

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 – \$2.11 (NASDAQ)

December 10, 2003

	<u>FY2000A</u>	<u>FY2001A</u>	<u>FY2002A</u>	<u>FY2003E</u>	<u>FY2004E</u>
Revenues (Thousands)	\$22,978	\$27,447	\$41,236	\$36,167	\$40,816
EPS (fully diluted)	\$(0.88)	\$(0.15)	\$0.16	\$(0.18)	\$0.26

52-Week Range	\$6.93 – 1.67	Fiscal Year Ends	December
Shares Outstanding- FD (000)	1,997	Revenues/Share (TTM)	\$18.07
Approximate Float (000)	830	Price/Sales (TTM)	0.12X
Insider Holdings	58.3%	Price/Sales (2004)E	0.11X
Tangible Book Value/Share	\$2.30	Price/Earnings (TTM)	NM
Price/Tangible book	1.1X	Price/Earnings (2004)E	8.1X

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 upgrading our rating to Speculative Buy from Neutral and establishing a 12-month price target of \$2.70 based on an analysis of enterprise value (EV) to estimated 2004 EBITDA. Our upgrade is based on: 1) revised earnings expectations through 2004, 2) the Company's streamlined cost structure; and 3) valuation.

Shares of CTIB are ideally suited for only risk tolerant investors. The operations and shares will continue to be influenced by the Company's risk factors, macroeconomic events, and market dynamics.

By early 2004, the Company must successfully obtain a new financing agreement to replace its expiring facility. In its SEC filing, Management cautions that if the Company is unable to obtain alternative financing, the Company may be unable to pay the existing outstanding balance and its ability to continue operations may be adversely affected.

We are increasing our estimates for fiscal 2003 and 2004 primarily based on the results of the third quarter of 2003 and projected operational and financial trends for the next 15-months. Our revised fiscal 2003 estimates call for revenues of \$36.17 million and a net loss of \$0.34 million or \$(0.18) per share. For fiscal 2004, our revised projections called for revenues of \$40.82 million and net income of \$0.56 million or \$0.26 per share.

Our revised estimates call for EBITDA of \$1.91 million and \$3.69 million in 2003 and 2004, respectively.

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

Company Overview

CTI Industries Corporation (CTIB), through its facilities in Illinois, Mexico, and the United Kingdom, is 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) incorporating over 450 designs; and
- Specialty and printed films primarily for food packaging, specialized consumer uses and various commercial applications such as food packaging and storage.

Recent Results

On November 19, 2003, CTI Industries announced results for its third quarter of 2003 ended September 30, 2003. The Company reported net revenues of \$8.429 million and net income of \$0.129 million or \$0.06 per diluted share. In the same period last year, CTIB reported revenues of \$10.873 million and net income of \$0.386 million or \$0.22 per diluted share. On an operating basis, CTIB reported operating income of \$0.222 million as compared to operating income of \$0.650 million in the year ago period.

Management attributed the revenue decline to lower sales to major customers. The following chart illustrates revenue by segment:

Chart of Actual Revenue by Segment

Segment	3Q02A	3Q03A
Laminated and Printed Films	5,828	5,033
Metalized Balloons	3,621	2,574
Latex Balloons	1,283	511

As compared to the year ago period:

- Gross margin declined to 21.1% from 24.7% primarily due to increased production overhead expenses as well as lower margin sales to a significant customer for foil balloons and lower pricing in the sale of foil balloons to other customers;

Margin	3Q02A	3Q03A
Gross Margin	24.7%	21.1%
Operating Margin	5.97%	2.63%
Net Margin	4.22%	4.63%

- Operating expenses decreased to \$1.553 million from \$2.035 million primarily due to reduced administrative and advertising costs stemming from lower personnel, consulting, and audit expenses. We believe that this trend is noteworthy, as a streamlined cost structure should position the Company to improve profitability;

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

Expense Item	3Q02A	3Q03A
Administrative	1,168	749
Selling	408	414
Advertising and Marketing	459	390

- Operating margins declined to 2.63% from 5.97% primarily due to a lower revenue base in the third quarter of 2003;
- Interest expense increased to \$0.301 million from \$0.220 million due to increased borrowings;

- Miscellaneous items in the quarter resulted in other expense of \$0.018 million, as compared to expenses of \$0.014 million in the year ago period; and
- During the quarter, the Company had an income tax benefit of \$0.226 million versus an income tax expense of \$0.027 million in the year ago quarter.

In comparison, Taglich Brothers had estimated net sales of \$9.822 million and a net loss of \$0.139 million or \$(0.07) per share. On an operating basis, our expectations called for operating income of \$0.191 million.

Balance Sheet

At September 30, 2003, CTIB had cash of \$0.19 million, a working capital deficit of \$2.97 million, long-term debt of \$4.91 million, total liabilities of \$25.42 million, and stockholders' equity of \$5.40 million. Of note, during 1Q03, \$2.3 million of long-term debt maturing in January 2004 was re-classified as short-term debt. At the end of December 31, 2002, CTIB had cash and cash equivalents of \$0.161 million, a working capital deficit of approximately \$2.9 million, long-term debt of \$5.02 million, total liabilities of \$24.77 million, and stockholders' equity of \$5.47 million.

Under the terms of the existing loan agreement set to expire in January, the maturity could be extended for another year unless terminated by either party at the expiration of the initial term. Recently, the lender gave notice to the Company that the loan facility will terminate on that date; however, it may grant limited extensions of the loan after January 12, 2004. Therefore, Management is seeking alternative financing to replace this facility. However, Management cautions in its SEC filing that there is no assurance that alternative financing will be obtained.

Recent Financings

In the third quarter of 2003 the Company entered into the following financings:

- An agreement with selected vendors to convert \$3.57 million of accounts payable to notes payable with terms up to 24 months and a weighted average interest rate of 7.5%; and
- An agreement with an officer of the Company to loan Flexo, its Mexican subsidiary, \$0.1 million in the form of a promissory note at an annual interest rate of 8% and payments at the rate of \$5,000 per week.

Projections

We are increasing our estimates for fiscal 2003 and 2004 based on the results of the third quarter of 2003, projected operational and financial trends for the next 15-months, and Management's public guidance.

In its recent SEC filing, Management stated that over the next 15-months, it believes that the Company should see an improvement in its operating results.

Our revised fiscal 2003 estimates call for revenues of \$36.17 million and a net loss of \$0.34 million or \$(0.18) per share. For fiscal 2004, our revised projections called for revenues of \$40.82 million and net income of \$0.56 million or \$0.26 per share. Our revised estimates call for EBITDA of \$1.91 million and \$3.69 million in 2003 and 2004, respectively.

The following charts (on the next page) illustrate our revised revenue and EPS quarterly projections for fiscal 2003 and 2004:

2003 and 2004 Revenue Quarterly Projections (\$ 000's)

Quarter	Previous	Revised
4Q03	10,620	9,779

1Q04	10,344	9,435
2Q04	11,440	10,430
3Q04	11,037	10,067
4Q04	11,952	10,884

2003 and 2004 EPS Quarterly Projections

Quarter	Previous	Revised
4Q03	(0.07)	0.05

1Q04	(0.03)	0.00
2Q04	0.02	0.06
3Q04	0.01	0.08
4Q04	0.02	0.12

Our current model assumes:

- Increased revenues in 2004 after a decline during 2003. We are estimating revenue growth of 12.85% in 2004 based on the long-term growth rate of the Company and its industry group. In 2003, we are projecting revenue to decline by 12.29% based on the recent revenue trends of the Company over the past nine months of 2003;
- Slightly higher gross margins primarily due to improved manufacturing efficiencies and productivity. We are projecting gross margins of 21.57% and 23.02% in fiscal 2003 and 2004, respectively;
- Flat operating expenses due to its re-aligned cost structure. We are forecasting operating expenses of \$7.5 million in fiscal 2003 and 2004, respectively;
- Operating margins of 0.83% and 4.54% in 2003 and 2004, respectively;
- Interest expense of \$1.1 million and \$1.3 million; and
- Average shares outstanding (fully diluted) of 1.918 million and 2.140 million in 2003 and 2004, respectively.

Risks

Balance Sheet

The Company's loan agreement with its primary lender expires on January 12, 2004. The lender has given notice to CTIB that the loan facility will terminate on that date; however, it may grant limited extensions of the loan after January 12, 2004. Management is engaged in efforts to obtain alternative financing and has received a commitment from one lending institution for a five-year term loan in the principal amount of \$3 million and has also received a non-binding proposal from another lending institution for a line of credit, including a term loan and revolving loan, in the amount of \$11 million. There can be no assurance that the Company will be able to complete a new financing transaction or that financing will be on favorable terms. If CTIB is unable to obtain alternative financing, it may be unable to pay the existing outstanding balance and its ability to continue operations may be adversely affected.

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.

Reliance on Major Customers

CTIB has four major customers that make up a significant portion of their business. For the first nine months of 2003, the Company had two customers that accounted for approximately \$7.922 million (29.1%) and \$3.244 million (11.9%), respectively, of consolidated net sales. The loss of any major customer would have an adverse impact on the operating performance of the Company. Additionally, CTIB's results could be adversely impacted by purchasing and inventory policies of its customers or its customers' customers. This could lead to lower revenues, margins, and income.

Shares

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

International Operations

CTIB has operations in the United Kingdom and Mexico. These operations expose the Company to additional risk factors (i.e. currency, legal, and regulatory) and that it would not ordinarily be exposed to in the United States.

Competition

The Company operates in highly competitive and fragmented industries. A number of competitors may have greater resources than CTIB.

Liquidity

The shares of CTIB have risks common to those of the microcap segment of the market. Often these risks cause microcap stocks to trade at discounts to their peers. The most common of these risks is liquidity risk, which is typically caused by small trading floats and very low trading volume and can lead to large spreads and high volatility in stock price.

Miscellaneous Risks

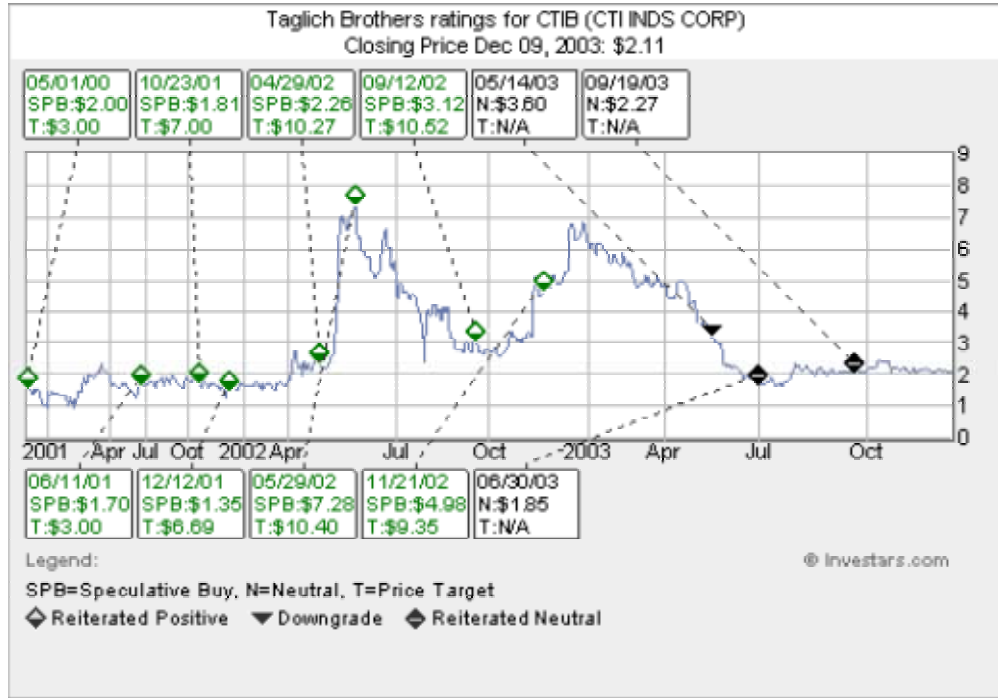
The Company's financial results and equity values are subject to other risks and uncertainties known and unknown, including but not limited to competition, operations, financial markets, regulatory risk, and/or other events. These risks may cause actual results to differ from expected results.

Conclusion

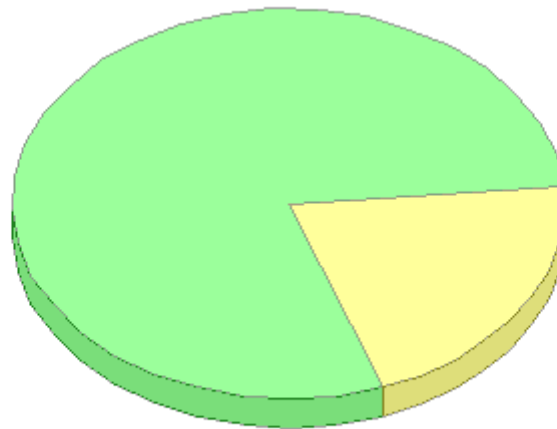
We are upgrading our rating on shares of CTI Industries to a Speculative Buy from a Neutral and establishing a 12-month price target of \$2.70 per share. Our price target is based on a multiple of 6X EV/2004 EBITDA, risk adjusted by 25%. Our upgrade is based on: 1) revised earnings and EBITDA estimates through 2004; 2) the Company's improved costs structure; and 3) valuation.

Shares of CTIB are only suited for risk tolerant investors. The operations and shares will continue to be influenced by the Company's risk factors, macroeconomic events, and market dynamics. Over the next few weeks, the Company must successfully obtain a new financing agreement to replace its expiring facility. In its

SEC filing, Management cautions that if CTIB is unable to obtain alternative financing, the Company may be unable to pay the existing outstanding balance and its ability to continue operations may be adversely affected.



Taglich Brothers' Current Rating Distribution



79.17 % Buy 20.83 % Hold

Meaning of Ratings

Buy

We believe the Company is undervalued relative to its market and peers. We believe its risk reward ratio strongly advocates purchase of the stock relative to other stocks in the marketplace. Remember, with all equities there is always downside risk.

Speculative Buy

We believe that the long run prospects of the Company are positive. We believe its risk reward ratio advocates purchase of the stock. We feel the investment risk is higher than our typical “buy” recommendation. In the short run, the stock may be subject to high volatility and continue to trade at a discount to its market.

Neutral

We will remain neutral pending certain developments.

Underperform

We believe that the Company may be fairly valued based on its current status. Upside potential is limited relative to investment risk.

Sell

We believe that the Company is significantly overvalued based on its current status. The future of the Company's operations may be questionable and there is an extreme level of investment risk relative to reward.

Some notable Risks within the Microcap Market

Stocks in the Microcap segment of the market have many risks that are not as prevalent in Large-cap, Blue Chips or even Small-cap stocks. Often it is these risks that cause Microcap stocks to trade at discounts to their peers. The most common of these risks is liquidity risk, which is typically caused by small trading floats and very low trading volume which can lead to large spreads and high volatility in stock price. In addition, Microcaps tend to have significant company specific risks that contribute to lower valuations. Investors need to be aware of the higher probability of financial default and higher degree of financial distress inherent in the microcap segment of the market.

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.

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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)

	FY12/00A	FY12/01A	FY12/02A	FY12/03E	FYE 12/04E
Net sales	\$ 22,978	\$ 27,447	\$ 41,237	\$ 36,167	\$ 40,816
Cost of sales	<u>16,375</u>	<u>19,835</u>	<u>32,344</u>	<u>29,230</u>	<u>31,422</u>
Gross profit	6,603	7,612	8,893	7,802	9,394
Gross margin	28.74%	27.73%	21.57%	21.57%	23.02%
General and administrative	3,585	3,702	4,119	3,939	3,799
Selling	1,840	1,760	1,552	1,433	1,658
Advertising and marketing	<u>966</u>	<u>1,133</u>	<u>1,671</u>	<u>2,129</u>	<u>2,085</u>
Total operating expenses	<u>6,390</u>	<u>6,595</u>	<u>7,765</u>	<u>7,501</u>	<u>7,542</u>
Operating income	213	1,017	\$ 1,445	\$ 301	\$ 1,852
Operating margins	0.93%	3.71%	3.50%	0.83%	4.54%
EBITDA	1,964	2,683	3,033	\$ 1,912	\$ 3,692
Interest expense	(1,281)	(1,126)	(832)	(1,082)	(1,290)
Interest income	14	6	3	2	-
Gain on sale of assets	30	-	-	8	-
Other	<u>(15)</u>	<u>89</u>	<u>(281)</u>	<u>111</u>	<u>-</u>
Total other expense	<u>(1,252)</u>	<u>(1,031)</u>	<u>(1,110)</u>	<u>(961)</u>	<u>(1,290)</u>
Pretax income (loss)	(1,039)	(14)	335	(659)	562
Pretax margins	-4.52%	-0.05%	0.81%	-1.82%	1.38%
Income tax expense (benefit)	<u>107</u>	<u>276</u>	<u>39</u>	<u>(322)</u>	<u>-</u>
Tax rate	-10.30%	-1971.43%	11.64%	48.84%	0.00%
Net income (loss) before minority	(1,146)	(290)	296	(337)	562
Minority interest	87	58	(6)	1	-
Net income (loss) for common	<u>\$ (1,059)</u>	<u>\$ (232)</u>	<u>\$ 303</u>	<u>\$ (338)</u>	<u>\$ 562</u>
EPS diluted	<u>\$ (0.88)</u>	<u>\$ (0.15)</u>	<u>\$ 0.16</u>	<u>\$ (0.18)</u>	<u>\$ 0.26</u>
Weighted average shares (diluted)	<u>1,208</u>	<u>1,512</u>	<u>1,884</u>	<u>1,918</u>	<u>2,140</u>
<u>% of revenue</u>					
Cost of sales	71.26%	72.27%	75.08%	80.82%	76.98%
General and administrative	15.60%	12.64%	10.58%	10.89%	9.31%
Selling	8.01%	6.41%	3.70%	3.96%	4.06%
Advertising and marketing	4.20%	4.13%	4.16%	5.89%	5.11%
<u>year / year growth</u>					
revenues	23.77%	19.45%	54.91%	-12.29%	12.85%

CTI Industries
Quarterly Income Statement
For Fiscal Year Ended December 31, 2001
(in thousands)

	Q1(3/01)A	Q2(6/01)A	Q3(9/01)A	Q4(12/01)A	FY12/01A
Net sales	\$ 6,081	\$ 6,876	\$ 6,808	\$ 7,682	\$ 27,447
Cost of sales	<u>4,458</u>	<u>5,068</u>	<u>4,851</u>	<u>5,458</u>	<u>19,835</u>
Gross profit	1,623	1,808	1,957	2,224	7,612
Gross margin	26.69%	26.29%	28.75%	28.95%	27.73%
Operating expenses					
General and administrative	747	818	857	1,280	3,702
Selling	426	445	492	397	1,760
Advertising and marketing	<u>271</u>	<u>307</u>	<u>296</u>	<u>259</u>	<u>1,133</u>
Total operating expenses	<u>1,444</u>	<u>1,570</u>	<u>1,645</u>	<u>1,936</u>	<u>6,595</u>
Operating income	<u>179</u>	<u>237</u>	<u>312</u>	<u>289</u>	<u>1,017</u>
Operating margins	2.94%	3.45%	4.58%	3.76%	3.71%
Other income (expense)					
Interest expense	(342)	(279)	(259)	(246)	(1,126)
Interest income	1	-	-	5	6
Gain on sale of assets	8	8	8	(24)	-
Other	<u>(35)</u>	<u>84</u>	<u>(137)</u>	<u>177</u>	<u>89</u>
Total other expense	<u>(369)</u>	<u>(187)</u>	<u>(388)</u>	<u>(88)</u>	<u>(1,031)</u>
Pretax income (loss)	(190)	50	(76)	201	(14)
Pretax margins	-3.12%	0.73%	-1.12%	2.62%	-0.05%
Income tax expense (benefit)	<u>9</u>	<u>4</u>	<u>2</u>	<u>261</u>	<u>276</u>
Tax rate	-4.74%	8.00%	-2.63%	129.85%	-1971.43%
Net income (loss) before minority interest	(199)	46	(78)	(59)	(290)
Minority interest	(23)	22	(20)	(37)	58
Net income (loss) for common	<u>\$ (176)</u>	<u>\$ 24</u>	<u>\$ (58)</u>	<u>\$ (22)</u>	<u>\$ (232)</u>
EPS diluted	<u>\$ (0.15)</u>	<u>\$ 0.02</u>	<u>\$ (0.05)</u>	<u>\$ (0.01)</u>	<u>\$ (0.15)</u>
Weighted average shares (diluted)	<u>1,208</u>	<u>1,208</u>	<u>1,208</u>	<u>1,512</u>	<u>1,512</u>
% of revenue					
Cost of sales	73.31%	73.71%	71.25%	71.05%	72.27%
General and administrative	12.28%	11.90%	12.59%	13.62%	12.64%
Selling	7.01%	6.47%	7.23%	5.17%	6.41%
Advertising and marketing	4.46%	4.46%	4.35%	3.37%	4.13%
year / year growth					
revenues	-13.29%	6.59%	39.19%	20.88%	19.45%

CTI Industries
Quarterly Income Statement
For Fiscal Year Ended December 31, 2002
(in thousands)

	Q1(3/02)A	Q2(6/02)A	Q3(9/02)A	Q4(12/02)A	FY12/02A
Net sales	\$ 9,738	\$ 10,906	\$ 10,873	\$ 9,719	\$ 41,237
Cost of sales	<u>7,184</u>	<u>8,300</u>	<u>8,188</u>	<u>8,673</u>	<u>32,344</u>
Gross profit	2,554	2,606	2,685	1,046	8,893
Gross margin	26.23%	23.90%	24.70%	10.76%	21.57%
Operating expenses					
General and administrative	957	1,127	1,168	867	4,119
Selling	375	375	408	394	1,552
Advertising and marketing	<u>393</u>	<u>441</u>	<u>459</u>	<u>378</u>	<u>1,671</u>
Total operating expenses	<u>1,770</u>	<u>2,003</u>	<u>2,035</u>	<u>1,957</u>	<u>7,765</u>
Operating income	784	603	650	(911)	\$ 1,445
Operating margins	8.05%	5.53%	5.97%	-9.37%	3.50%
Other income (expense)					
Interest expense	(180)	(204)	(220)	(226)	(832)
Interest income	0	-	1	2	3
Gain on sale of assets	(10)	(20)	(1)	-	-
Other	<u>48</u>	<u>(225)</u>	<u>(14)</u>	<u>259</u>	<u>(281)</u>
Total other expense	<u>(142)</u>	<u>(449)</u>	<u>(234)</u>	<u>35</u>	<u>(1,110)</u>
Pretax income (loss)	641	154	415	(876)	335
Pretax margins	6.58%	1.41%	3.82%	-9.01%	0.81%
Income tax expense (benefit)	<u>247</u>	<u>51</u>	<u>27</u>	<u>(286)</u>	<u>39</u>
Tax rate	38.53%	32.99%	6.50%	32.65%	11.64%
Net income (loss) before minority interest	394	103	388	(590)	296
Minority interest	24	(30)	1	(1)	(6)
Net income (loss) for common	<u>\$ 370</u>	<u>\$ 133</u>	<u>\$ 387</u>	<u>\$ (588)</u>	<u>\$ 303</u>
EPS diluted	<u>\$ 0.30</u>	<u>\$ 0.09</u>	<u>\$ 0.22</u>	<u>\$ (0.28)</u>	<u>\$ 0.16</u>
Weighted average shares (diluted)	<u>1,221</u>	<u>1,480</u>	<u>1,742</u>	<u>2,130</u>	<u>1,884</u>
% of revenue					
Cost of sales	73.77%	76.10%	75.30%	75.00%	75.08%
General and administrative	10.29%	10.33%	10.74%	10.91%	10.58%
Selling	3.85%	3.44%	3.75%	3.77%	3.70%
Advertising and marketing	4.04%	4.04%	4.22%	4.32%	4.16%
year / year growth					
revenues	60.14%	58.61%	59.71%	43.19%	54.91%

CTI Industries
Quarterly Income Statement
For Fiscal Year Ended December 31, 2003
(in thousands)

	Q1(3/03)A	Q2(6/03)A	Q3(9/03)A	Q4(12/03)E	FY12/03E
Net sales	\$ 10,162	\$ 8,662	\$ 8,429	\$ 9,779	\$ 36,167
Cost of sales	<u>8,225</u>	<u>6,756</u>	<u>6,654</u>	<u>7,595</u>	<u>29,230</u>
Gross profit	1,937	1,906	1,775	2,184	7,802
Gross margin	19.06%	22.00%	21.06%	22.34%	21.57%
General and administrative	1,259	1,051	749	880	3,939
Selling	402	217	414	400	1,433
Advertising and marketing	<u>589</u>	<u>661</u>	<u>390</u>	<u>489</u>	<u>2,129</u>
Total operating expenses	<u>2,250</u>	<u>1,929</u>	<u>1,553</u>	<u>1,769</u>	<u>7,501</u>
Operating income	(313)	(23)	222	415	\$ -
Operating margins	-3.08%	-0.27%	2.63%	4.25%	0.83%
Other income (expense)					
Interest expense	(202)	(274)	(301)	(305)	(1,082)
Interest income	-	1	1	-	2
Gain on sale of assets	-	8	0	-	8
Other	<u>(143)</u>	<u>293</u>	<u>(19)</u>	<u>(20)</u>	<u>111</u>
Total other expense	<u>(345)</u>	<u>28</u>	<u>(319)</u>	<u>(325)</u>	<u>(961)</u>
Pretax income (loss)	(658)	5	(97)	90	(659)
Pretax margins	-6.48%	0.06%	-1.15%	0.92%	-1.82%
Income tax expense (benefit)	<u>34</u>	<u>(130)</u>	<u>(226)</u>	<u>-</u>	<u>(322)</u>
Tax rate	-5.17%	0.00%	0.00%	0.00%	48.84%
Net income (loss) before minority interest	(692)	135	129	90	(337)
Minority interest	(2)	2	1	-	1
Net income (loss) for common	<u>\$ (690)</u>	<u>\$ 133</u>	<u>\$ 129</u>	<u>\$ 90</u>	<u>\$ (338)</u>
EPS diluted	<u>\$ (0.36)</u>	<u>\$ 0.06</u>	<u>\$ 0.06</u>	<u>\$ 0.05</u>	<u>\$ (0.18)</u>
Weighted average shares (diluted)	<u>1,918</u>	<u>2,140</u>	<u>1,997</u>	<u>2,000</u>	<u>1,918</u>
<u>% of revenue</u>					
Cost of sales	80.94%	78.00%	78.94%	77.66%	80.82%
General and administrative	12.39%	12.13%	8.89%	9.00%	10.89%
Selling	3.96%	2.51%	4.91%	4.09%	3.96%
Advertising and marketing	5.80%	7.63%	4.63%	5.00%	5.89%
<u>year / year growth</u>					
revenues	4.35%	-20.58%	-22.48%	0.62%	-12.29%

CTI Industries
Quarterly Income Statement
For Fiscal Year Ended December 31, 2004
(in thousands))

	Q1(3/04)E	Q2(6/04)E	Q3(9/04)E	Q4(12/04)E	FYE 12/04E
Net sales	\$ 9,435	\$ 10,430	\$ 10,067	\$ 10,884	\$ 40,816
Cost of sales	<u>7,271</u>	<u>8,025</u>	<u>7,734</u>	<u>8,391</u>	<u>31,422</u>
Gross profit	2,164	2,405	2,332	2,493	9,394
Gross margin	22.94%	23.06%	23.17%	22.91%	23.02%
General and administrative	925	939	956	980	3,799
Selling	377	417	428	435	1,658
Advertising and marketing	<u>543</u>	<u>600</u>	<u>453</u>	<u>490</u>	<u>2,085</u>
Total operating expenses	<u>1,845</u>	<u>1,956</u>	<u>1,837</u>	<u>1,905</u>	<u>7,542</u>
Operating income	320	449	495	588	\$ 1,852
Operating margins	3.39%	4.31%	4.92%	5.41%	4.54%
Other income (expense)					
Interest expense	(315)	(315)	(330)	(330)	(1,290)
Interest income					-
Gain on sale of assets					-
Other	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total other expense	<u>(315)</u>	<u>(315)</u>	<u>(330)</u>	<u>(330)</u>	<u>(1,290)</u>
Pretax income (loss)	5	134	165	258	562
Pretax margins	0.05%	1.29%	1.64%	2.37%	1.38%
Income tax expense (benefit)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Tax rate	0.00%	0.00%	0.00%	0.00%	0.00%
Net income (loss) for common	<u>\$ 5</u>	<u>\$ 134</u>	<u>\$ 165</u>	<u>\$ 258</u>	<u>\$ 562</u>
EPS diluted	<u>\$ 0.00</u>	<u>\$ 0.06</u>	<u>\$ 0.08</u>	<u>\$ 0.12</u>	<u>\$ 0.26</u>
Weighted average shares (diluted)	<u>2,140</u>	<u>2,140</u>	<u>2,140</u>	<u>2,140</u>	<u>2,140</u>
<u>% of revenue</u>					
Cost of sales	77.06%	76.94%	76.83%	77.09%	76.98%
General and administrative	9.80%	9.00%	9.50%	9.00%	9.31%
Selling	4.00%	4.00%	4.25%	4.00%	4.06%
Advertising and marketing	5.75%	5.75%	4.50%	4.50%	5.11%
<u>year / year growth</u>					
revenues	-7.15%	20.41%	19.43%	11.29%	12.85%

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

	FY12/02A	Q1(3/03)A	Q2(6/03)A	Q3(9/03)A
Assets				
Current Assets				
Cash	\$ 160	\$ 718	\$ 187	\$ 191
Accounts Receivable	5,385	6,217	4,730	4,963
Inventories	10,034	10,350	10,196	10,042
Deferred tax assets	248	480	361	415
Other	<u>311</u>	<u>741</u>	<u>815</u>	<u>778</u>
Total Current Assets	16,138	18,506	16,289	16,389
Total property and equipment, net	11,715	11,630	12,392	12,231
Other assets				
Deferred financing costs, net	52	36	49	49
Goodwill	1,113	1,113	1,113	1,113
Deferred tax assets	442	259	530	768
Other assets	<u>813</u>	<u>258</u>	<u>93</u>	<u>271</u>
Total other assets	<u>2,419</u>	<u>1,666</u>	<u>1,785</u>	<u>2,201</u>
Total Assets	<u>\$ 30,272</u>	<u>\$ 31,802</u>	<u>\$ 30,466</u>	<u>\$ 30,821</u>
Liabilities and Stockholders Equity				
Current liabilities				
Accounts payable	\$ 9,581	\$ 10,223	\$ 8,741	\$ 6,852
Over draft	113	-	-	195
Line of credit	5,643	6,182	3,813	3,442
Notes payable- current portion	1,743	3,014	2,863	6,234
Accrued liabilities	<u>1,966</u>	<u>2,675</u>	<u>3,225</u>	<u>2,834</u>
Total current liabilities	19,045	22,094	18,642	19,557
Long-term liabilities				
Non-current liabilities	710	671	971	1,070
Notes payable	<u>5,016</u>	<u>3,784</u>	<u>5,268</u>	<u>4,713</u>
Total Liabilities	24,771	26,549	24,881	5,783
Minority interest	26	23	9	10
Stockholders' equity				
Total stockholders' equity	<u>\$ 5,475</u>	<u>\$ 5,230</u>	<u>\$ 5,576</u>	<u>\$ 5,470</u>
Total Liabilities and Stockholders' Equity	<u>\$ 30,272</u>	<u>\$ 31,802</u>	<u>\$ 30,466</u>	<u>\$ 30,821</u>
	1,910	1,918	1,918	1,918