

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-QSB

Quarterly Report Pursuant to Section 13 or 15 (d) of  
The Securities Exchange Act of 1934

For the Quarterly Period Ended:  
November 30, 2000

Commission File Number  
1-11038

NORTHERN TECHNOLOGIES INTERNATIONAL CORPORATION  
(Exact name of registrant as specified in its charter)

Delaware  
(State of Incorporation)

41-0857886  
(I.R.S. Employer Identification Number)

6680 N. Highway 49, Lino Lakes, MN 55014  
(Address of principal executive offices)

(651) 784-1250  
(Registrant's telephone number)

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES  NO

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

Class -----	Outstanding as of December 31, 2000 -----
Common Stock, \$.02 par value	3,796,951

"This document consists of 12 pages.  
No exhibits are being filed."

PART I - FINANCIAL INFORMATION

ITEM 1 - FINANCIAL STATEMENTS

NORTHERN TECHNOLOGIES INTERNATIONAL CORPORATION  
AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS (UNAUDITED)

	NOVEMBER 30, 2000	AUGUST 31, 2000
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 3,565,043	\$ 3,840,057
Receivables:		
Trade, less allowance for doubtful accounts of \$36,000 and \$30,000, respectively	1,535,059	1,390,264
International corporate joint ventures	576,877	608,136
Inventories	921,880	929,661
Prepaid expenses and other	50,402	51,066
Deferred income taxes	220,000	220,000
	-----	-----
Total current assets	6,869,261	7,039,184
PROPERTY AND EQUIPMENT, net	1,298,562	1,219,189
OTHER ASSETS:		
Investments in international corporate joint ventures	3,492,335	3,602,692
Investment in European holding company	196,641	243,598
Deferred income taxes	310,000	310,000

Other	770,771	703,631
	-----	-----
	4,769,747	4,859,921
	-----	-----
	\$ 12,937,570	\$ 13,118,294
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	\$ 100,789	\$ 221,236
Income taxes payable	36,810	313,806
Dividends payable	644,972	-
Accrued liabilities:		
Payroll and related benefits	176,945	224,445
Other	182,240	201,003
	-----	-----
Total current liabilities	1,141,756	960,490
DEFERRED GROSS PROFIT	50,000	50,000
STOCKHOLDERS' EQUITY:		
Preferred stock, no par value, authorized 10,000 shares, none issued		
Common stock, \$.02 par value per share; authorized 10,000,000 shares; issued and outstanding 3,796,951 and 3,803,118, respectively	75,939	76,062
Additional paid-in capital	4,533,482	4,532,550
Retained earnings	7,849,205	8,093,286
Accumulated other comprehensive loss (see Note 7)	(712,812)	(594,094)
	-----	-----
Total stockholders' equity	11,745,814	12,107,804
	-----	-----
	\$ 12,937,570	\$ 13,118,294
	=====	=====

See notes to financial statements.

NORTHERN TECHNOLOGIES INTERNATIONAL CORPORATION  
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)  
THREE MONTHS ENDED NOVEMBER 30, 2000 AND 1999

	2000	1999
SALES	\$ 2,500,312	\$ 2,831,864
COST OF GOODS SOLD	1,288,410	1,348,520
	-----	-----
GROSS PROFIT	1,211,902	1,483,344
OPERATING EXPENSES:		
Selling	434,646	451,409
General and administrative	512,346	679,798
Research, engineering, and technical support	156,848	115,173
	-----	-----
	1,103,840	1,246,380
	-----	-----
OPERATING INCOME	108,062	236,964
INTERNATIONAL CORPORATE JOINT VENTURES AND EUROPEAN HOLDING COMPANY:		
Equity in income of international corporate joint ventures and European holding company	92,754	159,317
Fees for technical support and other service provided to international corporate joint ventures	601,605	696,572
Expenses incurred in support of international corporate joint ventures	(186,288)	(163,979)
	-----	-----
	508,071	691,910
INTEREST INCOME	38,393	34,917
	-----	-----
INCOME BEFORE INCOME TAXES	654,526	963,791
INCOME TAXES	200,000	290,000
	-----	-----
NET INCOME	\$ 454,526	\$ 673,791
	=====	=====
NET INCOME PER SHARE:		
Basic	\$ .12	\$ .17
	=====	=====
Diluted	\$ .12	\$ .17
	=====	=====
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING:		
Basic	3,796,175	3,867,379
	=====	=====
Diluted	3,804,058	3,870,919
	=====	=====

See notes to financial statements.

NORTHERN TECHNOLOGIES INTERNATIONAL CORPORATION  
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)  
THREE MONTHS ENDED NOVEMBER 30, 2000 AND 1999

	2000	1999
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 454,526	\$ 673,791
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	52,371	37,379
Equity in income of international corporate joint ventures and European holding company	(92,754)	(159,317)
Dividends received from international corporate joint ventures	226,660	362,549
Change in current assets and liabilities:		
Receivables:		
Trade	(144,795)	(239,736)
International corporate joint ventures	31,259	(130,206)
Income tax receivable	-	(175,412)
Inventories	7,781	(59,846)
Prepaid expenses and other	(19,519)	(7,102)
Accounts payable	(120,447)	(2,552)
Income taxes payable	(276,996)	(307,188)
Accrued liabilities	(66,263)	100,492
	-----	-----
Total adjustments	(402,703)	(580,939)
	-----	-----
Net cash provided by operating activities	51,823	92,852
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investment in international corporate joint ventures	(142,267)	(50,000)
Additions to property	(131,744)	(64,332)
Increase in other assets	-	(56,661)
	-----	-----
Net cash used in investing activities	(274,011)	(170,993)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repurchase of common stock	(72,825)	-
Issuance of common stock	19,999	8,332
	-----	-----
Net cash (used in) provided by financing activities	(52,826)	8,332
	-----	-----
NET DECREASE IN CASH AND CASH EQUIVALENTS	(275,014)	(69,809)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	3,840,057	2,750,209
	-----	-----
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 3,565,043	\$ 2,680,400
	=====	=====

See notes to financial statements.

NORTHERN TECHNOLOGIES INTERNATIONAL CORPORATION  
AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)  
THREE MONTHS ENDED NOVEMBER 30, 2000 AND 1999

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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, to present fairly the consolidated financial position of Northern Technologies International Corporation and Subsidiaries as of November 30, 2000 and the results of their operations and their cash flows for the three months ended November 30, 2000 and 1999, in conformity with generally accepted accounting principles.

These financial statements should be read in conjunction with the financial statements and related notes as of and for the year ended August 31, 2000 contained in the Company's filing on Form 10-KSB dated November 17, 2000 and with Management's Discussion and Analysis of Financial Condition and Results of Operations appearing on pages 8 through 10 of this quarterly report.

2. RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

On September 1, 2000, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 133, ACCOUNTING FOR DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES. SFAS No. 133 requires companies to record derivatives on the balance sheet as assets and liabilities, measured at fair value. Gains or losses resulting from changes in the values of those derivatives would be accounted for depending on the use of the derivative and whether it qualifies for hedge accounting. Implementation of SFAS No. 133 did not have a material impact on the Company's financial position or the results of its operations.

In December 1999, the Securities and Exchange Commission released Staff Accounting Bulletin (SAB) No. 101 that provides the staff's views in applying generally accepted accounting principles to selected revenue recognition issues. The Company is required to modify its revenue recognition policy to comply with SAB No. 101, as amended, no later than August 31, 2001. Management has not yet determined the effects of SAB No. 101 will have on the Company's financial position or the results of its operations.

3. INVENTORIES

Inventories consist of the following:

	November 30, 2000	August 31, 2000
Production materials	\$ 230,434	\$ 267,175
Work in process	19,991	23,947
Finished goods	671,455	638,539
	-----	-----
	\$ 921,880	\$ 929,661
	=====	=====

4. PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	November 30, 2000	August 31, 2000
Land	\$ 246,097	\$ 246,097
Buildings and improvements	1,217,363	1,180,938
Machinery and equipment	1,264,131	1,168,812
	-----	-----
	2,727,591	2,595,847
Less accumulated depreciation	1,429,029	1,376,658
	-----	-----
	<u>\$ 1,298,562</u>	<u>\$ 1,219,189</u>
	=====	=====

5. INVESTMENT IN INTERATIONAL CORPORATE JOINT VENTURES

During the three months ended November 30, 2000, the Company invested an additional \$142,267 in existing international corporate joint ventures.

6. STOCKHOLDERS' EQUITY

During the three months ended November 30, 2000, stock options for the purchase of 3,333 shares of the Company's common stock were exercised at prices between \$5.00 and \$6.25 per share.

During the three months ended November 30, 2000, the Company acquired and retired 9,500 shares of common stock for \$72,825.

7. COMPREHENSIVE INCOME

The Company's comprehensive income were as follows:

	Three Months Ended November 30	
	2000	1999
Net income	\$ 454,526	\$ 673,791
Other comprehensive loss - foreign currency translation adjustment	(118,718)	(25,157)
	-----	-----
Total comprehensive income	<u>\$ 335,808</u>	<u>\$ 648,634</u>
	=====	=====

8. INCOME PER SHARE

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

9. SUPPLEMENTAL CASH FLOW INFORMATION

During the three months ended November 30, 2000, the Company declared a cash dividend of \$.17 per share payable on December 15, 2000 to shareholders of record on December 6, 2000.

During the three months ended November 30, 1999, the Company declared a cash dividend of \$.16 per share payable on December 17, 1999 to shareholders of record on December 3, 1999.

ITEM 2 - MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

RESULTS OF OPERATIONS

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

SALES - Net sales decreased by \$331,552 during the first quarter of fiscal 2001 from those in the first quarter of fiscal 2000. This decrease was due to a decrease in demand for materials science based industrial packaging products. The decrease was due to the slow down in the industrial sector we serve.

COST OF SALES - Cost of goods sold as a percentage of net sales was 52% for the first quarter of fiscal 2001 compared to 48% for the first quarter of fiscal 2000. The variation is primarily due to the mix of product sales.

OPERATING EXPENSES - As a percentage of sales, total operating expenses was 44% in the first quarters of fiscal 2001 and 2000.

Operating expense classification percentages of sales were as follows:

	Three Months Ended November 30	
	2000	1999
Selling	17%	16%
General and administrative	21%	24%
Research, engineering, and technical support	6%	4%

Selling expenses decreased for the first three months of fiscal 2001 as compared to the same period in fiscal 2000 due primarily to a decrease in commissions partially offset by increases in sales promotion expense, trade show expense, travel expense, and employee benefit expense. Such expenses as a percentage of net sales increased for the first three months of fiscal 2001 as compared to the same period in fiscal 2000 due to the decreased level of sales in fiscal 2001.

General and administrative expenses decreased for the first three months of fiscal 2001 as compared to the same period in 2000 due primarily to a decrease in consulting fees partially offset by increases in legal expense, general insurance expense, depreciation expense, and general office expense. Such expenses as a percentage of sales decreased for the first three months of fiscal 2001 as compared to the same period in fiscal 2000 due to the decrease in expenses offsetting the decreased level of sales in fiscal 2001.

Research, engineering and technical support expenses increased for the first three months of fiscal 2001 compared to the same period in fiscal 2000 due primarily to increases in salaries, employee benefit expense, and consulting fees. Such expenses as a percentage of sales increased for the first three months of fiscal 2001 as compared to the same period in fiscal 2000 due to the increase in expenses and the decreased level of sales in fiscal 2001.

INTERNATIONAL CORPORATE JOINT VENTURES AND EUROPEAN HOLDING COMPANY - Net earnings from international corporate joint ventures and European holding company decreased in the first three months of fiscal 2001 to \$508,071 from \$691,910 in the first three months of fiscal 2000. This net decrease is



due to decreased sales of some of the international corporate joint ventures resulting in a decrease in fees for technical support and other services and higher expenses incurred by some of the international corporate joint ventures. The decrease in net earnings is a result of the general slowing of the industrial sector served and the strengthening of the U.S. Dollar compared to foreign currencies.

INCOME TAXES - Income tax expense for the three months ended November 30, 2000 and 1999 was calculated based upon management's estimate of the annual effective rates. The effective income tax rates for fiscal 2001 and 2000 are lower than the statutory rate primarily due to equity in income of international corporate joint ventures being recognized on an after tax basis for these entities. To the extent the joint ventures' undistributed earnings are distributed to the Company, it does not result in any material additional income tax liability after the application of foreign tax credits.

#### LIQUIDITY AND CAPITAL RESOURCES

At November 30, 2000, the Company's working capital was \$5,727,505, including \$3,565,043 in cash and cash equivalents, compared to working capital of \$6,078,694 including cash and cash equivalents of \$3,840,057 as of August 31, 2000.

Net cash provided from past operations has been sufficient to meet liquidity requirements, capital expenditures, research and development costs and expansion of operations of the Company's international corporate joint ventures. Cash flows from operations for the three months ended November 30, 2000 was \$51,823. The net cash flow from operations for the three months ended November 30, 2000 was principally from net income and dividends received from international corporate joint ventures offset by equity in income of international corporate joint ventures and European holding company and decreases in current liabilities. Cash flows from operations for the three months ended November 30, 1999 was \$92,852. The net cash flow from operations for the three months ended November 30, 1999 resulted principally from net income and dividends received from international corporate joint ventures offset by equity income of international corporate joint ventures and European holding company and increases in receivables and income tax payments.

Cash used in investing activities for the three months ended November 30, 2000 was \$274,011, which resulted from investments in international corporate joint ventures and additions to property. Cash used in investing activities for the three months ended November 30, 1999 was \$170,993, which resulted principally from investments in corporate joint ventures, additions to property, and an investment in a corporation owning real estate.

Cash used in financing activities for the three months ended November 30, 2000 was \$52,826, which resulted from the repurchase of common stock of \$72,825 offset by proceeds from the exercise of stock options of \$19,999. Cash provided by financing activities for the three months ended November 30, 1999 was \$8,332, which resulted from payments received from the exercise of stock options.

The Company expects to meet future liquidity requirements with its existing cash and cash equivalents and from cash flows of future operating earnings and distributions of earnings and fees for technical support and other services from the international corporate joint venture investments.

The Company has no long-term debt and no material lease commitments at November 30, 2000, except for an office, manufacturing, laboratory, and warehouse lease requiring monthly payments of \$13,194, which can be 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 post retirement benefit program.

## EURO CURRENCY ISSUE

On January 1, 1999, eleven of the fifteen member countries of the European Union established fixed conversion rates between their respective existing currencies and the Euro and to adopt the Euro as their common legal currency on that date (the Euro Conversion). Following the Euro Conversion, however, the previously existing currencies of the participating countries are scheduled to remain legal tender in the participating countries between January 1, 1999 and January 2002. During this transition period, public and private parties may pay for goods and services using either the Euro or the previously existing currencies. Beginning January 1, 2002, the participating countries will issue new Euro-denominated bills and coins for use in cash transactions. No later than July 1, 2002, the participating countries will withdraw all bills and coins denominated in the previously existing currencies making Euro Conversion complete.

The Company, its international corporate joint ventures, and the European holding company have been evaluating the potential impact the Euro Conversion to the Euro Currency may have on their results of operations, liquidity or financial condition. The Company has determined that expected costs for compliance will not be material to its results of operations, liquidity, financial condition or capital expenditures. However, significant noncompliance by the Company's international corporate joint ventures and their customers or suppliers could adversely impact the Company's results of operations, liquidity or financial condition. Accordingly, until the Company completes its assessment of the Euro Conversion impact, there can be no assurance that the Euro Conversion will not have a material impact on the overall business operations of the Company.

## RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

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PART II - OTHER INFORMATION

ITEM 1 - LEGAL PROCEEDINGS

None

ITEM 2 - CHANGES IN SECURITIES

None

ITEM 3 - DEFAULTS UPON SENIOR SECURITIES

None

ITEM 4 - SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None

ITEM 5 - OTHER INFORMATION

None

ITEM 6 - EXHIBITS AND REPORTS ON FORM 8-K

None

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

January 12, 2001

/s/ Matjaz Korosec  
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Matjaz Korosec  
Chief Financial Officer

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AUG-31-2001  
NOV-30-2000  
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