

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

**FORM 10-KSB**

(Mark one)

ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended August 31, 2006

TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_.

Commission file number 1-11038

**NORTHERN TECHNOLOGIES INTERNATIONAL  
CORPORATION**

(Name of small business issuer in its charter)

**Delaware**  
(State or other jurisdiction of incorporation or organization)

**41-0857886**  
(I.R.S. Employer Identification No.)

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

**55014**  
(Zip Code)

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

**Securities registered under Section 12(b) of the Exchange Act:**

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, par value \$0.02 per share	The American Stock Exchange

**Securities registered under Section 12(g) of the Exchange Act:**

None

Check 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

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B contained herein, and no disclosure will be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this report or any amendment to this report.

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2) of the Exchange Act).

Yes  No

The Registrant's revenues for the fiscal year ended August 31, 2006 were \$16,604,964.

As of November 17, 2006, 3,656,238 shares of common stock of the Registrant were outstanding, and the aggregate market value of the common stock of the Registrant as of that date (based upon the \$8.01 per share closing sale price of the Common Stock on that date as reported on the American Stock Exchange), excluding 1,088,155 outstanding shares beneficially owned by directors and executive officers, was \$20,570,345.

**DOCUMENTS INCORPORATED BY REFERENCE**

Part III of this Annual Report on Form 10-KSB incorporates by reference information (to the extent specific sections are referred to herein) from the registrant's Proxy Statement for its 2007 Annual Meeting of Stockholders to be held January 23, 2007.

Transitional Small Business Disclosure Format (check one):

Yes  No



## PART I

*This Annual Report on Form 10-KSB 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 "Item 1. Description of Business – 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, its wholly owned subsidiaries – NTI Facilities, Inc. and Northern Technologies Holding Company, LLC, and its majority-owned subsidiary – React-NTI, LLC, all of which are consolidated on NTIC's financial statements.*

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

### **Item 1. DESCRIPTION OF BUSINESS.**

#### **Overview**

Northern Technologies International Corporation focuses on developing, marketing and selling proprietary environmentally responsible materials science based products and technical services directly and via a network of independent distributors, manufacturer sales representatives and joint ventures in over 50 countries. In fiscal 2006, over 70% of NTIC's consolidated net sales were derived from the sales of Zerust<sup>®</sup> rust and corrosion inhibiting packaging products and services to the automotive, electronics, electrical, mechanical, military and retail consumer markets. During this same period, NTIC also received revenues from sales of proprietary new technologies including anti-abrasion ink additives, as well as bio-based sintered metal mold release agents, bio-solvents, bio-emollients, bio-cleaners, bio-lubricants and bio-based and biodegradable plastic packaging. In a concerted effort to extend NTIC's proprietary technologies, NTIC engages in extensive scientific research and development programs in the areas of material science and corrosion protection.

#### **Corporate Joint Ventures and Holding Companies**

NTIC participates, either directly or indirectly through holding companies, in approximately 30 corporate joint venture arrangements in North America, South America, Europe, Asia and the Middle East. Each of these joint ventures manufactures, markets and sells finished products generally in the countries to which it is assigned. NTIC's joint venture partners are knowledgeable in the applicable environmental, labor, tax and other requisite regulations and laws of the respective foreign countries in which they operate, as well as the local customs and business practices. While most of NTIC's joint ventures currently sell rust and corrosion inhibiting products and custom packaging systems, NTIC also has joint ventures that manufacture, market and sell bio-based additives with both industrial and personal care applications, plastic recycling technology and electronic sensing instruments. The categorizes its joint ventures into three principal areas: industrial chemical, non-industrial chemical and business consulting.

NTIC's industrial chemical corporate joint ventures currently primarily focus on the manufacturing, marketing and distribution of Zerust<sup>®</sup> industrial corrosion inhibiting packaging products. Both NTIC and NTIC's corporate joint venture in Germany, Excor Korrosionsschutz – Technologien und Produkte GmbH ("Excor"), through Excor's wholly owned subsidiary Excor Korrosionsforschung GmbH, manufacture and supply the industrial chemical corporate joint ventures with the essential additives required ("Masterbatch") to make Zerust<sup>®</sup> industrial corrosion inhibiting packaging products functional.

React-NTI LLC is an industrial chemical corporate joint venture of NTIC that focuses on the development, manufacturing and marketing of proprietary lines of bio-based additives with both

industrial and personal care applications. Based on cotton, soy, corn and other renewable resources, React-NTI products outperform many synthetically derived competing alternatives. React-NTI's target markets currently include metal parts manufacturers, ink manufacturers, and personal care and cosmetics manufacturers.

NTIC has a 50% ownership interest in NTI ASEAN, LLC for its corporate joint venture investments in the ASEAN region. Taiyo Petroleum Gas Co. Ltd., NTIC's existing joint venture partner in Japan, owns the remaining 50% ownership interest in NTI ASEAN, LLC.

NTIC has a 50% ownership interest in Northern Instruments Corporation LLC for its corporate joint venture investments in Mütéc GmbH in Germany. Taiyo Petroleum Gas Co. Ltd., NTIC's existing joint venture partner in Japan, owns the remaining 50% ownership interest in Northern Instruments Corporation LLC. Northern Instruments Corporation LLC then owns 80% of Mütéc GmbH. Mütéc GmbH manufactures proprietary electronic sensing instruments, which it sells through distribution as well as certain corporate joint ventures

NTIC's business consulting corporate joint ventures utilize various government and military associations to develop new sales leads and potential investment opportunities.

The following table sets forth a list of NTIC's corporate joint ventures as of November 17, 2006, indicating which joint ventures are industrial chemical, non-industrial chemical or business consulting, the country in which the joint venture is organized, NTIC's ownership percentage in each joint venture and the date of NTIC's original investment in each joint venture:

Joint Venture Name	Country	NTIC Percent (%) Ownership	Calendar Year of Original Investment
<b>INDUSTRIAL CHEMICAL CORPORATE JOINT VENTURES</b>			
TAIYONIC LTD.	Japan	50%	1987
ACOBAL SAS	France	50%	1990
ZERUST-NIC CORP.	Taiwan*	25%	1990
EXCOR GmbH	Germany	50%	1991
ST ZERUST (SEA) PTE. LTD	Singapore*	35%	1991
ZERUST AB	Sweden	50%	1991
NTI-ZERUST INIBIDORES DE CORROÇÃO VCI LTDA.	Brazil	50%	1993
EUROMASCH	Austria	50%	1994
MOSTNIC	Russia	50%	1994
KOREA ZERUST CO., LTD.	South Korea	25%	1994
ZERUST OY	Finland	50%	1995
ZERUST (U.K.) LTD.	United Kingdom	50%	1997
FATRA-NTI S.R.O.	Czech Republic	50%	1997
EXCOR SP. Z.O.O.	Poland	50%	1998
SPECIALTY - NTIA CO. LTD.	Thailand*	25%	1998
TIANJIN ZERUST CO.	China*	25%	2000
HARITA-NTI	India	50%	2000
CHONG WAH-NTIA SDN. BHD.	Malaysia*	25%	2000
ZERUST PHILIPPINES	Philippines*	50%	2001
FIBRO NTI JOINT STOCK CO.	Turkey	50%	2002
ZERUST CONSUMER PRODUCTS, LLC	United States	50%	2002
ZERUST BV	Holland	50%	2003
REACT-NTI, LLC***	United States	75%	2003
POLYMER ENERGY LLC	United States	50%	2003
ZERUST EXCOR PTY LTD	Australia	50%	2006
ZERUST DNEPR	Ukraine	50%	2006
SINGLE POINT ENERGY AND ENVIRONMENT COMPANY LIMITED	Thailand	50%	2006
NTI-DILMUN MIDDLE EAST FZCO.	UAE	50%	2006
<b>NON-INDUSTRIAL CHEMICAL CORPORATE JOINT VENTURES</b>			
MUTEK GMBH	Germany**	40%	2002
<b>BUSINESS CONSULTING CORPORATE JOINT VENTURES</b>			
ART AVILES ASSOCIATES	United States	25%	2000

\* Indirect ownership interest through NTI ASEAN, LLC

\*\* Indirect ownership through Northern Instruments Corporation LLC

\*\*\* React-NTI LLC is fully consolidated on NTIC's consolidated financial statements (See note 2 to NTIC's consolidated financial statements). Additionally, React-NTI LLC has a 100% owned subsidiary – React, Inc.

NTIC's corporate joint ventures' profits are shared by the respective corporate joint venture owners in accordance with their respective ownership percentages. Net sales of NTIC's corporate joint ventures were \$64.0 million during fiscal 2006 and \$57.2 million during fiscal 2005. NTIC had equity in income of corporate joint ventures and holding companies of \$2,713,096 in fiscal 2006 compared to \$1,968,777 in fiscal 2005. NTIC receives fees for technical and other support services it provides to its corporate joint ventures based on the revenues of the individual corporate joint ventures. NTIC recognized fee income for such technical and support services of \$4,695,124 in fiscal 2006 compared to \$4,136,913 in fiscal 2005. NTIC incurs direct expenses related to its corporate joint ventures and holding companies. Such expenses include consulting, travel, technical and marketing services to existing joint ventures, legal fees incurred in the establishment of new joint ventures, registration and promotion and legal defense of worldwide trademarks, and legal fees incurred in connection with the filing of patent applications. NTIC incurred \$5,481,757 in direct joint venture expenses in fiscal 2006 as compared to \$4,977,375 in fiscal 2005.

While NTIC is not aware of any specific potential risk beyond its initial investment in and any undistributed earnings of each of the corporate joint ventures listed above, there can be no assurance that NTIC will not be subject to lawsuits based on product liability claims or other claims arising out of the activities of each joint venture. To mitigate the ramifications of such an occurrence, NTIC maintains liability insurance specifically applicable to its ownership positions in the joint venture arrangements in excess of any insurance the joint ventures may maintain.

### **Products**

NTIC currently derives revenues from the following product lines:

***Corrosion Prevention.*** Over 70% of NTIC's consolidated net sales for fiscal 2006 were derived from developing, manufacturing, marketing and selling Zerust<sup>®</sup> rust and corrosion inhibiting packaging products and services. Corrosion negatively affects metal products and components. This applies to the rusting of ferrous metals (iron and steel) and the deterioration by oxidation of nonferrous metals (aluminum, copper, brass, etc.). In combating corrosion, the traditional approach has been to apply oils and greases to protect metal parts. This approach commonly requires specialized application and removal equipment.

In addition, the oils and greases may pose unacceptable health and fire hazards and also may collect and trap dirt and debris that, in some cases initiate corrosion. Chemical solvents and specialized safety equipment that introduce additional health and hazardous waste disposal problems may be necessary.

NTIC's Zerust® corrosion inhibiting packaging products may eliminate or reduce the use of oils and greases to inhibit corrosion. NTIC's Zerust® formulations contain proprietary nontoxic chemical systems (primarily using food additives) that passivate metal surfaces and thereby inhibit rust and corrosion. The corrosion-inhibiting protection is maintained as long as the metal products to be protected remain enclosed within the Zerust® package. Electron scanning further shows that once the contents are removed from the Zerust® package, the Zerust® protection dissipates from the contents' surfaces within two hours, leaving a clean, dry and corrosion-free metal component. This mechanism of corrosion protection enables NTIC's customers to easily package metal objects for rust-free shipment or long-term storage. Furthermore, by eliminating costly greasing and degreasing processes and/or significantly reducing the use of oils to inhibit corrosion, NTIC's Zerust® technology provides its customers significant savings in labor, material and capital expenditures for equipment to apply, remove and dispose of oil and grease, as well as the attendant environmental problems, as compared to traditional methods of corrosion prevention.

NTIC developed the first means of combining corrosion inhibiting chemical systems with polyethylene and polypropylene resins. Combining Zerust® chemical systems with polyethylene and polypropylene resins permitted NTIC to introduce to industry a line of packaging products in the form of low and high density polyethylene bags and shroud film, stretch, shrink, skin and bubble cushioning film, woven scrim, foam sheeting, profile and corrugated board, thermoformed dunnage trays and bins, injection and blow molded products and flat netting, thereby giving packaging engineers an opportunity to ship and store ferrous, nonferrous and mixed multi-metal products in a clean, dry and corrosion-free condition, with an attendant overall savings in total packaging cost. Products also include a line of several diffusers, such as Zerust® Vapor Capsules, Zerus ICT™ Plastabs® and Cor-Tabs®, which protect metal surfaces within the distance of a certain specified "radius of protection." This industrial product line has since been expanded to also include items such as Zerust® gun cases and car covers targeted at retail consumers. NTIC has also developed proprietary corrosion inhibitors for use in the mitigation of corrosion in capital assets used in Petrochemical and related industries.

NTIC has also developed additives in liquid form to imbue corrugated cardboard, solid fiber and chipboard packaging materials with corrosion protection properties. Additionally, NTIC provides a line of metal surface treatment liquids, which are oil, water and bio-solvent based, marketed under the AXXA™ brand name.

**Bio-Based Chemical Additives.** NTIC's React-NTI, LLC joint venture revenues are primarily derived from the sales of MR-101 and MR-102 anti-abrasion ink additives. The ink industry uses these additives to ensure ink does not "rub off" the pages of magazines and books.

React-NTI's renewable resource-based industrial chemical additive sales in fiscal 2006 also came from a patented sintered metal mold release agent sold under the brand name SERAVAT™. SERAVAT™ significantly increases the "green strength" of powder metal parts as they are ejected from their molds. The increase in green strength leads to much higher process yields for the user, especially in stainless steel applications, thereby significantly lowering their production costs.

React-NTI's renewable resource-based personal care chemical additive sales in fiscal 2006 included Farona™ line of patented micronized cotton and corn powders. End user applications for these additives included deodorants, pressed powder products and loose powder products. Sales also were derived from

patented EnviroPure™ emollient gels that consist of a soy and canola base petrolatum replacement, as well as EnviroSolve™ soy and canola base solvents that were used, among other applications, as a successful acetone replacement.

**Bio-Plastics.** NTIC also manufactures and sells Natur-Tec™ packaging products produced using proprietary biodegradable plastics technologies. Patents and trade secrets allow NTIC to produce biodegradable (compostable) plastic products with better performance properties in comparison to competitive products currently available in the market, and at a significantly lower price. NTIC's products include totally biodegradable compost bags, agricultural film and other products intended for single-use disposable packaging applications.

**Plastics Recycling Technology.** NTIC's Polymer Energy LLC joint venture develops, manufactures and sells systems based upon a proprietary technology to convert waste plastic material into hydro-carbons (fuel oil). This plastic waste processing system is an innovative, cost-effective and environmentally friendly alternative to incineration and/or landfill disposal.

**Electronic Measuring Instrument.** NTIC's Müttec GmbH joint venture develops, manufactures and sells proprietary electronics components including signal converters, Input-Output interfaces, bulk goods property measurement instruments, and process sensor technologies.

### **Manufacturing**

NTIC produces its proprietary Zerust® additives and products at its facility in Circle Pines, Minnesota. NTIC's other products are produced according to Company specification by selected contractors and Company joint ventures under a trade secrecy agreement and/or a license agreement.

NTIC is ISO 9001 certified with respect to the manufacturing of its products and ISO 14000 certified with respect to environmental management standards. NTIC believes that the process of ISO 9001 certification serves as an excellent total quality management tool, enabling NTIC to ensure consistency in the performance of its products. NTIC believes that the process of ISO 14000 certification serves as an excellent tool for NTIC to continuously improve its environmental performance. In addition, because potential customers may prefer or require manufacturers to have achieved ISO certification, such ISO certifications may provide NTIC with certain competitive advantages.

### **Sales and Marketing**

In the United States, NTIC markets its products principally to industrial users by a direct sales force and through a network of independent distributors and manufacturer's sales representatives. NTIC's technical service representatives work directly with the end users of NTIC's products to analyze their specific needs and develop systems to meet their technical requirements.

Internationally, NTIC has entered into several joint venture and similar arrangements with foreign partners (either directly or through a holding company). Pursuant to these arrangements, NTIC and/or Excor, NTIC's corporate joint venture in Germany, supply certain proprietary additives to NTIC's foreign joint venture entities, which, in turn, provide for the international manufacture and marketing of Zerust® and other finished products. NTIC receives fees for providing technical support and marketing assistance to its joint ventures in accordance with the terms of the joint venture arrangements.

## **Competition**

NTIC is aware of other organizations that manufacture and market products which compete with NTIC's products. NTIC evaluates competing products on an ongoing basis. Some of NTIC's competitors are established companies that may have financial and other resources greater than those of NTIC. Additionally, some of these companies may have achieved significant market acceptance of their competing products and brand recognition. NTIC competes with such companies through technical innovation and by attempting to provide the highest level of technical service and applications engineering.

## **Customers**

One of NTIC's North American customers accounted for, in the aggregate, approximately 26.6% and 27.7% of NTIC's consolidated net sales for the fiscal years ended August 31, 2006 and 2005 respectively, and \$207,630 and \$484,967 of NTIC's receivables at August 31, 2006 and 2005, respectively.

## **Research and Development**

NTIC's research and development activities are directed at improving existing products, developing new products and improving quality assurance through improved testing of NTIC's products. In 1997, NTIC's joint venture in Germany, Excor, established a wholly owned subsidiary, Excor Korrosionsforschung GmbH, to conduct research into new fields of corrosion inhibiting packaging and the applications engineering of such products in conjunction with NTIC's domestic research and development operation. Today, NTIC's internal research and development activities are conducted at its facilities located in Circle Pines, Minnesota; Beachwood, Ohio, Dresden, Germany, Chennai, India and various international locations under the direction of internationally known scientists and research institutes under exclusive contract to NTIC with respect to the subject of their respective research efforts. The conduct of NTIC's research and development activities outside Minnesota, Ohio, Germany and India, as with the results of NTIC's research and development efforts conducted with the expert consulting support of Dr. Ramani Narayan and Dr. Sunggyu Lee, frequently results in development of intellectual property rights for NTIC. NTIC spent \$2,043,611 in fiscal 2006 and \$1,292,143 in fiscal 2005 in connection with its research and development activities. NTIC anticipates that it will spend over \$2,700,000 in fiscal 2007 on research and development activities. These fees are accounted for in the "Expenses incurred in support of corporate joint ventures" section of NTIC's income statement.

## **Intellectual Property Rights**

NTIC's success depends and will continue to depend in part upon its ability to maintain patent and trademark protection for its products and processes, to preserve its proprietary information and trade secrets and to operate without infringing the proprietary rights of third parties. NTIC's policy is to attempt to protect its technology by, among other things, filing patent applications and trademark applications and vigorously preserving the trade secrets covering its technology and other intellectual property rights.

In 1979, NTIC developed and patented the first polyolefin (plastic) based industrial corrosion inhibiting packing material in the world. The U.S. patent granted under this patent application became the most important intellectual property right in NTIC's history. This patent expired in 2000. NTIC has since filed for nine letters patent in the U.S. covering various corrosion inhibiting technologies, systems and applications since the expiration of the initial patent. NTIC owns several patents in these areas. These patents as well as patent applications have been extended to the countries of the Patent Cooperation Treaty ("PCT") of relevance to NTIC. In addition, NTIC's joint venture partner in Germany, Excor,



owns several patents in the area covering various corrosion inhibiting technologies and also applied for new patent applications for proprietary new corrosion inhibiting technologies, to which NTIC and its other joint venture partners in the rest of the world will have rights. NTIC is also seeking additional patent protection covering various host materials into which its corrosion inhibiting additives and other protective features can be incorporated and proprietary new process technologies and chemical formulations outside the area of corrosion protection. NTIC owns several patents outside the area of corrosion protection both in the U.S. and in PCT countries of relevance to NTIC.

In addition to seeking patent protection, NTIC has also pursued protection of its trademarks in North America, South America, both Western and Eastern Europe, and Asia primarily covering countries where NTIC has a joint venture presence. NTIC owns the following U.S. registered trademarks: NTI®, NTI – Globe Design, ZERUST®, EXCOR®, COR TAB®, PLASTABS®, MATCH-TECH®, COR/SCI®, NIC®, Natur-Tec™ and Polymer Energy™. NTIC also has a registered trademark on the use of the color yellow with respect to corrosion inhibiting packaging. In addition, NTIC has applied for six new trademarks in the U.S. The NTI®, ZERUST®, The ZERUST People®, Excor®, Color Yellow, NTI ASEAN®, MATCH-TECH®, Natur-Tec™ and Polymer Energy® marks as well as other marks have also been registered in the European Union with several new applications pending.

NTIC requires its employees, consultants and advisors having access to its confidential information, including trade secrets, to execute confidentiality agreements upon commencement of their employment or consulting relationships with NTIC. These agreements generally provide that all confidential information NTIC develops or makes known to the individual during the course of the individual's employment or consulting relationship with NTIC must be kept confidential by the individual and not disclosed to any third parties. NTIC also requires all of its employees and consultants who perform research and development for NTIC to execute agreements that generally provide that all inventions developed by these individuals during their employment with NTIC will be NTIC's proprietary intellectual property rights.

### **Backlog**

NTIC had order backlog of \$321,000 as of August 31, 2006 compared to \$255,000 as of August 31, 2005. These are orders that are held by NTIC pending release instructions from the customers to be used in just-in-time production. Customers generally place orders on an "as needed" basis and expect delivery within a relatively short period of time.

### **Availability of Raw Materials**

NTIC does not carry excess quantities of raw materials or purchased parts because of widespread availability for such materials and parts from various suppliers.

### **Employees**

As of August 31, 2006, NTIC had 44 full-time employees located in the United States, consisting of 15 in administration, nine in sales and marketing, 14 in research and development and lab, five in production and one person responsible for international coordination. There are no unions representing NTIC's employees and NTIC believes that its relations with employees are good.

### **Forward-Looking Statements**

This report contains not or incorporates by reference 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 its 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 sites or otherwise. All statements other than statements of historical facts included in this report 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, its financial condition, results of operations and business. NTIC has identified some of these forward-looking statements with words like "believe," "may," "could," "might," "forecast," "possible," "potential," "project," "will," "should," "expect," "intend," "plan," "predict," "anticipate," "estimate," "approximate" or "continue" and other words and terms of similar meaning. These forward-looking statements may be contained in the notes to NTIC's consolidated financial statements and elsewhere in this report, including under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations."

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 risks and uncertainties described under the heading "Risk Factors" below, 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 risks and uncertainties, including those described below under the heading "Risk Factors." The risks and uncertainties described under the heading "Risk Factors" below 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 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 it may make on related subjects in its Annual Reports on Form 10-KSB, Quarterly Reports on Form 10-QSB and Current Reports on Form 8-K NTIC files with or furnishes to the Securities and Exchange Commission.

### **Risk Factors**

The following are the most significant factors known to NTIC that could materially adversely affect its business, financial condition or operating results.

***Over 20 percent of NTIC's consolidated net sales, not including corporate joint venture sales, are generated outside of the U.S. and NTIC intends to continue to expand its international operations. NTIC's international operations require management attention and financial resources and expose NTIC to difficulties presented by international economic, political, legal, accounting and business factors.***

NTIC offers direct on-site technical support on rust and corrosion issues in over 50 countries, and operates a marketing, distribution, and technical network through joint ventures in North America, South America, Europe, Asia and the Middle East. NTIC's consolidated net sales, not including the corporate joint venture sales, outside the United States were 20.3% and 21.7% of its total consolidated net sales for fiscal 2006 and 2005, respectively. One of NTIC's strategic objectives is to expand its international operations. NTIC has recently entered into joint ventures in Australia, the Ukraine, Thailand and the United Arab Emirates. The expansion of NTIC's existing international operations and entry into

additional international markets requires management attention and financial resources. Many of the countries in which NTIC sells its products directly or indirectly through its corporate joint ventures, are, to some degree, subject to political, economic and/or social instability. NTIC's international operations expose NTIC and its joint venture partners, representatives, agents and distributors to risks inherent in operating in foreign jurisdictions. These risks include:

- difficulties in managing and staffing international operations and the required infrastructure costs including legal, tax, accounting, information technology;
- the imposition of additional U.S. and foreign governmental controls or regulations, new trade restrictions and restrictions on the activities of foreign agents, representatives and distributors, the imposition of costly and lengthy export licensing requirements and changes in duties and tariffs, license obligations and other non-tariff barriers to trade;
- the imposition of U.S. and/or international sanctions against a country, company, person or entity with whom NTIC does business that would restrict or prohibit continued business with the sanctioned country, company, person or entity;
- pricing pressure that NTIC or its corporate joint ventures may experience internationally;
- laws and business practices favoring local companies;
- currency exchange rate fluctuations;
- longer payment cycles and difficulties in enforcing agreements and collecting receivables through certain foreign legal systems;
- difficulties in enforcing or defending intellectual property rights; and
- multiple, changing and often inconsistent enforcement of laws and regulations.

NTIC cannot assure you that one or more of the factors listed above will not harm its business. Any material decrease in NTIC's international sales could adversely influence NTIC's operating results.

***NTIC's liquidity and financial position rely on dividend distributions from its corporate joint ventures, which if such dividends cease or are reduced could adversely affect NTIC's liquidity and financial position.***

NTIC's liquidity and financial position rely on dividend distributions from its corporate joint ventures. During fiscal 2006, NTIC received approximately \$900,000 in dividends received from its corporate joint ventures. Because NTIC typically owns only 50% of its joint venture entities, NTIC does not control the decisions of these entities regarding whether to pay dividends and how much in dividends should be paid in any given year. Thus, NTIC cannot guarantee that any of its joint ventures will pay dividends in any given year. The failure of NTIC's joint ventures to declare dividends in amounts typically expected by NTIC could adversely affect NTIC's liquidity and financial position.

***Fluctuations in foreign currency exchange rates could result in declines in our reported consolidated net sales and net earnings.***

Because the functional currency of NTIC's foreign operations and investments in its foreign corporate joint ventures and holding companies is the applicable local currency, NTIC is exposed to foreign

currency exchange rate risk arising from transactions in the normal course of business since NTIC's fees for technical support and other services and dividend distributions from these foreign entities are paid in foreign currencies. NTIC's reported consolidated net sales and net income are subject to fluctuations in foreign exchange rates. NTIC's principal exchange rate exposure is with the Euro, the Japanese yen, Korean won and the English pound against the U.S. dollar. NTIC does not hedge against its foreign currency exchange rate risk. Since NTIC's investments in its corporate joint ventures and holding companies 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 the equity in income of joint ventures and holding companies reflected in NTIC's consolidated statements of income.

***Approximately 26.6% of NTIC's consolidated net sales for the fiscal year ended August 31, 2006 were dependent upon a single customer, the loss of which would adversely affect NTIC's financial condition and consolidated operating results.***

One of NTIC's North American customers accounted for, in the aggregate, approximately 26.6% of NTIC's consolidated net sales for the fiscal year ended August 31, 2006. If NTIC were to lose this customer or if this customer were to substantially decrease its purchases of NTIC's products, NTIC's financial condition and consolidated operating results would be adversely affected.

***NTIC's compliance with U.S. generally accepted accounting principles and any changes in such principles might adversely affect NTIC's operating results and financial condition. Any requirement to consolidate NTIC's corporate joint ventures or subject them to compliance with Sarbanes-Oxley Act of 2002 could adversely affect NTIC's operating results and financial condition.***

NTIC adopted accounting policy FASB Interpretation No. 46R (FIN 46R), "Consolidation of Variable Interest Entities, a revision of FIN 46" effective as of February 28, 2005. As a result of FIN 46R, NTIC consolidated React-NTI LLC, one of its corporate joint ventures that is 75% owned by NTIC. If the interpretation of FIN 46R were to change and NTIC were required to fully consolidate all of its corporate joint ventures or if NTIC's corporate joint ventures otherwise would be required to be Sarbanes-Oxley compliant, NTIC would incur significant additional costs. NTIC estimates that the costs for each of its corporate joint ventures to become Sarbanes-Oxley compliant would range between \$150,000 to \$500,000 and that annual maintenance expenses would range from \$50,000 to \$100,000 per year per corporate joint venture thereafter. In addition, other accounting pronouncements issued in the future could have a material cost associated with NTIC's implementation of such new accounting pronouncements.

***One of NTIC's principal stockholders beneficially owns 25.2% of NTIC's outstanding common stock and is affiliated with NTIC's President and Chief Executive Officer and thus may be able influence matters requiring stockholder approval and could discourage or otherwise impede a transaction in which a third party wishes to purchase NTIC's outstanding shares at a premium.***

As of November 17, 2006, Inter Alia Holding Company beneficially owned approximately 25.2% of NTIC's outstanding common stock. Inter Alia is an entity owned by, among others, G. Patrick Lynch, NTIC's President and Chief Executive Officer and a director, and Philip M. Lynch, NTIC's former Chairman of the Board and Chief Executive Officer and current Chairman Emeritus. Messrs. G.P. Lynch and P.M. Lynch share voting and dispositive power of shares of NTIC's common stock held by Inter Alia Holding Company. As a result of his share ownership through Inter Alia and his position as President and Chief Executive Officer and a director of NTIC, Mr. G.P. Lynch may be able to influence the affairs and actions of NTIC, including matters requiring stockholder approval, such as the election of directors and approval of significant corporate transactions. The interests of Messrs. G.P. Lynch and Inter Alia may differ from the interests of NTIC's other stockholders. This concentration of ownership may have the

effect of delaying, preventing or deterring a change in control of NTIC, could deprive NTIC's stockholders of an opportunity to receive a premium for their common stock as part of a sale or merger of NTIC and may negatively affect the market price of NTIC's common stock. Transactions that could be affected by this concentration of ownership include proxy contests, tender offers, mergers or other purchases of common stock that could give stockholders the opportunity to realize a premium over the then-prevailing market price for shares of NTIC's common stock.

***NTIC is currently involved in litigation over its trademark on the use of the color Yellow in corrosion inhibiting packaging, the loss of which could adversely affect NTIC's business.***

One of NTIC's important trademarks for its business is the trademark for the color Yellow. NTIC is currently involved in litigation against a competitor over this trademark. NTIC has also in the past successfully prosecuted infringement claims against other competitors and third parties for their use of the color Yellow. If NTIC were to lose any future litigation over this trademark, NTIC could be in a more difficult position to enforce its rights to this trademark in other countries and against other third parties. NTIC believes that the loss of its trademark for the color Yellow could have an adverse affect on NTIC's business.

***NTIC's business, properties, and products are subject to governmental regulation with which compliance may require NTIC to incur expenses or modify its products or operations and may expose NTIC to penalties for non-compliance. Governmental regulation may also adversely affect the demand for some of NTIC's products and its operating results.***

NTIC's business, properties, and products are subject to a wide variety of international, federal, state and local laws, rules and regulations relating to the protection of the environment, natural resources, and worker health and safety and the use, management, storage, and disposal of hazardous substances, wastes, and other regulated materials. These laws, rules, and regulations may affect the way NTIC conducts its operations, and the failure to comply with these regulations could lead to fines and other penalties. Because NTIC owns and operates real property, various environmental laws also may impose liability on NTIC for the costs of cleaning up and responding to hazardous substances that may have been released on NTIC's property, including releases unknown to NTIC. These environmental laws and regulations also could require NTIC to pay for environmental remediation and response costs at third-party locations where NTIC disposed of or recycled hazardous substances. NTIC's future costs of complying with the various environmental requirements, as they now exist or may be altered in the future, could adversely affect its financial condition and operating results. NTIC is also subject to other international, federal and state laws, rules and regulations, the future non-compliance of which may harm NTIC's business or may adversely affect the demand for some of its products. Changes in laws and regulations, including changes in accounting standards and taxation changes, including tax rate changes, new tax laws, revised tax law interpretations, also may adversely affect NTIC's operating results.

***NTIC intends to grow its business through additional joint ventures, alliances and acquisitions, which could be risky and could harm its business.***

One of NTIC's growth strategies is to expand its business by entering into additional joint ventures and alliances and acquiring businesses, technologies and products that complement or augment NTIC's existing products. The benefits of a joint venture, alliance or acquisition may take more time than expected to develop, and NTIC cannot guarantee that any future joint ventures, alliances or acquisitions will in fact produce the intended benefits. In addition, joint ventures, alliances and acquisitions involve a number of risks, including:

- diversion of management's attention;

- difficulties in assimilating the operations and products of an acquired business or in realizing projected efficiencies, cost savings and revenue synergies;
- potential loss of key employees or customers of the acquired businesses or adverse effects on existing business relationships with suppliers and customers;
- adverse impact on overall profitability if acquired businesses do not achieve the financial results projected in NTIC's valuation models;
- reallocation of amounts of capital from other operating initiatives and/or an increase in NTIC's leverage and debt service requirements to pay the acquisition purchase prices, which could in turn restrict our ability to access additional capital when needed or to pursue other important elements of NTIC's business strategy;
- inaccurate assessment of undisclosed, contingent or other liabilities or problems and unanticipated costs associated with the acquisition; and
- incorrect estimates made in the accounting for acquisitions, incurrence of non-recurring charges and write-off of significant amounts of goodwill that could adversely affect NTIC's operating results.

NTIC's ability to grow through joint ventures, alliances and acquisitions will depend, in part, on the availability of suitable opportunities at an acceptable cost, NTIC's ability to compete effectively for these opportunities and the availability of capital to complete such transactions.

***NTIC relies on its independent distributors, manufacturer's sales representatives and corporate joint ventures to market and sell its products.***

In addition to its direct sales force, NTIC relies on its independent distributors, manufacturer's sales representatives and corporate joint ventures to market and sell its products in the United States and internationally. NTIC's independent distributors, manufacturer's sales representatives and joint venture partners might terminate their relationship with NTIC, or devote insufficient sales efforts to NTIC's products. NTIC does not control its independent distributors, manufacturer's sales representatives and joint ventures and they may not be successful in implementing NTIC's marketing plans. NTIC's failure to maintain its existing relationships with its independent distributors, manufacturer's sales representatives and joint ventures, or its failure to recruit and retain additional skilled independent distributors, manufacturer's sales representatives and joint venture partners could have an adverse effect on NTIC's operations.

***NTIC has very limited staffing and will continue to be dependent upon key employees.***

NTIC's success is dependent upon the efforts of a small management team and staff. NTIC's future success will also depend in large part on its ability to identify, attract and retain other highly qualified managerial, technical, sales and marketing and customer service personnel. Competition for these individuals is intense, especially in the markets in which NTIC operates. NTIC may not succeed in identifying, attracting and retaining these personnel. The current management, other than the President and Chief Executive Officer, do not have any material stock ownership in NTIC or any contractual obligation to maintain employment. The loss or interruption of services of any of NTIC's key personnel, the inability to identify, attract or retain qualified personnel in the future, delays in hiring qualified personnel, or any employee slowdowns, strikes or similar actions could make it difficult for NTIC to manage its business and meet key objectives, which could harm NTIC's business, financial condition and operating results.

***NTIC relies on its management information systems for inventory management, distribution and other functions. If these information systems fail to adequately perform these functions or if NTIC experiences an interruption in their operation, NTIC's business and operating results could be adversely affected.***

The efficient operation of NTIC's business is dependent on its management information systems. NTIC relies on its management information systems to effectively manage accounting and financial functions; manage order entry, order fulfillment and inventory replenishment processes; and to maintain its research and development data. The failure of management information systems to perform as anticipated could disrupt NTIC's business and product development and could result in decreased sales, causing NTIC's business and operating results to suffer. In addition, NTIC's management information systems are vulnerable to damage or interruption from natural or man-made disasters, terrorist attacks and attacks by computer viruses or hackers, or power loss or computer systems, Internet, telecommunications or data network failure. Any such interruption could adversely affect NTIC's business and operating results.

***NTIC's reliance upon patents, trademark laws, trade secrets and contractual provisions to protect its proprietary rights may not be sufficient to protect its intellectual property from others who may sell similar products.***

NTIC holds patents relating to various aspects of its products and believes that proprietary technical know-how is critical to many of its products. Proprietary rights relating to NTIC's products are protected from unauthorized use by third parties only to the extent that they are covered by valid and enforceable patents or are maintained in confidence as trade secrets. NTIC cannot be certain that it will be issued any patents from any pending or future patent applications owned by or licensed to NTIC or that the claims allowed under any issued patents will be sufficiently broad to protect its technology. In the absence of patent protection, NTIC may be vulnerable to competitors who attempt to copy NTIC's products or gain access to its trade secrets and know-how. NTIC's competitors may initiate litigation to challenge the validity of NTIC's patents, or they may use their resources to design comparable products that do not infringe NTIC's patents. NTIC may incur substantial costs if its competitors initiate litigation to challenge the validity of its patents or if it initiates any proceedings to protect its proprietary rights and if the outcome of any such litigation is unfavorable to NTIC, its business and operating results could be materially adversely affected.

In addition, NTIC relies on trade secrets and proprietary know-how that it seeks to protect, in part, by confidentiality agreements with its employees, and consultants. These agreements may be breached and NTIC may not have adequate remedies for any such breach. Even if these confidentiality agreements are not breached, NTIC's trade secrets may otherwise become known or be independently developed by competitors.

***If NTIC is unable to continue to enhance existing products and develop and market new products that respond to customer needs and achieve market acceptance, NTIC may experience a decrease in demand for its products, and its business could suffer.***

One of NTIC's strategies is to enhance its existing products and develop and market new products that respond to customer needs. NTIC may not be able to compete effectively with its competitors unless NTIC can keep up with existing or new products in the markets in which it competes. Product development requires significant financial and other resources. Although in the past NTIC has implemented lean manufacturing and other productivity improvement initiatives to provide investment

funding for new products, NTIC cannot assure you that it will be able to continue to do so in the future. Products improvements and new product introductions also require significant planning, design, development and testing at the technological, product, and manufacturing process levels and NTIC may not be able to timely develop product improvements or new products. NTIC's competitors' new products may beat NTIC's products to market, may be more effective or less expensive than NTIC's products or render NTIC's products obsolete. Any new products that NTIC may develop may not receive market acceptance or otherwise generate any meaningful net sales or profits for NTIC relative to its expectations, based on, among other things, existing and anticipated investments in manufacturing capacity and commitments to fund advertising, marketing, promotional programs, and research and development.

***NTIC faces intense competition in all of its product lines, including from competitors that have substantially greater resources than NTIC does. NTIC cannot assure you it will be able to compete effectively, which would harm its business and operating results.***

NTIC's products are sold in highly competitive markets throughout the world. The principal competitive factors in NTIC's markets are pricing, product innovation, quality and reliability, product support and customer service and reputation. NTIC competes in all of its products with numerous manufacturers, many of who have substantially greater financial, marketing, and other resources than NTIC does. As a result, they may be able to adapt more quickly to new or emerging technologies and changes in customer requirements, or to devote greater resources to the promotion and sale of their products than NTIC can. In addition, competition could increase if new companies enter the market or if existing competitors expand their product lines or intensify efforts within existing product lines. NTIC's current products, products under development and its ability to develop new and improved products may be insufficient to enable NTIC to compete effectively with its competitors. NTIC cannot assure you that it will be able to compete effectively, which would harm its business and operating results.

***Recently enacted and future changes in securities laws and regulations have increased and are likely to continue to increase our costs.***

Changing laws, regulations and standards relating to corporate governance and public disclosure, including the Sarbanes-Oxley Act of 2002, Securities and Exchange Commission rules and regulations and American Stock Exchange rules, create challenges and compliance requirements for publicly held companies, including NTIC. NTIC's efforts to comply with evolving laws, rules, regulations and standards have resulted in, and are likely to continue to result in, increased general and administrative expenses and a diversion of management time and attention from revenue-generating activities to compliance activities. In particular, NTIC's efforts to comply with Section 404 of the Sarbanes-Oxley Act of 2002 and the related regulations regarding its assessment of its internal control over financial reporting and its independent registered public accounting firm's report on that assessment will require the commitment of significant financial and managerial resources.

***NTIC is exposed to risks relating to evaluations of internal control over financial reporting required by Section 404 of the Sarbanes-Oxley Act.***

Changing laws, regulations and standards relating to corporate governance and public disclosure, including the Sarbanes-Oxley Act and related regulations implemented by the SEC and the American Stock Exchange, are creating uncertainty for public companies, increasing legal and financial compliance costs and making some activities more time consuming. NTIC will be evaluating its internal controls systems to allow management to report on, and its independent registered public accounting firm to attest to, NTIC's internal control over financial reporting. NTIC will be performing the system and process evaluation and testing (and any necessary remediation) required to comply with the management certification and auditor attestation requirements of Section 404 of the Sarbanes-Oxley Act. NTIC cannot



be certain as to the timing of completion of its evaluation, testing and remediation actions or the impact of the same on its operations since there is presently no precedent available by which to measure compliance adequacy. If NTIC is not able to implement the requirements of Section 404 in a timely manner or with adequate compliance, NTIC may be subject to sanctions or investigation by regulatory authorities, including the SEC or the American Stock Exchange. This type of action could adversely affect NTIC's financial results or investors' confidence in NTIC, and could cause NTIC's stock price to decline. In addition, the controls and procedures that NTIC may implement may not comply with all of the relevant rules and regulations of the SEC and the American Stock Exchange. If NTIC fails to develop and maintain effective controls and procedures, it may be unable to provide the required financial information in a timely and reliable manner.

**Item 2. DESCRIPTION OF PROPERTY.**

NTIC recently moved its corporate headquarters. NTIC's principal executive offices, production facilities and domestic research and development operations are currently located at 4201 Woodland Road, Circle Pines, Minnesota 55014. NTIC purchased the real estate and 40,000 square feet building in which its new corporate headquarters is located pursuant to a like-kind exchange transaction within the meaning of Section 1031 of the Internal Revenue Code of 1986, as amended, for a purchase price of \$1,475,000. To finance the transaction, NTIC obtained a secured term loan in the principal amount of \$1,275,000. The term loan matures on May 3, 2011, bears interest at a fixed rate of 8.01% and is payable in 59 monthly installments equal to approximately \$10,775 (inclusive of principal and interest) commencing June 1, 2006. All of the remaining unpaid principal and accrued interest is due and payable on the maturity date. The loan is secured by a first lien on the real estate and building.

Prior to September 6, 2006, NTIC's principal executive offices, production facilities and domestic research and development operations were located at 6680 North Highway 49, Lino Lakes, Minnesota 55014. NTIC sold the real property and building in which NTIC's former Lino Lakes corporate headquarters was located for a purchase price of \$870,000 on September 8, 2006. The net book value of the building held for sale was \$89,636 and the closing costs and fees associated with the sale of the property was \$46,571. The gain on sale of the property was \$733,793 and will be reflected in NTIC's first quarter fiscal 2007 financial results.

In fiscal 1999, a subsidiary of NTIC, NTI Facilities, Inc., acquired a one-third ownership of Omni-Northern Ltd., an Ohio limited liability company, in contemplation of NTI Facilities, Inc. entering into a lease agreement with Omni-Northern Ltd. for approximately 50% of the net rental space in a building owned by Omni-Northern Ltd. Omni-Northern Ltd. owns and operates a rental property located at 23205 Mercantile Road, Beachwood, Ohio, comprising approximately two acres of land and a building of approximately 34,000 square feet. The property has an approximate value of \$2,205,000, based upon the cash-to-mortgage acquisition price of the property paid in fiscal 2000. NTIC has guaranteed up to \$329,082 of the Omni-Northern Ltd.'s \$1,903,571 mortgage obligation with National City Bank, Cleveland, Ohio. NTI Facilities, Inc. entered into a 15-year lease agreement with Omni-Northern Ltd. for approximately 17,000 square feet of office, manufacturing, laboratory and warehouse space, requiring monthly rental payments of \$17,500, which are adjusted annually according to the annual consumer price index, through November 2014. By its ownership in Omni-Northern Ltd., NTI Facilities Inc. is entitled to one-third of the operating results of Omni-Northern Ltd. Omni-Northern has leased the remaining 50% of the net rental space to other third parties.

**Item 3. LEGAL PROCEEDINGS.**

NTIC is involved in a legal action in Finland whereby NTIC sued a Finish company for trademark infringement. The outcome of the legal action is unknown and any potential loss cannot be estimated at

this time; however, the potential judgment or settlement resulting from the case could have a material impact on NTIC's financial position or consolidated results of operations. NTIC has put up a deposit of \$445,469 that is being held by the courts in Finland against the defendants product that was seized as contraband pending the outcome of the lawsuit.

NTIC is involved in various other legal actions arising in the normal course of business. Management is of the opinion that any judgment or settlement resulting from these pending or threatened actions would not have a material adverse effect on NTIC's financial position or consolidated results of operations.

**Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.**

No matter was submitted to a vote of security holders during the fourth quarter of the fiscal year covered by this report.

**Item 4A. EXECUTIVE OFFICERS OF REGISTRANT.**

The executive officers of NTIC, their ages and the offices held, as of November 17, 2006, are as follows:

<u>Name</u>	<u>Age</u>	<u>Position with NTIC</u>
G. Patrick Lynch	39	President and Chief Executive Officer
Dr. Donald A. Kubik	66	Vice Chairman of the Board and Chief Technology Officer
Matthew C. Wolsfeld	32	Chief Financial Officer and Corporate Secretary

Mr. G. Patrick Lynch, an employee of NTIC since 1995, has been President since July 2005 and Chief Executive Officer since January 2006 and was appointed a director of NTIC in February 2004. From July 2005 to January 2006, Mr. Lynch served as Chief Operating Officer. Mr. Lynch served as President of North American Operations of NTIC from May 2004 to July 2005. Prior to May 2004, Mr. Lynch held various positions with NTIC, including Vice President of Strategic Planning, Corporate Secretary and Project Manager. Mr. Lynch is also an officer and director of Inter Alia Holding Company, a financial and management consulting firm that is a significant stockholder of NTIC. Prior to joining NTIC, Mr. Lynch held positions in sales management for Fuji Electric Co., Ltd. in Tokyo, Japan, and programming project management for BMW AG in Munich, Germany. Mr. Lynch received an M.B.A. degree from the University of Michigan Business School in Ann Arbor, Michigan. Mr. Lynch is the son of Philip M. Lynch, a former Chairman of the Board and current Chairman Emeritus.

Dr. Donald A. Kubik has been employed by NTIC since 1978, was appointed Vice Chairman of the Board in September 1999 and Chief Technology Officer in May 2000. Dr. Kubik served as Vice President of NTIC from 1979 to September 1999 and as Co-Chief Executive Officer of NTIC from September 1999 to May 2000. Dr. Kubik is responsible for developing the patent that led to NTIC's introduction of protective plastic film and paper products incorporating volatile corrosion inhibitors. Prior to joining NTIC, Dr. Kubik held a research and development position with Minnesota Mining & Manufacturing Company (3M).

Mr. Matthew C. Wolsfeld, an employee of NTIC since February 2001, has been NTIC's Chief Financial Officer since November 2001 and Corporate Secretary since November 2004. Mr. Wolsfeld was Controller of NTIC from May 2001 through November 2001. Prior to joining NTIC, Mr. Wolsfeld held an auditing position with PricewaterhouseCoopers LLP in Minneapolis, Minnesota from 1997 to 2001. Mr. Wolsfeld received a B.A. degree in Accounting from the University of Notre Dame and received his M.B.A. degree at the University of Minnesota, Carlson School of Business. Mr. Wolsfeld is a Certified Public Accountant.

Officers of NTIC, their ages and the offices held, as of November 17, 2006, are as follows:

Name	Age	Position with NTIC
Prof. Efim Ya. Lyublinski	69	Vice President and Director of New Technologies and Applications Engineering
Vineet R. Dalal	37	Vice President and Director Global Market Development
Gautam Ramdas	33	Vice President and Director Global Market Development

Prof. Efim Ya. Lyublinski has been employed by NTIC since March 2000 in the position of Vice President and Director of New Technologies and Applications Engineering. Prof. Lyublinski is a Member of the Russian Academy of Natural Sciences and NACE International the Corrosion Society. From 1984 to 1999, Prof. Lyublinski was Head of Laboratory of Complex Methods of Corrosion Protection at the Central Research Institute of Structural Materials (“Prometey”), St. Petersburg, Russia. Prof. Lyublinski also held a Senior Consulting Position with Osmos Technology, Boston, Massachusetts from 1995 to 1999. Prof. Lyublinski holds 18 patents, is responsible for 64 inventions and has authored 14 books, 148 articles and lectured at more than 100 symposiums, conferences and congresses in the areas of materials science and corrosion. Prof. Lyublinski received the following Awards: in 1997, gold medal of the International Exhibition of Patents in Brussels (Belgium). From 1975 to 1986 – three gold, three silver and one bronze medal from the Exhibitions of the Achievements of Russian National Economy.

Mr. Vineet R. Dalal, an employee of NTIC since 2004, Vice President and Director – Global Market Development since November 2005. Prior to joining NTIC, Mr. Dalal was a Principal in the Worldwide Product Development Practice of PRTM, a management consultancy to technology based companies. In this position, Mr. Dalal consulted to several Fortune 500 companies, in the areas of product strategy, Product Lifecycle Management (PLM) and technology management. Prior to that, Mr. Dalal held positions in program management and design engineering at National Semiconductor Corporation in Santa Clara, California. Mr. Dalal received an M.B.A. degree from the University of Michigan Business School in Ann Arbor, Michigan. He also holds an M.S. degree in Electrical and Computer Engineering from Oregon State University, and a B.Eng. degree in Electronics Engineering from Kamatak University, India.

Mr. Gautam Ramdas, an employee of NTIC since 2005, is Vice President and Director – Global Market Development. Prior to joining NTIC, Mr. Ramdas was a Manager in the Strategic Change group of IBM Business Consulting Services. In this position, Mr. Ramdas led consulting engagements at several Fortune 500 companies, in the areas of service strategy, global supplier relationship management and supply chain streamlining. Mr. Ramdas held positions in the E-Commerce and Supply Chain strategy groups at PricewaterhouseCoopers Management Consulting, again providing consulting services for Fortune 500 clients. Prior to management consulting, Mr. Ramdas worked as a program manager and design engineer with Kinhill Engineers in Australia. He has also been involved in the start-up stage of successful small businesses in the US and in India. Mr. Ramdas received an M.B.A. from the University of Michigan Business School in Ann Arbor, Michigan. He also holds a bachelor’s degree in Mechanical Engineering from the College of Engineering, Guindy (Chennai), India.

## PART II

### Item 5. MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

#### Market Information

NTIC's common stock trades on the American Stock Exchange under the symbol NTI. The following table sets forth the high and low sales prices for NTIC's common stock, as reported by the American Stock Exchange, for the fiscal quarters indicated:

	High	Low
<b>Fiscal 2006:</b>		
Fourth quarter	\$ 8.70	\$ 6.70
Third quarter	8.32	5.98
Second quarter	8.41	5.89
First quarter	6.34	4.85
<b>Fiscal 2005:</b>		
Fourth quarter	\$ 6.10	\$ 4.65
Third quarter	6.25	4.85
Second quarter	7.60	5.35
First quarter	7.30	5.25

#### Dividends

Although NTIC's Board of Directors declared a cash dividend to NTIC's stockholders of record as of December 3, 2004 in the amount of \$0.07 per share, NTIC's Board of Directors has not since declared or paid a cash dividend on NTIC's common stock. NTIC's Board of Directors will continue to consider the payment of dividends annually, based on NTIC's net income and operating cash requirements.

#### Number of Record Holders

As of August 31, 2006, there were approximately 310 record holders of NTIC's common stock. This does not include shares held in street name.

#### Recent Sales of Unregistered Equity Securities

NTIC did not issue any equity securities that were not registered under the Securities Act of 1933, as amended, during the fourth quarter of the fiscal year covered by this report.

#### Small Business Issuer Purchases of Equity Securities

NTIC did not purchase any shares of its common stock or any other equity securities of NTIC during the fourth quarter of the fiscal year covered by this report.

**Item 6. 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 captions "Forward-Looking Statements" and "Risk Factors" in Item 1 of this report. 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 Part II, Item 7 entitled "Financial Statements" of this report.

**Overview**

NTIC focuses on developing, marketing and selling proprietary environmentally responsible materials science based products and technical services directly and via a network of independent distributors, manufacturer sales representatives and joint ventures in over 50 countries. NTIC manufactures, markets and sells primarily rust and corrosion inhibiting products and services for automotive, electronics, electrical, mechanical and military applications, sold under the brand names Zerust<sup>®</sup> and EXCOR<sup>®</sup>. NTIC also offers direct, worldwide on-site technical support on rust and corrosion issues. In North America, NTIC markets its technical service and Zerust<sup>®</sup> products principally to industrial users by a direct sales force and through a network of independent distributors and sales representatives. NTIC's technical service representatives work directly with the end users of NTIC's products to analyze their specific needs and develop systems to meet their technical requirements.

NTIC participates, either directly or indirectly through holding companies, in approximately 30 corporate joint venture arrangements in North America, South America, Europe, Asia and the Middle East. Each of these joint ventures manufactures, markets and sells finished products generally in the countries to which it is assigned. NTIC's joint venture partners are knowledgeable in the applicable environmental, labor, tax and other requisite regulations and laws of the respective foreign countries in which they operate, as well as the local customs and business practices. While most of NTIC's joint ventures currently sell rust and corrosion inhibiting products and custom packaging systems, NTIC also has joint ventures that manufacture, market and sell bio-based additives with both industrial and personal care applications, plastic recycling technology and electronic sensing instruments.

React-NTI LLC is an industrial chemical corporate joint venture of NTIC that focuses on the development, manufacture and marketing of proprietary lines of bio-based additives with both industrial and personal care applications. Based on cotton, soy, corn and other renewable resources, React-NTI products outperform many synthetically derived competing alternatives. React-NTI's target market includes NTIC's existing industrial customer base, as well as the personal care and cosmetics industry. As of February 28, 2005, NTIC began fully consolidating this 75% owned subsidiary, which was previously accounted for using the equity method.

NTIC conducts all foreign transactions based on the U.S. dollar, except for its investments in various foreign corporate joint ventures. The exchange rate differential relating to investments in foreign corporate joint ventures is accounted for under the requirements of SFAS No. 52, *Foreign Currency Translation*.

NTIC's consolidated net sales increased 12.1% during fiscal 2006 as compared to fiscal 2005 primarily as a result of the increase in demand of Zerust<sup>®</sup> products and of React-NTI products to new and existing customers in North America. Net sales of Zerust<sup>®</sup> products increased \$1,501,881 to \$12,099,187 and net sales of React-NTI products increased \$286,411 to \$4,505,777 during fiscal 2006 as compared to the same period in fiscal 2005.

Cost of sales as a percentage of net sales increased to 62.3% in fiscal 2006 as compared to 60.5% for fiscal 2005 primarily as a result of an increase in raw material prices, including in particular plastic resins.

Total net sales of all of NTIC's joint ventures increased 11.9% to \$63,959,090 during fiscal 2006 as compared to \$57,167,054 during fiscal 2005. NTIC receives fees for technical and other support services it provides to its joint ventures based on the revenues of the individual joint ventures. NTIC recognized increased fee income for such technical and support services in fiscal 2006 as compared to fiscal 2005 as a result of the increase in total net sales of the joint ventures. NTIC incurs direct expenses related to its corporate joint ventures and holding companies. Such expenses include consulting, travel, technical and marketing services to existing joint ventures, legal fees incurred in the establishment of new joint ventures, registration and promotion and legal defense of worldwide trademarks, and legal fees incurred in connection with the filing of patent applications. NTIC incurred increased direct joint venture expenses in fiscal 2006 as compared to fiscal 2005 primarily as a result of a reserve established for the potential future write-off of a note receivable in the amount of \$571,000.

NTIC's working capital was \$2,221,334 at August 31, 2006, including \$299,117 in cash and cash equivalents. In August 2006, NTIC increased its existing \$1,000,000 revolving credit facility with National City Bank to \$1,500,000. As of August 31, 2006, NTIC had borrowed \$610,000 under the revolving credit facility. Subsequent to August 31, 2006, NTIC borrowed an additional \$582,000 under the revolving credit facility bringing the outstanding balance as of November 17, 2006 to \$1,192,000. The revolving credit facility expires on January 31, 2007. NTIC intends to renew or replace this facility on or prior to the January 31, 2007 maturity date.

NTIC paid a cash dividend of \$0.07 per share, based on fiscal 2004 results, in fiscal 2005. NTIC elected not to pay a dividend in fiscal 2006, based on fiscal 2005 results, or thus far in fiscal 2007, based on fiscal 2006 results, in order to preserve cash and make investments in future operations. NTIC expects to meet its future liquidity requirements during at least the next twelve months by using its existing cash and cash equivalents, forecasted cash flows from future operations, distributions of earnings and technical assistance fees to NTIC from its joint venture investments and funds available through existing or anticipated financing arrangements.

## Results of Operations

### *Fiscal Year 2006 Compared to Fiscal Year 2005*

The following table sets forth NTIC's consolidated results of operations for fiscal 2006 and fiscal 2005. These results of operations exclude the impact NTIC's activities with its joint ventures, other than React-NTIC LLC. As is more fully explained in note 2 to NTIC's consolidated financial statements, the results of React-NTI LLC are included in the figures below.

	Fiscal 2006	% of Net Sales	Fiscal 2005	% of Net Sales	\$ Change	% Change
Net sales	\$ 16,604,964	100.0%	\$ 14,816,672	100.0%	\$ 1,788,292	12.1%
Cost of sales	\$ 10,346,437	62.3%	\$ 8,967,155	60.5%	\$ 1,379,282	15.4%
Selling expenses	\$ 3,075,072	18.5%	\$ 2,714,740	18.3%	\$ 360,332	13.3%
General and administrative expenses	\$ 2,795,194	16.8%	\$ 2,364,667	16.0%	\$ 430,527	18.2%
Lab and technical support expenses	\$ 296,676	1.8%	\$ 759,662	5.1%	\$ (462,986)	(60.9)%

*Net Sales.* NTIC's consolidated net sales originating in the United States increased in fiscal 2006 compared to fiscal 2005 primarily as a result of the increase in demand of Zerust® products and of React-NTI products to new and existing customers in North America. Net sales of Zerust® products increased \$1,501,881 to \$12,099,187 and net sales of React-NTI products increased \$286,411 to \$4,505,777 in fiscal 2006 as compared to in fiscal 2005.

*Cost of Sales.* Cost of sales increased 15.4% in fiscal 2006 compared to fiscal 2005 primarily as a result of the increase in net sales. Cost of sales as a percentage of net sales also increased slightly in fiscal 2006 compared to fiscal 2005 primarily as a result of an increase in raw material prices, primarily plastic resins.

*Selling Expenses.* NTIC's selling expenses increased in fiscal 2006 compared to fiscal 2005 primarily as a result of increases in (i) consulting expense of \$145,000, (ii) promotional materials expense of \$71,000, (iii) travel expenses of \$38,000, (iv) telecommunications expense of \$26,000, (v) auto expense of \$25,000 (vi) salary expense related of \$166,000 and (vii) insurance expense of \$23,000. These increases were partially offset by decreases in (i) selling expense related to the sale of React products of \$93,000, and (ii) commissions to salespeople and manufacturer's representatives totaling \$63,000. As a percentage of net sales, selling expenses increased slightly in fiscal 2006 compared to in fiscal 2005, primarily as a result of the changes in spending as described above. Selling expenses as a percentage of net sales increased in fiscal 2006 compared to in fiscal 2005 primarily as a result of the increased efforts to diversify our existing product lines and new product lines into new markets.

*General and Administrative Expenses.* NTIC's general and administrative expenses increased in fiscal 2006 compared to in fiscal 2005 primarily as a result of increases in (i) salaries and wage expense increases of \$118,000, (ii) insurance expense of \$132,000, (iii) management bonus of \$185,000, (iv) travel expense of \$97,000 (v) general and administrative expense related to the sale of React products of \$154,000. These increases were partially offset by decreases in (i) legal expense of \$68,000 and (ii) directors' fees and expenses of \$113,000, (iii) shipping expense of \$32,000 and (iv) telecommunications expense of \$29,000. As a percentage of net sales, general and administrative expenses increased slightly in fiscal 2006 compared to in fiscal 2005, primarily as a result of the changes in spending as described above. General and administrative expenses as a percentage of net sales increased in fiscal 2006 compared to in fiscal 2005 primarily as a result of the increased efforts to support the diversification of our new and existing product lines into new markets.

*Lab and Technical Support Expenses.* NTIC's lab and technical support expenses decreased in fiscal 2006 compared to in fiscal 2005 primarily due to the transfer of employees from the lab and technical support area to research and development associated with corporate joint venture support, which decreased lab and technical support expenses by \$450,000. As a percentage of net sales, lab and technical support expenses decreased in fiscal 2006 compared in fiscal 2005 primarily as a result of the transfer of employees and decrease in spending as described above.

*International Corporate Joint Ventures and Holding Companies.* Net sales of NTIC's corporate joint ventures in fiscal 2006 and fiscal 2005, excluding React-NTI LLC, were as follows:

	Fiscal 2006	Fiscal 2005
Industrial chemical	\$ 62,266,618	\$ 55,606,933
Non-industrial chemical	1,342,472	1,210,121
Business consulting	350,000	350,000
<b>Total</b>	<b>\$ 63,959,090</b>	<b>\$ 57,167,054</b>

NTIC had equity in income of corporate joint ventures and holding companies of \$2,713,096 in fiscal 2006 compared to \$1,968,777 in fiscal 2005. The increase in equity in income was due to the significant increase in profitability from the corporate joint ventures as a whole.

NTIC receives fees for technical and other support services it provides to its corporate joint ventures based on the revenues of the individual corporate joint ventures. NTIC recognized fee income for such support of \$4,695,124 in fiscal 2006 compared to \$4,136,913 in fiscal 2005. The increase in fees for technical and other support to its corporate joint ventures was due to the significant increase in total net sales of the corporate joint ventures.

	Fiscal 2006	Fiscal 2005	\$ Change	% Change
Total net sales of corporate joint ventures, excluding React-NTI LLC	\$ 63,959,090	\$ 57,167,054	\$ 6,792,036	11.9%
NTIC's fee income for technical and other support services	\$ 4,695,124	\$ 4,136,913	\$ 558,211	13.5%
NTIC's direct expenses incurred related to corporate joint ventures and holding companies	\$ 5,481,757	\$ 4,977,375	\$ 504,382	10.1%

NTIC sponsors a worldwide corporate joint venture conference approximately every three to four years in which all of its corporate joint ventures are invited to participate. The most recent conference was in August 2005 and the next corporate joint venture conference is scheduled to be held in 2008. NTIC defers a portion of its technical and other support fees received from its corporate joint ventures in each accounting period leading up to the conference, reflecting that NTIC has not fully earned the payments received during that period. There was \$96,000 of deferred income recorded within other accrued liabilities at August 31, 2006. The costs associated with these joint venture conferences are offset against the deferral as incurred, generally in the period in which the conference is held and immediately before.

NTIC incurred direct expenses related to its corporate joint ventures and the holding companies of \$5,481,757 in fiscal 2006 compared to \$4,977,375 in fiscal 2005. These expenses include: product and business development, consulting, travel, establishment of a reserve on a note receivable, technical and marketing services to existing joint ventures, legal fees regarding the establishment of new joint ventures, registration and promotion and legal defense of worldwide trademarks and legal fees incurred in the filing of patent applications for new technologies to which NTIC acquired certain rights. The increase in direct expenses incurred relating to NTIC's corporate joint ventures and holding companies in fiscal 2006 compared to in fiscal 2005 was attributable to increases in (i) expenses related to the transfer of employees from the lab and technical support area to research and development associated with corporate joint venture support of \$450,000 (ii) amortization expense of \$81,000 and (iii) establishment of a reserve for a note receivable of \$571,000. These increase were partially offset by decreases in (i) legal fees of \$33,000, (ii) insurance expense of \$128,000, (iii) travel expenses of \$91,000, (iv) loan forgiveness of \$96,000 and (v) consulting fees of \$271,000. As a percentage of net sales, direct expenses incurred relating to NTIC's corporate joint ventures and holding companies decreased in fiscal 2006 compared to in fiscal 2005, primarily as a result of the changes in spending as described above.

*Interest Income.* NTIC's interest income decreased to \$34,251 in fiscal 2006 compared to \$96,282 for fiscal 2005 primarily as a result of lower average invested cash balances and fewer notes receivable in fiscal 2006.

*Interest Expense.* NTIC's interest expense increased to \$94,751 in fiscal 2006 compared to \$36,090 for fiscal 2005 as a result of higher average outstanding borrowings under NTIC's revolving line of credit in fiscal 2006 compared to in fiscal 2005 and the entering into of the term note in May 2005 in connection with NTIC's purchase of the real estate and building for its new corporate headquarters.



*Income Before Income Taxes.* Income before income taxes increased to \$1,973,065 in fiscal 2006 compared to \$1,209,281 in fiscal 2005.

*Income Taxes.* Income tax expense for fiscal 2006 and 2005 was calculated based on management's estimate of NTIC's annual effective income tax rate. NTIC's annual effective income tax rate for fiscal 2006 is lower than the statutory rate primarily due to NTIC's equity in income of corporate joint ventures being recognized for book purposes based on our share of after-tax earnings of these entities. For tax purposes, to the extent joint ventures' undistributed earnings are distributed to NTIC, it is not expected to result in any material additional income tax liability after the application of foreign tax credits.

#### ***Fiscal Year 2005 Compared to Fiscal Year 2004***

The following table sets forth our consolidated results of operations for fiscal 2005 and fiscal 2004.

	Fiscal 2005	% of Net Sales	Fiscal 2004	% of Net Sales	\$ Change	% Change
Net sales	\$ 14,816,672	100.0%	\$ 13,942,271	100.0%	\$ 874,401	6.3%
Cost of sales	\$ 8,967,155	60.5%	\$ 7,801,807	56.0%	\$ 1,165,348	14.9%
Selling expenses	\$ 2,714,740	18.3%	\$ 3,053,831	21.9%	\$ (339,091)	(11.1)%
General and administrative expenses	\$ 2,364,667	16.0%	\$ 2,484,799	17.8%	(120,132)	(4.8)%
Lab and technical support expenses	\$ 759,662	5.1%	\$ 663,346	4.8%	\$ 96,316	14.5%

*Net Sales.* NTIC's consolidated net sales originating in the United States increased in fiscal 2005 compared to fiscal 2004 primarily as a result of the increase in net sales of React-NTI to its existing customers in North America. Net sales of React-NTI increased \$1,192,771 to \$4,219,366 for fiscal 2005 compared to \$3,026,595 for fiscal 2004. Net sales of NTIC's traditional Zerust product line decreased \$318,370 in fiscal 2005 to \$10,597,306 compared to \$10,915,676 in fiscal 2004.

*Cost of Sales.* Cost of sales increased 14.9% in fiscal 2005 compared to fiscal 2004 primarily as a result of the increase in net sales. Cost of sales as a percentage of net sales also increased in fiscal 2005 compared to fiscal 2004 primarily as a result of the increase in net sales of React-NTI products that have lower gross profit margins than NTIC's corrosion inhibiting products in fiscal 2005 compared to fiscal 2004.

*Selling Expenses.* NTIC's selling expenses decreased in fiscal 2005 compared to fiscal 2004 primarily as a result of a combination of decreased travel expenses of \$53,000, trade show expenses of \$17,000, sales promotion materials of \$28,000 and commissions to salespeople and commissions to manufacturer's representatives of \$73,000, offset by increases related to sales consulting payments of \$30,000 and advertising expenses of \$14,000. Additionally, selling expense related to React NTI decreased \$233,000. Selling expenses as a percentage of net sales decreased in fiscal 2005 compared to fiscal 2004 primarily as a result of decreased travel and associated expenses, which NTIC reduced as a cost control measure.

*General and Administrative Expenses.* NTIC's general and administrative expenses decreased for fiscal 2005 compared to fiscal 2004 primarily as a result of decreases related to reduction in education expense of \$45,000, travel of \$26,000, outside consulting of \$62,000, offset by increases in Sarbanes-Oxley consulting fees of \$35,000. Additionally, General and Administrative expenses related to React NTI decreased by \$47,000. As a percentage of net sales, general and administrative expenses decreased for fiscal 2005 compared to fiscal 2004 primarily as a result of the decrease in spending as described above.

*Lab and Technical Support Expenses.* NTIC's lab and technical support expenses increased in fiscal 2005 compared to fiscal 2004 primarily as a result of increase in salaries of \$216,000, offset by decreases in

travel of \$75,000, and consulting of \$40,000. NTIC increased its spending on lab and technical support in an effort to support its increased sales network and better serve its existing customers and joint ventures. As a percentage of net sales, lab and technical support expenses increased slightly in fiscal 2005 compared to fiscal 2004 primarily as a result of the increase in expenses.

*International Corporate Joint Ventures and Holding Companies.* Net sales of NTIC's corporate joint ventures in fiscal 2005 and fiscal 2004, excluding React-NTI LLC, were as follows:

	Fiscal 2005	Fiscal 2004
Industrial chemical	\$ 55,606,933	\$ 42,664,235
Non-industrial chemical	1,210,121	1,118,133
Business consulting	350,000	339,303
<b>Total</b>	<b>\$ 57,167,054</b>	<b>\$ 44,121,671</b>

NTIC had equity in income of corporate joint ventures and holding companies of \$1,968,777 in fiscal 2005 compared to \$1,521,074 in fiscal 2004. The increase in equity in income was due to the significant increase in profitability from the corporate joint ventures as a whole.

NTIC receives fees for technical and other support services it provides to its corporate joint ventures based on the revenues of the individual corporate joint ventures. NTIC recognized fee income for such support of \$4,136,913 in fiscal 2005 compared to \$3,621,353 in fiscal 2004. The increase in fees for technical and other support to its corporate joint ventures was due to the significant increase in total net sales of the corporate joint ventures.

	Fiscal 2005	Fiscal 2004	\$ Change	% Change
Total net sales of corporate joint ventures, excluding React-NTI LLC	\$ 57,167,054	\$ 44,121,671	\$ 13,045,383	30.0%
NTIC's fee income for technical and other support services	\$ 4,136,913	\$ 3,621,353	\$ 515,560	14.2%
NTIC's direct expenses incurred related to corporate joint ventures and holding companies	\$ 4,977,375	\$ 4,038,678	\$ 938,697	23.2%

There was \$74,702 of deferred royalty income recorded within other accrued liabilities at August 31, 2005, related to NTIC's worldwide corporate joint venture conference. Total expenses incurred in connection with the September 2005 conference as of August 31, 2005 were \$331,423. The costs associated with these joint venture conferences are recognized as incurred, generally in the period in which the conference is held and immediately before.

NTIC incurred direct expenses related to its corporate joint ventures and the holding companies of \$4,977,375 in fiscal 2005 compared to \$4,038,678 in fiscal 2004. These expenses include: product and business development, consulting, travel, technical and marketing services to existing joint ventures, legal fees regarding the establishment of new joint ventures, registration and promotion and legal defense of worldwide trademarks, and legal fees incurred in connection with the filing of patent applications. The increase in such direct expenses in fiscal 2005 compared to fiscal 2004 was attributable to increases in management and coordinator salaries of \$150,000, Inter Alia expense reimbursement of \$195,000, group insurance of \$70,000, travel expense of \$134,000, testing of \$95,000, legal of \$50,000, loan forgiveness to existing corporate joint ventures of \$97,000 and external consulting services of \$134,000.

Such increased expenses derived from NTIC's efforts to establish new corporate joint ventures and build up the technical support for the existing corporate joint ventures out of the Beachwood, Ohio location.

*Interest Income.* NTIC's interest income increased to \$96,282 in fiscal 2005 compared to \$63,734 for fiscal 2004 primarily as a result of higher average invested cash balances in fiscal 2005.

*Interest Expense.* NTIC's interest expense increased to \$36,090 in fiscal 2005 compared to \$0 for fiscal 2004 as a result of NTIC's use of its revolving line of credit in fiscal 2005.

*Income Before Income Taxes.* Income before income taxes decreased \$16,034 to \$1,209,281 in fiscal 2005 compared to \$1,225,315 in fiscal 2004.

*Income Taxes.* Income tax expense for fiscal 2005 and 2004 was calculated based on management's estimate of NTIC's annual effective income tax rate. NTIC's annual effective income tax rate for fiscal 2005 is lower than the statutory rate primarily due to NTIC's equity in income of corporate joint ventures being recognized based on after-tax earnings of these entities. To the extent joint ventures' undistributed earnings are distributed to NTIC, it is not expected to result in any material additional income tax liability after the application of foreign tax credits.

## **Liquidity and Capital Resources**

*Sources of Cash and Working Capital.* As of August 31, 2006, NTIC's working capital was \$2,221,334, including \$299,117 in cash and cash equivalents, compared to working capital of \$2,697,693, including \$327,458 in cash and cash equivalents, as of August 31, 2005.

NTIC increased its revolving credit facility from \$1,000,000 to \$1,500,000 in August 2006. The facility expires on January 31, 2007. Outstanding amounts under the revolving credit facility bear interest at an annual rate based on LIBOR plus 2.25%. As of August 31, 2006, the interest rate was 7.58%, and the average for the year ended August 31, 2006 was 6.98%. Amounts borrowed under the facility are collateralized by a lien on substantially all of NTIC's assets, excluding its corporate joint venture interests and intellectual property rights. The credit documents contain other terms and provisions (including representations, covenants and conditions) customary for transactions of this type. Significant financial covenants include minimum fixed charge coverage ratio of 1.0 to 1.0. Other covenants include a prohibition on any merger or consolidation without prior consent of the lender and restrictions on future credit extensions and non-equity investments and the incurrence of additional indebtedness without the lender's prior consent. NTIC is in compliance with all covenants under the revolving credit facility. The facility contains customary events of default, including nonpayment of principal or other amounts when due; breach of covenants; inaccuracy of representations and warranties; cross-default and/or cross-acceleration to other indebtedness; non-compliance with laws; certain voluntary and involuntary bankruptcy events; judgments entered against NTIC; and a sale of material assets. If an event of default occurs and is continuing, the lender may, among other things, terminate its obligations thereunder and require NTIC to repay all amounts thereunder. As of August 31, 2006, \$610,000 was outstanding under the facility. NTIC has the right to prepay the facility at any time without premium or penalty. NTIC has borrowed \$582,000 on the revolving credit facility subsequent to August 31, 2006, to bring the balance as of November 17, 2006 to \$1,192,000. The line of credit is subject to a borrowing base calculation and at August 31, 2006, NTIC had \$890,000 available.

NTIC believes that a combination of its existing cash and cash equivalents, funds available through existing or anticipated financing arrangements and forecasted cash flows, will continue to be adequate to fund its operations, capital expenditures, debt repayments and stock repurchases for at least the next twelve months.

*Uses of Cash and Cash Flows.* Cash flows provided by operations during fiscal 2006 was \$855,467, which resulted principally from net income after excluding the effect of depreciation and amortization expense and the write-off of a certain note receivable, as well as an increase in accrued liabilities and a decrease in inventories, all offset by equity income of corporate joint ventures, trade excluding corporate joint ventures and an increase in prepaid expenses. Cash flows used in operations during fiscal 2005 was \$1,363,175, which resulted principally from net income, depreciation and amortization expense, accounts payable and technical receivables from corporate joint ventures being offset by equity income of corporate joint ventures, trade excluding corporate joint ventures, inventories and accrued liabilities.

Net cash used in investing activities during fiscal 2006 was \$1,669,020, which resulted from additions to property and equipment and industrial patents, offset by dividends received from corporate joint ventures and cash received on loans. Net cash provided by investing activities during fiscal 2005 was \$244,663, which resulted from dividends received from corporate joint ventures, offset by loans made, investments in corporate joint ventures and additions to property and equipment and industrial patents.

Net cash provided by financing activities during fiscal 2006 was \$785,212, which resulted primarily from the borrowings on a term loan, exercising of stock options and bank overdrafts, offset by the payoff of the note payable and repayments on the line of credit. Net cash provided by financing activities during fiscal 2005 was \$783,952, which resulted primarily from borrowing on the line of credit, partially offset by dividends paid to stockholders.

*Capital Expenditures and Commitments.* NTIC has no material lease commitments as of August 31, 2006, except a lease agreement entered into by NTI Facilities, Inc., a subsidiary of NTIC, for approximately 16,994 square feet of office, manufacturing, laboratory and warehouse space in Beachwood, Ohio, requiring monthly payments of \$17,500, which are adjusted annually according to the annual consumer price index, through November 2014. NTIC has no postretirement benefit plan and does not anticipate establishing any postretirement benefit program.

NTIC recently moved its corporate headquarters. NTIC purchased the real estate and 40,000 square feet building in which its new corporate headquarters is located pursuant to a like-kind exchange transaction within the meaning of Section 1031 of the Internal Revenue Code of 1986, as amended, for a purchase price of \$1,475,000. To finance the transaction, NTIC obtained a secured term loan in the principal amount of \$1,275,000. The term loan matures on May 3, 2011, bears interest at a fixed rate of 8.01% and is payable in 59 monthly installments equal to approximately \$10,775 (inclusive of principal and interest) commencing June 1, 2006. All of the remaining unpaid principal and accrued interest is due and payable on the maturity date. The loan is secured by a first lien on the real estate and building.

NTIC sold the real property and building in which NTIC's former Lino Lakes corporate headquarters was located for a purchase price of \$870,000 on September 8, 2006. The net book value of the building held for sale was \$89,636 and the closing costs and fees associated with the sale of the property was \$46,571. The gain on sale of the property was \$733,793 and will be reflected in NTIC's first quarter fiscal 2007 financial results.

#### **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.

In fiscal 1999, a subsidiary of NTIC, NTI Facilities, Inc., acquired a one-third ownership of Omni-Northern Ltd., which owns and operates a rental property located at 23205 Mercantile Road, Beachwood, Ohio. The property has an approximate value of \$2,205,000, based upon the cash-to-mortgage acquisition price of the property paid in fiscal 2000. NTIC has guaranteed up to \$329,082 of Omni-Northern Ltd.'s \$1,903,571 mortgage obligation with National City Bank, Cleveland, Ohio. The building is fully leased at present.

#### **Inflation and Seasonality**

Inflation in the U.S. and abroad has historically had little effect on NTIC. NTIC's business has not historically been seasonal.

#### **Market Risk**

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

NTIC is exposed to foreign currency exchange rate risk arising from its investments in its foreign corporate joint ventures and holding companies since NTIC's fees for technical support and other services and dividend distributions from these foreign entities are paid in foreign currencies. NTIC's principal exchange rate exposure is with the Euro, the Japanese yen, Korean won and the English pound against the U.S. dollar. NTIC does not hedge against its foreign currency exchange rate risk. Since NTIC's investments in its corporate joint ventures and holding companies 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 the equity in income of joint ventures and holding companies reflected in NTIC's consolidated statement of income.

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.

NTIC's revolving credit facility bears interest at a rate based on LIBOR and thus may subject NTIC to some market risk on interest rates. \$610,000 was outstanding under this facility as of August 31, 2006.

#### **Related Party Transactions**

See note 18 to NTIC's consolidated financial statements for related party transaction disclosure.

#### **Critical Accounting Policies**

The preparation of NTIC's consolidated financial statements requires management to make estimates and judgments that affect the reported amount of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. The Securities and Exchange Commission has defined a company's most critical accounting policies as those that are most important to the portrayal of its financial condition and results of operations, and which require the company to make its most difficult and subjective judgments, often as a result of the need to make estimates of matters that are inherently uncertain. Based on this definition, NTIC has identified the following critical accounting policies. Although NTIC believes that its estimates and assumptions are reasonable, they are based upon information available when they are made. Actual results may differ significantly from these estimates under different assumptions or conditions.

### ***Investments in Corporate Joint Ventures***

NTIC's investments in corporate joint ventures are accounted for using the equity method, except for React-NTI LLC which has been fully consolidated, due to the adoption of FIN 46R. Periodically, NTIC evaluates the investments for any impairment and assesses the future cash flow projections to determine if there are any going concern issues. If an investment were determined to be impaired, then a reserve would be created to reflect the impairment on the financial results of NTIC. NTIC's evaluation of its investments in corporate joint ventures requires NTIC to make assumptions about future cash flows of its corporate joint ventures. These assumptions require significant judgment and actual results may differ from assumed or estimated amounts. NTIC's investments in corporate joint ventures were \$10,772,102 and \$8,622,361 as of August 31, 2006 and 2005, respectively.

### ***Principles of Consolidation***

The consolidated financial statements include the accounts of Northern Technologies International Corporation, its wholly owned subsidiaries, NTI Facilities, Inc. and Northern Technologies Holding Company, LLC, and React-NTI LLC. All significant intercompany transactions and balances have been eliminated in consolidation.

### ***Accounts and Notes Receivable***

NTIC values accounts and notes receivable, net of an allowance for doubtful accounts. Each quarter, NTIC prepares an analysis of its ability to collect outstanding receivables that provides a basis for an allowance estimate for doubtful accounts. In doing so, NTIC evaluates the age of its receivables, past collection history, current financial conditions of key customers, and economic conditions. Based on this evaluation, NTIC establishes a reserve for specific accounts and notes receivable that it believes are uncollectible, as well as an estimate of uncollectible receivables not specifically known. A deterioration in the financial condition of any key customer or a significant slow down in the economy could have a material negative impact on NTIC's ability to collect a portion or all of the accounts and notes receivable. NTIC believes that an analysis of historical trends and its current knowledge of potential collection problems provide NTIC with sufficient information to establish a reasonable estimate for an allowance for doubtful accounts. However, since NTIC cannot predict with certainty future changes in the financial stability of its customers, NTIC's actual future losses from uncollectible accounts may differ from its estimates. In the event NTIC determined that a smaller or larger uncollectible accounts reserve is appropriate, NTIC would record a credit or charge to selling expense in the period that it made such a determination. Accounts receivable have been reduced by an allowance for uncollectible accounts of \$10,000 and \$13,085 at August 31, 2006 and August 31, 2005, respectively.

### ***Revenue Recognition***

In recognizing revenue, NTIC applies the provisions of the Securities and Exchange Commission Staff Accounting Bulletin No. 104, Revenue Recognition. NTIC recognizes revenue from the sale of its products when persuasive evidence of an arrangement exists, the product has been delivered, the price is fixed and determinable and collection of the resulting receivable is reasonably assured. These criteria are met at the time of shipment when risk of loss and title pass to the customer or distributor.

### ***Foreign Currency Translation (Accumulated Other Comprehensive Income)***

The functional currency of each international corporate joint venture is the applicable local currency. The translation of the applicable foreign currencies into U.S. dollars is performed for balance sheet accounts using current exchange rates in effect at the balance sheet date and for revenue and expense accounts using an average monthly exchange rate. Translation gains or losses are reported as an element of accumulated other comprehensive income.

### ***Stock Based Compensation***

In accordance with Accounting Principles Board (APB) Opinion No. 25 and related interpretations, NTIC uses the intrinsic value-based method for measuring stock-based compensation cost which measures compensation cost as the excess, if any, of quoted market price of NTIC's common stock at the grant date over the amount the employee must pay for the stock. NTIC's general policy is to grant stock options at fair value at the date of grant. NTIC did not recognize any expense in its consolidated financial statements as all option grants were made at fair market value. Options and warrants issued to non-employees are recorded at fair value, as required by Statement of Financial Accounting Standards (SFAS) No. 123, "Accounting for Stock-Based Compensation", using the Black-Scholes pricing method.

In December 2002, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure." SFAS No. 148 is an amendment to SFAS No. 123 providing alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation and also provides required additional disclosures about the method of accounting for stock-based employee compensation. NTIC adopted the annual disclosure provision of SFAS No. 148 during the fiscal year ended August 31, 2004. NTIC chose not to adopt the voluntary change to the fair value based method of accounting for stock-based employee compensation, pursuant to SFAS No. 148.

NTIC has adopted the disclosure-only provisions of SFAS No. 148, Accounting for Stock-Based Compensation. Accordingly, no compensation cost has been recognized with respect to stock options. Had compensation cost for stock options been determined based on the fair value methodology prescribed by SFAS 123, NTIC's net loss and net loss per share would have been reduced to the pro forma amounts set forth in note 3 to NTIC's consolidated financial statements.

In December 2004, FASB issued SFAS No. 123 (revised 2004), "Share-Based Payment", that focuses primarily on accounting for transactions in which an entity obtains employee services in share-based payment transactions. This statement replaces SFAS No. 123, "Accounting for Stock-Based Compensation", and supersedes APB Opinion No. 25, "Accounting for Stock Issued to Employees." Beginning with NTIC's quarterly period that begins September 1, 2006, NTIC will be required to expense the fair value of employee stock options and similar awards. As a public company, NTIC is allowed to select from two alternative transition methods, each having different reporting implications. The impact of SFAS No. 123R on NTIC's consolidated financial statements has not been determined at this time.

### **Recent Accounting Pronouncements**

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

**Item 7. FINANCIAL STATEMENTS.**

**INDEX TO CONSOLIDATED FINANCIAL STATEMENTS**

The following items are included herein:

<b>Financial Statements:</b>	<b>Page</b>
<a href="#"><u>Report of Independent Registered Public Accounting Firm</u></a>	31
<a href="#"><u>Consolidated Balance Sheets as of August 31, 2006 and 2005</u></a>	32
<a href="#"><u>Consolidated Statements of Income for the years ended August 31, 2006 and 2005</u></a>	33
<a href="#"><u>Consolidated Statements of Stockholders' Equity for the years ended August 31, 2006 and 2005</u></a>	34
<a href="#"><u>Consolidated Statements of Cash Flows for the years ended August 31, 2006 and 2005</u></a>	35
<a href="#"><u>Notes to Consolidated Financial Statements</u></a>	36-53



## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders, Audit Committee and Board of Directors  
Northern Technologies International Corporation & Subsidiaries

We have audited the accompanying consolidated balance sheets of Northern Technologies International Corporation and Subsidiaries (the "Company") as of August 31, 2006 and 2005, and the related consolidated statements of income, stockholders' equity and cash flows for the years then ended. These consolidated financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We did not audit the financial statements of certain Company joint ventures, as described in Note 8, the investments in which are accounted for by the equity method of accounting. The investments in these joint ventures was \$4,237,954 and \$3,232,697 as of August 31, 2006 and 2005, respectively, and the equity in their net income was \$1,192,927 and \$557,434, respectively for the years then ended. The financial statements of these joint ventures were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for the joint ventures is based solely on the report of the other auditors.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall consolidated financial statement presentation. We believe that our audits and the reports of the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the reports of the other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of August 31, 2006 and 2005 and the results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

/s/ Virchow, Krause & Company, LLP

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Minneapolis, Minnesota  
November 6, 2006

**NORTHERN TECHNOLOGIES INTERNATIONAL CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS - AUGUST 31, 2006 AND 2005**

	August 31, 2006	August 31, 2005
<b>ASSETS</b>		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 299,117	\$ 327,458
Receivables:		
Trade excluding corporate joint ventures, less allowance for doubtful accounts of \$10,000 & \$13,085 at August 31, 2006 & 2005, respectively	1,772,568	1,990,589
Trade corporate joint ventures	598,162	450,843
Technical and other services, corporate joint ventures	1,357,754	1,093,688
Income taxes	333,819	517,019
Inventories	1,377,953	1,547,769
Prepaid expenses	233,648	149,638
Deferred income taxes	237,088	27,088
<b>Total current assets</b>	<b>6,210,109</b>	<b>6,104,092</b>
PROPERTY AND EQUIPMENT, net	3,430,573	720,646
OTHER ASSETS:		
Investments in corporate joint ventures:		
Industrial chemical	10,397,463	8,296,390
Industrial non-chemical	374,639	325,971
Deferred income taxes	628,197	497,197
Notes receivable and foreign deposit	497,179	1,522,922
Note from employee	56,679	82,116
Industrial patents and trademarks, net	996,592	1,060,217
Goodwill	304,000	304,000
Other	375,199	383,267
	<b>13,629,948</b>	<b>12,472,080</b>
	<b>\$ 23,270,630</b>	<b>\$ 19,296,818</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
CURRENT LIABILITIES:		
Bank overdrafts	\$ 328,804	\$ —
Borrowings made on line of credit	610,000	1,000,000
Current portion of notes payable	27,310	554,870
Accounts payable	1,775,926	1,284,784
Accrued liabilities:		
Payroll and related benefits	1,056,556	265,174
Deferred joint venture royalties	96,000	74,702
Other	94,179	226,869
<b>Total current liabilities</b>	<b>3,988,775</b>	<b>3,406,399</b>
NOTES PAYABLE, NET OF CURRENT PORTION	1,240,848	—
MINORITY INTEREST	55,254	67,538
STOCKHOLDERS' 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 3,618,993 and 3,589,993, respectively	72,380	71,800
Additional paid-in capital	4,272,635	4,140,095
Retained earnings	12,895,574	11,176,509
Accumulated other comprehensive income	745,164	434,477
<b>Total stockholders' equity</b>	<b>17,985,753</b>	<b>15,822,881</b>
	<b>\$ 23,270,630</b>	<b>\$ 19,296,818</b>

See notes to consolidated financial statements.

**NORTHERN TECHNOLOGIES INTERNATIONAL CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF INCOME**  
**YEARS ENDED AUGUST 31, 2006 AND 2005**

	2006	2005
<b>NORTH AMERICAN OPERATIONS:</b>		
Net sales	\$ 16,604,964	\$ 14,816,672
Cost of sales	10,346,437	8,967,155
Gross profit	6,258,527	5,849,517
Operating expenses:		
Selling	3,075,072	2,714,740
General and administrative	2,795,194	2,364,667
Lab and technical support	296,676	759,662
	6,166,942	5,839,069
NORTH AMERICAN OPERATING INCOME	91,585	10,448
<b>CORPORATE JOINT VENTURES AND HOLDING COMPANIES:</b>		
Equity in income of industrial chemical corporate joint ventures and holding companies	2,678,901	1,937,230
Equity in income of industrial non-chemical corporate joint ventures and holding companies	34,195	31,547
Fees for technical support and other services provided to corporate joint ventures	4,695,124	4,136,913
Expenses incurred in support of corporate joint ventures	(5,481,757)	(4,977,375)
INCOME FROM ALL CORPORATE JOINT VENTURES AND HOLDING COMPANIES	1,926,463	1,128,315
INTEREST INCOME	34,251	96,282
INTEREST EXPENSE	(94,751)	(36,090)
OTHER INCOME	3,233	—
MINORITY INTEREST	12,284	10,326
INCOME BEFORE INCOME TAX EXPENSE	1,973,065	1,209,281
INCOME TAX EXPENSE	254,000	16,000
NET INCOME	\$ 1,719,065	\$ 1,193,281
<b>NET INCOME PER COMMON SHARE:</b>		
Basic	\$ 0.48	\$ 0.33
Diluted	\$ 0.47	\$ 0.33
<b>WEIGHTED AVERAGE COMMON SHARES ASSUMED OUTSTANDING:</b>		
Basic	3,603,340	3,584,085
Diluted	3,630,677	3,600,485
DIVIDENDS PAID PER COMMON SHARE	—	\$ 0.07

See notes to consolidated financial statements.

**NORTHERN TECHNOLOGIES INTERNATIONAL CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**  
**AUGUST 31, 2006 AND 2005**

	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive (Income) Loss	Total Stockholders' Equity
	Shares	Amount				
BALANCE AT AUGUST 31, 2004,						
Restated	3,581,992	\$ 71,640	\$ 4,105,564	\$ 10,233,967	\$ 310,889	\$ 14,722,060
Issuance of common stock	8,001	160	34,531	—	—	34,691
Dividends on common stock - \$.07 per share	—	—	—	(250,739)	—	(250,739)
Comprehensive income, 2005:						
Foreign currency translation adj.	—	—	—	—	123,588	123,588
Net income	—	—	—	1,193,281	—	1,193,281
Comprehensive income, 2005						1,316,869
BALANCE AT AUGUST 31, 2005	3,589,993	71,800	4,140,095	11,176,509	434,477	15,822,881
Issuance of common stock	29,000	580	132,540	—	—	133,120
Comprehensive income, 2006:						
Foreign currency translation adj.	—	—	—	—	310,687	310,687
Net income	—	—	—	1,719,065	—	1,719,065
Comprehensive income, 2006						2,029,752
BALANCE AT AUGUST 31, 2006	3,618,993	\$ 72,380	\$ 4,272,635	\$ 12,895,574	\$ 745,164	\$ 17,985,753

See notes to consolidated financial statements.

**NORTHERN TECHNOLOGIES INTERNATIONAL CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**YEARS ENDED AUGUST 31, 2006 and 2005**

	2006	2005
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income	\$ 1,719,065	\$ 1,193,281
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Depreciation expense	199,011	207,437
Amortization expense	160,381	80,935
Minority interest	(12,284)	(10,326)
Reserve of notes receivable	571,179	224,778
Equity in (income) loss from corporate joint ventures:		
Industrial chemical	(2,678,901)	(1,937,230)
Industrial non-chemical	(34,195)	(31,547)
Deferred income taxes	(341,000)	105,715
Deferred gross profit	—	(30,000)
Deferred joint venture royalties	21,298	(141,573)
Change in current assets and liabilities:		
Receivables:		
Trade excluding corporate joint ventures	218,021	(321,324)
Trade corporate joint ventures	(147,319)	8,370
Technical and other services receivables, corporate joint ventures	(264,066)	139,875
Income taxes	183,200	(154,847)
Inventories	169,816	(336,257)
Prepaid expenses and other	(84,010)	(36,271)
Employee note receivable	25,437	25,215
Accounts payable	491,142	227,530
Accrued liabilities	658,692	(576,987)
Net cash provided by (used in) operating activities	855,467	(1,363,175)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Investment in joint ventures:		
Industrial chemical	(25,000)	(143,091)
Dividends received from corporate joint ventures	899,042	956,956
Goodwill	—	(31,000)
Loans made	—	(827,150)
Cash received on loans made	454,564	509,267
Additions to property and equipment	(2,908,938)	(148,411)
(Increase) Decrease in other assets	8,068	(74,365)
Disposals of industrial patents	63,211	65,928
Additions to industrial patents	(159,967)	(63,491)
Net cash (used in) provided by investing activities	(1,669,020)	244,643
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Dividends paid	—	(250,739)
Bank overdraft	328,804	—
Proceeds from notes payable	1,275,000	—
Repayment of note payable	(561,712)	—
Net borrowings made on line of credit (repayments)	(390,000)	1,000,000
Stock options exercised	133,120	34,691
Net cash provided by financing activities	785,212	783,952
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(28,341)	(334,580)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	327,458	662,038
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 299,117	\$ 327,458

See notes to consolidated financial statements.

**NORTHERN TECHNOLOGIES INTERNATIONAL CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**YEARS ENDED AUGUST 31, 2006 AND 2005**

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**1. NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES**

*Nature of Business* – Northern Technologies International Corporation and Subsidiaries (the Company) develops, manufactures, markets and sells primarily rust and corrosion protection products and custom packaging systems for primarily automotive, electronics, electrical, mechanical and military applications, sold under the brand name Zerust® and Excor®. The Company sells its products, as well as technical services, directly and via a network of independent distributors, manufacturer sales representatives and joint ventures in over 50 countries. The Company participates, either directly or indirectly through holding companies, in approximately 30 corporate joint venture arrangements in North America, South America, Europe, Asia and the Middle East. Each of these joint ventures manufactures, markets and sells finished products generally in the countries to which it is assigned. While most of the Company's joint ventures currently sell rust and corrosion inhibiting products and custom packaging systems, the Company also has joint ventures that manufacture, market and sell bio-based additives with both industrial and personal care applications, plastic recycling technology and electronic sensing instruments.

*Sales Originating in North America* – The Company considers sales originating in North America to be all sales shipped/invoiced from the Company's facilities located in Minnesota and Ohio. There are no sales from the Corporate Joint Ventures included in the amount as the Company's investments in Corporate Joint Ventures are accounted for using the equity method.

*Cash and Cash Equivalents* - The Company includes as cash and cash equivalents highly liquid, short-term investments with maturity of three months or less when purchased, which are readily convertible into known amounts of cash. The Company maintains its cash in high quality financial institutions. The balances, at times, may exceed federally insured limits.

*Accounts Receivable* - The Company reviews customers' credit history before extending unsecured credit and establishes 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. The Company does not accrue interest on past due accounts receivable. If accounts receivable in excess of the provided allowance are determined uncollectible, they are charged to expense in the year that determination is made. Accounts receivable have been reduced by an allowance for uncollectible accounts of \$10,000 and \$13,085 on August 31, 2006 and 2005, respectively.

*Inventories* - Inventories are recorded at the lower of cost (first-in, first-out basis) or market.

*Property and Depreciation* - Property and equipment are stated at cost. Depreciation is computed using the straight-line method based on the estimated service lives of the various assets as follows:

Buildings and improvements	5-20 years
Machinery and equipment	3-10 years

*Investments in Corporate Joint Ventures* - Investments in Corporate Joint Ventures are accounted for using the equity method. Intercompany profits on inventories held by the Corporate Joint Ventures that were purchased from the Company have been eliminated based on the Company's ownership percentage in each corporate joint venture.

Periodically, the Company evaluates the investments for any impairment and assesses the future cash flow projections to determine if there are any going concern issues. If an investment were determined to be impaired then a reserve would be created to reflect the impairment on the financial results of the Company.

*Recoverability of Long-Lived Assets* - The Company reviews its long-lived assets whenever events or changes in circumstances indicate the carrying amount of the assets may not be recoverable. The Company determines potential impairment by comparing the carrying value of the assets with expected net cash flows expected to be provided by operating activities of the business or related products. Should the sum of the expected undiscounted future net cash flows are less than the carrying value, the Company would determine whether an impairment loss should be recognized. An impairment loss would be measured by comparing the amount by which the carrying value exceeds the fair value of the asset. For the years ended August 31, 2006 and 2005, the Company did not record any impairment charges.

*Principles of Consolidation* - The consolidated financial statements include the accounts of Northern Technologies International Corporation, its wholly owned subsidiaries, NTI Facilities, Inc. and Northern Technologies Holding Company, LLC, and its 75% owned subsidiary React NTI LLC. All significant intercompany transactions and balances have been eliminated in consolidation.

*Income Taxes* - The Company utilizes the liability method of accounting for income taxes as set forth in Statement of Financial Accounting Standards (SFAS) No. 109, Accounting for Income Taxes. SFAS No. 109 requires an asset and liability approach to financial accounting and reporting for income taxes. Deferred income tax assets and liabilities are computed annually for differences between the financial statement and tax basis of assets and liabilities that will result in taxable or deductible amounts in the future, based on enacted tax laws and rates applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized. Income tax expense is the tax payable or refundable for the period plus or minus the change during the period in deferred tax assets and liabilities.

*Foreign Currency Translation (Accumulated Other Comprehensive Income)* - The functional currency of each international corporate joint venture is the applicable local currency. The translation of the applicable foreign currencies into U.S. dollars is performed for balance sheet accounts using current exchange rates in effect at the balance sheet date and for revenue and expense accounts using an average monthly exchange rate. Translation gains or losses are reported as an element of accumulated other comprehensive income.

*Revenue Recognition* - In recognizing revenue, the Company applies the provisions of the Securities and Exchange Commission Staff Accounting Bulletin 104, Revenue Recognition. The Company recognizes revenue from the sale of its products when persuasive evidence of an arrangement exists, the product has been delivered, the fee is fixed and determinable and collection of the resulting receivable is reasonably assured

*Shipping and Handling* - The Company records all amounts billed to customers in a sales transaction related to shipping and handling as sales. The Company records costs related to shipping and handling in cost of sales.

*Research and Development* - The Company expenses all costs related to product research and development as incurred. The Company spent \$2,043,611 in fiscal 2006 and \$1,292,143 in fiscal 2005 in connection with its research and development activities. These fees are accounted for in the "Expenses incurred in support of corporate joint ventures" section of the income statement.

*Use of Estimates* - The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

## 2. RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

The Financial Accounting Standards Board (FASB) has published FIN No. 48 (FIN No. 48), *Accounting for Uncertainty in Income Taxes*, to address the noncomparability in reporting tax assets and liabilities resulting from a lack of specific guidance in FASB No. 109 (SFAS No. 109), *Accounting for Income Taxes*, on the uncertainty in income taxes recognized in an enterprise's financial statements. Specifically, FIN No. 48 prescribes (a) a consistent recognition threshold and (b) a measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return, and provides related guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. FIN No. 48 will apply to fiscal years beginning after December 15, 2006, with earlier adoption permitted. The Company does not expect the adoption of FIN No. 48 to have a material effect on its consolidated financial statements.

The FASB has issued Statement of Financial Accounting Standards (SFAS) SFAS No. 157 (SFAS No. 157), *Fair Value Measurements*, to eliminate the diversity in practice that exists due to the different definitions of fair value and the limited guidance for applying those definitions in GAAP that are dispersed among the many accounting pronouncements that require fair value measurements. SFAS No. 157 retains the exchange price notion in earlier definitions of fair value, but clarifies that the exchange price is the price in an orderly transaction between market participants to sell an asset or liability in the principal or most advantageous market for the asset or liability. Moreover, the SFAS states that the transaction is hypothetical at the measurement date, considered from the perspective of the market participant who holds the asset or liability. Consequently, fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (an exit price), as opposed to the price that would be paid to acquire the asset or received to assume the liability at the measurement date (an entry price).

SFAS No. 157 also stipulates that, as a market-based measurement, fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability, and establishes a fair value hierarchy that distinguishes between (a) market participant assumptions developed based on market data obtained from sources independent of the reporting entity (observable inputs) and (b) the reporting entity's own assumptions about market participant assumptions developed based on the best information available in the circumstances (unobservable inputs). Finally, SFAS No. 157 expands disclosures about the use of fair value to measure assets and liabilities in interim and annual periods subsequent to initial recognition. Entities are encouraged to combine the fair value information disclosed under SFAS No. 157 with the fair value information disclosed under other accounting pronouncements, including SFAS No. 107, *Disclosures about Fair Value of Financial Instruments*, where practicable. The guidance in this Statement applies for derivatives and other financial instruments measured at fair value under SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, at initial recognition and in all subsequent periods.

SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years, although earlier application is encouraged. Additionally, prospective application of the provisions of SFAS No. 157 is required as of the beginning of the fiscal year in which it is initially applied, except when certain circumstances require retrospective application. The Company is currently evaluating the evaluating the effect of adopting SFAS No. 157 on their consolidated financial statements.



The FASB has issued SFAS No. 158 (SFAS No. 158), *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*, to require an employer to fully recognize the obligations associated with single-employer defined benefit pension, retiree healthcare, and other postretirement plans in their financial statements. Previous standards required an employer to disclose the complete funded status of its plan only in the notes to the financial statements. Moreover, because those standards allowed an employer to delay recognition of certain changes in plan assets and obligations that affected the costs of providing benefits, employers reported an asset or liability that almost always differed from the plan's funded status. Under SFAS No. 158, a defined benefit postretirement plan sponsor that is a public or private company or a nongovernmental not-for-profit organization must (a) recognize in its statement of financial position an asset for a plan's overfunded status or a liability for the plan's underfunded status, (b) measure the plan's assets and its obligations that determine its funded status as of the end of the employer's fiscal year (with limited exceptions), and (c) recognize, as a component of other comprehensive income, the changes in the funded status of the plan that arise during the year but are not recognized as components of net periodic benefit cost pursuant to SFAS No. 87, *Employers' Accounting for Pensions*, or SFAS No. 106, *Employers' Accounting for Postretirement Benefits Other Than Pensions*. SFAS No. 158 also requires an employer to disclose in the notes to financial statements additional information on how delayed recognition of certain changes in the funded status of a defined benefit postretirement plan affects net periodic benefit cost for the next fiscal year. The Company is evaluating the effect of adopting SFAS No. 158 on their consolidated financial statements.

### **3. STOCK-BASED COMPENSATION**

In accordance with Accounting Principles Board (APB) Opinion No. 25 and related interpretations, the Company uses the intrinsic value-based method for measuring stock-based compensation cost, which measures compensation cost as the excess, if any, of quoted market price of the Company's common stock at the grant date over the amount the employee must pay for the stock. The Company's general policy is to grant stock options at fair value at the date of grant. The Company did not recognize any expense in the financial statements as they were all issued at fair market value. Options and warrants issued to non-employees are recorded at fair value, as required by SFAS No. 123, "Accounting for Stock-Based Compensation", using the Black-Scholes pricing method.

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure." SFAS No. 148 is an amendment to SFAS No. 123 providing alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation and also provides required additional disclosures about the method of accounting for stock-based employee compensation. The Company adopted the annual disclosure provision of SFAS No. 148 during the fiscal year ended August 31, 2003. The Company chose to not adopt the voluntary change to the fair value based method of accounting for stock-based employee compensation, pursuant to SFAS No. 148.

The Company has adopted the disclosure-only provisions of SFAS No. 148, Accounting for Stock-Based Compensation. Accordingly, no compensation cost has been recognized with respect to stock options. Had compensation cost for stock options been determined based on the fair value methodology prescribed by SFAS 123, the Company's net income and net income per common share would have been reduced to the pro forma amounts indicated below:

	August 31, 2006	August 31, 2005
Net income:		
As reported	\$ 1,719,065	\$ 1,193,281
Pro forma	\$ 1,683,432	\$ 1,182,570
Basic net income per common share		
As reported	\$ 0.48	\$ 0.33
Pro forma	\$ 0.47	\$ 0.33
Diluted net income per share		
As reported	\$ 0.47	\$ 0.33
Pro forma	\$ 0.46	\$ 0.33
Stock-based compensation, net:		
As reported	\$ 0	\$ 0
Pro forma	\$ 35,633	\$ 10,711

As noted above, accounting principles require the Company to show, on a pro forma basis, the Company's net income as if it recorded an expense for stock options at the time of grant. Other than disclosure in this footnote, the Company does not use these pro forma results for any purpose.

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:

	August 31, 2006	August 31, 2005
Dividend yield	2.00%	2.00%
Expected volatility	42.8%	42.8%
Expected life of option	5 years	5 years
Average risk-free interest rate	4.45%	3.87%

In December 2004, FASB issued SFAS No. 123 (revised 2004), "Share-Based Payment", that focuses primarily on accounting for transactions in which an entity obtains employee services in share-based payment transactions. This statement replaces SFAS No. 123, "Accounting for Stock-Based Compensation", and supersedes APB Opinion No. 25, "Accounting for Stock Issued to Employees."

Beginning with the Company's fiscal quarter that begins September 1, 2006, the Company will be required to expense the fair value of employee stock options and similar awards. As a public company, the Company is allowed to select from two alternative transition methods, each having different reporting implications. The anticipated impact of SFAS No. 123R on the Company's consolidated operating results has not been determined at this time.

#### 4. INVENTORIES

Inventories consisted of the following:

	August 31, 2006	August 31, 2005
Production materials	\$ 353,516	\$ 211,713
Finished goods	1,024,437	1,336,056
	<u>\$ 1,377,953</u>	<u>\$ 1,547,769</u>

## 5. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following:

	August 31, 2006	August 31, 2005
Land	\$ 29,097	\$ 29,097
Buildings and improvements	3,420,596	804,734
Machinery and equipment	1,024,024	730,948
	4,473,717	1,564,779
Less accumulated depreciation	(1,043,144)	(844,133)
	<u>\$ 3,430,573</u>	<u>\$ 720,646</u>

## 6. INDUSTRIAL PATENTS AND TRADEMARKS, NET

Industrial patents and trademarks, net consisted of the following:

	August 31, 2006	August 31, 2005
Patents and trademarks	\$ 1,278,845	\$ 1,182,089
Less accumulated amortization	(282,253)	(121,872)
	<u>\$ 996,592</u>	<u>\$ 1,060,217</u>

Patent and trademark costs are amortized over seven years once it is filed and approved. Amortization expense was \$160,381 and \$80,935, for the years ended August 31, 2006 and 2005, respectively. Amortization expense is estimated to approximate \$160,000 in each of the next five fiscal years.

## 7. NOTES RECEIVABLE AND FOREIGN DEPOSITS

Notes receivable and foreign deposits consisted of the following:

	August 31, 2006	August 31, 2005
Notes receivable from corporate joint venture partners	\$ 51,710	\$ 50,000
Notes receivable from other sources	—	1,027,453
Foreign deposits	445,469	445,469
	<u>\$ 497,179</u>	<u>\$ 1,522,922</u>

## 8. INVESTMENTS IN CORPORATE JOINT VENTURES

Composite financial information from the audited and unaudited financial statements of the Company's joint ventures carried on the equity basis is summarized as follows:

	August 31, 2006	August 31, 2005
Current assets	\$ 33,954,156	\$ 22,949,103
Total assets	39,030,247	30,345,208
Current liabilities	14,323,903	11,263,369
Noncurrent liabilities	1,496,557	2,273,927
Joint ventures' equity	23,209,788	16,806,617
Northern Technologies International Corporation's share of Corporate Joint Ventures' equity	<u>\$ 10,772,102</u>	<u>\$ 8,622,361</u>

	August 31, 2006	August 31, 2005
Net sales	\$ 63,959,090	\$ 57,167,054
Gross profit	29,204,129	26,503,607
Net income	5,209,499	3,714,290
Northern Technologies International Corporation's share of equity in income of Corporate Joint Ventures	\$ 2,713,096	\$ 1,968,777

During fiscal 2006, the Company invested in corporate joint ventures as follows:

In June 2006, the Company invested \$25,000, in a new industrial chemical corporate joint venture to develop operations in Ukraine. The Company has a 50% ownership interest in the new entity. The new entity had no operations prior to the Company's investment. It is anticipated that this is the first of two installments towards the Company's 50% capitalization of an estimated \$50,000 over the next 12 months; however, there is currently no contractual commitment to the investment. It is anticipated that the total capitalization by all owners of the joint venture will be \$100,000.

## 9. GOODWILL

The Company tests goodwill annually for impairment and in interim periods if certain events occur indicating that the carrying value of goodwill may be impaired. Goodwill at August 31, 2006 and August 31, 2005 was \$304,000.

## 10. CORPORATE DEBT

The Company has a revolving credit facility of \$1,500,000 that expires on January 31, 2007. Outstanding amounts under the revolving credit facility bear interest at an annual rate based on LIBOR plus 2.25%. As of August 31, 2006, the interest rate was 7.58% and the average for the year ended August 31, 2006 was 6.98%. Amounts borrowed under the facility are collateralized by a lien on substantially all of the Company's assets, excluding its corporate joint venture interests and intellectual property rights. The credit documents contain other terms and provisions (including representations, covenants and conditions) customary for transactions of this type. Significant financial covenants include the maintenance of a minimum fixed charge coverage ratio of 1.0 to 1.0. The Company is in compliance with all covenants under the revolving credit facility. Outstanding balances were \$610,000 and \$1,000,000 as of August 31, 2006 and August 31, 2005, respectively.

The Company has a term loan that in the principal amount of \$1,275,000 that matures on May 1, 2011, bears interest at a fixed rate of 8.01% and is payable in 59 monthly payments equal to approximately \$10,776 (inclusive of principal and interest) commencing June 1, 2006. All of the remaining unpaid principal and accrued interest is due and payable on the maturity date. The Note is secured by a first lien on the Company's Circle Pines facility pursuant to a Mortgage dated as of May 3, 2006 between Northern Technologies Holding Company LLC and National City Bank and is guaranteed by the Company. Future minimum payments on the term loan are as follows:

Fiscal 2007	\$ 27,310
Fiscal 2008	\$ 29,188
Fiscal 2009	\$ 31,411
Fiscal 2010	\$ 34,897
Fiscal 2011	\$ 1,146,919

## 11. STOCKHOLDERS' EQUITY

During fiscal 2006, the Company did not purchase or retire any shares of common stock. The following stock options to purchase shares of common stock were exercised:

Options Exercised	Exercise Price
16,000	\$ 4.56
1,000	\$ 5.50
2,000	\$ 5.00
2,000	\$ 3.34
2,000	\$ 5.00
2,000	\$ 3.34
2,000	\$ 5.30
2,000	\$ 5.25

The Company did not acquire or retire any shares of common stock during fiscal 2005. The following stock options to purchase shares of common stock were exercised:

Options Exercised	Exercise Price
2,000	\$ 5.00
2,000	\$ 3.34
2,000	\$ 5.00
1,334	\$ 3.34
667	\$ 5.30

## 12. SUPPLEMENTAL CASH FLOW INFORMATION

On November 12, 2004, the Company's Board of Directors declared a cash dividend of \$0.07 per share that totaled \$250,739 and was paid during fiscal 2005 on December 17, 2004 to shareholders of record on December 3, 2004. No dividend was declared or paid during fiscal 2006.

## 13. TOTAL COMPREHENSIVE INCOME

The Company's total comprehensive income was as follows:

	Years Ended	
	August 31, 2006	August 31, 2005
Net income	\$ 1,719,065	\$ 1,193,281
Other comprehensive income – foreign currency translation adjustment	310,687	123,588
Total comprehensive income	\$ 2,029,752	\$ 1,316,869

## 14. 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.

No options to purchase shares of common stock were excluded from the computation of common share equivalents as of August 31, 2006.

Options to purchase 2,000, 3,000 and 334 shares of common stock with per share exercise prices of \$6.75, \$6.15 and \$5.96, respectively, were outstanding as of August 31, 2005, but were excluded from the computation of common share equivalents, because their exercise prices were greater than the average market price of a share of common stock.

## 15. STOCK-BASED COMPENSATION

The Company has one stock-based compensation plan, the 2000 Stock Incentive Plan (the Plan). The Company's Board of Directors and stockholders approved the Plan and the Compensation Committee of the Board of Directors administers the distribution of options under the Plan. Under the Plan, incentive stock options and nonqualified stock options could be granted to directors, officers, non-officer employees, and independent consultants of the Company. Options granted under the Plan generally have a term of five years and become exercisable over a three- or four-year period beginning on the one-year anniversary date of the 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.

A summary of the status of the Company's stock options for the fiscal years ended August 31 is as follows:

	2006		2005	
	Shares	Wgtd Avg Exer Price	Shares	Wgtd Avg Exer Price
Outstanding at beginning of year	66,334	\$ 4.82	115,655	\$ 5.29
Granted	70,000	5.45	19,334	5.40
Exercised	(29,000)	4.58	(8,001)	4.33
Canceled	(2,000)	6.75	(60,654)	5.96
Outstanding at end of year	105,334	\$ 5.27	66,334	\$ 4.82
Options exercisable at year-end	27,669	\$ 4.74	49,669	\$ 4.67

The following table summarizes information about stock options outstanding and exercisable at August 31, 2006:

Option Grant Date	Per Share Exercise Prices	Remaining Contractual Life	Number of Options Outstanding (#)	Number of Options Exercisable (#)
2/15/2002	\$ 4.56	0.5	22,000	22,000
9/1/2003	\$ 5.30	2.0	4,000	2,668
9/1/2004	\$ 5.25	3.0	6,000	2,001
11/12/2004	\$ 6.15	3.2	3,000	1,000
7/29/2005	\$ 5.96	3.9	334	0
9/1/2005	\$ 5.75	4.0	14,000	0
11/4/2005	\$ 5.38	4.2	56,000	0
			105,334	27,669

The weighted average fair value of options granted during the year ended August 31, 2006 and 2005, was \$1.46 and \$1.98, respectively.

#### 16. SEGMENT INFORMATION

Net sales by geographic location as a percentage of total consolidated net sales were as follows:

	August 31, 2006	August 31, 2005
Inside the U.S.A. to unaffiliated customers	79.7	78.3
Outside the U.S.A. to:		
Corporate Joint Ventures in which the Company is a shareholder directly and indirectly	10.5	10.6
Unaffiliated customers	9.8	11.1
	<u>100%</u>	<u>100%</u>

#### 17. RETIREMENT PLAN

The Company has a 401(k) employee savings plan. Employees who meet certain age and service requirements may elect to contribute up to 15% of their salaries. The Company contributes the lesser of 50% of the participant's contributions or 3.5% of the employee's salary. The Company recognized expense for the savings plan of \$103,544 and \$96,717, for the fiscal years ended August 31, 2006 and 2005, respectively.

#### 18. RELATED PARTY TRANSACTIONS

On May 18, 2006, the Company and Emeritushnic Facilities Company, Inc. ("EFC"), an entity owned by the Company's former Chairman of the Board and Chief Executive Officer and current Chairman Emeritus, Philip M. Lynch, and certain of his family members, excluding G. Patrick Lynch, the Company's current President and Chief Executive Officer, entered into a Consulting Agreement, effective as of May 1, 2006. Pursuant to the Consulting Agreement, the Company has engaged EFC to perform certain consulting services to the Company, including maintaining communications and relations between the Company and its joint venture partners. In consideration for such services, the Company paid EFC monthly consulting fees totaling \$100,000 during fiscal 2006 and reimbursed EFC for out-of-pocket expenses reasonably incurred in the course of providing such services in an aggregate amount of \$60,000 during fiscal 2006. The Consulting Agreement calls for fees of \$25,000 per month and up to \$180,000 in expense reimbursement in a given fiscal year. Additionally, it may be terminated by either party for any reason upon at least 90 days prior written notice to the other party and may be terminated upon the occurrence of other certain events, as set forth in the Consulting Agreement. The Consulting Agreement also contains other standard and customary terms, including provisions regarding confidentiality, non-competition and non-solicitation.

On May 1, 2006, the Company and Inter Alia Holding Co. ("Inter Alia") entered into a termination agreement pursuant to which they agreed to mutually terminate that certain Manufacturer's Representative Agreement dated as of October 1, 1976 and as subsequently amended thereafter. Inter Alia beneficially owns approximately 25.4% of the Company's outstanding common stock, and Philip M. Lynch, the Company's former Chairman of the Board and Chief Executive Officer and current Chairman Emeritus, and G. Patrick Lynch, the Company's current President and Chief Executive Officer, are shareholders of Inter Alia. Prior to terminating the agreement, the Company reimbursed Inter Alia for travel and related expenses in the aggregate amount of \$320,000 during fiscal 2006 and \$602,000 during fiscal 2005, respectively. The Company paid Inter Alia commissions on royalties paid by corporate joint ventures and net proceeds of sales of the Company's products of approximately \$65,000 during fiscal 2006, and approximately \$137,089 during fiscal 2005, respectively.

In addition, the Company paid health insurance premiums of \$6,623 during fiscal 2006 and \$17,510 during fiscal 2005, respectively, related to policies that insure Philip M. Lynch, the Company's former Chairman of the Board and Chief Executive Officer and current Chairman Emeritus.

The Company made consulting payments to Dr. Ramani Narayan, a director of the Company, of \$25,000 on each of September 9, 2004, December 2, 2004, April 7, 2005, June 14, 2005, November 8, 2005, February 1, 2006, May 1, 2006 and August 1, 2006. The consulting services rendered by Dr. Narayan related to research and development associated with various new technologies.

The Company made a consulting payment to Dr. Sunggyu Lee, a director of the Company, of \$50,000 on each of February 2, 2005 and June 6, 2005 and \$25,000 on each of November 8, 2005, February 1, 2006, May 1, 2006 and August 1, 2006. The consulting services rendered by Dr. Lee related to research and development associated with various new technologies.

The Company pays rent for its Beachwood office and lab location to a related party. See Note 20.

## 19. INCOME TAXES

The provisions for income taxes for the fiscal years ended August 31 consist of the following:

	2006	2005
Current:		
Federal	\$ 560,000	\$ 114,800
State	35,000	7,200
	\$ 595,000	\$ 122,000
Deferred:		
Federal	\$ (321,000)	\$ (99,800)
State	(20,000)	(6,200)
	(341,000)	(106,000)
	\$ 254,000	\$ 16,000

Reconciliations of the expected federal income tax at the statutory rate with the provisions for income taxes for the fiscal years ended August 31 are as follows:

	2006	2005
Tax computed at statutory rates	\$ 689,000	\$ 424,000
State income tax, net of federal benefit	43,400	17,700
Tax effect on equity in income of international joint ventures	(732,000)	(577,000)
Tax effect on dividends received from corporate joint ventures	229,000	240,000
Foreign Tax Credit	—	(136,000)
Research and Development Credit	(20,000)	(50,000)
Other	44,600	97,300
	\$ 254,000	\$ 16,000

The Company has not recognized a deferred tax liability relating to undistributed earnings of Corporate Joint Ventures and holding companies that are essentially permanent in duration of \$2,781,000 and \$2,152,000 at August 31, 2005 and 2006, respectively. If some or all of the undistributed earnings of the Corporate Joint Ventures and holding companies are remitted to the Company in the future, income taxes, if any, after the application of foreign tax credits will be provided at that time.



At August 31, 2006 the Company had foreign tax credit carryforwards of approximately \$2,349,000 which begin to expire in 2010. The Company established a valuation allowance of \$2,099,000 with respect to the foreign tax credit carryforwards.

The tax effect of the temporary differences and tax carry forwards comprising the net deferred taxes shown on the balance sheets at August 31 are as follows:

	2006	2005
<b>Current:</b>		
Allowance for doubtful accounts	\$ 3,600	\$ 4,700
Inventory costs	16,400	14,700
Prepaid expenses and other	(50,900)	(27,400)
Accrued expenses	41,700	35,000
Accrued bonus	225,900	—
<b>Total current</b>	<b>\$ 236,700</b>	<b>\$ 27,000</b>
<b>Noncurrent:</b>		
Excess of book over tax depreciation	\$ 49,000	\$ 29,300
Asset valuation reserves	206,500	78,000
Foreign tax credits, net of a valuation allowance at August 31, 2006	250,000	187,000
Federal Net Operating Loss	68,500	37,700
Research and Development Credit	54,000	165,000
<b>Total noncurrent</b>	<b>\$ 628,000</b>	<b>\$ 497,000</b>

During fiscal 2006, the Company was under audit by the Internal Revenue Service for tax years ended August 31, 2004 and 2005. To date, the Company has orally agreed on the adjustments and has included these adjustments in the current year income tax calculation. These adjustments are not deemed to have a material impact on NTIC's financial statements.

## 20. COMMITMENTS AND CONTINGENCIES

The Company is involved in a legal action in Finland whereby the Company sued a Finish company for trademark infringement. The Company won the initial case, but has subsequently lost on appeal. The Company is currently appealing the latest court decision. The outcome of the appeal is unknown and any potential loss can not be estimated at this time; however, the potential judgment or settlement resulting from the case could have a material impact on the financial position or results of operations of the Company. The Company has put up a deposit of \$445,469 that is being held by the courts in Finland against the defendants product that was seized as contraband pending the outcome of the lawsuit. There are no other legal actions arising in the ordinary course of business that management is of the opinion that any judgment or settlement therefrom would have a material adverse effect on the financial position or results of operations of the Company.

In fiscal 1999, a subsidiary of the Company, NTI Facilities, Inc., acquired a one-third ownership of Omni-Northern Ltd., an Ohio limited liability company to entering into a lease agreement with Omni-Northern Ltd. for approximately 50% of the net rental space in a building owned by Omni-Northern Ltd. Omni-Northern Ltd. owns and operates a rental property located at 23205 Mercantile Road, Beachwood, Ohio, comprising approximately two acres of land and a building of approximately 34,000 square feet. NTI Facilities consolidates its ownership in Omni-Northern LTD utilizing the equity method of consolidation.

The property has an approximate value of \$2,205,000, based upon the cash-to-mortgage acquisition price of the property paid in fiscal 2000. The Company has guaranteed up to \$329,082 of the Omni-Northern Ltd.'s \$1,903,571 mortgage obligation with National City Bank, Cleveland, Ohio. NTI Facilities, Inc. entered into a 15-year lease agreement with Omni-Northern Ltd. for approximately 17,000 square feet of office, manufacturing, laboratory and warehouse space, requiring monthly rental payments of \$17,500, which are adjusted annually according to the annual consumer price index, through November 2014. By its ownership in Omni-Northern Ltd., NTI Facilities Inc. is entitled to one-third of the operating results of Omni-Northern Ltd. Omni-Northern has leased the remaining 50% of the net rental space to other third parties.

On May 3, 2006, the Company completed the first step in its purchase of certain real estate and a 40,000 square foot building on such real estate for a new corporate headquarters located in Circle Pines, Minnesota. The Company entered into a Purchase Agreement in June 2005 with Circle Pines Mainstreet II, LLC pursuant to which the Company agreed to purchase the real estate. The Company decided to structure the real estate purchase and its expected sale of its current corporate headquarters in such a manner so as to qualify as a like-kind exchange within the meaning of Section 1031 of the Internal Revenue Code of 1986, as amended. To facilitate the Code Section 1031 like-kind exchange, the Company entered into a Qualified Exchange Accommodation Agreement on May 3, 2006 with Northern Technologies Holding Company, LLC, a Minnesota limited liability company owned by First American Exchange Company, LLC, which is acting as a qualified intermediary within the meaning of Code Section 1031. Pursuant to the Exchange Agreement, the Company assigned its rights, but not its obligations, in the Purchase Agreement to the Exchange Company and the Exchange Company agreed to borrow monies to purchase the New Facility and then lease the New Facility to the Company. Upon the Company's sale of its current corporate headquarters to a third party, with First American Exchange Company acting as intermediary, the Exchange Company will sell the New Facility to the Company, and the Company will assume the loan incurred by the Exchange Company to finance the purchase of the New Facility. The purchase price of the New Facility was \$1,475,000 and renovations are expected to be \$1,300,000 these costs were financed with the net proceeds of a secured term loan in the principal amount of \$1,275,000 (see Note 10). As of September 6, 2006 the Circle Pines location became the Company's principal executive office and center for production facilities and domestic research and development operations.

On June 2, 2006, the Company entered into a Purchase and Sale Agreement with Underground Properties, LLC pursuant to which the Company agreed to sell the real property and building in which the Company's former Lino Lakes corporate headquarters was located for a purchase price of \$870,000. The Company closed on the sale of its former corporate headquarters pursuant the Purchase and Sale Agreement on September 8, 2006. The net book value of the building held for sale was \$89,636 and the closing costs and fees associated with the sale of the property was \$46,571. The gain on sale of the property was \$733,793 and will be reflected in first quarter fiscal 2007 financial results.

On January 30, 2006, the Compensation Committee of the Board of Directors of the Company approved the final terms of an annual cash bonus plan for executive officers and certain employees of the Company for fiscal year ending August 31, 2006. The total amount available under the cash bonus plan will be up to 25% of the Company's income before income taxes, provided that the Company is at a positive variance to the Board of Director approved budgeted net income for the fiscal year. The bonus will be divided amongst the Company's executive officers and other plan participants depending upon each executive officer's and other participant's individual performance during the fiscal year ending August 31, 2006 as determined by the Compensation Committee in its sole discretion.

One of NTIC's North American customers accounted for, in the aggregate, approximately 26.6% and 27.7% of NTIC's consolidated net sales for the fiscal years ended August 31, 2006 and 2005 respectively, and \$207,630 and \$484,967 of NTIC's receivables at August 31, 2006 and 2005, respectively.

## 21. STATEMENTS OF CASH FLOWS

Supplemental disclosures of cash flow information for the fiscal years ended August 31, 2006 and 2005 consist of:

	2006	2005
Cash paid (received) during the year for income taxes	\$ 35,305	\$ (99,535)
Increase in the Company's investment in Corporate Joint Ventures and accumulated other comprehensive loss due to changes in exchange rates	310,687	123,588
Issuance of note payable in connection with acquisition of intellectual property rights	\$ —	\$ 554,870

Total cash paid for interest was \$86,004 and \$36,090 for the years ended August 31, 2006 and 2005, respectively.

## 22. QUARTERLY INFORMATION (UNAUDITED)

	Quarter Ended			
	November 30	February 28	May 31	August 31
<b>Fiscal year 2006:</b>				
Net sales	\$ 4,403,630	\$ 3,775,693	\$ 4,320,371	\$ 4,105,270
Gross profit	1,674,519	1,460,448	1,561,011	1,562,549
Income before income taxes	905,985	235,730	687,963	143,387
Income taxes	272,000	31,000	(30,000)	(19,000)
Net income	633,985	204,730	717,963	162,387
<b>Net income per share:</b>				
Basic	\$ 0.18	\$ 0.06	\$ 0.20	\$ 0.04
Diluted	\$ 0.18	\$ 0.06	\$ 0.20	\$ 0.04
<b>Weighted average common shares assumed outstanding:</b>				
Basic	3,589,993	3,597,815	3,610,993	3,614,246
Diluted	3,607,564	3,628,594	3,638,795	3,647,439

	Quarter Ended			
	November 30	February 28	May 31	August 31
<b>Fiscal year 2005:</b>				
Net sales	\$ 3,832,216	\$ 3,478,352	\$ 3,680,263	\$ 3,825,841
Gross profit	1,472,628	1,489,892	1,494,627	1,392,370
Income before income taxes	228,320	(54,684)	412,615	643,669
Income taxes	(119,000)	107,000	28,000	(11,000)
Net income	347,320	(161,684)	373,615	654,669
<b>Net income per share:</b>				
Basic	\$ 0.10	\$ (0.05)	\$ 0.10	\$ 0.18
Diluted	\$ 0.10	\$ (0.04)	\$ 0.10	\$ 0.18
<b>Weighted average common shares assumed outstanding:</b>				
Basic	3,581,992	3,581,992	3,586,388	3,586,388
Diluted	3,605,695	3,604,051	3,599,005	3,599,005

## 21. SUBSEQUENT EVENTS

On June 2, 2006, the Company entered into a Purchase and Sale Agreement with Underground Properties, LLC pursuant to which the Company agreed to sell the real property and building in which the Company's former Lino Lakes corporate headquarters was located for a purchase price of \$870,000. The Company closed on the sale of its former corporate headquarters pursuant the Purchase and Sale Agreement on September 8, 2006. The net book value of the building held for sale was \$89,636 and the closing costs and fees associated with the sale of the property was \$46,571. The gain on sale of the property was \$733,793 and will be reflected in NTIC's first quarter fiscal 2007 financial results.

### Item 8. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

None

### Item 8A. 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 reasonably ensure 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 and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure. In designing and evaluating NTIC's disclosure controls and procedures, NTIC recognizes that any controls and procedures, no matter how well designed and operated can provide only reasonable assurance of achieving the desired control objectives and NTIC necessarily is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures. 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 NTIC's Exchange Act reports is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms, and that material information relating to NTIC and its consolidated subsidiaries is made known to management, including NTIC's Chief Executive Officer and Chief Financial Officer, particularly during the period when NTIC's periodic reports are being prepared.

NTIC's management is aware, however, that there is a lack of segregation of duties due to the small number of employees of NTIC dealing with general administrative and financial matters. However, NTIC's management has decided that considering the employees involved and the control procedures in place, risks associated with such lack of segregation are insignificant and the potential benefits of adding employees to clearly segregate duties do not at this time justify the expenses associated with such increases.

### Changes in Internal Control over Financial Reporting

There was no change in NTIC's internal control over financial reporting that occurred during fiscal 2006 that has materially affected, or is reasonably likely to materially affect NTIC's internal control over financial reporting.

### Item 8B. OTHER INFORMATION.

On August 24, 2006, NTIC entered into a Promissory Note Modification Agreement (the "Modification Agreement") with National City Bank pursuant to which NTIC's revolving credit facility was increased from \$1,000,000 to \$1,500,000. The foregoing description of the Modification Agreement is qualified in its entirety by reference to a copy of the actual Modification Agreement, which is filed as Exhibit 10.19 to this report and is incorporated herein by reference.

On November 17, 2006, NTIC's Board of Directors, upon recommendation of the Compensation Committee of the Board, approved annual performance bonuses for NTIC's executive officers, to be paid in cash and NTIC common stock as follows:

Name of Executive Officer	Title	Cash Bonus (\$)	NTIC Common Stock (Shares)
G. Patrick Lynch	President and Chief Executive Officer	\$ 52,500	6,554(1)
Dr. Donald Kubik	Vice Chairman and Chief Technology Officer	\$ 40,000	4,994(1)
Matthew C. Wolsfeld	Chief Financial Officer and Secretary	\$ 40,000	4,994(1)

- (1) Number of shares of NTIC common stock were determined based on \$8.01 per share, which represents the closing sale price of a share of NTIC common stock on November 17, 2006, as reported by the American Stock Exchange.

### PART III

**Item 9. DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS AND CONTROL PERSONS; COMPLIANCE WITH SECTION 16(A) OF THE EXCHANGE ACT.**

The information required under Item 9 of this report is to be contained under the captions “Election of Directors — Information About Nominees,” “Election of Directors — Other Information About Nominees,” “Election of Directors — Board and Committee Meetings,” “Election of Directors — Corporate Governance,” “Section 16(a) Beneficial Ownership Reporting Compliance” and “Other Matters – Director Nominations” in NTIC’s definitive proxy statement to be filed with the SEC with respect to its next annual meeting of stockholders, which involves the election of directors and is incorporated herein by reference, or, if such proxy statement is not filed with the SEC within 120 days after the end of the fiscal year covered by this report, such information will be filed as part of an amendment to this report not later than the end of the 120-day period.

The information concerning NTIC’s executive officers and officers is included in this report under Item 4A, “Executive Officers of NTIC” and is incorporated herein by reference.

NTIC has adopted a code of ethics that applies to its principal executive officer, principal financial officer, principal accounting officer or controller or persons performing similar functions, as well as other employees and NTIC’s directors and meets the requirements of the SEC and American Stock Exchange. A copy of NTIC’s Code of Ethics is filed as an exhibit to this report. NTIC intends to disclose any amendments to any waivers from a provision of NTIC’s code of ethics on a Form 8-K filed with the SEC.

**Item 10. EXECUTIVE COMPENSATION.**

The information required under Item 10 of this report is to be contained under the captions “Election of Directors — Director Compensation” and “Executive Compensation and Other Benefits” in NTIC’s definitive proxy statement to be filed with the SEC with respect to NTIC’s next annual meeting of stockholders, which involves the election of directors and is incorporated herein by reference, or, if such proxy statement is not filed with the SEC within 120 days after the end of the fiscal year covered by this report, such information will be filed as part of an amendment to this report not later than the end of the 120-day period.

**Item 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS.**

The information required under Item 11 of this report is to be contained under the caption “Security Ownership of Principal Stockholders and Management” in NTIC’s definitive proxy statement to be filed with the SEC with respect to NTIC’s next annual meeting of stockholders, which involves the election of directors and is incorporated herein by reference, or, if such proxy statement is not filed with the SEC within 120 days after the end of the fiscal year covered by this report, such information will be filed as part of an amendment to this report not later than the end of the 120-day period.

**Equity Compensation Plan Information**

NTIC has two equity compensation plans under which equity compensation awards are outstanding – Northern Technologies International Corporation 1994 Stock Incentive Plan and the Northern Technologies International Corporation 2000 Stock Incentive Plan. The following table summarizes NTIC’s equity compensation plans as of August 31, 2006:

Plan Category	(a) Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights	(b) Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights	(c) Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (excluding securities reflected in column (a))
Equity compensation plans approved by security holders:	105,334	\$ 5.27	57,665
Equity compensation plans not approved by security holders	0	—	0
<b>Total</b>	<b>105,334</b>	<b>\$ 5.27</b>	<b>57,665</b>

Under the American Stock Exchange rules, NTIC is required to disclose in its annual report the number of outstanding options and options available for grant under its equity compensation plans as of September 1, 2005 and August 31, 2006. As of September 1, 2005, the number of securities to be issued upon exercise of outstanding options, warrants and rights were 66,334 shares of NTIC's common stock at a weighted average exercise price of \$4.82 per share. The number of securities remaining available for future issuance under NTIC's equity compensation plans (excluding securities to be issued upon exercise of outstanding options, warrants and rights) was 117,000 shares of NTIC's common stock. This information as of August 31, 2006 is contained in the table above.

In November 2006, NTIC's Board of Directors approved the Northern Technologies International Corporation 2007 Stock Incentive Plan and the Northern Technologies International Corporation Employee Stock Purchase Plan and expects to submit proposals to approve the plans to NTIC's stockholders at NTIC's 2007 Annual Meeting of Stockholders to be held on January 23, 2007.

**Item 12. CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS.**

The information required under Item 12 of this report is to be contained under the caption "Related Party Relationships and Transactions" in NTIC's definitive proxy statement to be filed with the SEC with respect to NTIC's next annual meeting of stockholders, which involves the election of directors and is incorporated herein by reference, or, if such proxy statement is not filed with the SEC within 120 days after the end of the fiscal year covered by this report, such information will be filed as part of an amendment to this report not later than the end of the 120-day period.

**Item 13. EXHIBITS.**

**(a) Exhibits**

Reference is made to the Exhibit Index hereinafter contained, at page 59 of this report.

A copy of any exhibits listed or referred to herein will be furnished at a reasonable cost to any person who is a stockholder upon receipt from any such person of a written request for any such exhibit. Such request should be sent to: Mr. Matthew Wolsfeld, Corporate Secretary, Northern Technologies International Corporation, 4201 Woodland Road, P.O. Box 69, Circle Pines, Minnesota 55014 Attn: Stockholder Information.

The following is a list of each management contract or compensatory plan or arrangement required to be filed as an exhibit to this Annual Report on Form 10-KSB pursuant to Item 13(a):

- A. Northern Technologies International Corporation 1994 Stock Incentive Plan (incorporated by reference to Exhibit 10.3 to NTIC's Annual Report on Form 10-KSB for the fiscal year ended August 31, 1993).
- B. Form of Incentive Stock Option Agreement for Northern Technologies International Corporation 1994 Stock Incentive Plan (incorporated by reference to Exhibit 10.1 to NTIC's Annual Report on Form 10-KSB for the fiscal year ended August 31, 1993).
- C. Form of Non-Qualified Stock Option Agreement for Northern Technologies International Corporation 1994 Stock Incentive Plan (incorporated by reference to Exhibit 10.2 to NTIC's Annual Report on Form 10-KSB for the fiscal year ended August 31, 1993).
- D. Northern Technologies International Corporation 2000 Stock Incentive Plan (incorporated by reference to Exhibit 10.4 to NTIC's Annual Report on Form 10-KSB for the fiscal year ended August 31, 2000).
- E. Form of Incentive Stock Option Agreement for Northern Technologies International Corporation 2000 Stock Incentive Plan (incorporated by reference to Exhibit 10.5 to NTIC's Annual Report on Form 10-KSB for the fiscal year ended August 31, 2000).
- F. Form of Non-Qualified Stock Option Agreement for Northern Technologies International Corporation 2000 Stock Incentive Plan (incorporated by reference to Exhibit 10.6 to NTIC's Annual Report on Form 10-KSB for the fiscal year ended August 31, 2000).
- G. Northern Technologies International Corporation 2007 Stock Incentive Plan (filed herewith).
- H. Form of Incentive Stock Option Agreement for Northern Technologies International Corporation 2007 Stock Incentive Plan (filed herewith).
- I. Form of Non-Qualified Stock Option Agreement for Northern Technologies International Corporation 2007 Stock Incentive Plan (filed herewith).
- J. Form of Restricted Stock Agreement for Northern Technologies International Corporation 2007 Stock Incentive Plan (filed herewith).
- K. Northern Technologies International Corporation Employee Stock Purchase Plan (filed herewith).
- L. Description of Non-Employee Director Compensation Arrangements (filed herewith).
- M. Description of Executive Officer Compensation Arrangements (filed herewith).



**Item 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES.**

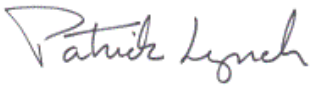
The information required under Item 14 of this report is to be contained under the captions “Ratification of Selection of Independent Registered Public Accounting Firm – Audit, Audit-Related, Tax and Other Fees” and “Ratification of Selection of Independent Registered Public Accounting Firm – Auditor Fees Pre-Approval Policy” in NTIC’s definitive proxy statement to be filed with the SEC with respect to NTIC’s next annual meeting of stockholders, which involves the election of directors and is incorporated herein by reference, or, if such proxy statement is not filed with the SEC within 120 days after the end of the fiscal year covered by this report, such information will be filed as part of an amendment to this report not later than the end of the 120-day period.

**SIGNATURES**

Pursuant to the requirements of Section 13 or 15 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**

November 17, 2006

By:   
\_\_\_\_\_  
G. Patrick Lynch  
President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant on November 17, 2006 in the capacities indicated.

<u>Name</u>	<u>Title</u>
<u>/s/ G. Patrick Lynch</u> G. Patrick Lynch	President and Chief Executive Officer and Director (principal executive officer)
<u>/s/ Pierre Chenu</u> Pierre Chenu	Chairman of the Board
<u>/s/ Matthew C. Wolsfeld, CPA</u> Matthew C. Wolsfeld, CPA	Chief Financial Officer and Corporate Secretary (principal financial officer and principal accounting officer)
<u>/s/ Donald A. Kubik, Ph.D.</u> Donald A. Kubik, Ph.D.	Chief Technology Officer and Vice Chairman of the Board
<u>Jean-Guy Coulombe</u>	Director
<u>Dr. Vera Kallmeyer</u>	Director
<u>/s/ Dr. Sunggyu Lee</u> Dr. Sunggyu Lee	Director
<u>/s/ Mark Mayers</u> Mark Mayers	Director
<u>/s/ Dr. Ramani Narayan</u> Dr. Ramani Narayan	Director
<u>/s/ Mark J. Stone</u> Mark J. Stone	Director

**NORTHERN TECHNOLOGIES INTERNATIONAL CORPORATION**  
**EXHIBIT INDEX TO ANNUAL REPORT ON FORM 10-KSB**  
**FOR THE FISCAL YEAR ENDED AUGUST 31, 2006**

Item No.	Item	Method of Filing
3.1	Restated Certificate of Incorporation of Northern Technologies International Corporation	Filed herewith
3.2	Amended and Restated Bylaws of Northern Technologies International Corporation	Incorporated by reference to Exhibit 3.1 to NTIC's Quarterly Report on Form 10-QSB for the fiscal quarter ended November 30, 2005 (File No. 001-11038)
10.1	Northern Technologies International Corporation 1994 Stock Incentive Plan	Incorporated by reference to Exhibit 10.3 to NTIC's Annual Report on Form 10-KSB for the year ended August 31, 1993 (File No. 001-11038)
10.2	Form of Incentive Stock Option Agreement for Northern Technologies International Corporation 1994 Stock Incentive Plan	Incorporated by reference to Exhibit 10.1 to NTIC's Annual Report on Form 10-KSB for the year ended August 31, 1993 (File No. 001-11038)
10.3	Form of Non-Qualified Stock Option Agreement for Northern Technologies International Corporation 1994 Stock Incentive Plan	Incorporated by reference to Exhibit 10.2 to NTIC's Annual Report on Form 10-KSB for the fiscal year ended August 31, 1993 (File No. 001-11038)
10.4	Northern Technologies International Corporation 2000 Stock Incentive Plan	Incorporated by reference to Exhibit 10.4 to NTIC's Annual Report on Form 10-KSB for the year ended August 31, 2000 (File No. 001-11038)
10.5	Form of Incentive Stock Option Agreement for Northern Technologies International Corporation 2000 Stock Incentive Plan	Incorporated by reference to Exhibit 10.5 to NTIC's Annual Report on Form 10-KSB for the year ended August 31, 2000 (File No. 001-11038)
10.6	Form of Non-Qualified Stock Option Agreement for Northern Technologies International Corporation 2000 Stock Incentive Plan	Incorporated by reference to Exhibit 10.6 to NTIC's Annual Report on Form 10-KSB for the year ended August 31, 2000 (File No. 001-11038)
10.7	Northern Technologies International Corporation 2007 Stock Incentive Plan	Filed herewith

Item No.	Item	Method of Filing
10.8	Form of Incentive Stock Option Agreement for Northern Technologies International Corporation 2007 Stock Incentive Plan	Filed herewith
10.9	Form of Non-Statutory Stock Option Agreement for Northern Technologies International Corporation 2007 Stock Incentive Plan	Filed herewith
10.10	Form of Restricted Stock Agreement for Northern Technologies International Corporation 2007 Stock Incentive Plan	Filed herewith
10.11	Northern Technologies International Corporation Employee Stock Purchase Plan	Filed herewith
10.12	Description of Non-Employee Director Compensation Arrangements	Filed herewith
10.13	Description of Executive Officer Compensation Arrangements	Filed herewith
10.14	Commercial Note: Revolving Credit dated August 6, 2004 by Northern Technologies International Corporation payable to National City Bank	Incorporated by reference to Exhibit 10.1 to NTIC's Quarterly Report on Form 10-QSB for the year ended May 31, 2005 (File No. 001-11038)
10.15	Commercial Note Addendum dated August 6, 2004 between Northern Technologies International Corporation and National City Bank	Incorporated by reference to Exhibit 10.2 to NTIC's Quarterly Report on Form 10-QSB for the year ended May 31, 2005 (File No. 001-11038)
10.16	Security Agreement dated August 6, 2004 between Northern Technologies International Corporation and National City Bank	Incorporated by reference to Exhibit 10.3 to NTIC's Quarterly Report on Form 10-QSB for the year ended May 31, 2005 (File No. 001-11038)
10.17	Modification and Extension of Promissory Note dated March 2, 2005 between Northern Technologies International Corporation and National City Bank	Incorporated by reference to Exhibit 10.4 to NTIC's Quarterly Report on Form 10-QSB for the year ended May 31, 2005 (File No. 001-11038)
10.18	Promissory Note Modification Agreement dated January 30, 2006 between Northern Technologies International Corporation and National City Bank	Filed herewith
10.19	Promissory Note Modification Agreement dated August 24, 2006 between Northern Technologies International Corporation and National City Bank	Filed herewith

Item No.	Item	Method of Filing
10.20	Settlement Agreement and Asset Purchase dated April 28, 2005 among Northern Technologies International Corporation, Excor Korrosionsforschung GmbH, Fibro-NTI Urun Gelistirme Ve Pazarlama Ticaret Anonim, Acobal SAS, Henkel KGaA and Henkel Surface Technologies SAS	Incorporated by reference to Exhibit 10.5 to NTIC's Quarterly Report on Form 10-QSB for the year ended May 31, 2005 (File No. 001-11038)
10.21	Consulting Agreement dated as of May 1, 2006 between Northern Technologies International Corporation and Emeritushnic Facilities Company, Inc.	Incorporated by reference to Exhibit 10.1 to NTIC's Current Report on Form 8-K as filed with the Securities and Exchange Commission on May 22, 2006 (File No. 001-11038)
10.22	Purchase Agreement dated as of June 24, 2005 between Circle Pines Mainstreet II, LLC and Northern Technologies International Corporation	Incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K as filed with the Securities and Exchange Commission on May 9, 2006 (File No. 001-11038)
10.23	Amendment No. 1 to Purchase Agreement dated as of August 21, 2005 between Circle Pines Mainstreet II, LLC and Northern Technologies International Corporation	Incorporated by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K as filed with the Securities and Exchange Commission on May 9, 2006 (File No. 001-11038)
10.24	Amendment No. 2 to Purchase Agreement dated as of September 21, 2005 between Circle Pines Mainstreet II, LLC and Northern Technologies International Corporation	Incorporated by reference to Exhibit 10.3 to the Registrant's Current Report on Form 8-K as filed with the Securities and Exchange Commission on May 9, 2006 (File No. 001-11038)
10.25	Amendment No. 3 to Purchase Agreement dated as of December 31, 2005 between Circle Pines Mainstreet II, LLC and Northern Technologies International Corporation	Incorporated by reference to Exhibit 10.4 to the Registrant's Current Report on Form 8-K as filed with the Securities and Exchange Commission on May 9, 2006 (File No. 001-11038)
10.26	Qualified Exchange Accommodation Agreement dated as of May 3, 2006 between Northern Technologies International Corporation and Northern Technologies Holding Company, LLC	Incorporated by reference to Exhibit 10.5 to NTIC's Current Report on Form 8-K as filed with the Securities and Exchange Commission on May 9, 2006 (File No. 001-11038)

Item No.	Item	Method of Filing
10.27	Commercial Note dated as of May 3, 2006 issued by Northern Technologies Holding Company, LLC to National City Bank	Incorporated by reference to Exhibit 10.6 to NTIC's Current Report on Form 8-K as filed with the Securities and Exchange Commission on May 9, 2006 (File No. 001-11038)
10.28	Mortgage dated as of May 3, 2006 between Northern Technologies Holding Company, LLC and National City Bank	Incorporated by reference to Exhibit 10.7 to NTIC's Current Report on Form 8-K as filed with the Securities and Exchange Commission on May 9, 2006 (File No. 001-11038)
10.29	Commercial Guaranty dated as of May 3, 2006 issued by Northern Technologies International Corporation, as Guarantor	Incorporated by reference to Exhibit 10.8 to NTIC's Current Report on Form 8-K as filed with the Securities and Exchange Commission on May 9, 2006 (File No. 001-11038)
10.30	Purchase and Sale Agreement dated as of June 2, 2006 between Northern Technologies International Corporation and Underground Properties, LLC	Incorporated by reference to Exhibit 10.1 to NTIC's Current Report on Form 8-K as filed with the Securities and Exchange Commission on June 5, 2006 (File No. 001-11038)
14.1	Code of Ethics	Incorporated by reference to Exhibit 14.1 to NTIC's Annual Report on Form 10-KSB for the year ended August 31, 2004 (File No. 001-11038)
21.1	Subsidiaries of the Registrant	Filed herewith
23.1	Consent of Virchow, Krause & Company, LLP	Filed herewith
31.1	Certification of President and Chief Executive Officer Pursuant to SEC Rule 13a-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 SEC Rule 13a-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	Filed herewith
32.1	Certification of President and Chief Executive Officer Pursuant to Rule 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 Rule 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	Furnished herewith

**RESTATED CERTIFICATE OF INCORPORATION  
OF  
NORTHERN TECHNOLOGIES INTERNATIONAL CORPORATION**

**(Pursuant to Section 245 of the General Corporation Law of the State of Delaware)**

Northern Technologies International Corporation, a corporation organized and existing under and by virtue of the provisions of the General Corporation Law of the State of Delaware (the "General Corporation Law"),

DOES HEREBY CERTIFY:

FIRST: That the name of this corporation is Northern Technologies International Corporation (the "Corporation") and that the Corporation was originally incorporated pursuant to the General Corporation Law on October 12, 1977 under the name Northern Instruments Corporation.

SECOND: That the Corporation's Restated Certificate of Incorporation only restates and integrates and does not further amend the provisions of the Corporation's Certificate of Incorporation as theretofore amended or supplemented, and there is no discrepancy between those provisions in the Corporation's Certificate of Incorporation and the provisions of the Corporation's Restated Certificate of Incorporation.

THIRD: That the Board of Directors duly adopted resolutions approving the restatement and integration of the Corporation's Certificate of Incorporation pursuant to Section 245 of the General Corporation Law, declaring said restatement and integration to be advisable and in the best interests of the Corporation and its stockholders, which resolution setting forth the proposed restatement and integrations is as follows:

RESOLVED, that the Certificate of Incorporation of the Corporation be restated and integrated in its entirety as follows:

**ARTICLE I.**

The name of this Corporation is Northern Technologies International Corporation.

**ARTICLE II.**

The address of its registered office in the State of Delaware is No. 100 West Tenth Street, in the City of Wilmington, County of New Castle. The name of its registered agent is The Corporation Trust Company.

**ARTICLE III.**

The purpose of the Corporation is to engage in any lawful act or activity for which corporations may be organized under the General Corporation Law of Delaware.

**ARTICLE IV.**

The Corporation shall have the authority to issue Ten Million Ten Thousand (10,010,000) shares of stock divided into Ten Million (10,000,000) shares of Two Cent (\$.02) par value common stock and Ten Thousand (10,000) shares of no par value preferred stock.

**ARTICLE V.**

Election of directors need not be by written ballot.

**ARTICLE VI.**

The Corporation shall be managed by the Board of Directors, which shall exercise all powers conferred under the law of the State of Delaware, including without limitation the power:

- (a) To hold meetings, to have one or more offices and to keep the books of the Corporation, except as otherwise expressly provided by law, at such places, whether within or without the State of Delaware, as may from time to time be designated by the Board.
- (b) To adopt, amend or repeal bylaws of the Corporation, subject to the reserved power of the stockholders to adopt, amend or repeal bylaws.
- (c) To fix and determine from time to time an amount to be set apart out of any funds of the Corporation available for dividends a reserve or reserves for working capital or any other proper purpose or to abolish any such reserve or reserves.

**ARTICLE VII.**

Each director and officer, past or present, of the Corporation, and their respective heirs, administrators and executors, shall be indemnified by the Corporation in accordance with, and to the fullest extent provided by, the provisions of the Delaware General Corporation Laws as they may from time to time be amended.

**ARTICLE VIII.**

The Corporation reserves the right to amend, alter, change or repeal any provision contained in this Restated Certificate of Incorporation, in the manner now or hereafter prescribed by statute, and all rights conferred upon stockholders herein are granted subject to this reservation.



**IN WITNESS WHEREOF**, this Restated Certificate of Incorporation has been executed by a duly authorized officer of this Corporation on this 17th day of November, 2006.

**NORTHERN TECHNOLOGIES INTERNATIONAL  
CORPORATION**

By: Matthew Wolsfeld

Its: Chief Financial Officer

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**NORTHERN TECHNOLOGIES INTERNATIONAL CORPORATION  
2007 STOCK INCENTIVE PLAN**

1. Purpose of Plan.

The purpose of the Northern Technologies International Corporation 2007 Stock Incentive Plan (the "Plan") is to advance the interests of Northern Technologies International Corporation (the "Company") and its stockholders by enabling 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.

2. Definitions.

The following terms will have the meanings set forth below, unless the context clearly otherwise requires:

2.1 "Board" means the Board of Directors of the Company.

2.2 "Broker Exercise Notice" means a written notice pursuant to which a Participant, upon exercise of an Option, irrevocably instructs a broker or dealer to sell a sufficient number of shares or loan a sufficient amount of money to pay all or a portion of the exercise price of the Option and/or any related withholding tax obligations and remit such sums to the Company and directs the Company to deliver stock certificates to be issued upon such exercise directly to such broker or dealer or their nominee.

2.3 "Cause" means (i) dishonesty, fraud, misrepresentation, embezzlement or other act of dishonesty with respect to the Company or any Subsidiary, (ii) any unlawful or criminal activity of a serious nature, (iii) any intentional and deliberate breach of a duty or duties that, individually or in the aggregate, are material in relation to the Participant's overall duties, or (iv) any material breach of any employment, service, confidentiality or non-compete agreement entered into with the Company or any Subsidiary.

2.4 "Change in Control" means an event described in Section 14.1 of the Plan; provided, however, if distribution of an Incentive Award subject to Section 409A of the Code is triggered by a Change in Control, the term Change in Control will mean a change in the ownership or effective control of the Company, or in the ownership of a substantial portion of the assets of the Company, as such term is defined in Section 409A of the Code and the regulations and rulings issued thereunder.

2.5 "Code" means the Internal Revenue Code of 1986, as amended (including, when the context requires, all regulations, interpretations and rulings issued thereunder).

2.6 "Committee" means the group of individuals administering the Plan, as provided in Section 3 of the Plan.

2.7 "Common Stock" means the common stock of the Company, par value \$0.02 per share, or the number and kind of shares of stock or other securities into which such Common Stock may be changed in accordance with Section 4.3 of the Plan.

2.8 “Disability” means the disability of the Participant such as would entitle the Participant to receive disability income benefits pursuant to the long-term disability plan of the Company or Subsidiary then covering the Participant or, if no such plan exists or is applicable to the Participant, the permanent and total disability of the Participant within the meaning of Section 22(e)(3) of the Code; provided, however, if distribution of an Incentive Award subject to Section 409A of the Code is triggered by an Eligible Recipient’s Disability, such term will mean that the Eligible Recipient is disabled as defined by Section 409A of the Code and the regulations and rulings issued thereunder.

2.9 “Eligible Recipients” means all employees (including, without limitation, officers and directors who are also employees) of the Company or any Subsidiary, and any non-employee directors, consultants, advisors and independent contractors of the Company or any Subsidiary and any joint venture partners (including without limitation, officers, directors and partners thereof) of the Company or any Subsidiary.

2.10 “Exchange Act” means the Securities Exchange Act of 1934, as amended.

2.11 “Fair Market Value” means, with respect to the Common Stock, as of any date: (i) the mean between the reported high and low sale prices of the Common Stock as of such date during the regular daily trading session, as reported on the American Stock Exchange, the New York Stock Exchange, the Nasdaq Global Select or Global Market, or any other national securities exchange or market on which the Common Stock is then traded or quoted (or, if no shares were traded or quoted on such date, as of the next preceding date on which there was such a trade or quote); or (ii) if the Common Stock is not so listed, admitted to unlisted trading privileges, or reported on the American Stock Exchange, the New York Stock Exchange, the Nasdaq Global Select or Global Market, or any other national securities exchange or market, the mean between the reported high and low sale prices as of such date during the regular daily trading session, as reported by the Nasdaq Capital Market, OTC Bulletin Board or the Pink Sheets LLC, or other comparable service (or, if no shares were traded or quoted on such date, as of the next preceding date on which there was such a trade or quote); or (iii) if the Common Stock is not so listed or reported, such price as the Committee determines in good faith, and consistent with the definition of “fair market value” under Section 409A of the Code.

2.12 “Incentive Award” means an Option, Stock Appreciation Right, Restricted Stock Award, Stock Unit Award, Performance Award or Stock Bonus granted to an Eligible Recipient pursuant to the Plan.

2.13 “Incentive Stock Option” means a right to purchase shares of Common Stock granted to an Eligible Recipient pursuant to Section 6 of the Plan that qualifies as an “incentive stock option” within the meaning of Section 422 of the Code.

2.14 “Non-Statutory Stock Option” means a right to purchase shares of Common Stock granted to an Eligible Recipient pursuant to Section 6 of the Plan that does not qualify as an Incentive Stock Option.

2.15 “Option” means an Incentive Stock Option or a Non-Statutory Stock Option.

2.16 “Participant” means an Eligible Recipient who receives one or more Incentive Awards under the Plan.

2.17 “Performance Criteria” means the performance criteria that may be used by the Committee in granting Incentive Awards contingent upon achievement of performance goals, consisting of net sales; operating income; income before income taxes; income before interest, taxes, depreciation and amortization; income before income taxes; income before interest, taxes, depreciation and amortization and other non-cash items; net income; net income per share (basic or diluted); profitability as measured by return ratios (including return on assets, return on equity, return on capital, return on investment and return on sales); cash flows; market share; cost of sales; sales, general and administrative expense, cost reduction goals; margins (including one or more of gross, operating and net income margins); stock price; total return to stockholders; economic value added; working capital and strategic plan development and implementation. The Committee may select one criterion or multiple criteria for measuring performance, and the measurement may be based upon Company, Subsidiary or business unit performance, either absolute or by relative comparison to prior periods or other companies or any other external measure of the selected criteria.

2.18 “Performance Award” means a right granted to an Eligible Recipient pursuant to Section 10 of the Plan to receive an amount of cash, a number of shares of Common Stock, or a combination of both, contingent upon achievement of Performance Criteria or other objectives during a specified period.

2.19 “Previously Acquired Shares” means shares of Common Stock that are already owned by the Participant or, with respect to any Incentive Award, that are to be issued to the Participant upon the grant, exercise or vesting of such Incentive Award.

2.20 “Restricted Stock Award” means an award of shares of Common Stock granted to an Eligible Recipient pursuant to Section 8 of the Plan that are subject to restrictions on transferability and a risk of forfeiture.

2.21 “Retirement” means termination of employment or service pursuant to and in accordance with the regular (or, if approved by the Board for purposes of the Plan, early) retirement/pension plan or practice of the Company or Subsidiary then covering the Participant, provided that if the Participant is not covered by any such plan or practice, the Participant will be deemed to be covered by the Company plan or practice for purposes of this determination/termination of employment or if the Company does not have any such retirement/pension plan or practice, service at age 55 or older and completion of at least 10 years of continuous service.

2.22 “Securities Act” means the Securities Act of 1933, as amended.

2.23 “Stock Appreciation Right” means a right granted to an Eligible Recipient pursuant to Section 7 of the Plan to receive a payment from the Company, in the form of shares of Common Stock, cash or a combination of both, equal to the difference between the Fair Market Value of one or more shares of Common Stock and a specified exercise price of such shares.

2.24 “Stock Bonus” means an award of shares of Common Stock granted to an Eligible Recipient pursuant to Section 11 of the Plan.

2.25 “Stock Unit Award” means a right granted to an Eligible Recipient pursuant to Section 9 of the Plan to receive the Fair Market Value of one or more shares of Common Stock, payable in cash, shares of Common Stock, or a combination of both, the payment, issuance, retention and/or vesting of which is subject to the satisfaction of specified conditions, which may include achievement of Performance Criteria or other objectives.

2.26 “Subsidiary” means any entity that is directly or indirectly controlled by the Company or any entity in which the Company has a significant equity interest, as determined by the Committee.

2.27 “Tax Date” means the date any withholding tax obligation arises under the Code for a Participant with respect to an Incentive Award.

3. Plan Administration.

3.1 The Committee. The Plan will be administered by the Board or by a committee of the Board. So long as the Company has a class of its equity securities registered under Section 12 of the Exchange Act, any committee administering the Plan will consist solely of two or more members of the Board who are “non-employee directors” within the meaning of Rule 16b-3 under the Exchange Act, who are “independent” as required by the listing standards of the American Stock Exchange (or other applicable market or exchange on which the Company’s Common Stock may be quoted or traded) and who are “outside directors” within the meaning of Section 162(m) of the Code. Such a committee, if established, will act by majority approval of the members (but may also take action by the written consent of all of the members of such committee), and a majority of the members of such a committee will constitute a quorum. As used in the Plan, “Committee” will refer to the Board or to such a committee, if established. To the extent consistent with applicable corporate law of the Company’s jurisdiction of incorporation, the Committee may delegate to any officers of the Company the duties, power and authority of the Committee under the Plan pursuant to such conditions or limitations as the Committee may establish; provided, however, that only the Committee may exercise such duties, power and authority with respect to Eligible Recipients who are subject to Section 16 of the Exchange Act or whose compensation in the fiscal year may be subject to the limits on deductible compensation pursuant to Section 162(m) of the Code. The Committee may exercise its duties, power and authority under the Plan in its sole and absolute discretion without the consent of any Participant or other party, unless the Plan specifically provides otherwise. Each determination, interpretation or other action made or taken by the Committee pursuant to the provisions of the Plan will be final, conclusive and binding for all purposes and on all persons, and no member of the Committee will be liable for any action or determination made in good faith with respect to the Plan or any Incentive Award granted under the Plan.

3.2 Authority of the Committee.

(a) In accordance with and subject to the provisions of the Plan, the Committee will have the authority to determine all provisions of Incentive Awards as the Committee may deem necessary or desirable and as consistent with the terms of the Plan, including, without limitation, the following: (i) the Eligible Recipients to be selected as Participants; (ii) the nature and extent of the Incentive Awards to be made to each Participant (including the number of shares of Common Stock to be subject to each Incentive Award, any exercise price, the manner in which Incentive Awards will vest or become exercisable and whether Incentive Awards will be granted in tandem with other Incentive Awards) and the form of written agreement, if any, evidencing such Incentive Award; (iii) the time or times when Incentive Awards will be granted; (iv) the duration of each Incentive Award; and (v) the restrictions and other conditions to which the payment or vesting of Incentive Awards may be subject. In addition, the Committee will have the authority under the Plan in its sole discretion to pay the economic value of any Incentive Award in the form of cash, Common Stock or any combination of both.

(b) Subject to Section 3.2(d) of the Plan, the Committee will have the authority under the Plan to amend or modify the terms of any outstanding Incentive Award in any manner, including, without limitation, the authority to modify the number of shares or other terms and conditions of an Incentive Award, extend the term of an Incentive Award, accelerate the exercisability or vesting or otherwise terminate any restrictions relating to an Incentive Award, accept the surrender of any outstanding Incentive Award or, to the extent not previously exercised

or vested, authorize the grant of new Incentive Awards in substitution for surrendered Incentive Awards; provided, however that the amended or modified terms are permitted by the Plan as then in effect and that any Participant adversely affected by such amended or modified terms has consented to such amendment or modification.

(c) In the event of (i) any reorganization, merger, consolidation, recapitalization, liquidation, reclassification, stock dividend, stock split, combination of shares, rights offering, extraordinary dividend or divestiture (including a spin-off) or any other similar change in corporate structure or shares; (ii) any purchase, acquisition, sale, disposition or write-down of a significant amount of assets or a significant business; (iii) any change in accounting principles or practices, tax laws or other such laws or provisions affecting reported results; (iv) any uninsured catastrophic losses or extraordinary non-recurring items as described in Accounting Principles Board Opinion No. 30 or in management's discussion and analysis of financial performance appearing in the Company's annual report to stockholders for the applicable year; or (v) any other similar change, in each case with respect to the Company or any other entity whose performance is relevant to the grant or vesting of an Incentive Award, the Committee (or, if the Company is not the surviving corporation in any such transaction, the board of directors of the surviving corporation) may, without the consent of any affected Participant, amend or modify the vesting criteria (including Performance Criteria) of any outstanding Incentive Award that is based in whole or in part on the financial performance of the Company (or any Subsidiary or division or other subunit thereof) or such other entity so as equitably to reflect such event, with the desired result that the criteria for evaluating such financial performance of the Company or such other entity will be substantially the same (in the sole discretion of the Committee or the board of directors of the surviving corporation) following such event as prior to such event; provided, however, that the amended or modified terms are permitted by the Plan as then in effect, including the limitations in Section 3.2(a) and 3.2(b).

(d) Notwithstanding any other provision of this Plan other than Section 4.3, the Committee may not, without prior approval of the Company's stockholders, seek to effect any re-pricing of any previously granted, "underwater" Option or Stock Appreciation Right by: (i) amending or modifying the terms of the Option or Stock Appreciation Right to lower the exercise price; (ii) canceling the underwater Option or Stock Appreciation Right and granting either (A) replacement Options or Stock Appreciation Rights having a lower exercise price; (B) Restricted Stock Awards; or (C) Stock Unit Awards, Performance Awards or Stock Bonuses in exchange; or (iii) repurchasing the underwater Options or Stock Appreciation Rights and granting new Incentive Awards under this Plan. For purposes of this Section 3.2(d), Options and Stock Appreciation Rights will be deemed to be "underwater" at any time when the Fair Market Value of the Common Stock is less than the exercise price of the Option or Stock Appreciation Right.

(e) In addition to the authority of the Committee under Section 3.2(b) of the Plan and notwithstanding any other provision of the Plan, the Committee may, in its sole discretion, amend the terms of the Plan or Incentive Awards with respect to Participants resident outside of the United States or employed by a non-U.S. Subsidiary in order to comply with local legal requirements, to otherwise protect the Company's or Subsidiary's interests, or to meet objectives of the Plan, and may, where appropriate, establish one or more sub-plans (including the adoption of any required rules and regulations) for the purposes of qualifying for preferred tax treatment under foreign tax laws. The Committee shall have no authority, however, to take action pursuant to this Section 3.2(e) of the Plan: (i) to reserve shares or grant Incentive Awards in excess of the limitations provided in Section 4.1 of the Plan; (ii) to effect any re-pricing in violation of Section 3.2(d) of the Plan; (iii) to grant Options or Stock Appreciation Rights having an exercise price in

violation of Section 6.2 or 7.2 of the Plan, as the case may be; or (iv) for which stockholder approval would then be required pursuant to Section 422 of the Code or the rules of the New York Stock Exchange (or other applicable market or exchange on which the Company's Common Stock may be quoted or traded).

#### 4. Shares Available for Issuance.

4.1 Maximum Number of Shares Available; Certain Restrictions on Awards. Subject to adjustment as provided in Section 4.3 of the Plan, the maximum number of shares of Common Stock that will be available for issuance under the Plan will be the sum of:

- (a) 400,000;
- (b) the number of shares issued or Incentive Awards granted under the Plan in connection with the settlement, assumption or substitution of outstanding awards or obligations to grant future awards as a condition of the Company and/or any Subsidiary(ies) acquiring, merging or consolidating with another entity; and
- (c) the number of shares that are unallocated and available for grant under a stock plan assumed by the Company or any Subsidiary(ies) in connection with the merger, consolidation, or acquisition of another entity by the Company and/or any of its Subsidiaries, based on the applicable exchange ratio and other transaction terms, but only to the extent that such shares may be utilized by the Company or its Subsidiaries following the transaction pursuant to the rules and regulations of the American Stock Exchange (or other applicable market or exchange on which the Company's Common Stock may be quoted or traded).

Notwithstanding any other provisions of the Plan to the contrary, (i) no Participant in the Plan may be granted Options and Stock Appreciation Rights relating to more than 100,000 shares of Common Stock in the aggregate during any calendar year; (ii) no Participant in the Plan may be granted Restricted Stock Awards, Stock Unit Awards, Performance Awards and Stock Bonuses relating to more than 100,000 shares of Common Stock in the aggregate during any calendar year; (iii) no more than 400,000 shares of Common Stock may be issued pursuant to the exercise of Incentive Stock Options granted under the Plan; and (iv) no more than 300,000 shares of Common Stock may be issued or issuable under the Plan in connection with the grant of Incentive Awards, other than Options or Stock Appreciation Rights; provided, however, that the limits in clauses (i) and (ii), above, will be 150,000 shares and 150,000 shares, respectively, as to a Participant who, during the calendar year, is first appointed or elected as an officer, hired as an employee, elected as a director or retained as a consultant by the Company or who receives a promotion that results in an increase in responsibilities or duties. All of the foregoing share limits are subject, in each case, to adjustment as provided in Section 4.3 of the Plan. The limits in clauses (i), (ii) and (iv) will not apply, however, to the extent Incentive Awards are granted as a result of the Company's assumption or substitution of like awards issued by any acquired, merged or consolidated entity pursuant to the applicable transaction terms, nor will any Incentive Stock Options issued in any such assumption or substitution pursuant to applicable provisions of the Code count towards the limit in clause (iii).

4.2 Accounting for Incentive Awards. Shares of Common Stock that are issued under the Plan or that are potentially issuable pursuant to outstanding Incentive Awards will be applied to reduce the maximum number of shares of Common Stock remaining available for issuance under the Plan. All shares so subtracted from the amount available under the Plan with respect to an Incentive Award that lapses, expires, is forfeited (including issued shares forfeited under a Restricted Stock Award) or for any

reason is terminated unexercised or unvested or is settled or paid in cash or any form other than shares of Common Stock will automatically again become available for issuance under the Plan; provided, however, that (i) any shares which would have been issued upon any exercise of an Option but for the fact that the exercise price was paid by a "net exercise" pursuant to Section 6.4(b) of the Plan or the tender or attestation as to ownership of Previously Acquired Shares pursuant to Section 6.4(a) of the Plan will not again become available for issuance under the Plan; and (ii) shares covered by a Stock Appreciation Right, to the extent exercised, will not again become available for issuance under the Plan.

4.3 Adjustments to Shares and Incentive Awards. In the event of any reorganization, merger, consolidation, recapitalization, liquidation, reclassification, stock dividend, stock split, combination of shares, rights offering, divestiture or extraordinary dividend (including a spin-off) or any other similar change in the corporate structure or shares of the Company, the Committee (or, if the Company is not the surviving corporation in any such transaction, the board of directors of the surviving corporation) will make appropriate adjustment (which determination will be conclusive) as to the number and kind of securities or other property (including cash) available for issuance or payment under the Plan and, in order to prevent dilution or enlargement of the rights of Participants, (a) the number and kind of securities or other property (including cash) subject to outstanding Incentive Awards, and (b) the exercise price of outstanding Options and Stock Appreciation Rights.

#### 5. Participation.

Participants in the Plan will be those Eligible Recipients who, in the judgment of the Committee, have contributed, are contributing or are expected to contribute to the achievement of economic objectives of the Company or its Subsidiaries. Eligible Recipients may be granted from time to time one or more Incentive Awards, singly or in combination or in tandem with other Incentive Awards, as may be determined by the Committee in its sole discretion. Incentive Awards will be deemed to be granted as of the date specified in the grant resolution of the Committee, which date will be the date of any related agreement with the Participant.

#### 6. Options.

6.1 Grant. An Eligible Recipient may be granted one or more Options under the Plan, and such Options will be subject to such terms and conditions, consistent with the other provisions of the Plan, as may be determined by the Committee in its sole discretion. The Committee may designate whether an Option is to be considered an Incentive Stock Option or a Non-Statutory Stock Option. To the extent that any Incentive Stock Option (or portion thereof) granted under the Plan ceases for any reason to qualify as an "incentive stock option" for purposes of Section 422 of the Code, such Incentive Stock Option (or portion thereof) will continue to be outstanding for purposes of the Plan but will thereafter be deemed to be a Non-Statutory Stock Option.

6.2 Exercise Price. The per share price to be paid by a Participant upon exercise of an Option will be determined by the Committee in its discretion at the time of the Option grant, provided that such price will not be less than 100% of the Fair Market Value of one share of Common Stock on the date of grant (or 110% of the Fair Market Value of one share of Common Stock on the date of grant of an Incentive Stock Option if, at the time the Incentive Stock Option is granted, the Participant owns, directly or indirectly, more than 10% of the total combined voting power of all classes of stock of the Company or any parent or subsidiary corporation of the Company). Notwithstanding the foregoing, to the extent that Options are granted under the Plan as a result of the Company's assumption or substitution of options issued by any acquired, merged or consolidated entity, the exercise price for such Options shall be the price determined by the Committee pursuant to the conversion terms applicable to the transaction.



6.3 Exercisability and Duration. An Option will become exercisable at such times and in such installments and upon such terms and conditions as may be determined by the Committee in its sole discretion at the time of grant (including without limitation (i) the achievement of one or more of the Performance Criteria; and/or that (ii) the Participant remain in the continuous employ or service of the Company or a Subsidiary for a certain period); provided, however, that no Option may be exercisable after ten (10) years from its date of grant (five years from its date of grant in the case of an Incentive Stock Option if, at the time the Incentive Stock Option is granted, the Participant owns, directly or indirectly, more than 10% of the total combined voting power of all classes of stock of the Company or any parent or subsidiary corporation of the Company).

6.4 Payment of Exercise Price.

(a) The total purchase price of the shares to be purchased upon exercise of an Option will be paid entirely in cash (including check, bank draft or money order); provided, however, that the Committee, in its sole discretion and upon terms and conditions established by the Committee, may allow such payments to be made, in whole or in part, by (i) tender of a Broker Exercise Notice; (ii) by tender, or attestation as to ownership, of Previously Acquired Shares that are acceptable to the Committee; (iii) by a “net exercise” of the Option (as further described in paragraph (b), below); or (iv) by a combination of such methods.

(b) In the case of a “net exercise” of an Option, the Company will not require a payment of the exercise price of the Option from the Participant but will reduce the number of shares of Common Stock issued upon the exercise by the largest number of whole shares that has a Fair Market Value on the exercise date that does not exceed the aggregate exercise price for the shares exercised under this method. Shares of Common Stock will no longer be outstanding under an Option (and will therefore not thereafter be exercisable) following the exercise of such Option to the extent of (i) shares used to pay the exercise price of an Option under the “net exercise,” (ii) shares actually delivered to the Participant as a result of such exercise and (iii) any shares withheld for purposes of tax withholding pursuant to Section 13.1 of the Plan.

(c) Previously Acquired Shares tendered or covered by an attestation as payment of an Option exercise price will be valued at their Fair Market Value on the exercise date.

6.5 Manner of Exercise. An Option may be exercised by a Participant in whole or in part from time to time, subject to the conditions contained in the Plan and in the agreement evidencing such Option, by delivery in person, by facsimile or electronic transmission or through the mail of written notice of exercise to the Company at its principal executive office in Circle Pines, Minnesota and by paying in full the total exercise price for the shares of Common Stock to be purchased in accordance with Section 6.4 of the Plan.

6.6 Early Exercise. An Option may, but need not, include a provision whereby the Participant may elect at any time before the Participant’s employment or service terminates to exercise the Option as to any part or all of the shares subject to the Option prior to the full vesting of the Option. Any unvested shares so purchased shall be subject to a repurchase option in favor of the Company and to any other restriction the Committee determines to be appropriate.

## 7. Stock Appreciation Rights.

7.1 Grant. An Eligible Recipient may be granted one or more Stock Appreciation Rights under the Plan, and such Stock Appreciation Rights will be subject to such terms and conditions, consistent with the other provisions of the Plan, as may be determined by the Committee in its sole discretion. The Committee will have the sole discretion to determine the form in which payment of the economic value of Stock Appreciation Rights will be made to a Participant (i.e., cash, shares of Common Stock or any combination thereof) or to consent to or disapprove the election by a Participant of the form of such payment.

7.2 Exercise Price. The exercise price of a Stock Appreciation Right will be determined by the Committee, in its discretion, at the date of grant but may not be less than 100% of the Fair Market Value of one share of Common Stock on the date of grant, except as provided in Section 7.4 of the Plan. Notwithstanding the foregoing, to the extent that Stock Appreciation Rights are granted under the Plan as a result of the Company's assumption or substitution of stock appreciation rights issued by any acquired, merged or consolidated entity, the exercise price for such Stock Appreciation Rights shall be the price determined by the Committee pursuant to the conversion terms applicable to the transaction.

7.3 Exercisability and Duration. A Stock Appreciation Right will become exercisable at such time and in such installments as may be determined by the Committee in its sole discretion at the time of grant; provided, however, that no Stock Appreciation Right may be exercisable after ten (10) years from its date of grant. A Stock Appreciation Right will be exercised by giving notice in the same manner as for Options, as set forth in Section 6.5 of the Plan.

7.4 Grants in Tandem with Options. Stock Appreciation Rights may be granted alone or in addition to other Incentive Awards, or in tandem with an Option, either at the time of grant of the Option or at any time thereafter during the term of the Option. A Stock Appreciation Right granted in tandem with an Option shall cover the same number of shares of Common Stock as covered by the Option (or such lesser number as the Committee may determine), shall be exercisable at such time or times and only to the extent that the related Option is exercisable, have the same term as the Option and shall have an exercise price equal to the exercise price for the Option. Upon the exercise of a Stock Appreciation Right granted in tandem with an Option, the Option shall be canceled automatically to the extent of the number of shares covered by such exercise; conversely, upon exercise of an Option having a related Stock Appreciation Right, the Stock Appreciation Right shall be canceled automatically to the extent of the number of shares covered by the Option exercise.

## 8. Restricted Stock Awards.

8.1 Grant. An Eligible Recipient may be granted one or more Restricted Stock Awards under the Plan, and such Restricted Stock Awards will be subject to such terms and conditions, consistent with the other provisions of the Plan, as may be determined by the Committee in its sole discretion. The Committee may impose such restrictions or conditions, not inconsistent with the provisions of the Plan, to the vesting of such Restricted Stock Awards as it deems appropriate, including, without limitation, (i) the achievement of one or more of the Performance Criteria; and/or that (ii) the Participant remain in the continuous employ or service of the Company or a Subsidiary for a certain period.

8.2 Rights as a Stockholder; Transferability. Except as provided in Sections 8.1, 8.3, 8.4 and 15.3 of the Plan, a Participant will have all voting, dividend, liquidation and other rights with respect to shares of Common Stock issued to the Participant as a Restricted Stock Award under this Section 8 upon the Participant becoming the holder of record of such shares as if such Participant were a holder of record of shares of unrestricted Common Stock.

8.3 Dividends and Distributions. Unless the Committee determines otherwise in its sole discretion (either in the agreement evidencing the Restricted Stock Award at the time of grant or at any time after the grant of the Restricted Stock Award), any dividends or distributions (including regular quarterly cash dividends) paid with respect to shares of Common Stock subject to the unvested portion of a Restricted Stock Award will be subject to the same restrictions as the shares to which such dividends or distributions relate. In the event the Committee determines not to pay such dividends or distributions currently, the Committee will determine in its sole discretion whether any interest will be paid on such dividends or distributions. In addition, the Committee in its sole discretion may require such dividends and distributions to be reinvested (and in such case the Participants consent to such reinvestment) in shares of Common Stock that will be subject to the same restrictions as the shares to which such dividends or distributions relate.

8.4 Enforcement of Restrictions. To enforce the restrictions referred to in this Section 8, the Committee may place a legend on the stock certificates referring to such restrictions and may require the Participant, until the restrictions have lapsed, to keep the stock certificates, together with duly endorsed stock powers, in the custody of the Company or its transfer agent, or to maintain evidence of stock ownership, together with duly endorsed stock powers, in a certificateless book-entry stock account with the Company's transfer agent.

9. Stock Unit Awards.

An Eligible Recipient may be granted one or more Stock Unit Awards under the Plan, and such Stock Unit Awards will be subject to such terms and conditions, consistent with the other provisions of the Plan, as may be determined by the Committee in its sole discretion. The Committee may impose such restrictions or conditions, not inconsistent with the provisions of the Plan, to the payment, issuance, retention and/or vesting of such Stock Unit Awards as it deems appropriate, including, without limitation, (i) the achievement of one or more of the Performance Criteria; and/or that (ii) the Participant remain in the continuous employ or service of the Company or a Subsidiary for a certain period; provided, however, that in all cases payment of a Stock Unit Award will be made within two and one-half months following the end of the Eligible Recipient's tax year during which receipt of the Stock Unit Award is no longer subject to a "substantial risk of forfeiture" within the meaning of Section 409A of the Code, unless otherwise determined by the Committee pursuant to Section 18 of the Plan.

10. Performance Awards.

An Eligible Recipient may be granted one or more Performance Awards under the Plan, and such Performance Awards will be subject to such terms and conditions, if any, consistent with the other provisions of the Plan, as may be determined by the Committee in its sole discretion, including, but not limited to, the achievement of one or more of the Performance Criteria; provided, however, that in all cases payment of the Performance Award will be made within two and one-half months following the end of the Eligible Recipient's tax year during which receipt of the Performance Award is no longer subject to a "substantial risk of forfeiture" within the meaning of Section 409A of the Code, unless otherwise determined by the Committee pursuant to Section 18 of the Plan.

11. Stock Bonuses.

An Eligible Recipient may be granted one or more Stock Bonuses under the Plan, and such Stock Bonuses will be subject to such terms and conditions, if any, consistent with the other provisions of the Plan, as may be determined by the Committee in its sole discretion, including, but not limited to, the achievement of one or more of the Performance Criteria; provided, however, that in all cases payment of the Stock Bonus will be made within two and one-half months following the end of the Eligible Recipient's tax year during which receipt of the Stock Bonus is no longer subject to a "substantial risk of forfeiture" within the meaning of Section 409A of the Code, unless otherwise determined by the Committee pursuant to Section 18 of the Plan.

12. Effect of Termination of Employment or Other Service. The following provisions shall apply upon termination of a Participant's employment or other service with the Company and all Subsidiaries, except to the extent that the Committee provides otherwise in an agreement evidencing an Incentive Award at the time of grant or determines pursuant to Section 12.3 of the Plan.

12.1 Termination Due to Death, Disability or Retirement. In the event a Participant's employment or other service with the Company and all Subsidiaries is terminated by reason of death, Disability or Retirement:

- (a) All outstanding Options and Stock Appreciation Rights then held by the Participant will, to the extent exercisable as of such termination, remain exercisable in full for a period of twelve months after such termination (but in no event after the expiration date of any such Option or Stock Appreciation Right). Options and Stock Appreciation Rights not exercisable as of such termination will be forfeited and terminate.
- (b) All Restricted Stock Awards then held by the Participant that have not vested as of such termination will be terminated and forfeited; and
- (c) All outstanding but unpaid Stock Unit Awards, Performance Awards and Stock Bonuses then held by the Participant will be terminated and forfeited.

12.2 Termination for Reasons Other than Death, Disability or Retirement. Subject to Section 12.4 of the Plan, in the event a Participant's employment or other service is terminated with the Company and all Subsidiaries for any reason other than death, Disability or Retirement, or a Participant is in the employ or service of a Subsidiary and the Subsidiary ceases to be a Subsidiary of the Company (unless the Participant continues in the employ or service of the Company or another Subsidiary):

- (a) All outstanding Options and Stock Appreciation Rights then held by the Participant will, to the extent exercisable as of such termination, remain exercisable in full for a period of three months after such termination (but in no event after the expiration date of any such Option or Stock Appreciation Right). Options and Stock Appreciation Rights not exercisable as of such termination will be forfeited and terminate;
- (b) All Restricted Stock Awards then held by the Participant that have not vested as of such termination will be terminated and forfeited; and
- (c) All outstanding but unpaid Stock Unit Awards, Performance Awards and Stock Bonuses then held by the Participant will be terminated and forfeited.

12.3 Modification of Rights Upon Termination. Notwithstanding the other provisions of this Section 12, upon a Participant's termination of employment or other service with the Company and all Subsidiaries, the Committee may, in its sole discretion (which may be exercised at any time on or after the date of grant, including following such termination), except as provided in clause (ii), below, cause Options or Stock Appreciation Rights (or any part thereof) then held by such Participant to terminate, become or continue to become exercisable and/or remain exercisable following such termination of employment or service, and Restricted Stock Awards, Stock Unit Awards, Performance Awards or Stock Bonuses then held by such Participant to terminate, vest and/or continue to vest or become free of restrictions and conditions to payment, as the case may be, following such termination of employment or

service, in each case in the manner determined by the Committee; and (ii) any such action adversely affecting any outstanding Incentive Award will not be effective without the consent of the affected Participant (subject to the right of the Committee to take whatever action it deems appropriate under Sections 3.2(c), 4.3 and 14 of the Plan).

12.4 Effects of Actions Constituting Cause. Notwithstanding anything in the Plan to the contrary, in the event that a Participant is determined by the Committee, acting in its sole discretion, to have committed any action which would constitute Cause as defined in Section 2.4 of the Plan, irrespective of whether such action or the Committee's determination occurs before or after termination of such Participant's employment with the Company or any Subsidiary, all rights of the Participant under the Plan and any agreements evidencing an Incentive Award then held by the Participant shall terminate and be forfeited without notice of any kind. The Company may defer the exercise of any Option, the vesting of any Restricted Stock Award or the payment of any Stock Unit Award, Performance Award or Stock Bonus for a period of up to ninety (90) days in order for the Committee to make any determination as to the existence of Cause.

12.5 Determination of Termination of Employment or Other Service.

(a) The change in a Participant's status from that of an employee of the Company or any Subsidiary to that of a non-employee consultant, director or advisor of the Company or any Subsidiary will, for purposes of the Plan, be deemed to result in a termination of such Participant's employment with the Company and its Subsidiaries, unless the Committee otherwise determines in its sole discretion.

(b) The change in a Participant's status from that of a non-employee consultant, director or advisor of the Company or any Subsidiary to that of an employee of the Company or any Subsidiary will not, for purposes of the Plan, be deemed to result in a termination of such Participant's service as a non-employee consultant, director or advisor with the Company and its Subsidiaries, and such Participant will thereafter be deemed to be an employee of the Company or its Subsidiaries until such Participant's employment or service is terminated, in which event such Participant will be governed by the provisions of this Plan relating to termination of employment or service (subject to paragraph (a), above).

(c) Unless the Committee otherwise determines in its sole discretion, a Participant's employment or other service will, for purposes of the Plan, be deemed to have terminated on the date recorded on the personnel or other records of the Company or the Subsidiary for which the Participant provides employment or other service, as determined by the Committee in its sole discretion based upon such records; provided, however, if distribution of an Incentive Award subject to Section 409A of the Code is triggered by a termination of a Participant's employment or other service, such termination must also constitute a "separation from service" within the meaning of Section 409A of the Code.

12.6 Breach of Employment, Service, Confidentiality, Non-Compete or Non-Solicitation Agreements. Notwithstanding anything in the Plan to the contrary and in addition to the rights of the Committee under Section 12.4 of the Plan, in the event that a Participant materially breaches the terms of any employment, service, confidentiality, non-compete or non-solicitation agreement entered into with the Company or any Subsidiary (including an employment, service, confidentiality, non-compete or non-solicitation agreement made in connection with the grant of an Incentive Award), whether such breach occurs before or after termination of such Participant's employment or other service with the Company or any Subsidiary, the Committee in its sole discretion may require the Participant to surrender shares of Common Stock received, and to disgorge any profits (however defined by the Committee), made or realized by the Participant in connection with any Incentive Awards or any shares issued upon the exercise or vesting of any Incentive Awards.

### 13. Payment of Withholding Taxes.

13.1 General Rules. The Company is entitled to (a) withhold and deduct from future wages of the Participant (or from other amounts that may be due and owing to the Participant from the Company or a Subsidiary), or make other arrangements for the collection of, all legally required amounts necessary to satisfy any and all federal, foreign, state and local withholding and employment-related tax requirements attributable to an Incentive Award, including, without limitation, the grant, exercise or vesting of, or payment of dividends with respect to, an Incentive Award or a disqualifying disposition of stock received upon exercise of an Incentive Stock Option; (b) withhold cash paid or payable or shares of Common Stock from the shares issued or otherwise issuable to the Participant in connection with an Incentive Award; or (c) require the Participant promptly to remit the amount of such withholding to the Company before taking any action, including issuing any shares of Common Stock, with respect to an Incentive Award. Shares of Common Stock issued or otherwise issuable to the Participant in connection with an Incentive Award that gives rise to the tax withholding obligation that are withheld for purposes of satisfying the Participant's withholding or employment-related tax obligation will be valued at their Fair Market Value on the Tax Date.

13.2 Special Rules. The Committee may, in its sole discretion and upon terms and conditions established by the Committee, permit or require a Participant to satisfy, in whole or in part, any withholding or employment-related tax obligation described in Section 13.1 of the Plan by electing to tender, or by attestation as to ownership of, Previously Acquired Shares, by delivery of a Broker Exercise Notice or a combination of such methods. For purposes of satisfying a Participant's withholding or employment-related tax obligation, Previously Acquired Shares tendered or covered by an attestation will be valued at their Fair Market Value on the Tax Date.

### 14. Change in Control.

14.1 Definition of Change in Control. A "Change in Control" shall be deemed to have occurred if the event set forth in any one of the following paragraphs shall have occurred. For purposes of this Section 14.1, a "Change in Control" of the Company will mean (a) the sale, lease, exchange or other transfer of substantially all of the assets of the Company (in one transaction or in a series of related transactions) to a person or entity that is not controlled, directly or indirectly, by the Company, (b) a merger or consolidation to which the Company is a party if the stockholders of the Company immediately prior to effective date of such merger or consolidation do not have "beneficial ownership" (as defined in Rule 13d-3 under the Exchange Act) immediately following the effective date of such merger or consolidation of more than 80% of the combined voting power of the surviving corporation's outstanding securities ordinarily having the right to vote at elections of directors, or (c) a change in control of the Company of a nature that would be required to be reported pursuant to Section 13 or 15(d) of the Exchange Act, whether or not the Company is then subject to such reporting requirements, including, without limitation, such time as (i) any person becomes, after the effective date of the Plan, the "beneficial owner" (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of 40% or more of the combined voting power of the Company's outstanding securities ordinarily having the right to vote at elections of directors, or (ii) individuals who constitute the Board on the effective date of the Plan cease for any reason to constitute at least a majority of the Board, provided that any person becoming a director subsequent to the effective date of the Plan whose election, or nomination for election by the Company's stockholders, was approved by a vote of at least a majority of the directors comprising the Board on the effective date of the Plan will, for purposes of this clause (ii), be considered as though such persons were a member of the Board on the effective date of the Plan.

14.2 Acceleration of Vesting. Without limiting the authority of the Committee under Sections 3.2 and 4.3 of the Plan, if a Change in Control of the Company occurs, then, if approved by the Committee in its sole discretion either in an agreement evidencing an Incentive Award at the time of grant or at any time after the grant of an Incentive Award: (a) all outstanding Options and Stock Appreciation Rights will become immediately exercisable in full and will remain exercisable in accordance with their terms, regardless of whether the Participants to whom such Options or Stock Appreciation Rights have been granted remain in the employ or service of the Company or any Subsidiary; (b) all outstanding Restricted Stock Awards will become immediately fully vested and non-forfeitable; and (c) all outstanding Stock Unit Awards, Performance Awards and Stock Bonuses then held by the Participant will vest and/or continue to vest in the manner determined by the Committee and set forth in the agreement evidencing such Performance Units or Stock Bonuses.

14.3 Cash Payment. If a Change in Control of the Company occurs, then the Committee, if approved by the Committee in its sole discretion either in an agreement evidencing an Incentive Award at the time of grant or at any time after the grant of an Incentive Award, and without the consent of any Participant affected thereby, may determine that: (i) some or all Participants holding outstanding Options will receive, with respect to some or all of the shares of Common Stock subject to such Options, as of the effective date of any such Change in Control of the Company, cash in an amount equal to the excess of the Fair Market Value of such shares immediately prior to the effective date of such Change in Control of the Company over the exercise price per share of such Options (or, in the event that there is no excess, that such Options will be terminated); and (ii) some or all Participants holding Performance Awards will receive, with respect to some or all of the shares of Common Stock subject to such Performance Awards, as of the effective date of any such Change in Control of the Company, cash in an amount equal the Fair Market Value of such shares immediately prior to the effective date of such Change in Control of the Company.

14.4 Limitation on Change in Control Payments. Notwithstanding anything in Section 14.2 or 14.3 of the Plan to the contrary, if, with respect to a Participant, the acceleration of the vesting of an Incentive Award as provided in Section 14.2 of the Plan or the payment of cash in exchange for all or part of an Incentive Award as provided in Section 14.3 of the Plan (which acceleration or payment could be deemed a "payment" within the meaning of Section 280G(b)(2) of the Code), together with any other "payments" that such Participant has the right to receive from the Company or any corporation that is a member of an "affiliated group" (as defined in Section 1504(a) of the Code without regard to Section 1504(b) of the Code) of which the Company is a member, would constitute a "parachute payment" (as defined in Section 280G(b)(2) of the Code), then the "payments" to such Participant pursuant to Section 14.2 or 14.3 of the Plan will be reduced to the largest amount as will result in no portion of such "payments" being subject to the excise tax imposed by Section 4999 of the Code; provided, that such reduction shall be made only if the aggregate amount of the payments after such reduction exceeds the difference between (A) the amount of such payments absent such reduction minus (B) the aggregate amount of the excise tax imposed under Section 4999 of the Code attributable to any such excess parachute payments. Notwithstanding the foregoing sentence, if a Participant is subject to a separate agreement with the Company or a Subsidiary that expressly addresses the potential application of Sections 280G or 4999 of the Code (including, without limitation, that "payments" under such agreement or otherwise will be reduced, that the Participant will have the discretion to determine which "payments" will be reduced, that such "payments" will not be reduced or that such "payments" will be "grossed up" for tax purposes), then this Section 14.4 will not apply, and any "payments" to a Participant pursuant to Section 14.2 or 14.3 of the Plan will be treated as "payments" arising under such separate agreement.

15. Rights of Eligible Recipients and Participants; Transferability.

15.1 Employment or Service. Nothing in the Plan will interfere with or limit in any way the right of the Company or any Subsidiary to terminate the employment or service of any Eligible Recipient or Participant at any time, nor confer upon any Eligible Recipient or Participant any right to continue in the employ or service of the Company or any Subsidiary.

15.2 Rights as a Stockholder; Dividends. As a holder of Incentive Awards (other than Restricted Stock Awards), a Participant will have no rights as a stockholder unless and until such Incentive Awards are exercised for, or paid in the form of, shares of Common Stock and the Participant becomes the holder of record of such shares. Except as otherwise provided in the Plan or otherwise provided by the Committee, no adjustment will be made in the amount of cash payable or in the number of shares of Common Stock issuable under Incentive Awards denominated in or based on the value of shares of Common Stock as a result of cash dividends or distributions paid to holders of Common Stock prior to the payment of, or issuance of shares of Common Stock under, such Incentive Awards. In its discretion, the Committee may provide in an agreement evidencing an Incentive Award that the Participant will be entitled to receive dividend equivalents, in the form of a cash credit to an account for the benefit of the Participant, for any such dividends and distributions. The terms of any rights to dividend equivalents will be determined by the Committee and set forth in the agreement evidencing the Incentive Award, including the time and form of payment and whether such equivalents will be credited with interest or deemed to be reinvested in Common Stock; provided, however, that dividend equivalents in respect of Options and Stock Appreciation Rights will only be paid out in cash.

15.3 Restrictions on Transfer.

(a) Except pursuant to testamentary will or the laws of descent and distribution or as otherwise expressly permitted by subsections (b) and (c) below, no right or interest of any Participant in an Incentive Award prior to the exercise (in the case of Options) or vesting or issuance (in the case of Restricted Stock Awards and Performance Awards) of such Incentive Award will be assignable or transferable, or subjected to any lien, during the lifetime of the Participant, either voluntarily or involuntarily, directly or indirectly, by operation of law or otherwise.

(b) A Participant will be entitled to designate a beneficiary to receive an Incentive Award upon such Participant's death, and in the event of such Participant's death, payment of any amounts due under the Plan will be made to, and exercise of any Options or Stock Appreciation Rights (to the extent permitted pursuant to Section 12 of the Plan) may be made by, such beneficiary. If a deceased Participant has failed to designate a beneficiary, or if a beneficiary designated by the Participant fails to survive the Participant, payment of any amounts due under the Plan will be made to, and exercise of any Options or Stock Appreciation Rights (to the extent permitted pursuant to Section 12 of the Plan) may be made by, the Participant's legal representatives, heirs and legatees. If a deceased Participant has designated a beneficiary and such beneficiary survives the Participant but dies before complete payment of all amounts due under the Plan or exercise of all exercisable Options or Stock Appreciation Rights, then such payments will be made to, and the exercise of such Options or Stock Appreciation Rights may be made by, the legal representatives, heirs and legatees of the beneficiary.



(c) Upon a Participant's request, the Committee may, in its sole discretion, permit a transfer of all or a portion of a Non-Statutory Stock Option, other than for value, to such Participant's child, stepchild, grandchild, parent, stepparent, grandparent, spouse, former spouse, sibling, niece, nephew, mother-in-law, father-in-law, son-in-law, daughter-in-law, brother-in-law, or sister-in-law, any person sharing such Participant's household (other than a tenant or employee), a trust in which any of the foregoing have more than fifty percent of the beneficial interests, a foundation in which any of the foregoing (or the Participant) control the management of assets, and any other entity in which these persons (or the Participant) own more than fifty percent of the voting interests. Any permitted transferee will remain subject to all the terms and conditions applicable to the Participant prior to the transfer. A permitted transfer may be conditioned upon such requirements as the Committee may, in its sole discretion, determine, including, but not limited to execution and/or delivery of appropriate acknowledgements, opinion of counsel, or other documents by the transferee.

15.4 Non-Exclusivity of the Plan. Nothing contained in the Plan is intended to modify or rescind any previously approved compensation plans or programs of the Company or create any limitations on the power or authority of the Board to adopt such additional or other compensation arrangements as the Board may deem necessary or desirable.

16. Securities Law and Other Restrictions.

Notwithstanding any other provision of the Plan or any agreements entered into pursuant to the Plan, the Company will not be required to issue any shares of Common Stock under this Plan, and a Participant may not sell, assign, transfer or otherwise dispose of shares of Common Stock issued pursuant to Incentive Awards granted under the Plan, unless (a) there is in effect with respect to such shares a registration statement under the Securities Act and any applicable securities laws of a state or foreign jurisdiction or an exemption from such registration under the Securities Act and applicable state or foreign securities laws, and (b) there has been obtained any other consent, approval or permit from any other U.S. or foreign regulatory body which the Committee, in its sole discretion, deems necessary or advisable. The Company may condition such issuance, sale or transfer upon the receipt of any representations or agreements from the parties involved, and the placement of any legends on certificates representing shares of Common Stock, as may be deemed necessary or advisable by the Company in order to comply with such securities law or other restrictions.

17. Performance-Based Compensation Provisions.

The Committee, when it is comprised solely of two or more outside directors meeting the requirements of Section 162(m) of the Code ("Section 162(m)"), in its sole discretion, may designate whether any Incentive Awards are intended to be "performance-based compensation" within the meaning of Section 162(m). Any Incentive Awards so designated will, to the extent required by Section 162(m), be conditioned upon the achievement of one or more Performance Criteria, and such Performance Criteria will be established by the Committee within the time period prescribed by, and will otherwise comply with the requirements of, Section 162(m) giving due regard to the disparate treatment under Section 162(m) of Options and Stock Appreciation Rights (where compensation is determined based solely on an increase in the value of the underlying stock after the date of grant or award), as compared to other forms of compensation, including Restricted Stock Awards, Stock Unit Awards and Performance Awards. The Committee shall also certify in writing that such Performance Criteria have been met prior to payment of compensation to the extent required by Section 162(m).

18. Compliance with Section 409A.

It is intended that the Plan and all Incentive Awards hereunder be administered in a manner that will comply with the requirements of Section 409A of the Code, including any exceptions to such requirements. The Committee is authorized to adopt rules or regulations deemed necessary or appropriate to qualify for an exception from or to comply with the requirements of Section 409A of the Code (including any transition or grandfather rules relating thereto). Notwithstanding anything in this Section 18 to the contrary, with respect to any Incentive Award subject to Section 409A of the Code, no amendment to or payment under such Incentive Award will be made unless permitted under Section 409A and the regulations or rulings issued thereunder.

19. Plan Amendment, Modification and Termination.

The Board may suspend or terminate the Plan or any portion thereof at any time. In addition to the authority of the Committee to amend the Plan under Section 3.2(e) of the Plan, the Board may amend the Plan from time to time in such respects as the Board may deem advisable in order that Incentive Awards under the Plan will conform to any change in applicable laws or regulations or in any other respect the Board may deem to be in the best interests of the Company; provided, however, that no such amendments to the Plan will be effective without approval of the Company's stockholders if: (i) stockholder approval of the amendment is then required pursuant to Section 422 of the Code or Section 162(m) of the Code or the rules of the New York Stock Exchange (or other applicable market or exchange on which the Company's Common Stock may be quoted or traded); or (ii) such amendment seeks to increase the number of shares authorized for issuance hereunder (other than by virtue of an adjustment under Section 4.3 of the Plan) or to modify Section 3.2(d) of the Plan. No termination, suspension or amendment of the Plan may adversely affect any outstanding Incentive Award without the consent of the affected Participant; provided, however, that this sentence will not impair the right of the Committee to take whatever action it deems appropriate under Sections 3.2(c), 4.3 and 14 of the Plan.

20. Effective Date and Duration of the Plan.

The Plan will be effective as of the date on which the Plan is initially approved by the Company's stockholders (the "Effective Date"). The Plan will terminate at midnight on the day before the tenth (10th) anniversary of the Effective Date, and may be terminated prior to such time by Board action. No Incentive Award will be granted after termination of the Plan. Incentive Awards outstanding upon termination of the Plan may continue to be exercised, earned or become free of restrictions, according to their terms.

21. Miscellaneous.

21.1 Governing Law. Except to the extent expressly provided herein or in connection with other matters of corporate governance and authority (all of which shall be governed by the laws of the Company's jurisdiction of incorporation), the validity, construction, interpretation, administration and effect of the Plan and any rules, regulations and actions relating to the Plan will be governed by and construed exclusively in accordance with the laws of the State of Minnesota, notwithstanding the conflicts of laws principles of any jurisdictions.

21.2 Successors and Assigns. The Plan will be binding upon and inure to the benefit of the successors and permitted assigns of the Company and the Participants.

21.3 Construction. Wherever possible, each provision of the Plan and any agreement evidencing an Incentive Award granted under the Plan will be interpreted so that it is valid under the applicable law. If any provision of the Plan or any agreement evidencing an Incentive Award granted under the Plan is to any extent invalid under the applicable law, that provision will still be effective to the extent it remains valid. The remainder of the Plan and the Incentive Award agreement also will continue to be valid, and the entire Plan and Incentive Award agreement will continue to be valid in other jurisdictions.

**FORM OF INCENTIVE STOCK OPTION AGREEMENT**

THIS INCENTIVE STOCK OPTION AGREEMENT is entered into and effective as of this \_\_\_\_ day of \_\_\_\_\_, \_\_\_\_\_ (the "Date of Grant"), by and between Northern Technologies International Corporation (the "Company") and ---- (the "Optionee").

A. The Company has adopted the Northern Technologies International Corporation 2007 Stock Incentive Plan (the "Plan") authorizing the Board of Directors of the Company, or a committee as provided for in the Plan (the Board or such a committee to be referred to as the "Committee"), to grant incentive stock options to employees of the Company and its Subsidiaries (as defined in the Plan).

B. The Company desires to give the Optionee an inducement to acquire a proprietary interest in the Company and an added incentive to advance the interests of the Company by granting to the Optionee an option to purchase shares of common stock of the Company pursuant to the Plan.

Accordingly, the parties agree as follows:

1. Grant of Option.

The Company hereby grants to the Optionee the right, privilege, and option (the "Option") to purchase \_\_\_\_\_ (\_\_\_\_\_) shares (the "Option Shares") of the Company's common stock, \$0.02 par value (the "Common Stock"), according to the terms and subject to the conditions hereinafter set forth and as set forth in the Plan. Subject to Section 9 of this Agreement, the Option is intended to be an "incentive stock option," as that term is used in Section 422 of the Internal Revenue Code of 1986, as amended (the "Code").

2. Option Exercise Price.

The per share price to be paid by Optionee in the event of an exercise of the Option will be \$ \_\_\_\_\_.

3. Duration of Option and Time of Exercise.

3.1 Initial Period of Exercisability. The Option will become exercisable with respect to the Option Shares [immediately/in \_\_\_\_\_ installments]. [The following table sets forth the initial dates of exercisability of each installment and the number of Option Shares as to which this Option will become exercisable on such dates:

Exercisability	Available for Exercise
_____	_____
_____	_____
_____	_____
_____	_____

[The foregoing rights to exercise this Option will be cumulative with respect to the Option Shares becoming exercisable on each such date.] In no event will this Option be exercisable after, and this Option will become void and expire as to all unexercised Option Shares at 5:00 p.m. Circle Pines, Minnesota time on \_\_\_\_\_ (the "Time of Termination").

### 3.2 Termination of Employment.

(a) Termination Due to Death, Disability or Retirement. In the event the Optionee's employment with the Company and all Subsidiaries is terminated by reason of death, Disability or Retirement, this Option will remain exercisable, to the extent exercisable as of the date of such termination, for a period of 12 months after such termination (but in no event after the Time of Termination).

(b) Termination for Reasons Other Than Death, Disability or Retirement. In the event that the Optionee's employment with the Company and all Subsidiaries is terminated for any reason other than death, Disability or Retirement, or the Optionee is in the employ of a Subsidiary and the Subsidiary ceases to be a Subsidiary of the Company (unless the Optionee continues in the employ of the Company or another Subsidiary), all rights of the Optionee under the Plan and this Agreement will immediately terminate without notice of any kind, and this Option will no longer be exercisable; provided, however, that if such termination is due to any reason other than termination by the Company or any Subsidiary for "cause" (as defined in the Plan), this Option will remain exercisable to the extent exercisable as of such termination for a period of three months after such termination (but in no event after the Time of Termination).

(c) Breach of Employment, Service, Confidentiality, Non-Compete or Non-Solicitation Agreements. Notwithstanding anything in this Agreement to the contrary and in addition to the rights of the Committee under Section 12.4 of the Plan, in the event that the Optionee materially breaches the terms of any employment, service, confidentiality, non-compete or non-solicitation agreement entered into with the Company or any Subsidiary (including an employment, service, confidentiality, non-compete or non-solicitation agreement made in connection with the grant of the Option), whether such breach occurs before or after termination of such Participant's employment or other service with the Company or any Subsidiary, the Committee in its sole discretion may require the Participant to surrender shares of Common Stock received, and to disgorge any profits (however defined by the Committee), made or realized by the Participant in connection with this Option or any shares issued upon the exercise or vesting of this Option.

### 3.3 Change in Control.

(a) Impact of Change in Control. If a Change in Control (as defined in the Plan) of the Company occurs, this Option will become immediately exercisable in full and will remain exercisable until the Time of Termination, regardless of whether the Optionee remains in the employ of the Company or any Subsidiary. In addition, if a Change in Control of the Company occurs, the Committee, in its sole discretion and without the consent of the Optionee, may determine that the Optionee will receive, with respect to some or all of the Option Shares, as of the effective date of any such Change in Control of the Company, cash in an amount equal to the excess of the Fair Market Value (as defined in the Plan) of such Option Shares immediately prior to the effective date of such Change in Control of the Company over the option exercise price per share of this Option.

(b) Limitation on Change in Control Payments. Notwithstanding anything in this Section 3.3 to the contrary, if, with respect to the Optionee, the acceleration of the vesting of this Option or the payment of cash in exchange for all or part of the Option Shares as provided above (which acceleration or payment could be deemed a "payment" within the meaning of Section 280G(b)(2) of the Code), together with any other "payments" that the Optionee has the right to receive from the Company or any corporation that is a member of an "affiliated group"

(as defined in Section 1504(a) of the Code without regard to Section 1504(b) of the Code) of which the Company is a member, would constitute a “parachute payment” (as defined in Section 280G(b)(2) of the Code), then the “payments” to the Optionee as set forth herein will be reduced to the largest amount as will result in no portion of such “payments” being subject to the excise tax imposed by Section 4999 of the Code; provided, that such reduction shall be made only if the aggregate amount of the payments after such reduction exceeds the difference between (A) the amount of such payments absent such reduction minus (B) the aggregate amount of the excise tax imposed under Section 4999 of the Code attributable to any such excess parachute payments. Notwithstanding the foregoing sentence, if the Optionee is subject to a separate agreement with the Company or a Subsidiary that expressly addresses the potential application of Sections 280G or 4999 of the Code (including, without limitation, that “payments” under such agreement or otherwise will be reduced, that the Optionee will have the discretion to determine which “payments” will be reduced, that such “payments” will not be reduced or that such “payments” will be “grossed up” for tax purposes), then this Section 3.3(b) will not apply, and any “payments” to the Optionee as provided herein will be treated as “payments” arising under such separate agreement

#### 4. Manner of Option Exercise.

4.1 Notice. This Option may be exercised by the Optionee in whole or in part from time to time, subject to the conditions contained in the Plan and in this Agreement, by delivery, in person, by facsimile or electronic transmission or through the mail, to the Company at its principal executive office in Circle Pines, Minnesota, of a written notice of exercise. Such notice must be in a form satisfactory to the Committee, must identify the Option, must specify the number of Option Shares with respect to which the Option is being exercised, and must be signed by the person or persons so exercising the Option. Such notice must be accompanied by payment in full of the total purchase price of the Option Shares purchased. In the event that the Option is being exercised, as provided by the Plan and Section 3.2 above, by any person or persons other than the Optionee, the notice must be accompanied by appropriate proof of right of such person or persons to exercise the Option. As soon as practicable after the effective exercise of the Option, the Optionee will be recorded on the stock transfer books of the Company as the owner of the Option Shares purchased, and the Company will deliver to the Optionee certificated or uncertificated (“book entry”) shares. In the event that the Option is being exercised, as provided by resolutions of the Committee and Section 4.2 below, by tender of a Broker Exercise Notice, the Company will deliver such shares directly to the Optionee’s broker or dealer or their nominee.

#### 4.2 Payment.

(a) At the time of exercise of this Option, the Optionee must pay the total purchase price of the Option Shares to be purchased entirely in cash (including check, bank draft or money order); provided, however, that the Committee, in its sole discretion and upon terms and conditions established by the Committee, may allow such payments to be made, in whole or in part, by (i) tender of a Broker Exercise Notice; (ii) by tender, or attestation as to ownership, of Previously Acquired Shares that are acceptable to the Committee; (iii) by a “net exercise” of the Option (as described in the Plan); or (iv) by a combination of such methods.

(b) In the event the Optionee is permitted to pay the total purchase price of this Option in whole or in part with Previously Acquired Shares, the value of such shares will be equal to their Fair Market Value on the date of exercise of this Option.

(c) In the case of a “net exercise” of an Option, the Company will not require a payment of the exercise price of the Option from the Optionee but will reduce the number of shares of Common Stock issued upon the exercise by the largest number of whole shares that has a Fair Market Value on the exercise date that does not exceed the aggregate exercise price for the shares exercised under this method.

(d) Shares of Common Stock will no longer be outstanding under this Option (and will therefore not thereafter be exercisable) following the exercise of such Option to the extent of (i) shares used to pay the exercise price of an Option under the “net exercise,” (ii) shares actually delivered to the Optionee as a result of such exercise and (iii) any shares withheld for purposes of tax withholding.

#### 5. Rights of Optionee: Transferability.

5.1 Employment. Nothing in this Agreement will interfere with or limit in any way the right of the Company or any Subsidiary to terminate the employment of the Optionee at any time, nor confer upon the Optionee any right to continue in the employ of the Company or any Subsidiary at any particular position or rate of pay or for any particular period of time.

5.2 Rights as a Shareholder. The Optionee will have no rights as a shareholder unless and until all conditions to the effective exercise of this Option (including, without limitation, the conditions set forth in Sections 4 and 6 of this Agreement) have been satisfied and the Optionee has become the holder of record of such shares. No adjustment will be made for dividends or distributions with respect to this Option as to which there is a record date preceding the date the Optionee becomes the holder of record of such shares, except as may otherwise be provided in the Plan or determined by the Committee in its sole discretion.

5.3 Restrictions on Transfer. Except pursuant to testamentary will or the laws of descent and distribution or as otherwise expressly permitted by the Plan, no right or interest of the Optionee in this Option prior to exercise may be assigned or transferred, or subjected to any lien, during the lifetime of the Optionee, either voluntarily or involuntarily, directly or indirectly, by operation of law or otherwise. The Optionee will, however, be entitled to designate a beneficiary to receive this Option upon such Optionee’s death, and, in the event of the Optionee’s death, exercise of this Option (to the extent permitted pursuant to Section 3.2(a) of this Agreement) may be made by the Optionee’s legal representatives, heirs and legatees.

5.4 Breach of Agreements. Notwithstanding anything in this Agreement or the Plan to the contrary, in the event that the Optionee materially breaches the terms of any employment, service, confidentiality, non-compete or non-solicitation agreement entered into with the Company or any Subsidiary, whether such breach occurs before or after termination of the Optionee’s employment or other service with the Company or any Subsidiary, the Committee in its sole discretion may immediately terminate all rights of the Optionee under the Plan and this Agreement without notice of any kind or may require the Optionee to surrender shares of Common Stock received, and to disgorge any profits (however defined by the Committee), made or realized by the Optionee in connection with this Option or any shares issued upon the exercise or vesting of this Option.

## 6. Withholding Taxes.

The Company is entitled to (a) withhold and deduct from future wages of the Optionee (or from other amounts that may be due and owing to the Optionee from the Company or a Subsidiary), or make other arrangements for the collection of, all legally required amounts necessary to satisfy any and all federal, foreign, state and local withholding and employment-related tax requirements attributable to the Option, including, without limitation, the grant, exercise or vesting of, this Option or a disqualifying disposition of any Option Shares; (b) withhold cash paid or payable or shares of Common Stock from the shares issued or otherwise issuable to the Optionee in connection with this Option; or (c) require the Optionee promptly to remit the amount of such withholding to the Company before taking any action, including issuing any shares of Common Stock, with respect to this Option. Shares of Common Stock issued or otherwise issuable to the Optionee in connection with this Option that gives rise to the tax withholding obligation that are withheld for purposes of satisfying the Optionee's withholding or employment-related tax obligation will be valued at their Fair Market Value on the Tax Date.

## 7. Adjustments.

In the event of any reorganization, merger, consolidation, recapitalization, liquidation, reclassification, stock dividend, stock split, combination of shares, rights offering, divestiture or extraordinary dividend (including a spin-off), or any other similar change in the corporate structure or shares of the Company, the Committee (or, if the Company is not the surviving corporation in any such transaction, the board of directors of the surviving corporation), in order to prevent dilution or enlargement of the rights of the Optionee, will make appropriate adjustment (which determination will be conclusive) as to the number and kind of securities or other property (including cash) subject to, and the exercise price of, this Option.

## 8. Stock Subject to Plan.

The Option and the Option Shares granted and issued pursuant to this Agreement have been granted and issued under, and are subject to the terms of, the Plan. The terms of the Plan are incorporated by reference in this Agreement in their entirety, and the Optionee, by execution of this Agreement, acknowledges having received a copy of the Plan. The provisions of this Agreement will be interpreted as to be consistent with the Plan, and any ambiguities in this Agreement will be interpreted by reference to the Plan. In the event that any provision of this Agreement is inconsistent with the terms of the Plan, the terms of the Plan will prevail.

## 9. Incentive Stock Option Limitations.

9.1 Limitation on Amount. To the extent that the aggregate Fair Market Value (determined as of the date of grant) of the shares of Common Stock with respect to which incentive stock options (within the meaning of Section 422 of the Code) are exercisable for the first time by the Optionee during any calendar year (under the Plan and any other incentive stock option plans of the Company or any subsidiary or parent corporation of the Company (within the meaning of the Code)) exceeds \$100,000 (or such other amount as may be prescribed by the Code from time to time), such excess incentive stock options will be treated as non-statutory stock options in the manner set forth in the Plan.

9.2 Limitation on Exercisability; Disposition of Option Shares. Any incentive stock option that remains unexercised more than one year following termination of employment by reason of death or disability or more than three months following termination for any reason other than death or Disability will thereafter be deemed to be a non-statutory stock option. In addition, in the event that a disposition (as defined in Section 424(c) of the Code) of shares of Common Stock acquired pursuant to the exercise of an incentive stock option occurs prior to the expiration of two years after its date of grant or the expiration of one year after its date of exercise (a "disqualifying disposition"), such incentive stock option will, to the extent of such disqualifying disposition, be treated in a manner similar to a non-statutory stock option.



9.3 No Representation or Warranty. Section 422 of the Code and the rules and regulations thereunder are complex, and neither the Plan nor this Agreement purports to summarize or otherwise set forth all of the conditions that need to be satisfied in order for this Option to qualify as an incentive stock option. In addition, this Option may contain terms and conditions that allow for exercise of this Option beyond the periods permitted by Section 422 of the Code, including, without limitation, the periods described in Section 9.2 of this Agreement. Accordingly, the Company makes no representation or warranty regarding whether the exercise of this Option will qualify as the exercise of an incentive stock option, and the Company recommends that the Optionee consult with the Optionee's own advisors before making any determination regarding the exercise of this Option or the sale of the Option Shares.

10. Miscellaneous.

10.1 Binding Effect. This Agreement will be binding upon the heirs, executors, administrators and successors of the parties to this Agreement.

10.2 Governing Law. This Agreement and all rights and obligations under this Agreement will be construed in accordance with the Plan and governed by the laws of the State of Minnesota, without regard to conflicts of laws provisions. Any legal proceeding related to this Agreement will be brought in an appropriate Minnesota court, and the parties to this Agreement consent to the exclusive jurisdiction of the court for this purpose.

10.3 Entire Agreement. This Agreement and the Plan set forth the entire agreement and understanding of the parties to this Agreement with respect to the grant and exercise of this Option and the administration of the Plan and supersede all prior agreements, arrangements, plans and understandings relating to the grant and exercise of this Option and the administration of the Plan.

10.4 Amendment and Waiver. Other than as provided in the Plan, this Agreement may be amended, waived, modified or canceled only by a written instrument executed by the parties to this Agreement or, in the case of a waiver, by the party waiving compliance.

10.5 Construction. Wherever possible, each provision of this Agreement will be interpreted so that it is valid under the applicable law. If any provision of this Agreement is to any extent invalid under the applicable law, that provision will still be effective to the extent it remains valid. The remainder of this Agreement also will continue to be valid, and the entire Agreement will continue to be valid in other jurisdictions.

10.6 Counterparts. For convenience of the parties hereto, this Agreement may be executed in any number of counterparts, each such counterpart to be deemed an original instrument, and all such counterparts together to constitute the same agreement.

*[Remainder of page intentionally left blank]*

The parties to this Agreement have executed this Agreement effective the day and year first above written.

NORTHERN TECHNOLOGIES  
INTERNATIONAL CORPORATION

By \_\_\_\_\_

Its \_\_\_\_\_

OPTIONEE

\_\_\_\_\_  
(Signature)

\_\_\_\_\_  
(Name and Address)

\_\_\_\_\_  
\_\_\_\_\_

By execution of this Agreement,  
the Optionee acknowledges having  
received a copy of the Plan.

**FORM OF NON-STATUTORY STOCK OPTION AGREEMENT**

THIS NON-STATUTORY STOCK OPTION AGREEMENT is entered into and effective as of this \_\_\_\_ day of \_\_\_\_\_, \_\_\_\_\_ (the "Date of Grant"), by and between Northern Technologies International Corporation (the "Company") and ---- (the "Optionee").

A. The Company has adopted the Northern Technologies International Corporation 2007 Stock Incentive Plan (the "Plan") authorizing the Board of Directors of the Company, or a committee as provided for in the Plan (the Board or such a committee to be referred to as the "Committee"), to grant non-statutory stock options to employees (including, without limitation, officers and directors who are also employees) of the Company or any Subsidiary, and any non-employee directors, consultants, advisors and independent contractors of the Company or any Subsidiary (as defined in the Plan).

B. The Company desires to give the Optionee an inducement to acquire a proprietary interest in the Company and an added incentive to advance the interests of the Company by granting to the Optionee an option to purchase shares of common stock of the Company pursuant to the Plan.

Accordingly, the parties agree as follows:

1. Grant of Option.

The Company hereby grants to the Optionee the right, privilege, and option (the "Option") to purchase \_\_\_\_\_ (\_\_\_\_\_) shares (the "Option Shares") of the Company's common stock, \$0.02 par value (the "Common Stock"), according to the terms and subject to the conditions hereinafter set forth and as set forth in the Plan. The Option is not intended to be an "incentive stock option," as that term is used in Section 422 of the Internal Revenue Code of 1986, as amended (the "Code").

2. Option Exercise Price.

The per share price to be paid by Optionee in the event of an exercise of the Option will be \$\_\_\_\_\_.

3. Duration of Option and Time of Exercise.

3.1 Initial Period of Exercisability. The Option will become exercisable with respect to the Option Shares [immediately/in \_\_\_\_\_ installments]. [The following table sets forth the initial dates of exercisability of each installment and the number of Option Shares as to which this Option will become exercisable on such dates:

Exercisability	Available for Exercise
_____	_____
_____	_____
_____	_____
_____	_____]

[The foregoing rights to exercise this Option will be cumulative with respect to the Option Shares becoming exercisable on each such date.] In no event will this Option be exercisable after, and this Option will become void and expire as to all unexercised Option Shares at 5:00 p.m. Circle Pines, Minnesota time on \_\_\_\_\_ (the "Time of Termination").

### 3.2 Termination of Employment or Service.

(a) Termination Due to Death, Disability or Retirement. In the event the Optionee's employment or service relationship with the Company and all Subsidiaries is terminated by reason of death, Disability or Retirement, this Option will remain exercisable, to the extent exercisable as of the date of such termination, for a period of 12 months after such termination (but in no event after the Time of Termination).

(b) Termination for Reasons Other Than Death, Disability or Retirement. In the event that the Optionee's employment or service relationship with the Company and all Subsidiaries is terminated for any reason other than death, Disability or Retirement, or the Optionee is in the employ of or perform services to a Subsidiary and the Subsidiary ceases to be a Subsidiary of the Company (unless the Optionee continues in the employ of or performs services to the Company or another Subsidiary), all rights of the Optionee under the Plan and this Agreement will immediately terminate without notice of any kind, and this Option will no longer be exercisable; provided, however, that if such termination is due to any reason other than termination by the Company or any Subsidiary for "cause" (as defined in the Plan), this Option will remain exercisable to the extent exercisable as of such termination for a period of three months after such termination (but in no event after the Time of Termination).

(c) Breach of Employment, Service, Confidentiality, Non-Compete or Non-Solicitation Agreements. Notwithstanding anything in this Agreement to the contrary and in addition to the rights of the Committee under Section 12.4 of the Plan, in the event that the Optionee materially breaches the terms of any employment, service, confidentiality, non-compete or non-solicitation agreement entered into with the Company or any Subsidiary (including an employment, service, confidentiality, non-compete or non-solicitation agreement made in connection with the grant of the Option), whether such breach occurs before or after termination of such Participant's employment or other service with the Company or any Subsidiary, the Committee in its sole discretion may require the Participant to surrender shares of Common Stock received, and to disgorge any profits (however defined by the Committee), made or realized by the Participant in connection with this Option or any shares issued upon the exercise or vesting of this Option.

### 3.3 Change in Control.

(a) Impact of Change in Control. If a Change in Control (as defined in the Plan) of the Company occurs, this Option will become immediately exercisable in full and will remain exercisable until the Time of Termination, regardless of whether the Optionee remains in the employ or service of the Company or any Subsidiary. In addition, if a Change in Control of the Company occurs, the Committee, in its sole discretion and without the consent of the Optionee, may determine that the Optionee will receive, with respect to some or all of the Option Shares, as of the effective date of any such Change in Control of the Company, cash in an amount equal to the excess of the Fair Market Value (as defined in the Plan) of such Option Shares immediately prior to the effective date of such Change in Control of the Company over the option exercise price per share of this Option.

(b) Limitation on Change in Control Payments. Notwithstanding anything in this Section 3.3 to the contrary, if, with respect to the Optionee, the acceleration of the vesting of this Option or the payment of cash in exchange for all or part of the Option Shares as provided above (which acceleration or payment could be deemed a "payment" within the meaning of Section 280G(b)(2) of the Code), together with any other "payments" that the Optionee has the

right to receive from the Company or any corporation that is a member of an “affiliated group” (as defined in Section 1504(a) of the Code without regard to Section 1504(b) of the Code) of which the Company is a member, would constitute a “parachute payment” (as defined in Section 280G(b) (2) of the Code), then the “payments” to the Optionee as set forth herein will be reduced to the largest amount as will result in no portion of such “payments” being subject to the excise tax imposed by Section 4999 of the Code; provided, that such reduction shall be made only if the aggregate amount of the payments after such reduction exceeds the difference between (A) the amount of such payments absent such reduction minus (B) the aggregate amount of the excise tax imposed under Section 4999 of the Code attributable to any such excess parachute payments. Notwithstanding the foregoing sentence, if the Optionee is subject to a separate agreement with the Company or a Subsidiary that expressly addresses the potential application of Sections 280G or 4999 of the Code (including, without limitation, that “payments” under such agreement or otherwise will be reduced, that the Optionee will have the discretion to determine which “payments” will be reduced, that such “payments” will not be reduced or that such “payments” will be “grossed up” for tax purposes), then this Section 3.3(b) will not apply, and any “payments” to the Optionee as provided herein will be treated as “payments” arising under such separate agreement

#### 4. Manner of Option Exercise.

4.1 Notice. This Option may be exercised by the Optionee in whole or in part from time to time, subject to the conditions contained in the Plan and in this Agreement, by delivery, in person, by facsimile or electronic transmission or through the mail, to the Company at its principal executive office in Circle Pines, Minnesota, of a written notice of exercise. Such notice must be in a form satisfactory to the Committee, must identify the Option, must specify the number of Option Shares with respect to which the Option is being exercised, and must be signed by the person or persons so exercising the Option. Such notice must be accompanied by payment in full of the total purchase price of the Option Shares purchased. In the event that the Option is being exercised, as provided by the Plan and Section 3.2 above, by any person or persons other than the Optionee, the notice must be accompanied by appropriate proof of right of such person or persons to exercise the Option. As soon as practicable after the effective exercise of the Option, the Optionee will be recorded on the stock transfer books of the Company as the owner of the Option Shares purchased, and the Company will deliver to the Optionee certificated or uncertificated (“book entry”) shares. In the event that the Option is being exercised, as provided by resolutions of the Committee and Section 4.2 below, by tender of a Broker Exercise Notice, the Company will deliver such shares directly to the Optionee’s broker or dealer or their nominee.

#### 4.2 Payment.

(a) At the time of exercise of this Option, the Optionee must pay the total purchase price of the Option Shares to be purchased entirely in cash (including check, bank draft or money order); provided, however, that the Committee, in its sole discretion and upon terms and conditions established by the Committee, may allow such payments to be made, in whole or in part, by (i) tender of a Broker Exercise Notice; (ii) by tender, or attestation as to ownership, of Previously Acquired Shares that are acceptable to the Committee; (iii) by a “net exercise” of the Option (as described in the Plan); or (iv) by a combination of such methods.

(b) In the event the Optionee is permitted to pay the total purchase price of this Option in whole or in part with Previously Acquired Shares, the value of such shares will be equal to their Fair Market Value on the date of exercise of this Option.

(c) In the case of a “net exercise” of an Option, the Company will not require a payment of the exercise price of the Option from the Optionee but will reduce the number of shares of Common Stock issued upon the exercise by the largest number of whole shares that has a Fair Market Value on the exercise date that does not exceed the aggregate exercise price for the shares exercised under this method.

(d) Shares of Common Stock will no longer be outstanding under this Option (and will therefore not thereafter be exercisable) following the exercise of such Option to the extent of (i) shares used to pay the exercise price of an Option under the “net exercise,” (ii) shares actually delivered to the Optionee as a result of such exercise and (iii) any shares withheld for purposes of tax withholding.

5. Rights of Optionee; Transferability.

5.1 Employment or Service. Nothing in this Agreement will interfere with or limit in any way the right of the Company or any Subsidiary to terminate the employment or service of the Optionee at any time, nor confer upon the Optionee any right to continue in the employ of or provide services to the Company or any Subsidiary at any particular position or rate of pay or for any particular period of time.

5.2 Rights as a Shareholder. The Optionee will have no rights as a shareholder unless and until all conditions to the effective exercise of this Option (including, without limitation, the conditions set forth in Sections 4 and 6 of this Agreement) have been satisfied and the Optionee has become the holder of record of such shares. No adjustment will be made for dividends or distributions with respect to this Option as to which there is a record date preceding the date the Optionee becomes the holder of record of such shares, except as may otherwise be provided in the Plan or determined by the Committee in its sole discretion.

5.3 Restrictions on Transfer. Except pursuant to testamentary will or the laws of descent and distribution or as otherwise expressly permitted by the Plan, no right or interest of the Optionee in this Option prior to exercise may be assigned or transferred, or subjected to any lien, during the lifetime of the Optionee, either voluntarily or involuntarily, directly or indirectly, by operation of law or otherwise. The Optionee will, however, be entitled to designate a beneficiary to receive this Option upon such Optionee’s death, and, in the event of the Optionee’s death, exercise of this Option (to the extent permitted pursuant to Section 3.2(a) of this Agreement) may be made by the Optionee’s legal representatives, heirs and legatees.

5.4 Breach of Agreements. Notwithstanding anything in this Agreement or the Plan to the contrary, in the event that the Optionee materially breaches the terms of any employment, service, confidentiality, non-compete or non-solicitation agreement entered into with the Company or any Subsidiary, whether such breach occurs before or after termination of the Optionee’s employment or other service with the Company or any Subsidiary, the Committee in its sole discretion may immediately terminate all rights of the Optionee under the Plan and this Agreement without notice of any kind or may require the Optionee to surrender shares of Common Stock received, and to disgorge any profits (however defined by the Committee), made or realized by the Optionee in connection with this Option or any shares issued upon the exercise or vesting of this Option.

6. Withholding Taxes.

The Company is entitled to (a) withhold and deduct from future wages of the Optionee (or from other amounts that may be due and owing to the Optionee from the Company or a Subsidiary), or make other arrangements for the collection of, all legally required amounts necessary to satisfy any and all federal, foreign, state and local withholding and employment-related tax requirements attributable to the Option, including, without limitation, the grant, exercise or vesting of, this Option or a disqualifying disposition of any Option Shares; (b) withhold cash paid or payable or shares of Common Stock from the shares issued or otherwise issuable to the Optionee in connection with this Option; or (c) require the Optionee promptly to remit the amount of such withholding to the Company before taking any action, including issuing any shares of Common Stock, with respect to this Option. Shares of Common Stock issued or otherwise issuable to the Optionee in connection with this Option that gives rise to the tax withholding obligation that are withheld for purposes of satisfying the Optionee's withholding or employment-related tax obligation will be valued at their Fair Market Value on the Tax Date.

7. Adjustments.

In the event of any reorganization, merger, consolidation, recapitalization, liquidation, reclassification, stock dividend, stock split, combination of shares, rights offering, divestiture or extraordinary dividend (including a spin-off), or any other similar change in the corporate structure or shares of the Company, the Committee (or, if the Company is not the surviving corporation in any such transaction, the board of directors of the surviving corporation), in order to prevent dilution or enlargement of the rights of the Optionee, will make appropriate adjustment (which determination will be conclusive) as to the number and kind of securities or other property (including cash) subject to, and the exercise price of, this Option.

8. Stock Subject to Plan.

The Option and the Option Shares granted and issued pursuant to this Agreement have been granted and issued under, and are subject to the terms of, the Plan. The terms of the Plan are incorporated by reference in this Agreement in their entirety, and the Optionee, by execution of this Agreement, acknowledges having received a copy of the Plan. The provisions of this Agreement will be interpreted as to be consistent with the Plan, and any ambiguities in this Agreement will be interpreted by reference to the Plan. In the event that any provision of this Agreement is inconsistent with the terms of the Plan, the terms of the Plan will prevail.

9. Miscellaneous.

9.1 Binding Effect. This Agreement will be binding upon the heirs, executors, administrators and successors of the parties to this Agreement.

9.2 Governing Law. This Agreement and all rights and obligations under this Agreement will be construed in accordance with the Plan and governed by the laws of the State of Minnesota, without regard to conflicts of laws provisions. Any legal proceeding related to this Agreement will be brought in an appropriate Minnesota court, and the parties to this Agreement consent to the exclusive jurisdiction of the court for this purpose.

9.3 Entire Agreement. This Agreement and the Plan set forth the entire agreement and understanding of the parties to this Agreement with respect to the grant and exercise of this Option and the administration of the Plan and supersede all prior agreements, arrangements, plans and understandings relating to the grant and exercise of this Option and the administration of the Plan.

9.4 Amendment and Waiver. Other than as provided in the Plan, this Agreement may be amended, waived, modified or canceled only by a written instrument executed by the parties to this Agreement or, in the case of a waiver, by the party waiving compliance.

9.5 Construction. Wherever possible, each provision of this Agreement will be interpreted so that it is valid under the applicable law. If any provision of this Agreement is to any extent invalid under the applicable law that provision will still be effective to the extent it remains valid. The remainder of this Agreement also will continue to be valid, and the entire Agreement will continue to be valid in other jurisdictions.

9.6 Counterparts. For convenience of the parties hereto, this Agreement may be executed in any number of counterparts, each such counterpart to be deemed an original instrument, and all such counterparts together to constitute the same agreement.

*[Remainder of page intentionally left blank]*



The parties to this Agreement have executed this Agreement effective the day and year first above written.

NORTHERN TECHNOLOGIES  
INTERNATIONAL CORPORATION

By \_\_\_\_\_

Its \_\_\_\_\_

OPTIONEE

\_\_\_\_\_  
(Signature)

\_\_\_\_\_  
(Name and Address)

By execution of this Agreement,  
the Optionee acknowledges having  
received a copy of the Plan.

**FORM OF RESTRICTED STOCK AWARD AGREEMENT**

THIS RESTRICTED STOCK AWARD AGREEMENT is entered into and effective as of this \_\_\_\_ day of \_\_\_\_\_, \_\_\_\_\_ (the "Date of Grant"), by and between Northern Technologies International Corporation (the "Company") and ---- (the "Grantee").

A. The Company has adopted the Northern Technologies International Corporation 2007 Stock Incentive Plan (the "Plan") authorizing the Board of Directors of the Company, or a committee as provided for in the Plan (the Board or such a committee to be referred to as the "Committee"), to grant restricted stock awards to employees (including, without limitation, officers and directors who are also employees) of the Company or any Subsidiary, and any non-employee directors, consultants, advisors and independent contractors of the Company or any Subsidiary (as defined in the Plan).

B. The Company desires to give the Grantee an incentive in the form of a grant of a restricted stock award pursuant to the Plan, to encourage the Grantee's long-term performance for the Company and its stockholders as an employee, officer or director and more closely align the Grantee's interest in the Company with that of the Company's stockholders.

Accordingly, the parties agree as follows:

1. Grant of Award.

The Company hereby grants to the Grantee a restricted stock award (the "Award") consisting of \_\_\_\_\_ (\_\_\_\_) shares (the "Award Shares") of the Company's common stock, \$0.02 par value (the "Common Stock"), according to the terms and subject to the restrictions and conditions hereinafter set forth and as set forth in the Plan. Reference to "Award Shares" in this Agreement will be deemed to include the Dividend Proceeds (as defined in Section 3.3 of this Agreement) with respect to such Award Shares that are retained and held by the Committee as provided in Section 3.3 of this Agreement and the Plan

2. Grant Restriction.

2.1 Restriction and Forfeiture. The Grantee's right to retain the Award Shares will be subject to the Grantee remaining in the continuous service of the Company as an employee, officer or director for a period of \_\_\_\_\_ (\_\_\_\_) years (the "Restriction Period") following the Date of Grant; provided, however, that such period restrictions (the "Restrictions") will lapse and terminate prior to end of the Restriction Period with respect to installments of Award Shares to the extent and on such dates as follows:

Date of Restriction Lapse	Number of Award Shares for Which Restrictions Lapse
_____	_____

2.2 Termination of Employment or Service.

(a) General Rule. In the event the Grantee's employment or service relationship with the Company and all Subsidiaries is terminated by reason of death, Disability, Retirement, or any other reason, all outstanding Award Shares held by Grantee that have not vested as of such termination will be terminated and forfeited and the certificate(s) representing the non-vested portion of the Award Shares so forfeited shall be canceled.

(b) Modification of Rights Upon Termination. Notwithstanding the other provisions of this Section 2.2, upon a Grantee's termination of employment or service relationship with the Company, the Committee may, in its sole discretion (which may be exercised at any time on or after the date of grant, including following such termination), cause any or all of any outstanding Award Shares then held by such Grantee to vest and/or continue to vest or become free of restrictions following such termination of employment or service relationship, in each case in the manner determined by the Committee; provided, however, that any modification of an Award upon a Grantee's termination of employment or service relationship will be subject to Sections 12.3, 12.4 and 12.6 of the Plan.

### 2.3 Change in Control.

(a) Impact of Change in Control. If a Change in Control (as defined in the Plan) of the Company occurs, then the Restrictions applicable to the Award Shares that have been outstanding will become immediately fully vested and non-forfeitable, subject to Section 14.4 of the Plan.

(b) Limitation on Change in Control Payments. Notwithstanding anything in this Section 2.3 to the contrary, if, with respect to the Grantee, the acceleration of the vesting of the Award Shares as provided above (which acceleration or payment could be deemed a "payment" within the meaning of Section 280G(b)(2) of the Code), together with any other "payments" that the Grantee has the right to receive from the Company or any corporation that is a member of an "affiliated group" (as defined in Section 1504(a) of the Code without regard to Section 1504(b) of the Code) of which the Company is a member, would constitute a "parachute payment" (as defined in Section 280G(b)(2) of the Code), then the "payments" to the Grantee as set forth herein will be reduced to the largest amount as will result in no portion of such "payments" being subject to the excise tax imposed by Section 4999 of the Code; provided, that such reduction shall be made only if the aggregate amount of the payments after such reduction exceeds the difference between (A) the amount of such payments absent such reduction minus (B) the aggregate amount of the excise tax imposed under Section 4999 of the Code attributable to any such excess parachute payments. Notwithstanding the foregoing sentence, if the Grantee is subject to a separate agreement with the Company or a Subsidiary that expressly addresses the potential application of Sections 280G or 4999 of the Code (including, without limitation, that "payments" under such agreement or otherwise will be reduced, that the Grantee will have the discretion to determine which "payments" will be reduced, that such "payments" will not be reduced or that such "payments" will be "grossed up" for tax purposes), then this Section 3.3(b) will not apply, and any "payments" to the Grantee as provided herein will be treated as "payments" arising under such separate agreement.

### 3. Issuance of Award Shares.

3.1 Privileges of a Stockholder: Transferability. As soon as practicable after the execution and delivery of this Agreement and the satisfaction of any conditions to the effective issuance of such Award Shares (including, without limitation, the conditions set forth in Section 3 of this Agreement and Section 8 of the Plan), the Grantee will be recorded on the books of the Company as the owner of the Award Shares, and the Company will issue one or more duly issued and executed stock certificates evidencing the Award Shares. Except as provided in Sections 8.1, 8.3, 8.4 and 15.3 of the Plan and this Agreement, the Grantee will have all voting, dividend, liquidation and other rights with respect to the Award Shares in accordance with their terms upon becoming the holder of record of such Award Shares; provided, however, that prior to the lapse

or other termination of the Restrictions applicable to Award Shares, except as provided in Section 15.3 of the Plan, such Award Shares will not be assignable or transferable by the Grantee, either voluntarily or involuntarily, and may not be subjected to any lien, directly or indirectly, by operation of law or otherwise. Any attempt to transfer, assign or encumber the Award Shares other than in accordance with this Agreement and the Plan will be null and void and will void the Award, and all Award Shares for which the Restrictions have not lapsed will be forfeited and immediately returned to the Company.

3.2 Escrow of Award Share Certificates. To enforce the Restrictions imposed by this Agreement and the Plan, until the Restrictions have lapsed with respect to the Award Shares (a) the stock certificates evidencing the Award Shares will bear a legend referring to the Restrictions and (b) the stock certificates evidencing the Award Shares, together with duly endorsed stock powers, attached hereto as Exhibit A, will be kept in the custody of the Company or its transfer agent or evidence of stock ownership of such Award Shares will be maintained, together with duly endorsed stock powers, in a certificateless book-entry stock account with the Company's transfer agent.

3.3 Dividends and Other Distributions. Unless the Committee determines otherwise in its sole discretion, any dividends or distributions with respect to the Award Shares, including regular cash dividends, stock dividends or dividends in kind (all of which will collectively be referred to as "Dividend Proceeds"), will be subject to the same risk of forfeiture and restrictions on transfer as the forfeitable Award Shares in respect of which they are issued or transferred, will be deposited, along with any necessary duly endorsed stock powers, with the Company or its transfer agent, and will become Award Shares for the purposes of this Agreement. The Committee may, in its sole discretion, determine whether any interest will be paid on such Dividend Proceeds.

3.4 Lapse of Restrictions: Issuance of Unrestricted Shares. Upon the vesting of any Award Shares, such vested Award Shares will no longer be subject to forfeiture as provided in Section 2.2 of this Agreement. Upon the vesting of any Award Shares, all restrictions on such Award Shares will lapse, and the Company will, subject to the provisions of the Plan, issue to the Grantee a certificate evidencing the Award Shares that is free of any transfer or other restrictions arising under this Agreement.

3.5 Employment or Service. Nothing in this Agreement will interfere with or limit in any way the right of the Company or any Subsidiary to terminate the employment or service of the Grantee at any time, nor confer upon the Grantee any right to continue in the employ of or provide services to the Company or any Subsidiary at any particular position or rate of pay or for any particular period of time.

3.6 Breach of Agreements. Notwithstanding anything in this Agreement or the Plan to the contrary, in the event that the Grantee materially breaches the terms of any employment, service, confidentiality, non-compete or non-solicitation agreement entered into with the Company or any Subsidiary, whether such breach occurs before or after termination of the Grantee's employment or other service with the Company or any Subsidiary, the Committee in its sole discretion may immediately terminate all rights of the Grantee under the Plan and this Agreement without notice of any kind or may require the Grantee to surrender shares of Common Stock received, and to disgorge any profits (however defined by the Committee), made or realized by the Grantee in connection with this Agreement.

#### 4. Section 83(b) Election.

The Grantee hereby acknowledges that Grantee has been informed that, with respect to the grant of the Award, an election may be filed by the Grantee with the Internal Revenue Service, within 30 days of the Date of Grant, electing pursuant to Section 83(b) of the Code to be taxed currently on the fair market value of the Award on the Date of Grant. The Grantee acknowledges that it is the Grantee's sole responsibility to timely file the election under Section 83(b) of the Code if the Grantee chooses to make such an election. The Grantee has been advised that he or she should consult his or her personal tax or financial advisor with any questions regarding whether to make a Section 83(b) election. If the Grantee makes such an election, the Grantee agrees to promptly provide the Company a copy of the election form.

#### 5. Withholding Taxes.

The Company is entitled to (a) withhold and deduct from future wages of the Grantee (or from other amounts that may be due and owing to the Grantee from the Company or a Subsidiary), or cause to be paid to the Company out of the Dividend Proceeds, or make other arrangements for the collection of, all legally required amounts necessary to satisfy any and all federal, foreign, state and local withholding and employment-related tax requirements attributable to the receipt of the Award, the receipt of dividends or distributions on Award Shares, or the lapse or termination of the Restrictions applicable to the Award Shares; (b) withhold cash paid or payable or shares of Common Stock from the shares issued or otherwise issuable to the Grantee in connection with this Award; or (c) require the Grantee promptly to remit the amount of such withholding to the Company before taking any action, including issuing any shares of Common Stock, with respect to this Award. Shares of Common Stock issued or otherwise issuable to the Grantee in connection with this Award that gives rise to the tax withholding obligation that are withheld for purposes of satisfying the Grantee's withholding or employment-related tax obligation will be valued at their Fair Market Value on the Tax Date.

#### 6. Adjustments.

In the event of any reorganization, merger, consolidation, recapitalization, liquidation, reclassification, stock dividend, stock split, combination of shares, rights offering, divestiture or extraordinary dividend (including a spin-off), or any other similar change in the corporate structure or shares of the Company, the Committee (or, if the Company is not the surviving corporation in any such transaction, the board of directors of the surviving corporation), in order to prevent dilution or enlargement of the rights of the Grantee, will make appropriate adjustment (which determination will be conclusive) as to the number and kind of securities or other property (including cash) subject to, and the exercise price of, this Award.

#### 7. Stock Subject to Plan.

This Award and the Award Shares granted and issued pursuant to this Agreement have been granted and issued under, and are subject to the terms of, the Plan. The terms of the Plan are incorporated by reference in this Agreement in their entirety, and the Grantee, by execution of this Agreement, acknowledges having received a copy of the Plan. The provisions of this Agreement will be interpreted as to be consistent with the Plan, and any ambiguities in this Agreement will be interpreted by reference to the Plan. In the event that any provision of this Agreement is inconsistent with the terms of the Plan, the terms of the Plan will prevail.

#### 8. Miscellaneous.

8.1 Code Section 409A Compliance. If any provision of this Agreement would result in the imposition of an excise tax under Section 409A of the Code and related regulations and Treasury pronouncements ("Section 409A"), that provision will be reformed to avoid imposition of the excise tax and no action taken to comply with Section 409A will be deemed to impair a benefit under this Agreement.

8.2 Binding Effect. This Agreement will be binding upon the heirs, executors, administrators and successors of the parties to this Agreement.

8.3 Governing Law. This Agreement and all rights and obligations under this Agreement will be construed in accordance with the Plan and governed by the laws of the State of Minnesota, without regard to conflicts of laws provisions. Any legal proceeding related to this Agreement will be brought in an appropriate Minnesota court, and the parties to this Agreement consent to the exclusive jurisdiction of the court for this purpose.

8.4 Entire Agreement. This Agreement and the Plan set forth the entire agreement and understanding of the parties to this Agreement with respect to the grant and exercise of this Option and the administration of the Plan and supersede all prior agreements, arrangements, plans and understandings relating to the grant and exercise of this Option and the administration of the Plan.

8.5 Amendment and Waiver. Other than as provided in the Plan, this Agreement may be amended, waived, modified or canceled only by a written instrument executed by the parties to this Agreement or, in the case of a waiver, by the party waiving compliance.

8.6 Construction. Wherever possible, each provision of this Agreement will be interpreted so that it is valid under the applicable law. If any provision of this Agreement is to any extent invalid under the applicable law that provision will still be effective to the extent it remains valid. The remainder of this Agreement also will continue to be valid, and the entire Agreement will continue to be valid in other jurisdictions.

8.7 Counterparts. For convenience of the parties hereto, this Agreement may be executed in any number of counterparts, each such counterpart to be deemed an original instrument, and all such counterparts together to constitute the same agreement.

*[Remainder of page intentionally left blank]*

The parties to this Agreement have executed this Agreement effective the day and year first above written.

NORTHERN TECHNOLOGIES  
INTERNATIONAL CORPORATION

By \_\_\_\_\_

Its \_\_\_\_\_

GRANTEE

\_\_\_\_\_  
(Signature)

\_\_\_\_\_  
(Name and Address)

By execution of this Agreement,  
the Grantee acknowledges having  
received a copy of the Plan.

**Exhibit A**  
**STOCK POWER**

For value received, I hereby sell, assign and transfer unto \_\_\_\_\_ shares of the Common Stock of Northern Technologies International Corporation standing in my name on the books of said company represented by Certificate(s) Number(s) \_\_\_\_\_ herewith, and do hereby irrevocably constitute and appoint \_\_\_\_\_ attorney to transfer said stock on the books of said company with full power of substitute in the premises.

\_\_\_\_\_  
(Signature)

\_\_\_\_\_  
(Name and Address)

\_\_\_\_\_  
Date: \_\_\_\_\_



**NORTHERN TECHNOLOGIES INTERNATIONAL CORPORATION  
EMPLOYEE STOCK PURCHASE PLAN**

**Section 1. Purpose.** This Employee Stock Purchase Plan (the “Plan”) is intended to advance the interests of Northern Technologies International Corporation, a Delaware corporation (“the Company”), and its stockholders by providing Employees of the Company and its Designated Subsidiaries with opportunities to acquire shares of the Company’s Common Stock on favorable terms through payroll deductions. The Plan is intended to qualify as an “employee stock purchase plan” under Section 423 of the Internal Revenue Code of 1986, as amended (the “Code”), and will be construed so as to extend and limit participation in a manner consistent with the requirements of Section 423 of the Code.

**Section 2. Definitions.**

- (a) “Board” means the Board of Directors of the Company.
- (b) “Common Stock” means the common stock, par value \$0.02 per share, of the Company, or the number and kind of shares of stock or other securities into which such common stock may be changed in accordance with Section 13 of the Plan.
- (c) “Committee” means the entity administering the Plan, as provided in Section 3 below.
- (d) “Compensation” means regular straight-time earnings and commissions that are included in regular compensation, including amounts that would have constituted compensation but for a Participant’s election to defer or reduce compensation pursuant to any deferred compensation, cafeteria, capital accumulation or any other similar plan of the Company, and including all other amounts such as amounts attributable to overtime, shift premium, incentive compensation and bonuses (except to the extent that the exclusion of any such item is specifically directed by the Committee), determined in a manner consistent with the requirements of Section 423 of the Code.
- (e) “Designated Subsidiary” means a Subsidiary that has been designated by the Board from time to time, in its sole discretion, as eligible to participate in the Plan.
- (f) “Employee” means any person, including an officer, who is employed by the Company or one of its Designated Subsidiaries and has been so employed for at least six (6) months prior to the commencement of an offering period.
- (g) “Exchange Act” means the Securities Exchange Act of 1934, as amended.
- (h) “Fair Market Value” means, with respect to the Common Stock, as of any date: (i) the closing sale price of the Common Stock as of such date at the end of the regular trading session, as reported on the American Stock Exchange or on any national exchange (or, if no shares were traded on such date, as of the next preceding date on which there was such a trade); or (ii) if the Common Stock is not so listed, admitted to unlisted trading privileges, or reported on the American Stock Exchange or any national exchange, the closing sale price as of such date at the end of the regular trading session, as reported by the Nasdaq Capital Market, Over-the-Counter Bulletin Board or the Pink Sheets, LLC, or other comparable service (or, if no shares were traded or quoted on such date, as of the next preceding date on which there was such a trade or quote); or (iii) if the Common Stock is not so listed or reported, such price as the Committee determines in its sole discretion in a manner acceptable under Section 423 of the Code.

- (i) "Offering" means any of the offerings to Participants of options to purchase Common Stock under the Plan, as described in Section 5 below.
- (j) "Offering Date" means the first day of the period of an Offering under the Plan, as described in Section 5 below.
- (k) "Option Price" is defined in Section 8 below.
- (l) "Participant" means an eligible Employee who elects to participate in the Plan pursuant to Section 6 below.
- (m) "Securities Act" means the Securities Act of 1933, as amended.
- (n) "Subsidiary" means any subsidiary corporation of the Company within the meaning of Section 424(f) of the Code.
- (o) "Purchase Date" means the last day of the period of an Offering under the Plan, as described in Section 5 below.

**Section 3. Administration.** The Plan will be administered by the Board or by a committee of the Board. So long as the Company has a class of its equity securities registered under Section 12 of the Exchange Act, the Plan will be administered by a committee (the "Committee") consisting solely of not less than two members of the Board who are "non-employee directors" within the meaning of Rule 16b-3 under the Exchange Act. Such a committee, if established, will act by majority approval of the members (but may also take action with the written consent of all the members of such committee), and a majority of the members of such a committee will constitute a quorum. As used in the Plan, "Committee" will refer to the Board or to such a committee, if established. To the extent consistent with corporate law, the Committee may delegate to any officers of the Company the duties, power and authority of the Committee under the Plan pursuant to such conditions or limitations as the Committee may establish; provided, however, that only the Committee may exercise such duties, power and authority with respect to Participants who are subject to Section 16 of the Exchange Act. The Committee may exercise its duties, power and authority under the Plan in its sole discretion without the consent of any Participant or other party, unless the Plan specifically provides otherwise. Each determination, interpretation or other action made or taken by the Committee pursuant to the provisions of the Plan will be final, conclusive and binding for all purposes and on all persons, including, without limitation, the Company, the stockholders of the Company, the Participants and their respective successors-in-interest. No member of the Committee shall be liable for any action or determination made in good faith with respect to the Plan or any option granted under the Plan.

**Section 4. Eligibility.**

- (a) With respect to an Offering, any Employee employed by the Company or a Designated Subsidiary on the Offering Date shall be eligible to participate in the Plan, subject to the limitations imposed by Section 423(b) of the Code.
- (b) Any provisions of the Plan to the contrary notwithstanding, no Employee shall be granted an option under the Plan if:

(i) immediately after the grant, such Employee (or any other person whose stock ownership would be attributed to such Employee pursuant to Section 424(d) of the Code) would own shares of Common Stock and/or hold outstanding options to purchase shares of Common Stock possessing 5% or more of the total combined voting power or value of all classes of shares of the Company or of any Subsidiary; or

(ii) the amount of payroll deductions that the Employee has elected to have withheld under such option (pursuant to Section 7 below) would permit the Employee to purchase shares of Common Stock under all “employee stock purchase plans” (within the meaning of Section 423 of the Code) of the Company and its Subsidiaries to accrue (i.e., become exercisable) at a rate that exceeds \$25,000 of the Fair Market Value of such shares of Common Stock (determined at the time such option is granted) for each calendar year in which such option is outstanding at any time.

**Section 5. Offerings.** Options to purchase shares of Common Stock shall be offered to Participants under the Plan through a continuous series of Offerings, each continuing for six months and each of which shall commence on September 1 and March 1 of each year, as the case may be, and shall terminate on February 28 or 29<sup>th</sup> (as the case may be) and August 31 of such year, as the case may be; provided, however, that the first Offering under the Plan shall have an Offering Date and Purchase Date as determined by the Committee in its sole discretion. Offerings under the Plan shall continue until either (a) the Committee decides, in its sole discretion, that no further Offerings shall be made because the Common Stock remaining available under the Plan is insufficient to make an Offering to all eligible Employees, or (b) the Plan is terminated under Section 20 below. Notwithstanding the foregoing, and without limiting the authority of the Committee under Section 3, 13(b) and 17 of the Plan, the Committee, in its sole discretion, may (a) accelerate the Purchase Date of the then current Offering and provide for the exercise of options thereunder by Participants in accordance with Section 9 of the Plan, or (b) accelerate the Purchase Date of the then current Offering and provide that all payroll deductions credited to the accounts of Participants will be paid to Participants as soon as practicable after such Purchase Date and that all options for such Offering will automatically be canceled and will no longer be exercisable, if such change is announced at least five (5) days prior to the newly scheduled Purchase Date.

**Section 6. Participation.**

(a) An eligible Employee may become a Participant in the Plan by completing a subscription agreement authorizing payroll deductions on the form provided by the Company (the “Participation Form”) and filing the Participation Form with the Company’s Human Resources Department or the stock brokerage or other financial services firm designated by the Company (“Designated Broker”) not less than five (5) days before the Offering Date of the first Offering in which the Participant wishes to participate.

(b) Except as provided in Section 7(a) below, payroll deductions for a Participant shall begin with the first payroll following the applicable Offering Date, and shall continue until the termination date of the Plan, subject to earlier termination by the Participant as provided in Section 11 below or increases or decreases by the Participant in the amount of payroll deductions as provided in Section 7(c) below.

**Section 7. Payroll Deductions.**

(a) By completing and filing a Participation Form, a Participant shall elect to have payroll deductions made from the Participant's total Compensation (in whole percentages from 1% to a maximum of 15% of the Participant's total Compensation) on each payday during the time he or she is a Participant in the Plan in such amount as he or she shall designate on the Participation Form; provided, however, that no Participant's payroll deductions shall be less than \$10.00 per pay period.

(b) All payroll deductions authorized by a Participant shall be credited to an account established under the Plan for the Participant. The monies represented by such account shall be held as part of the Company's general assets, usable for any corporate purpose, and the Company shall not be obligated to segregate such monies. A Participant may not make any separate cash payment or contribution to such account.

(c) No increases or decreases of the amount of payroll deductions for a Participant may be made during an Offering. A Participant may increase or decrease the amount of the Participant's payroll deductions under the Plan for subsequent Offerings by completing an amended Participation Form and filing it with the Company's Human Resources Department or Designated Broker not less than five (5) days prior to the Offering Date as of which such increase or decrease is to be effective.

(d) A Participant may discontinue the Participant's participation in the Plan at any time as provided in Section 11 below.

**Section 8. Grant of Option.** On each Offering Date, each eligible Employee who is then a Participant shall be granted (by operation of the Plan) an option to purchase as many full shares of Common Stock at the Option Price as he or she will be able to purchase with (a) the payroll deductions credited to the Participant's account during the Participant's participation in the Offering beginning on such Offering Date and (b) the balance (if any) carried forward from the Employee's payroll deduction account from the preceding Offering. Notwithstanding the foregoing, in no event may the number of shares purchased by any Employee during an Offering exceed 2,000 shares of Common Stock. The option price per share of such shares (the "Option Price") shall be equal to the lesser of: (a) 90% of the Fair Market Value of one share of Common Stock on the Offering Date or (b) 90% of the Fair Market Value of one share of Common Stock on the Purchase Date.

**Section 9. Exercise of Option.**

(a) Unless a Participant gives written notice to the Company as provided in Section 9(d) below or withdraws from the Plan pursuant to Section 11 below, the Participant's option for the purchase of shares of Common Stock granted for an Offering will be exercised automatically at the Purchase Date of such Offering for the purchase of the number of full shares of Common Stock that the accumulated payroll deductions in the Participant's account on such Purchase Date will purchase at the applicable Option Price.

(b) A Participant may only purchase one or more full shares in connection with the automatic exercise of an option granted for any Offering. That portion of any balance remaining in a Participant's payroll deduction account at the close of business on the Purchase Date of any Offering that is less than the purchase price of one full share will be carried forward into the Participant's payroll deduction account for the following Offering. In no event will the balance carried forward be equal to or greater than the purchase price of one share on the Purchase Date of an Offering. Notwithstanding the foregoing, the Committee may determine, in its sole discretion, that in lieu of carrying such cash balances forward, such balances will be deemed to have purchased such number of fractional shares of Common Stock as would then be purchasable at the applicable Option Price, with such fractional shares calculated to the fourth (4th) decimal place.

(c) No Participant (or any person claiming through such Participant) shall have any interest in any Common Stock subject to an option under the Plan until such option has been exercised, at which point such interest shall be limited to the interest of a purchaser of the Common Stock purchased upon such exercise pending the delivery or credit of such Common Stock in accordance with Section 10 below. During the Participant's lifetime, a Participant's option to purchase shares of Common Stock under the Plan is exercisable only by the Participant.

(d) By written notice to the Company prior to the Purchase Date of any Offering, a Participant may elect, effective on such Purchase Date to withdraw all of the accumulated payroll deductions in the Participant's account as of the Purchase Date (which withdrawal may, but need not, also constitute a notice of termination and withdrawal pursuant to Section 11(a)).

**Section 10. Delivery.**

(a) Except as provided in paragraph (b) below, as promptly as practicable after the Purchase Date of each Offering, the Company will deliver to each Participant, as appropriate, either:

(i) a certificate representing the shares of Common Stock purchased upon exercise of the Participant's option granted for such Offering, registered in the name of the Participant or, if the Participant so directs on the Participant's Participation Form, in the names of the Participant and the Participant's spouse; or

(ii) if the Participant makes an election pursuant to Section 9(d) for the Offering, a cash payment equal to the total of the payroll deductions credited to the Participant's account.

(b) Notwithstanding paragraph (a) above, in lieu of delivering certificates to each of the Participants with respect to shares of Common Stock purchased in connection with an Offering, the Company may deliver a certificate to a third party representing an aggregate of all of the shares of Common Stock purchased in connection with the Offering (including an aggregate of all of the fractional shares deemed to have been purchased pursuant to Section 9(b), if applicable) rounded down to the nearest full share, plus cash in an amount equal to the Option Price multiplied by any remaining fractional share deemed to have been purchased pursuant to Section 9(b), if applicable, which shares will be held for the benefit of the Participants in accordance with their respective interests, and will deliver a statement of account to each Participant indicating the number of shares of Common Stock purchased by that Participant in connection with that Offering. In the event shares are held for the benefit of Participants, all full shares purchased and fractional shares deemed to have been purchased by a Participant in an Offering and in any subsequent Offerings will accumulate for the benefit of the Participant until the Participant's withdrawal or termination pursuant to Section 11.

**Section 11. Withdrawal; Termination of Employment.**

(a) A Participant may terminate the Participant's participation in the Plan and withdraw all, but not less than all, the payroll deductions credited to the Participant's account under the Plan at any time prior to the Purchase Date of an Offering, for such Offering, by giving written notice to the Company's Human Resources Department or Designated Broker no later than five (5) days prior to the end of the offering period. Such notice shall state that the Participant wishes to terminate the Participant's involvement in the Plan, specify a termination date and request the withdrawal of all of the Participant's payroll deductions held under the Plan.

All of the Participant's payroll deductions credited to the Participant's account will be paid to the Participant as soon as practicable after the termination date specified in the notice of termination and withdrawal (or, if no such date is specified, as soon as practical after receipt of the Participant's notice of termination and withdrawal), and the Participant's option for such Offering will be automatically canceled, and no further payroll deductions for the purchase of shares of Common Stock will be made for such Offering or for any subsequent Offering, except in accordance with a new Participation Form filed pursuant to Section 6 above.

(b) Upon termination of a Participant's employment for any reason, including retirement or death, the payroll deductions accumulated in the Participant's account will be returned to the Participant as soon as practicable after such termination or, in the case of the Participant's death, to the person or persons entitled thereto under Section 14 below, and the Participant's option will be automatically canceled. In the event that shares are held for the benefit of Participants pursuant to Section 10(b), then upon the termination of a Participant's employment for any reason, including retirement or death, the Participant, or, in the case of death, the Participant's designated beneficiary (if allowed by the Committee) or the executor or administrator of the Participant's estate will be entitled to receive, a certificate representing the number of full shares of Common Stock held for the benefit of the Participant plus cash in an amount equal to the Fair Market Value of any remaining fractional share deemed to have been purchased. In any event, Fair Market Value will be determined as of such termination and such certificate will be delivered and such amounts paid as soon thereafter as practicable. For purposes of the Plan, the termination date of employment shall be the Participant's last date of actual employment and shall not include any period during which such Participant receives any severance payments. A transfer of employment between the Company and a Designated Subsidiary or between one Designated Subsidiary and another Designated Subsidiary, or absence or leave approved by the Company, shall not be deemed a termination of employment under this Section 11(b).

(c) A Participant's termination and withdrawal pursuant to Section 11(a) above will not have any effect upon the Participant's eligibility to participate in a subsequent Offering by completing and filing a new Participation Form pursuant to Section 6 above or in any similar plan that may hereafter be adopted by the Company.

**Section 12. Interest.** No interest shall accrue on a Participant's payroll deductions under the Plan.

**Section 13. Stock Subject to the Plan.**

(a) The maximum number of shares of Common Stock that shall be reserved for sale under the Plan shall be 100,000 shares, subject to adjustment upon changes in capitalization of the Company as provided in Section 13(b) below. The shares to be sold to Participants under the Plan may be, at the election of the Company, either treasury shares or shares authorized but unissued. If the total number of shares of Common Stock that would otherwise be subject to options granted pursuant to Section 8 above on any Purchase Date exceeds the number of shares then available under the Plan (after deduction of all shares for which options have been exercised or are then outstanding), the Company shall make a pro rata allocation of the shares of Common Stock remaining available for issuance in as uniform and equitable a manner as is practicable. In such event, the Company shall give written notice of such reduction of the number of shares subject to the option to each Participant affected thereby and shall return any excess funds accumulated in each Participant's account as soon as practicable after the Purchase Date of such Offering.

(b) In the event of any reorganization, merger, consolidation, recapitalization, liquidation, reclassification, stock dividend, stock split, combination of shares, rights offering, divestiture or extraordinary dividend (including a spin-off) or any other similar change in the corporate structure or shares of the Company, the Committee (or, if the Company is not the surviving corporation in any such transaction, the board of directors of the surviving corporation) will make appropriate adjustment (which determination will be conclusive) as to the number and kind of securities or other property (including cash) available for issuance or payment under the Plan and, in order to prevent dilution or enlargement of the rights of Participants, the number and kind of securities or other property (including cash) subject to, and the exercise price of, outstanding options.

(c) In the event that Participants are deemed to have purchased fractional shares of Common Stock pursuant to Section 9(b), the aggregate of such fractional share interests at any given time will be applied to reduce the maximum number of shares of Common Stock remaining available for issuance under the Plan; provided, however, that any fractional shares that are paid out to a Participant in cash pursuant to Section 11 will automatically again become available for issuance under the Plan.

**Section 14. Designation of Beneficiary.**

(a) In the discretion of the Committee, a Participant may file written designation of a beneficiary who is to receive shares of Common Stock and/or cash, if any, from the Participant's account under the Plan in the event of such Participant's death at a time when cash or shares of Common Stock are held for the Participant's account.

(b) Such designation of beneficiary may be changed by the Participant at any time by written notice. In the event of the death of a Participant in the absence of a valid designation of a beneficiary who is living at the time of such Participant's death, the Company shall deliver such shares of Common Stock and/or cash to the executor or administrator of the estate of the Participant; or, if no such executor or administrator has been appointed (to the knowledge of the Company), the Company, in its discretion, may deliver such shares of Common Stock and/or cash to the spouse or to any one or more dependents or relatives of the Participant; or, if no spouse, dependent or relative is known to the Company, then to such other person as the Company may designate.

**Section 15. Transferability.** Neither payroll deductions credited to a Participant's account nor any rights with regard to the exercise of an option or to receive shares of Common Stock under the Plan may be assigned, transferred, pledged or otherwise disposed of in any way (other than by will, the laws of descent and distribution, or as provided in Section 14 above) by the Participant. Any such attempt at assignment, transfer, pledge or other disposition shall be without effect, except that the Company may treat such act as an election to withdraw funds in accordance with Section 11(a) above.

**Section 16. Share Transfer Restrictions.**

(a) Shares of Common Stock shall not be issued under the Plan unless such issuance is either registered under the Securities Act and applicable state securities laws or is exempt from such registration.

(b) Shares of Common Stock issued under the Plan may not be sold, assigned, transferred, pledged encumbered, or otherwise disposed of (whether voluntarily or involuntarily) except pursuant to registration under the Securities Act and applicable state securities laws, or pursuant to exemptions from such registration.

(c) The Company may condition the issuance, sale or transfer of shares of Common Stock upon the receipt of any representations or agreements from the parties involved, and the placement of any legends on certificates representing shares of Common Stock, as may be deemed necessary or advisable by the Company in order to comply with such securities law or other restrictions.

**Section 17. Amendment.** The Plan may be amended by the Board from time to time to the extent that the Board deems necessary or appropriate in light of, and consistent with, Section 423 of the Code; provided, however, that no such amendment shall be effective, without approval of the stockholders of the Company, if stockholder approval of the amendment is then required pursuant to Rule 16b-3 under the Exchange Act or any successor rule, the rules of any stock exchange or Nasdaq if the Common Stock is then listed on such exchange or Nasdaq or similar regulatory body, or Section 423 of the Code.

**Section 18. Notices.** All notices or other communications by a Participant to the Company in connection with the Plan shall be deemed to have been duly given when received by the Chief Financial Officer of the Company or by any other person designated by the Company for the receipt of such notices or other communications, in the form and at the location specified by the Company.

**Section 19. No Right to Employment.** Nothing in the Plan will interfere with or limit in any way the right of the Company or any Designated Subsidiary to terminate the employment of any Employee or Participant at any time, nor confer upon any Employee or Participant any right to continue in the employ of the Company or any Designated Subsidiary.

**Section 20. Effective Date of Plan; Termination.** The Plan shall be effective as of November 17, 2006, the date it was adopted by the Board. The Plan has been adopted by the Board subject to stockholder approval, and prior to stockholder approval shares of Common Stock may be issued under the Plan subject to such approval. The Board may terminate or suspend the Plan or the granting of options pursuant to the Plan at any time. No option will be granted after termination of the Plan.

**Section 21. Governing Law.** Except to the extent expressly provided herein or in connection with other matters of corporate governance and authority (all of which shall be governed by the laws of the Company's jurisdiction of incorporation), the validity, construction, interpretation, administration and effect of the Plan and any rules, regulations and actions relating to the Plan will be governed by and construed exclusively in accordance with the laws of the State of Minnesota, notwithstanding the conflicts of laws principles of any jurisdictions.

**Section 22. Miscellaneous.** The headings to Sections in the Plan have been included for convenience of reference only. Except as otherwise expressly indicated, all references to Sections in the Plan shall be to Sections of the Plan.



**NORTHERN TECHNOLOGIES INTERNATIONAL CORPORATION  
EMPLOYEE STOCK PURCHASE PLAN**

**Payroll Deduction Authorization Form And Subscription Agreement**

\_\_\_\_\_ Original Application  
\_\_\_\_\_ Change in Payroll Deduction Amount

1. \_\_\_\_\_ hereby elects to participate in the Northern Technologies International Corporation Employee Stock Purchase Plan (the "Plan") and subscribes to purchase shares of the Company's Common Stock (the "Shares") according to this Agreement and the Plan.
- 2.. I hereby authorize payroll deductions, beginning \_\_\_\_\_, 20\_\_, from each paycheck in the amount of \$ \_\_\_\_\_ (may not exceed 15% of total compensation on each payday) in accordance with the Plan.
3. I understand that such payroll deductions will be accumulated to purchase shares according to the Plan, and that shares will be purchased for me automatically at the end of each offering period under the Plan unless I withdraw my accumulated payroll deductions, withdraw from the Plan, or both, by giving written notice to the Company prior to the end of the offering period, as provided in the Plan.
4. Shares purchased for me under the Plan should be issued or held in an account in the name(s) of:  
  
\_\_\_\_\_  
(name(s))  
  
\_\_\_\_\_  
(address)  
  
\_\_\_\_\_  
(social security number)
5. I understand that if I dispose of any shares I receive under the Plan within two years after the first day of the offering period during which I purchased the shares, I may be treated for U.S. federal income tax purposes as having received ordinary income at the time of such disposition in an amount equal to the excess of the fair market value of the shares on the date purchased over the option price paid for the shares. I hereby agree to notify the Company in writing within 30 days after the date of any such disposition. However, if I dispose of any such shares at any time after the expiration of the two-year holding period, I understand that I will be treated for U.S. federal income tax purposes as having received income only at the time of such disposition, and that such income will be taxed as ordinary income only to the extent of an amount equal to the lesser of (a) the excess of the fair market value of the shares at the time of such disposition over the amount paid for the shares under the option, or (b) the excess of the fair market value of the shares on the first day of the offering period during which I purchased such shares over the option price. The remainder of the gain, if any, recognized on such disposition will be taxed at capital gains rates.

- 6. I have read the current prospectus for the Northern Technologies International Corporation Employee Stock Purchase Plan.
- 7. In the event of my death, I hereby designate the following as my beneficiary(ies) to receive all payments and Shares due me under the Plan:

Name (Please Print)

\_\_\_\_\_

First	Middle	Last
-------	--------	------

Relationship

\_\_\_\_\_

Address

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

Name (Please Print)

\_\_\_\_\_

First	Middle	Last
-------	--------	------

Relationship

\_\_\_\_\_

Address

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

Date: \_\_\_\_\_

\_\_\_\_\_  
Signature of Employee

## NORTHERN TECHNOLOGIES INTERNATIONAL CORPORATION

DESCRIPTION OF NON-EMPLOYEE DIRECTOR  
COMPENSATION ARRANGEMENTS**Fees**

Each non-employee director for an entire fiscal year receives an annual retainer of \$10,000 for services rendered as a director of Northern Technologies International Corporation. Each non-employee director for a portion of the fiscal year receives a prorated portion of such annual retainer. Each non-employee director of NTIC also receives \$1,000 for each Board meeting attended and \$500 for each Audit Committee, Compensation Committee and Nominating Committee meeting attended. The following non-employee directors are Pierre Chenu, Mark J. Stone, Dr. Sunggyu Lee, Dr. Ramani Narayan, Mark M. Mayers, Dr. Vera Kallmeyer and Jean-Guy Coulombe.

**Stock Options**

Pursuant to the Northern Technologies International Corporation 2000 Stock Incentive Plan, each non-employee director of NTIC is automatically granted a five-year non-qualified option to purchase 2,000 shares of NTIC common stock on the first day of each fiscal year in respect to their past year's services as a non-employee director of NTIC. Non-employee directors who are elected or appointed to the Board following the first day of the fiscal year receive an automatic grant of an option to purchase a pro rata portion of 2,000 shares of NTIC common stock calculated by dividing the number of months remaining in the fiscal year at the time of election or appointment divided by 12, which options are automatically granted at the time of their election or appointment. Each automatically granted option becomes exercisable, on a cumulative basis, with respect to 33 1/3% of the shares covered by such option on each anniversary of the date of its grant. The exercise price of such option is equal to the fair market value of a share of NTIC common stock on the date of grant.

**Reimbursement of Travel Expenses**

All of NTIC's directors are reimbursed for travel expenses for attending meetings.

## NORTHERN TECHNOLOGIES INTERNATIONAL CORPORATION

DESCRIPTION OF EXECUTIVE OFFICER  
COMPENSATION ARRANGEMENTS

The following is a description of oral compensation arrangements between Northern Technologies International Corporation and the following executive officers of NTIC as of August 31, 2006:

Name of Executive Officer	Title	Base Salary	Bonus Arrangements	Stock Options	Other
G. Patrick Lynch	President and Chief Executive Officer	\$190,000 per year. See footnote (1) below	See footnote (2) below	Stock options to purchase shares of NTIC common stock are granted from time to time in the sole discretion of the NTIC Board of Directors.	Under NTIC's 401(k) Plan, participants, including executive officers, may voluntarily request that NTIC reduce pre-tax compensation by up to 15% (subject to certain special limitations) and contribute such amounts to a trust. NTIC contributed an amount equal to 3.5% of the amount that each participant contributed under this plan.  Executive officers receive other benefits received by other NTIC employees, including health, dental and life insurance benefits.
Dr. Donald Kubik	Vice Chairman and Chief Technology Officer	\$170,000 per year. See footnote (1) below	See footnote (2) below	See above	See above
Matthew C. Wolsfeld	Chief Financial Officer and Secretary	\$145,000 per year. See footnote (1) below	See footnote (2) below	See above	See above

(1) Annual base salaries for NTIC's executive officers are determined each year by NTIC's Compensation Committee.

(2) Annual performance bonuses for NTIC's executive officers are determined each year by NTIC's Compensation Committee and can be comprised of cash and/or a stock bonus.

## PROMISSORY NOTE MODIFICATION AGREEMENT

THIS PROMISSORY NOTE MODIFICATION AGREEMENT ("Modification") is dated as of January 30, 2006 but is effective as of January 30, 2006, by and between **NORTHERN TECHNOLOGIES INTERNATIONAL CORPORATION** ("Borrower" or, if more than one (1), collectively "Borrower") and **NATIONAL CITY BANK, a national banking association** ("Bank").

WHEREAS, Bank agreed to lend to Borrower an amount not to exceed the sum of **One Million and 00/100 Dollars (\$1,000,000.00)** ("Loan"), which Loan was evidenced by a certain **Commercial Note: Revolving Credit** dated **August 6, 2004** in the face amount of **Five Hundred Thousand and 00/100 Dollars (\$500,000.00)** (as extended, amended or otherwise modified to date, the "**Note**") and a **Commercial Note Addendum** dated **August 6, 2004** (the said Note and any other instrument or document given in connection with or to secure the Loan being collectively referred to as "**Loan Documents**").

WHEREAS, the parties hereto desire to modify the Note as hereinafter provided.

NOW, THEREFORE, in consideration of the foregoing promises and the covenants contained herein, the parties hereto agree as follows:

1. **Liability of Borrower.** Borrower hereby ratifies and reconfirms Borrower's obligations and all liability to Bank under the terms and conditions of the Loan Documents and acknowledges that Borrower has no defenses to or rights of set-off against Borrower's obligations and all liability to Bank thereunder. Borrower further acknowledges that Bank has performed all of Bank's obligations under the Loan Documents.
2. **Modification.** The Note is hereby modified to provide that the maturity date be extended from January 31, 2006 to January 31, 2007.  
The Commercial Note Addendum is hereby modified to eliminate section Five (5) on page two.
3. **Ratification of Loan Documents.** The Loan Documents are in all respects ratified and confirmed by the parties hereto and incorporated by reference herein, and each of the Loan Documents and this Modification shall be read, taken and construed as one and the same instrument. Capitalized terms used herein and not otherwise defined shall have the meanings given to them in the Note. In the event of any conflict between the terms and provisions of this Modification and the terms and provisions of the Note, the terms and provisions of this Modification shall control.
4. **Confession of Judgment.** Borrower hereby authorizes any attorney at law to appear in any state or federal court of record in the United States of America after the maturity hereof (whether occurring by lapse of time or acceleration), to waive the issuance and service of process, to admit the maturity of the Note and the amount then appearing due, to confess judgment against Borrower in favor of the holder hereof for the amount then appearing due,

together with interest and costs of suit, and thereupon to release all errors and to waive all rights of appeal and stay of execution. No judgment shall bar any subsequent judgment. Should any judgment be vacated for any reason, this warrant of attorney nevertheless may thereafter be used for obtaining additional judgments.

IN WITNESS WHEREOF, the undersigned have caused this Modification to be executed as of the day and year first above written.

**WARNING-BY SIGNING THIS PAPER YOU GIVE UP YOUR RIGHT TO NOTICE AND COURT TRIAL. IF YOU DO NOT PAY ON TIME A COURT JUDGMENT MAY BE TAKEN AGAINST YOU WITHOUT YOUR PRIOR KNOWLEDGE AND THE POWERS OF A COURT CAN BE USED TO COLLECT FROM YOU REGARDLESS OF ANY CLAIMS YOU MAY HAVE AGAINST THE CREDITOR WHETHER FOR RETURNED GOODS, FAUL TV GOODS, FAILURE ON HIS PART TO COMPLY WITH THE AGREEMENT, OR ANY OTHER CAUSE.**

**NORTHERN TECHNOLOGIES  
INTERNATIONAL CORPORATION**

**NATIONAL CITY BANK,  
a national banking association**

By: /s/ Matthew C. Wolsfeld  
\_\_\_\_\_

By: /s/ Joe McMullin  
\_\_\_\_\_

Name: Matthew C. Wolsfeld  
Its: Chief Financial Officer

Name: **Joe McMullin**  
Its: **Assistant Vice President**

STATE OF MINNESOTA )  
                                  ) ss:  
COUNTY OF ANOKA    )

**BEFORE ME**, a Notary Public in and for said County and State, personally appeared Matthew C. Wolsfeld as Chief Financial Officer of the above-named corporation, **Northern Technologies International Corporation** who acknowledged that he signed the foregoing instrument for an on behalf of the Corporation, and by authority of its Board of Directors, and that the same is the free act and deed of the Corporation and the free act and deed of each of them personally and as such officers.

**IN TESTIMONY**, I set my hand and official seal, this 30<sup>th</sup> day of January, 2006.

\_\_\_\_\_  
Notary Public

## PROMISSORY NOTE MODIFICATION AGREEMENT

THIS PROMISSORY NOTE MODIFICATION AGREEMENT ("*Modification*") is made and entered into on **August 24, 2006** but is effective as of **August 24, 2006** by and among **Northern Technologies International Corporation** (collectively "*Borrower*") and **NATIONAL CITY BANK, A NATIONAL BANKING ASSOCIATION** ("*Bank*").

WHEREAS, Bank agreed to lend to Borrower an amount not to exceed the sum of **One Million and 00/100 Dollars (\$1,000,000.00)** ("*Loan*"), which Loan was evidenced by a certain **Commercial Note: Revolving Credit** dated **August 6, 2004** in the face amount of **Five Hundred Thousand and 00/100 Dollars (\$500,000.00)** (as extended, amended or otherwise modified to date, the "*Note*") (the said Note and any other instrument or document given in connection with or to secure the Loan being collectively referred to as "*Loan Documents*").

WHEREAS, the parties hereto desire to modify the Note as hereinafter provided.

NOW, THEREFORE, in consideration of the foregoing promises and the covenants contained herein, the parties hereto agree as follows:

1. Liability of Borrower. Borrower hereby ratifies and reconfirms Borrower's obligations and all liability to Bank under the terms and conditions of the Loan Documents and acknowledges that Borrower has no defenses to or rights of set-off against Borrower's obligations and all liability to Bank thereunder. Borrower further acknowledges that Bank has performed all of Bank's obligations under the Loan Documents.
2. Modification.
  - (a) The Note is hereby modified to provide that, effective as of **August 24, 2006** the face amount of the Note shall be permanently increased to the sum of **One Million Five Hundred Thousand and 00/100 Dollars (\$1,500,000.00)**.
  - (b) The next payment is due **September 1, 2006** and **monthly** thereafter as set forth in the above mentioned note. Payments prior to the first scheduled payment above have been made as evidenced by the books and records of Bank.
3. Ratification of Loan Documents. The Loan Documents are in all respects ratified and confirmed by the parties hereto and incorporated by reference herein, and each of the Loan Documents and this Modification shall be read, taken and construed as one and the same instrument. Capitalized terms used herein and not otherwise defined shall have the meanings given to them in the Note. In the event of any conflict between the terms and provisions of this Modification and the terms and provisions of the Note, the terms and provisions of this Modification shall control.
4. Confession of Judgment. Borrower hereby authorizes any attorney at law to appear in any state or federal court of record in the United States of America after the maturity hereof (whether occurring by lapse of time or acceleration), to waive the issuance and service of process,

to admit the maturity of the Note and the amount then appearing due, to confess judgment against Borrower in favor of the holder hereof for the amount then appearing due, together with interest and costs of suit, and thereupon to release all errors and to waive all rights of appeal and stay of execution. No judgment shall bar any subsequent judgment. Should any judgment be vacated for any reason, this warrant of attorney nevertheless may thereafter be used for obtaining additional judgments.

IN WITNESS WHEREOF, the undersigned have caused this Modification to be executed as of the day and year first above written.

**WARNING-BY SIGNING THIS PAPER YOU GIVE UP YOUR RIGHT TO NOTICE AND COURT TRIAL. IF YOU DO NOT PAY ON TIME A COURT JUDGMENT MAY BE TAKEN AGAINST YOU WITHOUT YOUR PRIOR KNOWLEDGE AND THE POWERS OF A COURT CAN BE USED TO COLLECT FROM YOU REGARDLESS OF ANY CLAIMS YOU MAY HAVE AGAINST THE CREDITOR WHETHER FOR RETURNED GOODS, FAULTY GOODS, FAILURE ON HIS PART TO COMPLY WITH THE AGREEMENT, OR ANY OTHER CAUSE.**

**Northern Technologies International Corporation**

By: /s/ Matthew C. Wolsfeld

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**Matthew C. Wolsfeld**  
Its: **Chief Financial Officer**

**NATIONAL CITY BANK, A NATIONAL  
BANKING ASSOCIATION**

By: /s/ J.R. McMullin

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**J. R McMullin**  
Its: **Assistant Vice President**



SUBSIDIARIES OF THE REGISTRANT

Name of Subsidiary	State or Other Jurisdiction of Incorporation or Organization	Ownership Interest	Names Under Which Subsidiary Does Business
NTI Facilities, Inc.	Ohio	100%	Same
React-NTI LLC	Delaware	75%	Same
Northern Technologies Holding Company, LLC	Delaware	100%	Same

**CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

We consent to the incorporation by reference in the Registration Statements on Form S-8 (File No. 333-33931 and 333-32596) of Northern Technologies International Corporation and Subsidiaries of our report dated November 6, 2006, which appears on page 32 of this annual report on Form 10-KSB for the year ended August 31, 2006.

/s/ Virchow, Krause & Company, LLP

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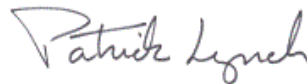
Minneapolis, Minnesota  
November 17, 2006

## CERTIFICATION PURSUANT TO SECTION 302(A) OF THE SARBANES-OXLEY ACT OF 2002

I, G. Patrick Lynch, certify that:

1. I have reviewed this annual report on Form 10-KSB 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 small business issuer as of, and for, the periods presented in this report;
4. The small business issuer's other certifying officers 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)) for the small business issuer 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 small business issuer, 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) Evaluated the effectiveness of the small business issuer'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
  - (c) Disclosed in this report any change in the small business issuer's internal control over financial reporting that occurred during the small business issuer's fourth quarter that has materially affected, or is reasonably likely to materially affect, the small business issuer's internal control over financial reporting; and
5. The small business issuer's other certifying officers and I have disclosed, based on our most recent evaluation of internal controls over financial reporting, to the small business issuer's auditors and the audit committee of the small business issuer's board of directors (or persons performing the equivalent function):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the small business issuer'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 small business issuer's internal controls over financial reporting.

Date: November 17, 2006



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G. Patrick Lynch  
President and Chief Executive Officer

## CERTIFICATION PURSUANT TO SECTION 302(A) OF THE SARBANES-OXLEY ACT OF 2002

I, Matthew C. Wolsfeld, certify that:

1. I have reviewed this annual report on Form 10-KSB 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 small business issuer as of, and for, the periods presented in this report;
4. The small business issuer's other certifying officers 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)) for the small business issuer 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 small business issuer, 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) Evaluated the effectiveness of the small business issuer'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
  - (c) Disclosed in this report any change in the small business issuer's internal control over financial reporting that occurred during the small business issuer's fourth quarter that has materially affected, or is reasonably likely to materially affect, the small business issuer's internal control over financial reporting; and
5. The small business issuer's other certifying officers and I have disclosed, based on our most recent evaluation of internal controls over financial reporting, to the small business issuer's auditors and the audit committee of the small business issuer's board of directors (or persons performing the equivalent function):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the small business issuer'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 small business issuer's internal controls over financial reporting.



Date: November 17, 2006

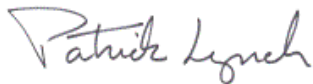
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Matthew C. Wolsfeld, CPA  
Chief Financial Officer & Corporate Secretary

**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 Annual Report of Northern Technologies International Corporation (the "Company") on Form 10-KSB for the period ending August 31, 2006 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.



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

Circle Pines, Minnesota  
November 17, 2006

**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 Annual Report of Northern Technologies International Corporation (the "Company") on Form 10-KSB for the period ending August 31, 2006 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Matthew C. Wolsfeld, Chief Financial 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.



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

Circle Pines, Minnesota  
November 17, 2006