

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 1934For the Quarterly Period Ended:
May 31, 1997Commission File Number
1-11038NORTHERN 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 July 9, 1997
Common Stock, \$.02 par value	4,202,308

This document consists of eleven pages. No exhibits are being filed.

PART I - FINANCIAL INFORMATION

ITEM 1 - FINANCIAL STATEMENTS

NORTHERN TECHNOLOGIES INTERNATIONAL CORPORATION

BALANCE SHEETS (UNAUDITED)

	MAY 31, 1997	AUGUST 31, 1996	MAY 31, 1996
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ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	\$ 3,605,505	\$ 3,707,520	\$ 3,392,612
Receivables:			
Trade, less allowance for doubtful accounts of \$29,000, \$26,000, and \$26,500, respectively	1,294,850	1,127,975	979,167
Corporate joint ventures	484,650	524,577	409,817
Inventories	573,536	584,212	627,264
Prepaid expenses and other	51,708	78,603	59,238
Deferred income taxes	170,000	170,000	110,000
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Total current assets	6,180,249	6,192,887	5,578,098
PROPERTY AND EQUIPMENT, net	977,666	980,816	809,815
OTHER ASSETS:			
Investments in corporate joint ventures	2,145,571	1,726,328	1,448,161
Investment in European holding company	254,375	--	--
Investment in foreign company	159,879	159,879	155,068
Trading investment	250,000	--	--
Deferred income taxes	90,000	90,000	100,000
Other	114,140	164,140	103,092
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	3,013,965	2,140,347	1,806,321
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	\$ 10,171,880	\$ 9,314,050	\$ 8,194,234
	=====	=====	=====

LIABILITIES AND STOCKHOLDERS' EQUITY

CURRENT LIABILITIES:			
Accounts payable	\$ 118,338	\$ 154,859	\$ 116,591
Income taxes	222,414	463,700	180,295
Accrued liabilities:			
Payroll	141,326	177,381	63,073
Other	134,691	112,544	60,916
Total current liabilities	616,769	908,484	420,875
DEFERRED GROSS PROFIT	118,000	109,000	100,500
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 4,206,308, 4,199,275, and 4,216,190 shares, respectively			
	84,126	83,985	84,324
Additional paid-in capital	5,193,207	5,158,344	5,183,717
Retained earnings	4,418,164	3,143,526	2,500,443
Cumulative foreign currency translation adjustments	(128,579)	40,518	34,182
	9,566,918	8,426,373	7,802,666
Notes and related interest receivable from purchase of common stock	(129,807)	(129,807)	(129,807)
Total stockholders' equity	9,437,111	8,296,566	7,672,859
	\$ 10,171,880	\$ 9,314,050	\$ 8,194,234

See notes to financial statements.

NORTHERN TECHNOLOGIES INTERNATIONAL CORPORATION

STATEMENTS OF INCOME (UNAUDITED)

	THREE MONTHS ENDED		NINE MONTHS ENDED	
	MAY 31		MAY 31	
	1997	1996	1997	1996
SALES	\$ 2,518,582	\$ 1,751,478	\$ 6,532,957	\$ 4,977,396
COST OF GOODS SOLD	1,201,326	809,361	3,084,004	2,330,574
GROSS PROFIT	1,317,256	942,117	3,448,953	2,646,822
OPERATING EXPENSES:				
Selling	241,033	191,778	832,336	597,862
General and administrative	529,735	315,945	1,349,132	830,773
Research, engineering, and technical support	107,199	108,959	326,627	297,883
	877,967	616,682	2,508,095	1,726,518
OPERATING INCOME	439,289	325,435	940,858	920,304
JOINT VENTURES AND FOREIGN COMPANY:				
Equity in income of corporate joint ventures and foreign company	185,740	116,214	469,828	338,845
Fees for technical assistance to corporate joint ventures	573,841	344,094	1,555,212	1,017,072
Corporate joint venture expense	(127,034)	(97,678)	(379,029)	(386,226)
	632,547	362,630	1,646,011	969,691
OTHER INCOME:				
Interest income	36,311	41,519	101,505	112,921
Other income	113	7,455	7,997	11,182
	36,424	48,974	109,502	124,103
INCOME BEFORE INCOME TAXES	1,108,260	737,039	2,696,371	2,014,098
INCOME TAXES	375,000	230,000	900,000	630,000
NET INCOME	\$ 733,260	\$ 507,039	\$ 1,796,371	\$ 1,384,098
NET INCOME PER COMMON AND COMMON EQUIVALENT SHARE				
	\$.17	\$.12	\$.42	\$.32
WEIGHTED AVERAGE NUMBER OF COMMON AND COMMON EQUIVALENT SHARES OUTSTANDING				
	4,274,164	4,300,718	4,266,742	4,310,226

See notes to financial statements.

NORTHERN TECHNOLOGIES INTERNATIONAL CORPORATION

STATEMENTS OF CASH FLOWS (UNAUDITED)

	NINE MONTHS ENDED MAY 31	
	1997	1996
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 1,796,371	\$ 1,384,098
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	86,175	57,760
Equity in income of corporate joint ventures and foreign company	(469,828)	(338,845)
Dividends received from joint ventures	39,555	184,101
Deferred gross profit	9,000	--
Change in current assets and liabilities:		
Receivables:		
Trade	(166,875)	(147,730)
Corporate joint ventures	39,927	(3,187)
Inventories	10,676	(96,670)
Prepaid expenses and other	76,895	(3,375)
Accounts payable	(36,521)	(17,952)
Income taxes	(241,286)	37,915
Accrued liabilities	1,468	(101,416)
Total adjustments	(650,814)	(429,399)
Net cash provided by operating activities	1,145,557	954,699
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(83,025)	(525,326)
Trading investment	(250,000)	--
Investment in European holding company	(254,375)	--
Investment in corporate joint ventures	(158,067)	--
Payment on note receivable from purchase of common stock	--	743,875
Net cash (used in) provided by investing activities	(745,467)	218,549
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from exercise of stock options and warrants	27,228	39,960
Dividends paid	(504,733)	(424,877)
Repurchase of common stock	(24,600)	(227,020)
Net cash used in financing activities	(502,105)	(611,937)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(102,015)	561,311
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	3,707,520	2,831,301
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 3,605,505	\$ 3,392,612

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, 1997 and 1996, the results of operations for the three and nine months ended May 31, 1997 and 1996, and the cash flows for the nine months ended May 31, 1997 and 1996, in conformity with generally accepted accounting principles. Operating results for the nine months ended May 31, 1997 are not necessarily indicative of the results that may be expected for the year ending August 31, 1997.

These financial statements should be read in conjunction with the financial statements and related notes as of and for the year ended August 31, 1996 contained in the Company's filing on Form 10-KSB dated November 26, 1996 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, 1997	August 31, 1996	May 31, 1996
Production materials	\$ 142,395	\$ 150,139	\$ 125,453
Work in process	20,205	22,619	31,363
Finished goods	410,936	411,454	470,448
	-----	-----	-----
	\$ 573,536	\$ 584,212	\$ 627,264
	=====	=====	=====

3. PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	May 31, 1997	August 31, 1996	May 31, 1996
Land	\$ 246,097	\$ 246,097	\$ 241,196
Buildings and improvements	1,044,996	979,369	553,907
Machinery and equipment	604,935	587,537	587,657
Deposits	-	-	249,083
	-----	-----	-----
	1,896,028	1,813,003	1,631,843
Less accumulated depreciation	918,362	832,187	822,028
	-----	-----	-----
	\$ 977,666	\$ 980,816	\$ 809,815
	=====	=====	=====

4. INVESTMENTS IN CORPORATE JOINT VENTURES AND EUROPEAN HOLDING COMPANY

During the nine months ended May 31, 1997, the Company invested \$158,067 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.

During the nine months ended May 31, 1997, the Company invested \$254,375 for a 50% ownership interest in a European holding company. To date, the entity has been inactive.

5. TRADING INVESTMENT

During the three months ended November 30, 1996, the Company entered into an agreement (the Agreement) with a company to start a day trading program. The program's objectives generally are to make purchases and sales of shares on the New York Stock Exchange involving turnover of market positions within a trading day. The Agreement required the Company to deposit \$250,000 in a trading account at a broker for an indefinite period of time.

6. STOCKHOLDERS' EQUITY

During the nine months ended May 31, 1997, the Company acquired and retired 5,000 shares of common stock for \$24,600.

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

In November 1996, six employees received a total of 3,000 shares of common stock for services provided in fiscal 1996. The fair value of the common stock issued was determined based on the fair market value of the Company's common stock on the grant date and was accrued in fiscal 1996.

During the nine months ended May 31, 1997, stock options for the purchase of 9,033 shares of the Company's common stock were exercised at prices between \$3.00 and \$3.13.

7. INCOME PER SHARE

Income per common and common equivalent share was computed by dividing net income by the weighted average number of shares of common and common equivalent shares outstanding during each period. Common equivalent shares include common stock equivalents of 63,334 and 67,950 for the nine months ended May 31, 1997 and 1996, respectively, and 67,856 and 65,413 for the third quarter of fiscal 1997 and 1996, respectively, from the assumed exercise of outstanding warrants and options using the treasury stock method.

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 increased by \$767,104 or 44% in the third quarter of fiscal 1997 as compared to the third quarter of fiscal 1996. Net sales increased by \$1,555,561 or 31% in the nine months ended May 31, 1997 as compared to the same period of fiscal 1996. These increases in sales are due to the volume of corrosion inhibiting products sold to new and existing customers. Fiscal 1997 year to date sales to an existing customer increased significantly over fiscal 1996 and represents approximately 13% of total net sales in fiscal 1997. There has been no change in product pricing or introduction of new products during fiscal 1997.

COST OF SALES - Cost of goods sold as a percentage of net sales was 48% for the third quarter of fiscal 1997 as compared to 46% for the third quarter of fiscal 1996. The cost of goods sold percentage was 47% for the nine months ended May 31, 1997 and 1996. Variations are due primarily to the mix of product sales.

OPERATING EXPENSES - As a percentage of net sales, total operating expenses remained consistent at 35% in the third quarters of fiscal 1996 and 1997. Operating expenses were 38% and 35% of net sales for the nine months ended May 31, 1997 and 1996, respectively.

Operating expense classification percentages of net sales were as follows:

	Three Months Ended May 31		Nine Months Ended May 31	
	1997	1996	1997	1996
Selling expenses	10%	11%	13%	12%
General and administrative	21%	18%	20%	17%
Research, engineering, and technical support	4%	6%	5%	6%

Selling expenses increased in the third quarter of fiscal 1997 as compared to the same period in fiscal 1996 due to increases in distributor commissions, salaries, and travel. Selling expenses increased for the nine months ended May 31, 1997 as compared to the same period in fiscal 1996 due to increases in promotional expenses in addition to the factors impacting the third quarter. Selling expenses as a percentage of net sales increased for the nine months ended May 31, 1997 as compared to the same period in fiscal 1996 due to the increased level of net sales in fiscal 1997 not fully offsetting the effect of increased fiscal 1997 selling expenses.

General and administrative expenses increased for the three and nine months ended May 31, 1997 as compared to the same periods in 1996 due to increases in salaries, travel, legal and real estate taxes and other expenses associated with the Company's expanded warehouse facility completed in December 1996. General and administrative expenses as a percentage of net sales increased for the three and nine months ended May 31, 1997 as compared to the same periods in 1996 due to the increased level of net sales in fiscal 1997 not fully offsetting the effect of increased fiscal 1997 general and administrative expenses.

Research, engineering, and technical support expenses in the third quarter of fiscal 1997 were comparable to the same period in 1996. Such expenses for the nine month period ended May 31, 1997 increased over the comparable fiscal 1996 period due primarily to increases in salaries and travel. Research, engineering and technical support expenses, as a percentage of sales, were substantially unchanged for the three and nine months ended May 31, 1997 as compared to the same periods in 1996.

JOINT VENTURES AND FOREIGN COMPANY - Net earnings from corporate joint ventures and foreign company were \$632,547 and \$1,646,011 for the three and the nine months ended May 31, 1997, respectively, compared to \$362,630 and \$969,691 for the three and the nine months ended May 31, 1996, respectively. The net increases primarily reflect increased sales volume and net earnings at the Company's corporate joint ventures.

INCOME TAXES - Income tax expense for the three and nine months ended May 31, 1997 and 1996 was calculated based on management's estimate of the Company's annual effective income tax rate. The Company's effective income tax rate is lower than the statutory rate primarily due to the Company's equity in income of corporate joint ventures and foreign company being recognized based on after tax earnings of these entities. To the extent joint venture 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, 1997, the Company's working capital was \$5,563,480, including \$3,605,505 in cash and cash equivalents, compared to working capital of \$5,284,403 and \$5,157,223 at August 31, 1996 and May 31, 1996, respectively.

Net cash provided from operations has been sufficient to meet liquidity requirements, capital expenditures, research and development costs, and expansion of the Company's joint ventures operations. Cash flow from operations for the nine months ended May 31, 1997 and 1996 was \$1,145,557 and \$954,699, respectively. The net cash flow from operations for the nine months ended May 31, 1997 and 1996 resulted principally from net income and joint venture dividends offset by equity income of joint ventures and increases in trade receivables. During the nine months ended May 31, 1997, net cash flow from operations was further reduced by payments on income tax liabilities.

Net cash used in investing activities for the nine months ended May 31, 1997 was \$745,467 which resulted from investments in corporate joint ventures and a European holding company, purchases of property and equipment and deposit to a trading investment account. Net cash provided by investing activities for the nine months ended May 31, 1996 was \$218,549 of which \$743,875 related to the payments received on notes receivable offset by additions to property of \$525,326.

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. Net cash used in financing activities for the nine months ended May 31, 1996 resulted from the payment of dividends to stockholders of \$424,877 and the repurchase of common stock of \$227,020 offset by proceeds of \$39,960 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 technical assistance fees from the corporate joint venture investments.

The Company has no long-term debt and no material lease commitments at May 31, 1997.

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

RECENTLY ISSUED ACCOUNTING STANDARD

In October 1995, the Financial Accounting Standards Board (FASB) issued SFAS No. 123, ACCOUNTING FOR STOCK-BASED COMPENSATION. SFAS No. 123 encourages companies to adopt a new accounting method that accounts for stock compensation awards based on their estimated fair value at the date they are granted. However, companies are permitted to continue following current accounting requirements for employee stock-based transactions, which generally do not result in an expense charge for most options if the exercise price is at least equal to the fair market value of the stock at the date of grant. Companies that continue to follow existing standards would be required to disclose in a note to the financial statements the effect on net income and net income per share had the Company recognized expense for options issued to employees based on SFAS No. 123. SFAS No. 123 is effective for the Company's fiscal year ending August 31, 1997 and will require disclosure information in those financial statements about stock options granted in fiscal 1996 and thereafter. The Company has determined that it will not adopt the fair value method prescribed by SFAS No. 123 for employee stock-based transactions. The "as if" disclosures will be included in the Company's annual financial statements for the year ending August 31, 1997.

In February 1997, the FASB issued 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

July 11, 1997

/S/ Loren M. Ehrmantraut

Loren M. Ehrmantraut
Chief Financial Officer and Corporate Secretary

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SEP-01-1996
MAY-31-1997
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