

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-QSB

(Mark one)

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

For the quarterly period ended
May 31, 2005

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

For the transition period from _____ to _____.

Commission file number 1-11038

NORTHERN TECHNOLOGIES INTERNATIONAL CORPORATION

(Name of small business issuer in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

41-0857886

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

6680 N. Highway 49

Lino Lakes, Minnesota

(Address of principal executive offices)

55014

(Zip Code)

(651) 784-1250

(Issuer's telephone number, including area code)

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

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date.

Class	Outstanding as of July 15, 2005
Common Stock, \$0.02 par value	3,585,992

Transitional Small Business Disclosure Format (check one): YES NO

NORTHERN TECHNOLOGIES INTERNATIONAL CORPORATION

FORM 10-QSB
May 31, 2005

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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

NORTHERN TECHNOLOGIES INTERNATIONAL CORPORATION
AND SUBSIDIARIES- CONSOLIDATED BALANCE SHEETS (Unaudited)
as of MAY 31, 2005 and AUGUST 31, 2004

	May 31, 2005	August 31, 2004
		(Restated)
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 546,192	\$ 662,038
Receivables:		
Trade excluding corporate joint ventures, less allowance for doubtful accounts of \$15,478 and \$11,562 at May 31, 2005 and August 31, 2004	1,889,940	1,669,265
Trade corporate joint ventures	430,038	459,213
Technical and other services, corporate joint ventures	1,073,799	1,233,563
Income taxes	295,861	362,172
Inventories	1,428,715	1,211,512
Prepaid expenses	124,881	113,454
Deferred income taxes	276,000	276,000
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Total current assets	6,065,426	5,987,217
PROPERTY AND EQUIPMENT, net	761,213	779,672
OTHER ASSETS:		
Investments in corporate joint ventures:		
Industrial chemical	7,804,314	7,059,340
Industrial non-chemical	299,304	284,592
Deferred income taxes	354,000	354,000
Notes receivable and foreign deposit	2,030,854	1,429,817
Note from employee	88,212	107,331
Industrial patents, net	629,167	588,631
Goodwill	304,000	273,000
Other	318,593	308,902
	<hr/>	<hr/>
	11,828,444	10,405,613
	<hr/>	<hr/>
	\$ 18,655,083	\$ 17,172,502
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LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	\$ 1,330,971	\$ 1,057,254
Borrowings made on line of credit	1,000,000	—
Accrued liabilities:		
Payroll and related benefits	626,222	861,711
Deferred joint venture royalties	245,302	216,275
Other	175,251	207,319
	<hr/>	<hr/>
Total current liabilities	3,377,746	2,342,559
DEFERRED GROSS PROFIT	20,000	30,000
MINORITY INTEREST	72,844	77,863
STOCKHOLDERS' 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 3,585,992 and 3,581,992, respectively	71,720	71,640
Additional paid-in capital	4,122,184	4,105,584
Retained earnings	10,542,479	10,233,967
Accumulated other comprehensive income	448,110	310,889
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Total stockholders' equity	15,184,493	14,722,080
	<hr/>	<hr/>
	\$ 18,655,083	\$ 17,172,502
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See notes to consolidated financial statements.

**NORTHERN TECHNOLOGIES INTERNATIONAL CORPORATION AND
SUBSIDIARIES -CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)
THREE AND NINE MONTHS ENDED MAY 31, 2005 AND MAY 31, 2004**

	Three Months Ended		Nine Months Ended	
	May 31, 2005	May 31, 2004	May 31, 2005	May 31, 2004
		(Restated)		(Restated)
NORTH AMERICAN OPERATIONS:				
Net sales	\$ 3,680,263	\$ 3,869,331	\$ 10,990,831	\$ 10,320,657
Cost of goods sold	2,185,636	2,100,176	6,533,684	5,762,706
Gross profit	1,494,627	1,769,155	4,457,147	4,557,951
Operating expenses:				
Selling	781,454	819,189	2,114,805	2,202,348
General and administrative	344,167	597,348	1,822,761	1,716,649
Lab and technical support	151,725	157,512	555,332	498,151
	1,277,346	1,574,049	4,492,898	4,417,148
NORTH AMERICAN OPERATING PROFIT (LOSS)	217,281	195,106	(35,751)	140,803
CORPORATE JOINT VENTURES AND HOLDING COMPANIES:				
Equity in income of industrial chemical corporate joint ventures and holding companies	590,899	455,877	1,459,451	1,081,819
Equity in income of industrial non-chemical corporate joint ventures and holding companies	19,556	—	35,705	1,334
Equity in loss of business consulting corporate joint ventures	—	—	—	(6,250)
Fees for technical support and other services provided to corporate joint ventures	824,844	807,016	2,829,115	2,402,159
Expenses incurred in support of corporate joint ventures	(1,240,560)	(997,128)	(3,739,934)	(2,660,816)
INCOME FROM ALL CORPORATE JOINT VENTURES AND HOLDING COMPANIES	194,739	265,765	584,337	818,246
INTEREST INCOME	1,491	18,123	47,139	50,880
INTEREST EXPENSE	(9,949)	—	(13,263)	—
MINORITY INTEREST	9,053	33,721	3,789	74,066
INCOME BEFORE INCOME TAX EXPENSE	412,615	512,715	586,251	1,083,995
INCOME TAX EXPENSE	39,000	1,000	27,000	117,000
NET INCOME	\$ 373,615	\$ 511,715	\$ 559,251	\$ 966,995
NET INCOME PER COMMON SHARE:				
Basic	\$ 0.10	\$ 0.14	\$ 0.16	\$ 0.27
Diluted	\$ 0.10	\$ 0.14	\$ 0.16	\$ 0.27
WEIGHTED AVERAGE COMMON SHARES ASSUMED OUTSTANDING:				
Basic	3,582,036	3,625,950	3,585,007	3,610,949
Diluted	3,590,924	3,640,015	3,599,667	3,613,751
DIVIDENDS PER COMMON SHARE	—	—	\$ 0.07	\$ 0.05

See notes to consolidated financial statements.

**NORTHERN TECHNOLOGIES INTERNATIONAL CORPORATION AND
SUBSIDIARIES - CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)
NINE MONTHS ENDED MAY 31, 2005 and MAY 31, 2004**

	May 31, 2005	May 31, 2004
		(Restated)
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 559,251	\$ 966,995
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Depreciation expense	156,571	118,089
Amortization expense	40,369	16,460
Minority interest income	(3,789)	(74,066)
Equity in (income) loss from corporate joint ventures:		
Industrial chemical	(1,459,451)	(1,081,819)
Industrial non-chemical	(35,705)	(1,334)
Business consulting	—	6,250
Deferred gross profit	(10,000)	—
Deferred joint venture royalties	29,027	109,600
Loss on sale of equipment	—	27,527
Change in current assets and liabilities:		
Receivables:		
Trade excluding corporate joint ventures	(220,675)	(382,810)
Trade corporate joint ventures	29,175	(419,592)
Technical and other services receivables, corporate joint ventures	159,764	(75,871)
Income taxes	66,311	(111,881)
Inventories	(217,203)	36,929
Prepaid expenses and other	(16,381)	(54,443)
Employee note receivable	19,119	20,995
Accounts payable	273,717	415,957
Accrued liabilities	(267,557)	277,610
Net cash used in operating activities	(897,456)	(205,404)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Sale of investments available for sale	—	1,028,205
Proceeds from the sale of property and equipment	—	9,550
Investment in joint ventures:		
Industrial chemical	(80,591)	(465,000)
Industrial non-chemical	—	(61,750)
Business consulting	—	(6,250)
Dividends received from corporate joint ventures	956,976	667,247
Goodwill	(31,000)	(304,000)
Loans made	(806,383)	(151,511)
Cash received on loans	205,346	162,950
Additions to property and equipment	(138,080)	(219,864)
(Increase) Decrease in other assets	(9,691)	128,509
Additions to industrial patents	(80,908)	(301,633)
Net cash provided by investing activities	15,669	486,453
CASH FLOWS FROM FINANCING ACTIVITIES:		
Dividends paid	(250,739)	(181,672)
Borrowings made on line of credit	1,000,000	—
Stock options exercised	16,680	—
Bank overdraft	—	(201,685)
Net cash provided by (used in) financing activities	765,941	(383,351)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(115,846)	(102,302)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	662,038	538,444
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 546,192	\$ 436,142

See notes to consolidated financial statements.

**NORTHERN TECHNOLOGIES INTERNATIONAL CORPORATION AND
SUBSIDIARIES - NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)**

1. INTERIM FINANCIAL INFORMATION

In the opinion of management, the accompanying unaudited consolidated financial statements contain all necessary adjustments, which are of a normal recurring nature, and present fairly the consolidated financial position of Northern Technologies International Corporation and its subsidiaries (the Company) as of May 31, 2005 and the results of their operations for the three and nine months ended May 31, 2005 and May 31, 2004, and their cash flows for the nine months ended May 31, 2005 and May 31, 2004, in conformity with accounting principles generally accepted in the United States of America.

These consolidated financial statements should be read in conjunction with the consolidated financial statements and related notes contained in the Company's annual report on Form 10-KSB for the fiscal year ended August 31, 2004 and with the Management's Discussion and Analysis or Plan of Operation section appearing in this quarterly report. Operating results for the three and nine months ended May 31, 2005 are not necessarily indicative of the results that may be expected for the fiscal year ending August 31, 2005.

Certain fiscal year 2004 amounts have been reclassified to conform to fiscal year 2005 presentations. These reclassifications had no effect on stockholders' equity or net income, as previously reported.

2. RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

Adoption of Accounting Pronouncement – FIN 46R

In January 2003, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 46 (FIN 46), "*Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51*". In December 2003, the FASB issued FIN 46R, "*Consolidation of Variable Interest Entities, a revision of FIN 46*" which addresses consolidation by business enterprises where equity investors do not bear the residual economic risks and rewards. The provisions of FIN 46R are effective for interests in variable interest entities (VIE) for the Company as of May 31, 2005.

In accordance with FIN 46R, the Company has elected to consolidate React-NTI LLC as the Company holds 75% of the equity and 75% of the voting rights, and has made significant advances to React-NTI LLC. Previously, the Company did not consolidate React-NTI LLC because under the terms of the joint venture agreement, there are certain matters requiring unanimous shareholder approval. These rights represent substantive participating rights of the minority shareholder as defined in Emerging Issues Task Force (EITF) No. 96-16, "*Investor's Accounting for an Investee When the Investor has a Majority of the Voting Interest but the Minority Shareholder or Shareholders Have Certain Approval or Veto Rights*". Accordingly, the Company did not control React-NTI LLC and previously accounted for its investment under the equity method rather than by consolidation until the Company's adoption of FIN 46R during its quarter ended May 31, 2005.

The Company has evaluated and considered for consolidation under FIN 46R certain 50% owned joint ventures due to outstanding loans that the Company has with the entities and officers of the Company who are owners of the entities. The Company did not consolidate these entities as of May 31, 2005 as these conditions are considered temporary. The Company will reevaluate whether to consolidate these entities as of August 31, 2005.

As encouraged under FIN 46R, the prior financial periods included in this report have been restated to reflect the consolidation of React-NTI LLC. The following table summarizes the Company's balance sheet as of August 31, 2004 and statement of operations for the three and nine months ended May 31, 2004, that were restated to reflect the adoption by the Company of FIN 46R and the consolidation of React-NTI LLC.

	As Originally Reported		As Currently Reported	
	August 31, 2004	FIN 46 R Adjustments	August 31, 2004	August 31, 2004
CURRENT ASSETS	\$ 5,436,750	\$ 550,467	\$ 5,987,217	
PROPERTY AND EQUIPMENT, net	733,139	46,533	779,672	
OTHER ASSETS	10,526,203	(120,590)	10,405,613	
TOTAL ASSETS	16,696,092	476,410	17,172,502	
CURRENT LIABILITIES	1,944,012	398,547	2,342,559	
DEFERRED GROSS PROFIT	30,000		30,000	
MINORITY INTEREST	—	77,863	77,863	
STOCKHOLDERS' EQUITY:	14,722,080	—	14,722,080	
LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 16,696,092	\$ 476,410	\$ 17,172,502	

	Three Months Ended			Nine Months Ended		
	Originally Reported		Currently Reported	Originally Reported		Currently Reported
	May 31, 2004	FIN 46 R Adjustments	May 31, 2004	May 31, 2004	FIN 46 R Adjustments	May 31, 2004
NORTH AMERICAN OPERATIONS						
Net sales	3,101,925	\$ 767,406	\$ 3,869,331	\$ 8,184,330	\$ 2,136,327	\$ 10,320,657
Cost of goods sold	1,461,523	638,653	2,100,176	3,983,755	1,778,951	5,762,706
Gross profit	1,640,402	128,753	1,769,155	4,200,575	357,376	4,557,951
Operating expenses	1,375,907	198,142	1,574,049	3,907,015	510,133	4,417,148
NORTH AMERICAN OPERATING INCOME (LOSS)	264,495	(69,389)	195,106	293,560	(152,757)	140,803
INCOME FROM ALL CORPORATE JOINT VENTURES AND HOLDING COMPANIES	230,097	35,668	265,765	739,555	78,691	818,246
INTEREST INCOME	18,123	—	18,123	50,880	—	50,880
MINORITY INTEREST	—	33,721	33,721	—	74,066	74,066
INCOME BEFORE INCOME TAX EXPENSE	512,715	—	512,715	1,083,995	—	1,083,995
INCOME TAX EXPENSE	1,000	—	1,000	117,000	—	117,000
NET INCOME	\$ 511,715	—	\$ 511,715	\$ 966,995	—	\$ 966,995

In June 2005, FASB issued Statement of Financial Accounting Standards (SFAS) No. 154, "Accounting Changes and Error Corrections", a replacement of APB Opinion No. 20 and FASB Statement No. 3. The statement applies to all voluntary changes in accounting principle, and changes the requirements for accounting for and reporting of a change in accounting principle. SFAS No. 154 requires retrospective application to prior periods' financial statements of a voluntary change in accounting principle unless it is impracticable. SFAS No. 154 is effective for accounting changes and corrections of errors made in fiscal

years beginning after December 15, 2005. Earlier application is permitted for accounting changes and corrections of errors made occurring in fiscal years beginning after June 1, 2005. The statement does not change the transition provisions of any existing accounting pronouncements, including those that are in a transition phase as of the effective date of SFAS No. 154. The Company does not expect the adoption of SFAS No. 154 to have a material effect on its financial statements.

3. STOCK-BASED COMPENSATION

In accordance with Accounting Principles Board (APB) Opinion No. 25 and related interpretations, the Company uses the intrinsic value-based method for measuring stock-based compensation cost, which measures compensation cost as the excess, if any, of quoted market price of the Company's common stock at the grant date over the amount the employee must pay for the stock. The Company's general policy is to grant stock options at fair value at the date of grant. The Company did not recognize any expense in the financial statements as they were all issued at fair market value. Options and warrants issued to non-employees are recorded at fair value, as required by Statement of Financial Accounting Standards (SFAS) No. 123, "Accounting for Stock-Based Compensation", using the Black-Scholes pricing method.

In December 2002, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure." SFAS No. 148 is an amendment to SFAS No. 123 providing alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation and also provides required additional disclosures about the method of accounting for stock-based employee compensation. The Company adopted the annual disclosure provision of SFAS No. 148 during the fiscal year ended August 31, 2003. The Company chose to not adopt the voluntary change to the fair value based method of accounting for stock-based employee compensation, pursuant to SFAS No. 148.

The Company has adopted the disclosure-only provisions of SFAS No. 148, Accounting for Stock-Based Compensation. Accordingly, no compensation cost has been recognized with respect to stock options. Had compensation cost for stock options been determined based on the fair value methodology prescribed by SFAS 123, the Company's net income and net income per common share would have been reduced to the pro forma amounts indicated below:

	Three Months Ended		Nine Months Ended	
	May 31, 2005	May 31, 2004	May 31, 2005	May 31, 2004
Net income:				
As reported	\$ 373,615	\$ 511,715	\$ 559,251	\$ 966,995
Pro forma	\$ 370,108	\$ 511,715	\$ 548,729	\$ 925,765
Basic net income per common share				
As reported	\$ 0.10	\$ 0.14	\$ 0.16	\$ 0.27
Pro forma	\$ 0.10	\$ 0.14	\$ 0.15	\$ 0.26
Diluted net income per share				
As reported	\$ 0.10	\$ 0.14	\$ 0.16	\$ 0.27
Pro forma	\$ 0.10	\$ 0.14	\$ 0.15	\$ 0.26
Stock-based compensation, net:				
As reported	\$ 0	\$ 0	\$ 0	\$ 0
Pro forma	\$ 3,507	\$ 0	\$ 10,521	\$ 41,230

As noted above, accounting principles require the Company to show, on a pro forma basis, the Company's net income as if it recorded an expense for stock options at the time of grant. Other than disclosure in this footnote, the Company does not use these pro forma results for any purpose.

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:

	May 31, 2005	May 31, 2004
Dividend yield	2.00%	2.00%
Expected volatility	43.3%	44.10%
Expected life of option	5 years	5 years
Average risk-free interest rate	3.43%	3.63%

In December 2004, FASB issued SFAS No. 123 (revised 2004), "Share-Based Payment", that focuses primarily on accounting for transactions in which an entity obtains employee services in share-based payment transactions. This statement replaces SFAS No. 123, "Accounting for Stock-Based Compensation", and supersedes APB Opinion No. 25, "Accounting for Stock Issued to Employees."

Beginning with our quarterly period that begins September 1, 2006, we will be required to expense the fair value of employee stock options and similar awards. As a public company, we are allowed to select from two alternative transition methods, each having different reporting implications. The anticipated impact of SFAS No. 123R on our operating results has not been determined at this time.

4. INVENTORIES

Inventories consisted of the following:

	May 31, 2005	August 31, 2004
Production materials	\$ 383,705	\$ 279,039
Finished goods	1,045,010	932,473
	<u>\$ 1,428,715</u>	<u>\$ 1,211,512</u>

5. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following:

	May 31, 2005	August 31, 2004
Land	\$ 29,097	\$ 29,097
Buildings and improvements	861,227	793,389
Machinery and equipment	664,125	1,094,888
	<u>1,554,449</u>	<u>1,917,374</u>
Less accumulated depreciation	(793,236)	(1,137,702)
	<u>\$ 761,213</u>	<u>\$ 779,672</u>

6. INDUSTRIAL PATENTS, NET

Industrial patents, net consisted of the following:

	May 31, 2005	August 31, 2004
Patents	\$ 710,475	\$ 629,569
Less accumulated amortization	(81,308)	(40,938)
	<u>\$ 629,167</u>	<u>\$ 588,631</u>

7. NOTES RECEIVABLE AND FOREIGN DEPOSITS

Notes receivable and foreign deposits consisted of the following:

	May 31, 2005	August 31, 2004
Notes receivable from corporate joint venture partners	\$ 357,994	\$ 454,348
Notes receivable from other sources	1,227,391	\$ 530,000
Foreign deposits	445,469	445,469
	<u>\$ 2,030,854</u>	<u>\$ 1,429,817</u>

8. INVESTMENTS IN CORPORATE JOINT VENTURES

Composite financial information from the audited and unaudited financial statements of the Company's joint ventures carried on the equity basis is summarized as follows:

	May 31, 2005	August 31, 2004
Current assets	\$ 27,749,293	\$ 19,560,576
Total assets	32,777,136	25,726,996
Current liabilities	12,470,807	7,332,920
Noncurrent liabilities	2,806,291	2,393,543
Joint ventures' equity	17,499,828	16,000,580
Northern Technologies International Corporation's share of Corporate Joint Ventures' equity	\$ 8,103,618	\$ 7,343,932

	Three Months Ended		Nine Months Ended	
	May 31, 2005	May 31, 2004	May 31, 2005	May 31, 2004
Net sales	\$ 14,665,963	\$ 10,895,713	\$ 43,082,226	\$ 32,956,549
Gross profit	6,886,027	5,594,398	20,621,346	16,243,855
Net income	1,378,942	491,973	3,064,050	1,970,982
Northern Technologies International Corporation's share of equity in income of Corporate Joint Ventures	\$ 610,455	\$ 455,877	\$ 1,495,156	\$ 1,076,903

During the first nine months of fiscal 2005, the Company invested in corporate joint ventures as follows:

In October 2004 and March 2005, the Company invested \$38,531 and \$42,060, respectively, in a new industrial chemical corporate joint venture to develop operations in Canada. The Company has a 50% ownership interest in the new entity. The new entity had no operations prior to the Company's investment. It is anticipated that these are the first two installments towards the Company's 50% capitalization of an estimated \$100,000 to \$150,000 over the next 12 months; however, there is currently no contractual commitment to the investment. It is anticipated that the total capitalization by all owners of the joint venture will be between \$200,000 and \$300,000.

9. CORPORATE DEBT

In August 2004, the Company obtained a \$500,000 revolving credit facility with National City Bank, which was originally scheduled to expire on December 31, 2005. In March 2005, the facility was increased to \$1,000,000 and the expiration date was amended to January 31, 2006. Outstanding amounts under the revolving credit facility bear interest at an annual rate based on LIBOR plus 2.25%. As of May 31, 2005, the interest rate was 6.03%. Amounts borrowed under the facility are collateralized by a lien on substantially all of the Company's assets, excluding its corporate joint venture interests and intellectual property rights. The credit documents contain other terms and provisions (including representations, covenants and conditions) customary for transactions of this type. Significant financial covenants include minimum fixed charge coverage of 1.0 to 1.0. Other covenants include a prohibition on any merger or consolidation without prior consent of the lender and restrictions on future credit extensions and non-equity investments and the incurrence of additional indebtedness without the lender's prior consent. The facility contains customary events of default, including nonpayment of principal or other amounts when due; breach of covenants; inaccuracy of representations and warranties; cross-default and/or cross-acceleration to other indebtedness; non-compliance with laws; certain voluntary and involuntary bankruptcy events; judgments entered against the Company; and a sale of material assets. If an event of default occurs and is continuing, the lender may, among other things, terminate its obligations thereunder and require the Company to repay all amounts thereunder. As of May 31, 2005, \$1,000,000 was outstanding under the facility. The Company has the right to prepay the facility at any time without premium or penalty.

10. STOCKHOLDERS' EQUITY

During the nine months ended May 31, 2005, the Company did not purchase or retire any shares of common stock. Stock options to purchase 4,000 shares of common stock were exercised on May 31, 2005, 2,000 of which had an exercise price of \$5.00 per share and 2,000 of which had an exercise price of \$3.34 per share.

11. SUPPLEMENTAL CASH FLOW INFORMATION

On November 12, 2004, the Company's Board of Directors declared a cash dividend of \$0.07 per share that totaled \$250,739 and was paid on December 17, 2004 to shareholders of record on December 3, 2004.

12. TOTAL COMPREHENSIVE INCOME

The Company's total comprehensive income was as follows:

	Three Months Ended		Nine Months Ended	
	May 31, 2005	May 31, 2004	May 31, 2005	May 31, 2004
Net income	\$ 373,615	\$ 511,715	\$ 559,251	\$ 966,995
Other comprehensive income (loss) – foreign currency translation adjustment	(451,341)	(86,172)	137,221	507,173
Total comprehensive (loss) income	\$ (77,726)	\$ 425,543	\$ 696,472	\$ 1,474,168

13. NET INCOME PER COMMON SHARE

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

14. STOCKHOLDERS' EQUITY

Options to purchase 2,000, 1,000 and 3,000 shares of common stock with per share exercise prices of \$6.75, \$5.50 and \$6.15, respectively, were outstanding as of May 31, 2005, but were excluded from the computation of common share equivalents, because their exercise prices were greater than the average market price of a share of common stock.

The following table summarizes information about stock options outstanding and exercisable at May 31, 2005:

Option Grant Date	Per Share Exercise Prices	Remaining Contractual Life	Number of Options Outstanding (#)	Number of Options Exercisable (#)
9/1/2000	\$ 6.75	0.3	2,000	2,000
2/9/2001	\$ 5.50	0.7	1,000	1,000
9/1/2001	\$ 5.00	1.3	6,000	6,000
2/15/2002	\$ 4.56	1.7	38,000	38,000
9/1/2002	\$ 3.34	2.3	6,000	4,000
9/1/2003	\$ 5.30	3.3	8,000	2,667
9/1/2004	\$ 5.25	4.3	10,000	0
11/12/04	\$ 6.15	4.5	3,000	0
			74,000	53,667

15. SEGMENT INFORMATION

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

	Three Months Ended		Nine Months Ended	
	May 31, 2005	May 31, 2004	May 31, 2005	May 31, 2004
Inside the U.S.A. to unaffiliated customers	73.4	61.1	78.6%	75.5%
Outside the U.S.A. to:				
Corporate Joint Ventures in which the Company is a shareholder directly and indirectly	9.7	14.0	9.7%	9.8%
Unaffiliated customers	16.8	24.9	11.7%	14.7%
	100%	100%	100%	100%

Two of the Company's customers accounted for approximately 36.5% and 31.1% of the Company's net sales for the nine months ended May 31, 2005 and May 31, 2004, respectively, and 32.8% and 41.3% for the three months ended May 31, 2005 and May 31, 2004, respectively, and \$426,538 and \$627,092 of the Company's receivables at May 31, 2005 and May 31, 2004, respectively.

16. RELATED PARTY TRANSACTIONS

The Company paid reimbursement for travel and related expenses of \$470,813 and \$252,294 for the nine months ended May 31, 2005 and May 31, 2004, respectively, and \$198,817 and \$104,627 for the three months ended May 31, 2005 and May 31, 2004, respectively, to a financial and management consulting firm, Inter Alia, which beneficially owns 25.1% of the Company's outstanding common stock, and of which the Company's Chief Executive Officer and Chairman of the Board and the Company's President of North American Operations are shareholders. The management consulting firm earned commissions of approximately \$88,558 and \$75,740, for the nine months ended May 31, 2005 and May 31, 2004, respectively, and \$3,250 and \$31,399 for the three months ended May 31, 2005 and May 31, 2004 respectively, on the net proceeds of sales of the Company's products. In addition, the Company has paid health insurance premiums of \$12,914 and \$12,870 for the nine months ended May 31, 2005 and May 31, 2004, respectively, and \$3,934 and \$4,290 for the three months ended May 31, 2005 and May 31, 2004 respectively, related to policies that insure the Company's Chief Executive Officer and Chairman of the Board.

The Company made consulting payments to Dr. Ramani Narayan of \$25,000 on each of September 9, 2004, December 2, 2004, April 7, 2005 and June 14, 2005. The consulting services rendered by Dr. Narayan related to research and development associated with various new technologies. Dr. Narayan is a member of the Company's Board of Directors.

The Company made a consulting payment to Dr. Sunggyu Lee of \$50,000 on February 2, 2005 and another payment of \$50,000 on June 6, 2005. The consulting services rendered by Dr. Lee related to research and development associated with various new technologies. Dr. Lee is a member of the Company's Board of Directors.

The Company pays rent for its Beachwood office and lab location to a related party. See Note 18.

17. INCOME TAXES

Reconciliations of the expected income tax at the statutory rate with the provisions for income taxes are as follows:

	Three Months Ended		Nine Months Ended	
	May 31, 2005	May 31, 2004	May 31, 2005	May 31, 2004
Tax computed at statutory rates	\$ 142,000	\$ 171,000	\$ 194,000	\$ 359,000
Tax effect on equity in income of international joint ventures	(203,000)	(120,000)	(504,000)	(290,000)
Tax effect on dividends received from corporate joint ventures	46,000	5,000	325,000	227,000
Other	54,000	(55,000)	12,000	(179,000)
	\$ 39,000	\$ 1,000	\$ 27,000	\$ 117,000

18. COMMITMENTS AND CONTINGENCIES

In fiscal 1999, a subsidiary of the Company, NTI Facilities, Inc., acquired a one-third ownership of Omni-Northern Ltd., an Ohio limited liability company, in contemplation of NTI Facilities, Inc. entering into a lease agreement with Omni-Northern Ltd. for approximately 50% of the net rental space in a building owned by Omni-Northern Ltd. Omni-Northern Ltd. owns and operates a rental property located at 23205

Mercantile Road, Beachwood, Ohio, comprising approximately two acres of land and a building of approximately 34,000 square feet. The property has an approximate value of \$2,205,000, based upon the cash-to-mortgage acquisition price of the property paid in fiscal 2000. The Company has guaranteed up to \$329,082 of the Omni-Northern Ltd.'s \$1,970,552 mortgage obligation with National City Bank, Cleveland, Ohio. NTI Facilities, Inc. entered into a 15-year lease agreement with Omni-Northern Ltd. for approximately 17,000 square feet of office, manufacturing, laboratory and warehouse space, requiring monthly rental payments of \$17,500, which are adjusted annually according to the annual consumer price index through November 2014. By its ownership in Omni-Northern Ltd., NTI Facilities Inc. is entitled to one-third of the operating results of Omni-Northern Ltd. Omni-Northern has leased the remaining 50% of the net rental space to other third parties.

The Company is involved in various legal actions arising in the normal course of business. Management is of the opinion that any judgment or settlement resulting from pending or threatened litigation would not have a material adverse effect on the financial position or results of operations of the Company.

The Company loaned Stratek Plastics Ltd. \$600,000 during the first nine months of fiscal year 2005. Prior to maturity, principal and interest are computed monthly at the rate of seven and one half percent (7.5%) per annum. The loan is to be repaid on or before August 31, 2005.

On April 28, 2005, the Company entered into a Settlement Agreement and Asset Purchase (the "Settlement Agreement") with Excor Korrosionsforschung GmbH ("Excor"), Fibro-NTI Urun Gelistirme Ve Pazarlama Ticaret Anonim ("Fibro-NTI"), Acobal SAS ("Acobal"), Henkel KGaA and Henkel Surface Technologies SAS pursuant to which the Company agreed to settle certain litigation the Company and its 50% owned joint venture in France, Acobal SAS, commenced against Henkel Surface Technologies S.A.S. and Henkel KGaA. Under the Settlement Agreement, the Company, Acobal and the Company's 50% owned joint venture in Turkey, Fibro-NTI, agreed to purchase certain non-contact corrosion protection assets used by Henkel or its affiliates for EURO 1,500,000. Of the EURO 1,500,000, the Company agreed to pay EURO 450,000, Acobal agreed to pay EURO 850,000 and Fibro-NTI agreed to pay EURO 200,000 for certain identified assets. The closing of the various asset purchase transactions took place on June 1, 2005. The Company borrowed EURO 450,000 to pay its portion of the EURO 1,500,000 from the other 50% owner of the Company's joint venture in Germany. In addition, both Acobal and Fibro-NTI also borrowed EURO 850,000 and EURO 200,000, respectively, from the other 50% owner of the Company's joint venture in Germany to pay their respective portions of the EURO 1,500,000 purchase price for the Henkel assets. The terms of these loans have not been formalized as of the date of this report. In connection with the transaction, Henkel agreed to a three-year non-competition provision and agreed not to acquire more than 5% of the outstanding shares of the Company. The Settlement Agreement also contains other terms and provisions (including representations, covenants and conditions) customary for transactions of this type.

19. SUBSEQUENT EVENT

On June 24, 2005, the Company executed a purchase agreement to purchase a building and land for a new corporate headquarters in Circle Pines, Minnesota. The agreement is to purchase a 40,000 square foot building and land for \$1,500,000 and is expected to be financed with a 15-year mortgage. The Company anticipates closing the transaction in April 2006 and selling its current facility in Lino Lakes, Minnesota.

ITEM 2 - MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

This Management's Discussion and Analysis provides material historical and prospective disclosures intended to enable investors and other users to assess our financial condition and results of operations. Statements that are not historical are forward-looking and involve risks and uncertainties discussed below under the caption "Forward-Looking Statements." The following discussion of the results of operations and financial condition of Northern Technologies International Corporation and its subsidiaries should be read in conjunction with our unaudited consolidated financial statements and the related notes thereto.

Overview

The Company manufactures, markets and sells primarily rust and corrosion protection products and custom packaging systems for avionics, automotive, electronics, electrical, mechanical and military applications, sold under the brand name ZERUST® and Excor®. The Company also offers direct, on-site technical support on rust and corrosion issues. In North America, the Company markets its technical service and Zerust® products principally to industrial users by a direct sales force and through a network of distributors and sales representatives. The Company's technical service representatives work directly with the end users of the Company's products to analyze their specific needs and develop systems to meet their technical requirements.

The Company participates, either directly or indirectly through holding companies, in 29 corporate joint venture arrangements in Asia, Europe and South America. Each of these joint ventures manufactures, markets and sells finished products generally in the country in which it is located. The Company's joint venture arrangements allow the Company to market and sell its products internationally through the marketing efforts of its joint venture partners without the Company having to develop its own international sales force. The Company'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, and have a vested interest in making each joint venture a success. While most of the Company's joint ventures sell rust and corrosion protection products and custom packaging systems, some of the joint ventures manufacture, market and sell bio-based additives with both industrial and personal care applications and electronic sensing instruments.

React-NTI LLC is an industrial chemical corporate joint venture of the Company that focuses on the development, manufacture and marketing of proprietary lines of bio-based additives with both industrial and personal care applications. Based on cotton, soy, corn and other renewable resources, React-NTI products outperform many synthetically derived competing alternatives. React-NTI's target market includes NTIC's existing industrial customer base, as well as the personal care/cosmetics industry. As of February 28, 2005, the Company began fully consolidating this 75% owned subsidiary, which was previously accounted for using the equity method.

The Company conducts all foreign transactions based on the U.S. dollar, except for its investments in various foreign corporate joint ventures. The exchange rate differential relating to investments in foreign corporate joint ventures is accounted for under the requirements of SFAS No. 52, *Foreign Currency Translation*.

The Company's North American net sales increased 6.5% during the nine months ended May 31, 2005 as compared to the nine months ended May 31, 2004 primarily as a result of the increase in net sales of React-NTI to its existing customers in North America. Net sales of React-NTI increased \$992,963 to \$3,129,290 for the nine months ended May 31, 2005 as compared to \$2,136,327 for the nine months ended May 31, 2004. Net sales decreased 4.9% for the three months ended May 31, 2005 compared to the three months ended May 31, 2004 primarily as a result of the decrease in the traditional Zerust® product line sales.

The cost of sales as a percentage of net sales increased to 59.4% and 59.4% in the three and nine months ended May 31, 2005, respectively, as compared to 54.3% and 55.8% in the three and nine months ended May 31, 2004, respectively. Additionally, lab and technical support expense increased as a percentage of net sales in the three and nine months ended May 31, 2005 as compared to the respective comparable periods in 2004. General and administrative expenses and selling expenses as a percentage of the Company's net sales decreased in the three and nine months ended May 31, 2005 as compared to the respective comparable periods in 2004.

Total net sales of all of the Company's corporate joint ventures increased 34.6% and 30.8% during the three and nine months ended May 31, 2005, respectively, as compared to the three and nine months ended May 31, 2004 primarily as a result of an increase in demand and the weakness of the United States dollar against foreign currency. The Company receives fees for technical and other support services to its joint ventures based on the revenues of the individual joint ventures. The Company recognized increased fee income for such technical and support services in the nine months ended May 31, 2005 as compared to the nine months ended May 31, 2004 as a result of the increase in total revenues from the joint ventures. The Company incurs direct expenses related to its corporate joint ventures and holding companies. Such expenses include consulting, travel, 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 the filing of patent applications. The Company incurred increased direct joint venture expenses in the nine months ended May 31, 2005 as compared to the nine months ended May 31, 2004 primarily as a result of increases in management and coordinator salaries, legal expenses and external consulting services. The increased expenses related to Company efforts to build up the technical service support for the corporate joint ventures out of its Beachwood, Ohio location.

The Company's working capital was \$2,687,680 at May 31, 2005, including \$546,192 in cash and cash equivalents. The Company had outstanding debt under a revolving line of credit of \$1,000,000 as of May 31, 2005.

Results of Operations

The following table sets forth our results of operations for the nine months ended May 31, 2005 and May 31, 2004.

	May 31, 2005	%of Net Sales	May 31, 2004	%of Net Sales	\$ Change	% Change
Net sales	\$ 10,990,831	100%	\$ 10,320,657	100%	\$ 670,174	6.5%
Cost of goods sold	6,533,684	59.5%	5,762,706	55.8%	770,978	13.4%
Selling expenses	2,114,805	19.2%	2,202,348	21.3%	(87,543)	(4.0)%
General and administrative expenses	1,822,761	16.6%	1,716,649	16.6%	106,112	6.2%
Lab and technical support expenses	\$ 555,332	5.1%	\$ 498,151	4.8%	\$ 57,181	11.5%

The following table sets forth our results of operations for the three months ended May 31, 2005 and May 31, 2004.

	May 31, 2005	%of Net Sales	May 31, 2004	%of Net Sales	\$ Change	% Change
Net sales	\$ 3,680,263	100.0%	\$ 3,869,331	100.0%	\$ (189,068)	(4.9)%
Cost of goods sold	2,185,636	59.4%	2,100,176	54.3%	85,460	4.1%
Selling expenses	781,454	21.2%	819,189	21.2%	(37,735)	(4.6)%
General and administrative expenses	344,167	9.4%	597,348	15.4%	(253,181)	(42.4)%
Lab and technical support expenses	\$ 151,725	4.1%	\$ 157,512	4.1%	\$ (5,787)	(3.7)%

Net Sales and Cost of Sales. The Company's net sales originating in the United States decreased during the three months ended May 31, 2005 compared to the same period in fiscal 2004 primarily as a result of a decrease in the traditional Zerust® product line sales. However, net sales increased during the nine months ended May 31, 2005 compared to the same period in fiscal 2004 primarily as a result of an increase in the volume of React-NTI products sold to an existing customer in North America. Cost of sales increased as a percentage of net sales for the three and nine months ended May 31, 2005 compared to the same period in fiscal 2004 primarily as a result of the increase in sales of React-NTI products that were sold at lower gross profit margins in fiscal year 2005.

Selling Expenses. The Company's selling expenses decreased for the nine months ended May 31, 2005 compared to the same period in fiscal 2004 primarily as a result of a combination of decreases in sales consulting payments of \$46,000, travel expenses of \$44,000, trade show expense of \$19,000, sales promotion materials of \$26,000 and commissions to salespeople and commissions to manufacturer's representatives totaling \$13,000, offset by increases related to the hiring of new sales people of \$59,000 and sales meeting expense of \$12,000. Selling expenses decreased for the three months ended May 31, 2005 compared to the same period in fiscal 2004 due to the implementation of cost control provisions. Expenses as a percentage of net sales decreased for the three and nine months ended May 31, 2005 compared to the same period in fiscal 2004 primarily as a result of the increase in sales of React-NTI related products. Additionally, the Company has been working to decrease travel and associated expenses as a cost control measure.

General and Administrative Expenses. The Company's general and administrative expenses increased for the nine months ended May 31, 2005 compared to the same period in fiscal 2004 primarily as a result of increases in insurance of \$72,000, Sarbanes-Oxley consulting fees of \$36,000, director fees and expenses of \$60,000, consulting fees of \$15,000, and travel of \$10,000, offset by decreases related to reduction in education expense of \$34,000, legal of \$25,000 and salary of \$34,000. The increases for the three months ended May 31, 2005 as compared to the same period in fiscal 2004 were proportional to the increases associated with the nine month changes noted above. As a percentage of net sales, general and administrative expenses increased for the three and nine months ended May 31, 2005 compared to the same period in fiscal 2004 primarily as a result of the increase in spending as described above.

Lab and Technical Support Expenses. The Company's lab and technical support expenses increased for the nine months ended May 31, 2005 compared to the same period in fiscal 2004 primarily as a result of increases in lab supplies and testing of \$18,000 and consulting of \$30,000. The Company is spending more on lab and technical support in an effort to support our increased sales network and better serve our existing customers. Lab and technical support expenses decreased slightly for the three months ended May 31, 2005 compared to the same period in fiscal 2004 due to the implementation of cost control provisions consistent with those described above. As a percentage of net sales, lab and technical support expenses increased slightly for the three and nine months ended May 31, 2005 compared to the same period in fiscal 2004 primarily as a result of the increase in expenses.

International Corporate Joint Ventures and Holding Companies. The Company continues its business program of establishing corporate joint venture arrangements in international markets directly or indirectly through holding companies.

The Company and/or an existing corporate joint venture manufactures and supplies proprietary ingredients, which make the finished products functional and enable manufacturing of the finished products to take place in the foreign countries. The Company's corporate joint ventures then market the finished products in their respective territories, and the Company's corporate joint ventures' profits are shared by the respective corporate joint venture shareholders in accordance with their respective ownership percentages of the joint venture entity.

The Company had equity in income of corporate joint ventures and holding companies of \$1,495,156 for the nine months ended May 31, 2005 compared to \$1,076,903 for the same period in fiscal 2004, and \$610,455 for the three months ended May 31, 2005 compared to \$455,877 for the same period in fiscal 2004. The increase in equity in income was due to the significant increase in profitability from the corporate joint ventures as a whole.

The Company receives fees for technical and other support to the Company's corporate joint ventures based on the revenues of the individual corporate joint ventures. The Company recognized fee income for such support in the amount of \$2,829,115 for the nine months ended May 31, 2005 compared to \$2,402,159 for the same period in fiscal 2004, and \$824,844 for the three months ended May 31, 2005 compared to \$807,016 for the same period in fiscal 2004. The increase in fees for technical and other support to its corporate joint ventures was due to the significant increase in revenues from the corporate joint ventures as a whole.

The Company sponsors a worldwide corporate joint venture conference approximately every three to four years in which all of its corporate joint ventures are invited to participate. The Company defers a portion of its royalty income received from its corporate joint ventures in each accounting period leading up to the next conference, reflecting that the Company has not fully earned the royalty payments received during that period. The next corporate joint venture conference is scheduled to be held in September 2005. There was \$245,302 of deferred royalty income recorded within other accrued liabilities at May 31, 2005, related to this conference. The deferred income is expected to be completely recognized as income in fiscal 2005 as expenses are incurred when the conference is held. Expenses incurred to date for the September 2005 conference total \$160,822. The costs associated with these joint venture conferences are recognized as incurred, generally in the period in which the conference is held and immediately before.

The Company incurred direct expenses related to its corporate joint ventures and the holding companies of \$1,240,560 and \$3,739,934 for the three and nine months ended May 31, 2005, respectively, compared to \$997,128 and \$2,660,816 for the same periods, respectively, in fiscal 2004. These expenses include: product and business development, consulting, travel, technical and marketing services to existing joint ventures, legal fees regarding the establishment of new joint ventures, registration and promotion and legal defense of worldwide trademarks and legal fees incurred in the filing of patent applications for new technologies to which the Company acquired certain rights. Increases for the nine months ended May 31, 2005 compared to the same period in fiscal 2004 are attributable to increases in management and coordinator salaries of \$112,000, Inter Alia expense reimbursement of \$195,000, group insurance of \$90,000, travel expense of \$111,000, testing of \$70,000, legal of \$50,000 and external consulting services of \$181,000. The increases for the three months ended May 31, 2005 as compared to the same period in fiscal 2004 are proportional to the increases associated with the nine month changes noted above. Such increased expenses derived from the Company efforts to build up the technical support for the corporate joint ventures out of the Beachwood, Ohio location.

Interest Income. The Company's interest income decreased slightly to \$47,139 for the nine months ended May 31, 2005 compared to \$50,880 for the same period in fiscal 2004.

Interest Expense. The Company's interest expense increased to \$13,263 for the nine months ended May 31, 2005 compared to \$0 for the same period in fiscal 2004, because the Company's revolving line of credit was not utilized during fiscal 2004.

Income Before Income Taxes. Income before income taxes decreased \$497,745 to \$586,251 for the nine months ended May 31, 2005 compared to \$1,083,995 for the same period in fiscal 2004.

Income Taxes. Income tax expense for the nine months ended May 31, 2005 and May 31, 2004 was calculated based on management's estimate of the Company's annual effective income tax rate. The Company's annual effective income tax rate for fiscal 2005 is lower than the statutory rate primarily due to the Company's equity in income of corporate joint ventures being recognized based on after-tax earnings of these entities. To the extent joint ventures' undistributed earnings are distributed to the Company, it is not expected to result in any material additional income tax liability after the application of foreign tax credits.

Liquidity and Capital Resources

Sources of Cash and Working Capital. At May 31, 2005, the Company's working capital was \$2,687,680, including \$546,192 in cash and cash equivalents, compared to working capital of \$3,644,658, including \$662,038 in cash and cash equivalents as of August 31, 2004.

In August 2004, the Company obtained a \$500,000 revolving credit facility with National City Bank, which was originally scheduled to expire on December 31, 2005. In March 2005, the facility was increased to \$1,000,000 and the expiration date was amended to January 31, 2006. Outstanding amounts under the revolving credit facility bear interest at an annual rate based on LIBOR plus 2.25%. As of May 31, 2005, the interest rate was 6.03%. Amounts borrowed under the facility are collateralized by a lien on substantially all of the Company's assets, excluding its corporate joint venture interests and intellectual property rights. The credit documents contain other terms and provisions (including representations, covenants and conditions) customary for transactions of this type. Significant financial covenants include minimum fixed charge coverage of 1.0 to 1.0. Other covenants include a prohibition on any merger or consolidation without prior consent of the lender and restrictions on future credit extensions and non-equity investments and the incurrence of additional indebtedness without the lender's prior consent. The facility contains customary events of default, including nonpayment of principal or other amounts when due; breach of covenants; inaccuracy of representations and warranties; cross-default and/or cross-acceleration to other indebtedness; non-compliance with laws; certain voluntary and involuntary bankruptcy events; judgments entered against the Company; and a sale of material assets. If an event of default occurs and is continuing, the lender may, among other things, terminate its obligations thereunder and require the Company to repay all amounts thereunder. As of May 31, 2005, \$1,000,000 was outstanding under the facility. The Company has the right to prepay the facility at any time without premium or penalty. The Company repaid \$200,000 on the revolving credit facility subsequent to May 31, 2005, to bring the balance as of July 15, 2005 to \$800,000.

The Company believes that a combination of its existing cash and cash equivalents, plus funds available through existing or anticipated financing arrangements and forecasted cash flows, will continue to be adequate to fund its operations, capital expenditures, debt repayments, dividend payments and stock repurchases for at least the next twelve months.

Uses of Cash and Cash Flows. Cash flows used in operations for the nine months ended May 31, 2005 and 2004 were \$897,456 and \$205,404, respectively. The net cash used in operations for the nine months ended May 31, 2005 and 2004 resulted principally from net income being partially offset by the noncash equity income of industrial chemical joint ventures, and uses of cash for increases in operating assets more than offsetting net increases in operating liabilities.

Net cash provided by investing activities for the nine months ended May 31, 2005 was \$15,669, which resulted from dividends received from corporate joint ventures being offset by notes receivable, investments in corporate joint ventures and additions to property and equipment and industrial patents. Net cash provided by investing activities for the nine months ended May 31, 2004 was \$486,453, which resulted from dividends received from corporate joint ventures and the sale of investments partially offset by investments in international joint ventures, additions to patents and additions to property and equipment.

Net cash provided by financing activities for the nine months ended May 31, 2005 was \$765,941, which resulted primarily from borrowing on the revolving line of credit being partially offset by dividends paid to shareholders. Net cash used in financing activities for the nine months ended May 31, 2004 was \$383,351, which resulted primarily from dividends paid to shareholders and bank overdrafts.

Capital Expenditures and Commitments. The Company has no material capital lease commitments as of May 31, 2005; however, the Company's subsidiary has entered into a 15-year lease agreement for approximately 16,994 square feet of office, manufacturing, laboratory and warehouse space requiring monthly payments of \$17,500 which are adjusted annually according to the annual consumer price index through November 2014. The Company has no postretirement benefit plan and does not anticipate establishing any postretirement benefit program.

The Company loaned Stratek Plastics Ltd. \$600,000 during the first nine months of fiscal year 2005. Prior to maturity, principal and interest are computed monthly at the rate of seven and one half percent (7.5%) per annum. The loan is to be repaid on or before August 31, 2005.

On April 28, 2005, the Company entered into a Settlement Agreement and Asset Purchase (the "Settlement Agreement") with Excor Korrosionsforschung GmbH ("Excor"), Fibro-NTI Urun Gelistirme Ve Pazarlama Ticaret Anonim ("Fibro-NTI"), Acobal SAS ("Acobal"), Henkel KGaA and Henkel Surface Technologies SAS pursuant to which the Company agreed to settle certain litigation the Company and its 50% owned joint venture in France, Acobal SAS, commenced against Henkel Surface Technologies S.A.S. and Henkel KGaA. Under the Settlement Agreement, the Company, Acobal and the Company's 50% owned joint venture in Turkey, Fibro-NTI, agreed to purchase certain non-contact corrosion protection assets used by Henkel or its affiliates for EURO 1,500,000. Of the EURO 1,500,000, the Company agreed to pay EURO 450,000, Acobal agreed to pay EURO 850,000 and Fibro-NTI agreed to pay EURO 200,000 for certain identified assets. The closing of the various asset purchase transactions took place on June 1, 2005. The Company borrowed EURO 450,000 to pay its portion of the EURO 1,500,000 from the other 50% owner of the Company's joint venture in Germany. In addition, both Acobal and Fibro-NTI also borrowed EURO 850,000 and EURO 200,000, respectively, from the other 50% owner of the Company's joint venture in Germany to pay their respective portions of the EURO 1,500,000 purchase price for the Henkel assets. The terms of these loans have not been formalized as of the date of this report. In connection with the transaction, Henkel agreed to a three-year non-competition provision and agreed not to acquire more than 5% of the outstanding shares of the Company. The Settlement Agreement also contains other terms and provisions (including representations, covenants and conditions) customary for transactions of this type.

On June 24, 2005, the Company executed a purchase agreement to purchase a building and land for a new corporate headquarters in Circle Pines, Minnesota. The agreement is to purchase a 40,000 square foot building and land for \$1,500,000 and is expected to be financed with a 15-year mortgage. The Company anticipates closing the transaction in April 2006 and selling its current facility in Lino Lakes, Minnesota.

Off-Balance Sheet Arrangements

The Company does not have 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, the Company is not materially exposed to any financing, liquidity, market or credit risk that could arise if we had engaged in such arrangements.

In fiscal 1999, a subsidiary of the Company, NTI Facilities, Inc., acquired a one-third ownership of Omni-Northern Ltd., which owns and operates a rental property located at 23205 Mercantile Road, Beachwood, Ohio. The property has an approximate value of \$2,205,000, based upon the cash-to-mortgage acquisition price of the property paid in fiscal 2000. The Company has guaranteed up to \$329,082 of the Omni-Northern Ltd.'s \$1,970,552 mortgage obligation with National City Bank, Cleveland, Ohio. The building is fully leased at present.

Inflation and Seasonality

Inflation in the U.S. and abroad has historically had little effect on the Company. The Company's business is not historically seasonal.

Market Risk

The Company is exposed to some market risk stemming from changes in foreign currency exchange rates, commodity prices and interest rates. The Company is exposed to foreign currency exchange rate risk arising from its investments in its foreign corporate joint ventures and holding companies since the Company's fees for technical support and other services and dividend distributions from these foreign entities are paid in foreign currencies. The Company's principal exchange rate exposure is with the Euro, the Japanese yen, Korean won and the English pound against the U.S. dollar. The Company does not hedge against its foreign currency exchange rate risk. Since the Company's investments in its corporate joint ventures and holding companies 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 and holding companies reflected in the consolidated statement of income. Some raw materials used in the Company's products are exposed to commodity price changes. The primary commodity price exposures are with a variety of plastic resins. The Company's revolving credit facility bears interest at a rate based on LIBOR and thus may subject the Company to some market risk on interest rates. \$1,000,000 was outstanding under this facility as of May 31, 2005.

Related Party Transactions

See note 16 to our consolidated financial statements for related party transaction disclosure.

Critical Accounting Policies

The preparation of our 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, we have identified the following critical accounting policies. Although we believe that our 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.

Sales Originating in North America – Northern Technologies International Corporation and Subsidiaries (the Company) considers sales originating in North America to be all sales shipped/invoiced from the Company’s facilities located in Minnesota and Ohio. There are no sales from the Corporate Joint Ventures included in the amount as the Company’s investments in Corporate Joint Ventures are accounted for using the equity method. The Company manufactures, markets and sells primarily rust and corrosion protection products and custom packaging systems for avionics, automotive, electronics, electrical, mechanical and military applications, sold under the brand name ZERUST® and Excor®.

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.

Accounts Receivable - The Company reviews customers’ credit histories before extending unsecured credit and establishes 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. The Company does not accrue interest on past due accounts receivable. If accounts receivable in excess of the provided allowance are determined uncollectible, they are charged to expense in the year that determination is made. Accounts receivable have been reduced by an allowance for uncollectible accounts of \$15,478 and \$11,562 at May 31, 2005 and August 31, 2004, respectively.

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	5-20 years
Machinery and equipment	3-10 years

Investments in Corporate Joint Ventures - Investments in Corporate Joint Ventures are accounted for using the equity method, except for React-NTI LLC which has been fully consolidated, starting February 28, 2005 due to the adoption of FIN 46R (See Note 2). Intercompany profits on inventories held by the Corporate Joint Ventures that were purchased from the Company have been eliminated based on the Company’s ownership percentage in each corporate joint venture. Periodically, the Company evaluates the investments for any impairment and assesses the future cash flow projections to determine if there are any going concern issues. If an investment is determined to be impaired then a reserve would be created to reflect the impairment on the financial results of the Company.

Notes Receivable - The Company makes a determination based upon many financial and operating factors prior to issuing any notes receivable. Additionally, an interest rate is determined based on the market rate of interest at that point in time. Notes Receivable are evaluated quarterly to assess their collectability; if it is determined that the Notes Receivable are impaired then a reserve is created at that time.

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. Should the sum of the expected undiscounted future net cash flows be less than the carrying value, the Company 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. As of May 31, 2005, the Company did not consider any of its assets impaired.

Principles of Consolidation - The consolidated financial statements include the accounts of Northern Technologies International Corporation, its wholly owned subsidiary, NTI Facilities, Inc. and React-NTI LLC (See Note 2). All significant intercompany transactions and balances have been eliminated in consolidation.

Income Taxes - The Company utilizes the liability method of accounting for income taxes as set forth in Statement of Financial Accounting Standards (SFAS) No. 109, Accounting for Income Taxes. SFAS No. 109 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. 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 (Loss)) - The functional currency of each international corporate 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 current 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 (loss).

Revenue Recognition - In recognizing revenue, the Company applies the provisions of the Securities and Exchange Commission Staff Accounting Bulletin 104, 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 fee is fixed and determinable and collection of the resulting receivable is reasonably assured. A portion of the gross profit on products shipped to the Company's Corporate Joint Ventures is deferred until such products are sold by the Corporate Joint Ventures.

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.

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.

Stock Based Compensation - In accordance with Accounting Principles Board (APB) Opinion No. 25 and related interpretations, the Company uses the intrinsic value-based method for measuring stock-based compensation cost which measures compensation cost as the excess, if any, of quoted market price of the Company's common stock at the grant date over the amount the employee must pay for the stock. The Company's general policy is to grant stock options at fair value at the date of grant. The Company did not recognize any expense in the financial statements as they were all issued at fair market value. Options and warrants issued to non-employees are recorded at fair value, as required by Statement of Financial Accounting Standards (SFAS) No. 123, "Accounting for Stock-Based Compensation", using the Black-Scholes pricing method.

In December 2002, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure." SFAS No. 148 is an amendment to SFAS No. 123 providing alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation and also provides required additional disclosures about the method of accounting for stock-based employee compensation. The Company adopted the annual disclosure provision of SFAS No. 148 during the year ended August 31, 2003. The Company chose to not adopt the voluntary change to the fair value based method of accounting for stock-based employee compensation, pursuant to SFAS No. 148.

The Company has adopted the disclosure-only provisions of SFAS No. 148, Accounting for Stock-Based Compensation. Accordingly, no compensation cost has been recognized with respect to stock options. Had compensation cost for stock options been determined based on the fair value methodology prescribed by SFAS 123, the Company's net loss and net loss per share would have been reduced to the pro forma amounts.

In December 2004, FASB issued SFAS No. 123 (revised 2004), "Share-Based Payment", that focuses primarily on accounting for transactions in which an entity obtains employee services in share-based payment transactions. This statement replaces SFAS No. 123, "Accounting for Stock-Based Compensation", and supersedes APB Opinion No. 25, "Accounting for Stock Issued to Employees."

Beginning with our quarterly period that begins September 1, 2006, we will be required to expense the fair value of employee stock options and similar awards. As a public company, we are allowed to select from two alternative transition methods, each having different reporting implications. The impact of SFAS No. 123R has not been determined at this time.

Forward-Looking Statements

This Quarterly Report on Form 10-QSB contains not only historical information, but also forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. In addition, the Company or others on the Company's behalf may make forward-looking statements from time to time in oral presentations, including telephone conferences, in press releases or reports, on the Company's Internet web site or otherwise. Statements that are not historical are forward-looking and reflect expectations and assumptions. The Company tries to identify forward-looking statements in this Report and elsewhere by using words such as "may," "will," "should," "expects," "anticipates," "contemplates," "estimates," "believes," "plans," "projected," "predicts," "potential" or "continue" or the negative of these or similar terms.

Forward-looking statements involve risks and uncertainties. These uncertainties include factors that affect all businesses as well as matters specific to the Company. The Company cautions 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 below, as well as others that the Company may consider immaterial or does not anticipate at this time. The following risks and uncertainties are not exclusive and further information concerning the Company and its business, including factors that potentially could materially affect its financial results or condition, may emerge from time to time. The Company assumes no obligation to update forward-looking statements to reflect actual results or changes in factors or assumptions affecting such forward-looking statements. The Company advises you, however, to consult any further disclosures it may make on related subjects in its future quarterly reports on Form 10-QSB and current reports on Form 8-K it files with or furnishes to the Securities and Exchange Commission.

In addition to the influences identified elsewhere in this report, there are several important factors that could cause the Company's actual results to differ materially from those anticipated by the Company or which are reflected in any forward-looking statements of the Company. Such factors, which may impact the success of the Company's operations and its ability to achieve its goals, include the following:

- (1) The Company's ability to make investments in existing and future joint ventures to generate a positive rate of return and demonstrate a pattern of growth consistent with past and current performance;
- (2) The Company's ability to continue to enter into international markets in a timely fashion;
- (3) The Company's ability to maintain gross margins at a level consistent with the technological advantages of its proprietary products; and
- (4) The Company's ability to protect its intellectual property rights.

ITEM 3 – CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

The Company's management evaluated, with the participation of its Chairman of the Board and Chief Executive Officer and Chief Financial Officer, the effectiveness of the design and operation of the Company's "disclosure controls and procedures" (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934 (the Exchange Act)) as of the end of the period covered by this report. Based on that evaluation, the Chairman of the Board and Chief Executive Officer and the Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective in timely making known to them material information relating to the Company and the Company's consolidated subsidiaries required to be disclosed in the Company's reports filed or submitted under the Exchange Act.

Management is aware that there is a lack of segregation of duties due to the small number of employees dealing with general administrative and financial matters. However, management has decided that considering the employees involved and the control procedures in place, risks associated with such lack of segregation are insignificant and the potential benefits of adding employees to clearly segregate duties do not at this time justify the expenses associated with such increases.

Changes in Internal Control over Financial Reporting

There was no change in the Company's internal control over financial reporting that occurred during the quarter ended May 31, 2005 that has materially affected, or is reasonably likely to materially affect the Company's internal control over financial reporting.

PART II - OTHER INFORMATION

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES, USE OF PROCEEDS AND SMALL BUSINESS ISSUER PURCHASES OF EQUITY SECURITIES

Recent Sales of Unregistered Equity Securities

During the three months ended May 31, 2005, the Company did not sell any equity securities that were not registered under the Securities Act of 1933.

Small Business Issuer Purchases of Equity Securities

The Company did not purchase any shares of its common stock or other equity securities of the Company during the three months ended May 31, 2005. The Board of Directors authorized on November 13, 2003, Matthew Wolsfeld, Chief Financial Officer of the Company, to repurchase on behalf of the Company, up to 100,000 shares of the Company's common stock from time to time in accordance with applicable rules governing issuer stock repurchases. Since being authorized, the Company has repurchased and retired 44,200 shares of common stock.

ITEM 5. OTHER INFORMATION

On March 2, 2005, the Company entered into a Modification and Extension of Promissory Note (the "Modification Agreement") with National City Bank pursuant to which the Company's revolving credit facility was increased from \$500,000 to \$1,000,000 and the maturity date of the revolving note was changed from December 31, 2005 to January 31, 2006. Outstanding amounts under the revolving note (the "Note") bear interest at an annual rate based on LIBOR plus 2.25%. Amounts borrowed under the Note are secured by a lien on substantially all of the Company's assets, excluding its joint venture interests and intellectual property rights, under a Security Agreement. The transaction documents contain other terms and provisions (including representations, covenants and conditions) customary for transactions of this type. Significant financial covenants are included in an Addendum to the Note and include the requirement of the Company to maintain at least a minimum fixed charge coverage ratio of 1.0 to 1.0. Other covenants include a prohibition on any merger or consolidation without prior consent of National City Bank and restrictions on future credit extensions and non-equity investments and the incurrence of additional indebtedness without National City Bank's prior consent. The Note contains customary events of default, including nonpayment of principal or other amounts when due; breach of covenants; inaccuracy of representations and warranties; cross-default and/or cross-acceleration to other indebtedness; non-compliance with laws; certain voluntary and involuntary bankruptcy events; judgments entered against the Company; and a sale of material assets. If an event of default occurs and is continuing under the Note, National City Bank may, among other things, terminate its obligations thereunder and require the Company to repay all amounts thereunder. As of May 31, 2005, \$1,000,000 was outstanding under the Note. The Company has the right to prepay the Note at any time without premium or penalty. The foregoing descriptions of the Note, Note Addendum, Security Agreement and Modification Agreement are qualified in their entirety by reference to a copy of the actual Note, Note Addendum, Security Agreement and Modification Agreement, which are filed as Exhibits 10.1, 10.2, 10.3 and 10.4, respectively, to this report and are incorporated herein by reference. Before the entering into of the revolving credit facility, there was no material relationship between the Company and any of its affiliates, on the one hand, and National City Bank, on the other hand.

On April 28, 2005, the Company entered into a Settlement Agreement and Asset Purchase (the "Settlement Agreement") with Excor Korrosionsforschung GmbH ("Excor"), Fibro-NTI Urun Gelistirme Ve Pazarlama Ticaret Anonim ("Fibro-NTI"), Acobal SAS ("Acobal"), Henkel KGaA and Henkel Surface Technologies SAS pursuant to which the Company agreed to settle certain litigation the Company and its

50% owned joint venture in France, Acobal SAS, commenced against Henkel Surface Technologies S.A.S. and Henkel KGaA. Under the Settlement Agreement, the Company, Acobal and the Company's 50% owned joint venture in Turkey, Fibro-NTI, agreed to purchase certain non-contact corrosion protection assets used by Henkel or its affiliates for EURO 1,500,000. Of the EURO 1,500,000, the Company agreed to pay EURO 450,000, Acobal agreed to pay EURO 850,000 and Fibro-NTI agreed to pay EURO 200,000 for certain identified assets. The closing of the various asset purchase transactions took place on June 1, 2005. The Company borrowed EURO 450,000 to pay its portion of the EURO 1,500,000 from the other 50% owner of the Company's joint venture in Germany. In addition, both Acobal and Fibro-NTI also borrowed EURO 850,000 and EURO 200,000, respectively, from the other 50% owner of the Company's joint venture in Germany to pay their respective portions of the EURO 1,500,000 purchase price for the Henkel assets. The terms of these loans have not been formalized as of the date of this report. In connection with the transaction, Henkel agreed to a three-year non-competition provision and agreed not to acquire more than 5% of the outstanding shares of the Company. The Settlement Agreement also contains other terms and provisions (including representations, covenants and conditions) customary for transactions of this type. The foregoing description of the Settlement Agreement is qualified in its entirety by reference to a copy of the actual Purchase Agreement, which is filed as Exhibit 10.5 to this report and is incorporated herein by reference. Before the entering into of the Settlement Agreement, there was no material relationship between the Company and any of its affiliates, on the one hand, and Henkel KGaA and Henkel Surface Technologies SAS, on the other hand.

On June 24, 2005, the Company entered into a Purchase Agreement with Circle Pines Mainstreet II, LLC pursuant to which the Company agreed to purchase certain real estate and a 40,000 square feet building on such real estate for a new corporate headquarters located in Circle Pines, Minnesota for \$1,500,000. The purchase is expected to be financed with a 15-year mortgage. The closing of the transaction is subject to certain customary terms and conditions. The Company anticipates that the closing of the transaction should occur in April 2006. The Purchase Agreement also contains other terms and provisions (including representations, covenants and conditions) customary for transactions of this type. The foregoing description of the Purchase Agreement is qualified in its entirety by reference to a copy of the actual Purchase Agreement, which is filed as Exhibit 10.6 to this report and is incorporated herein by reference. Before the entering into of the Purchase Agreement, there was no material relationship between the Company and any of its affiliates, on the one hand, and Circle Pines Mainstreet II, LLC, on the other hand.

ITEM 6. EXHIBITS

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

Exhibit No.	Description
10.1	Commercial Note: Revolving Credit dated August 6, 2004 by Northern Technologies International Corporation payable to National City Bank
10.2	Commercial Note Addendum dated August 6, 2004 between Northern Technologies International Corporation and National City Bank
10.3	Security Agreement dated August 6, 2004 between Northern Technologies International Corporation and National City Bank
10.4	Modification and Extension of Promissory Note dated March 2, 2005 between Northern Technologies International Corporation and National City Bank
10.5	Settlement Agreement and Asset Purchase dated April 28, 2005 among Northern Technologies International Corporation, Excor Korrosionsforschung GmbH, Fibro-NTI Urun Gelistirme Ve Pazarlama Ticaret Anonim, Acobal SAS, Henkel KGaA and Henkel Surface Technologies SAS
10.6	Purchase Agreement dated June 24, 2005 between Circle Pines Mainstreet II, LLC and Northern Technologies International Corporation
31.1	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

SIGNATURES

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

NORTHERN TECHNOLOGIES INTERNATIONAL CORPORATION



Date: July 15, 2005

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

NORTHERN TECHNOLOGIES INTERNATIONAL CORPORATION

EXHIBIT INDEX TO QUARTERLY REPORT ON FORM 10-QSB

FOR THE FISCAL QUARTER ENDED MAY 31, 2005

Exhibit No.	Description	Method of Filing
10.1	Commercial Note: Revolving Credit dated August 6, 2004 by Northern Technologies International Corporation payable to National City Bank	Filed herewith
10.2	Commercial Note Addendum dated August 6, 2004 between Northern Technologies International Corporation and National City Bank	Filed herewith
10.3	Security Agreement dated August 6, 2004 between Northern Technologies International Corporation and National City Bank	Filed herewith
10.4	Modification and Extension of Promissory Note dated March 2, 2005 between Northern Technologies International Corporation and National City Bank	Filed herewith
10.5	Settlement Agreement and Asset Purchase dated April 28, 2005 among Northern Technologies International Corporation, Excor Korrosionsforschung GmbH, Fibro-NTI Urun Gelistirme Ve Pazarlama Ticaret Anonim, Acobal SAS, Henkel KGaA and Henkel Surface Technologies SAS	Filed herewith
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32.1	Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	Furnished herewith
32.2	Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	Furnished herewith

COMMERCIAL NOTE: REVOLVING CREDIT (Ohio) One Month LIBOR Daily Indexed - Corporate Flex

Amount	City, State	Date	FOR BANK USE ONLY
\$500,000.00	Beachwood, OH	August 6, 2004	Obligor #6471248340
			Tax I. D. #41-0857886
			Obligation #
			Office

FOR VALUE RECEIVED, **Northern Technologies International Corporation, a Delaware Corporation** (“**Borrower**”), whose mailing address is **23205 Mercantile Road, Beachwood, OH 44122**, hereby promises to pay to the order of National City Bank (“**Bank**”), a national banking association having a banking office at **1900 East 9th Street, Cleveland, OH, 44114**, Attention: Commercial Loan Division at the address specified on the bills received by Borrower from Bank (or at such other place as Bank may from time to time designate by written notice) in lawful money of the United States of America, the principal sum of **Five Hundred Thousand and No One-Hundredths Dollars (\$500,000.00)** or such lesser amount as may appear on this Note, or as may be entered in a loan account on Bank’s books and records, or both, together with interest, all as provided below.

1. Commitment. This Note evidences an arrangement (the “**Subject Commitment**”) whereby Borrower may, on the date of this Note and thereafter until (but not including) **December 31, 2005** (the “**Expiration Date**”) or such earlier date upon which the Subject Commitment is terminated or reduced to zero, obtain from Bank, subject to the terms and conditions of this Note, such loans (each a “**Subject Loan**”) as Borrower may from time to time properly request. The amount of the Subject Commitment shall be equal to the face amount of this Note, *provided*, that Borrower shall have the right, at any time and from time to time, to permanently reduce the amount of the Subject Commitment to any amount that is an integral multiple of **One Thousand and No One-Hundredths Dollars (\$1,000.00)** (the “**Minimum Borrowing Amount**”) by giving Bank not less than one (1) Banking Day’s prior notice (which shall be irrevocable) of the effective date of the reduction, *provided*, that no reduction in the amount of the Subject Commitment shall be effective if, after giving effect to that reduction, the aggregate unpaid principal balance of the Subject Loans would exceed the amount of the Subject Commitment as so reduced. Regardless of any fee or other consideration received by Bank, the Subject Commitment may be terminated pursuant to section 10.

2. Fees. Borrower shall pay Bank a commitment fee (*a*) in arrears on **July 1, 2004** and quarter-annually thereafter and upon the termination of the Subject Commitment or the reduction thereof to zero, (*b*) based on the average daily difference between the amount of the Subject Commitment and the aggregate unpaid principal balance of the Subject Loans during the period from the due date of the last such fee (or, if none, the date of this Note) to the due date of the fee in question, and (*c*) computed at the rate of **One Quarter of One percent (0.25%)** per annum.

Borrower shall pay Bank, on the date of this Note, a non-refundable closing fee in an amount equal to **Two Thousand and No One-Hundredths Dollars (\$2,000.00)**.

3. Loan Requests; Disbursement. A Subject Loan is properly requested if requested orally or in writing not later than 2:00 p. m., Banking-Office Time, of the Banking Day upon which that Subject Loan is to be made. Each request for a Subject Loan shall of itself constitute, both when made and when honored, a representation and warranty by Borrower to Bank that Borrower is entitled to obtain the requested Subject Loan. Bank is hereby irrevocably authorized to make an appropriate entry on this Note, in a loan account on Bank's books and records, or both, whenever Borrower obtains a Subject Loan. Each such entry shall be prima facie evidence of the data entered, but the making of such an entry shall not be a condition to Borrower's obligation to pay. Bank is hereby directed, absent notice from Borrower to the contrary, to disburse the proceeds of each Subject Loan to Borrower's general checking account with Bank. Bank shall have no duty to follow, nor any liability for, the application of any proceeds of any Subject Loan.

4. Conditions: Subject Loans. Each Subject Loan shall be in an amount that is an integral multiple of the Minimum Borrowing Amount. Borrower shall not be entitled to obtain any Subject Loan (a) on or after the termination of the Subject Commitment or the reduction thereof to zero, (b) if either at the time of Borrower's request for that loan or when that request is honored there shall exist or would occur any Event of Default, (c) if any representation, warranty, or other statement (other than any expressly made as of a single date) made by any Person (other than Bank) in any Related Writing would, if made either as of the time of Borrower's request for that Subject Loan or as of the time when that request is honored, be untrue or incomplete in any respect, or (d) if after giving effect to that Subject Loan and all others for which requests are then pending, the aggregate unpaid principal balance of the Subject Loans would exceed the then amount of the Subject Commitment.

5. Interest. The unpaid principal balance of each Subject Loan shall at all times bear interest at the Contract Rate, *provided*, that so long as (a) any principal of any Subject Loan remains unpaid after Bank shall have given Borrower notice of demand for any such principal or after the commencement of any Proceeding with respect to Borrower, or (b) any accrued interest on any Subject Loan remains unpaid after the due date of that interest, then, and in each such case, all unpaid principal of this Note and all overdue interest on that principal shall bear interest at a fluctuating rate equal to two percent (2%) per annum above the rate that would otherwise be applicable, but in no case less than two percent (2%) per annum above the Prime Rate; *provided further*, that in no event shall any principal of or interest on any Subject Loan bear interest at any time after the giving of any such notice or the commencement of any such Proceeding, whichever shall first occur, at a lesser rate than the rate applicable thereto immediately after the giving of that notice or the commencement of that Proceeding, as the case may be. The "**Contract Rate**" shall at all times be a fluctuating rate equal to **Two and One Quarter of One percent (2.25%)** per annum plus One Month LIBOR, *provided*, that in the event One Month LIBOR is unavailable as a result of Bank's good faith determination of the occurrence of one of the events specified in section 5, the "**Contract Rate**" shall be a fluctuating rate equal to the Prime Rate.

Interest on each Subject Loan shall be payable in arrears on **July 1, 2004**, and on the **1st** day of each **Month** thereafter and on demand. The One Month LIBOR rate shall be adjusted by Bank, as necessary, at the end of each Banking Day during the term hereof. Bank shall not be required to notify Borrower of any adjustment in the One Month LIBOR rate; however, Borrower may request a quote of the prevailing Contract Rate on any Banking Day.

6. LIBOR Unavailable. Notwithstanding any provision or inference to the contrary, the Contract Rate shall not be based on One Month LIBOR if Bank shall determine in good faith that (a) any governmental authority has asserted that it is unlawful for Bank to fund, make, or maintain loans bearing interest based on One Month LIBOR, or (b) circumstances affecting the market selected by Bank for the purpose of funding the Subject Loans make it impracticable for Bank to determine One Month LIBOR. Bank's books and records shall be conclusive (absent obvious error) as to whether Bank shall have determined that the Contract Rate is prohibited from being based on One Month LIBOR. If the Contract Rate is prohibited from being based on One Month LIBOR as a result of the occurrence of one of the events referenced in this section 6, then, and in each such case, notwithstanding any provision or inference to the contrary, the then outstanding principal balance of this Note shall, upon Bank giving Borrower notice of Bank's determination of the occurrence of such an event, bear interest at a Contract Rate based on the Prime Rate as contemplated in section 5.

7. Repayment. Subject to section 10, each Subject Loan shall be due and payable in full on the Expiration Date. Borrower shall have the right to prepay the principal of the Subject Loans in whole or in part, *provided*, that each such prepayment shall be in an amount that is an integral multiple of the Minimum Borrowing Amount. Each prepayment of a Subject Loan may be made without premium or penalty.

If any payment is required to be made on a day which is not a Banking Day, such payment shall be due on the next immediately following Banking Day and interest shall continue to accrue at the applicable rate.

8. Definitions. As used in this Note, except where the context clearly requires otherwise, "**Affiliate**" means, when used with reference to any Person (the "*subject*"), a Person that is in control of, under the control of, or under common control with, the subject, the term "*control*" meaning the possession, directly or indirectly, of the power to direct the management or policies of a Person, whether through the ownership of voting securities, by contract, or otherwise; "**Bank Debt**" means, collectively, all Debt to Bank, whether incurred directly to Bank or acquired by it by purchase, pledge, or otherwise, and whether participated to or from Bank in whole or in part; "**Banking Day**" means any day (other than any Saturday, Sunday or legal holiday) on which Bank's banking office is open to the public for carrying on substantially all of its banking functions; "**Banking-Office Time**" means, when used with reference to any time, that time determined at the location of Bank's banking office; "**Date of Reference**" means, on any Banking Day, a date which is two (2) Eurodollar Banking Days prior to the Banking Day in question; "**Debt**" means, collectively, all obligations of the Person or Persons in question, including, without limitation, every such obligation whether owing by one such Person alone or with one or more other Persons in a joint, several, or joint and several capacity, whether now owing or hereafter arising, whether owing absolutely or contingently, whether created by lease, loan, overdraft, guaranty of payment, or other contract, or by quasi-contract, tort, statute, other operation of law, or otherwise; "**Eurodollar Banking Day**" means any Banking Day on which banks in the London Interbank Market deal in United States dollar deposits and on which

banking institutions are generally open for domestic and international business at the place where Bank's banking office is located and in New York City; "**Maturity**" means, when used with reference to any Subject Loan, the date (whether occurring by lapse of time, acceleration, or otherwise) upon which that Subject Loan is due; "**Note**" means this promissory note (including, without limitation, each addendum, allonge, or amendment, if any, hereto); "**Obligor**" means any Person who, or any of whose property, shall at the time in question be obligated in respect of all or any part of the Bank Debt of Borrower and (in addition to Borrower) includes, without limitation, co-makers, indorsers, guarantors, pledgors, hypothecators, mortgagors, and any other Person who agrees, conditionally or otherwise, to assure such other Obligor's creditors or any of them against loss; "**One Month LIBOR**" means, with respect to a loan, the rate per annum (rounded upwards, if necessary, to the next higher 1/16 of 1%) determined by Bank and equal to the average rate per annum at which deposits (denominated in United States dollars) in an amount similar to the principal amount of that loan and with a maturity of one (1) month are offered to Bank at 11:00 A.M. London time (or as soon thereafter as practicable) on the Date of Reference by banking institutions in the London, United Kingdom market, as such interest rate is referenced and reported by the British Bankers Association in the Bridge Financial Telerate system "Page 3750" report or, if the same is unavailable, any other generally accepted authoritative source of such interest rate as Bank may reference from time to time; "**Person**" means an individual or entity of any kind, including, without limitation, any association, company, cooperative, corporation, partnership, trust, governmental body, or any other form or kind of entity; "**Prime Rate**" means the fluctuating rate per annum which is publicly announced from time to time by Bank as being its so-called "prime rate" or "base rate" thereafter in effect, with each change in the Prime Rate automatically, immediately, and without notice changing the Prime Rate thereafter applicable hereunder, it being acknowledged that the Prime Rate is not necessarily the lowest rate of interest then available from Bank on fluctuating-rate loans; "**Proceeding**" means any assignment for the benefit of creditors, any case in bankruptcy, any marshalling of any Obligor's assets for the benefit of creditors, any moratorium on the payment of debts, or any proceeding under any law relating to conservatorship, insolvency, liquidation, receivership, trusteeship, or any similar event, condition, or other thing; "**Related Writing**" means this Note and any indenture, note, guaranty, assignment, mortgage, security agreement, subordination agreement, notice, financial statement, legal opinion, certificate, or other writing of any kind pursuant to which all or any part of the Bank Debt of Borrower is issued, which evidences or secures all or any part of the Bank Debt of Borrower, which governs the relative rights and priorities of Bank and one or more other Persons to payments made by, or the property of, any Obligor, which is delivered to Bank pursuant to another such writing, or which is otherwise delivered to Bank by or on behalf of any Person (or any employee, officer, auditor, counsel, or agent of any Person) in respect of or in connection with all or any part of the Bank Debt of Borrower; "**Reporting Person**" means each Obligor and each member of any "Reporting Group" as defined in any addendum to this Note; and the foregoing definitions shall be applicable to the respective plurals of the foregoing defined terms.

9. Events of Default. It shall be an "**Event of Default**" if (a) all or any part of the Bank Debt of any Obligor shall not be paid in full promptly when due (whether by lapse of time, acceleration, or otherwise); (b) any representation, warranty, or other statement made by any Person (other than Bank) in any Related Writing shall be untrue or incomplete in any respect when made; (c) any Person (other than Bank) shall repudiate or shall fail or omit to perform or observe

any agreement contained in this Note or in any other Related Writing that is on that Person's part to be complied with; (d) any indebtedness (other than any evidenced by this Note) of any Obligor shall not be paid when due, or there shall occur any event, condition, or other thing which gives (or which with the lapse of any applicable grace period, the giving of notice, or both would give) any creditor the right to accelerate or which automatically accelerates the maturity of any such indebtedness; (e) Bank shall not receive (in addition to any information described in any addendum to this Note) without expense to Bank, (i) forthwith upon each request of Bank made upon Borrower therefor, (A) such information in writing regarding each Reporting Person's financial condition, properties, business operations, if any, and pension plans, if any, prepared, in the case of financial information, in accordance with generally accepted accounting principles consistently applied and otherwise in form and detail satisfactory to Bank or (B) written permission, in form and substance satisfactory to Bank, from each Reporting Person to inspect (or to have inspected by one or more Persons selected by Bank) the properties and records of that Reporting Person and to make copies and extracts from those records or (ii) prompt written notice whenever Borrower (or any director, employee, officer, or agent of Borrower) knows or has reason to know that any Event of Default has occurred; (f) any judgment shall be entered against any Obligor in any judicial or administrative tribunal or before any arbitrator or mediator; (g) any Obligor shall fail or omit to comply with any applicable law, rule, regulation, or order in any material respect; (h) any proceeds of any Subject Loan shall be used for any purpose that is not in the ordinary course of Borrower's business; (i) any property in which any Obligor now has or hereafter acquires any rights or which now or hereafter secures any Bank Debt shall be or become encumbered by any mortgage, security interest, or other lien, *except* any mortgage, security interest, or other lien consented to by Bank; (j) any Obligor shall at any time or over any period of time sell, lease, or otherwise dispose of all or any material part of that Obligor's assets, *except* for inventory sold in the ordinary course of business and other assets sold, leased, or otherwise disposed of with the consent of Bank; (k) any Obligor shall cease to exist or shall be dissolved, become legally incapacitated, or die; (l) any Proceeding shall be commenced with respect to any Obligor; (m) there shall occur or commence to exist any event, condition, or other thing that constitutes an "Event of Default" as defined in any addendum to this Note; (n) there shall occur any event, condition, or other thing that has, or, in Bank's judgment, is likely to have, a material adverse effect on the financial condition, properties, or business operations of any Obligor or on Bank's ability to enforce or exercise any agreement or right arising under, out of, or in connection with any Related Writing; or (o) the holder of this Note shall, in good faith, believe that the prospect of payment or performance of any obligation evidenced by this Note is impaired.

10. Effects of Default. If any Event of Default (other than the commencement of any Proceeding with respect to Borrower) shall occur, then, and in each such case, notwithstanding any provision or inference to the contrary, Bank shall have the right in its discretion, by giving written notice to Borrower, to (a) immediately terminate the Subject Commitment (if not already terminated or reduced to zero) and (b) declare each Subject Loan (if not already due) to be due, whereupon each Subject Loan shall immediately become due and payable in full. If any Proceeding shall be commenced with respect to Borrower, then, notwithstanding any provision or inference to the contrary, automatically, without presentment, protest, or notice of dishonor, all of which are waived by all makers and all indorsers of this Note, now or hereafter existing, (i) the Subject Commitment shall immediately terminate (if not already terminated or reduced to zero) and (ii) each Subject Loan (if not already due) shall immediately become due and payable in full.

11. Late Charges. If any principal of or interest on any Subject Loan is not paid within ten (10) days after its due date, then, and in each such case, Bank shall have the right to assess a late charge, payable by Borrower on demand, in an amount equal to the greater of twenty dollars (\$20.00) or five percent (5%) of the amount not timely paid.

12. No Setoff. Borrower hereby waives any and all now existing or hereafter arising rights to recoup or offset any obligation of Borrower under or in connection with this Note or any Related Writing against any claim or right of Borrower against Bank.

13. Indemnity: Governmental Costs. If (a) there shall be enacted any law (including, without limitation, any change in any law or in its interpretation or administration and any request by any governmental authority) relating to any interest rate or any assessment, reserve, or special deposit requirement (except if and to the extent utilized in computation of the Reserve Percentage) against assets held by, deposits in, or loans by Bank or to any tax (other than any tax on Bank's overall net income) and (b) in Bank's sole opinion any such event increases the cost of funding or maintaining any LIBOR Unit or reduces the amount of any payment to be made to Bank in respect thereof, then, and in each such case, upon Bank's demand, Borrower shall pay Bank an amount equal to each such cost increase or reduced payment, as the case may be. In determining any such amount, Bank may use reasonable averaging and attribution methods. Each determination by Bank shall be conclusive absent obvious error.

14. Indemnity: Capital Adequacy. If (a) at any time any governmental authority shall require National City Corporation, a Delaware corporation, its successors or assigns, or Bank, whether or not the requirement has the force of law, to maintain, as support for the Subject Commitment, capital in a specified minimum amount that either is not required or is greater than that required at the date of this Note, whether the requirement is implemented pursuant to the "risk-based capital guidelines" (published at 12 CFR 3 in respect of "national banking associations", 12 CFR 208 in respect of "state member banks", and 12 CFR 225 in respect of "bank holding companies") or otherwise, and (b) as a result thereof the rate of return on capital of National City Corporation, its successors or assigns, or Bank or both (taking into account their then policies as to capital adequacy and assuming full utilization of their capital) shall be directly or indirectly reduced by reason of any new or added capital thereby attributable to the Subject Commitment; then, and in each such case, Borrower shall, on Bank's demand, pay Bank as an additional fee such amounts as will in Bank's reasonable opinion reimburse National City Corporation, its successors and assigns, and Bank for any such reduced rate of return. In determining the amount of any such fee, Bank may use reasonable averaging and attribution methods. Each determination by Bank shall be conclusive absent obvious error.

15. Indemnity: Administration and Enforcement. Borrower will reimburse Bank, on Bank's demand from time to time, for any and all fees, costs, and expenses (including, without limitation, the fees and disbursements of legal counsel) incurred by Bank in administering this Note or in protecting, enforcing, or attempting to protect or enforce its rights under this Note. If any amount (other than any principal of any Subject Loan and any interest and late charges)

owing under this Note is not paid when due, then, and in each such case, Borrower shall pay, on Bank's demand, interest on that amount from the due date thereof until paid in full at a fluctuating rate equal to four percent (4%) per annum plus the Prime Rate.

16. Waivers; Remedies; Application of Payments. Bank may from time to time in its discretion grant waivers and consents in respect of this Note or any other Related Writing or assent to amendments thereof, but no such waiver, consent, or amendment shall be binding upon Bank unless set forth in a writing (which writing shall be narrowly construed) signed by Bank. No course of dealing in respect of, nor any omission or delay in the exercise of, any right, power, or privilege by Bank shall operate as a waiver thereof, nor shall any single or partial exercise thereof preclude any further or other exercise thereof or of any other, as each such right, power, or privilege may be exercised either independently or concurrently with others and as often and in such order as Bank may deem expedient. Without limiting the generality of the foregoing, neither Bank's acceptance of one or more late payments or charges nor Bank's acceptance of interest on overdue amounts at the respective rates applicable thereto shall constitute a waiver of any right of Bank. Each right, power, or privilege specified or referred to in this Note is in addition to and not in limitation of any other rights, powers, and privileges that Bank may otherwise have or acquire by operation of law, by other contract, or otherwise. Bank shall be entitled to equitable remedies with respect to each breach or anticipatory repudiation of any provision of this Note, and Borrower hereby waives any defense which might be asserted to bar any such equitable remedy. Bank shall have the right to apply payments in respect of the indebtedness evidenced by this Note with such allocation to the respective parts thereof and the respective due dates thereof as Bank in its sole discretion may from time to time deem advisable.

17. Other Provisions. The provisions of this Note shall bind Borrower and Borrower's successors and assigns and benefit Bank and its successors and assigns, including each subsequent holder, if any, of this Note, *provided*, that no Person other than Borrower may obtain Subject Loans; *provided further*, that neither any such holder of this Note nor any assignee of any Subject Loan, whether in whole or in part, shall thereby become obligated to grant Borrower any Subject Loan. Except for Borrower and Bank and their respective successors and assigns, there are no intended beneficiaries of this Note or the Subject Commitment. The provisions of sections 11 through 21, both inclusive, shall survive the payment in full of the principal of and interest on this Note. The captions to the sections and subsections of this Note are inserted for convenience only and shall be ignored in interpreting the provisions thereof. Each reference to a section includes a reference to all subsections thereof (i.e., those having the same character or characters to the left of the decimal point) except where the context clearly does not so permit. If any provision in this Note shall be or become illegal or unenforceable in any case, then that provision shall be deemed modified in that case so as to be legal and enforceable to the maximum extent permitted by law while most nearly preserving its original intent, and in any case the illegality or unenforceability of that provision shall affect neither that provision in any other case nor any other provision. All fees, interest, and premiums for any given period shall accrue on the first day thereof but not on the last day thereof (unless the last day is the first day) and in each case shall be computed on the basis of a 360-day year and the actual number of days in the period. In no event shall interest accrue at a higher rate than the maximum rate, if any, permitted by law. Bank shall have the right to furnish to its Affiliates, and to such other Persons as Bank shall deem advisable for the conduct of its business, information

concerning the business, financial condition, and property of Borrower, the amount of the Bank Debt of Borrower, and the terms, conditions, and other provisions applicable to the respective parts thereof. This Note shall be governed by the law (excluding conflict of laws rules) of the jurisdiction in which Bank's banking office is located.

18. Integration. This Note and, to the extent consistent with this Note, the other Related Writings, set forth the entire agreement of Borrower and Bank as to the subject matter of this Note, and may not be contradicted by evidence of any agreement or statement unless made in a writing (which writing shall be narrowly construed) signed by Bank contemporaneously with or after the execution and delivery of this Note. Without limiting the generality of the foregoing, Borrower hereby acknowledges that Bank has not based, conditioned, or offered to base or condition the credit hereby evidenced or any charges, fees, interest rates, or premiums applicable thereto upon Borrower's agreement to obtain any other credit, property, or service other than any loan, discount, deposit, or trust service from Bank. In the event and to the extent of any conflict between the terms hereof and the terms of any exhibit, schedule, addendum, allonge, modification, or amendment hereto, the terms of such exhibit, schedule, addendum, allonge, modification or amendment shall control.

19. Notices and Other Communications. Each notice, demand, or other communication, whether or not received, shall be deemed to have been given to Borrower whenever Bank shall have mailed a writing to that effect by certified or registered mail to Borrower at Borrower's mailing address (or any other address of which Borrower shall have given Bank notice after the execution and delivery of this Note); however, no other method of giving actual notice to Borrower is hereby precluded. Borrower hereby irrevocably accepts Borrower's appointment as each Obligor's agent for the purpose of receiving any notice, demand, or other communication to be given by Bank to each such Obligor pursuant to any Related Writing. Bank shall be entitled to assume that any knowledge possessed by any Obligor other than Borrower is possessed by Borrower. Each communication to be given to Bank shall be in writing unless this Note expressly permits that communication to be made orally, and in any case shall be given to Bank at Bank's banking office (or any other address of which Bank shall have given notice to Borrower after the execution and delivery this Note). Borrower hereby assumes all risk arising out of or in connection with each oral communication given by Borrower and each communication given or attempted by Borrower in contravention of this section. Bank shall be entitled to rely on each communication believed in good faith by Bank to be genuine.

20. Warrant of Attorney. Borrower hereby authorizes any attorney at law at any time or times to appear in any state or federal court of record in the United States of America after all or any part of the obligations evidenced by this Note shall have become due, whether by lapse of time, acceleration, or otherwise, and in each case to waive the issuance and service of process, to present to the court this Note and any other writing (if any) evidencing the obligation or obligations in question, to admit the due date thereof and the nonpayment thereof when due, to confess judgment against Borrower in favor of Bank for the full amount then appearing due, together with interest and costs of suit, and thereupon to release all errors and waive all rights of appeal and any stay of execution. The foregoing warrant of attorney shall survive any judgment, it being understood that should any judgment against Borrower be vacated for any reason, Bank may nevertheless utilize the foregoing warrant of attorney in thereafter obtaining one or more additional judgments against Borrower.

21. Jurisdiction and Venue; Waiver of Jury Trial. Any action, claim, counterclaim, crossclaim, proceeding, or suit, whether at law or in equity, whether sounding in tort, contract, or otherwise at any time arising under or in connection with this Note or any other Related Writing, the administration, enforcement, or negotiation of this Note or any other Related Writing, or the performance of any obligation in respect of this Note or any other Related Writing (each such action, claim, counterclaim, crossclaim, proceeding, or suit, an “**Action**”) may be brought in any federal or state court located in the city in which Bank’s banking office is located. Borrower hereby unconditionally submits to the jurisdiction of any such court with respect to each such Action and hereby waives any objection Borrower may now or hereafter have to the venue of any such Action brought in any such court. BORROWER HEREBY, AND EACH HOLDER OF THIS NOTE, BY TAKING POSSESSION THEREOF, KNOWINGLY AND VOLUNTARILY WAIVES JURY TRIAL IN RESPECT OF ANY ACTION.

Borrower:

NORTHERN TECHNOLOGIES INTERNATIONAL CORPORATION

By: /s/ MATTHEW C. WOLSFELD

Printed Name: Matthew C. Wolsfeld

Its: Chief Financial Officer

WARNING -- BY SIGNING THIS PAPER YOU GIVE UP YOUR RIGHT TO NOTICE AND COURT TRIAL. IF YOU DO NOT PAY ON TIME A COURT JUDGMENT MAY BE TAKEN AGAINST YOU WITHOUT YOUR PRIOR KNOWLEDGE AND THE POWERS OF A COURT CAN BE USED TO COLLECT FROM YOU REGARDLESS OF ANY CLAIMS YOU MAY HAVE AGAINST THE CREDITOR WHETHER FOR RETURNED GOODS, FAULTY GOODS, FAILURE ON HIS PART TO COMPLY WITH THE AGREEMENT, OR ANY OTHER CAUSE.

STATE OF MINNESOTA)
) SS:
COUNTY OF ANOKA)

BEFORE ME, a Notary Public in and for said County and State, personally appeared Matthew C. Wolsfeld as Chief Financial Officer of the above-named corporation,

Northern Technologies International Corporation, (a Delaware Corporation), who acknowledged that he signed the foregoing instrument for an on behalf of the Corporation, and by authority of its Board of Directors, and that the same is the free act and deed of the Corporation and the free act and deed of each of them personally and as such officers.

IN TESTIMONY, I set my hand and official seal, this 6th day of August, 2004.

/s/ MIA THOMTON

Notary Public

COMMERCIAL NOTE ADDENDUM (OHIO)

Amount	City, State	Date	FOR BANK USE ONLY
\$500,000.00	Beachwood, OH	August 6, 2004	Obligor #6471248340
			Tax I. D. #41-0857886
			Obligation #
			Office

This Commercial Note Addendum (this “*Addendum*”) is made by **Northern Technologies International Corporation** (“*Borrower*”), a **Delaware Corporation**, at the place and as of the date first set forth above.

Borrower has executed and delivered to National City Bank (“*Bank*”) a promissory note dated **of even date herewith**, in the face amount set forth above and captioned **Commercial Note: Revolving Credit**.

This Addendum is hereby made a part of the note described above and that note is hereby supplemented by adding the following Events of Default thereto:

1. Financial Standards. The following shall be an Event of Default:

Fixed Charge Coverage. If, as of the last day of any Debt Service Coverage Measurement Period, commencing with the Debt Service Coverage Measurement Period ending on August 31, 2004, the aggregate of (a) the Reporting Group’s Net Income for that period, plus (b) the Reporting Group’s interest expense for that period, plus (c) the Reporting Group’s federal, state, and local income taxes, if any, for that period, plus (d) the Reporting Group’s depreciation and amortization charges for that period shall be less than **One Hundred percent (100%)** of the aggregate of (i) the Reporting Group’s interest expense for that period, plus (ii) the Reporting Group’s unfunded capital expenditures during that period, plus (iii) all Dividends (other than any made to one or more other members of the Reporting Group) paid by members of the Reporting Group during that period, plus (iv) an amount equal to the aggregate of all payments required to be made by members of the Reporting Group during the period of twelve (12) consecutive months next succeeding the Debt Service Coverage Measurement Period in question with respect to indebtedness of any kind. Each “**Fixed Charge Coverage Measurement Period**” shall be tested quarterly.

2. Mergers. It shall be an Event of Default if any member of the Reporting Group shall, without having first obtained Bank’s consent, be a party to any merger or consolidation.

3. Credit Extensions and Non-Equity Investments. It shall be an Event of Default if any member of the Reporting Group shall, without having first obtained Bank’s consent, (a) make or have outstanding at any time any advance or loan to any Person, **in excess of one-third of the subject’s tangible net worth**, except any existing advance or loan fully disclosed in the Most Recent Financial Statements or any existing or future advance made by a member of the Reporting Group to an officer or employee of that member solely for the purpose of paying the

ordinary and necessary business expenses of that member or (b) make or keep any investment in any notes, bonds, or other obligations of any kind for the payment of money, *except* any existing investment fully disclosed in the Most Recent Financial Statements or any existing or future investment, maturing not more than one (1) year from the date when made, in direct obligations of the United States of America or any agency thereof if the full faith and credit of the United States of America is obligated thereupon, in certificates of deposit issued by Bank, or in any other obligation that carries the highest quality rating of any nationally-recognized rating agency, or (c) be or become a guarantor of any kind, *except* any existing guaranty fully disclosed in the Most Recent Financial Statements or any existing or future indorsement of -2-a check or other medium of payment for deposit or collection, or any similar transaction in the ordinary course of business.

4. Borrowings. It shall be an Event of Default if any member of the Reporting Group shall without having first obtained Bank's consent, create, assume, or have outstanding at any time any Debt, in excess of \$100,000 annually, *except* any existing Debt fully disclosed in the Most Recent Financial Statements, any existing or future Bank Debt, any existing or future Subordinated Debt, or any existing or future Debt secured by any mortgage, security interest, or other lien expressly consented to by Bank.

5. Annual Clearance. It shall be an Event of Default if Borrower fails to reduce the outstanding balance of the Revolving Commitment to zero for a consecutive 30-day period at least once each calendar year.

6. Definitions. As used in this Addendum, except where the context clearly requires otherwise, "**Bank Debt**" means, collectively, all Debt to Bank, whether incurred directly to Bank or acquired by it by purchase, pledge, or otherwise, and whether participated to or from Bank in whole or in part; "**Compensation**" includes all considerations (including without limitation, deferred compensation and disbursements to trusts), whatever the form or kind, for services rendered; "**Debt**" means, collectively, all obligations of the Person or Persons in question, including, without limitation, every such obligation whether owing by one such Person alone or with one or more other Persons in a joint, several, or joint and several capacity, whether now owing or hereafter arising, whether owing absolutely or contingently, whether created by lease, loan, overdraft, guaranty of payment, or other contract, or by quasi-contract, tort, statute, other operation of law, or otherwise; "**Dividend**" means a payment made, liability incurred, or other consideration given by any Person (other than any stock dividend or stock split payable solely in capital stock of that Person) for the purchase, acquisition, redemption or retirement of any capital stock of that Person or as a dividend, return of capital, or other distribution in respect of that Person's capital stock; "**GAAP**" means generally accepted accounting principles applied in a manner consistent with those used in preparation of the Most Recent Financial Statements; "**Most Recent Financial Statements**" means the financial statements included in the Reporting Group's most recent annual report delivered to Bank on or before the date of this Addendum; "**Net Income**" means net income as determined in accordance with GAAP, after taxes, if any, and after extraordinary items, but without giving effect to any gain resulting from any reappraisal or write-up of any asset; "**Person**" means an

individual or entity of any kind, including, without limitation, any association, company, cooperative, corporation, partnership, trust, governmental body, or any other form or kind of entity; “**Reporting Group**” means (I) Borrower alone, if all of the financial statements hereinbefore selected are prepared for Borrower alone, in which case all determinations referred to in section 1 shall be for Borrower alone and in accordance with GAAP; (II) Borrower and each Subsidiary of Borrower, if any of the financial statements hereinbefore selected are prepared on a consolidated basis, in which case all determinations referred to in section 1 shall be on a consolidated basis and in accordance with GAAP, and (III) Borrower and each other Person whose assets, liabilities, income, cash flow, and shareholders’ equity are reported on a combined basis with those of Borrower, if any of the financial statements hereinbefore selected are prepared on a combined basis, in which case all determinations referred to in section 1 shall be on a combined basis and in accordance with GAAP; “**Subordinated**”, as applied to any liability of any Person, means a liability which at the time in question is subordinated (by a writing in form and substance satisfactory to Bank) in favor of the prior payment in full of that Person’s Debt to Bank; “**Subsidiary**” means a corporation or other business entity if shares constituting a majority of its outstanding capital stock (or other form of ownership) or constituting a majority of the voting power in any election of directors (or shares constituting both majorities) are (or upon the exercise of any outstanding warrants, options or other rights would be) owned directly or indirectly at the time in question by the corporation in question or another Subsidiary of that corporation or any combination of the foregoing; “**Tangible Net Worth**” means, as to any Person, the excess (as determined in accordance with GAAP) of the net book value (after deducting all applicable valuation reserves and without any consideration to any re-appraisal or write-up of assets) of that Person’s tangible assets (i.e., all assets other than intangibles such as patents, costs of businesses over net assets acquired, good will, and treasury shares) over that Person’s Debt; and the foregoing definitions shall be applicable to the respective plurals of the foregoing defined terms.

Any accounting term used in Addendum shall have the meaning ascribed thereto by GAAP as in effect on the date hereof, subject, however, to such modification, if any, as may be provided in this Addendum or in the note hereby supplemented.

Borrower:

NORTHERN TECHNOLOGIES INTERNATIONAL CORPORATION

By: /s/ MATTHEW C. WOLSFELD

Printed Name: Matthew C. Wolsfeld

Title: Chief Financial Officer

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STATE OF MINNESOTA)

) SS:

COUNTY OF ANOKA)

BEFORE ME, a Notary Public in and for said County and State, personally appeared Matthew C. Wolsfeld as Chief Financial Officer of the above-named corporation, **Northern Technologies International Corporation, (a Delaware Corporation)**, who acknowledged that he signed the foregoing instrument for an on behalf of the Corporation, and by authority of its Board of Directors, and that the same is the free act and deed of the Corporation and the free act and deed of each of them personally and as such officers.

IN TESTIMONY, I set my hand and official seal, this 6th day of August, 2004.

/s/ MIA THOMTON

Notary Public

**SECURITY AGREEMENT
ALL PERSONAL PROPERTY AND FIXTURES
BORROWER GRANTOR**

This Agreement is executed and delivered at **Cleveland, Ohio** as of this **6th** day of **August, 2004** by **Northern Technologies International Corporation** ("**Grantor**"), whose mailing address is **23205 Mercantile Road, Beachwood, Ohio 44122**, to **NATIONAL CITY BANK**, a national banking association having a banking office at **1900 East 9th Street, Cleveland, Ohio 44114**, Attention: **Commercial Loans Division**, Locator No. **01-8485**.

1. Grant of Interest. To secure the prompt payment in full of the Subject Debt as and when the respective parts thereof become due, whether by lapse of time, by acceleration of maturity, or otherwise, Grantor hereby grants, assigns and pledges to Bank a security interest in all of Grantor's right, title and interest in the Collateral whether now existing or hereafter arising, including, without limitation, the right or power to transfer an interest in the Collateral. As to Collateral not now in existence or in which Grantor does not presently have any rights, Bank's security interest shall automatically attach thereto immediately when the same comes into existence and Grantor acquires any right, title or interest therein, including, without limitation, the right or power to transfer an interest therein, in each case without the making or doing of any further or other act or thing. "**Collateral**" means, collectively, (a) all of the personal property of Grantor (except Consumer Goods) wheresoever located, whether now existing or hereafter arising, including, without limitation, all Accounts, all Chattel Paper, all Commercial Tort Claims described and identified in Schedule A, if any, to this Agreement (the "**Supplemental Schedule**"), all Deposit Accounts, all Documents, all Equipment, including, without limitation, any Equipment described in the Supplemental Schedule, if any, all Fixtures, including, without limitation, those described in the Supplemental Schedule, if any, all General Intangibles, all Goods, all Instruments, all Inventory, all Investment Property, all Letter-of-Credit Rights and all Supporting Obligations; (b) all property (except any Consumer Goods), tangible or intangible, in which Grantor now has or hereafter acquires any rights and which now or hereafter is in Bank's control (by document of title or otherwise) or possession or is owed by Bank to Grantor, including, without limitation, the cash collateral account described in subsection 6.5; (c) all replacements of, substitutions for and additions and Accessions to all or any part of the property hereinbefore described; (d) all Products of all or any part of the goods hereinbefore described; and (e) all Proceeds, including, without limitation, Cash Proceeds and Non-Cash Proceeds of all or any part of the property, including, without limitation, Products, hereinbefore described. **Notwithstanding, the above definition of collateral will not include any interest in joint ventures or intellectual property rights.**

2. Definitions; UCC Cross References. As used in this Agreement, except where the context clearly requires otherwise, "**Accessions**" means Goods that are physically united with other Goods in such a manner that the identity of the original Goods is not lost; "**Account**" means (a) a right to payment of a monetary obligation, whether or not earned by performance, (i) for property that has been or is to be sold, leased, licensed, assigned, or otherwise disposed of, (ii) for services rendered or to be rendered, (iii) for a policy of insurance issued or to be issued, including Health-Care-Insurance Receivables, (iv) for a

secondary obligation incurred or to be incurred, (v) for energy provided or to be provided, (vi) for the use or hire of a vessel under a charter or other contract, (vii) arising out of the use of a credit or charge card or information contained on or for use with the card, or (viii) as winnings in a lottery or other game of chance operated or sponsored by a state, governmental unit of a state or Person licensed or authorized to operate the game by a state or governmental unit of a state and (b) does not include (i) a right to payment evidenced by Chattel Paper or an Instrument, (ii) Commercial Tort Claims, (iii) Deposit Accounts, (iv) Investment Property, (v) Letter-of-Credit Rights or Letters of Credit, or (vi) rights to payment for money or funds advanced or sold, other than rights arising out of the use of a credit or charge card or information contained on or for use with the card; “**Account Debtor**” means a Person obligated on an Account, Chattel Paper or General Intangible and does not include a Person obligated to pay a negotiable instrument, even if the instrument constitutes part of Chattel Paper; “**Affiliate**” means, when used with reference to any Person (the “*subject*”), a Person that is in control of, under the control of, or under common control with, the subject, the term “*control*” meaning the possession, directly or indirectly, of the power to direct the management or policies of a Person, whether through the ownership of voting securities, by contract, or otherwise; “**Agreement**” means this Security Agreement (including, without limitation, each amendment, supplement, replacement, or renewal, if any); “**Authenticate**” and “**Authenticated**” mean to (a) sign, or (b) execute or otherwise adopt a symbol, or encrypt or similarly process a Record in whole or in part, with the present intent of the authenticating Person to identify the Person and adopt or accept a Record; “**Bank**” means National City Bank for itself and as agent for National City Bank; “**Bank Debt**” means, collectively, all Debt to Bank, whether incurred directly to Bank or acquired by it by purchase, pledge, or otherwise, and whether participated to or from Bank in whole or in part; “**Cash Proceeds**” means Proceeds that are money, checks, Deposit Accounts, or the like; “**Chattel Paper**” means a Record or Records that evidence both a monetary obligation and a security interest in specific goods, a security interest in specific goods and software used in the goods, a lease of specific goods, or a lease of specific goods and license of software used in the goods. In this definition, “monetary obligation” means a monetary obligation secured by the goods or owed under a lease of the goods and includes a monetary obligation with respect to software used in the goods and does not include (a) charters or other contracts involving the use or hire of a vessel or (b) Records that evidence a right to payment arising out of the use of a credit or charge card or information contained on or for use with the card; “**Commitment**” means any enforceable obligation, whether created orally or in writing, whether arising by contract, estoppel, or otherwise, whether conditional or unconditional on the part of Bank to extend credit to or for the account of any Person; “**Debt**” means, collectively, (a) all obligations of the Person or Persons in question, including, without limitation, every such obligation whether owing by one such Person alone or with one or more Persons in a joint, several, or joint and several capacity, whether now owing or hereafter arising, whether owing absolutely or contingently, whether created by loan, overdraft, guaranty of payment, or other contract, or by quasi-contract, tort, statute, other operation of law, or otherwise and (b) any and all obligations and liabilities of the Person or Persons in question to National City Bank, an Affiliate of Bank, whether absolute or contingent, whether now existing or hereafter created, arising evidenced or acquired (including all renewals, extensions and modifications thereof and substitutions therefor) under (i) any agreement, device or arrangement designed to protect the Person or Persons in question from fluctuations of interest rates, exchange

rates or forward rates, including, but not limited to, dollar-denominated or cross-currency exchange agreements, forward currency exchange agreements, interest rate caps, collars or floors, forward rate currency or interest rate options, puts, warrants, swaps, swaptions, U.S. Treasury locks and U.S. Treasury options, (ii) any other interest rate hedging transactions, such as, but not limited to, managing the Person's or Persons' in question interest rate risk associated with any pending or potential capital market transactions such as fixed rate bond issues, and (iii) any and all cancellations, buybacks, reversals, terminations or assignments of any of the foregoing; "**Default**" means (a) the nonpayment of the Subject Debt or any part of it when due or (b) the occurrence or existence of any event, condition, or other thing (other than any event, condition, or other thing which would constitute a "Default" pursuant to the next preceding clause (a)) which gives (or which with the lapse of any applicable grace period, the giving of notice, or both would give) Bank the right to accelerate or which automatically accelerates the maturity of any of the Subject Debt; "**Deposit Account**" means a demand, time, savings, passbook or similar account maintained with a bank and does not include Investment Property or accounts evidenced by an Instrument; "**Document**" means (a) a document that purports to be issued by or addressed to a bailee and that purports to cover goods that are in the bailee's possession that are either identified or fungible portions to an identified mass, and includes a bill of lading, dock warrant, dock receipt, warehouse receipt, or order for the delivery of goods, and any other document that in the regular course of business or financing is treated as adequately evidencing that the Person in possession of it is entitled to receive, hold, and dispose of the document and the goods it covers or (b) a receipt issued by the owner of goods including distilled spirits or agricultural commodities that are stored under a statute requiring a bond against withdrawal or a license for the issuance of receipts in the nature of a warehouse receipt; "**Equipment**" means Goods other than Inventory, Farm Products, or Consumer Goods; "**General Intangible**" means any personal property, including things in action, other than Accounts, Chattel Paper, Commercial Tort Claims, Deposit Accounts, Documents, Goods, Instruments, Investment Property, Letter-of-Credit Rights, Letters of Credit, money and oil, gas, or other minerals before extraction and includes Payment Intangibles and Software; "**Goods**" means all things that are movable when a security interest attaches and includes (a) Fixtures, (b) standing timber that is to be cut and removed under a conveyance or contract for sale, (c) the unborn young of animals, (d) crops grown, growing, or to be grown, even if the crops are produced on trees, vines, or bushes, (e) manufactured homes and (f) a computer program embedded in goods and any supporting information provided in connection with a transaction relating to the program if (i) the program is associated with the goods in such a manner that it customarily is considered part of the goods, or (ii) by becoming the owner of the goods, a Person acquires a right to use the program in connection with the goods. The term does not include a computer program embedded in goods that consists solely of the medium in which the program is embedded, Accounts, Chattel Paper, Commercial Tort Claims, Deposit Accounts, Documents, General Intangibles, Instruments, Investment Property, Letter-of-Credit Rights, Letters of Credit, money or oil, gas, or other minerals before extraction; "**Health-Care-Insurance Receivable**" means an interest in or claim under a policy of insurance which is a right to payment of a monetary obligation for health-care-goods or services provided; "**Instrument**" means a negotiable instrument or any other writing that evidences a right to the payment of a monetary obligation, is not itself a security agreement or lease, and is of a type that in the ordinary course of business is transferred by delivery with any necessary

indorsement or assignment but does not include (a) Investment Property, (b) Letters of Credit, or (c) writings that evidence a right to payment arising out of the use of a credit or charge card or information contained on or for use with the card; "**Inventory**" means Goods, other than Farm Products, which: (a) are leased by a Person as lessor, (b) are held by a Person for sale or lease or to be furnished under a contract of service, (c) are furnished by a Person under a contract of service, or (d) consist of raw materials, work in process, or materials used or consumed in a business; "**Investment Property**" means a security, whether certificated or uncertificated, security entitlement, securities account, commodity contract, or commodity account; "**Letter-of-Credit Right**" means a right to payment or performance under a Letter of Credit, whether or not the beneficiary has demanded or is at the time entitled to demand payment or performance and does not include the right of a beneficiary to demand payment or performance under a Letter of Credit; "**Non-Cash Proceeds**" means Proceeds other than Cash Proceeds; "**Obligor**" means any Person who, or any of whose property, shall at the time in question be obligated in respect of all or any part of the Bank Debt of Grantor and (in addition to Grantor) includes, without limitation, co-makers, indorsers, guarantors, pledgors, hypothecators, mortgagors, and any other Person who agrees, conditionally or otherwise, to assure such other Obligor's creditors or any of them against loss; "**Payment Intangible**" means a General Intangible under which the Account Debtor's principal obligation is a monetary obligation; "**Person**" means an individual or entity of any kind, including, without limitation, any association, company, cooperative, corporation, partnership, trust, governmental body, or any other form or kind of entity; "**Prime Rate**" means the fluctuating rate per annum which is publicly announced from time to time by Bank as being its "prime rate" or "base rate" thereafter in effect, with each change in the Prime Rate automatically, immediately, and without notice changing the Prime Rate thereafter applicable hereunder, it being acknowledged that the Prime Rate is not necessarily the lowest rate of interest then available from Bank on fluctuating-rate loans; "**Proceeds**" means (a) whatever is acquired upon the sale, lease, license, exchange, or other disposition of collateral, (b) whatever is collected on, or distributed on account of, collateral, (c) rights arising out of the collateral, (d) to the extent of the value of collateral, claims arising out of the loss, nonconformity, or interference with the use of, defects or infringement of rights in, or damage to, the collateral, or (e) to the extent of the value of the collateral and to the extent payable to Grantor or Bank, insurance payable by reason of the loss or nonconformity of, defects or infringement of rights in, or damage to, the collateral; "**Products**" means property directly or indirectly resulting from any manufacturing, processing, assembling, or commingling of any goods; "**Record**" means information that is inscribed on a tangible medium or which is stored in an electronic or other medium and is retrievable in perceivable form; "**Related Writing**" means this Agreement and any indenture, note, guaranty, assignment, mortgage, security agreement, subordination agreement, notice, financial statement, legal opinion, certificate, or other writing of any kind pursuant to which all or any part of the Bank Debt of Grantor is issued, which evidences or secures all or any part of the Bank Debt of Grantor, which governs the relative rights and priorities of Bank and one or more other Persons to payments made by, or the property of, any Obligor, which is delivered to Bank pursuant to another such writing or which is otherwise delivered to Bank by or on behalf of any Person (or any employee, officer, auditor, counsel, or agent of any Person) in respect of or in connection with all or any part of the Bank Debt of Grantor; "**Software**" means a computer program and any supporting information provided in connection with a

transaction relating to the program and does not include a computer program that is included in the definition of Goods; “**Subject Debt**” means, collectively, all Bank Debt created or incurred by Grantor; “**UCC**” means the Uniform Commercial Code as is in effect on the date of this Agreement in the jurisdiction in which Bank’s banking office is located and as may be amended from time to time; and the foregoing definitions shall be applicable to the respective plurals of the foregoing defined terms. To the extent any capitalized term used but not defined in this Agreement is defined in the UCC, such capitalized term shall have the meaning ascribed to it in the UCC.

3. **Representations and Warranties.** Grantor represents and warrants to Bank as follows:

3.1 **Existence.** Grantor a corporation organized and in good standing under **Delaware** law.

3.2 **Taxpayer and Organizational Identification Numbers and Legal Name.** Grantor’s social security or federal taxpayer identification number is **41-0857886** and its state organizational or registration identification number, if any, is **0844552**. Grantor’s exact legal name is as is set forth above in the first paragraph of this Agreement.

3.3 **Authority.** Each Person, if any, executing and delivering this Agreement on behalf of Grantor or any other Person has been duly authorized to do so, and this Agreement is valid and enforceable against Grantor in accordance with its terms.

3.4 **Location of Chief Executive Office and Collateral.** Grantor’s chief executive office is located at **23205 Mercantile Road, Beachwood, Ohio 44122**. Grantor keeps all of Grantor’s records relating to the Collateral at Grantor’s chief executive office. All Goods in which Grantor has any rights are, and for the past five (5) years have been, kept at Grantor’s chief executive office and at the other locations, if any, described in the Supplemental Schedule, if any, to this Agreement, and, with respect to certain Goods, at such other locations to which Grantor is entitled to move those Goods pursuant to subsection 5.1.

3.5 **Ownership.** Grantor owns all of the Collateral described in the most recent financial statements furnished by Grantor to Bank or in which Grantor has thereafter acquired any rights absolutely free from any adverse claim, assignment, attachment, lease, license, mortgage, security interest, or other lien, and free from any other claim, right, or interest of any kind, *except* for any in favor of or consented to by Bank. No assignment, financing statement, or other Record (except any evidencing any lien or interest expressly permitted by this Agreement) describing the Collateral or any part thereof is on file in any public office.

4. **General Provisions Applicable to All Collateral.** The provisions of this section 4 shall apply with respect to all types of Collateral:

4.1 Further Assurance; Specific Authorizations. Grantor will, at Grantor's expense, make and do all such acts and things (including, without limitation, the delivery to Bank of any Chattel Paper, Document, Instrument, or other Record of any kind the possession of which perfects a security interest therein) as Bank may from time to time require for the better evidencing, perfection, protection, or validation of, or realization of the benefits of, its security interest. Without limiting the generality of the foregoing, Grantor will, at Grantor's expense, upon each request of Bank, (a) file, and hereby authorizes Bank to file, from time to time such financing statements and other Records in such public offices as Bank may require or deem advisable containing (i) a collateral indication extending to all of Grantor's personal property and assets or such other collateral indications as Bank may require or deem advisable, (ii) an indication of any Agricultural Liens or other statutory liens held by Bank, (iii) Grantor's federal taxpayer identification number, social security number and/or state organizational or registration number, if any, and any other identifying information as Bank may require or deem advisable, or (iv) any other information as Bank may require or deem advisable, (b) place a legend on all Chattel Paper created by Grantor indicating that Bank has a security interest in the Chattel Paper, (c) comply with every other requirement deemed necessary by Bank for the perfection of its security interest including, without limitation, (i) cooperating with Bank in obtaining Control of all Deposit Accounts, Investment Property, and Letter-of-Credit Rights, and in connection with such Letter-of-Credit Rights obtain the consent of the issuer of such Letter of Credit, and (ii) notifying all Persons in possession of any Collateral of Bank's security interests in such property and obtaining an acknowledgement from such Persons that the Collateral is being held for the benefit of Bank, (d) execute and deliver such affidavits, assignments, financing statements, indorsements of specific items of Collateral, mortgages, powers of attorney, security agreements, or other Records, as Bank may from time to time require, each in form and substance satisfactory to Bank, and (e) cause all applicable Certificates of Title (in the case of any motor vehicle or other chattels in which Bank has been granted a security interest pursuant to this Agreement and which is subject to any certificate of title law) to be duly noted with Bank's security interest and to be deposited with Bank. Without diminishing or impairing any obligation of Grantor under this Agreement, a carbon, photographic, electronic or other reproduction of this Agreement shall be sufficient as a financing statement.

4.2 Notice. Grantor will give Bank:

(a) not less than thirty (30) days' prior written notice of any change in Grantor's name, in its type of organization, in its organizational identification number, in its state of incorporation, formation, or registration, in the location of its chief executive office or principal residence or in the location at which it keeps any records relating to the Collateral or any part thereof, or of any other change in circumstances which affects or may affect the continuing efficacy of any financing statement filed in respect of Bank's security interest or the continuing status of Bank's security interest as the first priority lien on the Collateral or any part thereof,

(b) immediate written notice whenever any Person other than Grantor or Bank claims any lien or other right or interest of any kind in any of the Collateral, and

(c) immediate written notice whenever Grantor acquires rights in any Collateral that is subject to (i) a treaty or statute of the United States which provides for national or international registration or a national or international certificate of title or which specifies a place of filing different from that specified in the UCC or (ii) a certificate of title statute of another jurisdiction under the law of which indication of a security interest is required as a condition of perfection.

4.3 Records. Grantor will at all times keep accurate and complete records of the Collateral. Bank (or one or more Persons selected by Bank) shall have the right at all reasonable times to examine, inspect, and make extracts from Grantor's books and records and to examine, appraise, and protect the Collateral.

4.4 Dispositions and Encumbrances. Bank does not authorize, and Grantor agrees not to, without in each case obtaining Bank's prior written consent,

(a) sell, lease, transfer or otherwise dispose of any Collateral or any interest therein, *except* if and to the extent that the sale, lease, transfer or other disposition is expressly permitted by this Agreement;

(b) license any of the Collateral; or

(c) suffer or permit any Collateral to be (i) or become subject to any assignment, lease, license, attachment, mortgage, security interest, or other lien, or any other claim, right, or interest of any kind, *except* for any in favor of or expressly consented to by Bank or (ii) described in any mortgage, financing statement, or other Record, *except* any evidencing any lien or interest expressly permitted by this Agreement.

5. Special Provisions Applicable to Goods. The provisions of this section 5 shall apply with respect to all Goods in which Bank has been granted a security interest pursuant to this Agreement:

5.1 Movement and Attachment to Real Property. Grantor will not suffer or permit any Goods in which Bank has been granted a security interest pursuant to this Agreement to be moved from Grantor's chief executive office or the locations, if any, described in the Supplemental Schedule, if any, to this Agreement, as the location of the Goods in question on the date hereof, *except* if and to the extent that the Goods are either Inventory being shipped to or from Grantor in the ordinary course of business or are mobile goods which are of a type normally used in more than one jurisdiction and are in fact so used by Grantor in the ordinary course of business. Grantor will not under any circumstance suffer or permit any Goods in which Bank has been so granted a security interest to be or become affixed to any real property in any manner which would change its nature from that of personal property to real property or to be or become a Fixture without Bank's prior written consent.

5.2 Maintenance of Goods, Taxes and Preservation Costs. Grantor will maintain in good condition all Goods in which Bank has been granted a security interest pursuant to this Agreement, and will pay promptly all assessments, levies, taxes, and other charges pertaining thereto, and all repair, maintenance, and preservation costs in respect thereof. If Grantor does not do so, then, and in each such case, Bank shall have the right, at its option, to pay the same, and Grantor will, on Bank's demand, reimburse Bank for all amounts Bank so pays. If Grantor does not reimburse Bank, such amounts paid will become a part of the Subject Debt and will be secured hereunder.

5.3 Insurance. Grantor will at all times keep all Goods in which Bank has been granted a security interest insured under so-called “cause of loss special form” policies of insurance issued by such companies and in such amounts (but in no case less than the greater of the full replacement value thereof or the amount necessary to prevent the operation of any applicable coinsurance provision) as shall be acceptable to Bank. Any determination by Bank regarding the acceptability of the issuer or the amount of any insurance policy shall be deemed to have been made without any representation or warranty of any kind, Grantor hereby assuming the burden of ensuring that each such issuer and each such amount is adequate for the protection of Grantor and all other Persons. Grantor will cause each policy of insurance covering any Goods in which Bank has been granted a security interest pursuant to this Agreement to (a) require the insurer to give Bank written notice not less than thirty (30) days prior to any cancellation, expiration, modification, or non-renewal of the policy, (b) have attached thereto (i) a lender’s loss payable endorsement in favor of Bank, entitling Bank to collect any and all proceeds payable under the policy and providing in effect that the rights and interests of Bank thereunder are independent of, and shall not be diminished or impaired by, any action, inaction, or breach of condition on the part of Grantor and (ii) a waiver of subrogation endorsement, and (c) be otherwise in form and substance satisfactory to Bank. Grantor will pay all premiums for the foregoing policies of insurance as and when due and will cause the issuer of each such policy to deliver an original counterpart thereof directly to Bank. Grantor hereby assigns to Bank any returned or unearned premiums due upon cancellation of any such insurance and directs insurer to pay to Bank all amounts so due. All or any portion of amounts received by Bank in payment of insurance losses or returned or unearned premiums may, at Bank’s option, be applied to the Subject Debt (with such allocation to the respective parts thereof and the respective due dates thereof as Bank in its sole discretion may from time to time deem advisable) or to the repair, replacement, or restoration of the Goods insured. Grantor hereby irrevocably appoints Bank as Grantor’s attorney-in-fact to adjust all insurance losses, to sign all applications, receipts, releases, and other Records necessary to collect any such loss and any returned or unearned premiums, to execute proofs of loss, to make settlements, to indorse and collect any check or other item payable to Grantor issued in connection therewith, and to apply the same to payment of the Subject Debt as hereinbefore provided. If Grantor does not maintain insurance pursuant to this subsection, then, and in each such case, Bank shall have the right to obtain such insurance or obtain insurance covering only Bank’s interest, and, if Bank elects to do either, Grantor will, on Bank’s demand, reimburse Bank for all amounts Bank expends in doing so. If Grantor does not reimburse Bank, such amounts paid will become part of the Subject Debt and will be secured hereunder.

5.4 Acquisition and Disposition of Inventory. Bank does not authorize, and Grantor agrees not to:

(a) sell, transfer, or otherwise dispose of any Inventory, *except* that so long as no Default exists, Grantor shall have the right, in the ordinary course of business but not otherwise, to process and sell Inventory for customary prices, *provided*, that Grantor shall

immediately deposit the Proceeds of each such sale to the cash collateral account, if any then exists, pursuant to subsection 6.5, or, if none then exists, to the credit of Grantor's general checking account with Bank or any Deposit Account over which Bank has Control, without Bank's prior written consent; or

(b) permit any Goods in which Bank has been granted a security interest pursuant to this Agreement to be evidenced by any warehouse receipt or other document of title (other than any bill of lading or similar Document covering Inventory that has been sold in accordance with this section) or by any lease, license, conditional sales agreement, or other Chattel Paper of any kind.

6. Special Provisions Applicable to Accounts. The provisions of this section 6 shall apply with respect to all Accounts in which Bank has been granted a security interest pursuant to this Agreement:

6.1 Notice: Government Accounts; Non-Accounts. Grantor will give Bank immediate written notice whenever any Account (a) arises out of a contract with or order from the United States of America or any department, agency, instrumentality, or political subdivision thereof or (b) does not take the form of an Account or is evidenced in whole or in part by Chattel Paper or any Instrument.

6.2 Collection of Accounts by Grantor. Subject to the provisions of subsection 6.3, Grantor will collect the Accounts in the ordinary course of business for the benefit of both Bank and Grantor at no cost or expense to Bank. Until any Default shall have occurred and thereafter unless and until Bank shall have advised Grantor to the contrary, Grantor shall have the right in the ordinary course of business, to grant such waivers and consents to, enter into such compromises with, and otherwise deal with the Account Debtors in respect of the Accounts as Grantor in good faith may from time to time deem advisable.

6.3 Direct Payment to Bank or Lockbox. Bank shall have the right, (a) at any time to enforce Grantor's rights against the Account Debtors and Obligors including, without limitation, instructing Account Debtors, at Grantor's expense, to thereafter make their payments in respect of the Accounts directly to Bank and (b) in any event, by giving prior notice to Grantor, from time to time to require Grantor to instruct the Account Debtors thereafter to mail their payments to a post office lockbox which Bank shall maintain at Grantor's expense and to which only Bank shall have access and control. Following Bank's exercise of either such right, Grantor will not, without in each case first obtaining Bank's consent, demand payment in respect of any Account, and if Grantor shall at any time receive any payment in respect of any Account, Grantor will in each case give Bank prompt notice thereof, hold the amount so received in trust for the benefit of Bank, and promptly remit the same to Bank in the very form in which received but with all necessary indorsements and assignments to facilitate Bank's collection thereof.

6.4 Authority of Account Debtors. Grantor irrevocably authorizes and directs each Account Debtor to honor any demand by Bank that all payments in respect of the Accounts thereafter be paid directly to Bank. In each such case the Account Debtor may continue directing all such payments to Bank until the Account Debtor shall have received written notice from Bank either that the Subject Debt has been paid in full or that Bank no longer claims a security interest in the Accounts. No Account Debtor shall have any responsibility to inquire into Bank's right to make any such demand or to follow Bank's disposition of any monies paid to Bank by the Account Debtor.

6.5 Deposits. All payments in respect of the Accounts shall, at Bank's option, be deposited either to a checking account maintained by Grantor with Bank, a Deposit Account over which Bank has Control or to a cash collateral account which shall bear no interest, over which Bank shall have sole dominion and control, and from which only Bank may withdraw funds, whichever option Bank shall from time to time elect by giving Grantor written notice thereof. Bank shall have no responsibility to ascertain whether any such payment is the correct amount owing. Each such deposit shall be subject to Bank's general rules and regulations except to the extent, if any, inconsistent with this Agreement.

6.6 Withdrawal and Application of Funds. Bank may from time to time withdraw funds from the cash collateral account at will. Bank shall be under no obligation to withdraw funds from the cash collateral account, *except* that upon each request of Grantor, Bank shall, if no Default then exists, withdraw all such funds that are then collected. All funds so withdrawn shall be applied to the payment of the Subject Debt with such allocation to the respective parts thereof and the respective due dates thereof as Bank in its sole discretion may from time to time deem advisable (except that so long as no Default exists, Bank shall not apply any such withdrawal to any Subject Debt that is not then due without first obtaining Grantor's consent). If any funds so withdrawn and applied are recovered from Bank by any trustee in bankruptcy or any other Person or are discovered not to have been collected and collection thereof is denied to Bank, Bank shall have the right to reverse any such application to the extent the funds are recovered from or not collected by Bank. Bank in its discretion may from time to time release to Grantor (or to Grantor's order) any or all of the funds then held in the cash collateral account, but no such release or releases shall commit Bank thereafter to make any further or other such releases.

6.7 Vouchers, Receipts, and Indorsements. Bank shall have full power and authority to execute and deliver such vouchers and receipts in respect of the Accounts, such indorsements of checks, and such other Records in respect of the foregoing as Bank may from time to time deem advisable. In connection with the foregoing, Bank shall have full power and authority to sign Grantor's signature to all such vouchers, receipts, indorsements, and other Records whenever Bank deems such action advisable.

6.8 Verification of Accounts. Bank shall have the right, at any time and from time to time, to arrange for verification of Accounts directly with Account Debtors or by such other methods as Bank shall deem advisable.

7. Maintenance and Defense of General Intangibles. Subject in each case to any security interest in favor of Bank and Bank's rights in respect thereof, and further subject to section 6 governing Accounts, Grantor will, until any Default shall have occurred and thereafter unless and until Bank shall have advised Grantor to the contrary, without expense to Bank, maintain, enforce, and exercise Grantor's rights in all General Intangibles (except any which are of no material value) and defend and protect those intangibles against dilution, diminution in value, infringement, misappropriation, and unauthorized use.

8. Effects of Default. Bank shall at all times have all of the rights of a secured party under the law of the jurisdiction in which Bank's banking office is located and, in addition, if any Default shall occur or commence to exist, then, and in each such case, the following provisions shall apply:

8.1 Possession of Goods and Records. Bank shall have the right to take possession of all Goods in which Bank has been granted a security interest pursuant to this Agreement, or such part of those Goods as Bank may from time to time deem advisable, and Grantor will, on each demand of Bank, assemble and make available to Bank at such place or places as Bank may reasonably require such of those Goods as Bank shall designate. Grantor will, on Bank's demand, deliver to Bank all of Grantor's books and records in respect of the Collateral.

8.2 Enforcement of Rights. Bank shall have the right in its sole discretion to enforce payment of the Accounts by suit or otherwise, and to maintain and enforce rights in respect of any General Intangibles and Accounts, but Bank shall have no duty to institute any suit or to take any other action or, having started any suit or the taking of any other action, to thereafter continue the same. In each case Bank may proceed with counsel of Bank's choosing (at Grantor's expense).

8.3 Exercise of Rights. Bank shall have full power and right to exercise any and all rights and remedies available at law (including, without limitation, those available under the provisions of the UCC) or in equity to collect, enforce, or satisfy any of the Subject Debt and exercise any and all rights in respect of the Collateral as if Bank were the sole beneficial owner thereof and may, without limitation, grant such waivers and consents to, and enter into such compromises with, the Account Debtors and other Persons, release (regardless of whether Bank receives any consideration therefor) any security for or any Account Debtor or other Person liable on any Account, and grant the Account Debtors and other Persons such other indulgences as Bank in good faith may from time to time deem advisable. Grantor waives any rights it may have, if any, to require Bank to pursue any other Obligor for any of the Subject Debt.

8.4 Disposition. Bank shall have the right to sell or otherwise dispose of the Collateral or any part thereof or any interest therein at any time or from time to time. Bank shall have no obligation to clean-up or otherwise prepare the Collateral for sale. Bank may comply with any applicable state or federal law requirements in connection with a disposition of the Collateral and compliance will not be considered adversely to affect the commercial reasonableness of any sale of the Collateral. Bank may sell or otherwise dispose of the Collateral without giving any warranties as to the Collateral and may specifically disclaim any warranties of title or the like, any or all of which will not be considered adversely to affect the commercial reasonableness of any sale or other disposition of the Collateral. Bank shall give Grantor commercially reasonable prior notice of either the date after which any intended

private sale is to be made or the time and place of any intended public sale, except that Bank need give no such notice in the case of Collateral which Bank in good faith determines to be declining speedily in value or which is customarily sold on a recognized market. Grantor waives advertisement of any such sale and (except only to the extent notice is specifically required by the next preceding sentence or as may otherwise be required by the UCC) waives notice of any kind in respect of such sale. At any public sale Bank may purchase the Collateral or any part thereof free from any right of redemption, which right Grantor hereby waives. After deducting for any and all fees, costs, and expenses (including, without limitation, the fees and disbursements of legal counsel) incurred in assembling, taking, repairing, storing, and selling or otherwise disposing of the Collateral or any part thereof or any interest therein, Bank shall have the right to apply the net proceeds of the sale to the Subject Debt with such allocation to the respective parts thereof and the respective due dates thereof as Bank in its sole discretion may from time to time deem advisable, and Grantor shall be liable for any deficiency.

9. Additional Authorizations. Grantor hereby irrevocably constitutes and appoints Bank, through its employees and agents, with full power of substitution, as Grantor's true and lawful attorney-in-fact, with full irrevocable power and authority in the place of Grantor and in the name of Grantor or in Bank's own name, for the purpose of carrying out the terms of this Agreement, to perform, at any time and from time to time, each agreement contained in this Agreement that is on Grantor's part to be complied with, and to take any and all actions and to execute and deliver any and all Records which may be necessary or desirable to give Bank the full benefit of this Agreement, in each case as Bank may from time to time deem advisable, Grantor hereby agreeing that Bank shall owe no duty whatever to Grantor to perform any such agreement, to take any such action, or to execute or deliver any such Record, or, having done so any one or more times, to thereafter continue doing so. Without limiting the generality of the foregoing, Grantor hereby irrevocably authorizes Bank, at any time and from time to time, to (a) fill in any blank space contained in this Agreement or any other Related Writing or Record, (b) correct patent errors, to complete and correct the description of Collateral, and to complete the date herein or therein, (c) file, and if necessary sign, on Grantor's behalf and file, at Grantor's expense and without Grantor's signature, such affidavits, assignments, financing statements, indorsements of specific items of Collateral, mortgages, powers of attorney, security agreements, or other Records as Bank may from time to time deem advisable for the better evidencing, perfection, protection, or validation of, or realization of the benefits of, the security interest granted pursuant to this Agreement, and (d) to the extent Bank filed any such affidavits, assignments, financing statements, indorsements of specific items of Collateral, mortgages, powers of attorney, security agreements, or other Records prior to the date of this Agreement, such affidavits, assignments, financing statements, indorsements of specific items of Collateral, mortgages, powers of attorney, security agreements, or other Records are hereby ratified by Grantor.

10. Unconditional and Continuing Security Interest. Grantor's obligations under this Agreement and the granting of a security interest to Bank pursuant to this Agreement are unconditional and effective immediately, and (except for obligations surviving indefinitely pursuant to section 16) those obligations and the security interest so granted shall continue in full effect until the Subject Debt shall have been paid in full and any Commitment is

terminated and thereafter until Bank shall have delivered to Grantor (or such other Person or Persons whom Bank determines in good faith to be entitled to the same) all Collateral (except any applied to the Subject Debt) in Bank's possession and until each assignment, financing statement, or other Record describing the Collateral and naming Bank (or its successors or assigns, if any) as assignee or secured party, as the case may be, shall have been released or terminated of record as to all of the Collateral therein described, regardless of the lapse of time, regardless of the fact that there may be a time or times when no Subject Debt is outstanding, regardless of any act, omission, or course of dealing whatever on Bank's part, and regardless of any other event, condition, or thing.

11. Grantor's Assent to Extensions, Releases, and Settlements. With respect to the Collateral, Grantor assents to any extension or postponement of the time of payment thereof or any other indulgence in connection therewith, to any exchange, release, replacement, or substitution of Collateral, to any addition or release of any Account Debtor, to any acceptance of any partial payment thereon and to any adjustment, compromise, or settlement in respect thereof, all in such manner and at such time or times as Bank shall deem advisable. Grantor hereby waives any right it may have to require Bank to pursue any other Obligor for any of the Subject Debt.

12. Bank's Duties Limited. Grantor agrees that Bank shall have no duty to collect or protect the Collateral or any income therefrom, nor to preserve rights against prior parties, beyond the safe custody of any Collateral in Bank's possession. Bank shall have no liability for its delivery of any property to any Person or Persons whom Bank determines in good faith to be entitled to the same.

13. No Setoff. Grantor hereby waives all now existing or hereafter arising rights to recoup or offset any obligation of Grantor under or in connection with this Agreement or any Related Writing against any claim or right of Grantor against Bank.

14. Indemnity: Administration, Enforcement, and Termination; Interest. Grantor will reimburse Bank, on Bank's demand from time to time, for any and all fees, costs, and expenses (including, without limitation, the fees and disbursements of legal counsel) incurred by Bank in administering this Agreement and in enforcing, exercising, or protecting its rights under this Agreement or under applicable law, or in attempting to do any of the foregoing. Grantor agrees that if and when Bank's security interest shall have terminated in accordance with the provisions of this Agreement, Grantor will, on Bank's demand from time to time, reimburse Bank for any and all fees, costs, and expenses (including, without limitation, the fees and disbursements of legal counsel) incurred by Bank in releasing or terminating each assignment, financing statement, or other Record signed or given pursuant to this Agreement or in notifying Account Debtors of any such release or termination. If any amount owing under this Agreement is not paid when due, then, and in each such case, Grantor shall pay, on Bank's demand, interest on that amount from the due date thereof until paid in full at a fluctuating rate equal to four percent (4%) per annum plus the Prime Rate.

15. Waivers; Remedies; Application of Payments. Bank may from time to time in its discretion grant waivers and consents in respect of this Agreement or any other Related Writing or assent to amendments thereof, but no such waiver, consent, or amendment shall be binding upon Bank unless set forth in a writing (which writing shall be narrowly construed) signed by Bank. No course of dealing in respect of, nor any omission or delay in the exercise of, any right, power, or privilege by Bank shall operate as a waiver thereof, nor shall any single or partial exercise thereof preclude any further or other exercise thereof or of any other, as each such right, power, or privilege may be exercised either independently or concurrently with others and as often and in such order as Bank may deem expedient. Each right, power, or privilege specified or referred to in this Agreement is in addition to and not in limitation of any other rights, powers, and privileges that Bank may otherwise have or acquire by operation of law, by other contract, or otherwise. Bank shall be entitled to equitable remedies with respect to each breach or anticipatory repudiation of any provision of this Agreement, and Grantor hereby waives any defense that might be asserted to bar any such equitable remedy. Bank shall have the right to apply Proceeds and payments in respect of the Subject Debt with such allocation to the respective parts thereof and the respective due dates thereof as Bank in its sole discretion may from time to time deem advisable.

16. Other Provisions. The provisions of this Agreement shall bind Grantor and Grantor's executors, heirs, representatives, successors, and assigns and all Persons who become bound as a debtor or grantor to this Agreement and benefit Bank and its successors and assigns, including each subsequent holder, if any, of the Subject Debt or any part thereof. Except for Grantor and Bank and their respective successors and assigns, there are no intended beneficiaries of this Agreement, *provided*, that Bank shall have the right, in its discretion, to designate, at any time and from time to time, one or more Account Debtors as intended beneficiaries of subsection 6.4. If Grantor is more than one Person, then, at Bank's discretion, those Persons, or any of them, may be deemed to be jointly and severally liable for the payment and performance of Grantor's obligations under this Agreement. The provisions of sections 11 through 19, both inclusive, shall survive the payment in full of the Subject Debt and termination of the security interest granted pursuant to this Agreement. The several captions to different sections and subsections of this Agreement are inserted for convenience only and shall be ignored in interpreting the provisions thereof. Each reference to a section includes a reference to all subsections thereof (i.e., those having the same character or characters to the left of the decimal point), *except* where the context clearly does not so permit. If any provision in this Agreement shall be or become illegal or unenforceable in any case, then that provision shall be deemed modified in that case so as to be legal and enforceable to the maximum extent permitted by law while most nearly preserving its original intent, and in any case the illegality or unenforceability of that provision shall affect neither that provision in any other case nor any other provision. Interest for any given period shall accrue on the first day thereof but not on the last day thereof (unless the last day is the first day) and in each case shall be computed on the basis of a 360-day year and the actual number of days in the period. In no event shall interest accrue at a higher rate than the maximum rate, if any, permitted by law. Grantor hereby authorizes Bank to share all credit and financial information relating to Grantor with Bank's parent company, with any subsidiary or Affiliate of Bank or of Bank's parent company, with any actual or proposed participant in or assignee of all or any part of Bank's interests or rights hereunder, or with any other Person reasonably deemed necessary by Bank to the administration hereof. This Agreement shall be governed by the law (excluding conflict of laws rules) of the jurisdiction in which Bank's banking office is located.

17. Integration. This Agreement and, to the extent consistent with this Agreement, the other Related Writings, set forth the entire agreement of Grantor and Bank as to its subject matter, and may not be contradicted by evidence of any agreement or statement unless made in a writing (which writing shall be narrowly construed) signed by Bank contemporaneously with or after the execution and delivery of this Agreement.

18. Notices and Other Communications. Each notice, demand, or other communication, whether or not received, shall be deemed to have been given to Grantor whenever Bank shall have mailed a writing to that effect by certified or registered mail, or recognized overnight courier service to Grantor at Grantor's mailing address (or any other address of which Grantor shall have given Bank notice after the execution and delivery of this Agreement). Each communication to be given to Bank shall be in writing and shall be given to Bank at Bank's banking office (or any other address of which Bank shall have given notice to Grantor after the execution and delivery of this Agreement). Grantor hereby assumes all risk arising out of or in connection with each communication given or attempted by Grantor in contravention of this section. Bank shall be entitled to rely on each communication believed in good faith by Bank to be genuine.

19. Jurisdiction and Venue; Waiver of Jury Trial. Any action, claim, counterclaim, crossclaim, proceeding, or suit, whether at law or in equity, whether sounding in tort, contract, or otherwise at any time arising under or in connection with this Agreement or any other Related Writing, the administration, enforcement, or negotiation of this Agreement or any other Related Writing, or the performance of any obligation in respect of this Agreement or any other Related Writing (each such action, claim, counterclaim, crossclaim, proceeding, or suit, an "**Action**") may be brought in any federal or state court located in the city in which Bank's banking office is located. Grantor hereby unconditionally submits to the jurisdiction of any such court with respect to each such Action and hereby waives any objection Grantor may now or hereafter have to the venue of any such Action brought in any such court. GRANTOR HEREBY, AND EACH HOLDER OF THE SUBJECT DEBT OR ANY PART THEREOF, KNOWINGLY AND VOLUNTARILY WAIVES JURY TRIAL IN RESPECT OF ANY ACTION.

IN WITNESS WHEREOF, Grantor, intending to be legally bound, has executed this Security Agreement on the day and year first above written with the intention that this Agreement shall constitute a sealed instrument.

Grantor:

NORTHERN TECHNOLOGIES INTERNATIONAL CORPORATION

By: /s/ MATTHEW C. WOLSFELD (SEAL)

Printed Name: Matthew C. Wolsfeld

Title: Chief Financial Officer

STATE OF MINNESOTA)
) **SS:**
COUNTY OF ANOKA)

BEFORE ME, a Notary Public in and for said County and State, personally appeared Matthew C. Wolsfeld as Chief Financial Officer of the above-named corporation, **Northern Technologies International Corporation, (a Delaware Corporation)**, who acknowledged that he signed the foregoing instrument for an on behalf of the Corporation, and by authority of its Board of Directors, and that the same is the free act and deed of the Corporation and the free act and deed of each of them personally and as such officers.

IN TESTIMONY, I set my hand and official seal, this 6th day of August, 2004.

/s/ MIA THOMTON

Notary Public

MODIFICATION AND EXTENSION OF PROMISSORY NOTE

THIS AGREEMENT OF MODIFICATION AND EXTENSION OF PROMISSORY NOTE is by and among **Northern Technologies International Corporation** (the "Borrower") and **NATIONAL CITY BANK**, Cleveland, Ohio (the "Bank"). This agreement is attached to and made a part of a promissory note (the "Note") in the original principal amount of Five Hundred Thousand and 00/100ths Dollars (\$500,000.00) which was executed by Borrower, payable to Bank and dated August 6, 2004. For valuable considerations as hereinafter granted each to the other and intending to be legally bound, the parties modify the following terms, conditions, and provision of the Note:

- (1) The Expiration Date of the Note is changed from December 31, 2005 to January 31, 2006.
- (2) An increase in the Revolving Commitment from \$500,000.00 to \$1,000,000.00.
- (3) Borrower does not have any claim, offset or defense against the Bank.
- (4) Bank reserves all of its rights.

IN WITNESS, the parties execute this Modification and Extension of Promissory Note at Beachwood, Ohio on this 2nd day of March, 2005.

"WARNING -- BY SIGNING THIS PAPER YOU GIVE UP YOUR RIGHT TO NOTICE AND COURT TRIAL. IF YOU DO NOT PAY ON TIME A COURT JUDGMENT MAY BE TAKEN AGAINST YOU WITHOUT YOUR PRIOR KNOWLEDGE AND THE POWERS OF A COURT CAN BE USED TO COLLECT FROM YOU REGARDLESS OF ANY CLAIMS YOU MAY HAVE AGAINST THE CREDITOR WHETHER FOR RETURNED GOODS, FAULTY GOODS, FAILURE ON HIS PART TO COMPLY WITH THE AGREEMENT, OR ANY OTHER CAUSE."

BORROWER:

NORTHERN TECHNOLOGIES INTERNATIONAL CORPORATION

By: /s/ MATTHEW C. WOLSFELD

Printed Name: Matthew C. Wolsfeld

Title: Chief Financial Officer

By: /s/ DAVID W. RONYAK

Printed Name: David W. Ronyak

Title: Vice President

BANK:

NATIONAL CITY BANK

By: /s/ DAVID A. DEMICHAEL

David A. DeMichael, Vice President

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Confidential

DATED: April 28th, 2005

- (1) Northern Technologies International Corporation**
- (2) Excor Korrosionsforschung GmbH**
- (3) Fibro-NTI Urun Gelistirme Ve Pazarlama Ticaret Anonim**
 - (4) Acobal SAS**
- and**
- (5) Henkel KGaA**
- (6) Henkel Surface Technologies S.A.S**

SETTLEMENT AGREEMENT AND ASSET PURCHASE

THIS AGREEMENT is made the 28 day of April 2005

BETWEEN:-

- (1) **Northern Technologies International Corporation** a corporation incorporated under the laws of the State of Delaware whose principal office is at 6680 North Highway 49, Lino Lakes, Minnesota, USA (“NTIC”) acting through its duly authorized representatives Gerhard Hahn, Jacques Manenc and Steven S. Taylorand
- (2) **Excor Korrosionsforschung GmbH** a corporation incorporated under the laws of Germany and having offices at Magdeburger Str. 58, 01067 Dresden, GERMANY (“Excor”); acting through its duly authorized representative Professor Dr. Georg Reinhard, and
- (3) **Fibro-NTI Ürün Gelistirme Ve Pazarlama Ticaret Anonim** a company organized under the laws of Turkey having offices at Karanfil Cad. No: 27, 80620 1. Levent, Istanbul, Turkey, (“Fibro-NTI”) acting through its duly authorized representative Dr. Mehmet A. Gencer; and
- (4) **Acobal SAS** a corporation incorporated under the laws of France and having offices at ZI le Clos Marquet, 42400 Saint Chamond, FRANCE (“Acobal”); acting through its duly authorized representative Jacques Manencand
- (5) **Henkel KGaA** a company registered under the laws of Germany and having offices at Henkelstrasse 67, 40191 Duesseldorf, GERMANY (“Henkel”); acting through its duly authorized representative Dr. Boris Tasche.
- (6) **Henkel Surface Technologies S.A.S.**, a company registered under the laws of France and having its offices at 161, rue de Silly, 92100 Boulogne Billancourt, FRANCE (“HST”), acting through its duly authorized representative Dr. Boris Tasche.

together the “Parties”.

RECITALS

- (A) By deed dated 24 September 2002, NTIC commenced proceedings in the Civil Court of Nanterre, France, against HST in respect of the infringement of Community Trade Mark No. 000396176, unfair competition and breach of confidentiality undertakings.
- (B) On 24 September 2002 Acobal, the exclusive licensee of NTIC in France, commenced proceedings in the Civil Court of Nanterre, France, against HST in respect of breach of Article L.442-6 of the French Commercial Code and unfair competition.
- (C) On 5 May 2003 the Presiding Judge of the Civil Court of Nanterre ordered that the two sets of proceedings between NTIC and HST and between Acobal and HST referred to above should be joined and the joined proceedings transferred to the Civil Court of Paris. These proceedings are pending before the Civil Court of Paris.

- (D) After the proceedings in France had commenced, Henkel commenced proceedings for the cancellation of Community Trade Mark No. 000396176 owned by NTIC in the Office for the Harmonisation of the Internal Market (OHIM) in Alicante, Spain.
- (E) Henkel now wishes to dispose of certain of the assets used by it or its Affiliates for the purpose of the Business (as defined below).
- (F) The Parties also wish to settle the proceedings referred to above subject to and in accordance with the terms of this Agreement.
- (G) NTIC is, therefore, willing to waive its asserted entitlement to damages in the above proceedings on the basis that Henkel is willing to transfer the said assets to NTIC. Henkel is in return willing to withdraw the proceedings for the cancellation of Community Trade Mark No 000396176 in the OHIM, if NTIC and Acobal waive all and any right relating to the suit pending before the Civil Court of Paris.

THE PARTIES AGREE AS FOLLOWS:-

1. **INTERPRETATION AND DEFINITIONS**

1.1 Definitions

In this Agreement the following words and phrases shall have the following meanings:-

- “Affiliate” means in relation to a party, any body corporate or other legal entity which:-
- (a) is directly or indirectly owned and/or controlled by that party;
 - (b) that directly or indirectly owns and/or controls that party; or
 - (c) is directly or indirectly owned and/or controlled by the legal entity referred to in (b) above.

In the case of legal entities having stocks and/or shares, ownership or control shall exist through the direct or indirect ownership and/or control of more than fifty percent of the voting shares. In the case of any other legal entity, ownership and/or control shall exist through the ability to directly or indirectly control the management and/or business of the legal entity through a majority of voting rights;

“Assets”	means the tangible and intangible assets listed in the Purchase Agreement;
“Business Day”	means any day on which banks in the City of Paris are open for business (excluding Saturdays);
“Effective Date”	means the date on which the ownership to the Business and the Assets is transferred from Henkel and/or its Affiliates to NTIC and/or the NTIC Joint Venture Companies as will be defined in the Purchase Agreement;
“Contracts”	<p>means all the contracts, arrangements and engagements relating either exclusively to the Business or relating in part to the running of the Business (only to the extent that they do so relate) to which Henkel or any of its Affiliates are a party as at the Effective Date and which are current or unperformed as at the Effective Date including, for the avoidance of doubt, all licences of intellectual property rights used in or relevant to the Business or Technology with the exception of standard software contracts, however, excluding</p> <ul style="list-style-type: none"> a) contracts relating to public utilities (supply of electricity, gas, water, etc.); b) contracts relating to the lease of telecommunication equipment assistance with respect to the business (including without being limited thereto, phone and fax systems) or any of the pertinent maintenance Contracts; c) contracts relating to any real property (including but not limited to leases); d) contracts of insurance relating to the Business; e) contracts concluded with an affiliate company;
“Customer Lists”	means lists of all customers of the Business in the Settlement Territory;

“Encumbrance”	means and includes any interest and equity of any person (including without prejudice to the generality of the foregoing, any right to acquire, option or right of pre-emption) or any mortgage, charge, pledge, lien, hypothecation or assignment or any other encumbrance, priority or security interest or arrangement of whatsoever nature over or in the relevant property;
“French Action”	means the proceedings details of which are set out in Schedule 1;
“Goodwill”	means the goodwill of the Business including the exclusive right of NTIC and/or the NTIC Joint Venture Companies to represent itself as carrying on the Business in continuation of and in succession to Henkel and its Affiliates, which for the avoidance of doubt, shall not include the name Henkel;
“the Business”	means Henkel’s and/or its Affiliates’ business anywhere in the world relating to the development, manufacture, distribution, sale, supply, marketing of or otherwise trading in products utilising the Technology;
“Intellectual Property”	means any patents, trade marks, service marks, registered designs, applications for any of those rights, trade and business names (including Internet domain names and e-mail address names but excluding any name including the name Henkel), logos, unregistered trade marks and service marks, copyright and related rights, performers’ property rights, database rights, rights in designs, trade dress, inventions, know-how and confidential information owned by Henkel or its Affiliates in the Settlement Territory in relation to the Business or the Technology and, without limitation, includes all trade marks, design rights, patents, patent applications, know-how, copyright and database rights set out in the Purchase Agreement, together with the right to sue for past infringements of such rights;
Inventory	means all Product held or owned by Henkel and/or its Affiliates on the Effective Date for sale in the Business.

“IP and Goodwill Assignment”	means the assignment of Intellectual Property and Goodwill according to the Purchase Agreement;
“Know-How”	means the know-how assigned to NTIC or the NTIC Joint Venture Companies according to the Purchase Agreement;
“NTIC Joint Venture Companies”	means the companies set out in Schedule 4;
“OHIM Proceedings”	means the proceedings details of which are set out in Schedule 2;
“Settlement Territory”	means the world;
“Product”	means any product developed using the Technology as part of the Business;
“Purchase Agreement”	means the contract(s) to be concluded between Henkel or its Affiliates and NTIC or the NTIC Joint Venture Companies to assign the part of the Business belonging to Henkel or the respective Affiliates to NTIC or the NTIC Joint Venture Companies and whose form has previously been agreed between the Parties; and
“the Technology”	means post-manufacture non-contact corrosion protection technologies including, without limitation, VCI delivery systems such as capsules, films, papers and other host materials and other systems for protecting industrial and commercial products against chemical, electrostatic, physical and environmental damage and corrosion including non-contact barrier protection and scavenger protection systems.

1.2

Construction and Interpretation

- 1.2.1 In this Agreement the headings are for convenience only and shall not affect the interpretation hereof;
- 1.2.2 reference in this Agreement to Clauses or Schedules are to clauses of or the schedules to this Agreement;

1.2.3 unless the context shall otherwise require the singular shall include the plural and vice versa, reference to any gender shall include references to the other genders and references to persons shall include bodies corporate, unincorporated associations and partnerships ;

1.2.4 this Agreement includes the Schedules hereto;

2. **TERMINATION OF THE PROCEEDINGS AND SETTLEMENT AGREEMENT**

2.1 **French Action**

2.1.1 Within seven (7) days of the date of this Agreement NTIC and ACOBAL shall notify the Court of Paris -“Tribunal de Grande Instance” - of their withdrawal from all of their actions and claims in relation to the French Action, and their undertaking not to introduce further proceedings which may be based on the same facts as the French Action, these statements referred to as “conclusions de désistement d’action et d’instance” being attached hereto as Schedule 3.

2.1.2 As for HST, it shall file, at the date of the said notifications, with the court of Paris – “Tribunal de Grande Instance”- a statement by which HST accepts the above withdrawal and undertaking by NTIC and ACOBAL to refrain from future proceedings, this statement referred to as, “conclusions d’acceptation de désistement d’action et d’instance” being attached hereto as Schedule 3.

2.1.3 NTIC and ACOBAL simply and purely waive all and any rights to sue and/or to claim, in respect to which the facts invoked by NTIC and ACOBAL within the scope of the pending proceedings before the Civil Court of Paris – “Tribunal de Grande Instance” - should constitute the consideration, the object or the occasion.

2.2 **OHIM Proceedings**

2.2.1 Within seven (7) days of the date of this Agreement, the Parties and their Affiliates and/or Joint Venture Companies shall take all necessary steps to terminate definitively the OHIM proceedings.

2.2.2 On the date of this Agreement, Henkel shall notify OHIM that it is definitively withdrawing from the OHIM Proceedings in the terms of the letter set out in part 2 of Schedule 2.

2.2.3 In addition, Henkel undertakes not to introduce further proceedings challenging the validity of Community Trade Mark N° 000396176. In addition, Henkel undertakes not to assist, procure or incite any person to do so and guarantees that its Affiliates shall also not do so.

2.3

Cost of proceedings and damages

2.3.1 Each of the Parties shall bear all expenses, fees, disbursements and costs that they have already paid and/or advanced or that they will have to pay for the introduction and the termination of the aforementioned proceedings and, in particular, all costs relating to the counsels, lawyers, judicial auxiliaries and clerks.

2.3.2 The Parties undertake not to claim any damages for the termination of the aforementioned proceedings. In addition, they guarantee that their Affiliates and/or Joint Venture Companies will not claim any damages.

2.4

Settlement Agreement

The Parties recognize that the withdrawal from all of the actions and claims referred to in paragraph 2.1 and 2.2 above, constitutes reciprocal concessions under French law, taking into account that NTIC and ACOBAL, in particular, are directly affected by the OHIM proceedings.

The Parties decided to submit this Agreement to article 2044 and following of the French Civil Code, specially referring to the provisions of the following articles:

- Article 2044: “a compromise is a contract by which the parties settle an arisen controversy, or prevent a controversy from arising. That contract must be made in writing”.

- Article 2052: “Compromises have, between the parties, the authority of res judicata of a final judgement. They may not be attacked on account of an error of law, nor on account of loss”.

This Settlement Agreement immediately and definitively binds the Parties, whatever will be the execution of the provisions included in the following articles dealing with the Asset Purchase.

3.

ASSET PURCHASE

Henkel undertakes to sell – and if Henkel is not the owner shall procure that its Affiliates sell – without undue delay according to the national laws of the countries concerned, the Business within the Settlement Territory with effect from the Effective Date.

Henkel also undertakes and shall procure that its Affiliates shall from the date of this Agreement initiate the internal legal formalities with a view to selling the Business. Henkel undertakes to procure that NTIC and/or the NTIC Joint Venture Companies appointed in each concerned country (or created to that effect) acquire the Business from Henkel or its Affiliates within 3 (three) months from the date of this Agreement.

Object of the sale

- 3.1.1 The sale will cover tangible and intangible goods (in so far as the national laws know this denomination) attached to the Business.
- 3.1.2 Within the scope of the sales which will occur according to national laws:
- (a) Henkel shall provide all Customer Lists to NTIC or the NTIC Joint Venture Companies in electronic form in the manner and format as agreed upon between the Parties. The transfer of such information shall be done respecting EC Directive 95/46 and French Law 78-17 of 6 January 1978.
 - (b) Henkel undertakes that it shall not use or reproduce the Customer Lists, or distribute or disclose the Customer Lists to any third party, for any purpose whatsoever except if Henkel is required to do so under any court or governmental authority order or to comply with any legal obligation.
 - (c) Within ten (10) Business Days of the Effective Date Henkel shall, and shall procure that its Affiliates shall, delete or destroy all copies of all Customer Lists (to the extent that the Customer Lists are not required for the ongoing business of Henkel and/or its Affiliates and Henkel and/or its Affiliates are not obliged to keep the Customer Lists to comply with any legal obligation or internationally recognised accounting standards) and shall confirm in writing to NTIC that it has done so.
 - a) Henkel shall, and shall procure that, if necessary, its Affiliates shall, execute the IP and Goodwill Assignment in order to transfer irrevocably and absolutely all right, title and interest in the Intellectual Property to NTIC.
 - b) Henkel undertakes that if following the Effective Date it or any of its Affiliates develops or acquires any improvements or modifications to any of the Intellectual Property, Henkel grants and shall, if necessary procure that its Affiliates shall grant, to NTIC or the NTIC Joint Venture Companies, a pre-emptive right to acquire such improvements or modifications during the non-competition period as defined in 3.6.1.1 below, in good faith, at a fair market price.
- 3.1.3 Henkel or its Affiliates are willing to accompany NTIC or the NTIC Joint Venture Companies to one single visit to each of the twenty major customers identified by NTIC or the NTIC Joint Venture Companies during the first three months after the Effective Date.

- 3.1.4 Henkel undertakes that it shall not, and that it will procure that its Affiliates shall not, acquire more than 5% of the issued share capital of NTIC at any time in the future.
- 3.1.5 The Parties hereto understand and agree that the assets of Henkel or its Affiliates set out below are excluded from the sale and transfer to NTIC:
- a) all real property leased which is not exclusively related to the Business;
 - b) all plants used or to be used by Henkel and its Affiliates for manufacturing the Products;
 - c) all accounts and notes receivable, deferred charges, chattel paper and other rights to receive payments arising from the operation of the Business prior to the Effective Date;
 - d) cash, cash equivalents, investments and bank accounts (whether credits or debits) as at the Effective Date;
 - e) all tax liabilities or tax refunds, including value added and corporate income taxes and all fiscal taxes, social security taxes/contributions and other levies arising from or relating to the operation of the Business or the ownership of the Assets prior to the Effective Date;

3.2

Employment Matters

- 3.2.1 The parties agree that the sale and purchase of the Business and the Assets according to this Agreement constitutes a transfer of business pursuant to EC directive and to article L 122-12 of the French Labour Code. Accordingly, any and all employees dedicated to the Business and employed by Henkel or the Henkel Affiliates at the Effective Date shall be automatically transferred to NTIC or its Affiliates (Transferred Employees) under the same terms and conditions of employment. A list of all current employees dedicated to the Business, indicating their name, commencement date with Henkel or the respective Henkel Affiliate, and function will be added to the Purchase Agreement.
- 3.2.2 All amounts payable to or in relation to the Transferred Employees including but not limited to wages and salaries in respect of all periods prior to the Effective Date shall be paid by Henkel or the respective Henkel Affiliate and Henkel shall indemnify NTIC against any reasonable costs, claims, liabilities, obligations, demands and expenses arising out of or in connection with such amounts. Henkel shall discharge and indemnify

NTIC against all and any reasonable costs, claims, liabilities, obligations, and expenses arising out of: any persons other than the Transferred Employees who are or have been at any time prior to the Effective Date engaged to any extent in the Business; any of the Transferred Employees before the Effective Date; any obligation to inform and consult representatives of the Transferred Employees or otherwise in accordance with article L 122-12 of the French Labour Code; and all accrued holiday pay entitlements and accrued but unused holiday entitlements of the Transferred Employees which accrue during any period prior to the Effective Date, as the case may be.

- 3.2.3 Henkel and/or HST will forward in conformity with French law all necessary documents including the respective Trust Deeds and Employees Handbooks and forward all necessary and requested declarations to ACOBAL in order to enable ACOBAL to effect the above transfer of employees.
- 3.2.4 ACOBAL shall be responsible for any severance benefits, redundancy costs or any other costs related to the non observance of notice periods or any financial or other obligation related to the Transferred Employees in connection with the termination of their employment with ACOBAL in case a Transferred Employee refuses a modification of its employment contract in connection with its transfer to ACOBAL, unless HST terminates the employment due to reasons other than the transfer of the Business to ACOBAL.

3.3

Assignment of Contracts

- 3.3.1 Subject to paragraph 3.3.4. below, Henkel or the Henkel Affiliates shall assign with effect from the Effective Date to NTIC or the NTIC Joint Venture Companies the Contracts listed in the Purchase Agreement(s). Such assignment shall encompass all and any rights, interests, obligations and liabilities under the Contracts.
- 3.3.2 Prior to the Effective Date for any other Contracts exclusively belonging to the Business and not listed in the Purchase Agreement(s), NTIC or the NTIC Joint Venture Companies shall have until the Effective Date to decide whether or not they assume all rights and obligations and the performance of such Contract(s). With regard to Contracts which will be concluded with distributors and agents, the Purchase Agreements contain specific provisions.
- 3.3.3 After the Effective Date, the following Contracts which are not listed in the Purchase Agreement(s) are hereby assigned to NTIC or the NTIC Joint venture Companies:
 - (a) all Contracts with customers to the Business;

- (b) all and any other Contracts which do not impose a financial obligation or liabilities exceeding Euros 10,000 (ten thousand) per year and which exclusively refer to the Business.

3.3.4 Where any consent or agreement of the other party to any of the Contracts or of any third party is required to enable NTIC or the NTIC Joint Venture Companies to assume all rights and obligations under and to perform any Contract or to enable Henkel or its Affiliates to assign or transfer the benefit or burden of any Contract to NTIC or the NTIC Joint Venture Companies, the following provisions shall apply:

- a) Henkel or its Affiliates and NTIC or the NTIC Joint Venture Companies shall use their respective reasonable endeavours to obtain the consent or agreement of the other party or any third party to whatever assignment, transfer or novation is necessary to enable NTIC or the relevant NTIC Joint Venture Companies to assume all rights and logistics under and to perform such Contract after completion or, as the case may be, to transfer the benefit and burden of such Contract to NTIC or the relevant NTIC Joint Venture Companies.
- b) Until the consent or agreement referred to in sub-paragraph a) above is obtained, NTIC or the relevant NTIC Joint Venture Companies shall, unless the relevant Contract prohibits it, perform all the obligations of Henkel or the relevant Henkel Affiliate under such Contract as agent for, or sub-contractor to, Henkel or such Henkel Affiliate and indemnify Henkel or the respective Henkel Affiliate in respect of such performance, or, if the relevant Contract or any provision of a applicable law prohibits NTIC or the relevant NTIC Joint Venture Companies from acting so or NTIC or the relevant NTIC Joint Venture Companies cannot be permitted to act as agent and sub-contractor because of confidentiality obligations, Henkel shall to the extent it is reasonably able to do so, do or procure the doing by any of the Henkel Affiliates of all such acts and things as NTIC may reasonably require to enable due performance of the Contract to provide for NTIC or the relevant NTIC Joint Venture Companies the benefits subject to the burdens of the Contract and NTIC shall indemnify Henkel or the relevant Henkel Affiliate in respect of all such acts and things. For this purpose, it shall not be reasonable to require Henkel or any of the Henkel Affiliates to make any payments unless NTIC or the relevant NTIC Joint Venture Companies have first paid Henkel or the relevant Henkel Affiliate sufficient cleared funds to make such payment.

3.3.5 If a consent cannot be obtained, Henkel or the relevant Henkel Affiliate shall be deemed to hold the benefit of the relevant Contract on trust for NTIC or the relevant NTIC Joint Venture Companies, until such time as consent by the respective party or third party is obtained.

3.3.6 As regards non-compete, non-disclosure and confidentiality agreements relating to the Business and/or the Assets, NTIC or the NTIC Joint Venture Companies shall have the right to assume them or, in each case, to refuse to assume them, unless such an agreement is listed in the Purchase Agreement.

3.4 **Transfer of Inventory at the Effective Date**

The Inventory shall be transferred to ACOBAL or the NTIC Joint Venture Company in Turkey as appropriate.

The Parties have set out a first estimate of the price of the Inventory in clause 3.5 of this Agreement. The actual purchase price for such Inventory shall be calculated by using the same methods and in the same manner as specified in the relevant Purchase Agreement.

Henkel or its Affiliates shall provide the respective invoices for the Inventory which will be submitted to the applicable national rules and regulations, notably regarding VAT.

The Parties undertake that any Products stored for more than 6 (six) months without any sale are worthless and shall not be taken into account in calculating the sum payable under 3.5.1.3 below. Such Inventory shall nonetheless be transferred to NTIC or the NTIC Joint Venture Companies.

NTIC and the NTIC Joint Venture Companies further undertake to be responsible for ensuring that no raw materials (such as masterbatch or resin) which are not transferred as part of the Inventory do not fall into the hands of any third party who may use such materials to produce counterfeit products.

3.5 **Purchase Price**

3.5.1 In consideration of the sale and transfer of the Assets and the Intellectual Property, NTIC or the NTIC Joint Venture Companies shall pay as a net purchase price to Henkel or to its Affiliates owning the Business € 1,500,000 (Euro one million five hundred thousand) (hereinafter “the net Purchase Price”) divided up among NTIC and the NTIC Joint Venture Companies as follows:

3.5.1.1 NTIC shall pay € 450,000 (Euro four hundred and fifty thousand) in consideration for the Intellectual Property;

- 3.5.1.2 ACOBAL shall pay:
- 3.5.1.2.1 € 550,000 (Euro five hundred fifty thousand) in consideration for the Fonds de Commerce (tangible and intangible assets) of HST.
 - 3.5.1.2.2 € 300,000 (Euro three hundred thousand) in consideration for the Inventory of HST.
- 3.5.1.3 Fibro-NTI shall pay:
- 3.5.1.3.1 € 100,000 (Euro one hundred thousand) in consideration for the Fonds de commerce (tangible and intangible assets) of Türk Henkel Kimya Sanayi ve Ticaret AS.
 - 3.5.1.3.2 € 100,000 (Euro one hundred thousand) in consideration for the Inventory of Türk Henkel Kimya Sanayi ve Ticaret AS.
- 3.5.2 Should the stock taking as described in Clause 3.4 turn out that the value of the Inventory exceeds or is lower than the sums attributed above in clauses 3.5.1.2.2 and 3.5.1.3.2, the net Purchase Price shall be adjusted accordingly
- 3.5.3 The net Purchase Price shall be paid by NTIC and the NTIC Joint Venture Companies as set out under Clause 3.5.1 to Henkel or its Affiliates either by means of a wire transfer to bank accounts to be indicated at the Effective Dates specified in the different Purchase Agreements which will be concluded in conformity with the national laws concerned.
- 3.5.4 It is the intention of the Parties that the Business shall be transferred to NTIC or the NTIC Joint Venture Companies as a going concern with effect from the Effective Date and the Parties will use all reasonable endeavours to secure that the sale is neither treated as a supply of goods nor a supply of services for the purposes of Value Added Tax. To the extent that certain transactions are nevertheless subject to Value Added Tax (or equivalent sales tax), NTIC or the NTIC Joint Venture Companies shall pay such tax in addition to the net Purchase Price. Such a value added tax will be due and payable when NTIC or the NTIC Joint Venture Companies shall have received from Henkel or its Affiliates an invoice issued in accordance with the applicable local or national regulations. Any other taxes imposed in connection with the sale and transfer of the Business shall be paid by NTIC or the NTIC Joint Venture Companies (including but not limited to stamp and registration duties in France and in Turkey).
- 3.5.5 Henkel or the respective Henkel Affiliate shall remain responsible for all taxes (e.g. income tax, Value Added Tax, payroll taxes) inherent to the Business until the Effective Date and shall indemnify NTIC and the NTIC Joint Venture Companies in respect of the same.

Non competition clause

- 3.6.1 Henkel undertakes to NTIC and its Affiliates, that it shall not, and shall procure that its Affiliates shall not:
- 3.6.1.1 for a period of three years from the Effective Date directly or indirectly be engaged, or directly or indirectly be interested, in carrying on any business similar to the Business, or that competes in any manner whatsoever with any business carried on by NTIC or the NTIC Joint Venture Companies utilising or concerning the Technology;
 - 3.6.1.2 Notwithstanding the foregoing for a period of three years from the Effective Date solicit or entice away or assist any other person to solicit or entice away the custom of any person, firm, company or organisation who either was at the Effective Date, or during the period of 6 (six) months prior to the Effective Date had been, a client, customer, identified prospective client, customer, representative, agent, correspondent or supplier of the Business. For the avoidance of doubt, nothing in this clause will prevent Henkel and its Affiliates from dealing with any such person, firm, company or organisation in a part of its business which is unrelated to the Business; or
 - 3.6.1.3 assist any other person to do any of the foregoing things.
- 3.6.2 Henkel undertakes to take all such steps as shall from time to time be necessary to ensure compliance with the terms of clause 3.6.1 by employees and agents of Henkel and its Affiliates.
- 3.6.3 Each of the undertakings in clause 3.6.1 shall be construed as a separate and independent undertaking and, subject to sub-clause 3.6.4. if one or more of the undertakings is held to be void and unenforceable, the validity of the remaining undertakings shall not be affected.
- 3.6.4 While the restrictions contained in Clause 3.6. are considered by the Parties to be reasonable in all the circumstances, it is recognised that restrictions of the nature in question may be deemed unreasonable and accordingly it is hereby agreed and declared that if any of such restrictions shall be adjudged to be void or voidable as going beyond what is reasonable in all the circumstances for the protection of the interests of NTIC but would be valid if part of the wording thereof were deleted, or the periods thereof reduced or the range of activities or area dealt with thereby reduced in scope, the said restriction shall apply with such modifications as may be necessary to make it valid and effective.

3.6.5 Without prejudice to sub-clause 3.6.4, if any restriction or undertaking is found by any court or other competent authority to be void or unenforceable, the Parties shall negotiate in good faith to replace such void or unenforceable restriction or undertaking with a valid provision which, as far as possible, has the same legal and commercial effect as that which is replaced.

3.7

Indemnification

3.7.1 NTIC undertakes and engages to fully and timely release and indemnify Henkel respectively the Henkel Affiliates as of the Effective Date from all and any such obligations and liabilities of the Business:

- as NTIC or the NTIC Joint Venture Companies have assumed under this Agreement; or
- as arise from the continuation of the Business by NTIC or the NTIC Joint Venture Companies after the Effective Date unless this Agreement provides otherwise;
- as arise from the employment by NTIC or the NTIC Joint Venture Companies of the Transferred Employees on or after the Effective Date or are attributable to any breach or default by NTIC or the NTIC Joint Venture Companies in relation to any of the Transferred Employees including but not limited to any liability arising out of the termination or dismissal of any Transferred Employees or any failure by NTIC or the NTIC Joint Venture Companies to offer terms and conditions which are not less favourable than those which apply up to the Effective Date.

3.7.2 Henkel undertakes and engages to fully and timely release and indemnify NTIC and respectively the NTIC Joint Venture Companies from all and any claims, law suits, costs and expenses, liabilities and damages arising out of a breach of any of the warranties granted in Article 3.9 below. In any case such liability of Henkel shall be limited as further specified in Article 3.10.

3.7.3 For the avoidance of doubt NTIC and the NTIC Joint Venture Companies shall have no responsibility for or any liability in respect of any product liability or other claims made in relation to any Products supplied by or on behalf of Henkel or its Affiliates prior to the Effective Date to customers or as part of the Inventory being transferred to NTIC or the NTIC Joint Venture Companies. Henkel hereby confirms that any such Product was manufactured or supplied subject to appropriate product liability insurance.

3.8

Miscellaneous

3.8.1 To the extent that specific deeds, instruments or documents or any other steps are necessary or expedient to effecting and documenting the transfer of the Assets, the Parties undertake and agree, at either Parties' request and waiving any further consideration or compensation, to promptly execute such deeds, instruments or documents and take all such steps.

3.8.2 Henkel and its Affiliates will assist and co-operate with NTIC and the NTIC Joint Venture Companies, to an extent reasonably requested by NTIC, in notifying debtors of sold rights and claims and/or in notifying any third party which holds any title, interest or possession with respect to the Assets.

3.8.3 Henkel shall hand all documents constituting, representing or containing the Assets to NTIC without endangering the continuance of the Business, in the manner and format as agreed upon between the Parties.

3.9

Warranties

3.9.1 Each of the Parties represents and warrants that it has full power and authority to enter into this Agreement and to perform its respective obligations set out in this Agreement.

3.9.2 Henkel warrants, in relation to the Intellectual Property, that to its best knowledge, as at the date of this Agreement, and unless otherwise disclosed to NTIC:

3.9.2.1 a complete and accurate record of all material Intellectual Property will be attached to the Purchase Agreement;

3.9.2.2 All registered Intellectual Property is valid and subsisting in the jurisdictions where registered or granted;

3.9.2.2A All licences of intellectual property rights used in or relevant to the Business or the Technology to which Henkel or its Affiliates are subject have been disclosed to NTIC;

3.9.2.3 Henkel and / or its Affiliates are the sole legal and beneficial owner of the Intellectual Property with the right to assign all right, title and interest in the Intellectual Property and all predecessors in interest have assigned their entire right, title and interest in the Intellectual Property to Henkel and / or its Affiliates;

3.9.2.4 Henkel and / or its Affiliates have not previously licensed or assigned the Intellectual Property to any third party, or entered into any agreement relating to it with any third party which might affect Henkel's and / or its Affiliates' ability to assign the Intellectual Property to NTIC in accordance with the provisions of this Agreement;

3.9.2.5 The Intellectual Property is not subject to any charges, options, licences or other third party interests;

- 3.9.2.6 Where registered, all registrations, filings and payments of fees necessary to preserve the rights of Henkel and/ or its Affiliates in the Intellectual Property have been made and are in good standing, and Henkel and / or its Affiliates have not done or omitted to do anything which may cause any of the registered Intellectual Property to lapse prematurely;
- 3.9.2.7 Neither Henkel nor its Affiliates have been notified that any opposition, cancellation or revocation action or protest has been filed with any examining authority in relation to any application to register the Intellectual Property, or existing registration;
- 3.9.2.8 Henkel is not aware of any fact or matter that could affect the validity or registerability of the Intellectual Property;
- 3.9.2.9 Neither Henkel nor its Affiliates have granted to any of their respective sub-contractors, agents or other contracting parties the right to use any know-how or intellectual property, relating to the Technology, for its own benefit or for the benefit of a third party.
- 3.9.3 there are no allegations or proceedings pending or to the best of Henkel's knowledge, threatened, which assert that the development, manufacture, use or sale of any Product infringes or will infringe third party rights or which challenge the ownership, validity or enforceability of the Intellectual Property;
- 3.9.4 Henkel has made a full and complete disclosure to NTIC of all third party relationships which to the best knowledge of Henkel having made a diligent search of appropriate records may affect NTIC's full and complete exercise of rights under this Agreement;
- 3.9.5 except in the ordinary course of business and under appropriate confidentiality agreements copies of which have been provided to NTIC, no disclosure has been made to third parties of any of the confidential information, Know-How, technical processes, financial or trade secrets or pricing, customer or supplier lists relating to the Business; and
- 3.9.6 all documents or other materials in which the Intellectual Property subsists, and all certificates or other documents evidencing or otherwise relating to the ownership of such rights, are in the possession, ownership and control of Henkel, and Henkel is not a party to any confidentiality or other agreement or subject to any duty which restricts the free use or disclosure of such documents or materials.
- 3.9.7 Henkel shall procure that any Affiliate that owns any Intellectual Property shall give the same warranties to NTIC as are contained in clause 3.9.
- 3.9.8 Henkel warrants that, in relation to the Assets:

- 3.9.8.1 it and/or its Affiliates own all the Assets absolutely as at the Effective Date.
- 3.9.8.2 it has not nor have its Affiliates disposed of or agreed to dispose of or granted or agreed to grant any Encumbrance in respect of any of the Assets; and
- 3.9.8.3 there has been no exercise, purported exercise or claim for Encumbrance over any of the Assets and there is no dispute directly or indirectly relating to any of the Assets.
- 3.9.8.4 the Products in the stocks as of the Effective Date comply with the specifications as defined in the control parameters as defined in the quality control documentation for finished goods.

3.10 **Limitation of liability**

- 3.10.1 Henkel or its Affiliates shall have no obligation to provide indemnification with respect to any individual claim for indemnification by NTIC or the NTIC Joint Venture Companies except to the extent that the amount of indemnification to which NTIC or its Affiliates shall have become entitled under this Agreement with respect to such individual claim for indemnification shall exceed € 10,000,- (Euro ten thousand), in which event Henkel or its Affiliates shall be obligated to provide indemnification on a first Euro basis, including the first € 10,000,- (Euro ten thousand).
- 3.10.2 In no event shall Henkel or its Affiliates have any liability for indemnification under this Agreement to NTIC or the NTIC Joint Venture Companies in an aggregate amount in excess of € 500,000 (Euro five hundred thousand). Such limitation of liability shall not apply with regard to claims which are based on product liability claims due to products which Henkel or its Affiliates have manufactured and / or sold.

3.11 **Legal Relations prior to the Effective Date**

For the period between the date of this Agreement and the Effective Date, Henkel shall assume and procure its Affiliates to assume certain obligations set out hereinafter:

- 3.11.1 to continue until the Effective Date to conduct the Business according to its present practice and levels of activity depending on market conditions in a due proper and prudent manner in the ordinary course and as a going concern:
- 3.11.2 prior to the Effective Date not to enter into (otherwise than after NTIC's or the NTIC Joint Venture Companies' written consent) any transaction or event which is materially prejudicial to the Business or to any of the Assets or which is unusual or onerous having regard to the present levels of activity of the Business;

3.11.3 prior to the Effective Date not to sell, transfer, lease, assign or otherwise dispose of a material part of its undertaking, property or assets relating to the Business otherwise than in the ordinary and proper course of the Business;

3.11.4 not to enter into any contract or transaction except on an arms length basis;

3.12

Future Co-operation between the Parties

NTIC and Henkel agree to enter into a co-operation arrangement, in conformity with all relevant regulations involved (including but not limited to EU law) between NTIC, the NTIC Joint Venture Companies, and Henkel and the Henkel Affiliates in respect of:

- the joint development and marketing of, in the case of NTIC and the NTIC Joint Venture Companies compatible technology and in the case of Henkel and the Henkel Affiliates, the complementary products or services;
- research and development in order to increase or enhance the mutual compatibility;
- introduction by NTIC to Henkel and the Henkel Affiliates of new technology .

The purpose of such cooperation shall be to create synergies so as to increase customer value in respect of the product or service lines of both businesses. Such co-operation is an essential element of this Agreement for NTIC and the NTIC Joint Venture Companies and was a material inducement for them to enter into this Agreement. NTIC and the NTIC Joint Venture Companies on the one hand, and Henkel and its Affiliates on the other, accept the tenet that despite their reasonable best efforts, there is an inherent entrepreneurial risk that the intended co-operation may not result in any economically viable technical and/or product innovation which the Parties can jointly introduce to the marketplace on a profitable basis.

3.12.1 Subject to the terms of any agreement entered into between the parties, NTIC and Henkel are prepared to work with each other and to disclose relevant know-how under appropriate terms of confidence subject to reasonable royalties or compensation where value is added to Henkel or its Affiliates', or NTIC's and the NTIC Joint Venture Companies', respective ongoing business. NTIC and Henkel will agree on marketing costs and their allocation between the parties. Any agreement will, therefore, address issues including the use of confidential information, the ownership of background and foreground intellectual property, and exploitation rights.

3.12.2 The Parties shall not have entered this Agreement if they had not seriously believed that a serious and faithful co-operation between themselves was possible.

Henkel and NTIC shall designate members to a steering committee. The steering committee shall:

- determine its missions;

- fix its meeting periodicity (depending on the projects and the regional needs);
- decide on the sectors of potential cooperation of such Committees.

The steering committee shall consist of the following members:

NTIC	Henkel
Dr. Mehmet A. Gencer	Dr. Ralf Schelbach
G. Patrick Lynch (World)	Dr. Ralf Schelbach (Business)
Gerhard Hahn (Europe)	Patrick Droniou (Henkel Technology)

Once a specific subject of co-operation is established, the Parties shall elaborate a list of projects which might be suitable for a cooperation between Henkel, the Henkel Affiliates, NTIC and/or NTIC Joint Venture Companies. The Parties make their best efforts in order to obtain approval of their respective company within due time in order to proceed on such specific subject regarding i.e. technical elements and human competences to be shared and reasonable financial aspects. The steering committee shall decide on the necessary steps which have to be taken to implement the listed projects and will establish a regional committee in as far as it is necessary to implement a project.

3.13 **Publicity**

- 3.13.1 Except as required by law or as permitted under Clause 3.13.3, the Parties shall not, and shall procure that their respective Affiliates or Joint Venture Companies shall not, make any public disclosure or originate any publicity concerning the terms of the settlement between the Parties and/or the provisions of this Agreement, the performance of this Agreement, and any dispute and/or disagreement relating to this Agreement without the prior written consent of the other Parties.
- 3.13.2 It is acknowledged by the Parties that NTIC and Henkel are public companies and as such may be required to publicly disclose certain events. The Parties will, however:
- 3.13.2.1 use their reasonable endeavours to send written notice to the other Party (at the address set out above) of the full text of any announcement or notification required by law as soon as reasonably possible prior to such announcement or notification so that the other Party will have an opportunity to comment upon such announcement or notification; and
 - 3.13.2.2 make any such announcement as factual and as brief as appropriate under circumstances.

- 3.13.3 Each Party shall be entitled to issue a press release with the prior approval of the other party
Unless otherwise mandated by law, this Agreement shall not form part of any public record.

3.14

Miscellaneous Provisions

- 3.14.1 Each Party undertakes in good faith to implement or make implemented by its Affiliates and joint venture companies the provisions and/or necessary or appropriate measures so that this Agreement receives full and entire effect. To that regard, the Parties shall arrange together if a difficulty arises concerning the preparation, the conclusion, the execution of one or several Purchase Agreement(s) concluded under the applicable national legislation so as the spirit and the word of the hereby Agreement is respected.
- 3.14.2 NTIC and Henkel regard all liabilities or obligations accepted by their Affiliates or the NTIC Joint Venture Companies pursuant to this Agreement or the Purchase Agreements as liabilities or obligations accepted directly by NTIC or Henkel respectively. All such liabilities or obligations may therefore be directly executed or enforced against NTIC or Henkel as the case may be. Hence, pursuant to the Purchase Agreement, Henkel undertakes to pay to Acobal or NTIC all sums that Acobal paid to creditors of HST, with respect to duly filed oppositions as set forth by articles L. 141-12 and following, of the French Commercial Code, and are owed by HST to be reimbursed to Acobal but which have not been reimbursed by HST to Acobal within a thirty (30) day period. Hence, pursuant to the Purchase Agreement, NTIC undertakes to pay to HST or Türk Henkel Kimya Sanayi Ve Ticaret A.S.all sums due for the transfer of the Business, the Assets, and the Inventory which are owed by Acobal or Fibro-NTI Urun Gelistirme Ve Pazarlama Ticaret Anonim but which have not been paid within a thirty (30) day period.
- 3.14.3 This Agreement may not be modified except in writing signed by duly authorised representatives of all Parties.
- 3.14.4 Each of the Parties acknowledges that in entering into this Agreement it has not relied on any representation, warranty or other provision except as expressly provided in this Agreement or the Purchase Agreement(s) and all conditions, warranties or other terms implied by statute or case law are excluded to the fullest extent permitted by law. No Party shall have any claim against any other in respect of any representation not expressly included in this Agreement unless such representation was made fraudulently.
- 3.14.5 Failure by any Party to enforce at any time, for any period, any one or more of the terms or conditions of this Agreement shall not be a waiver of them or of the right at any time subsequently to enforce all terms and conditions of this Agreement.
- 3.14.6 Each provision of this Agreement shall be construed separately and shall be divisible from this Agreement. In the event that any provision or any part of any provision of this Agreement is declared by any Court or other competent authority to be void or unenforceable by reason of any applicable law, that provision or the relevant part of that provision shall be deleted and the remaining provisions of this Agreement shall continue in full force and effect.

- 3.14.7 Each Party shall bear the costs and fees of their own counsel concerning the conclusion and the execution of this Agreement.
- 3.14.8 The Parties note that the confidentiality agreement attached as Schedule 5 to this agreement was entered into between NTIC and a French company CFPI, and that CFPI was subsequently acquired by HST, and that HST and its employees therefore acquired an obligation of confidence to NTIC at that time. As that obligation of confidence was the subject of the French Action terminated at paragraph 2.1 above, no further action shall be taken by the Parties against each other in respect of the attached agreement.

* * *

4. **General Provisions**

- 4.1 This Agreement and the Purchase Agreements represent the entire agreement between the Parties in relation to its subject matter and supersedes all previous agreements and understandings between the Parties.
- 4.2 The Parties enter into this Agreement for the benefit of all of their Affiliates with the intention that such Affiliates be entitled to enforce those rights and obligations under this Agreement which affect them.
- 4.3 This Agreement – including the provisions dealing with settlement of the French Action and the OHIM Proceedings – shall be governed by and submitted to French law.
- 4.4 It is concluded in five original copies in English language.
- 4.5 In case of any dispute between the Parties and/or their Affiliates about notably the conclusion, the validity or the execution of the hereby provisions, it shall be finally settled under the Rules of Arbitration of the International Chamber of Commerce – ICC by one arbitrator appointed in accordance with the said Rules. The place of arbitration will be Paris and the language shall be English.

EXECUTED by the Parties on the date set out at the beginning of this Agreement acting by their duly authorised representatives.

For Northern Technologies International Corporation

For Henkel KgaA

For Excor Korrosionsforschung GmbH

For Acobal SAS

List of the schedules

Schedule 1	French Action
Schedule 2	Part 1 OHIM Action
	Part 2 Cancellation Letter
Schedule 3	conclusions de désistement d'action et d'instance
	conclusions d'acceptation de désistement d'action et d'instance
Schedule 4	NTIC Joint Venture Companies
Schedule 5	CFPI confidentiality agreement

Schedule 1

French Action

The proceedings commenced in the Civil Court of Nanterre in France on 24 September 2002 between:

- (i) NTIC and Henkel Surface Technologies SA in relation to infringement of Community trade mark 000396176, unfair competition, and breach of confidentiality undertakings; and
- (ii) ACOBAL S.A.S and Henkel Surface Technologies SA in relation to breach of Article L.442-6 of the French Commercial Code and unfair competition;

which were joined by order of the Civil Court of Nanterre on 5 May 2003 and are now pending before the Civil Court of Paris, France, 3rd Chamber, under the following number of registration: 03/10903.

Schedule 2

Part 1 - OHIM Action

The cancellation proceedings in respect of Community Trade Mark 000396176 commenced in the Office for the Harmonisation of the Internal Market in Alicante by Henkel.

Part 2 - Cancellation Letter

Cancellation Division
Trade Mark Department
Office of Harmonization of the Internal Market
Avenida de Europa, 4
E-03008 Alicante

Spain

Dear Sirs

Community Trade Mark Registration 396176 in the name of Northern Technologies International Corporation

Cancellation Application thereto filed by Henkel KGaA (OHIM Ref. 512C)

The Applicant and the Defendant have reached an out of court settlement on the cause of action. The Applicant therefore withdraws definitively the above cancellation application.

HENKEL KGaA

Schedule 3

Schedule 4

NTIC Joint Venture Companies

ASEAN: NTI ASEAN LLC
Austria: EUROMASCH Maschinen-Handels-Gesellschaft m.b.H.
Australia: EXCOR Zerust Pty Ltd.
Brazil: Zerust Prevenção de Corrosão Ltda.
Canada: EXCOR-ZERUST CANADA CORPORATION
China: Tianjin ZERUST Anti-Corrosion Technologies, Ltd.
Czech Republic and Slovak Republic : FATRA – NTI, s.r.o.
Finland: ZERUST OY
France: ACOBAL S.A.S.
Germany: EXCOR GmbH and Excor Korrosionsforschung GmbH
India: Harita-NTI Ltd.

Japan: Taiyonic Ltd.
Korea: Korea Zerust Co., Ltd.
Malaysia: Chong Wah - NTIA Sdn. Bhd.
Philippines: NTIA Zerust Philippines, Inc.
Poland: EXCOR Sp. z o.o
Russia: MostNIC
Singapore: Zerust Singapore Pte. Ltd.
Sweden: ZERUST AB
Taiwan: ZERUST-NIC (Taiwan) Corp.
Thailand: Specialty-NTIA (Thailand) Co., Ltd.
Turkey: FIBRO-NTI ÜRÜN GELİSTİRME VE PAZARLAMA TİCARET ANONİM ŞİRKETİ (FIBRO-NTI A.S.)
UK: ZERUST (U.K.) LIMITED
US: ZERUST CONSUMER PRODUCTS, LLC

For and on behalf of
NORTHERN TECHNOLOGY
INTERNATIONAL CORPORATION

/s/ MEHMET A. GENCER

Signature

Mehmet A. Gencer
Name (Print)

President
Title (Print)

/s/ STEPHAN TAYLOR

Signature

Stephan Taylor
Name (Print)

Director
Title (Print)

/s/ GERHARD HAHN

Signature

Gerhard Hahn
Name (Print)

Vice President
Title (Print)

/s/ GERHARD HAHN

Signature

Gerhard Hahn
Name (Print)

GR
Title (Print)

For and on behalf of
Excor Korrosionsforschung GmbH

For and on behalf of Fibro-NTI Urun
Gelistirme Ve Pazarlama Ticaret Anonim

/s/ MEHMET A. GENCER

Signature

Mehmet A. Gencer
Name (Print)

Chairman
Title (Print)

For and on behalf of
ACOBAL SAS

/s/ JACQUES MANENCAND

Signature

Jacques Manencand
Name (Print)

President
Title (Print)

For and on behalf of
HENKEL KgaA

/s/ DR. BORIS TASCHE

Signature

Dr. Boris Tasche
Name (Print)

Vice President
Title (Print)

For and on behalf of Henkel Surface Technologies S.A.S.

/s/ DR. BORIS TASCHE

Signature

Dr. Boris Tasche
Name (Print)

Vice President
Title (Print)

PURCHASE AGREEMENT

THIS AGREEMENT is made as of June 24, 2005 (the "Effective Date"), between **Circle Pines Mainstreet II, LLC**, a Minnesota limited liability company ("Seller"), and **Northern Technologies International Corporation**, a Minnesota corporation ("Buyer").

In consideration of this Agreement, Seller and Buyer agree as follows:

1. **Sale of Property.** Seller agrees to sell and convey unto Buyer, and Buyer agrees to purchase and accept from Seller, for the price and subject to the terms, covenants, conditions, and provisions herein set forth, the following (collectively referred to herein as the "Property"):
 - (a) All of that land located at 22 Village Parkway in Circle Pines, Minnesota to be replatted prior to Closing to be legally described on Exhibit A attached hereto and incorporated herein and depicted on the preliminary plat attached hereto as Exhibit A-1 and incorporated herein (the "Land"), together with all improvements thereon including a 41,374 square foot building (the "Improvements"), subject to an access easement to be located along the western boundary of the Land (the "Access Easement").
 - (b) All right, title, and interest, if any, of Seller, in and to (i) any land lying in the bed of any street, road, or access way, opened or proposed, in front of, at a side of, or adjoining the Land or the Improvements to the centerline thereof; (ii) all reversions, remainders, appurtenances, licenses, tenements and hereditaments appertaining to, or otherwise benefiting or used in the operation of the Land or the Improvements; and (iii) all minerals, oil or gas, air rights, and any and all water, water rights or similar rights or privileges (including tap rights) appurtenant to or used in connection with the ownership or operation of the Land or the Improvements (the "Property Rights");
 - (c) To the extent assignable, Seller's interest, if any, in all guaranties, warranties and other intangible property related to the Land and the Improvements (the "Intangible Property").
 - (d) To the extent assignable, Seller's interest, if any, in all licenses and governmental permits related to the Land and the Improvements (the "Permits and Licenses").
 - (e) All existing fixtures in the Improvements, including, without limitation, the heating, plumbing, electrical, air conditioning and ventilation systems (the "Fixtures");
 - (f) To the extent in Seller's possession, all records of Seller used or useful in connection with the operation of the Land and Improvements, including without limitation, all records regarding management and leasing, real estate taxes and assessments, insurance, tenants, maintenance, repairs, capital improvements and services (the "Records"); and

- (g) To the extent in Seller's possession, all site and building plans, specifications and construction contracts prepared in connection with the Improvements and the Fixtures (the "Plans and Construction Contracts").

2. Purchase Price and Manner of Payment. The total purchase price for the Property (the "Purchase Price") is One Million Five Hundred Thousand and no/100 Dollars (\$1,500,000.00). Buyer shall pay the Purchase Price to Seller as follows:

- (a) \$50,000.00 as earnest money (the "Earnest Money") paid within five (5) days after the full execution of this Agreement to First American Title Insurance Company (the "Title Company"), the sufficiency of which Seller hereby acknowledges. The Title Company shall invest the Earnest Money in an interest-bearing account approved by Buyer. All interest accrued or earned thereon shall be added to and included in the amount of the Earnest Money.
- (b) The remaining balance of the Purchase Price by wire transfer to the Title Company for the benefit of Seller on the Closing Date (the "Closing Payment").

Buyer shall be entitled to fund the Earnest Money with a letter of credit; provided, however, the letter of credit must be unconditional and irrevocable and issued by a recognized financial institution acceptable to Seller. At Buyer's option, at Closing the Earnest Money may be returned by the Title Company to Buyer and Buyer will wire transfer to the Title Company the entire Purchase Price. If this Agreement is terminated after the Contingency Date, Buyer authorizes the Title Company to draw upon the letter of credit and/or pay such sums to Seller subject to the terms of this Agreement.

3. Due Diligence Documents. Seller agrees within thirty (30) days of the Effective Date, to furnish to Buyer for Buyer's review and approval true and correct copies of the following items, if any, in its possession (the "Due Diligence Documents"):

- (a) The Permits and Licenses.
- (b) The Records.
- (c) Plans and Construction Contracts.
- (d) Any Environmental Site Assessment and any other soil, geotechnical or environmental reports on the Property in the possession of Seller.
- (e) Any guaranties and warranties with respect to the Property in the possession of Seller.
- (f) Any engineering and other professional reports for the Property or relating to the condition of the Property in the possession of Seller.
- (g) The written lease agreement and all amendments thereto and extensions thereof, for the Property by and between AGS Publishing, Inc., as tenant, and Seller, as landlord (the "AGS Lease").

4. Title and Survey.

- (a) Survey. Within thirty (30) days of the Effective Date, Seller shall, at its sole cost, obtain an ALTA/ACSM Land Title Survey (the "Survey") certified to Buyer and the Title Company dated within one (1) year of the Closing. (the "Survey").
- (b) Title Evidence. Within thirty (30) days of the Effective Date, Seller shall, at its sole cost and expense, deliver to Buyer a commitment (the "Commitment") for a 1992 ALTA Owner's Policy of Title Insurance in favor of Buyer in the amount of the Purchase Price and a copy of all exceptions and documents referenced therein.
- (c) Buyer's Objections. Buyer shall have fifteen (15) days after the later of receipt of the Commitment or the Survey within which to examine same (the "Title/Survey Review Period"). Buyer shall, no later than the expiration of the Title/Survey Review Period, notify Seller in writing of any defect(s) (the "Objections"), provided that if Buyer fails to give Seller written notice of the Objections before the expiration of the Title/Survey Review Period, the matters shown in the Commitment and on the Survey shall be deemed to be waived as objections and be deemed "Permitted Exceptions". Seller will have thirty (30) days after receipt of the Objections to cure the Objections, during which period the Closing shall be postponed if necessary. Seller agrees to remove by payment, bonding, or otherwise, any lien or encumbrance in a liquidated amount against the Property which was created by Seller and which is removable by the payment of money or the posting of a bond. Seller shall remove any other defect provided that Seller shall not be required to cure any other defect(s) to the extent that the cost of curing such defect(s) exceeds, in the aggregate, Five Thousand and 00/100 Dollars (\$5,000.00). If the Objections are not cured within said thirty (30) day period, Buyer shall have the option to:
- (1) Terminate this Agreement by notice in writing to Seller and receive a refund of the Earnest Money and all interest earned thereon; or
 - (2) Waive the Objections and proceed to the Closing.
- (d) Update of Commitment. From time to time after obtaining the Commitment but at or prior to Closing, Buyer may, at its expense, update the effective date of the Commitment for the Property and give an Objection notice to Seller as to Objections which were not reflected in the previous Commitment (the "Subsequent Title Defects"). With respect to Subsequent Title Defects, Buyer and Seller shall have the same rights and obligations as set forth in subparagraph (c) above.
- (e) Conveyancing. Marketable, insurable, fee simple title to the Land, Improvements and Fixtures shall be conveyed via Warranty Deed at Closing, subject only to the Permitted Exceptions, and to the Property Rights via a Quit Claim Deed at Closing, subject only to the Permitted Exceptions.

- (f) Future Encumbrances. Except for the Access Easement and the replat of the Land, from and after the Effective Date, Seller will not voluntarily place or permit to arise on the Property any easement, restriction, condition, covenant, lien or encumbrance which will not be removed at or prior to Closing, provided, however, that this shall not prohibit any action required to be taken by Seller by any governmental action or order. Prior to recording, Seller shall obtain Buyer's prior written approval of the final plat of the Land and the Access Easement, provided, however, Buyer's approval shall not be unreasonably withheld, conditioned or delayed.

5. Inspection Period. Buyer shall have ninety (90) days following the Effective Date (the "Inspection Period"), to make such physical, zoning, soil tests, engineering inspections, hazardous waste and environmental reviews, wetland delineations, business feasibility reviews of the Property and such other tests, studies and investigations of the Property as Buyer, in Buyer's sole discretion, deems necessary to make (the "Tests") and to review the Due Diligence Documents. Seller shall make the Property available to Buyer and its agents, consultants and engineers for such examinations, inspections and investigations as Buyer deems appropriate, provided that Buyer shall obtain Seller's written consent, which shall not be unreasonably withheld, to any proposed tests of any invasive nature or which could damage the Property. Buyer shall bear the cost of all inspections and tests.

All information provided by Seller to Buyer relating to the Property in the course of its review shall be treated as confidential information by Buyer, its employees, agents, representatives and contractors. Buyer shall be liable for all costs and expenses, and/or damages or injuries to any person or property resulting from any such inspection or failure to keep all such information confidential.

6. Inspection Obligations. Buyer and its agents and representatives shall:

- (a) Repair any damage to the Property caused by Buyer's investigation and shall return the Property to substantially the same condition as existed prior to such entry;
- (b) Promptly pay when due the costs of all Tests, investigations, and examinations done with regard to the Property and with Buyer's authorization;
- (c) Not permit any liens to attach to the Property by reason of the exercise of its rights hereunder;
- (d) Indemnify and hold harmless Seller against all claims, demands, losses, costs, damages and expenses including property damage, bodily injury (including death) and reasonable attorneys' fees arising out of any activities conducted by Buyer or Buyer's agents, employees or contractors on the Property; and
- (e) Not unreasonably interfere with the business operations of the tenant, AGS Publishing, on the Property.

7. Contingencies. The obligations of Buyer under this Agreement are contingent upon each of the following (the “Contingencies”):

- (a) Title. Title to the Property shall have been found acceptable, or been made acceptable, in accordance with the requirements and terms of Section 4.
- (b) Testing. Buyer shall have determined that it is satisfied with the results of and matters disclosed by the Tests on or before the termination of the Inspection Period.
- (c) Due Diligence Document Review. Buyer shall have determined, on or before the Contingency Date, that it is satisfied with its review and analysis of the Due Diligence Documents.
- (d) Government Approvals. Buyer shall have obtained at its sole cost and expense, on or before the Contingency Date, as defined below, all final governmental approvals necessary in Buyer’s judgment in order to make use of the Property as Buyer intends including but not limited to use of the Property for light manufacturing and processing. Seller shall, without charge to Buyer, cooperate in Buyer’s attempts to obtain all such governmental approvals.
- (e) Building Separation. Buyer shall be satisfied with the cost and obligations associated with performing the work required to separate the buildings pursuant to Section 20 below.

If any of the Contingencies have not been satisfied, as determined by Buyer in Buyer’s sole discretion, on or before the date that is ninety (90) days after the Effective Date (the “Contingency Date”), then this Agreement may be terminated, at Buyer’s option, by written notice from Buyer to Seller delivered on or before the Contingency Date and thereupon the Earnest Money and any interest earned thereon, shall be immediately paid to Buyer and upon such return, neither party will have any further rights or obligations to the other regarding this Agreement or the Property, except Buyer’s obligations under Section 6 shall survive such termination. After the expiration of the Contingency Date, the Earnest Money shall be non-refundable and deemed earned by Seller.

8. Seller’s Representations and Warranties. Seller represents and warrants to Buyer as follows:

- (a) Seller is a limited liability company duly organized, validly existing and in good standing under the laws of the State of Minnesota and is duly qualified and authorized to own property and do business in the State of Minnesota. Seller has full power and authority to enter into this Agreement and to perform all its obligations hereunder. This Agreement has been duly authorized and executed by Seller and is binding on Seller and enforceable against Seller in accordance with its terms, except as enforceability may be limited by equitable principles or by the laws of bankruptcy, insolvency, or other laws affecting creditor’s rights generally. No consent of any other person or entity to such execution, delivery, and performance is required.

- (b) Seller is not a “foreign person” within the meaning of the United States tax laws and to which reference is made in Internal Revenue Code Section 1445(b)(2). At Closing, Seller shall deliver to Buyer a certificate to such effect.
- (c) Seller has not received written notice of violations from any municipal, county, federal, or state governmental agency with regard to violations of any rules, ordinances, orders, requirements, or regulations imposed on or affecting the Property.
- (d) Seller has not received written notice of any pending or threatened condemnation, eminent domain, zoning, environmental or other land use proceedings with respect to the Property.
- (e) Neither the execution or delivery of this Agreement nor the consummation of the transactions contemplated herein will conflict with or result in a breach of any agreement to which Seller is a party or by which any of its property is bound, or constitute a default thereunder.
- (f) As of the Effective Date, there are special assessments filed against the Property.
- (g) Seller has not received written notice from a governmental authority that the Property is in violation of any requirement of any laws and regulations, including without limitation, the Americans with Disabilities Act and the regulations and Accessibility Guidelines for Buildings and Facilities issued pursuant thereto.
- (h) Seller has not received any written notice of proceedings relating to the revocation or modification of any licenses, certificates of occupancy, permits, consent orders, authorizations or other approvals (collectively the “Licenses”) required for the ownership, use or operation of the Property which would have an adverse effect on the Property.
- (i) Seller has not received any written notice or notice of filing of any violation of any restriction, condition, covenant or agreement concerning the Property or the use thereof contained in any instrument of record or in any federal, state, municipal or governmental permit, rule or regulation applicable to the Property.
- (j) As of the Effective Date hereof, there is not now pending nor has Seller received written notice of a threat of any action, suit or proceeding against or affecting Seller or the Property before or by any federal or state court, commission, regulatory body, administrative agency or other governmental body, domestic or foreign, wherein an unfavorable ruling, decision or finding, upon consummation of the sale contemplated hereby to Buyer may reasonably be expected to have a material adverse effect on the business of or on the condition or operations of the Property, or would interfere with Seller’s ability to consummate the transactions contemplated by this Agreement.

- (k) Seller has not used, generated, processed, stored, released, discharged, transported, handled or disposed of any Hazardous Materials, as hereafter defined, on the Property except for such storage and use by Seller incidental to the construction and operation of the Property as a office/warehouse building, which was in compliance with Hazardous Waste Laws, as hereafter defined. To the best of Seller's knowledge, there are no Hazardous Materials on the Property in violation of any Hazardous Waste Laws. Seller has not received any notice of any violation of any Hazardous Waste Law with respect to the Property. For purposes herein "Hazardous Materials" means any substance, chemical, waste or material that is or becomes regulated by any federal, state or local governmental authority because of its toxicity, infectiousness, radioactivity, explosiveness, ignitability, corrosiveness or reactivity, including, without limitation, those substances regulated by the Hazardous Waste Laws. For purposes herein "Hazardous Waste Laws" means the Comprehensive Environmental Response, Compensation, and Liability Act of 1980 ("CERCLA"), the Superfund Amendments and Reauthorization Act of 1986 ("SARA"), the Resource Conservation and Recovery Act ("RCRA"), the Toxic Substances Control Act (the "TSCA"), as such acts may be amended from time to time, or any other federal or state statutory or regulatory cause of action arising from or related to Hazardous Materials at, in or under the Property.
- (l) All items, including but not limited to Due Diligence Documents, delivered by Seller to Buyer are, to the best of Seller's knowledge based solely on reliance on others, and shall be true, correct and accurate copies, in all material respects, of what they purport to be, otherwise unamended and unaltered.

All representations and warranties made herein shall be reaffirmed at Closing to be effective as of that date. Seller agrees to immediately notify Buyer upon discovery by Seller that any of the above representations and warranties are materially incomplete or untrue. Upon discovery by Buyer prior to the expiration of the Contingency Period that a fact or matter represented or warranted as of the Effective Date is no longer true (whether or not actually known by Seller), Buyer may terminate this Agreement in the manner set forth in Section 7 above. All such representations and warranties shall survive Closing for a period of six (6) months after Closing and shall not be merged in the execution and delivery of the deed and other documents of conveyance executed hereunder notwithstanding the lack of reference in said deed and documents of conveyance to the representations and warranties described herein. Seller shall furnish a certificate on the date of Closing recertifying as to the accuracy of the representations and warranties contained herein as of the date of Closing.

Upon discovery by Seller after the termination of the Contingency Period but prior to or on the Closing date that a representation or warranty is materially untrue or that a fact or matter represented or warranted as of the Effective Date is no longer true (whether or not actually known by Seller), Buyer at its option shall have the right to: (i) receive the return of the Earnest Money, together with all interest earned thereon, and reimbursement of actual out-of-pocket costs incurred in connection with Buyer's inspection in an amount not to exceed Twenty-Five Thousand and 00/100 Dollars (\$25,000.00), whereupon this Agreement shall terminate and the parties shall be released from all further obligations hereunder, except for Buyer's obligations

under Section 6, which shall survive such termination, or (ii) elect to purchase the Property notwithstanding the existence of such untrue representation or warranty without any adjustment of the Purchase Price. In the event the Buyer elects to proceed with the purchase of the Property, it shall take subject to such untrue representation or warranty, and Buyer shall be deemed to have waived any claim with respect to such untrue representation or warranty. Upon discovery by Buyer after the Closing date that a representation or warranty is untrue, when given or updated or at Closing, Seller hereby agrees to indemnify and hold Buyer harmless from and against and to reimburse Buyer with respect to any and all claims, demands, causes of action, loss, damage, liabilities and costs (including reasonable attorneys' fees and court costs) asserted against or incurred by Buyer by reason of or arising out of or resulting from the breach of any representation or warranty as set forth herein, provided such indemnification shall only extend to claims made in writing within twelve (12) months following the date of Closing and to actual damages and shall not include consequential damages.

9. Buyer's Representations. Buyer represents and warrants to Seller as follows:

- (a) Buyer is a corporation duly organized, validly existing and in good standing under the laws of the State of Minnesota and is duly qualified and authorized to own property and do business in the State of Minnesota. Buyer has full power and authority to enter into this Agreement and to perform all its obligations hereunder. This Agreement has been duly authorized and executed by Buyer and is binding on Buyer and enforceable against Buyer in accordance with its terms, except as enforceability may be limited by equitable principles or by the laws of bankruptcy, insolvency, or other laws affecting creditor's rights generally. No consent of any other person or entity to such execution, delivery, and performance is required.
- (b) Neither the execution or delivery of this Agreement nor the consummation of the transactions contemplated herein will conflict with or result in a breach of any contract, license, or undertaking to which Buyer is a party or by which any of its property is bound, or constitute a default thereunder or result in the creation of any lien or encumbrance upon the Property.

The above representations and warranties shall survive Closing for a period of six (6) months after Closing, and shall not be merged in the execution and delivery of the deed and other documents of conveyance executed hereunder notwithstanding the lack of reference in said deed and documents of conveyance to the representations and warranties described herein and shall not be affected by any investigation, verification or approval by any party hereto or by anyone on behalf of any party hereto.

10. Operation Prior to Closing. During the period from the Effective Date to the Closing Date, Seller shall operate and maintain the Property in the ordinary course of business in accordance with prudent, reasonable business standards, including the maintenance of adequate casualty and liability insurance. During this period, Seller shall continue to make necessary repairs to the Property in the ordinary course of business. The Property shall be in substantially the same condition on the date of conveyance to Seller as existed on the Effective Date of this Agreement, reasonable wear and tear, or damage caused by casualty or the Seller, excepted.

11. Future Contracts. After the Effective Date, unless the contract will be terminated prior to the Closing, Seller shall not enter into any contract which would affect the Property without Buyer's prior written consent, which shall not be unreasonably withheld or delayed. In any case where the Buyer's consent is required hereunder, Buyer shall be given ten (10) days to review the proposed contract. If Buyer fails to deliver to Seller Buyer's objection in writing to such contract within ten (10) days after written request therefor is delivered to Buyer, Seller may execute the document for which the consent is requested and Buyer shall be deemed to have approved same. Seller will provide a copy of the fully executed contract to Buyer upon execution of any such new contract by Seller and a third party contractor.

12. Structural Changes to Improvements. Subject to the rights of AGS under the AGS Lease, from and after the Effective Date, Seller shall not make or authorize any structural changes to the Improvements or other changes of a material nature prior to Closing without Buyer's consent unless such changes are required as a result of an emergency in which Seller is not able to notify Buyer prior to the necessity of making such changes. Buyer's consent shall not be unreasonably withheld or delayed. Notice shall be given to Buyer as soon as reasonably possible in connection with structural changes made as a result of an emergency.

13. Damage. If, prior to the Closing, all or any part of the Property is substantially damaged by fire, casualty, the elements or any other cause, Seller shall immediately give notice to Buyer of such fact and at Buyer's option (to be exercised within ten (10) days after Seller's notice), this Agreement shall terminate, in which event neither party will have any further obligations under this Agreement, except Buyer's obligations under Section 6 shall survive such termination. If Buyer fails to elect to terminate despite such damages, or if the Property is damaged, but not substantially, Seller shall assign to Buyer all right to receive the proceeds of all insurance related to such damage and the Purchase Price shall remain the same. For purposes of this Section, the words "substantially damaged" mean damage that would cost Fifty Thousand and no/100 Dollars (\$50,000.00) or more to repair.

14. Condemnation. If, prior to the Closing Date, (i) eminent domain proceedings are commenced against all or any part of the Property or (ii) any permanent material change, limitation or restrictions to the access to and from the Property and abutting public streets or any permanent material change in the existing traffic patterns in abutting streets, such as modifications, addition or elimination of medians and turn lanes occurs prior to Closing, Seller shall immediately give notice to Buyer of such fact and at Buyer's option (to be exercised within thirty (30) days after Seller's notice), this Agreement shall terminate, in which event neither party will have further obligations under this Agreement (except Buyer's obligations under Section 6 shall survive such termination) and the Earnest Money, and interest accrued thereon, shall be refunded to Buyer. If Buyer shall fail to give such notice, there shall be no reduction in the Purchase Price, and Seller shall assign to Buyer at the Closing Date all of Seller's right, title and interest in and to any award made or to be made in the condemnation proceedings. Prior to the Closing Date, Seller shall not designate counsel, appear in, or otherwise act with respect to the condemnation proceedings without Buyer's prior written consent.

15. Default Provisions.

- (a) In the event of a default by Buyer under this Agreement resulting from Buyer's failure to close in accordance with the terms and provisions of this Agreement, without default on Seller's part, Seller shall receive the Earnest Money, together with all interest earned thereon, as Seller's sole and exclusive remedy and as agreed and liquidated damages, whereupon the parties shall be relieved of all further obligations hereunder except Buyer's obligations under Section 6 hereof, which shall survive termination, in lieu of all other remedies available to the Seller at law or in equity for such default. Buyer and Seller acknowledge and agree that, in such event, actual damages are difficult or impossible to ascertain and the Earnest Money, together with all interest earned thereon, is a fair and reasonable estimation of the damages of Seller.

Recognizing that Seller will suffer irreparable injury from Buyer's refusal or failure to buy the Property to Seller, Seller may also elect the remedy of specific performance; provided, however, such action must be commenced within six (6) months of the Buyer's default.

- (b) In the event of a default by Seller under this Agreement, without any default of Buyer, Buyer at its option shall have the right to receive the return of the Earnest Money together with all interest earned thereon and reimbursement of actual out-of-pocket costs incurred in connection with Buyer's inspection in an amount not to exceed Twenty-Five Thousand and 00/100 Dollars (\$25,000.00), whereupon this Agreement shall terminate and the parties shall be released from all further obligations hereunder except Buyer's obligations under Section 6 hereof, which shall survive termination, in lieu of all other remedies available to the Buyer at law or in equity for such default. Buyer and Seller acknowledge and agree that, in such event, actual damages are difficult or impossible to ascertain and the Earnest Money, together with all interest earned thereon, is a fair and reasonable estimation of the damages of Buyer.

Recognizing that Buyer will suffer irreparable injury from Seller's refusal or failure to sell the Property to Buyer, Buyer may also elect the remedy of specific performance; provided, however, such action must be commenced within six (6) months of the Seller's default.

16. Conditions of Closing. The Buyer shall have no obligation to close the purchase of the Property and may terminate this Agreement and have the Earnest Money paid to it unless the following conditions ("Closing Conditions") are met as of the time of Closing or the Buyer, in its discretion, shall have waived any of such conditions:

- (a) All covenants and obligations of the Seller under this Agreement to be performed at or prior to Closing shall have been performed.
- (b) Subject to the terms of Sections 12 and 13, the Property shall be in substantially the same condition at the Closing as existed on the Effective Date, reasonable wear and tear or damage caused by casualty or the Buyer excepted, and no material adverse change shall have occurred with respect to the operation of the Property after the end of the Inspection Period.

- (c) All of the representations and warranties herein shall be true and correct in all material respects at Closing.
- (d) There shall not have been instituted and be pending any litigation: (i) alleging that the Property may not be used for office, warehouse and light manufacturing and processing use; (ii) subject to Section 13, alleging material defects (defects which cost more than \$50,000.00 to fix) in the physical condition of the Improvements; (iii) that would impair Seller's right to sell the Property in accordance with the terms of this Agreement; or (iv) that would, if successful, impose a lien or other encumbrance on the Property which cannot be or is not removed by Seller by payment, bonding or otherwise as set forth in Section 4(c).
- (e) There shall be no outstanding notices of a material violation with respect to Seller's operation or ownership of the Property thereof from any governmental authority.

17. Closing. The closing of the purchase and sale contemplated by this Agreement (the "Closing") shall occur on the earlier of (a) the termination date of the AGS Lease, or (b) May 1, 2006 (the "Closing Date"). The Closing shall take place at 10:00 a.m. local time at the office of the Title Company. Seller shall deliver possession of the Property to Buyer on the Closing Date.

- (a) Seller's Closing Documents. On the Closing Date, Seller shall execute and/or deliver to Buyer the following:
 - (1) A Warranty Deed conveying Seller's interest in the Land, Improvements and Fixtures to Buyer subject only to the Permitted Exceptions.
 - (2) Quitclaim Deed conveying the Property Rights subject only to the Permitted Exceptions.
 - (3) An Assignment of Intangibles ("Assignment of Intangibles") for all other Property included in this transaction, including Intangibles, Records, Permits and Licenses, and Plans and Construction Contracts.
 - (4) If applicable, the Well and Storage Tank Disclosures and Certificates disclosures required under Minnesota Statute §1031.005, Subd. 21 (for wells) and Minnesota Statute §116.48, Subd. 6 (for storage tanks).
 - (5) An Affidavit of Seller indicating that on the Closing Date there are no outstanding, unsatisfied judgments, tax liens or bankruptcies against or involving Seller or the Property; that there has been no skill, labor or material furnished to the Property at Seller's request for which payment has not been made or for which mechanics' liens could be filed and that there are no other unrecorded interests in the Property.

- (6) A “non-foreign” affidavit or certificate pursuant to Internal Revenue Code Section 1445.
- (7) A certificate as to the continuing validity of the Seller’s representations and warranties as of the date of Closing as described in Section 8 hereof.
- (8) A closing statement.
- (9) Evidence of payment to the Broker.
- (10) Keys to all locks and security passcodes for all security systems on the Property.
- (11) All other documents reasonably determined by the Title Company to be necessary to transfer the fee interest in the Property to Buyer in the manner specified herein.

(b) Buyer’s Closing Documents. On the Closing Date, Buyer shall execute and/or deliver to Seller the following:

- (1) The Closing Payment (or the Purchase Price if the Earnest Money is returned to Buyer pursuant to Section 2), by wire transfer of U.S. Federal Funds, to be received in the Title Company’s trust account, for delivery to Seller, on the Closing Date.
- (2) Assignment of Intangibles.
- (3) A closing statement.
- (4) A certificate as to the continuing validity of the Buyer’s representations and warranties as of the date of Closing as described in Section 9 hereof.
- (5) Such Affidavit of Buyer, Certificate of Real Estate Value or other documents as may be reasonably required by the Title Company in order to record the Warranty Deed.

18. Prorations and Allocations. Seller and Buyer agree to the following prorations and allocation of costs regarding this Agreement which prorations and allocations shall be based upon the actual number of days of ownership of the Property with Buyer owning the Property as of the date of Closing:

- (a) Title, Survey and Closing Fee. Seller shall pay all costs of the Commitment. Buyer shall pay all premiums required for the issuance of any owner’s or lender’s title policy issued pursuant to the Commitment. Seller shall pay all costs of the Survey. Seller and Buyer shall share equally the Title Company’s closing fee or charge.

- (b) Real Estate Taxes and Special Assessments. General real estate taxes and installments of special assessments payable therewith (collectively "Taxes") due and payable in the year prior to the year in which the Closing Date occurs and all prior years shall be paid by Seller. Taxes due and payable in the year in which the Closing Date occurs shall be prorated between Seller and Buyer as of the Closing Date. Buyer shall pay the Taxes due and payable in the year subsequent to the year in which the Closing Date occurs and thereafter. Seller shall pay all special assessments levied, pending or ordered against the Property which are not certified for payment as installments as of the Closing Date.
- (c) Recording Costs. Seller will pay the cost of recording all documents necessary to place record title in the condition warranted and represented by Seller in this Agreement and the cost of recording the Warranty Deed, including the applicable state deed tax.
- (d) Attorneys' Fees. Each of the parties will pay its own attorneys' fees, except that a party defaulting under this Agreement or any closing document will pay the reasonable attorneys' fees and court costs incurred by the non-defaulting party to enforce its rights regarding such default.

19. Broker's Commission. Seller has been represented by Colliers Turley Martin Tucker. Seller and Buyer represent and warrant to each other that they have dealt with no other brokers, finders or the like in connection with this transaction, and agree to indemnify each other and to hold each other harmless against all other claims, damages, costs or expenses of or for any fees or commissions resulting from their separate actions or agreements regarding the execution or performance of this Agreement, and will pay all costs of defending any action or lawsuit brought to recover any such fees or commissions incurred by the other party, including reasonable attorneys' fees. Seller shall pay any commission of Colliers Turley Martin Tucker at Closing.

20. Building Separation. The Buyer acknowledges that the Property is currently connected to a building located at 4201 Woodland Road, Circle Pines, Minnesota, via an aboveground tunnel. The Buyer, as a material condition of this Agreement, agrees within sixty (60) days after Closing, at its sole expense, to demolish the tunnel, separate the buildings, repair any damage caused by such actions, reconstruct the tunnel openings to create appropriate barrier walls on both buildings, and establish independent building systems as necessary for both buildings, including but not limited to electrical and sprinkler systems (collectively the "Separation Work"). If Buyer fails to complete the Separation Work within ninety (90) days following Closing, Seller, after providing Buyer with ten (10) days prior written notice, may perform such work. If applicable, Buyer agrees to pay costs and expenses of the Separation Work incurred by Seller upon demand.

21. Termination of AGS Lease. As of the Effective Date, the Property is leased to AGS pursuant to the AGS Lease. The AGS Lease is scheduled to expire on April 30, 2006. Seller will use its best efforts to cause AGS to timely vacate the Property and remove all of the personal property belonging to AGS from the Property prior to the Closing Date. If AGS fails to vacate the Property on or before the Closing Date, the Closing will be postponed until such time as AGS has fully vacated the Property.

22. Notice to Utilities. Seller shall notify all utility companies of this sale and shall arrange for change-over of responsibility for utilities as of the date of Closing.

23. 1031 Exchange. Seller acknowledges that Buyer may acquire the Property as “Replacement Property” in a tax deferred exchange (an “Exchange”) within the meaning of Section 1031 of the Internal Revenue Code of 1986, as amended, and the regulations promulgated thereunder (the “Code”). Buyer expressly reserves the right to assign its rights, but not its obligations, under this Agreement to a “Qualified Intermediary” as provided under the Code or otherwise engage in an Exchange with respect to the Property in a manner allowed by the Code. Seller shall reasonably cooperate with Buyer to complete the Exchange if so elected by Buyer, provided Seller shall not be required to incur additional or material liabilities, expenses or obligations with respect to any such Exchange, nor shall the Closing be delayed, postponed or conditioned on the completion of any such Exchange.

24. Notices. Any notices required or permitted to be given hereunder shall be in writing and shall be effective (i) when delivered personally, (ii) when received by overnight courier service or facsimile communications (provided that a copy of such notice is deposited in the United States mail within one (1) business day of the facsimile transmission) or (iii) three (3) days after being deposited in the United States Mail (sent certified or registered, return receipt requested), in each case addressed as follows (or to such other address as the parties hereto may designate in the manner set forth herein):

If to Seller: Northern Technologies International Corporation
6680 North Highway 49
Lino Lakes, Minnesota 55014
Attn: Matthew Wolsfeld

With Copy to: Elizabeth Sheehan
Oppenheimer Wolff & Donnelly LLP
45 South Seventh Street, Suite 3300
Minneapolis, Minnesota 55402

If to Buyer: Circle Pines Mainstreet II, LLC
c/o The Beard Group, Inc.
750 – 2nd Street NE, Suite 100
Hopkins, Minnesota 55343
Attn: Bill Beard

With Copy to: Laura L. Krenz
Lindquist & Vennum PLLP
4200 IDS Center
80 S. 8th Street
Minneapolis, Minnesota 55402

25. Miscellaneous.

- (a) In the event any term or provision of this Agreement be determined by appropriate judicial authority to be illegal or otherwise invalid, such provision shall be given its nearest legal meaning which will carry out the intended meaning of this Agreement, and the remainder of this Agreement shall be construed to be in full force and effect.
- (b) In the event of any litigation between the parties under this Agreement, the prevailing party shall be entitled to reasonable attorneys' fees and court costs at all trial and appellate levels.
- (c) In construing this Agreement, the singular shall be held to include the plural, the plural shall be held to include the singular, the use of any gender shall be held to include every other and all genders, and captions and paragraph headings shall be disregarded.
- (d) All of the exhibits attached to this Agreement are incorporated in, and made a part of, this Agreement.
- (e) Time shall be of the essence for each and every provision of this Agreement.
- (f) Buyer, at the option of Buyer, may waive any right conferred upon the Buyer by this Agreement. Except as otherwise provided herein, such waiver may be made by, and only by, giving Seller written notice specifically describing the right waived.
- (g) This Agreement and the rights hereunder may not be assigned by either party.
- (h) Except as otherwise provided herein, this Agreement and all the terms, covenants, representations, warranties and provisions hereof do not survive the Closing and shall be merged into the deed and/or any of the other documents of conveyance.
- (i) The paragraph headings or captions appearing in this Agreement are for convenience only, are not a part of this Agreement and are not to be considered in interpreting this Agreement.
- (j) This written Agreement constitutes the complete agreement between the parties and supersedes any prior oral or written agreements between the parties regarding the Property. There are no verbal agreements that change this Agreement and no waiver of any of its terms will be effective unless in a writing executed by the parties.
- (k) This Agreement binds and benefits the parties and their successors and assigns.
- (l) This Agreement has been made under the laws of the State of Minnesota, and such laws will control its interpretation.

(Signature Pages to Follow)

IN WITNESS WHEREOF, Seller and Buyer have executed this Agreement as of the Effective Date.

SELLER:

CIRCLE PINES MAINSTREET II, LLC

By: /s/ BILL BEARD

Its: President

STATE OF MINNESOTA)
) ss.
COUNTY OF ANOKA)

The foregoing instrument was acknowledged before me this 24th day of June, 2005, by Bill Beard, the President of Circle Pines Mainstreet II, LLC, a Minnesota limited liability company, on behalf of the company.

/s/

Notary Public

BUYER:

NORTHERN TECHNOLOGIES INTERNATIONAL CORPORATION

By: /s/ MATTHEW C. WOLSFELD

Its: Chief Financial Officer

STATE OF MINNESOTA)
) ss.
COUNTY OF ANOKA)

The foregoing instrument was acknowledged before me this 24th day of June, 2005, by Matthew C. Wolsfeld, the Chief Financial Officer of NORTHERN TECHNOLOGIES INTERNATIONAL CORPORATION, a Minnesota corporation, on behalf of the corporation.

/s/ ALICE HALVORSON

Notary Public

EXHIBIT A

Legal Description of the Property

The real property located in Anoka County, Minnesota, to be replatted and legally described prior to Closing as follows:

Lot 2, Block 1, Village at Circle Pines Third Addition, Anoka County, Minnesota.

EXHIBIT A-1

Depiction of the Property

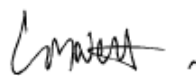
[Attach copy of Preliminary Plat]

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

I, Philip M. Lynch, certify that:

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

Date: July 15, 2005



Philip M. Lynch
Chairman of the Board of Directors &
Chief Executive Officer

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

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



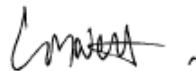
Date: July 15, 2005

Matthew C. Wolsfeld, CPA
Chief Financial Officer

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

In connection with the Quarterly Report of Northern Technologies International Corporation (the "Company") on Form 10-QSB for the period ending May 31, 2005 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Philip M. Lynch, Chairman of the Board and Co-Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge and belief:

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



Philip M. Lynch
Chairman of the Board of Directors &
Chief Executive Officer (principal executive officer)

Lino Lakes, Minnesota
July 15, 2005

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

In connection with the Quarterly Report of Northern Technologies International Corporation (the "Company") on Form 10-QSB for the period ending May 31, 2005 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Matthew C. Wolsfeld, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge and belief:

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



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

Lino Lakes, Minnesota
July 15, 2005