

# 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: Neutral**

Luis Martins

**CTIB – \$1.35 (NASDAQ)**

December 20, 2004

	<u>FY2001A</u>	<u>FY2002A</u>	<u>FY2003A</u>	<u>FY2004E</u>	<u>FY2005E</u>
Revenues (Thousands)	\$27,447	\$41,236	\$36,260	\$37,011	\$34,046
EPS (fully diluted)	\$(0.15)	\$0.16	\$(0.30)	\$(0.12)	\$(0.45)

52-Week Range	\$4.38 – 1.25	Fiscal Year Ends	December
Shares Outstanding- (000)	1,945	Revenues/Share (TTM)	\$19.26
Approximate Float (000)	800	Price/Sales (TTM)	0.1X
Insider Holdings	58.3%	Price/Sales (2005)E	0.1X
Tangible Book Value/Share	\$2.15	Price/Earnings (TTM)	NMF
Price/Tangible book	0.6X	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 30 foreign countries.*

### Key Investment Considerations:

*We are downgrading our rating on shares of CTI Industries (NASDAQ: CTIB) to a Neutral from a Speculative Buy, pending the Company's ability to replace lost revenue from major customers, achieve profitability, and maintain compliance with all its credit facility covenants.*

*On November 22, 2004, CTIB announced third quarter net revenues of \$8.126 million and a net loss of \$0.150 million or \$(0.08) per diluted share. In the same period last year, CTIB reported revenues of \$8.429 million and net income of \$0.129 million or \$0.06 per diluted share.*

*The decrease in third quarter and nine months sales of laminated and printed films was attributed to a decline in sales to a large customer (ITW Spacebag) due to the customer engaging in pouch production internally. Additionally, CTIB is not supplying this customer with a component of the pouches.*

*Hallmark, another large customer of the Company, has advised CTIB that the supply agreement and license agreement between the companies, which expire in March 2005, will not be extended after the expiration date. Additionally, the distribution agreement among the companies with respect to Hallmark licensed products will also terminate in March 2005.*

*We are lowering our estimates for fiscal 2004 and 2005 based on recent operating results, customer relationship trends, public guidance, and the outlook for the next 15-months.*

*As of September 30, 2004, CTIB was not in compliance with the covenant relating to the ratio of EBITDA to fixed charges, but the lender issued a waiver.*

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

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

(800) 383-8464-1220 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, latex balloons, punch balls and other inflatable toy items); and
- Specialty and printed films primarily for food packaging, specialized consumer uses, and various commercial applications.

The Company's products are grouped into three categories, Commercial films/containers, Metalized balloons, and Latex balloons. During 2003, these three categories accounted for 48%, 34%, and 11% of overall sales, respectively. The remaining 7% of revenues were derived from the sale of helium, accessories, and related items. The sales mix in the first nine months of 2004 was 36%, 44%, 14%, and 5%, respectively, of total sales.

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

### *Metalized Balloons*

Through this product line, CTIB manufactures over 450 balloon designs, including Superloons, Ultraloons, Miniloons, Card-B-Loons, Shape-A-Loons, Minishapes, and Walk-about. Balloons are manufactured in varying shapes and sizes, as well as printed designs or messages containing well known designs, figures, and licensed characters. The Company maintains many of its own licenses for several characters. Featured characters include: Garfield, Peanuts, Precious Moments, and Kinka.

### *Latex Balloons*

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

The Company sells and distributes its balloon products principally through a network of approximately 600 distributors and wholesalers located throughout the United States and in several foreign countries. The end users of CTIB's balloons and toys purchase them in retail outlets such as general merchandise chains, drugstore chains, grocery chains, card and gift shops, and party goods stores, as well as through florists and balloon decorators.

### *Commercial Films and Containers*

In this product line, CTIB is involved in the production and selling of films utilized for the packaging of various products, principally food products such as cola syrup, coffee, and juices. The Company also laminates, extrusion coats, and prints films and sells them to customers who utilize the films for packaging applications. These products are mostly converted by clients to bags or pouches for the packaging of food products.

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

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

## ***Recent Results***

On November 22, 2004, CTI Industries announced results for its third quarter of 2004, ended September 30, 2004. The Company reported net revenues of \$8.126 million and a net loss of \$0.150 million or \$(0.08) per share. In the same period last year, CTIB reported revenues of \$8.429 million and net income of \$0.129 million

or \$0.06 per diluted share. In comparison, Taglich Brothers had estimated net sales of \$9.1 million and net income of \$0.025 million or \$0.01 per share.

The following chart illustrates revenue by major product category:

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

<b>Product Line</b>	<b>3Q03A</b>	<b>3Q04A</b>
Laminated and Printed Films	5,033	3,194
Metalized Balloons	2,574	3,318
Latex Balloons	511	1,183
Other	311	431

Investors should note the following revenue items:

- The significant drop in the sales of laminated and printed films. Management attributed the decline to lower sales to a large customer, ITW Spacebag, primarily due to ITW Spacebag engaging in pouch production internally and CTIB not supplying ITW a component of the pouches. According to Management, sales to this customer declined by \$4.228 million during the first nine months of 2004.
- Although sales of balloon products increased, sales of balloons to Hallmark declined by \$0.373 million and future sales may decline perceptibly. The supply agreement and license agreement between the companies expire in March 2005 and Hallmark has advised CTIB that these agreements will not be extended after the expiration date. Additionally, the distribution agreement among the companies with respect to Hallmark licensed products will also terminate in March 2005.

The Company anticipates that Hallmark purchases will substantially decline during 2005. Sales to Hallmark during the first nine months of 2004 were \$2.4 million. On a positive note, although the relationship with Hallmark for new product production will end in March 2005, the Company will be able to sell remaining Hallmark licensed products through March 2006; therefore, a material reduction in the value of inventory is not anticipated.

- Mitigating some of the revenue loss from ITW and Hallmark was increased sales of laminated/printed films to Rapak, LLC and additional sales of latex and metalized balloons to new and smaller customers in the United States and Mexico.

On an operating basis, CTIB reported a loss of \$0.031 million, as compared to income of \$0.222 million in the year ago period. Additionally, EBITDA decreased to \$0.383 million from \$0.673 million.

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

- Gross margin decreased slightly to 20.55% from 21.06%, primarily due to a shift toward lower margin products;
- Operating expenses increased to \$1.7 million from \$1.553 million, primarily due to increased administrative expenses stemming from higher bad debt and public company costs. The following table (on the next page) illustrates operating expenses by major line item:

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

<b>Expense Item</b>	<b>3Q03A</b>	<b>3Q04A</b>
Administrative	749	1078
Selling	414	380
Advertising and Marketing	391	242

- Operating margins declined to 0.37% from 2.63%, primarily due to lower sales and gross margins, as well as higher operating expenses;
- Interest expense increased to \$0.339 million from \$0.301 million stemming from higher borrowing costs;
- Miscellaneous items in the quarter resulted in other income of \$0.129 million, as compared to expenses of \$0.018 million in the year ago period; and
- The Company reported an income tax benefit of \$0.091 million versus an income tax benefit of \$0.226 million in the year ago.

#### *Balance Sheet*

At the end of the third quarter, the Company had cash and cash equivalents of \$0.407 million, a working capital deficit of \$0.341 million, long-term debt of \$6.519 million, total liabilities of \$24.894 million, and stockholders' equity of \$5.475 million. At December 31, 2003, CTIB had cash of \$0.33 million, a working capital deficit of \$0.71 million, long-term debt of \$7.83 million, total liabilities of \$25.36 million, and stockholders' equity of \$5.21 million.

CTI Industries has a senior loan facility with Cole Taylor Bank of Chicago, Illinois. Under the loan agreement with Cole, CTIB has both term and revolving loan facilities totaling up to \$11 million, at an interest rate of prime plus 1.5%. The loans are secured by equipment, inventory, receivables, and other assets. The term loan of \$3.5 million is based on the appraised value of equipment, while the revolving line of credit, totaling a maximum of \$7.5 million, is based on advances of up to 85% of eligible receivables and up to 50% of the value of inventory. At September 30, 2004, CTIB was not in compliance with the covenant relating to the ratio of EBITDA to fixed charges, but the lender issued a waiver. According to the third quarter 10Q, the Company has only \$0.34 million available under this line of credit.

In July 2004, the Company entered into an agreement with Cornell Capital for a \$5 million standby equity distribution agreement. The two year agreement will allow CTIB to access additional capital for general and special corporate purposes, as well as increase liquidity in the Company's shares. To date, the Company did not tap into this facility; however, it issued shares as partial consideration for the standby facility.

#### ***Projections***

**We are lowering our revenues, EBITDA, earnings, and per share estimates for fiscal 2004 and 2005 based on recent operating results, customer relationship trends, public guidance, and the outlook for the next 15-months.**

Our revised fiscal 2004 estimates call for revenues of \$37.01 million, EBITDA of \$2.3 million, and a net loss of \$0.299 million or \$(0.12) per share. Our previous projections called for revenues of \$38.96 million, EBITDA of \$3.2 million, and net income of \$0.288 million or \$0.14 per share.

Our revised fiscal 2005 estimates call for revenues of \$34.05 million, EBITDA of \$2.3 million, and a net loss of \$0.909 million or \$(0.45) per share. Our previous projections called for revenues of \$43.39 million, EBITDA of \$3.9 million, and net income of \$0.458 million or \$0.21 per share.

The primary reason we are lowering our estimates stems from the loss of revenues from major customers, in particular two major customers, ITW Spacebag and Hallmark, identified in the Company's 10Q filing and discussed earlier.

Our current model assumes:

- A small increase in revenues in 2004, followed by a decline in 2005, primarily due to the Company's recent revenue trends and customer demand for the Company's product lines. Most notably the loss of

sales from two major customers, ITW Spacebag and Hallmark. The following is the projected revenue mix by product line;

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

<b>Product Line</b>	<b>2004E</b>	<b>2005E</b>
Laminated and Printed Films	13,483	13,955
Metalized Balloons	16,246	12,500
Latex Balloons	5,263	5,500
Other	2,020	2,091

- Slightly higher gross margins, primarily due to improved manufacturing efficiencies and productivity, as well as Management's continued focus on improving margins. We are projecting gross margins of 20.6% in fiscal 2005, as compared to 22.6% in fiscal 2004;
- Operating expenses of \$7.0 million and \$6.8 million in fiscal 2004 and 2005, respectively, with operating margins of 1.6% and 1.7%, respectively. Improved operating margins should be achieved due to Management's efforts to reduce factory overhead and direct labor costs. The following is a chart of projected operating expenses by line item;

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

<b>Expense Item</b>	<b>2004E</b>	<b>2005E</b>
Administrative	4,342	4,000
Selling	1,508	1,553
Advertising and Marketing	1,167	1,202

- Interest expense of \$1.36 million and \$1.50 million in 2004 and 2005, respectively, based on recent financing efforts and a higher interest rate environment. After its last four meetings, the Federal Reserve raised the Discount Rate and its target rate for Fed Funds by 0.25 basis points after each meeting;
- EBITDA of \$2.3 million in both 2004 and 2005; and
- Average shares outstanding (fully diluted) of 2.0 million in 2004 and 2005, respectively.

Our estimates do not include any one-time, non-cash, or extraordinary items which may impact the financial results of the Company. The presence of such items has at times dramatically impacted the Company's historical net income and EPS results. These items are almost always only known to Management at the later stages of compiling consolidated results. Therefore, we believe that operating income and EBITDA are better measures of the true performance of the Company. The Company's net income results, at least on a historical basis, have had a propensity to contain one-time, non-cash, and extraordinary charges which mask the Company's true operating performance.

## **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 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. Investors should also be aware that at the end of the quarter, CTIB was not in compliance with the covenant relating to the ratio of EBITDA to fixed charges, but the lender issued a waiver. If further non-compliance occurs and the lender does not issue a waiver and the Company is forced to repay outstanding balances, its liquidity could be called into question.

In the event that operations suffer a setback due to an unforeseen expense or macroeconomic issues, the Company's policy of maintaining a minimal cash balance may restrict its financial liquidity and may impact financial results and growth prospects.

*Dilution*

The Company entered into a standby equity distribution agreement with Cornell Capital Partners, which calls for the Company to sell Cornell Capital Partners up to \$5.0 million worth of common stock at 100% of the market price. If CTIB taps this facility, it will likely cause existing shareholders to suffer dilution.

*Funding Risk*

There are limitations on the amount of funds the Company can obtain in a given period under the equity facility. If the Company requires capital above this limit it may be forced to secure additional financing. There is no assurance that it will obtain such financing, or that financing will be available on favorable terms. According to the most recent 10Q, officers of CTIB have expressed a willingness to supplement cash flows. However, it is contingent upon CTI Industries maintaining compliance with the fixed coverage ratio as mandated by the Company's credit covenants.

*Reliance on Major Customers*

The Company's top three customers make up a significant portion of its business or about 43% of total revenues in the first nine months of 2004. 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 publicly stated that two major customers are sharply reducing 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.

*Shares Outstanding*

CTIB has a limited number of shares outstanding; therefore, any change in the top-line could dramatically impact bottom-line results. Based on the current fully diluted shares outstanding, a \$0.1 million change in net income would result in a \$0.05 per share change in EPS.

*Unknown Financial Items*

Our estimates do not include any one-time, non-cash, or extraordinary items which may impact the financial results of the Company. The presence of such items will likely have a dramatic impact on the bottom line results of the Company. These items are almost always never known to the public until the Company reports its actual results and known mainly to Management at the later stages of compiling consolidated results.

*International Operations*

CTIB has operations in the United Kingdom and Mexico. Through its majority owned, Flexo Universal, CTIB operates a facility in Guadalajara, Mexico which incorporates 43,000 square feet of production, printing, warehouse and office space. Through its wholly-owned subsidiary, CTI Balloons Ltd, the Company conducts warehouse, fulfillment and sales operations in Rugby, United Kingdom for metalized and latex balloons. Sales and fulfillment for all of the United Kingdom, Europe and the Middle East are conducted from this facility. International operations expose the Company to additional risk factors (i.e. currency, legal, and regulatory) that it would not ordinarily be exposed to in the United States.

*Competition*

The Company operates in highly competitive and fragmented industries (balloon, novelty industry, and packaging). There are number of competitors that may have greater resources than CTIB.

*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 four meetings, the Federal Reserve raised the Discount Rate and its target rate for Fed Funds by 0.25 basis 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 0.8 million shares and 8,454 shares, on average are traded daily.

*Miscellaneous Risks*

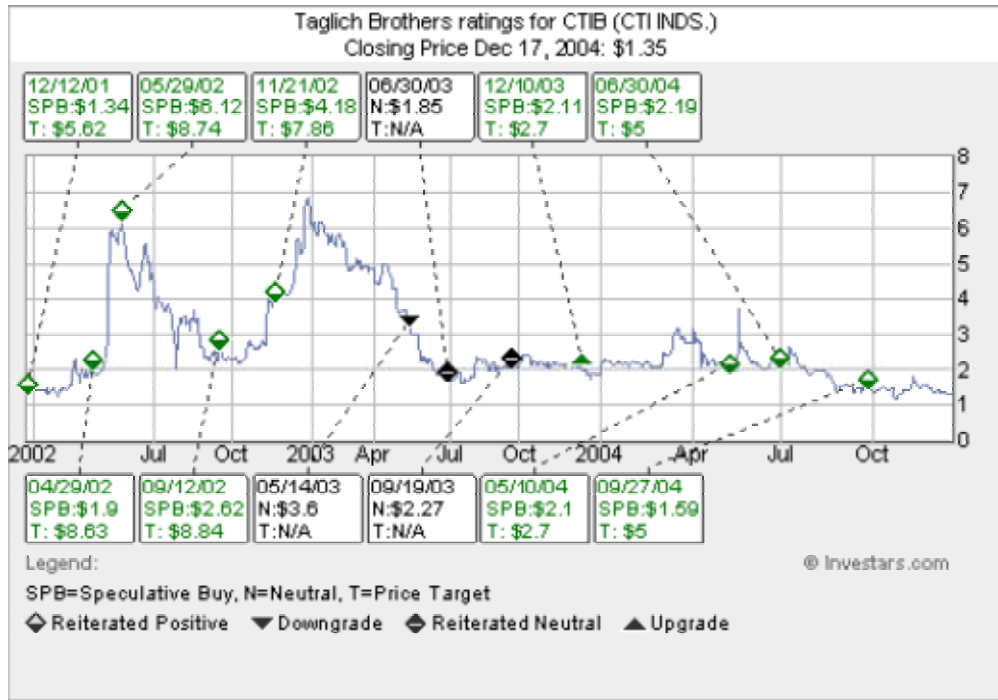
The Company's financial results and equity values are subject to other risks and uncertainties known and unknown, including but not limited to competition, operations, financial markets, regulatory risk, and/or other events. These risks may cause actual results to differ from expected results.

**Conclusion**

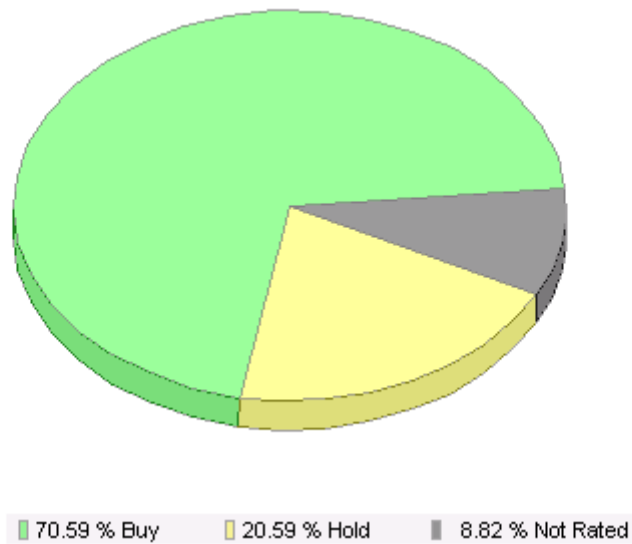
**We are downgrading our rating on shares of CTI Industries (NASDAQ: CTIB) to a Neutral from a Speculative Buy, pending the Company's ability to replace lost revenue from major customers, achieve profitability, and maintain compliance with all its credit facility covenants.**

Investors should note that sales are expected to be soft and the Company is projected to incur net losses due to:

- A large customer, ITW Spacebag, is now engaging in pouch production internally and CTIB is no longer supplying ITW a component of the pouches. According to Management, sales to this customer declined by \$4.228 million during the first nine months of 2004; and
- Hallmark, another large customer, has advised CTIB that the supply agreement and license agreement between the companies expire in March 2005 and agreements will not be extended after the expiration date. Additionally, the distribution agreement among the companies with respect to Hallmark licensed products will also terminate in March 2005. The Company anticipates that Hallmark purchases will substantially decline during 2005. Sales to Hallmark during the first nine months of 2004 were \$2.4 million.



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.**

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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

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

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

	FY12/01A	FY12/02A	FY12/03A	FY12/04E	FY12/05E
Net sales	\$ 27,447	\$ 41,237	\$ 36,260	\$ 37,011	\$ 34,046
Cost of sales	<u>19,835</u>	<u>32,344</u>	<u>29,627</u>	<u>29,397</u>	<u>26,700</u>
Gross profit	7,612	8,893	6,633	7,614	7,346
Gross margin	27.73%	21.57%	18.29%	20.57%	21.58%
Operating expenses					
General and administrative	3,702	4,119	4,054	4,342	4,000
Selling	1,760	1,552	1,442	1,508	1,553
Advertising and marketing	1,133	1,671	1,816	1,167	1,202
Litigation	-	105	-	-	-
Total operating expenses	<u>6,595</u>	<u>7,765</u>	<u>7,312</u>	<u>7,017</u>	<u>6,755</u>
Operating income	1,017	\$ 1,445	(679)	597	591
Operating margins	3.71%	3.50%	-1.87%	1.61%	1.74%
EBITDA	2,683	3,033	940	2,344	2,341
Other income (expense)					
Interest expense	(1,126)	(832)	(1,103)	(1,360)	(1,500)
Interest income	6	3	13	-	-
Gain on sale of assets	-	-	28	15	-
Other	89	(281)	392	496	-
Total other expense	<u>(1,031)</u>	<u>(1,110)</u>	<u>(670)</u>	<u>(741)</u>	<u>(1,500)</u>
Pretax income (loss)	(14)	335	(1,349)	(144)	(909)
Pretax margins	-0.05%	0.81%	-3.72%	-0.39%	-2.67%
Income tax expense (benefit)	<u>276</u>	<u>39</u>	<u>(783)</u>	<u>84</u>	<u>-</u>
Tax rate	-1971.43%	11.64%	58.04%	-58.33%	0.00%
Net income (loss) before minority interes	(290)	296	(567)	(228)	(909)
Minority interest	58	(6)	(0)	1	-
Net income (loss) for common	<u>\$ (232)</u>	<u>\$ 303</u>	<u>\$ (566)</u>	<u>\$ (229)</u>	<u>\$ (909)</u>
EPS diluted	<u>\$ (0.15)</u>	<u>\$ 0.16</u>	<u>\$ (0.30)</u>	<u>\$ (0.12)</u>	<u>\$ (0.45)</u>
Weighted average shares (diluted)	<u>1,512</u>	<u>1,884</u>	<u>1,918</u>	<u>1,967</u>	<u>2,000</u>
<u>% of revenue</u>					
Cost of sales	72.27%	75.08%	81.71%	79.43%	78.42%
General and administrative	12.64%	10.58%	11.18%	11.73%	11.75%
Selling	6.41%	3.70%	3.98%	4.07%	4.56%
Advertising and marketing	4.13%	4.16%	5.01%	3.15%	3.53%
<u>year / year growth</u>					
revenues	19.45%	54.91%	-12.07%	2.07%	-8.01%

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

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

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

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

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

	Q1(3/03)A	Q2(6/03)A	Q3(9/03)A	Q4(12/03)A	FY12/03A
Net sales	\$ 10,162	\$ 8,662	\$ 8,429	\$ 9,006	\$ 36,260
Cost of sales	8,225	6,756	6,654	7,992	29,627
Gross profit	1,937	1,906	1,775	1,015	6,633
Gross margin	19.06%	22.00%	21.06%	11.27%	18.29%
Operating expenses					
General and administrative	1,259	1,051	749	995	4,054
Selling	402	217	414	409	1,442
Advertising and marketing	589	661	390	176	1,816
Total operating expenses	2,250	1,929	1,553	1,666	7,312
Operating income	(313)	(23)	222	(651)	(679)
Operating margins	-3.08%	-0.27%	2.63%	-7.23%	-1.87%
Other income (expense)					
Interest expense	(202)	(274)	(301)	(326)	(1,103)
Interest income	-	1	1	11	13
Gain on sale of assets	-	8	0	20	28
Other	(143)	293	(19)	261	392
Total other expense	(345)	28	(319)	(34)	(670)
Pretax income (loss)	(658)	5	(97)	(566)	(1,349)
Pretax margins	-6.48%	0.06%	-1.15%	-6.28%	-3.72%
Income tax expense (benefit)	34	(130)	(226)	(461)	(783)
Tax rate	-5.17%	0.00%	0.00%	0.00%	58.04%
Net income (loss) before minority interes	(692)	135	129	(105)	(567)
Minority interest	(2)	2	1	(1)	(0)
Net income (loss) for common	\$ (690)	\$ 133	\$ 129	\$ (138)	\$ (566)
EPS diluted	\$ (0.36)	\$ 0.06	\$ 0.06	\$ (0.07)	\$ (0.30)
Weighted average shares (diluted)	1,918	2,140	1,997	1,918	1,918
<u>% of revenue</u>					
Cost of sales	80.94%	78.00%	78.94%	88.74%	81.71%
General and administrative	12.39%	12.13%	8.89%	11.05%	11.18%
Selling	3.96%	2.51%	4.91%	4.54%	3.98%
Advertising and marketing	5.80%	7.63%	4.63%	1.95%	5.01%
<u>year / year growth</u>					
revenues	4.35%	-20.58%	-22.48%	-7.34%	-12.07%

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

	Q1(3/04)A	Q2(6/04)A	Q3(9/04)A	Q4(12/04)E	FY 12/04E
Net sales	\$ 10,893	\$ 9,592	\$ 8,126	\$ 8,400	\$ 37,011
Cost of sales	<u>8,746</u>	<u>7,560</u>	<u>6,456</u>	<u>6,635</u>	<u>29,397</u>
Gross profit	2,147	2,032	1,670	1,765	7,614
Gross margin	19.71%	21.18%	20.55%	21.01%	20.57%
Operating expenses					
General and administrative	989	1,175	1,078	1,100	4,342
Selling	391	357	380	380	1,508
Advertising and marketing	<u>393</u>	<u>282</u>	<u>242</u>	<u>250</u>	<u>1,167</u>
Litigation					
Total operating expenses	<u>1,773</u>	<u>1,814</u>	<u>1,700</u>	<u>1,730</u>	<u>7,017</u>
Operating income	374	218	(30)	35	597
Operating margins	3.43%	2.27%	-0.37%	0.42%	1.61%
Other income (expense)					
Interest expense	(331)	(339)	(340)	(350)	(1,360)
Interest income	-	-	-	-	-
Gain on sale of assets	-	15	108	-	15
Other	<u>564</u>	<u>(89)</u>	<u>21</u>	<u>-</u>	<u>496</u>
Total other expense	<u>233</u>	<u>(413)</u>	<u>(211)</u>	<u>(350)</u>	<u>(741)</u>
Pretax income (loss)	607	(195)	(241)	(315)	(144)
Pretax margins	5.57%	-2.03%	-2.97%	-3.75%	-0.39%
Income tax expense (benefit)	<u>233</u>	<u>(58)</u>	<u>(91)</u>	<u>-</u>	<u>84</u>
Tax rate	38.39%	0.00%	0.00%	0.00%	-58.33%
Net income (loss) before minority interes	374	(137)	(150)	(315)	(228)
Minority interest	2	(1)	-	-	1
Net income (loss) for common	<u>\$ 372.00</u>	<u>\$ (136.30)</u>	<u>\$ (150.00)</u>	<u>\$ (315.00)</u>	<u>\$ (229.30)</u>
EPS diluted	<u>\$ 0.18</u>	<u>\$ (0.07)</u>	<u>\$ (0.08)</u>	<u>\$ (0.16)</u>	<u>\$ (0.12)</u>
Weighted average shares (diluted)	<u>2,045</u>	<u>1,918</u>	<u>1,933</u>	<u>1,970</u>	<u>1,967</u>
<u>% of revenue</u>					
Cost of sales	80.29%	78.82%	79.45%	78.99%	79.43%
General and administrative	9.08%	12.25%	13.27%	13.10%	11.73%
Selling	3.59%	3.72%	4.68%	4.52%	4.07%
Advertising and marketing	3.61%	2.94%	2.98%	2.98%	3.15%
<u>year / year growth</u>					
revenues	7.19%	10.74%	-3.59%	-6.73%	2.07%

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

	FY12/03A	1Q04(3/04)A	2Q04(6/04)A	3Q04(9/04)A
<b>Assets</b>				
<b>Current Assets</b>				
Cash	\$ 330	\$ 331	\$ 421	\$ 407
Accounts Receivable	4,620	6,129	5,468	5,231
Inventories	9,263	9,169	9,389	9,824
Deferred tax assets	362	362	362	362
Other	859	1,125	1,033	1,318
<b>Total Current Assets</b>	<b>15,434</b>	<b>17,116</b>	<b>16,673</b>	<b>17,142</b>
<b>Total property and equipment, net</b>	<b>12,208</b>	<b>11,979</b>	<b>11,273</b>	<b>10,916</b>
<b>Other assets</b>				
Deferred financing costs, net	223	204	176	156
Goodwill	1,113	1,113	1,113	1,113
Deferred tax assets	1,012	803	851	944
Other assets	279	354	262	98
<b>Total other assets</b>	<b>2,627</b>	<b>2,474</b>	<b>2,402</b>	<b>2,311</b>
<b>Total Assets</b>	<b>\$ 30,270</b>	<b>\$ 31,569</b>	<b>\$ 30,348</b>	<b>\$ 30,369</b>
<b>Liabilities and Stockholders Equity</b>				
<b>Current liabilities</b>				
Accounts payable	\$ 6,799	\$ 6,273	\$ 5,659	\$ 6,208
Over draft	341	530	731	707
Line of credit	3,694	5,930	5,810	5,785
Notes payable- current portion	2,999	2,529	2,529	2,529
Accrued liabilities	2,307	2,200	1,922	2,254
<b>Total current liabilities</b>	<b>16,140</b>	<b>17,462</b>	<b>16,651</b>	<b>17,483</b>
<b>Long-term liabilities</b>				
Non-current liabilities	1,079	874	1,039	882
Notes payable	7,830	7,557	7,072	6,519
<b>Total Liabilities</b>	<b>25,049</b>	<b>25,893</b>	<b>24,762</b>	<b>24,884</b>
Minority interest	9	10	10	10
<b>Stockholders' equity</b>				
<b>Total stockholders' equity</b>	<b>\$ 5,212</b>	<b>\$ 5,666</b>	<b>\$ 5,576</b>	<b>\$ 5,475</b>
<b>Total Liabilities and Stockholders' Equity</b>	<b>\$ 30,270</b>	<b>\$ 31,569</b>	<b>\$ 30,348</b>	<b>\$ 30,369</b>
	1,918	1,918	1,918	1,954