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: May 31, 1998

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 [X] 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 July 7, 1998
Common Stock, $.02 par value	4,001,230

"This document consists of eleven pages. One exhibit is being filed."

PART I - FINANCIAL INFORMATION

ITEM 1 - FINANCIAL STATEMENTS

NORTHERN TECHNOLOGIES INTERNATIONAL CORPORATION

BALANCE SHEETS (UNAUDITED)

	MAY 31, 1998	AUGUST 31, 1997	MAY 31, 1997
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	$ 2,271,720	$ 3,945,567	$ 3,605,505
Receivables:			
Trade, less allowance for doubtful accounts of $26,000, $27,000, and $29,000, respectively	1,322,791	1,164,660	1,294,850
Corporate joint ventures	436,598	517,551	484,650
Income tax receivable	98,356	--	--
Inventories	823,300	841,618	573,536
Prepaid expenses and other	66,468	77,196	51,708
Deferred income taxes	240,000	240,000	170,000
Total current assets	5,259,233	6,786,592	6,180,249
PROPERTY AND EQUIPMENT, net	979,191	962,328	977,666
OTHER ASSETS:			
Investments in corporate joint ventures	2,409,352	2,291,600	2,145,571
Investment in European holding company	257,146	254,639	254,375
Investment in foreign company	139,475	132,000	159,879

Deferred income taxes	130,000	130,000	90,000
Other	603,952	625,544	364,140
	3,539,925	3,433,783	3,013,965
	$ 9,778,349	$ 11,182,703	$ 10,171,880
LIABILITIES AND STOCKHOLDERS' EQUITY			
CURRENT LIABILITIES:			
Accounts payable	$ 191,728	$ 162,477	$ 118,338
Income taxes	--	376,867	222,414
Accrued liabilities:			
Payroll	170,750	230,951	141,326
Other	174,596	189,707	134,691
Total current liabilities	537,074	960,002	616,769
DEFERRED GROSS PROFIT	118,000	118,000	118,000
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 3.999,030, 4,202,508, and 4,206,308, respectively	79,981	84,050	84,126
Additional paid-in capital	4,775,886	5,185,828	5,193,207
Retained earnings	4,778,490	5,217,221	4,418,164
Cumulative foreign currency translation adjustments	(381,275)	(252,591)	(128,579)
	9,253,082	10,234,508	9,566,918
Notes and related interest receivable from purchase of common stock	(129,807)	(129,807)	(129,807)
Total stockholders' equity	9,123,275	10,104,701	9,437,111
	$ 9,778,349	$ 11,182,703	$ 10,171,880

See notes to financial statements.

NORTHERN TECHNOLOGIES INTERNATIONAL CORPORATION

STATEMENTS OF INCOME (UNAUDITED

)

	THREE MONTHS ENDED MAY 31		NINE MONTHS ENDED MAY 31	
	1998	1997	1998	1997
SALES	$ 2,607,271	$ 2,518,582	$ 7,822,455	$ 6,532,957
COST OF GOODS SOLD	1,268,043	1,201,326	3,897,220	3,084,004
GROSS PROFIT	1,339,228	1,317,256	3,925,235	3,448,953
OPERATING EXPENSES:				
Selling	317,926	241,033	937,621	832,336
General and administrative	376,765	529,735	1,331,530	1,349,132
Research, engineering, and technical support	132,184	107,199	380,159	326,627
	826,875	877,967	2,649,310	2,508,095
OPERATING INCOME	512,353	439,289	1,275,925	940,858
JOINT VENTURES, EUROPEAN HOLDING COMPANY AND FOREIGN COMPANY:				
Equity in income of corporate joint ventures, European holding company, and foreign company	147,540	185,740	361,568	469,828
Fees for technical assistance to corporate joint ventures	477,085	573,841	1,315,385	1,555,212
Corporate joint venture expense	(145,754)	(127,034)	(446,027)	(379,029)
	478,871	632,547	1,230,926	1,646,011
OTHER INCOME:				
Interest income	21,551	36,311	108,858	101,505
Other income	--	113	--	7,997
	21,551	36,424	108,858	109,502
INCOME BEFORE INCOME TAXES	1,012,775	1,108,260	2,615,709	2,696,371
INCOME TAXES	320,000	375,000	820,000	900,000
NET INCOME $	692,775	$ 733,260	$ 1,795,709	$ 1,796,371
NET INCOME PER COMMON SHARE:				
Basic	$ .17	$ .17	$ .44	$ .43
Diluted	$ .17	$ .17	$ .43	$ .42
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING:				
Basic	4,041,299	4,206,308	4,126,018	4,203,407
Diluted	4,111,299	4,274,164	4,181,344	4,266,742

See notes to financial statements.

NORTHERN TECHNOLOGIES INTERNATIONAL CORPORATION

STATEMENTS OF CASH FLOWS (UNAUDITED)

	NINE MONTHS ENDED MAY 31	
	1998	1997
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 1,795,709	$ 1,796,371
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	89,100	86,175
Equity income of joint ventures, European holding company, and foreign company	(361,568)	(469,828)
Dividends received from joint ventures	284,461	39,555
Deferred gross profit	--	9,000
Change in current assets and liabilities:		
Receivables:		
Trade	(158,131)	(166,875)
Joint ventures	80,953	39,927
Income tax receivable	(98,356)	--
Inventories	18,318	10,676
Prepaid expenses and other	54,320	76,895
Accounts payable	29,251	(36,521)
Income taxes	(376,867)	(241,286)
Accrued liabilities	(75,312)	1,468
Total adjustments	(513,831)	(650,814)
Net cash provided by operating activities	1,281,878	1,145,557
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(105,963)	(83,025)
Investment in European holding company	--	(254,375)
Investments in joint ventures	(179,311)	(158,067)
Increase in other assets	(22,000)	(250,000)
Net cash used in investing activities	(307,274)	(745,467)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from exercise of stock options	56,030	27,228
Dividends paid	(621,798)	(504,733)
Repurchase of common stock	(2,082,683)	(24,600)
Net cash used in financing activities	(2,648,451)	(502,105)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(1,673,847)	(102,015)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	3,945,567	3,707,520
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 2,271,720	$ 3,605,505

See notes to financial statements.

NORTHERN TECHNOLOGIES INTERNATIONAL CORPORATION

NOTES TO FINANCIAL STATEMENTS (UNAUDITED)

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 May 31, 1998 and 1997, the results of operations for the three and nine months ended May 31, 1998 and 1997, and the cash flows for the nine months ended May 31, 1998 and 1997, in conformity with generally accepted accounting principles.

Effective December 15, 1997, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 128, EARNINGS PER SHARE. Net income per common share presented for the three and nine months ended May 31, 1997 have been restated for the adoption of SFAS No. 128. The effect of adopting SFAS No. 128 at December 15, 1997, on income per share for the three and nine months ended May 31, 1997 was not material.

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 of Financial Condition and Results of Operations appearing on pages 7 through 9 of this quarterly report.

2. INVENTORIES

Inventories consist of the following:

	May 31, 1998	August 31, 1997	May 31, 1997
Production materials	$ 315,348	$ 276,631	$ 142,395
Work in process	75,346	21,301	20,205
Finished goods	432,606	543,686	410,936
	$ 823,300	$ 841,618	$ 573,536

3. PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	May 31, 1998	August 31, 1997	May 31, 1997
Land	$ 246,097	$ 246,097	$ 246,097
Buildings and improvements	1,077,671	1,044,996	1,044,996
Machinery and equipment	669,155	603,919	604,935
	1,992,923	1,895,012	1,896,028
Less accumulated depreciation	1,013,732	932,684	918,362
	$ 979,191	$ 962,328	$ 977,666

4. INVESTMENTS IN CORPORATE JOINT VENTURES

During the nine months ended May 31, 1998, the Company invested $179,311 in foreign joint ventures. The Company has a 50% ownership interest in each entity. The entities had no significant operations prior to the Company's investment.

5. STOCKHOLDERS' EQUITY

During the nine months ended May 31, 1998, the Company purchased and retired 220,020 shares of common stock for $2,082,683.

In November 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 nine months ended May 31, 1998, stock options for the purchase of 16,542 shares of the Company's common stock were exercised at prices between $3.00 and $6.13 per share.

6. 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.

ITEM 2 - MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS 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 and foreign company. The exchange rate differential relating to investments in foreign joint ventures and foreign company is accounted for under the requirements of SFAS No. 52.

SALES - Net sales increased by $88,689 or 4% during the third quarter of 1998 as compared to the third quarter of 1997. Net sales increased by $1,289,498 or 20% during the nine months ended May 31, 1998 compared to the nine months ended May 31, 1997. These changes in sales are due to the volume of corrosion inhibiting products sold to existing or new customers. There has been no change in product pricing, introduction of new products, or entry into any particular new markets.

COST OF SALES - Cost of goods sold as a percentage of net sales for the third quarter of 1998 was 49% compared to 48% for the third quarter of 1997. The cost of goods sold percentage of net sales was 50% and 47% for the nine months ended May 31, 1998 and 1997, respectively. Variations are due primarily to the mix of product sales.

OPERATING EXPENSES - As a percentage of net sales, total operating expenses decreased to 32% in the third quarter of fiscal 1998 from 35% in the third quarter of fiscal 1997. Operating expenses were 34% of net sales for the nine months ended May 31, 1998 and 38% for the nine months ended May 31, 1997.

Operating expense classification percentages of net sales were as follows:

	Three Months Ended May 31		Nine Months Ended May 31	
	1998	1997	1998	1997
Selling expense	12%	10%	12%	13%
General and administrative	15	21	17	20
Research, engineering, and technical support	5	4	5	5

Selling expenses increased during the third quarter of fiscal 1998 as compared to the same period in fiscal 1997 due to increase in staff salaries and related expenses and travel. These same factors account for the increase in the selling expense for the nine months ended May 31, 1998 over the same period in fiscal 1997. Selling expenses as a percentage of net sales increased for the three months ended May 31, 1998 as compared to the same period in 1997 due to the increased level of net sales in fiscal 1998 not offsetting the effect of increased fiscal 1998 selling expenses. Selling expenses as a percentage of net sales decreased for the nine months ended May 31, 1998 as compared to the same period in fiscal 1997 due to the increased level of net sales in fiscal 1998 offsetting the effect of increased fiscal 1998 selling expenses.

General and administrative expenses decreased during the third quarter of fiscal 1998 as compared to the same period in fiscal 1997 due to decreases in professional fees and various other expenses. These same factors account for the decrease in the general and administrative expenses for the nine months ended May 31, 1998 over the same period in fiscal 1997. General and administrative expenses as a percentage of net sales decreased for the three and nine months ended May 31, 1998, as compared to the same period in 1997 due to the increased level of net sales in fiscal 1998 and the decrease in fiscal 1998 general and administrative expenses.

Research, engineering, and technical support expenses increased during the third quarter of fiscal 1998 as compared to the same period in fiscal 1997 due primarily to increases in staff salaries and travel. These same factors account for the increase in research, engineering, and technical support expenses for the nine months ended May 31, 1998 over the same period in fiscal 1997. Such expenses, as a percentage of sales were largely unchanged for the three and nine month periods ended May 31, 1998 as compared to fiscal 1997 periods.

JOINT VENTURES, EUROPEAN HOLDING COMPANY, AND FOREIGN COMPANY - Net earnings from corporate joint ventures, European holding company, and foreign company were $478,871 and $1,230,926 for the three and nine months ended May 31, 1998, respectively, compared to $632,547 and $1,646,011 for the three and the nine months ended May 31, 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 decreased sales volume at certain of the Company's joint ventures located in the Pacific Rim.

INCOME TAXES - Income tax expense for the three and nine months ended May 31, 1998 and 1997 was calculated based on management's estimate of the Company's annual effective income tax rate. The Company's effective income tax rate for fiscal 1998 and 1997 is lower than the statutory rate primarily due to the Company's equity in income of corporate joint ventures, European holding company, and foreign company being recognized based on after tax earnings of these entities. To the extent joint venture's 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 May 31, 1998, the Company's working capital was $4,722,159, including $2,271,720 in cash and cash equivalents, compared to working capital of $5,826,590 and $5,563,480 as of August 31, 1997 and May 31, 1997, respectively.

Net cash provided from operations has been sufficient to meet liquidity requirements, capital expenditures, research and development cost, and expansion of operations of the Company's joint ventures. Cash flows from operations for the nine months ended May 31, 1998 and 1997 was $1,281,878 and $1,145,557, respectively. The net cash flow from operations for the nine months ended May 31, 1998 and 1997 resulted principally from net income and joint venture dividends offset by equity income of joint ventures, increased trade receivables, and payment of income taxes.

Net cash used in investing activities for the nine months ended May 31, 1998 was $307,274 which resulted from investments in joint ventures, additions to property and an increase in other assets. Net cash used in investing activities for the nine months ended May 31, 1997 was $745,467 which resulted from investments in joint ventures and European holding company, additions to property, and an increase in other assets.

Net cash used in financing activities for the nine months ended May 31, 1998 resulted from the payment of dividends to stockholders of $621,798 and the repurchase of common stock of $2,082,683 offset by proceeds of $56,030 from the exercise of stock options. Net cash used in financing activities for the nine months ended May 31, 1997 was $502,105 which resulted from the payment of dividends to stockholders of $504,733 and the repurchase of common stock of $24,600 offset by proceeds from the exercise of stock options of $27,228.

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 May 31, 1998.

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

RECENTLY ISSUED ACCOUNTING STANDARD

In June 1997, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 130, REPORTING COMPREHENSIVE INCOME, which establishes standards for reporting and display of comprehensive income and its components in a full set of general purpose financial statements. The Company will be required to adopt SFAS No. 130 in fiscal 1999.

In June 1997, the FASB also issued SFAS No. 131, DISCLOSURES ABOUT SEGMENTS OF AN ENTERPRISE AND RELATED INFORMATION. SFAS No. 131 redefines how operating segments are determined and requires disclosures of certain financial and descriptive information about a company's operating segments. The Company anticipates the adoption of SFAS No. 131 will result in the Company continuing to operate in one segment. The Company will be required to adopt SFAS No. 131 in fiscal 1999.

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

27   Financial Data Schedule

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

July 13, 1998

/s/ Loren M. Ehrmanntraut

Loren M. Ehrmanntraut
Chief Financial Officer and Corporate Secretary

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SEP-01-1997
MAY-31-1998
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