

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-QSB

(Mark one)

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

For the quarterly period ended November 30, 2005

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)

6680 N. Highway 49 Lino Lakes, Minnesota
(Address of principal executive offices)

41-0857886

(I.R.S. Employer Identification No.)

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 No

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

Yes No

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 January 15, 2005

Common Stock, \$0.02 par value

3,589,993

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

NORTHERN TECHNOLOGIES INTERNATIONAL CORPORATION

FORM 10-QSB
November 30, 2005

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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 NOVEMBER 30, 2005 and AUGUST 31, 2005

	November 30, 2005	August 31, 2005
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 51,264	\$ 327,458
Receivables:		
Trade excluding corporate joint ventures, less allowance for doubtful accounts of \$5,026 and \$13,085 at November 30, 2005 and August 31, 2005	2,255,412	1,990,589
Trade corporate joint ventures	463,844	450,843
Technical and other services, corporate joint ventures	1,061,509	1,093,688
Income taxes	342,870	517,019
Inventories	1,613,308	1,547,769
Prepaid expenses	405,931	149,638
Deferred income taxes	27,088	27,088
	<hr/>	<hr/>
Total current assets	6,221,226	6,104,092
PROPERTY AND EQUIPMENT, net	774,571	720,641
OTHER ASSETS:		
Investments in corporate joint ventures:		
Industrial chemical	8,241,622	8,296,390
Industrial non-chemical	297,020	325,971
Deferred income taxes	497,197	497,197
Notes receivable and foreign deposit	1,242,951	1,522,922
Note from employee	75,908	82,116
Industrial patents and trademarks, net	1,099,466	1,060,217
Goodwill	304,000	304,000
Other	371,924	383,267
	<hr/>	<hr/>
	12,130,088	12,472,080
	<hr/>	<hr/>
	\$ 19,125,885	\$ 19,296,818
	<hr/>	<hr/>
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	\$ 1,450,600	\$ 1,284,784
Borrowings made on line of credit	400,000	1,000,000
Note payable	368,621	554,870
Accrued liabilities:		
Payroll and related benefits	473,098	265,174
Deferred joint venture royalties	46,890	74,702
Other	161,765	226,869
	<hr/>	<hr/>
Total current liabilities	2,900,974	3,406,399
DEFERRED GROSS PROFIT	—	30,000
MINORITY INTEREST	84,074	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 3,589,993	71,800	71,800
Additional paid-in capital	4,140,095	4,140,095
Retained earnings	11,810,494	11,176,509
Accumulated other comprehensive income	118,448	434,477
	<hr/>	<hr/>
Total stockholders' equity	16,140,837	15,822,881
	<hr/>	<hr/>
	\$ 19,125,885	\$ 19,296,818
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See notes to consolidated financial statements.

**NORTHERN TECHNOLOGIES INTERNATIONAL CORPORATION AND SUBSIDIARIES -
CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)
THREE MONTHS ENDED NOVEMBER 30, 2005 AND NOVEMBER 30, 2004**

	November 30, 2005	November 30, 2004
		(Restated)
NORTH AMERICAN OPERATIONS:		
Net sales	\$ 4,403,630	\$ 3,832,216
Cost of sales	2,729,111	2,359,588
Gross profit	1,674,519	1,472,628
Operating expenses:		
Selling	697,955	641,895
General and administrative	686,559	711,795
Lab and technical support	69,754	225,832
	1,454,268	1,579,522
NORTH AMERICAN OPERATING INCOME (LOSS)	220,251	(106,894)
CORPORATE JOINT VENTURES AND HOLDING COMPANIES:		
Equity in income of industrial chemical corporate joint ventures and holding companies	744,447	512,179
Equity in income (loss) of industrial non-chemical corporate joint ventures and holding companies	(14,929)	14,025
Fees for technical support and other services provided to corporate joint ventures	1,114,060	1,017,253
Expenses incurred in support of corporate joint ventures	(1,165,584)	(1,203,473)
INCOME FROM ALL CORPORATE JOINT VENTURES AND HOLDING COMPANIES	677,994	339,984
INTEREST INCOME	26,801	14,032
INTEREST EXPENSE	(3,649)	—
MINORITY INTEREST	(15,412)	(18,802)
INCOME BEFORE INCOME TAX EXPENSE	905,985	228,320
INCOME TAX EXPENSE (BENEFIT)	272,000	(119,000)
NET INCOME	\$ 633,985	\$ 347,320
NET INCOME PER COMMON SHARE:		
Basic	\$ 0.18	\$ 0.10
Diluted	\$ 0.18	\$ 0.10
WEIGHTED AVERAGE COMMON SHARES ASSUMED OUTSTANDING:		
Basic	3,589,993	3,581,992
Diluted	3,607,564	3,605,695
DIVIDENDS PAID PER COMMON SHARE	\$ —	\$ 0.07

See notes to consolidated financial statements.

**NORTHERN TECHNOLOGIES INTERNATIONAL CORPORATION AND
SUBSIDIARIES - CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)
THREE MONTHS ENDED NOVEMBER 30, 2005 and NOVEMBER 30, 2004**

	November 30, 2005	November 30, 2004
		(Restated)
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	633,983	347,320
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Depreciation expense	50,223	49,683
Amortization expense	40,566	12,544
Minority interest expense	15,412	18,802
Equity in (income) loss from corporate joint ventures:		
Industrial chemical	(744,447)	(512,179)
Industrial non-chemical	14,929	(14,025)
Deferred joint venture royalties	(27,812)	29,925
Change in current assets and liabilities:		
Receivables:		
Trade excluding corporate joint ventures	(264,823)	(74,020)
Trade corporate joint ventures	(13,001)	(96,093)
Technical and other services receivables, corporate joint ventures	32,179	(116,970)
Income taxes	174,149	77,194
Inventories		
Prepaid expenses and other	(255,168)	(149,428)
Employee note receivable	6,208	4,969
Accounts payable	165,816	176,511
Accrued liabilities	142,820	210,217
Net cash used in operating activities	(94,505)	(235,916)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investment in industrial chemical joint ventures	—	(38,531)
Dividends received from corporate joint ventures	497,208	100,970
Loans made	(20,029)	(381,492)
Cash received from notes receivable	300,000	181,780
Additions to property and equipment	(104,148)	(47,566)
Decrease (increase) in other assets	11,343	(27,660)
Additions to industrial patents	(79,814)	(73,725)
Net cash provided by (used in) investing activities	604,560	(286,224)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayments made on line of credit	(600,000)	—
Repayments on note payable	(186,249)	—
Net cash used in financing activities	(786,249)	—
NET DECREASE IN CASH AND CASH EQUIVALENTS	(276,194)	(522,140)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	327,458	662,038
CASH AND CASH EQUIVALENTS AT END OF PERIOD	51,264	139,898

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 November 30, 2005 and the results of their operations for the three months ended November 30, 2005 and November 30, 2004, and their cash flows for the three months ended November 30, 2005 and November 30, 2004, 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 months ended November 30, 2005 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 months ended November 30, 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.

As encouraged under FIN 46R, the prior financial periods included in this Report have been restated to reflect the consolidation of React-NTI LLC. The following table summarizes the Company's consolidated statement of operations for the three months ended November 30, 2004, that were restated to reflect the adoption by the Company of FIN 46R and the consolidation of React-NTI LLC.

	As Originally Reported		As Currently Reported
	11/30/04	FIN 46 R Adjustments	11/30/04
NORTH AMERICAN OPERATIONS			
Net sales	\$ 2,533,241	1,298,975	\$ 3,832,216
Cost of goods sold	1,255,148	1,104,440	2,359,588
Gross profit	1,278,093	194,535	1,472,628
Operating expenses	1,460,198	119,324	1,579,522
NORTH AMERICAN OPERATING INCOME (LOSS)	(182,105)	75,211	(106,894)
INCOME FROM ALL CORPORATE JOINT VENTURES AND HOLDING COMPANIES	396,393	(56,409)	339,984
INTEREST INCOME	14,032	—	14,032
MINORITY INTEREST	—	(18,802)	(18,802)
INCOME BEFORE INCOME TAX EXPENSE	228,320	—	228,320
INCOME TAX EXPENSE	(119,000)	—	(119,000)
NET INCOME	\$ 347,320	—	\$ 347,320

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:

	<u>November 30, 2005</u>	<u>November 30, 2004</u>
Net income:		
As reported	\$ 633,984	\$ 347,320
Pro forma	\$ 598,351	\$ 323,219
Basic net income per common share		
As reported	\$ 0.18	\$ 0.10
Pro forma	\$ 0.17	\$ 0.09
Diluted net income per share		
As reported	\$ 0.18	\$ 0.10
Pro forma	\$ 0.17	\$ 0.09
Stock-based compensation, net:		
As reported	\$ 0	\$ 0
Pro forma	\$ 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:

	<u>November 30, 2005</u>	<u>November 30, 2004</u>
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	4.23%	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:

	<u>November 30, 2005</u>	<u>August 31, 2005</u>
Production materials	\$ 345,662	\$ 211,713
Finished goods	1,267,646	1,336,056
	<u>\$ 1,613,308</u>	<u>\$ 1,547,769</u>

5. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following:

	November 30, 2005	August 31, 2005
Land	\$ 29,097	\$ 29,097
Buildings and improvements	957,534	864,666
Machinery and equipment	661,353	652,400
	1,647,984	1,546,163
Less accumulated depreciation	(873,413)	(825,517)
	\$ 774,571	\$ 720,646

6. INDUSTRIAL PATENTS AND TRADEMARKS, NET

Industrial patents and trademarks, net consisted of the following:

	November 30, 2005	August 31, 2005
Patents and trademarks	\$ 1,261,904	\$ 1,182,089
Less accumulated amortization	(162,438)	(121,872)
	\$ 1,099,466	\$ 1,060,217

Patent and trademark costs are amortized over seven years once they are filed and approved. Amortization expense was \$40,566 and \$12,544, for the three months ended November 30, 2005 and 2004, respectively.

7. NOTES RECEIVABLE AND FOREIGN DEPOSITS

Notes receivable and foreign deposits consisted of the following:

	November 30, 2005	August 31, 2005
Notes receivable from corporate joint venture partners	\$ 51,710	\$ 50,000
Notes receivable from other sources	745,772	1,027,453
Foreign deposits	445,469	445,469
	\$ 1,242,951	\$ 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:

	November 30, 2005	August 31, 2005
Current assets	\$ 27,859,548	\$ 27,305,426
Total assets	34,354,236	33,839,267
Current liabilities	13,818,703	13,388,740
Noncurrent liabilities	2,376,914	2,249,904
Joint ventures' equity	18,158,617	18,198,864
Northern Technologies International Corporation's share of Corporate Joint Ventures' equity	\$ 8,538,642	\$ 8,622,361

	November 30, 2005	November 30, 2004
Net sales	\$ 16,535,347	\$ 14,679,164
Gross profit	7,454,578	6,726,863
Net income	1,539,415	1,070,658
Northern Technologies International Corporation's share of equity in income of Corporate Joint Ventures	\$ 729,518	\$ 526,204

During the three months ended November 30, 2005, 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 November 30, 2005 and August 31, 2005 was \$304,000.

10. CORPORATE DEBT

In August 2004, the Company obtained a \$500,000 revolving credit facility with National City Bank, which was originally scheduled to expire on December 31, 2005. In March 2005, the facility was increased to \$1,000,000 and the expiration date was amended to January 31, 2006. It is the intention of the Company to renew the revolving credit facility prior to January 31, 2006. Outstanding amounts under the revolving credit facility bear interest at an annual rate based on LIBOR plus 2.25%. As of November 30, 2005, the interest rate was 6.53%. 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. Other covenants include a prohibition on any merger or consolidation without prior consent of the lender and restrictions on future credit extensions and non-equity investments and the incurrence of additional indebtedness without the lender's prior consent. The facility contains customary events of default, including nonpayment of principal or other amounts when due; breach of covenants; inaccuracy of representations and warranties; cross-default and/or cross-acceleration to other indebtedness; non-compliance with laws; certain voluntary and involuntary bankruptcy events; judgments entered against the Company; and a sale of material assets. If an event of default occurs and is continuing, the lender may, among other things, terminate its obligations thereunder and require the Company to repay all amounts thereunder. The Company is in compliance with all covenants under the revolving credit facility. As of November 30, 2005, \$400,000 was outstanding under the facility. The Company has the right to repay the facility at any time without premium or penalty.

11. STOCKHOLDERS' EQUITY

During the three months ended November 30, 2005, the Company did not purchase or retire any shares of common stock and no stock options were exercised. The Company did not acquire or retire any shares of common stock during the three months ended November 30, 2004 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 three months ended November 30, 2005.

13. TOTAL COMPREHENSIVE INCOME

The Company's total comprehensive income was as follows:

	November 30, 2005	November 30, 2004
Net income	\$ 633,983	\$ 347,320
Other comprehensive income (loss): foreign currency translation adjustment	(316,029)	571,509
Total comprehensive income	\$ 317,954	\$ 918,829

14. NET INCOME PER COMMON SHARE

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

Options to purchase 3,000 and 334 shares of common stock with per share exercise prices of \$6.15 and \$5.96, respectively, were outstanding as of November 30, 2005, and options to purchase 4,000 shares of common stock with per share exercise prices of \$6.75 were outstanding as of November 30, 2004, 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 November 30, 2005:

Option Grant Date	Per Share Exercise Prices	Remaining Contractual Life	Number of Options Outstanding (#)	Number of Options Exercisable (#)
2/9/2001	\$ 5.50	0.2	1,000	1,000
9/1/2001	\$ 5.00	0.8	4,000	4,000
2/15/2002	\$ 4.56	1.2	38,000	38,000
9/1/2002	\$ 3.34	1.8	4,000	4,000
9/1/2003	\$ 5.30	2.8	6,000	4,002
9/1/2004	\$ 5.25	3.8	8,000	2,668
11/12/04	\$ 6.15	4.0	3,000	1,000
7/29/05	\$ 5.96	4.7	334	0
9/1/05	\$ 5.75	4.8	14,000	0
11/4/05	\$ 5.38	4.9	56,000	0
			134,334	54,670

16. SEGMENT INFORMATION

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

	November 30, 2005	November 30, 2004
Inside the U.S.A. to unaffiliated customers	84.8%	79.7%
Outside the U.S.A. to:		
Corporate Joint Ventures in which the Company is a shareholder directly and indirectly	6.6%	9.9%
Unaffiliated customers	8.6%	10.4%
	<u>100%</u>	<u>100%</u>

One of the Company's North American customers accounted for in the aggregate approximately 32.2% and 33.3% of the Company's net sales for the three months ended November 30, 2005 and 2004 respectively, and \$637,151 and \$419,780 of the Company's receivables at November 30, 2005 and August 31, 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 \$26,268 and \$16,983, for the three months ended November 30, 2005 and 2004, respectively.

The Company has an employee stock purchase plan. Employees who meet certain age and service requirements may elect to contribute a portion of their salary to purchase up to 2,000 shares of common stock in a fiscal year. Employees receive a 10% discount on the purchase price of the stock and shares can be purchased quarterly. In accordance with APB 25, the employee stock purchase plan qualifies as a non-compensatory plan, and as such, there is no compensation cost required.

18. RELATED PARTY TRANSACTIONS

The Company paid reimbursement for travel and related expenses of \$121,636 and \$174,172 for the three months ended November 30, 2005 and 2004, 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 Operating Officer are shareholders. The management consulting firm earned commissions on royalties paid by corporate joint ventures of approximately \$25,977 and \$52,112, for the three months ended November 30, 2005 and 2004, respectively, on net proceeds of sales of the Company's products. In addition, the Company paid health insurance premiums of \$4,185 and \$4,490 for the three months ended November 30, 2005 and 2004, 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 and November 8, 2005. 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. 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 three months ended November 30 are as follows:

	November 30, 2005	November 30, 2004
Tax computed at statutory rates	\$ 308,000	\$ 74,000
Tax effect on equity in income of international joint ventures	(248,000)	(198,000)
Tax effect on dividends received from corporate joint ventures	169,000	37,000
Research and development credit	(50,000)	—
Other	93,000	(32,000)
	<u>\$ 272,000</u>	<u>\$ (119,000)</u>

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 various legal actions arising in the normal course of business. 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 and the liability is recognized as the note payable., 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 three months ended November 30, 2005, the Company made payments totaling EURO 139,791. 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 is expected to be financed with a 15-year mortgage. The Company anticipates closing the transaction in April 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.

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 NTIC 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. Prior financial periods included in this Report have been restated to reflect the consolidation of React-NTI.

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 14.9% during the three months ended November 30, 2005 as compared to the same period in fiscal 2004 primarily as a result of the increase in net sales of traditional Zerust® products and of React-NTI products to new and existing customers in North America. Net sales of traditional Zerust® products increased \$456,939 to \$2,990,180. Net sales of React-NTI products increased \$114,475 to \$1,413,450 for the three months ended November 30, 2005 as compared to the same period in fiscal 2004.

Cost of sales as a percentage of net sales increased slightly to 62.0% during the three months ended November 30, 2005 as compared to 61.6% during the same period in fiscal 2004 primarily as a result of the increase in raw material prices. However, operating expenses as a percentage of net sales decreased 8.2% during the three months ended November 30, 2005 as compared to the same period in fiscal 2004 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 12.6% to \$16,535,347 during the three months ended November 30, 2005 as compared to \$14,679,164 during the same period in fiscal 2004. 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 three months ended November 30, 2005 as compared to the same period in fiscal 2004 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 three months ended November 30, 2005 as compared to the same period in fiscal 2004 primarily as a result of decreases in legal expenses and external consulting services.

The Company's working capital was \$3,320,252 at November 30, 2005, including \$51,264 in cash and cash equivalents. In August 2004, the Company obtained a \$500,000 revolving credit facility with National City Bank, which was originally scheduled to expire on December 31, 2005. In March 2005, the facility was increased to \$1,000,000 and the expiration date was amended to January 31, 2006. As of August 31, 2005, the revolving credit facility was fully utilized. The Company repaid \$600,000 on the revolving credit facility subsequent to August 31, 2005, to bring the balance as of November 30, 2005 to \$400,000. The Company intends to renew or replace this facility on or prior to the January 31, 2006 maturity date, although no assurances can be provided that it will do so.

The Company elected not to pay a cash dividend in first quarter of 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.

Results of Operations

The following table sets forth our results of operations for the three months ended November 30, 2005 and November 30, 2004.

	November 30, 2005	% of Net Sales	November 30, 2004	% of Net Sales	\$ Change	% Change
Net sales	\$ 4,403,630	100.0%	\$ 3,832,216	100.0%	\$ 571,414	14.9%
Cost of goods sold	2,729,111	62.0%	2,359,588	61.6%	369,523	15.7%
Selling expenses	697,955	15.9%	641,895	16.8%	56,060	8.7%
General and administrative expenses	686,559	15.6%	711,795	18.6%	(25,236)	(3.5)%
Lab and technical support expenses	\$ 69,754	1.6%	\$ 225,832	5.9%	\$ (156,078)	(69.1)%

Net Sales and Cost of Sales. The Company's net sales originating in the United States increased during the three months ended November 30, 2005 compared to the same period in fiscal 2004 primarily as a result of an increase in the traditional Zerust® product line sales. Cost of sales increased slightly as a percentage of net sales for the three months ended November 30, 2005 compared to the same period in fiscal 2004 primarily as a result of the increase in raw material prices.

Selling Expenses. The Company's selling expenses increased for the three months ended November 30, 2005 compared to the same period in fiscal 2004 due to increases in salaries and commissions and related employee benefits of \$56,000. Expenses as a percentage of net sales decreased for the three months ended November 30, 2005 compared to the same period in fiscal 2004 primarily as a result of the decreased travel and associated expenses as a cost control measure.

General and Administrative Expenses. The Company's general and administrative expenses decreased for the three months ended November 30, 2005 compared to the same period in fiscal 2004 primarily as a result of decreases in directors fees and related expenses of \$29,000, information technology expenses of \$40,000, consulting services of \$41,000, education reimbursement of \$17,000 and legal expenses of \$39,000 offset by increases related to audit, tax and Sarbanes-Oxley compliance fees of \$66,000, salary expense of \$41,000 and general insurance expense of \$47,000. As a percentage of net sales, general and administrative expenses decreased for the three months ended November 30, 2005 compared to the same period in fiscal 2004 primarily as a result of the decreases in spending as described above.

Lab and Technical Support Expenses. The Company's lab and technical support expenses decreased for the three months ended November 30, 2005 compared to the same period in fiscal 2004 due mostly 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 \$109,000. Additional decreases in expenses are associated with an over all cost reduction plan, specifically decreases in lab supplies of \$22,000 and technical service consulting of \$9,000. As a percentage of net sales, lab and technical support expenses decreased slightly for the three months ended November 30, 2005 compared to the same period in fiscal 2004 primarily as a result of the decreases in expenses.

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 corporate joint ventures and holding companies of \$729,518 for the three months ended November 30, 2005 compared to \$526,204 for the same period in fiscal 2004. 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 amount of \$1,114,060 for the three months ended November 30, 2005 compared to \$1,017,253 for the same period in fiscal 2004. 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 royalty income 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 royalty payments received during that period. The next corporate joint venture conference is scheduled to be held in 2008. There was \$46,890 of deferred royalty income recorded within other accrued liabilities at November 30, 2005, related to this future conference. The costs associated with these joint venture conferences are recognized 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 \$1,165,584 and \$1,203,473 for the three months ended November 30, 2005 and 2004, respectively. 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 three months ended November 30, 2005 compared to the same period in fiscal 2004 was attributable to decreases of commission paid to Inter Alia of \$26,000, expense reimbursement to Inter Alia of \$52,000, travel and lodging of \$73,000, legal fees of \$46,000 and consulting fees of \$80,000, 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, the increase in expense associated with this transfer is \$109,000. Additional increases in expenses related to amortization expense of \$40,000, R&D testing of \$24,000 and communication expense of \$18,000.

Interest Income. The Company's interest income increased slightly to \$26,801 for the three months ended November 30, 2005 compared to \$14,032 for the same period in fiscal 2004.

Interest Expense. The Company's interest expense increased to \$3,649 for the three months ended November 30, 2005 compared to \$0 for the same period in fiscal 2004, because the Company's revolving line of credit was not utilized during the first three months of fiscal 2005.

Income Before Income Taxes. Income before income taxes increased \$677,665 to \$905,984 for the three months ended November 30, 2005 compared to \$228,320 for the same period in fiscal 2004.

Income Taxes. Income tax expense for the three months ended November 30, 2005 and 2004 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 three months ended November 30, 2005 and 2004 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 November 30, 2005, the Company's working capital was \$3,320,252 at November 30, 2005, including \$51,264 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.

In August 2004, the Company obtained a \$500,000 revolving credit facility with National City Bank, which was originally scheduled to expire on December 31, 2005. In March 2005, the facility was increased to \$1,000,000 and the expiration date was amended to January 31, 2006. It is the intention of the Company to renew the revolving credit facility prior to January 31, 2006. Outstanding amounts under the revolving credit facility bear interest at an annual rate based on LIBOR plus 2.25%. As of November 30, 2005, the interest rate was 6.53%. 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. Other covenants include a prohibition on any merger or consolidation without prior consent of the lender and restrictions on future credit extensions and non-equity investments and the incurrence of additional indebtedness without the lender's prior consent. The facility contains customary events of default, including nonpayment of principal or other amounts when due; breach of covenants; inaccuracy of representations and warranties; cross-default and/or cross-acceleration to other indebtedness; non-compliance with laws; certain voluntary and involuntary bankruptcy events; judgments entered against the Company; and a sale of material assets. If an event of default occurs and is continuing, the lender may, among other things, terminate its obligations thereunder and require the Company to repay all amounts thereunder. The Company is in compliance with all covenants under the revolving credit facility. As of November 30, 2005, \$400,000 was outstanding under the facility. The Company has the right to prepay the facility at any time without premium or penalty. The Company borrowed \$350,000 on the revolving credit facility subsequent to November 30, 2005, to bring the balance as of January 15, 2006 to \$750,000.

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, capital expenditures, debt repayments, dividend payments and stock repurchases for at least the next twelve months.

Uses of Cash and Cash Flows. Cash flows used in operations for the three months ended November 30, 2005 and 2004 were \$94,505 and \$235,916, respectively. The net cash used in operations for the three months ended November 30, 2005 and 2004 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 three months ended November 30, 2005 was \$604,560, 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 used in investing activities for the three months ended November 30, 2004 was \$286,224, which resulted from dividends received from corporate joint ventures and cash received on loans partially offset by loans made, additions to patents and additions to property and equipment.

Net cash used in financing activities for the three months ended November 30, 2005 was \$786,249, which resulted primarily from making repaying to the revolving line of credit and the note payable. There were no financing activities for the three months ended November 30, 2004.

Capital Expenditures and Commitments. The Company has no material capital lease or expenditure commitments as of November 30, 2005; however, 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 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 and the liability is recognized as the note payable. 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 three months ended November 30, 2005, the Company made payments totaling EURO 139,791. 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 is expected to be financed with a 15-year mortgage. The Company anticipates closing the transaction in April 2006. Additionally, although on October 6, 2005, the Company executed a purchase agreement to sell its existing building and land in Lino Lakes, Minnesota that deal was subsequently been terminated as of January 3, 2006.

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. \$400,000 was outstanding under this facility as of November 30, 2005.

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, starting February 28, 2005 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 \$8,538,642 and \$8,622,361 as of November 30, 2005 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 \$5,026 and \$13,085 at November 30, 2005 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 Operating 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 Operating 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 its 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 President 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 President 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 President 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 November 30, 2005 that has materially affected, or is reasonably likely to materially affect the Company's internal control over financial reporting.

PART II - OTHER INFORMATION

ITEM 4. UNREGISTERED SALES OF EQUITY SECURITIES, USE OF PROCEEDS AND SMALL BUSINESS ISSUER PURCHASES OF EQUITY SECURITIES

Recent Sales of Unregistered Equity Securities

During the three months ended November 30, 2005, 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 three months ended November 30, 2005.

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 5. OTHER INFORMATION

On October 6, 2005, the Company executed a purchase agreement to sell its existing building and land in Lino Lakes, Minnesota that deal was subsequently been terminated as of January 3, 2006.

ITEM 6. EXHIBITS

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

Exhibit No.	Description
3.1	Amended and Restated Bylaws of Northern Technologies International Corporation
10.1	Termination of Purchase Agreement with Mountain Machine
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: January 15, 2006

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

**AMENDED AND RESTATED BYLAWS OF
NORTHERN TECHNOLOGIES INTERNATIONAL CORPORATION**
A Delaware Corporation (As approved November 4, 2005)

ARTICLE I
OFFICES

Section 1. The registered office of the Corporation in the State of Delaware shall be in the City of Wilmington, County of New Castle, State of Delaware. The name of The Corporation's registered agent at such address shall be The Corporation Trust Company.

Section 2. The Corporation may also have offices at such other places, both within and without the State of Delaware, as the Board of Directors may from time to time determine or the business of the corporation may require.

ARTICLE II
MEETINGS OF STOCKHOLDERS

Section 1. Place and Time of Annual Meeting. An annual meeting of the stockholders shall be held for the purpose of electing directors and conducting such other business as may come before the meeting. The date, time and place of the annual meeting shall be determined by resolution of the Board of Directors.

Section 2. Special Meetings. Special meetings of the stockholders, for any purpose or purposes, unless otherwise prescribed by statute or by the Certificate of Incorporation, may be called by the President and shall be called by the president or secretary at the request in writing of stockholders owning a majority in the amount of the entire capital stock of the corporation issued and outstanding and entitled to vote. Such request shall state the purpose or purposes of the proposed meeting.

Section 3. Notice. Written or printed notice of every annual or special meeting of the stockholders, stating the place, date, time, and, in the case of special meetings, the purpose or purposes, of such meeting, shall be given to each stockholder entitled to vote at such meeting not less than ten, nor more than sixty, days before the date of the meeting. All such notices shall be delivered, either personally or by mail, and if mailed, such notice shall be deemed to be delivered when deposited in the United States mail addressed to the stockholder at his or her address as it appears on the records of the corporation, with postage prepaid.

Section 4. Waiver of Notice. Whenever any notice is required to be given under the provisions of the statutes or of the Certificate of Incorporation or of these Bylaws, a waiver thereof in writing, signed by the person or persons entitled to said notice, whether before or after the time stated therein, shall be deemed equivalent thereto.

Section 5. Stockholders List. The officer having charge of the stock ledger of the corporation shall make, at least ten days before every meeting of the stockholders, a complete list of the stockholders entitled to vote at such meeting arranged in alphabetical order, specifying the address of and the number of shares registered in the name of each stockholder. Such list shall be open to the examination of any stockholder, for any purpose germane to the meeting, during ordinary business hours, for a period of at least ten days prior to the meeting, either at a place within the city where the meeting is to be held, which place shall be specified in the notice of the meeting or, if not so specified, at the place where the meeting is to be held. The list shall also be produced and kept at the time and place of the meeting during the whole time thereof, and may be inspected by any stockholder who is present.

Section 6. Quorum. The holders of a majority of the stock issued and outstanding and entitled to vote thereat, present in person or represented by proxy, shall constitute a quorum at all meetings of the stockholders except as otherwise provided by statute or by the certificate of incorporation. If a quorum is not present, the holders of the shares present in person or represented by proxy at the meeting, and entitled to vote thereat, shall have the power, by the affirmative vote of the holders of a majority of such shares, to adjourn the meeting to another time and/or place. Unless the adjournment is for more than thirty days or unless a new record date is set for the adjourned meeting, no notice of the adjourned meeting need be given to any stockholder provided that the time and place of the adjourned meeting were announced at the meeting at which the adjournment was taken. At the adjourned meeting the corporation may transact any business which might have been transacted at the original meeting.

Section 7. Vote Required. When a quorum is present or represented at any meeting, the vote of the holders of a majority of the stock having voting power present in person or represented by proxy shall decide any question brought before such meeting, unless the question is one upon which by express provisions of an applicable statute or of the certificate of incorporation a different vote is required, in which case such express provision shall govern and control the decision of such question.

Section 8. Voting Rights. Every stockholder shall at every meeting of the stockholders be entitled to one vote in person or by proxy for each share of the capital stock having voting power held by such stockholder, except that no proxy shall be voted after three years from its date, unless such proxy provides for a longer period.

Section 9. Informal Action. Any action required to be taken at any annual or special meeting of stockholders of the corporation, or any action which may be taken at any annual or special meeting of such stockholders, may be taken without a meeting, without prior notice and without a vote, if a consent in writing, setting forth the action so taken, shall be signed by the holders of outstanding stock having not less than the minimum number of votes that would be necessary to authorize or take such action at a meeting at which all shares entitled to vote thereon were present and voted. Prompt notice of the taking of the corporate action without a meeting by less than unanimous written consent shall be given to those stockholders who have not consented in writing. Any action taken pursuant to such written consent of the stockholders shall have the same force and effect as if taken by the stockholders at a meeting thereof.

Section 10. Business to be Conducted. (A) At any annual meeting of stockholders, only such business shall be conducted, and only such proposals shall be acted on, as are properly brought before the meeting. In order for business to be properly brought before the meeting, the business must be either (1) specified in the notice of meeting (or any supplement thereto) given by or at the direction of the Board of Directors; (2) otherwise properly brought before the meeting by or at the direction of the Board of Directors, or (3) otherwise properly brought before the meeting by a stockholder. In addition to any other applicable requirements, for business to be properly brought before an annual meeting by a stockholder, the stockholder must have given timely notice thereof in writing to the Secretary of the Corporation. To be timely, a stockholder's notice must be delivered to or mailed and received at the principal executive offices of the corporation, not less than 90 days nor more than 120 days prior to the meeting; provided, however, that in the event that less than 100 days' notice or prior public disclosure of the date of the meeting is given or made to stockholders, notice by the stockholder to be timely must be so received not later than the close of business on the 10th day following the day on which such notice of the date of the annual meeting was mailed or such public disclosure was made, whichever first occurs. A stockholder's notice to the Secretary shall set forth as to each matter the stockholder proposes to bring before the annual meeting (a) a brief description of the business desired to be brought before the annual meeting and the reasons for conducting such business at the annual meeting, (b) the name and record address of the stockholder proposing such business, (c) the class and number of shares of the Corporation which are beneficially owned by the stockholder, and (d) any material interest of the stockholder in such business.

(B) Notwithstanding anything in these bylaws to the contrary, no business shall be conducted at the annual meeting except in accordance with the procedures set forth in this Section 10 of Article II, provided, however, that nothing in this Section 10 of Article II shall be deemed to preclude discussion by any stockholder of any business properly brought before the annual meeting.

(C) The chairman of the annual meeting shall, if the facts warrant, determine and declare to the meeting that business was not properly brought before the meeting in accordance with the provisions of this Section 10 of Article II, and if the chairman should so determine, he or she shall so declare to the meeting and any such business not properly brought before the meeting shall not be transacted.

(D) At any special meeting of the stockholders, only such business shall be conducted as shall have been brought before the meeting by or at the direction of the Board of Directors.

Section 11. Stockholder Nomination of Directors. Not less than 90 days nor more than 120 days prior to the date of the annual meeting, any stockholder who intends to make a nomination at the annual meeting shall deliver a notice to the Secretary of the corporation setting forth (A) as to each nominee whom the stockholder proposes to nominate for election or reelection as a director, (1) the name, age, business address and residence address of the nominee, (2) the principal occupation or employment of the nominee, (3) the class and number of shares of capital stock of the corporation which are beneficially owned by the nominee and (4) any other information concerning the nominee that would be required, under the rules of the Securities and Exchange Commission, in a proxy statement soliciting proxies of the election of such nominee; and (B) as to the stockholder giving the notice, (1) the name and record address of the stockholder and (2) the class and number of shares of capital stock of the corporation which are beneficially owned by the stockholder; provided, however, that in the event that less than 100 days' notice or prior public disclosure of the date of the annual meeting is given or made to stockholders, notice by the stockholder to be time must be so delivered not later than the close of business on the 10th day following the day on which such notice of the date of the meeting was mailed or such public disclosure was made, whichever first occurs. Such notice shall include a signed consent to serve as director of the corporation, if elected, of each such nominee. The corporation may require any proposed nominee to furnish such other information as may reasonably be required by the corporation to determine the eligibility of such proposed nominee to serve as a director of the corporation.

ARTICLE III **DIRECTORS**

Section 1. Number, Election and Term of Office. The Board of Directors shall consist of one or more directors, the number thereof to be determined from time to time by resolution of the Board of Directors; provided, however, that until the Board of Directors determines to increase or decrease the size of the Board of Directors to a greater or smaller number of directors on or after the date these Amended and Restated Bylaws are adopted, the Board of Directors shall consist of nine (9) directors. The directors shall be elected at the annual meeting of the stockholders, except as provided in Section 4 of this Article III, and each director elected shall hold office until the next annual meeting of stockholders or until a successor is duly elected and qualified or until his or her earlier death, resignation or removal as hereinafter provided.

Section 2. Management By Board of Directors. The business of the Corporation shall be managed by its Board of Directors, which may exercise all such powers of the Corporation and do all such lawful acts and things as are not by statute or by Certificate of Incorporation or by these Bylaws directed or required to be exercised or done by the stockholders.

Section 3. Removal. Any director or the entire board of directors may be removed at any time, with or without cause, by the holders of a majority of the shares of stock of the corporation then entitled to vote at an election of directors, except as otherwise provided by statute.

Section 4. Vacancies. Vacancies and newly created directorships resulting from any increase in the authorized number of directors may be filled by a majority of the directors then in office though less than a quorum, and each director so chosen shall hold office until the next annual election or until a successor is duly elected and qualified or until his or her earlier death, resignation or removal as hereinafter provided.

Section 5. Annual Meetings. The annual meeting of each newly elected board of directors shall be held without other notice than this bylaw immediately after, and at the same place as, the annual meeting of stockholders.

Section 6. Other Meetings and Notice. Regular meetings, other than the annual meeting, of the board of directors may be held without notice at such time and at such place as shall from time to time be determined by the board. Special meetings of the board of directors may be called by or at the request of the President on at least twenty-four hours' notice to each director, either personally, by telephone, by mail, or by telegraph; in like manner and on like notice the president must call a special meeting on the written request of a majority of directors.

Section 7. Quorum. A majority of the total number of directors shall constitute a quorum for the transaction of business. The vote of a majority of directors present at a meeting at which a quorum is present shall be the act of the board of directors. If a quorum shall not be present at any meeting of the board of directors, the directors present thereat may adjourn the meeting from time to time, without notice other than announcement at the meeting, until a quorum shall be present.

Section 8. Committees. The board of directors may, by resolution passed by a majority of the whole board, designate one or more committees, each committee to consist of one or more of the directors of the corporation which to the extent provided in such resolution shall have and may exercise the powers of the board of directors in the management and affairs of the corporation except as otherwise limited by statute. The board of directors may designate one or more directors as alternate members of any committee. Such committee or committees shall have such name or names as may be determined from time to time by resolution adopted by the board of directors. Each committee shall keep regular minutes of its meetings and report the same to the board of directors when required.

Section 9. Committee Rules. Each committee of the board of directors may fix its own rules of procedure and shall hold its meetings as provided by such rules, except as may otherwise be provided by the resolution of the board of directors designating such committee, but in all cases the presence of at least a majority of the members of such committee shall be necessary to constitute a quorum. In the event that a member and that member's alternate, if alternates are designated by the board of directors as provided in Section 8 of this Article III, of such committee is/are absent or disqualified, the member or members thereof present at any meeting and not disqualified from voting, whether or not such member or members constitute a quorum, may unanimously appoint another member of the board of directors to act at the meeting in place of any such absent or disqualified members.

Section 10. Informal Action. Any action permitted to be taken at any meeting of the board of directors, or of any committee thereof, may be taken without a meeting if all members of the board or committee, as the case may be, consent thereto in writing, and the writing or writings are filed with the minutes of proceedings of the board or committee.

Section 11. Compensation. The directors may be paid for expenses of attendance at each meeting of the board of directors and may be paid a fixed sum for attendance at each meeting of the board of directors or a stated salary. No such payment shall preclude any director from serving the corporation in any other capacity and receiving compensation therefor. Members of committees designated by the board of directors may be allowed like compensation for attending committee meetings.

ARTICLE IV **OFFICERS**

Section 1. Number. The officers of the corporation shall be chosen by the board of directors and shall consist of a Chairman of the Board, president, one or more vice presidents, a secretary, a chief financial officer, a treasurer, and such other officers and assistant officers as may be deemed necessary or desirable by the board of directors. In its discretion, the board of directors may choose not to fill any office for any period as it may deem advisable, except the offices of president and secretary.

Section 2. Election and Term of Office. The officers of the corporation shall be elected annually by the board of directors at the first meeting of the board of directors held after each annual meeting of stockholders. If the election of officers shall not be held at such meeting, such election shall be held as soon thereafter as conveniently may be. Vacancies may be filled or new offices created and filled at any meeting of the board of directors. Each officer shall hold office until the next annual meeting of the board of directors or until a successor is duly elected and qualified or until his or her earlier death, resignation or removal as hereinafter provided.

Section 3. Removal. Any officer or agent elected or appointed by the board of directors may be removed by the board of directors whenever in its judgment the best interests of the corporation would be served thereby, but such removal shall be without prejudice of the contract rights, if any, of the person so removed.

Section 4. Vacancies. A vacancy in any office because of death, resignation, removal, disqualification or otherwise, may be filled by the board of directors for the unexpired portion of the term by a majority vote of the directors then in office.

Section 5. Compensation. Compensation of all officers shall be fixed by the board of directors, and no officer shall be prevented from receiving such compensation by virtue of the fact that he is also a director of the corporation.

Section 6. Chairman of the Board. The Chairman of the Board of Directors shall preside at all meetings of the shareholders and Board of Directors and shall have such other power and perform such additional duties as may from time to time be assigned to him by the Board of Directors.

Section 7. The President. The President shall be the senior officer of the corporation in the absence of a Chief Executive Officer; shall, in the absence of the Chairman of the Board, preside at all meetings of the stockholders; shall have general and active management of the business of the corporation; and shall see that all orders and resolutions of the board of directors are carried into effect. He shall execute bonds, mortgages and other contracts in the name of the corporation, except where required or permitted by law to be otherwise signed and executed, except where the signing and execution thereof shall be expressly delegated by the board of directors to some other officer or agent of the corporation.

Section 8. The Vice Presidents. The Vice President, or if there shall be more than one, the Vice Presidents in the order determined by the Board of Directors, shall, in the absence or disability of the President, perform the duties and exercise the powers of the President and shall perform such other duties and have such other powers as the Board of Directors may from time to time prescribe.

Section 9. The Secretary and Assistant Secretaries. The secretary shall attend all meetings of the board of directors and all meetings of the stockholders and record all the proceedings of the meetings of the Corporation and of the board of directors in a book to be kept for that purpose and shall perform like duties for the standing committees when required. The secretary shall give, or cause to be given, notice of all meetings of the stockholders and special meetings of the board of directors and shall perform such other duties as may be prescribed by the board of directors or president, under whose supervision he or she shall be. The board of directors may give general authority to any officer to affix the seal of the Corporation and to attest the affixing by his signature. The assistant secretary, or if there be more than one, the assistant secretaries in the order determined by the board of directors, shall, in the absence or disability of the secretary, perform the duties and exercise the powers of the secretary and shall perform such other duties and have such other powers as the board of directors may from time to time prescribe.

Section 10. The Chief Financial Officer. The Chief Financial Officer shall keep accurate financial records for the Corporation; render to the President and the Board of Directors, whenever requested, an account of all transactions by the Chief Financial Officer and of the financial condition of the Corporation; and prepare and sign, where required, reports of the financial condition of the Corporation submitted from time to time to the stockholders and such financial reports as may be required to be filed under the rules of the Securities and Exchange Commission or any securities exchange upon which shares of the Corporation's capital stock may be listed.

Section 11. The Treasurer and Assistant Treasurers. The Treasurer shall have charge and custody of and be responsible for all funds and securities of the Corporation; receive and give receipts for monies due and payable to the corporation from any source whatsoever; deposit all such monies in the name of the Corporation for safekeeping in appropriate banks, trust companies and or other depositories; and in general perform all of the duties incident to the office of the Treasurer and such other duties as from time to time may be assigned by the Board of Directors or by the President or the Chief Financial Officer.

An Assistant Treasurer shall have such powers and shall perform such duties as may be assigned by the Board of Directors, the President or the Treasurer from time to time.

Section 12. Other Officers, Assistant Officers and Agents. Officers, assistant officers and agents, if any, other than those whose duties are provided for in these bylaws, shall have such authority and perform such duties as may from time to time be prescribed by resolution of the board of directors.

ARTICLE V
CERTIFICATES OF STOCK

Section 1. **Form.** Every holder of stock in the corporation shall be entitled to have a certificate, signed by, or in the name of the corporation by the president and the treasurer or an assistant treasurer, or the secretary or an assistant secretary of the corporation, certifying the number of shares owned by him or her in the corporation. Where a certificate is signed (1) by a transfer agent or an assistant transfer agent other than the corporation or its employee or (2) by a registrar, other than the corporation or its employee, the signature of the president, treasurer, assistant treasurer, secretary, or assistant secretary may be facsimile. In case any officer or officers who have signed, or whose facsimile signature or signatures have been used on, any such certificate or certificates shall cease to be such officer or officers of the corporation whether because of death, resignation or otherwise before such certificate or certificates have been delivered by the corporation, such certificate or certificates may nevertheless be issued and delivered as though the person or persons who signed such certificate or certificates or whose facsimile signature or signatures have been used thereon had not ceased to be such officer or officers of the corporation.

Section 2. **Lost Certificates.** The board of directors may direct a new certificate or certificates to be issued in place of any certificate or certificates theretofore issued by the corporation alleged to have been lost, stolen, or destroyed, upon the making of an affidavit of that fact by the person claiming the certificate of stock to be lost, stolen, or destroyed. When authorizing such issue of a new certificate or certificates, the board of directors may, in its discretion and as a condition precedent to the issuance thereof, require the owner of such lost, stolen, or destroyed certificate or certificates, or his or her legal representative, to give the corporation a bond in such sum as it may direct as indemnity against any claim that may be made against the corporation with respect to the certificate alleged to have been lost, stolen, or destroyed.

Section 3. **Fixing a Record Date.** The board of directors may fix in advance a date, not more than sixty nor less than ten days preceding the date of any meeting of stockholders, or the date for the payment of any dividend, or the date for the allotment of rights, or the date when any change or conversion or exchange of capital stock shall go into effect, or a date in connection with obtaining such consent, as a record date for the determination of the stockholders entitled to notice of, and to vote at, any such meeting, and any adjournment thereof, or entitled to receive payment of any such dividend, or to any such allotment of rights, or to exercise the rights in respect to any such change, conversion, or exchange of capital stock, or to give such consent, and in such case such stockholders and only such stockholders as shall be stockholders of record on the date so fixed shall be entitled to such notice of, and to vote at, such meeting and any adjournment thereof, or to receive payments of such dividend, or to receive such allotment or rights, or to exercise such rights, or to give such consents, as the case may be notwithstanding any transfer of any stock on the books of the corporation after any such record date fixed as aforesaid. If no record date is fixed, the time for determining stockholders shall be at the close of business, on the day next preceding the day on which notice is given, or if notice is waived, at the close of business on the day next preceding the day on which the meeting is held. The time for determining stockholders for any other purpose shall be at the close of business on the date on which the board of directors adopts the resolution relating thereto. A determination of stockholders shall apply to any adjournment of the meeting; provided, however, that the board of directors may fix a new record date for the adjourned meeting.

Section 4. **Registered Stockholders.** The corporation shall be entitled to recognize the exclusive right of a person registered on its books as the owner of shares to receive dividends, and to vote as such owner, and to hold liable for calls and assessments a person registered on its books as the owner of shares, and shall not be bound to recognize any equitable or other claim to or interest in such share or shares on the part of the other person, whether or not it shall have express or other notice thereof, except as otherwise provided by the laws of Delaware.

Section 5. Stock Certificates and Legend. If the corporation shall be authorized to issue more than one class of stock or more than one series of any class, the powers, designations, preferences and relative, participating, optional or other special rights of each class of stock or series thereof and the qualifications, limitations or restrictions of such preferences and/or rights shall be set forth in full or summarized on the face or back of the certificate which the corporation shall issue to represent such class or series of stock, provided that, except as otherwise provided in Section 202 of the General Corporation Law of Delaware, in lieu of the foregoing requirements, there may be set forth on the face or back of the certificate which the corporation shall issue to represent such class or series of stock, a statement that the corporation will furnish without charge to each stockholder who so requests the powers, designations, preferences and relative, participating, optional or other special rights of each class of stock or series thereof and the qualifications, limitations or restrictions of such preferences and/or rights.

ARTICLE VI **GENERAL PROVISIONS**

Section 1. Dividends. Dividends upon the capital stock of the corporation, subject to the provisions of the certificate of incorporation, if any, may be declared by the board of directors at any regular or special meeting, pursuant to law. Dividends may be paid in cash, in property, or in shares of the capital stock, subject to the provisions of the certificate of incorporation. Before payment of any dividend, there may be set aside out of any funds of the corporation available for dividends such sum or sums as the directors from time to time, in their absolute discretion, think proper as a reserve or reserves to meet contingencies, or for equalizing dividends, or for repairing or maintaining any property of the corporation, or for such other purpose as the directors shall think in the best interest of the corporation, and the directors may modify or abolish any such reserve in the manner in which it was created.

Section 2. Checks. All checks or demands for money and notes of the Corporation shall be signed by such officer or officers or such other person or persons as the board of directors may from time to time designate.

Section 3. Fiscal Year. The fiscal year of the corporation shall be fixed by resolution of the board of directors.

Section 4. Seal. The corporation will not have a corporate seal.

Section 5. Securities Owned By Corporation. Voting securities in any other corporation held by the corporation shall be voted by the president or any vice president, unless the board of directors specifically confers authority to vote with respect thereto, which may be general or confined to specific instances, upon some other person or officer. Any person authorized to vote securities shall have the power to appoint proxies, with general power of substitution.

ARTICLE VII **INDEMNITY**

Section 1. Indemnification Rights. To the maximum extent permitted by law, the corporation shall indemnify any Eligible Person (as defined below) (including such person's heirs, executors and personal representatives) against any and all Amounts (as defined below) incurred or imposed in connection with, or which result from, any Proceeding (as defined below) (other than a proceeding initiated by such person) in which such person is or may become involved by reason of being an Eligible Person.

Section 2. Advancement of Expenses. In connection with any Proceeding, the corporation may advance Expenses (as defined below) to any Eligible Person upon receipt of an undertaking by or on behalf of such person to repay such advance if it shall ultimately be determined that such person is not entitled to indemnification by the corporation.

Section 3. Rights Not Exclusive. The rights provided in this Article may not be determined exclusive of any other right or rights to which any Eligible Person may be entitled under any agreement, vote of stockholders or otherwise.

Section 4. Definitions. For purposes of this Article:

(A) “Amounts” shall include judgments, penalties, fines, amounts paid in settlement and Expenses.

(B) “Corporation” shall mean the corporation and any corporation at least a majority of whose voting securities have ordinary voting power for the election of directors (other than securities having such voting power only by reason of the occurrence of a contingency) which is, at the time of alleged events giving rise to the Proceeding, owned by the corporation and/or one or more of its majority-owned subsidiaries.

(C) “Eligible Person” shall mean:

(1) A director, officer or employee of the corporation; or

(2) A director, officer or employee of the corporation who at the specific written request or resolution of the Board of Directors of the corporation is, at the time either of the Proceeding and/or the alleged events giving rise to the Proceeding, serving as a director, officer or employee of any other company, partnership, joint venture, trust, employee benefit plan or other enterprise; or

(3) A fiduciary or co-fiduciary of an employee benefit plan of the Corporation as those terms are defined in the Employee Retirement Income Security Act of 1974.

(D) “Expenses” shall mean all reasonable attorneys’ fees and all other disbursements or expenses of the types customarily incurred in connection with prosecuting, defending, preparing to prosecute or defend, investigating or preparing to be a witness in a Proceeding.

(E) “Proceeding” shall include any actual, threatened or completed action, suit, arbitration, alternative dispute resolution mechanism, investigation, administrative hearing or other formal claim that could result or has resulted in personal liability, whether civil, criminal, administrative or investigative.

ARTICLE VIII **INDEMNIFICATION AGREEMENTS**

The corporation shall have the express authority to enter into such agreements as the Board of Directors deems appropriate for the indemnification of present or future directors and officers of the corporation, entity or enterprise with whom such person is serving at the express written request of the corporation.

ARTICLE IX **AMENDMENTS**

These bylaws may be adopted, amended, altered, or repealed at any meeting of the board of directors by majority vote. The fact that the power to adopt, amend, alter or repeal the bylaws has been conferred upon the board of directors shall not divest the stockholders of the same powers.

TERMINATION OF PURCHASE AGREEMENT

THIS TERMINATION is made effective this 3rd day of January, 2006, by and between Northern Technologies International Corporation, a Minnesota company (the "Seller") and Mountain Machine Inc., a Minnesota corporation, (the "Buyer").

Preliminary Statement of Facts

Seller and Buyer entered into that certain Purchase Agreement (the "Agreement"), dated September 30, 2005, for the sale of certain real estate located at 6680 Hodgson Road, Lino Lakes, Minnesota (the "Property").

Seller and Buyer desire to establish and evidence the termination of all their interests in and to the Agreement pursuant to the terms and conditions of this Termination.

NOW, THEREFORE, for good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties agree as follows:

1. Termination of Agreement. Seller and Buyer hereby acknowledge and agree that the Agreement is now null, void and of no further force and effect.
2. Release of Property. Buyer hereby releases, conveys, grants all of its interest in and to the Property unto Seller.

IN AGREEMENT, the parties have executed this Termination as of the date first above written.

PURCHASER:

Mountain Machine Inc.,

SELLER:

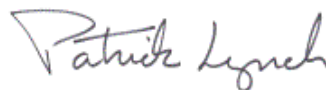
Northern Technologies International Corporation,
Matthew Wolsfeld CFO

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: January 15, 2006



G. Patrick Lynch
President and Chief Operating Officer

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: January 15, 2006

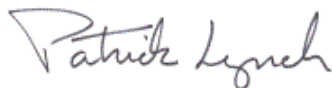
Matthew C. Wolsfeld, CPA
Chief Financial Officer & Corporate Secretary

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 November 30, 2005 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, G. Patrick Lynch, President and Chief Operating 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.



G. Patrick Lynch
President and Chief Operating Officer
(principal executive officer)

Lino Lakes, Minnesota
January 15, 2006

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 November 30, 2005 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
January 15, 2006