u>	<u>1,730</u>	<u>6,375</u>
Operating income	541	604	353	467	1,964
Operating margins	6.63%	6.71%	4.06%	5.30%	5.67%
EBITDA	892	1,004	753	867	3,515
Other income (expense)					
Interest expense	(336)	(440)	(350)	(350)	(1,476)
Interest income	5	8			13
Gain on sale of assets					-
Other	<u>48</u>	<u>43</u>	<u>-</u>	<u>-</u>	<u>91</u>
Total other expense	<u>(283)</u>	<u>(388)</u>	<u>(350)</u>	<u>(350)</u>	<u>(1,371)</u>
Pretax income (loss)	258	215	3	117	592
Pretax margins	3.16%	-2.67%	-2.67%	-2.67%	1.71%
Income tax expense (benefit)	<u>38</u>	<u>9</u>	<u>-</u>	<u>-</u>	<u>47</u>
Tax rate	14.73%	4.19%	0.00%	0.00%	7.94%
Net income (loss) before minority interest	220	206	3	117	545
Minority interest	-	-	-	-	-
Net income (loss) for common	<u>\$ 220</u>	<u>\$ 206</u>	<u>\$ 3</u>	<u>\$ 117</u>	<u>\$ 545</u>
EPS diluted	<u>\$ 0.10</u>	<u>\$ 0.10</u>	<u>\$ 0.00</u>	<u>\$ 0.05</u>	<u>\$ 0.25</u>
Weighted average shares (diluted)	<u>2,167</u>	<u>2,121</u>	<u>2,125</u>	<u>2,167</u>	<u>2,146</u>
<u>% of revenue</u>					
Cost of sales	76.05%	75.58%	77.07%	75.05%	75.93%
General and administrative	12.47%	12.14%	12.94%	13.35%	12.73%
Selling	2.17%	2.60%	2.88%	3.12%	2.70%
Advertising and marketing	2.67%	2.97%	3.05%	3.18%	2.97%
<u>year / year growth</u>					
revenues	-10.40%	18.80%	44.03%	35.86%	18.70%

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

	FY12/05A	1Q06A	2Q06A
Assets			
Current Assets			
Cash	\$ 262	\$ 640	\$ 628
Accounts Receivable	4,344	5,546	5,609
Inventories	7,023	7,336	7,808
Other	707	561	812
Total Current Assets	12,335	14,083	14,857
Total property and equipment, net	9,617	9,293	9,062
Other assets			
Deferred financing costs, net	74	240	255
Goodwill	989	989	989
Deferred tax assets	353	315	305
Other assets	168	165	163
Total other assets	1,584	1,709	1,712
Total Assets	\$ 23,536	\$ 25,085	\$ 25,633
Liabilities and Stockholders Equity			
Current liabilities			
Accounts payable	\$ 4,718	\$ 4,356	\$ 3,467
Over draft	500	159	135
Line of credit	5,051	4,835	5,696
Notes payable- current portion	3,567	3,484	3,278
Accrued liabilities	926	1,017	1,696
Total current liabilities	14,761	13,851	14,272
Long-term liabilities			
Non-current liabilities	1,644	1,638	1,658
Notes payable	4,394	6,166	6,310
Total Liabilities	20,799	21,655	22,240
Minority interest	10	10	11
Stockholders' equity			
Total stockholders' equity	\$ 2,726	\$ 3,421	\$ 3,690
Total Liabilities and Stockholders' Equity	\$ 23,536	\$ 25,086	\$ 25,633
	1,954	2,036	2,121