



2011 Annual Report

Northern Technologies International Corporation

> Notice of 2011 Annual Meeting

> Proxy Statement

> Annual Report on Form 10-K



Our Mission: _____

Our business model of commercializing clean and green technologies depends heavily on the talents, perseverance and integrity of both our employees and our worldwide federation of joint venture partners. We believe that our responsibilities are first to our worldwide customers, then to our people, next to our communities and finally to our shareholders. Therefore we must:

- *Exercise honor, humanity and disciplined management in our actions.*
- *See a unified world through the global perspectives of our people.*
- *Ensure that the environment becomes a better place because of what we do.*
- *Invest continuously in our future.*

Our Environment: _____

It is our mission at NTIC to use our advanced technologies to care for the world we live in, give back to society and strive to set an example for environmental leadership and responsibility.

At NTIC, we believe that there are no responsible alternatives to doing business other than through environmental sustainability. We also believe that environmental responsibility and corporate business will increasingly work together to grow both sustainability and the bottom line.

We encourage our employees, joint venture partners, distributors, affiliates and suppliers to carry out our environmental commitments at the individual level through:

- *Daily environmentally responsible business practices.*
- *Advanced R&D processes that promote the use of environmentally responsible raw materials, components and other biobased inputs.*
- *Education and programs to raise awareness about our technologies and how they can help solve current environmental challenges.*
- *Each NTIC employee is expected to practice an individual commitment to sustainability and environmental responsibility in the workplace.*

Through our individual commitments to lessen our environmental footprint and our advanced technologies which allow others to practice sustainability, we have the power to benefit ourselves as individuals, our federation of NTIC joint ventures and our environment for many generations to come.

Our Technology Platforms: _____



Zerust®/EXCOR® business unit manufactures and markets corrosion inhibiting technologies that provide customers with advanced corrosion solutions for rust issues across their production facilities and supply chains. The technology uses proprietary, non-toxic, chemical systems to create invisible molecular corrosion shields on metal surfaces. The Zerust®/EXCOR® teams support clients globally in a broad range of industries including automotive, electrical, electronic, medical, machine fabrications, steel production, military and marine. Zerust®/EXCOR® products and services allow customers to achieve substantial cost savings as well as reduce negative environmental impact caused by traditional corrosion prevention methods.



Zerust® Oil and Gas business unit provides advanced corrosion control technologies and services to the petrochemical industry. Zerust® Oil and Gas products and services utilize Zerust® proprietary corrosion inhibitors in combination with advanced cathodic protection systems to dramatically enhance corrosion protection of capital assets. These assets include above-ground storage tanks, various pieces of process equipment, buried and submerged pipelines, mothballed large capital equipment, pipeline flanges, valves, and welded joints. Zerust® Oil & Gas technologies are successfully implemented in refineries, offshore oil rigs, tank farms and retail gas stations in several countries.



Natur-Tec® business unit engineers and manufactures biobased and biodegradable plastic resins intended to replace conventional, petroleum-based plastics. Natur-Tec® has a broad bioplastics portfolio which spans flexible film, foam, rigid injection molded materials and engineered plastics. These applications allow for the production of 100% certified compostable finished products, such as bags, food service products, and product packaging. Natur-Tec® products are renewable resource based and do not contain conventional plastic materials. Natur-Tec® products provide sustainable alternatives to conventional plastics and enable industry and consumers to move closer to a carbon neutral footprint.



NORTHERN TECHNOLOGIES INTERNATIONAL CORPORATION

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

February 2, 2012

The Annual Meeting of Stockholders of Northern Technologies International Corporation, a Delaware corporation, will be held at NTIC's corporate executive offices located at 4201 Woodland Road, Circle Pines, Minnesota 55014, beginning at 4:00 p.m., Central time, on Thursday, February 2, 2012, for the following purposes:

1. To elect seven persons to serve as directors until our next annual meeting of stockholders or until their respective successors are elected and qualified.
2. To ratify the selection of Baker Tilly Virchow Krause, LLP as our independent registered public accounting firm for the fiscal year ending August 31, 2012.
3. To transact such other business as may properly come before the meeting or any adjournment of the meeting.

Only stockholders of record at the close of business on December 7, 2011 will be entitled to notice of, and to vote at, the meeting and any adjournments thereof. A stockholder list will be available at our corporate offices beginning January 23, 2012 during normal business hours for examination by any stockholder registered on NTIC's stock ledger as of the record date, December 7, 2011, for any purpose germane to the annual meeting.

We are pleased again this year to use the "Notice and Access" method of providing proxy materials to our stockholders via the Internet. We believe that this process expedites your receipt of our proxy materials, lowers the costs of our Annual Meeting and reduces the environmental impact of our meeting.

By Order of the Board of Directors,

A handwritten signature in black ink, appearing to read "Matthew C. Wolsfeld", written over a light blue horizontal line.

Matthew C. Wolsfeld
Corporate Secretary

December 19, 2011
Circle Pines, Minnesota

Important: Whether or not you expect to attend the meeting in person, please vote by the Internet or telephone, or request a paper proxy card to sign, date and return by mail so that your shares may be voted. A prompt response is helpful and your cooperation is appreciated.

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INTERNET AVAILABILITY OF PROXY MATERIALS

Again this year, instead of mailing a printed copy of our proxy materials, including our Annual Report to Stockholders, to each stockholder of record, we have decided to provide access to these materials in a fast and efficient manner via the Internet. We believe that this process expedites your receipt of our proxy materials, lowers the costs of our Annual Meeting and reduces the environmental impact of our meeting. On December 19, 2011, we began mailing a Notice of Internet Availability of Proxy Materials to stockholders of record as of December 7, 2011, and we posted our proxy materials on the website referenced in the Notice of Internet Availability of Proxy Materials (www.proxyvote.com). As more fully described in the Notice of Internet Availability of Proxy Materials, stockholders may choose to access our proxy materials at www.proxyvote.com or may request a printed set of our proxy materials. In addition, the Notice of Internet Availability of Proxy Materials and website provide information regarding how you may request to receive proxy materials in printed form by mail or electronically by email on an ongoing basis. For those who previously requested printed proxy materials or electronic materials on an ongoing basis, you will receive those materials as you requested.

Important Notice Regarding the Availability of Proxy Materials for the Annual Meeting of Stockholders to be Held on February 2, 2011:

The Notice of Annual Meeting of Stockholders and Proxy Statement and Annual Report to Stockholders, including our Annual Report on Form 10-K for the fiscal year ended August 31, 2011 are available at www.proxyvote.com.



4201 Woodland Road, Circle Pines, Minnesota 55014

**PROXY STATEMENT FOR
ANNUAL MEETING OF STOCKHOLDERS
February 2, 2012**

The Board of Directors of Northern Technologies International Corporation is soliciting your proxy for use at the 2012 Annual Meeting of Stockholders to be held on Thursday, February 2, 2012. The Board of Directors expects to make available to our stockholders beginning on or about December 19, 2011 the Notice of Annual Meeting of Stockholders, this proxy statement and a form of proxy on the Internet or has sent these materials to stockholders of NTIC upon their request.

GENERAL INFORMATION ABOUT THE ANNUAL MEETING AND VOTING

Date, Time, Place and Purposes of Meeting

The Annual Meeting of Stockholders of Northern Technologies International Corporation (sometimes referred to as “NTIC,” “we,” “our” or “us” in this proxy statement) will be held on Thursday, February 2, 2012, at 4:00 p.m., Central time, at the principal executive offices of Northern Technologies International Corporation located at 4201 Woodland Road, Circle Pines, Minnesota 55014, for the purposes set forth in the Notice of Annual Meeting of Stockholders.

Who Can Vote

Stockholders of record at the close of business on December 7, 2011 will be entitled to notice of and to vote at the meeting or any adjournment of the meeting. As of that date, there were 4,397,324 shares of our common stock outstanding. Each share of our common stock is entitled to one vote on each matter to be voted on at the Annual Meeting. Stockholders are not entitled to cumulate voting rights.

How You Can Vote

Your vote is important. Whether you hold shares directly as a stockholder of record or beneficially in “street name” (through a broker, bank or other nominee), you may vote your shares without attending the Annual Meeting. You may vote by granting a proxy or, for shares held in street name, by submitting voting instructions to your broker, bank or other nominee.

If you are a stockholder whose shares are registered in your name, you may vote your shares in person at the meeting or by one of the three following methods:

- **Vote by Internet**, by going to the website address <http://www.proxyvote.com> and following the instructions for Internet voting shown on the Notice of Internet Availability of Proxy Materials or on your proxy card.
- **Vote by Telephone**, by dialing 1-800-690-6903 and following the instructions for telephone voting shown on the Notice of Internet Availability of Proxy Materials or on your proxy card.
- **Vote by Proxy Card**, by completing, signing, dating and mailing the enclosed proxy card in the envelope provided if you received a paper copy of these proxy materials.

If you vote by Internet or telephone, please do not mail your proxy card.

If your shares are held in “street name” (through a broker, bank or other nominee), you may receive a separate voting instruction form with this proxy statement or you may need to contact your broker, bank or other nominee to determine whether you will be able to vote electronically using the Internet or telephone.

The deadline for voting by telephone or by using the Internet is 11:59 p.m., Eastern Standard Time (10:59 p.m., Central Standard Time), on the day before the date of the Annual Meeting or any adjournments thereof. Please see the Notice of Internet Availability of Proxy Materials, your proxy card or the information your bank, broker, or other holder of record provided to you for more information on your options for voting.

If you return your signed proxy card or use Internet or telephone voting before the Annual Meeting, the named proxies will vote your shares as you direct. You have three choices on each matter to be voted on.

For the election of directors, you may:

- Vote **FOR** the seven nominees for director,
- **WITHHOLD** your vote from the seven nominees for director or
- **WITHHOLD** your vote from one or more of the seven nominees for director.

For each of the other proposals, you may:

- Vote **FOR** the proposal,
- Vote **AGAINST** the proposal or
- **ABSTAIN** from voting on the proposal.

If you send in your proxy card or use Internet or telephone voting, but do not specify how you want to vote your shares, the proxies will vote your shares **FOR** all seven of the nominees for director and **FOR** all of the other proposals set forth in the Notice of Annual Meeting of Stockholders.

How Does the Board Recommend that You Vote

The Board of Directors unanimously recommends that you vote FOR all seven of the nominees for director and FOR the approval of all of the other proposals set forth in the Notice of Annual Meeting of Stockholders.

How You May Change Your Vote or Revoke Your Proxy

If you are a stockholder whose shares are registered in your name, you may revoke your proxy at any time before it is voted by one of the following methods:

- Submitting another proper proxy with a more recent date than that of the proxy first given by following the Internet or telephone voting instructions or completing, signing, dating and returning a proxy card to us.
- Sending written notice of your revocation to our Corporate Secretary.
- Attending the Annual Meeting and voting by ballot.

Quorum Requirement

The presence at the Annual Meeting, in person or by proxy, of the holders of a majority (2,198,663 shares) of the outstanding shares of our common stock as of the record date will constitute a quorum for the transaction of business at the Annual Meeting. In general, shares of our common stock represented by proxies marked “For,” “Against,” “Abstain” or “Withheld” are counted in determining whether a quorum is present. In addition, a “broker non-vote” is counted in determining whether a quorum is present. A “broker non-vote” is a proxy returned by a broker on behalf of its beneficial owner customer that is not voted on a particular matter because voting instructions have not been received by the broker from the customer, and the broker has no discretionary authority to vote on behalf of such customer on such matter.

Vote Required

Assuming a quorum is represented at the Annual Meeting, either in person or by proxy, the election of the seven nominees for director in Proposal One requires the affirmative vote of a plurality of the shares of our common stock present in person or by proxy and entitled to vote at the Annual Meeting. This means that a director nominee with the most votes for a particular slot is elected for that slot. The approval of the other proposal described in this proxy statement requires the affirmative vote of the holders of a majority of the shares of our common stock present in person or by proxy and entitled to vote at the Annual Meeting.

If your shares are held in “street name” and you do not indicate how you wish to vote, your broker is permitted to exercise its discretion to vote your shares on certain “routine” matters. The election of directors in Proposal One is not a “routine” matter; whereas, the ratification of the selection of our independent registered public accounting firm in Proposal Two is a “routine” matter. Accordingly, if you do not direct your broker how to vote for a director in Proposal One, your broker may not exercise discretion and may not vote your shares on that proposal. For purposes of Proposal One, broker non-votes are considered to be shares represented by proxy at the meeting but are not considered to be shares “entitled to vote” at the meeting. As such, a broker non-vote will not be counted as a vote “For” or “Withheld” with respect to a director; and, therefore, will have no effect on the outcome of the election of directors. Proxies marked “Abstain” will be counted in determining the total number of shares “entitled to vote” and will have the effect of a vote “Against” the proposal.

Procedures at the Annual Meeting

The presiding officer at the Annual Meeting will determine how business at the meeting will be conducted. Only matters brought before the Annual Meeting in accordance with our Bylaws will be considered.

Only a natural person present at the Annual Meeting who is either one of our stockholders, or is acting on behalf of one of our stockholders, may make a motion or second a motion. A person acting on behalf of a stockholder must present a written statement executed by the stockholder or the duly authorized representative of the stockholder on whose behalf the person purports to act.

SECURITY OWNERSHIP OF PRINCIPAL STOCKHOLDERS AND MANAGEMENT

The following table sets forth information known to us with respect to the beneficial ownership of our common stock as of December 7, 2011 for:

- each person known by us to beneficially own more than five percent of the outstanding shares of our common stock,
- each of our directors,
- each of the executive officers named in the Summary Compensation Table included later in this proxy statement under the heading “Executive Compensation” and
- all of our current directors and executive officers as a group.

Shares are deemed to be “beneficially owned” by a person if such person, directly or indirectly, has sole or shared power to vote or to direct the voting of such shares or sole or shared power to dispose or direct the disposition of such shares. Except as otherwise indicated, we believe that each of the beneficial owners of our common stock listed below, based on information provided by these owners, has sole dispositive and voting power with respect to its shares, subject to community property laws where applicable. Shares not outstanding but deemed beneficially owned by virtue of the right of a person or member of a group to acquire them within 60 days are treated as outstanding only when determining the amount and percent owned by such person or group.

Name	Shares Subject to Options Immediately Exercisable or Exercisable Within 60 Days	Total Number of Shares of Common Stock Beneficially Owned ⁽¹⁾	Percent of Total Voting Power
Stockholders Owning 5% or More:			
Inter Alia Holding Company ⁽²⁾	0	601,668	13.7%
Directors and Named Executive Officers:			
Pierre Chenu	14,000	22,000	*
Soo-Keong Koh	8,665	8,665	*
Sunggyu Lee, Ph.D.	9,999	9,999	*
G. Patrick Lynch ⁽³⁾	11,540	650,313	14.8%
Ramani Narayan, Ph.D.	9,999	15,499	*
Richard J. Nigon	2,889	4,889	*
Mark J. Stone ⁽⁴⁾	9,999	19,999	*
Matthew C. Wolsfeld	18,950	67,457	1.5%
<u>Directors and executive officers as a group (nine persons)⁽⁵⁾</u>	<u>86,041</u>	<u>798,821</u>	<u>17.8%</u>

* Represents beneficial ownership of less than one percent of our common stock.

- (1) Includes shares held by the following persons in securities brokerage accounts, which in certain circumstances under the terms of the standard brokerage account form may involve a pledge of such shares as collateral: Inter Alia (601,668 shares); Mr. Lynch (638,773 shares); Mr. Nigon (2,000 shares); Mr. Stone (10,000 shares); and Mr. Wolsfeld (48,507 shares).
- (2) According to a Schedule 13D/A filed with the SEC on December 2, 2011, Inter Alia Holding Company is an entity of which G. Patrick Lynch, our President and Chief Executive Officer, is a 25% stockholder. G. Patrick Lynch shares equal voting and dispositive power over such shares with three other members of his family. Inter Alia Holding Company’s address is 23205 Mercantile Road, Beachwood, Ohio 44122.

- (4) Includes 601,668 shares held by Inter Alia Holding Company. See note (2) above. Mr. Lynch's address is 4201 Woodland Road, Circle Pines, Minnesota 55014.
- (5) Includes 10,000 shares held jointly with Mr. Stone's spouse.
- (6) The amount beneficially owned by all current directors and executive officers as a group includes 601,668 shares held of record by Inter Alia Holding Company and 10,000 shares held jointly with spouses. See notes (2) and (4) above.

PROPOSAL ONE – ELECTION OF DIRECTORS

Number of Directors

Our Bylaws provide that the Board of Directors will consist of at least one member or such other number as may be determined by the Board of Directors from time to time or by the stockholders at an annual meeting. The Board of Directors has fixed the number of directors at seven.

Nominees for Director

The Board of Directors has nominated the following seven individuals to serve as our directors until the next annual meeting of stockholders or until their successors are elected and qualified. All of the nominees named below are current members of the Board of Directors.

- Pierre Chenu
- Soo-Keong Koh
- Sunggyu Lee, Ph.D.
- G. Patrick Lynch
- Ramani Narayan, Ph.D.
- Richard J. Nigon
- Mark J. Stone

Proxies can only be voted for the number of persons named as nominees in this proxy statement, which is seven.

Board Recommendation

The Board of Directors unanimously recommends a vote **FOR** the election of all of the seven nominees named above.

If prior to the Annual Meeting, the Board of Directors should learn that any nominee will be unable to serve for any reason, the proxies that otherwise would have been voted for this nominee will be voted for a substitute nominee as selected by the Board. Alternatively, the proxies, at the Board's discretion, may be voted for that fewer number of nominees as results from the inability of any nominee to serve. The Board of Directors has no reason to believe that any of the nominees will be unable to serve.

Information about Current Directors and Board Nominees

The following table sets forth as of December 1, 2011 the name, age and principal occupation of each current director and each individual who has been nominated by the Board of Directors to serve as a director of our company, as well as how long each individual has served as a director of NTIC.

Name	Age	Principal Occupation	Director Since
Pierre Chenu ⁽¹⁾⁽²⁾	73	Non-Executive Chairman of the Board of NTIC	2003
Soo-Keong Koh ⁽³⁾	60	Managing Director of EcoSave Pte Ltd.	2008
Sunggyu Lee, Ph.D.	59	Russ Ohio Research Scholar in Syngas Utilization and Professor of Chemical and Biomolecular Engineering at Ohio University	2004
G. Patrick Lynch	44	President and Chief Executive Officer of NTIC	2004

Name	Age	Principal Occupation	Director Since
Ramani Narayan, Ph.D.	62	Distinguished Professor in the Department of Chemical Engineering & Materials Science at Michigan State University	2004
Richard J. Nigon ⁽¹⁾⁽²⁾	63	Senior Vice President of Cedar Point Capital, Inc.	2010
Mark J. Stone ⁽¹⁾⁽³⁾	52	President of Petrus International, Inc.	2001

(1) Member of the Audit Committee

(2) Member of the Compensation Committee

(3) Member of the Nominating and Corporate Governance Committee

Additional Information about Current Directors and Board Nominees

The following paragraphs provide information about each nominee, including all positions he holds, his principal occupation and business experience for the past five years, and the names of other publicly-held companies of which he currently serves as a director or has served as a director during the past five years. We believe that all of our director nominees display personal and professional integrity; satisfactory levels of education and/or business experience; broad-based business acumen; an appropriate level of understanding of our business and its industry and other industries relevant to our business; the ability and willingness to devote adequate time to the work of the Board of Directors and its committees; a fit of skills and personality with those of our other directors that helps build a board that is effective, collegial and responsive to the needs of our company; strategic thinking and a willingness to share ideas; a diversity of experiences, expertise and background; and the ability to represent the interests of all of our stockholders. The information presented below regarding each nominee also sets forth specific experience, qualifications, attributes and skills that led the Board of Directors to the conclusion that such individual should serve as a director in light of our business and structure.

Pierre Chenu has been a director of NTIC since 2003 and Non-Executive Chairman of the Board since July 2005. Mr. Chenu is currently retired. Prior to his retirement, Mr. Chenu served as Vice President, Worldwide Operations, Flat Glass Activities within the Asahi-Glaverbel Glass Group, a position he had served for five years. Prior to that, Mr. Chenu was a member of the Executive Committee of Glaverbel S.A., with various operating responsibilities in France, Spain, Italy, Russia, Germany, China and the United States. Before joining Glaverbel, Mr. Chenu worked for U.S. Steel in steel production in Pittsburgh, Pennsylvania and for Corning Inc. where he held various staff, line and executive positions in the United States, France and the United Kingdom. Mr. Chenu holds a Master's Degree in Engineering, with a specialty in metallurgy, from the University of Liege (Belgium) and a M.B.A. from Harvard University. Mr. Chenu is a citizen of Belgium. We believe Mr. Chenu's qualifications to sit on the Board of Directors include his significant executive and operational experiences both in the United States and internationally prior to his retirement, including his positions with Asahi-Glaverbel Glass Group, U.S. Steel and Corning Inc. The Board of Directors believes such operational experience is critical to NTIC's management in operating NTIC's business and its various international joint ventures.

Soo-Keong Koh has been a director of NTIC since May 2008. Mr. Koh is the Managing Director of Ecosave Pte Ltd., a company whose business is focused on environmental biotech and energy conservation technologies, a position he has held since April 2007. From January 1986 to April 2007, Mr. Koh served as Chief Executive Officer and President of Toll Asia Pte Ltd formerly SembCorp Logistics Ltd (SembLog), a Singapore public listed company, which was acquired by Toll in May 2006. Mr. Koh has over 20 years of experience in the logistics industry. Mr. Koh holds a Bachelor of Engineering, a Master of Business Administration and a Postgraduate Diploma in Business Law from the University of Singapore (now known as the National University of Singapore). We believe Mr. Koh's

qualifications to sit on the Board of Directors include his experience on other public company boards of directors and his significant executive experience with companies including those focused on environmental awareness, which has become a focus of NTIC during the past several years, especially in light of NTIC's Natur-Tec™ bioplastics business. Mr. Koh's previous board of directors experience is helpful in guiding NTIC with respect to corporate governance matters, particularly in his role as Chair of the Nominating and Corporate Governance Committee. Additionally, Mr. Koh has specific executive experience with companies located in Asia, which is where several of NTIC's more significant joint ventures are located.

Sunggyu Lee, Ph.D. was elected a director of NTIC in January 2004. Dr. Lee is Russ Ohio Research Scholar in Syngas Utilization and Professor of Chemical and Biomolecular Engineering, Ohio University, Athens, Ohio. Previously, he held positions of Professor of Chemical and Biologic Engineering, Missouri University of Science and Technology, Rolla, Missouri from 2005 to 2010, C.W. LaPierre Professor and Chairman of Chemical Engineering at University of Missouri-Columbia from 1997 to 2005, and Robert Iredell Professor and Head of Chemical Engineering Department at the University of Akron, Akron, Ohio from 1988 to 1996. He has authored seven books and over 480 archival publications and received 29 U.S. patents in a variety of chemical and polymer processes and products. He is currently serving as Editor of Encyclopedia of Chemical Processing, Taylor & Francis, New York, NY and also as Book Series Editor of Green Chemistry and Chemical Engineering, CRC Press, Boca Raton, FL. Throughout his career, he has served as consultant and technical advisor to a number of national and international companies in the fields of polymers, petrochemicals and energy. He received his Ph.D. from Case Western Reserve University, Cleveland, Ohio in 1980. We believe Dr. Lee's qualifications to sit on the Board of Directors include his significant technical and industrial expertise with chemical and polymer processes and products. Such expertise is particularly with respect to assessing and operating NTIC's Natur-Tec™ bioplastics business.

G. Patrick Lynch, an employee of NTIC since 1995, has been President since July 2005 and Chief Executive Officer since January 2006 and was appointed a director of NTIC in February 2004. Mr. Lynch served as President of North American Operations of NTIC from May 2004 to July 2005. Prior to May 2004, Mr. Lynch held various positions with NTIC, including Vice President of Strategic Planning, Corporate Secretary and Project Manager. Mr. Lynch is also an officer and director of Inter Alia Holding Company, which is a significant stockholder of NTIC. Prior to joining NTIC, Mr. Lynch held positions in sales management for Fuji Electric Co., Ltd. in Tokyo, Japan, and programming project management for BMW AG in Munich, Germany. Mr. Lynch received an M.B.A. degree from the University of Michigan Business School in Ann Arbor, Michigan. We believe Mr. Lynch's qualifications to sit on the Board of Directors include his depth of knowledge of our company and its day-to-day operations in light of his position as chief executive officer of NTIC, as well as his affiliation with a significant stockholder of NTIC, which the Board of Directors believes generally helps align management's interests with those of our stockholders.

Ramani Narayan, Ph.D. has been a director of NTIC since November 2004. He is a Distinguished Professor at Michigan State University in the Department of Chemical Engineering & Materials Science, where he has 105 refereed publications in leading journals to his credit, 18 patents, edited three books and one expert dossier in the area of bio-based polymeric materials. His research encompasses design & engineering of sustainable, biobased products, biodegradable plastics and polymers, biofiber reinforced composites, reactive extrusion polymerization and processing, studies in plastic end-of-life options like biodegradation and composting. He conducts carbon footprint calculations for plastics and products. He also performs LCA (Life Cycle Assessment) for reporting a product's environmental footprint. He serves as Scientific Chair and board member of the Biodegradable Products Institute (BPI), North America. He serves on the Technical Advisory Board of Tate & Lyle. He served on the Board of Directors of ASTM International, an international standards setting organization and currently chairs the committee on

Environmentally Degradable Plastics and Biobased Products (D20.96) and the Plastics Terminology Committee D20.92. He is also the technical expert for the USA on ISO (International Standards Organization) TC 61 on Plastics – specifically for Terminology, and Biodegradable Plastics. He has won numerous awards, including the Named MSU University Distinguished Professor in 2007; the Governors University Award for commercialization excellence; Michigan State University Distinguished Faculty Award, 2006, 2005 Withrow Distinguished Scholar award, Fulbright Distinguished Lectureship Chair in Science & Technology Management & Commercialization (University of Lisbon; Portugal); First recipient of the William N. Findley Award, The James Hammer Memorial Lifetime Achievement Award, and Research and Commercialization Award sponsored by ICI Americas, Inc. & the National Corn Growers Association. We believe Dr. Narayan's qualifications to sit on the Board of Directors include his significant technical expertise in the bioplastics area which has been helpful to NTIC's management in assessing and operating NTIC's Natur-Tec™ bioplastics business.

Richard J. Nigon has been a director of NTIC since February 2010. Mr. Nigon is the Senior Vice President of Cedar Point Capital, Inc., a private company that raises capital for early stage companies. From February 2001 until May 2007, Mr. Nigon was a Director of Equity Corporate Finance for Miller Johnson Steichen Kinnard ("MJSK"), a privately held investment firm. In December 2006, MJSK was acquired by Stifel Nicolaus and Mr. Nigon was a Managing Director of Private Placements at Stifel Nicolaus. From February 2000 to February 2001, Mr. Nigon served as the Chief Financial Officer of Dantis, Inc., a web hosting company. Prior to joining Dantis, Mr. Nigon was employed by Ernst & Young, LLP from 1970 to 2000, where he served as a partner from 1981 to 2000. While at Ernst & Young, Mr. Nigon served as the Director of Ernst & Young's Twin Cities Entrepreneurial Services Group and was the coordinating partner on several publicly-traded companies in the consumer retailing and manufacturing sectors. Mr. Nigon also currently serves as President of NorthStar Education Finance, Inc., a non-profit organization formed to foster, aid, encourage and assist the pursuit of higher education. In addition to NTIC, Mr. Nigon also serves on the board of directors of Vascular Solutions, Inc. and a number of privately-held companies and previously served on the board of directors of Virtual Radiologics, Inc. We believe Mr. Nigon's qualifications to sit on the Board of Directors include: (1) his significant financial and accounting expertise, which the Board of Directors believes is critical to its financial and accounting oversight responsibilities; (2), his experience on other U.S. public company boards of directors, which allows Mr. Nigon to provide valuable perspectives and input on accounting, compensation and corporate governance matters, particularly in his roles as Chair of the Audit Committee and Compensation Committee; and (3) his experience with several private investment firms that have invested in early stage companies, which the Board of Directors believes is helpful in assessing and operating NTIC's newer businesses.

Mark J. Stone has been a director of NTIC since 2001. Mr. Stone has been President of Petrus International, Inc., an international consulting firm, since 1992. Mr. Stone has advised a variety of Japanese and other multi-national corporations in areas including project finance and international investment strategy. Mr. Stone is also President of MM Management, LLC, an entity that manages Chef Masaharu Morimoto's business interests. Mr. Stone was a director of Aqua Design, Inc., an international water desalination company, from 1988 to 1996. Mr. Stone was Director, Marketing & Business Development of Toray Marketing & Sales (America) Inc. from 1986 to 1992. From 1980 to 1986, Mr. Stone was employed by Mitsui & Co. (U.S.A.), Inc. where he founded and was Treasurer of Hydro Management Resources, a Mitsui subsidiary, which finances, owns and operates water treatment projects. Mr. Stone holds an A.B. from Harvard University. We believe Mr. Stone's qualifications to sit on the Board of Directors include his financial and accounting expertise, which the Board of Directors believes is critical to its financial and accounting oversight responsibilities, and his significant experience working with other international companies, which the Board of Directors believes is helpful in managing NTIC's international operations and joint ventures.

CORPORATE GOVERNANCE

Corporate Governance Guidelines

The Board of Directors has adopted Corporate Governance Guidelines. A copy of these Corporate Governance Guidelines can be found on the “Investor Relations—Board of Directors—Corporate Governance” section of our corporate website *www.ntic.com*. Among the topics addressed in our Corporate Governance Guidelines are:

- Board size, composition and qualifications;
- Selection of directors;
- Board leadership;
- Board committees;
- Board and committee meetings;
- Executive sessions of outside directors;
- Meeting attendance by directors and non-directors;
- Appropriate information and access;
- Ability to retain advisors;
- Conflicts of interest;
- Board interaction with corporate constituencies;
- Change of principal occupation and board memberships;
- Retirement and term limits;
- Board compensation;
- Stock ownership by directors and executive officers;
- Loans to directors and executive officers;
- CEO evaluation;
- Board and committee evaluation;
- Director continuing education;
- Succession planning; and
- Communications with directors.

Board Leadership Structure

Under our Corporate Governance Guidelines, the office of Chairman of the Board and Chief Executive Officer may or may not be held by one person. The Board of Directors believes it is best not to have a fixed policy on this issue and that it should be free to make this determination based on what it believes is best under the circumstances. However, the Board of Directors strongly endorses the concept of an independent director being in a position of leadership. Under our Corporate Governance Guidelines, if at any time the Chief Executive Officer and Chairman of the Board positions are held by the same person, the Board of Directors will elect an independent director as a lead independent director.

G. Patrick Lynch currently serves as our President and Chief Executive Officer and Pierre Chenu serves as our non-executive Chairman of the Board. Because the Chief Executive Officer and Chairman of the Board positions currently are not held by the same person, we do not have a lead independent director. We currently believe this leadership structure is in the best interests of our company and our stockholders and strikes the appropriate balance between the Chief Executive Officer’s responsibility for the strategic direction, day-to-day leadership and performance of our company and the Chairman’s responsibility to provide oversight of our company’s corporate governance and guidance to our chief executive officer and to set the agenda for and preside over Board of Directors meetings.

Immediately prior to all regular Board of Directors meetings, our independent directors meet in executive session with no company management or non-independent directors present during a portion of the meeting. After each such executive session, our Chairman of the Board provides our Chief Executive Officer with any actionable feedback from our independent directors.

Director Independence

The Board of Directors has affirmatively determined that four of NTIC’s current seven directors are “independent directors” under the Listing Rules of the NASDAQ Stock Market: Pierre Chenu, Soo-Keong Koh, Richard J. Nigon and Mark J. Stone.

In making these affirmative determinations that such individuals are “independent directors,” the Board of Directors reviewed and discussed information provided by the directors and by NTIC with regard to each director’s business and personal activities as they may relate to NTIC and NTIC’s management.

Board Meetings and Attendance

The Board of Directors met four times during the fiscal year ended August 31, 2011. Each of the directors attended at least 75 percent of the aggregate of the total number of meetings of the Board and the total number of meetings held by all Board committees on which he served.

Board Committees

The Board of Directors has a standing Audit Committee, Compensation Committee and Nominating and Corporate Governance Committee, each of which has the composition and responsibilities described below. The Board of Directors may from time to time establish other committees to facilitate the management of our company and may change the composition and responsibilities of our existing committees. Each of the Audit Committee, Compensation Committee and Nominating and Corporate Governance Committee operates under a written charter adopted by the Board of Directors, which can be found on the “Investor Relations—Corporate Governance” section of our corporate website www.ntic.com.

The following table summarizes the current membership of each of our three Board committees.

Director	Audit	Compensation	Nominating and Corporate Governance
Pierre Chenu	√	√	—
Soo-Keong Koh	—	—	Chair
Sunggyu Lee, Ph.D.	—	—	—
G. Patrick Lynch	—	—	—
Ramani Narayan, Ph.D.	—	—	—
Richard J. Nigon	Chair	Chair	—
Mark J. Stone	√	—	√

Audit Committee

Responsibilities. The Audit Committee provides assistance to the Board of Directors in fulfilling its responsibilities for oversight, for quality and integrity of the accounting, auditing, reporting practices, systems of internal accounting and financial controls, the annual independent audit of our financial statements, and the legal compliance and ethics programs of NTIC as established by management. The Audit Committee's primary responsibilities include:

- Overseeing our financial reporting process, internal control over financial reporting and disclosure controls and procedures on behalf of the Board of Directors;
- Having sole authority to appoint, retain and oversee the work of our independent registered public accounting firm and establish the compensation to be paid to the firm;
- Reviewing and pre-approving all audit services and permissible non-audit services to be provided to NTIC by our independent registered public accounting firm;
- Establishing procedures for the receipt, retention and treatment of complaints regarding accounting, internal accounting controls or auditing matters and for the confidential, anonymous submission by our employees of concerns regarding questionable accounting or auditing matters; and
- Overseeing the establishment and administration (including the grant of any waiver from) a written code of ethics applicable to our principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions.

The Audit Committee has the authority to engage the services of outside experts and advisors as it deems necessary or appropriate to carry out its duties and responsibilities.

Composition. The current members of the Audit Committee are Mr. Chenu, Mr. Nigon and Mr. Stone. Mr. Nigon is the chair of the Audit Committee.

Each current member of the Audit Committee qualifies as "independent" for purposes of membership on audit committees pursuant to the Listing Rules of the NASDAQ Stock Market and the rules and regulations of the SEC and is "financially literate" as required by the Listing Rules of the NASDAQ Stock Market. In addition, the Board of Directors has determined that Mr. Nigon qualifies as an "audit committee financial expert" as defined by the rules and regulations of the SEC and meets the qualifications of "financial sophistication" under the Listing Rules of the NASDAQ Stock Market as a result of his extensive financial background and various financial positions he has held throughout his career. Stockholders should understand that these designations related to our Audit Committee members' experience and understanding with respect to certain accounting and auditing matters do not impose upon any of them any duties, obligations or liabilities that are greater than those generally imposed on a member of the Audit Committee or of the Board of Directors.

Meetings. The Audit Committee met four times during fiscal 2011, one time outside the presence of management and one time face to face with Baker Tilly Virchow Krause, LLP, our independent registered public accounting firm.

Other Information. Additional information regarding the Audit Committee and our independent registered public accounting firm is disclosed under the "Proposal Two —Ratification of Selection of Independent Registered Public Accounting Firm" section of this proxy statement.

Compensation Committee

Responsibilities. The Compensation Committee provides assistance to the Board of Directors in fulfilling its oversight responsibility relating to compensation of our chief executive officer and other executive officers and administers our equity compensation plans. In so doing, the Compensation Committee, among other things:

- recommending to the Board of Directors for its determination, the annual salaries, incentive compensation, long-term compensation and any and all other compensation applicable to our executive officers;
- establishing, and from time to time reviewing and revising, corporate goals and objectives with respect to compensation for our executive officers and establishing and leading a process for the full Board of Directors to evaluate the performance of our executive officers in light of those goals and objectives;
- administering our equity compensation plans and recommending to the Board of Directors for its determination grants of options or other equity-based awards for executive officers, employees and independent consultants under our equity compensation plans;
- reviewing our policies with respect to employee benefit plans; and
- establishing and from time to time reviewing and revising processes and procedures for the consideration and determination of executive compensation.

The Compensation Committee has the authority to engage the services of outside experts and advisors as it deems necessary or appropriate to carry out its duties and responsibilities.

Composition. The current members of the Compensation Committee are Mr. Chenu and Mr. Nigon. Mr. Nigon is the Chair of the Compensation Committee. The Board of Directors has determined that each of the members of the Compensation Committee is considered an “independent director” under the Listing Rules of the NASDAQ Stock Market, a “non-employee director” within the meaning of Rule 16b-3 under the Securities Exchange Act of 1934, as amended, and an “outside director” within the meaning of Section 162(m) under the Internal Revenue Code of 1986, as amended.

Processes and Procedures for Consideration and Determination of Executive Compensation. As described in more detail above under the heading “—Responsibilities,” the Board of Directors has delegated to the Compensation Committee the responsibility, among other things, to recommend to the Board of Directors any and all compensation payable to our executive officers, including annual salaries, incentive compensation and long-term incentive compensation, and to administer our equity and incentive compensation plans applicable to our executive officers. Decisions regarding executive compensation made by the Compensation Committee are not considered final and are subject to final review and approval by the entire Board of Directors. Under the terms of its formal written charter, the Compensation Committee has the power and authority, to the extent permitted by our Bylaws and applicable law, to delegate all or a portion of its duties and responsibilities to a subcommittee of the Compensation Committee. The Compensation Committee has not generally delegated any of its duties and responsibilities to subcommittees, but rather has taken such actions as a committee, as a whole.

Our President and Chief Executive Officer assists the Compensation Committee in gathering compensation related data regarding our executive officers and making recommendations to the Compensation Committee regarding the form and amount of compensation to be paid to each executive

officer. In making final recommendations to the Board of Directors regarding compensation to be paid to our executive officers, the Compensation Committee considers the recommendations of our President and Chief Executive Officer, but also considers other factors, such as its own views as to the form and amount of compensation to be paid, the achievement by the company of pre-established performance objectives the general performance of the company and the individual officers, the performance of the company's stock price and other factors that may be relevant.

Final deliberations and decisions by the Compensation Committee regarding its recommendations to the Board of Directors of the form and amount of compensation to be paid to our executive officers, including our President and Chief Executive Officer, are made by the Compensation Committee, without the presence of the President and Chief Executive Officer or any other executive officer of our company. In making final decisions regarding compensation to be paid to our executive officers, the Board of Directors considers the same factors and gives considerable weight to the recommendations of the Compensation Committee.

Meetings. The Compensation Committee met three times during fiscal 2011.

Nominating and Corporate Governance Committee

Responsibilities. The primary responsibilities of the Nominating and Corporate Governance Committee include:

- identifying individuals qualified to become members of the Board of Directors;
- recommending director nominees for each annual meeting of our stockholders and director nominees to fill any vacancies that may occur between meetings of stockholders;
- being aware of best practices in corporate governance matters;
- developing and overseeing an annual Board of Directors and Board committee evaluation process; and
- establishing and leading a process for determination of the compensation applicable to the non-employee directors on the Board.

The Nominating and Corporate Governance Committee has the authority to engage the services of outside experts and advisors as it deems necessary or appropriate to carry out its duties and responsibilities.

Composition. The current members of the Nominating and Corporate Governance Committee are Mr. Koh and Mr. Stone. Mr. Koh is the chair of the Nominating and Corporate Governance Committee. The Board of Directors has determined that each of the members of the Nominating and Corporate Governance Committee is considered an "independent director" under the Listing Rules of the NASDAQ Stock Market.

Processes and Procedures for Consideration and Determination of Director Compensation. As mentioned above under the heading "—Responsibilities," the Board of Directors has delegated to the Nominating and Corporate Governance Committee the responsibility, among other things, to review and make recommendations to the Board of Directors concerning compensation for non-employee members of the Board of Directors, including but not limited to retainers, meeting fees, committee chair and member retainers and equity compensation. Decisions regarding director compensation made by the Nominating and Corporate Governance Committee are not considered final and are subject to final review

and approval by the entire Board of Directors. Under the terms of its formal written charter, the Nominating and Corporate Governance Committee has the power and authority, to the extent permitted by our Bylaws and applicable law, to delegate all or a portion of its duties and responsibilities to a subcommittee of the Nominating and Corporate Governance Committee. The Nominating and Corporate Governance Committee has not generally delegated any of its duties and responsibilities to subcommittees, but rather has taken such actions as a committee, as a whole.

In making recommendations to the Board of Directors regarding compensation to be paid to our non-employee directors, the Nominating and Corporate Governance Committee considers fees and other compensation paid to directors of comparable public companies, the number of board and committee meetings that our directors are expected to attend, and other factors that may be relevant. In making final decisions regarding non-employee director compensation, the Board of Directors considers the same factors and the recommendation of the Nominating and Corporate Governance Committee.

Meetings. The Nominating and Corporate Governance Committee met four times during fiscal 2011.

Director Nominations Process

Pursuant to a Director Nominations Process adopted by the Board of Directors, in selecting nominees for the Board of Directors, the Nominating and Corporate Governance Committee first determines whether the incumbent directors are qualified to serve, and wish to continue to serve, on the Board. The Nominating and Corporate Governance Committee believes that NTIC and its stockholders benefit from the continued service of qualified incumbent directors because those directors have familiarity with and insight into NTIC's affairs that they have accumulated during their tenure with the company. Appropriate continuity of Board membership also contributes to the Board's ability to work as a collective body. Accordingly, it is the practice of the Nominating and Corporate Governance Committee, in general, to re-nominate an incumbent director if the director wishes to continue his or her service with the Board, the director continues to satisfy the criteria for membership on the Board that the Nominating and Corporate Governance Committee generally views as relevant and considers in deciding whether to re-nominate an incumbent director or nominate a new director, the Nominating and Corporate Governance Committee believes the director continues to make important contributions to the Board, and there are no special, countervailing considerations against re-nomination of the director.

Pursuant to a Director Nominations Process adopted by the Board of Directors, in identifying and evaluating new candidates for election to the Board, the Nominating and Corporate Governance Committee solicits recommendations for nominees from persons whom the Nominating and Corporate Governance Committee believes are likely to be familiar with qualified candidates having the qualifications, skills and characteristics required for Board nominees from time to time. Such persons may include members of the Board of Directors and our senior management and advisors to our company. In addition, the Nominating and Corporate Governance Committee may engage a search firm to assist it in identifying qualified candidates. In addition, from time to time, if appropriate, the Nominating and Corporate Governance Committee may engage a search firm to assist it in identifying and evaluating qualified candidates.

The Nominating and Corporate Governance Committee reviews and evaluates each candidate whom it believes merits serious consideration, taking into account available information concerning the candidate, any qualifications or criteria for Board membership established by the Nominating and Corporate Governance Committee, the existing composition of the Board, and other factors that it deems relevant. In conducting its review and evaluation, the Nominating and Corporate Governance Committee solicits the views of our management, other Board members, and other individuals it believes may have insight

into a candidate. The Nominating and Corporate Governance Committee may designate one or more of its members and/or other Board members to interview any proposed candidate.

The Nominating and Corporate Governance Committee will consider recommendations for the nomination of directors submitted by our stockholders. For more information, see the information set forth under the heading “Other Matters — Director Nominations for 2013 Annual Meeting.” The Nominating and Corporate Governance Committee will evaluate candidates recommended by stockholders in the same manner as those recommended as stated above.

There are no formal requirements or minimum qualifications that a candidate must meet in order for the Nominating and Corporate Governance Committee to recommend the candidate to the Board. The Nominating and Corporate Governance Committee believes that each nominee should be evaluated based on his or her merits as an individual, taking into account the needs of our company and the Board of Directors. However, in evaluating candidates, there are a number of criteria that the Nominating and Corporate Governance Committee generally views as relevant and is likely to consider. Some of these factors include whether the candidate is an “independent director” under the Listing Rules of the NASDAQ Stock Market and meets any other applicable independence tests under the federal securities laws and rules and regulations of the Securities and Exchange Commission; whether the candidate is “financially literate” or “financially sophisticated” and otherwise meets the requirements for serving as a member of an audit committee under the Listing Rules of the NASDAQ Stock Market; whether the candidate is an “audit committee financial expert” under the federal securities laws and the rules and regulations of the Securities and Exchange Commission; the needs of our company with respect to the particular talents and experience of its directors; the personal and professional integrity and reputation of the candidate; the candidate’s level of education and business experience; the candidate’s broad-based business acumen; the candidate’s level of understanding of our business and its industry; the candidate’s ability and willingness to devote adequate time to work of the Board and its committees; the fit of the candidate’s skills and personality with those of other directors and potential directors in building a board that is effective, collegial and responsive to the needs of our company; whether the candidate possesses strategic thinking and a willingness to share ideas; the candidate’s diversity of experiences, expertise and background; and the candidate’s ability to represent the interests of all stockholders and not a particular interest group.

We do not have a formal stand-alone diversity policy in considering whether to recommend any director nominee, including candidates recommended by stockholders. As discussed above, the Nominating and Corporate Governance Committee will consider the factors described above, including the candidate’s diversity of experiences, expertise and background. The Nominating and Corporate Governance Committee seeks nominees with a broad diversity of experience, expertise and backgrounds. The Nominating and Corporate Governance Committee does not assign specific weights to particular criteria and no particular criterion is necessarily applicable to all prospective nominees. The Board of Directors believes that the backgrounds and qualifications of directors, considered as a group, should provide a significant mix of experience, knowledge and abilities that will allow the Board of Directors to fulfill its responsibilities. While the Nominating and Corporate Governance Committee focuses on obtaining a diversity of experiences, expertise and background on the Board of Directors rather than a diversity of personal characteristics, it recognizes the desirability of racial, ethnic, gender, age and other personal diversity and considers it an additional benefit when a new director can also increase the personal diversity of the Board of Directors as a whole. The Nominating and Corporate Governance Committee evaluates its effectiveness in achieving diversity in a broad sense on the Board of Directors through its annual review of Board member composition prior to recommending nominees for election each year.

Board Oversight of Risk

The Board of Directors as a whole has responsibility for risk oversight, with more in-depth reviews of certain areas of risk being conducted by the relevant Board committees that report on their deliberations to the full Board of Directors. The oversight responsibility of the Board and its committees is enabled by management reporting processes that are designed to provide information to the Board about the identification, assessment and management of critical risks and management's risk mitigation strategies. The areas of risk that we focus on include operational, financial (accounting, credit, liquidity and tax), legal, compensation, competitive, health, safety, environmental, economic, political and reputational risks.

The standing committees of the Board of Directors oversee risks associated with their respective principal areas of focus. The Audit Committee's role includes a particular focus on the qualitative aspects of financial reporting to stockholders, on our processes for the management of business and financial risk, our financial reporting obligations and for compliance with significant applicable legal, ethical and regulatory requirements. The Audit Committee, along with management, is also responsible for developing and participating in a process for review of important financial and operating topics that present potential significant risk to our company. The Compensation Committee is responsible for overseeing risks and exposures associated with our executive compensation programs and arrangements and management succession planning. The Nominating and Corporate Governance Committee oversees risks relating to our corporate governance matters, director compensation programs and director succession planning.

We recognize that a fundamental part of risk management is understanding not only the risks a company faces and what steps management is taking to manage those risks, but also understanding what level of risk is appropriate for the company. The involvement of the full Board of Directors each year in establishing our key corporate business strategies and annual fiscal budget is a key part of the Board's assessment of management's appetite for risk and also a determination of what constitutes an appropriate level of risk for our company.

We believe our current Board leadership structure is appropriate and helps ensure proper risk oversight for our company for a number of reasons, including: (1) general risk oversight by the full Board of Directors in connection with its role in reviewing our key business strategies and monitoring on an on-going basis the implementation of our key business strategies; (2) more detailed oversight by our standing Board committees that are currently comprised of and chaired by our independent directors, and (3) the focus of our Chairman of the Board on allocating appropriate Board agenda time for discussion regarding the implementation of our key business strategies and specifically risk management.

Code of Ethics

The Board of Directors has adopted a Code of Ethics, which applies to all of our directors, executive officers, including our Chief Executive Officer and Chief Financial Officer, and other employees, and meets the requirements of the Securities and Exchange Commission and the NASDAQ Stock Market. A copy of our Code of Ethics is available on the "Investor Relations—Corporate Governance" section of our corporate website www.ntic.com.

Policy Regarding Director Attendance at Annual Meetings of Stockholders

It is the policy of the Board of Directors that directors standing for re-election should attend our annual meeting of stockholders, if their schedules permit. A Board of Directors meeting is generally held on the day following each annual meeting of stockholders. All of our directors attended the 2011 annual meeting of stockholders.

Complaint Procedures

The Audit Committee has established procedures for the receipt, retention and treatment of complaints received by NTIC regarding accounting, internal accounting controls or auditing matters, and the submission by our employees, on a confidential and anonymous basis, of concerns regarding questionable accounting or auditing matters. Our personnel with such concerns are encouraged to discuss their concerns with our outside legal counsel, who in turn will be responsible for informing the Audit Committee.

Process Regarding Stockholder Communications with Board of Directors

Stockholders may communicate with the Board of Directors of NTIC by sending correspondence, addressed to our Corporate Secretary, Northern Technologies International Corporation, 4201 Woodland Road, Circle Pines, Minnesota 55014, or mwolsfeld@ntic.com with an instruction to forward the communication to a particular director. Our Corporate Secretary will receive the correspondence and forward it to any individual director or directors to whom the communication is directed.

DIRECTOR COMPENSATION

Summary of Cash and Other Compensation

The following table provides summary information concerning the compensation of each individual who served as a director of our company during the fiscal year ended August 31, 2011, other than G. Patrick Lynch, our President and Chief Executive Officer, who was not compensated separately for serving on the Board of Directors during fiscal 2011. His compensation during fiscal 2011 for serving as an executive officer of our company is set forth under the heading “Executive Compensation” included elsewhere in this proxy statement.

DIRECTOR COMPENSATION – FISCAL 2011

Name	Fees Earned or Paid in Cash (\$)	Option Awards (\$) ⁽¹⁾⁽²⁾	All Other Compensation (\$) ⁽³⁾	Total (\$)
Pierre Chenu.....	\$ 37,000	\$ 21,600	\$ 0	\$ 58,600
Tilman B. Frank, M.D. ⁽⁴⁾	4,500	35,994	0	40,494
Soo-Keong Koh.....	20,000	14,400	0	34,400
Sunggyu Lee, Ph.D.	18,000	14,400	0	32,400
Ramani Narayan, Ph.D.....	18,000	14,400	105,624	138,024
Richard J. Nigon	26,750	14,400	0	41,150
Mark J. Stone	26,250	14,400	0	40,650

(1) The amounts in this column do not reflect compensation actually received by the directors nor do they reflect the actual value that will be recognized by the directors. Instead, the amounts reflect the grant date fair value for option grants made by us in fiscal 2011, calculated in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 718 and, in the case of Dr. Tilman, an additional \$21,594 in incremental fair value for an option modification effected in January 2011 in connection with the termination of his service on the Board of Directors. On September 1, 2010, each director, other than Mr. Lynch, received a stock option to purchase 4,000 shares of our common stock at an exercise price of \$9.76 per share granted under the Northern Technologies International Corporation 2007 Stock Incentive Plan, the material terms of which are described in more detail under the heading “Executive Compensation —Stock Incentive Plan.” Such options vested in full on September 1, 2011 and will expire on August 31, 2015 or earlier in the case of a director whose service as a director is terminated prior to such date. In addition, on September 1, 2010, Mr. Chenu received an additional stock option to purchase 2,000 shares of our common stock in consideration for his service as Chairman of the Board. The terms of this stock option are identical to the other director stock options granted on that date. See “—Non-Employee Director Compensation Program—Stock Options.” The grant date fair value and incremental fair value associated with these awards and as calculated in accordance with FASB ASC Topic 718 is determined based on our Black-Scholes option pricing model. The grant date value per share for the options granted on September 1, 2010 was \$3.60 and was determined using the following specific assumptions: risk free interest rate: 1.31%; expected life: 5.0 years; expected volatility: 49.2%; and expected dividend yield: 2.0%. The incremental fair value for the option modification in January 2011 was determined using the following specific assumptions: risk free interest rate: 1.31%; expected life: 5.0 years; expected volatility: 49.2%; and expected dividend yield: 2.0%.

(2) The table below provides information regarding the aggregate number of options to purchase shares of our common stock outstanding at August 31, 2011 and held by each of the directors listed in the above Director Compensation table. Note that because of the grant date, neither the Director Compensation table above nor the table below reflects option grants on September 1, 2011. See “—Non-Employee Director Compensation Program—Stock Options.”

<u>Name</u>	<u>Aggregate Number Of Securities Underlying Options</u>	<u>Exercisable/ Unexercisable</u>	<u>Exercise Price(s)</u>	<u>Expiration Date(s)</u>
Pierre Chenu	20,000	14,000/6,000	\$ 8.57 – 12.84	8/31/2012 – 8/31/2015
Tilman B. Frank, M.D.	—	—	—	—
Soo-Keong Koh.....	12,666	8,665/4,001	7.75 – 12.84	5/1/2013 – 8/31/2015
Sunggyu Lee, Ph.D.....	14,000	9,999/4,001	8.57 – 12.84	8/31/2012 – 8/31/2015
Ramani Narayan, Ph.D.	14,000	9,999/4,001	8.57 – 12.84	8/31/2012 – 8/31/2015
Richard J. Nigon.....	6,333	2,111/4,222	9.76 – 10.20	2/1/2015 – 8/31/2015
Mark J. Stone.....	14,000	9,999/4,001	8.57 – 12.84	8/31/2012 – 8/31/2015

(3) We do not provide perquisites or other personal benefits to our directors. The amounts reflected for each of Dr. Lee and Dr. Narayan reflect consulting fees paid during the fiscal year ended August 31, 2011 as described in more detail below under the heading “—Consulting Arrangements.”

(4) Dr. Frank did not stand for re-election as a director at the 2011 Annual Meeting of Stockholders and thus served as a director until the date of our 2011 Annual Meeting of Stockholders, January 21, 2011.

Non-Employee Director Compensation Program

Overview. Our non-employee directors for purposes of our director compensation program currently consist of Pierre Chenu, Soo-Keong Koh, Sunggyu Lee, Ph.D., Ramani Narayan, Ph.D., Richard J. Nigon and Mark J. Stone. During the fiscal year ended August 31, 2011, our former director, Tilman B. Frank, M.D., also received compensation under our director compensation program.

We use a combination of cash and long-term equity-based incentive compensation in the form of annual stock option grants to attract and retain qualified candidates to serve on the Board of Directors. In setting non-employee director compensation, we follow the process and procedures described under the heading “Corporate Governance—Nominating and Corporate Governance Committee—Processes and Procedures for the Determination of Director Compensation.”

Cash Retainers and Meeting Fees. Each of our non-employee directors receives annual cash retainers and meeting fees. The following table sets forth the annual cash retainers paid to our non-employee directors:

<u>Description</u>	<u>Annual Cash Retainer</u>
Board Member	\$ 10,000
Chairman of the Board.....	15,000
Audit Committee Chair.....	5,000
Audit Committee Member (not including Chair).....	4,000

The annual cash retainers are paid in the beginning of each calendar quarter. For example, the retainers paid in the beginning of the first calendar quarter are for the period from January 1 through March 31.

Each of our non-employee directors also receives \$1,000 for each Board, Board committee and strategy review meeting attended. No director, however, earns more than \$1,000 per day in Board, Board committee and strategy review meeting fees.

Stock Options. Each of our non-employee directors is automatically granted a five-year non-qualified option to purchase 4,000 shares of our common stock on the first day of each fiscal year in consideration for his service as a director of NTIC and the Chairman of the Board is automatically granted an additional five-year non-qualified option to purchase 2,000 shares of our common stock on the first day of each fiscal year in consideration for his services as Chairman. In addition, each new non-employee director is

automatically granted a five-year non-qualified option to purchase a pro rata portion of 4,000 shares of our common stock calculated by dividing the number of months remaining in the fiscal year at the time of election or appointment by 12 on the date the director is first elected or appointed as a director of NTIC. Each automatically granted option becomes exercisable, on a cumulative basis, on the one-year anniversary of the date of its grant. The vesting of director options was changed during fiscal 2011 on a prospective basis from a three-year annual vesting to a one-year cliff vesting to conform the vesting to prevalent market practices and to reflect the fact that directors serve for one-year terms of service. The exercise price of such options is equal to the fair market value of a share of our common stock on the date of grant.

Under the terms of our stock incentive plan, unless otherwise provided in a separate agreement, if a director's service with our company terminates for any reason, the unvested portion of the option will immediately terminate and the director's right to exercise the then vested portion of the option will:

- immediately terminate if the director's service relationship with our company terminated for "cause";
- continue for a period of 12 months if the director's service relationship with our company terminates as a result of the director's death or disability; or
- continue for a period of three months if the director's service relationship with our company terminates for any reason, other than for cause or upon death or disability.

In connection with the termination of his service as a director of our company and in recognition of his past service as a director, the Board of Directors amended Dr. Frank's options to accelerate the vesting of his options to the extent they had not previously vested as of his termination date.

We refer you to note (1) to the Director Compensation Table above for a summary of all option grants to our non-employee directors during the fiscal year ended August 31, 2011 and note (2) to the Director Compensation Table for a summary of all options to purchase shares of our common stock held by our non-employee directors as of August 31, 2011. Subsequent to our fiscal year ended August 31, 2011 and pursuant to the terms of our director compensation program, each of our non-employee directors was automatically granted a five-year non-qualified option to purchase 4,000 shares of our common stock at an exercise price of \$16.45 per share, and Mr. Chenu, as Chairman of the Board, was automatically granted an additional five-year non-qualified option to purchase 2,000 shares of our common stock.

Reimbursement of Expenses. All of our directors are reimbursed for travel expenses for attending meetings and other miscellaneous out-of-pocket expenses incurred in performing their Board functions.

Consulting Arrangements

We paid consulting fees to Bioplastic Polymers LLC which is owned by Ramani Narayan, Ph.D. in the aggregate amount of \$100,000 and royalty fees in an aggregate amount of \$5,624 during the fiscal year ended August 31, 2011. The consulting services rendered by Bioplastic Polymers LLC related to research and development associated with various new technologies. The royalty fees were paid pursuant to an oral agreement pursuant to which we have agreed to pay Bioplastic Polymers LLC and Dr. Narayan in consideration of the transfer and assignment by Biopolymer Plastics LLC and Dr. Narayan of certain biodegradable polymer technology to us, an aggregate of three percent of the gross margin on any net sales of products incorporating the biodegradable polymer technology transferred to us by Bioplastic Polymers LLC and Dr. Narayan for a period of 10 years, provided that if a patent for or with respect to biodegradable polymer technology is issued before the expiration of such 10 year period, then until the

expiration of such patent we will pay to Bioplastic Polymers LLC and Dr. Narayan an aggregate of three percent of the biodegradable polymer technology gross margin attributable to such patent.

In May 2009, we entered into a technology transfer and consulting agreement with Sunggyu Lee, Ph.D. pursuant to which we agreed to pay Dr. Lee \$30,000 payable in six \$5,000 monthly installments in exchange for an 18-month option to purchase certain technology developed by Dr. Lee. If we decide to exercise the option, Dr. Lee has agreed to transfer to us the technology and to provide us consulting services related to the further development and commercialization of the technology in exchange for an additional \$120,000 payable in eight \$15,000 monthly installments. If we commercialize any products or services that incorporate the transferred technology or any other new related inventions developed by Dr. Lee during the term of the agreement and transferred to us under the agreement, we have agreed to pay Dr. Lee a royalty of three percent of any earnings before interest and taxes to us generated from the commercial exploitation by us of any products or services that incorporate the technology and/or inventions. Such royalties will be required to be paid until the earlier of the last to expire of any applicable patents covering such technology or inventions, the invalidity of such patents, or if there are no issued patents covering such technology and inventions, 10 years from the first date of commercial sale or license. The agreement may be terminated by NTIC if, at any stage, NTIC determines in its sole discretion not to proceed with the project. No fees were paid to Dr. Lee under this agreement during the fiscal year ended August 31, 2011.

Indemnification Agreements

We have entered into agreements with all of our directors under which we are required to indemnify them against expenses, judgments, penalties, fines, settlements and other amounts actually and reasonably incurred, including expenses of a derivative action, in connection with an actual or threatened proceeding if any of them may be made a party because he or she is or was one of our directors. We will be obligated to pay these amounts only if the director acted in good faith and in a manner that he or she reasonably believed to be in or not opposed to our best interests. With respect to any criminal proceeding, we will be obligated to pay these amounts only if the director had no reasonable cause to believe his or her conduct was unlawful. The indemnification agreements also set forth procedures that will apply in the event of a claim for indemnification.

EXECUTIVE COMPENSATION

Summary of Cash and Other Compensation

The following table provides summary information concerning all compensation awarded to, earned by or paid to G. Patrick Lynch, our President and Chief Executive Officer who serves as our principal executive officer, and Matthew C. Wolsfeld, our Chief Financial Officer and Corporate Secretary who serves as our principal financial officer. Mr. Lynch and Mr. Wolsfeld are the only two individuals who have been designated by our Board of Directors as “executive officers” of our company. We refer to these individuals in this proxy statement as our “named executive officers” or “executives.”

SUMMARY COMPENSATION TABLE

Name and Principal Position	Fiscal Year	Salary	Bonus ⁽¹⁾	Stock Awards ⁽²⁾	Option Awards ⁽³⁾	All Other Compensation ⁽⁴⁾	Total
G. Patrick Lynch..... <i>President and Chief Executive Officer</i>	2011	\$230,000	\$ 116,882	\$ 116,882	\$ 0	\$ 12,220	\$ 475,984
	2010	209,923	59,293	59,293	34,560	10,758	373,827
Matthew C. Wolsfeld..... <i>Chief Financial Officer and Corporate Secretary</i>	2011	170,000	88,606	88,606	0	11,839	359,051
	2010	154,865	44,992	44,992	25,920	7,988	278,757

- (1) Represents discretionary cash bonuses earned in fiscal year as indicated, but actually paid to named executive officer in the following fiscal year. Annually, prior to the November meeting of the Board of Directors, the Compensation Committee recommends annual incentive compensation to be paid to our executive officers in cash and/or shares of our common stock. The Board of Directors then considers and, if it deems appropriate, approves the amount and manner of payment of the annual incentive compensation. The bonuses earned for fiscal 2011 and fiscal 2010 were paid in cash and shares of our common stock as determined by the Board of Directors, upon recommendation of the Compensation Committee. The amounts reflected in the column entitled “Bonus” reflect the cash amount of bonus received by each of the officers during fiscal 2012 and fiscal 2011 in consideration for their fiscal 2011 and fiscal 2010 performance, respectively. The following executives also received the following number of shares of NTIC common stock as part of their fiscal 2011 and fiscal 2010 bonuses: Mr. Lynch (7,985 and 4,208 shares, respectively) and Mr. Wolsfeld (6,053 and 3,193 shares, respectively). The number of shares was determined by dividing one-half of the amounts of the total stock bonus to be awarded to the individual by the closing sale price of a share of NTIC common stock, as reported on the NASDAQ Global Market, on the date the Board of Directors determined the amount of the bonus. We refer you to the information under the heading “—Executive Compensation Program—Annual Incentive Compensation” for a discussion of the factors taken into consideration by the Board of Directors in determining the amount of bonus paid to each named executive officer.
- (2) As described above in note (1), the following named executive officers received the following number of shares of NTIC common stock in connection with their annual bonuses for fiscal 2011 and fiscal 2010: Mr. Lynch (7,985 and 4,208 shares, respectively); and Mr. Wolsfeld (6,053 and 3,193 shares, respectively). The amounts reflected in the column entitled “Stock Awards” for each officer reflect the aggregate grant date fair value for stock awards granted to such officer computed in accordance with FASB ASC Topic 718. The grant date fair value is determined based on the closing sale price of our common stock on the date of grant.
- (3) The amounts in this column do not reflect compensation actually received by the executives nor do they reflect the actual value that will be recognized by the executives. Instead, the amounts reflect the grant date fair value for option grants made by us in fiscal 2011 and fiscal 2010, calculated in accordance with FASB ASC Topic 718. On November 20, 2009, each of the named executive officers was granted stock options in part to retain and motivate such executives since neither of them received annual bonuses for fiscal 2009. Because of the grant date of such option awards, the value of such awards is reflected in fiscal 2010. The grant date fair value

is determined based on our Black-Scholes option pricing model. The grant date value per share was \$2.88 and was determined using the following specific assumptions: risk free interest rate: 2.33%; expected life: 5.0 years; expected volatility: 48.26%; and expected dividend yield: 0.0%.

(4) The amounts shown in the column entitled “All Other Compensation” for fiscal 2011 include the following with respect to each named executive officer:

Name	401(k) Match	Personal Use of Auto
G. Patrick Lynch.....	\$ 8,808	\$ 3,411
Matthew C. Wolsfeld.....	8,670	3,168

Our Executive Compensation Program

Our executive compensation program for the fiscal year ended August 31, 2011 consisted of:

- Base salary;
- Annual incentive compensation, paid in the form of both cash and shares of our common stock; and
- All other compensation.

Base Salary. We provide a base salary for our named executive officers, which, unlike some of the other elements of our executive compensation program, is not subject to company or individual performance risk. We recognize the need for most executives to receive at least a portion of their total compensation in the form of a guaranteed base salary that is paid in cash regularly throughout the year to support their standard of living.

We initially fix base salaries for our executives at a level that we believe enables us to hire and retain them in a competitive environment and to reward satisfactory individual performance and a satisfactory level of contribution to our overall business objectives. The Compensation Committee reviews base salaries for our named executive officers each year beginning in July and generally recommends to the Board of Directors any increases for the following fiscal year in July or August or as soon as practicable thereafter. Regardless of when the final decision regarding base salaries for a fiscal year is made by the Board of Directors, any increases in base salaries are effective as of September 1 of that year, which depending upon the timing of the final decision could result in a retroactive payment to the executive shortly after the final decision is made.

The Compensation Committee’s recommendations to the Board of Directors regarding the base salaries of our named executive officers are based on a number of factors, including: the executive’s level of responsibility, prior experience and base salary for the prior year, the skills and experiences required by the position, length of service with our company, past individual performance, cost of living increases and other considerations the Compensation Committee deems relevant. The Compensation Committee also recognizes that in addition to the typical responsibilities and duties held by our executives by virtue of their positions, our executives due to the small number of our employees, often possess additional responsibilities and perform additional duties that would be typically delegated to others in most organizations with additional personnel and resources.

We historically have granted our executive officers a mid-single digit percentage increase in their base salary each fiscal year, although the percentage may be higher or lower if the responsibilities of the executive increased or decreased during the year. We did not implement any base salary increases during fiscal 2009 but rather in an effort to save costs at the time temporarily reduced the base salaries of our executives and other officers by approximately 15 percent on average. In January 2010, when we

eliminated the cost reductions in base salary instituted during the prior fiscal year, we also implemented base salary increases.

Annualized base salary rates for fiscal 2009, 2010 and 2011 for our named executive officers were as follows:

Name	Fiscal 2009⁽¹⁾	Fiscal 2010⁽²⁾	% Change From Fiscal 2009	Fiscal 2011	% Change From Fiscal 2010⁽³⁾
G. Patrick Lynch.....	\$221,000/189,000	\$221,000/189,000	0.0%/0.0%	\$230,000	4.1%
Matthew C. Wolsfeld.....	163,000/139,500	163,000/139,500	0.0%/0.0%	170,000	4.3%

- (1) Reflects fiscal 2009 base salary prior to temporary 15 percent cost reduction implemented in January 2009 and after such reduction.
- (2) Reflects fiscal 2010 base salary after elimination of temporary 15 percent cost reduction in January 2010 and base salary reflecting the temporary 15 percent cost reduction.
- (3) Reflects the percentage increase from the fiscal 2010 base salary after elimination of the temporary 15 percent cost reduction.

Mr. Lynch's base salary for fiscal 2012 is \$257,600 and Mr. Wolsfeld's base salary for fiscal 2012 is \$190,400, representing base salary increases of 12 percent over their respective base salaries for fiscal 2010.

Annual Incentive Compensation. In addition to base compensation, we provide our named executive officers the opportunity to earn annual incentive compensation based on the achievement of certain company and individual related performance goals. Our annual bonus program directly aligns the interests of our executive officers and stockholders by providing an incentive for the achievement of key corporate and individual performance measures that are critical to the success of our company and linking a significant portion of each executive officer's annual compensation to the achievement of such measures. The following is a brief summary of the material terms of our annual bonus plan program for fiscal 2011:

- The total amount available under the bonus plan was up to 25 percent of our earnings before interest, taxes and other income (EBITOI);
- The total amount available under the bonus plan was \$0 if EBITOI, as adjusted to take into account amounts to be paid under the bonus plan, fell below 70 percent of target EBITOI; and
- The payment of bonuses under the plan to executive officer participants was made in both cash and shares of NTIC common stock, the exact amount and percentages of which was determined by the Board of Directors, upon recommendation of the Compensation Committee.

Mr. Lynch received a bonus of \$233,764 for fiscal 2011, \$116,882 of which was paid in cash and \$116,882 of which was paid in 7,985 shares of our common stock issued as a stock bonus under our stock incentive plan. Mr. Wolsfeld received a bonus of \$177,212 for fiscal 2011, \$88,606 of which was paid in cash and \$88,606 of which was paid in 6,053 shares of our common stock issued as a stock bonus under our stock incentive plan. In determining the amount of individual bonuses for fiscal 2011, the Board and Compensation Committee considered each individual's allocation percentage of the total amount

available under the bonus plan, which allocation percentage was based on the individual's annual base salary and his or her position and level of responsibility within the company. Mr. Lynch's individual allocation percentage for fiscal 2011 was 16.8 percent and Mr. Wolsfeld's individual allocation percentage for fiscal 2011 was 12.4 percent. Individual bonus payouts were then determined primarily based upon our actual EBITOI for fiscal 2011 compared to a pre-established target EBITOI for fiscal 2011 and to a lesser extent (25 percent of the payout, in the case of each of Mr. Lynch and Mr. Wolsfeld) based upon such executive's achievement of certain pre-established individual performance objectives. Mr. Lynch and Mr. Wolsfeld's pre-established individual performance objectives for fiscal 2011 related primarily to operational objectives and long-term strategic initiatives.

Under the annual bonus plan for fiscal 2012, the total amount available under the bonus plan, as in past years, will be up to 25 percent of our EBITOI and will be \$0 if EBITOI, as adjusted to take into account amounts to be paid under the bonus plan, is below 70 percent 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 Mr. Lynch and Mr. Wolsfeld, 75 percent of the amount of their individual bonus payout will be determined based upon our actual EBITOI for fiscal 2012 compared to a pre-established target EBITOI for fiscal 2012 and 25 percent of their individual payout will be determined based upon their achievement of certain pre-established individual performance objectives. The payment of bonuses under the plan are discretionary and may be paid to executive participants in both cash and shares of our common stock in the form of stock bonuses under our stock incentive plan, 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.

Although we do not have any stock retention or ownership guidelines, the Board of Directors encourages our executives to have a financial stake in our company in order to align the interests of our stockholders and management. Therefore, we typically provide for a portion of our annual incentive compensation to be paid to our executives in the form of stock bonuses. We believe that stock bonuses are an important part of our overall compensation program. We believe that stock bonuses align the interests of our executives with the interests of our stockholders and long-term value creation and enable our executives to achieve meaningful equity ownership in our company. Through the grant of stock bonuses, we seek to align the long-term interests of our executives with the long-term interests of our stockholders by creating a strong and direct linkage between compensation and long-term stockholder return. When our executives deliver returns to our stockholders, in the form of increases in our stock price or otherwise, stock bonuses permit an increase in their compensation. We believe stock bonuses also may enable us to attract, retain and motivate our executives by maintaining competitive levels of total compensation.

All Other Compensation. It is generally our policy not to extend significant perquisites to our executives that are not available to our employees generally. The only significant perquisite that we provide to our named executive officers is the personal use of a company owned vehicle. Our executives also receive benefits, which are also received by our other employees, including participation in the Northern Technologies International Corporation 401(k) Plan and health, dental and life insurance benefits. Under the 401(k) plan, all eligible participants, including our named executive officers, may voluntarily request that we reduce his or her pre-tax compensation by up to 10 percent (subject to certain special limitations) and contribute such amounts to a trust. We typically contribute an amount equal to 50 percent of the first seven percent of the amount that each participant contributed under this plan. We do not provide pension arrangements or post-retirement health coverage for our executives or employees. We also do not provide any nonqualified defined contribution or other deferred compensation plans.

Outstanding Equity Awards at Fiscal Year End

The following table provides information regarding stock options for each of our named executive officers that remained outstanding at August 31, 2011. We did not have any equity incentive plan awards or stock awards outstanding at August 31, 2011.

OUTSTANDING EQUITY AWARDS AT FISCAL YEAR END—FISCAL 2011

Name	Option Awards		Option Exercise Price (\$)	Option Expiration Date
	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable ⁽¹⁾		
G. Patrick Lynch	4,000	8,000 ⁽²⁾	\$ 7.65	11/19/2014
	3,540	0	9.95	11/16/2012
Matthew C. Wolsfeld	3,000	6,000 ⁽²⁾	7.65	11/19/ 2014
	12,950	0	9.95	11/16/2012

- (1) All options described in this table were granted under the 2007 plan. Under the 2007 plan, upon the occurrence of a change in control, the unvested and unexercisable options will be accelerated and become fully vested and immediately exercisable as of the date of the change in control. For more information, we refer you to the discussion below under the heading “—Stock Incentive Plan.”
- (2) These options vest over a three-year period, with one-third of the underlying shares vesting on each of November 20, 2010, 2011 and 2012 so long as the individual remains an employee of NTIC as of such date.

Stock Incentive Plan

We have only one stock incentive plan under which stock options are currently outstanding and future stock incentive awards may be granted – the Northern Technologies International Corporation Amended and Restated 2007 Stock Incentive Plan. Under the terms of the 2007 plan, our named executive officers, in addition to other employees and individuals, are eligible to receive stock-based compensation awards, such as stock options, stock appreciation rights, restricted stock awards, stock bonuses and performance awards. To date, only incentive and non-statutory stock options and stock bonuses have been granted under the plan. The plan contains both an overall limit on the number of shares of our common stock that may be issued, as well as individual and other grant limits.

Incentive stock options must be granted with a per share exercise price equal to at least the fair market value of a share of our common stock on the date of grant. For purposes of the plan, the fair market value of our common stock is the mean between the reported high and low sale price of our common stock, as reported by the NASDAQ Global Market. We generally set the per share exercise price of all stock options granted under the plan at an amount equal to the fair market value of a share of our common stock on the date of grant.

Except in connection with certain specified changes in our corporate structure or shares, the Board of Directors or Compensation Committee may not, without prior approval of our stockholders, seek to effect any re-pricing of any previously granted, “underwater” option or stock appreciation right by amending or modifying the terms of the underwater option or stock appreciation right to lower the exercise price, cancelling the underwater option or stock appreciation right in exchange for cash, replacement options or stock appreciation rights having a lower exercise price, or other incentive awards, or repurchasing the underwater options or stock appreciation rights and granting new incentive awards under the plan. For purposes of the plan, an option or stock appreciation right is deemed to be “underwater” at any time when the fair market value of our common stock is less than the exercise price.

We generally provide for the vesting of stock options in equal annual installments over a three-year period commencing on the one-year anniversary of the date of grant for employees and in full on the one-year anniversary of the date of grant for directors and for option terms of five years.

Optionees may pay the exercise price of stock options in cash, except that the Compensation Committee may allow payment to be made (in whole or in part) by (1) using a broker-assisted cashless exercise procedure pursuant to which the optionee, upon exercise of an option, irrevocably instructs a broker or dealer to sell a sufficient number of shares of our common stock or loan a sufficient amount of money to pay all or a portion of the exercise price of the option and/or any related withholding tax obligations and remit such sums to us and directs us to deliver stock certificates to be issued upon such exercise directly to such broker or dealer; or (2) using a cashless exercise procedure pursuant to which the optionee surrenders to us shares of our common stock either underlying the option or that are otherwise held by the optionee.

Under the terms of the plan, unless otherwise provided in a separate agreement, if a named executive officer's employment or service with our company terminates for any reason, the unvested portion of the option will immediately terminate and the executive's right to exercise the then vested portion of the option will:

- immediately terminate if the executive's employment or service relationship with our company terminated for "cause";
- continue for a period of 12 months if the executive's employment or service relationship with our company terminates as a result of the executive's death, disability or retirement; or
- continue for a period of three months if the executive's employment or service relationship with our company terminates for any reason, other than for cause or upon death, disability or retirement.

As set forth in the plan, the term "cause" is as defined in any employment or other agreement or policy applicable to the named executive officer or, if no such agreement or policy exists, means (i) dishonesty, fraud, misrepresentation, embezzlement or other act of dishonesty with respect to us or any subsidiary, (ii) any unlawful or criminal activity of a serious nature, (iii) any intentional and deliberate breach of a duty or duties that, individually or in the aggregate, are material in relation to the overall duties, or (iv) any material breach of any employment, service, confidentiality or non-compete agreement entered into with us or any subsidiary.

Under the terms of the plan, if a participant is determined by the committee to have taken any action that would constitute "cause" or an "adverse action" during or within one year after the termination of the participant's employment or other service with our company, all rights of the participant under the plan and any agreements evidencing an award then held by the participant will terminate and be forfeited and the committee may require the participant to surrender and return to us any shares received, and/or to disgorge any profits or any other economic value made or realized by the participant in connection with any awards or any shares issued upon the exercise or vesting of any awards during or within one year after the termination of the participant's employment or other service. Additionally, as applicable, we may defer the exercise of any option or stock appreciation right for a period of up to six months after receipt of a participant's written notice of exercise or the issuance of share certificates upon the vesting of any incentive award for a period of up to six months after the date of such vesting in order for the committee to make any determination as to the existence of cause or an adverse action. An "adverse action" includes any of the following actions or conduct that the committee determines to be injurious, detrimental, prejudicial or adverse to our interests: (i) disclosing any confidential information of our

company or any subsidiary to any person not authorized to receive it; (ii) engaging, directly or indirectly, in any commercial activity that in the judgment of the committee competes with our business or the business of any of our subsidiaries; or (iii) interfering with our relationships or the relationships of our subsidiaries and our and their respective employees, independent contractors, customers, prospective customers and vendors.

As described in more detail under the heading “—Post-Termination Severance and Change in Control Arrangements” if there is a change in control of our company, then, under the terms of agreements evidencing options granted to our named executive officers and other employees under the plan, all outstanding options will become immediately exercisable in full and will remain exercisable for the remainder of their terms, regardless of whether the executive to whom such options have been granted remains in the employ or service of us or any of our subsidiaries.

Post-Termination Severance and Change in Control Arrangements

We recently entered into an employment agreement with each of G. Patrick Lynch, NTIC’s President and Chief Executive Officer, and Matthew C. Wolsfeld, NTIC’s Chief Financial Officer and Corporate Secretary. Although each of the executive’s employment with our company remains “at will,” the employment agreements provide each of the executives certain severance benefits in the event the executive’s employment is terminated by us without “cause” or by the executive for “good reason” and the executive executes and does not revoke a separation agreement and a release of all claims.

If an executive’s employment is terminated by us without “cause” or by the executive for “good reason,” in addition to any accrued but unpaid salary and benefits through the date of termination, the executive will be entitled to a severance cash payment from us in an amount equal to two times (one and one-half times, in the case of Mr. Wolsfeld) the executive’s average total annual compensation for the two most recently completed fiscal years, plus a pro rata portion of the target bonus that the executive otherwise would have been eligible to receive under our bonus plan for the fiscal year during which the executive’s employment is terminated, with such pro rata portion based on the number of complete months during the fiscal year that the executive was employed with our company. The severance payment will be paid in several installments in the form of salary continuation in accordance with our normal payroll practices over a 24-month period (18-month period, in the case of Mr. Wolsfeld). If, however, the termination event occurs within 24 months after a change in control of our, the severance payment will be paid in one lump sum. If the executive is eligible for and timely elects continued coverage under our group medical plan, group dental plan and/or group vision plan pursuant to Section 4980B of the Internal Revenue Code of 1986, as amended (“COBRA”), for each of the first 18 months of the COBRA continuation period, we also will reimburse the executive in an amount equal to the difference between the amount the executive pays for such COBRA continuation coverage each month and the amount paid by a full-time active employee each month for the same level of coverage elected by the executive. In addition, all outstanding and unvested options to purchase shares of our common stock and other stock incentive awards granted to the executive under our stock incentive plan will become immediately vested and exercisable.

Under the employment agreements, “cause” is defined as (i) the executive’s material breach of any of the executive’s obligations under the employment agreement, or the executive’s willful and continued failure or refusal to perform his duties, responsibilities and obligations as an executive officer of our company, for reasons other than the executive’s disability, to the satisfaction of the Board of Directors; (ii) the executive’s commission of an act of dishonesty, fraud, embezzlement, misappropriation, or intentional and deliberate injury or material breach of fiduciary duty, or material breach of the duty of loyalty related to or against us or our business, or any unlawful or criminal activity of a serious nature involving any felony, or conviction by a court of competent jurisdiction of, or pleading guilty or nolo contendere to, any felony or any crime involving moral turpitude; or (iii) the existence of any court order or settlement

agreement prohibiting the executive’s continued employment with our company. “Good reason” is defined as (i) a material diminution in the executive’s authority, duties or responsibilities; (ii) a material diminution in the executive’s annual base salary; (iii) a material change in the geographic location at which we require the executive to provide services, except for travel reasonably required in the performance of the executive’s responsibilities; or (iv) any action or inaction that constitutes a material breach by us of the employment agreement. “Change in control” has the meaning assigned to such term in our stock incentive plan as in effect from time to time to the extent such change in control is a “change of control event” as defined under Code Section 409A and applicable Internal Revenue Service regulations. Under the terms of our stock incentive plan, a “change in control” means:

- the sale, lease, exchange or other transfer of all or substantially all of our assets to a corporation that is not controlled by us;
- the approval by our stockholders of any plan or proposal for our liquidation or dissolution;
- certain merger or business combination transactions;
- more than 40 percent of our outstanding voting shares are acquired by any person or group of persons who did not own any shares of common stock on the effective date of the plan; and
- certain changes in the composition of our Board of Directors.

If a change in control of our company had occurred on August 31, 2011, the number of options indicated in the table below held by each of our named executive officers would have been automatically accelerated and exercisable. The estimated value of the automatic acceleration of the vesting of unvested stock options held by a named executive officer as of August 31, 2011 is also indicated in the table below and is based on the difference between: (i) the market price of the shares of our common stock underlying the unvested stock options held by such officer as of August 31, 2011 (based on the closing sale price of our common stock on August 31, 2011 — \$16.45), and (ii) the exercise price of the options.

<u>Executive Officer</u>	<u>Number of Unvested Options Subject to Automatic Acceleration</u>	<u>Estimated Value of Automatic Acceleration of Vesting</u>
G. Patrick Lynch	8,000	\$ 70,400
Matthew C. Wolsfeld	6,000	52,800

If the employment agreements described above were in effect as of August 31, 2011, our named executive officers would have been entitled to the following compensation and benefits in connection with a termination of their employment as of such date depending upon the applicable triggering event:

<u>Executive Officer</u>	<u>Type of Payment</u>	<u>Triggering Event</u>				
		<u>Voluntary/ For Cause Termination</u>	<u>Involuntary Termination without Cause</u>	<u>Qualifying Change in Control Termination</u>	<u>Death</u>	<u>Disability</u>
G. Patrick Lynch.....	Cash severance ⁽¹⁾	\$ 0	\$ 849,811	\$ 849,811	\$ 0	\$ 0
	Benefits continuation ⁽²⁾	0	17,543	17,543	0	0
	Pro rata target bonus ⁽³⁾	0	242,033	242,033	242,033	242,033
	Equity acceleration ⁽⁴⁾	0	70,400	70,400	0	0
	Total:	0	1,179,787	1,179,787	242,033	242,033

Executive Officer	Type of Payment	Triggering Event				
		Voluntary/ For Cause Termination	Involuntary Termination without Cause	Qualifying Change in Control Termination	Death	Disability
Matthew C. Wolsfeld	Cash severance ⁽¹⁾	\$ 0	\$ 478,356	\$ 478,356	\$ 0	\$ 0
	Benefits continuation ⁽²⁾	0	22,476	22,476	0	0
	Pro rata target bonus ⁽³⁾	0	178,894	178,894	178,894	178,894
	Equity acceleration ⁽⁴⁾	0	52,800	52,800	0	0
	Total:	0	732,526	732,526	178,894	178,894

- (1) Includes the value of two times (one and one-half times, in the case of Mr. Wolsfeld) the executive's average total annual compensation for the two most recently completed fiscal years.
- (2) Includes the value of medical, dental and vision benefit continuation for each executive and their family for 18 months following the executive's termination.
- (3) Includes value of full target bonus for the entire year in light of assumed termination date of August 31, 2011, the last day of the fiscal year.
- (4) Includes the value of acceleration of all unvested shares that are subject to options, based on a closing sale price of \$16.45 per share as of August 31, 2011.

Indemnification Agreements

We have entered into agreements with all of our executive officers under which we are required to indemnify them against expenses, judgments, penalties, fines, settlements and other amounts actually and reasonably incurred, including expenses of a derivative action, in connection with an actual or threatened proceeding if any of them may be made a party because he is or was one of our executive officers. We will be obligated to pay these amounts only if the executive officer acted in good faith and in a manner that he or she reasonably believed to be in or not opposed to our best interests. With respect to any criminal proceeding, we will be obligated to pay these amounts only if the executive officer had no reasonable cause to believe his conduct was unlawful. The indemnification agreements also set forth procedures that will apply in the event of a claim for indemnification.

RELATED PERSON RELATIONSHIPS AND TRANSACTIONS

Please see “Director Compensation” and “Executive Compensation” for information regarding consulting arrangements we have with two of our current directors and the other compensation arrangements with our directors and executive officers during fiscal 2011.

PROPOSAL TWO — RATIFICATION OF SELECTION OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Selection of Independent Registered Public Accounting Firm

The Audit Committee of the Board of Directors has selected Baker Tilly Virchow Krause, LLP to serve as our independent registered public accounting firm for the fiscal year ending August 31, 2012. Although it is not required to do so, the Board of Directors is asking our stockholders to ratify the Audit Committee’s selection of Baker Tilly Virchow Krause, LLP. If our stockholders do not ratify the selection of Baker Tilly Virchow Krause, LLP, another independent registered public accounting firm will be considered by the Audit Committee of the Board of Directors. Even if the selection is ratified by our stockholders, the Audit Committee may in its discretion change the appointment at any time during the year, if it determines that such a change would be in the best interests of our company and its stockholders.

Representatives of Baker Tilly Virchow Krause, LLP will be present at the Annual Meeting to respond to appropriate questions. They will also have the opportunity to make a statement if they wish to do so.

Audit, Audit-Related, Tax and Other Fees

The following table presents the aggregate fees billed to us by Baker Tilly Virchow Krause, LLP, our independent registered public accounting firm, for the fiscal years ended August 31, 2011 and August 31, 2010.

	Aggregate Amount Billed by Baker Tilly Virchow Krause, LLP (\$)	
	Fiscal 2011	Fiscal 2010
Audit Fees ⁽¹⁾	\$ 195,433	\$ 190,343
Audit-Related Fees ⁽²⁾	3,400	26,100
Tax Fees	—	—
All Other Fees	—	—

(1) These fees consisted of the audit of our annual financial statements by year, review of financial statements included in our quarterly reports on Form 10-Q and other services normally provided in connection with statutory and regulatory filings or engagements.

(2) These fees consisted of reviews of quarterly financials, Sarbanes Oxley controls testing, reviews of registration statements and the issuance of consents, and for fiscal 2010, also providing a comfort letter in connection with our September 2009 offering and review of SEC comment letter. The Audit Committee has considered whether the provision of these services is compatible with maintaining the independence of Baker Tilly Virchow Krause, LLP and has determined that it is.

Audit Committee Pre-Approval Policies and Procedures

Rules adopted by the Securities and Exchange Commission in order to implement requirements of the Sarbanes-Oxley Act of 2002 require public company audit committees to pre-approve audit and non-audit services provided by a company’s independent registered public accounting firm. All services rendered by Baker Tilly Virchow Krause, LLP to NTIC were permissible under applicable laws and regulations and all services provided to NTIC, other than de minimis non-audit services allowed under applicable law, were approved in advance by the Audit Committee in accordance with these rules. The Audit Committee has not adopted any formal pre-approval policies and procedures.

Board of Directors Recommendation

The Board of Directors unanimously recommends that our stockholders vote **FOR** ratification of the selection of Baker Tilly Virchow Krause, LLP, as our independent registered public accounting firm for the fiscal year ending August 31, 2012.

Audit Committee Report

This report is furnished by the Audit Committee of the Board of Directors with respect to NTIC's financial statements for the fiscal year ended August 31, 2011.

One of the purposes of the Audit Committee is to oversee NTIC's accounting and financial reporting processes and the audit of NTIC's annual financial statements. NTIC's management is responsible for the preparation and presentation of complete and accurate financial statements. NTIC's independent registered public accounting firm, Baker Tilly Virchow Krause, LLP, is responsible for performing an independent audit of NTIC's financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States) and for issuing a report on their audit.

In performing its oversight role, the Audit Committee has reviewed and discussed NTIC's audited financial statements for the fiscal year ended August 31, 2011 with NTIC's management. Management represented to the Audit Committee that NTIC's financial statements were prepared in accordance with generally accepted accounting principles. The Audit Committee has discussed with Baker Tilly Virchow Krause, LLP, NTIC's independent registered public accounting firm, the matters required to be discussed by Statement on Auditing Standards No. 61, as amended (AICPA, Professional Standards, Vol. 1, AU section 380), as adopted by the Public Company Accounting Oversight Board in Rule 3200T. The Audit Committee has received the written disclosures and the letter from Baker Tilly Virchow Krause, LLP required by applicable requirements of the Public Company Accounting Oversight Board regarding the Baker Tilly Virchow Krause, LLP's communications with the Audit Committee concerning independence. The Audit Committee has discussed with Baker Tilly Virchow Krause, LLP its independence and concluded that the independent registered public accounting firm is independent from NTIC and NTIC's management.

Based on the review and discussions of the Audit Committee described above, in reliance on the unqualified opinion of Baker Tilly Virchow Krause, LLP regarding NTIC's audited financial statements, and subject to the limitations on the role and responsibilities of the Audit Committee discussed above and in the Audit Committee's charter, the Audit Committee recommended to the Board of Directors that NTIC's audited financial statements for the fiscal year ended August 31, 2011 be included in its Annual Report on Form 10-K for the fiscal year ended August 31, 2011 for filing with the Securities and Exchange Commission.

This report is dated as of November 3, 2011.

Audit Committee

Mark J. Stone, Chair
Pierre Chenu
Richard J. Nigon

OTHER MATTERS

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires our directors, executive officers and all persons who beneficially own more than 10 percent of the outstanding shares of our common stock to file with the Securities and Exchange Commission initial reports of ownership and reports of changes in ownership of our common stock. Executive officers, directors and greater than 10 percent beneficial owners are also required to furnish NTIC with copies of all Section 16(a) forms they file. To our knowledge, based upon a review of the copies of such reports furnished to us and written representations that no other reports were required, during the fiscal year ended August 31, 2011, none of our directors or executive officers or beneficial owners of greater than 10 percent of our common stock failed to file on a timely basis the forms required by Section 16 of the Exchange Act, except that each of G. Patrick Lynch, one of our directors and executive officers, and Inter Alia Holding Company and Julianne Lynch, beneficial owners of greater than 10 percent of our common stock, filed a late Form 4 on March 7, 2011 reporting, among other transactions, an open market sale of shares of our common stock effected on March 2, 2011 by Inter Alia Holding Company, and a late Form 4 on June 17, 2011 reporting an open market sale of shares of our common stock effected on June 10, 2011 by Inter Alia Holding Company. All of these sales by Inter Alia Holding Company were effected pursuant to a trading plan adopted under Rule 10b5-1(c) of the Securities Exchange Act of 1934, as amended.

Stockholder Proposals for 2013 Annual Meeting

Stockholders who, in accordance with Rule 14a-8 under the Exchange Act, wish to present proposals for inclusion in the proxy materials relating to the 2013 Annual Meeting of Stockholders must submit their proposals so that they are received by us at our principal executive offices no later than the close of business on August 22, 2012, unless the date of the meeting is delayed by more than 30 calendar days. The proposals must satisfy the requirements of the proxy rules promulgated by the Securities and Exchange Commission and as the rules of the SEC make clear, simply submitting a proposal does not guarantee that it will be included.

Any other stockholder proposals to be presented at the 2013 Annual Meeting of Stockholders (other than a matter brought pursuant to SEC Rule 14a-8) must be given in writing to our Corporate Secretary and must be delivered to or mailed and received at our principal executive offices, not less than 90 days nor more than 120 days prior to the anniversary date of the 2012 Annual Meeting of Stockholders; provided, however, that in the event that the 2013 Annual Meeting of Stockholders is not held within 30 days before or after such anniversary date, notice by the stockholder to be timely must be received not later than the close of business on the 10th day following the day on which such notice of the date of the annual meeting was mailed or such public disclosure was made, whichever first occurs. The proposal must contain specific information required by our Bylaws, a copy of which may be obtained by writing to our Corporate Secretary. If a proposal is not timely and properly made in accordance with the procedures set forth in our Bylaws, it will be defective and may not be brought before the meeting. If the proposal is nonetheless brought before the meeting and the Chairman of the meeting does not exercise the power and duty to declare the proposal defective, the persons named in the proxy may use their discretionary voting with respect to the proposal.

Director Nominations for 2013 Annual Meeting

In accordance with procedures set forth in our Bylaws, NTIC stockholders may propose nominees for election to the Board of Directors only after providing timely written notice to our Corporate Secretary. To be timely, a stockholder's notice to the Corporate Secretary must be delivered to or mailed and received at NTIC's principal executive offices not less than 90 days nor more than 120 days prior to the anniversary date of the immediately preceding annual meeting; provided, however, that in the event that the annual meeting with respect to which such notice is to be tendered is not held within 30 days before or after such anniversary date, notice by the stockholder to be timely must be received not later than the close of business on the 10th day following the day on which such notice of the date of the meeting was mailed or public disclosure was made, whichever first occurs. The notice must set forth, among other things:

- the nominee's name, age, business address, residence address and record address;
- the nominee's principal occupation or employment;
- the class and number of shares of NTIC capital stock which are beneficially owned by the nominee;
- signed consent to serve as a director of NTIC; and
- any other information concerning the nominee required under the rules of the Securities and Exchange Commission in a proxy statement soliciting proxies for the election of directors.

Submissions must be made by mail, courier or personal delivery. E-mailed submissions will not be considered. The Nominating and Corporate Governance Committee will consider only those stockholder recommendations whose submissions comply with the procedural requirements set forth in NTIC's Bylaws. The Nominating and Corporate Governance Committee will evaluate candidates recommended by stockholders in the same manner as those recommended by others.

Other Business

Our management does not intend to present other items of business and knows of no items of business that are likely to be brought before the Annual Meeting, except those described in this proxy statement. However, if any other matters should properly come before the Annual Meeting, the persons named in the enclosed proxy will have discretionary authority to vote such proxy in accordance with their best judgment on the matters.

Copies of Fiscal 2011 Annual Report

We have sent or made electronically available to each of our stockholders a copy of our annual report on Form 10-K (without exhibits) for the fiscal year ended August 31, 2011. The exhibits to our Form 10-K are available by accessing the SEC's EDGAR filing database at www.sec.gov. We will furnish a copy of any exhibit to our Form 10-K upon receipt from any such person of a written request for such exhibits upon the payment of our reasonable expenses in furnishing the exhibits. This request should be sent to: Northern Technologies International Corporation, 4201 Woodland Road, Circle Pines, Minnesota 55014, Attention: Stockholder Information.

Householding of Annual Meeting Materials

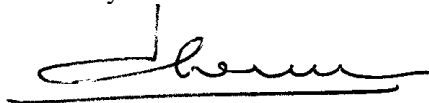
Some banks, brokers and other nominee record holders may be participating in the practice of “householding” proxy statements and annual reports. This means that only one copy of this proxy statement or NTIC’s Annual Report to Stockholders may have been sent to multiple stockholders in each household. NTIC will promptly deliver a separate copy of either document to any stockholder upon written or oral request to NTIC’s Stockholder Information Department, Northern Technologies International Corporation, 4201 Woodland Road, Circle Pines, Minnesota 55014, telephone: (763) 225-6637. Any stockholder who wants to receive separate copies of this proxy statement or NTIC’s Annual Report to Stockholders in the future, or any stockholder who is receiving multiple copies and would like to receive only one copy per household, should contact the stockholder’s bank, broker, or other nominee record holder, or the stockholder may contact NTIC at the above address and phone number.

Proxy Solicitation Costs

The cost of soliciting proxies, including the preparation, assembly, electronic availability and mailing of proxies and soliciting material, as well as the cost of making available or forwarding this material to the beneficial owners of our common stock will be borne by NTIC. Our directors, officers and regular employees may, without compensation other than their regular compensation, solicit proxies by telephone, e-mail, facsimile or personal conversation. We may reimburse brokerage firms and others for expenses in making available or forwarding solicitation materials to the beneficial owners of our common stock.

Your vote is important. Whether or not you plan to attend the Annual Meeting in person, vote your shares of NTIC common stock by the Internet or telephone, or request a paper proxy card to sign, date and return by mail so that your shares may be voted.

By Order of the Board of Directors



Pierre Chenu
Chairman of the Board

December 19, 2011
Circle Pines, Minnesota

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

FORM 10-K

(Mark one)

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

For the fiscal year ended August 31, 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

41-0857886

(State or other jurisdiction of incorporation or organization)

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

4201 Woodland Road

P.O. Box 69

Circle Pines, Minnesota

55014

(Address of principal executive offices)

(Zip Code)

(763) 225-6600

(Registrant's telephone number, including area code)

Securities registered under Section 12(b) of the Act:

Title of each class
Common Stock, par value \$0.02 per share

Name of each exchange on which registered
**The NASDAQ Stock Market LLC
(NASDAQ Global Market)**

Securities registered under Section 12(g) of the Act:

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. YES NO

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. YES NO

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 (§ 232.405 of this chapter) 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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 definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act). (Check one):

Large accelerated filer

Accelerated filer

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

Smaller reporting company

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

The aggregate market value of the registrant's common stock, excluding shares beneficially owned by affiliates, computed by reference to the closing sales price at which the common stock was last sold as of February 28, 2011 (the last business day of the registrant's second fiscal quarter) as reported by the NASDAQ Global Market on that date was \$58.6 million.

As of November 18, 2011, 4,397,324 shares of common stock of the registrant were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Part III of this Annual Report on Form 10-K incorporates by reference information (to the extent specific sections are referred to herein) from the registrant's Proxy Statement for its 2012 Annual Meeting of Stockholders to be held February 2, 2012.

NORTHERN TECHNOLOGIES INTERNATIONAL CORPORATION

ANNUAL REPORT ON FORM 10-K
FISCAL YEAR ENDED AUGUST 31, 2011

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This annual report on Form 10-K 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 “Item 1. Business – 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

Item 1. BUSINESS

Overview

Northern Technologies International Corporation 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, agriculture, 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.

In fiscal 2011, 95.0% of NTIC's consolidated net sales were derived from the sales of ZERUST[®] rust and corrosion inhibiting products and services. 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. 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 to help protect Petrobras's off-shore oil production platforms from corrosion damage. During fiscal 2011, Zerust Brazil received 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 potential customers in the oil and gas industry across several countries through NTIC's joint venture partners and other strategic partners and alliances. NTIC has entered into various agreements to provide sales and marketing services for NTIC's oil and gas industry specific corrosion prevention solutions with a particular focus on the markets in North America, South America, the Middle East and Asia. 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.

NTIC's consolidated net sales for fiscal 2011 included \$984,004 in sales of Natur-Tec[®] bio-plastic resin compounds and finished products. 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 accordance with ASTM D6400 and as certified by the Biodegradable Products Institute (BPI). 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 companies are jointly developing 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 in fiscal 2012.

Joint Ventures

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. NTIC's joint venture partners are knowledgeable in the applicable environmental, labor, tax and other requisite regulations and laws of the respective foreign countries in which they operate, as well as the local customs and business practices. Although Zerust Brazil was originally formed as a joint venture with NTIC, it is no longer considered a joint venture, but rather a majority owned subsidiary of NTIC and unlike NTIC's joint ventures, Zerust Brazil's results are consolidated on NTIC's consolidated financial statements.

While most of NTIC's joint ventures exclusively sell rust and corrosion inhibiting products, some of NTIC's 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.

The following table sets forth a list of NTIC's operating joint ventures as of November 18, 2011, the country in which the joint venture is organized and NTIC's ownership percentage in each joint venture:

Joint Venture Name	Country	NTIC Percent (%) Ownership
TAIYONIC LTD.	Japan	50%
ACOBAL SAS	France	50%
ZERUST-NIC (TAIWAN) CORP.	Taiwan ⁽¹⁾	25%
EXCOR GMBH	Germany	50%
ZERUST SINGAPORE PTE. LTD	Singapore ⁽¹⁾	50%

Joint Venture Name	Country	NTIC Percent (%) Ownership
ZERUST AB	Sweden	50%
MOSTNIC	Russia	50%
KOREA ZERUST CO., LTD.	South Korea	25%
ZERUST OY	Finland	50%
ZERUST (U.K.) LTD.	United Kingdom	50%
EXCOR-ZERUST S.R.O.	Czech Republic	50%
EXCOR SP. Z.O.O.	Poland	50%
ZERUST SPECIALTY TECH CO. LTD.	Thailand ⁽¹⁾	25%
TIANJIN ZERUST CO.	China ⁽¹⁾	25%
HARITA NTI LIMITED	India	50%
CHONG WAH-NTIA SDN. BHD.	Malaysia ⁽¹⁾	25%
NTIA ZERUST PHILIPPINES, INC.	Philippines ⁽¹⁾	25%
FIBRO NTI JOINT STOCK CO.	Turkey	50%
ZERUST CONSUMER PRODUCTS, LLC	United States	50%
POLYMER ENERGY LLC ⁽²⁾	United States	62.5%
ZERUST – DNEPR	Ukraine	50%
PT. CHEMINDO – NTIA	Indonesia ⁽¹⁾	25%
LENPROMTECHNOLOGIES, LLC	Russia	50%
MUTEC GMBH	Germany ⁽³⁾	44%

(1) Indirect ownership interest through NTI ASEAN, LLC.

(2) Polymer Energy LLC had immaterial activity in fiscal 2011 and fiscal 2010 and is not fully consolidated on NTIC's consolidated financial statements.

(3) Indirect ownership through Northern Instruments Corporation LLC.

NTIC typically owns a 50% ownership interest in each of its joint ventures. However, NTIC owns a 62.5% ownership interest in Polymer Energy LLC and a 50% ownership interest in NTI ASEAN, LLC for NTIC's joint venture investments in the Association of Southeast Asian Nations (ASEAN) region. Taiyo Petroleum Gas Co. Ltd., NTIC's existing joint venture partner in Japan, owns the remaining 50% ownership interest in NTI ASEAN, LLC.

NTIC has a 50% ownership interest in Northern Instruments Corporation LLC for NTIC's joint venture investment in Mütéc GmbH in Germany. Taiyo Petroleum Gas Co. Ltd. owns the remaining 50% ownership interest in Northern Instruments Corporation LLC. Northern Instruments Corporation LLC in turn owns 88% of Mütéc GmbH. Mütéc GmbH manufactures proprietary electronic sensing instruments, which it sells through distributors as well as certain joint ventures.

NTIC's joint venture in Germany, EXCOR GmbH (EXCOR), and NTIC's ASEAN joint venture holding company (NTI ASEAN) are considered significant to NTIC's consolidated assets and income; and therefore NTIC provides certain additional financial information regarding these entities in the notes to NTIC's consolidated financial statements and elsewhere in this report.

NTIC's receipt of funds as a result of sales by its joint ventures is dependent upon NTIC's receipt of dividend distributions from the joint ventures and NTIC's receipt of fees for services that NTIC provides to its joint ventures based primarily on the revenues of the joint ventures. 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 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 the dividends should be in any given year. NTIC's equity in income from its joint ventures was \$5,536,243 in fiscal 2011 compared to \$3,919,084 in fiscal 2010, an increase of 41.3%. NTIC provides certain services to its joint ventures, including technical consulting, legal, insurance, technical and marketing

services. NTIC's fee income for services provided to joint ventures was \$6,129,979 in fiscal 2011 compared to \$4,690,450 in fiscal 2010, an increase of 30.7%, primarily as a result of improved joint venture sales, which increased 40.4% to \$119,276,553 during fiscal 2011 compared to \$84,973,646 during fiscal 2010. Sales by NTIC's joint ventures are not included in the net sales of NTIC. NTIC incurs direct expenses related to its joint ventures and in connection with NTIC's provision of services to its joint ventures. Such expenses include items such as employee compensation and benefits, travel, consulting, legal and lab supplies and testing expenses. NTIC incurred \$1,000,576 in direct joint venture expenses in fiscal 2011 compared to \$875,869 in fiscal 2010, representing an increase of 14.2%.

While NTIC is not aware of any specific potential risk beyond its initial investment in and any undistributed earnings of each of its joint ventures, there can be no assurance that NTIC will not be subject to lawsuits based on product liability claims or other claims arising out of the activities of its joint ventures. To mitigate the ramifications of such an occurrence, NTIC maintains liability insurance specifically applicable to its ownership positions in its joint venture arrangements in excess of any insurance the joint ventures may maintain.

Products

NTIC derives revenues directly and/or indirectly through its joint ventures from the following product lines:

ZERUST® Corrosion Prevention Solutions. In fiscal 2011, 95.0% of NTIC's consolidated net sales were derived from developing, manufacturing and marketing ZERUST® rust and corrosion inhibiting products and services. Corrosion not only damages the appearance of metal products and components but also negatively impacts their mechanical performance. This applies to the rusting of ferrous metals (iron and steel) and the deterioration by oxidation of nonferrous metals (aluminum, copper, brass, etc.). NTIC's ZERUST® corrosion prevention solutions 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, as well as technical corrosion management and consulting services.

Plastic and Paper Packaging. NTIC's ZERUST® packaging products contain proprietary nontoxic chemical formulations that continuously release an invisible, odorless, safe and environmentally friendly corrosion inhibiting vapor into the enclosure that passivates metal surfaces and thereby inhibits rust and corrosion. The corrosion-inhibiting protection is maintained as long as the metal products to be protected remain enclosed within the ZERUST® packaging. Electron scanning shows that once the contents are removed from the ZERUST® package, the ZERUST® protection dissipates from the contents' surfaces within two hours, leaving a clean, dry and corrosion-free metal component. This mechanism of corrosion protection enables NTIC's customers to easily package metal objects for rust-free shipment or long-term storage. Furthermore, by eliminating costly greasing and degreasing processes and/or significantly reducing the use of oils to inhibit corrosion, NTIC's ZERUST® corrosion prevention solutions provide customers significant savings in labor, material and capital expenditures for equipment to apply, remove and dispose of oil and grease, as well as the attendant environmental problems, as compared to traditional methods of corrosion prevention.

NTIC developed the first means of combining volatile corrosion inhibiting chemical systems with polyethylene and polypropylene resins. Combining ZERUST® chemical systems with polyethylene and polypropylene resins permitted NTIC to introduce a line of plastic packaging products in the form of low and high density polyethylene bags and shroud film, including stretch, shrink, skin and bubble cushioning film, thereby giving packaging engineers an opportunity to ship and store ferrous, nonferrous and mixed multi-metal products in a clean, dry and corrosion-free condition, with an attendant overall savings in total packaging cost. In addition to plastic packaging, NTIC has developed additives in liquid form to

imbue kraft paper, corrugated cardboard, solid fiber and chipboard packaging materials with corrosion protection properties. NTIC's ZERUST[®] plastic and paper packaging products come in various thicknesses, strength enhancements, protection types, shapes and sizes.

Liquids and Coatings. NTIC's corrosion prevention solutions include a line of metal surface treatment liquids and coatings, which are oil, water and bio-solvent based, marketed under the Axxatec,[™] Axxanol[™] and Z-Maxx brand names. These liquids and coatings provide powerful corrosion protection in aggressive environments, such as salt air and humid high temperatures. Products are formulated for most metal types and protection levels.

Rust Removers and Cleaners. NTIC also sells rust removal and cleaning products designed to recover rusty parts by replacing labor-intensive, abrasive cleaners that damage surfaces and fail to remove rust from small gear teeth and other difficult to reach areas under the ICT[®] and Axxaclean[™] brand names.

Diffusers. NTIC's corrosion prevention solutions include a line of several diffusers, such as ZERUST ICT[®] Vapor Capsules, ZERUST ICT[®] Plastabs[®] and ZERUST ICT[®] Cor-Tabs[®], which are designed to provide corrosion protection of interior surfaces, such as metals within switch gearboxes, electronic cabinets and other enclosures holding electrical gear. Diffuser products are self-contained corrosion inhibiting capsules and tabs that prevent corrosion of multiple metal types within enclosures. Diffusers work by permeating the interior air of an enclosure with an invisible, odorless, non-toxic corrosion inhibiting vapor that protects metal surfaces within the distance of a certain specified "radius of protection" which lasts for one or two years depending on the model. This invisible and dry protective layer reevaporizes upon removal of the capsule from the enclosure, leaving all surfaces clean, dry, residue-free and corrosion-free. This product line also includes items such as ZERUST[®] gun cases and car covers, which are targeted at retail consumers.

ZERUST[®] Corrosion Prevention Solutions Designed Specifically for the Oil and Gas Industry. NTIC has developed proprietary corrosion inhibiting solutions specifically for the mitigation of corrosion in capital assets used in the petroleum and chemical process industries and is initially targeting the sale of these ZERUST[®] corrosion solutions to potential customers in the oil and gas industry. The infrastructure that supports the oil and gas industry is typically constructed using metals that are highly susceptible to corrosion. The industrial environment at these facilities usually contains compounds, including sulfides and chlorides, which cause aggressive corrosion. This problem affects pipelines, petroleum storage tanks, spare parts in long-term storage, process and other critical equipment. Besides the losses due to replacement of parts and structures, maintenance and repairs, product loss, etc., there are significant costs associated with lowered production. In addition, there are also considerable health, safety and environmental risks that can greatly increase the losses due to corrosion. NTIC believes that its ZERUST[®] oil and gas 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 related product leaks.

NTIC's rust and corrosion inhibiting products for the oil and gas industry include ZERUST[®] Flange Savers,[™] ZERUST[®] ReCAST-R VCI Dispensers and ZERUST[®] Zerion chemicals in addition to many of the traditional ZERUST[®] rust and corrosion inhibiting products previously described.

ZERUST[®] Flange Savers[™] are specially designed covers that have been impregnated with a proprietary ZERUST[®] inhibitor formulation that provide corrosion protection for flanges, valves and welded joints. Oil and gas pipeline segments are connected by flanges and welded joints of varying sizes, designs and materials. These connection points often corrode under aggressive industrial environments and harsh operating conditions, thereby causing costly operational and safety problems. ZERUST[®] Flange Savers[™]

are available in various sizes to accommodate different pipe diameters, pressure ratings and international standards for pipeline valves and flanges.

ZERUST[®] ReCAST-R VCI Dispensers protect the interior surfaces of aboveground storage tank roofs by delivering proprietary inhibitor formulations into the vapor space between the surface of the product and the tank roof. Certain grades of oil that contain sulphur emit corrosive sour gas vapors that destroy the internal surfaces of aboveground storage tank roofs and their support structures above the product layer. Aggressive pitting and crevice corrosion create holes in the tank tops that cause unsafe operating conditions and environmental problems. Internal tank coatings decrease surface corrosion but have proven to be ineffective in preventing dangerous pitting and crevice corrosion, especially in the interstitial spaces between the roof and support structures. The ZERUST[®] ReCAST-R solution is designed to extend the service life of a single tank roof to 25 years and beyond by forming a protective layer that prevents corrosion in highly aggressive environments. Each system is tailored to a customer's requirements, depending upon specific environmental conditions, product stored, tank diameter and type of metal and can be applied on both new and existing tank roofs.

ZERUST[®] Zerion chemicals protect the bottoms of aboveground storage tanks by delivering proprietary inhibitor formulations into the sand/soil bed on which the tank bottom rests. Bottom plate corrosion leads to loss of stored product into the soil causing economic losses as well as environmental issues. Each system is tailored to a customer's requirements, depending upon specific environmental conditions, product stored, tank diameter and type of metal and can be applied on both new and existing tank bottoms.

Z-CIS[®] Technical Services. As an on-going effort to help NTIC's customers improve and control their processes in terms of corrosion management, NTIC markets and offers unique corrosion management and consulting services to target customers. This ZERUST[®] corrosion inhibitor system (known as Z-CIS[®]) utilizes NTIC's global experience in successful corrosion management control. Services and consulting are billed according to work done on the customer's behalf to improve the customer's internal and external corrosion control systems. Several major automotive companies and their automotive parts suppliers have used NTIC's Z-CIS[®] system.

Natur-Tec[®] Resin Compounds and Finished Products. NTIC manufactures and sells a range of bio-based and biodegradable (compostable) polymer resin compounds and finished products under the Natur-Tec[®] brand. NTIC's consolidated net sales for fiscal 2011 included \$984,004 in sales of Natur-Tec[®] resin compounds and finished products. In recent years, a combination of market drivers such as volatile petroleum prices, a desire to reduce dependence on foreign oil, increased environmental and sustainability awareness at the corporate and consumer level, improved technical properties and product functionality, as well as recent foreign, state and local governmental regulations banning the use of traditional, petroleum-based plastics or mandating the use of certain biodegradable or compostable products, have led to increased interest in sustainable, renewable resource based and compostable alternatives to traditional plastics. The term "bio-plastics" encompasses a broad category of plastics that are either bio-based, which means derived from renewable resources such as corn or cellulosic/plant material or blends thereof, or are engineered to be fully biodegradable, or both. According to Freedonia Research, the market for bio-plastic resins worldwide is estimated at \$1 billion and is projected to grow to over \$2.6 billion by 2013.

Resin Compounds. Natur-Tec[®] resin compounds are produced by blending commercially available base resins, such as Ecoflex[®] from BASF or Ingeo[®] PLA from NatureWorks LLC, with organic and inorganic fillers, and proprietary polymer modifiers and compatibilizers, using NTIC's proprietary and patent pending ReX Process. In this process, biodegradable polymers, natural polymers made from renewable resources, and organic and inorganic materials are reactively blended in the presence of proprietary

compatibilizers and polymer modifiers to produce bio-based and/or biodegradable polymer resin formulations that exhibit unique and stable morphology. Natur-Tec[®] resin compounds are engineered for high performance, ease of processing and reduced cost compared to most other bio-plastic materials, and can be processed by converters using conventional manufacturing processes and equipment.

Natur-Tec[®] resin compounds are available in several grades tailored for a variety of applications, such as blown-film extrusion, extrusion coating, injection molding and rigid, engineered plastics. Natur-Tec[®] flexible film resin compounds are fully biodegradable and compostable and meet requirements of international standards for compostable plastics such as ASTM D6400 (U.S.) and EN 13432 (Europe), and are certified as 100% compostable by the Biodegradable Products Institute in the United States. Natur-Tec[®] film resin compounds can be used to produce film for applications, such as bags, including compost bags, lawn and leaf bags, pet waste bags and carry-out bags, agricultural film and consumer and industrial packaging. The Natur-Tec[®] compostable injection molding resin compounds are biobased and biodegradable and are designed to replace conventional plastic materials for injection molded plastic applications. Natur-Tec[®] compostable injection molding resin compounds are manufactured using sustainable and renewable resources, per the ASTM D6866 standard which allows industry and consumers the opportunity to reduce or neutralize their carbon footprint, and are designed to meet the requirements of international standards for compostable plastics, such as ASTM D6400 and EN 13432. Natur-Tec[®] compostable injection molding resin compounds can be used for injection molded plastic applications, such as cutlery, hangers, containers and packaging. Natur-Tec[®] biobased injection molding resin compounds are made with at least 50% of biobased/renewable resource-based materials per the ASTM D6866 standard and are meant to enhance sustainability by replacing petroleum-based plastics. Natur-Tec[®] also produces biobased injection molding resin compounds that are not designed or intended to biodegrade but rather aid in sustainability by requiring far less energy for production and by reducing dependence on petroleum as a raw material. Natur-Tec[®] biobased injection molding resin compounds exhibit the same properties as conventional plastic materials and can be used in applications, such as automotive components, consumer goods, electronics, medical products, furniture and packaging.

Finished Products. Natur-Tec[®] finished products include totally biodegradable compost and trash bags, agricultural film and other single-use disposable products, such as compostable cutlery, food and consumer goods packaging that are currently marketed under the Natur-Bag[®] or Natur-Ware[®] brands.

The Natur-Bag[®] product line offers eight different compostable bag sizes, from three to 69 gallons. The bags are available in various SKU configurations from retail packs that are sold to the consumer either through retail outlets or through online stores, and industrial case packs that are sold to commercial and industrial customers primarily through wholesalers and distributors. The Natur-Bag[®] products are manufactured from the Natur-Tec[®] flexible film resin compounds and thus are fully biodegradable and compostable.

The Natur-Ware[®] product line consists of biobased and compostable cutlery made from the Natur-Tec[®] compostable injection molding resin compounds. Natur-Ware[®] cutlery can be composted along with food scraps in zero-waste programs.

Polymer Energy™ Conversion of Waste Plastic to Fuel Machines. NTIC's Polymer Energy LLC joint venture markets and sells a system that uses catalytic pyrolysis to convert waste plastic (primarily polyolefins) into hydrocarbons (primarily a mix of diesels, gasoline and heavy fractions) resulting in an economically viable and environmentally responsible alternative to current methods of recycling and disposal of waste plastic. The Polymer Energy™ process can handle plastic that is contaminated to some extent with other types of waste such as metals, glass, dirt and water, and as a result, the waste plastic does not need to be pre-sorted, cleaned or dried prior to processing, which significantly reduces the overall cost of operation. The output crude oil mix is high-grade and can be further processed in a refinery

or used as an input for co-generation of electricity. NTIC's Polymer Energy LLC joint venture has an exclusive license to market the Polymer Energy™ system in countries in Asia and North America.

Electronic Measuring Instruments. NTIC's Mütéc GmbH joint venture develops, manufactures and sells proprietary electronics components including signal converters, Input-Output interfaces, bulk goods property measurement instruments, and process sensor technologies.

Sales, Marketing and Distribution

ZERUST® Corrosion Prevention Solutions. In the United States, NTIC markets its ZERUST® rust and corrosion inhibiting products and services, including its products designed for the oil and gas industry, principally to industrial users in the automotive, electronics, electrical, mechanical, military, retail consumer and oil and gas markets by a direct sales force and through a network of independent distributors, manufacturer's sales representatives and strategic partners. NTIC's technical service consultants work directly with the end users of NTIC's ZERUST® products to analyze their specific corrosion prevention needs and develop systems to meet their technical requirements. As of August 31, 2011, NTIC (excluding Zerust Brazil) had 12 employees selling ZERUST® products and services, and several independent distributors and manufacturer's sales representatives marketing its ZERUST® products and services.

Internationally, NTIC has entered into several joint venture and similar arrangements with foreign partners (either directly or through a holding company). NTIC receives fees for providing technical support, marketing assistance and other services to its joint ventures based primarily on the revenues of the joint ventures in accordance with the terms of the joint venture arrangements. Such services include consulting, legal, insurance, technical and marketing services.

With respect to the sales and marketing of ZERUST® rust and corrosion inhibiting products and services to the oil and gas industry, NTIC uses a combination of direct sales personnel, independent sales agents and its joint venture network. However, since many of NTIC's existing joint ventures do not have significant experience and contacts within the oil and gas industry, NTIC has formed one and may continue to form other new joint ventures to focus exclusively on the sale and marketing of ZERUST® rust and corrosion inhibiting products and services to this industry. In addition, in an attempt to penetrate this industry within certain markets more quickly, NTIC has entered into certain sales and marketing agency agreements with specific organizations that have existing long term relationships with key oil and gas industry clients. NTIC also engages in certain direct marketing activities to build its brand within the oil and gas industry, such as traditional advertising and direct mail campaigns and presence and participation at selected key trade shows and technical forums. NTIC continues to believe 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® Resin Compounds and Finished Products. In the United States, NTIC markets its Natur-Tec® resin compounds and finished products through a network of approximately 22 national and regional distributors and independent manufacturer's sales representatives and two NTIC direct sales employees as of August 31, 2011. Target customers for Natur-Tec® finished products include individual consumers and commercial and institutional organizations such as corporations and universities that are mandated to divert their organic waste away from landfills to composting. Sales and marketing efforts have focused on strengthening and expanding NTIC's West Coast distribution network in California and expanding NTIC's distribution reach to geographical "green" hotspots such as Oregon, Washington, Minnesota and New England, where a combination of favorable governmental regulation and environmental awareness is driving the adoption and use of compostable bags and food service ware.

NTIC is also targeting key national and regional retailers utilizing independent sales agents. Target customers for Natur-Tec® resin compounds include film extruders and injection molders who would purchase Natur-Tec® resin compounds to manufacture and sell their own finished bio-based, biodegradable or compostable end products, such as film, bags and cutlery.

Internationally, NTIC uses some of its joint ventures, including in particular, NTIC's joint venture in India, and a network of eight distributors to market its Natur-Tec® resin compounds and finished products. During 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 jointly develop solutions for the Indian market towards providing biodegradable or compostable products such as food service ware, food packaging, personal care product packaging and other fast-moving consumer goods packaging. The biopolymer resin compounds are manufactured and sold by HNTI, for integration with paper manufactured by ITC's Paperboards and Specialty Papers Division. Both companies also collaboratively develop and promote joint branding and messaging for these products. In addition, during fiscal 2011, NTIC entered into an agreement with Italy based Naturfuels s.r.l. to distribute Natur-Tec® resin compounds and finished products in the Italian and Swiss markets. Under the terms of the distribution agreement, NTIC will supply Naturfuels with its Natur-Tec® compostable film grade resin compounds.

Competition

ZERUST® Corrosion Prevention Solutions. While NTIC is unaware of any third parties with which NTIC competes on a worldwide basis with respect to its corrosion prevention solutions, NTIC does compete with several third parties on a regional basis. NTIC evaluates competing rust and corrosion inhibiting products on an ongoing basis. Some of NTIC's competitors are established companies that may have financial, marketing and other resources substantially greater than those of NTIC. As a result, they may be able to adapt more quickly to new or emerging technologies and changes in customer requirements, or devote greater resources to the promotion and sale of their products than NTIC. With respect to its rust and corrosion inhibiting products, NTIC competes on the basis of price, product innovation, quality and reliability, product support, customer service, reputation as well as price. Some of these companies may have achieved significant market acceptance of their competing products and brand recognition. NTIC, however, believes it has an advantage over most of its competitors as a result of NTIC's technical innovation and its value added service. NTIC attempts to provide its customers with the highest level of technical service and applications engineering in addition to ZERUST® rust and corrosion inhibiting products. Nonetheless, the commoditization of certain of NTIC's ZERUST® rust and corrosion inhibiting products have led and may continue to lead to decreased pricing and lower margins on such products. In addition, because the barriers to entry are low, additional competitors, including plastic extrusion companies, may emerge, which likely would lead to the further commoditization of NTIC's rust and corrosion inhibiting products.

With respect to NTIC's corrosion prevention solutions for use in the oil and gas industry, NTIC's primary barrier to entry is a combination of conservatism, complacency, confidence in old approaches as well as the complexity of the buying organization. Some of NTIC's competitors with respect to its traditional ZERUST® rust and corrosion inhibiting products also compete in the oil and gas industry. NTIC also faces competition from new suppliers who provide alternative approaches to corrosion prevention, some of which have a significant market presence and more years of experience and credibility in the oil and gas industry. Original equipment manufacturer (OEM) suppliers to the oil and gas industry present a new market vertical for NTIC's traditional industrial Zerust® products.

Natur-Tec® Resin Compounds and Finished Products. With respect to NTIC's Natur-Tec® resin compounds and finished products, NTIC competes with several established companies that have been producing and selling similar products for a significantly longer time period, and have significantly more sales, more extensive and effective distribution networks and better brand recognition than NTIC. Most of these companies also have substantially more financial and other resources than NTIC. NTIC competes on the basis of performance, brand awareness, distribution network, product availability, product offering, shelf life, place of manufacture and price. Because of price competition, NTIC's margins on its Natur-Tec® resin compounds and finished products are smaller than its margins on its ZERUST® corrosion prevention solutions. NTIC also faces supply constraints for the base resins used to manufacture NTIC's Natur-Tec® resin compounds and finished products since there are a limited number of suppliers of such base resins and limited capacity for their production.

Research and Development

NTIC's research and development activities are directed at improving existing products, developing new products, reducing costs and improving quality assurance through improved testing of NTIC's products. NTIC's internal research and development activities are conducted at its facilities located in Circle Pines, Minnesota; Beachwood, Ohio; Dresden, Germany; and Chennai, India under the direction of internationally known scientists and research institutes under exclusive contract to NTIC with respect to the subject of their respective research efforts. EXCOR has established a wholly owned subsidiary, Excor Korrosionsforschung GmbH, to conduct research into new fields of corrosion inhibiting packaging and the applications engineering of such products in conjunction with NTIC's domestic research and development operations. With respect to NTIC's Natur-Tec® resin compounds and finished products, Ramani Narayan, Ph.D., a current director of NTIC and Distinguished Professor in the Department of Chemical Engineering & Materials Science at Michigan State University, provides his expertise and technical support to NTIC.

NTIC spent \$4,364,109 in fiscal 2011 and \$3,333,683 in fiscal 2010 in connection with its research and development activities. NTIC anticipates that it will spend between \$4,300,000 and \$4,500,000 in fiscal 2012 on research and development activities. These amounts are net of reimbursements related to certain research and development contracts. Such reimbursements totaled \$219,175 and \$600,023 in fiscal 2011 and fiscal 2010, respectively. Most of NTIC's research and development contracts under which NTIC received reimbursements during fiscal 2011 were in connection with developing corrosion prevention solutions for the oil and gas industry, and to a lesser extent, U.S. government or other grants or awards in connection with developing future potential Natur-Tec® products.

During fiscal 2009, NTIC entered into a multi-year contract between Zerust Brazil and Petrobras to install and service proprietary corrosion protection technologies on the roofs of an initial set of aboveground oil storage tanks at the Petrobras REDUC refinery in Rio de Janeiro, Brazil. Also during fiscal 2009, NTIC signed multiple joint research and development contracts with Petrobras's research and development group at the Leopoldo Américo Miguez de Mello Research & Development Center (CENPES) pursuant to which the parties will undertake a 20-month Petrobras funded effort to explore, understand and resolve bottom plate corrosion issues in aboveground storage tanks. A second 12-month Petrobras sponsored project also has started aimed at field trials of certain pipeline protection technologies. These initiatives, which continued during fiscal 2011 and are expected to be concluded in fiscal 2012, are designed to help mitigate corrosion for critical oil and gas industry infrastructure, such as storage tanks and pipelines.

NTIC was awarded three National Science Foundation (NSF) awards -- one in June 2009 as a Phase I Small Business Technology Transfer (STTR) grant for \$150,000 on advanced polylactide materials for biobased and biodegradable products, the second in September 2009 as a Phase I Small Business Innovation Research (SBIR) grant for an additional \$150,000 on "Biobased coatings for corrosion

protection” and a third in November 2011 as a Phase II SBIR grant of \$500,000 for the development of advanced polylactide materials for biobased and biodegradable plastic products. The Phase I projects were completed in June 2010 and have helped NTIC develop biobased technologies for new innovative applications in the ZERUST[®] and Natur-Tec[®] business areas. The research and technology development was conducted in collaboration with Michigan State University. NTIC plans to use modified polylactic acid chemistries developed at Michigan State University to expand its product portfolio with enhanced solutions for bioplastics packaging.

During fiscal 2010, NTIC was awarded money from the U.S. Department of Defense for a Phase I Small Business Innovation Research contract worth \$70,000 to develop non-plastic marine biodegradable waste bags for the U.S. Navy. NTIC collaborated with the U.S. Army Natick labs and Michigan State University on this project. In November 2011, NTIC was awarded a Department of Defense Small Business Innovation Research Phase II grant of \$500,000 for the development of biobased and marine biodegradable non-plastic bags for the U.S. Navy.

Intellectual Property Rights

NTIC’s success depends and will continue to depend in part upon its ability to maintain patent and trademark protection for its products and processes, to preserve its proprietary information and trade secrets and to operate without infringing the proprietary rights of third parties. NTIC’s policy is to attempt to protect its technology by, among other things, filing patent applications and trademark applications and vigorously preserving the trade secrets covering its technology and other intellectual property rights.

In 1979, NTIC developed and patented the first polyolefin (plastic) based industrial corrosion inhibiting packing material in the world. The U.S. patent granted under this patent application became the most important intellectual property right in NTIC’s history. This patent expired in 2000. NTIC has since filed for 12 letters of patents in the U.S. covering various corrosion inhibiting technologies, systems and applications, and now owns several patents in these areas. These patents as well as patent applications have been extended to the countries of strategic relevance to NTIC including, but not limited to, the Patent Cooperation Treaty. In addition, EXCOR owns several patents in the area covering various corrosion inhibiting technologies and also applied for new patents on proprietary new corrosion inhibiting technologies. NTIC is also seeking additional patent protection covering various host materials into which its corrosion inhibiting additives and other protective features can be incorporated, proprietary new process technologies, and chemical formulations outside the area of corrosion protection. NTIC owns several patents outside the area of corrosion protection both in the U.S. and in countries of strategic relevance to NTIC including, but not limited to, the Patent Cooperation Treaty.

In addition to seeking patent protection, NTIC maintains an extensive portfolio of trademarks in countries where NTIC has a presence directly or through its joint ventures. NTIC continuously pursues new trademark applications of strategic interest worldwide. NTIC owns the following U.S. registered trademarks: NTI[®], NTI & Globe Design, ZERUST[®], EXCOR[®], ICT[®], Z-CIS[®], COR TAB[®], PLASTABS[®], MATCH-TECH[®], COR/SCI[®], NIC[®], NATUR-TEC[®], NATUR-TEC & Design[®], NATUR-BAG[®] and NATUR-WARE[®]. NTIC also has a registered trademark on the use of the Color Yellow with respect to corrosion inhibiting packaging. In addition, NTIC has applied for the following new trademarks in the U.S.: Polymer Energy[™] and Polymer Energy Logo[™]. Furthermore, NTI[®], ZERUST[®], The ZERUST People[®], EXCOR[®], the Color Yellow[®], NTI ASEAN[®], COR/SCI[®], Polymer Energy[®] and Polymer Energy Logo[®] as well as other marks have been registered in the European Union with several new applications pending.

NTIC requires its employees, consultants and advisors having access to its confidential information, including trade secrets, to execute confidentiality agreements upon commencement of their employment or consulting relationships with NTIC. These agreements generally provide that all confidential information NTIC develops or makes known to the individual during the course of the individual's employment or consulting relationship with NTIC must be kept confidential by the individual and not disclosed to any third parties. NTIC also requires all of its employees and consultants who perform research and development for NTIC to execute agreements that generally provide that all inventions developed by these individuals during their employment by or service arrangement with NTIC will fall under NTIC's proprietary intellectual property rights.

Manufacturing

NTIC's ZERUST[®] rust and corrosion inhibiting products are manufactured according to NTIC's specifications primarily by selected sub-contractors and joint ventures under trade secrecy agreements and/or license agreements. During fiscal 2012, NTIC expects to manufacture certain select new ZERUST[®] rust and corrosion inhibiting products in house at its corporate headquarters location in Circle Pines, Minnesota in order to improve the speed and quality of product development and technical support.

NTIC's joint venture in India produces NTIC's Natur-Tec[®] resin compounds at a compounding facility in Chennai, India. Depending upon future demand for NTIC's Natur-Tec[®] resin compounds, NTIC may need to open an additional compounding facility to produce its Natur-Tec[®] resin compounds. The resin compounds produced in India can be shipped to any facility around the world where they can then be converted into a finished product, such as a bag or piece of cutlery. NTIC's Natur-Tec[®] finished products are manufactured using NTIC's Natur-Tec[®] resin compounds by selected sub-contractors. Because of an increasing trend for customers to buy American made products and products that have a reduced or neutral carbon footprint, NTIC is exploring alternative United States based sub-contractors for its Natur-Tec[®] finished products.

NTIC is ISO 9001 certified with respect to the manufacturing of its products and ISO 14000 certified with respect to environmental management standards. NTIC believes that the process of ISO 9001 certification serves as an excellent total quality management tool, enabling NTIC to ensure consistency in the performance of its products. NTIC believes that the process of ISO 14000 certification serves as an excellent tool for NTIC to continuously improve its environmental performance. In addition, because potential customers may prefer or require manufacturers to have achieved ISO certification, such ISO certifications may provide NTIC with certain competitive advantages.

Availability of Raw Materials

NTIC generally does not carry excess quantities of raw materials or purchased parts because of widespread availability for such materials and parts from various suppliers. However, with respect to its Natur-Tec[®] resin compounds and finished products, there are a limited number of suppliers of the base resins used to manufacture the resin compounds and finished products, and NTIC has experienced some delay in obtaining such base resins. In addition, a number of raw materials and purchased parts used in NTIC's rust and corrosion inhibiting products and Natur-Tec[®] finished products are sourced from suppliers who currently serve as NTIC's sole source of supply for these materials and parts. Although NTIC believes it can obtain these raw materials and parts from other sources of supply, an unexpected loss of supply over a short period of time may not allow NTIC to replace these sources in the ordinary course of business.

Backlog

NTIC had an order backlog of \$400,000 as of August 31, 2011 compared to \$342,000 as of August 31, 2010. These are orders that are held by NTIC pending release instructions from the customers to be used in just-in-time production. Customers generally place orders on an “as needed” basis and expect delivery within a relatively short period of time.

Employees

As of August 31, 2011, NTIC had 58 full-time employees located in the United States, consisting of 22 in sales and marketing, 16 in research and development and lab, nine in administration, 10 in production and one responsible for international coordination. As of August 31, 2011, NTIC’s majority owned Brazilian subsidiary, the operations of which are consolidated on NTIC’s consolidated financial statements, had 12 full-time employees. There are no unions representing NTIC’s employees and NTIC believes that its relations with its employees are good.

Available Information

NTIC is a Delaware corporation that was originally organized as a Minnesota corporation in 1970. NTIC’s principal executive office is located at 4201 Woodland Road, Circle Pines, Minnesota 55014 and its telephone number is (763) 225-6600. NTIC’s website is located at www.ntic.com. The information on NTIC’s website or any other website is not incorporated by reference into this report and is included as an inactive textual reference only.

NTIC makes available, free of charge and through its Internet web site, its annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and any amendments to any such reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, as soon as reasonably practicable after NTIC electronically files such material with, or furnishes it to, the Securities and Exchange Commission.

Forward-Looking Statements

This report contains or incorporates by reference not only historical information, but also forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, and are subject to the safe harbor created by those sections. In addition, NTIC or others on its 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 sites or otherwise. All statements other than statements of historical facts included in this report 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 guidance, plans, objectives, strategies and prospects regarding, among other things, its financial condition, results of operations and business. NTIC has identified some of these forward-looking statements with words like “believe,” “may,” “could,” “would,” “might,” “forecast,” “possible,” “potential,” “project,” “will,” “should,” “expect,” “intend,” “plan,” “predict,” “anticipate,” “estimate,” “approximate” or “continue” and 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 “Part II. Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations.”

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 risks and uncertainties described under the heading “Item 1A. Risk Factors” below, 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 risks and uncertainties, including those described below under the heading “Item 1A. Risk Factors.” The risks and uncertainties described under the heading “Item 1A. Risk Factors” below are not exclusive and further information concerning NTIC and its business, including factors that potentially could materially affect its financial results or condition, may emerge from time to time. NTIC assumes no obligation to update forward-looking statements to reflect actual results or changes in factors or assumptions affecting such forward-looking statements. NTIC advises stockholders and investors to consult any further disclosures NTIC may make on related subjects in its annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K that NTIC files with or furnishes to the Securities and Exchange Commission.

Item 1A. RISK FACTORS

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

Disruption and turmoil in global credit and financial markets, which may be exacerbated by the inability of certain countries to continue to service their sovereign debt obligations, and the possible negative implications of such events to the global economy, may negatively impact our business, operating results and financial condition.

The recent downgrade of the U.S. credit rating and the possibility that certain European Union member states will default on their debt obligations have contributed to significant uncertainty about the stability of global credit and financial markets. The credit and economic conditions within certain European Union countries in particular, including Greece, Ireland, Italy, Portugal and Spain, have continued to deteriorate and have contributed to the instability in global credit and financial markets. The possibility that such EU member states will default on their debt obligations, the continued uncertainty regarding international and the European Union’s financial support programs and the possibility that other EU member states may experience similar financial troubles could further disrupt global credit and financial markets. While the ultimate outcome of these events cannot be predicted, it is possible that such events could have a negative effect on the global economy as a whole, and the business, operating results and financial condition of us and our joint ventures, in particular. For example, if the European sovereign debt crisis continues or worsens, the negative implications to the global economy and us and our joint ventures could be significant. Approximately 60% of the \$119.3 million in net sales of our joint ventures during fiscal 2011 was to customers in the European Union. A deterioration of economic conditions in such countries likely would have an adverse effect the net sales of our joint ventures and, accordingly, our equity in income from joint ventures, fees for services provided to joint ventures and receipt of dividend distributions from our joint ventures. In addition, if the European sovereign debt crisis continues or worsens, the value of the Euro could deteriorate, which could negatively impact the business, operating results and financial condition of us and our joint ventures in light of the substantial operations of our joint ventures and the revenues our joint ventures derive from customers in the European Union. Tightening of the credit and financial markets could negatively impact the ability of companies to borrow money from their existing lenders, obtain credit from other sources or raise financing to fund their operations. This could negatively impact the ability of our customers and the customers of our joint

ventures to purchase our products, suppliers' ability to provide us and our joint ventures with materials and components and the ability of us and our joint ventures, if needed, to finance operations on commercially reasonable terms, or at all. Any or all of these events could negatively impact our business, operating results and financial condition.

Adverse worldwide economic conditions may adversely affect NTIC's business, operating results and financial condition.

Apart from the European sovereign debt crisis, the U.S. and other global economies have experienced adverse economic conditions that have affected all sectors of the economy, resulting in declines in economic growth and consumer confidence, increases in unemployment rates and uncertainty about economic stability and the possibility of a "double-dip" or another worldwide economic recession. Recessionary factors and adverse worldwide economic conditions have adversely affected NTIC's business, operating results and financial condition in the past. NTIC's operating results for fiscal 2009 were adversely affected by worldwide economic conditions, particularly adverse conditions affecting the worldwide automobile industry at that time. Since a significant portion of NTIC's ZERUST[®] rust and corrosion inhibiting products and services are sold to customers in the automotive industry, adverse economic conditions affecting the automotive industry again in particular may result in another adverse effect on NTIC's net sales and its other operating results.

Global credit and financial markets also have experienced disruptions, including diminished liquidity and credit availability and rapid fluctuations in market valuations. NTIC's business also has been affected by these conditions and is likely to be affected by them in the future, and there is no certainty that recent improvements in economic conditions will continue, or that economic conditions will not deteriorate further. These uncertainties affect businesses such as NTIC's in a number of ways, making it difficult to accurately forecast and plan its future business activities and financial performance. For example, the ability of NTIC's customers to borrow money from their existing lenders or to obtain credit from other sources to purchase NTIC's products has been and may continue to be impaired. In addition, although NTIC maintains allowances for doubtful accounts for estimated losses resulting from the inability of its customers, distributors and joint ventures to make required payments and such losses historically have been within NTIC's expectations and the provisions established, NTIC cannot guarantee that it will continue to experience the same loss rates that it has in the past, especially if continued weaknesses in the worldwide economy persist or worsen. A significant change in the liquidity or financial condition of NTIC's customers, distributors or joint ventures could cause unfavorable trends in NTIC's receivable collections and additional allowances may be required, which could adversely affect NTIC's operating results. In addition, weaknesses in the worldwide economy may adversely impact the ability of suppliers to provide NTIC with materials and components, which could adversely affect NTIC's business and operating results. NTIC is unable to predict the prospects for a global economic recovery, but the longer the duration of such adverse and uncertain economic conditions, the greater the risks NTIC faces in operating its business.

NTIC's liquidity and financial position rely on the receipt of fees for services provided to its joint ventures and dividend distributions from its joint ventures. No assurance can be provided that NTIC will continue to receive such fees and dividend distributions in amounts NTIC historically has received or anticipates to receive.

NTIC conducts business, either directly or indirectly through several joint venture arrangements that operate in North America, Europe and Asia. Each of these joint ventures manufactures, markets and sells finished products in the geographic territory that it is assigned. NTIC's receipt of funds as a result of sales by its joint ventures is dependent upon NTIC's receipt of 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 its joint ventures based on the profitability of its joint ventures. NTIC's liquidity and financial position rely on NTIC's receipt of fees for services that NTIC provides to its joint ventures and dividend distributions from its joint ventures. During fiscal 2011, NTIC received \$6,129,979 in fees and \$2,838,437 in dividend distributions from its joint ventures. During fiscal 2010, NTIC received \$4,690,450 in fees and \$840,996 in dividend distributions from its joint ventures. Because NTIC typically owns only 50% or less of each of its joint venture entities, NTIC does not control the decisions of these entities regarding whether to pay dividends and, if paid, how much they should be in any given year. Thus, NTIC cannot guarantee that any of its joint ventures will pay dividends in any given year. The failure of NTIC's joint ventures to declare dividends or the failure of NTIC to receive fees for services provided to joint ventures in amounts typically expected by NTIC could adversely affect NTIC's liquidity and financial position.

Since a significant portion of NTIC's earnings results from NTIC's equity income of joint ventures and since NTIC's equity income of joint ventures varies from quarter to quarter, NTIC's earnings are subject to quarterly fluctuations.

A significant portion of NTIC's earnings results from NTIC's equity income of joint ventures. NTIC's equity in income of joint ventures consists of NTIC's share of equity in income of its joint ventures based on the overall profitability of the joint ventures. Such profitability varies from quarter to quarter. Since NTIC's management typically receives quarterly joint venture financial information after the completion of each fiscal quarter, it is impossible for NTIC's management to cut costs and expenses to make up for any unanticipated shortfall in NTIC's equity income of joint ventures. Accordingly, the variability in NTIC's equity income of joint ventures, in turn, subjects NTIC's earnings to quarterly fluctuations.

NTIC faces intense competition in almost all of its product lines, including from competitors that have substantially greater resources than NTIC does. No assurance can be provided that NTIC will be able to compete effectively, which would harm its business and operating results.

NTIC's products are sold in intense competitive markets throughout the world. This intense competition could result in pricing pressures, lower sales, reduced margins and lower market share. The principal competitive factors in NTIC's corrosion prevention solutions markets are pricing, product innovation, quality and reliability, product support, customer service and reputation. Additional competitive factors present in NTIC's bioplastics business are brand awareness, distribution network, product availability, product offering, shelf life and place of manufacture. NTIC often competes with numerous manufacturers, many of which have substantially greater financial, marketing, and other resources than NTIC. As a result, they may be able to adapt more quickly than NTIC to new or emerging technologies, industry trends, and changes in customer requirements, or to devote greater resources to the promotion and sale of their products than NTIC. In addition, competition could increase if new companies enter the markets in which NTIC competes, especially when the barriers to entry are low, which may be true with respect to NTIC's rust and corrosion prevention business, or if existing competitors expand their product lines or intensify efforts within existing product lines. NTIC's current products, products under development and its ability to develop new and improved products may be insufficient to enable NTIC to compete effectively with its competitors. No assurance can be provided that NTIC will be able to compete effectively, which would harm its business and operating results. In particular, NTIC has experienced more intense competition with respect to many of its traditional ZERUST[®] rust and corrosion inhibiting products and services, which have led to decreased pricing and smaller margins for NTIC. NTIC anticipates that such intense competition likely will continue and that new competitors may emerge, including plastic extrusion companies, which would continue to adversely affect NTIC's operating results.

NTIC's ZERUST[®] rust and corrosion inhibiting products and services generate a significant portion of NTIC's net sales and the net sales of NTIC's joint ventures. Accordingly, if sales of these products and services were to decline, NTIC's operating results would be adversely affected.

NTIC's ZERUST[®] rust and corrosion inhibiting products and services generate a significant portion of NTIC's net sales and the net sales of NTIC's joint ventures. During fiscal 2011, 95.0% of NTIC's consolidated net sales were derived from sales of ZERUST[®] rust and corrosion inhibiting products and services. While the net sales of NTIC's joint venture are not included in NTIC's net sales on NTIC's consolidated financial statements, NTIC's receipt of fees for services that NTIC provides to its joint ventures and NTIC's receipt of dividend distributions from its joint ventures is based primarily on the revenues and profitability of the joint ventures. Accordingly, if sales of these products and services were to decline due to increased competition, the introduction of a new disruptive technology or otherwise, NTIC's operating results would be adversely affected.

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

One of NTIC's strategies is to enhance its existing products and develop and market new products that respond to customer needs. NTIC may not be able to compete effectively with its competitors unless NTIC can keep up with existing or new products or alternative technologies in the markets in which it competes. Product development requires significant research and development, financial and other resources. Although in the past NTIC has implemented lean manufacturing and other productivity improvement initiatives to provide investment funding for new products, no assurance can be provided that NTIC will be able to continue to do so in the future. Product improvements and new product introductions also require significant planning, design, development and testing at the technological, product, and manufacturing process levels and NTIC may not be able to timely develop product improvements or new products. NTIC's competitors' new products may beat NTIC's products to market, may be more effective or less expensive than NTIC's products or render NTIC's products obsolete. Any new products that NTIC may develop may not receive market acceptance or otherwise generate any meaningful net sales or profits for NTIC relative to its expectations, based on, among other things, existing and anticipated investments in manufacturing capacity and commitments to fund advertising, marketing, promotional programs, and research and development.

NTIC has invested and intends to continue to invest additional research and development and marketing efforts and resources into the application of its corrosion prevention solutions into the oil and gas industry and the continued launch of its Natur-Tec[®] resin compounds and finished products. No assurance can be provided, however, that NTIC's investments in these new markets and products will be successful and result in additional revenue to NTIC.

In an effort to increase net sales, NTIC has expanded the marketing of its corrosion prevention solutions into the oil and gas industry, and expanded its product lines to include its Natur-Tec[®] resin compounds and finished products. The majority of NTIC's research and development expense in fiscal 2011 was spent in connection with research and development activities related to these two strategic initiatives. NTIC expects to continue to invest additional research and development and marketing efforts and resources into these strategic initiatives. No assurance can be provided, however, that such strategic initiatives will be successful or that NTIC will be successful in obtaining additional revenue as a result of them. The introduction of new products into new markets takes significant resources and there can be no assurance that NTIC is dedicating a sufficient amount of resources to ensure the success of these strategic initiatives. NTIC believes that the sale of its ZERUST[®] rust and corrosion inhibiting products and services into the oil and gas industry, in particular, will involve a long sales cycle, likely including a one-

to two-year trial period with each customer and a slow integration process thereafter. This long sales cycle may cause NTIC's management, stockholders and investors to lose faith in the business opportunities for NTIC's ZERUST[®] rust and corrosion inhibiting products and services in the oil and gas industry.

The expansion of NTIC's corrosion prevention solutions into the oil and gas industry and the continued launch of NTIC's Natur-Tec[®] resin compounds and finished products may require additional capital in the future, which may not be available or may be available only on unfavorable terms. In addition, any equity financings may be dilutive to NTIC's stockholders.

The expansion of NTIC's corrosion prevention solutions into the oil and gas industry and the continued launch of NTIC's Natur-Tec[®] resin compounds and finished products will continue to require significant resources during fiscal 2012 and beyond. To the extent that NTIC's existing capital, including amounts available under its revolving line of credit or other then existing financing arrangements, is insufficient to meet these requirements, NTIC may raise additional capital through financings or additional borrowings. Any equity or debt financing, if available at all, may be on terms that are not favorable to NTIC and any equity financings could result in dilution to NTIC's stockholders.

NTIC's strategy of expanding its corrosion prevention solutions into the oil and gas industry and continuing its launch of its Natur-Tec[®] bioplastics resin compounds and finished products is risky and may not prove to be successful, which could harm NTIC's operating results and financial condition.

During fiscal 2012, NTIC intends to continue its current strategy of expanding its corrosion prevention solutions into the oil and gas industry and continuing its launch its Natur-Tec[®] bioplastics resin compounds and finished products, either directly or indirectly through joint ventures and independent distributors and agents. Such a strategy is risky and subject to all of the risks inherent in the establishment of a new business enterprise, including:

- the absence of a significant operating history;
- the lack of commercialized products;
- the lack of market acceptance of new products;
- expected substantial and continual losses for such businesses for the foreseeable future;
- the lack of manufacturing experience and limited marketing experience;
- an expected reliance on third parties for the manufacture and commercialization of some of the products;
- a competitive environment characterized by numerous, well-established and well-capitalized competitors;
- insufficient capital and other resources; and
- reliance on key personnel.

If NTIC is unable to sell excess inventory related to its Natur-Tec[®] bioplastics business at certain prices, NTIC may be required to record additional future write-downs, which would have an adverse effect NTIC's operating results.

NTIC anticipated greater demand for its Natur-Tec[®] bioplastics finished products during fiscal 2010 than NTIC actually experienced, and accordingly, was unable to sell its Natur-Tec[®] inventory at the times and prices and in the volumes that NTIC initially anticipated. As a result, NTIC recorded a \$360,577 write-down of its Natur-Tec[®] inventory during fourth quarter of fiscal 2010 to its market value, which adversely affected NTIC's cost of goods sold for fiscal 2010. The Natur-Tec[®] raw material and finished goods inventory was purchased and manufactured previously when the base resins were significantly more

expensive. As of August 31, 2011, \$902,507 of Natur-Tec[®] inventory remained on NTIC's consolidated balance sheet. If NTIC is unable to sell its remaining Natur-Tec[®] inventory at the times and prices and in the volumes at which it currently anticipates, additional future write-downs may be necessary, which would again adversely affect NTIC's cost of goods sold, and in turn, NTIC's operating results.

NTIC relies on others for its production and any interruptions of these arrangements could disrupt NTIC's ability to fill its customers' orders.

NTIC utilizes contract manufacturers for substantially all of its production requirements. The majority of NTIC's manufacturing is conducted in China and India by contract manufacturers that also perform services for numerous other companies. NTIC does not have a guaranteed level of production capacity with any of its contract manufacturers. Qualifying new contract manufacturers is time consuming and might result in unforeseen manufacturing and operations problems. The loss of NTIC's relationships with its contract manufacturers or their inability to conduct their manufacturing and assembly services for NTIC as anticipated in terms of capacity, cost, quality and timeliness could adversely affect NTIC's ability to fill customer orders in accordance with required delivery, quality, and performance requirements, and thus adversely affect NTIC's net sales and other operating results.

NTIC's dependence on key suppliers puts NTIC at risk of interruptions in the availability of its products, which could reduce its net sales and adversely affect its operating results and harm its reputation.

NTIC relies on suppliers for certain raw materials and components used in its products. For reasons of quality assurance, cost effectiveness or availability, NTIC procures certain raw materials and components from sole or limited source suppliers. NTIC generally acquires such raw materials and components through purchase orders placed in the ordinary course of business, and as a result, NTIC does not have a significant inventory of these materials and components and does not have any guaranteed or contractual supply arrangements with many of these suppliers for these materials and components. NTIC's dependence on third-party suppliers involves several risks, including limited control over pricing, availability, quality and delivery schedules, as well as manufacturing yields and costs. Suppliers of such raw materials and components may decide, or be required, for reasons beyond NTIC's control to cease supplying such raw materials and components to NTIC or to raise their prices. Shortages of raw materials, quality control problems, production capacity constraints or delays by suppliers could negatively affect NTIC's ability to meet its production obligations and result in increased prices for affected parts. Any such shortage, constraint or delay may result in delays in shipments of products or components, which could adversely affect NTIC's net sales and other operating results, and its reputation. From time to time, materials and components used in NTIC's products are subject to allocation because of shortages of these materials and components. With respect to NTIC's Natur-Tec[®] resin compounds and finished products, there are a limited number of suppliers of the base resins used to manufacture NTIC's Natur-Tec[®] resin compounds and finished products, and NTIC has experienced some delay in obtaining such base resins. In addition, a number of raw materials and purchased parts used in NTIC's rust and corrosion inhibiting products and Natur-Tec[®] finished products are sourced from suppliers who currently serve as NTIC's sole source of supply for these components. Future shortages of materials and components could cause delayed shipments and customer dissatisfaction and adversely affect net sales.

Increases in prices for raw materials and components used in NTIC's products could adversely affect NTIC's operating results.

NTIC uses certain raw materials and components in its products, including in particular plastic resins, which are subject to price increases. Increases in prices for raw materials and components used in NTIC's products could adversely affect NTIC's gross margins and other operating results.

The commercial success of NTIC's Natur-Tec® resin compounds and finished products depends on the widespread market acceptance of products manufactured with bio-based and biodegradable resins.

Although there is a developed market for petroleum-based plastics, the market for “bio-plastics” which are plastics produced with bio-based resins, which are derived from renewable resources such as corn or cellulosic/plant material or blends thereof, or plastics that are engineered to be fully biodegradable or both, is still developing. The commercial success of NTIC's Natur-Tec® resin compounds and finished products depends on the widespread market acceptance of products manufactured with bio-based and biodegradable resins. It is currently difficult to assess or predict with any assurance the potential size, timing and viability of market opportunities for NTIC's Natur-Tec® resin compounds and finished products. The traditional plastics market sector is well-established with entrenched competitors with whom NTIC competes. Pricing for traditional plastics has been highly volatile in recent years, which drive, to some extent, the commercial and other support for bioplastics. While NTIC expects to be able to command a premium price for its Natur-Tec® resin compounds and finished products, a widening gap in the pricing for bioplastics versus petroleum-based plastics may reduce the size of the addressable market for NTIC's Natur-Tec® resin compounds and finished products. In addition, the growth of the market will create some pressure on price for applications today considered commodities, including in particular NTIC's current Natur-Tec® finished products.

NTIC's international business, which is conducted primarily through its joint ventures, requires management attention and financial resources and exposes NTIC to difficulties and risks presented by international economic, political, legal, accounting and business factors.

NTIC sells products and services directly and via a network of joint ventures, independent distributors, manufacturer's sales representatives and agents in over 55 countries, including countries in North America, Europe, Asia and the Middle East. One of NTIC's strategic objectives is the continued expansion of its international operations. The expansion of NTIC's existing international operations and entry into additional international markets require management attention and financial resources.

The sale and shipping of products and services across international borders subject NTIC to extensive U.S. and foreign governmental trade regulations. Compliance with such regulations is costly and exposes NTIC to penalties for non-compliance. Other laws and regulations that can significantly impact NTIC include various anti-bribery laws, including the U.S. Foreign Corrupt Practices Act, laws restricting business with suspected terrorists and anti-boycott laws. Any failure to comply with applicable legal and regulatory obligations could impact NTIC in a variety of ways that include, but are not limited to, significant criminal, civil and administrative penalties, including imprisonment of individuals, fines and penalties, denial of export privileges, seizure of shipments and restrictions on certain business activities. Also, the failure to comply with applicable legal and regulatory obligations could result in the disruption of NTIC's shipping and sales activities.

Many of the countries in which NTIC sells its products directly or indirectly through its joint ventures, distributors, representatives and agents are, to some degree, subject to political, economic and/or social instability. NTIC's international operations expose NTIC and its joint venture partners, distributors, representatives and agents to risks inherent in operating in foreign jurisdictions. These risks include:

- difficulties in managing and staffing international operations and the required infrastructure costs including legal, tax, accounting and information technology;
- the imposition of additional U.S. and foreign governmental controls or regulations, new trade restrictions and restrictions on the activities of foreign agents, representatives and distributors,

the imposition of costly and lengthy export licensing requirements and changes in duties and tariffs, license obligations and other non-tariff barriers to trade;

- the imposition of U.S. and/or international sanctions against a country, company, person or entity with whom NTIC does business that would restrict or prohibit continued business with the sanctioned country, company, person or entity;
- pricing pressure that NTIC or its joint ventures, distributors, representatives and agents may experience internationally;
- laws and business practices favoring local companies;
- currency exchange rate fluctuations;
- longer payment cycles and difficulties in enforcing agreements and collecting receivables through certain foreign legal systems;
- difficulties in enforcing or defending intellectual property rights;
- multiple, changing and often inconsistent enforcement of laws and regulations; and
- the potential payment of U.S. income taxes on certain earnings of joint ventures upon repatriation.

Failure to comply with the U.S. Foreign Corrupt Practices Act could subject NTIC to, among other things, penalties and legal expenses that could harm its reputation and have a material adverse effect on its business, financial condition and results of operations.

NTIC is subject to the U.S. Foreign Corrupt Practices Act, or the FCPA, which generally prohibits covered entities and their intermediaries from engaging in bribery or making other prohibited payments to foreign officials for the purpose of obtaining or retaining business or other benefits. In addition, the FCPA imposes accounting standards and requirements on U.S. publicly traded corporations and their foreign affiliates, which are intended to prevent the diversion of corporate funds to the payment of bribes and other improper payments, and to prevent the establishment of “off books” slush funds from which such improper payments can be made. NTIC also is subject to similar anticorruption legislation implemented in Europe under the Organization for Economic Co-operation and Development’s Convention on Combating Bribery of Foreign Public Officials in International Business Transactions. NTIC and its joint ventures, distributors, independent representatives and agents operate in a number of jurisdictions that pose a high risk of potential violations of the FCPA and other anticorruption laws, based on measurements such as Transparency International’s Corruption Perception Index, and NTIC utilizes a number of joint ventures, distributors, independent representatives and agents for whose actions NTIC could be held liable under the FCPA. NTIC informs its personnel, joint ventures, distributors, independent representatives and agents of the requirements of the FCPA and other anticorruption laws, including, but not limited to their reporting requirements. NTIC also has developed and will continue to develop and implement systems for formalizing contracting processes, performing due diligence on agents and improving its recordkeeping and auditing practices regarding these regulations. However, there is no guarantee that NTIC’s employees, joint ventures, distributors, independent representatives or other agents have not or will not engage in conduct undetected by NTIC’s processes and for which NTIC might be held responsible under the FCPA or other anticorruption laws.

If NTIC's employees, joint ventures, distributors, third-party sales representatives or other agents are found to have engaged in such practices, NTIC could suffer severe penalties, including criminal and civil penalties, disgorgement and other remedial measures, including further changes or enhancements to its procedures, policies and controls, as well as potential personnel changes and disciplinary actions. The Securities and Exchange Commission has increased its enforcement of the FCPA during the past several years. Although NTIC does not believe it is currently a target in any such enforcement action, any investigation of any potential violations of the FCPA or other anticorruption laws by U.S. or foreign authorities also could have an adverse impact on NTIC's business, financial condition and results of operations.

Certain private and foreign companies, including some of NTIC's competitors, are not subject to prohibitions as strict as those under the FCPA or, even if subjected to strict prohibitions, such prohibitions may be laxly enforced in practice. If NTIC's competitors engage in corruption, extortion, bribery, pay-offs, theft or other fraudulent practices, they may receive preferential treatment from personnel of some companies or from government officials, giving NTIC's competitors an advantage in securing business and which would put NTIC at a disadvantage.

Fluctuations in foreign currency exchange rates could result in declines in NTIC's earnings and changes in NTIC's foreign currency translation adjustments.

Because the functional currency of NTIC's foreign operations 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 its 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 earnings. 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 operations. NTIC does not hedge against its foreign currency exchange rate risk.

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

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

Fluctuations in NTIC's effective tax rate could have a significant impact on NTIC's financial position, results of operations or cash flows.

The mix of pre-tax income or loss among the tax jurisdictions in which NTIC operates that have varying tax rates could impact NTIC's effective tax rate. NTIC is subject to income taxes as well as non-income based taxes, in both the United States and various foreign jurisdictions. Judgment is required in determining the worldwide provision for income taxes, other tax liabilities, interest and penalties. Future events could change management's assessment. NTIC operates within multiple taxing jurisdictions and is subject to tax audits in these jurisdictions. These audits can involve complex issues, which may require an extended period of time to resolve. NTIC also has made assumptions about the realization of deferred tax assets. Changes in these assumptions could result in a valuation allowance for these assets. Final determination of tax audits or tax disputes may be different from what is currently reflected by NTIC's income tax provisions and accruals.

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

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

- diversion of management's attention;
- difficulties in assimilating the operations and products of a new joint venture or acquired business or in realizing projected efficiencies, cost savings and revenue synergies;
- potential loss of key employees or customers of the new joint venture or acquired business or adverse effects on existing business relationships with suppliers and customers;
- adverse impact on overall profitability if the new joint venture or acquired business does not achieve the financial results projected in NTIC's valuation models;
- reallocation of amounts of capital from other operating initiatives and/or an increase in NTIC's leverage and debt service requirements to pay the joint venture capital contribution or the acquisition purchase price, which could in turn restrict NTIC's ability to access additional capital when needed or to pursue other important elements of NTIC's business strategy;
- inaccurate assessment of undisclosed, contingent or other liabilities or problems and unanticipated costs associated with the new joint venture or acquisition; and
- incorrect estimates made in the accounting for acquisitions, occurrence of non-recurring charges and write-off of significant amounts of goodwill that could adversely affect NTIC's operating results.

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

NTIC relies on its joint ventures, distributors, manufacturer's sales representatives and other agents to market and sell its products.

In addition to its direct sales force, NTIC relies on its joint ventures, distributors, manufacturer's sales representatives and other agents to market and sell its products in the United States and internationally. NTIC's joint ventures, distributors, manufacturer's sales representatives and other agents might terminate their relationship with NTIC, or devote insufficient sales efforts to NTIC's products. NTIC does not control its joint ventures, distributors, manufacturer's sales representatives and other agents and they may not be successful in implementing NTIC's marketing plans. NTIC's failure to maintain its existing relationships with these entities, or its failure to recruit and retain additional skilled joint venture partners, distributors, manufacturer's sales representatives and other agents could have an adverse effect on NTIC's operations. It is anticipated that several of NTIC's joint venture partners will retire during the next several years which will require a transition on the part of the joint venture as well as NTIC and could harm NTIC's relationship with the joint venture and NTIC's business.

The sale of ZERUST[®] rust and corrosion inhibiting products into the oil and gas industry is especially risky in light of the hazards typically associated with such operations and the significant amount of potential liability involved, which could adversely affect our business if our ZERUST[®] rust and corrosion inhibiting products are involved, even if the cause of such events was not related to our products.

Because we sell our ZERUST[®] rust and corrosion inhibiting products into the oil and gas industry, we are subject to some of the risks and hazards typically associated with such operations, including hazards such as fire, explosion, blowouts, cratering, unplanned gas releases and spills, each of which could be claimed to be attributed to the failure of our products to perform as anticipated. If such events occur and our products are involved, our business and operating results may suffer even if the cause of such events was not related to our products.

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

NTIC's success is dependent upon the efforts of a small management team and group of employees. NTIC's future success will depend in large part on its ability to retain its key employees and identify, attract and retain other highly qualified managerial, technical, research and development, sales and marketing and customer service personnel when needed. Competition for these individuals may be intense, especially in the markets in which NTIC operates. NTIC may not succeed in identifying, attracting and retaining these personnel. NTIC's current management, other than its President and Chief Executive Officer, does not have any material stock ownership in NTIC. In addition, none of NTIC's employees has any contractual obligation to maintain his or her employment with NTIC. The loss or interruption of services of any of NTIC's key personnel, including in particular its technical personnel, the inability to identify, attract or retain qualified personnel in the future, delays in hiring qualified personnel, or any employee slowdowns, strikes or similar actions could make it difficult for NTIC to manage its business and meet key objectives, which could harm NTIC's business, financial condition and operating results.

NTIC expects to transition the manufacturing of certain select ZERUST[®] rust and corrosion inhibiting products in house at its corporate headquarters location in Circle Pines, Minnesota during fiscal 2012 which could adversely affect the supply of such products if the transition does not proceed smoothly.

During fiscal 2012, NTIC expects to transition the manufacturing of certain select ZERUST[®] rust and corrosion inhibiting products in house at its corporate headquarters location in Circle Pines, Minnesota in order to improve the speed and quality of product development and technical support. If such transition

does not proceed smoothly, it could affect the supply of such products and adversely affect NTIC's business and operating results.

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

The efficient operation of NTIC's business is dependent on its management information systems. NTIC relies on its management information systems to effectively manage accounting and financial functions; manage order entry, order fulfillment and inventory replenishment processes; and to maintain its research and development data. The failure of management information systems to perform as anticipated could disrupt NTIC's business and product development and could result in decreased sales, causing NTIC's business and operating results to suffer. In addition, NTIC's management information systems are vulnerable to damage or interruption from natural or man-made disasters, terrorist attacks and attacks by computer viruses or hackers, or power loss or computer systems, Internet, telecommunications or data network failure. Any such interruption could adversely affect NTIC's business and operating results.

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

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

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

NTIC may not achieve projected goals and objectives in the time periods that NTIC anticipates or announces publicly, which could have an adverse effect on NTIC's business and could cause its stock price to decline.

NTIC sets goals and objectives for, and makes public statements regarding, the timing of certain accomplishments and milestones regarding its business, such as its progress in selling its ZERUST[®] rust and corrosion inhibiting products and services to customers in the oil and gas industry, the progress and timing of its various field trials with prospective customers in the oil and gas industry, its ability to increase sales of its Natur-Tec[®] resin compounds and finished products, and other developments and

milestones. The actual timing of these events can vary dramatically due to a number of factors including without limitation delays or failures in current field trials, the amount of time, effort and resources committed to the sales and marketing of NTIC's products and services by NTIC and its current and potential future distributors and agents and the uncertainties inherent in introducing new products and services. As a result, there can be no assurance that NTIC will succeed in achieving its projected goals and objectives in the time periods that NTIC anticipates or announces publicly. The failure to achieve such projected goals and objectives in the time periods that NTIC anticipates or announces publicly could have an adverse effect on NTIC's business and could cause its stock price to decline.

NTIC also discloses from time to time projected financial information, including its anticipated annual net sales and net earnings. These financial projections are based on management's current expectations and do not contain any margin of error or cushion for any specific uncertainties, or for the uncertainties inherent in all financial forecasting.

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

Changing laws, regulations and standards relating to corporate governance and public disclosure, including the Dodd-Frank Wall Street Reform and Consumer Protection Act and the Sarbanes-Oxley Act of 2002 and related and other recent regulations implemented by the SEC and the NASDAQ Stock Market, are creating challenges for publicly-held companies, including NTIC. NTIC's efforts to comply with evolving laws, regulations and standards have resulted in, and are likely to continue to result in, increased general and administrative expenses and a diversion of management time and attention from revenue-generating activities to compliance activities. In particular, NTIC's efforts to comply with Section 404 of the Sarbanes-Oxley Act of 2002 and the related regulations regarding NTIC's assessment of its internal control over financial reporting have required and will continue to require the expenditure of significant financial and managerial resources. Although NTIC's management concluded that NTIC's internal control over financial reporting was effective as of August 31, 2011, no assurance can be provided that NTIC's management will reach a similar conclusion as of any later date or that NTIC's independent registered public accounting firm will agree with management's conclusions in the event NTIC becomes an "accelerated filer" under SEC rules and NTIC's independent registered public accounting firm is required to attest to management's report on its internal control over financial reporting.

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

If there were a change in accounting rules and NTIC were required to fully consolidate its joint ventures or if NTIC's joint ventures otherwise would be required to be consolidated with NTIC to be in compliance with the internal control provisions of the Sarbanes-Oxley Act of 2002, NTIC and the individual joint venture would incur significant additional costs. In addition, other accounting pronouncements issued in the future could have a material cost associated with NTIC's implementation of such new accounting pronouncements.

If NTIC becomes an "accelerated filer" under SEC rules, NTIC will be subject to additional burdensome SEC disclosure and other rules and regulations, which may cause NTIC to incur additional costs to comply with such rules and regulations and the non-compliance of which may have an adverse effect on NTIC's operating results.

If NTIC becomes an “accelerated filer” under SEC rules, NTIC will be subject to additional burdensome SEC disclosure and other rules and regulations, such as the requirement of NTIC’s independent registered public accounting firm to attest to NTIC’s management’s report on the effectiveness of NTIC’s internal control over financial reporting and the requirement of NTIC to comply with certain additional disclosures rules and regulations, including the requirement to include additional executive compensation disclosures in NTIC’s proxy statement in connection with its annual meeting of stockholders. If NTIC does not comply with such additional rules and regulations, the results may have an adverse effect on NTIC’s operating results.

NTIC’s business is subject to a number of other miscellaneous risks that may adversely affect NTIC’s operating results, financial condition or business.

NTIC’s business is subject to a number of other miscellaneous risks that may adversely affect NTIC’s operating results, financial condition or business, such as natural or man-made disasters or global pandemics that may result in shortages of raw materials, higher commodity costs, an increase in insurance premiums and other adverse effects on NTIC’s business; the continued threat of terrorist acts and war that may result in heightened security and higher costs for import and export shipments of components or finished goods; and the ability of NTIC’s management to adapt to unplanned events.

Risks Related to NTIC’s Common Stock

The trading volume of NTIC’s common stock is typically very low, leaving NTIC’s common stock open to risk of high volatility.

The number of shares of NTIC’s common stock being traded on a daily basis is often very low and on some trading days, there is no trading volume at all. Any stockholder wishing to sell his, her or its stock may cause a significant fluctuation in the trading price of NTIC’s common stock. In addition, low trading volume of a stock increases the possibility that, despite rules against such activity, the price of the stock may be manipulated by persons acting in their own self-interest. NTIC may not have adequate market makers and market making activity to prevent manipulation in its common stock.

The price and trading volume of NTIC’s common stock has been, and may continue to be, volatile.

The market price and trading volume of NTIC’s common stock price has fluctuated over a wide range during the past year or so. During fiscal 2011, the sale price of NTIC’s common stock ranged from a low of \$9.00 per share to a high of \$20.87 per share, and the daily trading volume ranged from zero shares to 41,500 shares. It is likely that the price and trading volume of NTIC’s common stock will continue to fluctuate in the future. The securities of small capitalization companies, including NTIC, from time to time experience significant price and volume fluctuations, often unrelated to the operating performance of these companies. Securities class action litigation is sometimes brought against a company following periods of volatility in the market price of its securities or for other reasons. NTIC may become the target of similar litigation. Securities litigation, whether with or without merit, could result in substantial costs and divert management’s attention and resources, which could harm NTIC’s business, financial condition, and operating results, as well as the market price of its common stock.

A large percentage of NTIC’s outstanding common stock is held by insiders, and, as a result, the trading market for NTIC’s common stock is not as liquid as the stock of other public companies.

As of November 18, 2011, NTIC had 4,397,324 shares of common stock outstanding, of which 17.8

% of these outstanding shares were beneficially owned by directors, executive officers, principal stockholders and their respective affiliates. The stock of companies with a substantial amount of stock held by insiders is usually not as liquid as the stock of other public companies where insider ownership is not as concentrated. Thus, the trading market for shares of NTIC's common stock may not be as liquid as the stock of other public companies. ***If securities or industry analysts do not publish research or reports about NTIC's business, or if they adversely change their recommendations regarding NTIC's common stock, the market price for NTIC's common stock and trading volume could decline.***

The trading market for NTIC's common stock has been influenced by research or reports that industry or securities analysts publish about NTIC or its business. If one or more analysts who cover NTIC downgrade NTIC's common stock, the market price for NTIC's common stock would likely decline. If one or more of these analysts cease coverage of NTIC or fail to regularly publish reports on NTIC, NTIC could lose visibility in the financial markets, which, in turn, could cause the market price or trading volume for NTIC's common stock to decline.

NTIC does not intend to pay dividends for the foreseeable future.

Although in the past NTIC has paid dividends on its common stock, NTIC has not done so since fiscal 2005. The payment of any future dividends will be determined by NTIC's Board of Directors in light of conditions then existing, including NTIC's earnings (if any), financial condition, cash requirements, restrictions in financing agreements, business conditions and other factors. NTIC's Board of Directors currently does not anticipate paying a dividend on NTIC's common stock in the near future, but rather intends to retain all of its earnings for the foreseeable future to finance the operation and expansion of its business. As a result, NTIC's stockholders will only receive a return on their investment in NTIC's common stock if the market price of the common stock increases.

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

As of November 18, 2011, Inter Alia Holding Company, or Inter Alia, beneficially owned approximately 13.7% of NTIC's outstanding common stock. Inter Alia is an entity partially owned by G. Patrick Lynch, NTIC's President and Chief Executive Officer and a director, as well as three other members of the Lynch family. Mr. Lynch shares voting and dispositive power of shares of NTIC's common stock held by Inter Alia with the other owners. As a result of his share ownership through Inter Alia and his position as President and Chief Executive Officer and a director of NTIC, Mr. Lynch may be able to influence the affairs and actions of NTIC, including matters requiring stockholder approval, such as the election of directors and approval of significant corporate transactions. The interests of Mr. Lynch and Inter Alia may differ from the interests of NTIC's other stockholders. This concentration of ownership may have the effect of delaying, preventing or deterring a change in control of NTIC, could deprive NTIC's stockholders of an opportunity to receive a premium for their common stock as part of a sale or merger of NTIC and may negatively affect the market price of NTIC's common stock. Transactions that could be affected by this concentration of ownership include proxy contests, tender offers, mergers or other purchases of common stock that could give stockholders the opportunity to realize a premium over the then-prevailing market price for shares of NTIC's common stock.

Future equity issuances by NTIC may have dilutive and other effects on NTIC's existing stockholders.

As of November 18, 2011 there were 4,397,324 shares of NTIC's common stock outstanding, and in addition, security holders held options, which, if vested and exercised, would obligate NTIC to issue up to 213,839 additional shares of common stock. It is expected that such shares, when NTIC issues them upon exercise, will be available for immediate resale in the public market. The market price of NTIC's common stock could fall as a result of sales of these shares of common stock due to the increased number of shares available for sale in the market. In addition, NTIC has a shelf registration statement, which subject to certain limitations, permits NTIC to sell shares of its common stock or securities convertible into or exercisable for shares of its common stock, and all of which would be available for resale in the public market. Of the initial \$50,000,000 in equity securities registered under this shelf registration statement, approximately \$46,500,000 in equity securities remains available for issuance. Any issuances by NTIC of equity securities either under this shelf registration statement or otherwise may be at or below the prevailing market price of NTIC's common stock and may have a dilutive impact on NTIC's existing stockholders. These issuances or other dilutive issuances also would cause NTIC's net income per share, if any, to decrease in future periods. As a result, the market price of NTIC's common stock could decrease.

Item 1B. UNRESOLVED STAFF COMMENTS

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

Item 2. PROPERTIES

NTIC's principal executive offices, production facilities and domestic research and development operations are located at 4201 Woodland Road, Circle Pines, Minnesota 55014. NTIC purchased the real estate and 40,000 square feet building in which its corporate headquarters is located in September 2006. To finance the purchase, 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 the 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). 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.

A subsidiary of NTIC, NTI Facilities, Inc., leases approximately 17,000 square feet of office, manufacturing, laboratory and warehouse space located at 23205 Mercantile Road, Beachwood, Ohio. The monthly rental payments are \$17,500, which are adjusted annually according to the annual consumer price index, through November 2014. Additionally, NTIC has contract warehousing agreements in place in California and Indiana to hold and release stock products to customers.

NTIC's management considers NTIC's current properties suitable and adequate for its current and foreseeable needs.

Item 3. LEGAL PROCEEDINGS

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

Item 4. [REMOVED AND RESERVED]

Item 4A. EXECUTIVE OFFICERS OF THE REGISTRANT

The two individuals named below have been designated by NTIC's Board of Directors as "executive officers" of NTIC. Their ages and the offices held, as of November 18, 2011, are as follows:

<u>Name</u>	<u>Age</u>	<u>Position with NTIC</u>
G. Patrick Lynch	44	President and Chief Executive Officer
Matthew C. Wolsfeld	37	Chief Financial Officer and Corporate Secretary

G. Patrick Lynch, an employee of NTIC since 1995, has been President since July 2005 and Chief Executive Officer since January 2006 and was appointed a director of NTIC in February 2004. From July 2005 to January 2006, Mr. Lynch served as Chief Operating Officer of NTIC. Mr. Lynch served as President of North American Operations of NTIC from May 2004 to July 2005. Prior to May 2004, Mr. Lynch held various positions with NTIC, including Vice President of Strategic Planning, Corporate Secretary and Project Manager. Mr. Lynch is also an officer and director of Inter Alia Holding Company, a holding company that is a significant stockholder of NTIC. Prior to joining NTIC, Mr. Lynch held positions in sales management for Fuji Electric Co., Ltd. in Tokyo, Japan and programming project management for BMW AG in Munich, Germany. Mr. Lynch received an M.B.A. degree from the University of Michigan Business School in Ann Arbor, Michigan.

Matthew C. Wolsfeld, an employee of NTIC since February 2001, has been NTIC's Chief Financial Officer since November 2001 and Corporate Secretary since November 2004. Mr. Wolsfeld was Controller of NTIC from May 2001 through November 2001. Prior to joining NTIC, Mr. Wolsfeld held an auditing position with PricewaterhouseCoopers LLP in Minneapolis, Minnesota from 1997 to 2001. Mr. Wolsfeld received a B.A. degree in Accounting from the University of Notre Dame and received his M.B.A. degree at the University of Minnesota, Carlson School of Business. Mr. Wolsfeld is a Certified Public Accountant.

Other corporate officers of NTIC, their ages and the offices held, as of November 18, 2011, are as follows:

<u>Name</u>	<u>Age</u>	<u>Position with NTIC</u>
Prof. Efim Ya. Lyublinski	73	Vice President and Director of New Technologies and Applications Engineering
Vineet R. Dalal	41	Vice President and Director – Global Market Development – Natur-Tec®
Gautam Ramdas	37	Vice President and Director – Global Market Development – Oil & Gas

Prof. Efim Ya. Lyublinski has been employed by NTIC since March 2000 in the position of Vice President and Director of New Technologies and Applications Engineering. Prof. Lyublinski is a Member of the Russian Academy of Natural Sciences and NACE International the Corrosion Society. From 1984 to 1999, Prof. Lyublinski was Head of Laboratory of Complex Methods of Corrosion Protection at the Central Research Institute of Structural Materials, St. Petersburg, Russia. Prof. Lyublinski also held a Senior Consulting Position with Osmos Technology, Boston, Massachusetts from 1995 to 1999. Prof. Lyublinski holds several patents, is responsible for several inventions and has

authored several books and articles and lectured at more than 100 symposiums, conferences and congresses in the areas of materials science and corrosion.

Vineet R. Dalal, an employee of NTIC since 2004, has served as Vice President and Director – Global Market Development – Natur-Tec[®] since November 2005. Prior to joining NTIC, Mr. Dalal was a Principal in the Worldwide Product Development Practice of PRTM, a management consultancy to technology based companies. In this position, Mr. Dalal consulted to several Fortune 500 companies, in the areas of product strategy, Product Lifecycle Management (PLM) and technology management. Prior to that, Mr. Dalal held positions in program management and design engineering at National Semiconductor Corporation in Santa Clara, California. Mr. Dalal received an M.B.A. degree from the University of Michigan Business School in Ann Arbor, Michigan. He also holds an M.S. degree in Electrical and Computer Engineering from Oregon State University, and a B.Eng. degree in Electronics Engineering from Karnatak University, India.

Gautam Ramdas, an employee of NTIC since 2005, has served as Vice President and Director – Global Market Development – Oil & Gas since 2005. Prior to joining NTIC, Mr. Ramdas was a Manager in the Strategic Change group of IBM Business Consulting Services. In this position, Mr. Ramdas led consulting engagements at several Fortune 500 companies, in the areas of service strategy, global supplier relationship management and supply chain streamlining. Mr. Ramdas held positions in the E-Commerce and Supply Chain strategy groups at PricewaterhouseCoopers Management Consulting, again providing consulting services for Fortune 500 clients. Prior to management consulting, Mr. Ramdas worked as a program manager and design engineer with Kinhill Engineers in Australia. He has also been involved in the start-up stage of successful small businesses in the U.S. and in India. Mr. Ramdas received an M.B.A. from the University of Michigan Business School in Ann Arbor, Michigan. He also holds a bachelor's degree in Mechanical Engineering from the College of Engineering, Guindy (Chennai), India.

PART II

Item 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market Information

NTIC's common stock is listed for trading on the NASDAQ Global Market under the symbol "NTIC." The following table sets forth the high and low daily sales prices for NTIC's common stock, as reported by the NASDAQ Global Market, for the fiscal quarter indicated:

	<u>High</u>	<u>Low</u>
Fiscal 2011		
Fourth Quarter	\$ 20.87	\$ 15.05
Third Quarter	16.77	13.18
Second Quarter	16.50	12.27
First Quarter	15.00	9.00
Fiscal 2010		
Fourth Quarter	\$ 14.36	\$ 9.25
Third Quarter	10.97	8.72
Second Quarter	10.74	7.52
First Quarter	9.00	7.00

Dividends

Although NTIC's Board of Directors has declared cash dividends to NTIC's stockholders in the past, the payment of any future dividends will be determined by NTIC's Board of Directors in light of conditions then existing, including NTIC's earnings, financial condition, cash requirements, restrictions in financing agreements, business conditions and other factors. The Board of Directors currently does not anticipate paying a dividend on NTIC's common stock in the near future, but rather intends to retain all of its earnings for the foreseeable future to finance the operation and expansion of its business.

Number of Record Holders

As of August 31, 2011, there were 243 record holders of NTIC's common stock. This does not include shares held in "street name" or beneficially owned.

Recent Sales of Unregistered Equity Securities

NTIC did not issue any shares of its common stock or any other equity securities of NTIC that were not registered under the Securities Act of 1933, as amended, during the fourth quarter of fiscal year ended August 31, 2011.

Issuer Purchases of Equity Securities

NTIC did not purchase any shares of its common stock or any other equity securities of NTIC during the fourth quarter of fiscal year ended August 31, 2011.

Item 6. SELECTED FINANCIAL DATA

This Item 6 is inapplicable to NTIC as a smaller reporting company and has been omitted pursuant to Item 301(c) of SEC Regulation S-K.

Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This Management's Discussion and Analysis provides material historical and prospective disclosures intended to enable investors and other users to assess NTIC's financial condition and results of operations. Statements that are not historical are forward-looking and involve risks and uncertainties discussed under the heading "Part I. Item 1. Business—Forward-Looking Statements" and under the heading "Part I. Item 1A. Risk Factors." The following discussion of the results of the operations and financial condition of NTIC should be read in conjunction with NTIC's consolidated financial statements and the related notes thereto included under "Part II. Item 8. Financial Statements and Supplementary Data."

This Management's Discussion and Analysis is organized in the following major sections:

- **Business Overview.** This section provides a brief overview description of NTIC's business, focusing in particular on developments during the most recent fiscal year.
- **NTIC's Joint Venture Network.** This section provides a brief overview of NTIC's joint venture network, the joint ventures which are considered individually significant to NTIC's consolidated assets and income and how NTIC's joint ventures are accounted for by NTIC.
- **Financial Overview.** This section provides a brief summary of NTIC's financial results and financial condition for fiscal 2011.
- **Sales and Expense Components.** This section provides a brief description of the significant line items in NTIC's consolidated statements of operations.
- **Results of Operations.** This section provides an analysis of the significant line items in NTIC's consolidated statements of operations.
- **Liquidity and Capital Resources.** This section provides an analysis of NTIC's liquidity and cash flows and a discussion of NTIC's outstanding debt and other commitments.
- **Off-Balance Sheet Arrangements.** This section describes NTIC's material off-balance sheet arrangements.
- **Inflation and Seasonality.** This section describes the effects of inflation and seasonality, if any, on NTIC's business and operating results.
- **Market Risk.** This section describes material market risks to which NTIC is subject.
- **Related Party Transactions.** This section describes any material related party transactions to which NTIC is a party.
- **Critical Accounting Policies and Estimates.** This section discusses the accounting policies and estimates that are considered important to NTIC's financial condition and results of operations

and require NTIC to exercise subjective or complex judgments in their application. All of NTIC's significant accounting policies, including its critical accounting estimates, are summarized in Note 1 to NTIC's consolidated financial statements.

- **Recent Accounting Pronouncements.** This section discusses recently issued accounting pronouncements that have had or may affect NTIC's results of operations and financial condition and references Note 2 to NTIC's consolidated financial statements, which summarizes such pronouncements.

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 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. Prior to the fourth quarter of fiscal 2010 and the preparation of NTIC's fiscal 2010 financial statements, NTIC accounted for its Zerust Brazil investment under the equity method. NTIC owned only 50%, which it considered to be less than a majority, of the equity and voting rights of Zerust Brazil prior to September 2006. NTIC acquired an additional 35% ownership interest in Zerust Brazil in September 2006 and held 85% of the equity and voting rights thereafter. Prior to the fourth quarter of fiscal 2010, NTIC held the additional 35% ownership interest in Zerust Brazil with the intent of finding an acquiring party, believing its majority control of Zerust Brazil would be temporary and determined not to consolidate Zerust Brazil because the impact on NTIC's consolidated financial statements was immaterial. During the fourth quarter of fiscal 2010, NTIC stopped pursuing a buyer of the 35% ownership interest and decided to consolidate the financial results of Zerust Brazil as of and for the fiscal year ended August 31, 2010. NTIC believes that the impact of not consolidating Zerust Brazil on NTIC's consolidated financial statements for periods prior to the fourth quarter of fiscal 2010 was immaterial to NTIC's consolidated financial statements.

NTIC has not consolidated the Polymer Energy LLC joint venture in NTIC's consolidated financial statements for fiscal 2011 or fiscal 2010 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. Prior to fiscal 2010 and during fiscal 2011, Polymer Energy LLC did not have any financial activity including assets, liabilities, capital contributions, revenues or expenses. During fiscal 2010, the only financial activity of Polymer Energy LLC was the receipt of license fees which were distributed to its owners in proportion to their respective ownership percentages. Since NTIC owns a 62.5% ownership interest in Polymer Energy LLC, NTIC received and recorded a portion of these fees for services provided to joint ventures in its fiscal 2010 consolidated financial statements. No license fees were received by Polymer Energy LLC and no other financial activity took place during fiscal 2011. Accordingly, during fiscal 2011, 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 35.7% during fiscal 2011 compared to fiscal 2010. This increase was primarily a result of increased sales of ZERUST[®] rust and corrosion inhibiting products and services and sales to NTIC's joint ventures. During fiscal 2011, 95.0% of NTIC's consolidated net sales were derived from sales of ZERUST[®] products and services, which increased 34.2% to \$18,542,523 during fiscal 2011 compared to \$13,814,101 during fiscal 2010 due to increased demand primarily as a result of the economic recovery of the domestic manufacturing sector and the addition of new customers, partially offset by decreased pricing due to increased competition. 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 fiscal 2011 included \$3,359,463 of sales made by Zerust Brazil, and of those sales, \$997,426 in sales were made to Petrobras 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 fiscal 2011, \$984,004, or 5.0%, of NTIC's consolidated net sales were derived from sales of Natur-Tec® products compared to 4.0% during fiscal 2010. Net sales of Natur-Tec® products increased 71.8% during fiscal 2011 compared to fiscal 2010. This increase was due to the addition of new Natur-Tec® distributors on the West Coast of the United States. NTIC is continuing to strengthen and expand its West Coast distribution network in California, while expanding its industrial distribution reach to geographical "green" hotspots such as Oregon, Washington, Minnesota and New England. Additionally, NTIC is targeting 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 65.4% during fiscal 2011 compared to 65.2% during fiscal 2010 primarily as a result of a slight increase in shipping cost, production overhead, 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 increased 41.3% to \$5,536,243 during fiscal 2011 compared to \$3,919,084 during fiscal 2010. NTIC recognized a 30.7% increase in fees for services provided to joint ventures during fiscal 2011 compared to fiscal 2010. Both of these increases were primarily a result of a 40.4% increase in total net sales of NTIC's joint ventures during fiscal 2011 to \$119,276,553 compared to fiscal 2010. This increase in total net sales of NTIC's joint ventures was primarily a result of the economic recovery of the international manufacturing sector that the NTIC joint venture network serves.

NTIC's total operating expenses increased 23.3% or \$2,606,810 to \$13,798,672 during fiscal 2011 compared to fiscal 2010 primarily as a result of an increase in research and development expense, personnel expenses and annual bonus accrual.

NTIC expenses all costs related to product research and development as incurred. NTIC incurred \$4,364,109 and \$3,333,683 of expense during fiscal 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 \$219,175 and \$600,023 for fiscal 2011 and fiscal 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 50.9% to \$3,900,120, or \$0.89 per diluted common share, for fiscal 2011 compared to \$2,583,756, or \$0.61 per diluted common share, for fiscal 2010. This increase was primarily the result of increased income from NTIC's joint ventures and gross profit, partially offset by an increase in operating expenses. 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 \$9,085,748 at August 31, 2011, including \$3,266,362 in cash and cash equivalents compared to \$5,918,923 at August 31, 2010, including \$1,776,162 in cash and cash

equivalents. NTIC expects to meet its future liquidity requirements during at least the next 12 months by using its existing cash and cash equivalents, forecasted cash flows from future operations, distributions of earnings and service fees to NTIC from its joint ventures and funds available through existing or anticipated financing arrangements. NTIC also may decide to raise additional financing to help fund its new businesses through the issuance of debt or equity securities.

Sales and Expense Components

The following is a description of the primary components of net sales and expenses:

Net Sales, Excluding Joint Ventures. NTIC derives net sales from the sale of its ZERUST[®] products and services and its Natur-Tec[®] products. NTIC sells its ZERUST[®] products and services and its Natur-Tec[®] products either directly or via a network of joint ventures, independent distributors and agents. Net sales, excluding joint ventures represents net sales by NTIC either directly to end users or to distributors worldwide, but not sales to NTIC's joint ventures and not sales by NTIC's joint ventures. NTIC recognizes revenue from the sale of its products either directly or to distributors when persuasive evidence of an arrangement exists, the product has been delivered, the fee is fixed and determinable and collection of the resulting receivable is reasonably assured, all of which criteria are generally met upon shipment when risk of loss and title passes to the customer or distributor. NTIC records all amounts billed to customers and distributors in a sales transaction related to shipping and handling as sales and records costs related to shipping and handling in cost of goods sold.

Net Sales, To Joint Ventures. Net sales, to joint ventures represents net sales by NTIC to NTIC's joint ventures, but not sales by NTIC either directly to end users or to distributors or sales by NTIC's joint ventures. NTIC's revenue recognition policy for sales to its joint ventures is the same as NTIC's policy for sales to unaffiliated customers. NTIC recognizes revenue from the sale of its products to joint ventures when persuasive evidence of an arrangement exists, the product has been delivered, the fee is fixed and determinable and collection of the resulting receivable is reasonably assured, all of which criteria are generally met upon shipment when risk of loss and title passes to the joint venture.

Cost of Goods Sold. Most of NTIC's products are manufactured by third parties and its cost of goods sold for those products consists primarily of the price invoiced by its third-party vendors. For the small portion of products that NTIC manufactures, NTIC's cost of goods sold for those products consists primarily of direct labor, allocated manufacturing overhead, raw materials and components. NTIC's margins on its Natur-Tec[®] resin compounds and finished products are generally smaller than its margins on its ZERUST[®] products and services, and NTIC's margins on its ZERUST[®] products and services sold into the oil and gas industry are generally greater than its margins on its traditional ZERUST[®] products and services.

Equity in Income of Joint Ventures. NTIC's equity in income of joint ventures consists of NTIC's share of equity in income of its joint ventures based on the overall profitability of the 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. Traditionally, a portion of the equity income recorded in a given fiscal year is paid to the owners of the joint venture entity during the following fiscal year through a dividend. The payment of a dividend by a joint venture entity is determined by a vote of the joint venture owners and is not at the sole discretion of NTIC. NTIC typically owns only 50% or less 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.

Fees for Services Provided To Joint Ventures. NTIC provides certain services to its joint ventures including technical consulting, travel, insurance, technical and marketing services. NTIC receives fees

for these services it provides to its joint ventures based primarily on the net sales by NTIC's joint ventures, the latter of which are not included in NTIC's net sales reflected on NTIC's consolidated statements of operations. The fees for services received by NTIC from its joint ventures are generally determined based on either a flat fee or a percentage of net sales by NTIC's joint ventures depending on local laws and tax regulations. With respect to EXCOR, NTIC receives an agreed upon fixed quarterly fee for such services. With respect to NTI ASEAN, NTIC does not receive a fee for such services, but rather receives a bi-annual dividend based on available cash. NTIC records revenue related to fees for services provided to joint ventures when earned, amounts are determinable and collectability is reasonably assured. Under NTIC's agreements with its joint ventures in which the fees for services is described, fees are earned when the joint venture recognizes the revenue.

NTIC sponsors a worldwide joint venture conference approximately every three to four years in which all of NTIC's joint ventures are invited to participate. The next joint venture conference is scheduled to be held in the summer of 2012. 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 amount deferred is based on the historical experience of NTIC, current conditions and the intentions of NTIC's management. 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.

In prior years, fees for services provided to joint ventures also included license fees received by Polymer Energy LLC and distributed by Polymer Energy LLC to NTIC.

Selling Expenses. Selling expenses consist primarily of sales commissions and support costs for NTIC's direct sale and distribution system, and marketing costs.

General and Administrative Expenses. General and administrative expenses consist primarily of salaries and benefits, and other costs for NTIC's executives, accounting, finance, legal, information technology and human resources functions.

Expenses Incurred in Support of Joint Ventures. NTIC incurs direct expenses related to its joint ventures and in connection with NTIC's provision of support and services to its joint ventures. Such expenses include items such as employee compensation and benefits, travel, consulting, legal and laboratory supplies and testing expenses.

Research and Development Expenses. Research and development expenses include costs associated with the design, development, market analysis, lab testing and field trials and enhancements of NTIC's products and services. NTIC expenses all costs related to product research and development as incurred. Research and development expenses reflect the net amount after being reduced by reimbursements related to certain research and development contracts. With respect to such research and development contracts, NTIC accrues proceeds received under the contracts and offsets research and development expenses incurred in equal installments over the timelines associated with completion of the contracts' specific objectives and milestones.

Interest Income. Interest income consists of interest earned on investments in investment-grade, interest-bearing securities and money market accounts.

Interest Expense. Interest expense results primarily from interest associated with NTIC's term loan with PNC Bank and any borrowings under NTIC's line of credit with PNC Bank.

Income Tax Expense (Benefit). Income tax expense (benefit) includes federal income taxes, income tax in foreign jurisdictions, state income tax and changes to NTIC's deferred tax valuation allowance. NTIC utilizes the liability method of accounting for income taxes which requires an asset and liability approach to financial accounting and reporting for income taxes. Deferred income tax assets and liabilities are computed annually for differences between the financial statement and tax basis of assets and liabilities that will result in taxable or deductible amounts in the future, based on enacted tax laws and rates applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized. 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. NTIC makes this determination based on all available evidence, including historical data and projections of future results. Income tax expense is the tax payable or refundable for the period plus or minus the change during the period in deferred tax assets and liabilities.

Results of Operations

Fiscal Year 2011 Compared to Fiscal Year 2010

The following table sets forth NTIC's results of operations for fiscal 2011 and fiscal 2010.

	Fiscal 2011	% of Net Sales	Fiscal 2010	% of Net Sales	\$ Change	% Change
Net sales, excluding joint ventures	\$16,594,004	85.0%	\$12,190,171	84.7%	\$4,403,833	36.1%
Net sales, to joint ventures.....	2,932,523	15.0%	2,196,593	15.3%	735,930	33.5%
Cost of goods sold	12,768,640	65.4%	9,384,866	65.2%	3,383,774	36.1%
Equity in income of joint ventures.....	5,536,243	28.4%	3,919,084	27.2%	1,617,159	41.3%
Fees for services provided to joint ventures.....	6,129,979	31.4%	4,690,450	32.6%	1,439,529	30.7%
Selling expenses.....	4,090,704	21.0%	3,059,207	21.3%	1,031,497	33.7%
General and administrative expenses.....	4,343,283	22.2%	3,923,103	27.3%	420,180	10.7%
Expenses incurred in support of joint ventures ..	1,000,576	5.1%	875,869	6.1%	124,707	14.2%
Research and development expenses.....	4,364,109	22.4%	3,333,683	23.2%	1,030,426	30.9%

Net Sales. NTIC's consolidated net sales increased 35.7% to \$19,526,527 during fiscal 2011 compared to fiscal 2010. NTIC's consolidated net sales to customers excluding NTIC's joint ventures increased 36.1% to \$16,594,004 during fiscal 2011 compared to fiscal 2010. Net sales to joint ventures increased 33.5% to \$2,932,523 in fiscal 2011 compared to fiscal 2010. These increases were due primarily to an increase in sales of ZERUST[®] rust and corrosion inhibiting products and services primarily as a result of increased demand due to the recovery to some extent of the manufacturing sector and the addition of new customers, partially offset by slightly decreased pricing due to increased competition.

The following table sets forth additional detail regarding NTIC's net sales by product category and segment for fiscal 2011 and fiscal 2010:

	Fiscal 2011	Fiscal 2010	\$ Change	% Change
ZERUST [®] net sales.....	\$18,542,523	\$13,814,101	\$4,728,422	34.2%
Natur-Tec [®] net sales.....	984,004	572,663	411,341	71.8%
Total net sales.....	\$19,526,527	\$14,386,764	\$5,139,763	35.7%

During fiscal 2011, 95.0% of NTIC's consolidated net sales were derived from sales of ZERUST[®] products and services, which increased 34.2% to \$18,542,523 during fiscal 2011 compared to \$13,814,101 during fiscal 2010. This increase was primarily due to increased demand as a result of the economic recovery of the domestic manufacturing sector and the addition of new customers, partially offset by decreased pricing due to increased competition. Overall demand for ZERUST[®] products and services depends heavily on the overall health of the industrial markets in which NTIC sells its products, including in the automotive market. 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 fiscal 2011 included \$3,359,463 of sales made by Zerust Brazil, and of those sales, \$997,426 in sales were made to Petrobras compared to \$1,925,819 of sales made by Zerust Brazil during fiscal 2010, including of those sales, \$774,928 to Petrobras. As previously disclosed, during the second quarter of fiscal 2011, Zerust Brazil received a contract for ZERUST[®] products from Petrobras representing an aggregate of \$2.6 million. NTIC anticipates sales to Petrobras under this contract mostly during fiscal 2012. NTIC also anticipates that its sales of ZERUST[®] products and services into the oil and gas industry will remain subject to significant volatility from quarter to quarter as sales are converted and purchase orders are filled.

Net sales of Natur-Tec[®] products increased 71.8% to \$984,004 during fiscal 2011 compared to \$572,663 in fiscal 2010. This increase was primarily due to the addition of new Natur-Tec[®] distributors on the West Coast of the United States. NTIC anticipates additional revenue in future periods from anticipated sales of film-grade resin compounds to customers in both the North American and European markets, primarily to meet anticipated demand for biodegradable plastic bags that comply with various recently enacted governmental regulations. Additionally, NTIC is continuing to strengthen and expand its West Coast distribution network in California, while expanding its industrial distribution reach to geographical "green" hotspots such as Oregon, Washington, Minnesota and New England. NTIC is also targeting key national and regional retailers utilizing independent sales agents. Demand for the Natur-Tec[®] products depends primarily on market acceptance of the products and the extent of NTIC's distribution network, which as of August 31, 2011 consisted of 22 national and regional distributors and independent manufacturer's sales representatives.

Cost of Goods Sold. Cost of goods sold increased 36.1% in fiscal 2011 compared to fiscal 2010 primarily as a result of the increase in net sales. Cost of goods sold as a percentage of net sales increased to 65.4% during fiscal 2011 compared to 65.2% during fiscal 2010 primarily as a result a slight increase in shipping cost, production overhead, raw material prices and a higher percentage of sales of Natur-Tec[®] products, which generally carry smaller margins than ZERUST[®] products and services. Cost of goods sold in fiscal 2010 was effected by a \$360,577 write-down of Natur-Tec[®] inventory to its market value. There were no significant write-downs in fiscal 2011.

NTIC anticipated greater demand for its Natur-Tec[®] products than it experienced during fiscal 2010. Accordingly, NTIC had been unable to sell its Natur-Tec[®] inventory at the times and prices and in the volumes that NTIC initially anticipated. As a result, NTIC reduced the value of its Natur-Tec[®] inventory during fiscal 2010 to reflect its net realizable value by \$360,577. The Natur-Tec[®] raw material and finished goods inventory was purchased and manufactured previously when the base resins were significantly more expensive. As of August 31, 2011, \$902,507 of Natur-Tec[®] inventory remained on NTIC's consolidated balance sheet. If NTIC is unable to sell its remaining Natur-Tec[®] inventory at the times and prices and in the volumes at which it currently anticipates, future additional write-downs may be necessary, which could adversely affect NTIC's cost of goods sold.

Equity in Income of Joint Ventures. NTIC had equity in income of joint ventures of \$5,536,243 during fiscal 2011 compared to equity in income of joint ventures of \$3,919,084 during fiscal 2010. This increase in equity in income was due to increased sales and profitability of NTIC's joint ventures. Of the total equity in income of joint ventures, NTIC had equity in income of joint ventures of \$3,274,333 attributable to EXCOR during fiscal 2011 and \$2,113,872 attributable to EXCOR during fiscal 2010. Of the total equity in income of joint ventures, NTIC had equity in income of joint ventures of \$1,212,250 attributable to NTI ASEAN during fiscal 2011 and \$902,935 attributable to NTI ASEAN during fiscal 2010. NTIC had equity in income of all other joint ventures of \$1,049,660 during fiscal 2011 and \$902,278 during fiscal 2010.

Fees for Services Provided to Joint Ventures. NTIC recognized fee income for services provided to joint ventures of \$6,129,979 during fiscal 2011 compared to \$4,690,450 during fiscal 2010, representing an increase of 30.7%. This increase in fees for services provided to joint ventures was due primarily to the 40.4% increase in net sales of NTIC's joint ventures to \$119,276,553 in fiscal 2011 compared to \$84,973,646 in fiscal 2010. Sales of NTIC's joint ventures are not included in NTIC's 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 \$1,066,659 were attributable to EXCOR during fiscal 2011 compared to \$1,000,037 attributable to EXCOR during fiscal 2010. This increase was primarily 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 ASEAN investments. NTIC received fee income for services provided to all of its other joint ventures of \$5,063,320 during fiscal 2011 compared to \$3,690,413 during fiscal 2010.

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 fiscal 2011 or fiscal 2010 was deferred related to this future conference since \$288,000 had been accrued prior to such time during fiscal 2007 to fiscal 2009, 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 33.7% in fiscal 2011 compared to fiscal 2010 primarily 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 21.0% in fiscal 2011 compared to 21.3% in fiscal 2010 due to smaller proportional increases in selling expenses compared to the increase in net sales.

General and Administrative Expenses. NTIC's general and administrative expenses increased 10.7% in fiscal 2011 compared to fiscal 2010 primarily as a result of an increase in compensation and benefits expenses, partially offset by a decrease in consulting expenses and a loan write-off. As a percentage of net sales, general and administrative expenses decreased to 22.2% in fiscal 2011 compared to 27.3% in fiscal 2010 due to fixed general and administrative expenses spread over increased net sales.

Expenses Incurred in Support of Joint Ventures. Expenses incurred in support of NTIC's joint ventures were \$1,000,576 during fiscal 2011 compared to \$875,869 during fiscal 2010, representing an increase of 14.2%. This increase was due to an increase in consulting expense and legal and lab testing.

Research and Development Expenses. NTIC's research and development expenses increased 30.9% in fiscal 2011 compared to fiscal 2010 due to increases in salary and benefits expense and lab testing, partially offset by a decrease in consulting expenses.

Interest Income. NTIC's interest income increased to \$108,692 in fiscal 2011 compared to \$30,939 in fiscal 2010 primarily due to increased cash balances earning interest during fiscal 2011 compared to fiscal 2010.

Interest Expense. NTIC's interest expense decreased to \$59,541 in fiscal 2011 compared to \$97,676 in fiscal 2010 primarily due to the refinancing of NTIC's term loan in fiscal 2011 and its decreased term loan balance during fiscal 2011 compared to fiscal 2010.

Income Before Income Tax Expense (Benefit). Income before income tax expense (benefit) increased to \$4,768,155 for fiscal 2011 compared to \$2,303,756 for fiscal 2010.

Income Tax Expense (Benefit). Income tax expense for fiscal 2011 was \$706,000 compared to a benefit of \$(230,000) for fiscal 2010. Income tax expense (benefit) was calculated based on management's estimate of NTIC's annual effective income tax rate. NTIC's annual effective income tax rate during fiscal 2011 and fiscal 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.

Liquidity and Capital Resources

Sources of Cash and Working Capital. As of August 31, 2011, NTIC's working capital was \$9,085,748, including \$3,266,362 in cash and cash equivalents, compared to working capital of \$5,918,923, including \$1,776,162 in cash and cash equivalents, as of August 31, 2010.

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 August 31, 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. Advances made under the line of credit are due and payable on January 10, 2012. NTIC anticipates renewing the line of credit prior to the January 10, 2012 maturity date. At the option of NTIC, outstanding advances under the line of credit bear interest at either (a) an annual rate based on LIBOR plus 2.15% for the applicable LIBOR interest period selected by NTIC or (b) at the rate publicly announced by PNC Bank from time to time as its prime rate. Interest is payable in arrears (a) for the portion of advances bearing interest under the prime rate on the last day of each month during the term thereof and (b) for the portion of advances bearing interest under the LIBOR option on the last day of the respective LIBOR interest period selected for such advance. Any unpaid interest is payable on the maturity date.

The 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. Under the fixed charge coverage ratio financial covenant, NTIC shall not, as of the last calendar day of any fiscal quarter, on a rolling four quarters basis, suffer or permit the ratio of its adjusted EBITDA (defined as the aggregate of (a) its net income for that period, plus (b) its interest expense for that period, plus (c) its federal, state, and local income taxes, if any, for that period, plus (d) its depreciation and amortization charges for that period, plus (e) other non-recurring non-cash expenses reducing net income, minus (f) non-recurring non-cash items increasing net income, plus (g) increases to paid-in capital on stockholders' equity, minus (h) decreases to paid-in capital on stockholder's equity) to the aggregate (without duplication) of (i) its interest expense for that period, plus (ii) capital expenditures paid for from NTIC's funds other than funds borrowed as term debt to finance such capital expenditures during that period, plus (iii) all dividends and distributions paid during that period, plus (iv) taxes paid in cash plus, plus (v) payments made under all capital leases, plus (vi) an amount equal to the aggregate of all scheduled payments of principal on all indebtedness for borrowed money having an original term of more than one year, as shown on NTIC's consolidated financial statements as current liabilities as of one year prior to the date of determination to be less than 1.10:1.00. The fixed charge coverage ratio is to be computed and determined on a consolidated basis for NTIC and its subsidiaries in accordance with generally accepted accounting principles applied on a consistent basis (subject to normal year-end adjustments). The loan agreements also contain customary events of default, including, without limitation, payment defaults, material inaccuracy of representations and warranties, covenant defaults, bankruptcy and involuntary proceedings, and monetary judgment defaults.

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 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. 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 fiscal 2011 was \$1,136,223 which resulted principally from NTIC's equity in income from joint ventures and increases in receivables, inventories and prepaid expenses, partially offset by NTIC's net income, depreciation, amortization, and increases in accounts payable, accrued liabilities, income taxes payable and accrued liabilities. Net cash used in operating activities during fiscal 2010 was \$1,175,892 which resulted principally from NTIC's equity in income from joint ventures and increases in inventories, trade receivables and deferred income taxes, partially offset by NTIC's net income, depreciation and amortization expense, and decreases in services receivables from joint ventures, accrued liabilities and accounts payable.

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

NTIC experienced an increase in receivables and inventory as of August 31, 2011 compared to August 31, 2010 due to the increase in net sales and requests from customers to stock more products to shorten lead times and meet customer demand. Trade receivables excluding joint ventures as of August 31, 2011 increased \$287,547 compared to August 31, 2010, primarily related to the increase in NTIC's net sales.

Outstanding trade receivables excluding joint ventures balances as of August 31, 2011 increased nine days to an average of 49 days from balances outstanding from these customers as of August 31, 2010.

Outstanding trade receivables from joint ventures as of August 31, 2011 decreased \$66,415 compared to August 31, 2010, primarily due to the timing of payments, which resulted in a decrease of outstanding

balances from trade receivables from joint ventures as of August 31, 2011 of 116 days from an average of 123 days from balances outstanding from these customers compared to August 31, 2010. The significant average days outstanding of trade receivables from joint ventures as of August 31, 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 August 31, 2011 increased \$829,097 as compared to August 31, 2010, primarily resulting from an extension of terms mostly associated with NTIC's joint venture in India which resulted in a increase of 21 days of fees receivable outstanding as of the August 31, 2011 to an average of 117 days as compared to August 31, 2010.

Net cash provided by investing activities during fiscal 2011 was \$2,184,915 which was comprised of dividends received from joint ventures and proceeds from sale of property and equipment partially offset by additions to property and equipment, additions to patents and investments in joint ventures. Net cash provided by investing activities during fiscal 2010 was \$594,418, which was comprised of dividends received from joint ventures and cash received on loans made, partially offset by investment in joint ventures and additions to property and equipment and patents.

Net cash provided by financing activities during fiscal 2011 was \$408,719, which resulted from proceeds from option exercises and NTIC's 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 during fiscal 2010 was \$2,218,751, which resulted primarily from proceeds from NTIC's September 2009 registered directed offering and from NTIC's employee stock purchase plan and option exercises, partially offset by bank overdrafts and principal payments on the bank loan for NTIC's corporate headquarters building.

Capital Expenditures and Commitments. NTIC had no material lease or other material capital commitments as of August 31, 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 \$567,257 on capital expenditures during fiscal 2011 and expects to spend 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 August 31, 2011, NTIC had no borrowings under the line of credit.

Related Party Transactions

Since NTIC's joint ventures are considered related parties, NTIC records sales to its joint ventures as a separate line item on the face of NTIC's consolidated statements of operations and records fees for services provided to its joint ventures and expenses incurred in support of its joint ventures as separate line items on the face of NTIC's consolidated statements of operations. NTIC also records as separate line items trade receivables from joint ventures, receivables for fees for services provided to joint ventures and NTIC's investments in joint ventures on its consolidated balance sheets.

NTIC established its joint venture network approximately 25 years ago as a method to increase its worldwide distribution network for its rust and corrosion inhibiting products and services. 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 finished products in the geographic territory to which it is assigned. NTIC's joint venture partners are knowledgeable in the applicable environmental, labor, tax and other requisite regulations and laws of the respective foreign countries in which they operate, as well as the local customs and business practices. NTIC's revenue recognition policy for sales to its joint ventures is the same as its policy for sales to unaffiliated customers.

The fees for services received by NTIC from its joint ventures are generally determined based on either a flat fee or a percentage of net sales by NTIC's joint ventures depending on local laws and tax regulations. With respect to NTIC's German joint venture, NTIC receives an agreed upon quarterly fee for such services. With respect to NTIC's ASEAN joint venture holding company, NTIC does not receive a fee for such services, but rather receives a bi-annual dividend based on available cash. NTIC records revenue related to fees for services provided to joint ventures when earned, amounts are determinable and

collectability is reasonably assured. Under NTIC's agreements with its joint ventures, fee amounts are earned when product is shipped from joint venture facilities. NTIC reviews the financial situation of each joint venture to assist in the likelihood of collections on amounts earned. From time to time, NTIC elects to account for such fees on a cash basis for certain joint ventures when uncertainty exists surrounding the collections of such fees, there are no fees being accounted for in this manner at present. The expenses incurred in support of its joint ventures are direct expenses that NTIC incurs related to its joint ventures and include such items as employee compensation and benefit expenses, travel expense, insurance, consulting expense, legal expense and lab supplies and testing expense.

See Note 12 to NTIC's consolidated financial statements for other related party transaction disclosures.

Critical Accounting Policies and Estimates

The preparation of NTIC's consolidated financial statements requires management to make estimates and judgments that affect the reported amount of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. The Securities and Exchange Commission has defined a company's most critical accounting policies as those that are most important to the portrayal of its financial condition and results of operations, and which require the company to make its most difficult and subjective judgments, often as a result of the need to make estimates of matters that are inherently uncertain. Based on this definition, NTIC has identified the following critical accounting policies. Although NTIC believes that its estimates and assumptions are reasonable, they are based upon information available when they are made. Actual results may differ significantly from these estimates under different assumptions or conditions.

Principles of Consolidation

The Company evaluates its voting and variable interests in entities on a qualitative and quantitative basis. The Company consolidates entities in which it concludes it has the power to direct the activities that most significantly impact an entity's economic success and has the obligation to absorb losses or the right to receive benefits that could be significant to the entity. All such relationships are evaluated on an ongoing basis. The consolidated financial statements include the accounts of Northern Technologies International Corporation, its wholly owned subsidiaries, NTI Facilities, Inc., Northern Technologies Holding Company, LLC and NTIC's majority owned subsidiary in Brazil, Zerust Prevenção de Corrosão S.A. NTIC's consolidated financial statements do not include the accounts of any of its joint ventures. NTIC's consolidated financial statements do not include Polymer Energy LLC, in which NTIC holds a 62.5% ownership interest. Polymer Energy LLC had immaterial activity in fiscal 2011 and fiscal 2010.

Investments in Joint Ventures and Recoverability of Investments in Joint Ventures

NTIC's investments in its joint ventures are accounted for using the equity method. NTIC assesses its joint ventures for impairment on an annual basis as of August 31 of each year as part of its fiscal year end analysis. In addition to the annual review for impairment, NTIC reviews the operating results of each joint venture on a quarterly basis in comparison to its historical operating results and its accrual for fees for services provided to joint ventures. If the operating results of a joint venture do not meet NTIC's financial performance expectations, an additional evaluation is performed on the joint venture. In addition to the annual assessments for impairment, non-periodic assessments for impairment may occur if cash remittances are less than accrued balances, a joint venture's management requests capital or other events occur suggesting an other than temporary decline in value. If an investment were determined to be impaired, then a reserve would be created to reflect the impairment on the financial results of NTIC. NTIC's evaluation of its investments in joint ventures requires NTIC to make assumptions about future cash flows of its joint ventures. These assumptions require significant judgment and actual results may

differ from assumed or estimated amounts. NTIC's investments in joint ventures were \$20,559,509 as of August 31, 2011 and \$16,055,943 as of August 31, 2010. NTIC's investments in EXCOR and NTI ASEAN were \$10,931,819 and \$2,803,194, respectively, as of August 31, 2011 and \$7,938,751 and \$2,467,412, respectively, as of August 31, 2010.

Revenue Recognition

NTIC recognizes revenue from the sale of its products when persuasive evidence of an arrangement exists, the product has been delivered, the price is fixed and determinable and collection of the resulting receivable is reasonably assured. These criteria are met at the time of shipment when risk of loss and title pass to the customer, distributor or joint venture entity.

With respect to recording revenue related to fees earned for services provided to NTIC's joint ventures, NTIC recognizes revenue related to support of joint ventures when earned, amounts are determinable and collectability is reasonably assured. The support and services NTIC provides its joint ventures include consulting, travel, insurance, technical and marketing services to existing joint ventures, legal fees incurred in the establishment of new joint ventures, registration and promotion and legal defense of worldwide trademarks, and legal fees incurred in connection with the filing of patent applications. NTIC receives fees for these services it provides to its joint ventures based primarily on the net sales by NTIC's joint ventures. The fees for support services received by NTIC from its joint ventures are generally determined based on either a flat fee or a percentage of net sales by NTIC's joint ventures depending on local laws and tax regulations. Under NTIC's agreements with its joint ventures, amounts are earned when product is shipped from joint venture facilities. NTIC reviews the financial situation of each of its joint ventures to assist in the likelihood of collections on amounts earned. NTIC elects to account for these fees on a cash basis for certain joint ventures when uncertainty exists surrounding the collections of such fees.

Accounts and Notes Receivable

Trade receivables arise from sales of NTIC's products and services to NTIC's joint ventures and to unaffiliated customers. Trade receivables from joint ventures arise from sales NTIC makes to its joint ventures of products and the essential additives required to make ZERUST[®] industrial corrosion inhibiting products functional. Receivables for services to NTIC's joint ventures are contractually based primarily on a percentage of the sales of the joint ventures and are intended to compensate NTIC for services NTIC provides to its joint ventures, including consulting, legal, travel, insurance, technical and marketing services.

Payment terms for NTIC's unaffiliated customers are determined based on credit risk and vary by customer. NTIC typically offers standard payments terms to unaffiliated customers of net 30 days. Payment terms for NTIC's joint ventures also are determined based on credit risk; however, additional consideration also is given to the individual joint venture due to the transportation time associated with ocean delivery of most products and certain other factors. NTIC typically offers payment terms to joint ventures of net 90 days. NTIC does not accrue interest on past due accounts receivable. NTIC reviews the credit histories of its customers, including its joint ventures, before extending unsecured credit. NTIC values accounts and notes receivable, net of an allowance for doubtful accounts. Each quarter, NTIC prepares an analysis of its ability to collect outstanding receivables that provides a basis for an allowance estimate for doubtful accounts. In doing so, NTIC evaluates the age of its receivables, past collection history, current financial conditions of key customers and its joint ventures, and economic conditions. Based on this evaluation, NTIC establishes a reserve for specific accounts and notes receivable that it believes are uncollectible, as well as an estimate of uncollectible receivables not specifically known. Deterioration in the financial condition of any key customer or joint venture or a significant slowdown in

the economy could have a material negative impact on NTIC's ability to collect a portion or all of the accounts and notes receivable. NTIC believes that an analysis of historical trends and its current knowledge of potential collection problems provide NTIC with sufficient information to establish a reasonable estimate for an allowance for doubtful accounts. However, since NTIC cannot predict with certainty future changes in the financial stability of its customers or joint ventures, NTIC's actual future losses from uncollectible accounts may differ from its estimates. In the event NTIC determined that a smaller or larger uncollectible accounts reserve is appropriate, NTIC would record a credit or charge to selling expense in the period that it made such a determination. Accounts receivable have been reduced by an allowance for uncollectible accounts of \$20,000 as of August 31, 2011 and August 31, 2010.

Recoverability of Long-Lived Assets

NTIC reviews its long-lived assets whenever events or changes in circumstances indicate the carrying amount of the assets may not be recoverable and determines potential impairment by comparing the carrying value of the assets with expected net cash flows expected to be provided by operating activities of the business or related products. If the sum of the expected undiscounted future net cash flows were less than the carrying value, NTIC would determine whether an impairment loss should be recognized. An impairment loss would be measured by comparing the amount by which the carrying value exceeds the fair value of the asset.

Foreign Currency Translation (Accumulated Other Comprehensive Income)

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

NTIC conducts all foreign transactions based on the U.S. dollar, except for its investments in various foreign joint ventures. 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 the equity in income of joint ventures reflected in NTIC's consolidated statement of operations.

Stock-Based Compensation

NTIC recognizes compensation cost relating to share-based payment transactions, including grants of employee stock options and transactions under NTIC's employee stock purchase plan in its consolidated financial statements. That cost is measured based on the fair value of the equity or liability instruments issued. NTIC measures the cost of employee services received in exchange for stock options or other stock-based awards based on the grant-date fair value of the award, and recognizes the cost over the period the employee is required to provide services for the award.

Inventory Valuation

NTIC's inventories consist primarily of production materials and finished goods. NTIC purchases production materials and finished goods based on forecasted demand and records inventory at the lower of cost or market. Cost is determined by the first-in, first-out (FIFO) method. Management regularly assesses inventory valuation based on current and forecasted usage, demand and pricing, customer inventory-related contractual obligations and other considerations. If actual results differ from management estimates with respect to the actual or projected selling of inventories at amounts less than

their carrying amounts, NTIC would adjust its inventory balances accordingly. NTIC anticipated greater demand for certain Natur-Tec[®] products than it experienced during fiscal 2010. Accordingly, NTIC had been unable to sell its Natur-Tec[®] inventory at the times and prices and in the volumes that NTIC initially anticipated. As a result, NTIC recorded a \$360,577 write-down of certain Natur-Tec[®] inventory during fiscal 2010 to its market value, which adversely affected NTIC's cost of goods sold for fiscal 2010. The Natur-Tec[®] raw material and finished goods inventory was purchased and manufactured previously when the base resins were significantly more expensive. As of August 31, 2011, \$902,507 of Natur-Tec[®] inventory remained on NTIC's consolidated balance sheet. If NTIC is unable to sell its remaining Natur-Tec[®] inventory at the times and prices and in the volumes at which it currently anticipates, future additional write-downs may be necessary, which would again adversely affect NTIC's cost of goods sold.

Recent Accounting Pronouncements

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

Item 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

This Item 7A is inapplicable to NTIC as a smaller reporting company and has been omitted pursuant to Item 305(e) of SEC Regulation S-K.

Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

The following items are included herein:

<u>Financial Statements:</u>	<u>Page</u>
Report of Independent Registered Public Accounting Firm	53
Consolidated Balance Sheets as of August 31, 2011 and 2010.....	54
Consolidated Statements of Operations for the years ended August 31, 2011 and 2010.....	55
Consolidated Statements of Equity for the years ended August 31, 2011 and 2010.....	56
Consolidated Statements of Cash Flows for the years ended August 31, 2011 and 2010.....	57
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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders, Audit Committee and Board of Directors
Northern Technologies International Corporation and Subsidiaries

We have audited the accompanying consolidated balance sheets of Northern Technologies International Corporation and Subsidiaries as of August 31, 2011 and 2010, and the related consolidated statements of operations, equity and cash flows for the years then ended. These consolidated financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of the Company's internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Northern Technologies International Corporation and Subsidiaries as of August 31, 2011 and 2010 and the results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

/s/ Baker Tilly Virchow Krause, LLP
Minneapolis, Minnesota
November 18, 2011

**NORTHERN TECHNOLOGIES INTERNATIONAL CORPORATION
AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS - AUGUST 31, 2011 AND 2010**

	<u>August 31, 2011</u>	<u>August 31, 2010</u>
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 3,266,362	\$ 1,776,162
Receivables:		
Trade excluding joint ventures, less allowance for doubtful accounts of \$20,000 at August 31, 2011 and 2010	2,515,316	2,227,769
Trade joint ventures	1,149,666	1,216,081
Fees for services provided to joint ventures	2,129,911	1,300,814
Inventories	3,842,854	3,639,169
Prepaid expenses	364,805	143,980
Deferred income taxes	221,600	448,600
Total current assets	<u>13,490,514</u>	<u>10,752,575</u>
PROPERTY AND EQUIPMENT, net	<u>3,636,335</u>	<u>3,452,530</u>
OTHER ASSETS:		
Investments in joint ventures	20,559,509	16,055,943
Deferred income taxes	1,410,700	1,505,300
Patents and trademarks, net	903,038	912,718
Other	39,646	18,234
	<u>22,912,893</u>	<u>18,492,195</u>
	<u>\$ 40,039,742</u>	<u>\$ 32,697,300</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Current portion of note payable (Note 7)	\$ 76,119	\$ 1,144,922
Accounts payable	2,032,614	1,721,237
Income tax payable	195,762	174,502
Accrued liabilities:		
Payroll and related benefits	1,629,355	1,155,277
Deferred joint venture royalties	288,000	288,000
Other	182,916	349,714
Total current liabilities	<u>4,404,766</u>	<u>4,833,652</u>
NOTE PAYABLE, NET OF CURRENT PORTION (Note 7)	1,009,533	—
COMMITMENTS AND CONTINGENCIES (Note 14)		
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 4,353,058 and 4,259,321, respectively	87,061	85,186
Additional paid-in capital	10,137,809	9,140,936
Retained earnings	21,811,838	17,911,718
Accumulated other comprehensive income	2,496,940	704,473
Stockholders' equity	<u>34,533,648</u>	<u>27,842,313</u>
Non-controlling interests	91,795	21,335
Total equity	<u>34,625,443</u>	<u>27,863,648</u>
	<u>\$ 40,039,742</u>	<u>\$ 32,697,300</u>

See notes to consolidated financial statements.

**NORTHERN TECHNOLOGIES INTERNATIONAL CORPORATION
AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
YEARS ENDED AUGUST 31, 2011 AND 2010**

	<u>2011</u>	<u>2010</u>
NET SALES:		
Net sales, excluding joint ventures	\$ 16,594,004	\$ 12,190,171
Net sales, to joint ventures	2,932,523	2,196,593
NET SALES	<u>19,526,527</u>	<u>14,386,764</u>
Cost of goods sold	<u>12,768,640</u>	<u>9,384,866</u>
Gross profit	6,757,887	5,001,898
JOINT VENTURE OPERATIONS:		
Equity in income of joint ventures	5,536,243	3,919,084
Fees for services provided to joint ventures	<u>6,129,979</u>	<u>4,690,450</u>
	11,666,222	8,609,534
OPERATING EXPENSES:		
Selling expenses	4,090,704	3,059,207
General and administrative expenses	4,343,283	3,923,103
Expenses incurred in support of joint ventures	1,000,576	875,869
Research and development expenses	<u>4,364,109</u>	<u>3,333,683</u>
	13,798,672	11,191,862
OPERATING INCOME	4,625,437	2,419,570
INTEREST INCOME	108,692	30,939
INTEREST EXPENSE	(59,541)	(97,676)
OTHER INCOME	<u>27,300</u>	<u>25,094</u>
INCOME BEFORE INCOME TAX EXPENSE (BENEFIT)	4,701,888	2,377,927
INCOME TAX EXPENSE (BENEFIT)	<u>706,000</u>	<u>(230,000)</u>
NET INCOME	3,995,888	2,607,927
NET INCOME ATTRIBUTABLE TO NON CONTROLLING INTEREST	<u>95,768</u>	<u>24,171</u>
NET INCOME ATTRIBUTABLE TO NTIC	<u>\$ 3,900,120</u>	<u>\$ 2,583,756</u>
NET INCOME PER COMMON SHARE:		
Basic	<u>\$ 0.90</u>	<u>\$ 0.61</u>
Diluted	<u>\$ 0.89</u>	<u>\$ 0.61</u>
WEIGHTED AVERAGE COMMON SHARES ASSUMED OUTSTANDING:		
Basic	<u>4,325,863</u>	<u>4,223,605</u>
Diluted	<u>4,404,100</u>	<u>4,269,350</u>

See notes to consolidated financial statements.

**NORTHERN TECHNOLOGIES INTERNATIONAL CORPORATION
AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF EQUITY
AUGUST 31, 2011 AND 2010**

STOCKHOLDERS' EQUITY

	<u>Common Stock</u>		<u>Additional Paid-in Capital</u>	<u>Retained Earnings</u>	<u>Accumulated Other Comprehensive Income</u>	<u>Non- Controlling Interests</u>	<u>Total Equity</u>
	<u>Shares</u>	<u>Amount</u>					
BALANCE AT AUGUST 31, 2009	3,756,596	\$75,132	\$5,631,767	\$15,327,962	\$1,706,942	-	\$22,741,803
Stock issued, net of expenses of \$356,387	480,000	9,600	3,186,013	-	-	-	3,195,613
Exercise of stock options	17,500	350	97,915	-	-	-	98,265
Stock issued for employee stock purchase plan	5,225	104	36,820	-	-	-	36,924
Stock option expense	-	-	188,421	-	-	-	188,421
COMPREHENSIVE INCOME, 2010:							
Foreign currency translation adj. (net of tax)	-	-	-	-	(1,002,417)	(2,836)	\$ (1,005,305)
Net income	-	-	-	2,583,756	-	24,171	2,607,927
COMPREHENSIVE INCOME, 2010							\$ 1,612,622
BALANCE AT AUGUST 31, 2010	4,259,321	85,186	9,140,936	17,911,718	704,473	21,335	27,863,648
Stock issued in lieu of accrued payroll	22,686	454	319,195	-	-	-	319,649
Exercise of stock options	66,633	1,333	463,103	-	-	-	464,436
Stock issued for employee stock purchase plan	4,418	88	36,638	-	-	-	36,726
Stock option expense	-	-	177,937	-	-	-	177,937
Dividend paid to non-controlling interest						(33,173)	(33,173)
COMPREHENSIVE INCOME, 2011:							
Foreign currency translation adj. (net of tax)	-	-	-	-	1,792,467	7,865	\$ 1,800,332
Net income	-	-	-	3,900,120	-	95,768	3,995,888
COMPREHENSIVE INCOME, 2011							\$ 5,796,220
BALANCE AT AUGUST 31, 2011	4,353,058	\$ 87,061	\$10,137,809	\$ 21,811,838	\$2,496,940	\$91,795	\$34,625,443

See notes to consolidated financial statements.

**NORTHERN TECHNOLOGIES INTERNATIONAL CORPORATION
AND SUBSIDIARIES**
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED AUGUST 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 3,995,888	\$ 2,607,927
Adjustments to reconcile net income to net cash used in operating activities:		
Expensing of fair value of stock options vested	177,937	188,421
Change in allowance for doubtful accounts	—	(59,000)
Depreciation expense	335,877	382,594
Amortization expense	157,728	155,669
Loss on disposal of assets	(52,425)	—
Equity in income from joint ventures	(5,536,243)	(3,919,084)
Deferred income taxes	321,600	(398,300)
Receivables:		
Trade, excluding joint ventures	(287,547)	(520,013)
Trade, joint ventures	66,415	(553,127)
Fees for services receivables, joint ventures	(829,097)	459,788
Income taxes	—	235,653
Inventories	(203,685)	(1,514,855)
Prepaid expenses and other	(242,237)	26,018
Accounts payable	311,377	857,705
Income tax payable	21,260	121,834
Accrued liabilities	626,929	752,878
Net cash used in operating activities	<u>(1,136,223)</u>	<u>(1,175,892)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investment in joint ventures	(38,217)	(30,101)
Dividends received from joint ventures	2,838,437	836,882
Cash received on loans made	—	140,000
Effect of Zerust Brazil consolidation on cash (Note 1)	—	59,966
Additions to property and equipment	(567,257)	(232,007)
Proceeds from sale of property and equipment	100,000	—
Additions to patents	(148,048)	(180,322)
Net cash provided by investing activities	<u>2,184,915</u>	<u>594,418</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayment of note payable	(59,270)	(35,051)
Net borrowings/(repayments) made on line of credit	—	(1,077,000)
Dividend paid to noncontrolling interest	(33,173)	—
Proceeds from the issuance of common stock	—	3,195,613
Proceeds from employee stock purchase plan	36,726	36,924
Proceeds from exercise of stock options	464,436	98,265
Net cash provided by financing activities	<u>408,719</u>	<u>2,218,751</u>
EFFECT OF EXCHANGE RATE CHANGES ON CASH:	<u>32,789</u>	<u>—</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	<u>1,490,200</u>	<u>1,637,277</u>
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>1,776,162</u>	<u>138,885</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 3,266,362</u>	<u>\$ 1,776,162</u>

See notes to consolidated financial statements.

NORTHERN TECHNOLOGIES INTERNATIONAL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS YEARS ENDED AUGUST 31, 2011 AND 2010

1. NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES

Nature of Business – Northern Technologies International Corporation and Subsidiaries (the “Company”) 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. The Company’s primary business is corrosion prevention marketed mainly under the ZERUST[®] brand. The Company has been selling its proprietary ZERUST[®] rust and corrosion inhibiting products and services to the automotive, electronics, electrical, mechanical, military and retail consumer markets for over 35 years, and more recently, has targeted and expanded into the oil and gas industry. The Company’s ZERUST[®] rust and corrosion inhibiting products include plastic and paper packaging, liquids and coatings, rust removers and cleaners, and diffusers. The Company also offers worldwide on-site technical consulting for rust and corrosion prevention issues. The Company also sells a portfolio of bio-based and/or biodegradable (compostable) polymer resin compounds and finished products marketed under the Natur-Tec[®] brand. Natur-Tec[®] resin compounds 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 the finished products, which are marketed under the Natur-Bag[®] or Natur-Ware[®] brands, include shopping and grocery bags, lawn and leaf bags, can liners, pet waste collection bags, cutlery, packaging foam and coated paper products. These products are intended to reduce customers’ carbon footprint and provide environmentally sound disposal options.

The Company 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 the Company’s joint ventures exclusively sell rust and corrosion inhibiting products, some of the joint ventures sell the Company’s Natur-Tec[®] resin compounds and finished products. The Company’s Polymer Energy LLC joint venture manufactures and sells Polymer Energy[™] equipment that converts waste plastic into diesel, gasoline and heavy fractions. The profits of the Company’s joint ventures are shared by the respective joint venture owners in accordance with their respective ownership percentages. The Company typically owns 50% or less of its joint venture entities and thus does not control the decisions of these entities regarding whether to pay dividends or how much to pay in dividends in any given year.

The Company has evaluated subsequent events occurring after the date of the consolidated financial statements for events requiring recording or disclosure in the financial statements.

Principles of Consolidation - The Company evaluates its voting and variable interests in entities on a qualitative and quantitative basis. The Company consolidates entities in which it concludes it has the power to direct the activities that most significantly impact an entity’s economic success and has the obligation to absorb losses or the right to receive benefits that could be significant to the entity. All such relationships are evaluated on an ongoing basis. The consolidated financial statements include the accounts of Northern Technologies International Corporation and its wholly owned subsidiaries, NTI Facilities, Inc. and Northern Technologies Holding Company, LLC, and its majority owned Brazilian subsidiary, Zerust Prevenção de Corrosão S.A. (Zerust Brazil). All significant intercompany transactions and balances have been eliminated in consolidation. The consolidated financial statements do not include the accounts of any of the Company’s joint ventures.

Noncontrolling interest – The Company owns 85% of Zerust Brazil. The remaining 15% is accounted for as a noncontrolling interest and reported as part of equity in the consolidated financial statements. The Company allocates gains and losses to the noncontrolling interest even when such allocation might result in a deficit balance, reducing the losses attributed to the controlling interest, changes in ownership interests would be treated as equity transactions if control is maintained.

Net Sales –The Company includes as separate line items on its consolidated statements of operations net sales to its joint ventures and net sales to unaffiliated customers. There are no sales originating from the Company's joint ventures included in the amount, as the Company's investments in its joint ventures are accounted for using the equity method.

Revenue Recognition – The Company recognizes revenue from the sale of its products when persuasive evidence of an arrangement exists, the product has been delivered, the price is fixed and determinable and collection of the resulting receivable is reasonably assured. These criteria are met when risk of loss and title pass to the customer, distributor or joint venture entity.

Fees for Services Provided to Joint Ventures – The Company provides certain services to its joint ventures including consulting, legal, travel, insurance, technical and marketing services. The Company receives fees for the services it provides to its joint ventures. The fees for services received by the Company from its joint ventures are generally based on either a flat fee or a percentage of net sales by the Company's joint ventures depending on local laws and tax regulations. The Company recognizes revenues related to fees for services provided to its joint ventures when earned, amounts are determinable and collectability is reasonably assured. Under the Company's agreements with its joint ventures, amounts are earned when product is shipped from joint venture facilities. The Company reviews the financial situation of each of its joint ventures to assist in the likelihood of collections on amounts earned. The Company elects to account for these fees on a cash basis for certain joint ventures if uncertainty exists surrounding the collection of such fees.

Deferred Joint Venture Revenue – The Company sponsors a worldwide joint venture conference approximately every three to four years, in which all of its joint ventures are invited to participate. It defers a portion of its service fees received from its joint ventures in each accounting period leading up to the next conference, reflecting that the Company has not earned portions of the payments received. The next joint venture conference is scheduled to be held in the summer of 2012. At both August 31, 2011 and 2010, the Company had deferred \$288,000 of joint venture fees for services related to this future conference, which represents the amount that the Company expects to spend to hold the conference. This amount is based on the historical experience of the Company, current conditions, and the intentions of the Company's management. The Company does not anticipate deferring any additional service fees until after the next conference.

Accounts Receivable – Payment terms for the Company's unaffiliated customers are determined based on credit risk and vary by customer. The Company typically offers standard payments terms to unaffiliated customers of net 30 days. The Company does not accrue interest on past due accounts receivable. The Company reviews the credit histories of its customers before extending unsecured credit. The Company presents accounts and notes receivable, net of an allowance for doubtful accounts. Each quarter, the Company prepares an analysis of its ability to collect outstanding receivables that provides a basis for an allowance estimate for doubtful accounts. In doing so, the Company evaluates the age of its receivables, past collection history, current financial conditions of key customers and its joint ventures, and economic conditions. Based on this evaluation, the Company establishes a reserve for specific accounts and notes receivable that it believes are uncollectible, as well as an estimate of uncollectible receivables not specifically known. Deterioration in the financial condition of any key customer or a significant slowdown in the economy could have a material negative impact on the Company's ability to collect a

portion or all of the accounts and notes receivable. The Company believes that an analysis of historical trends and its current knowledge of potential collection problems provide the Company with sufficient information to establish a reasonable estimate for an allowance for doubtful accounts. However, since the Company cannot predict with certainty future changes in the financial stability of its customers or joint ventures, the Company's actual future losses from uncollectible accounts may differ from its estimates. In the event the Company determined that a smaller or larger uncollectible accounts reserve is appropriate, the Company would record a credit or charge to selling expense in the period that it made such a determination. Accounts receivable have been reduced by an allowance for uncollectible accounts of \$20,000 at August 31, 2011 and 2010. Accounts are considered past due based on terms agreed upon between the Company and the customer. Accounts receivable are written-off only after all collection attempts have failed and are based on individual credit evaluation and specific circumstances of the customer.

Receivables from Joint Ventures – Trade receivables from joint ventures arise from sales the Company makes to its joint ventures of products and the essential additives required to make ZERUST® industrial corrosion inhibiting products functional. Receivables for services to the Company's joint ventures are based primarily on a contractual percentage of the sales of the joint ventures and are intended to compensate the Company for services the Company provides to its joint ventures, including consulting, legal, travel, insurance, technical and marketing services. Payment terms for the Company's joint ventures also are determined based on credit risk; however, additional consideration also is given to the individual joint venture due to the transportation time associated with ocean delivery of most products and certain other factors. Generally, accounts receivable from the Company's joint ventures unpaid after 90 days are considered past due. The Company does not accrue interest on past due accounts receivable. The Company periodically reviews amounts due from its joint ventures for collectability, and based on past experience and continuous review of the balances due, has determined an allowance for doubtful accounts related to its joint venture receivables is not necessary.

Cash and Cash Equivalents - The Company includes as cash and cash equivalents highly liquid, short-term investments with maturity of three months or less when purchased, which are readily convertible into known amounts of cash. The Company maintains its cash in high quality financial institutions. The balances, at times, may exceed federally insured limits.

Inventories - Inventories are recorded at the lower of cost (first-in, first-out basis) or market.

Property and Depreciation - Property and equipment are stated at cost. Depreciation is computed using the straight-line method based on the estimated service lives of the various assets as follows:

Buildings and improvements	5-30 years
Machinery and equipment	3-10 years

Investments in Joint Ventures - Investments in the Company's joint ventures are accounted for using the equity method. Under the equity method, investments are initially recorded at cost and are adjusted for dividends, distributed and undistributed earnings and losses, changes in foreign currency exchange rates and additional investments. In the event the Company's share of joint venture's cumulative losses exceed the Company's investment balance, the balance is reported at zero value until proportionate income exceeds the losses. The Company assesses its joint ventures for impairment on an annual basis as of August 31 of each year as part of its fiscal year end analysis. In addition to the annual review for impairment, the Company reviews the operating results of each joint venture on a quarterly basis in comparison to its historical operating results and its accrual of fees for services provided to joint ventures. If the operating results of a joint venture do not meet financial performance expectations, an additional evaluation is performed on the joint venture. If an investment were determined to be impaired, then a

reserve is created to reflect the impairment on the financial results of the Company. The Company's evaluation of its investments in joint ventures requires the Company to make assumptions about future cash flows of its joint ventures. These assumptions require significant judgment and actual results may differ from assumed or estimated amounts. The Company's investments in joint ventures were \$20,559,509 as of August 31, 2011 and \$16,055,943 as of August 31, 2010. The Company's investments in its primary joint venture in Germany, Excor Korrosionsschutz – Technologien und Produkte GmbH (EXCOR) and the Company's joint venture holding company in the Association of Southeast Asian Nations, or ASEAN, region, NTI ASEAN, LLC (NTI ASEAN) were \$10,931,819 and \$2,803,194, respectively, as of August 31, 2011 and \$7,938,751 and \$2,467,412, respectively, as of August 31, 2010.

Recoverability of Long-Lived Assets - The Company reviews its long-lived assets whenever events or changes in circumstances indicate the carrying amount of the assets may not be recoverable. The Company determines potential impairment by comparing the carrying value of the assets with expected net cash flows expected to be provided by operating activities of the business or related products. If the sum of the expected undiscounted future net cash flows is less than the carrying value, the Company evaluates if an impairment loss should be recognized. An impairment loss is measured by comparing the amount by which the carrying value exceeds the fair value of the asset.

Income Taxes - The Company utilizes the liability method of accounting for income taxes which requires an asset and liability approach to financial accounting and reporting for income taxes. Deferred income tax assets and liabilities are computed annually for differences between the financial statement and tax basis of assets and liabilities that will result in taxable or deductible amounts in the future, based on enacted tax laws and rates applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized. The Company 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. Income tax expense is the tax payable or refundable for the period plus or minus the change during the period in deferred tax assets and liabilities.

Foreign Currency Translation (Accumulated Other Comprehensive Income) - The functional currency of Zerust Brazil and each unconsolidated international joint venture is the applicable local currency. The translation of the applicable foreign currencies into U.S. dollars is performed for balance sheet accounts using exchange rates in effect at the balance sheet date and for revenue and expense accounts using an average monthly exchange rate. Translation gains or losses are reported as an element of other comprehensive income.

The Company (excluding Zerust Brazil and its joint ventures) conducts all foreign transactions based on the U.S. dollar. Since investments in joint ventures are accounted for using the equity method, any changes in foreign currency exchange rates are reflected as a foreign currency translation adjustment and does not change the equity in income of joint ventures reflected in the Company's consolidated statements of operations.

Fair Value of Financial Instruments – The carrying value of cash, short-term accounts and notes receivable, notes payable, trade accounts payables, and other accrued expenses approximate fair value because of the short maturity of those instruments. The fair value of the Company's long-term debt approximates the carrying values based upon current market rates of interest.

Shipping and Handling - The Company records all amounts billed to customers in a sales transaction related to shipping and handling as sales. The Company records costs related to shipping and handling in cost of goods sold.

Research and Development - The Company expenses all costs related to product research and development as incurred. The costs related to product research and development are the net amount after being reduced by reimbursements related to certain research and development contracts of \$219,175 and \$600,023 for fiscal 2011 and fiscal 2010, respectively. 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 August 31, 2011, the Company did not have any deferred amounts in other accrued liabilities, compared to \$130,196 that was deferred at August 31, 2010 as the Company had not yet performed under the obligations of the contract at that time.

Stock-Based Compensation – The Company recognizes compensation cost relating to share-based payment transactions, including grants of employee stock options and transactions under the Company's employee stock purchase plan, in its consolidated financial statements. That cost is measured based on the fair value of the equity or liability instruments issued. The Company measures the cost of employee services received in exchange for stock options and other stock-based awards based on the grant-date fair value of the award, and recognizes the cost over the period the employee is required to provide services for the award.

Use of Estimates - The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

2. RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In May 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2011-04, "*Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and International Financial Reporting Standards (IFRS)*." This pronouncement was issued to provide a consistent definition of fair value and ensure that the fair value measurement and disclosure requirements are similar between U.S. GAAP and IFRS. ASU 2011-04 changes certain fair value measurement principles and enhances the disclosure requirements particularly for Level 3 fair value measurements. This pronouncement is effective for reporting periods beginning on or after December 15, 2011, with early adoption prohibited. The new guidance will require prospective application. The Company will adopt this guidance at the beginning of its fiscal 2013. Adoption of this guidance is not expected to have a material impact on the Company's consolidated results of operations or financial position.

In June 2011, the FASB issued ASU No. 2011-05, "*Presentation of Comprehensive Income*" which was issued to enhance comparability between entities that report under U.S. GAAP and IFRS, and to provide a more consistent method of presenting non-owner transactions that affect an entity's equity. ASU 2011-05 eliminates the option to report other comprehensive income and its components in the statement of changes in stockholders' equity and requires an entity to present the total of comprehensive income, the components of net income and the components of other comprehensive income either in a single continuous statement or in two separate but consecutive statements. This pronouncement is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. Early adoption of the new guidance is permitted and full retrospective application is required. The Company will adopt this guidance at the beginning of its third quarter of fiscal 2012. Adoption of this guidance is not expected to have any impact on the Company's financial position, results of operations or cash flows.

3. INVENTORIES

Inventories consisted of the following:

	<u>August 31, 2011</u>	<u>August 31, 2010</u>
Production materials	\$ 1,320,082	\$ 1,189,988
Finished goods	2,522,772	2,449,181
	<u>\$ 3,842,854</u>	<u>\$ 3,639,169</u>

4. PROPERTY AND EQUIPMENT, NET

Property and equipment, net consisted of the following:

	<u>August 31, 2011</u>	<u>August 31, 2010</u>
Land	\$ 310,365	\$ 310,365
Buildings and improvements	3,110,867	3,099,186
Machinery and equipment	2,213,269	1,717,625
	5,634,501	5,127,176
Less accumulated depreciation	(1,998,166)	(1,674,646)
	<u>\$ 3,636,335</u>	<u>\$ 3,452,530</u>

5. PATENTS AND TRADEMARKS, NET

Patents and trademarks, net consisted of the following:

	<u>August 31, 2011</u>	<u>August 31, 2010</u>
Patents and trademarks	\$ 1,758,722	\$ 1,610,674
Less accumulated amortization	(855,684)	(697,956)
	<u>\$ 903,038</u>	<u>\$ 912,718</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.

6. 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 conform with accounting principles generally accepted in the United States of America in all material respects. All material profits recorded on sales from the Company to its joint ventures have been eliminated for financial reporting purposes.

Financial information from the audited and unaudited financial statements of EXCOR and NTI ASEAN, and all of the Company's other joint ventures, are summarized as follows:

	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 in income of joint ventures	20,559,509	10,931,819	2,803,194	6,824,496
Northern Technologies International Corporation's share of joint ventures' undistributed earnings	\$ 18,967,125	\$ 10,900,914	\$ 2,432,235	\$ 5,633,976

	August 31, 2010			
	TOTAL	EXCOR	NTI ASEAN	All Other
Current assets	\$ 50,031,107	\$ 16,567,240	\$ 12,637,967	\$ 20,825,900
Total assets	55,918,090	18,967,090	12,901,522	24,049,478
Current liabilities	16,478,695	3,089,590	4,721,652	8,667,454
Noncurrent liabilities	4,454,280	—	868,902	3,585,378
Joint ventures' equity	34,985,115	15,877,500	7,310,968	11,796,646
Northern Technologies International Corporation's share of joint ventures' equity in income of joint ventures	16,055,943	7,938,751	2,467,412	5,649,780
Northern Technologies International Corporation's share of joint ventures' undistributed earnings	\$ 14,447,831	\$ 7,907,847	\$ 2,096,454	\$ 4,443,530

	Fiscal Year Ended August 31, 2011			
	TOTAL	EXCOR	NTI ASEAN	All Other
Net sales	\$119,276,553	\$39,038,653	\$18,938,928	\$61,298,972
Gross profit	54,135,274	19,080,420	8,812,415	26,242,439
Net income	10,517,984	6,804,175	1,444,304	2,269,505
Northern Technologies International Corporation's share of equity in income of joint ventures	\$5,536,243	\$3,274,333	\$1,212,250	\$1,049,660

	Fiscal Year Ended August 31, 2010			
	TOTAL	EXCOR	NTI ASEAN	All Other
Net sales	\$ 84,973,646	\$ 25,957,762	\$ 14,777,730	\$44,238,153
Gross profit	39,900,088	13,943,045	7,237,621	18,719,422
Net income	7,213,975	4,260,222	1,234,546	1,719,207
Northern Technologies International Corporation's share of equity in income of joint ventures	\$ 3,919,084	\$ 2,113,872	\$ 902,935	\$ 902,278

The Company records expenses that are directly attributable to the joint ventures on its consolidated 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, consulting expense and legal expense.

During fiscal 2011 and fiscal 2010, the Company invested \$38,217 and \$30,101, respectively, in a new joint venture in Russia to specifically engage in the oil and gas industry. The Company has a 50% ownership interest in the new Russian joint venture. The Company did not make any other joint venture investments during fiscal 2011 and fiscal 2010.

7. 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 with no amounts outstanding as of August 31, 2011. As of August 31, 2010, the Company had a demand line of credit of \$2,300,000 with PNC Bank with no amounts outstanding as of such date. Any advances made under the revolving line of credit are due and payable on January 10, 2012. 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 August 31, 2011, the interest rate was 2.50% and the weighted average rate was 2.43% for fiscal 2011. As of August 31, 2010, the interest rate was 2.51% and the weighted average rate was 2.50% for fiscal 2010. 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. Under the fixed charge coverage ratio financial covenant, the Company shall not, as of the last calendar day of any fiscal quarter, on a rolling four quarters basis, suffer or permit the ratio of its adjusted EBITDA (defined as the aggregate of (a) its net income for that period, plus (b) its interest expense for that period, plus (c) its federal, state, and local income taxes, if any, for that period, plus (d) its depreciation and amortization charges for that period, plus (e) other non-recurring non-cash expenses reducing net income, minus (f) non-recurring non-cash items increasing net income, plus (g) increases to paid-in capital on stockholders’ equity, minus (h) decreases to paid-in capital on stockholder’s equity) to the aggregate (without duplication) of (i) its interest expense for that period, plus (ii) capital expenditures paid for from the Company’s funds other than funds borrowed as term debt to finance such capital expenditures during that period, plus (iii) all dividends and distributions paid during that period, plus (iv) taxes paid in cash plus, plus (v) payments made under all capital leases, plus (vi) an amount equal to the aggregate of all scheduled payments of principal on all indebtedness for borrowed money having an original term of more than one year, as shown on the Company’s financial statements as current liabilities as of one year prior to the date of determination to be less than 1.10:1.00. The fixed charge coverage ratio is to be computed and determined on a consolidated basis for the Company in accordance with generally accepted accounting principles applied on a consistent basis (subject to normal year-end adjustments). The Loan Agreements also contain customary events of default, including, without limitation, payment defaults, material inaccuracy of representations and warranties, covenant defaults, bankruptcy and involuntary proceedings, and monetary judgment defaults.

8. 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 (2007 Plan) and the Northern Technologies International Corporation Employee Stock Purchase Plan (ESPP). The Compensation Committee of the Board of Directors and the Board of Directors administer 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. To date, only stock options and stock bonuses have been granted under the 2007 Plan. Subject to adjustment as provided in the 2007 Plan, up to a total of 800,000 shares of the Company's common stock have been reserved for issuance under the 2007 Plan, plus the number of shares subject to stock options outstanding under the Company's prior stock-based compensation plan as of January 20, 2011 but only to the extent that such outstanding options are forfeited, expire or otherwise terminate without the issuance of such shares. As of August 31, 2011, 513,734 shares of the Company's common stock remain available for issuance under the 2007 Plan. Options granted under the 2007 Plan generally have a term of five years and become exercisable over a three- or four-year period beginning on the one-year anniversary of the date of grant. Options are granted at per share exercise prices equal to the market value of the Company's common stock on the date of grant.

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 fair value of option grants is determined at date of grant, using the Black-Scholes option pricing model with the assumptions listed below. The volatility factor used in the Black-Scholes option pricing model is based on historical stock price fluctuations and the risk free interest rate is based on U.S. treasury rates appropriate for the expected term. Dividend yield and expected volatility are estimated using historical amounts that are anticipated to be consistent with current values. Expected life of option is based on the life of the option agreements. Based on these valuations, the Company recognized compensation expense of \$177,937 and \$188,421 during fiscal 2011 and 2010, respectively, related to the options that vested during such time period. As of August 31, 2011, the total compensation cost for nonvested options not yet recognized in the Company's consolidated statements of operations was \$152,846, net of estimated forfeitures which were \$16,982 as of August 31, 2011. That cost is expected to be recognized over an expected weighted-average period of 2 years. Stock-based compensation expense of \$124,770 and \$28,076 are expected to be recognized during fiscal 2012 and fiscal 2013, respectively, based on outstanding options as of August 31, 2011. Future option grants will impact the compensation expense recognized.

The Company currently estimates a ten percent forfeiture rate for stock options, but will continue to review this estimate in 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:

	<u>August 31, 2011</u>	<u>August 31, 2010</u>
Dividend yield	0.00%	0.00%
Expected volatility	48.8%	48.3%
Expected life of option	5 years	5 years
Weighted average risk-free interest rate	0.71 %	2.34%

Stock option activity during the periods indicated is as follows:

	<u>Number of Shares (#)</u>	<u>Weighted Average Exercise Price</u>	<u>Aggregate Intrinsic Value</u>
Outstanding at August 31, 2009	137,472	8.42	
Options granted	128,333	7.94	
Options exercised	(17,500)	5.62	
Options terminated	(15,833)	8.70	
Outstanding at August 31, 2010	232,472	8.42	
Options granted	30,000	9.76	
Options exercised	(66,633)	6.97	
Options terminated	(6,000)	8.83	
Outstanding at August 31, 2011	189,839	\$ 9.07	\$1,400,665
Exercisable at August 31, 2011	82,942	\$ 9.57	\$570,366

The weighted average per share fair value of options granted during fiscal 2011 and fiscal 2010 were \$3.60 and \$2.98, respectively. The weighted average remaining contractual life of the options outstanding as of August 31, 2011 and 2010 was 2.80 years and 2.91 years, respectively.

The following is a reconciliation of the earnings per share computation:

Numerators:	<u>August 31, 2011</u>	<u>August 31, 2010</u>
Net income (loss)	\$ 3,900,120	\$ 2,583,756
Denominator:		
Basic – weighted shares outstanding	4,325,863	4,223,605
Weighted shares assumed upon exercise of stock options	78,237	45,745
Diluted – weighted shares outstanding	4,404,100	4,269,350
Basic earnings (loss) per share:	\$0.90	\$0.61
Diluted earnings (loss) per share:	\$0.89	\$0.61

The dilutive impact summarized above relates to the periods when the average market price of Company 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.

Excluded from the computation of diluted earnings per share for the year ended August 31, 2010 were options out of the money with rights to purchase approximately 27,333 common shares, respectively, with an exercise price of \$12.84, because the effect would have been anti-dilutive.

9. STOCKHOLDERS' EQUITY

During fiscal 2011, 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 fiscal 2011:

<u>Options Exercised</u>	<u>Exercise Price</u>
40,000	\$5.38
3,300	7.65
666	7.75
8,000	8.01
4,000	8.57
1,334	9.75
4,000	9.76
5,333	12.84

During fiscal 2011, the Company granted stock for payment of fiscal 2010 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 fiscal 2011 was based on fiscal 2010 performance and was included in accrued liabilities at August 31, 2010.

The total intrinsic value of the options exercised during the year ended August 31, 2011 was \$480,203.

During fiscal 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 fiscal 2010:

<u>Options Exercised</u>	<u>Exercise Price</u>
1,500	\$6.15
8,000	\$5.38
8,000	\$5.75

The total intrinsic value of the options exercised during the year ended August 31, 2010 was \$64,180.

During fiscal 2010, the Company completed a \$3,552,000 registered direct offering in which it sold an aggregate of 480,000 shares of its common stock to institutional investors at a purchase price of \$7.40 per share, resulting in net proceeds of \$3,195,613, after deducting placement agent fees and expenses and the Company's offering expenses.

10. GEOGRAPHIC AND SEGMENT INFORMATION

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

	<u>Fiscal Year Ended August 31,</u>	
	<u>2011</u>	<u>2010</u>
Inside the U.S.A. to unaffiliated customers	63.2%	68.5%
Outside the U.S.A. to:		
Joint ventures in which the Company is a shareholder directly and indirectly	16.5%	16.5%
Unaffiliated customers	20.3%	15.0%
	<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 during fiscal 2011 and fiscal 2010 were as follows:

	% of Total Fees for Services Provided to Joint Ventures in		% of Total Fees for Services Provided to Joint Ventures in Fiscal 2010	
	Fiscal 2011	Fiscal 2011	Fiscal 2010	Fiscal 2010
Japan	\$ 1,184,205	19.3%	\$ 963,208	20.5%
Germany	1,066,659	17.4%	1,000,037	21.3%
India	844,147	13.8%	548,779	11.7%
France	727,653	11.9%	528,717	11.3%
Sweden	575,271	9.4%	389,945	8.3%
Finland	535,913	8.7%	401,607	8.6%
United Kingdom	306,586	5.0%	276,812	5.9%
Other	889,545	14.5%	581,345	12.4%
	<u>\$ 6,129,979</u>	<u>100.0%</u>	<u>\$ 4,690,450</u>	<u>100.0%</u>

The following table sets forth the Company's net sales for fiscal 2011 and fiscal 2010 by segment:

	Fiscal 2011	Fiscal 2010	\$ Change	% Change
ZERUST [®] net sales	\$18,542,523	\$13,814,101	\$4,728,422	34.2%
Natur-Tec [®] net sales	984,004	572,663	411,341	71.8%
	<u>\$19,526,527</u>	<u>\$14,386,764</u>	<u>\$5,139,763</u>	<u>35.7%</u>

The following table sets forth the Company's cost of goods sold for fiscal 2011 and fiscal 2010 by segment:

	Fiscal 2011	% of Product Sales*	Fiscal 2010**	% of Product Sales*
Direct cost of goods sold				
ZERUST [®]	\$10,087,637	54.4%	\$7,353,838	53.2%
Natur-Tec [®]	702,608	71.4%	665,591	116.2%
Indirect cost of goods sold	1,978,395	—	1,365,437	—
	<u>\$12,768,640</u>	<u>65.4%</u>	<u>\$9,384,866</u>	<u>65.2%</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 direct cost of goods sold for Natur-Tec[®] includes \$358,474 of inventory that was written down to the current market value. This inventory was purchased when the primary raw material that makes up many of the Natur-Tec[®] products was higher than current replacement prices and market value.

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:

	Fiscal Year Ended August 31,	
	2011	2010
United States	\$3,499,518	\$3,399,567
Brazil	136,817	52,963
Consolidated	<u>\$3,636,335</u>	<u>\$3,452,530</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.

11. RETIREMENT PLAN

The Company has a 401(k) employee savings plan. Employees who meet certain age and service requirements may elect to contribute up to 15% of their salaries. The Company typically contributes the lesser of 50% of the participant's contributions or 3.5% of the employee's salary. In January 2009, as part of its cost reduction efforts, the Company suspended its match of participant contributions. In January 2010, the Company resumed its match of participant contributions. The Company recognized expense for the savings plan of \$150,223 and \$67,743 for fiscal 2011 and fiscal 2010, respectively.

12. RELATED PARTY TRANSACTIONS

During fiscal 2011 and fiscal 2010, the Company made consulting payments totaling \$100,000 per year, to Bioplastic Polymers LLC, an entity owned by Ramani Narayan, Ph.D., a director of the Company, and paid royalties of \$5,624 and \$2,668, respectively, based on net sales of the Company's bioplastics products.

In May 2009, the Company entered into a technology transfer and consulting agreement with Sunggyu Lee, Ph.D., a director of the Company, pursuant to which the Company paid Dr. Lee \$30,000 payable in six \$5,000 monthly installments in exchange for an 18-month option to purchase certain technology developed by Dr. Lee.

13. INCOME TAXES

The provision for income taxes for the fiscal years ended August 31, 2011 and 2010 consists of the following:

	Fiscal Year Ended August 31,	
	2011	2010
Current:		
Federal	\$ -	\$ 38,000
State	40,000	7,000
Foreign	344,000	124,000
	<u>384,000</u>	<u>169,000</u>
Deferred:		
Federal	303,000	(375,000)
State	19,000	(24,000)
Foreign	-	-
	<u>322,000</u>	<u>(399,000)</u>
	<u>\$ 706,000</u>	<u>\$ (230,000)</u>

Reconciliations of the expected federal income tax at the statutory rate with the provisions for income taxes for the fiscal years ended August 31, 2011 and 2010 are as follows:

	Fiscal Year Ended August 31,	
	2011	2010
Tax computed at statutory rates	\$ 1,692,000	\$ 805,000
State income tax, net of federal benefit	46,000	26,000
Tax effect on equity in income (loss) of international joint ventures	(1,705,000)	(1,191,000)
Tax effect on dividends received from joint ventures	1,229,000	166,000
Benefit of foreign operations	119,000	74,000
Foreign tax credit	(1,440,000)	-
Research and development credit	(205,000)	(151,000)
Valuation allowance	896,000	50,000
Other	74,000	(9,000)
	<u>\$ 706,000</u>	<u>\$ (230,000)</u>

The Company has not provided U.S. income taxes with respect to its portion of the cumulative undistributed earnings of foreign joint ventures that are essentially permanent in duration. The Company's portion of the cumulative undistributed earnings of foreign joint ventures that are essentially permanent in duration were \$17,948,000 and \$15,021,000 at August 31, 2011 and 2010, respectively. If some or all of the undistributed earnings of the joint ventures are remitted to the Company in the future, income taxes, if any, after the application of foreign tax credits will be provided at that time.

The tax effect of the temporary differences and tax carry forwards comprising the net deferred taxes shown on the consolidated balance sheets at August 31, 2011 and 2010 are as follows:

	August 31,	
	2011	2010
Current:		
Accrued bonus	\$ -	\$ 289,100
Allowance for doubtful accounts	7,200	7,200
Inventory costs	12,600	26,900
Prepaid expenses and other	(24,900)	(23,500)
Other accrued expenses	122,600	44,800
Deferred joint venture expenses	104,100	104,100
Total current	<u>\$ 221,600</u>	<u>\$ 448,600</u>

	August 31,	
	2011	2010
Noncurrent:		
Property and equipment	\$ (141,100)	\$ (164,800)
Goodwill	51,000	58,900
Other intangible assets	497,200	286,900
Nonqualified stock options	113,000	83,100
Foreign tax credit carryforward	3,524,300	3,013,500
Net operating loss carryforward	-	557,200
Research and development credit	1,155,600	950,900
New hire retention credit	10,000	-
	<u>5,210,000</u>	<u>4,785,700</u>
Valuation allowance	(3,799,300)	(3,280,400)
Total noncurrent	<u>\$ 1,410,700</u>	<u>\$ 1,505,300</u>

At August 31, 2011, the Company had foreign tax credit carryforwards of approximately \$3,524,000, of which approximately \$234,000 will expire if not utilized by August 31, 2012. In addition, the Company had federal and state tax credit carryforwards of \$1,165,600 at August 31, 2011 which begin to expire in fiscal 2019. These federal and state tax credit carryforwards consist primarily of federal and Minnesota state research and development credit carryforwards.

The Company has recorded a valuation allowance of \$3,524,000 with respect to the foreign tax credit carryforwards. In addition, the Company has recorded a valuation allowance of \$275,000 with respect to Minnesota state research and development credit carryforwards.

The Company records a tax valuation allowance to reduce deferred tax assets to the amount expected to be realized when it is more likely than not that some portion or all of its deferred tax assets will not be realized. The Company 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 carryforward and Minnesota state research and development credit carryforwards, will be fully realized. The Company determined that its deferred tax asset related to foreign tax credit carryforwards will not be realized due to insufficient federal taxable income within the carryforward period and the fact that for ordering purposes the foreign tax credit carryforwards are not allowed to be used until after any current year foreign tax credits are utilized. In addition, based on historical data and future projections, the Company determined that it is more likely than not that its deferred tax asset related to Minnesota state research and development credit carryforwards will not be realized due to insufficient Minnesota apportioned taxable income within the carryforward period.

The following is a tabular reconciliation of the total amounts of unrecognized tax benefits:

	Fiscal Year Ended August 31,	
	2011	2010
Gross unrecognized tax benefits – beginning balance	\$ 105,000	\$ 100,000
Gross increases - prior period tax positions	11,000	5,000
Gross increases – current period tax positions	15,000	-
Gross unrecognized tax benefits – ending balance	<u>\$ 131,000</u>	<u>\$ 105,000</u>

The entire amount of unrecognized tax benefits would affect the effective tax rate. It is not expected that the amount of unrecognized tax benefits will change significantly in the next 12 months.

The Company recognizes interest and penalties related to unrecognized tax benefits as a component of the Company's income tax provision. Accrued interest and penalties are included within the related tax liability line in the consolidated balance sheet. The liability for the payment of interest and penalties was \$0 at both August 31, 2011 and August 31, 2010.

The Company is subject to taxation in the United States and various states and foreign jurisdictions. With few exceptions, as of August 31, 2011, the Company is no longer subject to federal, state, local, or foreign examinations by tax authorities for years prior to August 31, 2008.

14. COMMITMENTS AND CONTINGENCIES

On August 27, 2010, the Company's Board of Directors, upon recommendation of the Compensation Committee, approved the material terms of an annual bonus plan for the Company's executive officers and certain employees for the fiscal year ending August 31, 2011, the purpose of which is to align the interests of the Company, its executive officers and stockholders by providing an incentive for the achievement of key corporate and individual performance measures that are critical to the success of the Company and linking a significant portion of each executive officer's annual compensation to the achievement of such measures. The following is a brief summary of the material terms approved by the Board:

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

There was \$1,379,565 accrued for bonuses under this plan as of August 31, 2011. \$756,000 was accrued for bonuses under the prior fiscal year plan as of August 31, 2010.

On September 27, 2011, the Compensation Committee 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 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.

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 - \$238,500; 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 August 31, 2011 and 2010, respectively. One joint venture accounted for 53.5% and 36.4% of the Company's trade joint venture receivables at August 31, 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.

15. STATEMENTS OF CASH FLOWS

Supplemental disclosures of cash flow information for the fiscal years ended August 31, 2011 and 2010 consist of:

	Fiscal Year Ended August 31,	
	2011	2010
Cash paid during the year for income tax	\$ —	\$ —
Cash paid during the year for interest	59,541	98,963
Common stock issued in lieu of accrued payroll (22,686 and 0 shares, respectively)	319,650	—
Decrease in the Company's investment in joint ventures and accumulated other comprehensive income due to changes in exchange rates	\$1,792,467	\$(1,005,305)

16. QUARTERLY INFORMATION (UNAUDITED)

	Fiscal Quarter Ended			
	November 30	February 28	May 31	August 31
Fiscal year 2011:				
Net sales	\$4,098,441	\$ 4,778,118	\$5,100,778	\$ 5,549,190
Gross profit	1,407,736	1,771,886	1,641,927	1,936,338
Income before income tax expense	1,016,874	1,141,219	1,250,155	1,293,640
Income tax expense	122,000	140,000	228,000	216,000
Net income	894,874	1,001,219	1,022,155	1,077,640
Net income per share:				
Basic	\$ 0.21	\$ 0.22	\$ 0.24	\$ 0.25
Diluted	\$ 0.21	\$ 0.22	\$ 0.23	\$ 0.24
Weighted average common shares assumed outstanding:				
Basic	4,264,187	4,340,934	4,343,601	4,352,558
Diluted	4,324,757	4,419,921	4,427,097	4,442,452
Fiscal year 2010:				
Net sales	\$ 2,711,402	\$ 2,876,478	\$3,237,198	5,561,686
Gross profit	953,906	1,035,831	1,064,296	1,947,865

	Fiscal Quarter Ended			
	November 30	February 28	May 31	August 31*
Income before income tax benefit	420,705	252,641	841,968	862,613
Income tax benefit	(15,000)	(94,000)	(110,000)	(11,000)
Net income	435,705	346,641	951,968	873,613
 Net income per share:				
Basic	\$ 0.11	\$ 0.08	\$ 0.22	\$ 0.20
Diluted	\$ 0.11	\$ 0.08	\$ 0.22	\$ 0.20
 Weighted average common shares assumed outstanding:				
Basic	4,149,096	4,194,887	4,213,465	4,223,605
Diluted	4,163,441	4,225,907	4,242,735	4,231,589

* During the fourth quarter of fiscal 2010, the Company decided to consolidate the financial results of the Company's majority owned Brazilian subsidiary, Zerust Prevenção de Corrosão S.A., for the fiscal year ended August 31, 2010. As a result, all revenues and expenses of Zerust Brazil for the fiscal year ended August 31, 2010 are included in the fourth quarter of fiscal 2010.

Item 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None

Item 9A. 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.

Management's Report on Internal Control over Financial Reporting

NTIC's management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f). Under the supervision and with the participation of NTIC's Chief Executive Officer and Chief Financial Officer, NTIC's management conducted an evaluation of the effectiveness of NTIC's internal control over financial reporting based on the framework in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on that evaluation, NTIC's management concluded that NTIC's internal control over financial reporting was effective as of August 31, 2011.

This report does not include an attestation report of NTIC's independent registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by NTIC's independent registered public accounting firm pursuant to rules of the Securities and Exchange Commission that permit NTIC to provide only management's report in this report.

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 August 31, 2011 that has materially affected, or is reasonably likely to materially affect NTIC's internal control over financial reporting.

Item 9B. OTHER INFORMATION

On November 18, 2011, NTIC entered into an employment agreement with each of G. Patrick Lynch, NTIC's President and Chief Executive Officer, and Matthew C. Wolsfeld, NTIC's Chief Financial Officer and Corporate Secretary. Although each of the executive's employment with NTIC remains "at will," the employment agreements provide each of the executives certain severance benefits in the event the executive's employment is terminated by NTIC without "cause" or by the executive for "good reason" and the executive executes and does not revoke a separation agreement and a release of all claims in favor of NTIC and its affiliates.

If an executive's employment is terminated by NTIC without "cause" or by the executive for "good reason," in addition to any accrued but unpaid salary and benefits through the date of termination, the executive will be entitled to a severance cash payment from NTIC in an amount equal to two times (one and one-half times, in the case of Mr. Wolsfeld) the executive's average total annual compensation for the two most recently completed fiscal years, plus a pro rata portion of the target bonus that the executive otherwise would have been eligible to receive under NTIC's bonus plan for the fiscal year during which the executive's employment is terminated, with such pro rata portion based on the number of complete months during the fiscal year that the executive was employed with NTIC. The severance payment will be paid in several installments in the form of salary continuation in accordance with the Company's normal payroll practices over a 24-month period (18-month period, in the case of Mr. Wolsfeld). If, however, the termination event occurs within 24 months after a change in control of NTIC, the severance payment will be paid in one lump sum. If the executive is eligible for and timely elects continued coverage under NTIC's group medical plan, group dental plan and/or group vision plan pursuant to Section 4980B of the Internal Revenue Code of 1986, as amended ("COBRA"), for each of the first 18 months of the COBRA continuation period, NTIC also will reimburse the executive in an amount equal to the difference between the amount the executive pays for such COBRA continuation coverage each month and the amount paid by a full-time active employee each month for the same level of coverage elected by the executive. In addition, all outstanding and unvested options to purchase shares of NTIC's common stock and other stock incentive awards granted to the executive under NTIC's stock incentive plan will become immediately vested and exercisable.

Under the employment agreements, "cause" is defined as (i) the executive's material breach of any of the executive's obligations under the employment agreement, or the executive's willful and continued failure or refusal to perform his duties, responsibilities and obligations as an executive officer of NTIC, for reasons other than the executive's disability, to the satisfaction of the Board; (ii) the executive's commission of an act of dishonesty, fraud, embezzlement, misappropriation, or intentional and deliberate injury or material breach of fiduciary duty, or material breach of the duty of loyalty related to or against NTIC or its business, or any unlawful or criminal activity of a serious nature involving any felony, or conviction by a court of competent jurisdiction of, or pleading guilty or nolo contendere to, any felony or any crime involving moral turpitude; or (iii) the existence of any court order or settlement agreement prohibiting the executive's continued employment with the NTIC. "Good reason" is defined as (i) a material diminution in the executive's authority, duties or responsibilities; (ii) a material diminution in the executive's annual base salary; (iii) a material change in the geographic location at which NTIC requires the executive to provide services, except for travel reasonably required in the performance of the executive's responsibilities; or (iv) any action or inaction that constitutes a material breach by NTIC of the employment agreement. "Change in control" has the meaning assigned to such term in NTIC's stock incentive plan as in effect from time to time to the extent such change in control is a "change of control event" as defined under Code Section 409A and applicable Internal Revenue Service regulations.

Also on November 18, 2011, NTIC entered into a confidential information, inventions assignment, noncompetition and non-solicitation agreement with each of Mr. Lynch and Mr. Wolsfeld pursuant to

which the executive agreed to be bound by certain confidentiality, assignment of inventions, non-competition and non-solicitation provisions both during and for a certain time period following the termination of the executive's employment with NTIC.

PART III

Item 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Directors

The information in the “Proposal One – Election of Directors” section of NTIC’s definitive proxy statement to be filed with the Securities and Exchange Commission with respect to NTIC’s next annual meeting of stockholders, which involves the election of directors, is incorporated in this annual report on Form 10-K by reference.

Executive Officers

Information concerning NTIC’s executive officers and officers is included in this annual report on Form 10-K under Item 4A of Part I under the heading “Executive Officers of the Registrant.”

Section 16(a) Beneficial Ownership Reporting Compliance

The information in the “Other Matters—Section 16(a) Beneficial Ownership Reporting Compliance” section of NTIC’s definitive proxy statement to be filed with the Securities and Exchange Commission with respect to NTIC’s next annual meeting of stockholders, which involves the election of directors, is incorporated in this annual report on Form 10-K by reference.

Code of Ethics

NTIC has adopted a code of ethics that applies to its principal executive officer, principal financial officer, principal accounting officer or controller or persons performing similar functions, as well as other employees and NTIC’s directors and meets the requirements of the SEC and the NASDAQ Global Market. A copy of NTIC’s Code of Ethics is filed as an exhibit to this report. NTIC intends to satisfy the disclosure requirements of Item 5.05 of Form 8-K regarding amendments to or waivers from any provision of its code of ethics by posting such information on its corporate website at www.ntic.com.

Changes to Nomination Procedures

During the fourth quarter of fiscal year ended August 31, 2011, NTIC made no material changes to the procedures by which stockholders may recommend nominees to NTIC’s Board of Directors, as described in NTIC’s most recent proxy statement.

Audit Committee Matters

The information in the “Corporate Governance—Audit Committee” section of NTIC’s definitive proxy statement to be filed with the Securities and Exchange Commission with respect to NTIC’s next annual meeting of stockholders, which involves the election of directors, is incorporated in this annual report on Form 10-K by reference.

Item 11. EXECUTIVE COMPENSATION

The information in the “Director Compensation” and “Executive Compensation” sections of NTIC’s definitive proxy statement to be filed with the Securities and Exchange Commission with respect to NTIC’s next annual meeting of stockholders, which involves the election of directors, is incorporated in this annual report on Form 10-K by reference.

Item 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND
MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Stock Ownership

The information in the “Security Ownership of Principal Stockholders and Management” section of NTIC’s definitive proxy statement to be filed with the Securities and Exchange Commission with respect to NTIC’s next annual meeting of stockholders, which involves the election of directors, is incorporated in this annual report on Form 10-K by reference.

Securities Authorized for Issuance under Equity Compensation Plans

The following table summarizes outstanding options under NTIC’s equity compensation plans as of August 31, 2011. NTIC’s equity compensation plans as of August 31, 2011 were the Northern Technologies International Corporation Amended and Restated 2007 Stock Incentive Plan and the Northern Technologies International Corporation Employee Stock Purchase Plan.

Except for automatic annual grants of options to purchase 4,000 shares of NTIC common stock to NTIC’s directors in consideration for their services as directors of NTIC and an automatic annual grant of an option to purchase 2,000 shares of NTIC common stock to NTIC’s Chairman of the Board in consideration for his services as Chairman on the first day of each fiscal year, options granted in the future under the Northern Technologies International Corporation Amended and Restated 2007 Stock Incentive Plan are within the discretion of the Board of Directors and the Compensation Committee of the Board of Directors and therefore cannot be ascertained at this time.

Plan Category	(a) Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights	(b) Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights	(c) Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (excluding securities reflected in column (a))
Equity compensation plans approved by security holders	189,839 ⁽¹⁾⁽²⁾	\$9.07	589,618 ⁽³⁾
Equity compensation plans not approved by security holders	—	—	—
Total	189,839 ⁽¹⁾⁽²⁾	\$9.07	589,618 ⁽³⁾

(1) Amount includes shares of NTIC common stock issuable upon the exercise of stock options outstanding as of August 31, 2011 under the Northern Technologies International Corporation Amended and Restated 2007 Stock Incentive Plan.

(2) Excludes employee stock purchase rights accruing under the Northern Technologies International Corporation Employee Stock Purchase Plan. Under such plan, each eligible employee may purchase up to 2,000 shares of NTIC common stock at semi-annual intervals on February 28th or 29th (as the case may be) and August 31st each year at a purchase price per share equal to 90% of the lower of (i) the closing sales price per share of NTIC common stock on the first day of the offering period or (ii) the closing sales price per share of NTIC common stock on the last day of the offering period.

(3) Amount includes 513,734 shares remaining available at August 31, 2011 for future issuance under Northern Technologies International Corporation Amended and Restated 2007 Stock Incentive Plan and 75,884 shares remaining available at August 31, 2011 for future issuance under the Northern Technologies International Corporation Employee Stock Purchase Plan.

Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information in the “Related Party Relationships and Transactions” and “Corporate Governance—Director Independence” sections of NTIC’s definitive proxy statement to be filed with the Securities and Exchange Commission with respect to NTIC’s next annual meeting of stockholders, which involves the election of directors, is incorporated in this annual report on Form 10-K by reference.

Item 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information in the “Proposal Two—Ratification of Selection of Independent Registered Public Accounting Firm—Audit, Audit-Related, Tax and Other Fees” and “Proposal Two—Ratification of Selection of Independent Registered Public Accounting Firm—Audit Committee Pre-Approval Policies and Procedures” sections of NTIC’s definitive proxy statement to be filed with the Securities and Exchange Commission with respect to NTIC’s next annual meeting of stockholders, which involves the election of directors, is incorporated in this annual report on Form 10-K by reference.

PART IV

Item 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

NTIC's consolidated financial statements are included in Item 8 of Part III of this report.

The exhibits to this report are listed in the Exhibit Index to this report. A copy of any exhibits listed or referred to herein will be furnished at a reasonable cost to any person who is a stockholder upon receipt from any such person of a written request for any such exhibit. Such request should be sent to: Mr. Matthew Wolsfeld, Corporate Secretary, Northern Technologies International Corporation, 4201 Woodland Road, P.O. Box 69, Circle Pines, Minnesota 55014 Attn: Stockholder Information.

The following is a list of each management contract or compensatory plan or arrangement required to be filed as an exhibit to this annual report on Form 10-K:

- A. Northern Technologies International Corporation Amended and Restated 2007 Stock Incentive Plan (incorporated by reference to Exhibit 10.1 to NTIC's Current Report on Form 8-K as filed with the Securities and Exchange Commission on January 24, 2011).
- B. Form of Incentive Stock Option Agreement for Northern Technologies International Corporation Amended and Restated 2007 Stock Incentive Plan (incorporated by reference to Exhibit 10.2 to NTIC's Current Report on Form 8-K as filed with the Securities and Exchange Commission on January 24, 2011).
- C. Form of Non-Qualified Stock Option Agreement for Northern Technologies International Corporation Amended and Restated 2007 Stock Incentive Plan (incorporated by reference to Exhibit 10.3 to NTIC's Current Report on Form 8-K as filed with the Securities and Exchange Commission on January 24, 2011).
- D. Form of Restricted Stock Agreement for Northern Technologies International Corporation Amended and Restated 2007 Stock Incentive Plan (incorporated by reference to Exhibit 10.4 to NTIC's Current Report on Form 8-K as filed with the Securities and Exchange Commission on January 24, 2011).
- E. Northern Technologies International Corporation Employee Stock Purchase Plan (incorporated by reference to Exhibit 10.11 to NTIC's Annual Report on Form 10-KSB for the fiscal year ended August 31, 2006).
- F. 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).
- G. Form of Indemnification Agreement between Northern Technologies International Corporation and its Directors and Officers (incorporated by reference to Exhibit 10.1 to NTIC's Current Report on Form 8-K as filed with the Securities and Exchange Commission on November 24, 2009).
- H. Agreement dated as of May 25, 2009 between Northern Technologies International Corporation and Sunggyu Lee, Ph.D. (incorporated by reference to Exhibit 10.2 to NTIC's Quarterly Report on Form 10-Q for the fiscal quarter ended February 28, 2009).
- I. Description of Non-Employee Director Compensation Arrangements (filed herewith).

- J. Executive Employment Agreement dated as of November 18, 2011 between Northern Technologies International Corporation and G. Patrick Lynch (filed herewith).
- K. Confidential Information, Inventions Assignment, Noncompetition and Non-Solicitation Agreement dated as of November 18, 2011 between Northern Technologies International Corporation and G. Patrick Lynch (filed herewith).
- L. Executive Employment Agreement dated as of November 18, 2011 between Northern Technologies International Corporation and Matthew C. Wolsfeld (filed herewith).
- M. Confidential Information, Inventions Assignment, Noncompetition and Non-Solicitation Agreement dated as of November 18, 2011 between Northern Technologies International Corporation and Matthew C. Wolsfeld (filed herewith).

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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

November 18, 2011

By: /s/ G. Patrick Lynch
G. Patrick Lynch
President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant on the dates and in the capacities indicated.

<u>Name</u>	<u>Title</u>	<u>Date</u>
<u>/s/ G. Patrick Lynch</u> G. Patrick Lynch	President and Chief Executive Officer and Director (principal executive officer)	November 18, 2011
<u>/s/ Matthew C. Wolsfeld, CPA</u> Matthew C. Wolsfeld, CPA	Chief Financial Officer and Corporate Secretary (principal financial and accounting officer)	November 18, 2011
<u>/s/ Pierre Chenu</u> Pierre Chenu	Chairman of the Board	November 4, 2011
<u>/s/ Soo Keong Koh</u> Soo Keong Koh	Director	November 4, 2011
<u>/s/ Sunggyu Lee, Ph.D.</u> Sunggyu Lee, Ph.D.	Director	November 4, 2011
<u>/s/ Ramani Narayan, Ph.D.</u> Ramani Narayan, Ph.D.	Director	November 4, 2011
<u>/s/ Richard J. Nigon</u> Richard J. Nigon	Director	November 4, 2011
<u>/s/ Mark J. Stone</u> Mark J. Stone	Director	November 4, 2011

Board of Directors

Mr. Pierre Chenu
Chairman of the Board

Mr. G. Patrick Lynch
President & CEO, NTIC

Mr. Mark J. Stone
President, Petrus International, Inc.

Dr. Ramani Narayan
Distinguished Professor in the Department
of Engineering & Materials Science, Michigan
State University

Dr. Sunggyu Lee
Professor of Chemical & Molecular Engineering,
Russ College of Engineering & Technology at
Ohio University

Mr. Soo-Keong Koh
Managing Director, EcoSave Pte Ltd.

Mr. Richard J. Nigon
Senior Vice President of
Cedar Point Capital, Inc.

Executive Officers

Mr. G. Patrick Lynch
President & CEO

Mr. Matthew C. Wolsfeld
Chief Financial Officer, Treasurer and
Corporate Secretary

Independent Registered Public Accounting Firm

Baker Tilly Virchow Krause, LLP
Minneapolis, Minnesota

Transfer Agent and Registrar

For a response to questions regarding
misplaced stock certificates, changes of
address or the consolidation of accounts,
please contact NTIC's transfer agent:

Broadridge Corporate Issuer Solutions, Inc.
1717 Arch Street, Suite 1300
Philadelphia, PA 19103
1-877-830-4936
shareholder@broadridge.com



Investor Relations

Northern Technologies International Corporation welcomes inquiries from its stockholders and other interested investors. For further information on NTIC'S activities or additional copies of this report, please contact:

Investor Relations
Northern Technologies International Corporation
4201 Woodland Road, P.O. Box 69
Circle Pines, Minnesota 55014
(763) 225-6600
www.ntic.com

Stock Listing

NTIC's common stock is traded on the
NASDAQ Global Market under the symbol NTIC.

Annual Meeting

The annual meeting of stockholders will be held
at 4:00 p.m. on Thursday, February 2, 2012 at
NTIC's corporate headquarters:

Northern Technologies International Corp.
4201 Woodland Road
Circle Pines, MN 55014 USA

