

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, 1997  
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)

(612) 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, 1997
Common Stock, \$.02 par value	4,151,790

"This document consists of 11 pages. No exhibits are being filed."

PART I - FINANCIAL INFORMATION

ITEM 1 - FINANCIAL STATEMENTS

NORTHERN TECHNOLOGIES INTERNATIONAL CORPORATION

BALANCE SHEETS (UNAUDITED)

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	NOVEMBER 30, 1997	AUGUST 31, 1997
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 3,010,049	\$ 3,945,567
Receivables:		
Trade, less allowance for doubtful accounts of \$30,000 and \$27,000, respectively	1,419,259	1,164,660
Corporate joint ventures	518,114	517,551
Inventories	900,541	841,618
Prepaid expenses and other	87,886	77,196
Deferred income taxes	240,000	240,000
Total current assets	6,175,849	6,786,592
PROPERTY AND EQUIPMENT, net	968,919	962,328
OTHER ASSETS:		
Investments in corporate joint ventures	2,431,410	2,291,600
Investment in foreign company	128,916	132,000
Investment in European holding company	259,905	254,639
Deferred income taxes	130,000	130,000
Other	647,544	625,544
	3,597,775	3,433,783

\$ 10,742,543	\$ 11,182,703
=====	=====

LIABILITIES AND STOCKHOLDERS' EQUITY

CURRENT LIABILITIES:

Accounts payable	\$ 169,988	\$ 162,477
Income taxes payable	95,772	376,867
Dividends payable	621,798	--
Accrued liabilities:		
Payroll	228,600	230,951
Other	163,372	189,707
	-----	-----
Total current liabilities	1,279,530	960,002

DEFERRED GROSS PROFIT

	118,000	118,000
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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 4,145,322 and 4,202,508, respectively	82,906	84,050
Additional paid-in capital	5,053,826	5,185,828
Retained earnings	4,642,143	5,217,221
Cumulative foreign currency translation adjustments	(304,055)	(252,591)
	-----	-----
	9,474,820	10,234,508

Notes and related interest receivable from purchase of common stock	(129,807)	(129,807)
	-----	-----

Total stockholders' equity	9,345,013	10,104,701
	-----	-----

	\$ 10,742,543	\$ 11,182,703
	=====	=====

See notes to financial statements.

NORTHERN TECHNOLOGIES INTERNATIONAL CORPORATION

STATEMENTS OF INCOME (UNAUDITED)

THREE MONTHS ENDED NOVEMBER 30, 1997 AND 1996

	1997	1996
SALES	\$ 2,682,741	\$ 1,921,414
COST OF GOODS SOLD	1,387,515	912,702
GROSS PROFIT	1,295,226	1,008,712
OPERATING EXPENSES:		
Selling	272,735	268,421
General and administrative	524,401	466,443
Research, engineering, and technical support	112,128	100,032
	909,264	834,896
OPERATING INCOME	385,962	173,816
CORPORATE JOINT VENTURES, FOREIGN COMPANY, AND EUROPEAN HOLDING COMPANY:		
Equity in income of corporate joint ventures, foreign company, and European holding company	114,145	154,689
Fees for technical assistance to corporate joint ventures	466,821	511,939
Corporate joint ventures expense	(185,638)	(121,001)
	395,328	545,627
OTHER INCOME:		
Interest income	32,716	7,722
Other income	--	4,157
	32,716	11,879
INCOME BEFORE INCOME TAXES	814,006	731,322
INCOME TAXES	250,000	210,000
NET INCOME	\$ 564,006	\$ 521,322
NET INCOME PER COMMON AND COMMON EQUIVALENT SHARE	\$ .13	\$ .12
WEIGHTED AVERAGE NUMBER OF COMMON AND COMMON EQUIVALENT SHARES OUTSTANDING	4,284,746	4,251,801

See notes to financial statements.

NORTHERN TECHNOLOGIES INTERNATIONAL CORPORATION

STATEMENTS OF CASH FLOWS (UNAUDITED)

THREE MONTHS ENDED NOVEMBER 30, 1997 AND 1996

	1997	1996
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 564,006	\$ 521,322
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	29,700	28,725
Equity in income of corporate joint ventures, foreign company and European holding company	(114,145)	(154,689)
Dividend received from joint ventures	--	13,060
Change in current assets and liabilities:		
Receivables:		
Trade	(254,599)	(133,965)
Corporate joint ventures	(563)	(8,802)
Inventories	(58,923)	62,917
Prepaid expenses and other	(10,690)	50,356
Accounts payable	7,511	(34,128)
Income taxes payable	(281,095)	(372,901)
Accrued liabilities	(28,686)	33,254
	-----	-----
Total adjustments	(711,490)	(516,173)
	-----	-----
Net cash (used in) provided by operating activities	(147,484)	5,149
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investment in corporate joint ventures	(79,311)	(24,000)
Additions to property	(36,291)	(54,682)
Increase in other assets	(22,000)	(250,000)
	-----	-----
Net cash used in investing activities	(137,602)	(328,682)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repurchase of common stock	(672,206)	(24,600)
Issuance of common stock	21,774	26,603
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Net cash (used in) provided by financing activities	(650,432)	2,003
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NET DECREASE IN CASH AND CASH EQUIVALENTS	(935,518)	(321,530)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	3,945,567	3,707,520
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CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 3,010,049	\$ 3,385,990
	=====	=====

See notes to financial statements.

NORTHERN TECHNOLOGIES INTERNATIONAL CORPORATION

NOTES TO FINANCIAL STATEMENTS (UNAUDITED)  
THREE MONTHS ENDED NOVEMBER 30, 1997 AND 1996

1. INTERIM FINANCIAL INFORMATION

In the opinion of management, the accompanying unaudited financial statements contain all necessary adjustments, which are of a normal recurring nature, to present fairly the financial position of Northern Technologies International Corporation as of November 30, 1997 and the results of its operations and its cash flows for the three months ended November 30, 1997 and 1996, 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, 1997 contained in the Company's filing on Form 10-KSB dated November 25, 1997 and with Management's Discussion and Analysis or Plan of Operation appearing on pages 7 through 9 of this quarterly report.

2. INVENTORIES

Inventories consist of the following:

	November 30, 1997	August 31, 1997
Production materials	\$ 358,840	\$ 276,631
Work in process	134,373	21,301
Finished goods	407,328	543,686
	-----	-----
	\$ 900,541	\$ 841,618
	=====	=====

3. PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	November 30, 1997	August 31, 1997
Land	\$ 246,097	\$ 246,097
Buildings and improvements	1,044,996	1,044,996
Machinery and equipment	632,158	603,919
	-----	-----
	1,923,251	1,895,012
Less accumulated depreciation	954,332	932,684
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	\$ 968,919	\$ 962,328
	=====	=====

4. INVESTMENT IN CORPORATE JOINT VENTURES

During the three months ended November 30, 1997, the Company invested \$79,311 in foreign joint ventures. The Company has a 50% ownership in each entity. The entities had no significant operations prior to the Company's investment.

5. STOCKHOLDERS' EQUITY

During the three months ended November 30, 1997, the Company acquired 64,020 shares of its common stock for \$672,206.

During the three months ended November 30, 1997, stock options for the purchase of 6,834 shares of the Company's common stock were exercised at prices between \$3.00 and \$5.38 per share.

6. SUPPLEMENTAL CASH FLOW INFORMATION

During the three months ended November 30, 1997, the Company declared a cash dividend of \$.15 per share payable on December 15, 1997 to shareholders of record on December 1, 1997.

During the three months ended November 30, 1996, the Company declared a cash dividend of \$.12 per share payable on December 20, 1996 to shareholders of record on December 6, 1996.

7. INCOME PER SHARE

Income per share of common stock was computed by dividing net income by the weighted average number of common and common equivalent shares outstanding during each period. This amount includes common stock equivalents of 90,282 and 53,164 in the first quarter of fiscal 1998 and 1997, respectively, resulting from the assumed exercise of outstanding options using the treasury stock method.

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

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 increased by \$761,327 during the first quarter of fiscal 1998 from those in the first quarter of fiscal 1997. This increase was due to an increase in demand for corrosion inhibiting products.

COST OF SALES - Cost of goods sold as a percentage of net sales was 52% for the first quarter of fiscal 1998 compared to 48% for the first quarter of fiscal 1997. The variation is primarily due to the mix of product sales.

OPERATING EXPENSES - As a percentage of sales, total operating expenses decreased from 43% in the first quarter of fiscal 1997 to 34% in the first quarter of fiscal 1998.

Operating expense classification percentages of sales were as follows:

	Three Months Ended November 30	
	1997	1996
Selling	10%	14%
General and administrative	20%	24%
Research, engineering, and technical support	4%	5%

Selling expenses increased for the first three months of fiscal 1998 as compared to the same period in 1997 due primarily to increases in sales staff salaries and distributor commissions partially offset by a decrease in trade show expenses. Selling expenses as a percentage of sales decreased for the three months ended November 30, 1997 as compared to the same period in fiscal 1997 due to the increase in sales in fiscal 1998 offsetting the effect of the increase in fiscal 1998 selling expenses.

General and administrative expenses increased for the first three months of fiscal 1998 as compared to the same period in 1997 due primarily to increases in salary expense, insurance expense, and travel expense. General and administrative expenses as a percentage of sales decreased for the three months ended November 30, 1997 as compared to the same period in fiscal 1997 due to the increase in sales in fiscal 1998 offsetting the effect of the increase in fiscal 1998 general and administrative expenses.

Research, engineering and technical support expenses for the first three months of fiscal 1998 were higher than the comparable period in fiscal 1997 due primarily to increases in staff salaries and travel. Such expenses, as a percentage of sales, were substantially unchanged for the first three months of fiscal 1998 as compared to the same period in fiscal 1997.

JOINT VENTURES AND FOREIGN COMPANY - Net earnings from joint ventures and foreign company decreased in the first three months of fiscal 1998 to \$395,328 from \$545,627 in the first three months of fiscal 1997. This net decrease is due to the strengthening of the U.S. dollar when compared to the local currencies of the Company's corporate joint ventures and higher travel and legal expenses incurred by the Company in its corporate joint ventures and in establishing new corporate joint ventures.

INCOME TAXES - Income tax expense for the three months ended November 30, 1997 and 1996 was calculated based upon management's estimate of the annual effective rates. The effective income tax rates for fiscal 1998 and 1997 is lower than the statutory rate primarily due to equity in income of joint ventures and foreign company 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, 1997, the Company's working capital was \$4,896,319, including \$3,010,049 in cash and cash equivalents, compared to working capital of \$5,826,590 including cash and cash equivalents of \$3,945,567 as of August 31, 1997.

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 joint ventures. Cash flows used in operations for the three months ended November 30, 1997 was \$147,484. The net cash flow used in operations for the three months ended November 30, 1997 was principally from an increase in trade receivables, a decrease in income taxes payable, and equity in income of corporate joint ventures, foreign company, and European holding company partially offset by net income. Cash flows from operations for the three months ended November 30, 1996 was \$5,149. The net cash flow from operations for the three months ended November 30, 1996 resulted principally from net income offset by equity income of corporate joint ventures, foreign company, and a decrease in income taxes payable.

Cash used in investing activities for the three months ended November 30, 1997 was \$137,602, which resulted principally from additions to property and investments in corporate joint ventures. Cash used in investing activities for the three months ended November 30, 1996 was \$328,682, which resulted from investments in corporate joint ventures, additions to property and an increase in other assets.

Cash used in financing activities for the three months ended November 30, 1997 was \$650,432, which resulted from the purchase of common stock for \$672,206 partially offset by \$21,774 from the exercise of stock options. Cash provided by financing activities for the three months ended November 30, 1996 was \$2,003, which resulted from payments received of \$26,603 from the exercise of stock options offset by the repurchase of common stock of \$24,600.

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 technical assistance fees from the corporate joint venture investments.

The Company has no long-term debt and no material lease commitments at November 30, 1997.

The Company has no postretirement benefit plan and does not anticipate establishing any post retirement benefit program.

#### RECENTLY ISSUED ACCOUNTING STANDARDS

In February 1997, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards (SFAS) No. 128, EARNINGS PER SHARE, which is effective for interim and annual reporting periods ending after December 15, 1997. SFAS No. 128 supersedes Accounting Principles Board Opinion No. 15, EARNINGS PER SHARE, and replaces the presentation of primary earnings per share with a presentation of basic earnings per share. It also requires dual presentation for all entities with complex capital structures and provides guidance on other computational changes. The implementation of SFAS No. 128 is expected to increase earnings per share by an immaterial amount.

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 13, 1998

/s/ Loren M. Ehrmantraut

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Loren M. Ehrmantraut

Chief Financial Officer and Corporate Secretary

3-MOS

AUG-31-1998		
SEP-01-1997		
NOV-30-1997		
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	30,000	
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6,175,849		1,923,251
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	10,742,543	
1,279,530		0
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	82,906	
	9,262,107	
10,742,543		
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