

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

FORM 10-Q

(Mark one)

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

For the quarterly period ended November 30, 2011

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

For the transition period from _____ to _____.

Commission File Number: 001-11038

NORTHERN TECHNOLOGIES INTERNATIONAL CORPORATION

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

41-0857886

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

4201 Woodland Road

P.O. Box 69

Circle Pines, Minnesota 55014

(Address of principal executive offices) (Zip code)

(763) 225-6600

(Registrant's telephone number including area code)

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 January 12, 2012, 4,398,624 shares of common stock of the registrant were outstanding.

NORTHERN TECHNOLOGIES INTERNATIONAL CORPORATION
FORM 10-Q
November 30, 2011

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

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 subsidiary, Zerust Prevenção de Corrosão S.A., 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.

References in this report to NTIC's joint ventures do not include NTIC's majority owned Brazilian subsidiary, Zerust Prevenção de Corrosão S.A. 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 "EXCOR" refer to NTIC's primary joint venture in Germany, Excor Korrosionsschutz – Technologien und Produkte GmbH, references to "NTI ASEAN" refer to NTIC's joint venture holding company for NTIC's joint venture investments in the Association of Southeast Asian Nations (ASEAN) region, NTI ASEAN, LLC, and references to "HNTI" refer to NTIC's joint venture in India, Harita NTI Limited.

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

PART I - FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

NORTHERN TECHNOLOGIES INTERNATIONAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS AS OF NOVEMBER 30, 2011 (UNAUDITED) AND
AUGUST 31, 2011 (AUDITED)

	<u>November 30, 2011</u>	<u>August 31, 2011</u>
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 3,407,371	\$ 3,266,362
Receivables:		
Trade excluding joint ventures, less allowance for doubtful accounts of \$20,000 at November 30, 2011 and August 31, 2011	2,846,182	2,515,316
Trade joint ventures	1,005,509	1,149,666
Fees for services provided to joint ventures	2,168,794	2,129,911
Inventories	3,967,254	3,842,854
Prepaid expenses	711,440	364,805
Deferred income taxes	221,600	221,600
Total current assets	<u>14,328,150</u>	<u>13,490,514</u>
PROPERTY AND EQUIPMENT, net	<u>3,589,981</u>	<u>3,636,335</u>
OTHER ASSETS:		
Investments in joint ventures	18,763,038	20,559,509
Deferred income taxes	1,410,700	1,410,700
Patents and trademarks, net	909,027	903,038
Other	41,746	39,646
	<u>21,124,511</u>	<u>22,912,893</u>
	<u>\$ 39,042,642</u>	<u>\$ 40,039,742</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Current portion of note payable	76,119	76,119
Accounts payable	1,496,244	2,032,614
Income tax payable	160,420	195,762
Accrued liabilities:		
Payroll and related benefits	710,737	1,629,355
Deferred joint venture royalties	288,000	288,000
Other	237,056	182,916
Total current liabilities	<u>2,968,576</u>	<u>4,404,766</u>
NOTE PAYABLE, NET OF CURRENT PORTION (Note 6)	990,504	1,009,533
COMMITMENTS AND CONTINGENCIES (Note 13)		
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 4,397,324 and 4,353,058, respectively	87,947	87,061
Additional paid-in capital	10,847,692	10,137,809
Retained earnings	22,770,595	21,811,838
Accumulated other comprehensive income	1,318,675	2,496,940
Stockholders' equity	<u>35,024,909</u>	<u>34,533,648</u>
Non-controlling interest	58,653	91,795
Total equity	<u>35,083,562</u>	<u>34,625,443</u>
	<u>\$ 39,042,642</u>	<u>\$ 40,039,742</u>

See notes to consolidated financial statements.

NORTHERN TECHNOLOGIES INTERNATIONAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)
FOR THE THREE MONTHS ENDED NOVEMBER 30, 2011 AND 2010

	Three Months Ended	
	November 30, 2011	November 30, 2010
NET SALES:		
Net sales, excluding joint ventures	\$ 4,277,643	\$ 3,446,303
Net sales, to joint ventures	554,471	652,138
NET SALES	4,832,114	4,098,441
Cost of goods sold	3,209,476	2,690,705
Gross profit	1,622,638	1,407,736
JOINT VENTURE OPERATIONS:		
Equity in income of joint ventures	1,357,680	1,695,131
Fees for services provided to joint ventures	1,445,252	1,451,780
	2,802,932	3,146,911
OPERATING EXPENSES:		
Selling expenses	1,108,486	999,053
General and administrative expenses	1,270,013	1,104,167
Expenses incurred in support of joint ventures	200,264	228,721
Research and development expenses	814,305	1,193,456
	3,393,068	3,525,397
OPERATING INCOME	1,032,502	1,029,250
INTEREST INCOME	8,060	3,933
INTEREST EXPENSE	(5,966)	(23,234)
OTHER INCOME	6,825	6,925
INCOME BEFORE INCOME TAX EXPENSE	1,041,421	1,016,874
INCOME TAX EXPENSE	106,000	122,000
NET INCOME	935,421	894,874
NET LOSS ATTRIBUTABLE TO NON-CONTROLLING INTEREST	(23,336)	(4,907)
NET INCOME ATTRIBUTABLE TO NTIC	\$ 958,757	\$ 899,781
NET INCOME PER COMMON SHARE:		
Basic	\$ 0.22	\$ 0.21
Diluted	\$ 0.22	\$ 0.21
WEIGHTED AVERAGE COMMON SHARES ASSUMED OUTSTANDING:		
Basic	4,355,666	4,264,187
Diluted	4,433,724	4,324,757

See notes to consolidated financial statements.

NORTHERN TECHNOLOGIES INTERNATIONAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
THREE MONTHS ENDED NOVEMBER 30, 2011 AND 2010

	Three Months Ended	
	November 30, 2011	November 30, 2010
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 935,421	\$ 894,874
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Expensing of fair value of stock options vested	72,523	44,143
Depreciation expense	80,887	85,492
Amortization expense	38,713	39,723
Equity in income from joint ventures	(1,357,680)	(1,695,131)
Changes in current assets and liabilities:		
Receivables:		
Trade, excluding joint ventures	(410,029)	363,755
Trade, joint ventures	144,157	(277,933)
Fees for services receivables, joint ventures	(38,883)	(404,938)
Income taxes	(1,396)	—
Inventories	(158,234)	(326,327)
Prepaid expenses and other	(349,112)	(260,596)
Accounts payable	(489,032)	(309,844)
Income tax payable	(17,512)	(27,036)
Accrued liabilities	(235,366)	(118,983)
Net cash used in operating activities	(1,785,543)	(1,992,801)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investment in joint ventures	—	(38,217)
Dividends received from joint ventures	2,031,450	1,368,599
Additions to property and equipment	(51,031)	(75,269)
Additions to patents	(44,702)	(10,238)
Net cash provided by investing activities	1,935,717	1,244,875
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayment of note payable	(19,029)	(9,211)
Proceeds from employee stock purchase plan	22,414	17,745
Proceeds from exercise of stock options	—	261,333
Net cash provided by financing activities	3,385	269,867
EFFECT OF EXCHANGE RATE CHANGES ON CASH:	(12,550)	4,341
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	141,009	(473,718)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	3,266,362	1,776,162
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 3,407,371	\$ 1,302,444

See notes to consolidated financial statements.

1. INTERIM FINANCIAL INFORMATION

In the opinion of management, the accompanying unaudited consolidated financial statements contain all necessary adjustments, which are of a normal recurring nature, and present fairly the consolidated financial position of Northern Technologies International Corporation and its subsidiaries (the Company) as of November 30, 2011 and the results of their operations for the three months ended November 30, 2011 and November 30, 2010 and their cash flows for the three months ended November 30, 2011 and November 30, 2010, in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP).

These consolidated financial statements should be read in conjunction with the consolidated financial statements and related notes contained in the Company's annual report on Form 10-K for the fiscal year ended August 31, 2011. These consolidated financial statements also should be read in conjunction with the "Management's Discussion and Analysis of Financial Condition and Results of Operations" section appearing in this report.

Operating results for the three months ended November 30, 2011 are not necessarily indicative of the results that may be expected for the full fiscal year ending August 31, 2012.

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

2. INVENTORIES

Inventories consisted of the following:

	November 30, 2011	August 31, 2011
Production materials	\$ 1,470,732	\$ 1,320,082
Finished goods	2,496,522	2,522,772
	<u>\$ 3,967,254</u>	<u>\$ 3,842,854</u>

3. PROPERTY AND EQUIPMENT, NET

Property and equipment, net consisted of the following:

	November 30, 2011	August 31, 2011
Land	\$ 310,365	\$ 310,365
Buildings and improvements	3,110,867	3,110,867
Machinery and equipment	2,247,803	2,213,269
	<u>5,669,035</u>	<u>5,634,501</u>
Less accumulated depreciation	(2,079,054)	(1,998,166)
	<u>\$ 3,589,981</u>	<u>\$ 3,636,335</u>

4. PATENTS AND TRADEMARKS, NET

Patents and trademarks, net consisted of the following:

	November 30, 2011	August 31, 2011
Patents and trademarks	\$ 1,803,425	\$ 1,758,722
Less accumulated amortization	(894,398)	(855,684)
	<u>\$ 909,027</u>	<u>\$ 903,038</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 \$160,000 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 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, 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), the Company's joint venture holding company in the Association of Southeast Asian Nations, or ASEAN, region, NTI ASEAN, LLC (NTI ASEAN), and all of the Company's other joint ventures, are summarized as follows:

	November 30, 2011			
	TOTAL	EXCOR	NTI ASEAN	All Other
Current assets	\$63,235,064	\$19,816,458	\$15,616,441	\$27,802,165
Total assets	69,351,206	22,372,432	15,767,688	31,211,086
Current liabilities	24,888,418	4,321,772	7,200,800	13,365,846
Noncurrent liabilities	4,709,307	—	983,009	3,726,298
Joint ventures' equity	39,753,481	18,050,660	7,583,879	14,118,942
Northern Technologies International Corporation's share of joint ventures' equity	18,763,038	9,025,332	3,138,696	6,599,010

	August 31, 2011			
	TOTAL	EXCOR	NTI ASEAN	All Other
Current assets	\$66,956,061	\$24,411,880	\$14,565,219	\$27,978,962
Total assets	73,155,916	27,093,874	14,759,582	31,302,460
Current liabilities	24,712,555	5,145,239	6,123,684	13,443,632
Noncurrent liabilities	4,605,837	—	1,020,034	3,585,803
Joint ventures' equity	43,752,524	21,948,635	7,615,864	14,273,025
Northern Technologies International Corporation's share of joint ventures' equity	20,559,509	10,931,819	2,803,194	6,824,496

Three Months Ended November 30, 2011

	TOTAL	EXCOR	NTI ASEAN	All Other
Net sales	\$28,795,232	\$ 8,542,250	\$ 5,022,328	\$15,230,654
Gross profit	13,339,072	4,325,802	2,286,705	6,726,565
Net income	2,538,769	1,457,055	392,366	689,348
Northern Technologies International Corporation's share of equity in income of joint ventures	\$ 1,357,680	\$ 728,528	\$ 369,462	\$ 259,690

Three Months Ended November 30, 2010

	TOTAL	EXCOR	NTI ASEAN	All Other
Net sales	\$ 27,101,587	\$ 8,886,252	\$ 4,321,308	\$13,894,027
Gross profit	12,706,289	4,490,864	2,051,640	6,163,785
Net income	3,169,841	1,876,545	374,049	919,337
Northern Technologies International Corporation's share of equity in income of joint ventures	\$ 1,695,131	\$ 938,227	\$ 320,607	\$ 436,298

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

The Company did not make any joint venture investments during the three months ended November 30, 2011 and 2010.

6. CORPORATE DEBT

In connection with the purchase of its corporate headquarters, in September 2006, Northern Technologies Holding Company, LLC (NTI LLC) obtained a term loan from PNC Bank, National Association (PNC Bank) with a principal amount of \$1,275,000 that was to mature on May 1, 2011. On January 10, 2011, NTI LLC refinanced its term loan in the then principal amount of approximately \$1,141,788. The term loan matures on January 10, 2016, bears interest at an annual rate based on the daily LIBOR rate plus 2.15% and is payable in 59 consecutive monthly installments equal to approximately \$6,343 (inclusive of principal but exclusive of interest) commencing in February 2011. The term loan is secured by a first lien on the real estate and building owned by NTI LLC and all of the assets of the Company and is guaranteed by the Company.

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 November 30, 2011 and August 31, 2011. 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. Any unpaid interest is payable on the maturity date. As of November 30, 2011, the interest rate was 3.09% and the weighted average rate was 3.02% for the three months ended November 30, 2011. As of August 31, 2011, the interest rate was 2.50% and the weighted average rate was 2.43% for fiscal 2011. The revolving line of credit is secured by cash, receivables and inventory.

The term loan and the line of credit are governed under separate loan agreements (collectively, the Loan Agreements). The Loan Agreements contain 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 Agreements, the Company is subject to a minimum fixed charge coverage ratio of 1.10:1.00.

On January 10, 2012, the Company and PNC Bank entered into a Waiver and First Amendment to Loan Documents pursuant to which the Company and PNC Bank amended the loan agreement and other documents evidencing the Company's \$3,000,000 line of credit with PNC Bank effective as of January 11, 2012 to extend the maturity date of the line of credit from January 10, 2012 to January 9, 2013, and waive a technical covenant default by the Company to deliver a compliance certificate for the period ending November 30, 2011. All other terms of the line of credit and the loan agreement and other documents evidencing the line of credit remain the same. See Note 14 entitled "Subsequent Event."

7. STOCKHOLDERS' EQUITY

During the three months ended November 30, 2011, the Company did not purchase or retire any shares of its common stock, and no stock options to purchase shares of common stock were exercised.

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 26,000 shares of its common stock to various employees and directors during the three months ended November 30, 2011. The weighted average per share exercise price of the stock options is \$16.45, which is equal to the fair market value of the Company's common stock on the date of grant.

During the three months ended November 30, 2011, the Company granted stock bonuses under the 2007 Plan for an aggregate of 42,707 shares of its common stock to various employees at a grant price of \$14.42 per share. The aggregate fair value of the shares of the Company's common stock as of the date of grant of the stock bonuses was \$615,830, based on the closing sale price of a share of the Company's common stock on the date of grant. The fair value of common stock granted during the three months ended November 30, 2011 was based on fiscal 2011 performance and was included in accrued liabilities at August 31, 2011.

During the three months ended November 30, 2010, 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 three months ended November 30, 2010:

<u>Options Exercised</u>	<u>Exercise Price</u>
40,000	\$ 5.38
2,000	8.01
1,334	9.75
1,333	12.84

The Company granted stock options under the 2007 Plan to purchase an aggregate of 30,000 shares of its common stock to various employees and directors during the three months ended November 30, 2010. The weighted average per share exercise price of the stock options is \$9.43, which is equal to the fair market value of the Company's common stock on the date of grant.

During the three months ended November 30, 2010, the Company granted stock bonuses under the 2007 Plan for an aggregate of 22,686 shares of its common stock to various employees. The fair value of the shares of the Company's common stock as of the date of grant of the stock bonuses was \$319,649, based on the closing sale price of a share of the Company's common stock on the date of grant. The fair value of common stock granted during the three months ended November 30, 2010 was based on fiscal 2010 performance and was included in accrued liabilities at August 31, 2010.

8. TOTAL COMPREHENSIVE INCOME

The Company's total comprehensive (loss) income was as follows:

	Three Months Ended November 30,	
	2011	2010
Net income	\$ 935,421	\$ 894,874
Other comprehensive (loss) income – foreign currency translation adjustment	(1,178,265)	404,864
Total comprehensive (loss) income	<u>\$ (242,844)</u>	<u>\$ 1,407,645</u>

9. NET INCOME PER COMMON SHARE

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

Options to purchase shares of common stock of 26,000 were excluded from the computation of common share equivalents for both the three months ended November 30, 2011 and 2010, 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 months ended November 30, 2011 and 2010:

	Three Months Ended	
	November 30, 2011	November 30, 2010
Numerators:		
Net income	\$ 958,757	\$ 899,781
Denominator:		
Basic – weighted shares outstanding	4,355,666	4,264,187
Weighted shares assumed upon exercise of stock options	78,058	60,570
Diluted – weighted shares outstanding	4,433,724	4,324,757
Basic earnings per share:	\$ 0.22	\$ 0.21
Diluted earnings per share:	\$ 0.22	\$ 0.21

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.

10. 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. 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 26,000 and 30,000 shares of its common stock during the three months ended November 30, 2011 and 2010, 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 \$72,523 and \$44,143 during the three months ended November 30, 2011 and 2010, respectively, related to the options that vested during such time period. The stock-based expense recorded reduced after-tax net income per share by \$0.01 for each of the three months ended November 30, 2011 and 2010. As of November 30, 2011, the total compensation cost for non-vested options not yet recognized in the Company's consolidated statements of operations was \$245,646 net of estimated forfeitures. Additional stock-based compensation expense of \$217,570 is expected through the remainder of fiscal year 2012, and expense of \$28,076 and \$0 is expected to be recognized during fiscal 2013 and fiscal 2014, 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:

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

	November 30,	
	2011	2010
Dividend yield	0.00%	0.00%
Expected volatility	48.8%	49.2%
Expected life of option	5 years	5 years
Average risk-free interest rate	1.31%	1.31%

The weighted average fair value of options granted during the three months ended November 30, 2011 and 2010 was \$7.14 and \$3.60, respectively. The weighted average remaining contractual life of the options outstanding as of November 30, 2011 and 2010 was 2.81 years and 3.47 years, respectively.

11. GEOGRAPHIC AND SEGMENT INFORMATION

Net sales by geographic location as a percentage of total consolidated net sales for the three months ended November 30, 2011 and November 30, 2010 were as follows:

	Three Months Ended November 30,	
	2011	2010
Inside the U.S.A. to unaffiliated customers	68.1%	67.2%
Outside the U.S.A. to:		
Joint ventures in which the Company is a shareholder directly and indirectly	15.7	16.4
Unaffiliated customers	16.2	16.4
	<u>100.0%</u>	<u>100.0%</u>

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

Fees for services provided to joint ventures by geographic location as a percentage of total fees for services provided to joint ventures the three months ended November 30, 2011 and 2010 were as follows:

	Three Months Ended November 30,			
	% of Total Fees for Services Provided to Joint Ventures		% of Total Fees for Services Provided to Joint Ventures	
	2011	2010	2011	2010
Japan	\$ 288,539	20.0%	\$ 276,000	19.0%
Germany	249,447	17.3%	257,276	17.7%
Sweden	156,657	10.8%	144,111	9.9%
France	141,639	9.8%	164,482	11.3%
India	136,155	9.4%	200,711	13.8%
Finland	132,496	9.2%	144,211	9.9%
United Kingdom	79,499	5.5%	82,642	5.7%
Other	260,820	18.1%	182,347	12.6%
	<u>\$ 1,445,252</u>		<u>\$ 1,451,780</u>	

The following table sets forth the Company's net sales for the three months ended November 30, 2011 and 2010 by segment:

	Three Months Ended November 30,			
	2011	2010	\$ Change	% Change
ZERUST® net sales	\$ 4,452,646	\$ 3,875,428	\$ 557,218	14.9%
Natur-Tec® net sales	379,468	223,013	156,455	70.2%
	<u>\$ 4,832,114</u>	<u>\$ 4,098,441</u>	<u>\$ 733,673</u>	<u>17.9%</u>

The following table sets forth the Company's cost of goods sold for the three months ended November 30, 2011 and 2010 by segment:

	Three Months Ended November 30,			
	2011	% of Segment Sales*	2010	% of Segment Sales*
Direct cost of goods sold				
ZERUST®	\$ 2,457,799	55.2%	\$ 2,146,839	55.4%
Natur-Tec™	296,561	78.2%	180,630	81.0%
Indirect cost of goods sold	455,116	NA	363,236	NA
	<u>\$ 3,209,476</u>		<u>\$ 2,690,705</u>	

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

The Company's management 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 long-lived assets is set forth as follows:

	November 30,	
	2011	2010
United States	\$ 3,456,123	\$ 3,386,100
Brazil	133,858	56,207
Consolidated	<u>\$ 3,589,981</u>	<u>\$ 3,442,307</u>

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

12. RESEARCH AND DEVELOPMENT

The Company expenses all costs related to product research and development as incurred. The Company incurred \$814,305 and \$1,193,456 of expense during the three months ended November 30, 2011 and 2010, respectively, in connection with its research and development activities. These costs related to product research and development are the net amount after being reduced by reimbursements related to certain research and development contracts of \$197,000 and \$25,992 for the three months ended November 30, 2011 and 2010, respectively. The net fees are accounted for in the "Research and Development Expenses" section of the consolidated statements of operations.

The Company has certain research and development contracts. The Company accrues proceeds received under such contracts and offsets research and development expenses incurred in equal installments over the timelines associated with completion of the contracts' specific objectives and milestones. At November 30, 2011 and August 31, 2011, the Company did not have any deferred amounts in other accrued liabilities as the Company had not yet performed under the obligations of the contract at that time.

13. COMMITMENTS AND CONTINGENCIES

On September 27, 2011, 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 and certain officers and employees for the fiscal year ending August 31, 2012. For fiscal 2012 as in past years, the total amount available under the bonus plan will be up to 25% of the Company's earnings before interest, taxes and other income (EBITOI) and will be \$0 if EBITOI is below 70% of a pre-established target EBITOI for fiscal 2012. Each plan participant's percentage of the overall bonus pool will be 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 2012 compared to the pre-established target EBITOI for fiscal 2012 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 of which 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 2012.

There was \$320,814 for management bonuses accrued for three months ended November 30, 2011 compared to a management bonus accrual of \$357,000 for the three months ended November 30, 2010.

A subsidiary of the Company, NTI Facilities, Inc., leases property located at 23205 Mercantile Road, Beachwood, Ohio. Remaining rentals payable under such leases are as follows: fiscal 2012 - \$178,875; fiscal 2013 - \$238,500; fiscal 2014 - \$59,500 and thereafter - \$0.

One customer accounted for 0% and 10.6% of the Company's trade receivables, excluding joint ventures at November 30, 2011 and 2010, respectively. Two joint ventures accounted for 73.3% and 48.0% of the Company's trade joint venture receivables at November 30, 2011 and 2010, respectively.

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.

14. SUBSEQUENT EVENT

On January 10, 2012, the Company and PNC Bank entered into a Waiver and First Amendment to Loan Documents pursuant to which the Company and PNC Bank amended the loan agreement and other documents evidencing the Company's \$3,000,000 line of credit with PNC Bank effective as of January 11, 2012 to extend the maturity date of the line of credit from January 10, 2012 to January 9, 2013, and waive a technical covenant default by the Company to deliver a compliance certificate for the period ending November 30, 2011. All other terms of the line of credit and the loan agreement and other documents evidencing the line of credit remain the same.

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 55 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 its proprietary ZERUST® rust and corrosion inhibiting products and services to the automotive, electronics, electrical, mechanical, military and retail consumer markets for over 35 years, and more recently, has targeted and expanded into 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 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 Brazilian subsidiary, Zerust Prevenção de Corrosão S.A. (Zerust Brazil), 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. For the past several years, NTIC has focused its sales and marketing efforts on the oil and gas industry since the infrastructure that supports that industry is typically constructed using metals that are highly susceptible to corrosion and 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. Petroleo Brasileiro S.A. (Petrobras), an oil company located in Brazil, has conducted extensive multi-year product field trials of NTIC’s ZERUST® rust and corrosion inhibiting products against competitive alternatives. During fiscal 2010, Zerust Brazil received a Phase I contract for an initial implementation of \$1.4 million (BRL\$ 2.5 million) in ZERUST® products. During fiscal 2011, Zerust Brazil signed a Phase 2 expanded contract with Petrobras to supply an additional \$2.6 million (BRL\$ 4.21 million) in ZERUST® products. NTIC is also pursuing opportunities to market its ZERUST® rust and corrosion prevention solutions to other targeted potential customers in the oil and gas industry across several countries through NTIC’s joint venture partners and other strategic partners. NTIC believes the sale of its ZERUST® corrosion prevention solutions to customers in the oil and gas industry will involve a long sales cycle, likely including a one- to two-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® bioplastics portfolio includes biopolymer resin compounds which are available in several grades tailored for a variety of applications, such as blown-film extrusion, extrusion coating, injection molding and rigid, engineered plastics, and finished products, including shopping and grocery bags, lawn and leaf bags, can liners, pet waste collection bags, cutlery, packaging foam and coated paper products, which are engineered to be fully biodegradable in a composting

environment. In North America, NTIC markets its Natur-Tec[®] resin compounds and finished products primarily through a network of independent distributors and agents. Internationally, NTIC sells its Natur-Tec[®] resin compounds and finished products both directly and through some of its joint venture arrangements, including in particular its joint venture in India, Harita NTI Limited (HNTI).

In fiscal 2011, NTIC and HNTI signed a memorandum of understanding with the Indian conglomerate ITC Limited to jointly develop and commercialize biopolymer extrusion coated paper products targeted at the consumer goods packaging market in India. The two companies will jointly develop solutions in the Indian market towards providing biodegradable/compostable products such as food service ware, food packaging, personal care product packaging and other fast-moving consumer goods packaging. The biopolymer resin compounds will be manufactured by HNTI for integration with paper manufactured by ITC's Paperboards and Specialty Papers Division. In addition, during fiscal 2011, NTIC entered into an agreement with Italy-based Naturfuels s.r.l. to distribute its Natur-Tec[®] bioplastic materials and products in the Italian and Swiss markets. Under the terms of the distribution agreement, NTIC will supply Naturfuels with NTIC's patented high-strength Natur-Tec[®] compostable film grade resin compounds to be used for the production of bio-plastic shopping and garbage bags on conventional plastic film production equipment.

NTIC's Joint Venture Network

NTIC participates, either directly or indirectly, in 24 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 and finished products and NTIC's Polymer Energy LLC joint venture manufactures and sells Polymer Energy[™] equipment that converts waste plastic into diesel, gasoline and heavy fractions. NTIC historically has funded its joint venture investments 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. With respect to NTIC's ASEAN joint venture holding company (NTI ASEAN), NTIC does not receive a fee for such services, but rather receives a bi-annual dividend based on available cash. 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 owns only 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 does not consolidate the results of its joint ventures on its consolidated financial statements. NTIC's investments in its joint ventures are accounted for using the equity method. Although Zerust Brazil originated as a joint venture of NTIC, it is no longer considered a joint venture, but rather it is a majority owned subsidiary of NTIC and thus unlike NTIC's joint ventures, its results are consolidated on NTIC's consolidated financial statements. NTIC holds 85% of the equity and 85% of the voting rights of Zerust Brazil. Although NTIC owns a 62.5% ownership interest in Polymer Energy LLC, NTIC has not consolidated the Polymer Energy LLC joint venture in NTIC's consolidated financial statements for the three months ended November 30, 2011 or any prior period since Polymer Energy LLC has had limited activity since its inception in 2003 and NTIC believes that the impact of not consolidating this entity on NTIC's consolidated financial statement has been immaterial. No license fees were received by Polymer Energy LLC and no other financial activity took place during the three months ended November 30, 2011, and accordingly, during such period, NTIC received and recorded no fees for services

provided to joint ventures in its consolidated financial statements attributable to its ownership interest in Polymer Energy LLC.

NTIC considers EXCOR and NTI ASEAN to be individually significant to NTIC's consolidated assets and income; and therefore, provides certain additional information regarding these entities 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 17.9% during the three months ended November 30, 2011 compared to the three months ended November 30, 2010. This increase was primarily a result of increased sales of ZERUST® rust and corrosion inhibiting products and services and sales of Natur-Tec® products. During the three months ended November 30, 2011, 92.1% of NTIC's consolidated net sales were derived from sales of ZERUST® products and services, which increased 14.9% to \$4,452,646 during the three months ended November 30, 2011 compared to \$3,875,428 during the three months ended November 30, 2010 due to increased demand from existing customers and the addition of new customers. NTIC has focused its sales efforts of ZERUST® products and services by strategically targeting customers with specific corrosion issues in new market areas, including the oil and gas industry and other industrial sectors that offer sizable growth opportunities. NTIC's consolidated net sales for the three months ended November 30, 2011 included \$604,920 of sales made by Zerust Brazil, and of those sales, \$45,861 in sales were made to the oil and gas industry sector in Brazil. Overall demand for ZERUST® products and services depends heavily on the overall health of the markets in which NTIC sells its products, including in particular the automotive market.

During the three months ended November 30, 2011, \$379,468, or 7.9%, of NTIC's consolidated net sales were derived from sales of Natur-Tec® products compared to 5.4% during the three months ended November 30, 2010. Net sales of Natur-Tec® products increased 70.2% during the three months ended November 30, 2011 compared to the three months ended November 30, 2010. This increase was due to increased sales to Natur-Tec® distributors on the West Coast of the United States. NTIC has continued to strengthen and expand its West Coast distribution network in California, as well as expand its industrial distribution reach to geographical "green" hotspots such as Oregon, Washington, Minnesota and New England. Additionally, NTIC has continued to target key national and regional retailers utilizing independent sales agents. Demand for the Natur-Tec® products depends primarily on market acceptance and the extent of NTIC's distribution network.

Cost of goods sold as a percentage of net sales increased to 66.4% during the three months ended November 30, 2011 compared to 65.7% during the three months ended November 30, 2010 primarily as a result of a slight increase in shipping costs, production overhead and raw material prices and a higher percentage of sales of Natur-Tec® products, which generally carry smaller margins than ZERUST® products and services.

NTIC's equity in income of joint ventures decreased 19.9% to \$1,357,680 during the three months ended November 30, 2011 compared to \$1,695,131 during the three months ended November 30, 2010 which was primarily a result of a 22.4% decrease in the profitability of NTIC's largest joint venture, EXCOR in Germany during the same time period. The decrease in profitability was due to increased operating expenses during the three months ended November 30, 2011 compared to the three months ended November 30, 2010. NTIC recognized a 0.5% decrease in fees for services provided to joint ventures during the three months ended November 30, 2011 compared to the three months ended November 30, 2010. This slight decrease was primarily a result of the devaluation of the EURO and other currencies compared to the U.S. dollar, partially offset by a 6.3% increase in total net sales of NTIC's joint ventures to \$28,795,232 during the three months ended November 30, 2011 compared to \$ 27,101,587 during the three months ended November 30, 2010.

NTIC's total operating expenses decreased 3.8%, or \$132,329, to \$3,393,068 during the three months ended November 30, 2011 compared to the three months ended November 30, 2010.

NTIC expenses all costs related to product research and development as incurred. NTIC incurred \$814,305 and \$1,193,456 of expense during the three months ended November 30, 2011 and 2010, 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 \$197,000 and \$25,992 for the three months ended November 30, 2011 and 2010, respectively. NTIC anticipates that it will spend between \$4,300,000 and \$4,500,000 in total during fiscal 2012 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 6.6% to \$958,757, or \$0.22 per diluted common share, for the three months ended November 30, 2011 compared to \$899,781, or \$0.21 per diluted common share, for the three months ended November 30, 2010. This slight increase was primarily the result of an increase in sales and corresponding gross profit, partially offset by decreased equity income from NTIC's joint ventures. NTIC anticipates that its quarterly net income will remain subject to significant volatility primarily due to the financial performance of its joint ventures and sales of its ZERUST® products and services into the oil and gas industry and Natur-Tec® bioplastics products, which sales fluctuate more on a quarterly basis than the traditional ZERUST® business.

NTIC's working capital was \$11,359,574 at November 30, 2011, including \$3,407,371 in cash and cash equivalents compared to \$9,085,748 at August 31, 2011, including \$3,266,362 in cash and cash equivalents.

Results of Operations

The following table sets forth NTIC's results of operations for the three months ended November 30, 2011 and November 30, 2010.

	Three Months Ended November 30, 2011	% of Net Sales	Three Months Ended November 30, 2010	% of Net Sales	\$ Change	% Change
Net sales, excluding joint ventures	\$ 4,277,643	88.5%	\$ 3,446,303	84.1%	\$ 831,340	24.1%
Net sales, to joint ventures	554,471	11.5%	652,138	15.9%	(97,667)	(15.0)%
Cost of goods sold	3,209,476	66.4%	2,690,705	65.7%	518,771	19.3%
Equity in income of joint ventures	1,357,680	28.1%	1,695,131	41.4%	(337,451)	(19.9)%
Fees for services provided to joint ventures	1,445,252	29.9%	1,451,780	35.4%	(6,528)	(0.4)%
Selling expenses	1,108,486	22.9%	999,053	24.4%	109,433	11.0%
General and administrative expenses	1,270,013	26.3%	1,104,167	26.9%	165,846	15.0%
Expenses incurred in support of joint ventures	200,264	4.1%	228,721	5.6%	(28,457)	(12.4)%
Research and development expenses	814,305	16.9%	1,193,456	29.1%	(379,151)	(31.8)%

Net Sales. NTIC's consolidated net sales increased 17.9% to \$4,832,114 during the three months ended November 30, 2011 compared to the three months ended November 30, 2010. NTIC's consolidated net sales to unaffiliated customers excluding NTIC's joint ventures increased 24.1% to \$4,277,643, during the three months ended November 30, 2011 compared to the same prior fiscal year period. This increase was primarily a result of increased demand and sales of ZERUST® rust and corrosion inhibiting packaging products and services to existing customer and new customers. Net sales to joint ventures decreased 15.0% to \$554,471 during the three months ended November 30, 2011 compared to the three months ended November 30, 2010. This decrease was due primarily to the timing of various shipments to several of our joint ventures.

The following table sets forth additional detail regarding NTIC's net sales by product category for the three months ended November 30, 2011 and November 30, 2010:

	Three Months Ended November 30, 2011	Three Months Ended November 30, 2010	\$ Change	% Change
ZERUST® net sales	\$ 4,452,646	\$ 3,875,428	\$ 577,218	14.9%
Natur-Tec® net sales	379,468	223,013	156,455	70.2%
Total net sales*	\$ 4,832,114	\$ 4,098,441	\$ 733,673	17.9%

* Excludes net sales by NTIC's joint ventures which are not combined with NTIC's sales in NTIC's consolidated financial statements or in any description of NTIC's sales.

During the three months ended November 30, 2011, 92.1% of NTIC's consolidated net sales were derived from sales of ZERUST® products and services, which increased 14.9% to \$4,452,646 during the three months ended November 30, 2011 compared to \$3,875,428 during the three months ended November 30, 2010 due to increased demand from existing customers and new customers. NTIC has focused its sales efforts of ZERUST® products and services by strategically targeting customers with specific corrosion issues in new market areas, including the oil and gas industry and other industrial sectors that offer sizable growth opportunities. NTIC's consolidated net sales during the three months ended November 30, 2011 included \$604,920 of sales made by Zerust Brazil, and of those sales, \$45,861 in sales were made to the oil and gas industry sector in Brazil. Overall demand for ZERUST® products and services depends heavily on the overall health of the markets in which it sells its products, including in particular the automotive market.

During the three months ended November 30, 2011, \$379,468, or 7.9%, of NTIC's consolidated net sales were derived from sales of Natur-Tec® products compared to 5.4% during the three months ended November 30, 2010. Net sales of Natur-Tec® products increased 70.2% during the three months ended November 30, 2011 compared to the three months ended November 30, 2010. This increase was due to increased sales to Natur-Tec® distributors on the West Coast of the United States. NTIC has continued to strengthen and expand its West Coast distribution network in California, as well as expand its industrial distribution reach to geographical "green" hotspots such as Oregon, Washington, Minnesota and New England. Additionally, NTIC has continued to target key national and regional retailers utilizing independent sales agents. Demand for the Natur-Tec® products depends primarily on market acceptance and the extent of NTIC's distribution network.

Cost of Goods Sold. Cost of goods sold increased 19.3% for the three months ended November 30, 2011 compared to the three months ended November 30, 2010 primarily as a result of increased net sales as described above. Cost of goods sold as a percentage of net sales increased to 66.4% for the three months ended November 30, 2011 compared to 65.7% for the three months ended November 30, 2010 primarily as a result of a slight increase in shipping costs, production overhead and raw material prices and a higher percentage of sales of Natur-Tec® products, which generally carry smaller margins than ZERUST® products and services.

Equity in Income of Joint Ventures. NTIC had equity in income of joint ventures of \$1,357,680 during the three months ended November 30, 2011 compared to equity in income of joint ventures of \$1,695,131 during the three months ended November 30, 2010 which is primarily a result of a 22.4% decrease in the profitability of NTIC's largest joint venture, EXCOR in Germany during the same time period. Of the total equity in income of joint ventures, NTIC had equity in income of joint ventures of \$728,528 attributable to EXCOR during the three months ended November 30, 2011 compared to \$938,227 attributable to EXCOR during the three months ended November 30, 2010. Of the total equity in income of joint ventures, NTIC had equity in income of joint ventures of \$369,462 attributable to NTI ASEAN during the three months ended November 30, 2011 compared to \$320,607 attributable to NTI ASEAN during the three months ended November 30, 2010. NTIC had equity in income of all other joint ventures of \$259,691 during the three months ended November 30, 2011 compared to \$436,297 during the three months ended November 30, 2010.

Fees for Services Provided to Joint Ventures. NTIC recognized fee income for services provided to joint ventures of \$1,445,252 during the three months ended November 30, 2011 compared to \$1,451,780 during the three months ended November 30, 2010, representing a slight decrease of 0.4%. The slight decrease in fees for services provided to joint ventures was primarily the result of the devaluation of the EURO and other currencies compared to the U.S. dollar, partially offset by a 6.3% increase in total net sales of NTIC's joint ventures to \$28,795,232 during the three months ended November 30, 2011 compared to \$27,101,587 during the three months ended November 30, 2010. 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 its joint ventures, fees of \$249,447 were attributable to EXCOR during the three months ended November 30, 2011 compared to \$257,276 attributable to EXCOR during the three months ended November 30, 2010. This decrease was the result of foreign currency exchange rate fluctuations. NTIC does not receive fees attributable to NTI ASEAN. NTIC receives dividend payments based on fees paid from the joint ventures that comprise the NTI ASEAN investments.

NTIC sponsors a worldwide joint venture conference periodically in which all of NTIC's joint ventures and subsidiaries are invited to participate. NTIC defers a portion of its fees for services provided to joint ventures in each accounting period leading up to the next conference, reflecting that NTIC has not fully earned the payments received during that period. The next joint venture conference is scheduled to be held in summer of 2012 or 2013. No additional income during either the three months ended November 30, 2011 or 2010 was deferred related to this future conference since \$288,000 had been accrued prior to such time, which represents the amount that NTIC expects to spend to hold the next conference. This amount is based on the historical experience of NTIC, current conditions and the intentions of NTIC's management. NTIC does not anticipate deferring any additional fees for services provided to joint ventures until after the next conference. The costs associated with these joint venture conferences are offset against the deferral as incurred, generally in the period in which the conference is held and immediately before.

Selling Expenses. NTIC's selling expenses increased 11.0% for the three months ended November 30, 2011 compared to the three months ended November 30, 2010 due to increases in compensation and employee benefits, lab testing related expenses, commissions expenses, travel and related expenses, consulting expenses and selling expenses incurred at Zerust Brazil. Selling expenses as a percentage of net sales decreased to 22.9% during the three months ended November 30, 2011, from 24.4% during the three months ended November 30, 2010, due primarily to the increase in net sales, partially offset by the increase in selling expenses as previously described.

General and Administrative Expenses. NTIC's general and administrative expenses increased 15.0% for the three months ended November 30, 2011 compared to the three months ended November 30, 2010 due to an increase in compensation and benefits expenses associated with an increase in headcount and annual performance raises, partially offset by a decrease in consulting expenses. As a percentage of net sales, general and administrative expenses decreased slightly to 26.3% for the three months ended November 30, 2011 from 26.9% for the three months ended November 30 2010.

Expenses Incurred in Support of Joint Ventures. Expenses incurred in support of NTIC's joint ventures were \$200,264 during the three months ended November 30, 2011 compared to \$228,721 during the three months ended November 30, 2010, representing a decrease of 12.4%. The decrease was due to a decrease in travel and legal expenses.

Research and Development Expense. NTIC's research and development expenses decreased 31.8% for the three months ended November 30, 2011 compared to the three months ended November 30, 2010 due to a decrease in consulting expenses, lab and testing expenses, and an increase in offsetting research and development contracts and grant income.

Interest Income. NTIC's interest income increased to \$8,060 during the three months ended November 30, 2011 compared to \$3,933 during the three months ended November 30, 2010 primarily due to increased cash balances earning interest during the most recent period.

Interest Expense. NTIC's interest expense decreased to \$5,966 during the three months ended November 30, 2011 compared to \$23,234 during the three months ended November 30, 2010 primarily due to lower average outstanding debt levels during the most recent period.

Income Before Income Tax Expense. Income before income tax expense increased to \$1,041,421 for the three months ended November 30, 2011 compared to \$1,016,874 for the three months ended November 30, 2010.

Income Tax Expense. Income tax expense was \$106,000 during the three months ended November 30, 2011 compared to income tax expense of \$122,000 during the three months ended November 30, 2010. 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 months ended November 30, 2011 and 2010 was lower than the statutory rate primarily due to NTIC's equity in income of joint ventures being recognized based on after-tax earnings of these entities. To the extent undistributed earnings of NTIC's joint ventures are distributed to NTIC, it is not expected to result in any material additional income tax liability after the application of foreign tax credits. NTIC records a tax valuation allowance when it is more likely than not that some portion or all of its deferred tax assets will not be realized to reduce deferred tax assets to the amount expected to be realized. NTIC determined based on all available evidence, including historical data and projections of future results, that it is more likely than not that all of its deferred tax assets, except for its foreign tax credit carryforwards and Minnesota state research and development credit carryforwards, will be fully realized and that NTIC's 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.

Other Comprehensive Income - Foreign Currency Translations Adjustment. The volatility of the foreign currency translations adjustment was due to the strengthening of the U.S. dollar compared to the Euro and other foreign currencies during the three months ended November 30, 2011 compared to the three months ended November 30, 2010.

Liquidity and Capital Resources

Sources of Cash and Working Capital. As of November 30, 2011, NTIC's working capital was \$11,359,574, including \$3,407,371 in cash and cash equivalents, compared to working capital of \$9,085,748, including \$3,266,362 in cash and cash equivalents, at August 31, 2011.

In connection with the purchase of its corporate headquarters, in September 2006, Northern Technologies Holding Company, LLC (NTI LLC) obtained a term loan from PNC Bank, National Association (PNC Bank) with a principal amount of \$1,275,000 that was to mature on May 1, 2011. On January 10, 2011, NTI LLC refinanced its term loan in the then principal amount of approximately \$1,141,788. The term loan matures on January 10, 2016, bears interest at an annual rate based on the daily LIBOR rate plus 2.15% and is payable in 59 consecutive monthly installments equal to approximately \$6,343 (inclusive of principal but exclusive of interest) commencing in February 2011. The term loan is secured by a first lien on the real estate and building owned by NTI LLC and all of the assets of NTIC and is guaranteed by NTIC.

As of November 30, 2011, NTIC had a revolving line of credit with PNC Bank of \$3,000,000 with no amounts outstanding as of such date. The line of credit is evidenced by an amended and restated committed line of credit note in the principal amount of up to \$3,000,000. The line of credit has a \$1,200,000 standby letter of credit subfacility, with any standby letters of credit issued thereunder being at the sole discretion of PNC Bank. Any standby letters of credit issued under the subfacility are subject to customary fees and charges payable by NTIC. At the option of NTIC, outstanding advances under the line of credit bear interest at either (a) an annual rate based on LIBOR plus 2.15% for the applicable LIBOR interest period selected by NTIC or (b) at the rate publicly announced by PNC Bank from time to time as its prime rate. Interest is payable in arrears (a) for the portion of advances bearing interest under the prime rate on the last day of each month during the term thereof and (b) for the portion of advances bearing interest under the LIBOR option on the last day of the respective LIBOR interest period selected

for such advance. Any unpaid interest is payable on the maturity date. As of November 30, 2011, the interest rate on the line of credit was 3.09%.

The term loan and the line of credit are governed under two separate loan agreements. The loan agreements contain 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 agreements, NTIC is subject to a minimum fixed charge coverage ratio of 1.10:1.00.

On January 10, 2012, NTIC and PNC Bank entered into a Waiver and First Amendment to Loan Documents pursuant to which NTIC and PNC Bank amended the loan agreement and other documents evidencing NTIC's \$3,000,000 line of credit with PNC Bank effective as of January 11, 2012 to extend the maturity date of the line of credit from January 10, 2012 to January 9, 2013, and waive a technical covenant default by NTIC to deliver a compliance certificate for the period ending November 30, 2011. All other terms of the line of credit and the loan agreement and other documents evidencing the line of credit remain the same. NTIC expects to remain in compliance with all loan agreement covenants during the remainder of fiscal 2012.

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 2012, NTIC expects to continue to invest in research and development and in marketing efforts and resources into its new businesses, product lines and markets, including in particular the application of its corrosion prevention technology into the oil and gas industry and its bio-plastics products. 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 three months ended November 30, 2011 was \$1,785,543 which resulted principally from NTIC's equity in income from joint ventures and increases in receivables, inventories and prepaid expenses, and decreases in payables and accrued liabilities partially offset by NTIC's net income, depreciation, amortization and income taxes payable. Net cash provided by operating activities during the three months ended November 30, 2010 was \$1,992,801 which resulted principally from NTIC's equity in income from joint ventures and increases in trade receivables, inventories and prepaid expenses and decreases in accounts payables and accrued liabilities, partially offset by NTIC's net income and decrease in trade receivables.

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 slight increase in receivables and inventory as of November 30, 2011 compared to August 31, 2011 due to the increase in net sales and a desire to stock more products to shorten lead times and anticipate customer demand. Trade receivables excluding joint ventures as of November 30, 2011 increased \$330,866 compared to August 31, 2011, primarily related to the increase in NTIC's net sales.

Outstanding trade receivables excluding joint ventures balances as of November 30, 2011 increased 11 days to an average of 61 days from balances outstanding from these customers as of August 31, 2011.

Outstanding trade receivables from joint ventures as of November 30, 2011 decreased \$144,157 compared to August 31, 2011, primarily due to the timing of payments, which resulted in an increase of outstanding balances from trade receivables from joint ventures as of November 30, 2011 of 42 days from an average of 123 days from balances outstanding from these customers compared to August 31, 2011. The significant average days outstanding of trade receivables from joint ventures as of November 30, 2011 were primarily due to the current receivable balance at NTIC's joint venture in India. NTIC has made separate arrangements for payments on product that NTIC's joint venture in India has purchased from NTIC until the product is sold.

Outstanding services fees receivable from joint ventures as of November 30, 2011 increased \$38,883 compared to August 31, 2011, primarily resulting from an extension of terms mostly associated with NTIC's joint venture in India which resulted in an increase of 19 days of fees receivable outstanding as of November 30, 2011 to an average of 137 days compared to August 31, 2011. NTIC is in the process of converting up to \$600,000 of fees receivable from its joint venture in India to equity.

Net cash provided by investing activities for the three months ended November 30, 2011 was \$1,935,717 which was comprised of dividends received from joint ventures partially offset by additions to property and equipment and patents. Net cash provided by investing activities for the three months ended November 30, 2010 was \$1,244,875 which was comprised of dividends received from joint ventures partially offset by investments in joint ventures and additions to property and equipment and patents.

Net cash provided by financing activities for the three months ended November 30, 2011 was \$3,385, which resulted from proceeds from the employee stock purchase plan, partially offset by principal payments on the bank loan for NTIC's corporate headquarters buildings. Net cash provided by financing activities for the three months ended November 30, 2010 was \$269,867, which resulted from proceeds from option exercises and common stock issued as management bonus, partially offset by principal payments on the bank loan for NTIC's corporate headquarters buildings.

Capital Expenditures and Commitments. NTIC had no material lease or other material capital commitments as of November 30, 2011, except a lease agreement entered into by NTI Facilities, Inc., a subsidiary of NTIC, for approximately 16,994 square feet of office, manufacturing, laboratory and warehouse space in Beachwood, Ohio, requiring monthly payments of \$17,500, which are adjusted annually according to the annual consumer price index, through November 2014.

NTIC spent approximately \$51,000 on capital expenditures during the three months ended November 30, 2011 and expects to spend an aggregate of approximately \$1,200,000 on capital expenditures during fiscal 2012. Such

anticipated capital expenditures for fiscal 2012 relate primarily to the expansion of its laboratory facilities in Circle Pines, Minnesota and the purchase of new equipment.

Off-Balance Sheet Arrangements

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

Inflation and Seasonality

Inflation in the 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 November 30, 2011, 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, 2011.

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 and Section 21E of the Securities Exchange Act of 1934 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;
- The variability in NTIC's equity income of joint ventures, which in turn, subjects 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 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 and usage of new and existing 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; and
- NTIC's reliance upon its management information systems.

For more information regarding these and other uncertainties and factors that could cause NTIC's actual results to differ materially from what NTIC has anticipated in its forward-looking statements or otherwise could materially adversely affect its business, financial condition or operating results, see NTIC's annual report on Form 10-K for the fiscal year ended August 31, 2011 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 November 30, 2011 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 November 30, 2011, 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 November 30, 2011, 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. [REMOVED AND RESERVED]

ITEM 5. OTHER INFORMATION

On January 10, 2012, NTIC and PNC Bank, National Association entered into a Waiver and First Amendment to Loan Documents (the Amendment) pursuant to which NTIC and PNC Bank amended the loan agreement and other documents evidencing NTIC's \$3,000,000 line of credit with PNC Bank effective as of January 11, 2012 to extend the maturity date of the line of credit from January 10, 2012 to January 9, 2013, and waive a technical covenant default by NTIC to deliver a compliance certificate for the period ending November 30, 2011. All other terms of the line of credit and the loan agreement and other documents evidencing the line of credit remain the same.

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

The foregoing description of the Amendment is a summary of the material terms of such Amendment, does not purport to be complete and is qualified in its entirety by reference to the complete text of the Amendment, a copy of which is filed as Exhibit 10.6 to this report and is incorporated herein by this reference.

ITEM 6. EXHIBITS

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

Exhibit No.	Description
10.1	Material Terms of Northern Technologies International Corporation Annual Bonus Plan for Fiscal Year Ending August 31, 2012 (incorporated by reference to Item 5.02 to NTIC's Current Report on Form 8-K as filed with the Securities and Exchange Commission on September 27, 2011 (File No. 001-11038))
10.2	Executive Employment Agreement dated as of November 18, 2011 between Northern Technologies International Corporation and G. Patrick Lynch (incorporated by reference to Exhibit 10.13 to NTIC's Annual Report on Form 10-K for the fiscal year ended August 31, 2011 (File No. 001-11038))
10.3	Confidential Information, Inventions Assignment, Noncompetition and Non-Solicitation Agreement dated as of November 18, 2011 between Northern Technologies International Corporation and G. Patrick Lynch (incorporated by reference to Exhibit 10.14 to NTIC's Annual Report on Form 10-K for the fiscal year ended August 31, 2011 (File No. 001-11038))
10.4	Executive Employment Agreement dated as of November 18, 2011 between Northern Technologies International Corporation and Matthew C. Wolsfeld (incorporated by reference to Exhibit 10.15 to NTIC's Annual Report on Form 10-K for the fiscal year ended August 31, 2011 (File No. 001-11038))
10.5	Confidential Information, Inventions Assignment, Noncompetition and Non-Solicitation Agreement dated as of November 18, 2011 between Northern Technologies International Corporation and Matthew C. Wolsfeld (incorporated by reference to Exhibit 10.16 to NTIC's Annual Report on Form 10-K for the fiscal year ended August 31, 2011 (File No. 001-11038))
10.6	Waiver and First Amendment to Loan Documents dated as of January 10, 2012 between Northern Technologies International Corporation and PNC Bank, National Association (filed herewith)
31.1	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith)
31.2	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith)
32.1	Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith)
32.2	Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith)
101	The following materials from Northern Technologies International Corporation's Quarterly Report on Form 10-Q for the fiscal quarter ended November 30, 2011, 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 Cash Flows, and (iv) Notes to Condensed Financial Statements (furnished herewith)*

* Pursuant to Rule 406T of Regulation S-T, the XBRL related information in Exhibit 101 to this quarterly report on Form 10-Q shall not be deemed to be "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to the liability of that section, and shall not be deemed part of a registration statement, prospectus or other document filed under Section 11 or 12 of the Securities Act of 1933, as amended, or otherwise subject to the liability of those sections, except as shall be expressly set forth by specific reference in such filings.

SIGNATURES

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

NORTHERN TECHNOLOGIES INTERNATIONAL CORPORATION



Date: January 12, 2012

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

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10.2	Executive Employment Agreement dated as of November 18, 2011 between Northern Technologies International Corporation and G. Patrick Lynch	Incorporated by reference to Exhibit 10.13 to NTIC's Annual Report on Form 10-K for the fiscal year ended August 31, 2011 (File No. 001-11038)
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* Pursuant to Rule 406T of Regulation S-T, the XBRL related information in Exhibit 101 to this quarterly report on Form 10-Q shall not be deemed to be "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to the liability of that section, and shall not be deemed part of a registration statement, prospectus or other document filed under Section 11 or 12 of the Securities Act of 1933, as amended, or otherwise subject to the liability of those sections, except as shall be expressly set forth by specific reference in such filings.

WAIVER AND FIRST AMENDMENT TO LOAN DOCUMENTS

THIS WAIVER AND FIRST AMENDMENT TO LOAN DOCUMENTS (this "Amendment") is made as of January 10, 2012, by and between NORTHERN TECHNOLOGIES INTERNATIONAL CORPORATION, a Delaware corporation (the "Borrower"), and PNC BANK, NATIONAL ASSOCIATION (the "Bank").

BACKGROUND

A. The Borrower has executed and delivered to the Bank (or a predecessor which is now known by the Bank's name as set forth above), one or more promissory notes, letter agreements, loan agreements, security agreements, mortgages, pledge agreements, collateral assignments, and other agreements, instruments, certificates and documents, some or all of which are more fully described on attached Exhibit A, which is made a part of this Amendment (collectively as amended from time to time, the "Loan Documents") which evidence or secure some or all of the Borrower's obligations to the Bank for one or more loans or other extensions of credit (the "Obligations").

B. The Borrower and the Bank desire to amend the Loan Documents, and to waive certain defaults thereunder, as provided for in this Amendment.

NOW, THEREFORE, in consideration of the mutual covenants herein contained and intending to be legally bound hereby, the parties hereto agree as follows:

1. Certain of the Loan Documents are amended, and certain defaults under the Loan Documents are waived, as set forth in Exhibit A. Any and all references to any Loan Document in any other Loan Document shall be deemed to refer to such Loan Document as amended by this Amendment. This Amendment is deemed incorporated into each of the Loan Documents. Any initially capitalized terms used in this Amendment without definition shall have the meanings assigned to those terms in the Loan Documents. To the extent that any term or provision of this Amendment is or may be inconsistent with any term or provision in any Loan Document, the terms and provisions of this Amendment shall control.

2. The Borrower hereby certifies that: (a) all of its representations and warranties in the Loan Documents, as amended by this Amendment, are, except as may otherwise be stated in this Amendment: (i) true and correct in all material respects as of the date of this Amendment (other than the representations and warranties that refer to a specific date in which case such representations and warranties are true and correct in all material respects as of such specific date), (ii) ratified and confirmed without condition as if made anew, and (iii) incorporated into this Amendment by reference, (b) no Event of Default or event which, with the passage of time or the giving of notice or both, would constitute an Event of Default, exists under any Loan Document which will not be cured by the execution and effectiveness of this Amendment, (c) no consent, approval, order or authorization of, or registration or filing with, any third party is required in connection with the execution, delivery and carrying out of this Amendment or, if required, has been obtained, and (d) this Amendment has been duly authorized, executed and delivered so that it constitutes the legal, valid and binding obligation of the Borrower, enforceable in accordance with its terms, subject to bankruptcy, insolvency, fraudulent conveyance, fraudulent transfer, moratorium, and other similar laws relating to or affecting creditors' rights generally and general equitable principles. The Borrower confirms that the Obligations remain outstanding without defense, set off, counterclaim, discount or charge of any kind as of the date of this Amendment.

3. The Borrower hereby confirms that any collateral for the Obligations, including liens, security interests, mortgages, and pledges granted by the Borrower or third parties (if applicable), shall continue unimpaired and in full force and effect, and shall cover and secure all of the Borrower's existing and future Obligations to the Bank, as modified by this Amendment.

4. As a condition precedent to the effectiveness of this Amendment, the Borrower shall comply with the terms and conditions (if any) specified in Exhibit A.

5. To induce the Bank to enter into this Amendment, the Borrower waives and releases and forever discharges the Bank and its officers, directors, attorneys, agents, and employees from any liability, damage, claim, loss or expense of any kind that it may have against the Bank or any of them through the date of this Amendment arising out of or relating to the Obligations. The Borrower further agrees to indemnify and hold the Bank and its officers, directors, attorneys, agents and employees harmless from any loss, damage, judgment, liability or expense (including reasonable attorneys' fees) suffered by or rendered against the Bank or any of them on account of any claims arising out of or relating to the Obligations other than those caused by the Bank's gross negligence or willful misconduct. The Borrower further states that it has carefully read the foregoing release and indemnity, knows the contents thereof and grants the same as its own free act and deed.

6. This Amendment may be signed in any number of counterpart copies and by the parties to this Amendment on separate counterparts, but all such copies shall constitute one and the same instrument. Delivery of an executed counterpart of a signature page to this Amendment by facsimile transmission shall be effective as delivery of a manually executed counterpart. Any party so executing this Amendment by facsimile transmission shall promptly deliver a manually executed counterpart, provided that any failure to do so shall not affect the validity of the counterpart executed by facsimile transmission.

7. This Amendment will be binding upon and inure to the benefit of the Borrower and the Bank and their respective heirs, executors, administrators, successors and assigns.

8. This Amendment has been delivered to and accepted by the Bank and will be deemed to be made in the State where the Bank's office indicated in the Loan Documents is located. This Amendment will be interpreted and the rights and liabilities of the parties hereto determined in accordance with the laws of the State where the Bank's office indicated in the Loan Documents is located, excluding its conflict of laws rules.

9. Except as amended hereby, the terms and provisions of the Loan Documents remain unchanged, are and shall remain in full force and effect unless and until modified or amended in writing in accordance with their terms, and are hereby ratified and confirmed. Except as expressly provided herein, this Amendment shall not constitute an amendment, waiver, consent or release with respect to any provision of any Loan Document, a waiver of any default or Event of Default under any Loan Document, or a waiver or release of any of the Bank's rights and remedies (all of which are hereby reserved). The Borrower expressly ratifies and confirms the confession of judgment (if applicable) and waiver of jury trial provisions contained in the Loan Documents.

WITNESS the due execution of this Amendment as a document under seal as of the date first written above.

WITNESS / ATTEST: NORTHERN TECHNOLOGIES INTERNATIONAL CORPORATION

By: /s/ Matthew C. Wolsfeld
Print Name: Matthew C. Wolsfeld
Title: Chief Financial Officer

PNC BANK, NATIONAL ASSOCIATION

By: /s/ Pamela LeRose
Title :Vice President

EXHIBIT A TO WAIVER AND FIRST AMENDMENT TO LOAN DOCUMENTS

DATED AS OF JANUARY 10, 2012

A. The "Loan Documents" that are the subject of this Amendment include the following (as any of the foregoing have previously been amended, modified or otherwise supplemented):

1. \$3,000,000.00 Amended and Restated Committed Line of Credit Note dated January 10, 2011 executed and delivered to the Bank by the Borrower (the "Note").
2. Working Cash®, Line of Credit, Investment Sweep Rider dated January 10, 2011 executed and delivered to the Bank by the Borrower.
3. Loan Agreement dated January 10, 2011 executed and delivered to the Bank by the Borrower (the "Loan Agreement").
4. Security Agreement dated January 10, 2011 executed and delivered to the Bank by the Borrower.
5. Reimbursement Agreement dated January 10, 2011 executed and delivered to the Bank by the Borrower.
6. All other documents, instruments, agreements, and certificates executed and delivered in connection with the Loan Documents listed in this Section A.

B. Waiver. The Borrower has acknowledged and agreed with the Bank that the Borrower failed to comply with the requirement for delivery of compliance certificates described in Section 4.2 of Loan Agreement for the period ending November 30, 2011. The Borrower's failure to comply with the foregoing covenant constitutes Events of Default under the Loan Documents. The Borrower has requested that the Bank waive the Events of Default. In reliance upon the Borrower's representations and warranties and subject to the terms and conditions herein set forth, the Bank agrees to grant a waiver of Borrower's non-compliance with the covenants and of the Events of Default that would otherwise result from a violation of such covenants solely for the above-referenced periods. The Borrower agrees that it will hereafter comply fully with these covenants and all other provisions of the Loan Documents, which remain in full force and effect. Except as expressly described in this Amendment, this waiver shall not constitute (a) a modification or an alteration of the terms, conditions or covenants of the Loan Documents or (b) a waiver, release or limitation upon the Bank's exercise of any of its rights and remedies thereunder, which are hereby expressly reserved. This waiver shall not relieve or release the Borrower in any way from any of its respective duties, obligations, covenants or agreements under the Loan Documents or from the consequences of any Event of Default thereunder, except as expressly described above. This waiver shall not obligate the Bank, or be construed to require the Bank, to waive any other Events of Default or defaults, whether now existing or which may occur after the date of this waiver.

C. The Loan Documents are amended as follows:

1. Effective on January 11, 2012, the Expiration Date, as set forth in the Loan Agreement and the Note, is hereby extended from January 10, 2012 to January 9, 2013.

D. Conditions to Effectiveness of Amendment: The Bank's willingness to agree to the amendments set forth in this Amendment is subject to the prior satisfaction of the following conditions:

1. Execution by all parties and delivery to the Bank of this Amendment.

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: January 12, 2012



G. Patrick Lynch
President and Chief Executive Officer

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

I, Matthew C. Wolsfeld, certify that:

1. I have reviewed this quarterly report on Form 10-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.



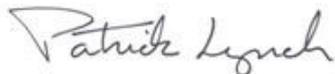
Matthew C. Wolsfeld, CPA
Chief Financial Officer and Corporate
Secretary

Date: January 12, 2012

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 ending November 30, 2011 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
January 12, 2012

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 ending November 30, 2011 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Matthew C. Wolsfeld, Chief Financial Officer and Corporate Secretary of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge and belief:

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



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

Circle Pines, Minnesota
January 12, 2012