CTI INDUSTRIES CORP
Form POS AM
July 24, 2008

As filed with the U.S. Securities and Exchange Commission on July 24, 2008
Registration File No. 333-139715

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

POST EFFECTIVE 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.)

		Stephen M. Merrick
22160 North Pepper Road		**22160 North Pepper Road**
Barrington, Illinois 60010		**Barrington, Illinois 60010**
(847) 382-1000	**3069**	**(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

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

CTI INDUSTRIES CORPORATION
79,876 shares of Common Stock

This prospectus (this "Prospectus") relates to the sale of up to 79,876 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, L.P. (n/k/a YA Global Investments, L.P. and hereinafter referred to as "Cornell Capital"), a shareholder who intends to sell up to 76,376 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 28. 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 May 30, 2008, the last reported sale price of our common stock was $5.01 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 11.

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 July 24, 2008.

TABLE OF CONTENTS

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 76,376 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.

On January 28, 2007, the Registration Statement was declared effective. Through the date of this Post-Effective Amendment, we have received $1,492,000 in net proceeds from Cornell Capital and Cornell Capital has purchased from us an aggregate of 323,624 shares of our common stock, all of which have been sold by Cornell Capital hereunder.

Overview

We produce 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 develop, produce, market and sell two 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 that include a resealable closure system and a valve permitting the evacuation of air from the pouch by a small pump device, which we also supply.

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.

In 1999, we acquired an extrusion coating and laminating machine and began production of coated and laminated films, which we have produced since that time.

During the period from 1976 to 1986 and from 1996 to the present, we have produced flexible containers for the storage of liquids, food products, household goods and other items.

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, discount 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®, Odie, Face Offs-Tudes®, Miss Spider and Sunny Patch Friends®, Andrea Mistretta and Wow Wow Wubsy®. In the United Kingdom, we maintain licenses on The Crazy Frog® and Tudes.

Balloons and novelty items accounted for 62.6% of our revenues in 2007. The remainder of our revenues is 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, and printed films, 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 2007, our revenues from these products represented approximately 37.4% of our net revenues.

Recent Developments

On February 1, 2008, we entered into a License and Supply Agreement with S.C. Johnson & Son, Inc (“SC Johnson”). The agreement provides for the Company to manufacture and sell to SC Johnson certain home food management products to be sold under the SC Johnson ZipLoc® brand. The agreement is for a term expiring on June 30, 2011 and provides for two renewal terms of two years each at the option of SC Johnson.

On April 10, 2008, we entered into an agreement with Babe Winkelman Productions, Inc. (“BWP”). The agreement provides for BWP to provide marketing and advertising services to us in connection with our ZipVac™ brand portable food storage system. BWP will produce commercials featuring the ZipVac™ product line which are to be aired at the time of Babe Winkelman syndicated programs, will produce a Kris Winkelman segment of the Babe Winkelman shows which will feature uses of the ZipVac™ product line, and will provide other advertising and marketing services. We will receive a license to use the name, image, likeness and testimonies of Babe and Kris Winkelman in connection with the ZipVac™ product line. We will pay a royalty to BWP of 3% of net revenues from the sale of the ZipVac™

product and will issue to BWP 50,000 shares of our common stock which will be earned by BWP over a two year period. The agreement is for a term commencing on April 1, 2008 and expiring on March 31, 2011.

On May 6, 2008, we entered into an Amendment to License Agreement with Rapak, L.L.C. which amends a License Agreement among the Company and Rapak dated April 13, 2006. Under the License Agreement, we granted to Rapak a worldwide, royalty-free license under Patent No. 6,984,278 relating to a method for texturing film and the production of a pouch utilizing such film and incorporating an evacuation tube. The license was granted for the full term of the patent and was made exclusive to Rapak for a period at least through October 31, 2008. The License Agreement also amended a Supply Agreement between the Company and Rapak for the supply of textured film extending the term of the Supply Agreement until at least October 31, 2008 and providing for Rapak to purchase from the Company at least 65% of Rapak's requirements for the patented film through that date.

Under the Amendment to License Agreement, the License Agreement was amended to: (i) extend the period of exclusivity of the patent license to October 31, 2011, (ii) extend the term of the Supply Agreement to October 31, 2011, (iii) provide, under the Supply Agreement, for Rapak to commit to purchase not less than 75% of its requirements for textured film from the Company during the term of the Supply Agreement, (iv) adjust pricing under the Supply Agreement and (v) change the definition of the field of use for the patent license.

Rapak has been one of the top three customers of the Company for the past five years and is expected to continue to be a principal customer of the Company.

About Us

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

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.

On January 28, 2007, the Registration Statement was declared effective. Through the date of this Post-Effective Amendment, we have received $1,492,000 in net proceeds from Cornell Capital and Cornell Capital has purchased from us an aggregate of 323,624 shares of our common stock, all of which have been sold by Cornell Capital hereunder. At an assumed offering price of $5.01 per share (the last reported sale price on May 30, 2008), as determined under the Standby Equity Distribution Agreement, CTI will be able to receive up to $382,644 in gross proceeds assuming the sale of the entire balance of 76,376 shares registered hereunder pursuant to the SEDA, and $1,874,644 in gross proceeds assuming the sale of the aggregate 400,000 shares originally offered hereunder. The Company would be required to register 598,004 additional shares to obtain the balance of $5 million available under the SEDA at an assumed offering price of $5.01. 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 $5.01 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:	$ 5.01	$ 3.76	$ 2.51	$ 1.26
No. of Shares[1]:	76,376	76,376	76,376	76,376
Total Outstanding[2]:	2,861,476	2,861,476	2,861,476	2,861,476
Percent Outstanding[3]:	2.67%	2.67%	2.67%	2.67%
Gross Cash to CTI:	$ 382,644	$ 287,174	$ 191,704	$ 96,234
Net Cash to CTI[4]:	$ 203,512	$ 112,815	$ 22,119	$ (68,578)

(1) Represents the number of shares of common stock registered pursuant to the accompanying Registration Statement, which remain to be issued to Cornell Capital under the SEDA at the prices set forth in the table. Does not represent the 3,500 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 May 30, 2008 (2,785,100) plus the issuance of 76,376 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 May 30, 2008 (2,785,100).

(4) Net cash equals the gross proceeds minus the five percent (5%) underwriting discount and minus $160,000 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:	$ 5.01	$ 3.76	$ 2.51	$ 1.26
No. of Shares[1]:	674,380	1,006,163	1,668,408	3,644,630
Total Outstanding[4][5]:	3,459,480[2]	3,791,263[2]	4,453,508[2]	6,429,730[2][3]
Percent Outstanding[6]:	19.49%	26.54%	37.47%	56.68%
Gross Proceeds to CTI[7]:	5,000,000	5,000,000	5,000,000	5,000,000
Net Cash to CTI[8]:	$ 4,590,000	$ 4,590,000	$ 4,590,000	$ 4,590,000

(1) Represents the total number of shares of common stock which would need to be issued at the stated purchase price to receive gross proceeds of $5,000,000, minus the number of shares previously issued to Cornell Capital since the effectiveness of this offering. We registered 400,000 shares of common stock under this Prospectus pursuant to the SEDA, 76,376 of which remain available for issuance to Cornell Capital. 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 May 30, 2008 after the issuance of the shares to Cornell Capital under the SEDA set forth in footnote (1) above.

(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 May 30, 2008.

(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. As of of the date of this Prospectus, the remaining balance on the $5 million available under the SEDA is $3.42 million which is used in the calculations in the chart above.

(8) Net cash equals the gross proceeds minus the five percent (5%) underwriting discount and minus $160,000 in offering expenses.

The Offering Summary

Common Stock Remaining To Be Offered:	79,876 shares by the selling shareholders
Offering Price	Market price
Common Stock Outstanding Before the Offering(1)	2,785,100 shares as of May 30, 2008
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 76,376 shares of common stock remaining to be issued pursuant to the SEDA.

Selected Financial Data

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.

	Year ended December 31, (000 Omitted)				
	2007	2006	2005	2004	2003
Statement of Operations Data:					
Net Sales	$ 36,510	$ 35,428	$ 29,190	$ 37,193	$ 36,260
Costs of Sales	$ 27,826	$ 26,531	$ 22,726	$ 30,841	$ 29,627
Gross Profit	$ 8,684	$ 8,897	$ 6,464	$ 6,352	$ 6,633
Operating expenses	$ 7,439	$ 6,275	$ 5,812	$ 6,402	$ 6,856
Income (loss) from operations	$ 1,245	$ 2,622	$ 652	$ (50)	$ (223)
Interest expense	$ 1,286	$ 1,691	$ 1,231	$ 1,350	$ 1,103
Other (income) expense	$ (174)	$ (191)	$ (45)	$ (208)	$ 23
Income (loss) before taxes and minority interest	$ 133	$ 1,122	$ (534)	$ (1,192)	$ (1,349)
Income tax (benefit) expense	$ 51	$ (774)	$ (200)	$ 1,286	$ (782)
Minority interest	$ -	$ 1	$ -	$ 1	$ -
Net Income (loss)	$ 82	$ 1,895	$ (333)	$ (2,479)	$ (566)
Earnings (loss) per common share					
Basic	$ 0.03	$ 0.91	$ (0.17)	$ (1.28)	$ (0.30)
Diluted	$ 0.03	$ 0.85	$ (0.17)	$ (1.28)	$ (0.30)

Other Financial Data:										
Gross margin percentage		23.79%		25.11%		22.14%		17.08%		18.29%
Capital Expenses	$	2,848	$	553	$	550	$	306	$	2,007
Depreciation & Amortization	$	1,299	$	1,205	$	1,463	$	1,651	$	1,619
Balance Sheet Data:										
Working capital (Deficit)	$	1,318	$	1,848	$	(2,426)	$	(2,790)	$	(706)
Total assets	$	29,256	$	26,645	$	23,536	$	27,888	$	30,270
Short-term obligations (1)	$	9,767	$	9,422	$	8,618	$	9,962	$	6,692
Long-term obligations	$	6,237	$	6,887	$	6,039	$	6,491	$	8,909
Stockholders' Equity	$	6,591	$	5,102	$	2,726	$	2,951	$	5,212

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

The following table sets forth selected audited statements of operations for each quarter of fiscal 2007 and 2006:

	For the Year Ended December 31, 2007 (1)							
		1st Quarter		2nd Quarter		3rd Quarter		4th Quarter
Net sales	$	8,279,000	$	9,259,000	$	8,673,000	$	10,299,000
Gross profit	$	1,903,000	$	2,744,000	$	1,617,000	$	2,420,000
Net (loss) income	$	(52,000)	$	423,000	$	(414,000)	$	125,000
Earnings per common share								
Basic	$	(0.02)	$	0.18	$	(0.18)	$	0.05
Diluted	$	(0.02)	$	0.17	$	(0.18)	$	0.05

(1) Earnings per common share are computed independently for each of the quarters presented. Therefore, the sum of the quarterly per common share information may not equal the annual earnings per common share

	For the Year Ended December 31, 2006 (1)			
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter (2)
Net sales	$ 8,156,000	$ 8,997,000	$ 8,603,000	$ 9,672,000
Gross profit	$ 1,953,000	$ 2,197,000	$ 2,253,000	$ 2,494,000
Net income	$ 220,000	$ 206,000	$ 315,000	$ 1,154,000
Earnings per common share				
Basic	$ 0.11	$ 0.10	$ 0.15	$ 0.54
Diluted	$ 0.10	$ 0.10	$ 0.15	$ 0.49

(1) Earnings per common share are computed independently for each of the quarters presented. Therefore, the sum of the quarterly per common share information may not equal the annual earnings per common share

(2) During the fourth quarter 2006, management of the Company conducted an analysis of the recoverability of the deferred tax asset based on results of operations during the fourth quarter of 2005 and for the full year of 2006, expected continued achievement of and continuing improvement in operating results for the forseeable future and anticipated repatriations of profits and services income to be generated from the Company's foreign subsidiaries. As a result of such analysis, management determined that the net recorded deferred tax asset in the amount of $1,127,000 is more likely than not to be realized.

7

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 March 31, 2008. 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 (In Thousands – except per share information)

	Mar 31 2008	Dec 31 2007	Sep 30 2007	June 30 2007	Mar 31 2007	Dec 31 2006	Sep 30 2006	June 30 2006	
Revenues	$ 10,735,000	$ 10,299,000	$ 8,673,000	$ 9,259,000	$ 8,279,000	$ 9,672,000	$ 8,603,000	$ 8,997,000	$ [illegible]
Net Income (loss)	$ 279,000	$ 125,000	$ (414,000)	$ 423,000	$ (52,000)	$ 1,154,000	$ 315,000	$ 206,000	$
Net Income (loss) per share									
Basic	$ 0.10	$ 0.05	$ (0.18)	$ 0.18	$ (0.02)	$ 0.54	$ 0.15	$ 0.10	$
Diluted	$ 0.10	$ 0.05	$ (0.18)	$ 0.17	$ (0.02)	$ 0.49	$ 0.15	$ 0.10	$
Shares used in computing per share amounts:									
Basic	2,662,267	2,346,126	2,339,467	2,303,371	2,156,783	2,087,145	2.055,553	2,053,311	[illegible]
Diluted	2,797,374	2,589,960	2,339,467	2,540,729	2,156,783	2,234,901	2,129,658	2,171,525	[illegible]

8

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.

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.

Industry Risks

We engage in businesses which are intensely competitive, involve strong price competition and relatively low margins.

The businesses in which we engage – 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 about 41.2% of our 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 three years. 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.

Changes or limitations in the price and availability of helium to our customers may adversely affect our sales of novelty products.

Many of our novelty products, including many styles of foil balloons and latex balloons, are intended to be, and are, when sold to or used by customers filled with helium for buoyancy. During recent months, the price of helium has increased. It has been reported that the supply of helium is decreasing, that demand for helium for industrial and scientific uses has been increasing and that exports of helium from the United States, which is the principal producer of helium, have increased. As a result, the increased price of helium and possible lack of availability may adversely affect sales of novelty balloon products, including sales by the Company.

The loss of a key supplier or suppliers could lead to increased costs and lower margins as well as other adverse results.

We rely on eight principal suppliers for our petroleum, natural gas and latex-based raw material suppliers. 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 of our present suppliers may not be replaceable through open market purchases or through a supply arrangement with another supplier. In the event that we were unable to obtain a raw material from another supplier, we would be unable to continue to manufacture certain of our products.

Company Risks

We have a history of both income and losses and have experienced fluctuations of operating income, which may cause our stock to fluctuate.

We have had a history of losses and of fluctuating income from operations over the past five years. We have reported net income from operations in three of the past five years and losses in two of those years Our income or loss from operations during that time has ranged from a profit of $2,622,000 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 December 31, 2007, our current assets exceeded our current liabilities by approximately $1,318,000. As of March 31, 2008, our current assets exceeded our current liabilities by approximately $2,360,041. As a result of this limited amount of working capital, 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 three months ended March 31, 2008, our sales to our top 10 customers represented 73.0% of our net sales and our sales to our top three customers represented 44.1% of our net sales. We do not have long term contracts with several of our principal 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.

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 12 years, we have obtained nine patents related to films, pouches, zippers for pouches, the method of inserting zippers in pouches and certain valves for pouches. We have three 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 plants and damage to or destruction of one 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 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 is automatically renewed each July 1 for another year 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) or persons affiliated to them, in combination, owned approximately 45.2% of the outstanding shares of common stock of the Company as of April 9, 2008 and then had options and warrants to purchase additional shares which, if exercised, together with the shares owned, would aggregate 48.2% 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 stockholders 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, which reduces cash available for our business and 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 December 31, 2007 and March 31, 2008, we had $22,720,000 and $23,060,000 of debt outstanding, respectively and $6,591,000 and $7,552,000 in shareholders equity, respectively. 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.

On February 1, 2006, we entered into a loan agreement with RBS Citizens, N.A., previously referred to as Charter One Bank, in which, as amended, RBS Citizens, N.A. provides to us a line of credit totaling $15,300,000, including a five year mortgage loan on our principal plant and offices in Barrington, Illinois for $2,800,000, a five year term loan secured by our physical assets in Barrington, Illinois for $3,500,000 and a three year revolving line of credit secured by inventory and receivables in the maximum amount of $9,000,000. In November, 2007 RBS Citizens, N.A. also provided to us a capital lease line of credit in the aggregate amount of $1,500,000 for the acquisition of production equipment.

We will require a significant amount of cash to service our debt, to develop new business and to make capital investments 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 and our ability to borrow money or raise capital. These matters are, in part, 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, or to fund operations, initiatives or capital requirements. In the absence of cash flow from operations, or the generation of cash from such other sources sufficient to meet our debt service obligations and our other cash requirements, 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;

13

- 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.

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.

Market Risks and Risks Related to this Offering

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 affect shareholders' ability to sell shares of our 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, 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 we may have poor operating results in the future. The market for our common 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 our common stock.

Future Sales of Stock 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 by our existing substantial shareholders, 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 2,785,100 shares of common stock outstanding as of May 30, 2008, 811,182 shares of common stock are, or will be, held by our "affiliates" and 1,296,066 shares of common stock, 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.

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 SEDA to draw down the full amount. If our stock price is lower, then our existing shareholders would experience greater dilution.

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

The selling shareholders identified in our Registration Statement (Cornell Capital and Newbridge Securities) are intending to sell in the public market 79,876 shares of common stock registered in the offering. That means that up to 79,876 shares may be sold pursuant to the 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 SEDA 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 SEDA 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 Paid by Participants In Our Registered Offering Will Fluctuate And May Be Higher Or Lower Than The Prices Paid By Other People Participating In This Offering

The price in the offering will fluctuate based on the prevailing market price of the common stock on the NASDAQ-Capital Market. Accordingly, the price paid by a purchaser in our registered 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 SEDA. No assurances can be given that our SEDA 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 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.

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 SEDA. 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. At the time of the filing of the Registration Statement, Cornell Capital had no beneficial ownership 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.

Cornell Capital May Sell Shares Of Our Common Stock During An Applicable Pricing Period Under the SEDA 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 SEDA 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 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 that include a resealable closure system and a valve permitting the evacuation of air from the pouch by a small pump device, which we also supply.

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.

In 1999, we acquired an extrusion coating and laminating machine and began production of coated and laminated films, which we have produced since that time.

During the period from 1976 to 1986 and from 1996 to the present, we have produced flexible containers for the storage of liquids, food products, household goods and other items.

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, discount 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®, Odie, Face Offs-Tudes®, Miss Spider and Sunny Patch Friends®, Andrea Mistretta and Wow Wow Wubsy®. In the United Kingdom, we maintain licenses on The Crazy Frog® and Tudes.

Balloons and novelty items accounted for 62.6% of our revenues in 2007. The remainder of our revenues is 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, and printed films, 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 2007, our revenues from these products represented approximately 37.4% of our net revenues.

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 over 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.

- **Maintain a Focus on Margin Levels and Cost Controls in Order to Establish and Maintain Profitability**. We engage in constant review and effort to control our production, and our selling, general and administrative expenses, in order to establish and enhance profitability. Over the past three years, we have improved our gross margin levels from 22.1% in 2005 to 25.1% in 2006 and 23.8% in 2007.

- **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. 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™ balloons. 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 nine patents for these developments and have three patent applications pending. During 2007, we introduced a line of resealable pouches with a valve and pump system for household storage and vacuum sealing of food items.

- **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. In March 2006, we entered into a four-year agreement with Illinois Tool Works, Inc. (“ITW”) to manufacture certain pouches for them and to provide film to them for their pouch production. In April 2006, we entered into a license agreement with Rapak L.L.C. (“Rapak”) 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. On February 1, 2008, we entered into a Supply and License Agreement with S.C. Johnson & Son, Inc. to manufacture and supply to SC

Johnson certain home food management products to be sold under the SC Johnson ZipLoc® brand.

18

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 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® - 31" 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® - “18 to 48” shaped balloons made to be filled with helium.
- Minishapes – 11” to 16”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®, Odie, Face Offs-Tudes, Miss Spider and Sunny Patch Friends®, Andrea Mistretta and Wow Wow Wubsy®, and in the United Kingdom, The Crazy Frog® and Tudes.

Latex Balloons. Through our majority-owned subsidiary in Guadalajara, Mexico, Flexo Universal, S.A. de C.V. (“Flexo Universal”), we manufacture latex balloons in 6 shapes and 42 colors. These balloons are marketed under the name Partyloons® and Hitex. 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. During 2007, we introduced a line of resealable, valved bags for storage and vacuum sealing of food items in the household. These storage bags function with a small hand or powered pump to evacuate air when the bag is sealed. This product line is marketed under the brand ZipVac™

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.

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.

Latex balloons are sold both through distributors and directly to retail outlets by the producers.

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 staff, sales staff and support staff of 10 individuals and a customer service department of 3 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 2007 was Dollar Tree Stores. Sales to this chain in 2007 represented $7,419,000 or approximately 20.3% of our net sales.

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 2007, our sales to Rapak totaled $6,982,000, representing 19.1% of our net sales**.** Under our continuing agreement with Rapak, through October 31, 2008, Rapak is committed to purchase at least 65% of its requirements for embossed film from us. We anticipate that Rapak will continue to purchase film from us after this date but we have no contractual commitment from Rapak for such purchases.

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 to retail chains and outlets.

We produce consumer storage bags for ITW Space Bag, a division of Illinois Tool Works, Inc. ("ITW"). During 2007, ITW was our largest customer for pouches. Our sales of pouches to them in 2007 were $3,771,000, representing 10.3% of our 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. These bags are designed to be used with existing vacuum and sealing devices. We market these bags through various retail channels. During 2007, we introduced a line of re-sealable pouches incorporating a valve permitting the evacuation of air from the sealed pouch by use of a hand pump supplied with the pouches. This line of products is marketed under the brand name ZipVac™. We market this line of products to various retail outlets.

21

We also produce "dunnage" bags (inflatable packaging pouches) which we sell to a commercial customer.

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, office 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, United Kingdom 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 41.2% of our net revenues in 2007. 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. We have also experienced significant fluctuation in the cost of raw latex which we use for our latex balloon products. While we currently purchase our raw materials from a relatively limited number of sources, films, resin, inks and latex 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 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; and, the risk of shortages of raw materials supply existed. Due to the increase in the price of oil over the past several years, the cost of petroleum-based raw materials has also risen, with the result that our cost for films and resins has increased during that time as well.

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 communications. Access to the network is available to all appropriate employees but is secured through 4 Microsoft servers running Active Directory 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. We presently use the general ledger, order entry, inventory management, purchase order, electronic data exchange and custom report writing modules of that system and are engaged in a program to install and use additional modules including manufacturing costing and controls and inventory controls. 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, load balanced and redundant T1 and cable internet connection allowing employees to use e-mail, 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 Company, Convertidora International S.A. de C.V., Barton Enterprises Inc., and Betallic, LLC. Several companies market and sell metalized balloons designed by them and manufactured by others for them.

We believe there are approximately five 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 licenses and produce balloon designs utilizing the characters or designs covered by the licenses. Licenses are generally maintained for a one or two-year term, although the Company has maintained long term relationships with several of its licensors.

Trademarks. We own 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.

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 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 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, 2007, 2006, 2005, respectively, we estimate that the total amount spent on research and development activities was approximately $350,000, $230,000 and $224,000 and, respectively.

Employees

As of the date hereof, the Company had 97 full-time employees in the United States, of whom 19 are executive or supervisory, 5 are in sales, 53 are in manufacturing or warehouse functions and 20 are clerical. As of that same date, we had 9 full-time employees in England, of whom 3 are executive or supervisory, 2 are in sales, 3 are in warehousing and one is clerical. At Flexo Universal, our Mexico subsidiary, as of December 31, 2007, we had 228 full-time employees, of whom 5 are executive or supervisory, 3 are in sales, 210 are in manufacturing and 10 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 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 2005-2007 have been as follows:

	UnitedStates	United Kingdom	Mexico	Eliminations	Consolidated
Year ended 12/31/07					
Revenues	$ 28,657,000	$ 2,913,000	$ 7,189,000	$ (2,249,000)	$ 36,510,000
Operating income	$ 810,000	$ 215,000	$ 345,000	$ (125,000)	$ 1,245,000
Net (loss) income	$ (128,000)	$ 167,000	$ 168,000	$ (125,000)	$ 82,000
Total Assets	$ 27,854,000	$ 2,948,000	$ 5,780,000	$ (7,258,000)	$ 29,324,000
Year ended 12/31/06					
Revenues	$ 28,808,000	$ 2,925,000	$ 6,564,000	$ (2,869,000)	$ 35,428,000
Operating income	$ 2,116,000	$ 64,000	$ 578,000	$ (25,000)	$ 2,733,000
Net income	$ 1,544,000	$ 93,000	$ 284,000	$ (26,000)	$ 1,895,000
Total Assets	$ 25,245,000	$ 2,627,000	$ 5,050,000	$ (6,288,000)	$ 26,634,000
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

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 650 balloon designs, in different shapes and sizes, including the following:

We own our principal plant and offices located in Barrington, Illinois, approximately 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 5 years, with payments amortized over 25 years.

In September 2005, the Company entered into a lease to rent 16,306 square feet of space in Cary, Illinois. This lease has a 2-year term. In September 2006, the Company signed an extension to this lease to run through September 2009. The facility includes warehouse and office space, which is utilized principally for the warehousing of balloon inventory. In addition, as of December 2007, we entered into a month-to-month agreement to rent additional warehouse space as required.

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 February 2008, Flexo Universal entered into a 3-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 $19,200 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 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. On February 21, 2007, the Company filed an answer to the complaint and counterclaim denying liability and asserting certain claims against Pliant for damages for the sale by Pliant to the Company of defective products. Management intends to defend the claims of Pliant in this action and to pursue its counterclaims and believes that the Company has established adequate reserves regarding the claim.

In addition, the Company is also a 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, cash flows or future results of operation.

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 (n/k/a YA Global Investments, L.P.)	0	*	76,376	15.74%	76,376(2)	0%
Newbridge Securities Corporation	3,500(3)	*	0	0%	3,500	0%
Total	3,500(3)	*	76,376	15.74%	79,876	0%

* Less than one percent (1%).

(1) Applicable percentage of ownership is based on 2,785,100 shares of common stock outstanding as of May 30, 2008, together with securities exercisable or convertible into shares of common stock within sixty (60) days of May 30, 2008, 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 May 30, 2008 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 76,376 shares that may be acquired by Cornell Capital under the SEDA.

(3) Includes 3,500 Shares issued in connection with the SEDA.

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 (n/k/a YA Global Investments, L.P.). 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).

On January 28, 2007, the Registration Statement was declared effective. Through the date of this Post-Effective Amendment, we have received $1,492,000 in net proceeds from Cornell Capital and Cornell Capital has purchased from us an aggregate of 323,625 shares of our common stock, all of which have been sold by Cornell Capital hereunder.

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.

On January 28, 2007, the Registration Statement was declared effective. Through the date of this Post-Effective Amendment, we have received $1,492,000 in net proceeds from Cornell Capital and Cornell Capital has purchased from us an aggregate of 323,625 shares of our common stock, all of which have been sold by Cornell Capital hereunder.

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 originally registered 400,000 shares of common stock for the sale under the Standby Equity Distribution Agreement, of which 76,376 remain to be issued under the SEDA. At an assumed offering price of $5.01 per share (the last reported sale price on May 30, 2008), as determined under the SEDA, CTI will be able to receive up to $382,644 in gross proceeds assuming the sale of the entire balance of 76,376 shares registered hereunder pursuant to the SEDA, and $1,874,644 in gross proceeds assuming the sale of the entire 400,000 shares originally offered hereunder of the $3,508,000 available under the SEDA. The Company would be required to register 598,004 additional shares to obtain the balance of $5 million available under the SEDA at an assumed offering price of $5.01. In order to access the remaining funds available to us under the SEDA ($3,508,000) with the 76,376 shares being registered in this offering, the average price of shares issued under the SEDA would need to be $45.93 or an approximately 9.11 times our stock price as of May 30, 2008. 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.

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:	$ 5.01	$ 3.76	$ 2.51	$ 1.26
No. of Shares[(1)]:	76,376	76,376	76,376	76,376
Total Outstanding[(2)]:	2,861,476	2,861,476	2,861,476	2,861,476
Percent Outstanding[(3)]:	2.67%	2.67%	2.67%	2.67%
Gross Cash to CTI:	$ 382,644	$ 287,174	$ 191,704	$ 96,234
Net Cash to CTI[(4)]:	$ 203,512	$ 112,815	$ 22,119	$ (68,578)

(1) Represents the number of shares of common stock registered pursuant to the accompanying Registration Statement, which remain to be issued to Cornell Capital under the SEDA at the prices set forth in the table. Does not represent the 3,500 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 May 30, 2008 (2,785,100) plus the issuance of 76,376 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 May 30, 2008 (2,785,100).

(4) Net cash equals the gross proceeds minus the five percent (5%) underwriting discount and minus $160,000 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:	$ 5.01	$ 3.76	$ 2.51	$ 1.26

No. of Shares[1]:		674,380		1,006,163		1,668,408		3,644,630
Total Outstanding[4][5]:		3,459,480[2]		3,791,263[2]		4,453,508[2]		6,429,730[2][3]
Percent Outstanding[6]:		19.49%		26.54%		37.47%		56.68%
Gross Proceeds to CTI[7]:		5,000,000		5,000,000		5,000,000		5,000,000
Net Cash to CTI[8]:	$	4,590,000	$	4,590,000	$	4,590,000	$	4,590,000

(1) Represents the total number of shares of common stock which would need to be issued at the stated purchase price to receive gross proceeds of $5,000,000, minus the number of shares previously issued to Cornell Capital since the effectiveness of this offering. We registered 400,000 shares of common stock under this Prospectus pursuant to the SEDA, 76,376 of which remain available for issuance to Cornell Capital. 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 May 30, 2008 after the issuance of the shares to Cornell Capital under the SEDA set forth in footnote (1) above.
(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 May 30, 2008.
(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. As of of the date of this Prospectus, the remaining balance on the $5 million available under the SEDA is $3.42 million which is used in the calculations in the chart above.
(8) Net cash equals the gross proceeds minus the five percent (5%) underwriting discount and minus $160,000 in offering expenses.

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 $160,000 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 76,375 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 $160,000, 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	$	382,644	$	2,000,000		3,508,000[1]
Net proceeds[2]	$	203,512	$	1,659,200	$	3,172,600
Number of shares to be issued pursuant to the SEDA at a price of $5.01 per share (recent price at May 30 ,2008)		[3] 76,376		[4] 399,202		[4] 700,200

USE OF PROCEEDS: (NET)		**AMOUNT**		**AMOUNT**		**AMOUNT**
General Working Capital	$		$	1,059,200	$	1,672,600
Capital Investments	$	203,512	$	600,000	$	1,500,000
Total	$	203,512	$	1,659,200	$	3,172,600

(1) This figure represents the remaining gross proceeds available under the SEDA as of the date of this Prospectus. CTI would need to register 598,004 additional shares of common stock to access this amount of gross proceeds under the Standby Equity Distribution Agreement at an assumed offering price of $5.01.

(2) Net proceeds equals gross proceeds minus the five percent (5%) underwriting discount and minus $160,000 in offering expenses.

(3) Represents the balance of shares registered hereunder that have not yet been issued to Cornell Capital.

(4) The Company would need to register additional shares to receive the stated gross proceeds listed hereunder at a recent price of $5.01 per share.

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 March 31, 2008 was $4,095,000 or $1.50 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 $5.01 per share.

Although we are registering only 76,736 shares of common stock, if we assume that such shares were sold at an assumed offering price of $5.01 per share, less an underwriting discount equal to five percent (5%) and offering expenses of $160,000, our net tangible book value as of March 31, 2008 would have been $8,685,000 or $3.09 per share. Such an offering would represent an immediate increase in net tangible book value to existing shareholders of $1.59 per share and an immediate dilution to new shareholders of $1.92 per share. The following table illustrates the per share dilution:

Assumed public offering price per share			$	5.01
Net tangible book value per share before this offering	$	1.50		
Increase attributable to new investors	$	1.59		
Net tangible book value per share after this offering			$	3.09
Dilution per share to new shareholders			$	1.92

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	
$ 5.01	76,376	$	1.92
$ 3.76	76,376	$	0.66
$ 2.51	76,376	$	(0.59)
$ 1.26	76,376	$	(1.84)

(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 $160,000. These offering expenses are estimated to consist of: an SEC registration fee of $213, printing expenses of $4,000, accounting fees of $25,000, legal fees of $105,000 and miscellaneous expenses of $26,000. 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

Overview

We produce 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.

Recent Developments

On February 1, 2008, we entered into a License and Supply Agreement with S.C. Johnson & Son, Inc ("SC Johnson"). The agreement provides for the Company to manufacture and sell to SC Johnson certain home food management products to be sold under the SC Johnson ZipLoc® brand. The agreement is for a term expiring on June 30, 2011 and provides for two renewal terms of two years each at the option of SC Johnson.

On April 10, 2008, we entered into an agreement with Babe Winkelman Productions, Inc. ("BWP"). The agreement provides for BWP to provide marketing and advertising services to us in connection with our ZipVac™ brand portable food storage system. BWP will produce commercials featuring the ZipVac™ product line which are to be aired at the time of Babe Winkelman syndicated programs, will produce a Kris Winkelman segment of the Babe Winkelman shows which will feature uses of the ZipVac™ product line, and will provide other advertising and marketing services. We will receive a license to use the name, image, likeness and testimonies of Babe and Kris Winkelman in connection with the ZipVac™ product line. We will pay a royalty to BWP of 3% of net revenues from the sale of the ZipVac™ product and will issue to BWP 50,000 shares of our common stock which will be earned by BWP over a two year period. The agreement is for a term commencing on April 1, 2008 and expiring on March 31, 2011.

On May 6, 2008, we entered into an Amendment to License Agreement with Rapak, L.L.C. which amends a License Agreement among the Company and Rapak dated April 13, 2006. Under the License Agreement, we granted to Rapak a worldwide, royalty-free license under Patent No. 6,984,278 relating to a method for texturing film and the production of a pouch utilizing such film and incorporating an evacuation tube. The license was granted for the full term of the patent and was made exclusive to Rapak for a period at least through October 31, 2008. The License Agreement also amended a Supply Agreement between the Company and Rapak for the supply of textured film extending the term of the Supply Agreement until at least October 31, 2008 and providing for Rapak to purchase from the Company at least 65% of Rapak's requirements for the patented film through that date.

Under the Amendment to License Agreement, the License Agreement was amended to: (i) extend the period of exclusivity of the patent license to October 31, 2011, (ii) extend the term of the Supply Agreement to October 31, 2011, (iii) provide, under the Supply Agreement, for Rapak to commit to purchase not less than 75% of its requirements for textured film from the Company during the term of the Supply Agreement, (iv) adjust pricing under the Supply Agreement and (v) change the definition of the field of use for the patent license.

Rapak has been one of the top three customers of the Company for the past five years and is expected to continue to be a principal customer of the Company.

Results of Operations For the Three (3) Months Ended March 31, 2008 Compared to the Three (3) Months Ended March 31, 2007

Net Sales. For the three months ended March 31, 2008, net sales were $10,735,000 compared to net sales of $8,279,000 for the same period of 2007, an increase of 29.7%. For the quarters ended March 31, 2008 and 2007, net sales by product category were as follows:

	Three Months Ended			
	March 31, 2008		March 31, 2007	
Product Category	$ (000) Omitted	% of Net Sales	$ (000) Omitted	% of Net Sales
Metalized Balloons	4,599	43%	3,999	48%
Films	1,943	18%	1,826	22%
Pouches	2,447	23%	665	8%
Latex Balloons	1,502	14%	1,516	19%
Helium/Other	244	2%	273	3%

Revenues from the sale of pouches increased by 268%, from $665,000 in the first quarter of 2007 to $2,447,000 in the first quarter of 2008. This significant increase was the result of (i) initial sales of product under a new supply arrangement and (ii) increased sales levels to an existing customer.

Sales of metalized balloons in the first quarter of 2008 increased by 15% over the first quarter of 2007, from $3,999,000 to $4,599,000. Most of this increase was the result of an increase in sales to a principal balloon customer.

Revenues from the sale of commercial films increased by 6.4% over the first quarter of 2007. The increase was the result of increased sales to a principal customer.

Sales to a limited number of customers continue to represent a large percentage of our net sales. The table below illustrates the impact on sales of our top three and ten customers for the three months ended March 31, 2008 and 2007.

	Three Months Ended % of Net Sales	
	March 31, 2008	March 31,2007
Top 3 customers	44.1%	35.9%
Top 10 Customers	73.0%	64.1%

During the three months ended March 31, 2008, there were three customers whose purchases represented more than 10% of the Company's consolidated net sales. The sales to each of these customers for the three months ended March 31, 2008 were $1,870,000 or 17.4%, $1,762,000 or 16.4%, and $1,097,000 or 10.2% of consolidated net sales respectively. Sales to these customers in the same period of 2007 were $1,347,000 or 16.3%, and $1,625,000 or 19.6% of consolidated net sales, respectively. The third customer is new to the Company in 2008. For the quarter ended March 31, 2008, the total amount owed by these customers was $1,313,000 or 18.9%, $1,412,000 or 20.4% and $749,000, or 10.8%, of the Company's consolidated accounts receivable. The amounts owed at March 31, 2007 were

$1,144,000, or 19.1% and $1,344,000, or 22.4% of the Company’s consolidated net accounts receivable, respectively.

Cost of Sales. Cost of sales in the first quarter of 2008 were $8,403,000 or 78.3% compared to cost of sales of $6,376,000 or 77% in the first quarter of 2007. The increase in cost of sales as a percentage of net sales is attributable to (i) increased levels of raw materials costs and (ii) revenue adjustments on certain sales which will affect principally the first quarter.

General and Administrative. For the three months ended March 31, 2008, general and administrative expenses were $1,158,000 or 10.8% of net sales, compared to $1,212,000 or 14.6% of net sales for the same period in 2007. The decline in general and administrative expenses consisted of principally from a reduction of administrative expense in our U. K. affiliate.

Selling. For the three months ended March 31, 2008, selling expenses were $187,000 or 1.7% of net sales for the quarter, compared to $206,000 or 2.5% of net sales for the same three months of 2007. There were no material changes in selling expenses in the first quarter of 2008 compared to the same period of 2007.

Advertising and Marketing. For the three months ended March 31, 2008, advertising and marketing expenses were $347,000 or 3.2% of net sales for the period, compared to $291,000 or 3.5% of net sales for the same period of 2007. The increase in advertising and marketing expense in the first quarter of 2008 is attributable to additional commissions related to our Zip-Vac product.

Other Income (Expense). During the three months ended March 31, 2008, the Company incurred net interest expense of $270,000, compared to net interest expense during the same period of 2007 in the amount of $335,000. The decrease is due to lower interest rates.

During the three months ended March 31, 2008, the Company had other income of $31,000 compared to other income of $54,000 during the first quarter of 2007. Both amounts consisted principally of foreign currency transaction gains.

Income Taxes. For the three months ended March 31, 2008, the income tax expense constituted provisions for income taxes in the United Kingdom for CTI Balloons, Ltd., the Company's subsidiary in the United Kingdom and in Mexico for Flexo Universal S.A. de C.V. the Company's subsidiary in Mexico. For the same period of 2007, the Company recorded an income tax benefit of $36,000, by reason of the loss incurred by the Company in the United States.

Net Income (Loss). For the three months ended March 31, 2008, the Company had net income of $279,000 or $0.10 per share (basic and diluted), compared to a loss for the same period of 2007 of $(52,000) or $(0.02) per share (basic and diluted). For the three months ended March 31, 2008, the Company had net income from operations (before interest, taxes and non-operating items) of $640,000, compared to net income from operations of $194,000 during the same period of 2007. The difference in net income between the first quarter of 2008 and 2007 is attributable principally to (i) increased sales and gross profits and (ii) reduced interest expense.

Results of Operations For the Year Ended December 31, 2007 Compared with the Year Ended December 31, 2006

The following table sets forth selected results of our operations expressed as a percentage of net sales for the years ended December 31, 2007, 2006 and 2005. Our results of operations for the periods described below are not necessarily indicative of results of operations for future periods.

	Year ended December 31,		
	2007	**2006**	**2005**
Net sales	100.0%	100.0%	100.0%
Costs and expenses:			
Cost of products sold	76.2	74.9	77.9
Operating Expenses	20.4	17.7	19.9
Income from operations	3.4	7.4	2.2
Interest expense	(3.5)	(4.8)	(4.2)
Other income	0.5	0.5	0.2
Income (loss) before income taxes	0.4	3.1	(1.8)
Provision for income taxes	0.2	(2.2)	(0.7)
Net profit (loss)	0.2%	5.3%	(1.1)%

Net Sales

For the fiscal year ended December 31, 2007, consolidated net sales from the sale of all products were $36,510,000 compared to consolidated net sales of $35,428,000 for the year ended December 31, 2006, an increase of 3.1%.

In 2007, sales of metalized balloons declined by 6.2% from $17,050,000 in 2006 to $15,998,000 in 2007. This decline is attributable to a decline in sales of metalized balloons to Dollar Tree Stores from $8,596,000 in 2006 to $7,419,000 in 2007. Sales of metalized balloons to customers other than Dollar Tree Stores increased from $8,454,000 in 2006 to $8,579,000 in 2007.

Sales of film products declined from $8,412,000 in 2006 to $7,846,000 in 2007. This decline is due principally to our decision to withdraw from the production and sale of certain product items we deemed not profitable. Sales to our principal films customer, Rapak LLC, decreased from $7,110,000 in 2006 to $6,982,000 in 2007.

Sales of pouch products increased by 60.3% from $3,081,000 in 2006 to $4,938,000 in 2007. This increase was due to (i) an increase in pouch sales to our principal pouch customer ITW Space Bag from $2,526,000 in 2006 to $3,771,000 in 2007 and (ii) the introduction of our ZipVac™ line of products. Total sales of the ZipVac™ line in 2007 were $465,000.

Sales of latex balloons increased by 12.7% from $6,083,000 in 2006 to $6,853,000 in 2007. Most of this increase is represented by increased sales of latex balloons in Mexico by Flexo Universal, our Mexican subsidiary.

Cost of Sales

Cost of sales increased from 74.9% of sales in 2006 to 76.2% of sales in 2007. This increase is the result of (i) changes in product mix (ii) increase in raw materials, (iii) increase labor rates and (iv) production cost related to the set-up, testing and initial production of pouch production lines.

General and Administrative Expenses

General and administrative expenses increased from $4,554,000 in 2006 or 12.9% of net sales to $5,211,000 or 14.3% of net sales. This increase is attributable principally to (i) increases in personnel and compensation, (ii) increases in accounting fees, (iii) increases in legal fees, (iii) increases in consulting fees relating to operational strategies and internal controls documentation and (iv) increases in travel related to vendor development in Southeast Asia.

Selling

Selling expenses decreased from $847,000 or 2.4% of sales in 2006 to $754,000 or 2.1% of sales in 2007. We anticipate that selling expenses will increase during 2008, due to new personnel and related sales expenses.

Advertising and Marketing

Advertising and Marketing expenses increased from $1,201,000 or 3.4% of sales in 2006 to $1,474,000 or 4% of sales in 2007. This increase is due to (i) an increase in marketing and promotion relating to the Company's new Zip-Vac product, (ii) artwork and films and (iii) an increase in the cost of in store servicing for new retail customers.

We anticipate further increases in marketing and advertising expenses during 2008 as we invest in the marketing and sale of our ZipVac™ line of zippered vacuum pouches.

Other Income or Expense

During 2007, we incurred net interest expense of $1,286,000 compared to net interest expense of $1,691,000 during 2006. The reduction in interest expense incurred in 2007 is the result of both lower applicable interest rates and reduced levels of borrowing.

During 2007, we realized foreign currency gain in the amount of $174,000 compared to foreign currency gain in 2006 of $191,000.

During 2007, we had no other items of operating income or expense. During 2006, we incurred a loss on the sale of certain assets in the amount of $145,000 and we realized income from the settlement of certain vendor claims in the amount of $472,000.

Net Income or Loss

During 2007, we had net income of $82,000 compared to net income of $1,895,000 in 2006. Net income for 2007 was affected by cost related to the set-up, testing and initial production of pouch production lines. During 2007, we incurred such costs in the total amount of approximately $2,330,000 of which $2,082,000 was capitalized. Our 2006 net income included a tax benefit of $774,000 and, absent that tax benefit, our net income for that year was $1,121,000.

Income Taxes

For 2007, the Company recognized an income tax expense, on a consolidated basis, of $51,000. This income tax expense is composed of income tax expense realized by CTI Balloons, our United Kingdom subsidiary, and Flexo Universal, our Mexico subsidiary, in the amounts of $90,000 and $98,000, respectively, and an income tax benefit of $137,000 recognized by the Company in the United States. In 2006, the Company recognized an income tax benefit of $774,000 by reason of the determination of management to reduce the amount of the valuation allowance previously taken with respect to the deferred tax asset.

Results of Operations For the Year Ended December 31, 2006 Compared to Year Ended December 31, 2005

Net Sales

For the fiscal year ended December 31, 2006, consolidated net sales from the sale of all products were $35,428,000 compared to consolidated net sales of $29,190,000 for the year ended December 31, 2005, an increase of 21.4%. The increase in net sales is attributable principally to an increase in (i) metalized balloon sales from $11,737,000 in 2005 to $17,050,000 in 2006 and (ii) latex balloon sales from $4,855,000 in 2005 to $6,083,000 in 2006.

The increase in metalized balloon sales reflects, principally, an increase in sales of these products to a principal customer, Dollar Tree Stores. Sales to this chain increased from $3,987,000 in 2005 to $8,596,000 in 2006.

Sales of commercial films increased by 10% from $7,616,000 in 2005 to $8,412,000 in 2006. Most of this increase is reflected in increased sales to Rapak, LLC.

Sales of pouches declined from $4,079,000 to $3,081,000. The decline is accounted for by reduced sales to ITW Spacebag. Sales of our vacuumable pouch line in 2006 were $319,000.

The increase in latex balloon sales occurred as the result of increased levels of production achieved by our Guadalajara facility and increases in sales to several customers in the United States and Mexico.

Cost of Sales

Cost of sales declined from 77.9% of net sales in 2005 to 74.9% of net sales in 2006. This improvement in gross margin has resulted from production efficiencies which include (i) the allocation of production overhead among a larger number of units produced and (ii) stabilization in the cost of raw materials.

General and Administrative Expenses

For 2006, general and administrative expenses were $4,554,000, or 12.9% of net sales compared to $3,847,000 or 13.2% of net sales in 2005. The increases in general and administrative expenses consisted principally of (i) salary increases to existing personnel, (ii) new personnel and (iii) increases in audit expenses.

Selling

Selling expenses declined from $928,000 or 3.2% of net sales in 2005 to $847,000 or 2.4% of net sales in 2006. This decline is attributable principally to (i) the change in position of one executive from sales to marketing during 2006 and the associated change in recording of salary and related expense from sales to marketing and (ii) the reclassification of customer service expenses to marketing expense.

Advertising and Marketing

Advertising and marketing expenses increased from $913,000 or 3.1% of net sales in 2005 to $1,201,000 or 3.4% of net sales in 2006. This increase is attributable principally to the change in position described with respect to selling expense and the reclassification of customer service expense to marketing.

Other Operating Expense (Income)

During 2006, we had income from the settlement of vendor claims totaling $472,000 and we incurred losses on the disposition of assets in the amount of $145,000. In 2005, we did not generate income from the settlement of vendor claims and did not have any gain or loss from the disposition of assets.

Other Expense

During 2006, the Company incurred $1,691,000 in net interest expense compared to net interest expense in 2005 of $1,231,000. The increase in net interest expense is attributable to the fact that debt levels during 2006 were higher than 2005.

Net Income or Loss

The company had net income for 2006 of $1,895,000 compared to a net loss of $333,000 for 2005. The 2006 net income included an income tax benefit of $774,000 and, absent the tax benefit was $1,121,000 as compared to loss of $534,000 in 2005.

Income Taxes

For 2006, the company recognized an income tax benefit of $774,000. On the basis of results of operations over the past five quarters, anticipated repatriation of income from foreign subsidiaries, charges to foreign subsidiaries and the expectation of continued achievement of, and improvement in, operating results for the foreseeable future, the management of the Company has determined that it is more likely than not that the Company will realize the value recorded of its deferred tax assets. In 2005, the Company recognized an income tax benefit of $200,000 arising from the deferred tax benefit of the loss incurred for the year. Management determined based upon the evaluation of certain transactions involving the repatriation of profits from its U.K. and Mexico subsidiaries that it is more likely than not that deferred tax assets will be realized in 2006. There can be no assurance that the Company will realize the benefit of its deferred tax assets

Financial Condition, Liquidity and Capital Resources

Cash Flow Provided by Operating Activities. During fiscal 2007, cash provided by operating activities amounted to $1,356,000, compared to cash flow used in operating activities during fiscal 2006 of $1,353,000. Significant changes in working capital items affecting cash flow provided by operating activities were:

- Depreciation and amortization of $1,466,000
- An increase in net inventory of $1,732,000
- An increase in trade payables of $823,000
- A decrease in accounts receivable of $338,000
- A decrease in prepaid expenses and other assets of $270,000

During the quarter ended March 31, 2008, net cash used in operations was $252,000, compared to net cash provided by operations during the three months ended March 31, 2007 of $529,000. Significant changes in working capital items during the three months ended March 31, 2008 consisted of (i) an increase in accounts receivable of $979,000, (ii) depreciation and amortization in the amount of $366,000, (iii) an increase of $138,000 in prepaid expenses and other assets and (iv) a decrease in accrued liabilities of $207,000.

We anticipate the level of depreciation to increase in 2008 compared to 2007, reflecting investments in plant and equipment during 2007. The increase in inventory during 2007 reflects (i) an increase of $880,000 related to the Company’s new ZipVac™ line, (ii) an increase of $250,000 in inflated balloons for a rollout to a new retail customer and (iii) increase of $400,000 at the Company's Mexican subsidiary to support an increased level of sales. We do not anticipate significant increases in inventory during 2008.

Cash Used in Investing Activities. During fiscal 2007, cash used in investing activities amounted to $2,848,000 compared to cash used in investing activities during fiscal 2006 of $553,000. Cash used in investing activities was principally for the purchase of equipment and plant improvements. During 2008, we anticipate that our levels of investment in plant and equipment will be reduced from 2007 levels.

During the three months ended March 31, 2008, cash used in investing activity was $479,000, compared to $327,000 in same period of 2007. We do anticipate incurring additional capital expenditures during the balance of 2008 for improvements and for the acquisition or upgrade of production equipment.

Cash Provided by Financing Activities. During fiscal 2007, cash provided by financing activities amounted to $1,586,000, compared to cash provided by financing activities of $2,045,000 during fiscal 2006. During 2007, we received $1,355,000 from the sale of stock to Cornell Capital and $195,000 from the exercise of options and warrants, and we repaid long-term debt of $1,242,000. We received, net, $428,000 proceeds under our revolving line of credit.

For the three months ended March 31, 2008, cash provided by financing activities was $937,000 compared to cash used in financing activities for the same period of 2007 in the amount of $122,000. In the first quarter of 2008 financing activities included the receipt of $703,000 from the increase in the balances on our revolving line of credit, the receipt of $507,000 from the issuance of additional long term debt, and payment of long term debt obligations in the amount of $233,000.

The Company's current cash management strategy includes utilizing the Company's revolving line of credit for liquidity. Under our line of credit with RBS Citizens N.A. (formerly Charter One Bank), we are entitled to borrow an amount equal to 85% of eligible receivables and 60% of eligible inventory, up to a maximum of $9,000,000. Foreign receivables and inventory held by our foreign subsidiaries are not eligible. In addition, in order to be permitted to make advances under the line of credit, we are required to meet various financial covenants. As of March 31, 2008, we had complied with all applicable financial covenants in the loan agreement. Based on our results to date for the year and our projected results of operations for the balance of this year, we believe we will be in compliance with all applicable financial covenants of the loan agreement for the balance of 2008. Further, we believe that with our present cash and working capital and the amounts available to us under our line of credit and through sales of common stock, we will have sufficient funds to enable us to meet our obligations through the next twelve months.

The loan agreement provides for interest at varying rates in excess of the Bank’s prime rate, depending on the level of senior debt to EBITDA over time. As of March 31, 2008, the applicable premium being applied was 0.75%.

Also, under the loan agreement, we were required to purchase a swap agreement with respect to at least 60% of the mortgage and term loan portions of our loan. On April 5, 2006, we entered into a swap arrangement with RBS Citizens N.A. (formerly Charter One Bank) with respect to 60% of the principal amounts of the mortgage loan and the term loan, which had the effect of fixing the interest rate for such portions of the loans at 8.49% for the balance of the loan terms. On January 28, 2008 we entered into a swap arrangement with RBS Citizens for an additional $3,000,000 on our revolving line of credit, which had the effect of fixing the interest rate at 6.17%. These swap arrangements are subject to some market variation due to market interest rate variability. Management believes that these variations will not materially affect the results of the Company. As of March 31, 2008, the net effect of these market adjustments were $260,000, which has been recorded in the Company’s consolidated financial statements. As the swap agreement has been designated as a hedge, the net effect for the three months ending March 31, 2008 was $137,000 which is recorded in our equity section.

Each of John H. Schwan and Stephen M. Merrick, officers, directors and principal shareholders of the Company have personally guaranteed the obligations of the company to RBS Citizens, N.A. up to $2,000,000.

On November 13, 2007 RBS Citizens, N.A. granted to the Company a capital lease line of credit of up to $1,500,000 to fund equipment acquisitions by the Company. During 2007, the Company received aggregate advances under this line of $272,000.

On February 1, 2006, two principal officers and shareholders of our Company each loaned to our Company the sum of $500,000 in exchange for (i) Promissory Notes due January 31, 2011 and bearing interest at the rate of 2% per annum in excess of the prime rate determined quarterly and (ii) five year Warrants to purchase up to 151,515 shares of common stock of the Company at the price of $3.30 per share (110% of the closing market price on the day preceding the date of the loans).

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 8, 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. Except as stated above, there are no other significant closing conditions to draw under the Standby Equity Distribution Agreement.

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, and 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 beneficial ownership of CTI common stock was 0% before the initial advance. 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.

On December 28, 2006, we filed a Registration Statement for the registration of 403,500 shares of our common stock. On January 26, 2007, the Registration Statement was declared effective. Since that time, to December 31, 2007, we have sold an aggregate of 323,625 shares of common stock to Cornell under the SEDA and have received net proceeds from the sale of those shares in the amount of $1,492,000, excluding issuance costs.

Current Assets. As of December 31, 2007, the total current assets of the Company were $17,801,000, compared to total current assets of $16,491,000 at December 31, 2006. The change in current assets reflects, principally, (i) an increase in inventories of $1,727,000, and (ii) an increase in cash and equivalents of $99,000. The increase in inventory during 2007 reflects (i) an increase of $880,000 related to the Company's new ZipVac™ line, (ii) an increase of $250,000 in inflated balloons for a rollout to a new retail customer and (iii) an increase of $400,000 at the Company's Mexican subsidiary to support an increased level of sales. We do not anticipate significant increases in inventory during 2008.

Property, Plant and Equipment. During fiscal 2007, the Company invested $2,826,000 in capital items, principally in production equipment and plan improvements. We anticipate reduced levels of capital investment in 2008.

Current Liabilities. Total current liabilities increased from $14,643,000 as of December 31, 2006 to $16,483,000 as of December 31, 2007. Changes in current liabilities included: (i) an increase of $817,000 in trade payables, (ii) an increase in checks in excess of bank balance of $508,000 relating to deposits in transit from customers and (iii) an increase of the line of credit of $428,000.

Liquidity and Capital Resources. As of December 31, 2007, our current assets exceeded our current liabilities by $1,318,000. In addition, during 2008, we anticipate receiving advances under our capital lease line of credit in amounts up to $1,228,000. We believe that we have sufficient cash and financial resources to meet our operating requirements through December 31, 2008.

Shareholders' Equity. Shareholders' equity was $6,591,000 as of December 31, 2007 compared to $5,102,000 as of December 31, 2006.

The contractual commitments of the Company, determined as of December 31, 2007, over the next five years are as follows:

	Payments due by Period (000 Omitted)									
		Total		2008		2009-2010		2011-2012		2013 And Thereafter
Revolving line of credit	$	6,746	$	6,746	$	-	$	-	$	-
Current maturities of long-term debt	$	3,021	$	3,021	$	-	$	-	$	-
Long-Term debt, net of current maturities	$	5,167	$	-	$	1,563	$	3,604	$	-
Estimated interest payments	$	1,457	$	634	$	715	$	108	$	-
Lease Obligations	$	2,021	$	514	$	900	$	245	$	362
License Commitments	$	91	$	91	$	-	$	-	$	-
Total contractual obligations	$	18,503	$	11,006	$	3,178	$	3,957	$	362

The Company does not have any current material commitments for capital expenditures.

Seasonality

In recent years, sales in the metalized balloon product line have historically been seasonal with approximately 45% occurring in the period from December through March and 21% being generated in the period from July through October. The sale of latex balloons and laminated film products have not historically been seasonal.

Critical Accounting Policies

The financial statements of the Company are based on the selection and application of significant accounting policies which require management to make various estimates and assumptions. The following are some of the more critical judgment areas in the application of our accounting policies that currently affect our financial condition and results of operation.

Revenue Recognition. Substantially all of the Company's revenues are derived from the sale of products. With respect to the sale of products, revenue from a transaction is recognized when (i) a definitive arrangement exists for the sale of the product, (ii) delivery of the product has occurred, (iii) the price to the buyer has been fixed or is determinable and (iv) collectibility is reasonably assured. The Company generally recognizes revenue for the sale of products when the products have been shipped and invoiced. In some cases, product is provided on consignment to customers. In those cases, revenue is recognized when the customer reports a sale of the product.

Allowance for Doubtful Accounts. We estimate our allowance for doubtful accounts based on an analysis of specific accounts, an analysis of historical trends, payment and write-off histories. Our credit risks are continually reviewed and management believes that adequate provisions have been made for doubtful accounts. However, unexpected changes in the financial condition of customers or changes in the state of the economy could result in write-offs, which exceed estimates and negatively impact our financial results.

Inventory Valuation. Inventories are stated at the lower of cost or market. Cost is determined using standard costs which approximate costing determined on a first-in, first out basis. Standard costs are reviewed and adjusted at the time of introduction of a new product or design, periodically and at year-end based on actual direct and indirect production costs. On a periodic basis, the Company reviews its inventory levels for estimated obsolescence or unmarketable items, in reference to future demand requirements and shelf life of the products. As of December 31, 2007, the Company had established a reserve for obsolescence, marketability or excess quantities with respect to inventory in the aggregate amount of $383,000. As of December 31, 2006, the amount of the reserve was $276,000. In addition, on a periodic basis, the Company disposes of inventory deemed to be obsolete or unsaleable and, at such time, records an expense for the value of such inventory.

Valuation of Long-Lived Assets. We evaluate whether events or circumstances have occurred which indicate that the carrying amounts of long-lived assets (principally property and equipment and goodwill) may be impaired or not recoverable. Significant factors which may trigger an impairment review include: changes in business strategy, market conditions, the manner of use of an asset, underperformance relative to historical or expected future operating results, and negative industry or economic trends. FASB issued Statement No. 142, "Goodwill and Other Intangible Assets," which requires that goodwill be evaluated annually for impairment by applying a fair-value based test. We conduct a valuation analysis in consultation with valuation consulting firms of our goodwill in our Mexico subsidiary for the year ended December 31, 2007, 2006 and 2005. As of December 31, 2005, we determined in consultation with a valuation consulting firm, that the fair value of the Company’s interest in Flexo Universal was below its $1,113,000 carrying value. Then step two of the evaluation was done in which the value of the goodwill was determined to be $989,000. Accordingly, we recorded $124,000 as an expense and reduced the carrying value of the Company’s interest in Flexo Universal to $989,000. As of December 31, 2006 and December 31, 2007, we determined that the fair value of the Company’s interest in Flexo Universal was unchanged from December 31, 2005. Accordingly, we did not change the fair value of the Company’s interest in Flexo.

Foreign Currency Translation. All balance sheet accounts are translated using the exchange rates in effect at the balance sheet date. Statements of operations amounts are translated using the average exchange rates for the year-to-date periods. The gains and losses resulting from the changes in exchange rates during the period have been reported in other comprehensive income or loss. Foreign currency translation adjustments exclude income tax expense (benefit) given that our investments in non-U.S. subsidiaries are deemed to be reinvested for an indefinite period of time.

Stock-Based Compensation. On January 1, 2006, we adopted Statement of Financial Accounting Standards No. 123(R), “Share-Based Payments” (“SFAS No. 123(R)”). Prior to the adoption of SFAS No. 123(R), we had adopted the disclosure-only provisions of SFAS No. 123 and accounted for employee stock-based compensation under the intrinsic value method and no expense related to stock options was recognized. We adopted the provisions of SFAS 123(R) using the modified prospective transition method. Under this method, our consolidated financial statements as of and for the years ended December 31, 2007 reflect the impact of SFAS 123(R), while the consolidated financial statements for prior periods have not been restated to reflect, and do not include, the impact of SFAS 123(R).

We used the Black-Scholes option pricing model to determine the fair value of stock options which requires us to estimate certain key assumptions. As a result of adopting SFAS 123(R), we incurred employee stock-based compensation cost of $14,000 for the year ended December 31, 2007. At December 31, 2007, we had $154,000 of unrecognized compensation cost relating to stock options.

Income Taxes and Deferred Tax Assets. Income taxes are accounted for as prescribed in SFAS No. 109-Accounting for Income Taxes. Under the asset and liability method of Statement 109, the Company recognizes the amount of income taxes currently payable. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities, and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years these temporary differences are expected to be recovered or settled.

As of December 31, 2007, the Company had a net deferred tax asset of $1,080,000 (deferred tax assets of $2,307,000 less a valuation allowance of $1,227,000) representing the amount the Company may recover in future years from future taxable income. As of December 31, 2006, the amount of the net deferred tax asset was $1,127,000. Each quarter and year-end management makes a judgment to determine the extent to which the deferred tax asset will be recovered from future taxable income. At December 31, 2006, the Company reduced the valuation allowance against the deferred tax assets as management determined that the deferred tax asset is more likely than not to be realized. Management has made no change in the amount of the valuation allowance for 2007.

Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board, or FASB, issued Statement of Financial Accounting Standards No. 157, Fair Value Measurements, or SFAS No. 157. SFAS No. 157 clarifies the principle that fair value should be based on the assumptions that market participants would use when pricing an asset or liability and establishes a fair value hierarchy that prioritizes the information used to develop those assumptions. Under the standard, fair value measurements would be separately disclosed by level within the fair value hierarchy. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years, with early adoption permitted. Subsequently, the FASB provided for a one-year deferral of the provisions of SFAS No. 157 for non-financial assets and liabilities that are recognized or disclosed at fair value in the consolidated financial statements on a non-recurring basis. We adopted with no impact on our financial statements all requirements of SFAS No. 157 on January 1, 2008, except as they relate to nonfinancial assets and liabilities, which will be adopted on January 1, 2009, as allowed under SFAS No. 157. We have not yet determined the impact, if any, on our financial statements for nonfinancial assets and liabilities.

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159, The Fair Value Option for Financial Assets and Financial Liabilities, or SFAS No. 159, which permits entities to elect to measure many financial instruments and certain other items at fair value. Upon adoption of SFAS No. 159, an entity may elect the fair value option for eligible items that exist at the adoption date. Subsequent to the initial adoption, the election of the fair value option should only be made at the initial recognition of the asset or liability or upon a re-measurement event that gives rise to the new-basis of accounting. All subsequent changes in fair value for that instrument are reported in earnings. SFAS No. 159 does not affect any existing accounting literature that requires certain assets and liabilities to be recorded at fair value nor does it eliminate disclosure requirements included in other accounting standards. SFAS No. 159 is effective as of the beginning of each reporting entity’s first fiscal year that begins after November 15, 2007. We adopted SFAS No. 159 on January 1, 2008 and there was no impact on our financial statements.

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 141 (revised 2007), Business Combinations, or SFAS No. 141(R). SFAS No. 141(R) changes the requirements for an acquirer’s recognition and measurement of the assets acquired and the liabilities assumed in a business combination. SFAS No. 141(R) is effective for annual periods beginning after December 15, 2008 and should be applied prospectively for all business combinations entered into after the date of adoption.

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 160, Non-controlling Interests in Consolidated Financial Statements — an amendment of ARB No. 51, or SFAS No. 160. SFAS No. 160 requires (i) that non-controlling (minority) interests be reported as a component of shareholders' equity, (ii) that net income attributable to the parent and to the non-controlling interest be separately identified in the consolidated statement of operations, (iii) that changes in a parent's ownership interest while the parent retains its controlling interest be accounted for as equity transactions, (iv) that any retained non-controlling equity investment upon the deconsolidation of a subsidiary be initially measured at fair value, and (v) that sufficient disclosures are provided that clearly identify and distinguish between the interests of the parent and the interests of the non-controlling owners. SFAS No. 160 is effective for annual periods beginning after December 15, 2008 and should be applied prospectively. The presentation and disclosure requirements of the statement shall be applied retrospectively for all periods presented. We will adopt SFAS No. 160 on January 1, 2009 and have not yet determined the impact, if any, on our financial statements.

In March 2008, the FASB issued Statement of Financial Accounting Standards No. 161, Disclosures about Derivative Instruments and Hedging Activities — an amendment of FASB Statement No. 133, or SFAS No. 161. SFAS No. 161 requires qualitative disclosures about objectives and strategies for using derivatives, quantitative data about the fair value of and gains and losses on derivative contracts, and details of credit-risk-related contingent features in hedged positions. The statement also requires enhanced disclosures regarding how and why entities use derivative instruments, how derivative instruments and related hedged items are accounted and how derivative instruments and related hedged items affect entities' financial position, financial performance, and cash flows. SFAS No. 161 is effective for fiscal years beginning after November 15, 2008. We will adopt SFAS No. 161 on January 1, 2009 and do not expect the adoption to have a material impact on our financial statements.

MANAGEMENT

The Directors and executive officers of CTI, their age, positions in CTI, the dates of their initial election or appointment as Directors or executive officers, and the expiration of the terms are as follows:

Name	Age	Position With The Company
John H. Schwan	64	Chairman of the Board
Howard W. Schwan	53	President and Director
Stephen M. Merrick	66	Executive Vice President, Chief Financial Officer and Director
Brent Anderson	41	Vice President – General Manager, Bag Division
Samuel Komar	51	Vice President of Marketing
Steven Frank	47	Vice President of Sales
Timothy Patterson	47	Vice President of Finance and Administration
Stanley M. Brown	62	Director
Bret Tayne	49	Director
John I. Collins	48	Director
Phil Roos	48	Director

All directors hold office until the annual meeting next following their election and/or until their successors are elected and qualified. Officers are elected annually by the Board of Directors (the “Board”) and serve at the discretion of the Board. Information with respect to the business expenses and affiliation of the directors and the executive officers of the Company is set forth below:

JOHN H. SCHWAN, age 64, Chairman. Mr. Schwan has been an officer and director of the Company since January, 1996. Until March 2006, Mr. Schwan was an executive officer of Rapak, L.L.C. or affiliated companies for over 15 years. Mr. Schwan has over 30 years of general management experience, including manufacturing, marketing and sales. Mr. Schwan served in the U.S. Army, 1st Air Cavalry Division in Vietnam from 1966 to 1969. Mr. Schwan has a BA from North Park University.

HOWARD W. SCHWAN, age 53, President. Mr. Schwan has been associated with the Company for 26 years, principally in the management of the production and engineering operations of the Company. Mr. Schwan was appointed as Vice President of Manufacturing in November, 1990, was appointed as a director in January, 1996, and was appointed as President in June, 1997.

John Schwan and Howard Schwan are brothers.

STEPHEN M. MERRICK, age 66, Executive Vice President, Chief Financial Officer, and Secretary. Mr. Merrick was President of the Company from January, 1996 to June, 1997 when he became Chief Executive Officer of the Company. In October, 1999, Mr. Merrick became Executive Vice President. Mr. Merrick is of Counsel to the law firm of Vanasco Genelly & Miller of Chicago, Illinois and has been engaged in the practice of law for more than 40 years. Mr. Merrick is also Senior Vice President, Director and a member of the Management Committee of Reliv International, Inc. (Nasdaq), a manufacturer and direct marketer of nutritional supplements and food products.

BRENT ANDERSON, age 41, Vice President-General Manager, Bag Division. Mr. Anderson has been employed by the Company since January, 1989, and was named Vice President of Manufacturing in 2006. Mr. Anderson has held several managerial positions within the company including Vice President, Manufacturing, Plant Engineer and Plant Manager. In such capacities Mr. Anderson was responsible for designing and/or installing much of the Company’s manufacturing equipment. Mr. Anderson earned a Bachelor of Science Degree in Manufacturing Engineering from Bradley University.

SAMUEL KOMAR, age 51, Vice President of Marketing. Mr. Komar has been employed by the Company since March of 1998, and was named Vice-President of Sales in September of 2001. Mr. Komar has worked in sales for more than 20 years, and prior to his employment with the Company, Mr. Komar was with Bob Gable & Associates, a manufacturer of sporting goods. Mr. Komar received a Bachelor of Science Degree in Sales and Marketing from Indiana University.

STEVEN FRANK, age 47, Vice President of Sales. Mr. Frank has been employed by the Company in a sales capacity since July, 1996. Mr. Frank was hired as Sales Manager Wholesale Division and in March 1998 was promoted to National Sales Manager and most recently to Vice President of Sales in May 2005. Mr. Frank is responsible for all sales functions of the Novelty Division.

TIMOTHY PATTERSON, age 47, Vice President of Finance and Administration. Mr. Patterson has been employed by the Company as Vice President of Finance and Administration since September, 2003. Prior to his employment with the Company, Mr. Patterson was Manager of Controllers for the Thermoforming Group at Solo Cup Company for two years. Prior to that, Mr. Patterson was Manager of Corporate Accounting for Transilwrap Company for three years. Mr. Patterson received a Bachelor of Science degree in finance from Northern Illinois University and an MBA from the University of Illinois at Chicago.

STANLEY M. BROWN, age 62, Director. Mr. Brown was appointed as a director of the Company in January, 1996. Since March, 1996, Mr. Brown has been President of IRSI, Inc., a manufacturer and lessor of in-room vending systems for hotels and of inventory control equipment for manufacturers. From 1968 to 1989, Mr. Brown was with the United States Navy as a naval aviator, achieving the rank of Captain.

BRET TAYNE, age 49, Director. Mr. Tayne was appointed as a director of the Company in December, 1997. Mr. Tayne has been the Managing Director of Intrepid Tool Industries, LLC, which is a successor to Everede Tool Company, a manufacturer of industrial cutting tools, since January, 1992. Prior to that, Mr. Tayne was Executive Vice President of Unifin, a commercial finance company, since 1986. Mr. Tayne received a Bachelor of Science degree from Tufts University and an MBA from Northwestern University.

JOHN I. COLLINS, age 48 Director. Mr. Collins is the Chief Administrative Officer and the former Chief Financial Officer of Members United Corporate Federal Credit Union (“MUCFCU”), a $13 billion wholesale financial institution located in Warrenville, Illinois. Prior to his affiliation with MUCFCU in 2001, Mr. Collins was employed as both a Controller and Chief Financial Officer by Great Lakes Credit Union (“GLCU”), a $350 million financial institution located in North Chicago, Illinois. Mr. Collins is currently the President of the Illinois Credit Union Executives Society, and is a former member of the Chicago Federal Reserve Bank Advisory Group. Mr. Collins received a Bachelor of Arts degree in Economics, History and English from Ripon College, and a Masters in Business Administration from Emory University. Mr. Collins has also participated in the Kellogg Management Institute and the Consumer Marketing Strategy programs at Northwestern University on a post-graduate basis.

PHIL ROOS, age 48, Director. Mr. Roos was appointed as a Director of the Company on April 14, 2008. He is, and has been, the President and Chief Executive Officer of Arbor Strategy Group, Ann Arbor, Michigan, since 1998. Arbor Strategy Group is engaged in strategic brand innovation consulting. Prior to organizing Arbor Strategy Group, Mr. Roos was engaged in various positions in marketing, marketing consulting and brand management. He is a Certified Public Accountant and earned a BBA Degree from the University of Michigan and an MBA from Harvard University.

Committees of the Board of Directors

The Company's Board of Directors has standing Audit, Compensation and Nominating Committees. The Board of Directors met five times during 2006. No director attended less than 75% of the combined Board of Directors and Committee meetings. The Board has determined that each of Stanley M. Brown, Bret Tayne, John I. Collins and Phil Roos are independent based on the application of the rules and standards of The Nasdaq Stock Market.

The Compensation Committee is composed of Stanley M. Brown, John I. Collins and Bret Tayne. The Compensation Committee reviews and makes recommendations to the Board of Directors concerning the compensation of officers and key employees of the Company. The Compensation Committee met four times during 2007.

The Nominating Committee is composed of Stanley M. Brown and John I. Collins. The Nominating Committee identifies and reviews potential candidates for the Board of Directors and makes recommendations concerning potential candidates for the Board of Directors of the Company. The Nominating Committee met three times in 2007 and during the First Quarter of 2008.

Audit Committee

Since 2000, the Company has had a standing Audit Committee, which is presently composed of Mr. Tayne, Mr. Brown, and Mr. Collins. Each of the members of the Audit Committee is independent based on the application of the rules and standards of The Nasdaq Stock Market and Rule 10a-3(b) under the Securities Exchange Act of 1934. Mr. Collins has been designated as, and is, the Company's "Audit Committee Financial Expert" in accordance with Item 407(d) of Regulation S-K and meets the requirements for an audit committee expert as set forth in that item. The Audit Committee held four meetings during fiscal year 2006, including quarterly meetings with management and independent auditors to discuss the Company's financial statements. The Company's Board of Directors has adopted a written charter, as amended, for the Company's Audit Committee, a copy of which is appended to these Proxy Materials and has been posted and can be viewed on the Company's Internet website at http://www.ctiindustries.com under the section entitled "Investor Relations." In addition, the Audit Committee has adopted a complaint monitoring procedure to enable confidential and anonymous reporting to the Audit Committee of concerns regarding, among other things, questionable accounting or auditing matters.

Report of the Audit Committee

The Audit Committee oversees the Company's financial reporting process on behalf of the Board of Directors. Management has the primary responsibility for preparing the financial statements and implementing the reporting process including the systems of internal controls. In fulfilling its oversight responsibilities, the Committee reviewed the audited financial statements in the Annual Report with management including a discussion of the quality, not just the acceptability, of the accounting principles, the use of estimates, the reasonableness of significant judgments, and the clarity of disclosures in the financial statements.

The Committee reviewed with the independent auditors, who are responsible for expressing an opinion on the conformity of those audited financial statements with generally accepted accounting principles, their judgments as to the quality, not just the acceptability, of the Company's accounting principles and such other matters as are required to be discussed with the Committee under generally accepted auditing standards, including but not limited to those matters required to be discussed by SAS 61 (Codification of Statements on Auditing Standards, AU §380). In addition, the Committee has discussed with the independent auditors the auditor's independence from management and the Company including the matters in the written disclosures required by the Independence Standards Board.

The Committee discussed with the Company's independent auditors the overall scope and plans for their respective audits. The Committee meets with the independent auditors, with and without management present, to discuss the results of their examinations, their evaluations of the Company's internal controls, and the overall quality of the Company's financial reporting.

In reliance on the reviews and discussions referred to above, the Committee recommended to the Board of Directors (and the Board has approved) that the audited financial statements be included in the Annual Report on Form 10-K for the year ended December 31, 2007 for filing with the Securities and Exchange Commission. The Committee and the Board have also recommended, subject to future shareholder approval at the Company's 2007 annual meeting of shareholders, the selection of Blackman Kallick, L.L.P. as the Company's independent auditors.

Bret Tayne, Audit Committee Chair
Stanley M. Brown, III, Audit Committee Member
John I. Collins, Audit Committee Member

Nominating and Governance Committee

In 2005, the Company established a Nominating and Governance Committee. The Nominating and Governance Committee consists of two directors, Stanley M. Brown and John I. Collins. The Nominating and Governance Committee does not have a charter. The Board of Directors has determined that each of the members of the Nominating and Governance Committee is independent as defined in the listing standards for the Nasdaq Stock Market.

The Nominating and Governance Committee has not adopted a formal policy with regard to consideration of director candidates recommended by security holders. The Company believes that continuing service of qualified incumbent members of the Board of Directors promotes stability and continuity at the Board level, contributes to the Board’s ability to work as a collective body and provides the benefit of familiarity and insight into the Company’s affairs. Accordingly, the process of the Nominating and Governance Committee for identifying nominees reflects the Company’s practice of re-nominating incumbent directors who continue to satisfy the criteria for membership on the Board. For vacancies which are anticipated on the Board of Directors, the Nominating and Governance Committee intends to seek out and evaluate potential candidates from a variety of sources that may include recommendations by security holders, members of management, the Board of Directors, consultants and others. The minimum qualifications for potential candidates for the Board of Directors include demonstrated business experience, decision-making abilities, personal integrity and a good reputation. It is believed that a formal policy and procedure with regard to consideration of director candidates recommended by security holders is not necessary in order for the Nominating and Governance Committee to perform its duties.

The Nominating and Governance Committee met three times during 2007 and the First Quarter of 2008. During the First Quarter of 2008, the Nominating and Governance Committee conducted a nomination process to identify a director to fill a vacancy on the Board of Directors created by a director resignation as of April 1, 2008. The Nominating and Governance Committee sought references for potential Board candidates from a variety of sources, including members of management and non-management sources. All of the members of the Board participated in interviews of a number of candidates. On the basis of the recommendation of the Nominating and Governance Committee, the Board of Directors on April 14, 2008 appointed Mr. Roos to fill the vacancy created by the resignation of a former director as of April 1, 2008. All of the directors participated in the nominating process and voted in favor of the nomination of the candidates nominated for election as directors at the Annual Meeting of Stockholders to be held on June 20, 2008.

Compensation Committee

The Compensation Committee consists of three directors: Stanley M. Brown (Chairman), John I. Collins and Bret Tayne. The Board has determined that each of the members of the Compensation Committee is independent as defined in the listing standards for the Nasdaq Stock Market. The Compensation Committee reviews and acts on the Company’s executive compensation and employee benefit plans, including their establishment, modification and administration. It also recommends to the Board of Directors the compensation of the Chief Executive Officer and certain other executive officers. The Compensation Committee has a charter which has been posted and can be viewed on the Company’s Internet website at http://www.ctiindustries.com under the section entitled “Investor Relations.” The Compensation Committee met three times in 2006.

EXECUTIVE COMPENSATION

Compensation Discussion and Analysis

Overview of our Compensation Philosophy

Our general compensation philosophy is to provide compensation and reward programs that will attract, retain and motivate quality executive talent.

We believe that applying and implementing this basic philosophy is fundamental to our goal of achieving excellent business performance and increased shareholder value.

Principles and Objectives

The basic principles and objectives of our executive compensation program are:

- To provide a total compensation package that is competitive with prevailing practices for the industries in which we operate, allowing for above average total compensation when justified by business results and individual performance.

- To provide a reasonable and competitive level of base compensation to our executives.

- To provide incentive compensation based, principally, on the profitability of the Company to motivate our executives in a manner consistent with the interests of the shareholders.

- To create mutual interests among executive officers and shareholders by providing long-term equity compensation programs including stock options and restricted stock grants, and otherwise encouraging equity ownership by executives, so that executive officers will share the risks and rewards of strategic decision making and its effect on shareholder value.

Components of Compensation

The components of our executive compensation program are:

- **Base Salary.** We provide a base guaranteed salary to each of our executives.

- **Annual Cash Incentive Compensation.** We have adopted and maintain an incentive compensation program in which executives and managment employees participate. Incentive payments are made quarterly and are a based on our operating profits if they exceed a threshold amount.

- **Long Term Equity Incentive Compensation.** We provide incentive stock option awards, and may provide restricted stock awards, under our current 2007 Stock Incentive Plan. Recipients realize a profit based on stock price appreciation.

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Retirement Benefits. We maintain a 401(k) retirement plan providing for employee contributions and matching employer contributions. Employees may contribute up to $15,500 of their eligible compensation to the Plan and we match the employee's contribution up to the rate of 4% of the employee's gross income.

- **Welfare Plans and Other Benefits.** We provide medical and life plan benefits to all employees. We provide additional life insurance, car allowance and fringe benefits to certain executives, as well as limited perquisites.

Compensation Committee Process

The role of our Compensation Committee is (i) to establish and maintain our executive compensation policies, (ii) to review, evaluate and recommend to the Board of Directors salary, incentive compensation and other compensation items for the Principal Executive Officer, the Principal Financial Officer, other senior management members, Board of Directors members and senior management of our subsidiaries, (iii) review, evaluate and make recommendations concerning our compensation and benefit plans, (iv) approve grants of stock options and other equity based incentives.

The Principal Executive Officer's overall compensation is set by the Board of Directors in consultation with, and on the recommendation of, the Compensation Committee. The Compensation Committee recommendation is based on its assessment of the Principal Executive Officer's individual performance and the financial and operating performance of the Company. Compensation of the other Named Executive Officers and of other senior executive officers is established based on the recommendation of the Compensation Committee in consultation with, the Chairman of the Board, the Principal Executive Officer and the Principal Financial Officer. The Compensation Committee considers the recommendations of the Chairman of the Board, the Principal Executive Officer and the Principal Financial Officer and considers each executive's responsibility, experience and overall performance. Generally, the Compensation Committee reviews and adjusts recommended compensation levels annually at its first meeting of the year. The Compensation Committee met periodically during the preceding year to consider compensation programs and to gain relevant information and context for determining compensation for executives.

Benchmarking

The Compensation Committee seeks to ensure that the compensation package, including the components of compensation, for the Named Executive Officers is competitive when compared to the competitive market for executive talent so that the Company can attract, motivate and retain the executive talent the Company needs in order to maximize its return to shareholders.

The Company defines its competitive market as the market represented by the companies identified as being in its Peer Group. The Peer Group consists of companies generally of similar size, and located in a similar geographic area to that of the Company, having stock traded on The NASDAQ Stock Market and, to a significant degree, engaged in manufacturing activities. The Compensation Committee considered, as part of its evaluation and recommendation of compensation for the Named Executive Officers, levels of compensation in the Peer Group. The Compensation Committee has also considered other published data concerning executive compensation in its evaluation of the Company's executive compensation package.

The Peer Group identified by the Company to provide a representative competitive market for executive talent includes the following companies:

Landauer, Inc.	Koss Corp	Stereotaxis, Inc.
Fansteel, Inc.	Chicago Rivet & Mach. Co.	Energy Focus, Inc.
Wells-Gardner Elec. Corp	Zareba Systems, Inc.	Hickok, Inc.
PECO II, Inc.	Lifeway Foods, Inc.	

The Compensation Committee believes that this Peer Group is representative of the companies with which the Company shares similar industry profiles and competes for executive talent. The Compensation Committee intends to review the Peer Group periodically and will make additions or changes it deems appropriate.

Upon conclusion of its review of the Peer Group data, the Compensation Committee has determined that the Company's total compensation package is consistent with its philosophy of paying competitive cash compensation and providing significant annual at risk incentive compensation based on profitability. Total compensation for all of the

Named Executive Officers, based on the Peer Group review, was less than 50% of the average of the total compensation of the Named Executive Officers in the Peer Group. For compensation levels of the Named Executive Officers to increase to higher levels compared to the Peer Group, it will be necessary for the profitability of the Company to improve. Based on the executive compensation review, the Compensation Committee considers the compensation paid to the Company's executives to be within a reasonable market range.

Tax Considerations

In general, the policy of the Company and the Compensation Committee is to optimize the tax deductibility of executive compensation so long as deductibility is consistent with more important objectives of retaining executives and maintaining competitive, motivational performance-based compensation that is aligned with shareholder interests.

Base Salary

Base salaries are an important element of compensation and provide executives with a base level of income. In determining base pay, the Compensation Committee considers the executive's responsibilities, individual performance, base salary competitiveness as compared to the external market and the Company's operating performance. The Compensation Committee has also considered the size of the Company, results of operation and financial resources of the Company in relation to base salaries and believes that base salaries for the Named Executives have been at or below competitive rates in the external market. During 2007, each of the Named Executive Officers, other than Mr. Merrick, was granted an increased in base compensation of approximately 2.5% or less, which was considered to be consistent with a cost of living increase. In addition, amounts previously paid to them as car allowance were included as part of their base salary.

Annual Cash Incentive Compensation

On April 27, 2007 the Board of Directors approved and adopted an Incentive Compensation Plan to provide incentive compensation awards to executives of the Company based on profitability. Under the Incentive Compensation Plan, designated Named Executive Officers and several other executive and managerial officers participate in incentive compensation payments, determined on a quarterly and annual basis, which are based upon the profits of the Company for the period if the profits exceed a designated threshold profit for any quarter of $100,000 and, for the year, of $250,000. Pool I of the Plan covers senior executive officers and Pool II covers other executives and managers who are participant. The Compensation Committee believes such incentive compensation motivates participants to achieve strong profitability, which is viewed as the most significant element of corporate performance, provides rewards for strong corporate performance and aligns staff incentive with interests of the shareholders.

With respect to Pool I participants (other than the Principal Executive Officer whose participation is determined solely by the Compensation Committee and the Board of Directors), the Compensation Committee in consultation with, the Chairman of the Board, the Principal Executive Officer and the Principal Financial Officer, determines the participants and their relative level of participation during the first quarter of the year. In determining participation and the level of participation each year, the Compensation Committee considers each executive's responsibilities and performance during the prior year.

Long-Term Equity Incentives

Long-term incentive awards have been granted to executives under the 2007 Stock Incentive Plan. Stock option grants are determined from time to time by the Compensation Committee. The actual grant for each executive is determined taking into consideration (i) individual performance, (ii) corporate performance and (iii) prior grants to, or stock ownership of the Company by, the executive. Generally, stock options are granted with an exercise price equal to or greater than the closing price of the Company's Common Stock on The Nasdaq Stock Market on the date of the grant. Stock options generally are exercisable within 10 years from the date of grant.

During 2007, the Company issued 74,000 stock options from the 2007 Plan, of which options to purchase 31,500 shares were issued to the Named Executive Officers and options to purchase 10,000 shares were issued to the independent directors.

All of the stock options issued in 2007 were for a four-year term. The options become exercisable with respect to the following percentages of the shares subject to the options on the dates specified:

Vesting Date	Percentage of Shares
April 1, 2008	25%
October 1, 2008	50%
October 1, 2009	75%
October 1, 2010	100%

The Compensation Committee believes that long-term incentive stock awards should be a significant part of the compensation of its senior executives who have the ability to affect the results of operation of the Company in order that these executives will share the risks and rewards of Company performance as it affects shareholder value and will, therefore, have a mutual interests with the shareholders of the Company.

The policy of the Compensation Committee with respect to the timing of stock option awards is as follows: (i) all awards shall be dated and issued as of the date they are approved by the Compensation Committee and (ii) generally, the Compensation Committee will expect to make awards annually during May of each year after the release of financial information for the first quarter. In 2007, stock option awards were made in October.

Retirement Benefits

The Company maintains a 401(k) employee savings plan available to all eligible salaried employees. Under the 401(k) Plan, employees may contribute up to $15,500 of their eligible compensation to the Plan and the Company will contribute a matching amount to the Plan each year. The federal statutory limit for eligible compensation in 2006 was $220,000. During 2006, the Company made matching contributions up to 4% of the employee's compensation. The Company’s contributions to the 401(k) plan totaled $91,000 in 2006 and $105,000 in 2007. These contributions and matching percentages are intended to reflect competitive market conditions for plans of this type. With respect to the 401(k) Plan, participating employees may direct the investment of individual and company contributions into one or more of the investment options offered by the Plan.

Other Benefits

The Company believes that its employee benefit plans, health insurance plans and perquisites are of the type commonly offered by other employers. These benefits form part of our compensation philosophy because the Company believes they are necessary in order to attract, motivate and retain talented executives.

Employment and Change of Control Agreements

The Company has an employment agreement with Howard W. Schwan, the President. We do not maintain any change of control agreements with any executives.

Compensation Committee Report

The Compensation Committee has reviewed and discussed the Compensation Discussion and Analysis section appearing above with the Company’s management. Based on this review and these discussions, the Compensation Committee recommended to the Company’s Board of Directors that the Compensation Committee Analysis be included in the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2007 and in this Proxy Statement.

Stanley M. Brown, Chairman
John I. Collins
Bret Tayne

Summary Compensation Table

The following table sets forth summary compensation information in accordance with respect to the Principal Executive Officer, Principal Financial Officer and each of the other highly compensated executive officers who were officers at December 31, 2007. These individuals, including the Principal Executive Officer and Principal Financial Officer, are collectively referred to in this proxy statement as the Named Executive Officers.

55

SUMMARY COMPENSATION TABLE

Name/Title	Year	Salary	Option Awards	Non-Equity Incentive Plan Compensation[1]	All other compensation	Total
Howard W. Schwan	2007	$ 176,123	$ 1,833	$ 20,506	$ 19,659	$ 218,122
President	2006	$ 161,000	$ -	$ 14,922	$ 31,034	$ 206,956
Stephen M. Merrick	2007	$ 84,700	$ 275	$ 17,943	$ -	$ 102,918
Executive, Vice President Secretary, Chief Financial Officer	2006	$ 84,000	$ -	$ 13,057	$ -	$ 97,057
Steven Frank	2007	$ 114,969	$ 917	$ 15,380	$ 5,337	$ 136,602
Vice President-Sales	2006	$ 103,000	$ -	$ 11,192	$ 11,589	$ 125,781
Brent Anderson	2007	$ 124,469	$ 917	$ 15,380	$ 6,615	$ 147,380
Vice President-General Manager, Bag Division	2006	$ 111,000	$ -	$ 11,192	$ 11,331	$ 133,523
Samuel Komar	2007	$ 121,969	$ 917	$ 15,380	$ 4,932	$ 143,197
Vice President-Marketing	2006	$ 116,000	$ -	$ 11,192	$ 12,842	$ 140,034
Timothy Patterson	2007	$ 109,977	$ 917	$ 15,380	$ 7,171	$ 133,444
Vice President-Finance	2006	$ 101,000	$ -	$ 11,192	$ 10,642	$ 122,834

[1] Amounts determined under the Company's incentive compensation plan discussed in "Compensation Discussion and Analysis."

Items included in All Other Compensation in the Summary Compensation Table and items identified as Perquisites and Other Personal Benefits in the All Other Compensation Table are set forth in the following tables of All Other Compensation and Perquisites:

ALL OTHER COMPENSATION AND PERQUISITIES TABLE

Name/Title	Year	401K Match	Insurance Premiums	Country Club Dues	Car Allowance	Total
Howard W. Schwan	2007	$ 7,569	$ 5,000	$ 6,240	$ 850	$ 19,659
President	2006	$ 6,440	$ 5,000	$ 6,415	$ 13,179	$ 31,034
Stephen M. Merrick	2007	$ -	$ -	$ -	$ -	$ -
Executive, Vice President Secretary, Chief Financial Officer	2006	$ -	$ -	$ -	$ -	$ -
Steven Frank	2007	$ 3,725	$ 1,012	$ -	$ 600	$ 5,337
Vice President-Sales	2006	$ -	$ 1,012	$ 1,000	$ 9,577	$ 11,589
Brent Anderson	2007	$ 5,427	$ 588	$ -	$ 600	$ 6,615

Vice President-General	2006	$	4,442	$	588	$	-	$	6,301	$	11,331
Manager, Bag Division										$	-
Samuel Komar	2007	$	2,663	$	1,669	$	-	$	600	$	4,932
Vice President-Marketing	2006	$	2,315	$	1,669	$	-	$	8,858	$	12,842
Timothy Patterson	2007	$	4,399	$	2,322	$	-	$	450	$	7,171
Vice President-Finance	2006	$	4,020	$	2,322	$	-	$	4,300	$	10,642

56

Grants of Plan-Based Awards During Fiscal Year 2007

The following table sets forth information regarding the grants of plan-based awards made to the Named Executive Officers during the fiscal year ended December 31, 2007.

GRANTS OF PLAN-BASED AWARDS

Name	Grant Date	All other Option Awards: Number of Securities Underlying Options (#)	Exercise or Base Price of Option Awards ($/sh)	Grant Date Fair Value of Option Awards
Howard W. Schwan	10/1/2007	10,000	$ 5.14	$ 22,000
Stephen M. Merrick	10/1/2007	1,500	$ 5.14	$ 3,300
Steven Frank	10/1/2007	5,000	$ 4.67	$ 11,000
Brent Anderson	10/1/2007	5,000	$ 4.67	$ 11,000
Samuel Komar	10/1/2007	5,000	$ 4.67	$ 11,000
Timothy Patterson	10/1/2007	5,000	$ 4.67	$ 11,000

All plan-based awards granted during 2007 were stock options.

Narrative Disclosure For Summary Compensation Table and Grants of Plan-Based Awards

Employment Agreements with Our Named Executive Officers. In June 1997, the Company entered into an Employment Agreement with Howard W. Schwan as President, which provides for an annual salary of not less than $135,000. The term of the Agreement was through June 30, 2002, and is automatically renewed thereafter for successive one-year terms. The Agreement contains covenants of Mr. Schwan with respect to the use of the Company's confidential information, establishes the Company's right to inventions created by Mr. Schwan during the term of his employment, and includes a covenant of Mr. Schwan not to compete with the Company for a period of three years after the date of termination of the Agreement.

Information Relating to Cash Incentives and Stock and Option Awards. Each of the Named Executives participated in the incentive compensation program of the Company during 2006 and 2007. The incentive compensation program is described in the Compensation Discussion and Analysis. The amount shown as Non-Equity Incentive Compensation represents amounts earned by each of the Named Executives under that program during 2006 and 2007 and paid during 2006 and 2007, respectively.

Stock options awarded to the Named Executive Officers are described in the Compensation Discussion and Analysis.

Salary and Bonus Proportion of Compensation

During 2007, salary and bonus paid to the Named Executive Officers represented 83.0% of the total compensation paid to them and incentive compensation payments represented 11.3% of their total compensation. Long-term compensation consisting of option awards and matching 401(k) contributions represented 3.4% of total compensation.

57

Outstanding Equity Awards at December 31, 2007

The following chart sets forth all outstanding equity awards to named executive officers as of December 31, 2007. All awards are in the form of options to purchase Common Stock of the Company.

The Company has not issued any stock awards.

OUTSTANDING EQUITY AWARDS

	Option Awards				
	Number of Securities Underlying Unexercised Options (#)		Option Exercise		Option Expiration
Name	Exercisable	Unexercisable	Price ($)		Date
Howard W. Schwan	15,873	-	$	6.30	09/15/08
	23,810	-	$	1.89	03/06/10
	2,500	7,500	$	5.14	10/01/11
Stephen M. Merrick	375	1,125	$	5.14	10/01/11
Samuel Komar	4,762	-	$	6.30	09/15/08
	7,500	-	$	2.88	12/30/15
	3,750	1,250	$	4.67	10/01/11
Steven Frank	10,000	-	$	2.88	12/30/15
	3,750	1,250	$	4.67	10/01/11
Timothy Patterson	3,750	1,250	$	4.67	10/01/11
Brent Anderson	4,762	-	$	6.30	09/15/08
	17,858	-	$	1.47	12/27/11
	10,000	-	$	2.88	12/30/15
	3,750	1,250	$	4.67	10/01/11

Option Exercises and Stock Vested

The following table sets forth information with respect to common shares acquired upon the exercise of stock options of the Named Executive Officers during the fiscal year ended December 31, 2007.

OPTIONS EXERCISES AND STOCK VESTED

	Option Awards			Stock Awards			
Name	Number of Options Acquried on Exercise	Value Realized on Exercise		Number of Shares Acquired on Vesting		Value Realized on Vesting	
Howard W. Schwan	14,286	$	33,858	$	-	$	-
Stephen M. Merrick	5,953	$	9,763	$	-	$	-