UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-QSB

(Mark one)

x **QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended

February 28, 2006

o **TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from _______________ to _______________.

Commission file number 1-11038

NORTHERN TECHNOLOGIES INTERNATIONAL CORPORATION
(Name of small business issuer in its charter)

Delaware **(State or other jurisdiction of incorporation or organization)**	**41-0857886** **(I.R.S. Employer Identification No.)**
6680 N. Highway 49 **Lino Lakes, Minnesota** **(Address of principal executive offices)**	**55014** **(Zip Code)**

(651) 784-1250
(Issuer's telephone number, including area code)

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

Yes x No o

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2) of the Exchange Act).

Yes o No x

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

Class	Outstanding as of April 14, 2006
Common Stock, $0.02 par value	3,610,993

Transitional Small Business Disclosure Format (check one): Yes o No x

NORTHERN TECHNOLOGIES INTERNATIONAL CORPORATION

FORM 10-QSB
February 28, 2006

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As used in this report, *references to "NTIC," the "Company," "we," "our" or "us," unless the context otherwise requires, refer to Northern Technologies International Corporation and its subsidiaries.*

NTIC owns or has the rights to use various trademarks, trade names or service marks used in this Report, *including ZERUST,® Excor® and AXXA™.*

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

NORTHERN TECHNOLOGIES INTERNATIONAL CORPORATION
AND SUBSIDIARIES- CONSOLIDATED BALANCE SHEETS (Unaudited)
as of FEBRUARY 28, 2006 and AUGUST 31, 2005

	February 28, 2006	August 31, 2005
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 655,973	$ 327,458
Receivables:		
Trade excluding corporate joint ventures, less allowance for doubtful accounts of $10,000 and $13,085 at February 28, 2006 and August 31, 2005	2,249,971	1,990,589
Trade corporate joint ventures	420,023	450,843
Technical and other services, corporate joint ventures	1,055,130	1,093,688
Income taxes	492,482	517,019
Inventories	1,592,539	1,547,769
Prepaid expenses	288,846	149,638
Deferred income taxes	27,088	27,088
Total current assets	6,782,052	6,104,092
PROPERTY AND EQUIPMENT, net	749,981	720,641
OTHER ASSETS:		
Investments in corporate joint ventures:		
Industrial chemical	8,625,995	8,296,390
Industrial non-chemical	340,005	325,971
Deferred income taxes	497,197	497,197
Notes receivable and foreign deposit	1,138,953	1,522,922
Note from employee	69,586	82,116
Industrial patents and trademarks, net	1,109,990	1,060,217
Goodwill	304,000	304,000
Other	364,488	383,267
	12,450,214	12,472,080
	$ 19,982,247	$ 19,296,818
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 1,612,862	$ 1,284,784
Borrowings made on line of credit	917,000	1,000,000
Note payable	—	554,870
Accrued liabilities:		
Payroll and related benefits	626,301	265,174
Deferred joint venture royalties	48,000	74,702
Other	131,068	226,869
Total current liabilities	3,335,231	3,406,399
DEFERRED GROSS PROFIT	—	30,000
MINORITY INTEREST	78,407	67,538
STOCKHOLDERS' EQUITY:		
Preferred stock, no par value; authorized 10,000 shares; none issued and outstanding	—	—
Common stock, $0.02 par value per share; authorized 10,000,000 shares; issued and outstanding 3,610,993 and 3,589,993, respectively	72,220	71,800
Additional paid-in capital	4,235,015	4,140,095
Retained earnings	12,015,223	11,176,509
Accumulated other comprehensive income	246,151	434,477
Total stockholders' equity	16,570,553	15,822,881
	$ 19,982,247	$ 19,296,818

See notes to consolidated financial statements.

NORTHERN TECHNOLOGIES INTERNATIONAL CORPORATION AND SUBSIDIARIES -
CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)
THREE AND SIX MONTHS ENDED FEBRUARY 28, 2006 AND FEBRUARY 28, 2005

	Three Months Ended		Six Months Ended	
	February 28, 2006	February 28, 2005	February 28, 2006	February 28, 2005
NORTH AMERICAN OPERATIONS:				
Sales	$ 3,775,693	$ 3,478,352	$ 8,179,322	$ 7,310,568
Cost of goods sold	2,315,245	1,988,460	5,044,356	4,348,048
Gross profit	1,460,448	1,489,892	3,134,966	2,962,520
Operating expenses:				
Selling	874,234	691,456	1,572,189	1,333,351
General and administrative	563,911	766,799	1,250,470	1,478,594
Lab and technical support	78,672	177,775	148,426	403,607
	1,516,817	1,636,030	2,971,085	3,215,552
NORTH AMERICAN OPERATING (LOSS) INCOME	(56,369)	(146,138)	163,881	(253,032)
CORPORATE JOINT VENTURES AND HOLDING COMPANIES:				
Equity in income of industrial chemical corporate joint ventures and holding companies	546,217	356,372	1,290,664	868,552
Equity in income of industrial non-chemical corporate joint ventures and holding companies	39,591	2,124	24,662	16,149
Fees for technical support and other services provided to corporate joint ventures	1,019,989	987,018	2,134,049	2,004,271
Expenses incurred in support of corporate joint ventures	(1,290,946)	(1,295,901)	(2,456,530)	(2,499,374)
INCOME FROM ALL CORPORATE JOINT VENTURES AND HOLDING COMPANIES	314,851	49,613	992,845	389,598
INTEREST INCOME	1,178	31,617	27,979	45,648
INTEREST EXPENSE	(31,857)	(3,314)	(35,506)	(3,314)
MINORITY INTEREST	7,927	13,538	(7,485)	(5,264)
INCOME (LOSS) BEFORE INCOME TAX (BENEFIT) EXPENSE	235,730	(54,684)	1,141,714	173,636
INCOME TAX (BENEFIT) EXPENSE	31,000	107,000	303,000	(12,000)
NET INCOME (LOSS)	$ 204,730	$ (161,684)	$ 838,714	$ 185,636
NET INCOME (LOSS) PER COMMON SHARE:				
Basic	$ 0.06	$ (0.05)	$ 0.23	$ 0.05
Diluted	$ 0.06	$ (0.05)	$ 0.23	$ 0.05
WEIGHTED AVERAGE COMMON SHARES ASSUMED OUTSTANDING:				
Basic	3,597,815	3,581,992	3,593,926	3,581,992
Diluted	3,628,594	3,581,992	3,618,101	3,604,038
DIVIDENDS PER COMMON SHARE	—	—	—	$ 0.07

See notes to consolidated financial statements.

NORTHERN TECHNOLOGIES INTERNATIONAL CORPORATION AND SUBSIDIARIES - CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)
SIX MONTHS ENDED FEBRUARY 28, 2006 and FEBRUARY 28, 2005

	February 28, 2006	February 28, 2005
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 838,714	$ 185,636
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Depreciation expense	98,737	104,149
Amortization expense	80,026	25,090
Minority interest expense (income)	7,485	5,264
Equity in (income) loss from corporate joint ventures:		
Industrial chemical	(1,290,607)	(868,552)
Industrial non-chemical	(24,662)	(16,149)
Deferred gross profit	—	(10,000)
Deferred joint venture royalties	(26,702)	59,850
Change in current assets and liabilities:		
Receivables:		
Trade excluding corporate joint ventures	(259,382)	(561,781)
Trade corporate joint ventures	30,820	29,175
Technical and other services receivables, corporate joint ventures	38,558	94,952
Income taxes	24,537	75,004
Inventories	(44,770)	(271,304)
Prepaid expenses and other	(135,823)	(85,154)
Employee note receivable	12,530	9,907
Accounts payable	328,078	46,257
Accrued liabilities	265,326	(32,103)
Net cash used in operating activities	(57,135)	(1,209,759)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investment in corporate joint ventures	—	(38,531)
Dividends received from corporate joint ventures	783,304	817,611
Goodwill	—	(31,000)
Loans made	(20,029)	(523,992)
Cash received on loans	403,998	180,346
Additions to property and equipment	(128,072)	(107,660)
Decrease in other assets	18,779	796
Additions to industrial patents	(129,800)	(99,594)
Net cash provided by investing activities	928,180	195,021
CASH FLOWS FROM FINANCING ACTIVITIES:		
Dividends paid	—	(250,739)
Borrowing (repayments) on line of credit	(83,000)	500,000
Repayment of note payable	(554,870)	—
Proceeds from exercise of stock options	95,340	—
Bank overdraft	—	177,019
Net cash (used in) provided by financing activities	(542,530)	426,280
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	328,515	(585,458)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	327,458	662,038
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 655,973	$ 76,580

See notes to consolidated financial statements.

NORTHERN TECHNOLOGIES INTERNATIONAL CORPORATION AND SUBSIDIARIES - NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

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, and present fairly the consolidated financial position of Northern Technologies International Corporation and its subsidiaries (the Company) as of February 28, 2006 and the results of their operations for the three and six months ended February 28, 2006 and February 28, 2005 and their cash flows for the six months ended February 28, 2006 and February 28, 2005, in conformity with accounting principles generally accepted in the United States of America.

These consolidated financial statements should be read in conjunction with the consolidated financial statements and related notes contained in the Company's annual report on Form 10-KSB for the fiscal year ended August 31, 2005 and with the Management's Discussion and Analysis or Plan of Operation section appearing in this quarterly report. Operating results for the three and six months ended February 28, 2006 are not necessarily indicative of the results that may be expected for the fiscal year ending August 31, 2006.

Certain fiscal 2005 amounts have been reclassified to conform to fiscal year 2006 presentations. These reclassifications had no effect on stockholders' equity or net income, as previously reported.

2. RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

Adoption of Accounting Pronouncement – FIN 46R

In January 2003, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 46 (FIN 46), "*Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51*". In December 2003, the FASB issued FIN 46R, "*Consolidation of Variable Interest Entities, a revision of FIN 46*" which addresses consolidation by business enterprises where equity investors do not bear the residual economic risks and rewards. The provisions of FIN 46R were effective for interests in variable interest entities (VIE) for the Company for the three and six months ended February 28, 2005.

In accordance with FIN 46R, the Company has elected to consolidate React-NTI LLC. The Company holds 75% of the equity and 75% of the voting rights, and has made significant advances to React-NTI LLC. Therefore, the Company has determined that it is the primary beneficiary of React-NTI LLC. Previously, the Company did not consolidate React-NTI LLC because under the terms of the joint venture agreement, there are certain matters requiring unanimous member approval. These rights represent substantive participating rights of the minority member as defined in Emerging Issues Task Force (EITF) No. 96-16, "*Investor's Accounting for an Investee When the Investor has a Majority of the Voting Interest but the Minority Shareholder or Shareholders Have Certain Approval or Veto Rights*". Accordingly, the Company did not control React-NTI LLC and previously accounted for its investment under the equity method rather than by consolidation until the Company's adoption of FIN 46R during fiscal 2005.

3. STOCK-BASED COMPENSATION

In accordance with Accounting Principles Board (APB) Opinion No. 25 and related interpretations, the Company uses the intrinsic value-based method for measuring stock-based compensation cost, which measures compensation cost as the excess, if any, of quoted market price of the Company's common stock at the grant date over the amount the employee must pay for the stock. The Company's general policy is to grant stock options at fair value at the date of grant. The Company did not recognize any expense in the financial statements as all options granted by the Company were issued at fair market value. Options and warrants issued to non-employees are recorded at fair value, as required by Statement of Financial Accounting Standards (SFAS) No. 123, "Accounting for Stock-Based Compensation", using the Black-Scholes pricing method.

In December 2002, the FASB issued Statement of Financial Accounting Standards (SFAS) No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure." SFAS No. 148 is an amendment to SFAS No. 123 providing alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation and also provides required additional disclosures about the method of accounting for stock-based employee compensation. The Company adopted the annual disclosure provision of SFAS No. 148 during the fiscal year ended August 31, 2003. The Company chose not to adopt the voluntary change to the fair value based method of accounting for stock-based employee compensation, pursuant to SFAS No. 148.

The Company has adopted the disclosure-only provisions of SFAS No. 148, Accounting for Stock-Based Compensation. Accordingly, no compensation cost has been recognized with respect to stock options. Had compensation cost for stock options been determined based on the fair value methodology prescribed by SFAS 123, the Company's net income and net income per common share would have been reduced to the pro forma amounts indicated below:

	Three Months Ended		Six Months Ended	
	February 28, 2006	February 28, 2005	February 28, 2006	February 28, 2005
Net income (loss):				
As reported	$ 204,730	$ (161,684)	$ 838,714	$ 185,636
Pro forma	$ 204,730	$ (161,684)	$ 803,081	$ 161,535
Basic net income per common share				
As reported	$ 0.06	$ (0.05)	$ 0.23	$ 0.05
Pro forma	$ 0.06	$ (0.05)	$ 0.22	$ 0.05
Diluted net income per share				
As reported	$ 0.06	$ (0.05)	$ 0.23	$ 0.05
Pro forma	$ 0.06	$ (0.05)	$ 0.22	$ 0.05
Stock-based compensation, net:				
As reported	$ 0	$ 0	$ 0	$ 0
Pro forma	$ 0	$ 0	$ 35,633	$ 24,101

As noted above, accounting principles require the Company to show, on a pro forma basis, the Company's net income as if it recorded an expense for stock options at the time of grant. Other than disclosure in this footnote, the Company does not use these pro forma results for any purpose.

The fair value of each option grant is estimated on the grant date using the Black-Scholes option-pricing model with the following assumptions and results for the grants:

	February 28, 2006	February 28, 2005
Dividend yield	2.00%	2.00%
Expected volatility	42.8%	43.3%
Expected life of option	5 years	5 years
Average risk-free interest rate	4.45%	3.43%

In December 2004, FASB issued SFAS No. 123 (revised 2004), "Share-Based Payment", that focuses primarily on accounting for transactions in which an entity obtains employee services in share-based payment transactions.

This statement replaces SFAS No. 123, “Accounting for Stock-Based Compensation”, and supersedes APB Opinion No. 25, “Accounting for Stock Issued to Employees.”

Beginning with our fiscal quarter that begins September 1, 2006, the Company will be required to expense the fair value of employee stock options and similar awards. As a public company, the Company is allowed to select from two alternative transition methods, each having different reporting implications. The anticipated impact of SFAS No. 123R on the Company’s consolidated operating results has not been determined at this time.

4. INVENTORIES

Inventories consisted of the following:

	February 28, 2006	August 31, 2005
Production materials	$ 301,526	$ 211,713
Finished goods	1,291,013	1,336,056
	$ 1,592,539	$ 1,547,769

5. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following:

	February 28, 2006	August 31, 2005
Land	$ 29,097	$ 29,097
Buildings and improvements	955,788	864,661
Machinery and equipment	679,749	652,400
	1,664,634	1,546,158
Less accumulated depreciation	(914,653)	(825,517)
	$ 749,981	$ 720,641

6. INDUSTRIAL PATENTS AND TRADEMARKS, NET

Industrial patents and trademarks, net consisted of the following:

	February 28, 2006	August 31, 2005
Patents and trademarks	$ 1,311,889	$ 1,182,089
Less accumulated amortization	(201,899)	(121,872)
	$ 1,109,990	$ 1,060,217

7. NOTES RECEIVABLE AND FOREIGN DEPOSITS

Notes receivable and foreign deposits consisted of the following:

	February 28, 2006	August 31, 2005
Notes receivable from corporate joint venture partners	$ 51,710	$ 50,000
Notes receivable from other sources	641,774	1,027,453
Foreign deposits	445,469	445,469
	$ 1,138,953	$ 1,522,922

8. INVESTMENTS IN CORPORATE JOINT VENTURES

Composite financial information from the financial statements of the Company's joint ventures carried on the equity basis is summarized as follows:

	February 28, 2006	August 31, 2005
Current assets	$ 29,050,993	$ 27,305,426
Total assets	35,338,298	33,839,267
Current liabilities	13,510,005	13,388,740
Noncurrent liabilities	2,390,198	2,249,904
Joint ventures' equity	19,438,418	18,198,864
Northern Technologies International Corporation's share of Corporate Joint Ventures' equity	$ 8,966,000	$ 8,622,361

	February 28, 2006	February 28, 2005
Net sales	$ 31,153,683	$ 28,416,263
Gross profit	14,703,559	13,735,319
Net income	2,742,286	1,685,108
Northern Technologies International Corporation's share of equity in income of Corporate Joint Ventures	$ 1,315,326	$ 884,701

During the six months ended February 28, 2006, the Company did not make any new investments in corporate joint ventures.

9. GOODWILL

Goodwill represents the excess of purchase price and related costs over the value assigned to the net tangible and identifiable intangible assets of React NTI LLC when it was acquired on September 30, 2003. The Company has fully adopted SFAS No. 141, "Business Combinations," and SFAS No. 142, "Goodwill and Other Intangible Assets." SFAS No. 141 requires that (1) the purchase method of accounting be used for all business combinations initiated after June 30, 2001, (2) provide specific criteria for the initial recognition and measurement of intangible assets apart from goodwill, and (3) require that unamortized negative goodwill be written off immediately as an extraordinary gain instead of being deferred and amortized. SFAS No. 142 primarily addresses the accounting for goodwill and intangible assets subsequent to their initial recognition. The provisions of SFAS No. 142 (1) prohibit the amortization of goodwill and indefinite-lived intangible assets, (2) require that goodwill and indefinite-lived intangible assets may be impaired (3) require that reporting units be identified for the purpose of assessing potential impairments of goodwill, and (4) remove the 40 year limitation on the amortization period of intangible assets that have finite lives. The Company has determined that its recorded goodwill was not impaired.

The Company tests goodwill annually for impairment and in interim periods if certain events occur indicating that the carrying value of goodwill may be impaired. Goodwill at February 28, 2006 and August 31, 2005 was $304,000.

10. CORPORATE DEBT

The Company has a revolving credit facility that expires on January 31, 2007. Outstanding amounts under the revolving credit facility bear interest at an annual rate based on LIBOR plus 2.25%. As of February 28, 2006, the interest rate was 6.82%. Amounts borrowed under the facility are collateralized by a lien on substantially all of the Company's assets, excluding its corporate joint venture interests and intellectual property rights.

The credit documents contain other terms and provisions (including representations, covenants and conditions) customary for transactions of this type. Significant financial covenants include minimum fixed charge coverage ratio of 1.0 to 1.0. The Company is in compliance with all covenants under the revolving credit facility. Outstanding balances were $917,000 and $1,000,000 as of February 28, 2006 and August 31, 2005, respectively.

11. STOCKHOLDERS' EQUITY

During the six months ended February 28, 2006, the Company did not purchase or retire any shares of common stock. The following stock options to purchase shares of common stock were exercised:

Options Exercised	Exercise Price
16,000	$ 4.56
1,000	$ 5.70
2,000	$ 5.00
2,000	$ 3.34

The Company did not acquire or retire any shares of common stock during the six months ended February 28, 2005 and no stock options were exercised.

12. SUPPLEMENTAL CASH FLOW INFORMATION

On November 12, 2004, the Company's Board of Directors declared a cash dividend of $0.07 per share that totaled $250,739 and was paid on December 17, 2004 to shareholders of record on December 3, 2004. No dividend was declared or paid during the six months ended February 28, 2006.

13. TOTAL COMPREHENSIVE INCOME

The Company's total comprehensive income was as follows:

	Three Months Ended		Six Months Ended	
	February 28, 2006	February 28, 2005	February 28, 2006	February 28, 2005
Net (loss) income	$ 204,730	$ (161,684)	$ 858,713	$ 185,636
Other comprehensive income – foreign currency translation adjustment	127,703	17,053	(188,326)	588,562
Total comprehensive (loss) income	$ 332,433	$ (144,631)	$ 650,388	$ 774,198

14. NET INCOME (LOSS) PER COMMON SHARE

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

No shares were excluded from the computation of common share equivalents as of February 28, 2006, as all stock option exercise prices were less than the average market price of a share of common stock. Options to purchase 4,000 shares of common stock with a weighted average exercise price of $6.75 were outstanding as of February 28, 2005, but were excluded from the computation of common share equivalents, because their exercise prices were greater than the average market price of a share of common stock.

15. STOCK-BASED COMPENSATION

The Company has two stock option plans under which options to purchase shares of common stock are outstanding – 1994 Stock Incentive Plan and 2000 Stock Incentive Plan (the Plans). The Company's Board of Directors and stockholders approved both of these Plans and the Compensation Committee of the Board of Directors administers the Plans. The 1994 Plan has expired, except with respect to outstanding option grants. Under the Plans, incentive stock options and nonqualified stock options could be granted to directors, officers, non-officer employees, and independent consultants of the Company. Options granted under the Plan generally have a term of five years and become exercisable over a three- or four-year period beginning on the one year anniversary date of the grant. Options are granted at per share exercise prices equal to the market value of the Company's common stock on the date of grant.

The following table summarizes information about stock options outstanding and exercisable at February 28, 2006:

Option Grant Date	Per Share Exercise Prices	Remaining Contractual Life	Number of Options Outstanding (#)	Number of Options Exercisable (#)
9/1/2001	$ 5.00	0.5	2,000	2,000
2/15/2002	$ 4.56	1.0	22,000	22,000
9/1/2002	$ 3.34	1.5	2,000	2,000
9/1/2003	$ 5.30	2.5	6,000	4,002
9/1/2004	$ 5.25	3.5	8,000	2,668
11/12/04	$ 6.15	3.7	3,000	1,000
7/29/05	$ 5.96	4.4	334	0
9/1/05	$ 5.75	4.5	14,000	0
11/4/05	$ 5.38	4.7	56,000	0
			113,334	33,670

16. SEGMENT INFORMATION

Net sales by geographic location as a percentage of total net sales were as follows:

	February 28, 2006	February 29, 2005
Inside the U.S.A. to unaffiliated customers	79.7%	77.8%
Outside the U.S.A. to:		
Corporate Joint Ventures in which the Company is a shareholder directly and indirectly	8.5%	10.1%
Unaffiliated customers	11.8%	12.1%
	100%	100%

One of the Company's customers accounted for approximately 27.8% and 30.6% of the Company's net sales for the six months ended February 28, 2006 and 2005, respectively, and $637,151 and $424,002 of the Company's receivables at February 28, 2006 and 2005, respectively.

17. RETIREMENT PLAN AND EMPLOYEE STOCK PURCHASE PLAN

The Company has a 401(k) employee savings plan. Employees who meet certain age and service requirements may elect to contribute up to 15% of their salaries. The Company contributes the lesser of 50% of the participant's contributions or 3.5% of the employee's salary. The Company recognized expense for the savings plan of $46,440 and $37,493 for the six months ended February 28, 2006 and 2005, respectively.

18. RELATED PARTY TRANSACTIONS

The Company paid reimbursement for travel and related expenses of $119,867 and $241,503 for the three and six months ended February 28, 2006 and $97,824 and $271,996 for the three and six months ended February 28, 2005, respectively, to a financial and management consulting firm, Inter Alia, which beneficially owns 25.4% of the Company's outstanding common stock, and of which the Company's former Chairman of the Board and Chief Executive Officer and current Chairman Emeritus and the Company's current President and Chief Executive Officer are shareholders. The management consulting firm earned commissions on royalties paid by corporate joint ventures of approximately $39,024 and $65,001, for the three and six months ended February 28, 2006 and $33,196 and $85,308 for the three and six months ended February 28, 2005, respectively, on net proceeds of sales of the Company's products. In addition, the Company paid health insurance premiums of $2,438 and $6,623 for the three and six months ended February 28, 2006 and $4,490 and $8,980 for the three and six months ended February 28, 2005, respectively, related to policies that insure the Company's former Chairman of the Board and Chief Executive Officer and current Chairman Emeritus.

The Company made consulting payments to Dr. Ramani Narayan, a director of the Company, of $25,000 on each of September 9, 2004, December 2, 2004, April 7, 2005, June 14, 2005, November 8, 2005 and February 1, 2006. The consulting services rendered by Dr. Narayan related to research and development associated with various new technologies.

The Company made a consulting payment to Dr. Sunggyu Lee, a director of the Company, of $50,000 on February 2, 2005, $50,000 on June 6, 2005 and $25,000 on November 8, 2005 and February 1, 2006. The consulting services rendered by Dr. Lee related to research and development associated with various new technologies.

The Company pays rent for its Beachwood office and lab location to a related party. See Note 20.

19. INCOME TAXES

Reconciliations of the expected federal income tax at the statutory rate with the provisions for income taxes for the six months ended February 28 are as follows:

	February 28, 2006	February 28, 2005
Tax computed at statutory rates	$ 384,000	$ 52,000
Tax effect on equity in income of international joint ventures	(442,000)	(301,000)
Tax effect on dividends received from corporate joint ventures	263,000	279,000
Research and development credit	(50,000)	—
Other	149,000	(42,000)
	$ 304,000	$ (12,000)

20. COMMITMENTS AND CONTINGENCIES

In fiscal 1999, a subsidiary of the Company, NTI Facilities, Inc., acquired a one-third ownership of Omni-Northern Ltd., an Ohio limited liability company, in contemplation of NTI Facilities, Inc. entering into a lease agreement with Omni-Northern Ltd. for approximately 50% of the net rental space in a building owned by Omni-Northern Ltd.

Omni-Northern Ltd. owns and operates a rental property located at 23205 Mercantile Road, Beachwood, Ohio, comprising approximately two acres of land and a building of approximately 34,000 square feet. The property has an approximate value of $2,205,000, based upon the cash-to-mortgage acquisition price of the property paid in fiscal 2000. The Company has guaranteed up to $329,082 of the Omni-Northern Ltd.'s $1,970,552 mortgage obligation with National City Bank, Cleveland, Ohio. NTI Facilities, Inc. entered into a 15-year lease agreement with Omni-Northern Ltd. for approximately 17,000 square feet of office, manufacturing, laboratory and warehouse space, requiring monthly rental payments of $17,500, which are adjusted annually according to the annual consumer price index through November 2014. By its ownership in Omni-Northern Ltd., NTI Facilities Inc. is entitled to one-third of the operating results of Omni-Northern Ltd. Omni-Northern has leased the remaining 50% of the net rental space to other third parties.

The Company is involved in a legal action in Finland whereby it sued a Finish company for trademark infringement. The Company won the initial case, but has subsequently lost on appeal. The Company is currently appealing the latest court decision. The outcome of the appeal is unknown and any potential loss can not be estimated at this time, however, the potential judgment or settlement resulting from this case could have a material impact on the financial position or results of operations of the Company. There are no other legal actions arising in the normal course of business that management is of the opinion that any judgment or settlement resulting from pending or threatened litigation would not have a material adverse effect on the financial position or results of operations of the Company.

The Company loaned Plastitech Ltd. $560,486 and Jose-Louis Turullols $69,274 during fiscal 2005. These loans bear interest at the rate of seven and one half percent (7.5%) per annum. The entire principal balance of these loans and all accrued interest thereon will be due in full on January 1, 2007. These loans are secured with shares of common stock of Stratek Plastics Ltd. representing approximately 3.9% of each borrower's ownership interest in Stratek Plastics Ltd.

On April 28, 2005, the Company entered into a Settlement Agreement and Asset Purchase (the "Settlement Agreement") with Excor Korrosionsforschung GmbH ("Excor"), Fibro-NTI Urun Gelistirme Ve Pazarlama Ticaret Anonim ("Fibro-NTI"), Acobal SAS ("Acobal"), Henkel KGaA and Henkel Surface Technologies SAS pursuant to which the Company agreed to settle certain litigation the Company and its 50% owned joint venture in France, Acobal SAS, commenced against Henkel Surface Technologies S.A.S and Henkel KGaA. Under the Settlement Agreement, the Company, Acobal and the Company's 50% owned joint venture in Turkey, Fibro-NTI, agreed to purchase certain non-contact corrosion protection assets used by Henkel and/or its affiliates for EURO 1,500,000. Of the EURO 1,500,000, the Company agreed to pay EURO 450,000 which was capitalized in patents and trademarks, Acobal agreed to pay EURO 850,000 and Fibro-NTI agreed to pay EURO 200,000 for certain identified assets. The closing of the various asset purchase transactions took place on June 1, 2005. The Company borrowed EURO 450,000 to pay its portion of the EURO 1,500,000 from the other 50% owner of the Company's joint venture in Germany. During the six months ended February 28, 2006, the Company repaid the full amount borrowed of EURO 450,000. In addition, both Acobal and Fibro-NTI also borrowed EURO 850,000 and EURO 200,000, respectively, from the other 50% owner of the Company's joint venture in Germany to pay their respective portions of the EURO 1,500,000 purchase price for the Henkel assets. The loans have an interest rate of 6%. In connection with the transaction, Henkel agreed to a three-year non-competition provision and agreed not to acquire more than 5% of the outstanding shares of the Company.

On June 24, 2005, the Company executed a purchase agreement to purchase a building and land for a new corporate headquarters in Circle Pines, Minnesota. The agreement is to purchase a 40,000 square foot building and land for $1,500,000 and anticipates spending $1,000,000 on various owner improvements. The Company anticipates closing the transaction on May 1, 2006. Additionally, although on October 6, 2005, the Company executed an agreement to sell its existing building and land in Lino Lakes, Minnesota that deal was subsequently terminated as of January 3, 2006. The Company is currently seeking a new buyer of the building and land in Lino Lakes, MN. The Company has executed a financing commitment with National City Bank in Cleveland for two term loans; a fixed rate five year senior secured term loan for $1,275,000 secured by the land and building in Circle Pines, Minnesota and a variable rate five year senior secured term loan for $648,000 secured by the land and building in Lino Lakes, Minnesota. Sources of cash needed to finance the purchase and improvements over and above those financed by National City will come from the from the proceeds of the sale of the land and building in Lino Lakes, Minnesota facility and/or operating cash flows in the event it is not sold.

On January 30, 2006, the Compensation Committee of the Board of Directors of the Company approved the final terms of an annual cash bonus plan for executive officers and certain employees of the Company for fiscal year ending August 31, 2006. The purpose of the annual cash bonus plan is to align the interests of the Company and its subsidiaries, executive officers and stockholders by providing an incentive for the achievement of key corporate and individual performance measures that are critical to the success of the company and linking a significant portion of each executive officer's annual compensation to the achievement of such measures. The total amount available under the cash bonus plan will be 25% of the Company's income before income taxes, provided that the Company is at a positive variance to the Board of Director approved budgeted net income for the fiscal year. The bonus will be divided amongst the Company's executive officers and other plan participants depending upon each executive officer's and other participant's individual performance during the fiscal year ending August 31, 2006 as determined by the Compensation Committee in its sole discretion. The terms of the annual cash bonus plan for fiscal 2006 were set forth in resolutions approved by the Compensation Committee and are not otherwise set forth in any written plan or agreements between the Company and the executive officers.

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

This Management's Discussion and Analysis provides material historical and prospective disclosures intended to enable investors and other users to assess our financial condition and results of operations. Statements that are not historical are forward-looking and involve risks and uncertainties discussed under the caption "Forward-Looking Statements" in Item 2 of this Report. The following discussion of the results of the operations and financial condition of the Company should be read in conjunction with the Company's consolidated financial statements and the related notes thereto included under Part I, Item I entitled "Financial Statements" of this Report.

Overview

The Company focuses on developing, marketing and selling proprietary environmentally responsible materials science based products and technical services in over 50 countries worldwide via a network of joint ventures. The Company manufactures, markets and sells primarily rust and corrosion inhibiting products and services for automotive, electronics, electrical, mechanical and military applications, sold under the brand names ZERUST® and EXCOR®. The Company also offers direct, worldwide on-site technical support on rust and corrosion issues. In North America, the Company markets its technical service and ZERUST® products principally to industrial users by a direct sales force and through a network of independent distributors and sales representatives. The Company's technical service representatives work directly with the end users of the Company's products to analyze their specific needs and develop systems to meet their technical requirements.

The Company participates, either directly or indirectly through holding companies, in 27 corporate joint venture arrangements in North America, South America, Europe, Asia, and the Middle East. Each of these joint ventures manufactures, markets and sells finished products generally in the countries to which it is assigned. The Company's joint venture partners are knowledgeable in the applicable environmental, labor, tax and other requisite regulations and laws of the respective foreign countries in which they operate, as well as the local customs and business practices. While most of the Company's joint ventures currently only sell rust and corrosion inhibiting products and custom packaging systems, the Company also has joint ventures that manufacture, market and sell bio-based additives with both industrial and personal care applications, and electronic sensing instruments.

React-NTI LLC is an industrial chemical corporate joint venture of the Company that focuses on the development, manufacture and marketing of proprietary lines of bio-based additives with both industrial and personal care applications. Based on cotton, soy, corn and other renewable resources, React-NTI products outperform many synthetically derived competing alternatives. React-NTI's target market includes the Company's existing industrial customer base, as well as the personal care and cosmetics industry. As of February 28, 2005, the Company began fully consolidating this 75% owned subsidiary, which was previously accounted for using the equity method.

The Company conducts all foreign transactions based on the U.S. dollar, except for its investments in various foreign corporate joint ventures, which are in the respective local currency. The exchange rate differential relating to investments in foreign corporate joint ventures is accounted for under the requirements of SFAS No. 52, Foreign Currency Translation.

The Company's net sales increased 8.6% and 11.9% during the three and six months ended February 28, 2006 as compared to the same period in fiscal 2005 primarily as a result of the increase in net sales of Zerust® products and of React-NTI products to new and existing customers in North America. Net sales of Zerust® products increased $771,468 to $5,805,903. Net sales of React-NTI products increased $97,286 to $2,373,419 for the six months ended February 28, 2006 as compared to the same period in fiscal 2005.

Cost of sales as a percentage of net sales increased slightly to 61.3% and 61.7% during the three and six months ended February 28, 2006 as compared to 57.2% and 59.5% during the same period in fiscal 2005 primarily as a result of the increase in raw material prices. However, operating expenses as a percentage of net sales decreased 7.3% and 7.6% during the three and six months ended February 28, 2006 as compared to the same period in fiscal 2005 primarily as a result of decreased lab and technical support expenses and general and administrative expenses.

Total net sales of all of the Company's joint ventures increased 9.6% to $31,153,683 during the six months ended February 28, 2006 as compared to $28,416,263 during the same period in fiscal 2005. The Company receives fees for technical and other support services it provides to its joint ventures based on the revenues of the individual joint ventures. The Company recognized increased fee income for such technical and support services during the six months ended February 28, 2006 as compared to the same period in fiscal 2006 due to the increase in total net sales of the joint ventures. The Company incurs direct expenses related to its corporate joint ventures and holding companies. Such expenses include consulting, travel, technical and marketing services to existing joint ventures, legal fees incurred in the establishment of new joint ventures, registration and promotion and legal defense of worldwide trademarks, and legal fees incurred in connection with the filing of patent applications. The Company incurred decreased direct joint venture expenses during the six months ended February 28, 2006 compared to the same period in fiscal 2005 primarily as a result of decreases in travel and external consulting services.

The Company's working capital was $3,446,821 at February 28, 2006, including $655,973 in cash and cash equivalents. Draws on the revolving credit facility as of February 28, 2006 and August 31, 2005 were $917,000 and $1,000,000, respectively.

The Company elected not to pay a cash dividend in fiscal 2006 in order to preserve cash and make investments in future operations. The Company expects to meet its future liquidity requirements during at least the next twelve months by using its existing cash and cash equivalents, forecasted cash flows from future operations, distributions of earnings and technical assistance fees to the Company from its joint venture investments and funds available through existing or anticipated financing arrangements. The Company paid a dividend of $0.07 per share in fiscal 2005.

Results of Operations

The following table sets forth our year to date results of operations for the six months ended February 28, 2006 and 2005.

	February 28, 2006	% of Net Sales	February 28, 2005	% of Net Sales	$ Change	% Change
Net sales	$ 8,179,322	100%	$ 7,310,568	100%	$ 868,754	11.9%
Cost of goods sold	5,044,356	61.7%	4,348,048	59.5%	696,308	16.0%
Selling expenses	1,572,189	19.2%	1,333,351	18.2%	238,838	17.9%
General and administrative expenses	1,250,470	15.3%	1,478,594	20.2%	(228,124)	(15.4)%
Lab and technical support expenses	$ 148,426	1.8%	$ 403,607	5.52%	$ (255,181)	(63.2)%

The following table sets forth our results of operations for the second quarter (three months) ended February 28, 2006 and 2005.

	February 28, 2006	% of Net Sales	February 28, 2005	% of Net Sales	$ Change	% Change
Net sales	$ 3,775,693	100%	$ 3,478,352	100%	297,341	8.6%
Cost of goods sold	2,315,245	61.3%	1,988,460	57.2%	326,785	16.4%
Selling expenses	874,234	23.2%	691,456	19.9%	182,778	26.43%
General and administrative expenses	563,911	14.9%	766,799	22.0%	(202,888)	(26.5)%
Lab and technical support expenses	$ 78,672	2.1%	$ 177,775	5.1%	(99,103)	(55.8)%

Net Sales and Cost of Sales. The Company's net sales originating in the United States increased during the three and six months ended February 28, 2006 compared to related periods ending February 28, 2005 primarily as a result of an increase in the Zerust® product line sales and an increase in the volume of React-NTI products sold to an existing customer in North America. Cost of sales increased as a percentage of net sales for the three and six months ended February 28, 2006 compared to February 28, 2005 primarily as a result of increase in raw material prices.

Selling Expenses. The Company's selling expenses increased for the six months ended February 28, 2006 compared to February 28, 2005 primarily as a result of a combination of decreases in travel expenses of $15,000, and commissions to salespeople and to manufacturer's representatives totaling $75,000, offset by increases related to salary expense of $111,000, advertising expense of $13,000, customs and duties fees of $16,000, consulting expense of $86,000, trade show expense of $13,000, insurance expense of $13,000 and telephone expense of $68,000. The increases for the three months ended February 28, 2006 as compared to February 28, 2005 are proportional to the increases associated with the six month changes noted above. Expenses as a percentage of net sales increased slightly for the three and six months ended February 28, 2006 compared to February 28, 2005.

General and Administrative Expenses. The Company's general and administrative expenses decreased for the six months ended February 28, 2006 compared to February 28, 2005 primarily as a result of decreases in Sarbanes-Oxley consulting fees of $27,000, telephone expense of $15,000, express shipping $14,000, consulting fees of $73,000, director's fees and expense of $64,000, legal fees of $41,000, other income of $23,000 and information technology of $18,000 offset by increases in insurance expense of $70,000, audit and tax fees of $75,000 and salaries of $40,000. The decreases for the three months ended February 28, 2006 as compared to February 28, 2005 are proportional to the increases associated with the six month changes noted above. As a percentage of net sales, general and administrative expenses decreased for the three and six months ended February 28, 2006 compared to February 28, 2005 primarily as a result of the decrease in spending as described above.

Lab and Technical Support Expenses. The Company's lab and technical support expenses decreased for the six months ended February 28, 2006 compared to February 28, 2005 primarily due to the transfer of employees from the Lab and technical support area to research and development associated with corporate joint venture support. The decrease in expense associated with this transfer is $216,000. Additional decreases in expenses are associated with an over all cost reduction plan, specifically decreases in lab supplies and testing of $39,000. The decrease for the three months ended February 28, 2006 as compared to February 28, 2005 are proportional to the decrease associated with the six month changes noted above. As a percentage of net sales, lab and technical support expenses decreased for the three and six months ended February 28, 2006 compared to February 28, 2005 decrease for the three and six months ended February 28, 2006 compared to February 28, 2005 primarily as a result of the transfer of employees and decrease in spending as described above.

International Corporate Joint Ventures and Holding Companies. The Company continues its business program of establishing corporate joint venture arrangements in international markets directly or indirectly through holding companies.

The Company and/or an existing corporate joint venture manufactures and supplies proprietary ingredients, which make the finished products functional and enable manufacturing of the finished products to take place in the foreign countries. The Company's corporate joint ventures then market the finished products in their territories, and the Company's corporate joint ventures' profits are shared by the corporate joint venture shareholders in accordance with their ownership percentages of the joint venture entity.

The Company had Equity in income of industrial chemical corporate joint ventures and holding companies of $1,315,326 and $884,701 for the six months ended February 28, 2006 and 2005, respectively and $585,808 and $358,496 for the three months ended February 28, 2006 and 2005, respectively. The increase in equity in income was due to the significant increase in profitability from the corporate joint ventures as a whole.

The Company receives fees for technical and other support to the Company's corporate joint ventures based on the revenues of the individual corporate joint ventures. The Company recognized fee income for such support in the amounts of $2,134,049 and $2,004,271 for the six months ended February 28, 2006 and 2005, respectively and $1,019,989 and $987,018 for the three months ended February 28, 2006 and 2005, respectively.   The increase in fees for technical and other support to its corporate joint ventures was due to the significant increase in revenues from the corporate joint ventures as a whole.

The Company sponsors a worldwide corporate joint venture conference approximately every three to four years in which all of its corporate joint ventures are invited to participate. The Company defers a portion of its technical and other support fees received from its corporate joint ventures in each accounting period leading up to the next conference, reflecting that the Company has not fully earned the payments received during that period. The next corporate joint venture conference is scheduled to be held in 2008. There was $48,000 of deferred income recorded within other accrued liabilities at February 28, 2006, related to this future conference. The costs associated with these joint venture conferences are offset against the deferral as incurred, generally in the period in which the conference is held and immediately before.

The Company incurred direct expenses related to its corporate joint ventures and the holding companies of $1,290,946 and $2,456,530 for the three and six months ended February 28, 2006 compared to $1,295,901 and $2,499,374 for the same periods in 2005. These expenses include: product and business development, consulting, travel, technical and marketing services to existing joint ventures, legal fees regarding the establishment of new joint ventures, registration and promotion and legal defense of worldwide trademarks and legal fees incurred in the filing of patent applications for new technologies to which the Company acquired certain rights. The decreases in direct expenses incurred relating to the Company's corporate joint ventures and holding companies for the six months ended February 28, 2006 compared to the same period in fiscal 2005 was attributable to decreases of commission paid to Inter Alia of $20,000, expense reimbursement to Inter Alia of $25,000, legal fees of $46,000 and consulting fees of $151,000, offset by increases in expenses related to the transfer of employees from the lab and technical support area to research & development associated with corporate joint venture support of $216,000. The small decrease for the three months ended February 28, 2006 as compared to February 28, 2005 was minimal.

Interest Income. The Company's interest income decreased to $27,979 for the six months ended February 28, 2006 compared to $45,648 for the same period in 2005.

Interest Expense. The Company's interest expense increased to $35,506 for the six months ended February 28, 2006 compared to $3,314 for the same period in 2005.

Income Before Income Taxes. Income before income taxes increased $968,078 to $1,141,714 for the six months ended February 28, 2006 compared to $173,636 for the same period in 2005.

Income Taxes. Income tax expense for the six months ended February 28, 2006 and 2005 was calculated based on management's estimate of the Company's annual effective income tax rate. The Company's annual effective income tax rate for the six months ended February 28, 2006 and 2005 is lower than the statutory rate primarily due to the Company's equity in income of corporate joint ventures being recognized based on after-tax earnings of these entities. To the extent joint ventures' undistributed earnings are distributed to the Company, it is not expected to result in any material additional income tax liability after the application of foreign tax credits.

Liquidity and Capital Resources

Sources of Cash and Working Capital. At February 28, 2006, the Company's working capital was $3,446,821 with $655,973 in cash and cash equivalents, compared to working capital of $2,697,693, including $327,458 in cash and cash equivalents as of August 31, 2005.

The Company has a revolving credit facility that expires on January 31, 2007. Outstanding amounts under the revolving credit facility bear interest at an annual rate based on LIBOR plus 2.25%. As of February 28, 2006, the interest rate was 6.82%. Amounts borrowed under the facility are collateralized by a lien on substantially all of the Company's assets, excluding its corporate joint venture interests and intellectual property rights. The credit documents contain other terms and provisions (including representations, covenants and conditions) customary for transactions of this type. Significant financial covenants include minimum fixed charge coverage ratio of 1.0 to 1.0. The Company is in compliance with all covenants under the revolving credit facility. Outstanding balances were $917,000 and $1,000,000 as of February 28, 2006 and August 31, 2005, respectively.

The Company believes that a combination of its existing cash and cash equivalents, plus funds available through existing or anticipated financing arrangements and forecasted cash flows, will continue to be adequate to fund its operations, debt repayments, dividend payments and stock repurchases for at least the next twelve months. The Company anticipates borrowing to finance the building purchase and related capital expenditures.

Uses of Cash and Cash Flows. Cash flows used in operations for the six months ended February 28, 2006 and 2005 were $57,135 and $1,209,759, respectively. The net cash used in operations for the six months ended February 28, 2006 and 2005 resulted principally from net income being partially offset by the noncash equity income of industrial chemical joint ventures, and uses of cash for increases in operating assets more than offsetting net increases in operating liabilities.

Net cash provided by investing activities for the six months ended February 28, 2006 was $928,180, which resulted from dividends received from corporate joint ventures and cash received on loans being offset by additions to property and equipment and industrial patents. Net cash provided by investing activities for the six months ended February 28, 2005 was $195,021 which resulted from dividends received from corporate joint ventures being offset by investments in corporate joint ventures and additions to property and equipment and industrial patents.

Net cash used in financing activities for the six months ended February 28, 2006 was $542,530, which resulted primarily from the payoff of the note payable. Net cash provided by financing activities the six months ended February 28, 2005 was $426,280 which resulted primarily from borrowing on the line of credit and bank overdrafts being partially offset by dividends paid to shareholders.

Capital Expenditures and Commitments. The Company's subsidiary has entered into a 15-year lease agreement for approximately 16,994 square feet of office, manufacturing, laboratory and warehouse space requiring monthly payments of $17,500 which are 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 postretirement benefit program.

The Company loaned Plastitech Ltd. $560,486 and Jose-Louis Turullols $69,274 during fiscal 2005. These loans bear interest at the rate of seven and one half percent (7.5%) per annum. The entire principal balance of these loans and all accrued interest thereon will be due in full on January 1, 2007. These loans are secured with shares of common stock of Stratek Plastics Ltd. representing approximately 3.9% of each borrower's ownership interest in Stratek Plastics Ltd.

On April 28, 2005, the Company entered into a Settlement Agreement and Asset Purchase (the "Settlement Agreement") with Excor Korrosionsforschung GmbH ("Excor"), Fibro-NTI Urun Gelistirme Ve Pazarlama Ticaret Anonim ("Fibro-NTI"), Acobal SAS ("Acobal"), Henkel KGaA and Henkel Surface Technologies SAS pursuant to which the Company agreed to settle certain litigation the Company and its 50% owned joint venture in France, Acobal SAS, commenced against Henkel Surface Technologies S.A.S and Henkel KGaA. Under the Settlement Agreement, the Company, Acobal and the Company's 50% owned joint venture in Turkey, Fibro-NTI, agreed to purchase certain non-contact corrosion protection assets used by Henkel and/or its affiliates for EURO 1,500,000. Of the EURO 1,500,000, the Company agreed to pay EURO 450,000 which was capitalized in patents and trademarks, Acobal agreed to pay EURO 850,000 and Fibro-NTI agreed to pay EURO 200,000 for certain identified assets. The closing of the various asset purchase transactions took place on June 1, 2005. The Company borrowed EURO 450,000 to pay its portion of the EURO 1,500,000 from the other 50% owner of the Company's joint venture in Germany. During the six months ended February 28, 2006, the Company repaid the full amount borrowed of EURO 450,000. In addition, both Acobal and Fibro-NTI also borrowed EURO 850,000 and EURO 200,000, respectively, from the other 50% owner of the Company's joint venture in Germany to pay their respective portions of the EURO 1,500,000 purchase price for the Henkel assets. The loans have an interest rate of 6%. In connection with the transaction, Henkel agreed to a three-year non-competition provision and agreed not to acquire more than 5% of the outstanding shares of the Company.

On June 24, 2005, the Company executed a purchase agreement to purchase a building and land for a new corporate headquarters in Circle Pines, Minnesota. The agreement is to purchase a 40,000 square foot building and land for $1,500,000 and anticipates spending $1,000,000 on various owner improvements. The Company anticipates closing the transaction on May 1, 2006. Additionally, although on October 6, 2005, the Company executed an agreement to sell its existing building and land in Lino Lakes, Minnesota that deal was subsequently terminated as of January 3, 2006. The Company is currently seeking a new buyer of the building and land in Lino Lakes, MN. The Company has executed a financing commitment with National City Bank in Cleveland for two term loans; a fixed rate five year senior secured term loan for $1,275,000 secured by the land and building in Circle Pines, Minnesota and a variable rate five year senior secured term loan for $648,000 secured by the land and building in Lino Lakes, Minnesota. Sources of cash needed to finance the purchase and improvements over and above those financed by National City will come from the from the proceeds of the sale of the land and building in Lino Lakes, Minnesota facility and/or operating cash flows in the event it is not sold.

Off-Balance Sheet Arrangements

The Company does not have any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, which would have been established for the purpose of facilitating off-balance sheet financial arrangements. As such, the Company is not materially exposed to any financing, liquidity, market or credit risk that could arise if the Company had engaged in such arrangements.

In fiscal 1999, a subsidiary of the Company, NTI Facilities, Inc., acquired a one-third ownership of Omni-Northern Ltd., which owns and operates a rental property located at 23205 Mercantile Road, Beachwood, Ohio. The property has an approximate value of $2,205,000, based upon the cash-to-mortgage acquisition price of the property paid in fiscal 2000. The Company has guaranteed up to $329,082 of Omni-Northern Ltd.'s $1,939,364 mortgage obligation with National City Bank, Cleveland, Ohio. The building is fully leased at present.

Inflation and Seasonality

Inflation in the U.S. and abroad has historically had little effect on the Company. The Company's business has not historically been seasonal.

Market Risk

The Company is exposed to some market risk stemming from changes in foreign currency exchange rates, commodity prices and interest rates.

The Company is exposed to foreign currency exchange rate risk arising from its investments in its foreign corporate joint ventures and holding companies since the Company's fees for technical support and other services and dividend distributions from these foreign entities are paid in foreign currencies. The Company's principal exchange rate exposure is with the Euro, the Japanese yen, Korean won and the English pound against the U.S. dollar. The Company does not hedge against its foreign currency exchange rate risk. Since the Company's investments in its corporate joint ventures and holding companies are accounted for using the equity method, any changes in foreign currency exchange rates would be reflected as a foreign currency translation adjustment and would not change the equity in income of joint ventures and holding companies reflected in the consolidated statement of income.

Some raw materials used in the Company's products are exposed to commodity price changes. The primary commodity price exposures are with a variety of plastic resins.

The Company's revolving credit facility bears interest at a rate based on LIBOR and thus may subject the Company to some market risk on interest rates. $917,000 was outstanding under this facility as of February 28, 2006.

Related Party Transactions

See note 18 to the Company's consolidated financial statements for related party transaction disclosure.

Critical Accounting Policies

The preparation of the Company's consolidated financial statements requires management to make estimates and judgments that affect the reported amount of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. The Securities and Exchange Commission has defined a company's most critical accounting policies as those that are most important to the portrayal of its financial condition and results of operations, and which require the company to make its most difficult and subjective judgments, often as a result of the need to make estimates of matters that are inherently uncertain. Based on this definition, the Company has identified the following critical accounting policies. Although the Company believes that its estimates and assumptions are reasonable, they are based upon information available when they are made. Actual results may differ significantly from these estimates under different assumptions or conditions.

Investments in Corporate Joint Ventures

Investments in corporate joint ventures are accounted for using the equity method, except for React-NTI LLC which has been fully consolidated, for all periods presented due to the adoption of FIN 46R (See Note 2 to the Company's consolidated financial statements). Periodically, the Company evaluates the investments for any impairment and assesses the future cash flow projections to determine if there are any going concern issues. If an investment were determined to be impaired, then a reserve would be created to reflect the impairment on the financial results of the Company.

The Company's evaluation of its investments in corporate joint ventures requires the Company to make assumptions about future cash flows of its corporate joint ventures. These assumptions require significant judgment and actual results may differ from assumed or estimated amounts. The Company's investments in corporate joint ventures were $8,966,000 and $8,622,361 as of February 28, 2006 and August 31, 2005, respectively.

Principles of Consolidation

The consolidated financial statements include the accounts of Northern Technologies International Corporation, its wholly owned subsidiary, NTI Facilities, Inc. and React-NTI LLC. All significant intercompany transactions and balances have been eliminated in consolidation.

Accounts and Notes Receivable

The Company values accounts and notes receivable, net of an allowance for doubtful accounts. Each quarter, the Company prepares an analysis of its ability to collect outstanding receivables that provides a basis for an allowance estimate for doubtful accounts. In doing so, the Company evaluates the age of its receivables, past collection history, current financial conditions of key customers, and economic conditions. Based on this evaluation, the Company establishes a reserve for specific accounts and notes receivable that it believes are uncollectible, as well as an estimate of uncollectible receivables not specifically known. A deterioration in the financial condition of any key customer or a significant slow down in the economy could have a material negative impact on the Company's ability to collect a portion or all of the accounts and notes receivable. The Company believes that an analysis of historical trends and its current knowledge of potential collection problems provide the Company with sufficient information to establish a reasonable estimate for an allowance for doubtful accounts. However, since the Company cannot predict with certainty future changes in the financial stability of its customers, the Company's actual future losses from uncollectible accounts may differ from its estimates. In the event the Company determined that a smaller or larger uncollectible accounts reserve is appropriate, the Company would record a credit or charge to selling expense in the period that it made such a determination. Accounts receivable have been reduced by an allowance for uncollectible accounts of $10,000 and $13,085 at February 28, 2006 and August 31, 2005, respectively.

Revenue Recognition

In recognizing revenue, the Company applies the provisions of the Securities and Exchange Commission Staff Accounting Bulletin No. 104, Revenue Recognition. The Company recognizes revenue from the sale of its products when persuasive evidence of an arrangement exists, the product has been delivered, the price is fixed and determinable and collection of the resulting receivable is reasonably assured. These criteria are met at the time of shipment when risk of loss and title pass to the customer or distributor.

Foreign Currency Translation (Accumulated Other Comprehensive Income)

The functional currency of each international corporate joint venture is the applicable local currency. The translation of the applicable foreign currencies into U.S. dollars is performed for balance sheet accounts using current exchange rates in effect at the balance sheet date and for revenue and expense accounts using an average monthly exchange rate. Translation gains or losses are reported as an element of accumulated other comprehensive income.

Stock Based Compensation

In accordance with Accounting Principles Board (APB) Opinion No. 25 and related interpretations, the Company uses the intrinsic value-based method for measuring stock-based compensation cost which measures compensation cost as the excess, if any, of quoted market price of the Company's common stock at the grant date over the amount the employee must pay for the stock. The Company's general policy is to grant stock options at fair value at the date of grant.

The Company did not recognize any expense in the financial statements as they were all issued at fair market value. Options and warrants issued to non-employees are recorded at fair value, as required by Statement of Financial Accounting Standards (SFAS) No. 123, "Accounting for Stock-Based Compensation", using the Black-Scholes pricing method.

In December 2002, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure." SFAS No. 148 is an amendment to SFAS No. 123 providing alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation and also provides required additional disclosures about the method of accounting for stock-based employee compensation. The Company adopted the annual disclosure provision of SFAS No. 148 during the year ended August 31, 2004. The Company chose to not adopt the voluntary change to the fair value based method of accounting for stock-based employee compensation, pursuant to SFAS No. 148.

The Company has adopted the disclosure-only provisions of SFAS No. 148, Accounting for Stock-Based Compensation. Accordingly, no compensation cost has been recognized with respect to stock options. Had compensation cost for stock options been determined based on the fair value methodology prescribed by SFAS 123, the Company's net loss and net loss per share would have been reduced to the pro forma amounts. In December 2004, FASB issued SFAS No. 123 (revised 2004), "Share-Based Payment", that focuses primarily on accounting for transactions in which an entity obtains employee services in share-based payment transactions. This statement replaces SFAS No. 123, "Accounting for Stock-Based Compensation", and supersedes APB Opinion No. 25, "Accounting for Stock Issued to Employees."

Beginning with our quarterly period that begins September 1, 2006, we will be required to expense the fair value of employee stock options and similar awards. As a public company, we are allowed to select from two alternative transition methods, each having different reporting implications. The impact of SFAS No. 123R on our consolidated financial statements has not been determined at this time.

Forward-Looking Statements

This Quarterly Report on Form 10-QSB contains not only historical information, but also forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. In addition, the Company or others on the Company's behalf may make forward-looking statements from time to time in oral presentations, including telephone conferences, in press releases or reports, on the Company's Internet web site or otherwise. Statements that are not historical are forward-looking and reflect expectations and assumptions. The Company tries to identify forward-looking statements in this Report and elsewhere by using words such as "may," "will," "should," "expects," "anticipates," "contemplates," "estimates," "believes," "plans," "projected," "predicts," "potential" or "continue" or the negative of these or similar terms.

Forward-looking statements involve risks and uncertainties. These uncertainties include factors that affect all businesses as well as matters specific to the Company. The Company cautions readers not to place undue reliance on any forward-looking statement that speaks only as of the date made and to recognize that forward-looking statements are predictions of future results, which may not occur as anticipated. Actual results could differ materially from those anticipated in the forward-looking statements and from historical results, due to the risks and uncertainties described below, as well as others that the Company may consider immaterial or does not anticipate at this time. The following risks and uncertainties are not exclusive and further information concerning the Company and its business, including factors that potentially could materially affect its financial results or condition, may emerge from time to time. The Company assumes no obligation to update forward-looking statements to reflect actual results or changes in factors or assumptions affecting such forward-looking statements. The Company advises you, however, to consult any further disclosures it may make on related subjects in its future quarterly reports on Form 10-QSB and current reports on Form 8-K it files with or furnishes to the Securities and Exchange Commission.

Risk Factors

The following are the most significant factors known to the Company that could materially adversely affect its business, financial condition or operating results.

Over 20 percent of the Company's net sales, not including corporate joint venture sales, are generated outside of the U.S. and the Company intends to continue to expand its international operations. The Company's international operations require management attention and financial resources and expose the Company to difficulties presented by international economic, political, legal, accounting and business factors.

The Company offers direct on-site technical support on rust and corrosion issues in 50 countries, and operates a marketing, distribution, and technical network through joint ventures in Asia, Europe, and South America. One of the Company's strategic objectives is to expand its international operations. The expansion of the Company's existing international operations and entry into additional international markets requires management attention and financial resources. Many of the countries in which the Company sells its products directly or indirectly through its corporate joint ventures, are, to some degree, subject to political, economic and/or social instability. The Company's international operations expose the Company and its joint venture partners, representatives, agents and distributors to risks inherent in operating in foreign jurisdictions. These risks include:

- difficulties in managing and staffing international operations and the required infrastructure costs including legal, tax, accounting, information technology;
- the imposition of additional U.S. and foreign governmental controls or regulations, new trade restrictions and restrictions on the activities of foreign agents, representatives and distributors, the imposition of costly and lengthy export licensing requirements and changes in duties and tariffs, license obligations and other non-tariff barriers to trade;
- the imposition of U.S. and/or international sanctions against a country, company, person or entity with whom the Company does business that would restrict or prohibit continued business with the sanctioned country, company, person or entity;
- pricing pressure that the Company or its corporate joint ventures may experience internationally;
- laws and business practices favoring local companies;
- currency exchange rate fluctuations;
- longer payment cycles and difficulties in enforcing agreements and collecting receivables through certain foreign legal systems;
- difficulties in enforcing or defending intellectual property rights; and
- multiple, changing and often inconsistent enforcement of laws and regulations.

The Company cannot be assured that one or more of the factors listed above will not harm its business. Any material decrease in the Company's international sales could adversely influence the Company's operating results.

Fluctuations in foreign currency exchange rates could result in declines in our reported net sales and net earnings.

Because the functional currency of the Company's foreign operations and investments in its foreign corporate joint ventures and holding companies is the applicable local currency, the Company is exposed to foreign currency exchange rate risk arising from transactions in the normal course of business since the Company's fees for technical support and other services and dividend distributions from these foreign entities are paid in foreign currencies. The Company's reported net sales and net income are subject to fluctuations in foreign exchange rates. The Company's principal exchange rate exposure is with the Euro, the Japanese yen, Korean won and the English pound against the U.S. dollar. The Company does not hedge against its foreign currency exchange rate risk. Since the Company's investments in its corporate joint ventures and holding companies are accounted for using the equity method, any changes in foreign currency exchange rates would be reflected as a foreign currency translation adjustment and would not change the equity in income of joint ventures and holding companies reflected in the Company's consolidated statements of income.

The Company's compliance with U.S. generally accepted accounting principles and any changes in such principles might adversely affect the Company's operating results and financial condition. Any requirement to consolidate the Company's corporate joint ventures or subject them to compliance with Sarbanes-Oxley Act of 2002 could adversely affect the Company's operating results and financial condition.

The Company adopted accounting policy FIN 46R effective as of February 28, 2005. As a result of FIN 46R, the Company consolidated React-NTI LLC, one of its corporate joint ventures that is 75% owned by the Company. If the interpretation of FIN 46R were to change and the Company were required to fully consolidate all of its corporate joint ventures or if the Company's corporate joint ventures otherwise would be required to be Sarbanes-Oxley compliant, the Company would incur significant additional costs. The Company estimates that the costs for each of its corporate joint venture to become Sarbanes-Oxley compliant would range between $150,000 to $500,000 and that annual maintenance expenses would range from $50,000 to $100,000 per year per corporate joint venture thereafter. In addition, other accounting pronouncements issued in the future could have a material cost associated with the Company's implementation of such new accounting pronouncements.

Two of the Company's principal stockholders beneficially own 25.5% of the Company's common stock and thus may be able influence to some extent matters requiring stockholder approval and could discourage the purchase of the Company's outstanding shares at a premium.

As of January 15, 2006, G. Patrick Lynch, the Company's President and Chief Executive Officer and a director, and Philip M. Lynch, the Company's former Chairman of the Board and Chief Executive Officer and current Chairman Emeritus, beneficially owned approximately 25.5% of the Company's outstanding common stock through Inter Alia (see Note 18 – Related Party Transactions). As a result of Messrs. G.P. Lynch's and P.M. Lynch's share ownership and Mr. G.P. Lynch's position as Chief Executive Officer and a director, they may be able to influence to some extent the affairs and actions of the Company, including matters requiring stockholder approval, such as the election of directors and approval of significant corporate transactions. The interests of Messrs. G.P. Lynch and P.M. Lynch may differ from the interests of the Company's other stockholders. This concentration of ownership may have the effect of delaying, preventing or deterring a change in control of the Company, could deprive the Company's stockholders of an opportunity to receive a premium for their common stock as part of a sale or merger of the Company and may negatively affect the market price of the Company's common stock. Transactions that could be affected by this concentration of ownership include proxy contests, tender offers, mergers or other purchases of common stock that could give stockholders the opportunity to realize a premium over the then-prevailing market price for shares of the Company's common stock.

The Company is currently involved in litigation over its trademark on the use of the color Yellow in corrosion inhibiting packaging, the loss of which could adversely affect the Company's business.

One of the Company's important trademarks for its business is the trademark for the color Yellow. The Company is currently involved in litigation against a competitor over this trademark. The Company has also in the past successfully prosecuted infringement claims against other competitors and third parties for their use of the color Yellow. If the Company were to lose any future litigation over this trademark, the Company could be in a more difficult position to enforce its rights to this trademark in other countries and against other third parties. The Company believes that the loss of its trademark for the color Yellow could have an adverse affect on the Company's business.

The Company's business, properties, and products are subject to governmental regulation with which compliance may require the Company to incur expenses or modify its products or operations and may expose the Company to penalties for non-compliance. Governmental regulation may also adversely affect the demand for some of the Company's products and its operating results.

The Company's business, properties, and products are subject to a wide variety of international, federal, state and local laws, rules and regulations relating to the protection of the environment, natural resources, and worker health and safety and the use, management, storage, and disposal of hazardous substances, wastes, and other regulated materials. These laws, rules, and regulations may affect the way the Company conducts its operations, and the failure to comply with these regulations could lead to fines and other penalties. Because the Company owns and operates real property, various environmental laws also may impose liability on the Company for the costs of cleaning up and responding to hazardous substances that may have been released on the Company's property, including releases unknown to the Company. These environmental laws and regulations also could require the Company to pay for environmental remediation and response costs at third-party locations where the Company disposed of or recycled hazardous substances. The Company's future costs of complying with the various environmental requirements, as they now exist or may be altered in the future, could adversely affect its financial condition and operating results. The Company is also subject to other international, federal and state laws, rules and regulations, the future non-compliance of which may harm the Company's business or may adversely affect the demand for some of its products. Changes in laws and regulations, including changes in accounting standards; taxation changes, including tax rate changes, new tax laws, revised tax law interpretations, also may adversely affect the Company's operating results.

The Company intends to grow its business through additional joint ventures, alliances and acquisitions, which are risky and could harm its business.

One of the Company's growth strategies is to expand its business by entering into additional joint ventures and alliances and acquiring businesses, technologies and products that complement or augment the Company's existing products. The benefits of a joint venture, alliance or acquisition may take more time than expected to develop, and the Company cannot guarantee that any future joint ventures, alliances or acquisitions will in fact produce the intended benefits. In addition, joint ventures, alliances and acquisitions involve a number of risks, including:

- diversion of management's attention;
- difficulties in assimilating the operations and products of an acquired business or in realizing projected efficiencies, cost savings and revenue synergies;
- potential loss of key employees or customers of the acquired businesses or adverse effects on existing business relationships with suppliers and customers;
- adverse impact on overall profitability if acquired businesses do not achieve the financial results projected in the Company's valuation models;

- reallocation of amounts of capital from other operating initiatives and/or an increase in the Company’s leverage and debt service requirements to pay the acquisition purchase prices, which could in turn restrict our ability to access additional capital when needed or to pursue other important elements of the Company’s business strategy;
- inaccurate assessment of undisclosed, contingent or other liabilities or problems and unanticipated costs associated with the acquisition; and
- incorrect estimates made in the accounting for acquisitions, incurrence of non-recurring charges and write-off of significant amounts of goodwill that could adversely affect the Company’s operating results.

The Company’s ability to grow through joint ventures, alliances and acquisitions will depend, in part, on the availability of suitable opportunities at an acceptable cost, the Company’s ability to compete effectively for these opportunities and the availability of capital to complete such transactions.

The Company relies on its independent distributors, manufacturer’s sales representatives and corporate joint ventures to market and sell its products.

In addition to its direct sales force, the Company relies on its independent distributors, manufacturer’s sales representatives and corporate joint ventures to market and sell its products in the United States and internationally. The Company’s independent distributors, manufacturer’s sales representatives and joint venture partners might terminate their relationship with the Company, or devote insufficient sales efforts to the Company’s products. The Company does not control its independent distributors, manufacturer’s sales representatives and joint ventures and they may not be successful in implementing the Company’s marketing plans. The Company’s failure to maintain its existing relationships with its independent distributors, manufacturer’s sales representatives and joint ventures, or its failure to recruit and retain additional skilled independent distributors, manufacturer’s sales representatives and joint venture partners could have an adverse effect on the Company’s operations.

The Company has very limited staffing and will continue to be dependent upon key employees. The Company’s success is dependent upon the efforts of a small management team and staff.

The Company’s future success will also depend in large part on its ability to identify, attract and retain other highly qualified managerial, technical, sales and marketing and customer service personnel. Competition for these individuals is intense, especially in the markets in which the Company operates. The Company may not succeed in identifying, attracting and retaining these personnel. The loss or interruption of services of any of the Company’s key personnel, the inability to identify, attract or retain qualified personnel in the future, delays in hiring qualified personnel, or any employee slowdowns, strikes or similar actions could make it difficult for the Company to manage its business and meet key objectives, which could harm the Company’s business, financial condition and operating results.

The Company relies on its management information systems for inventory management, distribution and other functions. If these information systems fail to adequately perform these functions or if the Company experiences an interruption in their operation, the Company’s business and operating results could be adversely affected.

The efficient operation of the Company’s business is dependent on its management information systems. The Company relies on its management information systems to effectively manage accounting and financial functions; manage order entry, order fulfillment and inventory replenishment processes; and to maintain its research and development data. The failure of management information systems to perform as anticipated could disrupt the Company’s business and product development and could result in decreased sales, causing the Company’s business and operating results to suffer. In addition, the Company’s management information systems are vulnerable to damage or interruption from natural or man-made disasters, terrorist attacks and attacks by computer viruses or hackers, or power loss or computer systems, Internet, telecommunications or data network failure. Any such interruption could adversely affect the Company’s business and operating results.

The Company's reliance upon patents, trademark laws, trade secrets and contractual provisions to protect its proprietary rights may not be sufficient to protect its intellectual property from others who may sell similar products.

The Company holds patents relating to various aspects of its products and believes that proprietary technical know-how is critical to many of our products. Proprietary rights relating to the Company's products are protected from unauthorized use by third parties only to the extent that they are covered by valid and enforceable patents or are maintained in confidence as trade secrets. The Company cannot be certain that it will be issued any patents from any pending or future patent applications owned by or licensed to the Company or that the claims allowed under any issued patents will be sufficiently broad to protect its technology. In the absence of patent protection, the Company may be vulnerable to competitors who attempt to copy the Company's products or gain access to its trade secrets and know-how. The Company's competitors may initiate litigation to challenge the validity of the Company's patents, or they may use their resources to design comparable products that do not infringe the Company's patents. The Company may incur substantial costs if its competitors initiate litigation to challenge the validity of is patents or if it initiates any proceedings to protect its proprietary rights and if the outcome of any such litigation is unfavorable to the Company, its business and operating results could be materially adversely affected.

In addition, the Company relies on trade secrets and proprietary know-how that it seeks to protect, in part, by confidentiality agreements with its employees, and consultants. These agreements may be breached and the Company may not have adequate remedies for any such breach. Even if these confidentiality agreements are not breached, the Company's trade secrets may otherwise become known or be independently developed by competitors.

If the Company is unable to continue to enhance existing products and develop and market new products that respond to customer needs and achieve market acceptance, the Company may experience a decrease in demand for its products, and its business could suffer.

One of the Company's strategies is to enhance its existing products and develop and market new products that respond to customer needs. The Company may not be able to compete effectively with its competitors unless the Company can keep up with existing or new products in the markets in which it competes. Product development requires significant financial and other resources. Although in the past the Company has implemented lean manufacturing and other productivity improvement initiatives to provide investment funding for new products, the Company cannot assure you that it will be able to continue to do so in the future. Products improvements and new product introductions also require significant planning, design, development and testing at the technological, product, and manufacturing process levels and the Company may not be able to timely develop product improvements or new products. The Company's competitors' new products may beat the Company's products to market, may be more effective or less expensive than the Company's products or render the Company's products obsolete. Any new products that the Company may develop may not receive market acceptance or otherwise generate any meaningful net sales or profits for the Company relative to its expectations, based on, among other things, existing and anticipated investments in manufacturing capacity and commitments to fund advertising, marketing, promotional programs, and research and development.

The Company faces intense competition in all of its product lines, including from competitors that have substantially greater resources than the Company does. The Company cannot assure you it will be able to compete effectively, which would harm its business and operating results.

The Company's products are sold in highly competitive markets throughout the world. The principal competitive factors in the Company's markets are pricing, product innovation, quality and reliability, product support and customer service and reputation. The Company competes in all of its products with numerous manufacturers, many of who have substantially greater financial, marketing, and other resources than the Company does.

As a result, they may be able to adapt more quickly to new or emerging technologies and changes in customer requirements, or to devote greater resources to the promotion and sale of their products than the Company can. In addition, competition could increase if new companies enter the market or if existing competitors expand their product lines or intensify efforts within existing product lines. The Company's current products, products under development and its ability to develop new and improved products may be insufficient to enable the Company to compete effectively with its competitors. The Company cannot assure you that it will be able to compete effectively, which would harm its business and operating results.

Recently enacted and future changes in securities laws and regulations have increased and are likely to continue to increase our costs.

Changing laws, regulations and standards relating to corporate governance and public disclosure, including the Sarbanes-Oxley Act of 2002, Securities and Exchange Commission rules and regulations and American Stock Exchange rules, create challenges for publicly held companies, including the Company. The Company's efforts to comply with evolving laws, rules, regulations and standards have resulted in, and are likely to continue to result in, increased general and administrative expenses and a diversion of management time and attention from revenue-generating activities to compliance activities. In particular, the Company's efforts to comply with Section 404 of the Sarbanes-Oxley Act of 2002 and the related regulations regarding its assessment of its internal control over financial reporting and its independent registered public accounting firm's report on that assessment will require the commitment of significant financial and managerial resources.

We will be exposed to risks relating to evaluations of internal control over financial reporting required by Section 404 of the Sarbanes-Oxley Act.

Changing laws, regulations and standards relating to corporate governance and public disclosure, including the Sarbanes-Oxley Act and related regulations implemented by the SEC and the NASDAQ National Market System, are creating uncertainty for public companies, increasing legal and financial compliance costs and making some activities more time consuming. The Company will be evaluating its internal controls systems to allow management to report on, and its independent registered public accounting firm to attest to, the Company's internal control over financial reporting. The Company will be performing the system and process evaluation and testing (and any necessary remediation) required to comply with the management certification and auditor attestation requirements of Section 404 of the Sarbanes-Oxley Act. The Company cannot be certain as to the timing of completion of its evaluation, testing and remediation actions or the impact of the same on its operations since there is presently no precedent available by which to measure compliance adequacy. If the Company is not able to implement the requirements of Section 404 in a timely manner or with adequate compliance, the Company may be subject to sanctions or investigation by regulatory authorities, including the SEC or the American Stock Exchange. This type of action could adversely affect the Company's financial results or investors' confidence in the Company, and could cause the Company's stock price to decline. In addition, the controls and procedures that the Company may implement may not comply with all of the relevant rules and regulations of the SEC and the American Stock Exchange. If the Company fails to develop and maintain effective controls and procedures, it may be unable to provide the required financial information in a timely and reliable manner.

ITEM 3 – CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

The Company maintains disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended) that are designed to reasonably ensure that information required to be disclosed by the Company in the reports it files or submits under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized, and reported, within the time periods specified in the Securities and Exchange Commission's rules and forms and that such information is accumulated and communicated to the Company's management, including the Company's principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

In designing and evaluating the Company's disclosure controls and procedures, the Company recognizes that any controls and procedures, no matter how well designed and operated can provide only reasonable assurance of achieving the desired control objectives and the Company necessarily is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures. The Company's management evaluated, with the participation of its Chief Executive Officer and its Chief Financial Officer, the effectiveness of the design and operation of the Company's disclosure controls and procedures as of the end of the period covered in this Report. Based on that evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective as of the end of such period to provide reasonable assurance that information required to be disclosed in the Company's Exchange Act reports is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms, and that material information relating to the Company and its consolidated subsidiaries is made known to management, including the Company's Chief Executive Officer and Chief Financial Officer, particularly during the period when the Company's periodic reports are being prepared.

The Company's management is aware, however, that there is a lack of segregation of duties due to the small number of employees of the Company dealing with general administrative and financial matters. However, the Company's management has decided that considering the employees involved and the control procedures in place, risks associated with such lack of segregation are insignificant and the potential benefits of adding employees to clearly segregate duties do not at this time justify the expenses associated with such increases.

Changes in Internal Control over Financial Reporting

There was no change in the Company's internal control over financial reporting that occurred during the quarter ended February 28, 2006 that has materially affected, or is reasonably likely to materially affect the Company's internal control over financial reporting.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The Company is involved in a legal action in Finland whereby it sued a Finish company for trademark infringement. The Company won the initial case, but has subsequently lost on appeal. The Company is currently appealing the latest court decision. The outcome of the appeal is unknown and any potential loss can not be estimated at this time, however, the potential judgment or settlement resulting from this case could have a material impact on the financial position or results of operations of the Company. There are no other legal actions arising in the normal course of business that management is of the opinion that any judgment or settlement resulting from pending or threatened litigation would not have a material adverse effect on the financial position or results of operations of the Company.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES, USE OF PROCEEDS AND SMALL BUSINESS ISSUER PURCHASES OF EQUITY SECURITIES

Recent Sales of Unregistered Equity Securities

During the six months ended February 28, 2006, the Company did not sell any equity securities that were not registered under the Securities Act of 1933.

Small Business Issuer Purchases of Equity Securities

The Company did not purchase any shares of its common stock or other equity securities of the Company during the six months ended February 28, 2006.

The Board of Directors authorized on November 13, 2003, Matthew Wolsfeld, Chief Financial Officer of the Company, to repurchase on behalf of the Company, up to 100,000 shares of the Company's common stock from time to time in accordance with applicable rules governing issuer stock repurchases. Since being authorized, the Company has repurchased and retired 44,200 shares of common stock.

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

The Annual Meeting of Stockholders of the Company (Annual Meeting) was held on January 30, 2006. The election of directors was voted on and approved by the Company's stockholders at the Annual Meeting. There were 3,589,993 shares of common stock entitled to vote at the meeting and a total of 3,261,211 shares or 90.84% were represented at the meeting.

The tabulation of votes is set forth as follows:

Proposal of the Election of Directors

		FOR	WITHHELD
Chenu	Pierre	3,252,531	8,680
Lynch	G. Patrick	3,252,731	8,480
Kubik	Donald	3,252,831	8,380
Stone	Mark	3,252,831	8,380
Lee	Sunggyu	3,247,331	13,880
Narayan	Ramani	3,247,331	13,880
Mayers	Mark	3,252,831	8,380
Kallmeyer	Vera	3,252,831	8,380
Coulombe	Jean-Guy	3,252,831	8,380

Approve of Virchow Krause & Company LLP as Independent Auditors

	FOR	AGAINST
Shares Voted	3,245,342	8,284

ITEM 5. OTHER INFORMATION

None

ITEM 6. EXHIBITS

The following exhibits are being filed or furnished with this quarterly report on Form 10-QSB:

Exhibit No.	Description
31.1	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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

Date: April 14, 2006

Matthew C. Wolsfeld, CPA
Chief Financial Officer
(Principal Financial and Accounting Officer
and Duly Authorized to Sign on Behalf of the
Registrant)

Exhibit 31.1

CERTIFICATION PURSUANT TO SECTION 302(A) OF THE SARBANES-OXLEY ACT OF 2002

I, G. Patrick Lynch, certify that:

1. I have reviewed this quarterly report on Form 10-QSB of Northern Technologies International Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the small business issuer as of, and for, the periods presented in this report;

4. The small business issuer’s other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the small business issuer and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the small business issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Evaluated the effectiveness of the small business issuer’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (c) Disclosed in this report any change in the small business issuer’s internal control over financial reporting that occurred during the small business issuer’s fourth quarter that has materially affected, or is reasonably likely to materially affect, the small business issuer’s internal control over financial reporting; and

5. The small business issuer’s other certifying officers and I have disclosed, based on our most recent evaluation of internal controls over financial reporting, to the small business issuer’s auditors and the audit committee of the small business issuer’s board of directors (or persons performing the equivalent function):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the small business issuer’s ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the small business issuer’s internal controls over financial reporting.

Date: April 14, 2006

Patrick Lynch

G. Patrick Lynch
President and Chief Executive Officer

Exhibit 31.2

CERTIFICATION PURSUANT TO SECTION 302(A) OF THE SARBANES-OXLEY ACT OF 2002

I, Matthew C. Wolsfeld, certify that:

1. I have reviewed this quarterly report on Form 10-QSB of Northern Technologies International Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the small business issuer as of, and for, the periods presented in this report;

4. The small business issuer’s other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the small business issuer and have:

    (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the small business issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    (b) Evaluated the effectiveness of the small business issuer’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    (c) Disclosed in this report any change in the small business issuer’s internal control over financial reporting that occurred during the small business issuer’s fourth quarter that has materially affected, or is reasonably likely to materially affect, the small business issuer’s internal control over financial reporting; and

5. The small business issuer’s other certifying officers and I have disclosed, based on our most recent evaluation of internal controls over financial reporting, to the small business issuer’s auditors and the audit committee of the small business issuer’s board of directors (or persons performing the equivalent function):

    (a) All significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the small business issuer’s ability to record, process, summarize and report financial information; and

    (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the small business issuer’s internal controls over financial reporting.

Date: April 14, 2006

Matthew C. Wolsfeld, CPA
Chief Financial Officer & Corporate Secretary

Exhibit 32.1

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Northern Technologies International Corporation (the "Company") on Form 10-QSB for the period ending February 28, 2006 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, G. Patrick Lynch, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge and belief:

The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Patrick Lynch

G. Patrick. Lynch

President and Chief Executive Officer
(principal executive officer)

Lino Lakes, Minnesota
April 14, 2006

Exhibit 32.2

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Northern Technologies International Corporation (the "Company") on Form 10-QSB for the period ending February 28, 2006 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Matthew C. Wolsfeld, Chief Financial Officer and Corporate Secretary of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge and belief:

The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Matthew C. Wolsfeld, CPA

Chief Financial Officer and Corporate Secretary
(principal financial officer and principal accounting officer)

Lino Lakes, Minnesota
April 14, 2006