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

FORM 10-Q

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

For the quarterly period ended November 30, 2017

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

For the transition period from ________________ to __________________.

Commission File Number: 001-11038

NORTHERN TECHNOLOGIES INTERNATIONAL CORPORATION

(Exact name of registrant as specified in its charter)

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

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

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

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

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

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

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

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

As of January 12, 2018, there were 4,537,408 shares of common stock of the registrant outstanding.

NORTHERN TECHNOLOGIES INTERNATIONAL CORPORATION
FORM 10-Q
November 30, 2017

TABLE OF CONTENTS

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

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

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

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

As used in this report, references to “EXCOR” refer to NTIC’s joint venture in Germany, Excor Korrosionsschutz – Technologien und Produkte GmbH.

As used in this report, references to “Tianjin Zerust” refer to NTIC’s former joint venture in China, Tianjin-Zerust Anticorrosion Co., Ltd.

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

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

NORTHERN TECHNOLOGIES INTERNATIONAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS AS OF NOVEMBER 30, 2017 (UNAUDITED)
AND AUGUST 31, 2017 (AUDITED)

	November 30, 2017	August 31, 2017
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 4,627,213	$ 6,360,201
Available for sale securities	3,770,241	3,766,984
Receivables:		
Trade excluding joint ventures, less allowance for doubtful accounts of $40,000 at November 30, 2017 and August 31, 2017	7,251,821	5,912,631
Trade joint ventures	520,653	691,752
Fees for services provided to joint ventures	1,310,818	1,302,944
Income taxes	—	137,256
Inventories	7,969,328	7,456,552
Prepaid expenses	760,567	439,298
Total current assets	26,210,641	26,067,618
PROPERTY AND EQUIPMENT, NET	7,235,301	7,359,662
OTHER ASSETS:		
Investments in joint ventures	21,701,913	20,035,074
Deferred income taxes	1,756,565	1,756,565
Patents and trademarks, net	1,291,335	1,322,089
Other	—	71,685
Total other assets	24,749,813	23,185,413
Total assets	$ 58,195,755	$ 56,612,693
LIABILITIES AND EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 3,797,674	$ 2,676,610
Income taxes payable	15,565	—
Accrued liabilities:		
Payroll and related benefits	955,903	1,540,386
Other	1,058,793	677,621
Total current liabilities	5,827,935	4,894,617
COMMITMENTS AND CONTINGENCIES (Note 12)		
EQUITY:		
Preferred stock, no par value; authorized 10,000 shares; none issued and outstanding	—	—
Common stock, $0.02 par value per share; authorized 10,000,000 shares; issued and outstanding 4,537,408 and 4,535,018, respectively	90,748	90,700
Additional paid-in capital	14,294,584	14,163,509
Retained earnings	37,706,367	37,077,483
Accumulated other comprehensive loss	(2,518,243)	(2,471,064)
Stockholders’ equity	49,573,456	48,860,628
Non-controlling interest	2,794,364	2,857,448
Total equity	52,367,820	51,718,076
Total liabilities and equity	$ 58,195,755	$ 56,612,693

See notes to consolidated financial statements.

NORTHERN TECHNOLOGIES INTERNATIONAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)
FOR THE THREE MONTHS ENDED NOVEMBER 30, 2017 AND 2016

	Three Months Ended	
	November 30, 2017	November 30, 2016
NET SALES:		
Net sales, excluding joint ventures	$ 11,035,407	$ 9,000,224
Net sales, to joint ventures	507,631	701,799
Total net sales	11,543,038	9,702,023
Cost of goods sold	7,888,470	6,612,766
Gross profit	3,654,568	3,089,257
JOINT VENTURE OPERATIONS:		
Equity in income from joint ventures	1,741,328	1,274,004
Fees for services provided to joint ventures	1,507,142	1,315,591
Total joint venture operations	3,248,470	2,589,595
OPERATING EXPENSES:		
Selling expenses	2,599,949	2,039,084
General and administrative expenses	2,219,745	2,471,780
Research and development expenses	798,731	642,522
Total operating expenses	5,618,425	5,153,386
OPERATING INCOME	1,284,613	525,466
INTEREST INCOME	24,056	3,563
INTEREST EXPENSE	(5,089)	(4,623)
INCOME BEFORE INCOME TAX EXPENSE	1,303,580	524,406
INCOME TAX EXPENSE	104,991	117,713
NET INCOME	1,198,589	406,693
NET INCOME ATTRIBUTABLE TO NON-CONTROLLING INTERESTS	114,963	109,054
NET INCOME ATTRIBUTABLE TO NTIC	$ 1,083,626	$ 297,639
NET INCOME ATTRIBUTABLE TO NTIC PER COMMON SHARE:		
Basic	$ 0.24	$ 0.07
Diluted	$ 0.24	$ 0.07
WEIGHTED AVERAGE COMMON SHARES ASSUMED OUTSTANDING:		
Basic	4,537,368	4,531,950
Diluted	4,608,788	4,558,878
CASH DIVIDENDS DECLARED PER COMMON SHARE	$ 0.10	$ 0.00

See notes to consolidated financial statements.

NORTHERN TECHNOLOGIES INTERNATIONAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) (UNAUDITED)
FOR THE THREE MONTHS ENDED NOVEMBER 30, 2017 AND 2016

	Three Months Ended	
	November 30, 2017	November 30, 2016
NET INCOME	$ 1,198,589	$ 406,693
OTHER COMPREHENSIVE LOSS– FOREIGN CURRENCY TRANSLATION ADJUSTMENT	(25,226)	(1,250,812)
COMPREHENSIVE INCOME (LOSS)	1,173,363	(844,119)
COMPREHENSIVE INCOME ATTRIBUTABLE TO NON-CONTROLLING INTERESTS	136,916	60,372
COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO NTIC	$ 1,036,447	$ (904,491)

See notes to consolidated financial statements.

NORTHERN TECHNOLOGIES INTERNATIONAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
FOR THE THREE MONTHS ENDED NOVEMBER 30, 2017 AND 2016

	Three Months Ended	
	November 30, 2017	November 30, 2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 1,198,589	$ 406,693
Adjustments to reconcile net income to net cash used in operating activities:		
Stock-based compensation	103,267	97,916
Depreciation expense	208,486	193,896
Amortization expense	62,177	29,759
Equity in income from joint ventures	(1,741,328)	(1,274,004)
Deferred income taxes	—	25,242
Dividends received from joint ventures	63,937	—
Changes in current assets and liabilities:		
Receivables:		
Trade, excluding joint ventures	(1,364,409)	(762,525)
Trade, joint ventures	171,099	91,385
Fees for services provided to joint ventures	(7,874)	(15,518)
Income taxes	(101,908)	84,922
Inventories	(530,401)	274,437
Prepaid expenses and other	(250,280)	(180,021)
Accounts payable	1,278,940	378,397
Income tax payable	102,618	(102,314)
Accrued liabilities	(622,696)	(172,691)
Net cash used in operating activities	(1,429,783)	(924,426)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Additions to property and equipment	(87,250)	(112,589)
Proceeds from the sale of available for sale securities	—	497,896
Purchase of available for sale securities	(3,257)	—
Additions to patents	(31,423)	(58,202)
Net cash (used in) provided by investing activities	(121,930)	327,105
CASH FLOWS FROM FINANCING ACTIVITIES:		
Dividend received by non-controlling interest	(200,000)	(200,000)
Repurchase of common stock	—	(71,712)
Proceeds from option exercises	15,375	—
Proceeds from employee stock purchase plan	12,481	32,955
Net cash used in financing activities	(172,144)	(238,757)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS:	(9,131)	(30,056)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(1,732,988)	(866,134)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	6,360,201	3,395,274
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 4,627,213	$ 2,529,140

See notes to consolidated financial statements.

1. INTERIM FINANCIAL INFORMATION

In the opinion of management, the accompanying unaudited consolidated financial statements contain all necessary adjustments, which are of a normal recurring nature, and present fairly the consolidated financial position of Northern Technologies International Corporation and its subsidiaries (the Company) as of November 30, 2017 and August 31, 2017 and the results of their operations for the three months ended November 30, 2017 and 2016 and their cash flows for the three months ended November 30, 2017 and 2016, in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP).

These consolidated financial statements should be read in conjunction with the consolidated financial statements and related notes contained in the Company's annual report on Form 10-K for the fiscal year ended August 31, 2017. These consolidated financial statements also should be read in conjunction with the "Management's Discussion and Analysis of Financial Condition and Results of Operations" section appearing in this report.

Operating results for the three months ended November 30, 2017 are not necessarily indicative of the results that may be expected for the full fiscal year ending August 31, 2018.

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

2. ACCOUNTING PRONOUNCEMENTS

New Accounting Pronouncements Adopted

In July 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2015-11, "*Inventory*," which modifies the subsequent measurement of inventories recorded under a first-in-first-out or average cost method. Under the new standard, such inventories are required to be measured at the lower of cost and net realizable value. The Company has adopted this new standard in the first quarter of fiscal 2018 on a prospective basis. The adoption of this standard did not have a material impact on the Company's consolidated financial statements.

In March 2016, the FASB issued ASU No. 2016-07, "*Investments – Equity Method and Joint Ventures (Topic 323): Simplifying the Transition to the Equity Method of Accounting*." Among other things, the amendments in ASU 2016-07 eliminate the requirement that when an investment qualifies for use of the equity method as a result of an increase in the level of ownership interest or degree of influence, an investor must adjust the investment, results of operations, and retained earnings retroactively on a step-by-step basis as if the equity method had been in effect during all previous periods that the investment had been held. The amendments require that the equity method investor add the cost of acquiring the additional interest in the investee to the current basis of the investor's previously held interest and adopt the equity method of accounting as of the date the investment becomes qualified for equity method accounting. Therefore, upon qualifying for the equity method of accounting, no retroactive adjustment of the investment is required. The amendments require that an entity that has an available-for-sale equity security that becomes qualified for the equity method of accounting recognize through earnings the unrealized holding gain or loss in accumulated other comprehensive income at the date the investment becomes qualified for use of the equity method. The Company adopted this new standard in the first quarter of fiscal 2018 on a prospective basis. The adoption of this standard did not have a material impact on the Company's consolidated financial statements.

In March 2016, the FASB issued ASU 2016-09, *Stock Compensation*, *(Topic 718)*, which is intended to simplify several aspects of the accounting for share-based payment award transactions. The Company adopted this new guidance in the first quarter of fiscal 2018. The adoption of this guidance did not have a material effect on the Company's consolidated results of operations and financial position.

Recently Issued Accounting Pronouncements

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

During February 2016, FASB issued ASU No. 2016-02, "*Leases*." ASU No. 2016-02 was issued to increase transparency and comparability among organizations by recognizing all lease transactions (with terms in excess of 12 months) on the balance sheet as a lease liability and a right-of-use asset (as defined). ASU No. 2016-02 is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years, with earlier application permitted. Upon adoption, the lessee will apply the new standard retrospectively to all periods presented or retrospectively using a cumulative effect adjustment in the year of adoption. The guidance will be effective for the Company's first quarter of 2020. The Company is currently assessing the effect that ASU No. 2016-02 will have on its consolidated financial statements.

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

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

3. INVENTORIES

Inventories consisted of the following:

	November 30, 2017	August 31, 2017
Production materials	$ 1,851,735	$ 1,747,189
Finished goods	6,117,593	5,709,363
	$ 7,969,328	$ 7,456,552

4. PROPERTY AND EQUIPMENT, NET

Property and equipment, net consisted of the following:

	November 30, 2017	August 31, 2017
Land	$ 310,365	$ 310,365
Buildings and improvements	6,855,488	6,847,177
Machinery and equipment	4,246,967	4,171,387
	11,412,820	11,328,929
Less accumulated depreciation	(4,177,519)	(3,969,267)
	$ 7,235,301	$ 7,359,662

5. PATENTS AND TRADEMARKS, NET

Patents and trademarks, net consisted of the following:

	November 30, 2017	August 31, 2017
Patents and trademarks	$ 2,769,382	$ 2,737,959
Less accumulated amortization	(1,478,047)	(1,415,870)
	$ 1,291,335	$ 1,322,089

Patent and trademark costs are amortized over seven years. Costs incurred related to patents and trademarks are capitalized until filed and approved, at which time the amounts capitalized to date are amortized and any further costs, including maintenance costs, are expensed as incurred. Amortization expense is estimated to approximate $240,000 in each of the next five fiscal years.

6. INVESTMENTS IN JOINT VENTURES

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

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

	As of November 30, 2017		
	Total	EXCOR	All Other
Current assets	$ 57,249,505	$ 25,234,973	$ 32,014,532
Total assets	61,290,726	27,337,417	33,953,309
Current liabilities	17,410,457	4,987,804	12,422,653
Noncurrent liabilities	184,251	—	184,251
Joint ventures' equity	43,696,018	22,349,613	21,346,405
Northern Technologies International Corporation's share of joint ventures' equity	21,701,913	11,174,808	10,527,105
Northern Technologies International Corporation's share of joint ventures' undistributed earnings	$ 19,590,029	$ 11,143,903	$ 8,446,126
Northern Technologies International Corporation's dividends received from joint ventures	$ 63,937	$ —	$ 63,937

	Three Months Ended November 30, 2017		
	Total	EXCOR	All Other
Net sales	$ 28,498,711	$ 11,026,514	$ 17,472,197
Gross profit	12,788,122	5,933,526	6,854,596
Net income	3,499,815	2,483,800	1,016,015
Northern Technologies International Corporation’s share of equity in income from joint ventures	$ 1,741,328	$ 1,241,900	$ 499,428

	As of August 31, 2017		
	Total	EXCOR	All Other
Current assets	$ 51,518,210	$ 22,142,514	$ 29,375,696
Total assets	55,633,891	24,301,194	31,332,697
Current liabilities	15,118,074	4,469,567	10,648,507
Noncurrent liabilities	181,210	—	181,210
Joint ventures’ equity	40,334,607	19,831,627	20,502,980
Northern Technologies International Corporation’s share of joint ventures’ equity	20,035,074	9,915,816	10,119,258
Northern Technologies International Corporation’s share of joint ventures’ undistributed earnings	17,960,860	9,884,911	8,075,949
Northern Technologies International Corporation's dividends received from joint ventures	$ 6,377,054	$ 5,379,062	$ 997,992

	Three Months Ended November 30, 2016		
	Total	EXCOR	All Other
Net sales	$ 24,200,447	$ 9,208,524	$ 14,991,923
Gross profit	10,697,027	4,894,179	5,802,848
Net income	2,408,008	1,856,338	551,670
Northern Technologies International Corporation’s share of equity in income from joint ventures	$ 1,274,004	$ 928,169	$ 345,835

The Company did not make any joint venture investments during the three months ended November 30, 2017 or 2016.

7. CORPORATE DEBT

The Company has a revolving line of credit with PNC Bank, National Association (PNC Bank) of $3,000,000. No amounts were outstanding under the line of credit as of both November 30, 2017 and August 31, 2017. At the option of the Company, outstanding advances under the line of credit bear interest at either (a) an annual rate based on LIBOR plus 2.15% for the applicable LIBOR interest period selected by the Company or (b) at the rate publicly announced by PNC Bank from time to time as its prime rate.

The line of credit is governed under a loan agreement. The loan agreement contains standard covenants, including affirmative financial covenants, such as the maintenance of a minimum fixed charge coverage ratio, and negative covenants, which, among other things, limit the incurrence of additional indebtedness, loans and equity investments, disposition of assets, mergers and consolidations and other matters customarily restricted in such agreements. Under the loan agreement, the Company is subject to a minimum fixed charge coverage ratio of 1.10:1.00. As of November 30, 2017, the Company was in compliance with all debt covenants.

The revolving credit facility allows the Company to request that PNC Bank issue letters of credit up to $1,200,000. The Company did not have any letters of credit reserved against the available letters of credit balance as of November 30, 2017 and August 31, 2017 with PNC Bank. The availability of advances under the line of credit will be reduced by the face amount of any letter of credit issued and outstanding (whether or not drawn) under the revolving credit facility.

As of November 30, 2017 and August 31, 2017, the Company had $88,831 and $89,543, respectively, of letters of credit with JP Morgan Chase Bank that are performance based and set to expire between 2020 and 2022.

On January 5, 2018, the Company and PNC Bank extended the maturity date of the line of credit to January 7, 2019. All other terms of the line of credit and the loan agreement and other documents evidencing the line of credit remain the same.

8. STOCKHOLDERS' EQUITY

On November 20, 2017, the Company's Board of Directors declared a cash dividend of $0.10 per share of the Company's common stock, payable on December 21, 2017 to stockholders of record on December 8, 2017.

During the three months ended November 30, 2017, the Company repurchased no shares of its common stock. During the three months ended November 30, 2017, stock options to purchase an aggregate of 1,500 shares of common stock were exercised at a weighted average exercise price of $10.25 per share.

The Company granted stock options under the Northern Technologies International Corporation Amended and Restated 2007 Stock Incentive Plan (the 2007 Plan) to purchase an aggregate of 47,252 shares of its common stock to various employees and directors during the three months ended November 30, 2017. The weighted average per share exercise price of the stock options is $18.35, which was equal to the fair market value of the Company's common stock on the date of grant.

During the three months ended November 30, 2016, the Company repurchased and retired 5,575 shares of its common stock at a price of $12.87 per share. No stock options to purchase shares of common stock were exercised during the three months ended November 30, 2016.

The Company issued 891 and 3,029 shares of common stock on September 1, 2017 and 2016, respectively, under the Northern Technologies International Corporation Employee Stock Purchase Plan (the ESPP).

The Company granted stock options under the 2007 Plan to purchase an aggregate of 56,677 shares of its common stock to various employees and directors during the three months ended November 30, 2016. The weighted average per share exercise price of the stock options is $13.40, which is equal to the fair market value of the Company's common stock on the date of grant.

9. NET INCOME PER COMMON SHARE

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

The following is a reconciliation of the earnings per share computation for the three months ended November 30, 2017 and 2016:

	Three Months Ended	
Numerator:	November 30, 2017	November 30, 2016
Net income attributable to NTIC	$ 1,083,626	$ 297,639
Denominator:		
Basic – weighted shares outstanding	4,537,368	4,531,950
Weighted shares assumed upon exercise of stock options	71,420	26,928
Diluted – weighted shares outstanding	4,608,788	4,558,878
Basic earnings per share:	$ 0.24	$ 0.07
Diluted earnings per share:	$ 0.24	$ 0.07

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

Excluded from the computation of diluted income per share for the three months ended November 30, 2017 were options outstanding to purchase 92,319 shares of common stock. Excluded from the computation of diluted earnings per share for the three months ended November 30, 2016 were options outstanding to purchase 211,564 shares of common stock.

10. STOCK-BASED COMPENSATION

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

The 2007 Plan provides for the grant of incentive stock options, non-statutory stock options, stock appreciation rights, restricted stock, stock unit awards, performance awards and stock bonuses to eligible recipients to enable the Company and its subsidiaries to attract and retain qualified individuals through opportunities for equity participation in the Company, and to reward those individuals who contribute to the achievement of the Company's economic objectives. Subject to adjustment as provided in the 2007 Plan, up to a maximum of 800,000 shares of the Company's common stock are issuable under the 2007 Plan. Options granted under the 2007 Plan generally have a term of ten years and become exercisable over a three- or four-year period beginning on the one-year anniversary of the date of grant. Options are granted at per share exercise prices equal to the market value of the Company's common stock on the date of grant. The Company issues new shares upon the exercise of options. As of November 30, 2017, only stock options and stock bonuses had been granted under the 2007 Plan.

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

The Company granted options to purchase an aggregate of 47,252 and 56,677 shares of its common stock during the three months ended November 30, 2017 and 2016, respectively. The fair value of option grants is determined at date of grant, using the Black-Scholes option pricing model with the assumptions listed below. The Company recognized compensation expense of $103,267 and $97,916 during the three months ended November 30, 2017 and 2016, respectively, related to the options that vested during such time period. As of November 30, 2017, the total compensation cost for nonvested options not yet recognized in the Company's consolidated statements of operations was $528,936, net of estimated forfeitures. Stock-based compensation expense of $309,801 is expected through the remainder of fiscal year 2018, and $153,901 and $65,234 is expected to be recognized during fiscal 2019 and fiscal 2020, respectively, based on outstanding options as of November 30, 2017. Future option grants will impact the compensation expense recognized. Stock-based compensation expense is included in general and administrative expense on the consolidated statements of operations.

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

	November 30,	
	2017	2016
Dividend yield	2.18%	0.00%
Expected volatility	45.9%	46.4%
Expected life of option (in years)	10	10
Average risk-free interest rate	1.87%	1.63%

The weighted average per share fair value of options granted during the three months ended November 30, 2017 and 2016 was $7.75 and $7.69, respectively. The weighted average remaining contractual life of the options outstanding as of November 30, 2017 and 2016 was 6.95 years and 7.15 years, respectively.

11. SEGMENT AND GEOGRAPHICAL INFORMATION

Segment Information

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

The following table sets forth the Company's net sales for the three months ended November 30, 2017 and 2016 by segment:

	Three Months Ended	
	November 30, 2017	November 30, 2016
ZERUST® net sales	$ 9,527,737	$ 8,084,678
Natur-Tec® net sales	2,015,301	1,617,345
Total net sales	$ 11,543,038	$ 9,702,023

The following table sets forth the Company's cost of goods sold for the three months ended November 30, 2017 and 2016 by segment:

	November 30, 2017	% of Product Sales*	November 30, 2016	% of Product Sales*
Direct cost of goods sold				
ZERUST®	$ 5,803,980	60.9%	$ 4,699,537	58.1%
Natur-Tec®	1,479,199	73.4%	1,213,168	75.0%
Indirect cost of goods sold	605,291	NA	700,061	NA
Total net cost of goods sold	$ 7,888,470		$ 6,612,766	

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

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

Geographic Information

Net sales by geographic location for the three months ended November 30, 2017 and 2016 were as follows:

	Three Months Ended	
	November 30, 2017	November 30, 2016
Inside the U.S.A. to unaffiliated customers	$ 6,256,205	$ 5,268,999
Outside the U.S.A. to:		
Joint ventures in which the Company is a shareholder directly and indirectly	507,631	701,799
Unaffiliated customers	4,779,202	3,731,225
	$ 11,543,038	$ 9,702,023

Net sales by geographic location are based on the location of the customer.

Fees for services provided to joint ventures by geographic location as a percentage of total fees for services provided to joint ventures during the three months ended November 30, 2017 and 2016 were as follows:

	Three Months Ended			
	November 30, 2017	% of Total Fees for Services Provided to Joint Ventures	November 30, 2016	% of Total Fees for Services Provided to Joint Ventures
Germany	$ 219,873	14.6%	$ 203,000	15.4%
Poland	206,076	13.7%	149,204	11.3%
Japan	174,045	11.5%	146,037	11.1%
France	139,641	9.3%	97,673	7.4%
Sweden	127,954	8.5%	87,061	6.6%
United Kingdom	111,775	7.4%	86,131	6.5%
Thailand	102,531	6.8%	147,455	11.2%
Finland	89,627	5.9%	76,336	5.8%
India	86,763	5.8%	64,535	4.9%
Czech Republic	84,225	5.6%	70,828	5.4%
South Korea	83,488	5.5%	105,378	8.0%
Other	81,144	5.4%	81,953	6.2%
	$ 1,507,142	100.0%	$ 1,315,591	100.0%

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

	At November 30, 2017	At August 31, 2017
China	$ 207,094	$ 228,458
Brazil	50,784	54,646
Germany	16,619	14,171
India	13,642	14,712
United States	6,947,162	7,047,675
Total property and equipment	$ 7,235,301	$ 7,359,662

	Three Months Ended			
	November 30, 2017		November 30, 2016	
China	$	2,911,643	$	1,546,810
Brazil		639,841		601,524
India		495,539		331,610
Germany		48,771		118,259
Other		683,407		1,133,022
United States		6,763,837		5,970,798
Total net sales	$	11,543,038	$	9,702,023

Total property and equipment are periodically reviewed to assure the net realizable value from the estimated future production based on forecasted sales exceeds the carrying value of the assets. Total assets located in the United States include the Company's investments in joint ventures.

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

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

12. COMMITMENTS AND CONTINGENCIES

On August 31, 2017, the Compensation Committee of the Board of Directors of the Company approved the material terms of an annual bonus plan for the Company's executive officers as well as certain officers and employees for the fiscal year ending August 31, 2018. For fiscal 2018 as in past years, the total amount available under the bonus plan for all plan participants, including executive officers, is dependent upon the Company's earnings before interest, taxes and other income, as adjusted to take into account amounts to be paid under the bonus plan and certain other adjustments (Adjusted EBITOI). Each plan participant's percentage of the overall bonus pool is based upon the number of plan participants, the individual's annual base salary and the individual's position and level of responsibility within the company. In the case of each of the Company's executive officer participants, 75% of the amount of their individual bonus payout will be determined based upon the Company's actual EBITOI for fiscal 2018 compared to a pre-established target EBITOI for fiscal 2018 and 25% of the payout will be determined based upon such executive officer's achievement of certain pre-established individual performance objectives. The payment of bonuses under the plan are discretionary and may be paid to executive officer participants in both cash and shares of the Company's common stock, the exact amount and percentages will be determined by the Company's Board of Directors, upon recommendation of the Compensation Committee, after the completion of the Company's consolidated financial statements for fiscal 2018. There was $318,000 accrued for management bonuses for the three months ended November 30, 2017 compared to $98,000 accrued for management bonuses for the three months ended November 30, 2016.

Four joint ventures (consisting of the Company's joint ventures in South Korea, Thailand, Indonesia and India) accounted for 93.6% of the Company's trade joint venture receivables at November 30, 2017 and three joint ventures (consisting of the Company's joint ventures in South Korea, Thailand and India) accounted for 60.7% of the Company's trade joint venture receivables at August 31, 2017.

From time to time, the Company is subject to various other claims and legal actions in the ordinary course of its business. The Company records a liability in its consolidated financial statements for costs related to claims, including future legal costs, settlements and judgments, where the Company has assessed that a loss is probable and an amount could be reasonably estimated. If the reasonable estimate of a probable loss is a range, the Company records the most probable estimate of the loss or the minimum amount when no amount within the range is a better estimate than any other amount. The Company discloses a contingent liability even if the liability is not probable or the amount is not estimable, or both, if there is a reasonable possibility that material loss may have been incurred. In the opinion of management, as of November 30, 2017, the amount of liability, if any, with respect to these matters, individually or in the aggregate, will not materially affect the Company's consolidated results of operations, financial position or cash flows.

13. FAIR VALUE MEASUREMENTS

Assets and liabilities that are measured at fair value on a recurring basis primarily relate to marketable equity securities. These items are marked-to-market at each reporting period, the market value approximates the cost basis. The following tables provide information by level for assets and liabilities that are measured at fair value on a recurring basis:

	Fair value as of November 30, 2017	Fair Value Measurements Using Inputs Considered as Level 1	Level 2	Level 3
Available for sale securities	$ 3,770,241	$ 3,770,241	$ —	$ —

	Fair value as of August 31, 2017	Fair Value Measurements Using Inputs Considered as Level 1	Level 2	Level 3
Available for sale securities	$ 3,766,984	$ 3,766,984	$ —	$ —

The available for sale securities are mainly fixed income mutual funds. There were no transfers between Level 1, Level 2, or Level 3 during the three months ended November 30, 2017 and 2016.

14. SUPPLEMENTAL CASH FLOW INFORMATION

Supplemental disclosures of cash flow information consisted of:

	Three Months Ended November 30, 2017	November 30, 2016
Cash paid for interest	$ 5,089	$ 4,623
Cash paid for income taxes	—	—

Non-cash financing activity consisted of:

	Three Months Ended November 30, 2017	November 30, 2016
Dividends declared, not paid	$ 454,741	—

15. SUBSEQUENT EVENT

On December 22, 2017, the Tax Cuts and Jobs Act (Act), was enacted into law and is expected to impact the Company's operating results, cash flows, and financial condition. The Company is currently evaluating the potential impacts of the Act. The Act includes a number of provisions, including the lowering of the U.S. corporate tax rate from 35 percent to 21 percent, effective January 1, 2018. The Act also includes provisions that may partially offset the benefit of such rate reduction, including the repeal of the deduction for domestic production activities. The effect of the international provisions of the Act, which generally establish a territorial-style system for taxing foreign-source income of domestic multinational corporations, is uncertain. As a result of the Act, the Company expects there will be one-time adjustments for the re-measurement of deferred tax assets (liabilities) and the deemed repatriation tax on unremitted foreign earnings and profits. Quantifying the impacts of the Act is not practicable at this time due, among other things, to the inherent complexities involved. Accordingly, the Company expects to continue to analyze such impacts and record any such amounts in the second quarter of fiscal 2018.

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

This Management's Discussion and Analysis provides material historical and prospective disclosures intended to enable investors and other users to assess NTIC's financial condition and results of operations. Statements that are not historical are forward-looking and involve risks and uncertainties discussed under the heading "*Part I. Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations—Forward-Looking Statements*" in this report and under "*Part 1. Item 1A. Risk Factors*" in our annual report on Form 10-K for the fiscal year ended August 31, 2017. The following discussion of the results of the operations and financial condition of NTIC should be read in conjunction with NTIC's consolidated financial statements and the related notes thereto included under the heading "*Part I. Item 1. Financial Statements*."

Business Overview

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

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

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

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

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

NTIC's Subsidiaries and Joint Venture Network

NTIC has ownership interests in six subsidiaries in North America, South America, Europe and Asia. The following table sets forth a list of NTIC's operating subsidiaries as of November 30, 2017, the country in which the subsidiary is organized and NTIC's ownership percentage in each subsidiary:

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

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

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

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

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

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

Financial Overview

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

NTIC's consolidated net sales increased 19.0% during the three months ended November 30, 2017 compared to the three months ended November 30, 2016. This increase was primarily a result of an increase in sales of ZERUST® rust and corrosion inhibiting packaging products, sales to joint ventures and sales of Natur-Tec® products.

During the three months ended November 30, 2017, 82.5% of NTIC's consolidated net sales were derived from sales of ZERUST® products and services, which increased 17.8% to $9,527,737 compared to $8,084,678 for the three months ended November 30, 2016. This increase was due to higher sales from existing customers for new and existing products as a result of increased demand. NTIC has focused its sales efforts of ZERUST® products and services by strategically targeting customers with specific corrosion issues in new market areas, including the oil and gas industry and other industrial sectors that offer sizable growth opportunities. NTIC's consolidated net sales for the three months ended November 30, 2017 included $283,842 of sales made to customers in the oil and gas industry compared to $746,331 for the three months ended November 30, 2016. Overall demand for ZERUST® products and services depends heavily on the overall health of the markets in which NTIC sells its products, including the automotive, oil and gas, agriculture, and mining markets in particular.

During the three months ended November 30, 2017, 17.5% of NTIC's consolidated net sales were derived from sales of Natur-Tec® products compared to 16.7% during the three months ended November 30, 2016. Net sales of Natur-Tec® products increased 24.6% during the three months ended November 30, 2017 compared to the three months ended November 30, 2016 primarily due to an increase in finished product sales in North America and finished product sales at NTIC's majority-owned subsidiary in India, Natur-Tec India Private Limited (Natur-Tec India).

Cost of goods sold as a percentage of net sales increased slightly to 68.3% during the three months ended November 30, 2017 compared to 68.2% during the three months ended November 30, 2016 primarily as a result of increased net sales and cost reductions realized on the raw materials associated with NTIC's ZERUST® industrial products.

NTIC's equity in income from joint ventures increased 36.7% to $1,741,328 during the three months ended November 30, 2017 compared to $1,274,004 during the three months ended November 30, 2016. This increase was primarily due to a corresponding increase in net sales at the joint ventures, which increased 17.8% to $28,498,711 during the three months ended November 30, 2017 compared to $24,200,447 for the three months ended November 30, 2016 as well as a strengthened Euro compared to the U.S. Dollar. The increase in net sales of NTIC's joint ventures was due primarily to higher sales from existing customers for new and existing products as a result of increased demand. The increase in net sales of NTIC's joint ventures resulted in a corresponding increase in fees for services provided to joint ventures as such fees are a function of net sales of NTIC's joint ventures.

NTIC's total operating expenses increased 9.0% to $5,618,425 during the three months ended November 30, 2017 compared to $5,153,386 for the three months ended November 30, 2016. This increase was primarily due to an increase in NTIC's personnel expenses, including an increase in the management bonus accrual of $220,000.

NTIC spent $798,731 and $642,522 during the three months ended November 30, 2017 and 2016, respectively, in connection with its research and development activities. NTIC anticipates that it will spend a total of between $3,000,000 and $3,400,000 in fiscal 2018 on research and development activities.

Net income attributable to NTIC increased $785,987 to $1,083,626, or $0.24, per diluted common share, for the three months ended November 30, 2017 compared to $297,639, or $0.07 per diluted common share, for the three months ended November 30, 2016. This increase was primarily the result of the increase in gross profit and joint venture operations, partially offset by the increase in operating expenses.

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

NTIC's working capital, as defined as current assets less current liabilities, was $20,382,706 at November 30, 2017, including $4,627,213 in cash and cash equivalents and $3,770,241 in available for sale securities, compared to $21,173,001 at August 31, 2017, including $6,360,201 in cash and cash equivalents and $3,766,984 in available for sale securities.

On November 20, 2017, NTIC's Board of Directors declared a cash dividend of $0.10 per share of NTIC's common stock, payable on December 21, 2017 to stockholders of record on December 8, 2017. No cash dividends were declared by NTIC's Board of Directors during the fiscal year ended August 31, 2017. Although NTIC's Board of Directors intends to declare regular quarterly cash dividends going forward, the declaration of future dividends is not guaranteed and will be determined by NTIC's Board of Directors in light of conditions then existing, including NTIC's earnings, financial condition, cash requirements, restrictions in financing agreements, business conditions and other factors.

Results of Operations

The following table sets forth NTIC's results of operations for the three months ended November 30, 2017 and 2016.

	Three Months Ended					
	November 30, 2017	**% of Net Sales**	**November 30, 2016**	**% of Net Sales**	**$ Change**	**% Change**
Net sales, excluding joint ventures	$ 11,035,407	95.6%	$ 9,000,224	92.8%	$ 2,035,183	22.6%
Net sales, to joint ventures	507,631	4.4%	701,799	7.2%	(194,168)	(27.7)%
Cost of goods sold	7,888,470	68.3%	6,612,766	68.2%	1,275,704	19.3%
Equity in income from joint ventures	1,741,328	n/a	1,274,004	n/a	467,324	36.7%
Fees for services provided to joint ventures	1,507,142	n/a	1,315,591	n/a	191,551	14.6%
Selling expenses	2,599,949	22.5%	2,039,084	21.0%	560,865	27.5%
General and administrative expenses	2,219,745	19.2%	2,471,780	25.5%	(252,035)	(10.2)%
Research and development expenses	798,731	6.9%	642,522	6.6%	156,209	24.3%

Net Sales. NTIC's consolidated net sales increased 19.0% to $11,543,038 during the three months ended November 30, 2017 compared to the three months ended November 30, 2016. NTIC's consolidated net sales to unaffiliated customers excluding NTIC's joint ventures increased 22.6% to $11,035,407 during the three months ended November 30, 2017 compared to the same period in fiscal 2017. These increases were primarily a result of increased demand from the addition of new customers in North America and China and an increase in sales of our Natur-Tec® products. Net sales to joint ventures decreased 27.7% to $507,631 during the three months ended November 30, 2017 compared to the same period in fiscal 2017. This decrease was primarily a result of decreased demand.

The following table sets forth NTIC's net sales by product segment for the three months ended November 30, 2017 and 2016 by segment:

	Three Months Ended			
	November 30, 2017	November 30, 2016	$ Change	% Change
Total ZERUST® sales	$ 9,527,737	$ 8,084,678	$ 1,443,059	17.8%
Total Natur-Tec® sales	2,015,301	1,617,345	397,956	24.6%
Total net sales	$ 11,543,038	$ 9,702,023	$ 1,841,015	19.0%

During the three months ended November 30, 2017, 82.5% of NTIC's consolidated net sales were derived from sales of ZERUST® products and services, which increased 17.8% to $9,527,737 during the three months ended November 30, 2017 compared to $8,084,678 during the same period in fiscal 2017. This increase was due to increased demand from existing customers and the addition of new customers primarily in the industrial market, partially offset by a decrease in ZERUST® joint venture net sales and ZERUST® oil and gas net sales. NTIC has strategically focused its sales efforts for ZERUST® products and services on customers with sizeable corrosion problems in industry sectors that offer sizable growth opportunities, including the oil and gas sector. Overall demand for ZERUST® products and services depends heavily on the overall health of the market segments to which NTIC sells its products, including the automotive, oil and gas, agriculture, and mining markets in particular.

The following table sets forth NTIC's net sales of ZERUST® products for the three months ended November 30, 2017 and 2016:

	Three Months Ended			
	November 30, 2017	November 30, 2016	$ Change	% Change
ZERUST® industrial net sales	$ 8,736,264	$ 6,518,289	$ 2,217,975	34.0%
ZERUST® joint venture net sales	507,631	820,058	(312,427)	(38.1)%
ZERUST® oil & gas net sales	283,842	746,331	(462,489)	(62.0)%
Total ZERUST® net sales	$ 9,527,737	$ 8,084,678	$ 1,443,059	17.8%

NTIC's net sales to the oil and gas industry sector decreased during the three months ended November 30, 2017 compared to the prior fiscal year period primarily as a result of a large $410,000 order from a customer that was recognized in September 2016. NTIC anticipates that its sales of ZERUST® products and services into the oil and gas industry will continue to remain subject to significant volatility from quarter to quarter as sales are recognized, specifically due to the volatility of oil prices. Demand for oil and gas products around the world depends primarily on market acceptance and the reach of NTIC's distribution network. Because of the typical size of individual orders and overall size of NTIC's net sales derived from sales of oil and gas products, the timing of one or more orders can materially affect NTIC's quarterly sales compared to prior fiscal year quarters.

During the three months ended November 30, 2017, 17.5% of NTIC's consolidated net sales were derived from sales of Natur-Tec® products, which increased 24.6% to $2,015,301 during the three months ended November 30, 2017 compared to the three months ended November 30, 2016. This increase is primarily due to an increase in finished product sales in North America and finished product sales at NTIC's majority-owned subsidiary in India, Natur-Tec India Private Limited (Natur-Tec India).

Cost of Goods Sold. Cost of goods sold increased 19.3% for the three months ended November 30, 2017 compared to the three months ended November 30, 2016. Cost of goods sold as a percentage of net sales increased slightly to 68.3% for the three months ended November 30, 2017 compared to 68.2% for the three months ended November 30, 2016.

Equity in Income from Joint Ventures. NTIC's equity in income from joint ventures increased 36.7% to $1,741,328 during the three months ended November 30, 2017 compared to $1,274,004 during the three months ended November 30, 2016. This increase was primarily a result of improved profitability at the joint ventures. Of the total equity in income from joint ventures, NTIC had equity in income from joint ventures of $1,241,900 attributable to EXCOR during the three months ended November 30, 2017 compared to $928,169 during the three months ended November 30, 2016.

Fees for Services Provided to Joint Ventures. NTIC recognized fee income for services provided to joint ventures of $1,507,142 during the three months ended November 30, 2017 compared to $1,315,591 during the three months ended November 30, 2016, representing an increase of $191,551, or 14.6%. Fee income for services provided to joint ventures is traditionally a function of the sales made by NTIC's joint ventures. Total net sales of NTIC's joint ventures increased 17.8% to $28,498,711 during the three months ended November 30, 2017 compared to $24,200,447 for the three months ended November 30, 2016. Net sales of NTIC's joint ventures are not included in NTIC's consolidated financial statements. Of the total fee income for services provided to joint ventures, fees of $219,873 were attributable to EXCOR during the three months ended November 30, 2017 compared to $203,000 attributable to EXCOR during the three months ended November 30, 2016.

Selling Expenses. NTIC's selling expenses increased 27.5% for the three months ended November 30, 2017 compared to the same period in fiscal 2017 due primarily to increases in operating expenses associated with ZERUST® sales efforts, consisting primarily of selling and personnel expense. Selling expenses as a percentage of net sales increased slightly to 22.5% for the three months ended November 30, 2017, from 21.0% during the three months ended November 30, 2016 primarily due to the increase in selling expenses, as previously described.

General and Administrative Expenses. NTIC's general and administrative expenses decreased 10.2% for the three months ended November 30, 2017 compared to the same period in fiscal 2017 primarily due to cost savings initiatives related to personnel costs. As a percentage of net sales, general and administrative expenses decreased to 19.2% for the three months ended November 30, 2017 from 25.5% for the three months ended November 30, 2016 due primarily to the decrease noted above.

Research and Development Expenses. NTIC's research and development expenses increased 24.3% for the three months ended November 30, 2017 compared to the same period in fiscal 2017 due primarily increases in research and development efforts.

Interest Income. NTIC's interest income increased to $24,056 during the three months ended November 30, 2017 compared to $3,563 during the three months ended November 30, 2016 due to changing levels of invested cash.

Interest Expense. NTIC's interest expense increased to $5,089 during the three months ended November 30, 2017 compared to $4,623 during the three months ended November 30, 2016.

Income Before Income Tax Expense. NTIC incurred income before income tax expense equal to $1,303,580 for the three months ended November 30, 2017 compared to $524,406 for the three months ended November 30, 2016.

Income Tax Expense. Income tax expense was $104,991 during the three months ended November 30, 2017 compared to an income tax expense of $117,713 during the three months ended November 30, 2016. Income tax expense was calculated based on management's estimate of NTIC's annual effective income tax rate.

NTIC considers the earnings of certain foreign joint ventures to be indefinitely invested outside the United States on the basis of estimates that NTIC's future domestic cash generation will be sufficient to meet future domestic cash needs. As a result, U.S. income and foreign withholding taxes have not been recognized on the cumulative undistributed earnings of $19,590,029 and $17,960,860 at November 30, 2017 and August 31, 2017, respectively. To the extent undistributed earnings of NTIC's joint ventures are distributed in the future, they are not expected to result in any material additional income tax liability after the application of foreign tax credits.

On December 22, 2017, the Tax Cuts and Jobs Act (Act), was enacted into law and is expected to impact NTIC's operating results, cash flows, and financial condition. We are currently evaluating the potential impacts of the Act. The Act includes a number of provisions, including the lowering of the U.S. corporate tax rate from 35 percent to 21 percent, effective January 1, 2018. The Act also includes provisions that may partially offset the benefit of such rate reduction, including the repeal of the deduction for domestic production activities. The effect of the international provisions of the Act, which generally establish a territorial-style system for taxing foreign-source income of domestic multinational corporations, is uncertain. As a result of the Act, we expect there will be one-time adjustments for the re-measurement of deferred tax assets (liabilities) and the deemed repatriation tax on unremitted foreign earnings and profits. Quantifying the impacts of the Act is not practicable at this time due, among other things, to the inherent complexities involved. Accordingly, we expect to continue to analyze such impacts and record any such amounts in the second quarter of fiscal 2018.

Other Comprehensive Income - Foreign Currency Translations Adjustment. The changes in the foreign currency translations adjustment was due to the fluctuations of the U.S. dollar compared to the Euro and other foreign currencies during the three months ended November 30, 2017 compared to the same period in fiscal 2017.

Liquidity and Capital Resources

Sources of Cash and Working Capital. NTIC's working capital was $20,382,706 at November 30, 2017, including $4,627,213 in cash and cash equivalents and $3,770,241 in available for sale securities, compared to $21,173,001 at August 31, 2017, including $6,360,201 in cash and cash equivalents and $3,766,984 in available for sale securities.

As of November 30, 2017, NTIC had a revolving line of credit with PNC Bank of $3,000,000, with no amounts outstanding. The line of credit is evidenced by an amended and restated committed line of credit note in the principal amount of up to $3,000,000. The line of credit has a $1,200,000 standby letter of credit sub-facility, with any standby letters of credit issued thereunder being at the sole discretion of PNC Bank. Any lines of credit issued by PNC Bank would decrease the availability under the revolving line of credit.

The line of credit is subject to standard covenants, including affirmative financial covenants, such as the maintenance of a minimum fixed charge coverage ratio, and negative covenants, which, among other things, limit the incurrence of additional indebtedness, loans and equity investments, disposition of assets, mergers and consolidations and other matters customarily restricted in such agreements. Under the loan agreement, NTIC is subject to a minimum fixed charge coverage ratio of 1.10:1.00. As of November 30, 2017, NTIC was in compliance with all debt covenants.

On January 5, 2018, NTIC and PNC Bank extended the maturity date of the line of credit from January 7, 2018 to January 7, 2019. All other terms of the line of credit and the loan agreement and other documents evidencing the line of credit remain the same. It is anticipated that, as historically has been the practice, the line of credit will be renewed each year for one additional year for the immediate foreseeable future.

NTIC believes that a combination of its existing cash and cash equivalents, available for sale securities, forecasted cash flows from future operations, anticipated distributions of earnings, anticipated fees to NTIC for services provided to its joint ventures, and funds available through existing or anticipated financing arrangements, will be adequate to fund its existing operations, investments in new or existing joint ventures or subsidiaries, capital expenditures, debt repayments, cash dividends and any stock repurchases for at least the next 12 months. During the remainder of fiscal 2018, NTIC expects to continue to invest in NTIC China, research and development and in marketing efforts and resources for the application of its corrosion prevention technology in the oil and gas industry and its Natur-Tec® bio-plastics business, although the amounts of these various investments are not known at this time. In order to take advantage of such new product and market opportunities to expand its business and increase its revenues, NTIC may decide to finance such opportunities by borrowing under its revolving line of credit or raising additional financing through the issuance of debt or equity securities. There is no assurance that any financing transaction will be available on terms acceptable to NTIC or at all, or that any financing transaction will not be dilutive to NTIC's current stockholders.

NTIC traditionally has used the cash generated from its operations, distributions of earnings from joint ventures and fees for services provided to its joint ventures to fund NTIC's new technology investments and capital contributions to new and existing subsidiaries and joint ventures. NTIC's joint ventures traditionally have operated with little or no debt and have been self-financed with minimal initial capital investment and minimal additional capital investment from their respective owners. Therefore, NTIC believes there is limited exposure by NTIC's joint ventures that could materially impact their respective operations and/or liquidity.

Uses of Cash and Cash Flows. Net cash used in operating activities during the three months ended November 30, 2017 was $1,429,783, which resulted principally from NTIC's equity in income from joint ventures, an increase in inventory and increases in trade receivables excluding joint ventures, accrued liabilities, and income tax payable, partially offset by NTIC's net income, depreciation and amortization and an increase in accounts payable. Net cash used in operating activities during the three months ended November 30, 2016 was $924,426, which resulted principally from NTIC's equity in income from joint ventures, a decrease in inventory and increases in trade receivables, prepaid expenses, accrued liabilities, and income tax payable, partially offset by NTIC's net income, depreciation and amortization.

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

NTIC experienced an increase in trade receivables and inventory as of November 30, 2017 compared to August 31, 2017. Trade receivables excluding joint ventures as of November 30, 2017 increased $1,339,190 compared to August 31, 2017, primarily related to the timing of collections and the increase in sales.

Outstanding trade receivables excluding joint ventures balances as of November 30, 2017 increased 4 days to an average of 60 days from balances outstanding from these customers as of August 31, 2017.

Outstanding trade receivables from joint ventures as of November 30, 2017 decreased $171,099 compared to August 31, 2017 primarily due to the timing of payments. Outstanding balances from trade receivables from joint ventures increased an average of 36 days from an average of 58 days from balances outstanding from these customers compared to August 31, 2017. The significant average days outstanding of trade receivables from joint ventures as of November 30, 2017 were primarily due to the receivables balances at NTIC's joint ventures in South Korea and Thailand.

Outstanding receivables for services provided to joint ventures as of November 30, 2017 increased $7,874 compared to August 31, 2017 and the average days to pay did not change compared to August 31, 2017.

Net cash used in investing activities for the three months ended November 30, 2017 was $121,930, which was primarily the result of cash used in the purchase of available for sale securities, additions to property and equipment, and additions to patents. Net cash provided by investing activities for the three months ended November 30, 2016 was $327,105, which was primarily the result of cash proceeds from the sale of available for sale securities, partially offset by additions to property and equipment and additions to patents.

Net cash used in financing activities for the three months ended November 30, 2017 was $172,144, which resulted from a dividend paid to a non-controlling interest partially offset by proceeds from NTIC's employee stock purchase plan and stock option exercises. Net cash used in financing activities for the three months ended November 30, 2016 was $238,757, which resulted from dividends paid to a non-controlling interest and stock repurchases, partially offset by proceeds from NTIC's employee stock purchase plan.

Share Repurchase Plan. On January 15, 2015, NTIC's Board of Directors authorized the repurchase of up to $3,000,000 in shares of NTIC common stock through open market purchases or unsolicited or solicited privately negotiated transactions. This program has no expiration date but may be terminated by NTIC's Board of Directors at any time. No repurchases occurred during the three months ended November 30, 2017. As of November 30, 2017, up to $2,640,548 in shares of NTIC common stock remained available for repurchase under NTIC's stock repurchase program.

Cash Dividends. On November 20, 2017, NTIC's Board of Directors declared a cash dividend of $0.10 per share of NTIC's common stock, payable on December 21, 2017 to stockholders of record on December 8, 2017. Although NTIC's Board of Directors intends to declare regular quarterly cash dividends going forward, the declaration of future dividends is not guaranteed and will be determined by NTIC's Board of Directors in light of conditions then existing, including NTIC's earnings, financial condition, cash requirements, restrictions in financing agreements, business conditions and other factors.

Capital Expenditures and Commitments. NTIC spent $87,250 on capital expenditures during the three months ended November 30, 2017, which related primarily to the purchase of new equipment. NTIC expects to spend an aggregate of approximately $300,000 to $600,000 on capital expenditures during fiscal 2018, which it expects will relate primarily to the purchase of new equipment.

Contractual Obligations

There has been no material change to NTIC's contractual obligations as provided in "*Part II. Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations—Contractual Obligations*," included in NTIC's annual report on Form 10-K for the fiscal year ended August 31, 2017.

Off-Balance Sheet Arrangements

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

Inflation and Seasonality

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

Market Risk

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

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

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

At the option of NTIC, outstanding advances under NTIC's $3,000,000 revolving line of credit with PNC Bank bear interest at either (a) an annual rate based on LIBOR plus 2.15% for the applicable LIBOR interest period selected by NTIC or (b) at the rate publicly announced by PNC Bank from time to time as its prime rate, and thus may subject NTIC to some market risk on interest rates. As of November 30, 2017, NTIC had no borrowings under the line of credit.

Critical Accounting Policies and Estimates

There have been no material changes to NTIC's critical accounting policies and estimates from the information provided in "*Part II. Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Policies*," included in NTIC's annual report on Form 10-K for the fiscal year ended August 31, 2017.

Recent Accounting Pronouncements

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

Forward-Looking Statements

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

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

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

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

- Fluctuations in NTIC's effective tax rate, including from the recently enacted Tax Cuts and Jobs Act, and the amount of an anticipated write down of NTIC's deferred tax assets as a result of such new legislation;

- Effect of extreme weather conditions on NTIC's operating results; and

- NTIC's reliance upon its management information systems.

For more information regarding these and other uncertainties and factors that could cause NTIC's actual results to differ materially from what NTIC has anticipated in its forward-looking statements or otherwise could materially adversely affect its business, financial condition or operating results, see NTIC's annual report on Form 10-K for the fiscal year ended August 31, 2017 under the heading "*Part I. Item 1A. Risk Factors*."

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

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

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

At the option of NTIC, outstanding advances under NTIC's $3,000,000 revolving line of credit with PNC Bank bear interest at either (a) an annual rate based on LIBOR plus 2.15% for the applicable LIBOR interest period selected by NTIC or (b) at the rate publicly announced by PNC Bank from time to time as its prime rate, and thus may subject NTIC to some market risk on interest rates. As of November 30, 2017, NTIC had no borrowings under the line of credit.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

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

Changes in Internal Control over Financial Reporting

There was no change in NTIC's internal control over financial reporting that occurred during the quarter ended November 30, 2017 that has materially affected, or is reasonably likely to materially affect NTIC's internal control over financial reporting.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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

ITEM 1A. RISK FACTORS

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

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

Recent Sales of Unregistered Equity Securities

During the three months ended November 30, 2017, NTIC did not issue any shares of its common stock or other equity securities of NTIC that were not registered under the Securities Act of 1933, as amended.

Issuer Purchases of Equity Securities

The following table shows NTIC's first quarter of fiscal 2018 stock repurchase activity.

Period	Total Number of Shares (or Units) Purchased	Average Price Paid Per Share (or Unit)	Total Number of Shares (or Units) Purchased As Part of Publicly Announced Plans or Programs	Maximum Number of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs
September 1, 2017 through September 30, 2017	0	$0	0	(1)
October 1, 2017 through October 31, 2017	0	$0	0	(1)
November 1, 2017 through November 30, 2017	0	$0	0	(1)
Total	0	$0	0	(1)(2)

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

(2) As of November 30, 2017, up to $2,640,548 in shares of NTIC common stock remained available for repurchase under NTIC's stock repurchase program.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

Extension of Line of Credit

On January 5, 2018, NTIC and PNC Bank entered into a letter agreement extending the maturity date of NTIC's line of credit with PNC Bank retroactively from January 7, 2018 to January 7, 2019. All other terms of the line of credit and the loan agreement and other documents evidencing the line of credit remain the same. The foregoing represents only a summary of the material terms of the letter agreement, does not purport to be complete and is qualified in its entirety by reference to the complete text of the letter agreement, which is filed as Exhibit 10.1 to this report, and is incorporated by reference herein.

PNC Bank and its affiliates have in the past performed, and may in the future from time to time perform, investment banking, financial advisory, lending and/or commercial banking services for NTIC and its subsidiaries in arm's-length transactions, on terms customarily available to unrelated third-parties and for which services it has in the past received, and may in the future receive, customary compensation and reimbursement of expenses.

ITEM 6. EXHIBITS

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

Exhibit No.	Description
10.1	Letter Agreement effective as of January 5, 2018 between PNC Bank, National Association and Northern Technologies International Corporation (filed herewith)
31.1	Certification of Chief Executive Officer Pursuant to Exchange Act Rules 13a-14(a)/15d-14(a), as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith)
31.2	Certification of Chief Financial Officer Pursuant to Exchange Act Rules 13a-14(a)/15d-14(a), as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith)
32.1	Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith)
32.2	Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith)
101	The following materials from NTIC's Quarterly Report on Form 10-Q for the fiscal quarter ended November 30, 2017, formatted in XBRL (Extensible Business Reporting Language): (i) the unaudited Consolidated Balance Sheets, (ii) the unaudited Consolidated Statements of Operations, (iii) the unaudited Consolidated Statements of Comprehensive Income (Loss), (iv) the unaudited Consolidated Statements of Cash Flows, and (v) Notes to Consolidated Financial Statements (filed herewith)

SIGNATURES

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

NORTHERN TECHNOLOGIES INTERNATIONAL CORPORATION

Date: January 12, 2018

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

Exhibit 10.1

PNC BANK

January 5, 2018

NORTHERN TECHNOLOGIES INTERNATIONAL CORPORATION
PO BOX 69
CIRCLE PINES, MN 55014-0069

Re: Renewal of Expiration Date for that certain $3,000,000.00 Committed Line of Credit ("**Line of Credit**") extended by PNC Bank, National Association (the "**Bank**") to **NORTHERN TECHNOLOGIES INTERNATIONAL CORPORATION** (the "**Borrower**")

Ladies/Gentlemen:

We are pleased to inform you that the Line of Credit has been renewed. The Expiration Date of the Line of Credit, as set forth in that certain promissory note executed and delivered by the Borrower to the Bank dated December 14, 2006 (the "**Note**") and/or that certain loan agreement governing the Line of Credit (the "**Loan Agreement**"), has been extended from January 07, 2018 to January 7, 2019, or such later date as may, in the Bank's sole discretion, be designated by the Bank by written notice from the Bank to the Borrower, effective on January 08, 2018. All sums due under the Note, the Loan Agreement or any related documents, instruments and agreements (collectively as amended from time to time, the "**Loan Documents**") shall be due and payable on the Expiration Date, as extended hereby. All other terms and conditions of the Loan Documents governing the Line of Credit remain in full force and effect.

It has been a pleasure working with you and I look forward to a continued successful relationship. Thank you again for your business.

Very truly yours,

PNC BANK, NATIONAL ASSOCIATION

By: /s/ Yelena Spadafora
Yelena Spadafora
Vice President

Exhibit 31.1

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

I, G. Patrick Lynch, certify that:

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

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

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

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

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

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

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

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

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

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

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

Date: January 12, 2018

Patrick Lynch

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

Exhibit 31.2

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

I, Matthew C. Wolsfeld, certify that:

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

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

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

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

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

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

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

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

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

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

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

Date: January 12, 2018

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

Exhibit 32.1

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

In connection with the Quarterly Report of Northern Technologies International Corporation (the "Company") on Form 10-Q for the period ended November 30, 2017 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, G. Patrick Lynch, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge and belief:

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

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

Patrick Lynch

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

Circle Pines, Minnesota
January 12, 2018

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

In connection with the Quarterly Report of Northern Technologies International Corporation (the “Company”) on Form 10-Q for the period ended November 30, 2017 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Matthew C. Wolsfeld, Chief Financial Officer and Corporate Secretary of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge and belief:

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

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

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

Circle Pines, Minnesota
January 12, 2018