

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended November 30, 2023

or

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

For the transition period from _____ to _____

Commission File Number: 001-11038

NORTHERN TECHNOLOGIES INTERNATIONAL CORPORATION

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

41-0857886

(I.R.S. Employer Identification No.)

4201 Woodland Road

P.O. Box 69

Circle Pines, Minnesota 55014

(Address of principal executive offices) (Zip Code)

(763) 225-6600

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common stock, par value \$0.02 per share	NTIC	Nasdaq Global Market

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

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

Large accelerated filer

Non-accelerated filer

Accelerated filer

Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

As of January 11, 2024, there were 9,427,598 shares of common stock of the registrant outstanding.

NORTHERN TECHNOLOGIES INTERNATIONAL CORPORATION
FORM 10-Q
November 30, 2023

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

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

As used in this report, references to: (1) “NTIC China” refer to NTIC’s wholly-owned subsidiary in China, NTIC (Shanghai) Co., Ltd.; (2) “NTI Europe” refer to NTIC’s wholly-owned subsidiary in Germany, NTIC Europe GmbH; (3) “Zerust Mexico” refer to NTIC’s wholly-owned subsidiary in Mexico, ZERUST-EXCOR MEXICO, S. de R.L. de C.V.; (4) “Zerust India” refer to NTIC’s wholly-owned subsidiary in India, HNTI Limited (formerly Harita-NTI Limited); and (5) “NTI Asean” refer to NTIC’s majority-owned holding company subsidiary, NTI Asean LLC, which holds investments in certain entities that operate in the Association of Southeast Asian Nations (ASEAN) region.

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

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

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, 2023 (UNAUDITED) AND
AUGUST 31, 2023 (AUDITED)

	November 30, 2023	August 31, 2023
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 6,094,032	\$ 5,406,173
Receivables:		
Trade, excluding joint ventures, less allowance for doubtful accounts of \$533,000 as of November 30, 2023 and August 31, 2023	14,239,360	15,645,130
Trade, joint ventures	778,625	187,912
Fees for services provided to joint ventures	1,220,680	1,296,594
Dividend receivable from joint venture	320,068	1,986,027
Income taxes	—	34,202
Inventories	12,592,515	13,096,489
Prepaid expenses	3,024,134	2,019,029
Total current assets	<u>38,269,414</u>	<u>39,671,556</u>
PROPERTY AND EQUIPMENT, NET	<u>14,256,990</u>	<u>14,065,354</u>
OTHER ASSETS:		
Investments in joint ventures	24,599,520	23,705,714
Deferred income tax, net	521,329	530,944
Intangible asset, net	5,394,950	5,500,733
Goodwill	4,782,376	4,782,376
Patents and trademarks, net	650,022	658,752
Operating lease right of use asset	327,463	428,874
Total other assets	<u>36,275,660</u>	<u>35,607,393</u>
Total assets	<u>\$ 88,802,064</u>	<u>\$ 89,344,303</u>
LIABILITIES AND EQUITY		
CURRENT LIABILITIES:		
Line of credit	\$ 3,000,000	\$ 3,600,000
Term loan	2,810,686	2,757,176
Accounts payable	6,353,859	6,056,329
Income taxes payable	22,619	13,053
Accrued liabilities:		
Payroll and related benefits	1,604,119	2,305,400
Other	1,831,105	1,648,615
Current portion of operating lease	231,881	340,799
Total current liabilities	<u>15,854,269</u>	<u>16,721,372</u>
LONG-TERM LIABILITIES:		
Deferred income tax, net	1,836,059	1,836,059
Operating lease, less current portion	95,582	88,075
Total long-term liabilities	<u>\$ 1,931,641</u>	<u>\$ 1,924,134</u>
COMMITMENTS AND CONTINGENCIES (Note 12)		
EQUITY:		
Preferred stock, no par value; authorized 10,000 shares; none issued and outstanding	—	—
Common stock, \$0.02 par value per share; authorized 15,000,000 shares as of November 30, 2023 and August 31, 2023; issued and outstanding 9,427,598 and 9,424,101, respectively	188,552	188,482
Additional paid-in capital	22,377,726	21,986,767
Retained earnings	51,240,016	51,004,427
Accumulated other comprehensive loss	(6,516,461)	(6,823,403)
Stockholders' equity	<u>67,289,833</u>	<u>66,356,273</u>
Non-controlling interests	3,726,321	4,342,524
Total equity	<u>71,016,154</u>	<u>70,698,797</u>
Total liabilities and equity	<u>\$ 88,802,064</u>	<u>\$ 89,344,303</u>

See notes to consolidated financial statements.



NORTHERN TECHNOLOGIES INTERNATIONAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)
FOR THE THREE MONTHS ENDED NOVEMBER 30, 2023 AND 2022

	Three Months Ended	
	November 30, 2023	November 30, 2022
NET SALES:		
Net sales	\$ 20,181,675	\$ 19,952,766
Cost of goods sold	12,847,401	13,599,642
Gross profit	7,334,274	6,353,124
JOINT VENTURE OPERATIONS:		
Equity in income from joint ventures	1,102,241	1,189,404
Fees for services provided to joint ventures	1,248,958	1,181,805
Total joint venture operations	2,351,199	2,371,209
OPERATING EXPENSES:		
Selling expenses	3,686,058	3,507,434
General and administrative expenses	3,517,061	3,130,599
Research and development expenses	1,105,921	1,256,724
Total operating expenses	8,309,040	7,894,757
OPERATING INCOME	1,376,433	829,576
INTEREST INCOME	46,442	6,168
INTEREST EXPENSE	(111,138)	(91,331)
INCOME BEFORE INCOME TAX EXPENSE	1,311,737	744,413
INCOME TAX EXPENSE	226,796	110,733
NET INCOME	1,084,941	633,680
NET INCOME ATTRIBUTABLE TO NON-CONTROLLING INTERESTS	189,420	131,438
NET INCOME ATTRIBUTABLE TO NTIC	\$ 895,521	\$ 502,242
NET INCOME ATTRIBUTABLE TO NTIC PER COMMON SHARE:		
Basic	\$ 0.09	\$ 0.05
Diluted	\$ 0.09	\$ 0.05
WEIGHTED AVERAGE COMMON SHARES ASSUMED OUTSTANDING:		
Basic	9,427,588	9,317,680
Diluted	9,706,581	9,718,931
CASH DIVIDENDS DECLARED PER COMMON SHARE	\$ 0.07	\$ 0.07

See notes to consolidated financial statements.

NORTHERN TECHNOLOGIES INTERNATIONAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)
FOR THE THREE MONTHS ENDED NOVEMBER 30, 2023 AND 2022

	Three Months Ended	
	November 30, 2023	November 30, 2022
NET INCOME	\$ 1,084,941	\$ 633,680
OTHER COMPREHENSIVE INCOME (LOSS) – FOREIGN CURRENCY TRANSLATION ADJUSTMENT	301,319	(53,917)
COMPREHENSIVE INCOME	1,386,260	579,763
COMPREHENSIVE (LOSS) INCOME ATTRIBUTABLE TO NON-CONTROLLING INTERESTS	(183,797)	138,225
COMPREHENSIVE INCOME ATTRIBUTABLE TO NTIC	<u>\$ 1,202,463</u>	<u>\$ 717,988</u>

See notes to consolidated financial statements.

NORTHERN TECHNOLOGIES INTERNATIONAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF EQUITY (UNAUDITED)
FOR THE THREE MONTHS ENDED NOVEMBER 30, 2023 AND 2022

	STOCKHOLDERS' EQUITY						
	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income Loss	Non- Controlling Interests	Total Equity
	Shares	Amount					
BALANCE AT AUGUST 31, 2022	9,232,483	\$ 184,650	\$19,939,131	\$50,716,613	\$ (7,245,132)	\$ 3,649,034	\$67,244,296
Stock options exercised	130,254	2,605	413,958	—	—	—	416,563
Stock issued for employee stock purchase plan	3,620	72	38,624	—	—	—	38,696
Stock option expense	—	—	329,522	—	—	—	329,522
Dividend received by non-controlling interest	—	—	—	—	—	(80,000)	(80,000)
Dividends paid to shareholders	—	—	—	(655,645)	—	—	(655,645)
Net income	—	—	—	502,242	—	131,438	633,680
Comprehensive loss	—	—	—	—	(60,704)	6,787	(53,917)
BALANCE AT NOVEMBER 30, 2022	9,366,357	\$ 187,327	\$20,721,235	\$50,563,210	\$ (7,305,836)	\$ 3,707,259	\$67,873,195
BALANCE AT AUGUST 31, 2023	9,424,101	\$ 188,482	\$21,986,767	\$51,004,427	\$(6,823,403)	\$ 4,342,524	\$70,698,797
Stock issued for employee stock purchase plan	3,496	70	40,026	—	—	—	40,096
Stock option expense	—	—	350,933	—	—	—	350,933
Dividend received by non-controlling interest	—	—	—	—	—	(800,000)	(800,000)
Dividends paid to shareholders	—	—	—	(659,932)	—	—	(659,932)
Net income	—	—	—	895,521	—	189,420	1,084,941
Comprehensive income	—	—	—	—	306,942	(5,623)	301,319
BALANCE AT NOVEMBER 30, 2023	9,427,597	\$ 188,552	\$22,377,726	\$51,240,016	\$(6,516,461)	\$ 3,726,321	\$71,016,154

See notes to consolidated financial statements.

NORTHERN TECHNOLOGIES INTERNATIONAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
FOR THE THREE MONTHS ENDED NOVEMBER 30, 2023 AND 2022

	Three Months Ended	
	November 30, 2023	November 30, 2022
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 1,084,941	\$ 633,680
Adjustments to reconcile net income to net cash provided by operating activities:		
Stock-based compensation	350,933	329,522
Depreciation expense	307,010	262,876
Amortization expense	147,655	147,811
Equity in income from joint ventures	(1,102,241)	(1,189,404)
Dividends received from joint ventures	371,103	3,042,688
Deferred income taxes	15,335	(54,376)
Changes in current assets and liabilities:		
Receivables:		
Trade, excluding joint ventures	1,385,108	(539,925)
Trade, joint ventures	(590,713)	104,260
Fees for services provided to joint ventures	75,914	641,639
Dividends receivable from joint venture	1,986,027	—
Income taxes	(285,866)	(226,731)
Inventories	525,559	948,661
Prepaid expenses and other	(929,250)	(252,301)
Accounts payable	270,194	(1,573,008)
Income tax payable	9,594	(18,407)
Accrued liabilities	(544,411)	(254,442)
Net cash provided by operating activities	<u>3,076,892</u>	<u>2,002,543</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(390,729)	(409,094)
Investments in patents	(33,142)	(44,445)
Net cash used in investing activities	<u>(423,871)</u>	<u>(453,539)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net payments on line of credit	(600,000)	(450,000)
Dividends paid on NTIC common stock	(659,932)	(655,645)
Proceeds from the exercise of stock options	—	416,563
Dividends received by non-controlling interest	(800,000)	(80,000)
Proceeds from employee stock purchase plan	40,096	38,696
Net cash used in financing activities	<u>(2,019,836)</u>	<u>(730,386)</u>
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS:	<u>54,673</u>	<u>(86,187)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	687,858	732,431
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	<u>5,406,174</u>	<u>5,333,890</u>
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<u>\$ 6,094,032</u>	<u>\$ 6,066,321</u>

See notes to consolidated financial statements.

1. INTERIM FINANCIAL INFORMATION

In the opinion of management, the accompanying unaudited consolidated financial statements contain all necessary adjustments, which are of a normal recurring nature, and present fairly the consolidated financial position of Northern Technologies International Corporation and its subsidiaries (the Company) as of November 30, 2023 and August 31, 2023 and the results of the Company's operations for the three months ended November 30, 2023 and 2022, the changes in stockholders' equity for the three months ended November 30, 2023 and 2022 and the Company's cash flows for the three months ended November 30, 2023 and 2022, in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP).

These consolidated financial statements should be read in conjunction with the consolidated financial statements and related notes contained in the Company's annual report on Form 10-K for the fiscal year ended August 31, 2023. These consolidated financial statements also should be read in conjunction with the "Management's Discussion and Analysis of Financial Condition and Results of Operations" section appearing in this report.

Operating results for the three months ended November 30, 2023 are not necessarily indicative of the results that may be expected for the full fiscal year ending August 31, 2024.

The Company evaluates events occurring after the date of the consolidated financial statements, through the date the consolidated financial statements were available to be issued, requiring recording or disclosure in the consolidated financial statements.

2. ACCOUNTING PRONOUNCEMENTS

Recently Adopted Accounting Pronouncements

In June 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-13, *Measurement of Credit Losses on Financial Instruments*, which revises guidance for the accounting for credit losses on financial instruments within its scope, and in November 2018, issued ASU No. 2018-19 and in April 2019, issued ASU No. 2019-04 and in May 2019, issued ASU No. 2019-05, and in November 2019, issued ASU No. 2019-11, which amended the standard. The new standard introduces an approach, based on expected losses, to estimate credit losses on certain types of financial instruments and modifies the impairment model for available-for-sale debt securities. The new approach to estimating credit losses (referred to as the current expected credit losses model) applies to most financial assets measured at amortized cost and certain other instruments, including trade and other receivables, loans, held-to-maturity debt securities, net investments in leases and off-balance-sheet credit exposures. This ASU is effective for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. Entities are required to apply the standard's provisions as a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is adopted. The Company adopted this pronouncement on September 1, 2023 which did not have a material impact on the Company's consolidated financial position or operating results.

3. INVENTORIES

Inventories consisted of the following:

	November 30, 2023	August 31, 2023
Production materials	\$ 4,580,739	\$ 4,960,355
Finished goods	8,011,776	8,136,134
	<u>\$ 12,592,515</u>	<u>\$ 13,096,489</u>

4. PROPERTY AND EQUIPMENT, NET

Property and equipment, net consisted of the following:

	November 30, 2023	August 31, 2023
Land	\$ 496,965	\$ 496,965
Buildings and improvements	17,649,550	17,250,392
Machinery and equipment	6,050,458	5,984,364
	24,196,973	23,731,721
Less accumulated depreciation	(9,939,983)	(9,666,367)
	<u>\$ 14,256,990</u>	<u>\$ 14,065,354</u>

Depreciation expense was \$307,010 for the three months ended November 30, 2023, compared to \$262,876 for the three months ended November 30, 2022.

5. INTANGIBLE ASSETS, NET

Intangible assets, net consisted of the following:

	As of November 30, 2023		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Patents and trademarks	\$ 3,372,859	\$ (2,722,837)	\$ 650,022
Customer relationships	6,347,000	(952,050)	5,394,950
Total intangible assets, net	<u>\$ 9,719,859</u>	<u>\$ (3,674,887)</u>	<u>\$ 6,044,972</u>

	As of August 31, 2023		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Patents and trademarks	\$ 3,339,717	\$ (2,680,965)	\$ 658,752
Customer relationships	6,347,000	(846,267)	5,500,733
Total intangible assets, net	<u>\$ 9,686,717</u>	<u>\$ (3,527,232)</u>	<u>\$ 6,159,485</u>

Amortization expense related to intangible assets was \$147,655 and \$147,811 for the three months ended November 30, 2023 and 2022, respectively.

As of November 30, 2023, future amortization expense related to intangible assets for each of the next five fiscal years and thereafter is estimated as follows:

Fiscal 2024	\$ 528,439
Fiscal 2025	543,721
Fiscal 2026	517,990
Fiscal 2027	492,221
Fiscal 2028	479,012
Thereafter	3,483,589
Total	<u>\$ 6,044,972</u>

6. INVESTMENTS IN JOINT VENTURES

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

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

	As of November 30, 2023		
	Total	EXCOR	All Other
Current assets	\$ 58,856,062	\$ 28,976,285	\$ 29,879,777
Total assets	63,316,496	31,258,136	32,058,360
Current liabilities	13,323,941	2,674,730	10,649,211
Noncurrent liabilities	300,465	—	300,465
Joint ventures' equity	49,692,091	28,583,406	21,108,685
NTIC's share of joint ventures' equity	24,599,516	14,291,705	10,307,811
NTIC's share of joint ventures' undistributed earnings	23,654,848	14,260,800	9,394,048

	Three Months Ended November 30, 2023		
	Total	EXCOR	All Other
Net sales	\$ 23,560,661	\$ 8,420,960	\$ 15,139,701
Gross profit	10,103,800	4,375,075	5,728,725
Net income	2,204,482	1,026,907	1,177,575
NTIC's share of equity in income from joint ventures	1,102,241	513,453	588,788
NTIC's dividends received from joint ventures	371,104	—	371,104

	As of August 31, 2023		
	Total	EXCOR	All Other
Current assets	\$ 55,339,662	\$ 27,862,458	\$ 27,477,204
Total assets	59,729,348	30,054,277	29,675,071
Current liabilities	11,464,247	2,687,064	8,777,183
Noncurrent liabilities	323,762	—	323,762
Joint ventures' equity	47,941,339	27,367,213	20,574,126
NTIC's share of joint ventures' equity	23,705,714	13,683,608	10,022,106
NTIC's share of joint ventures' undistributed earnings	20,493,861	12,075,524	8,418,337

	Three Months Ended November 30, 2022		
	Total	EXCOR	All Other
Net sales	\$ 24,730,289	\$ 10,145,921	\$ 14,584,368
Gross profit	9,693,568	4,720,042	4,973,526
Net income	2,646,908	1,742,287	904,621
NTIC's share of equity in income from joint ventures	1,189,400	871,144	318,260
NTIC's dividends received from joint ventures	3,042,688	2,459,500	583,188

7. CORPORATE DEBT

On January 6, 2023, the Company entered into a Credit Agreement (the Credit Agreement) with JPMorgan Chase Bank, N.A. (JPM), which provides the Company with a senior secured revolving line of credit (the Credit Facility) of up to \$10.0 million, which includes a \$5.0 million sublimit for standby letters of credit. Borrowings of \$3,000,000 and \$3,600,000 under this Credit Agreement were outstanding as of November 30, 2023 and August 31, 2023, respectively.

Unless terminated earlier, the principal amount under the Credit Facility, together with all accrued unpaid interest and other amounts owing thereunder, if any, will be payable in full on the maturity date. On January 5, 2024, the Company and JPM renewed its Credit Agreement to extend the maturity date of the Credit Facility from January 6, 2024 to January 6, 2025. All other terms of the Credit Facility and the Credit Agreement remain the same.

Borrowings under the Credit Agreement bear interest at a floating rate, at the option of the Company, equal to either the CB Floating Rate or the Adjusted SOFR Rate. The term “CB Floating Rate” means the greater of the Prime Rate in the United States or 2.50%. The term “Adjusted SOFR Rate” means the term secured overnight financing rate for either one, three or six months (depending on the interest period selected by the Company) plus 0.10% per annum. With respect to any borrowings using an Adjusted SOFR Rate, there is an applicable margin of 2.15% applied per annum. There is no applicable margin with respect to borrowings using a CB Floating Rate.

To secure the Credit Agreement, the Company assigned JPM a continuing security interest in all of its right, title and interested in collateral made up for the assets of the Company.

The Credit Agreement contains customary affirmative and negative covenants, including, among other matters, limitations on the Company’s ability to incur additional debt, grant liens, engage in certain business operations and transactions, make certain investments, modify its organizational documents or form any new subsidiaries, subject to certain exceptions. Further, the Credit Agreement contains a negative covenant that restricts the ability of the Company to redeem or repurchase its common stock or pay dividends if the result of which would cause an event of default under the Credit Agreement. The Credit Agreement also requires the Company to maintain a Fixed Charge Coverage Ratio of at least 1.25 to 1.00. The term “Fixed Charge Coverage Ratio” means the ratio, computed for the Company on a consolidated basis, of net income plus income tax expense, plus amortization expense, plus depreciation expense, plus interest expense, and plus dividends received from joint ventures, minus unfinanced capital expenditures and equity in income from joint ventures, all computed for the twelve month period then ending, to scheduled principal payments made, plus scheduled finance lease payments made, plus interest expense paid, plus income tax expense paid, and plus cash distributions and dividends paid, all computed for the same twelve month period then ending. The Company was in compliance with all covenants as of November 30, 2023.

The Credit Agreement also contains customary events of default, including, without limitation, payment defaults, material inaccuracy of representations and warranties, covenant defaults, bankruptcy and insolvency proceedings, cross-defaults to certain other agreements, breach of any financial covenant and change of control. Upon the occurrence and during the continuance of any event of default, JPM may accelerate the payment of the obligations thereunder and exercise various other customary default remedies.

On each of April 10, 2023 and May 30, 2023, the Company’s wholly-owned subsidiary in China, NTIC China, entered into a loan agreement with China Construction Bank Corporation. Each term loan provided NTIC China with a RMB 10,000,000 (USD \$1.45 million). Each of the term loans matures after one year with the principal due at that time, after which an extension of the loan agreement is required. Both term loans have an annual interest rate of 3.25% with interest due monthly. Both term loans are secured by an office building owned by NTIC China and the loan agreements contain certain financial and other covenants. The Company was in compliance with the covenants as of November 30, 2023. The current outstanding balance for both term loans was USD \$2,810,686 as of November 30, 2023 and USD \$2,757,176 as of August 31, 2023.

8. STOCKHOLDERS' EQUITY

On October 18, 2023, the Company's Board of Directors declared a cash dividend of \$0.07 per share of the Company's common stock, payable on November 15, 2023 to stockholders of record on November 1, 2023. On October 20, 2022, the Company's Board of Directors declared a cash dividend of \$0.07 per share of the Company's common stock, payable on November 16, 2022 to stockholders of record on November 3, 2022.

During the three months ended November 30, 2023 and 2022, the Company repurchased no shares of its common stock.

The Company issued 3,496 and 3,620 shares of common stock on September 1, 2023 and 2022, respectively, under the Northern Technologies International Corporation Employee Stock Purchase Plan (the ESPP). The ESPP is compensatory for financial reporting purposes. As of November 30, 2023, 58,538 shares of common stock remained available for sale under the ESPP.

9. NET INCOME PER COMMON SHARE

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

The following is a reconciliation of the net income per share computation for the three months ended November 30, 2023 and 2022:

	Three Months Ended	
	November 30, 2023	November 30, 2022
Numerator:		
Net income attributable to NTIC	\$ 895,521	\$ 502,242
Denominator:		
Basic – weighted shares outstanding	9,427,588	9,317,680
Weighted shares assumed upon exercise of stock options	278,993	401,251
Diluted – weighted shares outstanding	9,706,581	9,718,931
Basic net income per share:	\$ 0.09	\$ 0.05
Diluted net income per share:	\$ 0.09	\$ 0.05

The dilutive impact summarized above relates to the periods when the average market price of the Company's common stock exceeded the exercise price of the potentially dilutive option securities granted. Net income per common share was based on the weighted average number of common shares outstanding during the periods when computing basic net income per share. When dilutive, stock options are included as equivalents using the treasury stock market method when computing the diluted net income per share. Excluded from the computation of diluted net income per share for the three months ended November 30, 2023 were options outstanding to purchase 580,869 shares of common stock. Excluded from the computation of diluted net income per share for the three months ended November 30, 2022 were options outstanding to purchase 305,514 shares of common stock.

10. STOCK-BASED COMPENSATION

A summary of stock option activities under the Northern Technologies International Corporation Amended and Restated 2019 Stock Incentive Plan (the 2019 Plan) and the Northern Technologies International Corporation Amended and Restated 2007 Stock Incentive Plan (the 2007 Plan) is as follows:

	Number of Options Outstanding	Weighted Average Exercise Price
Outstanding as of August 31, 2023	1,557,131	\$ 11.08
Granted	269,845	\$ 13.25
Exercised	—	—
Cancelled/Forfeited	—	—
Outstanding as of November 30, 2023	1,826,976	\$ 11.40

The weighted average per share fair value of options granted during the three months ended November 30, 2023 and 2022 was \$5.05 and \$4.85, respectively. The weighted average remaining contractual life of the options outstanding as of November 30, 2023 and 2022 was 6.55 years and 6.66 years, respectively.

The Company recognized compensation expense of \$350,933 and \$329,522 during the three months ended November 30, 2023 and 2022, respectively. As of November 30, 2023, there was \$2,037,871 of unrecognized compensation expense. The amount is expected to be recognized over a period of 2.75 years.

11. SEGMENT AND GEOGRAPHIC INFORMATION

Segment Information

The Company's chief operating decision maker is its Chief Executive Officer. The Company's business is organized into two reportable segments: ZERUST® and Natur-Tec®. The Company has been selling its proprietary ZERUST® rust and corrosion inhibiting products and services to the automotive, electronics, electrical, mechanical, military and retail consumer markets for almost 50 years and, more recently, has targeted and expanded into the oil and gas industry. The Company also sells a portfolio of bio-based and compostable (fully biodegradable) polymer resins and finished products under the Natur-Tec® brand.

The following table sets forth the Company's net sales for the three months ended November 30, 2023 and 2022 by segment:

	Three Months Ended	
	November 30, 2023	November 30, 2022
ZERUST® net sales	\$ 15,405,745	\$ 15,370,001
Natur-Tec® net sales	4,775,930	4,582,765
Total net sales	<u>\$ 20,181,675</u>	<u>\$ 19,952,766</u>

The following table sets forth the Company's cost of goods sold for the three months ended November 30, 2023 and 2022 by segment:

	November 30, 2023	% of Product Sales*	November 30, 2022	% of Product Sales*
Direct cost of goods sold				
ZERUST®	\$ 8,744,024	56.8%	\$ 9,179,254	59.7%
Natur-Tec®	3,228,583	67.6%	3,570,673	77.9%
Indirect cost of goods sold	874,794	NA	849,715	NA
Total net cost of goods sold	<u>\$ 12,847,401</u>		<u>\$ 13,599,642</u>	

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

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

Geographic Information

Net sales by geographic location for the three months ended November 30, 2023 and 2022 were as follows:

	Three Months Ended	
	November 30, 2023	November 30, 2022
Inside the U.S.A. to unaffiliated customers	\$ 12,097,843	\$ 7,478,161
Outside the U.S.A. to:		
Joint ventures in which the Company is a shareholder directly and indirectly	851,452	633,465
Unaffiliated customers	7,232,380	11,841,140
	<u>\$ 20,181,675</u>	<u>\$ 19,952,766</u>

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

Fees for services provided to joint ventures by geographic location as a percentage of total fees for services provided to joint ventures during the three months ended November 30, 2023 and 2022 were as follows:

	Three Months Ended			
	November 30, 2023	% of Total Fees for Services Provided to Joint Ventures	November 30, 2022	% of Total Fees for Services Provided to Joint Ventures
Germany	\$ 205,643	16.5%	\$ 193,828	16.4%
Poland	198,017	15.9%	186,696	15.8%
Japan	136,081	10.9%	147,920	12.5%
France	121,966	9.8%	109,357	9.3%
Sweden	110,536	8.9%	100,436	8.5%
Finland	103,744	8.3%	90,432	7.7%
Thailand	79,438	6.4%	82,956	7.0%
Czech Republic	77,812	6.2%	80,332	6.8%
South Korea	74,957	6.0%	63,395	5.4%
United Kingdom	63,149	5.1%	57,691	4.9%
Other	77,615	6.2%	68,762	5.7%
	<u>\$ 1,248,958</u>	<u>100.0%</u>	<u>\$ 1,181,805</u>	<u>100.0%</u>

The geographical distribution of total property and equipment and net sales is as follows:

	At November 30, 2023	At August 31, 2023
China	\$ 5,801,146	\$ 5,729,080
Other	817,898	745,469
United States	7,637,946	7,590,805
Total property and equipment, net	<u>\$ 14,256,990</u>	<u>\$ 14,065,354</u>

	Three Months Ended	
	November 30, 2023	November 30, 2022
China	\$ 3,678,523	\$ 3,746,640
Brazil	1,529,623	1,367,418
India	5,180,391	4,846,927
Other	2,560,757	2,513,620
United States	7,232,381	7,478,161
Total net sales	<u>\$ 20,181,675</u>	<u>\$ 19,952,766</u>

Long-lived assets consist of property and equipment. These assets are periodically reviewed to assure the net realizable value from the estimated future production based on forecasted sales exceeds the carrying value of the assets.

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

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

12. COMMITMENTS AND CONTINGENCIES

Concentrations

Three joint ventures (consisting of the Company's joint ventures in Korea, Thailand and Japan) accounted for 68.2% of the Company's trade joint venture receivables as of November 30, 2023, and two joint ventures (consisting of the Company's joint ventures in United States and South Korea) accounted for 40.1% of the Company's trade joint venture receivables as of August 31, 2023.

Legal Matters

From time to time, the Company is subject to various other claims and legal actions in the ordinary course of its business. The Company records a liability in its consolidated financial statements for costs related to claims, including future legal costs, settlements and judgments, where the Company has assessed that a loss is probable, and an amount could be reasonably estimated. If the reasonable estimate of a probable loss is a range, the Company records the most probable estimate of the loss or the minimum amount when no amount within the range is a better estimate than any other amount. The Company discloses a contingent liability even if the liability is not probable or the amount is not estimable, or both, if there is a reasonable possibility that material loss may have been incurred. In the opinion of management, as of November 30, 2023, the amount of liability, if any, with respect to these matters, individually or in the aggregate, will not materially affect the Company's consolidated results of operations, financial position or cash flows.

13. SUPPLEMENTAL CASH FLOW INFORMATION

Supplemental disclosures of cash flow information consisted of:

	Three Months Ended	
	November 30, 2023	November 30, 2022
Cash paid for interest	\$ 111,138	\$ 91,331

14. INCOME TAXES

Income tax expense for the three months ended November 30, 2023 was \$226,796 compared to \$110,733 for the three months ended November 30, 2022. The expense was largely due to foreign operations. The Company has federal and state tax credit carry forwards, net operating loss carry forwards and foreign tax carry forwards. The Company has recorded a full valuation allowance against the U.S. deferred tax assets as of November 30, 2023 and August 31, 2023.

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

This Management's Discussion and Analysis provides material historical and prospective disclosures intended to enable investors and other users to assess NTIC's financial condition and results of operations. Statements that are not historical are forward-looking and involve risks and uncertainties discussed under the heading "*Part I. Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations—Forward-Looking Statements*" in this report and under "*Part I. Item 1A. Risk Factors*" in our annual report on Form 10-K for the fiscal year ended August 31, 2023. The following discussion of the results of the operations and financial condition of NTIC should be read in conjunction with NTIC's consolidated financial statements and the related notes thereto included under the heading "*Part I. Item 1. Financial Statements.*"

Business Overview

NTIC develops and markets proprietary, environmentally beneficial products and services in over 65 countries either directly or via a network of subsidiaries, joint ventures, independent distributors, and agents. NTIC's primary business is corrosion prevention marketed mainly under the ZERUST® brand. NTIC has been selling its proprietary ZERUST® products and services to the automotive, electronics, electrical, mechanical, military, and retail consumer markets for almost 50 years and, more recently, has also expanded into the oil and gas industry. Additionally, NTIC markets and sells a portfolio of proprietary bio-based and certified compostable (fully biodegradable) polymer resin compounds and finished products under the Natur-Tec® brand. These products are intended to reduce NTIC's customers' carbon footprint and provide environmentally sound waste disposal options.

NTIC's ZERUST® rust and corrosion inhibiting products include plastic and paper packaging, liquids, coatings, rust removers, cleaners, and diffusers as well as engineered solutions designed specifically for the oil and gas industry. NTIC also offers worldwide, on-site, technical consulting for rust and corrosion prevention issues. In North America, NTIC sells its ZERUST® corrosion prevention solutions through a network of independent distributors and agents supported by a direct sales force.

Internationally, NTIC sells its ZERUST® corrosion prevention solutions through its wholly-owned subsidiary in China, NTIC (Shanghai) Co., Ltd. (NTIC China), its wholly-owned subsidiary in India, HNTI Limited (Zerust India), its majority-owned joint venture holding company for NTIC's joint venture investments in the Association of Southeast Asian Nations (ASEAN) region, NTI Asean LLC (NTI Asean), and certain majority-owned and wholly-owned subsidiaries, and joint venture arrangements in North America, Europe, and Asia. NTIC also sells products directly to its European joint venture partners through its wholly-owned subsidiary in Germany, NTIC Europe GmbH (NTI Europe).

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

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

Natur-Tec® bio-based and compostable plastics are manufactured using NTIC's patented and/or proprietary technologies and are intended to replace conventional petroleum-based plastics. The Natur-Tec® biopolymer resin compound portfolio includes formulations that have been optimized for a variety of applications, including blown-film extrusion, extrusion coating, injection molding, and engineered plastics. These resin compounds are certified to be fully biodegradable in a commercial composting environment and are currently being used to produce finished products, including can liners, shopping and grocery bags, lawn and leaf bags, branded apparel packaging bags and accessories, and various foodservice items, such as disposable cutlery, drinking straws, food-handling gloves, and coated paper products. In North America, NTIC markets its Natur-Tec® resin compounds and finished products primarily through a network of regional and national distributors as well as independent agents. NTIC continues to see significant opportunities for finished bioplastic products and, therefore, continues to strengthen and expand its North American distribution network for finished Natur-Tec® bioplastic products.

Internationally, NTIC sells its Natur-Tec® resin compounds and finished products both directly and through its wholly-owned subsidiary in China and majority-owned subsidiaries in India and Sri Lanka, and through distributors and certain joint ventures.

Financial Overview

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

Highlights of NTIC's financial results for the three months ended November 30, 2023 include the following, with increases or decreases in each case as compared to the prior fiscal year quarterly period:

- NTIC's consolidated net sales increased 1.1% during the three months ended November 30, 2023 compared to the three months ended November 30, 2022 primarily as a result of an increase in sales of Natur-Tec® products. During the three months ended November 30, 2023, 76.3% of NTIC's consolidated net sales were derived from sales of ZERUST® products and services and 23.7% of NTIC's consolidated net sales were derived from sales of Natur-Tec®.
- Cost of goods sold as a percentage of net sales decreased to 63.7% during the three months ended November 30, 2023, compared to 68.2% during the three months ended November 30, 2022 primarily as a result of lower raw material prices overall.
- NTIC's equity in income from joint ventures decreased 7.3% to \$1,102,241 during the three months ended November 30, 2023 compared to \$1,189,404 during the three months ended November 30, 2022. This decrease was primarily due to a decrease in net income at NTIC's joint venture in Germany, partially offset by increases at the majority of the other joint ventures. Net sales at the joint ventures decreased 4.7% to \$23,560,661 during the three months ended November 30, 2023, compared to \$24,730,289 for the three months ended November 30, 2022.
- NTIC's total operating expenses increased 5.2% to \$8,309,040 during the three months ended November 30, 2023 compared to \$7,894,757 for the three months ended November 30, 2022. This increase was primarily due to increased personnel expenses, including new hires, benefits and travel.
- NTIC incurred net income attributable to NTIC of \$895,521, or \$0.09 per diluted common share, for the three months ended November 30, 2023 compared to net income attributable to NTIC of \$502,242, or \$0.05 per diluted common share, for the three months ended November 30, 2022.

Results of Operations

The following table sets forth NTIC's results of operations for the three months ended November 30, 2023 and 2022.

	Three Months Ended					
	November 30, 2023	% of Net Sales	November 30, 2022	% of Net Sales	\$ Change	% Change
Net sales	\$ 20,181,675	n/a	\$ 19,952,766	n/a	\$ 228,909	1.1%
Cost of goods sold	12,847,401	63.7%	13,599,642	68.2%	(752,241)	(5.5%)
Equity in income from joint ventures	1,102,241	n/a	1,189,404	n/a	(87,163)	(7.3%)
Fees for services provided to joint ventures	1,248,958	n/a	1,181,805	n/a	67,153	5.7%
Selling expenses	3,686,058	18.3%	3,507,434	17.6%	178,624	5.1%
General and administrative expenses	3,517,061	17.4%	3,130,599	15.7%	386,462	12.3%
Research and development expenses	1,105,921	5.5%	1,256,724	6.3%	(150,803)	(12.0%)

Net Sales. NTIC's consolidated net sales increased 1.1% to \$20,181,675 during the three months ended November 30, 2023 compared to the three months ended November 30, 2022. This increase was primarily a result of an increase in sales of Natur-Tec® products.

The following table sets forth NTIC's net sales by product segment for the three months ended November 30, 2023 and 2022:

	Three Months Ended			
	November 30, 2023	November 30, 2022	\$ Change	% Change
Total ZERUST® sales	\$ 15,405,745	\$ 15,370,001	\$ 35,744	0.2%
Total Natur-Tec® sales	4,775,930	4,582,765	193,165	4.2%
Total net sales	\$ 20,181,675	\$ 19,952,766	\$ 228,909	1.1%

During the three months ended November 30, 2023, 76.3% of NTIC's consolidated net sales were derived from sales of ZERUST® products and services, which increased 0.2% to \$15,405,745 during the three months ended November 30, 2023 compared to \$15,370,001 during the three months ended November 30, 2022. This increase was primarily a result of increased demand in North America.

The following table sets forth NTIC's net sales of ZERUST® products for the three months ended November 30, 2023 and 2022:

	Three Months Ended			
	November 30, 2023	November 30, 2022	\$ Change	% Change
ZERUST® industrial net sales	\$ 13,903,431	\$ 13,748,104	\$ 115,327	1.1%
ZERUST® oil & gas net sales	1,502,314	1,621,897	(119,583)	(7.4%)
Total ZERUST® net sales	\$ 15,405,745	\$ 15,370,001	\$ 35,744	0.2%

NTIC's total ZERUST® net sales increased during the three months ended November 30, 2023, compared to the same prior fiscal year period, primarily due to increased demand in North American ZERUST® industrial business. Overall, demand for ZERUST® products and services depends heavily on the overall health of the markets in which NTIC sells its products, including the automotive, oil and gas, agriculture, and mining markets in particular.

ZERUST® oil and gas net sales decreased 7.4% during the three months ended November 30, 2023 compared to the same period last fiscal year primarily as a result of timing on the delivery of various orders that were not shipped prior to the end of the quarter. NTIC anticipates that its sales of ZERUST® products and services to the oil and gas industry will continue to remain subject to significant volatility from quarter to quarter as sales are recognized. Demand for oil and gas products around the world depends primarily on market acceptance and the reach of NTIC's distribution network. Because of the typical size of individual orders and overall size of NTIC's net sales derived from sales of oil and gas products, the timing of one or more orders can materially affect NTIC's quarterly sales compared to prior fiscal year quarters.

During the three months ended November 30, 2023, 23.7% of NTIC's consolidated net sales were derived from sales of Natur-Tec® products, compared to 23.0% during the three months ended November 30, 2022. Sales of Natur-Tec® products increased 4.2% to \$4,775,930 during the three months ended November 30, 2023 compared to \$4,582,765 during the three months ended November 30, 2022 as a result of increased global demand. The demand for Natur-Tec® products in most markets has returned to pre-pandemic levels; however, there are lingering effects of COVID-19 in the apparel industry, as well as corporate office complexes.

Cost of Goods Sold. Cost of goods sold decreased 5.5% for the three months ended November 30, 2023 compared to the three months ended November 30, 2022 primarily as a result of lower raw material prices overall. Cost of goods sold as a percentage of net sales decreased to 63.7% for the three months ended November 30, 2023 compared to 68.2% for the three months ended November 30, 2022 primarily as a result of these lower raw material prices. NTIC has taken certain actions to address inflationary pressures and pass on related cost increases to its customers and some improvements from these actions, as well as some improvements in gross margin, were realized during the three months ended November 30, 2023.

Equity in Income from Joint Ventures. NTIC's equity in income from joint ventures decreased 7.3% to \$1,102,241 during the three months ended November 30, 2023 compared to \$1,189,404 during the three months ended November 30, 2022. This decrease was primarily due to a decrease in net income at NTIC's joint venture in Germany, partially offset by increases at the majority of the other joint ventures. NTIC's equity in income from joint ventures fluctuates based on net sales and profitability of the joint ventures during the respective periods. Of the total equity in income from joint ventures, NTIC had equity in income from joint ventures of \$513,453 attributable to EXCOR during the three months ended November 30, 2023 compared to \$871,144 attributable to EXCOR during the three months ended November 30, 2022. This decrease was primarily a result of a decrease in net sales by EXCOR compared to the same prior fiscal year period, due primarily to the loss of a customer and softer demand within the region related to higher energy prices and other externalities linked to the war between Ukraine and Russia. NTIC had equity in income from all other joint ventures of \$588,788 during the three months ended November 30, 2023, compared to \$318,260 during the three months ended November 30, 2022.

Fees for Services Provided to Joint Ventures. NTIC recognized fee income for services provided to joint ventures of \$1,248,958 during the three months ended November 30, 2023 compared to \$1,181,805 during the three months ended November 30, 2022, representing an increase of 5.7%, or \$67,153. Fee income for services provided to joint ventures is traditionally a function of the sales made by NTIC's joint ventures; however, at various joint ventures, the fee income for services is a fixed amount that does not fluctuate with the change in sales which was experienced by certain joint ventures during the three months ended November 30, 2023. Total net sales of NTIC's joint ventures decreased to \$23,560,661 during the three months ended November 30, 2023 compared to \$24,730,289 for the three months ended November 30, 2022, representing a decrease of 4.7%. This decrease was primarily a result of decreased demand during the three months ended November 30, 2023 at NTIC's joint venture in Germany due primarily to the loss of a customer and softer demand within the region, as described above. Net sales of NTIC's joint ventures are not included in NTIC's product sales and are not included in NTIC's consolidated financial statements. Of the total fee income for services provided to joint ventures, fees of \$205,643 were attributable to EXCOR during the three months ended November 30, 2023 compared to \$193,828 attributable to EXCOR during the three months ended November 30, 2022.

Selling Expenses. NTIC's selling expenses increased 5.1% for the three months ended November 30, 2023 compared to the same period in fiscal 2023 due primarily to an increase in personnel expense during the current fiscal year period compared to the same prior fiscal year period. Selling expenses as a percentage of net sales increased to 18.3% for the three months ended November 30, 2023 compared to 17.6% during the three months ended November 30, 2022 primarily due to increased selling expenses, as noted above.

General and Administrative Expenses. NTIC's general and administrative expenses increased 12.3% for the three months ended November 30, 2023 compared to the same period in fiscal 2023 primarily due to increased professional services and travel and personnel expenses during the current fiscal year period compared to the same prior fiscal year period. As a percentage of net sales, general and administrative expenses increased to 17.4% for the three months ended November 30, 2023 from 15.7% for the three months ended November 30, 2022 primarily due to the increase in general and administrative expenses, as noted above.

Research and Development Expenses. NTIC's research and development expenses decreased 12.0% for the three months ended November 30, 2023 compared to the same period in fiscal 2023 primarily due to the timing of expenses incurred and a decrease in expenses associated with development efforts.

Interest Income. NTIC's interest income increased to \$46,442 during the three months ended November 30, 2023 compared to \$6,168 during the three months ended November 30, 2022 primarily due to changes to the invested cash balances at subsidiaries.

Interest Expense. NTIC's interest expense increased to \$111,138 during the three months ended November 30, 2023 compared to \$91,331 during the three months ended November 30, 2022 primarily due to increased average interest rates during the current fiscal year period.

Income Before Income Tax Expense. NTIC had income before income tax expense of \$1,311,737 for the three months ended November 30, 2023 compared to income before income tax expense of \$744,413 for the three months ended November 30, 2022.

Income Tax Expense. Income tax expense was \$226,796 during the three months ended November 30, 2023 compared to \$110,733 during the three months ended November 30, 2022. Income tax expense was calculated based on management's estimate of NTIC's annual effective income tax rate.

NTIC considers the earnings of certain foreign joint ventures to be indefinitely invested outside the United States on the basis of estimates that NTIC's future domestic cash generation will be sufficient to meet future domestic cash needs. As a result, U.S. income and foreign withholding taxes have not been recognized on the cumulative undistributed earnings of \$23,654,848 and \$20,493,861 as of November 30, 2023 and August 31, 2023, respectively. To the extent undistributed earnings of NTIC's joint ventures are distributed in the future, they are not expected to result in any material additional income tax liability after the application of foreign tax credits.

Net Income Attributable to NTIC. Net income attributable to NTIC increased to \$895,521, or \$0.09 per diluted common share, for the three months ended November 30, 2023 compared to \$502,242, or \$0.05 per diluted common share, for the three months ended November 30, 2022. This increase was primarily due to the increase in gross profit, partially offset by the increase in operating expenses.

NTIC anticipates that its earnings will continue to be adversely affected to some extent by inflation and worldwide supply chain disruptions, among other factors. Additionally, NTIC anticipates that its quarterly net income will continue to remain subject to significant volatility primarily due to the financial performance of its subsidiaries and joint ventures, sales of its ZERUST® products and services into the oil and gas industry, and sales of its Natur-Tec® bioplastics products, which sales fluctuate more on a quarterly basis than the traditional ZERUST® business.

Other Comprehensive Income – Foreign Currency Translations Adjustment. The changes in the foreign currency translations adjustment were due to the fluctuation of the U.S. dollar compared to the Euro and other foreign currencies during the three months ended November 30, 2023 compared to the same period in fiscal 2023.

Liquidity and Capital Resources

Sources of Cash and Working Capital. NTIC's working capital, defined as current assets less current liabilities, was \$22,415,145 as of November 30, 2023, including \$6,094,032 in cash and cash equivalents, compared to \$22,950,184 as of August 31, 2023, including \$5,406,173 in cash and cash equivalents.

NTIC believes that a combination of its existing cash and cash equivalents, available for sale securities, forecasted cash flows from future operations, anticipated distributions of earnings, anticipated fees to NTIC for services provided to its joint ventures, and funds available through existing or anticipated financing arrangements will be adequate to fund its existing operations, investments in new or existing joint ventures or subsidiaries, capital expenditures, debt repayments, cash dividends, and any stock repurchases for at least the next 12 months. During the remainder of fiscal 2024, NTIC expects to continue to invest through its use of working capital in Zerust India, NTIC China, NTI Europe, its joint ventures, research and development, marketing efforts, resources for the application of its corrosion prevention technology in the oil and gas industry, and its Natur-Tec® bio-plastics business, although the amounts of these various investments are not known at this time.

NTIC also expects to use some of its capital resources to continue to transition some of its joint ventures as needed or appropriate, which may include additional acquisitions by NTIC of the remaining ownership interests of joint ventures not owned by NTIC, the formation of one or more new subsidiaries to assume the operations of a joint venture, and dissolutions or liquidations of one or more of its joint ventures. Some of these joint venture transitions may materially impact NTIC's results of operations for a particular reporting period. For example, the formation of a new indirect, majority owned subsidiary of NTIC to assume the operations of a former joint venture increased NTIC's operating expenses during the three months ended November 30, 2023.

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

In order to take advantage of new product and market opportunities to expand its business and increase its revenues and assist with joint venture transitions, NTIC may decide to finance such opportunities by additional borrowing under its revolving line of credit or raising additional financing through the issuance of debt or equity securities. There is no assurance that any financing transaction will be available on terms acceptable to NTIC or at all or that any financing transaction will not be dilutive to NTIC's current stockholders.

Credit Agreement with JPMorgan Chase Bank, N.A. On January 6, 2023, NTIC entered into a Credit Agreement (the Credit Agreement) with JPMorgan Chase Bank, N.A. (JPM), which provides NTIC with a senior secured revolving line of credit (the Credit Facility) of up to \$10.0 million, and replaced NTIC's prior loan agreement with PNC Bank, National Association. The Credit Facility includes a \$5.0 million sublimit for standby letters of credit. Borrowings of \$3,000,000 were outstanding under the Credit Facility as of November 30, 2023.

Unless terminated earlier, the principal amount under the Credit Facility, together with all accrued unpaid interest and other amounts owing thereunder, if any, will be payable in full on the maturity date. On January 5, 2024, the Company and JPM renewed its Credit Agreement to extend the maturity date of the Credit Facility from January 6, 2024 to January 6, 2025. All other terms of the Credit Facility and the Credit Agreement remain the same. It is anticipated that the Credit Facility will be renewed each year for one additional year for the immediate foreseeable future.

Borrowings under the Credit Agreement bear interest at a floating rate, at the option of NTIC, equal to either the CB Floating Rate or the Adjusted SOFR Rate. The term “CB Floating Rate” means the greater of the Prime Rate in the United States or 2.50%. The term “Adjusted SOFR Rate” means the term secured overnight financing rate for either one, three or six months (depending on the interest period selected by NTIC) plus 0.10% per annum. With respect to any borrowings using an Adjusted SOFR Rate, there is an applicable margin of 2.15% applied per annum. There is no applicable margin with respect to borrowings using a CB Floating Rate.

To secure the Credit Agreement, the Company assigned to JPM a continuing security interest in all of its right, title and interested in collateral made up for the assets of the Company.

The Credit Agreement contains customary affirmative and negative covenants, including, among other matters, limitations on NTIC’s ability to incur additional debt, grant liens, engage in certain business operations and transactions, make certain investments, modify its organizational documents or form any new subsidiaries, subject to certain exceptions. Further, the Credit Agreement contains a negative covenant that restricts the ability of NTIC to redeem or repurchase its common stock or pay dividends if the result of which would cause an event of default under the Credit Agreement. The Credit Agreement also requires the Company to maintain a Fixed Charge Coverage Ratio of at least 1.25 to 1.00. The term “Fixed Charge Coverage Ratio” means the ratio, computed for the NTIC on a consolidated basis, of net income plus income tax expense, plus amortization expense, plus depreciation expense, plus interest expense, and plus dividends received from joint ventures, minus unfinanced capital expenditures and equity in income from joint ventures, all computed for the twelve month period then ending, to scheduled principal payments made, plus scheduled finance lease payments made, plus interest expense paid, plus income tax expense paid, and plus cash distributions and dividends paid, all computed for the same twelve month period then ending.

The Credit Agreement also contains customary events of default, including, without limitation, payment defaults, material inaccuracy of representations and warranties, covenant defaults, bankruptcy and insolvency proceedings, cross-defaults to certain other agreements, breach of any financial covenant and change of control. Upon the occurrence and during the continuance of any event of default, JPM may accelerate the payment of the obligations thereunder and exercise various other customary default remedies. As of November 30, 2023, NTIC was in compliance with all debt covenants under the Credit Agreement.

Other Credit Arrangements. On each of April 10, 2023 and May 30, 2023, the Company’s wholly-owned subsidiary in China, NTIC China, entered into a loan agreement with China Construction Bank Corporation. Each term loan provided NTIC China with a RMB 10,000,000 (USD \$1.45 million). Each of the term loans matures after one year with the principal due at that time, after which an extension of the loan agreement is required. Both term loans have an annual interest rate of 3.25% with interest due monthly. Both term loans are secured by an office building owned by NTIC China and the loan agreements contain certain financial and other covenants. NTIC was in compliance with the covenants as of November 30, 2023. The current outstanding balance as of November 30, 2023 for both term loans is USD \$2,810,686.

Uses of Cash and Cash Flow. Net cash provided by operating activities during the three months ended November 30, 2023 was \$3,076,892, which resulted principally from a decrease in dividends receivable from joint venture and trade receivables, NTIC’s net income, dividends received from joint ventures, a decrease in inventories, depreciation and amortization expense, and stock-based compensation, partially offset by equity in income from joint ventures and an increase in prepaid expenses and other, technical fee receivables and accounts payable. Net cash provided by operating activities during the three months ended November 30, 2022 was \$2,002,543, which resulted principally from dividends received from joint ventures, NTIC’s net income, an increase in inventories, depreciation and amortization expense, and stock-based compensation, partially offset by equity in income from joint ventures and an increase in accounts payable.

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

NTIC experienced a decrease in trade receivables and a decrease in inventory as of November 30, 2023 compared to August 31, 2023. Trade receivables, excluding joint ventures, as of November 30, 2023 decreased \$1,405,769 compared to August 31, 2023, primarily related to the timing of collections.

Outstanding trade receivables, excluding joint ventures balances, decreased an average of 4 days to an average of 67 days from balances outstanding from these customers as of November 30, 2023 from an average of 71 days as of August 31, 2023.

Outstanding trade receivables from joint ventures as of November 30, 2023 increased \$590,713 compared to August 31, 2023 primarily due to the timing of payments and orders. Outstanding balances from trade receivables from joint ventures increased an average of 49 days to an average of 83 days from balances outstanding from these customers as of November 30, 2023 from an average of 34 days as of August 31, 2023. The average days outstanding of trade receivables from joint ventures as of November 30, 2023 were primarily due to the receivables balances at Japan, Thailand and South Korea.

Outstanding receivables for services provided to joint ventures as of November 30, 2023 decreased \$75,194 compared to August 31, 2023, and the average days to pay increased an average of 3 days to an average of 89 days from an average of 86 days as of August 31, 2023.

Net cash used in investing activities for the three months ended November 30, 2023 was \$423,871, which was primarily the result of the purchases of property and equipment, and investments in patents. Net cash used in investing activities for the three months ended November 30, 2022 was \$453,539, which was primarily the result of the purchases of property and equipment, and investments in patents.

Net cash used in financing activities for the three months ended November 30, 2023 was \$2,019,836, which resulted from dividends paid to shareholders, the repayment of borrowings under the line of credit, and dividends received by non-controlling interests, partially offset by proceeds from NTIC's employee stock purchase plan. Net cash used in financing activities for the three months ended November 30, 2022 was \$730,386, which resulted from dividends paid to shareholders, the repayment of borrowings under the line of credit, and dividends received by non-controlling interests, partially offset by proceeds from the exercise of stock options and proceeds from NTIC's employee stock purchase plan.

Share Repurchase Plan. On January 15, 2015, NTIC's Board of Directors authorized the repurchase of up to \$3,000,000 in shares of NTIC common stock through open market purchases or unsolicited or solicited privately negotiated transactions. This program has no expiration date but may be terminated by NTIC's Board of Directors at any time. No repurchases occurred during the three months ended November 30, 2023. As of November 30, 2023, up to \$2,640,548 in shares of NTIC common stock remained available for repurchase under NTIC's stock repurchase program.

Cash Dividends. On October 18, 2023, the Company's Board of Directors declared a cash dividend of \$0.07 per share of the Company's common stock, payable on November 15, 2023 to stockholders of record on November 1, 2023. On October 20, 2022, the Company's Board of Directors declared a cash dividend of \$0.07 per share of the Company's common stock, payable on November 16, 2022 to stockholders of record on November 3, 2022. The declaration of future dividends is not guaranteed and will be determined by NTIC's Board of Directors in light of conditions then existing, including NTIC's earnings, financial condition, cash requirements, restrictions in financing agreements, business conditions and other factors.

Capital Expenditures and Commitments. NTIC spent \$390,729 on capital expenditures during the three months ended November 30, 2023, which related primarily to a new warehouse facility, equipment and facility improvements, including the purchase of the property immediately adjacent to NTIC's headquarters in Circle Pines, Minnesota, which includes a 26,000 square foot industrial building, and related renovations. The building will be used primarily for warehousing space and light industrial production. NTIC expects to spend an aggregate of approximately \$1,600,000 to \$2,100,000 on capital expenditures during fiscal 2024, which it expects will relate primarily to the installation of new Enterprise Resource Planning (ERP) software system and the purchase of new equipment and facility improvements.

Inflation and Seasonality

Although inflation in the United States and abroad historically has had little effect on NTIC, inflationary pressures adversely affected NTIC's gross margins during the first quarter of fiscal 2024. NTIC believes there is some seasonality in its business. NTIC anticipates its net sales in the second fiscal quarter may be adversely affected by the long Chinese New Year, the North American holiday season and overall less corrosion taking place at lower winter temperatures worldwide.

Market Risk

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

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

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

Any outstanding advances under NTIC's Credit Facility with JPM bear interest at a floating rate, at the option of NTIC, equal to either the CB Floating Rate or the Adjusted SOFR Rate, as defined above. Borrowings of \$3,000,000 were outstanding under the Credit Facility as of November 30, 2023.

Both term loans undertaken by NTIC China with China Construction Bank Corporation have an annual interest rate of 3.25% with interest due monthly. The current outstanding balance as of November 30, 2023 for both term loans is USD \$2,810,686.

Critical Accounting Policies and Estimates

There have been no material changes to NTIC's critical accounting policies and estimates from the information provided in "Part II, Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Policies and Estimates" included in NTIC's annual report on Form 10-K for the fiscal year ended August 31, 2023.

Recent Accounting Pronouncements

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

Forward-Looking Statements

This quarterly report on Form 10-Q contains not only historical information, but also forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These forward-looking statements are subject to the safe harbor created by those sections. In addition, NTIC or others on NTIC's behalf may make forward-looking statements from time to time in oral presentations, including telephone conferences and/or web casts open to the public, in press releases or reports, on NTIC's Internet web site, or otherwise. All statements other than statements of historical facts included in this report or expressed by NTIC orally from time to time that address activities, events, or developments that NTIC expects, believes, or anticipates will or may occur in the future are forward-looking statements, including, in particular, the statements about NTIC's plans, objectives, strategies, and prospects regarding, among other things, NTIC's financial condition, results of operations and business, the anticipated effect of COVID-19 and its acquisition of Zerust India on NTIC's business, operating results and financial condition, and the outcome of contingencies, such as legal proceedings. NTIC has identified some of these forward-looking statements in this report with words like "believe," "can," "may," "could," "would," "might," "forecast," "possible," "potential," "project," "will," "should," "expect," "intend," "plan," "predict," "anticipate," "estimate," "approximate," "outlook," or "continue" or the negative of these words or other words and terms of similar meaning. The use of future dates is also an indication of a forward-looking statement. Forward-looking statements may be contained in the notes to NTIC's consolidated financial statements and elsewhere in this report, including under the heading "Management's Discussion and Analysis of Financial Condition and Results of Operations."

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

- The effect of worldwide disruption in supply issues on NTIC's business, operating results and financial condition, which will likely continue through fiscal 2024, regardless of the status of COVID-19;
- The effect of COVID-19 on NTIC's business, operating results and financial condition, including in particular in China, and disruption to our customers, suppliers and subcontractors, as well as the global economy and financial markets;
- The effect of current worldwide economic conditions, inflation, recessionary indicators and any turmoil and disruption in the global credit, financial and banking markets or the perception of adverse conditions on NTIC's business and the business of NTIC's customers, suppliers, vendors and other third parties with whom NTIC conducts business;

- The effect of the ongoing war between Russia and Ukraine, and the effect of the war and the resulting sanctions by U.S. and European governments on commodity price fluctuations, which have decreased our margins and the margins of our joint ventures and resulted in decreased joint venture profitability, which will likely continue through the end of fiscal 2024;
- The effect of the ongoing war between Israel and Hamas;
- NTIC's operations in China and the risks associated therewith, including trade or other issues that may result from increasing tensions between the U.S. and China;
- Variability in NTIC's sales of ZERUST® products and services to the oil and gas industry and Natur-Tec® products and NTIC's equity income of joint ventures, which variability in sales and equity in income from joint ventures, in turn, subject NTIC's earnings to quarterly fluctuations;
- Risks associated with NTIC's international operations and exposure to fluctuations in foreign currency exchange rates, import duties, taxes, and tariffs;
- The effect of the United Kingdom's process to exit the European Union on NTIC's operating results, including, in particular, future net sales of NTIC's European and other joint ventures;
- The effect of the health of the U.S. automotive industry on NTIC's business and the evolution of the automotive industry towards electric vehicles;
- NTIC's dependence on the success of its joint ventures and fees and dividend distributions that NTIC receives from them;
- Risks associated with NTIC's acquisition of the remaining 50% ownership interest in its Indian joint venture, Zerust India;
- NTIC's relationships with its joint ventures and its ability to maintain those relationships, especially in light of anticipated succession planning issues, and risks associated with possible future acquisitions of the remaining ownership interests of certain joint ventures;
- Fluctuations in the cost and availability of raw materials, including resins and other commodities, including supply chain disruptions and weather related impacts;
- The success of and risks associated with NTIC's emerging new businesses and products and services, including in particular NTIC's ability and the ability of NTIC's joint ventures to sell ZERUST® products and services to the oil and gas industry and Natur-Tec® products and the often lengthy and extensive sales process involved in selling such products and services;
- NTIC's ability to introduce new products and services that respond to changing market conditions and customer demand;
- Market acceptance of NTIC's existing and new products, especially in light of existing and new competitive products;
- Maturation of certain existing markets for NTIC's ZERUST® products and services and NTIC's ability to grow market share and succeed in penetrating other existing and new markets;

- Increased competition, especially with respect to NTIC’s ZERUST® products and services, and the effect of such competition on NTIC’s and its joint ventures’ pricing, net sales, and margins;
- NTIC’s reliance upon and its relationships with its distributors, independent sales representatives, and joint ventures;
- NTIC’s reliance upon suppliers;
- Oil prices, which may affect sales of NTIC’s ZERUST® products and services to the oil and gas industry, and which may be impacted by the ongoing war between Russia and Ukraine;
- The costs and effects of complying with laws and regulations and changes in tax, fiscal, government, and other regulatory policies, including rules relating to environmental, health, and safety matters;
- Unforeseen product quality or other problems in the development, production, and usage of new and existing products;
- Unforeseen production expenses incurred in connection with new customers and new products;
- Loss of or changes in executive management or key employees and the need to hire and train local support in a timely manner in order to support customer needs;
- Ability of management to manage around unplanned events;
- Pending and future litigation;
- NTIC’s reliance on its intellectual property rights and the absence of infringement of the intellectual property rights of others;
- NTIC’s ability to maintain effective internal control over financial reporting, especially in light of its joint venture arrangements;
- Changes in applicable laws or regulations and NTIC’s failure to comply with applicable laws, rules, and regulations;
- Changes in generally accepted accounting principles and the effect of new accounting pronouncements;
- NTIC’s ability to effectively remediate its material weakness and maintain effective internal control over financial reporting;
- Fluctuations in NTIC’s effective tax rate;
- The effect of extreme weather conditions on NTIC’s operating results; and
- NTIC’s reliance upon its management information systems.

For more information regarding these and other uncertainties and factors that could cause NTIC’s actual results to differ materially from what NTIC has anticipated in its forward-looking statements or otherwise could materially adversely affect its business, financial condition or operating results, see NTIC’s annual report on Form 10-K for the fiscal year ended August 31, 2023 under the heading “*Part I. Item 1A. Risk Factors.*”

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

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

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

With respect to interest rate risk, any outstanding advances under NTIC's Credit Facility with JPM bear interest at a floating rate, at the option of NTIC, equal to either the CB Floating Rate or the Adjusted SOFR Rate, as defined above. Borrowings of \$3,000,000 were outstanding under the Credit Facility as of November 30, 2023. Both term loans undertaken by NTIC China with China Construction Bank Corporation have an annual interest rate of 3.25% with interest due monthly. The current outstanding balance as of November 30, 2023 for both term loans is USD \$2,810,686.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

NTIC maintains disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended) that are designed to provide reasonable assurance that information required to be disclosed by NTIC in the reports it files or submits under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms and that such information is accumulated and communicated to NTIC's management, including NTIC's principal executive officer and principal financial officer, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure. NTIC's management evaluated, with the participation of its Chief Executive Officer and its Chief Financial Officer, the effectiveness of the design and operation of NTIC's disclosure controls and procedures as of the end of the period covered in this report. Based on that evaluation, and as a result of the material weakness in NTIC's internal control over financial reporting discussed below, NTIC's Chief Executive Officer and Chief Financial Officer concluded that NTIC's disclosure controls and procedures were not effective as of the end of such period to provide reasonable assurance that information required to be disclosed in the reports that NTIC files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to NTIC's management, including NTIC's Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

Previously Reported Material Weakness in Internal Control over Financial Reporting

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of our annual or interim financial statements will not be prevented or detected on a timely basis. NTIC did not maintain effective controls over the probability assessment associated with the recognition of income related to employee retention credits (ERCs).

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) was signed into law providing numerous tax provisions and other stimulus measures, including ERCs, which are refundable tax credits against certain employment taxes. The Taxpayer Certainty and Disaster Tax Relief Act of 2020 and the American Rescue Plan Act of 2021 extended and expanded the availability of the ERC.

NTIC engaged tax advisors of a Big 4 accounting firm which determined NTIC qualified for ERCs. NTIC qualified for ERCs on qualified wages paid in the first and second quarters of 2021 and filed for and recognized income from the ERCs in the second and third quarters of fiscal 2023. In connection with the preparation of its consolidated financial statements for the fiscal year ended August 31, 2023, NTIC concluded that it should have accounted for the ERCs as government grants in accordance with International Accounting Standard (IAS) 20, Accounting for Government Grants and Disclosure of Government Assistance (IAS 20) since U.S. Generally Accepted Accounting Principles (U.S. GAAP) do not provide for the accounting of government grants. Pursuant to IAS 20, NTIC cannot recognize any income from the grant until it is "reasonably assured" that the grant conditions will be met and that the grant will be received, at which time grant income is recorded on a systematic basis over the periods in which NTIC recognizes the payroll expenses for which the grant is intended to compensate. In connection with the preparation of its consolidated financial statements for the fiscal year ended August 31, 2023, NTIC determined that it was not yet reasonably assured that the grant conditions will be met, requiring the restatement of its previously issued consolidated financial statements for the three and six months ended February 28, 2023 and three and nine months ended May 31, 2023. Management determined that this control deficiency constitutes a material weakness in NTIC's internal control over financial reporting.

NTIC's management is taking steps to remediate the material weakness in its internal control over financial reporting relating to the proper accounting treatment of the ERCs. These steps include the preparation of a technical accounting memorandum for any material unusual transactions including careful evaluation of any probability assessments or other areas of judgment involved, such as the ERCs, to determine the correct accounting treatment for such transactions. Management believes the additional control procedures designed, and when implemented, will fully remediate the material weakness.

Changes in Internal Control over Financial Reporting

Other than the remediation steps discussed above, there was no change in NTIC's internal control over financial reporting that occurred during the quarter ended November 30, 2023 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

See Note 12 to NTIC's consolidated financial statements in *Part I, Item 1. Financial Statements* of this report.

ITEM 1A. RISK FACTORS

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

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

Recent Sales of Unregistered Equity Securities

During the three months ended November 30, 2023, NTIC did not issue any shares of its common stock or other equity securities of NTIC that were not registered under the Securities Act of 1933, as amended.

Issuer Purchases of Equity Securities

The following table shows NTIC's first quarter of fiscal 2024 stock repurchase activity.

Period	Total Number of Shares (or Units) Purchased	Average Price Paid Per Share (or Unit)	Total Number of Shares (or Units) Purchased As Part of Publicly Announced Plans or Programs	Maximum Number of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs
September 1, 2023 through September 30, 2023	0	\$0	0	(1)
October 1, 2023 through October 31, 2023	0	\$0	0	(1)
November 1, 2023 through November 30, 2023	0	\$0	0	(1)
Total	0	\$0	0	(1)(2)

- (1) On January 15, 2015, NTIC's Board of Directors authorized the repurchase of up to \$3,000,000 in shares of NTIC common stock through open market purchases or unsolicited or solicited privately negotiated transactions. This program has no expiration date but may be terminated by NTIC's Board of Directors at any time.
- (2) As of November 30, 2023, up to \$2,640,548 in shares of NTIC common stock remained available for repurchase under NTIC's stock repurchase program.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

Extension of Credit Facility

On January 5, 2024, the Company and JPM renewed its Credit Agreement to extend the maturity date of the Credit Facility from January 6, 2024 to January 6, 2025. All other terms of the Credit Facility and the Credit Agreement remain the same. The foregoing represents only a summary of the material terms of the line of credit note, does not purport to be complete and is qualified in its entirety by reference to the complete text of the line of credit note, which is filed as Exhibit 10.1 to this report, and is incorporated by reference herein.

ITEM 6. EXHIBITS

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

Exhibit No.	Description
<u>10.1</u>	<u>Line of Credit Note, effective January 5, 2024, between Northern Technologies International Corporation and JPMorgan Chase Bank, N.A. (filed herewith)</u>
<u>31.1</u>	<u>Certification of President and Chief Executive Officer pursuant to SEC Rule 13a-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith)</u>
<u>31.2</u>	<u>Certification of Chief Financial Officer pursuant to SEC Rule 13a-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith)</u>
<u>32.1</u>	<u>Certification of President and 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)</u>
<u>32.2</u>	<u>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)</u>
101	The following materials from NTIC's Quarterly Report on Form 10-Q for the fiscal quarter ended November 30, 2023, formatted in Inline XBRL (Extensible Business Reporting Language): (i) the unaudited Consolidated Balance Sheets, (ii) the unaudited Consolidated Statements of Operations, (iii) the unaudited Consolidated Statements of Comprehensive Income, (iv) the unaudited Consolidated Statements of Equity, (v) the unaudited Consolidated Statements of Cash Flows, and (vi) Notes to Consolidated Financial Statements (filed herewith)
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

SIGNATURES

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

NORTHERN TECHNOLOGIES INTERNATIONAL CORPORATION

/s/ Matthew C. Wolsfeld

Matthew C. Wolsfeld, CPA

Chief Financial Officer

(Principal Financial and Accounting Officer and

Duly Authorized to Sign on Behalf of the Registrant)

Date: January 11, 2024

LINE OF CREDIT NOTE, EFFECTIVE JANUARY 5, 2024, BETWEEN NORTHERN TECHNOLOGIES INTERNATIONAL CORPORATION AND JPMORGAN CHASE BANK, N.A.

Line of Credit Note

\$10,000,000.00**Date: December 21, 2023**

Promise to Pay. On or before January 6, 2025, for value received, Northern Technologies International Corporation (the "Borrower") promises to pay to JPMorgan Chase Bank, N.A., whose address is 10 S. Dearborn St., Floor 35, Chicago, IL 60603-2300, ATTN Credit Executive-MN (the "Bank") or order, in lawful money of the United States of America, the sum of Ten Million and 00/100 Dollars (\$10,000,000.00) or so much thereof as may be advanced and outstanding, plus interest on the unpaid principal balance as provided below.

Interest Rate Definitions. As used in this Note, the following terms have the following respective meanings:

"Adjusted SOFR Rate" means, with respect to a SOFR Rate Advance for the relevant Interest Period, the sum of (a) the SOFR Rate applicable to such Interest Period, plus (b) the Unsecured to Secured Rate Adjustment.

"Advance" means a SOFR Rate Advance or a CB Floating Rate Advance and **"Advances"** means all SOFR Rate Advances and all CB Floating Rate Advances under this Note.

"Applicable Margin" means with respect to any CB Floating Rate Advance, 0.00% Per Annum and with respect to any SOFR Rate Advance, 2.15% Per Annum.

"Benchmark Transition Event" means the occurrence of one or more of the following events with respect to SOFR:

- (i) a public statement or publication of information by or on behalf of the SOFR Administrator announcing that such SOFR Administrator has ceased or will cease to provide SOFR, permanently or indefinitely, provided that, at the time of such statement or publication, there is no successor SOFR Administrator that will continue to provide SOFR; or
- (ii) a public statement or publication of information by the NYFRB, the Federal Reserve Board, or, as applicable, the regulatory supervisor for the SOFR Administrator, an insolvency official with jurisdiction over the SOFR Administrator, a resolution authority with jurisdiction over the SOFR Administrator or a court or an entity with similar insolvency or resolution authority over the SOFR Administrator, in each case, which states that the SOFR Administrator has ceased or will cease to provide SOFR permanently or indefinitely, provided that, at the time of such statement or publication, there is no successor administrator that will continue to provide SOFR; or
- (iii) a public statement or publication of information by the Federal Reserve Board, the NYFRB, the SOFR Administrator or the regulatory supervisor for the SOFR Administrator (as applicable), announcing that SOFR is no longer, or as of a specified future date will no longer be, representative.

"Business Day" means any day that is not a Saturday, Sunday, or other day on which commercial banks in New York City or Chicago are authorized or required by law to remain closed; provided that, when used in connection with a SOFR Rate Advance, the term "Business Day" shall also exclude any day on which the Securities Industry and Financial Markets Association recommends that the fixed income departments of its members be closed for the entire day for purposes of trading in United States government securities.

"CB Floating Rate" means the greater of (i) the Prime Rate or (ii) 2.50%. The CB Floating Rate is a variable rate and any change in the CB Floating Rate due to any change in the Prime Rate is effective from and including the effective date of such change in the Prime Rate.

"CB Floating Rate Advance" means any borrowing under this Note when and to the extent that its interest rate is determined by reference to the CB Floating Rate.

"Federal Reserve Board" means the Board of Governors of the Federal Reserve System of the United States of America.

"Interest Period" means, with respect to a SOFR Rate Advance, a period of one (1), three (3) or six (6) month(s) commencing on a Business Day selected by the Borrower pursuant to this Note. Such Interest Period shall end on the day which corresponds numerically to such date one (1), three (3) or six (6) month(s) thereafter, as applicable, *provided, however*, that if there is no such numerically corresponding day in such first, third or sixth succeeding month(s), as applicable, such Interest Period shall end on the last Business Day of such first, third or sixth succeeding month(s), as applicable. If an Interest Period would otherwise end on a day which is not a Business Day, such Interest Period shall end on the next succeeding Business Day, *provided, however*, that if said next succeeding Business Day falls in a new calendar month, such Interest Period shall end on the immediately preceding Business Day.

"NYFRB" means the Federal Reserve Bank of New York.

"Per Annum" means for a year deemed to be comprised of 360 days.

"Prime Rate" means the rate of interest last quoted by The Wall Street Journal as the "Prime Rate" in the U.S. or, if The Wall Street Journal ceases to quote such rate, the highest per annum interest rate published by the Federal Reserve Board in Federal Reserve Statistical Release H.15 (519) (Selected Interest Rates) as the "bank prime loan" rate or, if such rate is no longer quoted therein, any similar rate quoted therein (as determined by the Bank) or any similar release by the Federal Reserve Board (as determined by the Bank). Each change in the Prime Rate shall be effective from and including the date such change is publicly announced or quoted as being effective.

"Principal Payment Date" is defined in the paragraph entitled "Principal Payments" below.

"SOFR" is defined in the "SOFR Rate" definition.

"SOFR Administrator" means the CME Group Benchmark Administration Limited (or a successor administrator of SOFR).

"SOFR Administrator's Website" means the SOFR Administrator's website, currently accessed through the website <https://www.cmegroup.com>, or any successor source for SOFR identified as such by the SOFR Administrator from time to time.

"SOFR Rate Advance" means any borrowing under this Note when and to the extent that its interest rate is determined by reference to the Adjusted SOFR Rate.

"SOFR Rate" means with respect to any SOFR Rate Advance for any Interest Period, a rate per annum equal to the forward-looking term secured overnight financing rate ("**SOFR**") for a period equal in length to such Interest Period as published by the SOFR Administrator on the SOFR Administrator's Website, or on the appropriate page of such other information service that publishes such rate from time to time as shall be selected by the Bank in its reasonable discretion (in each case, the "**SOFR Screen Rate**") at approximately 5:00 a.m., Chicago time, two (2) Business Days prior to the commencement of such Interest Period; *provided that*, if any SOFR Screen Rate shall be less than zero, such rate shall be deemed to be zero for the purposes of this Note.

"Unsecured to Secured Rate Adjustment" means, with respect to any SOFR Rate Advance, 0.10% Per Annum.

Interest Rates. The Advance(s) evidenced by this Note may be drawn down and remain outstanding as up to five (5) SOFR Rate Advances and/or a CB Floating Rate Advance. The Borrower shall pay interest to the Bank on the outstanding and unpaid principal amount of each CB Floating Rate Advance at the CB Floating Rate plus the Applicable Margin and each SOFR Rate Advance at the Adjusted SOFR Rate plus the Applicable Margin. Interest shall be calculated on the basis of the actual number of days elapsed in a year of 360 days. In no event shall the interest rate applicable to any Advance exceed the maximum rate allowed by law. Any interest payment which would for any reason be deemed unlawful under applicable law shall be applied to principal.

Benchmarks; No Liability. The interest rate on a SOFR Rate Advance may be derived from an interest rate benchmark that may be discontinued or is, or may in the future become, the subject of regulatory reform. Upon the occurrence of a Benchmark Transition Event, the section captioned "Alternate Rate of Interest" below provides a mechanism for determining an alternative rate of interest. The Bank does not warrant or accept any responsibility for, and shall not have any liability with respect to, the administration, submission, performance or any other matter related to any interest rate used in this Note, or with respect to any alternative or successor rate thereto, or replacement rate thereof, including without limitation, whether the composition or characteristics of any such alternative, successor or replacement reference rate will be similar to, or produce the same value or economic equivalence of, the existing interest rate being replaced or have the same volume or liquidity as did any existing interest rate prior to its discontinuance or unavailability. The Bank and its affiliates and/or other related entities may engage in transactions that affect the calculation of any interest rate used in this Note or any alternative, successor or alternative rate (including any Alternate Rate) and/or any relevant adjustments thereto, in each case, in a manner adverse to the Borrower. The Bank may select information sources or services in its reasonable discretion to ascertain any interest rate used in this Agreement, any component thereof, or rates referenced in the definition thereof, in each case pursuant to the terms of this Note, and shall have no liability to the Borrower or any other person or entity for damages of any kind, including direct or indirect, special, punitive, incidental or consequential damages, costs, losses or expenses (whether in tort, contract or otherwise and whether at law or in equity), for any error or calculation of any such rate (or component thereof) provided by any such information source or service.

Bank Records. The Bank shall, in the ordinary course of business, make notations in its records of the date, amount, interest rate and Interest Period of each Advance hereunder, the amount of each payment on the Advances, and other information. Such records shall, in the absence of manifest error, be conclusive as to the outstanding principal balance of and interest rate or rates applicable to this Note.

Notice and Manner of Electing Interest Rates on Advances. The Borrower shall give the Bank written notice in accordance with established procedures (effective upon receipt) of the Borrower's intent to draw down an Advance under this Note no later than 2:00 p.m. Central time, on the date of disbursement, if the full amount of the drawn Advance is to be disbursed as a CB Floating Rate Advance and no later than 11:00 a.m. Central time three (3) Business Days before disbursement, if any part of such Advance is to be disbursed as a SOFR Rate Advance. The Borrower's notice must specify: (a) the disbursement date, (b) the amount of each Advance, (c) the type of each Advance (CB Floating Rate Advance or SOFR Rate Advance), and (d) for each SOFR Rate Advance, the duration of the applicable Interest Period; *provided, however*, that the Borrower may not elect an Interest Period ending after the maturity date of this Note. Each SOFR Rate Advance shall be in a minimum amount of One Hundred Thousand and 00/100 Dollars (\$100,000.00). All notices under this paragraph are irrevocable. By the Bank's close of business on the disbursement date and upon fulfillment of the conditions set forth herein and in any other of the Related Documents, the Bank shall disburse the requested Advances in immediately available funds by crediting the amount of such Advances to the Borrower's account with the Bank.

Conversion and Renewals. The Borrower may elect from time to time to convert one type of Advance into another or to renew any Advance by giving the Bank written notice no later than 2:00 p.m. Central time, on the date of the conversion into or renewal of a CB Floating Rate Advance and 11:00 a.m. Central time three (3) Business Days before conversion into or renewal of a SOFR Rate Advance, specifying: (a) the renewal or conversion date, (b) the amount of the Advance to be converted or renewed, (c) in the case of conversion, the type of Advance to be converted into (CB Floating Rate Advance or SOFR Rate Advance), and (d) in the case of renewals of or conversion into a SOFR Rate Advance, the applicable Interest Period, provided that (i) the minimum principal amount of each SOFR Rate Advance outstanding after a renewal or conversion shall be One Hundred Thousand and 00/100 Dollars (\$100,000.00); (ii) a SOFR Rate Advance can only be converted on the last day of the Interest Period for the Advance; and (iii) the Borrower may not elect an Interest Period ending after the maturity date of this Note. All notices given under this paragraph are irrevocable. If the Borrower fails to give the Bank the notice specified above for the renewal or conversion of a SOFR Rate Advance by 11:00 a.m. Central time three (3) Business Days before the end of the Interest Period for that Advance, the Advance shall automatically be converted to a CB Floating Rate Advance on the last day of the Interest Period for the Advance.

Illegality/Temporary Unavailability. If:

- (i) any applicable domestic or foreign law, treaty, rule or regulation now or later in effect (whether or not it now applies to the Bank) or the interpretation or administration thereof by a governmental authority charged with such interpretation or administration, or compliance by the Bank with any guideline, request or directive of such an authority (whether or not having the force of law), shall make it unlawful or impossible for the Bank to maintain or fund the SOFR Rate Advances, or
- (ii) the Bank determines (which determination shall be conclusive absent manifest error) that adequate and reasonable means do not exist for ascertaining the SOFR Rate (including because the SOFR Screen Rate is not available or published on a current basis), for the applicable Interest Period; or
- (iii) the Bank determines the SOFR Rate will not adequately and fairly reflect the cost to the Bank of making or maintaining SOFR Rate Advances for such Interest Period;

then, the Bank shall give notice thereof to the Borrower as promptly as practicable thereafter and, until the Bank notifies the Borrower that the circumstances giving rise to such notice no longer exist, (A) any Advance request that requests the conversion of any Advance, or continuation of any Advance as, a SOFR Rate Advance shall be ineffective and any such SOFR Rate Advance shall be repaid or converted into a CB Floating Rate Advance on the last day of the then current Interest Period applicable thereto, and (B) if any Advance request that requests a SOFR Rate Advance, such Advance shall, subject to the terms and conditions of this Note and the other Related Documents, be made as a CB Floating Rate Advance.

Alternate Rate of Interest. If a Benchmark Transition Event occurs, Bank may, by notice to Borrower, amend this Note to establish an alternate rate of interest for SOFR that gives due consideration to the then-evolving or prevailing market convention for determining a rate of interest for commercial loans in US Dollars at such time (the "**Alternate Rate**"); Borrower acknowledges that the Alternate Rate may include a mathematical adjustment using any then-evolving or prevailing market convention or method for determining a spread adjustment for the replacement of SOFR (which may include, if SOFR already contains such a spread, adding that spread to the Alternate Rate). The Bank may further amend the Note by such notice to Borrower to make technical, administrative or operational changes (including, without limitation, changes to the definition of "CB Floating Rate", the definition of "Interest Period", timing and frequency of determining rates and making payments of interest) that the Bank decides in its reasonable discretion may be appropriate to reflect the adoption and implementation of the Alternate Rate. The Alternate Rate, together with all such technical, administrative and operational changes as specified in any notice, shall become effective at the later of (i) the fifth Business Day after the Bank has provided notice (including without limitation for this purpose, by electronic means) to the Borrower (the "**Notice Date**") and (ii) a date specified by the Bank in the notice, without any further action or consent of the Borrower, so long as Bank has not received, by 5:00 pm Eastern time on the Notice Date, written notice of objection to the Alternate Rate from the Borrower. If, on the date SOFR actually becomes permanently unavailable pursuant to a Benchmark Transition Event, an Alternate Rate has not been established in this manner, Advances will, until an Alternate Rate is so established, bear interest at the CB Floating Rate. In no event shall the Alternate Rate be less than zero.

In connection with the implementation of a rate replacement described in the paragraph above, Bank may from time to time, upon written notice to Borrower, make any further technical, administrative or operational changes to this Note (including changes to the definition of "CB Floating Rate", the definition of "Business Day", the timing and frequency of determining rates and making payments of interest, the timing of prepayment or conversion notices, the length of lookback periods, the applicability of breakage provisions and other technical, administrative or operational matters) that Bank decides may be appropriate to reflect the adoption and implementation of such rate replacement and to permit the administration thereof by Bank.

All determinations by Bank under this section shall be conclusive and binding absent manifest error.

Interest Payments. Interest on the Advances shall be paid on the last day of each month, beginning with the first month following disbursement of the Advance, whether the Advance is a CB Floating Rate Advance or SOFR Rate Advance.

Principal Payments. All outstanding principal and interest is due and payable in full on January 6, 2025, which is defined herein as the "Principal Payment Date".

Default Rate of Interest. After a default has occurred under this Note, whether or not the Bank elects to accelerate the maturity of this Note because of such default, all Advances outstanding under this Note, shall bear interest at a Per Annum rate equal to the interest rate being charged on each such Advance plus three percent (3.00%) from the date the Bank elects to impose such rate. Imposition of this rate shall not affect any limitations contained in this Note on the Borrower's right to repay principal on any SOFR Rate Advance before the expiration of the Interest Period for each such Advance.

Prepayment/Funding Loss Indemnification. The Borrower may prepay all or any part of any CB Floating Rate Advance at any time without premium or penalty.

The Borrower shall pay the Bank amounts sufficient (in the Bank's reasonable opinion) to compensate the Bank for any loss, cost, or expense incurred as a result of:

- A. Any payment of a SOFR Rate Advance on a date other than the last day of the Interest Period for the Advance, including, without limitation, acceleration of the Advances by the Bank pursuant to this Note or the other Related Documents; or
- B. Any failure by the Borrower to borrow or renew a SOFR Rate Advance on the date specified in the relevant notice from the Borrower to the Bank.

Obligations Due on Non-Business Day. Whenever any payment under this Note becomes due and payable on a day that is not a Business Day, if no default then exists under this Note, the maturity of the payment shall be extended to the next succeeding Business Day, except, in the case of a SOFR Rate Advance, if the result of the extension would be to extend the payment into another calendar month, the payment must be made on the immediately preceding Business Day.

Matters Regarding Payment. The Borrower will pay the Bank at the Bank's address shown above or at such other place as the Bank may designate. Payments shall be allocated among principal, interest and fees at the discretion of the Bank unless otherwise agreed or required by applicable law. Acceptance by the Bank of any payment which is less than the payment due at the time shall not constitute a waiver of the Bank's right to receive payment in full at that time or any other time.

Authorization for Direct Payments (ACH Debits). To effectuate any payment due under this Note or under any other Related Documents, the Borrower hereby authorizes the Bank to initiate debit entries to Account Number _____ at the Bank and to debit the same to such account. This authorization to initiate debit entries shall remain in full force and effect until the Bank has received written notification of its termination in such time and in such manner as to afford the Bank a reasonable opportunity to act on it. The Borrower represents that the Borrower is and will be the owner of all funds in such account. The Borrower acknowledges: (1) that such debit entries may cause an overdraft of such account which may result in the Bank's refusal to honor items drawn on such account until adequate deposits are made to such account; (2) that the Bank is under no duty or obligation to initiate any debit entry for any purpose; and (3) that if a debit is not made because the above-referenced account does not have a sufficient available balance, or otherwise, the payment may be late or past due.

Late Fee. Any principal or interest which is not paid within 10 days after its due date (whether as stated, by acceleration or otherwise) shall be subject to a late payment charge of five percent (5.00%) of the total payment due, in addition to the payment of interest, up to the maximum amount of One Thousand Five Hundred and 00/100 Dollars (\$1,500.00) per late charge. The Borrower agrees to pay and stipulates that five percent (5.00%) of the total payment due is a reasonable amount for a late payment charge. The Borrower shall pay the late payment charge upon demand by the Bank or, if billed, within the time specified.

Purpose of Loan. The Borrower acknowledges and agrees that this Note evidences a loan for a business, commercial, agricultural or similar commercial enterprise purpose, and that no advance shall be used for any personal, family or household purpose. The proceeds of the loan shall be used only for the Borrower's general corporate purposes.

Credit Facility. The Bank has approved a credit facility to the Borrower in a principal amount not to exceed the face amount of this Note. The credit facility is in the form of advances made from time to time by the Bank to the Borrower. This Note evidences the Borrower's obligation to repay those advances. The aggregate principal amount of debt evidenced by this Note is the amount reflected from time to time in the records of the Bank. Until the earliest to occur of maturity, any default, event of default, or any event that would constitute a default or event of default but for the giving of notice, the lapse of time or both, the Borrower may borrow, pay down and reborrow under this Note subject to the terms of the Related Documents.

Renewal and Extension. This Note is given in replacement, renewal and/or extension of, but not in extinguishment of the indebtedness evidenced by, that Line of Credit Note dated December 19, 2022 executed by the Borrower in the original principal amount of Ten Million and 00/100 Dollars (\$10,000,000.00), including previous renewals or modifications thereof, if any (the "Prior Note" and together with all loan agreements, credit agreements, reimbursement agreements, security agreements, mortgages, deeds of trust, pledge agreements, assignments, guaranties, and any other instrument or document executed in connection with the Prior Note, the "Prior Related Documents"), and is not a novation thereof. All interest evidenced by the Prior Note shall continue to be due and payable until paid. The Borrower fully, finally, and forever releases and discharges the Bank and its successors, assigns, directors, officers, employees, agents, and representatives (each a "Bank Party") from any and all causes of action, claims, debts, demands, and liabilities, of whatever kind or nature, in law or equity, of the Borrower, whether now known or unknown to the Borrower (i) in respect of the Liabilities evidenced by the Prior Note and the Prior Related Documents, or of the actions or omissions of any Bank Party in any manner related to the Liabilities evidenced by the Prior Note or the Prior Related Documents and (ii) arising from events occurring prior to the date of this Note. If applicable, all Collateral continues to secure the payment of this Note and the Liabilities. The provisions of this Note are effective on the date that this Note has been executed by all of the signers and delivered to the Bank.

Miscellaneous. This Note binds the Borrower and its successors, and benefits the Bank, its successors and assigns. Any reference to the Bank includes any holder of this Note. This Note is subject to that certain Credit Agreement by and between the Borrower and the Bank, dated December 19, 2022, and all amendments, restatements and replacements thereof (the "Credit Agreement") to which reference is hereby made for a more complete statement of the terms and conditions under which the loan evidenced hereby is made and is to be repaid. The terms and provisions of the Credit Agreement are hereby incorporated and made a part hereof by this reference thereto with the same force and effect as if set forth at length herein. No reference to the Credit Agreement and no provisions of this Note or the Credit Agreement shall alter or impair the absolute and unconditional obligation of the Borrower to pay the principal and interest on this Note as herein prescribed. Capitalized terms not otherwise defined herein shall have the meanings assigned to such terms in the Credit Agreement. If any one or more of the obligations of the Borrower under this Note or any provision hereof is held to be invalid, illegal or unenforceable in any jurisdiction, the validity, legality and enforceability of the remaining obligations of the Borrower and the remaining provisions shall not in any way be affected or impaired; and the invalidity, illegality or unenforceability in one jurisdiction shall not affect the validity, legality or enforceability of such obligations or provisions in any other jurisdiction. Time is of the essence under this Note and in the performance of every term, covenant and obligation contained herein.

Borrower:
NORTHERN
TECHNOLOGIES
INTERNATIONAL
CORPORATION

By: /c/ Matthew C. Wolsfeld
Matthew C. Wolsfeld, Chief
Financial Officer
Printed Name Title

Date Signed:
1/5/24

Bank:
JPMorgan Chase Bank, N.A.

By: /s/ Martin A. Cherrney
Martin A. Cherrney,
Authorized Officer
Printed Name Title

Date Signed:
1/5/24

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

I, G. Patrick Lynch, certify that:

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

Date: January 11, 2024

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

Date: January 11, 2024

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

**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 on Form 10-Q of Northern Technologies International Corporation (the “Company”) for the period ended November 30, 2023, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, G. Patrick Lynch, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge and belief:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ G. Patrick Lynch

G. Patrick Lynch

President and Chief Executive Officer

(principal executive officer)

Circle Pines, Minnesota

January 11, 2024

**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 on Form 10-Q of Northern Technologies International Corporation (the “Company”) for the period ended November 30, 2023, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Matthew C. Wolsfeld, Chief Financial Officer and Corporate Secretary of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge and belief:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Matthew C. Wolsfeld

Matthew C. Wolsfeld, CPA

Chief Financial Officer and Corporate Secretary (principal financial officer)

Circle Pines, Minnesota

January 11, 2024