CTI INDUSTRIES CORP
Form S-1/A
January 19, 2007

.As filed with the U.S. Securities and Exchange Commission on January 18, 2007

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

AMENDMENT NO. 1

TO

FORM S-1
REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933, AS AMENDED

Illinois	**CTI INDUSTRIES CORPORATION**	**36-2848943**
(State or Other Jurisdiction of Incorporation or Organization)	(Name of Registrant in Our Charter)	(I.R.S. Employer Identification No.)
22160 North Pepper Road **Barrington, Illinois 60010** **(847) 382-1000**	**3069**	**Stephen M. Merrick** **22160 North Pepper Road** **Barrington, Illinois 60010** **(847) 382-1000**
(Address and telephone number of Principal Executive Offices and Principal Place of Business)	(Primary Standard Industrial Classification Code Number)	(Name, address and telephone number of agent for service)

With copies to:

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Approximate date of commencement of proposed sale to the public: As soon as practicable after this Registration Statement becomes effective.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, as amended (the "Securities Act") check the following box. o

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act Registration Statement number of the earlier effective Registration Statement for the same offering. o

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act Registration Statement number of the earlier effective Registration Statement for the same offering. o

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act Registration Statement number of the earlier effective Registration Statement for the same offering. o

CALCULATION OF REGISTRATION FEE

Title Of Each Class Of Securities To Be Registered	Amount To Be Registered	Proposed Maximum Offering Price Per Share(1)	Proposed Maximum Aggregate Offering Price(1)	Amount Of Registration Fee(2)
Common Stock, no par value	403,500(3) shares	$ 4.59	$ 1,852,065	$ 198.17
TOTAL	403,500(3) shares	$ 4.59	$ 1,852,065	$ 198.17

(1) Estimated solely for the purpose of calculating the registration fee pursuant to Rule 457(c) under the Securities Act of 1933, as amended. For the purposes of this table, we have used the last reported sale price at November 27, 2006. (Above calculations are not net of fees.)

(2) 400,000 of these shares are being registered pursuant to the Standby Equity Distribution Agreement (the "SEDA") with Cornell Capital Partners, LP and 3,500 of these shares are being registered pursuant to a Placement Agent Agreement in connection with the SEDA.

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933, as amended, or until this Registration Statement shall become effective on such date as the SEC, acting pursuant to said Section 8(a), may determine.

PROSPECTUS

Subject to completion, dated January 18, 2007

CTI INDUSTRIES CORPORATION
403,500 shares of Common Stock

This prospectus (this "Prospectus") relates to the sale of up to 403,500 shares of common stock of CTI Industries Corporation ("CTI" or the "Company") by certain persons who are shareholders of the Company, including (a) Cornell Capital Partners, LP ("Cornell Capital"), a shareholder who intends to sell up to 400,000 shares of common stock pursuant to a Standby Equity Distribution Agreement (also referred to herein as the "SEDA"), dated June 6, 2006, by and between the Company and Cornell Capital and (b) Newbridge Securities Corporation ("Newbridge"), a shareholder who intends to sell 3,500 shares of common stock which have been issued by the Company to Newbridge pursuant to a Placement Agent Agreement in connection with the SEDA. Please refer to "Selling Shareholders" beginning on page 26. All costs associated with this registration will be borne by the Company.

The shares of common stock are being offered for sale by the selling shareholders at prices established on the NASDAQ Capital Market (NASDAQ-CM) during the term of this offering. On November 27, 2006, the last reported sale price of our common stock was $4.59 per share. Our common stock is quoted on the NASDAQ-CM under the symbol "CTIB". These prices will fluctuate based on the demand for the shares of common stock.

Cornell Capital is an "underwriter" within the meaning of the Securities Act of 1933, as amended (the "Securities Act"), in connection with the sale of common stock under the Standby Equity Distribution Agreement.

Brokers or dealers effecting transactions in these shares should confirm that the shares are registered under the applicable state law or that an exemption from registration is available.

These securities are speculative and involve a high degree of risk.

Please refer to "Risk Factors" beginning on page 9.

With the exception of Cornell Capital, which is an "underwriter" within the meaning of the Securities Act, no other underwriter or person has been engaged to facilitate the sale of shares of common stock in this offering. This offering will terminate twenty-four (24) months after the accompanying Registration Statement is declared effective by the U.S. Securities and Exchange Commission (the "SEC"). None of the proceeds from the sale of stock by the selling shareholders will be placed in escrow, trust or any similar account.

The SEC and state securities regulators have not approved or disapproved of these securities, or determined if this Prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The information in this Prospectus is not complete and may be changed. Neither the selling shareholder nor we may sell these securities until the Registration Statement filed with the SEC is effective. This Prospectus is not an offer to sell these securities and we are not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

The date of this Prospectus is January 18, 2007.

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PROSPECTUS SUMMARY

Introduction

This offering relates to the sale of common stock by certain persons who are shareholders of the Company, including (a) Cornell Capital, who intends to sell up to 400,000 shares of the Company's common stock under the Standby Equity Distribution Agreement, dated as of June 6, 2006, by and between the Company and Cornell Capital and (b) Newbridge, who intends to sell 3,500 shares of common stock which have been issued by the Company to Newbridge pursuant to a Placement Agent Agreement in connection with the SEDA. The shares of common stock are being offered for sale by the selling shareholders at prices established on the NASDAQ Capital Market during the term of this offering.

Overview

The Company produces film products for novelty, packaging and container applications. These products include metalized balloons, latex balloons and related latex toy products, films for packaging applications, and flexible containers for packaging and storage applications. We produce all of our film products for packaging and container applications at our plant in Barrington, Illinois. We produce all of our latex balloons and latex products at our facility in Guadalajara, Mexico. Substantially all of our film products for packaging applications and flexible containers for packaging and storage are sold to customers in the United States. We market and sell our novelty items - principally metalized balloons and latex balloons - in the United States, Mexico, the United Kingdom and a number of additional countries.

We supply coated, laminated and printed films to a number of companies who generally convert these films into containers for the packaging of food and other items. We supply flexible containers to companies who (i) use them for packaging of food or other items or (ii) market them to consumers who use them for the storage of personal items. We also market containers to and through retail outlets for use by consumers with sealing devices to store food items in their homes. In March 2006, we announced that we are completing the development of, and will produce, market and sell a line of pouches for use by consumers to store food items. The pouches include a resealable closure system and a valve permitting the evacuation of air from the pouch by a small pump device which we will also supply.

We were organized in 1976 and, initially, engaged in the business of manufacturing "bag-in-box" plastic packaging systems. We sold our assets related to bag-in-box packaging systems in 1985. In 1978, we began manufacturing metalized balloons (sometimes referred to as "foil" balloons), which are balloons made of a base material (usually nylon or polyester) having vacuum deposited aluminum and polyethylene coatings. These balloons remain buoyant when filled with helium for much longer periods than latex balloons and permit the printing of graphic designs on the surface.

In 1985, we began marketing latex balloons and, in 1988, we began manufacturing latex balloons. In 1994, we sold our latex balloon manufacturing equipment to a company in Mexico and entered into an arrangement for that company to manufacture latex balloons for us. Since 1997, we have manufactured latex balloons in Mexico through a majority-owned subsidiary.

We market and sell our metalized and latex balloons and related novelty items directly to retail stores and chains and through distributors, who in turn sell to retail stores and chains. Our balloon and novelty products are sold to consumers through a wide variety of retail outlets including general merchandise and drugstore chains, grocery chains, card and gift shops, and party goods stores, as well as through florists and balloon decorators.

Most of our metalized balloons contain printed characters, designs and social expression messages, such as "Happy Birthday", "Get Well Soon" and similar items. In a number of cases, we obtain licenses for well-known characters and print those characters and messages on our balloons. Currently, we maintain licenses for Garfield®, Face Offs-Tudes®, Miss Spider and Sunny Patch Friends® and Andrea Mistretta. In the United Kingdom, we maintain licenses on Postman Pat®, The Crazy Frog® and Dream Fairies®.

Balloons and novelty items accounted for fifty-seven percent (57%) of our revenues in 2005. For the nine months ending September 30, 2006 balloon and novelty items accounted for 63% of our sales. The remaining revenues are generated from the sale of laminated film products, generally intended for use in the packaging of foods, liquids and other materials. We provide laminated films, often printed film, to a number of customers who utilize the film to produce bags or pouches for the packaging of food, liquids and other items. We also produce finished products - pouches and bags - which are used for a variety of applications, including (i) as vacuumable consumer storage devices for clothing and other household items, (ii) as vacuumable pouches for household use in storage of food items and (iii) as "dunnage" items which, when inflated, cushion products in a package or container. In 2005, our revenues from these products represented approximately forty percent (40%) of our net revenues.

About Us

Our principal executive offices are located at 22160 North Pepper Road, Barrington, Illinois 60010. Our telephone number is (847) 382-1000. The address of our website is www.ctiindustries.com. Information on our website is not part of this Prospectus.

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THE OFFERING

This offering relates to the sale of common stock by certain persons who are shareholders of the Company, including (a) Cornell Capital, who intends to sell up to 400,000 shares of common stock pursuant to the Standby Equity Distribution Agreement, dated June 6, 2006, by and between the Company and Cornell Capital (also referred to herein as the "SEDA") and (b) Newbridge, who intends to sell 3,500 shares of common stock which have been issued pursuant to a Placement Agent Agreement in connection with the SEDA.

On June 6, 2006 (the "Closing Date"), the Company entered into the Standby Equity Distribution Agreement with Cornell Capital pursuant to which the Company may, at its discretion, periodically sell to Cornell Capital shares of its common stock, no par value per share, for a total purchase price of up to Five Million Dollars ($5,000,000). For each share of common stock purchased under the SEDA, Cornell Capital will pay to the Company one hundred percent (100%) of the lowest volume weighted average price (as quoted by Bloomberg, LP) of the Company's common stock on the principal market (whichever is at such time the principal trading exchange or market for the common stock) during the five (5) consecutive trading days after the Advance Notice Date (as such term is defined in the SEDA). However, the Company and Cornell Capital have agreed that the Company will not sell to Cornell Capital in excess of 400,000 shares unless and until the Company shall have obtained shareholder approval for such sales.

Cornell Capital will retain five percent (5%) of each advance under the SEDA as an underwriting discount. The Company has paid to Yorkville Advisors, LLC ("Yorkville") a structuring fee equal to Fifteen Thousand Dollars ($15,000) on the Closing Date and shall pay Five Hundred Dollars ($500) to Yorkville on each Advance Date directly out of the gross proceeds of each Advance (as such terms are defined in the SEDA). The Company also entered into that certain Placement Agent Agreement (hereinafter the "PAA"), dated as of the Closing Date, by and among the Company, Cornell Capital and Newbridge pursuant to which the Company engaged Newbridge to act as it exclusive placement agent in connection with the SEDA. Upon the execution of the PAA, the Company issued to Newbridge Three Thousand Five Hundred (3,500) shares (the "Newbridge Shares") of the Company's common stock. Newbridge is entitled to "piggy-back" registration rights with respect to the Newbridge Shares and such Newbridge Shares are being registered in this offering.

At an assumed offering price of $4.59 per share (the last reported sale price on November 27, 2006), as determined under the Standby Equity Distribution Agreement, CTI will be able to receive up to $1,836,000 in gross proceeds, assuming the sale of the entire 400,000 shares being registered in this Registration Statement pursuant to the SEDA. The Company would be required to register 689,325 additional shares to obtain the balance of $5 million available under the SEDA at an assumed offering price of $4.59. Based on the limited number of available authorized shares of common stock, CTI may need to obtain shareholder approval to increase the authorized shares of common stock to access additional amounts under the SEDA. If CTI drew down on the entire $5 million available under the Standby Equity Distribution Agreement, Cornell Capital would receive an aggregate underwriting discount equal to $250,000.

There are substantial risks to investors as a result of the issuance of shares of common stock under the SEDA. These risks include dilution of shareholders, significant decline in CTI's stock price and our inability to draw sufficient funds when needed.

Cornell Capital will periodically purchase shares of common stock under the SEDA and will, in turn, sell such shares to investors in the market at the market price. This may cause our stock price to decline, which will require CTI to issue increasing numbers of shares to Cornell Capital to raise the same amount of funds, as our stock price declines. This inverse relationship is demonstrated by the following tables, which show the net cash to be received by CTI and the number of shares to be issued under the SEDA at an assumed offering price of $4.59 per share and twenty-five percent (25%), fifty percent (50%) and seventy-five percent (75%) discounts to the assumed offering prices.

Net Cash To The Company

	Assumed Offering Price	75% of Assumed Offering Price	50% of Assumed Offering Price	25% of Assumed Offering Price
Purchase Price:	$ 4.59	$ 3.44	$ 2.30	$ 1.15
No. of Shares(1):	400,000	400,000	400,000	400,000
Total Outstanding(2):	2,542,097	2,542,097	2,542,097	2,542,097
Percent Outstanding(3):	15.74%	15.74%	15.74%	15.74%
Gross Cash to CTI:	$ 1,836,000	$ 1,376,000	$ 920,000	$ 460,000
Net Cash to CTI(4):	$ 1,659,200	$ 1,222,200	$ 789,000	$ 352,000

(1) Represents the number of shares of common stock registered in the accompanying Registration Statement, which may be issued to Cornell Capital under the SEDA at the prices set forth in the table. Does not represent the 3500 shares issued to Newbridge Securities pursuant to the Placement Agent Agreement in connection with the SEDA.

(2) Represents the total number of shares of common stock outstanding at December 11, 2006 after the issuance of the shares to Cornell Capital under the SEDA.

(3) Represents the shares of common stock to be issued as a percentage of the total number of shares outstanding at December 11, 2006.

(4) Net cash equals the gross proceeds minus the five percent (5%) underwriting discount and minus $85,000 in offering expenses.

Number Of Shares To Be Issued To Receive Gross Proceeds Of $5 Million

	Assumed Offering Price	75% of Assumed Offering Price	50% of Assumed Offering Price	25% of Assumed Offering Price
Purchase Price:	$ 4.59	$ 3.44	$ 2.30	$ 1.15
No. of Shares(1):	1,089,325	1,453,488(5)	2,173,914	4,347,827
Total Outstanding(4):	3,231,422(2)(5)	3,595,585(2)(5)	4,316,011(2)(5)	6,489,924(2)(3)
Percent Outstanding(6):	33.71%	40.42%	50.37%	66.99%
Gross Proceeds to CTI(7):	5,000,000	5,000,000	5,000,000	5,000,000
Net Cash to CTI(8):	$ 4,665,000	$ 4,665,000	$ 4,665,000	$ 4,665,000

(1) Represents that total number of shares of common stock which would need to be issued at the stated purchase price. We are only registering 400,000 shares of common stock under this Prospectus pursuant to the SEDA. We will need to register additional shares of common stock to obtain the entire $5 million available under the SEDA at these stated purchase prices.

(2) The Company and Cornell Capital have agreed that the Company will not sell to Cornell Capital in excess of 400,000 shares unless the Company shall have obtained shareholder approval for such shares.

(3) At the stated purchase price and based on the limited number of available authorized shares of common stock, CTI would need to obtain shareholder approval to increase the authorized shares of common stock to obtain the entire $5 million available under the SEDA.

(4)

Represents the total number of shares of common stock outstanding at December 11, 2006 after the issuance of the shares to Cornell Capital under the SEDA.

(5) CTI's Certificate of Incorporation authorizes the issuance of 5,000,000 shares of common stock.

(6) Represents the shares of common stock to be issued as a percentage of the total number shares outstanding at December 11, 2006.

(7) If CTI drew down on the entire $5 million available under the SEDA, Cornell Capital would receive an aggregate underwriting discount equal to $250,000.

(8) Net cash equals the gross proceeds minus the five percent (5%) underwriting discount and minus $85,000 in offering expenses.

Common Stock Offered	403,500 shares by selling shareholders
Offering Price	Market price
Common Stock Outstanding Before the Offering(1)	2,142,097 shares as of December 11, 2006
Use of Proceeds	We will not receive any proceeds of the shares offered by the selling shareholders. Any proceeds we receive from the sale of common stock under the Standby Equity Distribution Agreement will be used for general working capital purposes at the discretion of CTI. See "Use of Proceeds".
Risk Factors	The securities offered hereby involve a high degree of risk and immediate substantial dilution. See "Risk Factors" and "Dilution".
NASDAQ Capital Market Symbol	CTIB

(1) Excludes up to 400,000 shares of common stock to be issued pursuant to the Standby Equity Distribution Agreement.

Nine Months Ended September 30, 2006
SELECTED FINANCIAL INFORMATION

The following selected financial data are derived from the consolidated financial statements of the Company. The data should be read in conjunction with the consolidated financial statements, related notes, and other financial information included herein.

	Nine months ending September 30, 2006	Year Ended December 31, (IN THOUSANDS) Restated 2005	Restated 2004	Restated 2003	2002	2001
Statement of Operations Data:						
Net Sales	$ 25,756	$ 29,190	$ 37,193	$ 36,260	$ 41,236	$ 27,446
Costs of Sales	19,353	22,726	30,841	29,627	32,344	19,835
Gross Profit	6,403	6,464	6,352	6,633	8,892	7,611
Operating expenses	4,478	5,812	6,402	6,856	7,447	6,595
Income (loss) income from operations	1,926	652	(50)	(223)	1,445	1,016
Interest expense	1,277	1,231	1,350	1,103	832	1,030
Other (income) expense	(154)	(45)	(208)	23	278	
Income (loss) income before taxes and minority interest	803	(534)	(1,192)	(1,349)	335	(14)
Income tax expense (benefit)	59	(200)	1,286	(782)	39	276
Minority interest	3	0	1	0	6	58
Net (loss) income	741	(333)	(2,479)	(566)	302	(232)
(Loss) earnings per common share						
Basic	.36	(0.17)	(1.28)	(0.30)	0.18	(0.15)
Diluted	.34	(0.17)	(1.28)	(0.30)	0.16	(0.15)
Other Financial Data:						
Gross margin percentage	24.9	22.14%	17.08%	18.29%	21.56%	27.73%
Capital Expenses	$ 357	$ 551	$ 281	$ 2,165	$ 2,478	$ 1,002
Depreciation & Amortization	1,075	1,480	1,640	1,628	1,588	1,666
Balance Sheet Data:						
Working capital (Deficit)	$ 858	$ (2,426)	$ (2,790)	$ (706)	$ (2,907)	$ (278)
Total assets	24,919	23,536	27,888	30,270	30,272	24,664
Short-term obligations (1)	8,837	8,618	9,962	6,692	7,385	7,074

Long-term obligations	7,228	6,039	6,491	8,909	5,726	5,737
Stockholders' Equity	3,975	2,726	2,951	5,212	5,474	4,325

(1) Short term obligations consist of primarily of borrowings under bank line of credit and current portion of long-term debt.

SUPPLEMENTARY FINANCIAL INFORMATION

The following table presents the Company's condensed operating results for each of the ten (10) fiscal quarters through the period ended September 30, 2006. The information for each of these quarters is unaudited. In the opinion of management, all necessary adjustments, which consist only of normal and recurring accruals, have been included to fairly present the unaudited quarterly results. This data should be read together with the Company's consolidated financial statements and the notes thereto, the Independent Auditors Reports and Management's Discussions and Analysis of Financial Condition and Results of Operations.

	THREE (3) MONTHS ENDED								
	Sep 30 2006	**June 30 2006**	**Mar 31 2006**	**Dec 31 2005**	**Sep 30 2005**	**Jun 30 2005**	**Mar 31 2005**	**Dec 31 2004**	**Sep 30 2004**
Revenues	$ 8,602,733	$ 8,996,935	$ 8,156,223	$ 6,480,019	$ 6,033,831	$ 7,572,626	$ 9,103,327	$ 8,581,819	$ 8,125,521
Net Income (loss)	$ 315,464	$ 205,699	$ 219,768	$ 52,186	$ (416,267)	$ (53,616)	$ 84,486	$ (2,565,223)	$ (150,370)
Net Income (loss) per share									
Basic	$ 0.15	$ 0.10	$ 0.11	$ 0.03	$ (0.21)	$ (0.03)	$ 0.04	$ (1.31)	$ (0.08)
Diluted	$ 0.15	$ 0.10	$ 0.10	$ 0.02	$ (0.21)	$ (0.03)	$ 0.04	$ (1.31)	$ (0.08)
Shares used in computing per share amounts:									
Basic	2.055,553	2,053,311	2,036,474	1,977,235	1,963,615	1,954,100	1,954,100	1,930,976	1,932,692
Diluted	2,129,658	2,124,708	2,166,892	1,977,235	1,963,615	1,954,100	1,970,360	1,930,976	1,932,692

FORWARD-LOOKING STATEMENTS

This Prospectus contains certain forward-looking statements regarding management's plans and objectives for future operations including plans and objectives relating to our planned marketing efforts and future economic performance. The forward-looking statements and associated risks set forth in this Prospectus include or relate to, among other things, (a) our projected sales and profitability, (b) our growth strategies, (c) anticipated trends in our industry, (d) our ability to obtain and retain sufficient capital for future operations, and (e) our anticipated needs for working capital. These statements may be found under "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Business", as well as in this Prospectus generally. Actual events or results may differ materially from those discussed in forward-looking statements as a result of various factors, including, without limitation, the risks outlined under "Risk Factors" and matters described in this Prospectus generally. In light of these risks and uncertainties, there can be no assurance that the forward-looking statements contained in this Prospectus will in fact occur.

The forward-looking statements herein are based on current expectations that involve a number of risks and uncertainties. Such forward-looking statements are based on assumptions that there will be no material adverse competitive or technological change in conditions in our business, that demand for our products and services will significantly increase, that our President will remain employed as such, that our forecasts accurately anticipate market demand, and that there will be no material adverse change in our operations or business or in governmental regulations affecting us or our manufacturers and/or suppliers. The foregoing assumptions are based on judgments with respect to, among other things, future economic, competitive and market conditions, and future business decisions, all of which are difficult or impossible to predict accurately and many of which are beyond our control. Accordingly, although we believe that the assumptions underlying the forward-looking statements are reasonable, any such assumption could prove to be inaccurate and therefore there can be no assurance that the results contemplated in forward-looking statements will be realized. In addition, as disclosed elsewhere in the "Risk Factors" section of this Prospectus, there are a number of other risks inherent in our business and operations which could cause our operating results to vary markedly and adversely from prior results or the results contemplated by the forward-looking statements. Growth in absolute and relative amounts of cost of goods sold and selling, general and administrative expenses or the occurrence of extraordinary events could cause actual results to vary materially from the results contemplated by the forward-looking statements. Management decisions, including budgeting, are subjective in many respects and periodic revisions must be made to reflect actual conditions and business developments, the impact of which may cause us to alter marketing, capital investment and other expenditures, which may also materially adversely affect our results of operations. In light of significant uncertainties inherent in the forward-looking information included in this Prospectus, the inclusion of such information should not be regarded as a representation by us or any other person that our objectives or plans will be achieved.

Some of the information in this Prospectus contains forward-looking statements that involve substantial risks and uncertainties. Any statement in this Prospectus and in the documents incorporated by reference into this Prospectus that is not a statement of an historical fact constitutes a "forward-looking statement". Further, when we use the words "may", "expect", "anticipate", "plan", "believe", "seek", "estimate", "internal" and similar words, we intend to identify stater expressions that may be forward-looking statements. We believe it is important to communicate certain of our expectations to our investors. Forward-looking statements are not guarantees of future performance. They involve risks, uncertainties and assumptions that could cause our future results to differ materially from those expressed in any forward-looking statements. Many factors are beyond our ability to control or predict. You are accordingly cautioned not to place undue reliance on such forward-looking statements. Important factors that may cause our actual results to differ from such forward-looking statements include, but are not limited to, the risk factors discussed below. Before you invest in our common stock, you should be aware that the occurrence of any of the events described under "Risk Factors" below or elsewhere in this Prospectus could have a material adverse effect on our business, financial condition and results of operation. In such a case, the trading price of our common stock could decline and you could lose all or part of your investment.

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RISK FACTORS

We are subject to various risks that may materially harm our business, financial condition and results of operations. You should carefully consider the risks and uncertainties described below and the other information in this filing before deciding to purchase our common stock. If any of these risks or uncertainties actually occurs, our business, financial condition or operating results could be materially harmed. In that case, the trading price of our common stock could decline and you could lose all or part of your investment.

RISKS RELATED TO OUR BUSINESS

Industry Risks

We Engage In Businesses Which Are Intensely Competitive And Which Involve Strong Price Competition And Relatively Low Margins

The businesses in which we engage - the supply of films for flexible packaging, supply of pouches for flexible packaging and supply of novelty balloon items - are highly competitive. We face intense competition from a number of competitors in each of these product categories, several of which have extensive production facilities, well-developed sales and marketing staffs and greater financial resources than we do. Some of these competitors maintain international production facilities enabling them to produce at low costs and to offer products at highly competitive prices. We compete on the basis of price, quality, service, delivery and differentiation of products. Most of our competitors seek to engage in product development and may develop products that have superior performance characteristics to our products. This intense competition can limit or reduce our sales or market share for the sale of our products as well as our margins. There can be no assurance that we will be able to compete successfully in the markets for our products or that we will be able to generate sufficient margins from the sale of our products to become or remain profitable.

Our Business Is Dependent On The Price And Availability Of Raw Materials

The cost of the raw materials we purchase represents approximately forty-one percent (41%) of our revenues. During the nine months ended September 30, 2006, the cost of these raw materials increased to 45% of our net revenues. The principal raw materials we purchase are: nylon sheeting, polyester sheeting, polyethylene sheeting, polyethylene resin and latex. Much of these materials are derived from petroleum and natural gas. Prices for these materials fluctuate substantially as a result of the change in petroleum and natural gas prices, demand and the capacity of companies who produce these products to meet market needs. Instability in the world markets for petroleum and natural gas has, and may, adversely affect the prices of these raw materials and their general availability. The price of latex has also fluctuated significantly over the past year. Our ability to achieve and maintain profitability is partially dependent upon our ability to pass through to our customers the amount of increases in raw materials cost. If prices of these materials increase and we are not able to fully pass on the increases to our customers, our results of operations and our financial condition will be adversely affected.

The Loss Of A Key Supplier Or Suppliers Could Lead To Increased Costs And Lower Margins As Well As To Other Adverse Results

We rely on six (6) principal suppliers for our petroleum, natural gas and latex-based raw materials supplies. We do not maintain supply agreements with any of our suppliers for these materials. The loss of any of these suppliers would force us to purchase these materials from other suppliers or on the open market, which may require us to pay higher prices for raw materials than we do now, with the result that our margins on the sale of our products would be adversely affected. In addition, the loss of the supply of an important raw material from one (1) of our present suppliers may not be replaceable through open market purchases or through a supply arrangement with another supplier. If we were unable to obtain a raw material from another supplier in such event, we would be unable to continue to manufacture certain of our products.

Company Risks

We Have A History Of Losses And Have Experienced Fluctuations Of Operating Income, Which May Cause Our Stock Price To Fluctuate

We have had a history of losses and of fluctuating income from operations over the past five (5) years. We have reported net income in only one (1) of the past five (5) years. Our income (loss) from operations during that time has ranged from a profit of $1,445,000 to a loss of $223,000 and has been subject to significant quarterly and annual fluctuations. These fluctuations can be caused by:

· Economic conditions

- Competition
- Production efficiencies
- Variability in raw materials prices
- Seasonality

These fluctuations make it more difficult for investors to compare our operating results to corresponding prior year periods. These fluctuations also cause our stock price to fluctuate. You should not rely on our results of operations for any particular quarter or year as being indicative of our results for a full year or any other period.

We Have Limited Financial Resources That May Adversely Affect Our Ability To Invest In Productive Assets, Marketing, New Products And New Developments

Our working capital is limited. As of September 30, 2006, our current assets exceeded our current liabilities by $858,000. Further, under our loan agreement with our principal lender, we are required to maintain a designated ratio of earnings before interest, taxes and depreciation (EBITDA) and fixed charges. This covenant restricts the amount of funded capital expenditures we can make. As a result, we may be unable to fund capital investments, working capital needs, marketing and sales programs, research and development, patent or copyright licenses or other items which we would like to acquire or pursue in accordance with our business strategies. The inability to pursue any of these items may adversely affect our competitive position, our business, financial condition or prospects.

A High Percentage Of Our Sales Are To A Limited Number Of Customers And The Loss Of Any One Or More Of Those Customers Could Adversely Affect Our Results Of Operation, Cash Flow And Financial Condition

For the year ended December 31, 2005, our sales to our top ten customers represented 62.9% of our net sales and our sales to our top three customers represented 50.5% of our net sales. For the nine months ended September 30, 2006, our sales to our top ten customers represented 60.3% of our net sales and our sales to our top three (3) customers represented 51.3% of our net sales. Generally, we do not have long term contracts with our customers. The loss of any of our principal customers, or a significant reduction in the amount of our sales to any of them, would have a material adverse effect on our business and financial condition.

In March, 2006, we entered into a four year agreement with Illinois Tool Works (“ITW”), one of our top three customers, to provide (i) all of their requirements for a certain kind of pouch and (ii) all of their requirements, subject to competitive pricing, for film for their use in the production of certain pouches. In April 2006, we entered into a license agreement with Rapk, LLC (“Rapak”), also one of our top three customers, granting Rapak a license under a patent related to textured film and pouches, and extending the term of an existing supply agreement with Rapak to October 31, 2008.

We Rely On Intellectual Property In Our Business And The Failure To Develop, Acquire Or Protect Our Intellectual Property Could Adversely Affect Our Business

We consider patents, copyright licenses and, to some degree trademarks, as being significant to our competitive position, our ability to obtain and retain customers and to achieve acceptable margin levels on the sale of our products. With respect to our film and flexible packaging/pouch business, we believe that developing, acquiring and maintaining patent rights are of significance to us for those reasons. Over the past five (5) years, we have obtained twelve (12) patents related to films, pouches, zippers for pouches, the method of inserting zippers in pouches and certain valves for pouches. We have seven (7) patents pending with regard to such products. With respect to our novelty balloon products, we believe that patent rights and trade secrets for product developments and copyright licenses for characters and designs are of significance to our ability to compete in the market and to obtain acceptable margins on the sale of our products. Our limited financial resources have made it more difficult for us to invest in product and patent developments and to obtain copyright licenses. If we are unable to develop, acquire, maintain or enforce some or all of our intellectual property rights, our business, financial conditions and prospects will be adversely affected.

We Produce All Of Our Products At Two (2) Plants And Damage To Or Destruction Of One (1) Or Both Of The Plants Would Have A Serious Adverse Affect On Our Business

We produce all of our film products and pouches at our plant in Barrington, Illinois and all of our latex balloon products at our plant in Guadalajara, Mexico. In the event of a fire, flood or other natural disaster, or the termination of our lease in Mexico, we could lose access to one or both of our plants. Loss of, significant damage to, or destruction of, one or both of these plants would render us unable to produce our products presently produced in such plants, possibly for an extended period of time and our business, financial condition and prospects would be materially adversely affected. While we maintain property and business interruption insurance, the proceeds of such insurance may not be adequate to compensate us for all of our losses in such an event.

We Are Dependent On The Management Experience Of Our Key Personnel

We are dependent on the management experience and continued services of our executive officers, including Howard W. Schwan, our President, John H. Schwan, our Chairman and Stephen M. Merrick, our Chief Financial Officer, as well as each of these other executive officers of the Company: Brent Anderson, Sam Komar, Steve Frank and Timothy Patterson. We have an existing employment agreement with Howard Schwan, dated January 1, 1997, which shall automatically renew each year on July 1 unless terminated by either party. The agreement includes confidentiality, inventions, non-compete and other customary provisions. The loss of any of these executive officers would have an adverse effect on our business.

In addition, our continued growth depends on our ability to attract and retain experienced key employees. Competition for qualified employees is intense, and the loss of such persons, or an inability to attract, retain and motivate such skilled employees, could have a material adverse effect on our results of operations, financial condition and prospects. There can be no assurance that we will be able to retain our existing personnel or attract and retain additional qualified employees.

Our Principal Executive Officers Own A Majority Of Our Outstanding Common Stock, Have Warrants To Purchase Additional Shares And Have Significant Influence And Control Over Our Business

Howard W. Schwan (our President), John H. Schwan (our Chairman) and Stephen M. Merrick (our Chief Financial Officer), in combination, own approximately 49.3% of the outstanding shares of common stock of the Company and have options and warrants to purchase additional shares which, if exercised, would aggregate 55.0% of the shares then outstanding. As a result of such ownership, these executives have the ability to exert significant influence and control on the outcome of corporate transactions and other matters submitted to the Board of Directors or shareholders for approval, including mergers, consolidations and the sale of all or substantially all of our assets, and also the power to prevent or cause a change in control of the Company.

Financial Risks

We Have A High Level Of Debt Relative To Our Equity And Limited Working Capital, Which Reduces Cash Available For Our Business Which May Adversely Affect Our Ability To Obtain Additional Funds And Increases Our Vulnerability To Economic Or Business Turndowns

We have a substantial amount of debt in relation to our shareholders' equity. As of September 30, 2006, we had $20,929,000 of debt outstanding and $3,975,000 in shareholders equity. These circumstances could have important adverse consequences for our Company. For example, they could:

- Increase our vulnerability to general adverse economic and industry conditions;

- Require us to dedicate a substantial portion of our cash flow from operations to payments on our debt, thereby limiting our ability to fund working capital, capital expenditures and other general corporate purposes;

- Limit our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate;
- Place us at a competitive disadvantage compared to our competitors who may have less debt and greater financial resources; and
- Limit, among other things, our ability to borrow additional funds.

A Significant Amount Of Cash Will Be Required To Service Our Debt And Our Ability To Generate Cash Depends On Many Factors Beyond Our Control

Our ability to service our debt and to fund our operations and planned capital expenditures will depend on our financial and operating performance. This, in part, is subject to prevailing economic conditions and to financial, business and other factors beyond our control. If our cash flow from operations is insufficient to fund our debt service obligations, we may be forced to reduce or delay funding capital or working capital, marketing or other commitments or to sell assets, obtain additional equity capital or indebtedness or refinance or restructure our debt. These alternative measures may not be successful and may not permit us to meet our scheduled debt service obligations. In the absence of cash flow from operations sufficient to meet our debt service obligations, we could face substantial cash problems.

We Are Subject To A Number Of Restrictive Debt Covenants That May Restrict Our Business And Financing Activities

Our credit facility contains restrictive debt covenants that, among other things, restrict our ability to:

- Borrow money;
- Pay dividends and make distributions;
- Issue stock;
- Make certain investments;
- Use assets as security in other transactions;
- Create liens;
- Enter into affiliate transactions;
- Merge or consolidate; or
- Transfer and sell assets.

In addition, our credit facility also requires us to meet certain financial tests, including (i) maintaining tangible net worth in excess of $3,500,000, (ii) maintaining specified ratios of senior debt to EBITDA and (iii) maintaining a ratio of EBITDA to fixed charges. These restrictive covenants may limit our ability to expand or pursue our business strategies by restricting, among other things, our ability to fund capital investments, working capital needs, marketing and sales programs, research and development, patent or copyright licenses or other items which we would like to acquire or pursue in accordance with our business strategies. The inability to pursue any of these items may adversely affect our competitive position, financial condition or prospects.

Our ability to comply with the restrictions contained in our credit facility may be affected by changes in our business condition or results of operation, adverse regulatory developments or other events beyond our control. A failure to comply with these restrictions could result in a default under our credit facility which, in turn, could cause our debt to become immediately due and payable. If our debt were to be accelerated, we cannot assure that we would be able to repay it. In addition, a default would give our lender the right to terminate any commitment to provide us with additional funds.

Our Common Stock May Be Affected By Limited Trading Volume And May Fluctuate Significantly, Which May Affect Shareholders' Ability To Sell Shares Of Our Common Stock

There has been a limited public market for our common stock and a more active trading market for our common stock may not develop. An absence of an active trading market could adversely affect our shareholders' ability to sell our common stock in short time periods, or possibly at all. Our common stock has experienced, and is likely to experience in the future, significant price and volume fluctuations, which could adversely affect the market price of our common stock without regard to our operating performance. In addition, we believe that factors such as quarterly fluctuations in our financial results and changes in the overall economy or the condition of the financial markets could cause the price of our common stock to fluctuate substantially. These factors may negatively impact shareholders' ability to sell shares of CTI's common stock.

Our Common Stock May Be Affected By Sales Of Short Sellers, Which May Affect Shareholders' Ability To Sell Shares Of Our Common Stock

As stated above, our common stock has experienced, and is likely to experience in the future, significant price and volume fluctuations. These fluctuations could cause short sellers to enter the market from time to time in the belief that CTI will have poor results in the future. The market for our stock may not be stable or appreciate over time and the sale of our common stock may negatively impact shareholders' ability to sell shares of CTI's common stock.

Market Risks

The Company Is Exposed To Various Market Risks, Primarily Foreign Currency Risks And Interest Rate Risks

The Company's earnings are affected by changes in interest rates as a result of variable rate indebtedness (excluding the portion of our mortgage and term loans covered by our interest rate swap agreement). If market interest rates for our variable rate indebtedness average one percent (1%) more than the interest rate actually paid for the three (3) months ending September 30, 2006 and 2005, our interest rate expense would have increased, and income after income taxes would have decreased by $14,000 and $9,500 for these periods, respectively. If market interest rates for our variable rate indebtedness average one percent (1%) more than the interest rate actually paid for the nine months ending September 30, 2006 and 2005, our interest rate expense would have increased, and income after income taxes would have decreased by $41,000 and $37,000 for these periods, respectively. These amounts are determined by considering the impact of the hypothetical interest rates on our borrowings. This analysis does not consider the effects of the reduced level of overall economic activity that could exist in such an environment. Further, in the event of a change of such magnitude, management would likely take actions to reduce our exposure to such change. However, due to the uncertainty of the specific actions we would take and their possible effects, the sensitivity analysis assumes no change in our financial structure.

The Company's earnings and cash flows are subject to fluctuations due to changes in foreign currency rates, particularly the Mexican peso and the British pound, as the Company produces and sells products in Mexico for sale in the United States and other countries and the Company's UK subsidiary purchases balloon products from the Company in dollars. Also, the Mexican subsidiary purchases goods from external sources in U.S. dollars and is affected by currency fluctuations in those transactions. Substantially all of the Company's purchases and sales of goods for its operations in the United States are done in U.S. dollars. However, the Company's level of sales in other countries may be affected by currency fluctuations. As a result, exchange rate fluctuations may have an effect on sales and gross margins. Accounting practices require that the Company's results from operations be converted to U.S. dollars for reporting purposes. Consequently, the reported earnings of the Company in future periods may be affected by fluctuations in currency exchange rates, generally increasing with a weaker U.S. dollar and decreasing with a strengthening U.S. dollar. To date, we have not entered into any transactions to hedge against currency fluctuation results.

We have performed a sensitivity analysis as of September 30, 2006 that measures the change in the results of our foreign operations arising from a hypothetical ten percent (10%) adverse movement in the exchange rate of all of the currencies the Company presently has operations in. Using the results of operations for the three months ending September 30, 2006 and 2005, for the Company's foreign operations as a basis for comparison, an adverse movement of ten percent (10%) would create a potential reduction in the Company's net income, or increase its net loss before taxes, in the amount of $33,000 and $20,000 for each of those periods, respectively. Using the results of operations for the nine months ending September 30, 2006 and 2005, for the Company's foreign operations as a basis for comparison, an adverse movement of ten percent (10%) would create a potential reduction in the Company's net income, or increase its net loss before taxes, in the amount of $49,000 and $60,000 for each of those periods, respectively.

The Company is also exposed to market risk in changes in commodity prices in some of the raw materials it purchases for its manufacturing needs. However, we do not believe this presents a risk that would not have a material effect on the Company's results of operations or financial condition.

Risks Related To This Offering

Future Sales By Our Shareholders May Negatively Affect Our Stock Price And Our Ability To Raise Funds In New Stock Offerings

Sales of our common stock in the public market following this offering could lower the market price of our common stock. Sales may also make it more difficult for us to sell equity securities or equity-related securities in the future at a time and price that our management deems acceptable or at all. Of the 2,142,097 shares of common stock outstanding as of December 11, 2006, 1,057,062 shares of common stock are, or will be, held by our "affiliates" and 1,079,389 shares of common stock, which will be held by existing shareholders, including the officers and directors, are "restricted securities" and may be resold in the public market only if registered or pursuant to an exemption from registration. Some of these shares may be resold under Rule 144.

Existing Shareholders Will Experience Significant Dilution From Our Sale Of Shares Under The Standby Equity Distribution Agreement

The sale of shares pursuant to the Standby Equity Distribution Agreement will have a dilutive impact on our shareholders. For example, if the offering occurred on November 27, 2006 at an assumed offering price of $4.59 per share, as determined under the Standby Equity Distribution Agreement, the new shareholders would experience an immediate dilution in the net tangible book value of $2.36 per share. Dilution per share at prices of $3.44, $2.30 and $1.15 per share would be $1.39, $0.41 and $(0.56), respectively.

Our net income per share could decrease in future periods, and the market price of our common stock could decline. In addition, the lower our stock price, the more shares of common stock we will have to issue under the Standby Equity Distribution Agreement to draw down the full amount. If our stock price is lower, then our existing shareholders would experience greater dilution.

The Selling Stockholders Intend To Sell Their Shares Of Common Stock In The Market, Which Sales May Cause Our Stock Price To Decline

The selling shareholders intend to sell in the public market 403,500 shares of common stock being registered in this offering. That means that up to 403,500 shares may be sold pursuant to this Registration Statement. Such sales may cause our stock price to decline. The officers and directors of CTI and those shareholders who are significant shareholders as defined by the SEC will continue to be subject to the provisions of various insider trading and Rule 144 regulations. If our stock price declines, the numbers of shares which CTI will need to issue to Cornell Capital under the Standby Equity Distribution Agreement to raise the same amount of funds will increase.

The Sale Of Our Stock Under Our Standby Equity Distribution Agreement Could Encourage Short Sales By Third Parties, Which Could Contribute To The Future Decline Of Our Stock Price

In some cases the provision of a Standby Equity Distribution Agreement for companies that are traded on the NASDAQ Capital Market ("NASDAQ-CM") has the potential to cause a significant downward pressure on the price of common stock. This is especially the case if the shares being sold into the market exceed the market's desire to purchase the increased stock or if CTI has not performed in such a manner to show that the equity funds raised will be used to grow CTI. Such an event could place further downward pressure on the price of common stock. CTI may request numerous draw downs pursuant to the terms of the Standby Equity Distribution Agreement. Even if CTI uses the Standby Equity Distribution Agreement to grow its revenues and profits or invest in assets which are materially beneficial to CTI the opportunity exists for short sellers (i.e. sellers who do not actually own our shares at the time of their sale) to contribute to the future decline of CTI's stock price. If there are significant short sales of stock, the price decline that would result from this activity will cause the share price to decline more, which, in turn, may cause current owners of our stock to sell their shares; thereby contributing to sales of stock in the market. If there are more investors selling our stock then there are investors desiring to purchase our stock, the market for our stock the price will necessarily decline.

It is not possible to predict the circumstances whereby short sales could materialize or the price to which our stock price could drop.

The Price You Pay In This Offering Will Fluctuate And May Be Higher Or Lower Than The Prices Paid By Other People Participating In This Offering

The price in this offering will fluctuate based on the prevailing market price of the common stock on the NASDAQ-CM. Accordingly, the price you pay in this offering may be higher or lower than the prices paid by other people participating in this offering.

We May Not Be Able To Access Sufficient Funds Under The Standby Equity Distribution Agreement When Needed

We anticipate that a portion of our financing needs will be funded through the Standby Equity Distribution Agreement. No assurances can be given that our Standby Equity Distribution Agreement financing will be available in sufficient amounts or at all when needed, in part, because we are limited to a maximum drawdown of $100,000 during any five (5) trading day period. In addition, the number of shares being registered may not be sufficient to draw all funds available to us under the Standby Equity Distribution Agreement. Based on the assumed offering price of $4.59 and the 400,000 shares we are registering pursuant to the SEDA, we would not be able to draw the entire $5 million available under the Standby Equity Distribution Agreement. At this assumed offering price, we will be able to draw $1,836,000 with the 400,000 shares being registered. CTI would be required to register 689,325 additional shares at this assumed offering price to obtain the remaining $3,164,000 available under the Standby Equity Distribution Agreement.

We May Not Be Able To Draw Down Under The Standby Equity Distribution Agreement If The Investor Holds More Than 9.9% Of Our Common Stock

In the event Cornell Capital holds more than 9.9% of the then-outstanding common stock of CTI, we will be unable to draw down on the Standby Equity Distribution Agreement. Although Cornell Capital may not hold more than 9.9% of the then-outstanding common stock of CTI at any one time, this restriction does not prevent Cornell Capital from selling some of its holdings and then receiving additional shares. Therefore, Cornell Capital has, and may, sell more than these limits while never holding more than those limits. Currently, Cornell Capital has beneficial ownership of 0% of our common stock and therefore we would be able to make limited draw downs on the Standby Equity Distribution Agreement so long as Cornell Capital's beneficial ownership remains below 9.9%. If Cornell Capital's beneficial ownership becomes 9.9% or more, we would be unable to draw down on the Standby Equity Distribution Agreement. In that event, if we are unable to obtain additional external funding or generate revenue from the sale of our products, we could be forced to curtail or cease our operations.

Cornell Capital May Sell Shares Of Our Common Stock During An Applicable Pricing Period Under the Standby Equity Distribution Agreement Which Could Contribute To The Decline Of Our Stock Price

The sale of common stock to be acquired by Cornell Capital pursuant to an advance request made by CTI under the Standby Equity Distribution Agreement during an applicable pricing period could cause downward pressure on the price of our common stock and, therefore, contribute to the decline of our stock price.

DESCRIPTION OF BUSINESS

Business Overview

We develop, produce, market and sell two (2) principal lines of products:

- Novelty products, principally balloons, including metalized balloons, latex balloons, punch balls and other inflatable toy items, and
- Specialty and printed films and flexible containers, for food packaging, specialized consumer uses and various commercial applications.

We focus our business and efforts on the printing, processing and converting of plastic film, and of latex, into finished products. We:

- Coat and laminate plastic film. Generally, we adhere polyethylene film to another film such as nylon or polyester.
- Print plastic film and latex balloons. We print films, both plastic and latex with a variety of graphics for use as packaging film or for balloons.
- Convert printed plastic film to balloons.
- Convert plastic film to flexible containers. These finished products are used to store and package food and for storage of a variety of personal items.
- Convert latex to balloons and other novelty items.

We market and sell metalized and latex balloons in the United States and in several other countries. We supply coated, laminated and printed films to a number of companies who generally convert these films into containers for the packaging of food and other items. We supply flexible containers to companies who (i) use them for packaging of food or other items or (ii) market them to consumers who use them for the storage of personal items. We also market containers to and through retail outlets for use by consumers with sealing devices to store food items in their homes. In March 2006, we announced that we are completing the development of, and will produce, market and sell a line of pouches for use by consumers to store food items. The pouches will include a resealable closure system and a valve permitting the evacuation of air from the pouch by a small pump device which we will also supply.

We were organized in 1976 and, initially, engaged in the business of manufacturing “bag-in-box” plastic packaging systems. We sold our assets related to bag-in-box packaging systems in 1985. In 1978, we began manufacturing metalized balloons (sometimes referred to as “foil” balloons), which are balloons made of a base material (usually nylon or polyester) having vacuum deposited aluminum and polyethylene coatings. These balloons remain buoyant when filled with helium for much longer periods than latex balloons and permit the printing of graphic designs on the surface.

In 1985, we began marketing latex balloons and, in 1988 we began manufacturing latex balloons. In 1994, we sold our latex balloon manufacturing equipment to a company in Mexico and entered into an arrangement for that company to manufacture latex balloons for us. Since 1997, we have manufactured latex balloons in Mexico through a majority-owned subsidiary.

We market and sell our metalized and latex balloons and related novelty items directly to retail stores and chains and through distributors, who in turn sell to retail stores and chains. Our balloon and novelty products are sold to consumers through a wide variety of retail outlets including general merchandise and drugstore chains, grocery chains, card and gift shops, and party goods stores, as well as through florists and balloon decorators.

Most of our metalized balloons contain printed characters, designs and social expression messages, such as “Happy Birthday”, “Get Well Soon” and similar items. In a number of cases, we obtain licenses for well-known characters and print those characters and messages on our balloons. Currently, we maintain licenses for Garfield®, Face Offs-Tudes®, Miss Spider and Sunny Patch Friends® and Andrea Mistretta. In the United Kingdom, we maintain licenses on Postman Pat®, The Crazy Frog® and Dream Fairies®.

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Balloons and novelty items accounted for fifty-seven percent (57%) of our revenues in 2005. The remaining revenues are generated from the sale of laminated film products, generally intended for use in the packaging of foods, liquids and other materials. We provide laminated films, often printed film, to a number of customers who utilize the film to produce bags or pouches for the packaging of food, liquids and other items. We also produce finished products - pouches and bags - which are used for a variety of applications, including (i) as vacuumable consumer storage devices for clothing and other household items, (ii) as vacuumable pouches for household use in storage of food items, and (iii) as "dunnage" items which, when inflated, cushion products in a package or container. In 2005, our revenues from these products represented approximately forty percent (40%) of our net revenues. For the nine months ending September 30, 2006, balloon and novelty items accounted for 63% of our sales.

We are an Illinois corporation with our principal offices and plant at 22160 N. Pepper Road, Barrington, Illinois.

Business Strategies

Our essential business strategies are as follows:

· ***Focus on our Core Assets and Expertise.*** We have been engaged in the development, production and sale of film products for thirty (30) years and have developed assets, technology and expertise which, we believe, enable us to develop, manufacture, market and sell innovative products of high quality within our area of knowledge and expertise. We plan to focus our efforts in these areas which are our core assets and expertise - laminated films, printed films, pouches and film novelty products - to develop new products, to market and sell our products and to build our revenues.

· ***Develop Operating Efficiencies to Enhance our Profitability.*** Over the past two years, we have engaged in a program to reduce and control production expenses, as well as selling, general and administrative expenses, in order to increase the efficiencies of our operations and to become profitable at current levels of revenue. During 2005, we reduced our domestic production overhead expenses by more than $1,460,000 compared to 2004 and we reduced our consolidated SG&A expenses by approximately $1,200,000 from 2004 levels. We intend to continue our efforts to control expenses, increase efficiencies and to become profitable. In the nine months ended September 30, 2006, the company reduced domestic production overhead from 18.6% of net sales in 2005 to 17.6% of net sales in 2006.

In the nine months ended September 30, 2006, the company reduced consolidated SG&A expenses from 19.5% to 17.4% in 2006.

· ***Develop New Products, Product Improvements and Technologies.*** We work constantly to develop new products, to improve existing products and to develop new technologies within our core product areas, in order to enhance our competitive position and our sales. In the novelty line, our development work includes new designs, new character licenses and new product developments. During 2005, we introduced more than eighty-five (85) new balloon designs and obtained three new licensed character designs. We also developed and introduced a device to amplify sound through a balloon so that voice and music can be played and amplified using our Balloon Jamz™ balloon. In our commercial line, over the past several years we have developed new pouch closure systems and valves and new film methods for liquid packaging applications. We have received thirteen (13) patents for these developments and have two (2) patent applications pending.

· ***Develop New Channels of Distribution and New Sales Relationships.*** In order to increase sales, we endeavor to develop new channels of distribution and new sales relationships, both for existing and new products. During the past year, we entered into a sales and marketing relationship for the marketing and sale of our newly developed and introduced universal vacuumable sealing bags. Recently, we announced the development of a resealable bag with a valve and pump system for household storage and vacuum sealing of food items. In March 2006, we entered into a four (4)-year agreement with Illinois Tool Works, Inc. ("ITW"), one of our top three (3) customers, to provide (i) all of their requirements for a certain kind of pouch and (ii) all of their requirements, subject to competitive pricing, for film for their use in the production of certain pouches. In April 2006, we entered into a license agreement with Rapak LLC ("Rapak"), also one of our top three (3) customers, granting Rapak a license under a patent related to textured film and pouches, and extending the term of an existing supply agreement with Rapak to October 31, 2008.

Products

Metalized Balloons. We have designed, produced and sold metalized balloons since 1979 and, we believe, are the second largest manufacturer of metalized balloons in the United States. Currently, we produce over six hundred fifty (650) balloon designs, in different shapes and sizes, including the following:

· Superloons® - 18" balloons in round or heart shape, generally made to be filled with helium and remain buoyant for long periods. This is the predominant metalized balloon size.

· Ultraloons® - 34” balloons made to be filled with helium and remain buoyant.

· Miniloons®- 9” balloons made to be air-filled and sold on holder-sticks or for use in decorations.

· Card-B-Loons®(4 1/2”) - air-filled balloons, often sold on a stick, used in floral arrangements or with a container of candy.

· Shape-A-Loons® - shaped balloons made to be filled with helium.

· Minishapes - small shaped balloons designed to be air filled and sold on sticks as toys or inflated characters.

· Balloon Jamz™ - 20” to 40” round and shaped balloons which emit and amplify sound through a speaker attached to the balloon.

In addition to size and shape, a principal element of the Company’s metalized balloon products is the printed design or message contained on the balloon. These designs include figures and licensed characters many of which are well-known. We maintain licenses for several characters, including Garfield®, Face Offs-Tudes, Miss Spider and Sunny Patch Friends® and Andrea Mistretta, and in the United Kingdom, Postman Pat® , The Crazy Frog® and Dream Fairies®. For a period of three (3) years, we also manufactured and distributed certain licensed designs under an arrangement with Hallmark Cards. This arrangement terminated on March 31, 2005.

Latex Balloons. Through our majority-owned subsidiary in Guadalajara, Mexico, Flexo Universal, S.A. de C.V. (“Flexo Universal”), we manufacture latex balloons in six (6) shapes and sizes and forty (40) colors. These balloons are marketed under the name Partyloons®. We also manufacture toy balloon products including punch balls, water bombs and “Animal Twisties.”

Packaging Films. We produce and sell films that are utilized for the packaging of various products, principally food products. We laminate, extrusion coat and print films and sell them to customers who utilize the films for packaging applications. Our customers generally use these film products to convert them to bags or pouches for the packaging of food and other products.

Pouches, Bags and Other Custom Film Products. We produce a variety of completed film products, generally in the form of a bag or pouch. These products include (i) valved, resealable pouches for storage of household items, (ii) vacuum sealable bags for food storage, (iii) resealable, valved bags for storage and vacuum sealing of food items in the household, (v) “dunnage” bags (inflatable pouches used to cushion products in packages. In March 2006, we announced that we will be offering a line of resealable, valved bags for storage and vacuum sealing of food items in the household. These storage bags will function with a small hand or powered pump to evacuate air when the bag is sealed.

Markets

Metalized Balloons

The metalized balloon came into existence in the late 1970s. During the 1980s, the market for metalized balloons grew rapidly. Initially, the product was sold principally to individual vendors, small retail outlets and at fairs, amusement parks, shopping centers and other outdoor facilities and functions. Metalized balloons remain buoyant when filled with helium for extended periods of time and they permit the printing and display of graphics and messages. As a result, the product has significant appeal as a novelty and message item. Metalized balloons became part of the “social expression” industry, carrying graphics designs, characters and messages like greeting cards. In the mid-1980s, we and other participants in the market began licensing character and cartoon images for printing on the balloons and directed marketing of the balloons to retail outlets including grocery, general merchandise, discount and drug store chains, card and gift shops, party goods stores as well as florists and balloon decorators. These outlets now represent the principal means for the sale of metalized balloons throughout the United States and in a number of other countries.

Metalized balloons are sold in the United States and in Europe, several countries in the Far East, Canada and to an increasing extent in Latin America. The United States, however, is by far the largest market for these products.

Metalized balloons are sold in the United States and foreign countries directly by producers to retail outlets and through distributors and wholesalers. Often the sale of metalized balloons by the wholesalers/distributors is accompanied by related products including latex balloons, floral supplies, candy containers, mugs, plush toys, baskets and a variety of party goods.

Latex Balloons

For a number of years, latex balloons and related novelty/toy latex items have been marketed and sold throughout the United States and in most other countries. Latex balloons are sold as novelty/toy items, for decorative purposes, as part of floral designs and as party goods and favors. In addition to standard size and shape balloons, inflatable latex items include punch balls, water bombs, balloons to be twisted into shapes, and other specialty designs. Often, latex balloons included printed messages or designs.

Latex balloons are sold principally in retail outlets, including party goods stores, general merchandise stores, discount chains, gift stores and drugstore chains. Balloons are also purchased by balloon decorators and floral outlets for use in decorative or floral designs. Latex balloons are sold both through distributors and directly to retail outlets by the producers.

Printed latex balloons are sold both in retail outlets and for balloon decoration purposes including floral designs. “Toy” balloons include novelty balloons sold in toy departments or stores, punch balls, water bombs and other specialty designs.

Printed and Specialty Films

The industry and market for printed and specialty films is fragmented and includes many participants. There are hundreds of manufacturers of printed and specialty film products in the United States and in other markets. In many cases, companies who provide food and other products in film packages also produce or process the films used for their packages. The market for the Company’s film products consists principally of companies who utilize the films for the packaging of their products, including food products and other items. In addition to the packaging of food products, flexible containers are used for medical purposes (such as colostomy bags, containers for saline solution and other items), “dunnage” (to cushion products being packaged), storage of personal and household items and other purposes.

Flexible Containers/Pouches

The market for flexible containers and pouches is large and diverse. Many companies engaged in the production of food items package their products in flexible containers or pouches, and, therefore, represent a market for these containers. Many of these companies purchase film - often printed film - and convert the film to pouches or packages at their own facilities while others purchase completed containers from suppliers.

Flexible containers and pouches are sold and utilized in the consumer market in numerous forms. They include simple open-top plastic bags, resealable bags and zippered bags. The market also includes containers and pouches of special design or purpose, including vacuumable bags for storage of food or household items, medical bags, or commercial uses.

Marketing, Sales and Distribution

Balloon Products

We market and sell our metalized balloon, latex balloon and related novelty products throughout the United States and in a number of other countries. We maintain a marketing, sales staff and support staff of ten (10) individuals and a customer service department of four (4) individuals. European sales are conducted by CTI Balloons, the Company’s subsidiary located in Rugby, England. Flexo Universal conducts sales and marketing activities for the sale of balloon products in Mexico, Latin America, and certain other markets. Sales in other foreign countries are made generally to distributors in those countries and are managed at the Company’s principal offices.

We sell and distribute our balloon products (i) by our employed staffs of sales and customer service personnel in the United States, Mexico and the UK, (ii) through a network of distributors and wholesalers in the United States, Mexico and the UK, (iii) through several groups of independent sales representatives and (iv) to selected retail chains. The distributors and wholesalers are generally engaged principally in the sale of balloons and related products (including such items as plush toys, mugs, containers, floral supplies and other items) and sell balloons and related products to retail outlets including grocery, general merchandise and drug store chains, card and gift shops, party goods stores as well as florists and balloon decorators.

Our largest customer for balloons during 2005 was Dollar Tree Stores. Sales to this chain in 2005 represented $3,987,000 or approximately fourteen percent (14%) of our net sales. For the nine months ended September 30, 2006 sales to this chain represented $5,755,000 or approximately 22% of net sales.

For a period of three years, we maintained a relationship with Hallmark Cards under which we (i) produced balloons of Hallmark designs, and of designs licensed by Hallmark, under authority from Hallmark, (ii) sold such balloons, as well as latex balloons, to Hallmark for resale by Hallmark, and (iii) sold and distributed these balloon designs to customers in the United States. This arrangement and the agreements related to it expired and were terminated on March 31, 2005. We continue to sell balloons bearing these designs from our inventory during an eighteen (18) month sell-off period. Our domestic sales of balloon products to Hallmark during 2004 were $3,421,000 during 2005 were $306,000, and during the nine months ended September 30, 2006 were negligible.

We engage in a variety of advertising and promotional activities to promote the sale of our balloon products. Each year, we produce a complete catalog of our balloon products, and also prepare various flyers and brochures for special or seasonal products, which we disseminate to thousands of customers, potential customers and others. We participate in several trade shows for the gift, novelty, balloon and other industries and advertise in several trade and other publications.

Printed and Specialty Films

We market and sell printed and laminated films directly and through independent sales representatives throughout the United States. We sell laminated and printed films to companies that utilize these films to produce packaging for a variety of products, including food products, in both liquid and solid form, such as cola syrup, coffee, juices and other items. We seek to identify and maintain customer relationships in which we provide value-added in the form of technology or systems. Our largest customer for film products is Rapak, L.L.C. (“Rapak”) to whom we provide a patented embossed film, as well as other film products. During 2005, our sales to Rapak totaled $6,860,000, representing approximately twenty-four percent (24%) of our net sales and during the nine months ended September 30, 2006 sales were $5,294,000 representing approximately 21% of our net sales.Under our continuing agreement with Rapak, through October 31, 2008, Rapak is committed to purchase at least sixty-five percent (65%) of its requirements for embossed film from us.

Flexible Containers/Pouches

We market flexible containers and pouches to various companies for commercial packaging purposes and we market lines of consumer storage packages both to a principal customer and through a sales and marketing agent to retail chains and outlets.

We produce consumer storage bags for ITW Space Bag, a division of Illinois Tool Works, Inc. (“ITW”) During 2005, ITW was our largest customer for pouches. Our sales of pouches to them in 2005 were $3,889,000, representing approximately thirteen percent (13%) of our net sales and during the nine months ended September 30, 2006 sales were $2,158,000 representing approximately 8% of net sales.. In March 2006, we entered into a four-year agreement with ITW under which we will supply all of their requirements in North America for certain of their pouches which they market under the name Space Bag® and also are to supply their requirements of film for certain of the pouches which they produce.

During 2005, we introduced a line of universal vacuumable bags for household storage of food products. We marketed these products through a marketing and sales firm, to retail stores and chains. These bags are designed to be used with existing vacuum and sealing devices. In March 2006, we announced the planned introduction of new household food storage system including a re-sealable bag incorporating a valve and a hand pump to evacuate air from the bag when the bag is sealed.

Production And Operations

We conduct our operations at four facilities: (i) our headquarters, offices and plant at Barrington, Illinois, consisting of a total of approximately 75,000 square feet of office, production and warehouse space, (ii) a warehouse in Cary, Illinois, consisting of approximately 16,000 square feet of space, (iii) a plant, offices and warehouse in Guadalajara, Mexico, consisting of approximately 43,000 square feet of office, warehouse and production space and (iv) an office and warehouse facility at Rugby, England, consisting of approximately 16,000 square feet of space.

We conduct production operations at our plants in Barrington, Illinois, and Guadalajara, Mexico. At our plants, our production operations include (i) lamination and extrusion coating of films, (ii) slitting of film rolls, (iii) printing on film and on latex balloons, (iv) converting of film to completed products including balloons, flexible containers and pouches and (v) production of latex balloon products. We perform all of the lamination, extrusion coating and slitting activities in our Barrington, Illinois, plant and produce all of our latex balloon products at our Guadalajara, Mexico, plant. We print films in Barrington, Illinois, and we print latex balloons in Guadalajara, Mexico.

We warehouse raw materials at our plants in Barrington, Illinois, and Guadalajara, Mexico, and we warehouse finished goods at our facilities in Barrington, Illinois, Cary, Illinois, Guadalajara, Mexico and Rugby, England. We maintain customer service and fulfillment operations at each of our warehouse locations. We conduct sales operations for the United States and for all other markets, except those handled by our Mexico and England facilities, in the Barrington, Illinois facility. Sales for Mexico and Latin America are handled in our Guadalajara, Mexico, facility and sales for the United Kingdom and Europe are handled at our Rugby, England, facility.

We maintain a graphic arts and development department at our Barrington, Illinois, facility which designs our balloon products and graphics. Our creative department operates a networked, computerized graphic arts system for the production of these designs and of printed materials including catalogues, advertisements and other promotional materials.

We conduct administrative and accounting functions at our headquarters in Barrington, Illinois, and at our facilities in Guadalajara, Mexico, and Rugby, England.

Raw Materials

The principal raw materials we use in manufacturing our products are (i) petroleum or natural gas-based films, (ii) petroleum or natural gas-based resin, (iii) latex and (iv) printing inks. The cost of these raw materials represented forty-one percent (41%) of our net revenues in 2005. During the nine months ended September 30, 2006, the cost of these raw materials increased to 45% of our net revenues. Because much of the raw materials we utilize are based on petroleum or natural gas, we have experienced fluctuation in pricing, in relation to the fluctuation of availability and pricing of these source commodities. To some degree, we have been able to increase the pricing of our products in relation to changes in our costs of raw materials. However, during the past year, we have not been able to recover all raw materials price increases by increasing the price of our products and we are subject to the risk that our margins may be negatively affected by changes in the price of petroleum or natural gas-based raw materials. While we currently purchase our raw materials from a relatively limited number of sources, films, resin and inks are available from numerous sources and, in the past, we have generally been able to obtain a sufficient supply of raw materials. However, during August and September 2005, the petrochemical industry suffered facility damage, production disruptions and transportation shortages due to the impact of two (2) Gulf Coast hurricanes. As a result, both the price and availability of petroleum and natural gas-based products were affected. While we were generally able to obtain a sufficient supply of raw materials to meet our needs during this time, prices of raw materials escalated rapidly and substantially; hence, the risk of shortages of raw materials supply existed. There can be no assurance that the price of such raw materials, and their availability, will not be affected similarly in the future and such events could have a material adverse effect on the business of the Company.

Information Technology Systems

Our corporate headquarters in Barrington, Illinois, and our warehouse facility in Cary, Illinois, are serviced by a PC-based local area network. We connect the facilities via a high speed T1 line that carries both voice and data. The PC-based network incorporates both Novell and Microsoft servers. Access to the network is available to all employees but is secured using password authentication. The network allows us to leverage printing resources, create shared file areas for cross-departmental functions and allows for a single source backup of critical business files. On the network we run Macola financial system software. Macola is a modular software system, of which we use the general ledger, order entry, inventory management, purchase order, electronic data exchange and custom report writing modules. Internal and external employee communications are handled by industry standard Microsoft Exchange email, allowing us to communicate with customers and vendors all over the world. We also provide a secure, firewall protected T1 connection to the Internet so that employees can research issues, support customers and securely move data.

At each of our Mexico and England facilities, we operate server computers and local area networks, accessible to employees at those facilities. At each of those facilities, we operate separate integrated financial, order entry and inventory management systems.

Competition

The balloon and novelty industry is highly competitive, with numerous competitors. We believe there are presently six principal manufacturers of metalized balloons whose products are sold in the United States including Anagram International, Inc., Pioneer Balloon, Convertidora International, Barton Enterprises and Betallic. Several companies market and sell metalized balloons designed by them and manufactured by others for them.

We believe there are approximately five (5) manufacturers of latex balloons whose products are sold in the United States and numerous others whose products are sold in other countries.

The market for films, packaging and custom products is fragmented, and competition in this area is difficult to gauge. However, there are numerous participants in this market and the Company can expect to experience intense quality and price competition.

Many of these companies offer products and services that are the same or similar to those offered by us and our ability to compete depends on many factors within and outside our control. There are a number of well-established competitors in each of our product lines, several of which possess substantially greater financial, marketing and technical resources and have established, extensive, direct and indirect channels of distribution for their products and services. As a result, such competitors may be able to respond more quickly to new developments and changes in customer requirements, or devote greater resources to the development, promotion and sale of their products and services than we can. Competitive pressures include, among other things, price competition, new designs and product development and copyright licensing.

Patents, Trademarks And Copyrights

We have developed or acquired a number of intellectual property rights which we believe are significant to our business.

Copyright Licenses. We maintain licenses on certain popular characters and designs for our balloon products. We presently maintain seven (7) licenses and produce balloon designs utilizing the characters or designs covered by the licenses. Licenses are generally maintained for a one (1) or two (2) year term, although the Company has maintained long term relationships with several of its licensors and has been able to obtain renewal of its license agreements with them.

Trademarks. We own twelve (12) registered trademarks in the United States relating to our balloon products. Many of these trademarks are registered in foreign countries, principally in the European Union. We have a license on the Simply Smart™ trademark for our household storage line of products.

Patent Rights. We own, or have license rights under, or have applied for, patents related to our balloon products, certain film products and certain flexible container products. These include (i) ownership of two (2) patents, and a license under a third, relating to self-sealing valves for metalized balloons and methods of making balloons with such valves, (ii) several metalized balloon design patents, (iii) patents and applications related to the design and structure of, and method of inserting and affixing, zipper-closure systems in a bag, (iv) patents related to one-way valves for pouches, (v) a patent related to methods of embossing film and utilizing such film to produce pouches with fitments, and (vi) patent applications related to vacuumable storage bags with fitments.

Research And Development

We maintain a product development and research department of five (5) individuals for the development or identification of new products, product components and sources of supply. Research and development includes (i) creative product development, (ii) creative marketing and (iii) engineering development. During each of the fiscal years ended December 31, 2005, 2004, 2003, we estimate that the total amount spent on research and development activities was approximately $224,000, $246,000 and $335,000, respectively. As of September 30, 2006 we maintain a product development and research department of six individuals. During the nine months ended September 30, 2006, we estimate that the total amount spent on research and development activities was $208,000.

Employees

As of September 30, 2006, the Company had eighty-five (85) full-time employees in the United States, of whom fifteen (15) are executive or supervisory, four (4) are in sales, fifty-four (54) are in manufacturing or warehouse functions and twelve (12) are clerical. As of that same date, we had ten (10) full-time employees in England, of whom two (2) are executive or supervisory, two (2) are in sales, four (4) are in warehousing and two (2) are clerical. At Flexo Universal, our Mexico subsidiary, as of December 31, 2005, we had one hundred eighty-five (185) full-time employees, of whom nineteen (19) are executive or supervisory, two (2) are in sales, one hundred fifty-six (156) are in manufacturing and eight (8) are clerical. The Company is not a party to any collective bargaining agreement in the United States, has not experienced any work stoppages and believes that its relationship with its employees is satisfactory.

Regulatory Matters

Our manufacturing operations in the United States are subject to the U.S. Occupational Safety and Health Act ("OSHA"). We believe we are in material compliance with OSHA. The Company generates liquid, gaseous and solid waste materials in its operations in Barrington, Illinois and the generation, emission or disposal of such waste materials are, or may be, subject to various federal, state and local laws and regulations regarding the generation, emission or disposal of waste materials. We believe we are in material compliance with applicable environmental rules and regulations. Several states have enacted laws limiting or restricting the release of helium filled metalized balloons. We do not believe such legislation will have any material effect on our operations.

International Operations

We sell balloon products in a number of countries outside the United States. Sales of these products for the United Kingdom and Europe are handled by our facility and personnel in Rugby, England, and for Mexico and Latin America are handled by our facility and personnel in Guadalajara, Mexico. In other countries, we sell balloon products through distributors located in those countries. We conduct production, packaging, warehousing and sales operations in Mexico and warehousing and sales operations in the United Kingdom. We rely and are dependent on our operations in Mexico for the supply of latex balloons in the United States, Mexico, Europe and other markets. Interruption of that supply would have a material adverse effect on the business of the Company.

Our domestic and international sales and assets by area over the period 2003 - 2005 have been as follows:

	United States	United Kingdom	Mexico	Eliminations	Consolidated
Nine months ended 9/30/06					
Revenues	$ 21,016,000	$ 2,265,000	$ 4,696,000	($2,221,000)	$ 25,756,000
Operating income	1,373,000	75,000	478,000		1,926,000
Net income	322,000	$ 83,000	338,000		743,000
Total Assets	$ 23,146,000	$ 2,630,000	$ 5,146,000	($6,003,000)	$ 24,919,000
Year ended 12/31/05					
Revenues	$ 23,564,000	$ 2,573,000	$ 4,536,000	($1,483,000)	$ 29,190,000
Operating income (loss)	602,000	290,000	(240,000)		652,000
Net (loss) income	(342,000)	$ 220,000	(211,000)		(333,000)
Total Assets	$ 21,343,000	$ 2,122,000	$ 4,818,000	($4,747,000)	$ 23,536,000
Year ended 12/31/04					
Revenues	$ 32,855,000	$ 2,664,000	$ 4,890,000	($3,216,000)	$ 37,193,000
Operating income	(92,000)	121,000	(31,000)	(48,000)	(50,000)
Net (loss) income	(2,595,000)	223,000	(59,000)	(48,000)	(2,479,000)
Total Assets	$ 24,072,000	$ 1,989,000	$ 5,319,000	($3,492,000)	$ 27,888,000
Year ended 12/31/03					
Revenues	$ 32,687,000	$ 2,415,000	$ 4,003,000	($2,845,000)	$ 36,260,000
Operating income	(216,000)	191,000	(102,000)	(96,000)	(223,000)
Net (loss) income	(883,000)	163,000	249,000	(95,000)	(566,000)
Total Assets	$ 27,603,000	$ 1,412,000	$ 5,476,000	($4,221,000)	$ 30,270,000

Properties

We own our principal plant and offices located in Barrington, Illinois, approximately forty-five (45) miles northwest of Chicago, Illinois. The facility includes approximately 75,000 square feet of office, manufacturing and warehouse space. This facility is subject to a mortgage loan in the principal amount of $2,800,000, having a term of five (5) years, with payments amortized over twenty-five (25) years.

We lease a warehouse facility in Cary, Illinois under a two (2) year lease at the base rate of $6,000 per month and at a total monthly cost of approximately $8,000. The lease expires on September 30, 2007. The facility includes 16,306 square feet of warehouse and office space which is utilized principally for the warehousing of balloon inventory.

The Company also leases approximately 15,000 square feet of office and warehouse space in Rugby, England at an annual lease cost of $51,700, expiring in 2019. This facility is utilized to warehouse balloon products and to manage and service the Company’s operations in England and Europe.

In January 2003, Flexo Universal entered into a five (5) year lease agreement for the lease of approximately 43,000 square feet of manufacturing, warehouse and office space in Guadalajara, Mexico at the cost of $17,000 per month.

We believe that our properties have been adequately maintained, are in generally good condition and are suitable for our business as presently conducted. We believe our existing facilities provide sufficient production capacity for our present needs and for our presently anticipated needs in the foreseeable future. We also believe that, with respect to leased properties, upon the expiration of our current leases, we will be able to either secure renewal terms or to enter into leases for alternative locations at market terms.

Legal Proceedings

On September 5, 2003, Airgas, Inc., Airgas-Southwest, Inc., Airgas-South, Inc. and Airgas-East, Inc. filed a joint action against CTI for claimed breach of contract in the Circuit Court of Lake County, Illinois claiming as damages the aggregate amount of $162,242. The Company filed an answer denying the material claims of the complaint, affirmative defenses and a counterclaim. In the action, the plaintiffs claimed that CTI owed them certain sums for (i) helium sold and delivered, (ii) rental charges with respect to helium tanks and (iii) replacement charges for tanks claimed to have been lost. On November 2, 2004, this matter was settled. The amount agreed to be paid by the Company in settlement totaled $100,000. The entire amount of the settlement payment has been made.

On June 4, 2004, Spar Group, Inc. initiated an arbitration proceeding in New York City against the Company. In the proceeding, Spar Group claimed that there was due from the Company to Spar Group a sum for services rendered in the amount of $180,043, plus interest. Spar Group claimed to have rendered services to the Company in various Eckerd stores with respect to the display and ordering of metalized and latex balloons for sale in those stores. The Company filed an answer denying liability with respect to the claim and asserted a counterclaim for damages against Spar Group for breach of its agreement to provide such services. On January 13, 2005, this matter was settled. The amount agreed to be paid by the Company in settlement totaled $100,000 and such amount has been paid in full.

In addition, the Company is also party to certain lawsuits or claims arising in the normal course of business. The ultimate outcome of these matters is unknown, but in the opinion of management, we do not believe any of these proceedings will have, individually or in the aggregate, a material adverse effect upon our financial condition, future results of operation or cash flows.

On December 20, 2006, Pliant Corporation filed an action against the Company in the Circuit Court of Cook County, Illinois. In the action Pliant claims that there is due from the Company to Pliant the sum of $245,000 for goods sold and delivered by Pliant to the Company as well as interest on such amount. The Company was served with the complaint in the action on December 22, 2006. Management of the Company is evaluating the complaint and intends to vigorously defend the action. Management believes that the Company has established adequate reserves regarding the claim.

SELLING SHAREHOLDERS

The following table presents information regarding the selling shareholders. The selling shareholders are the entities who have assisted in or provided financing to CTI. A description of the selling shareholders' relationship to CTI and how the selling shareholders acquired the shares to be sold in this offering is detailed in the information immediately following this table.

Selling Shareholders	Shares Beneficially Owned Before Offering	Percentage Of Outstanding Shares Beneficially Owned Before Offering(1)	Shares To Be Acquired Under The Standby Equity Distribution Agreement	Percentage Of Outstanding Shares To Be Acquired Under The Standby Equity Distribution Agreement	Shares To Be Sold In The Offering	Percentage Of Shares Beneficially Owned After Offering(1)
	Shares Acquired in Financing Transactions with CTI					
Cornell Capital Partners, LP	0	*	400,000	15.74%	400,000(2)	0%
Newbridge Securities Corporation	3,500(3)	*	0	0%	3,500	0%
Total	3,500(3)	*	400,000	15.74%	403,500	0%

* Less than one percent (1%).

(1) Applicable percentage of ownership is based on 2,142,097 shares of common stock outstanding as of Dceember 11, 2006, together with securities exercisable or convertible into shares of common stock within sixty (60) days of December 11, 2006, for each shareholder. Beneficial ownership is determined in accordance with the rules of the SEC and generally includes voting or investment power with respect to securities. Shares of common stock subject to securities exercisable or convertible into shares of common stock that are currently exercisable or exercisable within sixty (60) days of December 11, 2006 are deemed to be beneficially owned by the person holding such securities for the purpose of computing the percentage of ownership of such person, but are not treated as outstanding for the purpose of computing the percentage ownership of any other person. Note that affiliates are subject to Rule 144 and Insider trading regulations - percentage computation is for form purposes only.

(2) Includes the 400,000 shares that may be acquired by Cornell Capital under the Standby Equity Distribution Agreement.

(3) Includes 3,500 Shares issued in connection with the 2006 Standby Equity Distribution Agreement.

The following information contains a description of each selling shareholder's relationship to CTI and how each selling shareholder acquired the shares to be sold in this offering. None of the selling shareholders have held a position or office, or had any other material relationship, with CTI, except as follows:

Shares Acquired In Financing Transactions With CTI

Cornell Capital Partners, LP. Cornell Capital is the investor under the Standby Equity Distribution Agreement. All investment decisions of, and control of, Cornell Capital are held by its general partner, Yorkville Advisors, LLC ("Yorkville Advisors"). Mr. Mark Angelo, the managing member of Yorkville Advisors, makes the investment decisions on behalf of and controls Yorkville Advisors. Cornell Capital acquired all shares being registered in this offering in financing transactions with CTI. Those transactions are explained below:

- ***Standby Equity Distribution Agreement.*** On June 6, 2006 (the "Closing Date"), the Company entered into a Standby Equity Distribution Agreement (also referred to herein as the "SEDA") with Cornell Capital pursuant to which the Company may, at its discretion, periodically sell to Cornell Capital shares of its common stock, no par value per share for a total purchase price of up to Five Million Dollars ($5,000,000). For each share of common stock purchased under the SEDA, Cornell Capital will pay to the Company one hundred percent (100%) of the lowest volume weighted average price (as quoted by Bloomberg, LP) of the Company's common stock on the principal market (whichever is at such time the principal trading exchange or market for the common stock) during the five (5) consecutive trading days after the Advance Notice Date (as such term is defined in the SEDA). However, the Company and Cornell Capital have agreed that the Company will not sell to Cornell Capital in excess of 400,000 shares unless and until the Company shall have obtained shareholder approval for such sales.

Cornell will retain five percent (5%) of each advance under the SEDA. The Company paid to Yorkville Advisors a structuring fee equal to Fifteen Thousand Dollars ($15,000) on the Closing Date and shall pay Five Hundred Dollars ($500) to Yorkville Advisors on each Advance Date directly out of the gross proceeds of each Advance (as such terms are defined in the SEDA). Cornell's obligation to purchase shares of common stock under the SEDA is subject to certain conditions, including, without limitation: (a) the Company obtaining an effective registration statement for shares of its common stock sold under the SEDA pursuant to that certain Registration Rights Agreement dated as of the Closing Date and (b) the amount for each Advance as designated by the Company in the applicable Advance Notice shall not be more than One Hundred Thousand Dollars ($100,000).

Newbridge Securities Corporation. Newbridge Securities Corporation is an unaffiliated registered broker-dealer that has been retained by us. For its services in connection with the Standby Equity Distribution Agreement, Newbridge Securities Corporation received a fee paid by the issuance of 3,500 shares of common stock of the Company. These shares are being registered in this offering. All investment decisions of Newbridge Securities Corporation are made by its President, Guy Amico.

STANDBY EQUITY DISTRIBUTION AGREEMENT

Summary

On June 6, 2006, we entered into a Standby Equity Distribution Agreement with Cornell Capital pursuant to which we may, at our discretion, periodically sell to Cornell Capital shares of common stock for a total purchase price of up to $5 million. For each share of common stock purchased under the Standby Equity Distribution Agreement, Cornell Capital will pay one hundred percent (100%) of the lowest volume weighted average price (as quoted by Bloomberg, LP) of our common stock on the NASDAQ Capital Market or other principal market on which our common stock is traded for the five (5) days immediately following the notice date. The number of shares purchased by Cornell Capital for each advance is determined by dividing the amount of each advance by the purchase price for the shares of common stock. Furthermore, Cornell Capital will receive five percent (5%) of each advance in cash under the Standby Equity Distribution Agreement as an underwriting discount. Cornell's obligation to purchase shares of our common stock under the Agreement is subject to certain conditions, including: (i) we shall have obtained an effective registration statement for the shares of common stock sold to Cornell under the Agreement and (ii) the amount of each advance requested by us under the Agreement shall not be more than $100,000.

Cornell Capital is a private limited partnership whose business operations are conducted through its general partner, Yorkville Advisors, LLC. In addition, we engaged Newbridge Securities Corporation, a registered broker-dealer, as our placement agent in connection with the Standby Equity Distribution Agreement. For its services, Newbridge received 3,500 shares of our common stock on or about June 6, 2006, equal to approximately $11,200 based on our stock price of $3.20 when the shares were issued on June 26, 2006. The effectiveness of the sale of the shares under the Standby Equity Distribution Agreement was conditioned upon us registering the shares of common stock with the SEC and obtaining all necessary permits or qualifying for exemptions under applicable state law. The costs associated with this registration will be borne by the Company. Except as stated above, there are no other significant closing conditions to draws under the Standby Equity Distribution Agreement.

Standby Equity Distribution Agreement Explained

Pursuant to the Standby Equity Distribution Agreement, we may periodically sell shares of common stock to Cornell Capital to raise capital to fund our working capital needs. The periodic sale of shares is known as an advance. We may request an advance every five (5) trading days. A closing will be held the first trading day after the pricing period at which time we will deliver shares of common stock and Cornell Capital will pay the advance amount. There are no closing conditions imposed on CTI for any of the draws other than that CTI has filed its periodic and other reports with the SEC, has delivered the stock for an advance the trading of CTI's common stock has not been suspended. We may request advances under the Standby Equity Distribution Agreement until Cornell Capital has advanced $5 million or twenty-four (24) months after the effective date of this Registration Statement, whichever occurs first. It is unlikely that we will be able to draw the entire amount of $5 million before twenty-four (24) months after the effective date of this Registration Statement, given the limitations on the size and frequency with which we may request advances from Cornell Capital, unless our stock price increases significantly.

The amount of each advance is subject to a maximum amount of $100,000, and we may not submit an advance within five (5) trading days of a prior advance. The amount available under the Standby Equity Distribution Agreement is not dependent on the price or volume of our common stock. Our ability to request advances is conditioned upon us registering the shares of common stock with the SEC. In addition, we may not request advances if the shares to be issued in connection with such advances would result in Cornell Capital owning more than 9.9% of our outstanding common stock. Cornell Capital's current beneficial ownership of CTI common stock is 0%. We would be permitted to make draws on the Standby Equity Distribution Agreement only so long as Cornell Capital's beneficial ownership of our common stock remains lower than 9.9% and, therefore, a possibility exists that Cornell Capital may own more than 9.9% of CTI's outstanding common stock at a time when we would otherwise plan to make an advance under the

Standby Equity Distribution Agreement.

We do not have any agreements with Cornell Capital regarding the distribution of such stock, although Cornell Capital has indicated that it intends to promptly sell any stock received under the Standby Equity Distribution Agreement.

We cannot predict the actual number of shares of common stock that will be issued pursuant to the Standby Equity Distribution Agreement, in part, because the purchase price of the shares will fluctuate based on prevailing market conditions, and we have not determined the total amount of advances we intend to draw. Nonetheless, we can estimate the number of shares of our common stock that will be issued using certain assumptions. We are registering 400,000 shares of common stock for the sale under the Standby Equity Distribution Agreement. Assuming an offering price of $4.59 per share, we will receive gross proceeds of and be able to utilize $1,836,000 of the $5 million available under the Standby Equity Distribution Agreement. These shares would represent approximately 15.74% of our outstanding common stock upon issuance. The Company and Cornell have agreed that the Company will not sell to Cornell Capital in excess of 400,000 shares unless and until the Company shall have obtained shareholder approval for such sales. CTI would be required to register 689,825 additional shares at the assumed offering price of $4.59 per share to obtain the $5 million available under the Standby Equity Distribution Agreement. In order to access all funds available to us under the Standby Equity Distribution Agreement with the 400,000 shares being registered in this offering, the average price of shares issued under the Standby Equity Distribution Agreement would need to be $12.50 or an approximately 2.72 times our stock price as of November 27, 2006.

There is an inverse relationship between our stock price and the number of shares to be issued under the Standby Equity Distribution Agreement. That is, as our stock price declines, we would be required to issue a greater number of shares under the Standby Equity Distribution Agreement for a given advance. This inverse relationship is demonstrated by the following tables, which show the net cash to be received by CTI and the number of shares to be issued under the Standby Equity Distribution Agreement at an assumed offering price, as determined under the Standby Equity Distribution Agreement, of $4.59 per share and twenty-five percent (25%), fifty percent (50%) and seventy-five percent (75%) discounts to the assumed offering price.

Net Cash To The Company

	Assumed Offering Price	75% of Assumed Offering Price	50% of Assumed Offering Price	25% of Assumed Offering Price
Purchase Price:	$ 4.59	$ 3.44	$ 2.30	$ 1.15
No. of Shares[1]:	400,000	400,000	400,000	400,000
Total Outstanding[2]:	2,542,097	2,542,097	2,542,097	2,542,097
Percent Outstanding[3]:	15.74%	15.74%	15.74%	15.74%
Gross Cash to CTI:	$ 1,836,000	$ 1,376,000	$ 920,000	$ 460,000
Net Cash to CTI[4]:	$ 1,659,200	$ 1,222,200	$ 789,000	$ 352,000

(1) Represents the number of shares of common stock registered in the accompanying Registration Statement, which may be issued to Cornell Capital under the SEDA at the prices set forth in the table. Does not represent the 3500 shares issued to Newbridge Securities pursuant to the Placement Agent Agreement in connection with the SEDA.

(2) Represents the total number of shares of common stock outstanding at December 11, 2006 after the issuance of the shares to Cornell Capital under the SEDA.

(3) Represents the shares of common stock to be issued as a percentage of the total number of shares outstanding at December 11, 2006.

(4) Net cash equals the gross proceeds minus the five percent (5%) underwriting discount and minus $85,000 in offering expenses.

Number Of Shares To Be Issued To Receive Gross Proceeds Of $5 Million

	Assumed Offering Price	75% of Assumed Offering Price	50% of Assumed Offering Price	25% of Assumed Offering Price
Purchase Price:	$ 4.59	$ 3.44	$ 2.30	$ 1.15
No. of Shares[1]:	1,089,325	1,453,488[5]	2,173,914	4,347,827
Total Outstanding[4]:	3,231,422[2][5]	3,595,585[2][5]	4,316,011[2][5]	6,489,924[2][3]
Percent Outstanding[6]:	33.71%	40.42%	50.37%	66.99%
Gross Proceeds to CTI[7]:	5,000,000	5,000,000	5,000,000	5,000,000
Net Cash to CTI	$ 4,665,000	$ 4,665,000	$ 4,665,000	$ 4,665,000

(1) Represents that total number of shares of common stock which would need to be issued at the stated purchase price. We are only registering 400,000 shares of common stock under this Prospectus pursuant to the SEDA. We will need to register additional shares of common stock to obtain the entire $5 million available under the SEDA at these stated purchase prices.

(2) The Company and Cornell Capital have agreed that the Company will not sell to Cornell Capital in excess of 400,000 shares unless the Company shall have obtained shareholder approval for such shares.

(3) At the stated purchase price and based on the limited number of available authorized shares of common stock, CTI would need to obtain shareholder approval to increase the authorized shares of common stock to obtain the entire $5 million available under the SEDA.

(4) Represents the total number of shares of common stock outstanding at December 11, 2006 after the issuance of the shares to Cornell Capital under the SEDA.

(5) CTI’s Certificate of Incorporation authorizes the issuance of 5,000,000 shares of common stock.

(6) Represents the shares of common stock to be issued as a percentage of the total number shares outstanding at December 11, 2006.

(7) Net cash equals the gross proceeds minus the five percent (5%) underwriting discount and minus $85,000 in offering expenses.

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(7) If CTI drew down on the entire $5 million available under the SEDA, Cornell Capital would receive an aggregate underwriting discount equal to $250,000.

Proceeds used under the Standby Equity Distribution Agreement will be used in the manner set forth in the “Use of Proceeds” section of this Prospectus. We cannot predict the total amount of proceeds to be raised in this transaction because we have not determined the total amount of the advances we intend to draw. Cornell Capital has the ability to permanently terminate its obligation to purchase shares of common stock from CTI under the Standby Equity Distribution Agreement if there shall occur any stop order or suspension of the effectiveness of this Registration Statement for an aggregate of fifty (50) trading days other than due to acts by Cornell Capital or if CTI fails materially to comply with certain terms of the Standby Equity Distribution Agreement, which remain uncured for thirty (30) days after notice from Cornell Capital.

All fees and expenses under the Standby Equity Distribution Agreement will be borne by CTI. We expect to incur expenses of approximately $85,000 in connection with this Registration Statement, consisting primarily of professional fees. In connection with the Standby Equity Distribution Agreement, we issued 3,500 shares of common stock to Newbridge Securities Corporation, an unaffiliated registered broker-dealer, as compensation for its services as our placement agent in connection with the Standby Equity Distribution Agreement.

USE OF PROCEEDS

This Prospectus relates to shares of our common stock that may be offered and sold from time to time by certain selling shareholders. There will be no proceeds to us from the sale of shares of common stock in this offering. However, we may receive proceeds from the sale of shares of common stock to Cornell Capital pursuant to the Standby Equity Distribution Agreement. The purchase price of the shares purchased under the Standby Equity Distribution Agreement will be equal to one hundred percent (100%) of the lowest volume weighted average price of our common stock on the NASDAQ Capital Markets for the five (5) days immediately following the notice date. CTI will pay to Cornell Capital five percent (5%) of each advance, in cash as an underwriting discount.

Pursuant to the Standby Equity Distribution Agreement, CTI cannot draw more than $100,000 every five (5) trading days or more than $5 million over twenty-four (24) months. There is currently $5 million available under the Standby Equity Distribution Agreement. The Company and Cornell have agreed that the Company will not sell to Cornell Capital in excess of 400,000 shares unless and until the Company shall have obtained shareholder approval for such sales.

We anticipate that the proceeds received under the Standby Equity Distribution Agreement will be utilized for general corporate purposes. For illustrative purposes only, we have set forth below our intended use of proceeds for the range of net proceeds indicated below to be received under the Standby Equity Distribution Agreement. The table assumes estimated offering expenses of $85,000, plus a five percent (5%) underwriting discount of each advance in cash payable to Cornell Capital pursuant to the Standby Equity Distribution Agreement. The figures below are estimates only, and may be changed due to various factors, including the timing of the receipt of the proceeds.

Gross proceeds	$	460,000	$	1,836,000	$	5,000,000[1]
Net proceeds[2]	$	352,000	$	1,659,200	$	4,665,000
Number of shares to be issued pursuant to the Standby Equity Distribution Agreement		400,000		400,000		1,089,325

USE OF PROCEEDS: (NET)		**AMOUNT**		**AMOUNT**		**AMOUNT**
General Working Capital	$	246,000	$	1,159,000	$	3,358,000
Capital Investments	$	106,000	$	500,000	$	1,307,000
Total	$	352,000	$	1,659,000	$	4,665,000

(1) CTI would need to register 689,325 additional shares of common stock to access this amount of gross proceeds under the Standby Equity Distribution Agreement at an assumed offering price of $4.59.

(2) Net proceeds equals gross proceeds minus the five percent (5%) underwriting discount and minus $85,000 in offering expenses.

The Standby Equity Distribution Agreement limits CTI's use of proceeds to general corporate purposes and prohibits the use of proceeds to pay any judgment or liability incurred by any officer, director or employee of CTI, except under certain limited circumstances.

DILUTION

The net tangible book value of CTI as of September 30, 2006 was $3,975,288 or $1.87 per share of common stock. Net tangible book value per share is determined by dividing the tangible book value of CTI (total tangible assets less total liabilities) by the number of outstanding shares of our common stock. Since this offering is being made solely by the selling shareholder and none of the proceeds will be paid to CTI, our net tangible book value will be unaffected by this offering. Our net tangible book value and our net tangible book value per share, however, will be impacted by the common stock to be issued under the Standby Equity Distribution Agreement. The amount of dilution will depend on the offering price and number of shares to be issued under the Standby Equity Distribution Agreement. The following example shows the dilution to new investors at an assumed offering price of $4.59 per share.

Although we are registering only 400,000 shares of common stock, if we assume that such shares were sold at an assumed offering price of $4.59 per share, less an underwriting discount equal to five percent (5%) and offering expenses of $85,000, our net tangible book value as of September 30, 2006 would have been $5,634,488 or $2.23 per share. Such an offering would represent an immediate increase in net tangible book value to existing shareholders of $0.36 per share and an immediate dilution to new shareholders of $2.36 per share. The following table illustrates the per share dilution:

Assumed public offering price per share			$	4.59
Net tangible book value per share before this offering	$	1.87		
Increase attributable to new investors	$	0.36		
Net tangible book value per share after this offering			$	2.23
Dilution per share to new shareholders			$	2.36

The offering price of our common stock is based on the then-existing market price. In order to give prospective investors an idea of the dilution per share they may experience, we have prepared the following table showing the dilution per share at various assumed offering prices:

ASSUMED OFFERING PRICE		NO. OF SHARES TO BE ISSUED[(1)]	DILUTION PER SHARE TO NEW INVESTORS	
$	4.59	400,000	$	2.36
$	3.44	400,000	$	1.39
$	2.30	400,000	$	0.41
$	1.15	400,000	$	(0.56)

(1) This represents the maximum number of shares of common stock that are being registered pursuant to the Standby Equity Distribution Agreement at this time.

PLAN OF DISTRIBUTION

The selling shareholders have advised us that the sale or distribution of our common stock owned by the selling shareholders may be effected directly to purchasers by the selling shareholders as principals or through one (1) or more underwriters, brokers, dealers or agents from time to time in one or more transactions (which may involve crosses or block transactions) (i) on the over-the-counter market or on any other market in which the price of our shares of common stock are quoted or (ii) in transactions otherwise than on the over-the-counter market or in any other market on which the price of our shares of common stock are quoted. Any of such transactions may be effected at market prices prevailing at the time of sale, at prices related to such prevailing market prices, at varying prices determined at the time of sale or at negotiated or fixed prices, in each case as determined by the selling shareholders or by agreement between the selling shareholders and underwriters, brokers, dealers or agents, or purchasers. If the selling shareholders effect such transactions by selling their shares of common stock to or through underwriters, brokers, dealers or agents, such underwriters, brokers, dealers or agents may receive compensation in the form of discounts, concessions or commissions from the selling shareholders or commissions from purchasers of common stock for whom they may act as agent (which discounts, concessions or commissions as to particular underwriters, brokers, dealers or agents may be in excess of those customary in the types of transactions involved).

Cornell Capital is an “underwriter” within the meaning of the Securities Act in connection with the sale of common stock under the Standby Equity Distribution Agreement. Cornell Capital will pay us one hundred percent (100%) of the lowest volume weighted average price of our common stock on the NASDAQ Capital Markets or other principal trading market on which our common stock is traded for the five (5) days immediately following the advance date. In addition, Cornell Capital will receive cash equal to five percent (5%) of the proceeds received by us under the Standby Equity Distribution Agreement as an underwriting discount. If CTI drew down on the entire $5 million available under the Standby Equity Distribution Agreement, Cornell Capital would receive an aggregate underwriting discount equal to $250,000. In addition, we engaged Newbridge Securities Corporation, an unaffiliated registered broker-dealer, to act as our placement agent in connection with the Standby Equity Distribution Agreement. Newbridge Securities Corporation is not participating in the distribution of our common stock. We issued 3,500 shares of our common stock to Newbridge in connection with the Standby Equity Distribution Agreement which shares are also being registered herein.

Cornell Capital was formed in February 2000 as a Delaware limited partnership. Cornell Capital is a domestic hedge fund in the business of investing in and financing public companies. Cornell Capital does not intend to make a market in our stock or to otherwise engage in stabilizing or other transactions intended to help support the stock price. Prospective investors should take these factors into consideration before purchasing our common stock.

Under the securities laws of certain states, the shares of common stock may be sold in such states only through registered or licensed brokers or dealers. The selling shareholders are advised to ensure that any underwriters, brokers, dealers or agents effecting transactions on behalf of the selling shareholders are registered to sell securities in all fifty (50) states. In addition, in certain states the shares of common stock may not be sold unless the shares have been registered or qualified for sale in such state or an exemption from registration or qualification is available and is complied with.

We will pay all expenses incident to the registration, offering and sale of the shares of common stock to the public hereunder other than commissions, fees and discounts of underwriters, brokers, dealers and agents. If any of these other expenses exists, CTI expects the selling shareholder to pay these expenses. We have agreed to indemnify Cornell Capital and its controlling persons against certain liabilities, including liabilities under the Securities Act. We estimate that the expenses of the offering to be borne by us will be approximately $85,000. These offering expenses are estimated to consist of: an SEC registration fee of $213, printing expenses of $2,500, accounting fees of $15,000, legal fees of $50,000 and miscellaneous expenses of $17,287. We will not receive any proceeds from the sale of any of the shares of common stock by the selling shareholder. We may, however, receive proceeds from the sale of common stock under the Standby Equity Distribution Agreement.

The selling shareholders are subject to applicable provisions of the Securities Exchange Act of 1934, as amended, and its regulations, including, Regulation M. Under Registration M, the selling shareholders or their agents may not bid for, purchase, or attempt to induce any person to bid for or purchase, shares of our common stock while such selling shareholders are distributing shares covered by this Prospectus. Pursuant to the requirements of Item 512 of Regulation S-K and as stated in Part II of this Registration Statement, CTI must file a post-effective amendment to the accompanying Registration Statement once informed of a material change from the information set forth with respect to the Plan of Distribution.

**MANAGEMENT'S DISCUSSION AND ANALYSIS
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

Safe Harbor Provision of the Private Securities Litigation Act of 1995 and Forward Looking Statements

The Company operates in a dynamic and rapidly changing environment that involves numerous risks and uncertainties. The market for metalized and latex balloon products is generally characterized by intense competition, frequent new product introductions and changes in customer tastes that can render existing products unmarketable. The statements contained in this Section that are not historical facts may be forward-looking statements (as such term is defined in the rules promulgated pursuant to the Securities Exchange Act of 1934, as amended) that are subject to a variety of risks and uncertainties more fully described in the Company's filings with the SEC. The forward-looking statements are based on the beliefs of the Company's management, as well as assumptions made by, and information currently available to the Company's management. Accordingly, these statements are subject to significant risks, uncertainties and contingencies which could cause the Company's actual growth, results, performance and business prospects and opportunities in 2006 and beyond to differ materially from those expressed in, or implied by, any such forward-looking statements. Wherever possible, words such as "anticipate", "plan", "expect", "believe", "estimate" and simi expressions have been used to identify these forward-looking statements, but are not the exclusive means of identifying such statements. These risks, uncertainties and contingencies include, but are not limited to, competition from, among others, national and regional balloon, packaging and custom film product manufacturers and sellers that have greater financial, technical and marketing resources and distribution capabilities than the Company, the availability of sufficient capital, the maturation and success of the Company's strategy to develop, market and sell its products, risks inherent in conducting international business, risks associated with securing licenses, changes in the Company's product mix and pricing, the effectiveness of the Company's efforts to control operating expenses, general economic and business conditions affecting the Company and its customers in the United States and other countries in which the Company sells and anticipates selling its products and services and the Company's ability to (i) adjust to changes in technology, customer preferences, enhanced competition and new competitors; (ii) protect its intellectual property rights from infringement or misappropriation; (iii) maintain or enhance its relationships with other businesses and vendors; and (iv) attract and retain key employees. There can be no assurance that the Company will be able to identify, develop, market, sell or support new products successfully, that any such new products will gain market acceptance, or that the Company will be able to respond effectively to changes in customer preferences. There can be no assurance that the Company will not encounter technical or other difficulties that could delay introduction of new or updated products in the future. If the Company is unable to introduce new products and respond to industry changes or customer preferences on a timely basis, its business could be materially adversely affected. The Company is not obligated to update or revise these forward-looking statements to reflect new events or circumstances.

Overview

The Company produces film products for novelty, packaging and container applications. These products include metalized balloons, latex balloons and related latex toy products, films for packaging applications, and flexible containers for packaging and storage applications. We produce all of our film products for packaging and container applications at the facilities in Barrington, Illinois. We produce all of our latex balloons and latex products at our facility in Guadalajara, Mexico. Substantially all of our film products for packaging applications and flexible containers for packaging and storage are sold to customers in the United States. We market and sell our novelty items - principally metalized balloons and latex balloons - in the United States, Mexico, the United Kingdom and a number of additional countries.

Our revenues from each of our product categories in each of the past three (3) years is as follows:

(000 Omitted)

Product Category	$ 2005	% of Net Sales	$ 2004	% of Net Sales	$ 2003	% of Net Sales
Metalized Balloons	11,737	40.2	16,238	43.9	12,401	34.2
Latex Balloons	4,855	16.6	5,244	14.1	4,134	11.4
Films	7,616	26.1	8,808	23.7	6,722	18.5
Pouches	4,079	14	5,028	13.5	10,718	29.6
Helium/Other	903	3.1	1,875	4.8	2,284	6.3
	29,190		37,193		36,259	

Our primary expenses include the cost of products sold and selling, general and administrative expenses.

Cost of products sold primarily consists of expenses related to raw materials, labor, quality control and overhead directly associated with production of our products, as well as shipping costs relating to the shipment of products to customers. Cost of products sold is impacted by the cost of the raw materials used in our products, the cost of shipping, along with our efficiency in managing the production of our products.

Selling, general and administrative expenses include the compensation and benefits paid to our employees, all other selling expenses, marketing, promotional expenses, travel and other corporate administrative expenses. These other corporate administrative expenses include professional fees, depreciation and amortization, occupancy costs, communication costs and other similar operating expenses. Selling, general and administrative expenses can be affected by a number of factors, including staffing levels and the cost of providing competitive salaries and benefits, the cost of regulatory compliance and other administrative costs.

Purchases by a limited number of customers represent a significant portion of our total revenues. In 2005, sales to our top ten (10) customers represented sixty-two and 9/10 percent (62.9%) of net revenues. During 2005, there were three (3) customers to whom our sales represented more than ten percent (10%) of net revenues:

Customer	**Product**		**2005 Sales**	**% of 2005 Revenues**
Dollar Tree Stores	Balloons	$	3,987,000	13.6
Rapak L.L.C	Pouches	$	6,860,000	23.5
ITW Space Bag	Film	$	3,889,000	13.3

The loss of one or more of these principal customers, or a significant reduction in purchases by one (1) or more of them, could have a material adverse effect on our business.

Over the past three (3) years, we have endeavored to reduce our operating costs and to become more efficient in our production activities. Our total SG&A and factory overhead expenses for each of the years ended December 31, 2005, 2004 and 2003 have been as follows:

	For the Year Ending 12/31					
		2005		**2004**		**2003**
Overhead (US Operation Only)	$	4,575,000	$	6,042,000	$	7,124,000
SG&A (Consolidated)	$	5,812,000	$	6,402,000	$	6,856,000

Results Of Operations

The following table sets forth selected results of our operations expressed as a percentage of net sales for the years ended December 31, 2005, 2004 and 2003. Our results of operations for the periods described below are not necessarily indicative of results of operations for future periods.

	Year Ended December 31, 2005	2004	2003
Net sales	100%	100%	100%
Costs and expenses:			
Cost of products sold	77.9	82.9	81.7
Selling, general and administrative	19.9	17.2	18.9
Income (loss) from operations:	2.2	(0.1)	(0.6)
Interest expense	(4.2)	(3.6)	(3.0)
Other income (loss)	0.2	0.5	(0.1)
Loss before income taxes	(1.8)	(3.2)	(3.7)
Provision for income taxes	(0.7)	3.4	(2.1)
Net loss	(1.1)%	(6.6)%	(1.6)%

Results of Operations For The Year Ended December 31, 2005 Compared To The Year Ended December 31, 2004

Net Sales

For the fiscal year ended December 31, 2005, consolidated net sales from the sale of all products were $29,190,000 compared to consolidated net sales of $37,193,000 for the year ended December 31, 2004, a decline of twenty-one and one half percent (21.5)%. The decline in sales is attributable principally to a decline in metalized balloon sales of $4,501,000, a decline in pouch sales of $949,000 and a decline in film sales of $1,192,000. With respect to metalized balloons, the decline in sales reflects (i) a decline in sales to Hallmark Cards from $3,421,000 in 2004 to $306,000 in 2005 and (ii) a decline in sales totaling $1,624,000 to five (5) other of our larger balloon customers, which was offset by an increase in sales of $428,000 to a new customer. The decline in sales to Hallmark Cards resulted from the expiration and termination of our agreements and relationship with Hallmark Cards in March 2005. Sales of metalized balloons to a drug chain declined as the result of the sale of the chain and the termination of the balloon program in certain of the stores that were sold. The decline in pouch sales is attributable to a decline in sales of pouches to ITW from $4,838,000 in fiscal 2004 to $3,889,000 in fiscal 2005. This decline is the result of increased internal production of pouches by ITW at their production facility and also the fact that ITW has purchased and supplied to the Company certain components of the pouches produced by the Company. The decline in film sales is attributable principally to a decline in the sales of laminated film to Rapak from $7,466,000 in fiscal 2004 to $6,860,000 in fiscal 2005. The Company continues to produce film for Rapak and fluctuations in the volume of film supplied are a reflection of variances in Rapak's requirements from time to time.

Cost Of Sales