

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

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**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 February 28, 2014**

**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**

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**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  
Circle Pines, Minnesota 55014**

(Address of principal executive offices) (Zip code)

**(763) 225-6600**

(Registrant's telephone number including area code)

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company)

Smaller reporting company

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 April 11, 2014, there were 4,448,837 shares of common stock of the registrant outstanding.

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NORTHERN TECHNOLOGIES INTERNATIONAL CORPORATION  
FORM 10-Q  
February 28, 2014

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

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*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 subsidiaries, NTI Facilities, Inc. and Northern Technologies Holding Company, LLC, and its majority owned subsidiaries, Zerust Prevenção de Corrosão S.A., NTI Asean LLC and Northern Technologies India Private Limited, all of which are consolidated on NTIC’s consolidated financial statements.*

*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: (1) NTIC’s majority owned Brazilian subsidiary, Zerust Prevenção de Corrosão S.A.; (2) NTIC’s majority owned subsidiary, NTI Asean LLC, which is a holding company that holds investments in eight entities that operate in the Association of Southeast Asian Nations (ASEAN) region, including the following countries: China, Indonesia, Korea, Malaysia, Philippines, Singapore, Taiwan and Thailand; or (3) NTIC’s majority owned subsidiary, Northern Technologies India Private Limited, in India.*

*As used in this report, references to “Zerust Brazil” refer to NTIC’s majority owned Brazilian subsidiary, Zerust Prevenção de Corrosão S.A.*

*As used in this report, references to “NTI Asean” refer to NTIC’s majority owned holding company subsidiary, NTI Asean LLC.*

*As used in this report, references to “NTI India” refer to NTIC’s recently formed majority owned subsidiary in India, Northern Technologies India Private Limited.*

*As used in this report, references to “EXCOR” refer to NTIC’s primary 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 FEBRUARY 28, 2014 (UNAUDITED)  
 AND AUGUST 31, 2013 (AUDITED)

|   | <u>February 28, 2014</u> | <u>August 31, 2013</u> |
|---|--------------------------|------------------------|
| <b>ASSETS</b>   |                          |                        |
| CURRENT ASSETS:   |                          |                        |
| Cash and cash equivalents   | \$ 6,996,127             | \$ 4,314,258           |
| Receivables:  |                          |                        |
| Trade excluding joint ventures, less allowance for doubtful accounts of \$40,000 at February 28, 2014 and \$20,000 at August 31, 2013 | 3,260,411                | 3,329,995              |
| Trade joint ventures  | 536,532                  | 859,434                |
| Fees for services provided to joint ventures  | 2,816,043                | 2,446,017              |
| Income taxes  | 356,947                  | 144,939                |
| Inventories   | 5,370,201                | 5,111,549              |
| Prepaid expenses  | 582,289                  | 258,765                |
| Deferred income taxes   | 467,548                  | 467,548                |
| Total current assets  | <u>20,386,098</u>        | <u>16,932,505</u>      |
| PROPERTY AND EQUIPMENT, NET   | <u>5,431,316</u>         | <u>5,323,612</u>       |
| OTHER ASSETS:   |                          |                        |
| Investments in joint ventures   | 22,653,710               | 24,702,981             |
| Deferred income taxes   | 1,034,212                | 1,034,212              |
| Patents and trademarks, net   | 1,138,698                | 1,060,639              |
| Other   | 177,273                  | —                      |
| Total other assets  | <u>25,003,893</u>        | <u>26,797,832</u>      |
| Total assets  | <u>\$ 50,821,307</u>     | <u>\$ 49,053,949</u>   |
| <b>LIABILITIES AND EQUITY</b>   |                          |                        |
| CURRENT LIABILITIES:  |                          |                        |
| Current portion of note payable (Note 6)  | —                        | 76,119                 |
| Accounts payable  | 1,261,616                | 1,830,729              |
| Accrued liabilities:  |                          |                        |
| Payroll and related benefits  | 1,027,069                | 1,277,942              |
| Deferred joint venture royalties  | 288,000                  | 288,000                |
| Other   | 118,510                  | 189,263                |
| Total current liabilities   | <u>2,695,195</u>         | <u>3,662,053</u>       |
| NOTE PAYABLE, NET OF CURRENT PORTION (Note 6)   | —                        | 857,295                |
| COMMITMENTS AND CONTINGENCIES (Note 12)   |                          |                        |
| EQUITY:   |                          |                        |
| Preferred stock, no par value; authorized 10,000 shares; none issued and outstanding  | —                        | —                      |
| Common stock, \$0.02 par value per share; authorized 10,000,000 shares; issued and outstanding 4,434,837 and 4,432,036, respectively  | 88,697                   | 88,641                 |
| Additional paid-in capital  | 11,967,414               | 11,701,942             |
| Retained earnings   | 30,510,558               | 28,626,928             |
| Accumulated other comprehensive income  | 933,423                  | 316,161                |
| Stockholders' equity  | <u>43,500,092</u>        | <u>40,733,672</u>      |
| Non-controlling interest  | 4,626,020                | 3,800,929              |
| Total equity  | <u>48,126,112</u>        | <u>44,534,601</u>      |
| Total liabilities and equity  | <u>\$ 50,821,307</u>     | <u>\$ 49,053,949</u>   |

See notes to consolidated financial statements.

**NORTHERN TECHNOLOGIES INTERNATIONAL CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)**  
**FOR THE THREE AND SIX MONTHS ENDED FEBRUARY 28, 2014 AND 2013**

|  | Three Months Ended |                   | Six Months Ended  |                   |
|--|--------------------|-------------------|-------------------|-------------------|
|  | February 28, 2014  | February 28, 2013 | February 28, 2014 | February 28, 2013 |
| <b>NET SALES:</b>  |                    |                   |                   |                   |
| Net sales, excluding joint ventures                        | \$ 5,527,366       | \$ 4,485,203      | \$ 11,132,384     | \$ 9,255,590      |
| Net sales, to joint ventures                               | 691,642            | 761,147           | 1,395,724         | 1,282,507         |
| Total net sales  | 6,219,008          | 5,246,350         | 12,528,108        | 10,538,097        |
| Cost of goods sold   | 4,051,833          | 3,633,913         | 8,209,864         | 7,324,885         |
| Gross profit   | 2,167,175          | 1,612,437         | 4,318,244         | 3,213,212         |
| <b>JOINT VENTURE OPERATIONS:</b>                           |                    |                   |                   |                   |
| Equity in income of joint ventures                         | 1,395,451          | 1,138,438         | 2,823,199         | 2,292,734         |
| Fees for services provided to joint ventures               | 2,057,671          | 1,770,881         | 4,167,319         | 3,617,158         |
| Total joint venture operations                             | 3,453,122          | 2,909,319         | 6,990,518         | 5,909,892         |
| <b>OPERATING EXPENSES:</b>                                 |                    |                   |                   |                   |
| Selling expenses   | 1,291,316          | 1,174,065         | 2,610,202         | 2,345,160         |
| General and administrative expenses                        | 1,209,933          | 1,143,987         | 2,597,429         | 2,392,683         |
| Expenses incurred in support of joint ventures             | 366,469            | 321,456           | 695,733           | 691,143           |
| Research and development expenses                          | 1,099,345          | 912,393           | 2,237,865         | 1,850,599         |
| Total operating expenses                                   | 3,967,063          | 3,551,901         | 8,141,229         | 7,279,585         |
| OPERATING INCOME   | 1,653,234          | 969,855           | 3,167,533         | 1,843,519         |
| INTEREST INCOME  | 2,570              | 22,288            | 4,359             | 47,634            |
| INTEREST EXPENSE   | (11,976)           | (6,988)           | (25,646)          | (13,462)          |
| INCOME BEFORE INCOME TAX EXPENSE                           | 1,643,828          | 985,155           | 3,146,246         | 1,877,691         |
| INCOME TAX EXPENSE   | 259,759            | 240,000           | 457,759           | 374,000           |
| NET INCOME   | 1,384,069          | 745,155           | 2,688,487         | 1,503,691         |
| NET INCOME ATTRIBUTABLE TO NON-CONTROLLING INTEREST        | 359,025            | 310,745           | 804,857           | 679,659           |
| NET INCOME ATTRIBUTABLE TO NTIC                            | \$ 1,025,044       | \$ 434,410        | \$ 1,883,630      | \$ 824,032        |
| <b>NET INCOME ATTRIBUTABLE TO NTIC PER COMMON SHARE:</b>   |                    |                   |                   |                   |
| Basic  | \$ 0.23            | \$ 0.10           | \$ 0.42           | \$ 0.19           |
| Diluted  | \$ 0.22            | \$ 0.10           | \$ 0.41           | \$ 0.18           |
| <b>WEIGHTED AVERAGE COMMON SHARES ASSUMED OUTSTANDING:</b> |                    |                   |                   |                   |
| Basic  | 4,434,837          | 4,418,821         | 4,434,770         | 4,409,954         |
| Diluted  | 4,579,603          | 4,485,076         | 4,566,103         | 4,460,197         |

See notes to consolidated financial statements.

**NORTHERN TECHNOLOGIES INTERNATIONAL CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)**  
**FOR THE THREE AND SIX MONTHS ENDED FEBRUARY 28, 2014 AND 2013**

|   | <b>Three Months Ended</b>    |                              | <b>Six Months Ended</b>      |                              |
|---|------------------------------|------------------------------|------------------------------|------------------------------|
|   | <b>February 28,<br/>2014</b> | <b>February 28,<br/>2013</b> | <b>February 28,<br/>2014</b> | <b>February 28,<br/>2013</b> |
| NET INCOME  | \$ 1,384,069                 | \$ 745,155                   | \$ 2,688,487                 | \$ 1,503,691                 |
| OTHER COMPREHENSIVE INCOME – FOREIGN CURRENCY TRANSLATION<br>ADJUSTMENT | 84,038                       | (25,641)                     | 605,611                      | 395,544                      |
| COMPREHENSIVE INCOME  | 1,468,107                    | 719,514                      | 3,294,098                    | 1,899,235                    |
| COMPREHENSIVE INCOME ATTRIBUTABLE TO NON-CONTROLLING<br>INTERESTS       | 334,607                      | 331,252                      | 793,206                      | 734,687                      |
| COMPREHENSIVE INCOME ATTRIBUTABLE TO NTIC                               | <u>\$ 1,133,500</u>          | <u>\$ 388,262</u>            | <u>\$ 2,500,892</u>          | <u>\$ 1,164,548</u>          |

See notes to consolidated financial statements.

**NORTHERN TECHNOLOGIES INTERNATIONAL CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)**  
**FOR THE SIX MONTHS ENDED FEBRUARY 28, 2014 AND 2013**

|   | Six Months Ended     |                      |
|---|----------------------|----------------------|
|   | February 28,<br>2014 | February 28,<br>2013 |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>                                  |                      |                      |
| Net income  | \$ 2,688,487         | \$ 1,503,691         |
| Adjustments to reconcile net income to net cash used in operating activities: |                      |                      |
| Stock-based compensation  | 236,623              | 137,550              |
| Depreciation expense  | 217,620              | 211,874              |
| Amortization expense  | 42,819               | 35,122               |
| Loss on disposal of assets  | 2,178                | 13,845               |
| Equity in income from joint ventures  | (2,823,199)          | (2,292,734)          |
| Increase in allowance on doubtful accounts                                    | 20,000               | —                    |
| Changes in current assets and liabilities:                                    |                      |                      |
| Receivables:  |                      |                      |
| Trade, excluding joint ventures   | 64,392               | (223,731)            |
| Trade, joint ventures   | 322,902              | (247,466)            |
| Fees for services provided to joint ventures                                  | (370,026)            | 221,099              |
| Income taxes  | (209,797)            | (51,111)             |
| Inventories   | (246,686)            | (990,720)            |
| Prepaid expenses and other  | (500,213)            | (91,869)             |
| Accounts payable  | (578,103)            | (574,037)            |
| Income tax payable  | (835)                | (2,748)              |
| Accrued liabilities   | (330,206)            | (1,094,446)          |
| Net cash used in operating activities   | <u>(1,464,042)</u>   | <u>(3,445,681)</u>   |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>                                  |                      |                      |
| Proceeds from the sale of investment in joint venture                         | 245,594              | —                    |
| Dividends received from joint ventures  | 5,217,878            | 2,953,435            |
| Additions to property and equipment   | (325,051)            | (102,259)            |
| Effect of subsidiary consolidation on cash                                    | —                    | 1,612,768            |
| Additions to patents  | (121,351)            | (114,882)            |
| Net cash provided by investing activities                                     | <u>5,017,070</u>     | <u>4,349,062</u>     |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>                                  |                      |                      |
| Repayment of note payable   | (933,414)            | (38,059)             |
| Dividend received by non-controlling interest                                 | —                    | (872,841)            |
| Investment by non-controlling interest  | 30,866               | —                    |
| Proceeds from employee stock purchase plan                                    | 21,255               | 28,938               |
| Proceeds from exercise of stock options                                       | 7,650                | 102,815              |
| Net cash used in financing activities   | <u>(873,643)</u>     | <u>(779,147)</u>     |
| <b>EFFECT OF EXCHANGE RATE CHANGES ON CASH:</b>                               | <u>2,484</u>         | <u>(636)</u>         |
| <b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>                              | <u>2,681,869</u>     | <u>123,598</u>       |
| <b>CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD</b>                       | <u>4,314,258</u>     | <u>4,137,547</u>     |
| <b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>                             | <u>\$ 6,996,127</u>  | <u>\$ 4,261,145</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 February 28, 2014 and August 31, 2013 and the results of their operations for the three and six months ended February 28, 2014 and 2013 and their cash flows for the six months ended February 28, 2014 and 2013, in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP).

Certain amounts reported in the consolidated financial statements for the previous reporting periods have been reclassified to conform to the current period presentation. These reclassifications did not have a material impact on the Company's previously reported consolidated balance sheets or statements of cash flows.

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, 2013. These consolidated financial statements also should be read in conjunction with the "Management's Discussion and Analysis of Financial Condition and Results of Operations" section appearing in this report.

Operating results for the three and six months ended February 28, 2014 are not necessarily indicative of the results that may be expected for the full fiscal year ending August 31, 2014.

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

**2. INVENTORIES**

Inventories consisted of the following:

|                      | <b>February 28, 2014</b> | <b>August 31, 2013</b> |
|----------------------|--------------------------|------------------------|
| Production materials | \$ 1,191,107             | \$ 1,096,693           |
| Finished goods       | 4,179,094                | 4,014,856              |
|                      | <u>\$ 5,370,201</u>      | <u>\$ 5,111,549</u>    |

**3. PROPERTY AND EQUIPMENT, NET**

Property and equipment, net consisted of the following:

|                               | <b>February 28, 2014</b> | <b>August 31, 2013</b> |
|-------------------------------|--------------------------|------------------------|
| Land                          | \$ 310,365               | \$ 310,365             |
| Buildings and improvements    | 4,540,110                | 4,613,879              |
| Machinery and equipment       | 3,590,893                | 3,189,671              |
|                               | 8,441,369                | 8,113,915              |
| Less accumulated depreciation | (3,010,052)              | (2,790,303)            |
|                               | <u>\$ 5,431,316</u>      | <u>\$ 5,323,612</u>    |



#### 4. PATENTS AND TRADEMARKS, NET

Patents and trademarks, net consisted of the following:

|                               | <b>February 28, 2014</b> | <b>August 31, 2013</b> |
|-------------------------------|--------------------------|------------------------|
| Patents and trademarks        | \$ 2,185,008             | \$ 2,064,128           |
| Less accumulated amortization | (1,046,310)              | (1,003,489)            |
|                               | <u>\$ 1,138,698</u>      | <u>\$ 1,060,639</u>    |

Patent and trademark costs are amortized over seven years. Costs incurred related to patents and trademarks are capitalized until filed and approved, at which time the amounts capitalized to date are amortized and any further costs, including maintenance costs, are expensed as incurred. Amortization expense is estimated to approximate \$80,000 in each of the next five fiscal years.

#### 5. INVESTMENTS IN JOINT VENTURES

The financial statements of the Company's foreign joint ventures are initially prepared using the accounting principles accepted in the respective joint ventures' countries of domicile. Amounts related to foreign joint ventures reported in the below tables and the accompanying consolidated financial statements have subsequently been adjusted to approximate U.S. GAAP in all material respects. All material profits recorded on sales from the Company to its joint ventures of goods that remain in inventory, 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), joint venture in China, NTI Asean and all of the Company's other joint ventures, are summarized as follows:

|   | <b>At February 28, 2014</b> |               |               |                  |
|---|-----------------------------|---------------|---------------|------------------|
|   | <b>Total</b>                | <b>EXCOR</b>  | <b>China</b>  | <b>All Other</b> |
| Current assets  | \$ 60,798,447               | \$ 21,138,250 | \$ 12,498,369 | \$ 27,161,828    |
| Total assets  | 66,244,262                  | 23,578,234    | 12,520,341    | 30,145,687       |
| Current liabilities                                       | 17,443,151                  | 3,486,865     | 3,860,391     | 10,095,895       |
| Noncurrent liabilities                                    | 2,126,033                   | —             | 868,005       | 1,258,028        |
| Joint ventures' equity                                    | 46,675,076                  | 20,091,369    | 7,791,945     | 18,791,762       |
| Company's share of joint ventures' equity                 | 22,653,729                  | 10,045,687    | 3,895,973     | 8,712,069        |
| Company's share of joint ventures' undistributed earnings | \$ 20,232,259               | \$ 10,014,782 | \$ 3,845,973  | \$ 6,371,504     |

|   | <b>At August 31, 2013</b> |               |               |                  |
|---|---------------------------|---------------|---------------|------------------|
|   | <b>Total</b>              | <b>EXCOR</b>  | <b>China</b>  | <b>All Other</b> |
| Current assets  | \$ 63,052,410             | \$ 25,955,136 | \$ 11,200,355 | \$ 25,896,919    |
| Total assets  | 68,417,142                | 28,391,787    | 11,226,755    | 28,798,600       |
| Current liabilities                                       | 16,107,597                | 3,572,004     | 3,080,118     | 9,455,475        |
| Noncurrent liabilities                                    | 2,488,057                 | —             | 871,886       | 1,616,171        |
| Joint ventures' equity                                    | 49,821,488                | 24,819,783    | 7,274,751     | 17,726,954       |
| Company's share of joint ventures' equity                 | 24,702,981                | 12,409,893    | 3,637,375     | 8,655,713        |
| Company's share of joint ventures' undistributed earnings | \$ 22,281,510             | \$ 12,378,988 | \$ 3,587,375  | \$ 6,315,147     |

**Six Months Ended February 28, 2014**

|   | <b>Total</b>  | <b>EXCOR</b>  | <b>China</b> | <b>All Other</b> |
|---|---------------|---------------|--------------|------------------|
| Net sales   | \$ 58,050,376 | \$ 18,963,579 | \$ 8,257,630 | \$ 30,829,167    |
| Gross profit  | 27,600,668    | 10,072,948    | 3,834,419    | 13,693,301       |
| Net income  | 5,479,724     | 3,763,017     | 553,963      | 1,162,744        |
| Company's share of equity in income of joint ventures | \$ 2,823,199  | \$ 1,881,705  | \$ 276,948   | \$ 664,546       |

**Six Months Ended February 28, 2013**

|   | <b>Total</b>  | <b>EXCOR</b>  | <b>China</b> | <b>All Other</b> |
|---|---------------|---------------|--------------|------------------|
| Net sales   | \$ 54,247,135 | \$ 17,451,153 | \$ 6,929,260 | \$ 29,866,722    |
| Gross profit  | 25,852,537    | 9,105,579     | 3,290,660    | 13,456,298       |
| Net income  | 4,728,680     | 3,260,575     | 524,546      | 943,559          |
| Company's share of equity in income of joint ventures | \$ 2,292,734  | \$ 1,631,125  | \$ 262,148   | \$ 399,461       |

The Company records expenses that are directly attributable to the joint ventures on its consolidated statements of operations in the line item "Expenses incurred in support of joint ventures." The expenses include items such as employee compensation and benefit expenses, travel expense and consulting expense.

The Company did not make any joint venture investments during the six months ended February 28, 2014 and 2013.

On November 30, 2013, the Company agreed to sell its indirect ownership interest in Müttec GmbH ("Müttec"), one of the Company's joint ventures in Germany which manufactures proprietary electronic sensing instruments. As of February 28, 2014, \$177,273 is due to the Company related to this transaction.

## **6. CORPORATE DEBT**

As of August 31, 2013, Northern Technologies Holding Company, LLC (NTI LLC) had a term loan with a principal amount of \$933,413 outstanding that NTI LLC obtained from PNC Bank, National Association (PNC Bank) in connection with the purchase of NTIC's corporate headquarters in September 2006. This term loan was repaid in full on January 3, 2014 and as a result there was \$0 outstanding as of February 28, 2014.

The Company has a revolving line of credit with PNC Bank of \$3,000,000. No amounts were outstanding under the line of credit as of both February 28, 2014 and August 31, 2013. At the option of the Company, outstanding advances under the line of credit bear interest at either (a) an annual rate based on LIBOR plus 2.15% for the applicable LIBOR interest period selected by the Company or (b) at the rate publicly announced by PNC Bank from time to time as its prime rate. Interest is payable in arrears (a) for the portion of advances bearing interest under the prime rate on the last day of each month during the term thereof and (b) for the portion of advances bearing interest under the LIBOR option on the last day of the respective LIBOR interest period selected for such advance. As of February 28, 2014, the Company was in compliance with all debt covenants.

On December 31, 2013, PNC Bank extended the maturity date of the line of credit from January 8, 2014 to January 7, 2015. All other terms of the line of credit and the loan agreement and other documents evidencing the line of credit remain the same.

## 7. STOCKHOLDERS' EQUITY

During the six months ended February 28, 2014, the Company did not purchase or retire any shares of its common stock. The following stock options to purchase shares of common stock were exercised during the six months ended February 28, 2014:

| <u>Options Exercised</u> | <u>Exercise Price</u> |
|--------------------------|-----------------------|
| 1,000                    | \$7.65                |

The Company granted stock options under the Northern Technologies International Corporation Amended and Restated 2007 Stock Incentive Plan (the 2007 Plan) to purchase an aggregate of 56,373 shares of its common stock to various employees and directors during the six months ended February 28, 2014. The weighted average per share exercise price of the stock options is \$14.83, which is equal to the fair market value of the Company's common stock on the date of grant.

During the six months ended February 28, 2013, the Company did not purchase or retire any shares of its common stock. The following stock options to purchase shares of common stock were exercised during the six months ended February 28, 2013:

| <u>Options Exercised</u> | <u>Exercise Price</u> |
|--------------------------|-----------------------|
| 25,140                   | \$9.95                |
| 1,734                    | 7.65                  |

The Company granted stock options under the 2007 Plan to purchase an aggregate of 118,294 shares of its common stock to various employees and directors during the six months ended February 28, 2013. The weighted average per share exercise price of the stock options is \$10.25, which is equal to the fair market value of the Company's common stock on the date of grant.

## 8. NET INCOME PER COMMON SHARE

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

No options to purchase shares of common stock were excluded from the computation of common share equivalents for the three and six months ended February 28, 2014, as the exercise prices of such options were less than market price of a share of common stock. Options to purchase shares of common stock of 48,000 were excluded from the computation of common share equivalents for the three and six months ended February 28, 2013, as the exercise prices of such options were greater than market price of a share of common stock.

The following is a reconciliation of the earnings per share computation for the three and six months ended February 28, 2014 and 2013:

|  | <u>Three Months Ended</u> |                          | <u>Six Months Ended</u>  |                          |
|--|---------------------------|--------------------------|--------------------------|--------------------------|
|  | <u>February 28, 2014</u>  | <u>February 28, 2013</u> | <u>February 28, 2014</u> | <u>February 28, 2013</u> |
| Numerators:  |                           |                          |                          |                          |
| Net income attributable to NTIC                        | \$ 1,025,044              | \$ 434,410               | \$ 1,883,630             | \$ 824,032               |
| Denominator:   |                           |                          |                          |                          |
| Basic – weighted shares outstanding                    | 4,434,837                 | 4,418,821                | 4,434,770                | 4,409,954                |
| Weighted shares assumed upon exercise of stock options | 144,766                   | 66,255                   | 131,333                  | 50,243                   |
| Diluted – weighted shares outstanding                  | 4,579,603                 | 4,485,076                | 4,566,103                | 4,460,197                |
| Basic earnings per share:                              | \$ 0.23                   | \$ 0.10                  | \$ 0.42                  | \$ 0.19                  |
| Diluted earnings per share:                            | \$ 0.22                   | \$ 0.10                  | \$ 0.41                  | \$ 0.18                  |

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

## **9. STOCK-BASED COMPENSATION**

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

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

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

The Company granted options to purchase an aggregate of 56,373 and 118,294 shares of its common stock during the six months ended February 28, 2014 and 2013, respectively. The fair value of option grants is determined at date of grant, using the Black-Scholes option pricing model with the assumptions listed below. Based on these valuations, the Company recognized compensation expense of \$236,623 and \$137,550 during the six months ended February 28, 2014 and 2013, respectively, related to the options that vested during such time period. The stock-based expense recorded reduced after-tax net income per share by \$0.03 for each of the six months ended February 28, 2014 and 2013, respectively. As of February 28, 2014, the total compensation cost for non-vested options not yet recognized in the Company's consolidated statements of operations was \$503,979 net of estimated forfeitures. Additional stock-based compensation expense of \$217,396 is expected through the remainder of fiscal year 2014, and expense of \$186,598 and \$99,985 is expected to be recognized during fiscal 2015 and fiscal 2016, respectively. Future option grants will impact the compensation expense recognized.

The Company currently estimates a ten percent forfeiture rate for stock options and continually reviews this estimate for future periods.

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

|                                 | Six Months Ended  |                   |
|---------------------------------|-------------------|-------------------|
|                                 | February 28, 2014 | February 28, 2013 |
| Dividend yield                  | 0.00%             | 0.00%             |
| Expected volatility             | 47.3%             | 48.0%             |
| Expected life of option (years) | 10                | 5                 |
| Average risk-free interest rate | 1.36%             | 0.71%             |

The weighted average per share fair value of options granted during six months ended February 28, 2014 and 2013 was \$8.60 and \$5.53, respectively. The weighted average remaining contractual life of the options outstanding as of February 28, 2014 and 2013 was 5.02 years and 4.58 years, respectively.

## 10. GEOGRAPHIC AND SEGMENT INFORMATION

Net sales by geographic location as a percentage of total consolidated net sales for the three and six months ended February 28, 2014 and 2013 were as follows:

|  | Three Months Ended |                   | Six Months Ended  |                   |
|--|--------------------|-------------------|-------------------|-------------------|
|  | February 28, 2014  | February 28, 2013 | February 28, 2014 | February 28, 2013 |
| Inside the U.S.A. to unaffiliated customers                                  | 62.1%              | 65.6%             | 66.6%             | 68.4%             |
| Outside the U.S.A. to:   |                    |                   |                   |                   |
| Joint ventures in which the Company is a shareholder directly and indirectly | 12.9%              | 18.2%             | 11.7%             | 16.8%             |
| Unaffiliated customers   | 25.0%              | 16.2%             | 21.7%             | 14.8%             |
|  | 100.0%             | 100.0%            | 100.0%            | 100.0%            |

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 February 28, 2014 and 2013 were as follows:

|                | Three Months Ended |   |                   |   |
|----------------|--------------------|---|-------------------|---|
|                | February 28, 2014  | % of Total Fees for Services Provided to Joint Ventures | February 28, 2013 | % of Total Fees for Services Provided to Joint Ventures |
| China          | \$ 523,451         | 25.4%   | \$ 450,586        | 25.4%   |
| Germany        | 263,556            | 12.8%   | 249,513           | 14.1%   |
| Japan          | 167,410            | 8.2%  | 169,205           | 9.6%  |
| India          | 166,858            | 8.1%  | —                 | 0.0%  |
| Poland         | 152,518            | 7.4%  | 154,839           | 8.7%  |
| Thailand       | 130,441            | 6.3%  | 148,303           | 8.4%  |
| France         | 122,972            | 6.0%  | 147,896           | 8.3%  |
| Korea          | 108,797            | 5.3%  | 123,388           | 7.0%  |
| Sweden         | 92,223             | 4.5%  | 77,627            | 4.4%  |
| United Kingdom | 79,935             | 3.9%  | 35,754            | 2.0%  |
| Finland        | 76,537             | 3.7%  | 72,329            | 4.1%  |
| Other          | 172,973            | 8.4%  | 141,441           | 8.0%  |
|                | \$ 2,057,671       | 100.0%  | \$ 1,770,881      | 100.0%  |

|                | Six Months Ended     |  |                      |   |
|----------------|----------------------|--|----------------------|---|
|                | February 28,<br>2014 | % of Total Fees<br>for Services<br>Provided to<br>Joint Ventures | February 28,<br>2013 | % of Total Fees for<br>Services Provided<br>to Joint Ventures |
| China          | \$ 1,111,633         | 26.7%  | \$ 943,897           | 26.1%   |
| Germany        | 527,111              | 12.6%  | 492,213              | 13.6%   |
| Japan          | 340,691              | 8.2%   | 371,186              | 10.3%   |
| Poland         | 317,085              | 7.6%   | 266,311              | 7.4%  |
| Thailand       | 282,999              | 6.8%   | 301,989              | 8.4%  |
| Korea          | 270,221              | 6.5%   | 262,131              | 7.2%  |
| France         | 251,075              | 6.0%   | 276,398              | 7.6%  |
| Sweden         | 202,193              | 4.8%   | 164,619              | 4.6%  |
| Finland        | 181,740              | 4.4%   | 160,180              | 4.4%  |
| India          | 166,858              | 4.0%   | —                    | 0.0%  |
| United Kingdom | 154,632              | 3.7%   | 102,812              | 2.8%  |
| Other          | 361,081              | 8.7%   | 275,422              | 7.6%  |
|                | <b>\$ 4,167,319</b>  | <b>100.0%</b>  | <b>\$ 3,617,158</b>  | <b>100.0%</b>   |

The following table sets forth the Company's net sales for the three and six months ended February 28, 2014 and 2013 by segment:

|                  | Three Months Ended   |                      | Six Months Ended     |                      |
|------------------|----------------------|----------------------|----------------------|----------------------|
|                  | February 28,<br>2014 | February 28,<br>2013 | February 28,<br>2014 | February 28,<br>2013 |
| ZERUST® sales    | \$ 5,555,051         | \$ 4,710,412         | \$ 11,304,064        | \$ 9,505,695         |
| Natur-Tec™ sales | 663,957              | 535,938              | 1,224,044            | 1,032,402            |
| Total net sales  | <b>\$ 6,219,008</b>  | <b>\$ 5,246,350</b>  | <b>\$ 12,528,108</b> | <b>\$ 10,538,097</b> |

The following table sets forth the Company's cost of goods sold for the three and six months ended February 28, 2014 and 2013 by segment:

|                              | Three Months Ended   |                           |                      |                           | Six Months Ended     |                           |                      |                           |
|------------------------------|----------------------|---------------------------|----------------------|---------------------------|----------------------|---------------------------|----------------------|---------------------------|
|                              | February 28,<br>2014 | % of<br>Product<br>Sales* | February 28,<br>2013 | % of<br>Product<br>Sales* | February 28,<br>2014 | % of<br>Product<br>Sales* | February 28,<br>2013 | % of<br>Product<br>Sales* |
| Direct cost of goods sold    |                      |                           |                      |                           |                      |                           |                      |                           |
| ZERUST®                      | \$ 2,965,790         | 53.4%                     | \$ 2,623,070         | 55.7%                     | \$ 6,047,554         | 53.5%                     | \$ 5,267,365         | 55.4%                     |
| Natur-Tec®                   | 490,573              | 73.9%                     | 453,147              | 84.6%                     | 940,037              | 76.8%                     | 892,820              | 86.5%                     |
| Indirect cost of goods sold  | 595,470              | —                         | 557,696              | —                         | 1,222,273            | —                         | 1,164,700            | —                         |
| Total net cost of goods sold | <b>\$ 4,051,833</b>  |                           | <b>\$ 3,633,913</b>  |                           | <b>\$ 8,209,864</b>  |                           | <b>\$ 7,324,885</b>  |                           |

\* 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.

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

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

|               | <b>As of<br/>February 28,<br/>2014</b> | <b>As of<br/>August 31,<br/>2013</b> |
|---------------|--|--------------------------------------|
| Brazil        | \$ 934,780                             | \$ 1,193,373                         |
| India         | 332,217                                | —                                    |
| North America | 49,554,310                             | 47,860,576                           |
| Total assets  | <u>\$ 50,821,307</u>                   | <u>\$ 49,053,949</u>                 |

|                 | <b>Six Months Ended</b>      |                              |
|-----------------|------------------------------|------------------------------|
|                 | <b>February 28,<br/>2014</b> | <b>February 28,<br/>2013</b> |
| Brazil          | \$ 1,153,012                 | \$ 1,131,469                 |
| India           | 168,779                      | —                            |
| North America   | 11,206,317                   | 9,406,628                    |
| Total net sales | <u>\$ 12,528,108</u>         | <u>\$ 10,538,097</u>         |

|                        | <b>Six Months Ended</b>      |                              |
|------------------------|------------------------------|------------------------------|
|                        | <b>February 28,<br/>2014</b> | <b>February 28,<br/>2013</b> |
| Brazil                 | \$ (145,955)                 | \$ (106,759)                 |
| India                  | 5,800                        | —                            |
| North America          | 3,307,688                    | 1,950,278                    |
| Total operating income | <u>\$ 3,167,533</u>          | <u>\$ 1,843,519</u>          |

Total assets located in Brazil and India primarily consist of cash and cash equivalents, customer receivables and inventory. 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.

#### **11. RESEARCH AND DEVELOPMENT**

The Company expenses all costs related to product research and development as incurred. The Company incurred \$2,237,865 and \$1,850,599 of expense during the six months ended February 28, 2014 and 2013, respectively, in connection with its research and development activities. These costs are net of reimbursements related to certain research and development contracts. Such reimbursements totaled \$45,788 and \$137,364 for the six months ended February 28, 2014 and 2013, respectively. The net fees are accounted for in the “Research and Development Expenses” section of the consolidated statements of operations.

#### **12. COMMITMENTS AND CONTINGENCIES**

On August 22, 2013, the Compensation Committee of the Board of Directors of the Company approved the material terms of an annual bonus plan for the Company’s executive officers as well as certain officers and employees for the fiscal year ending August 31, 2014. For fiscal 2014 as in past years, the total amount available under the bonus plan for all plan participants, including executive officers, is dependent upon the Company’s earnings before interest, taxes and other income, as adjusted to take into account amounts to be paid under the bonus plan and certain other adjustments (Adjusted EBITOI). Each plan participant’s percentage of the overall bonus pool is based upon the number of plan participants, the individual’s annual base salary and the individual’s position and level of responsibility within the company. In the case of each of the Company’s executive officer participants, 75% of the amount of their individual bonus payout will be determined based upon the Company’s actual EBITOI for fiscal 2013 compared to a pre-established target EBITOI for fiscal 2014 and 25% of the payout will be determined based upon such executive officer’s achievement of certain pre-established individual performance objectives. The payment of bonuses under the plan are discretionary and may be paid to executive officer participants in both cash and shares of NTIC common stock, the exact amount and percentages will be determined by the Company’s Board of Directors, upon recommendation of the Compensation Committee, after the completion of the Company’s consolidated financial statements for fiscal 2014. There was \$620,000 for management bonuses accrued for six months ended February 28, 2014 compared to a management bonus accrual of \$275,000 for the six months ended February 28, 2013.

The Company leases property located at 23205 Mercantile Road, Beachwood, Ohio. Remaining rentals payable under such leases are as follows: fiscal 2014 - \$59,500 and thereafter - \$0.

Three joint ventures accounted for 60.1% of the Company's trade joint venture receivables at February 28, 2014, and two joint ventures accounted for 49.0% of the Company's trade joint venture receivables at August 31, 2013.

From time to time, the Company is subject to various claims and legal actions in the ordinary course of its business. The Company is not currently involved in any legal proceeding in which the Company believes, based on information currently available, that there is a reasonable possibility of a material loss.

### 13. FAIR VALUE MEASUREMENTS

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

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

|                  | <b>Fair Value as of<br/>February 28, 2014</b> | <b>Fair Value Measurements<br/>Using Inputs Considered as</b> |                |                |
|------------------|---|---|----------------|----------------|
|                  |   | <b>Level 1</b>  | <b>Level 2</b> | <b>Level 3</b> |
| Cash equivalents | \$ 3,523,000                                  | \$ 3,523,000  | \$ —           | \$ —           |

|                  | <b>Fair Value as of<br/>August 31, 2013</b> | <b>Fair Value Measurements<br/>Using Inputs Considered as</b> |                |                |
|------------------|---|---|----------------|----------------|
|                  |   | <b>Level 1</b>  | <b>Level 2</b> | <b>Level 3</b> |
| Cash equivalents | \$ 1,020,000                                | \$ 1,020,000  | \$ —           | \$ —           |



## 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.” The following discussion of the results of the operations and financial condition of NTIC should be read in conjunction with NTIC’s consolidated financial statements and the related notes thereto included under the heading “Part I. Item 1. Financial Statements.”

### Business Overview

NTIC develops and markets proprietary environmentally beneficial products and services in over 60 countries either directly or via a network of joint ventures, independent distributors and agents. NTIC’s primary business is corrosion prevention marketed mainly under the ZERUST® brand. NTIC has been selling these proprietary ZERUST® products and services to the automotive, electronics, electrical, mechanical, military and retail consumer markets for over 35 years, and more recently, has expanded its target market to include the oil and gas industry. NTIC also sells a portfolio of bio-based and biodegradable (compostable) polymer resin compounds and finished products marketed under the Natur-Tec® brand. These products are intended to reduce NTIC’s customers’ carbon footprint and provide environmentally sound waste disposal options.

NTIC’s ZERUST® rust and corrosion inhibiting products include plastic and paper packaging, liquids and coatings, rust removers and cleaners, diffusers and variations of these products designed specifically for the oil and gas industry. NTIC’s also offers worldwide on-site technical consulting for rust and corrosion prevention issues. NTIC’s technical service consultants work directly with the end users of NTIC’s ZERUST® rust and corrosion inhibiting products to analyze their specific needs and develop systems to meet their technical requirements. In North America, NTIC sells its ZERUST® corrosion prevention solutions through a direct sales force as well as a network of independent distributors and agents. Internationally, NTIC sells its ZERUST® corrosion prevention solutions through its majority owned subsidiary in Brazil, Zerust Prevenção de Corrosão S.A. (Zerust Brazil), its majority owned joint venture holding company for NTIC’s joint venture investments in the Association of Southeast Asian Nations (ASEAN) region, and joint venture arrangements in North America, Europe and Asia.

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

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

Natur-Tec® bio-based and biodegradable 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 include 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 fully biodegradable in a composting environment and are currently being used to produce finished products including shopping and grocery bags, lawn and leaf bags, can liners, pet waste collection bags, cutlery, packaging foam 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 recently formed majority owned subsidiary in India, Northern Technologies India Private Limited (NTI India), and certain joint ventures.

## NTIC's Joint Venture Network

NTIC participates in 21 active joint venture arrangements in North America, Europe and Asia. Each of these joint ventures generally manufactures and markets products in the geographic territory to which it is assigned. While most of NTIC's joint ventures exclusively sell rust and corrosion inhibiting products, some of the joint ventures sell NTIC's Natur-Tec® resin compounds. NTIC has historically funded its investments in joint ventures with cash generated from operations.

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

NTIC accounts for the investments and financial results of its 21 joint ventures in its financial statements utilizing the equity method of accounting.

The results of Zerust Brazil, NTI India and NTI Asean are fully consolidated in NTIC's consolidated financial statements. NTIC holds 85% of the equity and 85% of the voting rights of Zerust Brazil. Beginning in the first quarter of fiscal 2013, NTIC consolidated the results of NTI Asean, which effective as of September 1, 2012 is a majority owned subsidiary of NTIC. NTIC holds 60% of the equity and 60% of the voting rights of NTI Asean. NTI Asean holds investments in eight entities that operate in the following eight territories located in the ASEAN region: China, Indonesia, Korea, Malaysia, Philippines, Singapore, Taiwan and Thailand. As of February 28, 2014 NTIC consolidated the results of NTI India, which effective as of December 1, 2013 is a majority owned subsidiary. NTIC holds 90% of the equity and 90% of the voting rights of NTI India

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

## Financial Overview

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

NTIC's consolidated net sales increased 18.5% and 18.9% during the three and six months ended February 28, 2014, respectively, compared to the three and six months ended February 28, 2013. These increases were primarily a result of increased demand for ZERUST® rust and corrosion inhibiting packaging products and services and Natur-Tec® products. During the three and six months ended February 28, 2014, 89.3% and 90.2% of NTIC's consolidated net sales, respectively, were derived from sales of ZERUST® products and services, which increased 17.9% and 18.9% to \$5,555,051 and \$11,304,064 during the three and six months ended February 28, 2014, respectively, compared to \$4,710,412 and \$9,505,695 during the three and six months ended February 28, 2013, respectively, due to increased demand from both new and existing customers. NTIC has focused its sales efforts of ZERUST® products and services by strategically targeting customers with specific corrosion issues in new market areas, including the oil and gas industry and other industrial sectors that offer sizable growth opportunities. NTIC's consolidated net sales for the six months ended February 28, 2014 included \$792,720 of sales made to customers in the oil and gas industry compared to \$374,790 for the prior fiscal year period. 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 market in particular.

During the three and six months ended February 28, 2014, 10.7% and 9.8%, of NTIC's consolidated net sales were derived from sales of Natur-Tec® products compared to 10.2% and 9.8% during the three and six months ended February 28, 2013, respectively. Net sales of Natur-Tec® products increased 23.9% and 18.6% during the three and six months ended February 28, 2014 compared to the three and six months ended February 28, 2013, respectively. These increases were primarily due to finished product sales through NTIC's newly formed majority owned subsidiary in India, Northern Technologies India Private Limited (NTI India).

Cost of goods sold as a percentage of net sales decreased to 65.2% during the three months ended February 28, 2014 compared to 69.3% during the three months ended February 28, 2013 and decreased to 65.5% during the six months ended February 28, 2014 compared to 69.5% during the prior fiscal year period. These decreases were primarily as a result of start-up costs associated with a new customer recognized during the prior fiscal year period.

NTIC's equity in income of joint ventures increased 22.6% and 23.1% to \$1,395,451 and \$2,823,199, respectively, during the three and six months ended February 28, 2014 compared to \$1,138,438 and \$2,292,734 during the three and six months ended February 28, 2013, which increases were primarily a result of increases in sales at the joint ventures.

NTIC recognized a 16.2% and 15.2% increase in fees for services provided to joint ventures during the three and six months ended February 28, 2014 compared to the three and six months ended February 28, 2013, respectively. These increases were primarily a result of increases in sales at the joint ventures as fees for services provided are a function of the net sales of NTIC's joint ventures, which were \$28,389,158 and \$58,050,376 during the three and six months ended February 28, 2014 compared to \$26,722,201 and \$54,247,135 for the three and six months ended February 28, 2013. Total net sales of NTIC's joint ventures appear to be slightly improving from the depressed sales levels experienced as a result of the European economic slowdown over the past few years.

NTIC's total operating expenses increased 11.8%, or \$861,644, to \$8,141,229 during the six months ended February 28, 2014 compared to the six months ended February 28, 2013. This increase was primarily the result of an increase in selling expenses, general and administrative expenses and expenses incurred in support of joint ventures, and overall reflected NTIC's efforts to support its new business efforts.

NTIC expenses all costs related to product research and development as incurred. NTIC incurred \$2,237,865 and \$1,850,599 of expense during the six months ended February 28, 2014 and 2013, respectively, in connection with its research and development activities. These represent net amounts after being reduced by reimbursements related to certain research and development contracts. Such reimbursements totaled \$45,788 and \$137,364 for the six months ended February 28, 2014 and 2013, respectively. NTIC anticipates that it will spend between \$3,800,000 and \$4,000,000 in total during fiscal 2014 on research and development activities related to its new technologies. This estimate is a net range after being reduced by anticipated reimbursements related to certain research and development contracts.

Net income attributable to NTIC increased 136.0%, to \$1,025,044, or \$0.22 per diluted common share, for the three months ended February 28, 2014 compared to \$434,410, or \$0.10 per diluted common share, for the three months ended February 28, 2013. Net income attributable to NTIC increased 128.6%, to \$1,883,630, or \$0.41 per diluted common share, for the six months ended February 28, 2014 compared to \$824,032, or \$0.18 per diluted common share, for the six months ended February 28, 2013. These increases were primarily the result of increases in gross profit of NTIC's North American businesses and increases in joint venture operations. NTIC anticipates that its quarterly net income will remain subject to significant volatility primarily due to the financial performance of its joint ventures and sales of its ZERUST® products and services into the oil and gas industry and Natur-Tec® bioplastics products, which sales fluctuate more on a quarterly basis than the traditional ZERUST® business.

NTIC's working capital was \$17,690,903 at February 28, 2014, including \$6,996,127 in cash and cash equivalents compared to \$13,270,452 at August 31, 2013, including \$4,314,258 in cash and cash equivalents.

## Results of Operations

The following tables set forth NTIC's results of operations for the three and six months ended February 28, 2014 and 2013.

|  | Three Months Ended   |                   |                      |                   |              |             |
|--|----------------------|-------------------|----------------------|-------------------|--------------|-------------|
|  | February 28,<br>2014 | % of<br>Net Sales | February 28,<br>2013 | % of<br>Net Sales | \$<br>Change | %<br>Change |
| Net sales, excluding joint ventures            | \$ 5,527,366         | 88.9%             | \$ 4,485,203         | 85.5%             | \$ 1,042,163 | 23.2%       |
| Net sales, to joint ventures                   | 691,642              | 11.1%             | 761,147              | 14.5%             | (69,505)     | (9.1)%      |
| Cost of goods sold                             | 4,051,833            | 65.2%             | 3,633,913            | 69.3%             | 417,920      | 11.5%       |
| Equity in income of joint ventures             | 1,395,451            | 22.4%             | 1,138,438            | 21.7%             | 257,013      | 22.6%       |
| Fees for services provided to joint ventures   | 2,057,671            | 33.1%             | 1,770,881            | 33.8%             | 286,790      | 16.2%       |
| Selling expenses                               | 1,291,316            | 20.8%             | 1,174,065            | 22.4%             | 117,251      | 10.0%       |
| General and administrative expenses            | 1,209,933            | 19.5%             | 1,143,987            | 21.8%             | 65,946       | 5.8%        |
| Expenses incurred in support of joint ventures | 366,469              | 5.9%              | 321,456              | 6.1%              | 45,013       | 14.0%       |
| Research and development expenses              | 1,099,345            | 17.7%             | 912,393              | 17.4%             | 186,952      | 20.5%       |

|  | Six Months Ended     |                   |                      |                   |              |             |
|--|----------------------|-------------------|----------------------|-------------------|--------------|-------------|
|  | February 28,<br>2014 | % of<br>Net Sales | February 28,<br>2013 | % of<br>Net Sales | \$<br>Change | %<br>Change |
| Net sales, excluding joint ventures            | \$ 11,132,384        | 88.9%             | \$ 9,255,590         | 87.8%             | \$ 1,876,794 | 20.3%       |
| Net sales, to joint ventures                   | 1,395,724            | 11.1%             | 1,282,507            | 12.2%             | 113,217      | 8.8%        |
| Cost of goods sold                             | 8,209,864            | 65.5%             | 7,324,885            | 69.5%             | 884,979      | 12.1%       |
| Equity in income of joint ventures             | 2,823,199            | 22.5%             | 2,292,734            | 21.8%             | 530,465      | 23.1%       |
| Fees for services provided to joint ventures   | 4,167,319            | 33.3%             | 3,617,158            | 34.3%             | 550,161      | 15.2%       |
| Selling expenses                               | 2,610,202            | 20.8%             | 2,345,160            | 22.3%             | 265,042      | 11.3%       |
| General and administrative expenses            | 2,597,429            | 20.7%             | 2,392,683            | 22.7%             | 204,746      | 8.6%        |
| Expenses incurred in support of joint ventures | 695,733              | 5.6%              | 691,143              | 6.6%              | 4,590        | 0.7%        |
| Research and development expenses              | 2,237,865            | 17.9%             | 1,850,599            | 17.6%             | 387,266      | 20.9%       |

*Net Sales.* NTIC's consolidated net sales increased 18.5% and 18.9% to \$6,219,008 and \$12,528,108, respectively, during the three and six months ended February 28, 2014 compared to the three and six months ended February 28, 2013. NTIC's consolidated net sales excluding NTIC's joint ventures increased 23.2% and 20.3% to \$5,527,366 and \$11,132,384, respectively, during the three and six months ended February 28, 2014 compared to the same respective prior fiscal year periods. These increases were primarily a result of increased demand and sales of ZERUST® rust and corrosion inhibiting packaging products and services and Natur-Tec® products. Net sales to joint ventures decreased 9.1% and increased 8.8% to \$691,642 and \$1,395,724 during the three and six months ended February 28, 2014, respectively, compared to the same respective prior fiscal year periods. These changes were primarily due to timing differences with orders placed with our joint ventures.

The following table sets forth NTIC's net sales by product category for the three and six months ended February 28, 2014 and 2013 by segment:

|                  | Three Months Ended   |                      | Six Months Ended     |                      |
|------------------|----------------------|----------------------|----------------------|----------------------|
|                  | February 28,<br>2014 | February 28,<br>2013 | February 28,<br>2014 | February 28,<br>2013 |
| ZERUST® sales    | \$ 5,555,051         | \$ 4,710,412         | \$ 11,304,064        | \$ 9,505,695         |
| Natur-Tec® sales | 663,957              | 535,938              | 1,224,044            | 1,032,402            |
| Total net sales  | \$ 6,219,008         | \$ 5,246,350         | \$ 12,528,108        | \$ 10,538,097        |

During the three and six months ended February 28, 2014, 89.3% and 90.2% of NTIC's consolidated net sales, respectively, were derived from sales of ZERUST® products and services, which increased 17.9% and 18.9% to \$5,555,051 and \$11,304,064 during the three and six months ended February 28, 2014, respectively, compared to \$4,710,412 and \$9,505,695 during the three and six months ended February 28, 2013, respectively, due to increased demand from existing customers and the addition of new customers. NTIC has strategically focused its sales efforts for ZERUST® products and services on customers with sizeable corrosion problems in industry sectors that offer sizable growth opportunities, including the oil and gas sector. The following table sets forth NTIC's net sales of ZERUST® products for the three and six months ended February 28, 2014 and 2013:

|                                 | Three Months Ended   |                      |              |             |
|---------------------------------|----------------------|----------------------|--------------|-------------|
|                                 | February 28,<br>2014 | February 28,<br>2013 | \$<br>Change | %<br>Change |
| ZERUST® industrial net sales    | \$ 4,463,169         | \$ 3,705,937         | \$ 757,232   | 20.4%       |
| ZERUST® joint venture net sales | 689,772              | 758,382              | (68,610)     | (9.0)%      |
| ZERUST® oil & gas net sales     | 402,110              | 246,093              | 156,017      | 63.4%       |
| Total ZERUST® net sales         | \$ 5,555,051         | \$ 4,710,412         | \$ 844,639   | 17.9%       |

|                                 | Six Months Ended     |                      |              |             |
|---------------------------------|----------------------|----------------------|--------------|-------------|
|                                 | February 28,<br>2014 | February 28,<br>2013 | \$<br>Change | %<br>Change |
| ZERUST® industrial net sales    | \$ 9,120,008         | \$ 7,851,163         | \$ 1,268,845 | 16.2%       |
| ZERUST® joint venture net sales | 1,391,336            | 1,279,742            | 111,594      | 8.7%        |
| ZERUST® oil & gas net sales     | 792,720              | 374,790              | 417,930      | 111.5%      |
| Total ZERUST® net sales         | \$ 11,304,064        | \$ 9,505,695         | \$ 1,798,369 | 18.9%       |

NTIC anticipates that its sales of ZERUST® products and services into the oil and gas industry will remain subject to significant volatility from quarter to quarter as sales are recognized.

During the three and six months ended February 28, 2014, 10.7% and 9.8% of NTIC's consolidated net sales, respectively, were derived from sales of Natur-Tec® products, which increased 23.9% and 18.6% to \$663,957 and \$1,224,044 during the three and six months ended February 28, 2014, respectively, compared to the three and six months ended February 28, 2013. These increases were due primarily to increased sales to NTIC's Natur-Tec® distributors in the United States. Additionally, NTIC continues to target key regional and national retailers through independent sales agents. Demand for Natur-Tec® products depends primarily on market acceptance and the reach of NTIC's distribution network. Because of the typical size of individual orders and overall size of NTIC's net sales derived from sales of Natur-Tec® products, the timing of one or more orders can affect materially NTIC's quarterly sales of Natur-Tec® products and the comparisons to prior fiscal year quarters.

*Cost of Goods Sold.* Cost of goods sold increased 11.5% and 12.1% for the three and six months ended February 28, 2014, respectively, compared to the three and six months ended February 28, 2013 primarily as a result of increased net sales as described above. Cost of goods sold as a percentage of net sales decreased to 65.2% during the three months ended February 28, 2014 compared to 69.3% the three months ended February 28, 2013 and decreased to 65.5% during the six months ended February 28, 2014 compared to 69.5% during the six months ended February 28, 2013. These decreases were primarily the result of start-up costs associated with a new customer incurred during the prior fiscal year periods.

*Equity in Income of Joint Ventures.* NTIC's equity in income of joint ventures increased 22.6% and 23.1% to \$1,395,451 and \$2,823,199 during the three and six months ended February 28, 2014, respectively, compared to equity in income of joint ventures of \$1,138,438 and \$2,292,734 during the three and six months ended February 28, 2013, respectively, primarily as a result of increases in sales at the joint ventures. Of the total equity in income of joint ventures, NTIC had equity in income of joint ventures of \$1,881,705 attributable to EXCOR during the six months ended February 28, 2014 compared to \$1,631,125 attributable to EXCOR during the six months ended February 28, 2013. Of the total equity in income of joint ventures, NTIC had equity in income of joint ventures of \$276,948 attributable to NTIC's joint venture in China during the six months ended February 28, 2014 compared to \$262,148 attributable to NTIC's joint venture in China during the six months ended February 28, 2013. NTIC had equity in income of all other joint ventures of \$664,546 during the six months ended February 28, 2014 compared to \$399,461 during the six months ended February 28, 2013.

*Fees for Services Provided to Joint Ventures.* NTIC recognized fee income for services provided to joint ventures of \$2,057,671 and \$4,167,319 during the three and six months ended February 28, 2014, respectively, compared to \$1,770,881 and \$3,617,158 during the three and six months ended February 28, 2013, respectively, representing an increase of 16.2% and 15.2%, respectively. Fee income for services provided to joint ventures are a function of the sales made by the various joint ventures of \$28,389,158 and \$58,050,376 during the three and six months ended February 28, 2014 compared to \$26,722,201 and \$54,247,135 for the three and six months ended February 28, 2013, respectively. Total net sales of NTIC's joint ventures for the prior fiscal year periods were adversely affected in part by the European economic slowdown, which NTIC believes also adversely affected net sales of certain of NTIC's other non-European joint ventures, as well as the weakening of the EURO and other currencies compared to the U.S. dollar. Sales of NTIC's joint ventures are not included in NTIC's product sales and are not combined with NTIC's sales in NTIC's consolidated financial statements or in any description of NTIC's sales.

Of the total fee income for services provided to joint ventures, fees of \$527,111 were attributable to EXCOR during the six months ended February 28, 2014 compared to \$492,213 attributable to EXCOR during the six months ended February 28, 2013. Fees of \$1,111,633 were attributable to NTIC's joint venture in China during the six months ended February 28, 2014 compared to \$943,897 during the six months ended February 28, 2013.

*Selling Expenses.* NTIC's selling expenses increased 10.0% and 11.3% for the three and six months ended February 28, 2014 compared to the same respective periods in fiscal 2014 due to increases in compensation and employee benefits, lab testing related expenses, commission expenses, travel and related expenses, and consulting expenses. Selling expenses as a percentage of net sales decreased slightly to 20.8% and 20.8% for the three and six months ended February 28, 2014, from 22.4% and 22.3% and during the three and six months ended February 28, 2013.

*General and Administrative Expenses.* NTIC's general and administrative expenses increased 5.8% and 8.6% for the three and six months ended February 28, 2014 compared to the same respective periods in fiscal 2013 due to increases in consulting expenses to support new business development. As a percentage of net sales, general and administrative expenses decreased to 19.5% and 20.7% for the three and six months ended February 28, 2014 from 21.8% and 22.7% for the three and six months ended February 28, 2013.

*Expenses Incurred in Support of Joint Ventures.* Expenses incurred in support of NTIC's joint ventures were \$366,469 and \$695,733 during the three and six months ended February 28, 2014, respectively, compared to \$321,456 and \$691,143 during the three and six months ended February 28, 2013, respectively, representing an increase of 14.0% and 0.7%, respectively. These increases were due primarily to increased headcount to support anticipated expanding operations and anticipated sales growth.

*Research and Development Expenses.* NTIC's research and development expenses increased 20.5% for the three months ended February 28, 2014 compared to the same period in fiscal 2013 and increased 20.9% for the six months ended February 28, 2014 compared to the same period in fiscal 2014 primarily as a result of increased spending on headcount and field development associated with the new businesses.

*Interest Income.* NTIC's interest income decreased to \$2,570 and \$4,359 during the three and six months ended February 28, 2014, respectively, compared to \$22,288 and \$47,634 during the three and six months ended February 28, 2013, respectively.

*Interest Expense.* NTIC's interest expense increased to \$11,976 during the three months ended February 28, 2014 compared to \$6,988 during the three months ended February 28, 2013 and increased to \$25,646 during the six months ended February 28, 2014 compared to \$13,462 during the six months ended February 28, 2013. These increases were primarily due to higher average outstanding debt levels during the most recent periods.

*Income Before Income Tax Expense.* Income before income tax expense increased to \$1,643,828 and \$3,146,246 for the three and six months ended February 28, 2014, respectively, compared to \$985,155 and \$1,877,691 for the three and six months ended February 28, 2013, respectively.

*Income Tax Expense.* Income tax expense was \$259,759 and \$457,759 during the three and six months ended February 28, 2014, respectively, compared to \$240,000 and \$374,000 during the three and six months ended February 28, 2013, respectively. Income tax expense was calculated based on management's estimate of NTIC's annual effective income tax rate. NTIC's annual effective income tax rate during the three and six months ended February 28, 2014 and 2013 was lower than the statutory rate primarily due to NTIC's equity in income of joint ventures being recognized based on after-tax earnings of these entities. To the extent undistributed earnings of NTIC's joint ventures are distributed to NTIC, it is not expected to result in any material additional income tax liability after the application of foreign tax credits. NTIC records a tax valuation allowance when it is more likely than not that some portion or all of its deferred tax assets will not be realized to reduce deferred tax assets to the amount expected to be realized. NTIC determined based on all available evidence, including historical data and projections of future results, that it is more likely than not that all of its deferred tax assets, except for its foreign tax credit carryforwards and Minnesota state research and development credit carryforwards, will be fully realized. In addition, NTIC determined based upon all available evidence, including new IRS guidance, historical results, projected future taxable income and foreign tax credit utilization, that it was not more likely than not that the federal research and development credits would be utilized during the carryforward period and as a result, a valuation allowance was recorded against all of NTIC's federal research and development credits. In addition, NTIC continues to believe that its deferred tax asset related to foreign tax credit carryforwards will not be realized due to insufficient federal taxable income within the carryforward period and the fact that for ordering purposes the foreign tax credit carryforwards are not allowed to be used until after any current year foreign tax credits are utilized.

NTIC considers the earnings of certain foreign joint ventures to be indefinitely invested outside the United States on the basis of estimates that future domestic cash generation will be sufficient to meet NTIC's future domestic cash needs. As a result, U.S. income and foreign withholding taxes have not been recognized on the cumulative undistributed earnings of \$20,232,259 and \$22,281,510 at February 28, 2014 and August 31, 2013, respectively. To the extent undistributed earnings of NTIC's joint ventures are distributed in the future, they are not expected to result in any material additional income tax liability after the application of foreign tax credits

*Other Comprehensive Income - Foreign Currency Translations Adjustment.* The volatility of the foreign currency translations adjustment was due to the volatility of the U.S. dollar compared to the Euro and other foreign currencies during the three and six months ended February 28, 2014 compared to the same respective periods in fiscal 2013.

### **Liquidity and Capital Resources**

*Sources of Cash and Working Capital.* As of February 28, 2014, NTIC's working capital was \$17,690,903, including \$6,996,127 in cash and cash equivalents, compared to \$13,270,452 at August 31, 2013, including \$4,314,258 in cash and cash equivalents. This increase was due primarily to dividends received from joint ventures, including primarily EXCOR, and was offset in part by the use of \$933,414 in cash to pay off in full NTIC's term loan that was obtained in connection with the purchase of NTIC's corporate headquarters in September 2006.

As of February 28, 2014, NTIC had a revolving line of credit with PNC Bank of \$3,000,000, with no amounts outstanding. The line of credit is evidenced by an amended and restated committed line of credit note in the principal amount of up to \$3,000,000. The line of credit has a \$1,200,000 standby letter of credit subfacility, with any standby letters of credit issued thereunder being at the sole discretion of PNC Bank. Any standby letters of credit issued under the subfacility are subject to customary fees and charges payable by NTIC. At the option of NTIC, outstanding advances under the line of credit bear interest at either (a) an annual rate based on LIBOR plus 2.15% for the applicable LIBOR interest period selected by NTIC or (b) at the rate publicly announced by PNC Bank from time to time as its prime rate. Interest is payable in arrears (a) for the portion of advances bearing interest under the prime rate on the last day of each month during the term thereof and (b) for the portion of advances bearing interest under the LIBOR option on the last day of the respective LIBOR interest period selected for such advance. Any unpaid interest is payable on the maturity date. As of February 28, 2014, the interest rate on the line of credit was 2.70%.

The line of credit is governed under a loan agreement, which contains standard covenants, including affirmative financial covenants, such as the maintenance of a minimum fixed charge coverage ratio, and negative covenants, which, among other things, limit the incurrence of additional indebtedness, loans and equity investments, disposition of assets, mergers and consolidations and other matters customarily restricted in such agreements. Under the loan agreement, NTIC is subject to a minimum fixed charge coverage ratio of 1.10:1.00. As of February 28, 2014, NTIC was in compliance with all loan agreement covenants and expects to remain in compliance with all loan agreement covenants during the remainder of fiscal 2014.

On December 31, 2013, PNC Bank extended the maturity date of the line of credit from January 8, 2014 to January 7, 2015. All other terms of the line of credit and the loan agreement and other documents evidencing the line of credit remain the same. It is anticipated that, as historically has been the practice, the line of credit will be renewed each year for one additional year for the immediate foreseeable future.

NTIC believes that a combination of its existing cash and cash equivalents, forecasted cash flows from future operations, anticipated distributions of earnings, anticipated fees to NTIC for services provided to its joint ventures, and funds available through existing or anticipated financing arrangements, will be adequate to fund its existing operations, investments in new or existing joint ventures, capital expenditures, debt repayments and any stock repurchases for at least the next 12 months. During the remainder of fiscal 2014, NTIC expects to continue to invest in research and development and in marketing efforts and resources into the application of its corrosion prevention technology into the oil and gas industry and its Natur-Tec<sup>®</sup> bio-plastics business. In order to take advantage of such new product and market opportunities to expand its business and increase its revenues, NTIC may decide to finance such opportunities by borrowing under its revolving line of credit or raising additional financing through the issuance of debt or equity securities. There is no assurance that any financing transaction will be available on terms acceptable to NTIC or at all, or that any financing transaction will not be dilutive to NTIC's current stockholders.

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

*Uses of Cash and Cash Flows.* Net cash used in operating activities during the six months ended February 28, 2014 was \$1,464,042, which resulted principally from NTIC's equity in income from joint ventures and increases in receivables, inventories and prepaid expenses and a decrease in accrued liabilities and income taxes payable, partially offset by NTIC's net income, expensing of fair value of stock options vested, depreciation and amortization. Net cash used in operating activities during the six months ended February 28, 2013 was \$3,445,681, which resulted principally from NTIC's equity in income from joint ventures and increases in receivables, inventories and prepaid expenses and a decrease in accounts payables, accrued liabilities and income taxes payable, partially offset by NTIC's net income, depreciation and amortization.

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



NTIC experienced an increase in receivables and inventory as of February 28, 2014 compared to August 31, 2013 due to the increase in net sales and a desire to stock more products to shorten lead times and anticipate customer demand. Trade receivables excluding joint ventures as of February 28, 2014 increased \$69,584 compared to August 31, 2013, primarily related to the increase in NTIC's net sales.

Outstanding trade receivables excluding joint ventures balances as of February 28, 2014 decreased three days to an average of 53 days from balances outstanding from these customers as of August 31, 2013.

Outstanding trade receivables from joint ventures as of February 28, 2014 decreased \$322,902 compared to August 31, 2013 primarily due to the timing of payments. There was a decrease of outstanding balances from trade receivables from joint ventures as of February 28, 2014 of 50 days from an average of 120 days from balances outstanding from these customers compared to August 31, 2013. The significant average days outstanding of trade receivables from joint ventures as of February 28, 2014 were primarily due to the receivable balance at NTIC's joint venture in India, Korea and China.

Outstanding receivables for services provided to joint ventures as of February 28, 2014 increased \$370,026 compared to August 31, 2013, which resulted in a decrease of one day of fees receivable outstanding as of February 28, 2014 to an average of 123 days compared to August 31, 2013.

Net cash provided by investing activities for the six months ended February 28, 2014 was \$5,017,070, which was comprised primarily of \$5,217,878 in dividends received from joint ventures. These amounts were partially offset by additions to property and equipment and additions to patents. Net cash provided by investing activities for the six months ended February 28, 2013 was \$4,349,062, which was comprised primarily of dividends received from joint ventures, partially offset by additions to property and equipment and additions to patents.

Net cash used in financing activities for the six months ended February 28, 2014 was \$873,643, which resulted from principal payments on the bank loan for NTIC's corporate headquarters buildings, partially offset by proceeds from NTIC's employee stock purchase plan and, to a lesser extent, stock option exercises. Net cash used in financing activities for the six months ended February 28, 2013 was \$779,147, which resulted from a dividend received from a controlling interests and principal payments on the bank loan for NTIC's corporate headquarters buildings, partially offset by proceeds from NTIC's employee stock purchase plan and, to a lesser extent, stock option exercises.

*Capital Expenditures and Commitments.* NTIC spent \$325,051 on capital expenditures during the six months ended February 28, 2014 and expects to spend an aggregate of approximately \$600,000 to \$1,000,000 on capital expenditures during fiscal 2014. Such anticipated capital expenditures for fiscal 2014 relate primarily to the possible additional expansion of its laboratory facilities and purchase of equipment in Circle Pines, Minnesota.

NTIC has a lease agreement for approximately 17,000 square feet of office, manufacturing, laboratory and warehouse space in Beachwood, Ohio, requiring monthly payments of \$17,500, which are adjusted annually according to the annual consumer price index, through November 2014. NTIC had no other material lease or other material capital commitments as of February 28, 2014.

## **Off-Balance Sheet Arrangements**

NTIC has no relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, which would have been established for the purpose of facilitating off-balance sheet financial arrangements. As such, NTIC is not materially exposed to any financing, liquidity, market or credit risk that could arise if NTIC had engaged in such arrangements.

## **Inflation and Seasonality**

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

## **Market Risk**

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

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

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

At the option of NTIC, outstanding advances under NTIC's \$3,000,000 revolving line of credit with PNC Bank bear interest at either (a) an annual rate based on LIBOR plus 2.15% for the applicable LIBOR interest period selected by NTIC or (b) at the rate publicly announced by PNC Bank from time to time as its prime rate, and thus may subject NTIC to some market risk on interest rates. As of February 28, 2014, NTIC had no borrowings under the line of credit.

## **Critical Accounting Policies and Estimates**

There have been no material changes to NTIC's critical accounting policies and estimates from the information provided in "Part II. Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Policies", included in NTIC's annual report on Form 10-K for the fiscal year ended August 31, 2013, other than the policy described below:

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

NTIC evaluates its voting and variable interests in entities on a qualitative and quantitative basis. NTIC consolidates entities in which it concludes it has the power to direct the activities that most significantly impact an entity's economic success and has the obligation to absorb losses or the right to receive benefits that could be significant to the entity. All such relationships are evaluated on an ongoing basis. The consolidated financial statements include the accounts of Northern Technologies International Corporation, its wholly owned subsidiary, Northern Technologies Holding Company, LLC, and NTIC's majority owned subsidiary in Brazil, Zerust Prevenção de Corrosão S.A., NTIC's majority owned holding company, NTI Asean LLC, and NTIC's majority owned subsidiary in India, Northern Technologies India Private Limited. NTIC's consolidated financial statements do not include the accounts of any of its joint ventures.

## Forward-Looking Statements

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

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

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

- NTIC's ability to introduce new products and services that respond to changing market conditions and customer demand;
- Market acceptance of NTIC's existing and new products, especially in light of existing and new competitive products;
- Maturation of certain existing markets for NTIC's ZERUST<sup>®</sup> 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<sup>®</sup> 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, including in particular its single supply source for its base bioplastics resins;
- 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;
- The transition of the manufacturing of certain select ZERUST<sup>®</sup> rust and corrosion inhibiting products in house at NTIC's corporate headquarters location in Circle Pines, Minnesota;
- Unforeseen product quality or other problems in the development, production and usage of new and existing products;
- Unforeseen production expenses incurred in connection with new customers and new products;
- Loss of or changes in executive management or key employees;
- Ability of management to manage around unplanned events;
- NTIC's reliance on its intellectual property rights and the absence of infringement of the intellectual property rights of others;
- Fluctuations in NTIC's effective tax rate;
- NTIC's reliance upon its management information systems; and
- NTIC's ability to maintain effective internal control over financial reporting and comply with its other U.S. public reporting company obligations, especially in light of its upcoming transition from a "smaller reporting company" to an "accelerated filer" under federal securities laws, and anticipated increased costs and diversion of management's time and attention associated with such compliance activities.

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, 2013 under the heading "Part I. Item 1A. Risk Factors."

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

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

This Item 3 is inapplicable to NTIC as a smaller reporting company and has been omitted pursuant to Item 305(e) of SEC Regulation S-K.

### **ITEM 4. CONTROLS AND PROCEDURES**

#### **Evaluation of Disclosure Controls and Procedures**

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

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

There was no change in NTIC's internal control over financial reporting that occurred during the quarter ended February 28, 2014 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**

Not applicable.

**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 February 28, 2014, 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**

During the three months ended February 28, 2014, NTIC did not purchase any shares of its common stock or other equity securities of NTIC.

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

Not applicable.

**ITEM 4. MINE SAFETY DISCLOSURES**

Not applicable.

**ITEM 5. OTHER INFORMATION**

Not applicable.

**ITEM 6. EXHIBITS**

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

| <b>Exhibit No.</b> | <b>Description</b>  |
|--------------------|---|
| 10.1               | Letter dated December 31, 2013 to Northern Technologies International Corporation from PNC Bank, National Association (filed herewith)  |
| 31.1               | Certification of Chief Executive Officer Pursuant to Exchange Act Rules 13a-14(a)/15d-14(a), as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith)  |
| 31.2               | Certification of Chief Financial Officer Pursuant to Exchange Act Rules 13a-14(a)/15d-14(a), as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith)  |
| 32.1               | Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith)  |
| 32.2               | Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith)  |
| 101                | The following materials from Northern Technologies International Corporation's Quarterly Report on Form 10-Q for the fiscal quarter ended February 28, 2014, formatted in XBRL (Extensible Business Reporting Language): (i) the unaudited Consolidated Balance Sheets, (ii) the unaudited Consolidated Statements of Operations, (iii) the unaudited Consolidated Statements of Comprehensive Income, (iv) the unaudited Consolidated Statements of Cash Flows, and (v) Notes to Condensed Financial Statements (filed herewith) |

**SIGNATURES**

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

**NORTHERN TECHNOLOGIES INTERNATIONAL CORPORATION**



Date: April 11, 2014

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

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

**EXHIBIT INDEX**

| <b>Exhibit No.</b> | <b>Description</b>   | <b>Method of Filing</b> |
|--------------------|--|-------------------------|
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| 31.2               | Certification of Chief Financial Officer Pursuant to Exchange Act Rules 13a-14(a)/15d-14(a), as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002  | Filed herewith          |
| 32.1               | Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002  | Furnished herewith      |
| 32.2               | Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002  | Furnished herewith      |
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PNC

December 31, 2013

Matthew C. Wolsfeld, Chief Financial Officer  
Northern Technologies International Corporation  
4201 Woodland Road  
Circle Pines, MN 55014

RE: Renewal of Expiration Date for committed line of credit  
Loan #: 0010146473/33835685  
Amount: \$3,000,000.00

Dear Mr. Wolsfeld:

We are pleased to inform you that your committed line of credit has been renewed. The Expiration Date, as set forth in the Amended and Restated Committed Line of Credit Note dated January 10, 2011, as amended, and any loan agreement or letter agreement related thereto, if applicable (the "Agreement"), has been extended from January 8, 2014 to January 7, 2015, effective on January 9, 2014. All other terms and conditions of the Promissory Note and Agreement remain in full force and effect.

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

Very truly yours,

PNC BANK, NATIONAL ASSOCIATION

By: /s/ Yelena Spadafora  
Title: Vice President

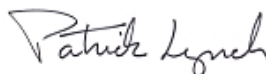
The PNC Financial Services Group  
23000 Millcreek Boulevard Highland Hills Ohio 44122  
www.pnc.com

## 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 reporting 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 controls over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the 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 controls over financial reporting.

Date: April 11, 2014



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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 reporting 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 controls over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the 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 controls over financial reporting.



Date: April 11, 2014

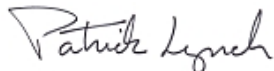
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Matthew C. Wolsfeld, CPA  
Chief Financial Officer and Corporate Secretary  
(principal financial officer)

**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 of Northern Technologies International Corporation (the "Company") on Form 10-Q for the period ended February 28, 2014 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, G. Patrick Lynch, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge and belief:

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



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

Circle Pines, Minnesota  
April 11, 2014

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

In connection with the Quarterly Report of Northern Technologies International Corporation (the "Company") on Form 10-Q for the period ended February 28, 2014 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.



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

Circle Pines, Minnesota  
April 11, 2014