**UNITED STATES**
**SECURITIES AND EXCHANGE COMMISSION**
**Washington, D.C. 20549**

# FORM 10-Q

(Mark one)
☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the quarterly period ended May 31, 2017**

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from ________________ to __________________.

**Commission File Number: 001-11038**

# NORTHERN TECHNOLOGIES INTERNATIONAL CORPORATION

(Exact name of registrant as specified in its charter)

| | |
|---|---|
| **Delaware** | **41-0857886** |
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |

**4201 Woodland Road**
**P.O. Box 69**
**Circle Pines, Minnesota 55014**
(Address of principal executive offices) (Zip code)

**(763) 225-6600**
(Registrant's telephone number including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES ☒ NO ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES ☒ NO ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

| | |
|---|---|
| Large accelerated filer ☐ | Accelerated filer ☐ |
| Non-accelerated filer (Do not check if a smaller reporting company) ☐ | Smaller reporting company ☒ |
| | Emerging growth company ☐ |

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES ☐ NO ☒

As of July 13, 2017, there were 4,527,018 shares of common stock of the registrant outstanding.

**NORTHERN TECHNOLOGIES INTERNATIONAL CORPORATION**
**FORM 10-Q**
**May 31, 2017**

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*This quarterly report on Form 10-Q contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, and are subject to the safe harbor created by those sections. For more information, see "Part I. Financial Information – Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations—Forward-Looking Statements."*

*As used in this report, references to "NTIC," the "Company," "we," "our" or "us," unless the context otherwise requires, refer to Northern Technologies International Corporation and its wholly-owned and majority-owned subsidiaries, all of which are consolidated on NTIC's consolidated financial statements.*

*As used in this report, references to: (1) "NTIC China" refer to NTIC's wholly-owned subsidiary in China, NTIC (Shanghai) Co., Ltd.; (2) "NTI Europe" refer to NTIC's wholly-owned subsidiary in Germany, NTIC Europe GmbH; (3) "Zerust Mexico" refer to NTIC's wholly-owned subsidiary in Mexico, ZERUST-EXCOR MEXICO, S. de R.L. de C.V; (4) "Zerust Brazil" refer to NTIC's majority-owned Brazilian subsidiary, Zerust Prevenção de Corrosão S.A.; (5) "Natur-Tec India" refer to NTIC's majority-owned subsidiary in India, Natur-Tec India Private Limited; and (6) "NTI Asean" refer to NTIC's majority-owned holding company subsidiary, NTI Asean LLC, which is a holding company that holds investments in eight entities that operate in the Association of Southeast Asian Nations (ASEAN) region, including the following countries: China (although the joint venture agreements for the Chinese joint venture were terminated as of December 31, 2014 and liquidation of this joint venture is anticipated), Indonesia, South Korea, Malaysia, Philippines, Singapore, Taiwan and Thailand.*

*NTIC's consolidated financial statements do not include the accounts of any of its joint ventures. Except as otherwise indicated, references in this report to NTIC's joint ventures do not include any of NTIC's wholly-owned or majority-owned subsidiaries.*

*As used in this report, references to "EXCOR" refer to NTIC's joint venture in Germany, Excor Korrosionsschutz – Technologien und Produkte GmbH.*

*As used in this report, references to "Tianjin Zerust" refer to NTIC's former joint venture in China, Tianjin-Zerust Anticorrosion Co., Ltd.*

*All trademarks, trade names or service marks referred to in this report are the property of their respective owners.*

**PART I - FINANCIAL INFORMATION**

**ITEM 1. FINANCIAL STATEMENTS**

**NORTHERN TECHNOLOGIES INTERNATIONAL CORPORATION AND SUBSIDIARIES**
**CONSOLIDATED BALANCE SHEETS AS OF MAY 31, 2017 (UNAUDITED)**
**AND AUGUST 31, 2016 (AUDITED)**

| | May 31, 2017 | August 31, 2016 |
|---|---|---|
| **ASSETS** | | |
| CURRENT ASSETS: | | |
| Cash and cash equivalents | $ 3,500,164 | $ 3,395,274 |
| Available for sale securities | 3,756,680 | 2,243,864 |
| Receivables: | | |
| Trade excluding joint ventures, less allowance for doubtful accounts of $40,000 at May 31, 2017 and August 31, 2016 | 6,190,096 | 4,755,320 |
| Trade joint ventures | 1,295,766 | 791,903 |
| Fees for services provided to joint ventures | 1,224,977 | 1,406,587 |
| Income taxes | 375,531 | 215,905 |
| Inventories | 7,879,656 | 7,711,287 |
| Prepaid expenses | 421,708 | 422,031 |
| Total current assets | 24,644,578 | 20,942,171 |
| | | |
| PROPERTY AND EQUIPMENT, NET | 7,451,899 | 7,275,872 |
| | | |
| OTHER ASSETS: | | |
| Investments in joint ventures | 18,903,473 | 19,840,774 |
| Deferred income taxes | 1,614,229 | 1,639,762 |
| Patents and trademarks, net | 1,314,103 | 1,278,597 |
| Other | 71,685 | 92,874 |
| Total other assets | 21,903,490 | 22,852,007 |
| Total assets | $ 53,999,967 | $ 51,070,050 |
| | | |
| **LIABILITIES AND EQUITY** | | |
| CURRENT LIABILITIES: | | |
| Accounts payable | $ 3,558,280 | $ 2,753,903 |
| Accrued liabilities: | | |
| Payroll and related benefits | 984,789 | 938,363 |
| Other | 247,597 | 301,836 |
| Total current liabilities | 4,790,666 | 3,994,102 |
| | | |
| COMMITMENTS AND CONTINGENCIES (Note 13) | | |
| | | |
| EQUITY: | | |
| Preferred stock, no par value; authorized 10,000 shares; none issued and outstanding | — | — |
| Common stock, $0.02 par value per share; authorized 10,000,000 shares; issued and outstanding 4,527,018 and 4,533,416, respectively | 90,540 | 90,668 |
| Additional paid-in capital | 13,983,754 | 13,798,567 |
| Retained earnings | 35,692,376 | 33,655,357 |
| Accumulated other comprehensive loss | (3,251,765) | (3,009,617) |
| Stockholders' equity | 46,514,905 | 44,534,975 |
| Non-controlling interest | 2,694,396 | 2,540,973 |
| Total equity | 49,209,301 | 47,075,948 |
| Total liabilities and equity | $ 53,999,967 | $ 51,070,050 |

See notes to consolidated financial statements.

**NORTHERN TECHNOLOGIES INTERNATIONAL CORPORATION AND SUBSIDIARIES**
**CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)**
**FOR THE THREE AND NINE MONTHS ENDED MAY 31, 2017 AND 2016**

| | Three Months Ended | | Nine Months Ended | |
|---|---|---|---|---|
| | May 31, 2017 | May 31, 2016 | May 31, 2017 | May 31, 2016 |
| NET SALES: | | | | |
| Net sales, excluding joint ventures | $ 9,360,883 | $ 7,925,357 | $ 26,552,434 | $ 21,454,381 |
| Net sales, to joint ventures | 862,136 | 761,218 | 2,115,511 | 1,961,565 |
| Total net sales | 10,223,019 | 8,686,575 | 28,667,945 | 23,415,946 |
| Cost of goods sold | 6,774,001 | 5,777,249 | 19,256,953 | 15,920,896 |
| Gross profit | 3,449,018 | 2,909,326 | 9,410,992 | 7,495,050 |
| JOINT VENTURE OPERATIONS: | | | | |
| Equity in income of joint ventures | 1,686,016 | 1,664,464 | 4,343,159 | 3,600,884 |
| Fees for services provided to joint ventures | 1,442,048 | 1,351,913 | 3,941,667 | 3,808,384 |
| Total joint venture operations | 3,128,064 | 3,016,377 | 8,284,826 | 7,409,268 |
| OPERATING EXPENSES: | | | | |
| Selling expenses | 2,430,824 | 1,507,200 | 6,716,390 | 4,507,716 |
| General and administrative expenses | 1,682,669 | 1,957,868 | 5,996,977 | 5,939,032 |
| Research and development expenses | 733,651 | 1,231,950 | 2,118,210 | 3,349,572 |
| Total operating expenses | 4,847,144 | 4,697,018 | 14,831,577 | 13,796,320 |
| OPERATING INCOME | 1,729,938 | 1,228,685 | 2,864,241 | 1,107,998 |
| INTEREST INCOME | 10,996 | 29,868 | 19,075 | 58,425 |
| INTEREST EXPENSE | (7,409) | (15,465) | (15,502) | (30,987) |
| OTHER INCOME | — | 6,294 | — | 7,255 |
| INCOME BEFORE INCOME TAX EXPENSE | 1,733,525 | 1,249,382 | 2,867,814 | 1,142,691 |
| INCOME TAX EXPENSE | 237,801 | 225,395 | 480,423 | 262,359 |
| NET INCOME | 1,495,724 | 1,023,987 | 2,387,391 | 880,332 |
| NET INCOME ATTRIBUTABLE TO NON-CONTROLLING INTERESTS | 143,308 | 106,614 | 350,370 | 305,099 |
| NET INCOME ATTRIBUTABLE TO NTIC | $ 1,352,416 | $ 917,373 | $ 2,037,021 | $ 575,233 |
| NET INCOME ATTRIBUTABLE TO NTIC PER COMMON SHARE: | | | | |
| Basic | $ 0.30 | $ 0.20 | $ 0.45 | $ 0.13 |
| Diluted | $ 0.30 | $ 0.20 | $ 0.45 | $ 0.13 |
| WEIGHTED AVERAGE COMMON SHARES ASSUMED OUTSTANDING: | | | | |
| Basic | 4,526,771 | 4,538,970 | 4,528,523 | 4,538,005 |
| Diluted | 4,591,527 | 4,563,801 | 4,571,395 | 4,587,064 |

See notes to consolidated financial statements.

**NORTHERN TECHNOLOGIES INTERNATIONAL CORPORATION AND SUBSIDIARIES**
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)**
**FOR THE THREE AND NINE MONTHS ENDED MAY 31, 2017 AND 2016**

| | Three Months Ended | | Nine Months Ended | |
|---|---|---|---|---|
| | **May 31, 2017** | **May 31, 2016** | **May 31, 2017** | **May 31, 2016** |
| NET INCOME | $ 1,495,724 | $ 1,023,987 | $ 2,387,391 | $ 880,332 |
| OTHER COMPREHENSIVE INCOME (LOSS) – FOREIGN CURRENCY TRANSLATION ADJUSTMENT | 780,726 | 432,360 | (239,095) | (52,370) |
| COMPREHENSIVE INCOME | 2,276,450 | 1,456,347 | 2,148,296 | 827,962 |
| COMPREHENSIVE INCOME ATTRIBUTABLE TO NON-CONTROLLING INTERESTS | 160,223 | 124,840 | 353,423 | 310,992 |
| COMPREHENSIVE INCOME ATTRIBUTABLE TO NTIC | $ 2,116,227 | $ 1,331,507 | $ 1,794,873 | $ 516,970 |

See notes to consolidated financial statements.

**NORTHERN TECHNOLOGIES INTERNATIONAL CORPORATION AND SUBSIDIARIES**
**CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)**
**FOR THE NINE MONTHS ENDED MAY 31, 2017 AND 2016**

| | Nine Months Ended | |
|---|---|---|
| | May 31, 2017 | May 31, 2016 |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net income | $ 2,387,391 | $ 880,332 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Stock-based compensation | 293,748 | 325,576 |
| Depreciation expense | 580,962 | 482,576 |
| Amortization expense | 89,274 | 89,275 |
| Equity in income from joint ventures | (4,343,159) | (3,600,884) |
| Dividends received from joint ventures | 5,179,786 | 5,449,543 |
| Deferred income taxes | 24,939 | — |
| Changes in current assets and liabilities: | | |
| Receivables: | | |
| Trade, excluding joint ventures | (1,442,714) | (570,647) |
| Trade, joint ventures | (503,863) | (73,522) |
| Fees for services provided to joint ventures | 181,610 | 97,569 |
| Income taxes | (154,171) | (314,038) |
| Inventories | (155,011) | 17,185 |
| Prepaid expenses and other | 19,197 | (58,518) |
| Accounts payable | 816,845 | 692,741 |
| Income tax payable | (3,466) | (377) |
| Accrued liabilities | (145,203) | (363,514) |
| Net cash provided by operating activities | 2,826,166 | 3,053,297 |
| | | |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Purchase of available for sale securities | (1,512,816) | (212,351) |
| Additions to property and equipment | (760,847) | (490,481) |
| Additions to patents | (124,780) | (91,836) |
| Net cash used in investing activities | (2,398,443) | (794,668) |
| | | |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Dividend received by non-controlling interest | (200,000) | (200,000) |
| Repurchase of common stock | (196,164) | (97,450) |
| Proceeds from employee stock purchase plan | 46,475 | 68,633 |
| Proceeds from exercise of stock options | 41,000 | — |
| Net cash used in financing activities | (308,689) | (228,817) |
| | | |
| EFFECT OF EXCHANGE RATE CHANGES ON CASH: | (14,144) | (27,255) |
| | | |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | 104,890 | 2,002,557 |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD | 3,395,274 | 2,623,981 |
| | | |
| CASH AND CASH EQUIVALENTS AT END OF PERIOD | $ 3,500,164 | $ 4,626,538 |

See notes to consolidated financial statements.

**NORTHERN TECHNOLOGIES INTERNATIONAL CORPORATION AND SUBSIDIARIES**
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

## 1. INTERIM FINANCIAL INFORMATION

In the opinion of management, the accompanying unaudited consolidated financial statements contain all necessary adjustments, which are of a normal recurring nature, and present fairly the consolidated financial position of Northern Technologies International Corporation and its subsidiaries (the Company) as of May 31, 2017 and August 31, 2016 and the results of their operations for the three and nine months ended May 31, 2017 and 2016 and their cash flows for the nine months ended May 31, 2017 and 2016, in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP).

These consolidated financial statements should be read in conjunction with the consolidated financial statements and related notes contained in the Company's annual report on Form 10-K for the fiscal year ended August 31, 2016. These consolidated financial statements also should be read in conjunction with the "Management's Discussion and Analysis of Financial Condition and Results of Operations" section appearing in this report.

Operating results for the three and nine months ended May 31, 2017 are not necessarily indicative of the results that may be expected for the full fiscal year ending August 31, 2017.

The Company evaluates events occurring after the date of the consolidated financial statements requiring recording or disclosure in the consolidated financial statements.

Certain amounts reported in the consolidated financial statements for the previous reporting period have been reclassified to conform to the current period presentation. Expenses previously recorded as "Expenses incurred in support of joint ventures" have been reclassified as "General and administrative expenses" based on the reduction in direct costs associated with supporting the joint ventures.

## 2. RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In May 2014, the Financial Accounting Standards Board (FASB) issued *Revenue from Contracts with Customers, Topic 606* (Accounting Standards Update (ASU) No. 2014-09), which provides a framework for the recognition of revenue, with the objective that recognized revenues properly reflect amounts an entity is entitled to receive in exchange for goods and services. This guidance, which includes additional disclosure requirements regarding revenue, cash flows and obligations related to contracts with customers, was originally to be effective for the Company beginning in fiscal year 2018. In July 2015, the FASB confirmed a one-year deferral of the effective date of the new revenue standard which also allows early adoption as of the original effective date. The updated guidance will be effective for the Company's first quarter of 2019. The Company is currently evaluating the impact of adopting ASU 2014-09 on its consolidated financial statements, but currently believes that the timeline established for implementation is attainable.

In July 2015, the FASB issued ASU No. 2015-11, "*Inventory*," which modifies the subsequent measurement of inventories recorded under a first-in-first-out or average cost method. Under the new standard, such inventories are required to be measured at the lower of cost and net realizable value. The new standard is effective for the Company's fiscal year 2018, with prospective application. The Company does not expect the adoption of the provisions of ASU 2015-11 to have a material impact on its consolidated financial statements.

In November 2015, FASB issued ASU 2015-17, *Income Taxes (Topic 740) Balance Sheet Classification of Deferred Taxes*, which requires that deferred tax assets and liabilities be classified as noncurrent in a classified balance sheet. The amendment takes effect for public entities for fiscal years beginning after December 15, 2017, with early adoption available. The Company adopted ASU 2015-17 as of August 31, 2016; and there was no material impact on its consolidated financial statements.

During February 2016, the FASB issued ASU No. 2016-02, "*Leases*." ASU No. 2016-02 was issued to increase transparency and comparability among organizations by recognizing all lease transactions (with terms in excess of 12 months) on the balance sheet as a lease liability and a right-of-use asset (as defined). ASU No. 2016-02 is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years, with earlier application permitted. Upon adoption, the lessee will apply the new standard retrospectively to all periods presented or retrospectively using a cumulative effect adjustment in the year of adoption. The Company is currently assessing the effect that ASU No. 2016-02 will have on its consolidated financial statements.

In March 2016, the FASB issued ASU No. 2016-07, "*Investments – Equity Method and Joint Ventures (Topic 323): Simplifying the Transition to the Equity Method of Accounting*." Among other things, the amendments in ASU 2016-07 eliminate the requirement that when an investment qualifies for use of the equity method as a result of an increase in the level of ownership interest or degree of influence, an investor must adjust the investment, results of operations, and retained earnings retroactively on a step-by-step basis as if the equity method had been in effect during all previous periods that the investment had been held. The amendments require that the equity method investor add the cost of acquiring the additional interest in the investee to the current basis of the investor's previously held interest and adopt the equity method of accounting as of the date the investment becomes qualified for equity method accounting. Therefore, upon qualifying for the equity method of accounting, no retroactive adjustment of the investment is required. The amendments require that an entity that has an available-for-sale equity security that becomes qualified for the equity method of accounting recognize through earnings the unrealized holding gain or loss in accumulated other comprehensive income at the date the investment becomes qualified for use of the equity method. The amendments are effective for all entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2016. The amendments should be applied prospectively upon their effective date to increases in the level of ownership interest or degree of influence that result in the adoption of the equity method. Early adoption is permitted. The Company is currently assessing the impact that ASU 2016-07 will have on its consolidated financial statements.

In March 2016, the FASB issued ASU 2016-09, *Stock Compensation*, which is intended to simplify several aspects of the accounting for share-based payment award transactions. The guidance will be effective for the fiscal year beginning after December 15, 2016, including interim periods within that year. The Company is currently assessing the impact that ASU 2016-09 will have on its consolidated financial statements.

In August 2016, the FASB issued ASU No. 2016-15, *"Statement of Cash Flows, Classification of Certain Cash Receipts and Cash Payments*" ASU 2016-15 eliminates the diversity in practice related to the classification of certain cash receipts and payments for debt prepayments or extinguishment costs, the maturing of a zero coupon bond, the settlement of contingent liabilities arising from a business combination, proceeds from insurance settlements, distributions from certain equity method investees and beneficial interests obtained in a financial asset securitization. ASU 2016-15 designates the appropriate cash flow classification, including requirements to allocate certain components of these cash receipts and payments among operating, investing and financing activities. The guidance is effective for fiscal years beginning December 15, 2017. Early adoption is permitted. The Company is currently evaluating the effects of adopting ASU 2016-15 on its consolidated financial statements, but the adoption is not expected to have a significant impact as of the filing of this report.

Although there are several other new accounting pronouncements issued or proposed by the FASB, which the Company has adopted or will adopt, as applicable, the Company does not believe any of these accounting pronouncements has had or will have a material impact on the Company's consolidated financial position or operating results.

## 3. INVENTORIES

Inventories consisted of the following:

| | May 31, 2017 | August 31, 2016 |
|---|---|---|
| Production materials | $ 1,454,328 | $ 1,452,396 |
| Finished goods | 6,425,328 | 6,258,891 |
| | $ 7,879,656 | $ 7,711,287 |

## 4. PROPERTY AND EQUIPMENT, NET

Property and equipment, net consisted of the following:

| | May 31, 2017 | August 31, 2016 |
|---|---|---|
| Land | $ 310,365 | $ 310,365 |
| Buildings and improvements | 6,623,104 | 6,528,252 |
| Machinery and equipment | 4,170,638 | 3,590,063 |
| | 11,104,107 | 10,428,680 |
| Less accumulated depreciation | (3,652,208) | (3,152,808) |
| | $ 7,451,899 | $ 7,275,872 |

## 5. PATENTS AND TRADEMARKS, NET

Patents and trademarks, net consisted of the following:

| | May 31, 2017 | August 31, 2016 |
|---|---|---|
| Patents and trademarks | $ 2,700,215 | $ 2,575,435 |
| Less accumulated amortization | (1,386,112) | (1,296,838) |
| | $ 1,314,103 | $ 1,278,597 |

Patent and trademark costs are amortized over seven years. Costs incurred related to patents and trademarks are capitalized until filed and approved, at which time the amounts capitalized to date are amortized and any further costs, including maintenance costs, are expensed as incurred. Amortization expense is estimated to approximate $120,000 in each of the next five fiscal years.

## 6. INVESTMENTS IN JOINT VENTURES

The financial statements of the Company's foreign joint ventures are initially prepared using the accounting principles accepted in the respective joint ventures' countries of domicile. Amounts related to foreign joint ventures reported in the below tables and the accompanying consolidated financial statements have subsequently been adjusted to conform with accounting principles generally accepted in the United States of America in all material respects. All material profits recorded on sales from the Company to its joint ventures and from joint ventures to other joint ventures have been eliminated for financial reporting purposes.

Financial information from the audited and unaudited financial statements of the Company's joint ventures in Germany, Excor Korrosionsschutz – Technologien und Produkte GmbH (EXCOR), Harita-NTI LTD (India), Zerust OY (Finland) and all the Company's other joint ventures, are summarized as follows:

| | As of May 31, 2017 | | | | |
|---|---|---|---|---|---|
| | Total | EXCOR | India | Finland | All Other |
| Current assets | $ 48,064,624 | $ 19,820,904 | $ 4,322,253 | $ 1,929,781 | $ 21,991,686 |
| Total assets | 52,062,465 | 21,882,519 | 4,658,050 | 2,216,723 | 23,305,173 |
| Current liabilities | 13,773,839 | 3,028,386 | 1,412,054 | 547,007 | 8,786,392 |
| Noncurrent liabilities | 247,572 | - | 14,201 | - | 233,371 |
| Joint ventures' equity | 38,041,054 | 18,854,133 | 3,231,795 | 1,669,716 | 14,285,410 |
| Northern Technologies International Corporation's share of joint ventures' equity | 18,903,473 | 9,427,068 | 1,615,898 | 834,856 | 7,025,651 |
| Northern Technologies International Corporation's share of joint ventures' undistributed earnings | 16,829,258 | 9,396,163 | 751,076 | 814,856 | 5,867,163 |

| | Nine Months Ended May 31, 2017 | | | | |
|---|---|---|---|---|---|
| | Total | EXCOR | India | Finland | All Other |
| Net sales | $ 73,098,215 | $ 28,169,978 | $ 5,299,600 | $ 2,619,843 | $ 37,008,794 |
| Gross profit | 32,376,247 | 15,032,724 | 2,463,138 | 1,569,152 | 13,311,233 |
| Net income | 8,562,834 | 6,184,181 | 611,143 | 413,044 | 1,354,466 |
| Northern Technologies International Corporation's share of equity in income of joint ventures | 4,343,159 | 3,089,935 | 384,712 | 206,874 | 661,638 |
| Northern Technologies International Corporation's dividends received from joint ventures | $ 5,179,786 | $ 4,240,400 | $ 446,939 | $ 200,768 | $ 291,679 |

| | As of August 31, 2016 | | | | |
|---|---|---|---|---|---|
| | Total | EXCOR | India | Finland | All Other |
| Current assets | $ 48,922,924 | $ 22,928,810 | $ 4,027,016 | $ 1,928,861 | $ 20,038,237 |
| Total assets | 52,407,026 | 24,733,340 | 4,352,573 | 2,211,392 | 21,109,721 |
| Current liabilities | 12,433,700 | 3,485,213 | 1,097,231 | 546,506 | 7,304,730 |
| Noncurrent liabilities | 100,783 | — | 6,382 | — | 94,401 |
| Joint ventures' equity | 39,872,543 | 21,248,109 | 3,248,960 | 1,664,886 | 13,710,588 |
| Northern Technologies International Corporation's share of joint ventures' equity | 19,840,774 | 10,624,056 | 1,624,480 | 832,442 | 6,759,796 |
| Northern Technologies International Corporation's share of joint ventures' undistributed earnings | 17,779,912 | 10,593,151 | 759,658 | 812,442 | 5,614,661 |

| | Nine Months Ended May 31, 2016 | | | | |
|---|---|---|---|---|---|
| | Total | EXCOR | India | Finland | All Other |
| Net sales | $ 66,223,514 | $ 25,314,260 | $ 5,027,226 | $ 2,435,861 | $ 33,446,167 |
| Gross profit | 29,745,795 | 13,512,404 | 2,427,574 | 1,438,756 | 12,367,061 |
| Net income | 7,188,274 | 5,409,407 | 697,977 | 342,544 | 738,346 |
| Northern Technologies International Corporation's share of equity in income of joint ventures | 3,600,884 | 2,714,905 | 327,846 | 171,662 | 386,471 |
| Northern Technologies International Corporation's dividends received from joint ventures | $ 5,449,543 | $ 4,364,700 | $ 326,023 | $ 206,516 | 552,304 |

The Company did not make any joint venture investments during the nine months ended May 31, 2017 and 2016.

## 7. CHINA OPERATIONS

Effective December 31, 2014, the Company terminated its joint venture agreements with its previous joint venture in China, Tianjin Zerust, began the process of liquidating the joint venture entity, and commenced operations in China through a wholly-owned subsidiary, NTIC (Shanghai) Co. Ltd. on January 1, 2015. Effective December 31, 2014, the Company's investment in Tianjin Zerust was reported at carrying value based on the Company's decreased level of influence over the entity, and the Company has reclassified previously unrecognized gains on foreign currency translation from accumulated other comprehensive income. Since it began the process of liquidating the joint venture entity on December 31, 2014, the Company has not received any proceeds from the assets of Tianjin Zerust. In addition, the Company has not received financial information or cooperation from its joint venture partner in determining the investment value. During the fourth quarter of fiscal 2016, the Company obtained additional information regarding the financial position of the investment through the legal proceedings that have been ongoing (See Note 13). These circumstances resulted in the Company concluding an indication of impairment existed and that the fair value of the investment was $0 as of August 31, 2016 based on accounting principles generally accepted in the United States of America. See Note 13 regarding ongoing litigation involving Tianjin Zerust.

## 8. CORPORATE DEBT

The Company has a revolving line of credit with PNC Bank, National Association (PNC Bank) of $3,000,000. No amounts were outstanding under the line of credit as of both May 31, 2017 and August 31, 2016. At the option of the Company, outstanding advances under the line of credit bear interest at either (a) an annual rate based on LIBOR plus 2.15% for the applicable LIBOR interest period selected by the Company or (b) at the rate publicly announced by PNC Bank from time to time as its prime rate. Interest is payable in arrears (a) for the portion of advances bearing interest under the prime rate on the last day of each month during the term thereof and (b) for the portion of advances bearing interest under the LIBOR option on the last day of the respective LIBOR interest period selected for such advance. Any unpaid interest is payable on the maturity date. The revolving line of credit is secured by cash, receivables and inventory.

The revolving credit facility allows the Company to request that PNC Bank issue letters of credit up to $1,200,000. The Company did not have any letters of credit reserved against the available letters of credit balance as of May 31, 2017 and August 31, 2016 with PNC Bank. The availability of advances under the line of credit will be reduced by the face amount of any letter of credit issued and outstanding (whether or not drawn) under the revolving credit facility.

On January 11, 2017, the Company and PNC Bank extended the maturity date of the line of credit to January 7, 2018. All other terms of the line of credit and the loan agreement and other documents evidencing the line of credit remain the same.

As of May 31, 2017 and August 31, 2016, the Company had $75,201 and $71,599, respectively, of letters of credit with JP Morgan Chase Bank that are performance based and set to expire between 2020 and 2022.

## 9. STOCKHOLDERS' EQUITY

During the nine months ended May 31, 2017, the Company repurchased and retired 14,525 shares of its common stock at a price of $13.51 per share.

During the nine months ended May 31, 2017, stock options to purchase an aggregate of 4,000 shares of common stock at an exercise price of $10.25 per share were exercised.

During the nine months ended May 31, 2017, the Company granted stock options under the Northern Technologies International Corporation Amended and Restated 2007 Stock Incentive Plan (the 2007 Plan) to purchase an aggregate of 56,677 shares of its common stock to various employees and directors. The weighted average per share exercise price of the stock options was $13.40, which was equal to the fair market value of the Company's common stock on the date of grant.

During the nine months ended May 31, 2016, the Company repurchased and retired 7,511 shares of its common stock at a price of $12.98 per share.

During the nine months ended May 31, 2016, no stock options to purchase shares of common stock were exercised.

During the nine months ended May 31, 2016, the Company granted stock options under the 2007 Plan to purchase an aggregate of 53,447 shares of its common stock to various employees and directors. The weighted average per share exercise price of the stock options was $14.85, which is equal to the fair market value of the Company's common stock on the date of grant.

## 10. NET INCOME PER COMMON SHARE

Basic net income per common share is computed by dividing net income by the weighted average number of common shares outstanding. Diluted net income per share assumes the exercise of stock options using the treasury stock method, if dilutive.

The following is a reconciliation of the net income per share computation for the three and nine months ended May 31, 2017 and 2016:

| | Three Months Ended | | Nine Months Ended | |
|---|---|---|---|---|
| Numerators: | May 31, 2017 | May 31, 2016 | May 31, 2017 | May 31, 2016 |
| Net income attributable to NTIC | $ 1,352,416 | $ 917,373 | $ 2,037,021 | $ 575,233 |
| Denominators: | | | | |
| Basic – weighted shares outstanding | 4,526,771 | 4,538,970 | 4,528,523 | 4,538,005 |
| Weighted shares assumed upon exercise of stock options | 64,756 | 24,831 | 42,872 | 49,059 |
| Diluted – weighted shares outstanding | 4,591,527 | 4,563,801 | 4,571,395 | 4,587,064 |
| Basic income per share: | $ 0.30 | $ 0.20 | $ 0.45 | $ 0.13 |
| Diluted income per share: | $ 0.30 | $ 0.20 | $ 0.45 | $ 0.13 |

The dilutive impact summarized above relates to the periods when the average market price of the Company's common stock exceeded the exercise price of the potentially dilutive option securities granted. Earnings per common share were based on the weighted average number of common shares outstanding during the periods when computing the basic earnings per share. When dilutive, stock options are included as equivalents using the treasury stock market method when computing the diluted earnings per share. There were 271,791 options outstanding as of May 31, 2017, that were dilutive.

Excluded from the computation of diluted income per share for the three and nine months ended May 31, 2017 were options outstanding to purchase 48,067 shares of common stock. Excluded from the computation of diluted earnings per share for the three and nine months ended May 31, 2016 were options outstanding to purchase 170,887 shares of common stock.

## 11. STOCK-BASED COMPENSATION

The Company has two stock-based compensation plans under which stock options and other stock-based awards have been granted, the Northern Technologies International Corporation Amended and Restated 2007 Stock Incentive Plan and the Northern Technologies International Corporation Employee Stock Purchase Plan (the ESPP). The Compensation Committee of the Board of Directors and the Board of Directors administer these plans.

The 2007 Plan provides for the grant of incentive stock options, non-statutory stock options, stock appreciation rights, restricted stock, stock unit awards, performance awards and stock bonuses to eligible recipients to enable the Company and its subsidiaries to attract and retain qualified individuals through opportunities for equity participation in the Company, and to reward those individuals who contribute to the achievement of the Company's economic objectives. Subject to adjustment as provided in the 2007 Plan, up to a maximum of 800,000 shares of the Company's common stock are issuable under the 2007 Plan. Options granted under the 2007 Plan generally have a term of ten years and become exercisable over a three- or four-year period beginning on the one-year anniversary of the date of grant. Options are granted at per share exercise prices equal to the market value of the Company's common stock on the date of grant. The Company issues new shares upon the exercise of options. As of May 31, 2017, only stock options and stock bonuses had been granted under the 2007 Plan.

The maximum number of shares of common stock of the Company available for issuance under the ESPP is 100,000 shares, subject to adjustment as provided in the ESPP. The ESPP provides for six-month offering periods beginning on September 1 and March 1 of each year. The purchase price of the shares is 90% of the lower of the fair market value of common stock at the beginning or end of the offering period. This discount may not exceed the maximum discount rate permitted for plans of this type under Section 423 of the Internal Revenue Code of 1986, as amended. The ESPP is compensatory for financial reporting purposes.

The Company granted options to purchase an aggregate of 56,677 and 53,447 shares of its common stock during the nine months ended May 31, 2017 and 2016, respectively. The fair value of option grants is determined at date of grant, using the Black-Scholes option pricing model with the assumptions listed below. The Company recognized compensation expense of $293,748 and $325,576 during the nine months ended May 31, 2017 and 2016, respectively, related to the options that vested during such time period. As of May 31, 2017, the total compensation cost for non-vested options not yet recognized in the Company's consolidated statements of operations was $337,316, net of estimated forfeitures. Stock-based compensation expense of $97,916 is expected through the remainder of fiscal year 2017, and $159,600 and $79,800 is expected to be recognized during fiscal 2018 and fiscal 2019, respectively, based on outstanding options as of May 31, 2017. Future option grants will impact the compensation expense recognized. Stock-based compensation expense is included in general and administrative expense on the consolidated statements of operations.

The fair value of each option grant is estimated on the grant date using the Black-Scholes option-pricing model with the following assumptions and results for the grants:

| | **Nine Months Ended** | |
|---|---|---|
| | **May 31, 2017** | **May 31, 2016** |
| Dividend yield | 0.00% | 0.00% |
| Expected volatility | 46.4% | 46.0% |
| Expected life of option (in years) | 10 | 10 |
| Average risk-free interest rate | 1.63% | 1.63% |

The weighted average per share fair value of options granted during nine months ended May 31, 2017 and 2016 was $7.69 and $8.48, respectively. The weighted average remaining contractual life of the options outstanding as of May 31, 2017 and 2016 was 6.73 years and 6.71 years, respectively.

## 12. SEGMENT AND GEOGRAPHIC INFORMATION

*Segment Information*

The Company's chief operating decision maker (CODM) is its Chief Executive Officer. The Company's business is organized into two reportable segments: ZERUST® and Natur-Tec®. The Company has been selling its proprietary ZERUST® rust and corrosion inhibiting products and services to the automotive, electronics, electrical, mechanical, military and retail consumer markets for over 40 years, and more recently, has targeted and expanded into the oil and gas industry. The Company also sells a portfolio of bio-based and compostable (fully biodegradable) polymer resins and finished products under the Natur-Tec® brand.

The following table sets forth the Company's net sales for the three and nine months ended May 31, 2017 and 2016 by segment:

| | Three Months Ended | | Nine Months Ended | |
|---|---|---|---|---|
| | **May 31, 2017** | **May 31, 2016** | **May 31, 2017** | **May 31, 2016** |
| ZERUST® net sales | $ 8,368,487 | $ 7,185,955 | $ 23,681,192 | $ 19,548,974 |
| Natur-Tec® net sales | 1,854,532 | 1,500,620 | 4,986,753 | 3,866,972 |
| Total net sales | $ 10,223,019 | $ 8,686,575 | $ 28,667,945 | $ 23,415,946 |

The following table sets forth the Company's cost of goods sold for the three and nine months ended May 31, 2017 and 2016 by segment:

| | Three Months Ended | | | | Nine Months Ended | | | |
|---|---|---|---|---|---|---|---|---|
| | **May 31, 2017** | **% of Segment Sales*** | **May 31, 2016** | **% of Segment Sales*** | **May 31, 2017** | **% of Segment Sales*** | **May 31, 2016** | **% of Segment Sales*** |
| Direct cost of goods sold | | | | | | | | |
| ZERUST® | $4,834,355 | 57.8% | $4,028,114 | 56.1% | $13,788,416 | 58.2% | $10,968,742 | 56.1% |
| Natur-Tec® | 1,327,323 | 71.6% | 1,119,730 | 74.6% | 3,608,722 | 72.4% | 2,938,927 | 76.0% |
| Indirect cost of goods sold | 612,323 | — | 629,405 | — | 1,859,815 | — | 2,013,227 | — |
| Total net cost of goods sold | $6,774,001 | | $5,777,249 | | $19,256,953 | | $15,920,896 | |

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* The percent of segment sales is calculated by dividing the direct cost of goods sold for each individual segment category by the net sales for each segment category.

The Company utilizes product net sales and direct and indirect cost of goods sold for each product in reviewing the financial performance of a product type. Further allocation of Company expenses or assets, aside from amounts presented in the tables above, is not utilized in evaluating product performance, nor does such allocation occur for internal financial reporting.

*Geographic Information*

Net sales by geographic location for the three and nine months ended May 31, 2017 and 2016 were as follows:

| | Three Months Ended | | Nine Months Ended | |
|---|---|---|---|---|
| | May 31, 2017 | May 31, 2016 | May 31, 2017 | May 31, 2016 |
| Inside the U.S.A. to unaffiliated customers | $ 5,967,459 | $ 5,559,885 | $ 16,363,291 | $ 14,762,170 |
| Outside the U.S.A. to: | | | | |
| Joint ventures in which the Company is a shareholder directly and indirectly | 862,136 | 446,322 | 2,115,511 | 1,967,370 |
| Unaffiliated customers | 3,393,424 | 2,680,368 | 10,189,143 | 6,686,406 |
| | $ 10,223,019 | $ 8,686,575 | $ 28,667,945 | $ 23,415,946 |

Net sales by geographic location are based on the location of the customer. Fees for services provided to joint ventures by geographic location as a percentage of total fees for services provided to joint ventures during the three and nine months ended May 31, 2017 and 2016 were as follows:

| | Three Months Ended | | | |
|---|---|---|---|---|
| | May 31, 2017 | % of Total Fees for Services Provided to Joint Ventures | May 31, 2016 | % of Total Fees for Services Provided to Joint Ventures |
| Germany | $ 212,257 | 14.7% | $ 242,158 | 17.9% |
| Poland | 180,969 | 12.6% | 167,237 | 12.4% |
| Japan | 153,903 | 10.7% | 148,091 | 11.0% |
| Sweden | 150,139 | 10.4% | 66,239 | 4.9% |
| France | 112,455 | 7.8% | 87,588 | 6.5% |
| Thailand | 104,771 | 7.3% | 132,548 | 9.8% |
| Korea | 92,954 | 6.4% | 74,085 | 5.5% |
| India | 90,469 | 6.3% | 70,610 | 5.2% |
| United Kingdom | 87,768 | 6.1% | 135,068 | 10.0% |
| Finland | 78,012 | 5.4% | 55,876 | 4.1% |
| Czech Republic | 74,135 | 5.1% | 54,537 | 4.0% |
| Other | 104,216 | 7.2% | 117,876 | 8.7% |
| | $ 1,442,048 | 100.0% | $ 1,351,913 | 100.0% |

| | Nine Months Ended | | | |
|---|---|---|---|---|
| | May 31, 2017 | % of Total Fees for Services Provided to Joint Ventures | May 31, 2016 | % of Total Fees for Services Provided to Joint Ventures |
| Germany | $ 614,766 | 15.6% | $ 664,812 | 17.4% |
| Poland | 483,626 | 12.3% | 452,260 | 11.8% |
| Japan | 445,662 | 11.3% | 416,241 | 10.9% |
| Thailand | 339,852 | 8.6% | 395,611 | 10.4% |
| Sweden | 314,664 | 8.0% | 189,556 | 5.0% |
| France | 293,240 | 7.4% | 250,373 | 6.6% |
| Korea | 284,435 | 7.2% | 247,730 | 6.5% |
| India | 229,200 | 5.8% | 223,137 | 5.9% |
| United Kingdom | 227,140 | 5.8% | 292,216 | 7.7% |
| Finland | 221,294 | 5.6% | 177,704 | 4.7% |
| Czech Republic | 218,249 | 5.5% | 176,470 | 4.6% |
| Other | 269,539 | 6.9% | 322,274 | 8.5% |
| | $ 3,941,667 | 100.0% | $ 3,808,384 | 100.0% |

Sales to the Company's joint ventures are included in the foregoing segment and geographic information, however, sales by the Company's joint ventures to other parties are not included. The foregoing segment and geographic information represents only sales and cost of goods sold recognized directly by the Company.

The geographical distribution of key financial statement data is as follows:

| | At May 31, 2017 | At August 31, 2016 |
|---|---|---|
| Brazil | $ 56,246 | $ 66,938 |
| India | 13,634 | 13,645 |
| Germany | 13,687 | — |
| China | 231,114 | 253,931 |
| United States | 7,137,218 | 6,941,358 |
| Total long-lived assets | $ 7,451,899 | $ 7,275,872 |

| | Nine Months Ended | |
|---|---|---|
| | May 31, 2017 | May 31, 2016 |
| Brazil | $ 1,683,255 | $ 1,509,659 |
| India | 1,057,132 | 911,227 |
| Germany | 378,635 | — |
| China | 4,991,807 | 2,473,733 |
| United States | 20,557,116 | 18,521,327 |
| Total net sales | $ 28,667,945 | $ 23,415,946 |

Total long-lived assets located in Brazil, India, Germany and China primarily consist of property and equipment. These assets are periodically reviewed to assure the net realizable value from the estimated future production based on forecasted sales exceeds the carrying value of the assets. Total assets located in the United States include the Company's investments in joint ventures.

Sales to the Company's joint ventures are included in the foregoing segment and geographic information; however, sales by the Company's joint ventures to other parties are not included. The foregoing segment and geographic information represents only sales and cost of goods sold recognized directly by the Company.

All joint venture operations including equity in income, fees for services and related dividends are related to ZERUST® products and services.

**13. COMMITMENTS AND CONTINGENCIES**

On August 26, 2016, the Compensation Committee of the Board of Directors of the Company approved the material terms of an annual bonus plan for the Company's executive officers as well as certain officers and employees for the fiscal year ending August 31, 2017. For fiscal 2017 as in past years, the total amount available under the bonus plan for all plan participants, including executive officers, is dependent upon the Company's earnings before interest, taxes and other income, as adjusted to consider amounts to be paid under the bonus plan and certain other adjustments (Adjusted EBITOI). Each plan participant's percentage of the overall bonus pool is based upon the number of plan participants, the individual's annual base salary and the individual's position and level of responsibility within the company. In the case of each of the Company's executive officer participants, 75% of the amount of their individual bonus payout will be determined based upon the Company's actual Adjusted EBITOI for fiscal 2017 compared to a pre-established target Adjusted EBITOI for fiscal 2017 and 25% of the payout will be determined based upon such executive officer's achievement of certain pre-established individual performance objectives. The payment of bonuses under the plan are discretionary and may be paid to executive officer participants in both cash and shares of the Company's common stock, the exact amount and percentages will be determined by the Company's Board of Directors, upon recommendation of the Compensation Committee, after the completion of the Company's consolidated financial statements for fiscal 2017. There was $600,000 accrued for management bonuses for the nine months ended May 31, 2017 compared to an accrual of $215,000 for management bonuses for the nine months ended May 31, 2016.

Two joint ventures (consisting of the Company's joint ventures in Korea and India) accounted for 21.4% of the Company's trade joint venture receivables at May 31, 2017, and three joint ventures (consisting of the Company's joint ventures in Korea, India and Thailand) accounted for 55.8% of the Company's trade joint venture receivables as of August 31, 2016.

On March 23, 2015, the Company and NTI Asean LLC (NTI Asean) filed a lawsuit in Tianjin No 1 Intermediate People's Court against two individuals, Tao Meng and Xu Hui, related to breaches of duties and contractual commitments owed to NTI Asean under certain agreements related to the Company's former joint venture in China, Tianjin Zerust Anti-Corrosion Technologies Ltd. (Tianjin Zerust). The lawsuit alleges, among other things, that Mr. Tao Meng and Xu Hui have engaged in self-dealing, usurped business opportunities, and received economic benefits that were required to go to Tianjin Zerust. As of May 31, 2017, the Company is not able to reasonably estimate the amount of any recovery to NTI Asean, if any.

On April 21, 2015, the Company and NTI Asean initiated a lawsuit in the District Court for the Second Judicial District, County of Ramsey, State of Minnesota against Cortec Corporation alleging, among other things, that Cortec Corporation (Cortec) aided and abetted breaches of duties and contractual commitments owed to the Company and NTI Asean related to the Company's joint venture in China, Tianjin Zerust. After fully litigating the case through discovery and dispositive motion practice, on February 16, 2017, the Minnesota court denied both sides' motions for summary judgment and, *sua sponte*, dismissed without prejudice the Company's and NTI Asean's claims based on a non-exclusive forum-selection clause contained in a 2005 settlement agreement between the Company and Cortec Corporation. While the Company had strong arguments to appeal the Minnesota court's decision, an appeal would have meant a significant delay to the resolution of the dispute. On April 21, 2017, the Company re-filed the lawsuit in the United States District Court for the Northern District of Ohio. On May 15, 2017, Cortec filed an answer and counterclaim. The counterclaim was promptly dismissed by the Court. Cortec has agreed that all the discovery and information learned in the Minnesota case may be used in the Ohio case. The parties attended a Case Management Conference (CMC) on June 21, 2017. The Court set a deadline of September 4, 2017 to complete discovery and set the case for a jury trial on a two-week standby period beginning on September 18, 2017.

From time to time, the Company is subject to various other claims and legal actions in the ordinary course of its business. The Company records a liability in its consolidated financial statements for costs related to claims, including future legal costs, settlements and judgments, where the Company has assessed that a loss is probable and an amount can be reasonably estimated. If the reasonable estimate of a probable loss is a range, the Company records the most probable estimate of the loss or the minimum amount when no amount within the range is a better estimate than any other amount. The Company discloses a contingent liability even if the liability is not probable or the amount is not estimable, or both, if there is a reasonable possibility that material loss may be have been incurred. In the opinion of management, as of May 31, 2017, the amount of liability, if any, with respect to these matters, individually or in the aggregate, will not materially affect the Company's consolidated results of operations, financial position or cash flows.

## 14. FAIR VALUE MEASUREMENTS

Assets and liabilities that are measured at fair value on a recurring basis primarily relate to marketable equity securities. These items are marked-to-market at each reporting period.

The following tables provide information by level for assets and liabilities that are measured at fair value on a recurring basis:

| | Fair Value as of May 31, 2017 | Fair Value Measurements Using Inputs Considered as Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|
| Available for sale securities | $ 3,756,680 | $ 3,756,680 | $ — | $ — |

| | Fair Value as of August 31, 2016 | Fair Value Measurements Using Inputs Considered as Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|
| Available for sale securities | $ 2,243,864 | $ 2,243,864 | $ — | $ — |

There were no transfers between Level 1, Level 2, or Level 3 during the three and nine months ended May 31, 2017 and 2016.

## 15. SUPPLEMENTAL CASH FLOW INFORMATION

Supplemental disclosures of cash flow information consist of:

| | Three Months Ended May 31, 2017 | Three Months Ended May 31, 2016 |
|---|---|---|
| Cash paid for interest | $ 7,409 | $ 15,465 |
| Cash paid for income taxes | — | — |

| | Nine Months Ended May 31, 2017 | Nine Months Ended May 31, 2016 |
|---|---|---|
| Cash paid for interest | $ 15,502 | $ 30,987 |
| Cash paid for income taxes | — | — |

## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This Management's Discussion and Analysis provides material historical and prospective disclosures intended to enable investors and other users to assess NTIC's financial condition and results of operations. Statements that are not historical are forward-looking and involve risks and uncertainties discussed under the heading "*Part I. Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations—Forward-Looking Statements*" in this report and under "*Part 1. Item 1A. Risk Factors*" in our annual report on Form 10-K for the fiscal year ended August 31, 2016. The following discussion of the results of the operations and financial condition of NTIC should be read in conjunction with NTIC's consolidated financial statements and the related notes thereto included under the heading "*Part I. Item 1. Financial Statements*."

### Business Overview

NTIC develops and markets proprietary environmentally beneficial products and services in over 60 countries either directly or via a network of subsidiaries, joint ventures, independent distributors and agents. NTIC's primary business is corrosion prevention marketed mainly under the ZERUST® brand. NTIC has been selling its proprietary ZERUST® products and services to the automotive, electronics, electrical, mechanical, military and retail consumer markets for over 40 years, and in recent years, has targeted and expanded into the oil and gas industry. NTIC also markets and sells a portfolio of biobased and certified compostable (fully biodegradable) polymer resin compounds and finished products under the Natur-Tec® brand. These products are intended to reduce NTIC's customers' carbon footprint and provide environmentally sound waste disposal options.

NTIC's ZERUST® rust and corrosion inhibiting products include plastic and paper packaging, liquids and coatings, rust removers and cleaners, diffusers and engineered solutions designed specifically for the oil and gas industry. NTIC also offers worldwide on-site technical consulting for rust and corrosion prevention issues. NTIC's technical service consultants work directly with the end users of NTIC's ZERUST® rust and corrosion inhibiting products to analyze their specific needs and develop systems to meet their technical requirements. In North America, NTIC sells its ZERUST® corrosion prevention solutions through a network of independent distributors and agents supported by a direct sales force. Internationally, NTIC sells its ZERUST® corrosion prevention solutions through its wholly-owned subsidiary in China, NTIC (Shanghai) Co., Ltd. (NTIC China), its majority-owned joint venture holding company for NTIC's joint venture investments in the Association of Southeast Asian Nations (ASEAN) region, NTI Asean LLC (NTI Asean), its majority-owned subsidiary in Brazil, Zerust Prevenção de Corrosão S.A. (Zerust Brazil), and its wholly-owned subsidiary in Mexico, ZERUST-EXCOR MEXICO, S. de R.L. de C.V (Zerust Mexico), and joint venture arrangements in North America, Europe and Asia. NTIC also sells products directly to its joint venture partners through its wholly-owned subsidiary in Germany, NTIC Europe GmbH (NTI Europe).

One of NTIC's strategic initiatives is to expand into and penetrate other markets for its ZERUST® corrosion prevention solutions. Consequently, for the past several years, NTIC has focused significant sales and marketing efforts on the oil and gas industry, as the infrastructure that supports that industry is typically constructed using metals that are highly susceptible to corrosion. NTIC believes that its ZERUST® corrosion prevention solutions will minimize maintenance downtime on critical oil and gas industry infrastructure, extend the life of such infrastructure and reduce the risk of environmental pollution due to corrosion leaks.

NTIC markets and sells its ZERUST® rust and corrosion prevention solutions to customers in the oil and gas industry across several countries either directly, through its subsidiaries or through its joint venture partners and other strategic partners. The sale of ZERUST® corrosion prevention solutions to customers in the oil and gas industry typically involves a long sales cycle, often including a one- to multi-year trial period with each customer and a slow integration process thereafter.

Natur-Tec® biobased and compostable plastics are manufactured using NTIC's patented and/or proprietary technologies and are intended to replace conventional petroleum-based plastics. The Natur-Tec® biopolymer resin compound portfolio includes formulations that have been optimized for a variety of applications including blown-film extrusion, extrusion coating, injection molding, and engineered plastics. These resin compounds are certified to be fully biodegradable in a composting environment and are currently being used to produce finished products including can liners, shopping and grocery bags, lawn and leaf bags, pet waste collection bags, cutlery and coated paper products. In North America, NTIC markets its Natur-Tec® resin compounds and finished products primarily through a network of regional and national distributors as well as independent agents. NTIC continues to see significant opportunities for finished bioplastic products and, therefore, continues to strengthen and expand its North American distribution network for finished Natur-Tec® bioplastic products. Internationally, NTIC sells its Natur-Tec® resin compounds and finished products both directly and through its majority-owned subsidiary in India, Natur-Tec India Private Limited (Natur-Tec India), and through certain joint ventures.

**Termination of Chinese Joint Venture**

On January 2, 2015, NTIC announced that, effective as of December 31, 2014, it is selling its ZERUST® products and services in China through a wholly-owned subsidiary, NTIC (Shanghai) Co., Ltd., and has terminated its joint venture agreements with Tianjin-Zerust Anticorrosion Co., Ltd. (Tianjin Zerust). NTIC and NTI Asean have filed a lawsuit in China against Mr. Tao Meng, the former joint venture entity's other shareholder, and his spouse, seeking, among other things, an orderly liquidation of Tianjin Zerust.

NTIC indirectly has a 30% ownership interest in Tianjin Zerust through its 60% owned holding company subsidiary, NTI Asean.

NTIC expects that its operating results may continue to be volatile as a result of the stage of development of its Chinese operations.

**NTIC's Subsidiaries and Joint Venture Network**

NTIC has ownership interests in six subsidiaries in North America, Europe and Asia. The following table sets forth a list of NTIC's operating subsidiaries as of May 31, 2017, the country in which the subsidiary is organized and NTIC's ownership percentage in each subsidiary:

| Subsidiary Name | Country | NTIC Percent (%) Ownership |
|---|---|---|
| NTIC (Shanghai) Co., Ltd | China | 100% |
| NTI Asean LLC | United States | 60% |
| Zerust Prevenção de Corrosão S.A. | Brazil | 85% |
| ZERUST-EXCOR MEXICO, S. de R.L. de C.V | Mexico | 100% |
| Natur-Tec India Private Limited | India | 90% |
| NTIC Europe GmbH | Germany | 100% |

The results of these subsidiaries are fully consolidated in NTIC's consolidated financial statements.

NTIC participates in 20 active joint venture arrangements in North America, Europe and Asia. Each of these joint ventures generally manufactures and markets products in the geographic territory to which it is assigned. While most of NTIC's joint ventures exclusively sell rust and corrosion inhibiting products, some of the joint ventures also sell NTIC's Natur-Tec® resin compounds. NTIC has historically funded its investments in joint ventures with cash generated from operations.

NTIC's receipt of funds from its joint ventures is dependent upon fees for services that NTIC provides to its joint ventures, based primarily on the net sales of the individual joint ventures, and NTIC's receipt of dividend distributions from the joint ventures. The fees for services provided to joint ventures are determined based on either a flat fee or a percentage of sales depending on local laws and tax regulations. With respect to NTIC's joint venture in Germany (EXCOR), NTIC recognizes an agreed upon quarterly fee for such services. NTIC recognizes equity income from its joint ventures based on the overall profitability of its joint ventures. Such profitability is subject to variability from quarter to quarter which, in turn, subjects NTIC's earnings to variability from quarter to quarter. The profits of NTIC's joint ventures are shared by the respective joint venture owners in accordance with their respective ownership percentages. NTIC typically directly or indirectly owns 50% or less of each of its joint venture entities and thus does not control the decisions of these entities regarding whether to pay dividends and, if paid, how much they should be in a given year. The payment of a dividend by an entity is determined by a joint vote of the owners and is not at the sole discretion of NTIC.

NTIC accounts for the investments and financial results of its joint ventures in its financial statements utilizing the equity method of accounting.

NTIC considers EXCOR, India and Finland to be individually significant to NTIC's consolidated assets and income, and therefore, provides certain additional information regarding EXCOR, India and Finland in the notes to NTIC's consolidated financial statements and in this section of this report.

**Financial Overview**

NTIC's management, including its chief executive officer who is NTIC's chief operating decision maker, reports and manages NTIC's operations in two reportable business segments based on products sold, customer base and distribution center: ZERUST® products and services and Natur-Tec® products.

NTIC's consolidated net sales increased 17.7% and 22.4% during the three and nine months ended May 31, 2017, respectively, compared to the three and nine months ended May 31, 2016. These increases were primarily a result of an increase in sales of ZERUST® rust and corrosion inhibiting packaging products, sales to joint ventures and sales of Natur-Tec® products.

During the three and nine months ended May 31, 2017, 81.9% and 82.6% of NTIC's consolidated net sales, respectively, were derived from sales of ZERUST® products and services, which increased 16.5% and 21.1% to $8,368,487 and $23,681,192 during the three and nine months ended May 31, 2017, respectively, compared to $7,185,955 and $19,548,974 during the three and nine months ended May 31, 2016, respectively. These increases were due to higher sales from existing customers for new and existing products as a result of increased demand. NTIC has expanded its sales efforts of ZERUST® products and services by strategically targeting customers with specific corrosion issues in new market areas, including the oil and gas industry and other industrial sectors that offer sizable growth opportunities. NTIC's consolidated net sales for the nine months ended May 31, 2017 included $1,287,789 of sales made to customers in the oil and gas industry compared to $1,229,426 for the nine months ended May 31, 2016. Overall demand for ZERUST® products and services depends heavily on the overall health of the markets in which NTIC sells its products, including the automotive, oil and gas, agriculture, and mining markets in particular. In addition, we believe demand for ZERUST® products and services in the oil and gas industry may be dependent upon oil prices, with low oil prices causing existing or potential customers to delay purchases and installations.

During the three and nine months ended May 31, 2017, 18.1% and 17.4%, of NTIC's consolidated net sales were derived from sales of Natur-Tec® products compared to 17.3% and 16.5% during the three and nine months ended May 31, 2016, respectively. Net sales of Natur-Tec® products increased 23.6% and 29.0% during the three and nine months ended May 31, 2017 compared to the three and nine months ended May 31, 2016, respectively. These increases were primarily due to an increase in finished product sales in North America and finished product sales at NTIC's majority owned subsidiary in India, Natur-Tec India Private Limited (Natur-Tec India).

Cost of goods sold as a percentage of net sales decreased to 66.3% during the three months ended May 31, 2017 compared to 66.5% during the three months ended May 31, 2016 and decreased to 67.2% during the nine months ended May 31, 2017 compared to 68.0% during the prior fiscal year period. These decreases were primarily as a result of increased net sales and cost reductions realized on the raw materials associated with NTIC's ZERUST® industrial products.

NTIC's equity in income of joint ventures increased 1.3% and 20.6% to $1,686,016 and $4,343,159, respectively, during the three and nine months ended May 31, 2017 compared to $1,664,464 and $3,600,884 during the three and nine months ended May 31, 2016, respectively. These increases were primarily due to increases in profitability at the joint ventures. Total net sales of NTIC's joint ventures increased 7.1% and 10.4% to $25,935,169 and $73,098,215 during the three and nine months ended May 31, 2017, respectively, compared to $24,223,090 and $66,223,514 for the three and nine months ended May 31, 2016, respectively. These increases were due primarily to higher sales from existing customers for new and existing products as a result of increased demand.

NTIC's total operating expenses increased 7.5%, or $1,035,257, to $14,831,577 during the nine months ended May 31, 2017 compared to the nine months ended May 31, 2016. This increase was primarily due: (i) an increase in operating expenses at Zerust Brazil and NTIC China of $170,000 and $140,000, respectively, consisting primarily of selling and personnel expense associated with increased sales efforts in Brazil and China, respectively; (ii) an increase in legal expenses in North America related to the litigation against Cortec Corporation of $254,000; and (iii) an increase in NTIC's management bonus accrual of $385,000.

NTIC spent $2,118,210 and $3,349,572 of expense during the nine months ended May 31, 2017 and May 31, 2016, respectively, in connection with its research and development activities. NTIC anticipates that it will spend between $2,700,000 and $2,900,000 in fiscal 2017 on research and development activities. This anticipated significant decrease from fiscal 2016 is due to the transition of efforts from research and development to selling, general and administrative areas, specifically as they relate to Natur-Tec® products and the ZERUST® oil and gas business since most of the expenses related to these business units are no longer in the research and development phase of product development.

Net income attributable to NTIC was $1,352,416, or $0.30 per diluted common share, for the three months ended May 31, 2017 compared to $917,373, or $0.20 per diluted common share, for the three months ended May 31, 2016. Net income attributable to NTIC increased 254.1%, to $2,037,021, or $0.45 per diluted common share, for the nine months ended May 31, 2017 compared to $575,233 or $0.13 per diluted common share, for the nine months ended May 31, 2016. These increases were primarily the result of the increase in gross profit, partially offset by the increase in operating expenses.

NTIC anticipates that its quarterly net income or loss will continue to remain subject to significant volatility primarily due to the financial performance of its subsidiaries and joint ventures and sales of its ZERUST® products and services into the oil and gas industry and Natur-Tec® bioplastics products, which sales fluctuate more on a quarterly basis than the traditional ZERUST® business. NTIC also anticipates that its operating results during the next few quarters will be particularly volatile as a result of the changes in its Chinese operations.

NTIC's working capital was $19,853,912 at May 31, 2017, including $3,500,164 in cash and cash equivalents and $3,756,680 in available for sale securities, compared to $16,948,069 at August 31, 2016, including $3,395,274 in cash and cash equivalents and $2,243,864 in available for sale securities.

**Results of Operations**

The following tables set forth NTIC's results of operations for the three and nine months ended May 31, 2017 and 2016.

| | Three Months Ended | | | | | |
|---|---|---|---|---|---|---|
| | **May 31, 2017** | **% of Net Sales** | **May 31, 2016** | **% of Net Sales** | **$ Change** | **% Change** |
| Net sales, excluding joint ventures | $ 9,360,883 | 91.6% | $ 7,925,357 | 91.2% | $ 1,435,526 | 18.1% |
| Net sales, to joint ventures | 862,136 | 8.4% | 761,218 | 8.8% | 100,918 | 13.3% |
| Cost of goods sold | 6,774,001 | 66.3% | 5,777,249 | 66.5% | 996,752 | 17.3% |
| Equity in income of joint ventures | 1,686,016 | 16.5% | 1,664,464 | 19.2% | 21,552 | 1.3% |
| Fees for services provided to joint ventures | 1,442,048 | 14.1% | 1,351,913 | 15.6% | 90,135 | 6.7% |
| Selling expenses | 2,430,824 | 23.8% | 1,507,200 | 17.4% | 923,624 | 61.3% |
| General and administrative expenses | 1,682,669 | 16.5% | 1,957,868 | 22.5% | (275,199) | (14.1%) |
| Research and development expenses | 733,651 | 7.2% | 1,231,950 | 14.2% | (498,299) | (40.4%) |

| | Nine Months Ended | | | | | |
|---|---|---|---|---|---|---|
| | May 31, 2017 | % of Net Sales | May 31, 2016 | % of Net Sales | $ Change | % Change |
| Net sales, excluding joint ventures | $ 26,552,434 | 92.6% | $ 21,454,381 | 91.6% | $ 5,098,053 | 23.8% |
| Net sales, to joint ventures | 2,115,511 | 7.4% | 1,961,565 | 8.4% | 153,946 | 7.8% |
| Cost of goods sold | 19,256,953 | 67.2% | 15,920,896 | 68.0% | 3,336,057 | 21.0% |
| Equity in income of joint ventures | 4,343,159 | 15.1% | 3,600,884 | 15.4% | 742,275 | 20.6% |
| Fees for services provided to joint ventures | 3,941,667 | 13.7% | 3,808,384 | 16.3% | 133,283 | 3.5% |
| Selling expenses | 6,716,390 | 23.4% | 4,507,716 | 19.3% | 2,208,674 | 49.0% |
| General and administrative expenses | 5,996,977 | 20.9% | 5,939,032 | 25.4% | 57,945 | 1.0% |
| Research and development expenses | 2,118,210 | 7.4% | 3,349,572 | 14.3% | (1,231,362) | (36.8%) |

*Net Sales*. NTIC's consolidated net sales increased 17.7% and 22.4% to $10,223,019 and $28,667,945, respectively, during the three and nine months ended May 31, 2017 compared to the three and nine months ended May 31, 2016. NTIC's consolidated net sales excluding NTIC's joint ventures increased 18.1% and 23.8% to $9,360,883 and $26,552,434, respectively, during the three and nine months ended May 31, 2017 compared to the same respective prior fiscal year periods. These increases were primarily a result of increased demand from the addition of new customers in North America, at NTIC China and an increase in sales of our Natur-Tec® products. Net sales to joint ventures increased 13.3% and 7.8% to $862,136 and $2,115,511 during the three and nine months ended May 31, 2017, respectively, compared to the same respective prior fiscal year periods.

The following table sets forth NTIC's net sales for the three and nine months ended May 31, 2017 and 2016 by segment:

| | Three Months Ended | | Nine Months Ended | |
|---|---|---|---|---|
| | May 31, 2017 | May 31, 2016 | May 31, 2017 | May 31, 2016 |
| Total ZERUST® sales | $ 8,368,487 | $ 7,185,955 | $ 23,681,192 | $ 19,548,974 |
| Total Natur-Tec® sales | 1,854,532 | 1,500,620 | 4,986,753 | 3,866,972 |
| Total net sales | $ 10,223,019 | $ 8,686,575 | $ 28,667,945 | $ 23,415,946 |

During the three and nine months ended May 31, 2017, 81.9% and 82.6% of NTIC's consolidated net sales, respectively, were derived from sales of ZERUST® products and services, which increased 16.5% and 21.1% to $8,368,487 and $23,681,192 during the three and nine months ended May 31, 2017, respectively, compared to $7,185,955 and $19,548,974 during the three and nine months ended May 31, 2016, respectively. These increases were due to increased demand from existing customers and the addition of new customers. NTIC has strategically focused its sales efforts for ZERUST® products and services on customers with sizeable corrosion problems in industry sectors that offer sizable growth opportunities, including the oil and gas sector. Overall demand for ZERUST® products and services depends heavily on the overall health of the market segments to which NTIC sells its products, including the automotive, oil and gas, agriculture, and mining markets in particular. In addition, we believe demand for ZERUST® products and services in the oil and gas industry may be dependent upon oil prices, with low oil prices causing existing or potential customers to delay purchases and installations.

The following table sets forth NTIC's net sales of ZERUST® products for the three and nine months ended May 31, 2017 and 2016:

| | Three Months Ended | | | |
|---|---|---|---|---|
| | May 31, 2017 | May 31, 2016 | $ Change | % Change |
| ZERUST® industrial net sales | $ 7,170,802 | $ 5,912,881 | $ 1,257,921 | 21.3% |
| ZERUST® joint venture net sales | 862,136 | 761,218 | 100,918 | 13.3% |
| ZERUST® oil & gas net sales | 335,549 | 511,856 | (176,307) | (34.4%) |
| Total ZERUST® net sales | $ 8,368,487 | $ 7,185,955 | $ 1,182,532 | 16.5% |

| | Nine Months Ended | | | |
|---|---|---|---|---|
| | May 31, 2017 | May 31, 2016 | $ Change | % Change |
| ZERUST® industrial net sales | $ 20,277,892 | $ 16,357,983 | $ 3,919,909 | 24.0% |
| ZERUST® joint venture net sales | 2,115,511 | 1,961,565 | 153,946 | 7.8% |
| ZERUST® oil & gas net sales | 1,287,789 | 1,229,426 | 58,363 | 4.7% |
| Total ZERUST® net sales | $ 23,681,192 | $ 19,548,974 | $ 4,132,218 | 21.1% |

NTIC's net sales to the oil and gas industry sector decreased during the three months ended May 31, 2017 compared to the prior fiscal year period primarily as a result of volatility in that sector and the timing of projects. NTIC's net sales to the oil and gas industry sector increased during the nine months ended May 31, 2017 compared to the prior fiscal year period primarily as a result of increased sales to India as a result of increased demand. NTIC anticipates that its sales of ZERUST® products and services into the oil and gas industry will continue to remain subject to significant volatility from quarter to quarter as sales are recognized, specifically due to the volatility of oil prices.

During the three and nine months ended May 31, 2017, 18.1% and 17.4% of NTIC's consolidated net sales, respectively, were derived from sales of Natur-Tec® products, which increased 23.6% and 29.0% to $1,854,532 and $4,986,753 during the three and nine months ended May 31, 2017, respectively, compared to the three and nine months ended May 31, 2016. Such increases were due to the addition of new customers in North America and India as well as increased sales by existing distributors. Demand for Natur-Tec® products around the world depends primarily on market acceptance and the reach of NTIC's distribution network. Because of the typical size of individual orders and overall size of NTIC's net sales derived from sales of Natur-Tec® products, the timing of one or more orders can materially affect NTIC's quarterly sales of Natur-Tec® products and the comparisons to prior fiscal year quarters.

*Cost of Goods Sold*. Cost of goods sold increased 17.3% and 21.0% for the three and nine months ended May 31, 2017, respectively, compared to the three and nine months ended May 31, 2016. These increases were primarily as a result of the corresponding increased sales levels. Cost of goods sold as a percentage of net sales decreased to 66.3% during the three months ended May 31, 2017 compared to 66.5% during the three months ended May 31, 2016 and decreased to 67.2% during the nine months ended May 31, 2017 compared to 68.0% during the nine months ended May 31, 2016. These decreases were primarily as a result of increased net sales and cost reductions realized on the raw materials associated with NTIC's ZERUST® industrial products.

*Equity in Income of Joint Ventures.* NTIC's equity in income of joint ventures increased 1.3% and 20.6% to $1,686,016 and $4,343,159 during the three and nine months ended May 31, 2017, respectively, compared to equity in income of joint ventures of $1,664,464 and $3,600,884 during the three and nine months ended May 31, 2016, respectively. These increases were primarily a result of improved sales and profitability at the joint ventures. Of the total equity in income of joint ventures, NTIC had equity in income of joint ventures of $3,089,935 attributable to EXCOR during the nine months ended May 31, 2017 compared to $2,714,905 attributable to EXCOR during the nine months ended May 31, 2016. NTIC had equity in income of joint ventures of $384,712 attributable to India during the nine months ended May 31, 2017 compared to $347,846 attributable to India during the nine months ended May 31, 2016. NTIC had equity in income of joint ventures of $206,874 attributable to Finland during the nine months ended May 31, 2017 compared to $171,662 attributable to Finland during the nine months ended May 31, 2016. NTIC had equity in income of all other joint ventures of $661,638 during the nine months ended May 31, 2017 compared to $366,471 during the nine months ended May 31, 2016.

*Fees for Services Provided to Joint Ventures.* NTIC recognized fee income for services provided to joint ventures of $1,442,048 and $3,941,667 during the three and nine months ended May 31, 2017, respectively, compared to $1,351,913 and $3,808,384 during the three and nine months ended May 31, 2016, respectively, representing an increase of 6.7% and 3.5%, respectively. Fee income for services provided to joint ventures is traditionally a function of sales made by NTIC's joint ventures. Total net sales of NTIC's joint ventures increased to $25,935,169 and $73,098,215 during the three and nine months ended May 31, 2017, respectively, compared to $24,223,090 and $66,223,514 for the three and nine months ended May 31, 2016, respectively.

Net sales of NTIC's joint ventures are not included in NTIC's net sales in NTIC's consolidated financial statements or in any description of NTIC's net sales. Of the total fee income for services provided to joint ventures, fees of $614,766 were attributable to EXCOR during the nine months ended May 31, 2017 compared to $664,812 attributable to EXCOR during the nine months ended May 31, 2016. Fees of $229,200 were attributable to India during the nine months ended May 31, 2017 compared to $223,137 attributable to India during the nine months ended May 31, 2016. Fees of $221,294 were attributable to Finland during the nine months ended May 31, 2017 compared to $177,704 attributable to Finland during the nine months ended May 31, 2016.

*Selling Expenses*. NTIC's selling expenses increased 61.3% and 49.0% for the three and nine months ended May 31, 2017, respectively, compared to the same respective periods in fiscal 2016. These increases were due primarily to increases in operating expenses at Zerust Brazil and NTIC China, consisting primarily of selling and personnel expense associated with increased sales efforts, and the transition of expenses that were previously focused on research and development efforts, but now relate to selling, specifically as they relate to Natur-Tec® products and the ZERUST® oil and gas business, since most of the expenses related to these business units are no longer in the research and development phase of product development. Selling expenses as a percentage of net sales increased to 23.8% and 23.4% for the three and nine months ended May 31, 2017, respectively, from 17.4% and 19.3% and during the three and nine months ended May 31, 2016, respectively. The increases in selling expenses as a percentage of net sales were due primarily to the transition of expenses as noted above.

*General and Administrative Expenses*. NTIC's general and administrative expenses decreased 14.1% and increased 1.0% for the three and nine months ended May 31, 2017, respectively, compared to the same respective periods in fiscal 2016. The decrease for the three-month comparison was partially offset by and the increase for the nine-month comparison was primarily due to: (i) the transition of expenses that were previously focused on research and development efforts, but now relate to general and administrative focus, specifically as they relate to Natur-Tec® products and the ZERUST® oil and gas business, since most of the expenses related to these business units are no longer in the research and development phase of product development; and (ii) an increase in legal expenses in North America related to the litigation against Cortec Corporation, which increased $254,000 for the nine-month comparison. As a percentage of net sales, general and administrative expenses decreased to 16.5% and 20.9% for the three and nine months ended May 31, 2017, respectively, from 22.5% and 25.4% for the three and nine months ended May 31, 2016, respectively. The decreases in general and administrative expenses as a percentage of net sales for the three- and nine-month comparisons were due primarily to the increase in net sales and for the three-month comparison, the decrease in general and administrative expenses as previously described.

*Research and Development Expenses*. NTIC's research and development expenses decreased 40.4% for the three months ended May 31, 2017 compared to the same period in fiscal 2016 and decreased 36.8% for the nine months ended May 31, 2017 compared to the same period in fiscal 2016. These decreases were due primarily to the transition of resources that were previously devoted towards research and development to selling and general and administrative efforts, as previously described.

*Interest Income*. NTIC's interest income decreased to $10,996 and $19,075 during the three and nine months ended May 31, 2017, respectively, compared to $29,868 and $58,425 during the three and nine months ended May 31, 2016, respectively.

*Interest Expense*. NTIC's interest expense decreased to $7,409 during the three months ended May 31, 2017 compared to $15,465 during the three months ended May 31, 2016 and decreased to $15,502 during the nine months ended May 31, 2017 compared to $30,987 during the nine months ended May 31, 2016.

*Income Before Income Tax Expense*. NTIC incurred income before income tax expense of $1,733,525 and $2,867,814 during the three and nine months ended May 31, 2017, respectively, compared to $1,249,382 and $1,142,691 during the three and nine months ended May 31, 2016, respectively.

*Income Tax Expense*. Income tax expense was $237,801 and $480,423 during the three and nine months ended May 31, 2017, respectively, compared to income tax expense of $225,395 and $262,359 during the three and nine months ended May 31, 2016, respectively. Income tax expense was calculated based on management's estimate of NTIC's annual effective income tax rate.

NTIC considers the earnings of certain foreign joint ventures to be indefinitely invested outside the United States based on estimates that NTIC's future domestic cash generation will be sufficient to meet future domestic cash needs. Thus, U.S. income and foreign withholding taxes have not been recognized on the cumulative undistributed earnings of $16,829,258 and $17,779,912 at May 31, 2017 and August 31, 2016, respectively. To the extent undistributed earnings of NTIC's joint ventures are distributed in the future, they are not expected to result in any material additional income tax liability after the application of foreign tax credits.

*Other Comprehensive Income (Loss) - Foreign Currency Translations Adjustment.* The significant changes in the foreign currency translations adjustment was due to the strengthening of the U.S. dollar compared to the Euro and other foreign currencies during the three and nine months ended May 31, 2017 compared to the same respective periods in fiscal 2016.

**Liquidity and Capital Resources**

*Sources of Cash and Working Capital*. As of May 31, 2017, NTIC's working capital was $19,858,912, including $3,500,164 in cash and cash equivalents and $3,756,680 in available for sale securities, compared to $16,948,069 at August 31, 2016, including $3,395,274 in cash and cash equivalents and $2,243,864 in available for sale securities.

As of May 31, 2017, NTIC had a revolving line of credit with PNC Bank, National Association (PNC Bank) of $3,000,000, with no amounts outstanding. The line of credit is evidenced by an amended and restated committed line of credit note in the principal amount of up to $3,000,000. The line of credit has a $1,200,000 standby letter of credit sub-facility, with any standby letters of credit issued thereunder being at the sole discretion of PNC Bank. The line of credit is subject to standard covenants, including affirmative financial covenants, such as the maintenance of a minimum fixed charge coverage ratio, and negative covenants, which, among other things, limit the incurrence of additional indebtedness, loans and equity investments, disposition of assets, mergers and consolidations and other matters customarily restricted in such agreements. Under the loan agreement, NTIC is subject to a minimum fixed charge coverage ratio of 1.10:1.00. As of May 31, 2017, NTIC was in compliance with all debt covenants.

On January 11, 2017, NTIC and PNC Bank extended the maturity date of the line of credit retroactively from January 7, 2017 to January 7, 2018. All other terms of the line of credit and the loan agreement and other documents evidencing the line of credit remain the same. It is anticipated that, as historically has been the practice, the line of credit will be renewed each year for one additional year for the immediate foreseeable future.

NTIC believes that a combination of its existing cash and cash equivalents, forecasted cash flows from future operations, anticipated distributions of earnings, anticipated fees to NTIC for services provided to its joint ventures, and funds available through existing or anticipated financing arrangements, will be adequate to fund its existing operations, investments in new or existing joint ventures or subsidiaries, capital expenditures, debt repayments and any stock repurchases for at least the next 12 months. During the remainder of fiscal 2017, NTIC expects to continue to invest in NTIC China, research and development and in marketing efforts and resources into the application of its corrosion prevention technology into the oil and gas industry and its Natur-Tec® bioplastics business. To take advantage of such new product and market opportunities to expand its business and increase its revenues, NTIC may decide to finance such opportunities by borrowing under its revolving line of credit or raising additional financing through the issuance of debt or equity securities. There is no assurance that any financing transaction will be available on terms acceptable to NTIC or at all, or that any financing transaction will not be dilutive to NTIC's current stockholders.

NTIC traditionally has used the cash generated from its operations, distributions of earnings and fees for services provided to its joint ventures to fund NTIC's new technology investments and capital contributions to new and existing joint ventures. NTIC's joint ventures traditionally have operated with little or no debt and have been self-financed with minimal initial capital investment and minimal additional capital investment from their respective owners. Therefore, NTIC believes it is not likely that there exists any exposure to debt by NTIC's joint ventures that could materially impact their respective operations and/or liquidity.

*Uses of Cash and Cash Flows*. Net cash provided by operating activities during the nine months ended May 31, 2017 was $2,826,166, which resulted principally from dividends received from joint ventures, net income, an increase in accounts payable and depreciation and amortization, partially offset by NTIC's equity in income from joint ventures and an increase in trade receivables. Net cash provided by operating activities during the nine months ended May 31, 2016 was $3,053,297, which resulted principally from dividends received from NTIC's joint ventures, net income, the expensing of fair value of stock options vested, depreciation and amortization expense, and an increase in accounts payable, partially offset by equity income from NTIC's joint ventures, and a decrease in trade receivables and accrued liabilities.

NTIC's cash flows from operations are impacted by significant changes in certain components of NTIC's working capital, including inventory turnover and changes in receivables. NTIC considers internal and external factors when assessing the use of its available working capital, specifically when determining inventory levels and credit terms of customers. Key internal factors include existing inventory levels, stock reorder points, customer forecasts and customer requested payment terms, and key external factors include the availability of primary raw materials and sub-contractor production lead times. NTIC's typical contractual terms for trade receivables excluding joint ventures are traditionally 30 days and for trade receivables from its joint ventures are 90 days. Before extending unsecured credit to customers, excluding NTIC's joint ventures, NTIC reviews customers' credit histories and will establish an allowance for uncollectible accounts based upon factors surrounding the credit risk of specific customers and other information. Accounts receivable over 30 days are considered past due for most customers. NTIC does not accrue interest on past due accounts receivable. If accounts receivables in excess of the provided allowance are determined uncollectible, they are charged to selling expense in the period that determination is made. Accounts receivable are deemed uncollectible based on NTIC exhausting reasonable efforts to collect. NTIC's typical contractual terms for receivables for services provided to its joint ventures are 90 days. NTIC records receivables for services provided to its joint ventures on an accrual basis, unless circumstances exist that make the collection of the balance uncertain in which case the fee income will be recorded on a cash basis until there is consistency in payments. This determination is handled on a case by case basis.

NTIC experienced an increase in trade receivables and inventory as of May 31, 2017 compared to August 31, 2016. Trade receivables excluding joint ventures as of May 31, 2017 increased $1,434,776 compared to August 31, 2016, primarily related to the timing of collections and the increase in sales. Outstanding trade receivables excluding joint ventures balances as of May 31, 2017 increased 11 days to an average of 61 days from balances outstanding from these customers as of August 31, 2016. Outstanding trade receivables from joint ventures as of May 31, 2017 increased $503,863 compared to August 31, 2016 primarily due to the timing of payments. Outstanding balances from trade receivables from joint ventures increased as of May 31, 2017 by an average of 42 days from an average of 96 days from balances outstanding from these customers compared to August 31, 2016. The significant average days outstanding of trade receivables from joint ventures as of May 31, 2017 were primarily due to the receivables balances at NTIC's joint venture in South Korea.

Outstanding receivables for services provided to joint ventures as of May 31, 2017 decreased $181,610 compared to August 31, 2016, which resulted in a decrease of 19 days of fees receivable outstanding as of May 31, 2017 to an average of 78 days compared to August 31, 2016.

Net cash used in investing activities for the nine months ended May 31, 2017 was $2,398,443, which was primarily the result of cash used in the purchase of available for sale securities, additions to property and equipment, and additions to patents. Net cash used in investing activities for the nine months ended May 31, 2016 was $794,668, which was primarily the result of additions to property and equipment, cash used in the purchase of available for sale securities, and additions to patents.

Net cash used in financing activities for the nine months ended May 31, 2017 was $308,689, which resulted from a dividend paid to a non-controlling interest and the repurchase of common stock, partially offset by proceeds from NTIC's employee stock purchase plan and stock option exercises. Net cash used in financing activities for the nine months ended May 31, 2016 was $228,817, which resulted from a dividend paid to a non-controlling interest and the repurchase of common stock, partially offset by proceeds from NTIC's employee stock purchase plan.

*Share Repurchase Plan*. On January 15, 2015, NTIC's Board of Directors authorized the repurchase of up to $3,000,000 in shares of NTIC common stock through open market purchases or unsolicited or solicited privately negotiated transactions. This program has no expiration date but may be terminated by NTIC's Board of Directors at any time. As of May 31, 2017, up to $2,640,603 in shares of NTIC common stock remained available for repurchase under NTIC's stock repurchase program.

*Capital Expenditures and Commitments*. NTIC spent $760,847 on capital expenditures during the nine months ended May 31, 2017 and expects to spend an aggregate of approximately $800,000 to $900,000 on capital expenditures during fiscal 2017, which it expects will relate primarily to the purchase of new equipment.

**Contractual Obligations**

There has been no material change to NTIC's contractual obligations as provided in "*Part II. Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations—Contractual Obligations*," included in NTIC's annual report on Form 10-K for the fiscal year ended August 31, 2016.

**Off-Balance Sheet Arrangements**

NTIC does not have any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, which would have been established for the purpose of facilitating off-balance sheet financial arrangements. As such, NTIC is not materially exposed to any financing, liquidity, market or credit risk that could arise if NTIC had engaged in such arrangements.

**Inflation and Seasonality**

Inflation in the United States and abroad historically has had little effect on NTIC. Although NTIC's business historically has not been seasonal, NTIC believes there is now some seasonality in its business. NTIC believes that its net sales in second fiscal quarter were adversely affected by the long Chinese New Year, the North American holiday season and overall less corrosion taking place at lower winter temperatures worldwide.

**Market Risk**

NTIC is exposed to some market risk stemming from changes in foreign currency exchange rates, commodity prices and interest rates.

Because the functional currency of NTIC's foreign operations and investments in its foreign joint ventures is the applicable local currency, NTIC is exposed to foreign currency exchange rate risk arising from transactions in the normal course of business. NTIC's principal exchange rate exposure is with the Euro, the Japanese yen, Indian Rupee, Chinese Renminbi, South Korean won and the English pound against the U.S. dollar. NTIC's fees for services provided to joint ventures and dividend distributions from these foreign entities are paid in foreign currencies and thus fluctuations in foreign currency exchange rates could result in declines in NTIC's reported net income. Since NTIC's investments in its joint ventures are accounted for using the equity method, any changes in foreign currency exchange rates would be reflected as a foreign currency translation adjustment and would not change NTIC's equity in income of joint ventures reflected in its consolidated statements of income. NTIC does not hedge against its foreign currency exchange rate risk.

Some raw materials used in NTIC's products are exposed to commodity price changes. The primary commodity price exposures are with a variety of plastic resins.

At the option of NTIC, outstanding advances under NTIC's $3,000,000 revolving line of credit with PNC Bank bear interest at either (a) an annual rate based on LIBOR plus 2.15% for the applicable LIBOR interest period selected by NTIC or (b) at the rate publicly announced by PNC Bank from time to time as its prime rate, and thus may subject NTIC to some market risk on interest rates. As of May 31, 2017, NTIC had no borrowings under the line of credit.

**Critical Accounting Policies and Estimates**

There have been no material changes to NTIC's critical accounting policies and estimates from the information provided in "*Part II. Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Policies*," included in NTIC's annual report on Form 10-K for the fiscal year ended August 31, 2016.

**Recent Accounting Pronouncements**

See Note 2 to NTIC's consolidated financial statements for a discussion of recent accounting pronouncements.

**Forward-Looking Statements**

This quarterly report on Form 10-Q contains not only historical information, but also forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, and are subject to the safe harbor created by those sections. In addition, NTIC or others on NTIC's behalf may make forward-looking statements from time to time in oral presentations, including telephone conferences and/or web casts open to the public, in press releases or reports, on NTIC's Internet web site or otherwise. All statements other than statements of historical facts included in this report or expressed by NTIC orally from time to time that address activities, events or developments that NTIC expects, believes or anticipates will or may occur in the future are forward-looking statements including, in particular, the statements about NTIC's plans, objectives, strategies and prospects regarding, among other things, NTIC's financial condition, results of operations and business, the outcome of contingencies such as legal proceedings and the effect of the liquidation of Tianjin Zerust and the operations of NTIC China. NTIC has identified some of these forward-looking statements in this report with words like "believe," "can," "may," "could," "would," "might," "forecast," "possible," "potential," "project," "will," "should," "expect," "intend," "plan," "predict," "anticipate," "estimate," "approximate," "outlook" or "continue" or the negative of these words or other words and terms of similar meaning. The use of future dates is also an indication of a forward-looking statement. Forward-looking statements may be contained in the notes to NTIC's consolidated financial statements and elsewhere in this report, including under the heading "Management's Discussion and Analysis of Financial Condition and Results of Operations."

Forward-looking statements are based on current expectations about future events affecting NTIC and are subject to uncertainties and factors that affect all businesses operating in a global market as well as matters specific to NTIC. These uncertainties and factors are difficult to predict and many of them are beyond NTIC's control. The following are some of the uncertainties and factors known to us that could cause NTIC's actual results to differ materially from what NTIC has anticipated in its forward-looking statements:

- NTIC's operations in China, the termination of the joint venture agreements with Tianjin Zerust, and the anticipated liquidation of Tianjin Zerust and the effect of these events on NTIC's business and future operating results;
- NTIC's ongoing litigation against Mr. Tao Meng, its former joint venture partner, and NTIC's ongoing litigation against Cortec Corporation, and the effect of these legal matters and the expense associated therewith on NTIC's business and future operating results;
- The effect of current worldwide economic conditions and any turmoil and disruption in the global credit and financial markets on NTIC's business;
- The variability in NTIC's sales of ZERUST® products and services into oil and gas industry and Natur-Tec® products and NTIC's equity income of joint ventures, which variability in sales and equity in income of joint venture in turn, subject NTIC's earnings to quarterly fluctuations;
- Risks associated with NTIC's international operations and exposure to fluctuations in foreign currency exchange rates and import duties and taxes;
- The effect of the referendum vote of the United Kingdom to exit the European Union on NTIC's operating results, including in particular future net sales of NTIC's European and other joint ventures;
- The health of the U.S. automotive industry on NTIC's business;
- NTIC's dependence on the success of its joint ventures and fees and dividend distributions that NTIC receives from them;
- NTIC's relationships with its joint ventures and its ability to maintain those relationships, especially in light of anticipated succession planning issues;
- Fluctuations in the cost and availability of raw materials, including resins and other commodities;
- The success of and risks associated with NTIC's emerging new businesses and products and services, including in particular NTIC's ability and the ability of NTIC's joint ventures to sell ZERUST® products and services into oil and gas industry and Natur-Tec® products and the often lengthy and extensive sales process involved in selling such products and services;

- NTIC's ability to introduce new products and services that respond to changing market conditions and customer demand;
- Market acceptance of NTIC's existing and new products, especially in light of existing and new competitive products;
- Maturation of certain existing markets for NTIC's ZERUST® products and services and NTIC's ability to grow market share and succeed in penetrating other existing and new markets;
- Increased competition, especially with respect to NTIC's ZERUST® products and services, and the effect of such competition on NTIC's and its joint ventures' pricing, net sales and margins;
- NTIC's reliance upon and its relationships with its distributors, independent sales representatives and joint ventures;
- NTIC's reliance upon suppliers;
- Oil prices, which may affect sales of NTIC's ZERUST® products and services into the oil and gas industry;
- The costs and effects of complying with laws and regulations and changes in tax, fiscal, government and other regulatory policies, including rules relating to environmental, health and safety matters;
- Unforeseen product quality or other problems in the development, production and usage of new and existing products;
- Unforeseen production expenses incurred in connection with new customers and new products;
- Loss of or changes in executive management or key employees;
- Ability of management to manage around unplanned events;
- Pending and future litigation;
- NTIC's reliance on its intellectual property rights and the absence of infringement of the intellectual property rights of others;
- NTIC's ability to maintain effective internal control over financial reporting, especially in light of its joint venture arrangements;
- Changes in applicable laws or regulations and NTIC's failure to comply with applicable laws, rules and regulations;
- Changes in generally accepted accounting principles and the effect of new accounting pronouncements;
- Fluctuations in NTIC's effective tax rate; and
- NTIC's reliance upon its management information systems.

For more information regarding these and other uncertainties and factors that could cause NTIC's actual results to differ materially from what NTIC has anticipated in its forward-looking statements or otherwise could materially adversely affect its business, financial condition or operating results, see NTIC's annual report on Form 10-K for the fiscal year ended August 31, 2016 under the heading "*Part I. Item 1A. Risk Factors*."

All forward-looking statements included in this report are expressly qualified in their entirety by the foregoing cautionary statements. NTIC wishes to caution readers not to place undue reliance on any forward-looking statement that speaks only as of the date made and to recognize that forward-looking statements are predictions of future results, which may not occur as anticipated. Actual results could differ materially from those anticipated in the forward-looking statements and from historical results, due to the uncertainties and factors described above, as well as others that NTIC may consider immaterial or does not anticipate at this time. Although NTIC believes that the expectations reflected in its forward-looking statements are reasonable, NTIC does not know whether its expectations will prove correct. NTIC's expectations reflected in its forward-looking statements can be affected by inaccurate assumptions NTIC might make or by known or unknown uncertainties and factors, including those described above. The risks and uncertainties described above are not exclusive and further information concerning NTIC and its business, including factors that potentially could materially affect its financial results or condition, may emerge from time to time. NTIC assumes no obligation to update, amend or clarify forward-looking statements to reflect actual results or changes in factors or assumptions affecting such forward-looking statements. NTIC advises you, however, to consult any further disclosures NTIC makes on related subjects in its annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K NTIC files with or furnishes to the Securities and Exchange Commission.

**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

NTIC is exposed to some market risk stemming from changes in foreign currency exchange rates, commodity prices and interest rates.

Because the functional currency of NTIC's foreign operations and investments in its foreign joint ventures is the applicable local currency, NTIC is exposed to foreign currency exchange rate risk arising from transactions in the normal course of business. NTIC's principal exchange rate exposure is with the Euro, the Japanese yen, Indian Rupee, Chinese Renminbi, South Korean won and the English pound against the U.S. dollar. NTIC's fees for services provided to joint ventures and dividend distributions from these foreign entities are paid in foreign currencies and thus fluctuations in foreign currency exchange rates could result in declines in NTIC's reported net income. Since NTIC's investments in its joint ventures are accounted for using the equity method, any changes in foreign currency exchange rates would be reflected as a foreign currency translation adjustment and would not change NTIC's equity in income of joint ventures reflected in its consolidated statements of income. NTIC does not hedge against its foreign currency exchange rate risk.

Some raw materials used in NTIC's products are exposed to commodity price changes. The primary commodity price exposures are with a variety of plastic resins.

At the option of NTIC, outstanding advances under NTIC's $3,000,000 revolving line of credit with PNC Bank bear interest at either (a) an annual rate based on LIBOR plus 2.15% for the applicable LIBOR interest period selected by NTIC or (b) at the rate publicly announced by PNC Bank from time to time as its prime rate, and thus may subject NTIC to some market risk on interest rates. As of May 31, 2017, NTIC had no borrowings under the line of credit.

**ITEM 4. CONTROLS AND PROCEDURES**

**Evaluation of Disclosure Controls and Procedures**

NTIC maintains disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended) that are designed to provide reasonable assurance that information required to be disclosed by NTIC in the reports it files or submits under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission's rules and forms and that such information is accumulated and communicated to NTIC's management, including NTIC's principal executive officer and principal financial officer, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure. NTIC's management evaluated, with the participation of its Chief Executive Officer and its Chief Financial Officer, the effectiveness of the design and operation of NTIC's disclosure controls and procedures as of the end of the period covered in this report. Based on that evaluation, NTIC's Chief Executive Officer and Chief Financial Officer concluded that NTIC's disclosure controls and procedures were effective as of the end of such period to provide reasonable assurance that information required to be disclosed in the reports that NTIC files or submits under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and that such information is accumulated and communicated to NTIC's management, including NTIC's Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

**Changes in Internal Control over Financial Reporting**

There was no change in NTIC's internal control over financial reporting that occurred during the quarter ended May 31, 2017 that has materially affected, or is reasonably likely to materially affect NTIC's internal control over financial reporting.

**PART II OTHER INFORMATION**

**ITEM 1. LEGAL PROCEEDINGS**

On March 23, 2015, NTIC and NTI Asean LLC, a majority-owned subsidiary of NTIC, filed a lawsuit in Tianjin No 1 Intermediate People's Court against two individuals, Tao Meng and Xu Hui, related to breaches of duties and contractual commitments owed to NTI Asean under certain agreements related to NTIC's former joint venture in China, Tianjin Zerust Anti-Corrosion Technologies Ltd. The lawsuit alleges, among other things, that Mr. Tao Meng and Xu Hui have engaged in self-dealing, usurped business opportunities, and received economic benefits that were required to go to Tianjin Zerust. At this point it is too early in the lawsuit to reasonably estimate the amount of any recovery to NTI Asean.

On April 21, 2015, NTIC and NTI Asean initiated a lawsuit in the District Court for the Second Judicial District, County of Ramsey, State of Minnesota against Cortec Corporation alleging, among other things, that Cortec Corporation (Cortec) aided and abetted breaches of duties and contractual commitments owed to NTIC and NTI Asean related to NTIC's joint venture in China, Tianjin Zerust. After fully litigating the case through discovery and dispositive motion practice, on February 16, 2017, the Minnesota court denied both sides' motions for summary judgment and, *sua sponte*, dismissed without prejudice NTIC's and NTI Asean's claims based on a non-exclusive forum-selection clause contained in a 2005 settlement agreement between NTIC and Cortec Corporation. While NTIC had strong arguments to appeal the Minnesota court's decision, an appeal would have meant a significant delay to the resolution of the dispute. On April 21, 2017, NTIC re-filed the lawsuit in the United States District Court for the Northern District of Ohio. On May 15, 2017, Cortec filed an answer and counterclaim. The counterclaim was promptly dismissed by the Court. Cortec has agreed that all the discovery and information learned in the Minnesota case may be used in the Ohio case. The parties attended a Case Management Conference (CMC) on June 21, 2017. The Court set a deadline of September 4, 2017 to complete discovery and set the case for a jury trial on a two-week standby period beginning on September 18, 2017.

**ITEM 1A. RISK FACTORS**

This Item 1A is inapplicable to NTIC as a smaller reporting company.

**ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

**Recent Sales of Unregistered Equity Securities**

During the three months ended May 31, 2017, NTIC did not issue any shares of its common stock or other equity securities of NTIC that were not registered under the Securities Act of 1933, as amended.

**Issuer Purchases of Equity Securities**

The following table shows NTIC's stock repurchase activity during the three months ended May 31, 2017.

| Period | Total Number of Shares (or Units) Purchased | Average Price Paid Per Share (or Unit) | Total Number of Shares (or Units) Purchased As Part of Publicly Announced Plans or Programs | Maximum Number of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs |
|---|---|---|---|---|
| March 1, 2017 through March 31, 2017 | 0 | N/A | 0 | (1) |
| April 1, 2017 through April 30, 2017 | 800 | $15.60 | 800 | (1)(2) |
| May 1, 2017 through May 31, 2017 | 2,250 | $15.90 | 2,250 | (1)(2) |
| Total | 3,050 | $15.74 | 3,050 | (1)(2) |

(1) On January 15, 2015, NTIC's Board of Directors authorized the repurchase of up to $3,000,000 in shares of NTIC common stock through open market purchases or unsolicited or solicited privately negotiated transactions. This program has no expiration date but may be terminated by NTIC's Board of Directors at any time.

(2) As of May 31, 2017, up to $2,640,603 in shares of NTIC common stock remained available for repurchase under NTIC's stock repurchase program.

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

Not applicable.

**ITEM 4. MINE SAFETY DISCLOSURES**

Not applicable.

**ITEM 5. OTHER INFORMATION**

Not applicable.

**ITEM 6. EXHIBITS**

The following exhibits are being filed or furnished with this quarterly report on Form 10-Q:

| Exhibit No. | Description |
|---|---|
| 31.1 | Certification of Chief Executive Officer Pursuant to Exchange Act Rules 13a-14(a)/15d-14(a), as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith) |
| 31.2 | Certification of Chief Financial Officer Pursuant to Exchange Act Rules 13a-14(a)/15d-14(a), as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith) |
| 32.1 | Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith) |
| 32.2 | Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith) |
| 101 | The following materials from NTIC's Quarterly Report on Form 10-Q for the fiscal quarter ended May 31, 2017, formatted in XBRL (Extensible Business Reporting Language): (i) the unaudited Consolidated Balance Sheets, (ii) the unaudited Consolidated Statements of Operations, (iii) the unaudited Consolidated Statements of Comprehensive Income, (iv) the unaudited Consolidated Statements of Cash Flows, and (v) Notes to Consolidated Financial Statements (filed herewith) |

## SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

**NORTHERN TECHNOLOGIES INTERNATIONAL CORPORATION**

Date: July 14, 2017

Matthew C. Wolsfeld, CPA
Chief Financial Officer
(Principal Financial and Accounting Officer and
Duly Authorized to Sign on Behalf of the Registrant)

**NORTHERN TECHNOLOGIES INTERNATIONAL CORPORATION**
**QUARTERLY REPORT ON FORM 10-Q**

**EXHIBIT INDEX**

| Exhibit No. | Description | Method of Filing |
|---|---|---|
| 31.1 | Certification of Chief Executive Officer Pursuant to Exchange Act Rules 13a-14(a)/15d-14(a), as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 | Filed herewith |
| 31.2 | Certification of Chief Financial Officer Pursuant to Exchange Act Rules 13a-14(a)/15d-14(a), as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 | Filed herewith |
| 32.1 | Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 | Furnished herewith |
| 32.2 | Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 | Furnished herewith |
| 101 | The following materials from Northern Technologies International Corporation's Quarterly Report on Form 10-Q for the fiscal quarter ended May 31, 2017, formatted in XBRL (Extensible Business Reporting Language): (i) the unaudited Consolidated Balance Sheets, (ii) the unaudited Consolidated Statements of Operations, (iii) the unaudited Consolidated Statements of Comprehensive Income, (iv) the unaudited Consolidated Statements of Cash Flows, and (v) Notes to Consolidated Financial Statements | Filed herewith |

**Exhibit 31.1**

**CERTIFICATION PURSUANT TO SECTION 302(a) OF THE SARBANES-OXLEY ACT OF 2002**

I, G. Patrick Lynch, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Northern Technologies International Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant’s other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant’s other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: July 14, 2017

G. Patrick Lynch
President and Chief Executive Officer
(principal executive officer)

**Exhibit 31.2**

**CERTIFICATION PURSUANT TO SECTION 302(a) OF THE SARBANES-OXLEY ACT OF 2002**

I, Matthew C. Wolsfeld, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Northern Technologies International Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: July 14, 2017

Matthew C. Wolsfeld, CPA
Chief Financial Officer and Corporate Secretary
(principal financial officer)

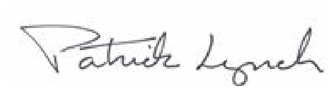
**Exhibit 32.1**

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Northern Technologies International Corporation (the “Company”) on Form 10-Q for the period ended May 31, 2017 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, G. Patrick Lynch, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge and belief:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.



G. Patrick. Lynch
President and Chief Executive Officer
(principal executive officer)

Circle Pines, Minnesota
July 14, 2017

**Exhibit 32.2**

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Northern Technologies International Corporation (the “Company”) on Form 10-Q for the period ended May 31, 2017 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Matthew C. Wolsfeld, Chief Financial Officer and Corporate Secretary of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge and belief:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Matthew C. Wolsfeld, CPA
Chief Financial Officer and Corporate Secretary
(principal financial officer and principal accounting officer)