

# 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: Underperform**

Luis Martins

**CTIB \$3.65 (NASDAQ)**

December 19, 2005

	<u>FY2001A</u>	<u>FY2002A</u>	<u>FY2003A</u>	<u>FY2004A</u>	<u>FY2005E</u>
Revenues (Thousands)	\$27,447	\$41,236	\$36,260	\$37,193	\$28,810
EPS (fully diluted)	\$(0.15)	\$0.16	\$(0.30)	\$(1.28)	\$(0.46)

52-Week Range	\$7.67 – 0.50	Fiscal Year Ends	December
Shares Outstanding- (000)	2,036	Revenues/Share (TTM)	\$15.96
Approximate Float (000)	960	Price/Sales (TTM)	0.2X
Insider Holdings	52.7%	Price/Sales (2005)E	0.3X
Tangible Book Value/Share	\$0.76	Price/Earnings (TTM)	NMF
Price/Tangible book	4.8X	Price/Earnings (2005)E	NMF

*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 Underperform rating on CTI Industries (NASDAQ: CTIB). We believe that the upside potential of shares of the Company is limited relative to investment risk.*

*The Company's credit facility expires on December 31, 2005. The Company and its bank have agreed not to renew the senior loan agreement that is currently in place. Therefore, the Company is engaged in an effort to obtain alternative senior debt financing and has received several non-binding proposals for such financing. Management believes that in the event that the Company is unable to secure alternative senior debt financing by December 31, 2005, or an extension of its current line of credit, the Company's ability to continue operations will be adversely affected.*

*On November 22, 2005, CTI Industries reported third quarter revenues of \$6.034 million and a net loss of \$0.416 million or \$(0.21) per share. In the year ago quarter, CTIB reported revenues of \$8.126 million and a net loss of \$0.150 million or \$(0.08) per share. 2005 is proving to be a challenging year for CTIB.*

*We are lowering our 2005 estimates based on recent revenue and margin trends, Management's comments in the Company's 10Q, and our outlook for the Company for the next quarter. We are projecting revenues of \$28.8 million and net loss of \$0.915 million or \$(0.46) per share. Our prior estimates called for revenues of \$32.0 million and net loss of \$0.385 million or \$(0.20) per share.*

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

405 Lexington Avenue, 51st Floor, New York, N.Y. 10174

(800) 383-8464 Fax (631) 757-1333

[www.taglichbrothers.com](http://www.taglichbrothers.com)

## ***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 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 licenses for several characters.

- The Company manufactures and sells a line of latex balloons under the Partyloons product line name.

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.

During June 2005, the Company introduced a line of consumer food storage bags for use in the home under the Simply Smart(TM) brand. The Company is targeting major mass retailers, grocery, drug, and department stores throughout the United States and Canada. The Simply Smart bags are designed for use with all major home vacuum sealing machines (used to evacuate air and seal the bags for storage in the freezer, refrigerator or at room temperature). The bags, available in pint, quart and gallon sizes, are produced by CTIB utilizing a multi-layered, high-strength textured film to assure rapid removal of air, maximum vacuum, and a long-lasting, airtight seal.

## ***Recent Results***

On November 22, 2005, CTI Industries reported results for its third quarter, ended September 30, 2005. The Company reported revenues of \$6.034 million and a net loss of \$0.416 million or \$(0.21) per share. In the year ago quarter, CTIB reported revenues of \$8.126 million and a net loss of \$0.150 million or \$(0.08) per share.

In comparison, Taglich Brothers' estimates called for revenues of \$7.350 million and a net loss of \$0.253 million per share of \$(0.13) per share.

The following chart illustrates the Company's revenue mix in the third quarters of 2004 and 2005:

Chart of Actual Revenue Mix (\$ 000's)

Expense Item	3Q04A	3Q05A
Laminated & Printed Films	3,194	2,681
Metalized Balloons	3,318	3,035
Latex Balloons	1,183	1,145
Other	431	173

On an operating basis, CTIB reported a loss of \$0.157 million, as compared to a loss of \$0.031 million in the year ago period. Additionally, EBITDA decreased to \$0.159 million from \$0.383 million.

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

- Gross margin was flat at 20.6%, resulting in gross profits of \$1.2 million, as compared to \$1.7 million in the year ago period;
- Operating expenses decreased to \$1.4 million, as compared to \$1.7 million. The following table illustrates operating expenses by major line item:

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

Expense Item	3Q04A	3Q05A
Administrative	1,078	987
Selling	380	247
Advertising and Marketing	242	166

- Operating margins decreased to -2.6% from -0.4%, primarily due to lower revenues and higher costs as a percentage of revenues;
- Interest expense decreased to \$0.281 million from \$0.340 million stemming from lower borrowing costs;
- Miscellaneous items in the quarter resulted in other expense of \$0.004 million, as compared to income of \$0.129 million in the year ago period; and
- Income taxes resulted in a benefit of \$0.026 million, as compared to a benefit of \$0.091 million.

*Balance Sheet*

The Company maintains a minimal cash balance and utilizes its credit facility for liquidity. At September 30, 2005, CTIB had cash of \$0.20 million, a working capital deficit of \$1.87 million, long-term debt of \$6.63 million, total liabilities of \$20.26 million, and stockholders' equity of \$2.72 million.

**Investors should be acutely aware that the Company's credit facility expires on December 31, 2005. According to the Company's most recent 10Q, the Company and its bank have agreed not to renew the senior loan agreement that is currently in place. Therefore, the Company is engaged in an effort to obtain alternative senior debt financing and has received several non-binding proposals for such financing. Subsequently, CTIB disclosed that it received and signed a loan proposal with Charter One Bank which would provide the Company a \$6.5 million senior secured line of credit, a senior secured loan up to \$3.5 million based on the appraised value of the Company's domestic machinery and equipment, and a \$2.8 million senior secured mortgage loan. Investors need to know that proposal is not a commitment to make the loans. A commitment may only be issued upon completion of due diligence, credit committee approval, and execution of definitive loan documentation. A final agreement is also subject to various conditions including:**

- **Advances to the Company by principal shareholders of \$1 million;**
- **A field examination by the Bank; and**
- **Receipt of satisfactory appraisals regarding the Company's real estate, machinery, and equipment.**

According to the Company's 10Q filing, Management believes that in the event that the Company is unable to secure alternative senior debt financing by December 31, 2005, or an extension of its current line of credit, the Company's ability to continue operations will be adversely affected. There can be no assurance that the Company will be able to obtain the required new financing on terms acceptable to the Company, if at all, or to obtain an extension of its current line of credit beyond December 31, 2005. Management also highlighted that the Company has historically been able to obtain financing adequate to its financial needs and Management believes that the Company will be able to obtain new financing.

In the third quarter, the Company issued 50,229 shares of common stock in lieu of payment to several vendors totaling \$0.201 million. This transaction was done on September 23, 2005, reflecting the closing price on that date of \$4 per share.

### ***Outlook***

2005 is proving to be a challenging year for CTIB. In its latest 10Q, Management disclosed the following guidance:

- During the balance of 2005, sales of metalized balloons are expected to increase as compared to the first nine months of 2005 stemming from significant orders during the fourth quarter;
- Sales of laminated and printed films will increase during the remainder of 2005, as compared to the first nine months of the year due to new customers for these products;
- Sales of latex balloons will increase during the fourth quarter and throughout 2006, as compared to the first nine months due to anticipated sales increases to new and existing customers; and
- On the cost side, Management stated that it expects no significant change in major line item expenses during the remainder of 2005.

### ***Projections***

**We are lowering our 2005 estimates based on recent revenue and margin trends, Management's comments in the Company's 10Q, and the outlook for the Company for the next quarter.**

We are projecting revenues of \$28.8 million and net loss of \$0.915 million or \$(0.46) per share. Our prior estimates called for revenues of \$32.0 million and net loss of \$0.385 million or \$(0.20) per share.

Investors should note that on an operating income and EBITDA basis we are continuing to project a gain of \$0.043 million and \$1.5 million, respectively, based on the Company's ability to stabilize its gross margins and overall cost structure.

Investors should note that our estimates do not take into consideration any material revenues from the launch of the Company's new line of Simply Smart bags, pending further visibility relative to market acceptance and the Company's ability to translate revenues from these bags into incremental profits.

### ***Risks***

#### ***Balance Sheet***

The Company's balance sheet is highly leveraged. As of the end of the most recent quarter, the Company had a working capital deficit. 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 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.

**Its existing credit facility agreement expires on December 31, 2005. The Company is dependent upon the funds available under its line of credit agreement for liquidity. If Management is unable to obtain an extension of the maturity date, the Company's liquidity and operations may be adversely impacted. Management believes that in the event that the Company is unable to secure alternative senior debt financing by December 31, 2005, or an extension of its current line of credit, the Company's ability to continue operations will be adversely affected. Management contemplates that a loan agreement with Charter One Bank will close on or before December 31, 2005; however, a final agreement is subject to various conditions including:**

- **Advances to the Company by principal shareholders of \$1 million;**
- **A field examination by the Bank; and**
- **Receipt of satisfactory appraisals regarding the Company's real estate and machinery and equipment.**

**In the Company's 10Q, Management highlighted that the Company has historically been able to obtain financing adequate to its financial needs and Management believes that the Company will be able to obtain such new financing. There can be no assurance that the Company will be able to obtain the required new financing on terms acceptable to the Company, if at all, or to obtain an extension of its current line of credit beyond December 31, 2005.**

Additionally, certain terms of the existing loan agreement require the Company to maintain a specified level of tangible net worth and a ratio of EBITDA to fixed charges. The Company was in compliance with the covenant related to tangible net worth as of September 30, 2005; however, it was necessary for CTIB to receive a waiver from the bank regarding the EBITDA to fixed charges covenant. The proposed agreement with Charter One also provides various financial performance and other covenants and will require the subordination of certain obligations of the Company to shareholders.

#### *Reliance on Major Customers*

Sales to its top 10 customers represented 69.2% of total revenues in 2004. Four customers accounted for approximately 20.1%, 16.8%, 11.7% and 9.2%, respectively, of consolidated net sales. During the first nine months of 2005, three customers represented 49% of the Company's revenues.

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. Already the Company has disclosed that some major customers have reduced or virtually eliminating their purchases from the Company.

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.

#### *Dilution/Funding Risk*

If the Company requires capital it may be forced to secure additional outside financing. There is no assurance that it will obtain such financing, or that financing will be available on favorable terms. According to the most recent SEC filings, officers of CTIB have expressed and showed a willingness to supplement cash flows.

#### *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. 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.

#### *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 last thirteen meetings, the Federal Reserve raised the Discount Rate and its target rate for Fed Funds by 0.25 points 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 1.0 million shares and 697,000 shares, on average are traded daily.

#### *Miscellaneous Risks*

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

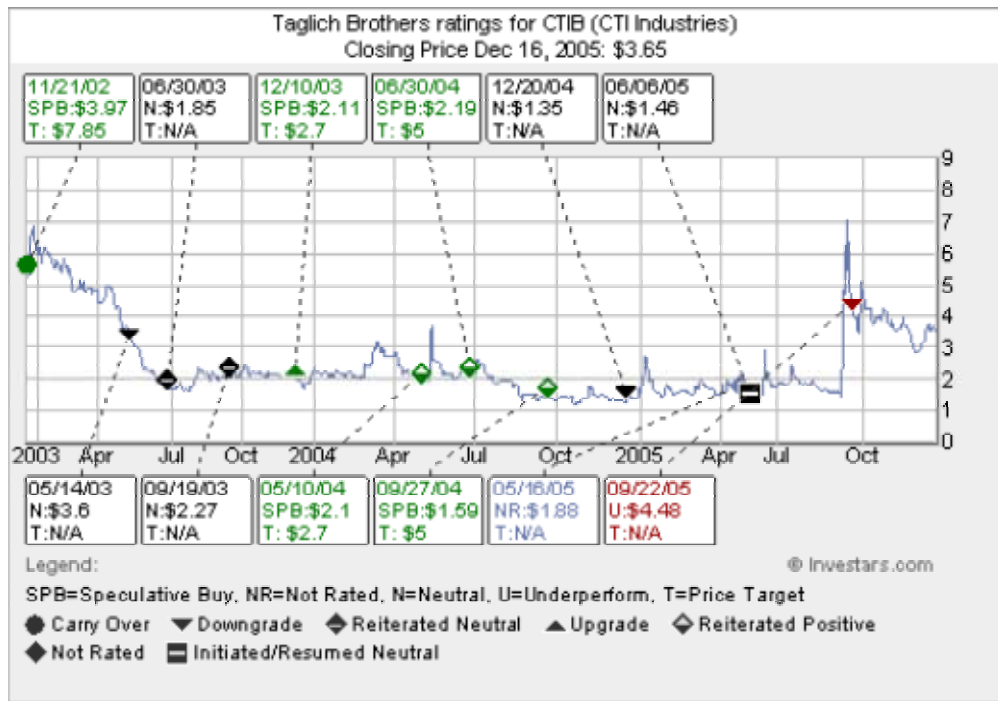
### **Conclusion**

**We are reiterating our Underperform rating on CTI Industries (NASDAQ: CTIB). We believe that the upside potential of shares of the Company is limited relative to investment risk.**

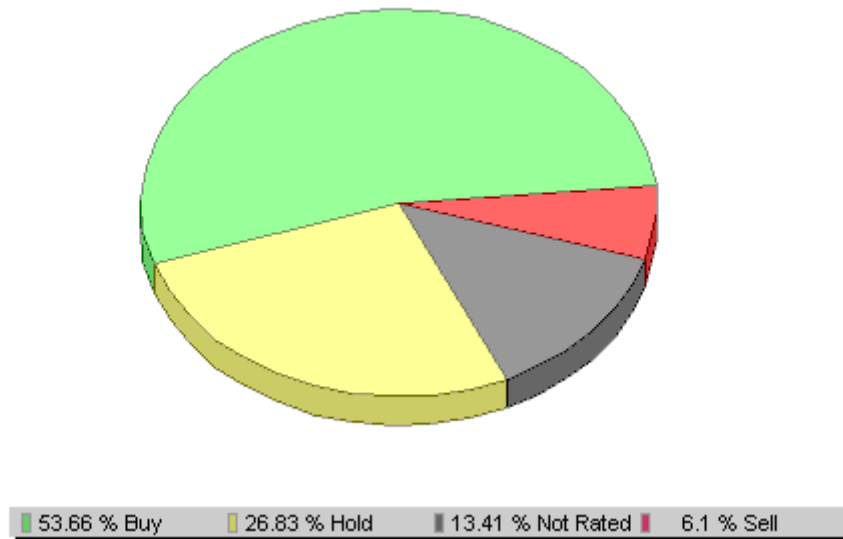
**Investors should be acutely aware that the Company is dependent upon the funds available under its credit facility for liquidity. If Management is unable to obtain an extension of the maturity date by December 31, 2005 or secure alternative senior debt financing, the Company's liquidity and operations may be adversely impacted.**

Additionally there continues to be a lack of visibility relative to the Company's ability to scale up revenues, improve margins, obtain the necessary cash flow or outside financing to fund and grow its business, and deliver on its strategic plans. Investors should also be cognizant that an investment in the shares of CTIB carries many risks including the following risks and concerns:

- Customer relationships and revenue issues;
- Leveraged and illiquid balance sheet; and
- Microcap risk.



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

None

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

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

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

	<b>FY12/01A</b>	<b>FY12/02A</b>	<b>FY12/03A</b>	<b>FY12/04A</b>	<b>FY12/05E</b>
Net sales	\$ 27,447	\$ 41,237	\$ 36,260	\$ 37,193	\$ 28,810
Cost of sales	<u>19,835</u>	<u>32,344</u>	<u>29,627</u>	<u>30,841</u>	<u>22,891</u>
Gross profit	7,612	8,893	6,633	6,352	5,919
Gross margin	27.73%	21.57%	18.29%	17.08%	20.54%
Operating expenses					
General and administrative	3,702	4,119	4,054	4,342	4,027
Selling	1,760	1,552	1,442	1,515	1,046
Advertising and marketing	1,133	1,671	1,816	1,167	803
Litigation	-	105	-	-	-
Total operating expenses	<u>6,595</u>	<u>7,765</u>	<u>7,312</u>	<u>6,921</u>	<u>5,876</u>
Operating income	1,017	\$ 1,445	(679)	(567)	43
Operating margins	3.71%	3.50%	-1.87%	-1.52%	0.15%
EBITDA	2,683	3,033	940	1,178	1,475
		13%	-69.0%	25.3%	25.2%
Other income (expense)					
Interest expense	(1,126)	(832)	(1,103)	(1,350)	(1,168)
Interest income	6	3	13	-	-
Gain on sale of assets	-	-	28	15	-
Other	89	(281)	392	711	-
Total other expense	<u>(1,031)</u>	<u>(1,110)</u>	<u>(670)</u>	<u>(624)</u>	<u>(1,168)</u>
Pretax income (loss)	(14)	335	(1,349)	(1,192)	(907)
Pretax margins	-0.05%	0.81%	-3.72%	-3.20%	-3.15%
		-	-	-	-
Income tax expense (benefit)	<u>276</u>	<u>39</u>	<u>(783)</u>	<u>1,286</u>	<u>8</u>
Tax rate	-1971.43%	11.64%	58.04%	-107.89%	-0.88%
Net income (loss) before minority	(290)	296	(567)	(2,478)	(915)
Minority interest	58	(6)	(0)	1	-
Net income (loss) for common	<u>\$ (232)</u>	<u>\$ 303</u>	<u>\$ (566)</u>	<u>\$ (2,479)</u>	<u>\$ (915)</u>
EPS diluted	<u>\$ (0.15)</u>	<u>\$ 0.16</u>	<u>\$ (0.30)</u>	<u>\$ (1.28)</u>	<u>\$ (0.46)</u>
Weighted average shares (diluted)	<u>1,512</u>	<u>1,884</u>	<u>1,918</u>	<u>1,931</u>	<u>1,981</u>
<u>% of revenue</u>					
Cost of sales	72.27%	75.08%	81.71%	82.92%	79.46%
General and administrative	12.64%	10.58%	11.18%	11.67%	13.98%
Selling	6.41%	3.70%	3.98%	4.07%	3.63%
Advertising and marketing	4.13%	4.16%	5.01%	3.14%	2.79%
<u>year / year growth</u>					
revenues	19.45%	54.91%	-12.07%	2.57%	-22.54%

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)A	Q4(12/04)A	FY12/04A
Net sales	\$ 10,893	\$ 9,592	\$ 8,126	\$ 8,582	\$ 37,193
Cost of sales	<u>8,746</u>	<u>7,560</u>	<u>6,456</u>	<u>8,079</u>	<u>30,841</u>
Gross profit	2,147	2,032	1,670	503	6,352
Gross margin	19.71%	21.18%	20.55%	5.86%	17.08%
Operating expenses					
General and administrative	989	1,175	1,078	1,169	4,411
Selling	391	357	380	367	1,495
Advertising and marketing	<u>393</u>	<u>282</u>	<u>242</u>	<u>97</u>	<u>1,014</u>
Total operating expenses	<u>1,773</u>	<u>1,814</u>	<u>1,700</u>	<u>1,634</u>	<u>6,921</u>
Operating income	374	218	(30)	(1,131)	(567)
Operating margins	3.43%	2.27%	-0.37%	-13.18%	-1.52%
EBITDA	883	618	383	(802)	1,082
Other income (expense)					
Interest expense	(331)	(339)	(340)	(340)	(1,350)
Gain on sale of assets	-	15	108	(1)	122
Other	<u>564</u>	<u>(89)</u>	<u>21</u>	<u>108</u>	<u>604</u>
Total other expense	<u>233</u>	<u>(413)</u>	<u>(211)</u>	<u>(233)</u>	<u>(624)</u>
					-
Pretax income (loss)	607	(195)	(241)	(1,363)	(1,192)
Pretax margins	5.57%	-2.03%	-2.97%	-15.88%	-3.20%
					-
Income tax expense (benefit)	<u>233</u>	<u>(58)</u>	<u>(91)</u>	<u>1,202</u>	<u>1,286</u>
Tax rate	38.39%	0.00%	0.00%	0.00%	-107.89%
Net income (loss) before minority interes	374	(137)	(150)	(2,565)	(2,478)
Minority interest	2	(1)	-	-	1
Net income (loss) for common	<u>\$ 372</u>	<u>\$ (136)</u>	<u>\$ (150)</u>	<u>\$ (2,565)</u>	<u>\$ (2,479)</u>
EPS diluted	<u>\$ 0.18</u>	<u>\$ (0.07)</u>	<u>\$ (0.08)</u>	<u>\$ (1.31)</u>	<u>\$ (1.28)</u>
Weighted average shares (diluted)	<u>2,045</u>	<u>1,918</u>	<u>1,933</u>	<u>1,954</u>	<u>1,931</u>
<u>% of revenue</u>					
Cost of sales	80.29%	78.82%	79.45%	94.14%	82.92%
General and administrative	9.08%	12.25%	13.27%	13.62%	11.86%
Selling	3.59%	3.72%	4.68%	4.28%	4.02%
Advertising and marketing	3.61%	2.94%	2.98%	1.13%	2.73%
<u>year / year growth</u>					
revenues	7.19%	10.74%	-3.59%	-4.71%	2.57%

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)E	FY12/05E
Net sales	\$ 9,103	\$ 7,573	\$ 6,034	\$ 6,100	\$ 28,810
Cost of sales	<u>7,229</u>	<u>5,990</u>	<u>4,792</u>	<u>4,880</u>	<u>22,891</u>
Gross profit	1,874	1,583	1,242	1,220	5,919
Gross margin	20.59%	20.90%	20.58%	20.00%	20.54%
<b>Operating expenses</b>					
General and administrative	1,019	1,021	987	1,000	4,027
Selling	304	245	247	250	1,046
Advertising and marketing	<u>224</u>	<u>213</u>	<u>166</u>	<u>200</u>	<u>803</u>
Total operating expenses	<u>1,547</u>	<u>1,479</u>	<u>1,400</u>	<u>1,450</u>	<u>5,876</u>
Operating income	327	104	(157)	(230)	43
Operating margins	3.59%	1.37%	-2.60%	-3.77%	0.15%
EBITDA	729	492	159	95	1,475
<b>Other income (expense)</b>					
Interest expense	(305)	(282)	(281)	(300)	(1,168)
Other	<u>58</u>	<u>162</u>	<u>(4)</u>	<u>-</u>	<u>-</u>
Total other expense	<u>(247)</u>	<u>(120)</u>	<u>(285)</u>	<u>(300)</u>	<u>(1,168)</u>
Pretax income (loss)	80	(15)	(442)	(530)	(907)
Pretax margins	0.88%	-2.67%	-2.67%	-2.67%	-3.15%
Income tax expense (benefit)	<u>(4)</u>	<u>38</u>	<u>(26)</u>	<u>-</u>	<u>8</u>
Tax rate	-5.00%	0.00%	0.00%	0.00%	-0.88%
Net income (loss) before minority interest	84	(53)	(416)	(530)	(915)
Minority interest	-	-	-	-	-
Net income (loss) for common shareholders	<u>\$ 84</u>	<u>\$ (53)</u>	<u>\$ (416)</u>	<u>\$ (530)</u>	<u>\$ (915)</u>
EPS diluted	<u>\$ 0.04</u>	<u>\$ (0.03)</u>	<u>\$ (0.21)</u>	<u>\$ (0.26)</u>	<u>\$ (0.46)</u>
Weighted average shares (diluted)	<u>1,970</u>	<u>1,954</u>	<u>1,964</u>	<u>2,037</u>	<u>1,981</u>
<b>% of revenue</b>					
Cost of sales	79.41%	79.10%	79.42%	80.00%	79.46%
General and administrative	11.19%	13.48%	16.36%	16.39%	13.98%
Selling	3.34%	3.24%	4.09%	4.10%	3.63%
Advertising and marketing	2.46%	2.81%	2.75%	3.28%	2.79%
<b>year / year growth</b>					
revenues	-16.43%	-21.05%	-25.74%	-28.92%	-22.54%

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

	FY12/04A	1Q05A	2Q05A	3Q05A
<b>Assets</b>				
<b>Current Assets</b>				
Cash	\$ 526	\$ 374	\$ 384	\$ 203
Accounts Receivable	6,123	5,655	4,668	4,016
Inventories	8,349	7,330	6,982	7,017
Other	647	599	520	510
<b>Total Current Assets</b>	<b>15,645</b>	<b>13,958</b>	<b>12,554</b>	<b>11,745</b>
<b>Total property and equipment, net</b>	<b>10,589</b>	<b>10,316</b>	<b>10,095</b>	<b>9,857</b>
<b>Other assets</b>				
Deferred financing costs, net	121	109	105	53
Goodwill	1,113	1,113	1,113	1,113
Deferred tax assets	175	156	119	144
Other assets	245	92	58	59
<b>Total other assets</b>	<b>1,654</b>	<b>1,470</b>	<b>1,395</b>	<b>1,370</b>
<b>Total Assets</b>	<b>\$ 27,888</b>	<b>\$ 25,744</b>	<b>\$ 24,044</b>	<b>\$ 22,973</b>
<b>Liabilities and Stockholders Equity</b>				
<b>Current liabilities</b>				
Accounts payable	\$ 6,148	\$ 5,990	\$ 5,356	\$ 5,489
Over draft	513	468	309	329
Line of credit	6,401	5,202	4,808	3,916
Notes payable- current portion	3,561	3,133	2,926	2,735
Accrued liabilities	1,812	1,435	1,253	1,146
<b>Total current liabilities</b>	<b>18,435</b>	<b>16,228</b>	<b>14,652</b>	<b>13,615</b>
<b>Long-term liabilities</b>				
Non-current liabilities	1,371	1,395	1,426	1,609
Notes payable	5,120	5,090	5,060	5,019
<b>Total Liabilities</b>	<b>24,926</b>	<b>22,713</b>	<b>21,138</b>	<b>20,243</b>
Minority interest	10	11	11	11
<b>Stockholders' equity</b>				
<b>Total stockholders' equity</b>	<b>\$ 2,951</b>	<b>\$ 3,020</b>	<b>\$ 2,895</b>	<b>\$ 2,718</b>
<b>Total Liabilities and Stockholders' Equity</b>	<b>\$ 27,888</b>	<b>\$ 25,744</b>	<b>\$ 24,044</b>	<b>\$ 22,973</b>
	1,954	1,954	1,954	2,036