

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-QSB**

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

For the quarterly period ended  
November 30, 2006

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

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

Commission file number 1-11038

**NORTHERN TECHNOLOGIES INTERNATIONAL  
CORPORATION**

(Name of small business issuer in its charter)

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

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

**4201 Woodland Rd**  
**Circle Pines, Minnesota**  
(Address of principal executive offices)

**55014**  
(Zip Code)

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

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the past 12 months (or for such shorter period that the issuer 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 is a shell company (as defined in Rule 12b-2) of the Exchange Act).

Yes  No

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date.

Class	Outstanding as of January 11, 2007
Common Stock, \$0.02 par value	3,656,238

Transitional Small Business Disclosure Format (check one):

Yes  No

NORTHERN TECHNOLOGIES INTERNATIONAL CORPORATION  
FORM 10-QSB  
November 30, 2006

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*This Quarterly Report on Form 10-QSB 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 or Plan of Operation – Forward-Looking Statements."*

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

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

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

NORTHERN TECHNOLOGIES INTERNATIONAL CORPORATION AND SUBSIDIARIES –  
CONSOLIDATED BALANCE SHEETS as of November 30, 2006 (Unaudited) and August 31, 2006

	November 30, 2006	August 31, 2006
<b>ASSETS</b>		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 507,017	\$ 299,117
Receivables:		
Trade excluding corporate joint ventures, less allowance for doubtful accounts of \$10,311 and \$10,000 at November 30, 2006 and August 31, 2006	2,155,136	1,772,568
Trade corporate joint ventures	522,869	598,162
Technical and other services, corporate joint ventures	1,329,863	1,357,754
Income taxes	303,206	333,819
Inventories	1,357,829	1,377,953
Prepaid expenses	367,503	233,648
Deferred income taxes	237,088	237,088
	<hr/>	<hr/>
Total current assets	6,780,511	6,210,109
PROPERTY AND EQUIPMENT, net	3,793,090	3,430,573
OTHER ASSETS:		
Investments in corporate joint ventures:		
Industrial chemical	11,408,360	10,397,463
Industrial non-chemical	431,954	374,639
Deferred income taxes	628,197	628,197
Notes receivable and foreign deposit	497,179	497,179
Note from employee	50,057	56,679
Industrial patents and trademarks, net	986,243	996,592
Goodwill	304,000	304,000
Other	433,915	375,199
	<hr/>	<hr/>
	14,739,905	13,629,948
	<hr/>	<hr/>
	\$ 25,313,506	\$ 23,270,630
	<hr/>	<hr/>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
CURRENT LIABILITIES:		
Bank overdrafts	\$ 29,695	\$ 328,804
Borrowings made on line of credit	1,253,000	610,000
Current portion of notes payable	29,861	27,310
Accounts payable	1,997,620	1,775,926
Accrued liabilities:		
Payroll and related benefits	708,356	1,056,556
Deferred joint venture royalties	120,000	96,000
Other	187,697	94,179
	<hr/>	<hr/>
Total current liabilities	4,326,229	3,988,775
NOTES PAYABLE, NET OF CURRENT PORTION	1,231,887	1,240,848
MINORITY INTEREST	64,840	55,254
STOCKHOLDERS' EQUITY:		
Preferred stock, no par value; authorized 10,000 shares; none issued and outstanding	—	—
Common stock, \$0.02 par value per share; authorized 10,000,000 shares; issued and outstanding 3,656,238 and 3,618,993, respectively	73,125	72,380
Additional paid-in capital	4,615,013	4,272,635
Retained earnings	13,885,798	12,895,574
Accumulated other comprehensive income	1,116,614	745,164
	<hr/>	<hr/>
Total stockholders' equity	19,690,550	17,985,753
	<hr/>	<hr/>
	\$ 25,313,506	\$ 23,270,630
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See notes to consolidated financial statements.

**NORTHERN TECHNOLOGIES INTERNATIONAL CORPORATION AND SUBSIDIARIES -  
CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)  
THREE MONTHS ENDED NOVEMBER 30, 2006 AND NOVEMBER 30, 2005**

	November 30, 2006	November 30, 2005
<b>NORTH AMERICAN OPERATIONS:</b>		
Net sales	\$ 4,617,374	\$ 4,403,630
Cost of sales	2,945,055	2,729,111
Gross profit	1,672,319	1,674,519
Operating expenses:		
Selling	769,039	697,955
General and administrative	822,883	686,559
Lab and technical support	85,040	69,754
	1,676,962	1,454,268
<b>NORTH AMERICAN OPERATING (LOSS) INCOME</b>	<b>(4,643)</b>	<b>220,251</b>
<b>CORPORATE JOINT VENTURES AND HOLDING COMPANIES:</b>		
Equity in income of industrial chemical corporate joint ventures and holding companies	592,990	744,447
Equity in income (loss) of industrial non-chemical corporate joint ventures and holding companies	42,229	(14,929)
Fees for technical support and other services provided to corporate joint ventures	1,132,841	1,114,060
Expenses incurred in support of corporate joint ventures	(1,316,249)	(1,165,584)
<b>INCOME FROM ALL CORPORATE JOINT VENTURES AND HOLDING COMPANIES</b>	<b>451,811</b>	<b>677,994</b>
INTEREST INCOME	935	26,801
INTEREST EXPENSE	(42,881)	(3,649)
OTHER INCOME	2,093	—
GAIN ON SALE OF ASSETS	724,495	—
MINORITY INTEREST	(9,586)	(15,412)
<b>INCOME BEFORE INCOME TAX EXPENSE</b>	<b>1,122,224</b>	<b>905,985</b>
INCOME TAX EXPENSE	132,000	272,000
<b>NET INCOME</b>	<b>\$ 990,224</b>	<b>\$ 633,985</b>
<b>NET INCOME PER COMMON SHARE:</b>		
Basic	\$ 0.27	\$ 0.18
Diluted	\$ 0.27	\$ 0.18
<b>WEIGHTED AVERAGE COMMON SHARES ASSUMED OUTSTANDING:</b>		
Basic	3,624,314	3,589,993
Diluted	3,668,095	3,607,564

See notes to consolidated financial statements.

**NORTHERN TECHNOLOGIES INTERNATIONAL CORPORATION AND SUBSIDIARIES -  
CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)  
THREE MONTHS ENDED NOVEMBER 30, 2006 and NOVEMBER 30, 2005**

	November 30, 2006	November 30, 2005
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income	\$ 990,224	\$ 633,983
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Expensing of fair value of stock options vested	44,793	—
Depreciation expense	76,156	50,223
Amortization expense	40,213	40,566
Gain on sale of assets	(724,495)	—
Minority interest expense	9,586	15,412
Equity in (income) loss from corporate joint ventures:		
Industrial chemical	(592,990)	(744,447)
Industrial non-chemical	(42,229)	14,929
Deferred joint venture royalties	24,000	(27,812)
Change in current assets and liabilities:		
Receivables:		
Trade excluding corporate joint ventures	(382,568)	(264,823)
Trade corporate joint ventures	75,293	(13,001)
Technical and other services receivables, corporate joint ventures	27,891	32,179
Income taxes	30,613	174,149
Inventories	20,124	(65,539)
Prepaid expenses and other	(133,853)	(255,168)
Employee note receivable	6,622	6,208
Accounts payable	221,694	165,816
Accrued liabilities	43,649	142,820
Net cash used in operating activities	(265,279)	(94,505)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Proceeds from sale of assets	848,667	—
Investment in industrial chemical joint ventures	(81,522)	—
Dividends received from corporate joint ventures	19,978	497,208
Loans made	—	(20,029)
Cash received from notes receivable	—	300,000
Additions to property and equipment	(562,845)	(104,148)
Decrease (increase) in other assets	(58,716)	11,343
Additions to industrial patents	(29,864)	(79,814)
Net cash provided by investing activities	135,698	604,560
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Bank overdrafts	(299,109)	—
Net borrowings made on line of credit (repayments)	643,000	(600,000)
Repayments of note payable	(6,410)	(186,249)
Net cash provided by (used in) financing activities	337,481	(786,249)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	207,900	(276,194)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	299,117	327,458
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 507,017	\$ 51,264

See notes to consolidated financial statements.

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

**1. INTERIM FINANCIAL INFORMATION**

In the opinion of management, the accompanying unaudited consolidated financial statements contain all necessary adjustments, which are of a normal recurring nature, and present fairly the consolidated financial position of Northern Technologies International Corporation and its subsidiaries (the Company) as of November 30, 2006 and the results of their operations for the three months ended November 30, 2006 and November 30, 2005 and their cash flows for the three months ended November 30, 2006 and November 30, 2005, in conformity with accounting principles generally accepted in the United States of America.

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-KSB for the fiscal year ended August 31, 2006 and with the "Management's Discussion and Analysis or Plan of Operation" section appearing in this quarterly report. Operating results for the three months ended November 30, 2006 are not necessarily indicative of the results that may be expected for the fiscal year ending August 31, 2007.

**2. RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS**

In September 2006, the Securities and Exchange Commission (SEC) issued Staff Accounting Bulletin 108, "Considering the Effects on Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements," ("SAB 108"). SAB 108 requires registrants to quantify errors using both the income statement method (i.e. iron curtain method) and the rollover method and requires adjustment if either method indicates a material error. If a correction in the current year relating to prior year errors is material to the current year, then the prior year financial information needs to be corrected. A correction to the prior year results that are not material to those years, would not require a "restatement process" where prior financials would be amended. SAB 108 is effective for fiscal years ending after November 15, 2006. The Company does not anticipate that SAB 108 will have a material effect on its consolidated financial statements.

**3. STOCK-BASED COMPENSATION**

In December 2004, FASB published FASB Statement No. 123 (revised 2004), *Share-Based Payment*. FAS 123(R) requires that the compensation cost relating to share-based payment transactions, including grants of employee stock options, be recognized in financial statements. That cost will be measured based on the fair value of the equity or liability instruments issued. FAS 123(R) covers a wide range of share-based compensation arrangements including stock options, restricted share plans, performance-based awards, share appreciation rights, and employee share purchase plans. FAS 123(R) is a replacement of FASB Statement No. 123, *Accounting for Stock-Based Compensation*, and supersedes APB Opinion No. 25, *Accounting for Stock Issued to Employees*, and its related interpretive guidance. The effect of the Statement is to require entities to measure the cost of employee services received in exchange for stock options based on the grant-date fair value of the award, and to recognize the cost over the period the employee is required to provide services for the award. Compensation cost under SFAS 123(R) is recognized ratably using the straight-line attribution method over the expected vesting period, which is considered to be the requisite service period. In addition, pursuant to SFAS 123(R), we are required to estimate the amount of expected forfeitures when calculating the compensation costs, instead of accounting for forfeitures as incurred, which was our previous method. All of our options previously awarded were classified as equity instruments and continue to maintain their equity classification under SFAS 123(R). FAS 123(R) permits entities to use any option-pricing model that meets the fair value objective in the Statement. The Company implemented FAS 123(R) on September 1, 2006, using the modified prospective transition method.

During the three months ended November 30, 2006, the Company granted options to purchase 14,000 shares of its common stock. 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 volatility factor used in the Black-Scholes option pricing model is based on historical stock price fluctuations and risk free interest rate are based on U.S. treasury rates appropriate for expected term. Based on these valuations, the Company recognized compensation expense of \$44,793 with an effect on earnings per share of \$0.01 for the three months ended November 30, 2006, related to the options that vested during that quarter. The Company estimates that there will be no additional compensation expense relating to these option grants for the remainder of fiscal year 2007. As of November 30, 2006, the total compensation cost for nonvested options not yet recognized in the Company's statements of operations was \$45,813, net of estimated forfeitures. \$38,874 and \$6,939 are expected to be recognized during the three months ended November 30, 2007 and 2008, respectively. Future option grants will impact the compensation expense recognized.

The fair value of the options granted during the three months ended November 30, 2006 and 2005 was estimated using the Black-Scholes option pricing model with the following weighted average assumptions:

	November 30, 2006	November 30, 2005
Dividend yield	2.00%	2.00%
Expected volatility	42.9%	42.8%
Expected life of option	5 years	5 years
Average risk-free interest rate	4.67%	4.23%

Dividend yield and expected volatility are estimated using historical amounts that are anticipated to be consistent with current values. Expected life of option is based on the life of the option agreements.

Had compensation cost for stock options been determined based on the fair value methodology prescribed by SFAS 123, the Company's net income and net income per common share for the three months ended November 30, 2005 would have been reduced to the pro forma amounts indicated below:

	November 30, 2005
Net income:	
As reported	\$ 633,985
Pro forma	\$ 598,352
Basic net income per common share	
As reported	\$ 0.18
Pro forma	\$ 0.17
Diluted net income per share	
As reported	\$ 0.18
Pro forma	\$ 0.17
Stock-based compensation, net:	
As reported	\$ 0
Pro forma	\$ 35,634

#### 4. INVENTORIES

Inventories consisted of the following:

	November 30, 2006	August 31, 2006
Production materials	\$ 247,974	\$ 353,516
Finished goods	1,109,855	1,024,437
	<u>\$ 1,357,829</u>	<u>\$ 1,377,953</u>

#### 5. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following:

	November 30, 2006	August 31, 2006
Land	\$ 310,365	\$ 29,097
Buildings and improvements	2,989,585	3,420,596
Machinery and equipment	1,101,151	1,024,024
	<u>4,401,101</u>	<u>4,473,717</u>
Less accumulated depreciation	(608,011)	(1,043,144)
	<u>\$ 3,793,090</u>	<u>\$ 3,430,573</u>

NTIC recognized a gain on the sale of land, building and equipment that previously served as its corporate headquarters of \$724,495 during the three months ended November 30, 2006. This was a one-time sale and no additional gain is anticipated to be recognized relating to the building in the future and NTIC does not have any continued interest in the property sold.

#### 6. INDUSTRIAL PATENTS AND TRADEMARKS, NET

Industrial patents and trademarks, net consisted of the following:

	November 30, 2006	August 31, 2006
Patents and trademarks	\$ 1,308,707	\$ 1,278,845
Less accumulated amortization	(322,464)	(282,253)
	<u>\$ 986,243</u>	<u>\$ 996,592</u>

Patent and trademark costs are amortized over seven years once a patent or trademark application is filed and approved. Amortization expense was \$40,213 and \$40,566, for the three months ended November 30, 2006 and 2005, respectively. Amortization expense is estimated to approximate \$160,000 in each of the next five fiscal years.

#### 7. NOTES RECEIVABLE AND FOREIGN DEPOSITS

Notes receivable and foreign deposits consisted of the following:

	November 30, 2006	August 31, 2006
Notes receivable from corporate joint venture partners	\$ 51,710	\$ 51,710
Foreign deposits	445,469	445,469
	<u>\$ 497,179</u>	<u>\$ 497,179</u>



## 8. INVESTMENTS IN CORPORATE JOINT VENTURES

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

	November 30, 2006	August 31, 2006
Current assets	\$ 37,297,284	\$ 33,954,156
Total assets	43,952,531	39,030,247
Current liabilities	15,816,651	14,323,903
Non-current liabilities	2,721,582	1,496,557
Joint ventures' equity	25,414,299	23,209,788
Northern Technologies International Corporation's share of Corporate Joint Ventures' equity	\$ 11,840,314	\$ 10,772,102
	November 30, 2006	November 30, 2005
Net sales	\$ 18,879,432	\$ 16,535,347
Gross profit	9,068,677	7,454,578
Net income	1,624,028	1,539,415
Northern Technologies International Corporation's share of equity in income of Corporate Joint Ventures	\$ 635,219	\$ 729,518

During the three months ended November 30, 2006, the Company invested in corporate joint ventures as follows:

In November 2006, the Company invested \$81,522, in a new industrial chemical corporate joint venture to develop operations in the United Arab Emirates in the oil and gas industry. The Company has a 50% ownership interest in the new entity. The new entity had no operations prior to the Company's investment. It is anticipated that this is the first of two installments towards the Company's 50% capitalization of an estimated \$200,000 over the next 12 months. It is anticipated that the total capitalization by all owners of the joint venture will be \$400,000.

The Company has committed to contribute an additional \$300,000 in February 2007 to its established industrial chemical corporate joint venture in India for a capital intensive expansion. It is anticipated that the total increase in capitalization by both owners of the joint venture will be \$600,000.

## 9. GOODWILL

The Company tests goodwill annually for impairment and in interim periods if certain events occur indicating that the carrying value of goodwill may be impaired. Goodwill at each November 30, 2006 and August 31, 2006 was \$304,000.

## 10. CORPORATE DEBT

The Company has a revolving credit facility of \$1,500,000 that expires on January 31, 2007. Outstanding amounts under the revolving credit facility bear interest at an annual rate based on LIBOR plus 2.25%. As of November 30, 2006, the interest rate was 7.49%, the average interest rate over the quarter ended November 30, 2006 was 7.25%. Amounts borrowed under the facility are collateralized by a lien on substantially all of the Company's assets, excluding its corporate joint venture interests and intellectual property rights.

The credit documents contain other terms and provisions (including representations, covenants and conditions) customary for transactions of this type. Significant financial covenants include the maintenance of a minimum fixed charge coverage ratio of 1.0 to 1.0. The Company was in compliance with all covenants under the revolving credit facility. Outstanding balances were \$1,253,000 and \$610,000 as of November 30, 2006 and August 31, 2006, respectively. The Company expects the line of credit to be extended under substantially similar terms in the near future.

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

#### 11. STOCKHOLDERS' EQUITY

During the three months ended November 30, 2006, the Company did not purchase or retire any shares of its common stock and no stock options were exercised. The Company granted stock bonuses for 37,245 shares of its common stock to various employees with a value of \$298,330 under its 2000 Stock Incentive Plan during the three months ended November 30, 2006.

The Company did not acquire or retire any shares of common stock during the three months ended November 30, 2005. Additionally, no stock options were exercised during the three months ended November 30, 2005.

#### 12. SUPPLEMENTAL CASH FLOW INFORMATION

The Company did not declare or pay any cash dividends during fiscal 2006 and as of January 11, 2007 had not declared or paid any cash dividends during fiscal 2007.

The Company issued 37,245 shares of unrestricted common stock to satisfy \$298,330 of accrued payroll liability during the quarter ended November 30, 2006.

#### 13. TOTAL COMPREHENSIVE INCOME

The Company's total comprehensive income was as follows:

	November 30, 2006	November 30, 2005
Net income	\$ 990,224	\$ 633,985
Other comprehensive income (loss): foreign currency translation adjustment	371,450	(316,029)
<b>Total comprehensive income</b>	<b>\$ 1,361,674</b>	<b>\$ 317,956</b>

#### 14. NET INCOME PER COMMON SHARE

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

No options to purchase shares of common stock were excluded from the computation of common share equivalents as of November 30, 2006.

Options to purchase 3,000 and 334 shares of common stock with per share exercise prices of \$6.15 and \$5.96, respectively, were outstanding as of November 30, 2005, but were excluded from the computation of common share equivalents, because their exercise prices were greater than the average market price of a share of common stock during the quarter.

## 15. STOCK-BASED COMPENSATION

The Company currently has one stock-based compensation plan under which it grants stock options and other stock-based awards, the 2000 Stock Incentive Plan (the Plan). The Company's Board of Directors and stockholders approved the Plan and the Compensation Committee of the Board of Directors administers the Plan. Under the Plan, incentive stock options, nonqualified stock options, stock bonuses and other stock-based awards could be granted to directors, officers, non-officer employees, and independent consultants of the Company. Options granted under the Plan generally have a term of five years and become exercisable over a three- or four-year period beginning on the one-year anniversary date of the grant. Options are granted at per share exercise prices equal to the market value of the Company's common stock on the date of grant.

In November 2006, the Company's Board of Directors approved a new 2007 Stock Incentive Plan and a new Employee Stock Purchase Plan, both of which will be submitted to the Company's stockholders for their consideration and approval at the Company's 2007 annual meeting of stockholders scheduled to be held on January 23, 2007. The 2007 Stock Incentive Plan provides for the grant of up to a total of 400,000 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. The Employee Stock Purchase Plan provides for purchase of up to 100,000 common shares for employees of the Company to purchase on a periodic basis through payroll deductions at a 10% discount to the fair market value of the Company's common stock. If the Company's stockholders approve the new 2007 Stock Incentive Plan, it will replace the Company's 2000 Stock Incentive Plan, which will be terminated with respect to future grants upon the effectiveness of the new 2007 Stock Incentive Plan.

The following table summarizes information about stock options outstanding and exercisable at November 30, 2006:

Option Grant Date	Per Share Exercise Prices	Remaining Contractual Life	Number of Options Outstanding (#)	Number of Options Exercisable (#)
2/15/2002	\$ 4.56	0.2	22,000	22,000
9/1/2003	\$ 5.30	1.8	4,000	4,000
9/1/2004	\$ 5.25	2.8	6,000	4,002
11/12/2004	\$ 6.15	3.0	3,000	2,000
7/29/2005	\$ 5.96	3.7	334	223
9/1/2005	\$ 5.75	3.8	14,000	4,669
11/4/2005	\$ 5.38	3.9	56,000	18,669
9/1/2006	\$ 8.01	4.8	14,000	0
			119,334	55,563

The weighted average fair value of options granted during the three months ended November 30, 2006 and 2005, was \$2.08 and \$1.46, respectively.

## 16. SEGMENT INFORMATION

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

	November 30, 2006	November 30, 2005
Inside the U.S.A. to unaffiliated customers	80.4%	84.8%
Outside the U.S.A. to:		
Corporate Joint Ventures in which the Company is a shareholder directly and indirectly	11.7%	6.6%
Unaffiliated customers	7.9%	8.6%
	100%	100%

One of the Company's North American customers accounted for in the aggregate approximately 33.5% and 32.2% of the Company's net sales for the three months ended November 30, 2006 and 2005 respectively, and \$661,278 and \$304,430 of the Company's receivables at November 30, 2006 and August 31, 2006, respectively.

## 17. RETIREMENT PLAN

The Company has a 401(k) employee savings plan. Employees who meet certain age and service requirements may elect to contribute up to 15% of their salaries. The Company contributes the lesser of 50% of the participant's contributions or 3.5% of the employee's salary. The Company recognized expense for the savings plan of \$26,426 and \$26,268, for the three months ended November 30, 2006 and 2005, respectively.

## 18. RELATED PARTY TRANSACTIONS

On May 18, 2006, the Company and Emeritushnic Facilities Company, Inc. ("EFC"), an entity owned by the Company's former Chairman of the Board and Chief Executive Officer and current Chairman Emeritus, Philip M. Lynch, and certain of his family members, excluding G. Patrick Lynch, the Company's current President and Chief Executive Officer, entered into a Consulting Agreement, effective as of May 1, 2006. Pursuant to the Consulting Agreement, the Company has engaged EFC to perform certain consulting services to the Company, including maintaining communications and relations between the Company and its joint venture partners. In consideration for such services, the Company paid EFC monthly consulting fees totaling \$75,000 and \$0 in the three months ended November 30, 2006 and 2005, respectively, and reimbursed EFC for out-of-pocket expenses reasonably incurred in the course of providing such services in an aggregate amount of \$47,085 and \$0 for the three months ended November 30, 2006 and 2005, respectively. The Consulting Agreement provides for fees of \$25,000 per month and up to \$180,000 in expense reimbursement in a given fiscal year. Additionally, it may be terminated by either party for any reason upon at least 90 days prior written notice to the other party and may be terminated upon the occurrence of other certain events, as set forth in the Consulting Agreement. The Consulting Agreement also contains other standard and customary terms, including provisions regarding confidentiality, non-competition and non-solicitation.

On May 1, 2006, the Company and Inter Alia Holding Co. ("Inter Alia") entered into a termination agreement pursuant to which they agreed to mutually terminate that certain Manufacturer's Representative Agreement dated as of October 1, 1976 and as subsequently amended thereafter. Inter Alia beneficially owns approximately 25.4% of the Company's outstanding common stock, and Philip M. Lynch, the Company's former Chairman of the Board and Chief Executive Officer and current Chairman Emeritus, and G. Patrick Lynch, the Company's current President and Chief Executive Officer, are shareholders of Inter Alia. Prior to terminating the agreement, the Company reimbursed Inter Alia for travel and related expenses in the aggregate amount of \$121,636 during the three months ended November 30, 2005. The Company paid Inter Alia commissions on royalties paid by corporate joint ventures and net proceeds of sales of the Company's products of approximately \$25,977 during the three months ended November 30, 2005. In addition, the Company paid health insurance premiums of \$4,185 during the three months ended November 30, 2005, related to policies that insure Philip M. Lynch, the Company's former Chairman of the Board and Chief Executive Officer and current Chairman Emeritus.

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

The Company made a consulting payment to Dr. Sunggyu Lee, a director of the Company, of \$25,000 on each of November 8, 2005, February 1, 2006, May 1, 2006, August 1, 2006 and November 28, 2006. The consulting services rendered by Dr. Lee related to research and development associated with various new technologies.

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

## 19. INCOME TAXES

Reconciliations of the expected federal income tax at the statutory rate with the provisions for income taxes for the three months ended November 30, 2006 and 2005 are as follows:

	November 30, 2006	November 30, 2005
Tax computed at statutory rates	\$ 377,000	\$ 308,000
Tax effect on equity in income of international joint ventures	(213,000)	(248,000)
Tax effect on dividends received from corporate joint ventures	7,000	169,000
Research and development credit	(50,000)	(50,000)
Other	11,000	93,000
	<u>\$ 132,000</u>	<u>\$ 272,000</u>

## 20. COMMITMENTS AND CONTINGENCIES

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

On December 10, 2006, NTIC obtained a demand line of credit of up to the principal amount of \$600,000 from National City Bank to fund NTIC's obligations related to a required deposit of \$445,469 with the courts in Finland in connection with NTIC's legal action in Finland. Advances made under the demand line of credit will be made at the sole discretion of National City Bank and will be due and payable on demand. Any outstanding unpaid principal balance under the demand line of credit bears interest at an annual rate based on LIBOR plus 2.25%. Interest is payable in arrears on January 15, 2007 and on the 15th day of each month thereafter and on demand.

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

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

On November 16, 2006, the "independent directors" of the Company approved the material terms of an annual bonus plan for executive officers and certain employees of the Company for fiscal year ending August 31, 2007, the purpose of which is to align the interests of the Company and its subsidiaries, executive officers and stockholders by providing an incentive for the achievement of key corporate and individual performance measures that are critical to the success of the Company and linking a significant portion of each executive officer's annual compensation to the achievement of such measures. The following is a brief summary of the material terms approved by the Board:

- The total amount available under the bonus plan will be up to 25% of the Company's earnings before interest, taxes and other income (EBITOI);
- The total amount available under the cash bonus plan will be \$0 if EBITOI, as adjusted to take into account amounts to be paid under the bonus plan, fall below 70% of target EBITOI; and
- The payment of bonuses under the plan will be made in both cash and stock, the exact amount and percentages of which will be determined by the Compensation Committee.

## ITEM 2 - MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

This Management's Discussion and Analysis provides material historical and prospective disclosures intended to enable investors and other users to assess NTIC's financial condition and results of operations. Statements that are not historical are forward-looking and involve risks and uncertainties discussed under the captions "Forward-Looking Statements" and "Risk Factors" appearing elsewhere in this report. The following discussion of the results of the operations and financial condition of NTIC should be read in conjunction with NTIC's consolidated financial statements and the related notes thereto included under Part I, Item 1 entitled "Financial Statements" of this report.

### Overview

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

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

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

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

NTIC's net sales increased 4.9% during the three months ended November 30, 2006 as compared to the same period in fiscal 2006 primarily as a result of the increase in net sales of traditional Zerust® products and of React-NTI products to new and existing customers in North America. Net sales of traditional Zerust® products increased \$33,205 to \$3,023,384 during the three months ended November 30, 2006 as compared to the same period in fiscal 2006. Net sales of React-NTI products increased \$180,540 to \$1,593,990 for the three months ended November 30, 2006 as compared to the same period in fiscal 2006.

Cost of sales as a percentage of net sales increased to 63.8% during the three months ended November 30, 2006 as compared to 62.0% during same period in fiscal 2006 primarily as a result of an increase in raw material prices, including in particular, plastic resins and a varying sale product mix.

Total net sales of all of NTIC's joint ventures increased 14.2% to \$18,879,432 during the three months ended November 30, 2006 as compared to \$16,535,347 the same period in fiscal 2006. NTIC receives fees for technical and other support services it provides to its joint ventures based on the revenues of the individual joint ventures. NTIC recognized an increase in fee income for such technical and support services during the three months ended November 30, 2006 as compared to the same period in fiscal 2006 due to the increase in total net sales of the joint ventures. NTIC incurs direct expenses related to its corporate joint ventures and holding companies. Such expenses include consulting, travel, technical and marketing services to existing joint ventures, legal fees incurred in the establishment of new joint ventures, registration and promotion and legal defense of worldwide trademarks, and legal fees incurred in connection with the filing of patent applications. NTIC incurred increased direct expenses related to its corporate joint ventures and the holding companies during the three months ended November 30, 2006 as compared to the same period in fiscal 2006 due primarily to the increased number of employees and an increase in legal expenses.

NTIC's net income for the three months ended November 30, 2006 increased to \$990,224 as compared to \$633,985 for the three months ended November 30, 2005 and net income per common share, basic and diluted, increased to \$0.27 per share for the three months ended November 30, 2006 compared to \$0.18 for the three months ended November 30, 2005 primarily as a result of the gain on the sale of assets partially offset by the decrease in equity in income of industrial chemical corporate joint ventures.

NTIC's working capital was \$2,454,282 at November 30, 2006, including \$507,017 in cash and cash equivalents. In August 2006, NTIC increased its existing \$1,000,000 revolving credit facility with National City Bank to \$1,500,000. As of November 30, 2006, NTIC had borrowed \$1,253,000 under the revolving credit facility. The revolving credit facility expires on January 31, 2007. NTIC intends to renew or replace this facility on or prior to the January 31, 2007 maturity date.

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

## Results of Operations

The following table sets forth our results of operations for the three months ended November 30, 2006 and 2005.

	November 30, 2006	% of Net Sales	November 30, 2005	% of Net Sales	\$ Change	% Change
Net sales	\$ 4,617,374	100.0%	\$ 4,403,630	100.0%	213,744	4.9%
Cost of goods sold	2,945,055	63.8%	2,729,111	62.0%	215,944	7.9%
Selling expenses	769,039	16.7%	697,955	15.9%	71,084	10.2%
General and administrative expenses	822,883	17.8%	686,559	15.6%	136,324	19.9%
Lab and technical support expenses	\$ 85,040	1.8%	\$ 69,754	1.6%	15,286	21.9%

*Net Sales and Cost of Sales.* NTIC's net sales originating in the United States increased during the three months ended November 30, 2006 compared to the same period in fiscal 2006 primarily as a result of an increase in the demand for Zerust® products sold to existing customers and an increase in the demand for React-NTI products sold to an existing customer in North America. Cost of sales increased as a percentage of net sales for the three months ended November 30, 2006 compared to the same period in fiscal 2006 primarily as a result of an increase in petroleum based raw material prices.



*Selling Expenses.* NTIC's selling expenses increased for the three months ended November 30, 2006 compared the same period in fiscal 2006 primarily as a result of increases in (i) communication expense of \$13,000, (ii) trade show expense of \$10,000, (iii) salaries, commissions and related employee benefits of \$24,000, (iv) travel expense of \$23,000 and (v) expense related to the sale of React products of \$26,000. These increases were partially offset by decreases in (i) consulting expenses of \$10,000. Selling expenses as a percentage of net sales increased slightly for the three months ended November 30, 2006 compared to same period in fiscal 2006 primarily as a result of the changes in spending as described above.

*General and Administrative Expenses.* NTIC's general and administrative expenses increased for the three months ended November 30, 2006 compared to same period in fiscal 2006 primarily as a result of increases in (i) information technology expenses of \$74,000, (ii) insurance expense of \$13,000, (iii) legal expenses of \$22,000, (iv) travel expense of \$17,000, (v) consulting expenses of \$11,000, and (vi) depreciation expense of 23,000. These increases were partially offset by decreases in (i) salaries and benefits of \$10,000 and (ii) directors' fees and expenses of \$11,000. As a percentage of net sales, general and administrative expenses increased slightly for the three months ended November 30, 2006 compared to same period in fiscal 2006 primarily as a result of the changes in spending as described above. The Company anticipates these expenses to continue into the future.

*Lab and Technical Support Expenses.* NTIC's lab and technical support expenses increased slightly for the three months ended November 30, 2006 compared to the same period in fiscal 2006 primarily due to (i) travel expense of \$5,000 and (ii) lab supplies of \$6,000. As a percentage of net sales, lab and technical support expenses increased slightly for the three months ended November 30, 2006 compared to same period in fiscal 2006 primarily as a result of the changes in spending as described above.

*International Corporate Joint Ventures and Holding Companies.* NTIC continues its business program of establishing corporate joint venture arrangements in international markets directly or indirectly through holding companies. NTIC and/or an existing corporate joint venture manufactures and supplies proprietary ingredients, which make the finished products functional and enable manufacturing of the finished products to take place in the foreign countries. NTIC's corporate joint ventures then market the finished products in their territories, and NTIC's corporate joint ventures' profits are shared by the corporate joint venture shareholders in accordance with their ownership percentages of the joint venture entity.

NTIC had equity in income of industrial chemical and non-chemical corporate joint ventures and holding companies of \$635,219 and \$729,518 for the three months ended November 30, 2006 and 2005, respectively. This decrease in equity in income for the three month period was due specifically to expenses that resulted in poor quarterly results at two joint ventures compared to the previous fiscal year.

NTIC receives fees for technical and other support to NTIC's corporate joint ventures based on the revenues of the individual corporate joint ventures. NTIC recognized fee income for such support in the amounts of \$1,132,841 and \$1,114,060 for the three months ended November 30, 2006 and 2005, respectively.

NTIC sponsors a worldwide corporate joint venture conference approximately every three to four years in which all of its corporate joint ventures are invited to participate. NTIC defers a portion of its technical and other support fees received from its corporate joint ventures in each accounting period leading up to the next conference, reflecting that NTIC has not fully earned the payments received during that period. The next corporate joint venture conference is scheduled to be held in 2008. There was \$120,000 of deferred income recorded within other accrued liabilities at November 30, 2006, related to this future conference. The costs associated with these joint venture conferences are offset against the deferral as incurred, generally in the period in which the conference is held and immediately before.

NTIC incurred direct expenses related to its corporate joint ventures and the holding companies of \$1,316,249 and \$1,165,584 for the three months ended November 30, 2006 and 2005, respectively. These expenses include: product and business development, consulting, travel, technical and marketing services to existing joint ventures, legal fees regarding the establishment of new joint ventures, registration and promotion and legal defense of worldwide trademarks and legal fees incurred in the filing of patent applications for new technologies to which NTIC acquired certain rights. The increase in direct expenses incurred relating to NTIC's corporate joint ventures and holding companies for the three months ended November 30, 2006 compared to the same period in fiscal 2006 was attributable to increases in (i) legal fees of \$130,000, (ii) travel expenses of \$10,000 and (iii) lab testing and supplies expense of \$37,000. These increases were partially offset by decreases in (i) consulting expense of \$19,000. As a percentage of net sales, direct expenses incurred relating to NTIC's corporate joint ventures and holding companies increased for the three months ended November 30, 2006 compared to the same respective period in fiscal 2006, primarily as a result of the changes in spending as described above.

*Interest Income.* NTIC's interest income decreased to \$935 for the three months ended November 30, 2006 compared to \$26,801 for the same period in fiscal 2006 due to a lower average invested cash balances during the most recent period.

*Interest Expense.* NTIC's interest expense increased to \$42,881 for the three months ended November 30, 2006 compared to \$3,649 for the same period in fiscal 2006 due to a higher average outstanding debt and an increase in interest rates during the most recent period.

*Gain on sale of assets.* NTIC recognized a gain on the sale of land, building and equipment that previously served as NTIC's corporate headquarters of \$724,495 during the three months ended November 30, 2006. This was a one-time sale and no additional gain is anticipated to be recognized relating to the building in the future.

*Income Before Income Tax Expense.* Income before income taxes increased \$216,239 to \$1,122,224 for the three months ended November 30, 2006 compared to \$905,984 for the same period in fiscal 2006.

*Income Tax Expense.* Income tax expense for the three months ended November 30, 2006 and 2005 was calculated based on management's estimate of NTIC's annual effective income tax rate. NTIC's annual effective income tax rate for the three months ended November 30, 2006 and 2005 was lower than the statutory rate primarily due to NTIC's equity in income of corporate joint ventures being recognized based on after-tax earnings of these entities. To the extent joint ventures' undistributed earnings are distributed to NTIC, it is not expected to result in any material additional income tax liability after the application of foreign tax credits.

## **Liquidity and Capital Resources**

*Sources of Cash and Working Capital.* As of November 30, 2006, NTIC's working capital was \$2,454,282 with \$507,017 in cash and cash equivalents, compared to working capital of \$2,221,334, including \$299,117 in cash and cash equivalents, as of August 31, 2006.

NTIC has a revolving credit facility that expires on January 31, 2007. Outstanding amounts under the revolving credit facility bear interest at an annual rate based on LIBOR plus 2.25%. As of November 30, 2006, the interest rate was 7.49%. Amounts borrowed under the facility are collateralized by a lien on substantially all of NTIC's assets, excluding its corporate joint venture interests and intellectual property rights. The credit documents contain other terms and provisions (including representations, covenants and conditions) customary for transactions of this type. Significant financial covenants include minimum fixed charge coverage ratio of 1.0 to 1.0. Other covenants include a prohibition on any merger or consolidation without prior consent of the lender and restrictions on future credit extensions and non-equity investments and the incurrence of additional indebtedness without the lender's prior consent. NTIC is in compliance with all covenants under the revolving credit facility. The facility contains customary events of default, including nonpayment of principal or other amounts when due; breach of covenants; inaccuracy of representations and warranties; cross-default and/or cross-acceleration to other indebtedness; non-compliance with laws; certain voluntary and involuntary bankruptcy events;

judgments entered against NTIC; and a sale of material assets. If an event of default occurs and is continuing, the lender may, among other things, terminate its obligations thereunder and require NTIC to repay all amounts thereunder. Outstanding balances under the revolving credit facility were \$1,253,000 and \$610,000 as of November 30, 2006 and August 31, 2006, respectively. The increase in the utilization of the line of credit is a result of the cash needed to finance the renovations to the new corporate headquarters. The line of credit is subject to a borrowing base calculation and at November 30, 2006, NTIC had \$247,000 in available credit under the line.

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

*Uses of Cash and Cash Flows.* Cash flows used in operations for the three months ended November 30, 2006 was \$265,279, which resulted principally from net income, depreciation and amortization expense, inventories and accounts payable being offset by equity income of corporate joint ventures, trade excluding corporate joint ventures, prepaid expenses, gain on sale of assets and accrued liabilities. Cash flows used in operations for the three months ended November 30, 2005 was \$94,505, which resulted principally from equity income of corporate joint ventures, trade excluding corporate joint ventures, prepaid expenses and inventories, being offset by net income, depreciation and amortization expense, accounts payable, technical receivables from corporate joint ventures, income taxes and accrued liabilities.

Net cash provided by investing activities for the three months ended November 30, 2006 was \$135,698, which resulted from additions to property and equipment and industrial patents, offset by proceeds from the sale of assets and dividends received from corporate joint ventures. Net cash provided by investing activities for the three months ended November 30, 2005 was \$604,560, which resulted from dividends received from corporate joint ventures and cash received from loans, offset by loans made, additions to property and equipment and industrial patents.

Net cash provided by financing activities for the three months ended November 30, 2006 was \$337,481, which resulted primarily from the borrowings on the line of credit, offset by bank overdrafts. Net cash used in financing activities the three months ended November 30, 2005 was \$786,249, which resulted primarily from borrowing on the line of credit, partially offset by repayment of a note payable.

*Capital Expenditures and Commitments.* NTIC has no material lease commitments as of November 30, 2006, except a lease agreement entered into by NTI Facilities, Inc., a subsidiary of NTIC, for approximately 16,994 square feet of office, manufacturing, laboratory and warehouse space in Beachwood, Ohio, requiring monthly payments of \$17,500, which are adjusted annually according to the annual consumer price index, through November 2014. NTIC has no postretirement benefit plan and does not anticipate establishing any postretirement benefit program.

NTIC recently moved its corporate headquarters. NTIC purchased the real estate and 40,000 square feet building in which its new corporate headquarters is located pursuant to a like-kind exchange transaction within the meaning of Section 1031 of the Internal Revenue Code of 1986, as amended, for a purchase price of \$1,475,000. To finance the transaction, NTIC obtained a secured term loan in the principal amount of \$1,275,000. The term loan matures on May 1, 2011, bears interest at a fixed rate of 8.01% and is payable in 59 monthly installments equal to approximately \$10,776 (inclusive of principal and interest) commencing June 1, 2006. All of the remaining unpaid principal and accrued interest is due and payable on the maturity date. The loan is secured by a first lien on the real estate and building.

NTIC sold the real property and building in which NTIC's former Lino Lakes corporate headquarters was located for a purchase price of \$870,000 on September 8, 2006. The net book value of the building held for sale was \$89,636 and the closing costs and fees associated with the sale of the property was \$46,571. The gain on sale of the property was \$724,495 and are reflected in NTIC's first quarter fiscal 2007 financial results.

## **Off-Balance Sheet Arrangements**

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

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

## **Inflation and Seasonality**

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

## **Market Risk**

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

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

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

NTIC's revolving credit facility bears interest at a rate based on LIBOR and thus may subject NTIC to some market risk on interest rates, \$1,253,000 was outstanding under this facility as of November 30, 2006.

## **Related Party Transactions**

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

## **Critical Accounting Policies**

The preparation of NTIC's consolidated financial statements requires management to make estimates and judgments that affect the reported amount of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. The Securities and Exchange Commission has defined a company's most critical accounting policies as those that are most important to the portrayal of its financial condition and results of operations, and which require the company to make its most difficult and subjective judgments, often as a result of the need to make estimates of matters that are inherently uncertain. Based on this definition, NTIC has

identified the following critical accounting policies. Although NTIC believes that its estimates and assumptions are reasonable, they are based upon information available when they are made. Actual results may differ significantly from these estimates under different assumptions or conditions.

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

NTIC's investments in corporate joint ventures are accounted for using the equity method, except for React-NTI LLC which has been fully consolidated, due to the adoption of FIN 46R. Periodically, NTIC evaluates the investments for any impairment and assesses the future cash flow projections to determine if there are any going concern issues. If an investment were determined to be impaired, then a reserve would be created to reflect the impairment on the financial results of NTIC. NTIC's evaluation of its investments in corporate joint ventures requires NTIC to make assumptions about future cash flows of its corporate joint ventures. These assumptions require significant judgment and actual results may differ from assumed or estimated amounts. NTIC's investments in corporate joint ventures were \$11,840,314 and \$10,772,102 as of November 30, 2006 and August 31, 2006, respectively.

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

NTIC values accounts and notes receivable, net of an allowance for doubtful accounts. Each quarter, NTIC prepares an analysis of its ability to collect outstanding receivables that provides a basis for an allowance estimate for doubtful accounts. In doing so, NTIC evaluates the age of its receivables, past collection history, current financial conditions of key customers, and economic conditions. Based on this evaluation, NTIC establishes a reserve for specific accounts and notes receivable that it believes are uncollectible, as well as an estimate of uncollectible receivables not specifically known. A deterioration in the financial condition of any key customer or a significant slow down in the economy could have a material negative impact on NTIC's ability to collect a portion or all of the accounts and notes receivable. NTIC believes that an analysis of historical trends and its current knowledge of potential collection problems provide NTIC with sufficient information to establish a reasonable estimate for an allowance for doubtful accounts. However, since NTIC cannot predict with certainty future changes in the financial stability of its customers, NTIC's actual future losses from uncollectible accounts may differ from its estimates. In the event NTIC determined that a smaller or larger uncollectible accounts reserve is appropriate, NTIC would record a credit or charge to selling expense in the period that it made such a determination. Accounts receivable have been reduced by an allowance for uncollectible accounts of \$10,311 and \$10,000 at November 30, 2006 and August 31, 2006, respectively.

#### ***Revenue Recognition***

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

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

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

## **Stock-Based Compensation**

In December 2004, FASB published FASB Statement No. 123 (revised 2004), *Share-Based Payment*. FAS 123(R) requires that the compensation cost relating to share-based payment transactions, including grants of employee stock options, be recognized in financial statements. That cost will be measured based on the fair value of the equity or liability instruments issued. FAS 123(R) covers a wide range of share-based compensation arrangements including stock options, restricted share plans, performance-based awards, share appreciation rights, and employee share purchase plans. FAS 123(R) is a replacement of FASB Statement No. 123, *Accounting for Stock-Based Compensation*, and supersedes APB Opinion No. 25, *Accounting for Stock Issued to Employees*, and its related interpretive guidance. The effect of the Statement is to require entities to measure the cost of employee services received in exchange for stock options based on the grant-date fair value of the award, and to recognize the cost over the period the employee is required to provide services for the award. FAS 123(R) permits entities to use any option-pricing model that meets the fair value objective in the Statement. NTIC implemented FAS 123(R) on September 1, 2006, using the modified prospective transition method.

## **Forward-Looking Statements**

This Quarterly Report on Form 10-QSB contains not only historical information, but also forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. In addition, NTIC or others on NTIC's behalf may make forward-looking statements from time to time in oral presentations, including telephone conferences, in press releases or reports, on NTIC's Internet web site or otherwise. Statements that are not historical are forward-looking and reflect expectations and assumptions. NTIC tries to identify forward-looking statements in this report and elsewhere by using words such as "may," "will," "should," "expects," "anticipates," "contemplates," "estimates," "believes," "plans," "projected," "predicts," "potential" or "continue" or the negative of these or similar terms.

Forward-looking statements involve risks and uncertainties. These uncertainties include factors that affect all businesses as well as matters specific to NTIC. NTIC cautions readers not to place undue reliance on any forward-looking statement that speaks only as of the date made and to recognize that forward-looking statements are predictions of future results, which may not occur as anticipated. Actual results could differ materially from those anticipated in the forward-looking statements and from historical results, due to the risks and uncertainties described below under the heading "Risk Factors," as well as others that NTIC may consider immaterial or does not anticipate at this time. The risks and uncertainties described below under the heading "Risk Factors" are not exclusive and further information concerning NTIC and its business, including factors that potentially could materially affect its financial results or condition, may emerge from time to time. NTIC assumes no obligation to update forward-looking statements to reflect actual results or changes in factors or assumptions affecting such forward-looking statements. NTIC advises you, however, to consult any further disclosures it may make on related subjects in its future quarterly reports on Form 10-QSB and current reports on Form 8-K it files with or furnishes to the Securities and Exchange Commission.

## **Risk Factors**

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

***Over 19 percent of NTIC's consolidated net sales, not including sales made at the various corporate joint venture, are generated outside of the U.S. and NTIC intends to continue to expand its international operations. NTIC's international operations require management attention and financial resources and expose NTIC to difficulties presented by international economic, political, legal, accounting and business factors.***

NTIC offers direct on-site technical support on rust and corrosion issues in over 50 countries, and operates a marketing, distribution, and technical network through joint ventures in North America, South America, Europe, Asia and the Middle East. NTIC's consolidated net sales, not including the corporate joint venture sales, outside the United States were 19.8% of its total consolidated net sales for the three months ended November 30, 2006 and 20.3% of its total consolidated net sales for fiscal 2006. One of NTIC's strategic objectives is to expand its international operations.

NTIC has recently entered into joint ventures in Australia, the Ukraine, Thailand and the United Arab Emirates. The expansion of NTIC's existing international operations and entry into additional international markets requires management attention and financial resources. Many of the countries in which NTIC sells its products directly or indirectly through its corporate joint ventures, are, to some degree, subject to political, economic and/or social instability. NTIC's international operations expose NTIC and its joint venture partners, representatives, agents and distributors to risks inherent in operating in foreign jurisdictions. These risks include:

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

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

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

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

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

Because the functional currency of NTIC's foreign operations and investments in its foreign corporate joint ventures and holding companies is the applicable local currency, NTIC is exposed to foreign currency exchange rate risk arising from transactions in the normal course of business since NTIC's fees for technical support and other services and dividend distributions from these foreign entities are paid in foreign currencies.

NTIC's reported consolidated net sales and net income are subject to fluctuations in foreign exchange rates. NTIC's principal exchange rate exposure is with the Euro, the Japanese yen, Korean won and the English pound against the U.S. dollar. NTIC does not hedge against its foreign currency exchange rate risk. Since NTIC's investments in its corporate joint ventures and holding companies are accounted for using the equity method, any changes in foreign currency exchange rates would be reflected as a foreign currency translation adjustment and would not change the equity in income of joint ventures and holding companies reflected in NTIC's consolidated statements of income.

***Approximately 33.5% of NTIC's consolidated net sales for the three months ended November 30, 2006 and 26.6% of NTIC's consolidated net sales for the fiscal year ended August 31, 2006 were dependent upon a single customer, the loss of which would adversely affect NTIC's financial condition and consolidated operating results.***

One of NTIC's North American customers accounted for, in the aggregate, approximately 33.5% of NTIC's consolidated net sales for the three months ended November 30, 2006 and 26.6% of NTIC's consolidated net sales for the fiscal year ended August 31, 2006. If NTIC were to lose this customer or if this customer were to substantially decrease its purchases of NTIC's products, NTIC's financial condition and consolidated operating results would be adversely affected.

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

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

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

As of November 30, 2006, Inter Alia Holding Company beneficially owned approximately 25.2% of NTIC's outstanding common stock. Inter Alia is an entity owned by, among others, G. Patrick Lynch, NTIC's President and Chief Executive Officer and a director, and Philip M. Lynch, NTIC's former Chairman of the Board and Chief Executive Officer and current Chairman Emeritus. Messrs. G.P. Lynch and P.M. Lynch share voting and dispositive power of shares of NTIC's common stock held by Inter Alia Holding Company. As a result of his share ownership through Inter Alia and his position as President and Chief Executive Officer and a director of NTIC, Mr. G.P. Lynch may be able to influence the affairs and actions of NTIC, including matters requiring stockholder approval, such as the election of directors and approval of significant corporate transactions. The interests of Messrs. G.P. Lynch and Inter Alia may differ from the interests of NTIC's other stockholders. This concentration of ownership may have the effect of delaying, preventing or deterring a change in control of NTIC, could deprive NTIC's stockholders of an opportunity to receive a premium for their common stock as part of a sale or merger of NTIC and may negatively affect the market price of NTIC's common stock. Transactions that could be affected by this concentration of ownership include proxy contests, tender offers, mergers or other purchases of common stock that could give stockholders the opportunity to realize a premium over the then-prevailing market price for shares of NTIC's common stock.



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

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

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

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

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

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

- diversion of management's attention;
- difficulties in assimilating the operations and products of an acquired business or in realizing projected efficiencies, cost savings and revenue synergies;
- potential loss of key employees or customers of the acquired businesses or adverse effects on existing business relationships with suppliers and customers;

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

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

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

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

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

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

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

The efficient operation of NTIC's business is dependent on its management information systems. NTIC relies on its management information systems to effectively manage accounting and financial functions; manage order entry, order fulfillment and inventory replenishment processes; and to maintain its research and development data. The failure of management information systems to perform as anticipated could disrupt NTIC's business and product development and could result in decreased sales, causing NTIC's business and operating results to suffer.

In addition, NTIC's management information systems are vulnerable to damage or interruption from natural or man-made disasters, terrorist attacks and attacks by computer viruses or hackers, or power loss or computer systems, Internet, telecommunications or data network failure. Any such interruption could adversely affect NTIC's business and operating results.

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

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

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

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

One of NTIC's strategies is to enhance its existing products and develop and market new products that respond to customer needs. NTIC may not be able to compete effectively with its competitors unless NTIC can keep up with existing or new products in the markets in which it competes. Product development requires significant financial and other resources. Although in the past NTIC has implemented lean manufacturing and other productivity improvement initiatives to provide investment funding for new products, NTIC cannot assure you that it will be able to continue to do so in the future. Product improvements and new product introductions also require significant planning, design, development and testing at the technological, product, and manufacturing process levels and NTIC may not be able to timely develop product improvements or new products. NTIC's competitors' new products may beat NTIC's products to market, may be more effective or less expensive than NTIC's products or render NTIC's products obsolete. Any new products that NTIC may develop may not receive market acceptance or otherwise generate any meaningful net sales or profits for NTIC relative to its expectations, based on, among other things, existing and anticipated investments in manufacturing capacity and commitments to fund advertising, marketing, promotional programs, and research and development.

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

NTIC's products are sold in highly competitive markets throughout the world. The principal competitive factors in NTIC's markets are pricing, product innovation, quality and reliability, product support and customer service and reputation. NTIC competes in all of its products with numerous manufacturers, many of who have substantially greater financial, marketing, and other resources than NTIC does. As a result, they may be able to

adapt more quickly to new or emerging technologies and changes in customer requirements, or to devote greater resources to the promotion and sale of their products than NTIC can. In addition, competition could increase if new companies enter the market or if existing competitors expand their product lines or intensify efforts within existing product lines. NTIC's current products, products under development and its ability to develop new and improved products may be insufficient to enable NTIC to compete effectively with its competitors. NTIC cannot assure you that it will be able to compete effectively, which would harm its business and operating results.

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

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

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

Changing laws, regulations and standards relating to corporate governance and public disclosure, including the Sarbanes-Oxley Act and related regulations implemented by the SEC and the American Stock Exchange, are creating uncertainty for public companies, increasing legal and financial compliance costs and making some activities more time consuming. NTIC will be evaluating its internal controls systems to allow management to report on, and its independent registered public accounting firm to attest to, NTIC's internal control over financial reporting. NTIC will be performing the system and process evaluation and testing (and any necessary remediation) required to comply with the management certification and auditor attestation requirements of Section 404 of the Sarbanes-Oxley Act. NTIC cannot be certain as to the timing of completion of its evaluation, testing and remediation actions or the impact of the same on its operations since there is presently no precedent available by which to measure compliance adequacy. If NTIC is not able to implement the requirements of Section 404 in a timely manner or with adequate compliance, NTIC may be subject to sanctions or investigation by regulatory authorities, including the SEC or the American Stock Exchange. This type of action could adversely affect NTIC's financial results or investors' confidence in NTIC, and could cause NTIC's stock price to decline. In addition, the controls and procedures that NTIC may implement may not comply with all of the relevant rules and regulations of the SEC and the American Stock Exchange. If NTIC fails to develop and maintain effective controls and procedures, it may be unable to provide the required financial information in a timely and reliable manner.

**ITEM 3 – CONTROLS AND PROCEDURES**

**Evaluation of Disclosure Controls and Procedures**

NTIC maintains disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended) that are designed to reasonably ensure that information required to be disclosed by NTIC in the reports it files or submits under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized, and reported, within the time periods specified in the Securities and Exchange Commission's rules and forms and that such information is accumulated and communicated to NTIC's management, including NTIC's principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure. In designing and evaluating

NTIC's disclosure controls and procedures, NTIC recognizes that any controls and procedures, no matter how well designed and operated can provide only reasonable assurance of achieving the desired control objectives and NTIC necessarily is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures. NTIC's management evaluated, with the participation of its Chief Executive Officer and its Chief Financial Officer, the effectiveness of the design and operation of NTIC's disclosure controls and procedures as of the end of the period covered in this report. Based on that evaluation, NTIC's Chief Executive Officer and Chief Financial Officer concluded that NTIC's disclosure controls and procedures were effective as of the end of such period to provide reasonable assurance that information required to be disclosed in NTIC's Exchange Act reports is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms, and that material information relating to NTIC and its consolidated subsidiaries is made known to management, including NTIC's Chief Executive Officer and Chief Financial Officer, particularly during the period when NTIC's periodic reports are being prepared.

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

#### **Changes in Internal Control over Financial Reporting**

There was no change in NTIC's internal control over financial reporting that occurred during the quarter ended November 30, 2006 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**

A description of NTIC's legal proceedings in the first paragraph under Note 20 of NTIC's consolidated financial statements included within this report is incorporated herein by reference.

### **ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES, USE OF PROCEEDS AND SMALL BUSINESS ISSUER PURCHASES OF EQUITY SECURITIES**

#### **Recent Sales of Unregistered Equity Securities**

During the three months ended November 30, 2006, 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.

#### **Small Business Issuer Purchases of Equity Securities**

During the three months ended November 30, 2006, NTIC did not purchase any shares of its common stock or other equity securities of NTIC.

On November 13, 2003, the Board of Directors of NTIC authorized Matthew Wolsfeld, Chief Financial Officer of NTIC, to repurchase on behalf of NTIC, up to 100,000 shares of NTIC's common stock from time to time in accordance with applicable rules governing issuer stock repurchases. Since being authorized, NTIC has repurchased and retired an aggregate of 44,200 shares of its common stock.

### **ITEM 5. OTHER INFORMATION**

On December 10, 2006, NTIC obtained a demand line of credit of up to the principal amount of \$600,000 from National City Bank to fund NTIC's obligations related to a required deposit of \$445,469 with the courts in Finland in connection with NTIC's legal action in Finland. We refer you to Note 20 of NTIC's consolidated financial statements included elsewhere in this report for more information regarding the legal action. Advances made under the demand line of credit will be made at the sole discretion of National City Bank and will be due and payable on demand. Any outstanding unpaid principal balance under the demand line of credit bears interest at an annual rate based on LIBOR plus 2.25%. Interest is payable in arrears on January 15, 2007 and on the 15<sup>th</sup> day of each month thereafter and on demand.

On November 16, 2006, the "independent directors" of NTIC approved the material terms of an annual bonus plan for executive officers and certain employees of NTIC for the fiscal year ending August 31, 2007, the purpose of which is to align the interests of NTIC and its subsidiaries, executive officers and stockholders by providing an incentive for the achievement of key corporate and individual performance measures that are critical to the success of NTIC and linking a significant portion of each executive officer's annual compensation to the achievement of such measures. The following is a brief summary of the material terms approved by the Board:

- The total amount available under the bonus plan will be up to 25% of NTIC's earnings before interest, taxes and other income (EBITOI);
- The total amount available under the bonus plan will be \$0 if EBITOI, as adjusted to take into account amounts to be paid under the bonus plan, fall below 70% of target EBITOI; and
- The payment of bonuses under the plan will be made in both cash and stock, the exact amount and percentages of which will be determined by the Compensation Committee of the Board of Directors of NTIC.

**ITEM 6. EXHIBITS**

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

<b>Exhibit No.</b>	<b>Description</b>
10.1	Commercial Note: Demand Line of Credit dated December 10, 2006 in the principal amount of \$600,000 issued by Northern Technologies International Corporation to National City Bank
31.1	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
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
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

**SIGNATURES**

Pursuant to the requirements of the Securities and 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 11, 2007

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



**NORTHERN TECHNOLOGIES INTERNATIONAL CORPORATION**  
**QUARTERLY REPORT ON FORM 10-QSB**  
**EXHIBIT INDEX**

<b>Exhibit No.</b>	<b>Description</b>	<b>Method of Filing</b>
10.1	Commercial Note: Demand Line of Credit dated December 10, 2006 in the principal amount of \$600,000 issued by Northern Technologies International Corporation to National City Bank	Filed herewith
31.1	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	Filed herewith
31.2	Certification of Chief Financial Officer 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

**COMMERCIAL NOTE: DEMAND LINE OF CREDIT**

ON DEMAND, FOR VALUE RECEIVED, Northern Technologies International Corporation, a Delaware corporation (“Borrower”), whose mailing address is 4201 Woodland Road, Circle Pines, MN 55014, hereby promises to pay to the order of NATIONAL CITY BANK, a national banking association (“Bank”), having a banking office at 1900 East Ninth Street, Cleveland, Ohio 44114 Attention: Commercial Division, Locator No. 01-8485, at the address specified on the bills received by Borrower from Bank (or at such other place as Bank may from time to time designate by written notice) in lawful money of the United States of America, the principal sum of Six Hundred Thousand and 00/100 Dollars (\$600,000.00) or such lesser amount as may appear on this Note, or as may be entered in a loan account on Bank’s books and records, or both, together with interest, all as provided below. Notwithstanding any provision or inference to the contrary, this Note may be enforced without presentment, protest, or notice of dishonor, all of which are waived by all makers and indorsers of this Note, now or hereafter existing. Any reference to any rate of interest or late charge to be applicable after any notice of demand or the commencement of any Proceeding is made solely for the purpose of determining the rate of interest and late charges applicable under this Note, and shall not diminish or impair Bank’s right to enforce this Note at any time.

1. No Commitment; Loan Processing Fee. This Note evidences an arrangement whereby, for Borrower’s convenience, Borrower may, without having to execute and deliver a separate note each time, obtain such loans (each a “Subject Loan”) as Borrower may from time to time request and as Bank in its sole discretion may from time to time be willing to make, subject in any case to the condition that (a) each Subject Loan shall be in an amount that is an integral multiple of One Thousand and 00/100 Dollars (\$1,000.00) and (b) that the aggregate unpaid principal balance of the Subject Loans shall not at any time exceed the face amount of this Note. NOTWITHSTANDING ANY PROVISION OR INFERENCE TO THE CONTRARY, BANK SHALL HAVE NO OBLIGATION TO EXTEND ANY CREDIT TO OR FOR THE ACCOUNT OF BORROWER BY REASON OF THIS NOTE. Borrower shall pay Bank, on the date of this Note, a non-refundable loan processing fee in an amount equal to One Thousand Five Hundred and 00/100 Dollars (\$1,500.00).

2. Loan Requests; Disbursement. A Subject Loan is properly requested if requested orally or in writing not later than 2:00 p. m., Banking-Office Time, of the Banking Day upon which that Subject Loan is to be made. Each request for a Subject Loan shall of itself constitute, both when made and when honored, a representation and warranty by Borrower to Bank that Borrower is entitled to obtain the requested Subject Loan. Bank is hereby irrevocably authorized to make an appropriate entry on this Note, in a loan account on Bank’s books and records, or both, whenever Borrower obtains a Subject Loan. Each such entry shall be prima facie evidence of the data entered, but the making of such an entry shall not be a condition to Borrower’s obligation to pay. Bank is hereby directed, absent notice from Borrower to the contrary, to disburse the proceeds of each such Subject Loan to Borrower’s general checking account with Bank. Bank shall have no duty to follow, nor any liability for, the application of any proceeds of any Subject Loan.

3. Interest. The unpaid principal balance of each Subject Loan shall at all times bear interest at the Contract Rate, provided, that so long as (a) any principal of any Subject Loan remains unpaid after Bank shall have given Borrower notice of demand for any such principal or after the commencement of any Proceeding with respect to Borrower, or (b) any accrued interest on any Subject Loan remains unpaid after the due date of that interest, then, and in each such case, all unpaid principal of this Note and all overdue interest on that principal shall bear interest at a fluctuating rate equal to two percent (2%) per annum above the rate that would otherwise be applicable, but in no case less than two percent (2%) per annum above the Prime Rate; provided further, that in no event shall any principal of or interest on any Subject Loan bear interest at any time after the giving of any such notice or the commencement of any such Proceeding, whichever shall first occur, at a lesser rate than the rate applicable thereto immediately after the giving of that notice or the commencement of that Proceeding, as the case may be. The “Contract Rate” shall at all times be a fluctuating rate equal to 2.25% per annum plus One Month LIBOR (the “One Month LIBOR Rate”), provided, that in the event One Month LIBOR is unavailable as a result of Bank’s good faith determination of the occurrence of one of the events specified in section 4, the “Contract Rate” shall be a fluctuating rate equal to the Prime Rate.

Interest on each Subject Loan shall be payable in arrears on January 15, 2007, and on the 15th day of each month thereafter and on demand. The One Month LIBOR Rate shall be adjusted by Bank, as necessary, at the end of each Banking Day during the term hereof. Bank shall not be required to notify Borrower of any adjustment in the One Month LIBOR Rate; however, Borrower may request a quote of the prevailing Contract Rate on any Banking Day.

4. LIBOR Unavailable. Notwithstanding any provision or inference to the contrary, the Contract Rate shall not be based on One Month LIBOR if Bank shall determine in good faith that (a) any governmental authority has asserted that it is unlawful for Bank to fund, make, or maintain loans bearing interest based on One Month LIBOR, or (b) circumstances affecting the market selected by Bank for the purpose of funding the Subject Loans make it impracticable for Bank to determine One Month LIBOR. Bank's books and records shall be conclusive (absent manifest error) as to whether Bank shall have determined that the Contract Rate is prohibited from being based on One Month LIBOR. If the Contract Rate is prohibited from being based on One Month LIBOR as a result of the occurrence of one of the events referenced in this section 4, then, and in each such case, notwithstanding any provision or inference to the contrary, the then outstanding principal balance of this Note shall, upon Bank giving Borrower notice of Bank's determination of the occurrence of such an event, bear interest at a Contract Rate based on the Prime Rate as contemplated in section 3.

5. Definitions. As used in this Note, except where the context clearly requires otherwise, "Bank Debt" means, collectively, all Debt to Bank, whether incurred directly to Bank or acquired by it by purchase, pledge, or otherwise, and whether participated to or from Bank in whole or in part; "Banking Day" means any day (other than any Saturday, Sunday or legal holiday) on which Bank's banking office is open to the public for carrying on substantially all of its banking functions; "Banking-Office Time" means, when used with reference to any time, that time determined at the location of Bank's banking office; "Date of Reference" means, on any Banking Day, a date which is two (2) Eurodollar Banking Days prior to the Banking Day in question; "Debt" means, collectively, all obligations of the Person or Persons in question, including, without limitation, every such obligation whether owing by one such Person alone or with one or more other Persons in a joint, several, or joint and several capacity, whether now owing or hereafter arising, whether owing absolutely or contingently, whether created by lease, loan, overdraft, guaranty of payment, or other contract, or by quasi-contract, tort, statute, other operation of law, or otherwise; "Eurodollar Banking Day" means any Banking Day on which banks in the London Interbank Market deal in United States dollar deposits and on which banking institutions are generally open for domestic and international business at the place where Bank's banking office is located and in New York City; "Note" means this promissory note (including, without limitation, each addendum, allonge, or amendment, if any, hereto); "Obligor" means any Person who, or any of whose property, shall at the time in question be obligated in respect of all or any part of the Bank Debt of Borrower and (in addition to Borrower) includes, without limitation, co-makers, indorsers, guarantors, pledgors, hypothecators, mortgagors, and any other Person who agrees, conditionally or otherwise, to assure such other Obligor's creditors or any of them against loss; "One Month LIBOR" means, with respect to a loan, the rate per annum (rounded upwards, if necessary, to the next higher 1/16 of 1%) determined by Bank and equal to the average rate per annum at which deposits (denominated in United States dollars) in an amount similar to the principal amount of that loan and with a maturity of one (1) month are offered to Bank at 11:00 A.M. London time (or as soon thereafter as practicable) on the Date of Reference by banking institutions in the London, United Kingdom market, as such interest rate is referenced and reported by the British Bankers Association in the Bridge Financial Telerate system "Page 3750" report or, if the same is unavailable, any other generally accepted authoritative source of such interest rate as Bank may reference from time to time; "Person" means an individual or entity of any kind, including, without limitation, any association, company, cooperative, corporation, partnership, trust, governmental body, or any other form or kind of entity; "Prime Rate" means the fluctuating rate per annum which is publicly announced from time to time by Bank as being its so-called "prime rate" or "base rate" thereafter in effect, with each change in the Prime Rate automatically, immediately, and without notice changing the Prime Rate thereafter applicable hereunder, it being acknowledged that the Prime Rate is not necessarily the lowest rate of interest then available from Bank on fluctuating-rate loans; "Proceeding" means any assignment for the benefit of creditors, any case in bankruptcy,

any marshalling of any Obligor's assets for the benefit of creditors, any moratorium on the payment of debts, or any proceeding under any law relating to conservatorship, insolvency, liquidation, receivership, trusteeship, or any similar event, condition, or other thing; "Related Writing" means this Note and any indenture, note, guaranty, assignment, mortgage, security agreement, subordination agreement, notice, financial statement, legal opinion, certificate, or other writing of any kind pursuant to which all or any part of the Bank Debt of Borrower is issued, which evidences or secures all or any part of the Bank Debt of Borrower, which governs the relative rights and priorities of Bank and one or more other Persons to payments made by, or the property of, any Obligor, which is delivered to Bank pursuant to another such writing, or which is otherwise delivered to Bank by or on behalf of any Person (or any employee, officer, auditor, counsel, or agent of any Person) in respect of or in connection with all or any part of the Bank Debt of Borrower; and the foregoing definitions shall be applicable to the respective plurals of the foregoing defined terms.

6. Late Charges. If any principal of any Subject Loan is not paid within ten (10) days after Bank shall have given Borrower notice of demand therefor or within ten (10) days after the commencement of any Proceeding with respect to Borrower, or if any interest on this Note is not paid within (10) days after the due date of that interest, then, and in each such case, Bank shall have the right to assess a late charge, payable by Borrower on demand, in an amount equal to the greater of Twenty and 00/100 Dollars (\$20.00) or five percent (5%) of the amount not timely paid.

7. No Setoff. Borrower hereby waives any and all now existing or hereafter arising rights to recoup or offset any obligation of Borrower under or in connection with this Note or any Related Writing against any claim or right of Borrower against Bank.

8. Indemnity: Governmental Costs. If (a) there shall be enacted any law (including, without limitation, any change in any law or in its interpretation or administration and any request by any governmental authority) relating to any interest rate or any assessment, reserve, or special deposit requirement against assets held by, deposits in, or loans by Bank or to any tax (other than any tax on Bank's overall net income) and (b) in Bank's sole opinion any such event increases the cost of funding or maintaining any Subject Loan bearing interest based upon One Month LIBOR or reduces the amount of any payment to be made to Bank in respect thereof, then, and in each such case, upon Bank's demand, Borrower shall pay Bank an amount equal to each such cost increase or reduced payment, as the case may be. In determining any such amount, Bank may use reasonable averaging and attribution methods. Each determination by Bank shall be conclusive absent manifest error.

9. Indemnity: Administration and Enforcement. Borrower will reimburse Bank, on Bank's demand from time to time, for any and all fees, costs, and expenses (including, without limitation, the fees and disbursements of outside legal counsel and the interdepartmental charges and/or salary of in-house counsel) incurred by Bank in administering this Note or in protecting, enforcing, or attempting to protect or enforce its rights under this Note. If any amount (other than any principal of any Subject Loan and any interest and late charges) owing under this Note is not paid when due, then, and in each such case, Borrower shall pay, on Bank's demand, interest on that amount from the due date thereof until paid in full at a fluctuating rate equal to four percent (4%) per annum plus the Prime Rate.

10. Waivers; Remedies; Application of Payments. Bank may from time to time in its discretion grant waivers and consents in respect of this Note or any other Related Writing or assent to amendments thereof, but no such waiver, consent, or amendment shall be binding upon Bank unless set forth in a writing (which writing shall be narrowly construed) signed by Bank. No course of dealing in respect of, nor any omission or delay in the exercise of, any right, power, or privilege by Bank shall operate as a waiver thereof, nor shall any single or partial exercise thereof preclude any further or other exercise thereof or of any other, as each such right, power, or privilege may be exercised either independently or concurrently with others and as often and in such order as Bank may deem expedient. Without limiting the generality of the foregoing, neither Bank's acceptance of one or more late payments or charges nor Bank's acceptance of interest on overdue amounts at the respective rates applicable thereto shall constitute a waiver of any right of Bank. Each right, power, or privilege specified or referred to in this Note is in addition to and not in limitation of any other rights, powers, and privileges that Bank may otherwise have or acquire by operation of law, by other contract, or otherwise. Bank shall be entitled to equitable remedies with respect to each breach or anticipatory repudiation of any provision of this Note, and Borrower

hereby waives any defense which might be asserted to bar any such equitable remedy. Bank shall have the right to apply payments in respect of the indebtedness evidenced by this Note with such allocation to the respective parts thereof and the respective due dates thereof as Bank in its sole discretion may from time to time deem advisable.

11. Other Provisions. The provisions of this Note shall bind Borrower and Borrower's successors and assigns and benefit Bank and its successors and assigns, including each subsequent holder, if any, of this Note. Except for Borrower and Bank and their respective successors and assigns, there are no intended beneficiaries of this Note, any Subject Loan, or the arrangement evidenced by this Note. The provisions of sections 6 through 16, both inclusive, shall survive the payment in full of the principal of and interest on this Note. The captions to the sections and subsections of this Note are inserted for convenience only and shall be ignored in interpreting the provisions thereof. If any provision in this Note shall be or become illegal or unenforceable in any case, then that provision shall be deemed modified in that case so as to be legal and enforceable to the maximum extent permitted by law while most nearly preserving its original intent, and in any case the illegality or unenforceability of that provision shall affect neither that provision in any other case nor any other provision. All fees, interest, and premiums for any given period shall accrue on the first day thereof but not on the last day thereof (unless the last day is the first day) and in each case shall be computed on the basis of a 360-day year and the actual number of days in the period. In no event shall interest accrue at a higher rate than the maximum rate, if any, permitted by law. Bank shall have the right to furnish to its affiliates, and to such other Persons as Bank shall deem advisable for the conduct of its business, information concerning the business, financial condition, and property of Borrower, the amount of the Bank Debt of Borrower, and the terms, conditions, and other provisions applicable to the respective parts thereof. Borrower hereby grants to Bank a security interest in all deposit accounts (except individual retirement accounts) Borrower has or at any time may have with Bank or Bank's affiliates to secure the payment of all amounts owed under this Note and all other Debt of Borrower to Bank or Bank's affiliates. This Note shall be governed by the law (excluding conflict of laws rules) of the jurisdiction in which Bank's banking office is located.

12. Integration. This Note and, to the extent consistent with this Note, the other Related Writings, set forth the entire agreement of Borrower and Bank as to the subject matter of this Note, and may not be contradicted by evidence of any agreement or statement unless made in a writing (which writing shall be narrowly construed) signed by Bank contemporaneously with or after the execution and delivery of this Note. Without limiting the generality of the foregoing, Borrower hereby acknowledges that Bank has not based, conditioned, or offered to base or condition the credit hereby evidenced or any charges, fees, interest rates, or premiums applicable thereto upon Borrower's agreement to obtain any other credit, property, or service other than any loan, discount, deposit, or trust service from Bank.

13. Notices and Other Communications. Each notice, demand, or other communication, whether or not received, shall be deemed to have been given to Borrower whenever Bank shall have mailed a writing to that effect by certified or registered mail to Borrower at Borrower's mailing address (or any other address of which Borrower shall have given Bank notice after the execution and delivery of this Note); however, no other method of giving actual notice to Borrower is hereby precluded. Borrower hereby irrevocably accepts Borrower's appointment as each Obligor's agent for the purpose of receiving any notice, demand, or other communication to be given by Bank to each such Obligor pursuant to any Related Writing. Bank shall be entitled to assume that any knowledge possessed by any Obligor other than Borrower is possessed by Borrower. Each communication to be given to Bank shall be in writing unless this Note expressly permits that communication to be made orally, and in any case shall be given to Bank at Bank's banking office (or any other address of which Bank shall have given notice to Borrower after the execution and delivery this Note). Borrower hereby assumes all risk arising out of or in connection with each oral communication given by Borrower and each communication given or attempted by Borrower in contravention of this section. Bank shall be entitled to rely on each communication believed in good faith by Bank to be genuine.

14. DIRECT DEBIT: Payments shall be paid by Borrower by debiting Borrower's checking account on the due date.

15. Warrant of Attorney. Borrower hereby authorizes any attorney at law at any time or times to appear in any state or federal court of record in the United States of America after all or any part of the obligations evidenced by this Note shall have become due, whether by lapse of time or otherwise, and in each case to waive the issuance and service of process, to present to the court this Note and any other writing (if any) evidencing the obligation or obligations in question, to admit the due date thereof and the nonpayment thereof when due, to confess judgment against Borrower in favor of Bank for the full amount then appearing due, together with interest and costs of suit, and thereupon to release all errors and waive all rights of appeal and any stay of execution. The foregoing warrant of attorney shall survive any judgment, it being understood that should any judgment against Borrower be vacated for any reason, Bank may nevertheless utilize the foregoing warrant of attorney in thereafter obtaining one or more additional judgments against Borrower.

16. Jurisdiction and Venue; Waiver of Jury Trial. Any action, claim, counterclaim, crossclaim, proceeding, or suit, whether at law or in equity, whether sounding in tort, contract, or otherwise at any time arising under or in connection with this Note or any other Related Writing, the administration, enforcement, or negotiation of this Note or any other Related Writing, or the performance of any obligation in respect of this Note or any other Related Writing (each such action, claim, counterclaim, crossclaim, proceeding, or suit, an "Action") may be brought in any federal or state court located in the city in which Bank's banking office is located. Borrower hereby unconditionally submits to the jurisdiction of any such court with respect to each such Action and hereby waives any objection Borrower may now or hereafter have to the venue of any such Action brought in any such court. BORROWER HEREBY, AND EACH HOLDER OF THIS NOTE, BY TAKING POSSESSION THEREOF, KNOWINGLY AND VOLUNTARILY WAIVES JURY TRIAL IN RESPECT OF ANY ACTION.

BORROWER:

Northern Technologies International Corporation

By: *Matthew Wolsfeld*

Matthew C. Wolsfeld

Its: Chief Financial Officer

(STATE OF MINNESOTA )

(COUNTY OF ANOKA )

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

IN TESTIMONY, I set my hand and official seal, this 10th day of December 2006.

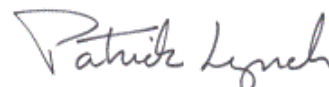
Notary Public

## 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-QSB of Northern Technologies International Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the small business issuer as of, and for, the periods presented in this report;
4. The small business issuer's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the small business issuer and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the small business issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Evaluated the effectiveness of the small business issuer's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (c) Disclosed in this report any change in the small business issuer's internal control over financial reporting that occurred during the small business issuer's fourth quarter that has materially affected, or is reasonably likely to materially affect, the small business issuer's internal control over financial reporting; and
5. The small business issuer's other certifying officers and I have disclosed, based on our most recent evaluation of internal controls over financial reporting, to the small business issuer's auditors and the audit committee of the small business issuer's board of directors (or persons performing the equivalent function):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the small business issuer's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the small business issuer's internal controls over financial reporting.

Date: January 11, 2007



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G. Patrick Lynch  
President and Chief Executive Officer

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

I, Matthew C. Wolsfeld, certify that:

1. I have reviewed this quarterly report on Form 10-QSB of Northern Technologies International Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the small business issuer as of, and for, the periods presented in this report;
4. The small business issuer's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the small business issuer and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the small business issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Evaluated the effectiveness of the small business issuer's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (c) Disclosed in this report any change in the small business issuer's internal control over financial reporting that occurred during the small business issuer's fourth quarter that has materially affected, or is reasonably likely to materially affect, the small business issuer's internal control over financial reporting; and
5. The small business issuer's other certifying officers and I have disclosed, based on our most recent evaluation of internal controls over financial reporting, to the small business issuer's auditors and the audit committee of the small business issuer's board of directors (or persons performing the equivalent function):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the small business issuer's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the small business issuer's internal controls over financial reporting.



Date: January 11, 2007

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

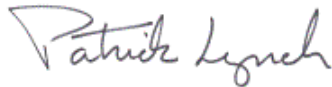


**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Northern Technologies International Corporation (the "Company") on Form 10-QSB for the period ending November 30, 2006 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, G. Patrick Lynch, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge and belief:

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

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



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

Lino Lakes, Minnesota  
January 11, 2007

**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-QSB for the period ending November 30, 2006 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:

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

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



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

Lino Lakes, Minnesota  
January 11, 2007