

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

FORM 10-Q

(Mark one)

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

For the quarterly period ended May 31, 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

**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 July 11, 2014, there were 4,480,902 shares of common stock of the registrant outstanding.

NORTHERN TECHNOLOGIES INTERNATIONAL CORPORATION
FORM 10-Q
May 31, 2014

TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
PART I.	FINANCIAL INFORMATION
<u>Item 1.</u>	<u>Financial Statements</u>
	<u>Consolidated Balance Sheets as of May 31, 2014 (unaudited) and 31-Aug-13</u>
	<u>3</u>
	<u>Consolidated Statements of Operations (unaudited) for the Three and Nine Months Ended May 31, 2014 and 2013</u>
	<u>4</u>
	<u>Consolidated Statements of Comprehensive Income (unaudited) for the Three and Nine Months Ended May 31, 2014 and 2013</u>
	<u>5</u>
	<u>Consolidated Statements of Cash Flows (unaudited) for the Nine Months Ended May 31, 2014 and 2013</u>
	<u>6</u>
	<u>Notes to Consolidated Financial Statements (unaudited)</u>
	<u>7-15</u>
<u>Item 2.</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>
	<u>16-28</u>
<u>Item 3.</u>	<u>Quantitative and Qualitative Disclosures about Market Risk</u>
	<u>28</u>
<u>Item 4.</u>	<u>Controls and Procedures</u>
	<u>28</u>
PART II.	OTHER INFORMATION
<u>Item 1.</u>	<u>Legal Proceedings</u>
	<u>29</u>
<u>Item 1A.</u>	<u>Risk Factors</u>
	<u>29</u>
<u>Item 2.</u>	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>
	<u>29</u>
<u>Item 3.</u>	<u>Defaults Upon Senior Securities</u>
	<u>29</u>
<u>Item 4.</u>	<u>Mine Safety Disclosures</u>
	<u>29</u>
<u>Item 5.</u>	<u>Other Information</u>
	<u>29</u>
<u>Item 6.</u>	<u>Exhibits</u>
	<u>29</u>
<u>SIGNATURE PAGE</u>	<u>30</u>
<u>EXHIBIT INDEX</u>	<u>31</u>

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

As used in this report, references to “NTIC,” the “Company,” “we,” “our” or “us,” unless the context otherwise requires, refer to Northern Technologies International Corporation and its wholly owned 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 MAY 31, 2014 (UNAUDITED)
AND AUGUST 31, 2013 (AUDITED)**

	<u>May 31, 2014</u>	<u>August 31, 2013</u>
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 8,549,789	\$ 4,314,258
Receivables:		
Trade excluding joint ventures, less allowance for doubtful accounts of \$40,000 at May 31, 2014 and \$20,000 at August 31, 2013	3,265,913	3,329,995
Trade joint ventures	768,574	859,434
Fees for services provided to joint ventures	2,833,373	2,446,017
Income taxes	307,991	144,939
Inventories	5,535,014	5,111,549
Prepaid expenses	551,930	258,765
Deferred income taxes	467,548	467,548
Total current assets	<u>22,280,132</u>	<u>16,932,505</u>
PROPERTY AND EQUIPMENT, NET	<u>5,422,925</u>	<u>5,323,612</u>
OTHER ASSETS:		
Investments in joint ventures	22,103,275	24,702,981
Deferred income taxes	1,034,212	1,034,212
Patents and trademarks, net	1,184,824	1,060,639
Other	163,499	—
Total other assets	<u>24,485,810</u>	<u>26,797,832</u>
Total assets	<u>\$ 52,188,867</u>	<u>\$ 49,053,949</u>
LIABILITIES AND EQUITY		
CURRENT LIABILITIES:		
Current portion of note payable (Note 6)	—	76,119
Accounts payable	1,630,733	1,830,729
Accrued liabilities:		
Payroll and related benefits	1,592,640	1,277,942
Deferred joint venture royalties	288,000	288,000
Other	298,490	189,263
Total current liabilities	<u>3,809,863</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 4,477,902 and 4,432,036, respectively	89,558	88,641
Additional paid-in capital	12,394,854	11,701,942
Retained earnings	31,490,773	28,626,928
Accumulated other comprehensive income	812,834	316,161
Stockholders' equity	<u>44,788,019</u>	<u>40,733,672</u>
Non-controlling interest	3,590,985	3,800,929
Total equity	<u>48,379,004</u>	<u>44,534,601</u>
Total liabilities and equity	<u>\$ 52,188,867</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 NINE MONTHS ENDED MAY 31, 2014 AND 2013

	Three Months Ended		Nine Months Ended	
	May 31, 2014	May 31, 2013	May 31, 2014	May 31, 2013
NET SALES:				
Net sales, excluding joint ventures	\$ 6,056,078	\$ 5,041,096	\$ 17,188,462	\$ 14,296,686
Net sales, to joint ventures	864,742	835,937	2,260,466	2,118,444
Total net sales	6,920,820	5,877,033	19,448,928	16,415,130
Cost of goods sold	4,669,322	4,054,364	12,879,186	11,379,249
Gross profit	2,251,498	1,822,669	6,569,742	5,035,881
JOINT VENTURE OPERATIONS:				
Equity in income of joint ventures	1,593,465	1,440,335	4,416,664	3,733,069
Fees for services provided to joint ventures	2,001,775	1,917,947	6,169,094	5,535,105
Total joint venture operations	3,595,240	3,358,282	10,585,758	9,268,174
OPERATING EXPENSES:				
Selling expenses	1,315,264	1,243,687	3,925,466	3,588,847
General and administrative expenses	1,307,653	1,105,710	3,905,082	3,498,393
Expenses incurred in support of joint ventures	353,958	335,132	1,049,691	1,026,275
Research and development expenses	1,104,632	1,002,651	3,342,497	2,853,250
Total operating expenses	4,081,507	3,687,180	12,222,736	10,966,765
OPERATING INCOME	1,765,231	1,493,771	4,932,764	3,337,290
INTEREST INCOME	1,369	2,984	5,728	50,618
INTEREST EXPENSE	(7,063)	(50,986)	(32,709)	(64,448)
INCOME BEFORE INCOME TAX EXPENSE	1,759,537	1,445,769	4,905,783	3,323,460
INCOME TAX EXPENSE	361,280	158,000	819,039	532,000
NET INCOME	1,398,257	1,287,769	4,086,744	2,791,460
NET INCOME ATTRIBUTABLE TO NON-CONTROLLING INTEREST	418,040	360,657	1,222,897	1,040,316
NET INCOME ATTRIBUTABLE TO NTIC	\$ 980,217	\$ 927,112	\$ 2,863,847	\$ 1,751,144
NET INCOME ATTRIBUTABLE TO NTIC PER COMMON SHARE:				
Basic	\$ 0.22	\$ 0.21	\$ 0.64	\$ 0.40
Diluted	\$ 0.21	\$ 0.21	\$ 0.63	\$ 0.39
WEIGHTED AVERAGE COMMON SHARES ASSUMED OUTSTANDING:				
Basic	4,461,880	4,421,379	4,452,798	4,415,452
Diluted	4,590,344	4,468,861	4,583,174	4,464,774

See notes to consolidated financial statements.

NORTHERN TECHNOLOGIES INTERNATIONAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)
FOR THE THREE AND NINE MONTHS ENDED MAY 31, 2014 AND 2013

	Three Months Ended		Nine Months Ended	
	May 31, 2014	May 31, 2013	May 31, 2014	May 31, 2013
NET INCOME	\$ 1,398,257	\$ 1,287,769	\$ 4,086,744	\$ 2,791,460
OTHER COMPREHENSIVE (LOSS) INCOME – FOREIGN CURRENCY TRANSLATION ADJUSTMENT	(133,296)	(292,001)	472,315	103,543
COMPREHENSIVE INCOME	1,264,961	995,768	4,559,059	2,895,003
COMPREHENSIVE INCOME ATTRIBUTABLE TO NON-CONTROLLING INTERESTS	405,333	352,519	1,198,539	1,087,206
COMPREHENSIVE INCOME ATTRIBUTABLE TO NTIC	\$ 859,628	\$ 643,249	\$ 3,360,520	\$ 1,807,797

See notes to consolidated financial statements.

NORTHERN TECHNOLOGIES INTERNATIONAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
FOR THE NINE MONTHS ENDED MAY 31, 2014 AND 2013

	Nine Months Ended	
	May 31, 2014	May 31, 2013
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 4,086,744	\$ 2,791,460
Adjustments to reconcile net income to net cash used in operating activities:		
Stock-based compensation	345,319	213,347
Depreciation expense	335,350	316,118
Amortization expense	64,736	53,264
Loss on disposal of assets	2,176	13,842
Equity in income from joint ventures	(4,416,664)	(3,733,069)
Increase in allowance on doubtful accounts	20,000	—
Changes in current assets and liabilities:		
Receivables:		
Trade, excluding joint ventures	80,459	(306,554)
Trade, joint ventures	90,860	(385,542)
Fees for services provided to joint ventures	(387,356)	199,532
Income taxes	(155,319)	(116,816)
Inventories	(397,090)	(1,085,743)
Prepaid expenses and other	(455,900)	195,848
Accounts payable	(227,486)	(526,505)
Income tax payable	(4,081)	2,783
Accrued liabilities	411,211	(684,857)
Net cash used in operating activities	<u>(607,041)</u>	<u>(3,052,892)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from the sale of investment in joint venture	134,606	—
Dividends received from joint ventures	7,307,895	3,017,586
Additions to property and equipment	(428,536)	(1,160,344)
Effect of subsidiary consolidation on cash	—	1,612,768
Additions to patents	(189,393)	(167,652)
Net cash provided by investing activities	<u>6,824,572</u>	<u>3,302,358</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayment of note payable	(933,414)	(57,089)
Dividend received by non-controlling interest	(1,440,000)	(1,352,841)
Investment by non-controlling interest	34,770	—
Proceeds from employee stock purchase plan	42,514	56,739
Proceeds from exercise of stock options	305,996	157,021
Net cash used in financing activities	<u>(1,990,134)</u>	<u>(1,196,170)</u>
EFFECT OF EXCHANGE RATE CHANGES ON CASH:	<u>8,134</u>	<u>(14,686)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	<u>4,235,531</u>	<u>(961,390)</u>
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	<u>4,314,258</u>	<u>4,137,547</u>
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<u>\$ 8,549,789</u>	<u>\$ 3,176,157</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 May 31, 2014 and August 31, 2013 and the results of their operations for the three and nine months ended May 31, 2014 and 2013 and their cash flows for the nine months ended May 31, 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 nine months ended May 31, 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:

	May 31, 2014	August 31, 2013
Production materials	\$ 1,323,073	\$ 1,096,693
Finished goods	4,211,941	4,014,856
	<u>\$ 5,535,014</u>	<u>\$ 5,111,549</u>

3. PROPERTY AND EQUIPMENT, NET

Property and equipment, net consisted of the following:

	May 31, 2014	August 31, 2013
Land	\$ 310,365	\$ 310,365
Buildings and improvements	4,582,259	4,613,879
Machinery and equipment	<u>3,652,730</u>	<u>3,189,671</u>
	8,545,354	8,113,915
Less accumulated depreciation	<u>(3,122,429)</u>	<u>(2,790,303)</u>
	<u>\$ 5,422,925</u>	<u>\$ 5,323,612</u>

4. PATENTS AND TRADEMARKS, NET

Patents and trademarks, net consisted of the following:

	May 31, 2014	August 31, 2013
Patents and trademarks	\$ 2,253,049	\$ 2,064,128
Less accumulated amortization	(1,068,225)	(1,003,489)
	<u>\$ 1,184,824</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:

	At May 31, 2014			
	Total	EXCOR	China	All Other
Current assets	\$ 58,975,346	\$ 22,560,299	\$ 8,541,897	\$ 27,873,150
Total assets	63,172,232	24,920,587	8,561,641	29,690,004
Current liabilities	14,208,070	1,956,574	1,926,986	10,324,510
Noncurrent liabilities	3,373,373	1,321,199	853,839	1,198,335
Joint ventures' equity	45,590,789	21,642,814	5,780,816	18,167,159
Company's share of joint ventures' equity	22,103,275	10,821,409	2,225,409	9,056,460
Company's share of joint ventures' undistributed earnings	\$ 19,681,808	\$ 10,790,504	\$ 2,175,409	\$ 6,715,895

	At August 31, 2013			
	Total	EXCOR	China	All Other
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

Nine Months Ended May 31, 2014

	Total	EXCOR	China	All Other
Net sales	\$ 88,213,101	\$ 29,020,416	\$ 11,952,115	\$ 47,240,570
Gross profit	41,609,619	15,000,023	5,550,166	21,059,430
Net income	9,960,639	5,574,387	1,543,155	1,913,097
Company's share of equity in income of joint ventures	\$ 4,416,664	\$ 2,787,048	\$ 659,684	\$ 969,932

Nine Months Ended May 31, 2013

	Total	EXCOR	China	All Other
Net sales	\$ 82,788,711	\$ 26,043,775	\$ 10,802,206	\$ 45,942,730
Gross profit	39,447,084	13,624,792	5,134,820	20,687,472
Net income	7,626,711	4,954,595	815,664	1,856,452
Company's share of equity in income of joint ventures	\$ 3,733,069	\$ 2,478,109	\$ 407,809	\$ 847,151

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.

On May 31, 2014, NTI Asean bought out the other 50% owner in its joint venture in Singapore for \$110,988, thereby increasing NTI Asean's ownership in the joint venture from 50% to 100%. The Company did not make any other joint venture investments during the nine months ended May 31, 2014 and did not make any joint venture investments during the nine months ended May 31, 2013.

On November 30, 2013, the Company agreed to sell its indirect ownership interest in Mütec GmbH (Mütec), one of the Company's joint ventures in Germany which manufactures proprietary electronic sensing instruments. As of May 31, 2014, \$163,499 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 May 31, 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 May 31, 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 May 31, 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 nine months ended May 31, 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 nine months ended May 31, 2014:

<u>Options Exercised</u>	<u>Exercise Price</u>
44,000	\$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 nine months ended May 31, 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 nine months ended May 31, 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 nine months ended May 31, 2013:

<u>Options Exercised</u>	<u>Exercise Price</u>
25,140	\$ 9.95
4,000	8.57
1,734	7.65
1,500	9.76
666	7.75

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 nine months ended May 31, 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 nine months ended May 31, 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 40,000 were excluded from the computation of common share equivalents for the three and nine months ended May 31, 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 nine months ended May 31, 2014 and 2013:

	<u>Three Months Ended</u>		<u>Nine Months Ended</u>	
	<u>May 31, 2014</u>	<u>May 31, 2013</u>	<u>May 31, 2014</u>	<u>May 31, 2013</u>
Numerators:				
Net income attributable to NTIC	\$ 980,217	\$ 927,112	\$ 2,863,847	\$ 1,751,144
Denominator:				
Basic – weighted shares outstanding	4,461,880	4,421,379	4,452,798	4,415,452
Weighted shares assumed upon exercise of stock options	128,464	47,482	130,376	49,322
Diluted – weighted shares outstanding	4,590,344	4,468,861	4,583,174	4,464,774
Basic earnings per share:	\$ 0.22	\$ 0.21	\$ 0.64	\$ 0.40
Diluted earnings per share:	\$ 0.21	\$ 0.21	\$ 0.63	\$ 0.39

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 nine months ended May 31, 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 \$345,319 and \$213,374 during the nine months ended May 31, 2014 and 2013, respectively, related to the options that vested during such time period. As of May 31, 2014, the total compensation cost for non-vested options not yet recognized in the Company's consolidated statements of operations was \$395,280 net of estimated forfeitures. Additional stock-based compensation expense of \$108,696 is expected through the remainder of fiscal year 2014, and expense of \$186,598 and \$99,986 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:

	Nine Months Ended	
	May 31, 2014	May 31, 2013
Dividend yield	0.00%	0.00%
Expected volatility	47.3%	48.0%
Expected life of option (years)	10	5 - 10
Average risk-free interest rate	1.36%	0.71%

The weighted average per share fair value of options granted during nine months ended May 31, 2014 and 2013 was \$8.57 and \$5.53, respectively. The weighted average remaining contractual life of the options outstanding as of May 31, 2014 and 2013 was 5.44 years and 4.48 years, respectively.

10. GEOGRAPHIC AND SEGMENT INFORMATION

Net sales by geographic location as a percentage of total consolidated net sales for the three and nine months ended May 31, 2014 and 2013 were as follows:

	Three Months Ended		Nine Months Ended	
	May 31, 2014	May 31, 2013	May 31, 2014	May 31, 2013
Inside the U.S.A. to unaffiliated customers	69.0%	69.8%	67.4%	68.9%
Outside the U.S.A. to:				
Joint ventures in which the Company is a shareholder directly and indirectly	13.6%	11.1%	12.4%	14.9%
Unaffiliated customers	17.4%	19.1%	20.2%	16.2%
	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 and nine months ended May 31, 2014 and 2013 were as follows:

	Three Months Ended			
	May 31, 2014	% of Total Fees for Services Provided to Joint Ventures	May 31, 2013	% of Total Fees for Services Provided to Joint Ventures
China	\$ 478,979	23.9%	\$ 524,724	27.3%
Germany	257,215	12.8%	250,000	13.0%
India	204,777	10.2%	—	0.0%
Japan	170,079	8.5%	177,432	9.3%
Poland	152,157	7.6%	113,339	5.9%
Thailand	148,113	7.4%	169,085	8.8%
France	139,719	7.0%	104,645	5.5%
Sweden	130,613	6.5%	141,000	7.4%
United Kingdom	127,697	6.4%	65,193	3.4%
Finland	87,416	4.4%	85,246	4.4%
Czech	71,489	3.6%	55,322	2.9%
Other	33,351	1.7%	231,961	12.1%
	\$ 2,001,775	100.0%	\$ 1,917,947	100.0%

	Nine Months Ended			
	May 31, 2014	% of Total Fees for Services Provided to Joint Ventures	May 31, 2013	% of Total Fees for Services Provided to Joint Ventures
China	\$ 1,590,612	25.8%	\$ 1,468,622	26.5%
Germany	784,326	12.7%	742,213	13.4%
Japan	510,769	8.3%	548,618	9.9%
Poland	469,242	7.6%	379,650	6.9%
Thailand	431,112	7.0%	471,074	8.5%
France	390,794	6.3%	381,043	6.9%
India	371,635	6.0%	—	0.0%
Sweden	332,806	5.4%	305,619	5.5%
United Kingdom	282,329	4.6%	168,005	3.1%
Finland	269,155	4.4%	245,426	4.4%
Czech	229,230	3.7%	147,741	2.7%
Other	507,084	8.2%	677,094	12.2%
	<u>\$ 6,169,094</u>	<u>100.0%</u>	<u>\$ 5,535,105</u>	<u>100.0%</u>

The following table sets forth the Company's net sales for the three and nine months ended May 31, 2014 and 2013 by segment:

	Three Months Ended		Nine Months Ended	
	May 31, 2014	May 31, 2013	May 31, 2014	May 31, 2013
ZERUST® sales	\$ 5,992,095	\$ 5,418,271	\$ 17,296,159	\$ 14,923,966
Natur-Tec™ sales	928,725	458,762	2,152,769	1,491,164
Total net sales	<u>\$ 6,920,820</u>	<u>\$ 5,877,033</u>	<u>\$ 19,448,928</u>	<u>\$ 16,415,130</u>

The following table sets forth the Company's cost of goods sold for the three and nine months ended May 31, 2014 and 2013 by segment:

	Three Months Ended				Nine Months Ended			
	May 31, 2014	% of Product Sales*	May 31, 2013	% of Product Sales*	May 31, 2014	% of Product Sales*	May 31, 2013	% of Product Sales*
Direct cost of goods sold								
ZERUST®	\$ 3,288,809	54.9%	\$ 3,115,980	57.5%	\$ 9,336,363	54.0%	\$ 8,383,345	56.2%
Natur-Tec®	695,778	74.9%	367,485	80.1%	1,635,815	76.0%	1,260,305	84.5%
Indirect cost of goods sold	684,735	—	570,899	—	1,907,008	—	1,735,599	—
Total net cost of goods sold	<u>\$ 4,669,322</u>		<u>\$ 4,054,364</u>		<u>\$ 12,879,186</u>		<u>\$ 11,379,249</u>	

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

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

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:

	As of May 31, 2014	As of August 31, 2013
Brazil	\$ 1,080,330	\$ 1,193,373
India	358,423	—
North America	50,750,114	47,860,576
Total assets	<u>\$ 52,188,867</u>	<u>\$ 49,053,949</u>

	Three Months Ended		Nine Months Ended	
	May 31, 2014	May 31, 2013	May 31, 2014	May 31, 2013
Brazil	\$ 712,125	\$ 567,615	\$ 1,865,137	\$ 1,699,084
India	192,921	—	361,700	—
North America	6,015,774	5,309,418	17,222,091	14,716,046
Total net sales	<u>\$ 6,920,820</u>	<u>\$ 5,877,033</u>	<u>\$ 19,448,928</u>	<u>\$ 16,415,130</u>

	Three Months Ended		Nine Months Ended	
	May 31, 2014	May 31, 2013	May 31, 2014	May 31, 2013
Brazil	\$ 70,464	\$ (156,594)	\$ (75,491)	\$ (263,353)
India	72	—	5,872	—
North America	1,694,695	1,650,365	5,002,383	3,600,643
Total operating income	<u>\$ 1,765,231</u>	<u>\$ 1,493,771</u>	<u>\$ 4,932,764</u>	<u>\$ 3,337,290</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 costs related to product research and development as incurred. The Company incurred \$3,342,497 and \$2,853,250 of expense during the nine months ended May 31, 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 \$206,046 for the nine months ended May 31, 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 \$1,063,000 for management bonuses accrued for nine months ended May 31, 2014 compared to a management bonus accrual of \$580,000 for the nine months ended May 31, 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 68.5% of the Company's trade joint venture receivables at May 31, 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:

	Fair Value as of May 31, 2014	Fair Value Measurements Using Inputs Considered as		
		Level 1	Level 2	Level 3
Cash equivalents	\$ 5,520,000	\$ 5,520,000	\$ —	\$ —

	Fair Value as of August 31, 2013	Fair Value Measurements Using Inputs Considered as		
		Level 1	Level 2	Level 3
Cash equivalents	\$ 1,020,000	\$ 1,020,000	\$ —	\$ —

14. RECENTLY ISSUED ACCOUNTING STANDARDS

In May 2014, the Financial Accounting Standards Board (FASB) issued revised guidance on revenue recognition. The standard provides a single revenue recognition model which is intended to improve comparability over a range of industries, companies and geographical boundaries and will also result in enhanced disclosures. The changes are effective for fiscal years, and interim periods within those years, beginning after December 15, 2016, which means the first quarter of our fiscal year 2018. We are currently reviewing the revised guidance and assessing the potential impact on our consolidated financial statements.

In April 2014, the FASB issued guidance that changes the criteria for determining which disposals can be presented as discontinued operations and modifies related disclosure requirements. Under the new guidance, a discontinued operation is defined as a component or group of components that is disposed of or is classified as held for sale and represents a strategic shift that has or will have a major effect on an entity's operations and financial results. The change is effective for fiscal years, and interim reporting periods within those years, beginning on or after December 15, 2014, which means the first quarter of our fiscal year 2016, with early adoption permitted. The guidance applies prospectively to new disposals and new classifications of disposal groups as held for sale after the effective date. This new guidance will not affect our consolidated financial position, results of operations or cash flows.

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 May 31, 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 17.8% and 18.5% during the three and nine months ended May 31, 2014, respectively, compared to the three and nine months ended May 31, 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 nine months ended May 31, 2014, 86.6% and 88.9% of NTIC's consolidated net sales, respectively, were derived from sales of ZERUST® products and services, which increased 10.6% and 15.9% to \$5,992,095 and \$17,296,159 during the three and nine months ended May 31, 2014, respectively, compared to \$5,418,271 and \$14,923,966 during the three and nine months ended May 31, 2013, respectively, due to increased demand from both new and existing customers for new and existing products. 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 nine months ended May 31, 2014 included \$1,043,604 of sales made to customers in the oil and gas industry compared to \$487,439 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 nine months ended May 31, 2014, 13.4% and 11.1% of NTIC's consolidated net sales were derived from sales of Natur-Tec® products compared to 7.8% and 9.1% during the three and nine months ended May 31, 2013, respectively. Net sales of Natur-Tec® products increased 102.4% and 44.4% during the three and nine months ended May 31, 2014 compared to the three and nine months ended May 31, 2013, respectively. These increases were primarily due to finished product sales both in North America and 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 67.5% during the three months ended May 31, 2014 compared to 69.0% during the three months ended May 31, 2013 and decreased to 66.2% during the nine months ended May 31, 2014 compared to 69.3% 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 periods.

NTIC's equity in income of joint ventures increased 10.6% and 18.3% to \$1,593,465 and \$4,416,664, respectively, during the three and nine months ended May 31, 2014 compared to \$1,440,335 and \$3,733,069 during the three and nine months ended May 31, 2013, which were primarily a result of increases in sales at the joint ventures.

NTIC recognized a 4.4% and 11.5% increase in fees for services provided to joint ventures during the three and nine months ended May 31, 2014 compared to the three and nine months ended May 31, 2013, respectively. These increases were primarily a result of an increase in sales at the joint ventures as fees for services provided are a function of the net sales of NTIC's joint ventures. Sales at the joint ventures were \$30,162,725 and \$88,213,101 during the three and nine months ended May 31, 2014 compared to \$28,541,576 and \$82,788,711 for the three and nine months ended May 31, 2013, and increase of 5.7% and 6.7%, respectively. 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 11.5%, or \$1,255,971, to \$12,222,736 during the nine months ended May 31, 2014 compared to the nine months ended May 31, 2013. This increase was primarily the result of an increase in employee headcount and related employee expenses associated with selling expenses, general and administrative expenses and expenses incurred in support of joint ventures, and overall reflected NTIC's efforts to support its new and existing business efforts.

NTIC expenses all costs related to product research and development as incurred. NTIC incurred \$3,342,497 and \$2,853,250 of expense during the nine months ended May 31, 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 \$206,046 for the nine months ended May 31, 2014 and 2013, respectively. NTIC anticipates that it will spend between \$4,000,000 and \$4,400,000 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 5.7%, to \$980,217, or \$0.21 per diluted common share, for the three months ended May 31, 2014 compared to \$927,112, or \$0.21 per diluted common share, for the three months ended May 31, 2013. Net income attributable to NTIC increased 63.5%, to \$2,863,847, or \$0.63 per diluted common share, for the nine months ended May 31, 2014 compared to \$1,751,144, or \$0.39 per diluted common share, for the nine months ended May 31, 2013. These increases were primarily the result of increases in gross profit of NTIC's North American businesses and increases in NTIC's joint venture operations.

NTIC anticipates that its quarterly net income will continue to 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 \$18,470,269 at May 31, 2014, including \$8,549,789 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 nine months ended May 31, 2014 and 2013.

	Three Months Ended					
	% of		% of		\$	%
	May 31, 2014	Net Sales	May 31, 2013	Net Sales	Change	Change
Net sales, excluding joint ventures	\$ 6,056,078	87.5%	\$ 5,041,096	85.8%	\$ 1,014,982	20.1%
Net sales, to joint ventures	864,742	12.5%	835,937	14.2%	28,805	3.4%
Cost of goods sold	4,669,322	67.5%	4,054,364	69.0%	614,958	15.2%
Equity in income of joint ventures	1,593,465	23.0%	1,440,335	24.5%	353,130	24.5%
Fees for services provided to joint ventures	2,001,775	28.9%	1,917,947	32.6%	83,828	4.4%
Selling expenses	1,315,264	19.0%	1,243,687	21.2%	71,577	5.8%
General and administrative expenses	1,307,653	18.9%	1,105,710	18.8%	201,943	18.3%
Expenses incurred in support of joint ventures	353,958	5.1%	335,132	5.7%	18,826	5.6%
Research and development expenses	1,104,632	16.0%	1,002,651	17.1%	101,981	10.2%

	Nine Months Ended					
	% of		% of		\$	%
	May 31, 2014	Net Sales	May 31, 2013	Net Sales	Change	Change
Net sales, excluding joint ventures	\$ 17,188,462	88.4%	\$ 14,296,686	87.1%	\$ 2,891,776	20.2%
Net sales, to joint ventures	2,260,466	11.6%	2,118,444	12.9%	142,022	6.7%
Cost of goods sold	12,879,186	66.2%	11,379,249	69.3%	1,499,937	13.2%
Equity in income of joint ventures	4,416,664	22.7%	3,733,069	22.7%	883,595	23.7%
Fees for services provided to joint ventures	6,169,094	31.7%	5,535,105	33.7%	633,989	11.5%
Selling expenses	3,925,466	20.2%	3,588,847	21.9%	336,619	9.4%
General and administrative expenses	3,905,082	20.1%	3,498,393	21.3%	406,689	11.6%
Expenses incurred in support of joint ventures	1,049,691	5.4%	1,026,275	6.3%	23,416	2.3%
Research and development expenses	3,342,497	17.2%	2,853,250	17.4%	489,247	17.1%

Net Sales. NTIC's consolidated net sales increased 17.8% and 18.5% to \$6,920,820 and \$19,448,928, respectively, during the three and nine months ended May 31, 2014 compared to the three and nine months ended May 31, 2013. NTIC's consolidated net sales excluding NTIC's joint ventures increased 20.1% and 20.2% to \$6,056,078 and \$17,188,462, respectively, during the three and nine months ended May 31, 2014 compared to the same respective prior fiscal year periods. Net sales to joint ventures increased 3.4% and 6.7% to \$864,742 and \$2,260,466 during the three and nine months ended May 31, 2014, respectively, compared to the same respective prior fiscal year periods. This change was primarily due to variability in the timing of orders placed by our joint ventures.

The following table sets forth NTIC's net sales by product category for the three and nine months ended May 31, 2014 and 2013 by segment:

	Three Months Ended		Nine Months Ended	
	May 31, 2014	May 31, 2013	May 31, 2014	May 31, 2013
	ZERUST® sales	\$ 5,992,095	\$ 5,418,271	\$ 17,296,159
Natur-Tec® sales	928,725	458,762	2,152,769	1,491,164
Total net sales	\$ 6,920,820	\$ 5,877,033	\$ 19,448,928	\$ 16,415,130

During the three and nine months ended May 31, 2014, 86.6% and 88.9% of NTIC's consolidated net sales, respectively, were derived from sales of ZERUST® products and services, which increased 10.6% and 15.9% to \$5,992,095 and \$17,296,159 during the three and nine months ended May 31, 2014, respectively, compared to \$5,418,271 and \$14,923,966 during the three and nine months ended May 31, 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 nine months ended May 31, 2014 and 2013:

	Three Months Ended			
			\$	%
	May 31, 2014	May 31, 2013	Change	Change
ZERUST® industrial net sales	\$ 4,879,899	\$ 4,471,919	\$ 407,980	9.1%
ZERUST® joint venture net sales	861,312	833,703	27,609	3.3%
ZERUST® oil & gas net sales	250,884	112,649	138,235	122.7%
Total ZERUST® net sales	\$ 5,992,095	\$ 5,418,271	\$ 573,824	10.6%

	Nine Months Ended			
			\$	%
	May 31, 2014	May 31, 2013	Change	Change
ZERUST® industrial net sales	\$ 13,999,907	\$ 12,323,082	\$ 1,676,825	13.6%
ZERUST® joint venture net sales	2,252,648	2,113,445	139,203	6.6%
ZERUST® oil & gas net sales	1,043,604	487,439	556,165	114.1%
Total ZERUST® net sales	\$ 17,296,159	\$ 14,923,966	\$ 2,372,193	15.9%

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

During the three and nine months ended May 31, 2014, 13.4% and 11.1% of NTIC's consolidated net sales, respectively, were derived from sales of Natur-Tec® products, which increased 102.4% and 44.4% to \$928,725 and \$2,152,769 during the three and nine months ended May 31, 2014, respectively, compared to the three and nine months ended May 31, 2013. These increases were primarily due to finished product sales both in North America and through NTIC's newly formed majority owned subsidiary in India, Northern Technologies India Private Limited (NTI India).

Demand for Natur-Tec® products around the world depends primarily on market acceptance and the reach of NTIC's distribution network. Because of the typical size of individual orders and overall size of NTIC's net sales derived from sales of Natur-Tec® products, the timing of one or more orders can materially affect 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 15.2% and 13.2% for the three and nine months ended May 31, 2014, respectively, compared to the three and nine months ended May 31, 2013 primarily as a result of increased net sales as described above. Cost of goods sold as a percentage of net sales decreased to 67.5% during the three months ended May 31, 2014 compared to 69.0% the three months ended May 31, 2013 and decreased to 66.2% during the nine months ended May 31, 2014 compared to 69.3% during the nine months ended May 31, 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 10.6% and 18.3% to \$1,593,465 and \$4,416,664 during the three and nine months ended May 31, 2014, respectively, compared to equity in income of joint ventures of \$1,440,335 and \$3,733,069 during the three and nine months ended May 31, 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 \$2,787,048 attributable to EXCOR during the nine months ended May 31, 2014 compared to \$2,478,109 attributable to EXCOR during the nine months ended May 31, 2013. Of the total equity in income of joint ventures, NTIC had equity in income of joint ventures of \$659,684 attributable to NTIC's joint venture in China during the nine months ended May 31, 2014 compared to \$407,809 attributable to NTIC's joint venture in China during the nine months ended May 31, 2013. NTIC had equity in income of all other joint ventures of \$969,932 during the nine months ended May 31, 2014 compared to \$847,151 during the nine months ended May 31, 2013.

Fees for Services Provided to Joint Ventures. NTIC recognized fee income for services provided to joint ventures of \$2,001,775 and \$6,169,094 during the three and nine months ended May 31, 2014, respectively, compared to \$1,917,947 and \$5,535,105 during the three and nine months ended May 31, 2013, respectively, representing an increase of 4.4% and 11.5%, respectively. Fee income for services provided to joint ventures are a function of the sales made by the various joint ventures of \$30,162,725 and \$88,213,101 during the three and nine months ended May 31, 2014 compared to \$28,541,576 and \$82,788,711 for the three and nine months ended May 31, 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 \$784,326 were attributable to EXCOR during the nine months ended May 31, 2014 compared to \$742,213 attributable to EXCOR during the nine months ended May 31, 2013. Fees of \$1,590,612 were attributable to NTIC's joint venture in China during the nine months ended May 31, 2014 compared to \$1,468,622 during the nine months ended May 31, 2013.

Selling Expenses. NTIC's selling expenses increased 5.8% and 9.4% for the three and nine months ended May 31, 2014 compared to the same respective periods in fiscal 2013 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 19.0% and 20.2% for the three and nine months ended May 31, 2014, from 21.1% and 21.9% during the three and nine months ended May 31, 2013.

General and Administrative Expenses. NTIC's general and administrative expenses increased 18.3% and 11.6% for the three and nine months ended May 31, 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 increased to 18.9% and decreased to 20.1% for the three and nine months ended May 31, 2014 from 18.8% and 21.3% for the three and nine months ended May 31, 2013.

Expenses Incurred in Support of Joint Ventures. Expenses incurred in support of NTIC's joint ventures were \$353,958 and \$1,049,691 during the three and nine months ended May 31, 2014, respectively, compared to \$335,132 and \$1,026,275 during the three and nine months ended May 31, 2013, respectively, representing an increase of 5.6% and 2.3%, 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 10.2% for the three months ended May 31, 2014 compared to the same period in fiscal 2013 and increased 17.1% for the nine months ended May 31, 2014 compared to the same period in fiscal 2013 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 \$1,369 and \$5,728 during the three and nine months ended May 31, 2014, respectively, compared to \$2,984 and \$50,618 during the three and nine months ended May 31, 2013, respectively.

Interest Expense. NTIC's interest expense decreased to \$7,063 during the three months ended May 31, 2014 compared to \$50,986 during the three months ended May 31, 2013 and decreased to \$32,709 during the nine months ended May 31, 2014 compared to \$64,448 during the nine months ended May 31, 2013.

Income Before Income Tax Expense. Income before income tax expense increased to \$1,759,537 and \$4,905,783 for the three and nine months ended May 31, 2014, respectively, compared to \$1,445,769 and \$3,323,460 for the three and nine months ended May 31, 2013, respectively.

Income Tax Expense. Income tax expense was \$361,280 and \$819,039 during the three and nine months ended May 31, 2014, respectively, compared to \$158,000 and \$532,000 during the three and nine months ended May 31, 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 nine months ended May 31, 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, any material additional income tax liability after the application of foreign tax credits is not expected. 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 \$19,881,808 and \$22,281,510 at May 31, 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 nine months ended May 31, 2014 compared to the same respective periods in fiscal 2013.

Liquidity and Capital Resources

Sources of Cash and Working Capital. As of May 31, 2014, NTIC's working capital was \$18,470,269, including \$8,549,789 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 in January 2014 that was obtained in connection with the purchase of NTIC's corporate headquarters in September 2006.

As of May 31, 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 sub-facility, with any standby letters of credit issued thereunder being at the sole discretion of PNC Bank. Any standby letters of credit issued under the sub-facility 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.

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 May 31, 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® 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 nine months ended May 31, 2014 was \$607,041, 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 nine months ended May 31, 2013 was \$3,052,892, which resulted principally from NTIC's equity in income from joint ventures and increases in receivables and inventories 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 a decrease in receivables and an increase in inventory as of May 31, 2014 compared to August 31, 2013 due to the increase in cash collections and a desire to stock more products to shorten lead times and anticipate customer demand. Trade receivables excluding joint ventures as of May 31, 2014 decreased \$64,082 compared to August 31, 2013, primarily related to miscellaneous differences in the timing of collections.

Outstanding trade receivables excluding joint ventures balances as of May 31, 2014 decreased seven days to an average of 49 days from balances outstanding from these customers as of August 31, 2013.

Outstanding trade receivables from joint ventures as of May 31, 2014 decreased \$90,860 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 May 31, 2014 of 38 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 May 31, 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 May 31, 2014 increased \$387,356 compared to August 31, 2013, which resulted in an increase of six days of fees receivable outstanding as of May 31, 2014 to an average of 130 days compared to August 31, 2013.

Net cash provided by investing activities for the nine months ended May 31, 2014 was \$6,824,572, which was comprised primarily of \$7,307,895 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 nine months ended May 31, 2013 was \$3,302,358, which was comprised of dividends received from joint ventures and the effect of the NTI Asean consolidation on cash, partially offset by additions to property and equipment and additions to patents.

Net cash used in financing activities for the nine months ended May 31, 2014 was \$1,990,134, which resulted from a dividend paid to a non-controlling interest and repayment of the bank loan for NTIC's corporate headquarters building, and partially offset by proceeds from NTIC's employee stock purchase plan and stock option exercises. Net cash used in financing activities for the nine months ended May 31, 2013 was \$1,196,170, which resulted from a dividend received from non-controlling interest and principal payments on the bank loan for NTIC's corporate headquarters building, partially offset by proceeds from option exercises and NTIC's employee stock purchase plan.

Capital Expenditures and Commitments. NTIC spent \$428,536 on capital expenditures during the nine months ended May 31, 2014 and expects to spend an aggregate of approximately \$500,000 on capital expenditures during fiscal 2014. Such anticipated capital expenditures for fiscal 2014 relate primarily to the 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 May 31, 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 May 31, 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® products and services and NTIC's ability to grow market share and succeed in penetrating other existing and new markets;
- Increased competition, especially with respect to NTIC's ZERUST® products and services, and the effect of such competition on NTIC's and its joint ventures' pricing, net sales and margins;
- NTIC's reliance upon and its relationships with its distributors, independent sales representatives and joint ventures;
- NTIC's reliance upon suppliers, 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® 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, installation and usage of new and existing products, especially ZERUST® rust and corrosion inhibiting products designed for the oil and gas industry where NTIC could be subject to substantial claims in the event of an oil leak or other problem or disaster;
- 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 May 31, 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 May 31, 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 May 31, 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:

Exhibit No.	Description
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 May 31, 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: July 11, 2014

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

Exhibit No.	Description	Method of Filing
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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: July 11, 2014



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.



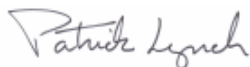
Matthew C. Wolsfeld, CPA
 Chief Financial Officer and Corporate Secretary
 (principal financial officer)

Date: July 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 May 31, 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.



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

Circle Pines, Minnesota
July 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 May 31, 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.



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

Circle Pines, Minnesota
July 11, 2014