

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, 1996

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 January 13, 1997 -----
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Common Stock, \$.02 par value

4,206,308

"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)

	NOVEMBER 30, 1996	AUGUST 31, 1996
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 3,385,990	\$ 3,707,520
Receivables:		
Trade, less allowance for doubtful accounts of \$26,000	1,261,940	1,127,975
Corporate joint ventures	533,379	524,577
Inventories	521,295	584,212
Prepaid expenses and other	78,247	78,603
Deferred income taxes	170,000	170,000
	-----	-----
Total current assets	5,950,851	6,192,887
PROPERTY AND EQUIPMENT, net	1,006,773	980,816
OTHER ASSETS:		

Investments in corporate joint ventures	1,842,721	1,726,328
Investment in foreign company	159,879	159,879
Deferred income taxes	90,000	90,000
Trading investment, principally cash at broker	250,000	--
Other	114,140	164,140
	-----	-----
	2,456,740	2,140,347
	-----	-----
	\$ 9,414,364	\$ 9,314,050
	=====	=====

LIABILITIES AND STOCKHOLDERS' EQUITY

CURRENT LIABILITIES:

Accounts payable	\$ 120,731	\$ 154,859
Income taxes payable	90,799	463,700
Dividends payable	504,733	--
Accrued liabilities:		
Payroll	190,249	177,381
Other	117,555	112,544
	-----	-----
Total current liabilities	1,024,067	908,484

DEFERRED GROSS PROFIT

109,000 109,000

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 4,206,108 and 4,199,275, respectively	84,122	83,985
Additional paid-in capital	5,192,586	5,158,344
Retained earnings	3,143,114	3,143,526
Cumulative foreign currency translation adjustments	(8,718)	40,518
	-----	-----
	8,411,104	8,426,373
Notes and related interest receivable from purchase of common stock	(129,807)	(129,807)
	-----	-----
Total stockholders' equity	8,281,297	8,296,566
	-----	-----
	\$ 9,414,364	\$ 9,314,050
	=====	=====

See notes to financial statements.

NORTHERN TECHNOLOGIES INTERNATIONAL CORPORATION

STATEMENTS OF INCOME (UNAUDITED)
THREE MONTHS ENDED NOVEMBER 30, 1996 AND 1995

	1996	1995
SALES	\$ 1,921,414	\$ 1,618,599
COST OF GOODS SOLD	912,702	757,610
	-----	-----
GROSS PROFIT	1,008,712	860,989
OPERATING EXPENSES:		
Selling	268,421	193,259
General and administrative	466,443	333,654
Research, engineering, and technical support	100,032	85,558
	-----	-----
	834,896	612,471
	-----	-----
OPERATING INCOME	173,816	248,518
JOINT VENTURES AND FOREIGN COMPANY:		
Equity in income of corporate joint ventures and foreign company	154,689	137,211
Fees for technical assistance to corporate joint ventures	511,939	297,638
Corporate joint ventures expense	(121,001)	(108,310)
	-----	-----
	545,627	326,539

OTHER INCOME:		
Interest income	7,722	27,851
Other income	4,157	3,727
	-----	-----
	11,879	31,578
	-----	-----
INCOME BEFORE INCOME TAXES	731,322	606,635
INCOME TAXES	210,000	170,000
	-----	-----
NET INCOME	\$ 521,322	\$ 436,635
	=====	=====
NET INCOME PER COMMON AND COMMON EQUIVALENT SHARE	\$.12	\$.10
	=====	=====
WEIGHTED AVERAGE NUMBER OF COMMON AND COMMON EQUIVALENT SHARES OUTSTANDING	4,251,801	4,321,332
	=====	=====

See notes to financial statements.

NORTHERN TECHNOLOGIES INTERNATIONAL CORPORATION

STATEMENTS OF CASH FLOWS (UNAUDITED)
THREE MONTHS ENDED NOVEMBER 30, 1996 AND 1995

	1996	1995
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 521,322	\$ 436,635
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	28,725	18,291
Equity in income of corporate joint ventures and foreign company	(154,689)	(137,211)
Dividend received from joint ventures	13,060	--
Change in current assets and liabilities:		
Receivables:		
Trade	(133,965)	(118,160)
Corporate joint ventures	(8,802)	101,089
Inventories	62,917	69,099
Prepaid expenses and other	50,356	(10,032)
Accounts payable	(34,128)	(19,646)
Income taxes payable	(372,901)	(97,101)
Accrued liabilities	33,254	22,696
	-----	-----
Total adjustments	(516,173)	(170,975)
	-----	-----
Net cash provided by operating activities	5,149	265,660
CASH FLOWS FROM INVESTING ACTIVITIES:		
Trading investment, principally cash at broker	(250,000)	--
Investment in joint ventures	(24,000)	--
Additions to property	(54,682)	(147,355)
	-----	-----
Net cash used in investing activities	(328,682)	(147,355)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repurchase of common stock	(24,600)	--
Payment on notes receivable from purchase of common stock	--	68,035
Issuance of common stock	26,603	12,250
	-----	-----
Net cash provided by financing activities	2,003	80,285
	-----	-----
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(321,530)	198,590
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	3,707,520	2,831,301
	-----	-----
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 3,385,990	\$ 3,029,891

See notes to financial statements.

NORTHERN TECHNOLOGIES INTERNATIONAL CORPORATION

NOTES TO FINANCIAL STATEMENTS (UNAUDITED)
THREE MONTHS ENDED NOVEMBER 30, 1996 AND 1995

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, 1996 and the results of its operations and its cash flows for the three months ended November 30, 1996 and 1995, 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, 1996 contained in the Company's filing on Form 10-KSB dated November 26, 1996 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, 1996	August 31, 1996
Production materials	\$ 125,324	\$ 150,139
Work in process	26,487	22,619
Finished goods	369,484	411,454
	-----	-----
	\$ 521,295	\$ 584,212
	=====	=====

3. PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	November 30, 1996	August 31, 1996
Land	\$ 246,097	\$ 246,097
Buildings and improvements	1,025,177	979,369
Machinery and equipment	596,411	587,537
	-----	-----
	1,867,685	1,813,003
Less accumulated depreciation	860,912	832,187
	-----	-----
	\$ 1,006,773	\$ 980,816
	=====	=====

4. TRADING INVESTMENT, PRINCIPALLY CASH AT BROKER

During the three months ended November 30, 1996, the Company entered in to an agreement (the Agreement) with a company to start a day trading program. The program's objectives are to make purchase and sales of shares on the New York Stock Exchange involving rapid 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.

5. STOCKHOLDERS' EQUITY

During the three months ended November 30, 1996, the Company acquired and retired 5,000 shares of common stock for \$24,600.

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 market value of the Company's common stock on the grant date and was accrued in fiscal 1996.

During the three months ended November 30, 1996, stock options for the

purchase of 8,833 shares of the Company's common stock were exercised at prices between \$3.00 and \$3.13 per share.

6. SUPPLEMENTAL CASH FLOW INFORMATION

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.

During the three months ended November 30, 1995, the Company declared a cash dividend of \$.10 per share payable on December 18, 1995 to shareholders of record on December 4, 1995.

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 53,164 and 73,218 in the first quarter of fiscal 1997 and 1996, respectively, resulting from the assumed exercise of outstanding warrants and 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 \$302,815 during the first quarter of fiscal 1997 from those in the first quarter of fiscal 1996. 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 48% for the first quarter of fiscal 1997 compared to 47% for the first quarter of fiscal 1996. The variation is primarily due to the mix of product sales.

OPERATING EXPENSES - As a percentage of sales, total operating expenses increased from 38% in the first quarter of fiscal 1996 to 43% in the first quarter of fiscal 1997.

Operating expense classification percentages of sales were as follows:

	Three Months Ended November 30	
	1996	1995
Selling	14%	12%
General and administrative	24%	21%
Research, engineering, and technical support	5%	5%

Selling expenses increased for the first three months of fiscal 1997 as compared to the same period in 1996 due primarily to increases in sales staff salaries, travel and distributor commissions. Selling expenses as a percentage of sales also increased for the three months ended November 30, 1996 as compared to the same period in fiscal 1996 due to the increase in sales in fiscal 1997 not offsetting the effect of the increase in fiscal 1997 selling expenses.

General and administrative expenses increased for the first three months of fiscal 1997 as compared to the same period in 1996 due primarily to increases in salary expense and travel expense. General and administrative expenses as a percentage of sales also increased for the three months ended November 30, 1996 as compared to the same period in fiscal 1996 due to the increase in sales in fiscal 1997 not offsetting the effect of the increase in fiscal 1997 general and administrative expenses.

Research, engineering and technical support expenses for the first three months of fiscal 1997 were higher than the comparable period in fiscal 1996 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 1997 as compared to the same period in fiscal 1996.

JOINT VENTURES AND FOREIGN COMPANY - Net earnings from joint ventures and foreign company increased in the first three months of fiscal 1997 to \$545,627 from \$326,539 in the first three months of fiscal 1996. This net increase reflects increased sales volume at the Company's corporate joint ventures, partially offset by 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, 1996 and 1995 was calculated based upon management's estimate of the annual effective rates. The effective income tax rates for fiscal 1997 and 1996 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, 1996, the Company's working capital was \$4,926,784, including \$3,385,990 in cash and cash equivalents, compared to working capital of \$5,284,403 including cash and cash equivalents of \$3,707,520 as of August 31, 1996.

Net cash provided from 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 from operations for the three months ended November 30, 1996 and 1995 was \$5,149 and \$265,660, respectively. 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 and foreign company and a decrease in income taxes payable. The net cash flow from operations for the three months ended November 30, 1995 resulted principally from net income offset by equity in income of corporate joint ventures and foreign company.

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 trading investment, principally cash at broker. Cash used in investing activities for the three months ended November 30, 1995 was \$147,355, which resulted from additions to property.

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. Cash provided by financing activities for the three months ended November 30, 1995 was \$80,285, which resulted from a payment received of \$68,035 on notes receivable from the purchase of common stock and \$12,250 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 November 30, 1996.

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

RECENTLY ISSUED ACCOUNTING STANDARDS

In October 1995, the Financial Accounting Standards Board 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.

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

Exhibit 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

January 13, 1997

/s/ Loren M. Ehrmantraut

Loren M. Ehrmantraut
Secretary and Treasurer

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AUG-31-1997
SEP-01-1996
NOV-30-1996
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1,821,319
26,000
521,295
5,950,851
1,867,685
860,912
9,414,364
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84,122
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