

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-KSB

(Mark one)

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

FOR THE FISCAL YEAR ENDED AUGUST 31, 2000 COMMISSION FILE NO. 1-11038

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

NORTHERN TECHNOLOGIES INTERNATIONAL CORPORATION  
(Exact name of small business issuer as specified in its charter)

DELAWARE 41-0857886  
(State or other jurisdiction of (I.R.S. Employer  
incorporation or organization) Identification No.)

6680 N. HIGHWAY 49, LINO LAKES, MINNESOTA 55014  
(Address of principal executive offices) (Zip code)

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
COMMON STOCK, \$.02 PAR VALUE	AMERICAN STOCK EXCHANGE

Securities registered pursuant to Section 12(g) of the Act:

NONE.

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

YES  NO

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B contained herein, and no disclosure will be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB.

The Registrant's revenues for the fiscal year ended August 31, 2000 were \$11,032,199.

As of November 17, 2000, 3,794,284 shares of Common Stock of the Registrant were outstanding, and the aggregate market value of the Common Stock of the Registrant as of that date (based upon the closing price of the Common Stock at that date as reported on the American Stock Exchange) excluding outstanding shares beneficially owned by directors and executive officers, was approximately \$17,669,313.

Documents incorporated by reference: None.

Transitional Small Business Disclosure Format (check one): YES  NO

PART I

THIS FORM 10-KSB CONTAINS CERTAIN FORWARD-LOOKING STATEMENTS. FOR THIS PURPOSE, ANY STATEMENTS CONTAINED IN THIS FORM 10-KSB THAT ARE NOT STATEMENTS OF HISTORICAL FACT MAY BE DEEMED TO BE FORWARD-LOOKING STATEMENTS. WITHOUT LIMITING THE FOREGOING, WORDS SUCH AS "MAY," "WILL," "EXPECT," "BELIEVE," "ANTICIPATE," "ESTIMATE" OR "CONTINUE" OR COMPARABLE TERMINOLOGY ARE INTENDED TO IDENTIFY FORWARD-LOOKING STATEMENTS. THESE STATEMENTS BY THEIR NATURE INVOLVE SUBSTANTIAL RISKS AND UNCERTAINTIES, AND ACTUAL RESULTS MAY DIFFER MATERIALLY DEPENDING ON A VARIETY OF FACTORS, INCLUDING THOSE SET FORTH IN THE SECTION BELOW ENTITLED "CERTAIN IMPORTANT FACTORS" AND IN "MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS" IN THIS REPORT.

ITEM 1. DESCRIPTION OF BUSINESS.

(a) BUSINESS DEVELOPMENT.

Northern Instruments, Inc., a predecessor to Northern Technologies International Corporation, was incorporated in the State of Minnesota on August 4, 1970. In 1976, Northern Instruments, Inc. changed its name to Northern

Instruments Corporation. In 1978, Northern Instruments Corporation, a Minnesota corporation, was merged with and into Northern Instruments Corporation, a newly-formed Delaware corporation. In 1993, Northern Technologies International Corporation, a wholly-owned subsidiary, was merged into Northern Instruments Corporation. As a result of such merger, Northern Instruments Corporation changed its name to Northern Technologies International Corporation, hereafter referred to as the "Company" or "NTIC." In 1999, the Company organized Northern Instruments Corporation, LLC, an Ohio limited liability company ("NIC"); and the instruments operation of the Company were transferred into NIC. NIC is a wholly-owned subsidiary of the Company. Effective March 4, 1999, Special Control Systems, Inc., an Ohio corporation 100% owned by the Company, was merged into NIC. The Company established a wholly-owned subsidiary NTI Facilities, Inc. on January 1, 2000. The operating results and assets of NIC and NTI Facilities, Inc. are included in the consolidated financial statements of the Company.

(b) BUSINESS OF THE COMPANY.

#### GENERAL

The Company is a developer, manufacturer and marketer of materials science based industrial packaging products and systems and electronic sensing instruments. The Company's corrosion inhibiting industrial packaging products and systems, marketed under the name ZERUST(R) ("ZERUST"), are utilized in protective packaging serving a wide variety of companies in industries such as transportation, fossil fuel power generation, electronics, on-and off-road automotive equipment, machinery for agriculture and metal processing. The ZERUST product line accounted for approximately 97% of the Company's sales during its fiscal year ended August 31, 2000.

The Company's electronic sensing instruments include portable oil quality analyzers for on-site evaluation of various types of oils and fluids, instruments that provide for on- and off-line measurement of fiber denier and other devices, which utilize microwave technology to measure moisture and the tempo of manufacturing process in metallurgical facilities.

INTERNATIONAL JOINT VENTURES AND EUROPEAN HOLDING COMPANY

The Company participates in an expanding number of international joint venture arrangements that provide for the manufacturing, marketing and distribution of materials science based industrial packaging products based upon the Company's technology. Both the Company and the Company's corporate joint venture in Germany, Excor Korrosionsschutz - Technologien und Produkte GmbH ("Excor"), through Excor's wholly owned subsidiary Excor Korrosionsforschung GmbH, manufacture and supply the proprietary ingredients that make the finished product functional, but the actual manufacturing of the finished product itself takes place in each country in which the Company has a joint venture or similar relationship. Manufacturing the product in foreign countries lowers shipping costs and improves on-time delivery to foreign customers. The international joint venture arrangements allow the Company to successfully market and sell its products in foreign countries through the marketing efforts of joint venture partners without the Company having to develop its own international sales force. The Company's international 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, and have a vested interest in making each joint venture a success.

The Company participates in various corporate joint ventures in countries outside the United States and in similar non-contractual arrangements in various other countries. The international joint ventures provide for the manufacturing, marketing, and distribution of materials science based industrial packaging products. The Company also has a 50% ownership interest in NTI ASEAN, LLC, for its joint venture investments in the ASEAN region, which does not encompass Japan or South Korea. Taiyo Petroleum Gas Co. Ltd., an existing joint venture partner, owns the remaining 50% ownership interest in NTI ASEAN, LLC subject to final capitalization of NTI ASEAN, LLC. The Company has an ownership interest either directly or indirectly in the following joint ventures:

Country -----	Date of Original Investment -----
Japan	1987
France	1990
Taiwan*	1990
Germany	1991
Singapore*	1991
Sweden	1991
Brazil	1993
Austria	1994
Russia	1994
South Korea	1994
Finland	1995
Italy	1996
United Kingdom	1997
Czech Republic	1997
Poland	1998
Thailand*	1998
China*	2000
India	2000
Malaysia*	2000

\*INDIRECT OWNERSHIP INTEREST THROUGH NTI ASEAN, LLC

The Company had invested \$100,000 in 1998 to fund its interest in a joint venture in Indonesia. During the fiscal year ended August 31, 2000, the Company withdrew from this joint venture, receiving back its \$100,000 investment and interest thereon. The Company currently has no joint venture interests in Indonesia.

In addition to the Company's investments in the international corporate joint ventures listed above, the Company acquired a 50% ownership interest in a European holding company during fiscal year 1997; however, to date, this entity has been inactive.

While the Company is not aware of any specific potential risk beyond its initial investment and undistributed earnings of the international joint ventures, there can be no assurance that the Company will not be subject to lawsuits based on product liability claims or other claims arising out of the activities of each international joint venture. To protect against such an occurrence, the Company maintains liability insurance specifically applicable to its ownership positions in the international joint venture arrangements in excess of any insurance the joint ventures may maintain.

## PRODUCTS

The Company operates in two businesses: materials science based industrial packaging products and systems and electronic sensing instruments. Materials science based industrial packaging products and systems accounted for approximately 97% of the Company's sales in fiscal year 2000.

### MATERIALS SCIENCE BASED INDUSTRIAL PACKAGING PRODUCTS AND SYSTEMS.

Corrosion negatively affects products and components in the manufacturing industry. This applies to the rusting of ferrous (iron and steel) metals and the deterioration by oxidation of nonferrous (aluminum, copper, brass, etc.) metals. In combating corrosion, the traditional approach has been to apply oils and greases to protect metal parts. This approach commonly requires specialized application equipment. In addition, the oils and greases may pose unacceptable health and fire hazards and also may collect and trap dirt and debris that, in some cases, may actually initiate corrosion. For the removal of such oils and greases, chemical solvents and specialized safety equipment may be necessary that typically introduce additional health and hazardous waste disposal problems.

ZERUST volatile corrosion inhibiting ("VCI") products may entirely eliminate or reduce the use of oils and greases to inhibit corrosion; for ZERUST formulations contain proprietary chemical systems that emit a nontoxic vapor that is diffused throughout an enclosure. Electron scanning microscopy shows that the VCI-rich atmosphere causes VCI molecules to condense in a microscopic layer on all surfaces they reach. The corrosion inhibiting layer is maintained so long as the metal product to be protected remains within the ZERUST package. Electron scanning further shows that once the contents are removed from the ZERUST package, the VCI layer re-volatilizes from the contents' surfaces within two hours, leaving a clean, dry and corrosion-free product. This mechanism of corrosion protection enables the Company's customers to package and ship metal parts so that they arrive ready for use. Furthermore, by eliminating costly greasing and degreasing processes, ZERUST VCI technology provides significant savings in labor, material and capital expenditures for equipment to apply, remove and dispose of oil and grease, as compared to traditional methods of corrosion prevention.

In 1980, the Company developed a means of combining ZERUST VCI systems with polyethylene and polypropylene resins, and was granted a patent on this process on September 22, 1981. Subsequently, a line of flexible packaging products in the form of low and high density polyethylene bags and shroud film, stretch, shrink, skin and bubble cushioning film, woven scrim and foam sheeting was introduced to United States industry. This gave packaging engineers an opportunity to ship and store ferrous, nonferrous and mixed multi-metal products in a clean, dry and corrosion-free condition, with an attendant overall savings in total packaging cost.

The Company subsequently expanded the ZERUST product line to include a range of rigid plastic products in the form of profile and corrugated board, thermoformed dunnage trays and bins, injection and blow molded products and flat netting. The Company also has developed additives in liquid form to imbue corrugated cardboard, solid fiber and chipboard packaging materials with VCI corrosion protection properties.

**ELECTRONIC SENSING INSTRUMENTS.** The Company's electronic sensing instruments accounted for approximately 3% of the Company's sales in fiscal year 2000. The Company's electronic sensing instruments include oil quality analyzers, fiber monitors and testers, and other instruments used primarily for process and quality control of materials in hostile environments, such as steel mills. Several of the Company's electronic sensing instruments are based on the measurement of the change in dielectric properties of different liquids and fibers by means of capacitance sensors. The instrument product line, however, also includes measurement devices for materials and moisture testing based upon microwave technology.

#### MANUFACTURING

The Company produces certain proprietary materials science based industrial packaging formulations and products at its facility in Lino Lakes, Minnesota and electronic sensing instruments at facilities in Forest Lake, Minnesota and Cleveland, Ohio. The Company's materials science based industrial packaging end products include flexible and rigid packaging systems and other products that are produced to customer specification by selected contractors who are supplied with the necessary active ingredients by the Company, under a Trade Secrecy Agreement.

The Company is ISO 9001 certified with respect to the manufacturing of its materials science based industrial packaging products. The Company believes that the process of ISO 9001 certification serves as an excellent tool for total quality management, enabling the Company to provide consistency and excellence in its products. Also, because potential customers may prefer or require manufacturers to have achieved ISO certification, such ISO certification may provide the Company with certain competitive advantages.

#### SALES AND MARKETING OF MATERIALS SCIENCE BASED INDUSTRIAL PACKAGING PRODUCTS

In the United States, the Company markets its materials science based industrial packaging products principally to industrial users by a direct sales force and through a network of 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.

Internationally, the Company has entered into joint ventures and similar arrangements with foreign partners (either directly or through NTI ASEAN, LLC). Pursuant to these arrangements, the Company and/or Excor supply certain proprietary formulations to the foreign joint venture entities, which in turn provide for the international manufacture and marketing of ZERUST and others finished products. The Company receives fees for providing technical support and marketing assistance to the joint ventures in accordance with the terms of the joint venture arrangements.

## COMPETITION

The Company is aware of other organizations that manufacture and market corrosion inhibiting packaging products, which compete with the Company's ZERUST products. The Company evaluates competing products on an ongoing basis and believes that none of the competing products on the market at this time are superior to the Company's products.

The Company is aware of competitors in the "Lubri-Sensor" oil quality analyzer area; however, the Company does not have any knowledge as to the business effectiveness of such competitors and believes that the Company's products are competitive with all other products currently on the market. In the "Foodoil Sensor" oil quality analyzer area, the Company is aware of a competitor who does not provide an analysis instrument but instead provides a paper test strip. Although the Company believes that its product offers significant advantages over paper test strips, the Company believes that sales of the Foodoil Sensor have historically been limited by price sensitivity rather than differences in product capabilities.

Some of the Company's competitors, in both the materials science based industrial packaging area and the electronic instrument area, are established companies that may have financial and other resources greater than those of the Company. Additionally, some of these companies may have achieved significant market impact and brand recognition. The Company competes with such companies by providing high quality products and by attempting to provide the highest level of customer service, including real time direct technical support and applications engineering.

## SIGNIFICANT CUSTOMERS

One customer accounted for approximately 14% and 16% of net sales for the fiscal years ended August 31, 2000 and 1998, respectively. No single customer accounted for more than 10% of net sales for the fiscal year ended August 31, 1999.

## RESEARCH AND DEVELOPMENT

The Company's research and development activities are directed at the improvement of existing products, the development of new products and quality assurance through improved testing of the Company's products. The Company's research and development expenditures, including engineering and technical support, were \$587,434, \$578,231, and \$487,456 in fiscal years 2000, 1999 and 1998, respectively. In 1997, the Company's joint venture in Germany, Excor, established a wholly-owned subsidiary, Excor Korrosionsforschung GmbH, to conduct research into new fields of materials science based industrial packaging and the applications engineering thereof in conjunction with the Company's domestic research and development operation. Today the Company's internal research and development activities are conducted at its Minnesota headquarters, in Beachwood, Ohio, in Dresden, Germany; and at various international locations under the direction of internationally known scientists and research institutes under exclusive contract to the Company with respect to the subject of their respective research efforts. The conduct of the research and development activities outside Minnesota and Germany, like the results of the Company's research and development efforts generally, invariably engenders certain proprietary rights for the Company.

## PATENTS AND TRADEMARKS

The Company is committed to the timely and continual upgrading of its product line and the introduction of new products, developed in-house or via exclusive technology agreements. The Company currently owns one United States patent, which expired in 2000, relating to its corrosion inhibiting products. The Company believes that trade secrets and proprietary (albeit unpatented) know-how are at least as important as patent protection in establishing and maintaining a competitive advantage; and that mere patent protection without close technical support and applications engineering will not serve to keep any given supplier in the forefront of any sophisticated technology based market.

The Company also has several registered trademarks in the United States and certain foreign countries. The registered trademarks in the U.S. are: the logo "NTI", the word "ZERUST", the words "THE ZERUST PEOPLE", the word "PLASTABS", the words "COR TAB" and the color "YELLOW" "for anticorrosive plastic film used for packaging metallic products, for industrial and consumer use". The Company's trademarks have a life, subject to periodic maintenance, of 10 to 20 years, which may be extended.

#### BACKLOG

The Company did not have a significant order backlog as of August 31, 2000. Customers generally place orders on an "as needed" basis and expect delivery within a relatively short period of time.

#### WORKING CAPITAL AND AVAILABILITY OF MATERIALS

The Company does not carry excess quantities of raw materials or purchased parts because of widespread availability thereof from various suppliers. The Company has sufficient working capital to meet all obligations when due.

#### EMPLOYEES

As of August 31, 2000, the Company had 31 full-time direct employees in the United States, consisting of six engaged in administration, ten in sales and marketing, four in research and development, ten in operations and one person responsible for international coordination. There are no unions representing the Company's employees and the Company believes that its relations with employees are good. There are no pending or, to the Company's knowledge, threatened labor or employment disputes or work interruptions.

#### CERTAIN IMPORTANT FACTORS

In addition to the influences identified above, there are several important factors that could cause the Company's actual results to differ materially from those anticipated by the Company or which are reflected in any forward-looking statements of the Company. Such factors, which may impact on the success of the Company's operations and its ability to achieve its goals, include the following:

- (1) The Company's ability to make investments in existing and future joint ventures to generate a positive rate of return and demonstrate a pattern of growth consistent with past and current performance; and
- (2) The Company's ability to continue to enter into international markets in a timely fashion; and
- (3) The Company's ability to maintain gross margins at a level consistent with the technological advantages of its proprietary products.

ITEM 2. DESCRIPTION OF PROPERTY.

The Company's primary office, production facilities and domestic research and development operations are located at 6680 North Highway 49, Lino Lakes, Minnesota 55014. The Company owns approximately 3.5 acres at this site and three buildings thereon. The main building, consisting of approximately 15,300 square feet, is used for office, production, research and development and shipping and receiving. A second building of approximately 7,200 square feet and a third building of approximately 4,800 square feet are used for warehouse space. In 1995, the Company acquired an approximately 10 acre parcel of land located in Forest Lake, Minnesota, approximately six miles from the Company's offices. On this parcel, the Company built a warehouse of approximately 18,000 square feet that was completed in November 1996.

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 entering into a lease (as described below) for approximately 50% of the net rentable space in the building itself. Omni - Northern Ltd. owns and operates a rental property located at 23205 Mercantile Road, Beachwood, Ohio, comprising approximately 1.989 acres of land and a building of approximately 33,877 square feet, having an approximate value of \$2,205,000 based upon the cash - to mortgage acquisition price of the property paid in fiscal year 2000. The Company has guaranteed up to \$339,235 of the Omni - Northern Ltd.'s \$2,035,000 mortgage obligation with National City Bank, Cleveland, Ohio. NTI Facilities, Inc. has entered into a 15 year lease agreement for approximately 16,826 square feet of office, manufacturing, laboratory and warehouse space requiring monthly payments of \$13,194 (approximately \$9.41 per square foot), which can be 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. The building is now fully leased.

ITEM 3. LEGAL PROCEEDINGS.

There is no material pending or threatened legal, governmental, administrative or other proceeding to which the Company is a party or of which any of its property is the subject.

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

No matter was submitted to a vote of security holders during the fourth quarter of the fiscal year covered by this Report.



PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON STOCK AND RELATED STOCKHOLDER MATTERS.

Effective September 10, 1993, the Company's Common Stock commenced trading on, and it continues to trade on, the American Stock Exchange under the symbol NTI.

	COMMON STOCK	
	HIGH	LOW
	----	---
2000:		
Fourth fiscal quarter.....	\$ 8 7/8	\$ 5 3/4
Third fiscal quarter.....	8 1/8	6 3/8
Second fiscal quarter.....	9 5/8	6 1/8
First fiscal quarter.....	7 9/16	5 1/4
1999:		
Fourth fiscal quarter.....	\$ 8 3/8	\$ 5 11/16
Third fiscal quarter.....	6 7/8	5 1/2
Second fiscal quarter.....	7 1/4	5 3/8
First fiscal quarter.....	7	5

The Company declared Common Stock cash dividends of \$.15 per share to shareholders of record on December 4, 1998; and \$.16 per share to shareholders of record on December 3, 1999; and \$.17 per share to shareholders of record on December 1, 2000. The Company's Board of Directors will continue to consider the payment of dividends annually, based on the Company's net income and operating cash requirements.

As of August 31, 2000, the Company's Common Stock was held by approximately 460 shareholders of record.

ITEM 6. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

RESULTS OF OPERATIONS

FISCAL YEAR 2000 COMPARED TO FISCAL YEAR 1999

NORTHERN TECHNOLOGIES INTERNATIONAL CORPORATION

NET SALES AND COST OF SALES. The Company had net sales originating in the United States of \$11,032,199 in fiscal year 2000; an increase of \$1,161,668 or 11.8% from net sales of \$9,870,531 in fiscal year 1999. The increase in net sales was due primarily to an increase in the volume of materials science based industrial packaging products sold to new and existing customers in North America. One existing customer accounted for 14% of sales in fiscal year 2000 and 7% of sales in fiscal year 1999.

The cost of sales increased as a percentage of sales to 50.4% in fiscal year 2000 from 47.9% in fiscal year 1999. The variation in the cost of sales percentage includes an obsolete inventory charge of \$90,000 and the impact of the increase in the market price for certain raw materials and labor cost. The Company does not anticipate a further ongoing increase in cost of sales in fiscal year 2001 as a percentage of sales.

**SELLING EXPENSES.** The Company's selling expenses decreased by \$182,242 or 12.2% to \$1,308,615 in fiscal year 2000 from \$1,490,857 in fiscal year 1999. The decrease in selling expenses in fiscal year 2000 was primarily related to a decrease in external selling commissions and related expenses, which was partially offset with an increase in salaries. As a percentage of sales these costs decreased to 11.9% in fiscal year 2000 from 15.1% in fiscal year 1999 due to the increased level of net sales and the overall decrease in selling expenses in fiscal year 2000. The Company anticipates that its selling expenses will increase in fiscal year 2001 due to planned increases in marketing efforts.

**GENERAL AND ADMINISTRATIVE EXPENSES.** The Company's general and administrative expenses increased by \$433,055 or 26.0% to \$2,097,991 in fiscal year 2000 from \$1,664,936 in fiscal year 1999. The increase in general and administrative expenses in fiscal year 2000 was primarily due to increases in various professional fees (e.g. for the filing and defense of U.S. and foreign patents and trademarks), group insurance and development of the Company's facilities, including technical equipment and a new laboratory. As a percentage of sales general and administrative expenses increased to 19.0% in fiscal year 2000 from 16.9% in fiscal year 1999. The Company anticipates that its general and administrative expenses will continue to increase in fiscal year 2001, for the reasons cited.

**RESEARCH, ENGINEERING, AND TECHNICAL SUPPORT EXPENSES.** The Company's research, engineering, and technical support expenses increased by \$9,203 or 1.6% to \$587,434 in fiscal year 2000 from \$578,231 in fiscal year 1999. As a result of the Company's international research and development activities certain proprietary rights to new technology have been added to the Company. As a percentage of sales, research, engineering and technical support expenses decreased to 5.3% in fiscal year 2000 from 5.9% in fiscal year 1999 due to the increased level of net sales. The Company anticipates that in fiscal year 2001 research, engineering and technical support expenses will surpass expenses incurred in fiscal year 2000.

#### OPERATIONS OF INTERNATIONAL JOINT VENTURES

**CORPORATE JOINT VENTURES AND EUROPEAN HOLDING COMPANY.** The Company continues its business program of establishing corporate joint venture arrangements in international markets directly or indirectly through NTI ASEAN, LLC ("NTI ASEAN"). The Company maintains a 50% ownership interest in NTI ASEAN, with the remaining 50% ownership interest owned by Taiyo Petroleum Gas Co. Ltd., which also owns the other 50% ownership interest in the Company's corporate joint venture located in Japan.

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

Corporate joint venture sales were as follows:

	2000	1999
Direct ownership interest	\$23,913,708	\$22,022,767
Indirect ownership interest (NTI ASEAN)	1,288,396	-----
Total	\$25,202,104 =====	\$22,022,767 =====

The Company received fees for technical and other support to the corporate joint ventures based on the revenues of the individual corporate joint ventures. The Company recognized fees for such support in the amounts of \$2,749,578 and \$2,459,697 for fiscal years 2000 and 1999, respectively. The increase in fees for technical and other support to corporate joint ventures was primarily due to the greater efficacy of the Company's service to its corporate joint ventures, which provided for increased sales volume at certain of the Company's corporate joint ventures.

The Company incurred direct expenses related to corporate joint ventures and the European holding company of \$1,312,213 and \$741,703 in fiscal years 2000 and 1999, respectively. These expenses include: technical and marketing services to existing joint ventures, legal fees regarding the establishment of new joint ventures, registration and promotion of worldwide trade marks and legal fees incurred in the filing of letters patent for new technologies to which the Company acquired certain rights. The Company anticipates that expenses relating to corporate joint ventures will continue to increase in the future due to the Company providing ongoing technical, marketing and other support to its joint ventures, to the development of new corporate joint ventures and to the development of new technologies and their concomitant intellectual property rights.

The Company and NTI ASEAN anticipate that in the future they will enter into joint ventures in other foreign countries and in the ASEAN region.

The Company's investments in corporate joint ventures and the European holding company are accounted for using the equity method and resulted in income to the Company of \$854,032 and \$368,711 for fiscal years 2000 and 1999, respectively. Net income of the corporate joint ventures in fiscal year 2000 of \$1,810,885 represents a 74.3% increase from fiscal year 1999.

The Company also has an investment in a European holding company, which is currently inactive.

#### INTEREST INCOME

INTEREST INCOME. The Company's interest income increased to \$238,858 in fiscal year 2000 from \$111,901 in fiscal year 1999 due partially to the interest received upon a full payment of a note from purchase of common stock.

#### INCOME BEFORE INCOME TAXES

INCOME BEFORE INCOME TAXES. The comparison of the income before income taxes of the Company reveals an increase of \$397,620 to \$4,005,805 in fiscal year 2000, over the income before income taxes of \$3,608,185 in fiscal year 1999, a net gain of 11.0% year to year.

## INCOME TAXES

INCOME TAXES. The Company's effective income tax rates were 34.3% and 29.7% for fiscal years 2000 and 1999, respectively. The effective income tax rate for the Company in fiscal year 2000 was lower than the statutory rate, since the Company's equity in income of its international corporate joint ventures and in the European holding company are recognized based on after tax earnings of these entities, resulting in foreign tax credits. Thus, to the extent the corporate joint ventures' and the foreign company's undistributed earnings were distributed to the Company during fiscal years 2000 and 1999, such did not result in material additional income tax liability after the application of foreign tax credits. The increase in the Company's effective income tax rate in fiscal year 2000 is primarily due to the utilization of a net operating loss carry forward in fiscal year 1999, which was exhausted in that period.

## FISCAL YEAR 1999 COMPARED TO FISCAL YEAR 1998

### NORTHERN TECHNOLOGIES INTERNATIONAL CORPORATION

NET SALES AND COST OF SALES. The Company's net sales originating in the United States were \$9,870,531 in fiscal year 1999; a decrease of \$206,963 or 2.1% from net sales of \$10,077,494 in fiscal year 1998. The decrease in net sales is due primarily to a decrease in the volume of materials science based industrial packaging products sold to the Company's international corporate joint ventures which was only partially offset by an increase in the volume of such products sold to new and existing customers in North America. During fiscal year 1999, certain of the corporate joint ventures purchased active formulations previously sourced from the Company from a corporate joint venture of the Company.

No single customer accounted for more than 10% of sales in fiscal year 1999, whereas, in fiscal year 1998 sales to one customer accounted for 16% of total sales. The decrease in sales to a single customer is a result of a major industrial customer's changing logistic firms during fiscal year 1999.

The cost of sales decreased as a percentage of sales to 47.9% in fiscal year 1999 from 49.1% in fiscal year 1998. The variation in the cost of sales percentage reflects changes in product mix.

SELLING EXPENSES. The Company's selling expenses increased by \$230,249 or 18.3% to \$1,490,857 in fiscal year 1999 from \$1,260,608 in fiscal year 1998. The increase in selling expenses in fiscal year 1999 was primarily related to increases in salaries and related expenses, sales promotion, and travel. As a percentage of sales these costs increased to 15.1% in fiscal year 1999 from 12.5% in fiscal year 1998 reflecting the decreased level of net sales together with the overall increase in selling expenses in fiscal year 1999.

GENERAL AND ADMINISTRATIVE EXPENSES. The Company's general and administrative expenses increased by \$218,155 or 15.1% to \$1,664,936 in fiscal year 1999 from \$1,446,781 in fiscal year 1998. The increase in general and administrative expenses in fiscal year 1999 was primarily due to increases in salaries and related expenses, various professional fees, and building maintenance. As a percentage of sales, general and administrative expenses increased to 16.9% in fiscal year 1999 from 14.4% in fiscal year 1998 reflecting the decreased level of net sales and the overall increase in general and administrative expenses in fiscal year 1999.

RESEARCH, ENGINEERING, AND TECHNICAL SUPPORT EXPENSES. The Company's research, engineering, and technical support expenses increased by \$90,775 or 18.6% to \$578,231 in fiscal year 1999 from \$487,456 in fiscal year 1998. The increase in research, engineering and technical support expenses in fiscal year 1999 was primarily due to the increase of research and development activities conducted at various international locations with and through independent contractors under the direct supervision of the Company. The conduct of the Company's research and development activities, both internationally and domestically, invariably engender certain proprietary rights to the results thereof to the Company. As a percentage of sales research, engineering and technical support expenses costs increased to 5.9% in fiscal year 1999 from 4.8% in fiscal year 1998 due to the increased research, engineering, and technical support activities in fiscal year 1999, as against the decreased level of net sales in that period.

#### OPERATIONS OF INTERNATIONAL JOINT VENTURES

CORPORATE JOINT VENTURES AND EUROPEAN HOLDING COMPANY. The Company's investments in international corporate joint ventures and the European holding company are accounted for using the equity method and resulted in income to the Company of \$368,711 and \$549,875 for fiscal years 1999 and 1998, respectively. The decrease in equity in income of international corporate joint ventures and the European holding company was primarily due to a write down of the U.S. dollar value of the Company's investment in its Brazilian joint venture accompanied by the erosion in value of the Brazilian Real. Net income of the Company's international corporate joint ventures in fiscal year 1999 in the amount of \$1,038,785 represents a 14.6% decrease from the net income of the Company's international joint ventures in fiscal year 1998, due partially to higher operating expenses in those companies and in some measure to currency fluctuations. The Company also receives fees for technical and other support to its international corporate joint ventures, based on the revenues of each individual corporate joint venture. The Company recognized fees for such support in the amounts of \$2,459,697 and \$1,868,938 for fiscal years 1999 and 1998, respectively. The increase in fees for technical support and other services to international corporate joint ventures was primarily due to the greater efficacy of the Company's services to its corporate joint ventures, which provided for increased sales volume at certain of the Company's international corporate joint ventures located in the Pacific Rim and Europe. Sales of the international corporate joint ventures in fiscal year 1999 increased \$2,444,772 or 12.5% to \$22,022,767.

The Company incurred direct expenses related to its support of the international corporate joint ventures and the European holding company of \$741,703 and \$566,051 in fiscal years 1999 and 1998, respectively. These expenses consisted primarily of cost incurred to provide technical and marketing services to existing joint ventures, legal fees incurred for the development of new joint ventures, and travel and meetings expenses; but do not include an allocation of research and development expenses or of selling expenses incurred by the Company, including, for example, for participation in the international trade fairs and symposia.

#### INCOME TAXES

INCOME TAXES. The Company's effective income tax rates were 29.7% and 33.5% for fiscal years 1999 and 1998, respectively. The decrease in the effective income tax rate in fiscal year 1999 as compared to fiscal year 1998 was due to the utilization of a net operating loss carry forward that became available in fiscal year 1999. The effective income tax rate for the Company's fiscal year 1999 was lower than the statutory rate, since the equity in income of its international corporate joint ventures and the European holding company are recognized based on after tax earnings of these entities. Thus, to the extent the corporate joint ventures' and the foreign company's undistributed earnings were distributed to the Company during fiscal years 1999 and 1998, such did not result in material additional income tax liability after the application of foreign tax credits.

## LIQUIDITY AND CAPITAL RESOURCES

At August 31, 2000, the Company's working capital was \$6,078,694 including \$3,840,057 in cash and cash equivalents, with a current ratio of 7.3:1. At August 31, 1999, the Company's working capital was \$5,471,523, including \$2,750,209 in cash and cash equivalents, with a current ratio of 9.1:1. To date, net cash provided from operations has been sufficient to meet liquidity requirements, capital expenditures, research and development cost, and expansion of operations of the Company's international joint ventures. Cash flow from operations totaled \$2,620,833, \$1,983,425, and \$2,048,207 for the fiscal years 2000, 1999, and 1998, respectively. The net cash flow from operations for fiscal years 2000, 1999, and 1998 resulted principally from net income and international joint venture dividends offset by a non-cash component of net income identified as equity in income of international corporate joint ventures and European holding company.

Net cash used in investing activities totaled \$429,420, \$641,317 and \$91,682 for fiscal years 2000, 1999, and 1998, respectively. The primary uses of cash in fiscal year 2000 were investments in international corporate joint ventures, and additions to property, and an increase in other assets. In fiscal year 2000, the Company's expenditures of cash for investing activities were offset by payment of the note receivable from purchase of common stock. The primary use of cash in fiscal years 1999 and 1998 were investments in corporate joint ventures and additions to property. In fiscal years 1999 and 1998 the Company's expenditures of cash for investing activities were offset by payment of an international corporate joint venture note and proceeds from the sale of trading investments, respectively.

Net cash used in financing activities was \$1,101,565, \$792,389, and \$3,701,602 for fiscal years 2000, 1999, and 1998, respectively. The primary uses of cash in financing activities resulted from the payment of dividends and the repurchase of common stock. The primary source of cash provided by financing activities was proceeds from the exercise of stock options.

The Company and its subsidiaries have no long-term debt and no material lease commitments as of August 31, 1999, except for an office, manufacturing, laboratory and warehouse lease requiring monthly payments of \$13,194, which can be 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.

Inflation in the U.S. historically has had little effect on the Company.

## EURO CURRENCY ISSUE

On January 1, 1999, eleven of the fifteen member countries of the European Union established fixed conversion rates between their respective existing currencies and the Euro and to adopt the Euro as their common legal currency on that date (the "Euro Conversion"). Following the Euro Conversion, however, the previously existing currencies of the participating countries were scheduled to remain legal tender in the participating countries from January 1, 1999 to January 2002. During this transition period, public and private parties may pay for goods and services using either the Euro or the previously existing currencies. Beginning January 1, 2002, the participating countries will issue new Euro-denominated bills and coins for use in cash transactions. No later than July 1, 2002, the participating countries will withdraw all bills and coins denominated in the previously existing currencies making Euro Conversion complete.

The Company, its international corporate joint ventures and the European holding company have been evaluating the potential impact the Euro Conversion to the Euro Currency may have on their results of operations, liquidity or financial condition. The Company has determined that expected costs for compliance will not be material to its results of operations, liquidity, financial condition or capital expenditures. However, significant noncompliance by the Company's international corporate joint ventures, and their customers or suppliers could adversely impact the Company's results of operations, liquidity or financial condition. Accordingly, until the Company completes its assessment of the Euro Conversion impact, there can be no assurance that the Euro Conversion will not have a material impact on the overall business operations of the Company.

## RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In June 1998, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities." This statement requires companies to record derivatives on the balance sheet as assets and liabilities, measured at fair value. Gains or losses resulting from changes in the values of those derivatives would be accounted for depending on the use of the derivative and whether it qualifies for hedge accounting. To date, the Company believes the adoption of SFAS No. 133 will not have a significant impact on its financial position or the results of its operations.

In December 1999, the Securities and Exchange Commission released Staff Accounting Bulletin (SAB) No. 101 that provides the staff's views in applying generally accepted accounting principles to selected revenue recognition issues. The Company is required to modify its revenue recognition policy to comply with SAB No. 101, as amended, no later than August 31, 2001. Management has not yet determined the effects SAB No. 101 will have on the Company's financial position or the results of the operations.

ITEM 7. FINANCIAL STATEMENTS.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

The following items are included herein:

Financial Statements:	Page
-----	----
Independent Auditors' Report.....	17
Consolidated Balance Sheets as of August 31, 2000 and 1999.....	18
Consolidated Statements of Income for the years ended August 31, 2000, 1999 and 1998.....	19
Consolidated Statements of Stockholders' Equity for the years ended August 31, 2000, 1999 and 1998.....	20
Consolidated Statements of Cash Flows for the years ended August 31, 2000, 1999 and 1998.....	21
Notes to Consolidated Financial Statements.....	22-32



INDEPENDENT AUDITORS' REPORT

To the Stockholders and Board of Directors  
Northern Technologies International Corporation  
Lino Lakes, Minnesota

We have audited the accompanying consolidated balance sheets of Northern Technologies International Corporation and Subsidiaries (the Company) as of August 31, 2000 and 1999 and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended August 31, 2000. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Northern Technologies International Corporation and Subsidiaries at August 31, 2000 and 1999 and the results of their operations and their cash flows for each of the three years in the period ended August 31, 2000, in conformity with accounting principles generally accepted in the United States of America.

/s/ Deloitte & Touche LLP  
Minneapolis, Minnesota  
November 17, 2000

NORTHERN TECHNOLOGIES INTERNATIONAL CORPORATION  
AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS  
AUGUST 31, 2000 AND 1999

	2000	1999
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 3,840,057	\$ 2,750,209
Receivables:		
Trade, less allowance for doubtful accounts of \$30,000 and \$27,000, respectively	1,390,264	1,704,536
International corporate joint ventures	608,136	473,553
Inventories	929,661	1,013,525
Prepaid expenses and other	51,066	37,008
Deferred income taxes	220,000	170,000
	-----	-----
Total current assets	7,039,184	6,148,831
PROPERTY AND EQUIPMENT, net	1,219,189	1,115,229
OTHER ASSETS:		
Investments in international corporate joint ventures	3,602,692	3,424,623
Investment in European holding company	243,598	247,253
Deferred income taxes	310,000	210,000
Other	703,631	315,662
	-----	-----
	4,859,921	4,197,538
	-----	-----
	\$ 13,118,294	\$ 11,461,598
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	\$ 221,236	\$ 149,328
Income taxes	313,806	307,188
Accrued liabilities:		
Payroll and related benefits	224,445	54,182
Other	201,003	166,610
	-----	-----
Total current liabilities	960,490	677,308
DEFERRED GROSS PROFIT	50,000	60,000
COMMITMENTS AND CONTINGENCIES (Note 10)		
STOCKHOLDERS' EQUITY:		
Preferred stock, no par value; authorized 10,000 shares; none issued		
Common stock, \$.02 par value per share; authorized 10,000,000 shares; issued and outstanding 3,803,118 and 3,865,103 shares, respectively	76,062	77,302
Additional paid-in capital	4,532,550	4,613,806
Retained earnings	8,093,286	6,481,550
Accumulated other comprehensive loss (Note 1)	(594,094)	(318,561)
	-----	-----
Notes and related interest receivable from purchase of common stock	12,107,804	10,854,097
	--	(129,807)
	-----	-----
Total stockholders' equity	12,107,804	10,724,290
	-----	-----
	\$ 13,118,294	\$ 11,461,598
	=====	=====

See notes to consolidated financial statements.

NORTHERN TECHNOLOGIES INTERNATIONAL CORPORATION  
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME  
YEARS ENDED AUGUST 31, 2000, 1999, AND 1998

	2000	1999	1998
SALES	\$ 11,032,199	\$ 9,870,531	\$ 10,077,494
COST OF GOODS SOLD	5,562,609	4,726,928	4,947,816
GROSS PROFIT	5,469,590	5,143,603	5,129,678
OPERATING EXPENSES:			
Selling	1,308,615	1,490,857	1,260,608
General and administrative	2,097,991	1,664,936	1,446,781
Research, engineering, and technical support	587,434	578,231	487,456
	3,994,040	3,734,024	3,194,845
OPERATING INCOME	1,475,550	1,409,579	1,934,833
INTERNATIONAL CORPORATE JOINT VENTURES AND EUROPEAN HOLDING COMPANY:			
Equity in income of international corporate joint ventures and European holding company	854,032	368,711	549,875
Fees for technical support and other services provided to international corporate joint ventures	2,749,578	2,459,697	1,868,938
Expenses incurred in support of international corporate joint ventures	(1,312,213)	(741,703)	(566,051)
	2,291,397	2,086,705	1,852,762
INTEREST INCOME	238,858	111,901	151,720
INCOME BEFORE INCOME TAXES	4,005,805	3,608,185	3,939,315
INCOME TAXES	1,375,000	1,070,000	1,320,000
NET INCOME	\$ 2,630,805	\$ 2,538,185	\$ 2,619,315
NET INCOME PER SHARE:			
Basic	\$ .68	\$ .65	\$ .64
Diluted	\$ .68	\$ .64	\$ .63
WEIGHTED AVERAGE COMMON SHARES ASSUMED OUTSTANDING:			
Basic	3,857,964	3,915,001	4,084,408
Diluted	3,869,075	3,956,977	4,157,721

See notes to consolidated financial statements.

NORTHERN TECHNOLOGIES INTERNATIONAL CORPORATION  
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

	COMMON STOCK		ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS	ACCUMULATED OTHER COMPREHENSIVE LOSS	NOTES AND RELATED INTEREST RECEIVABLE FROM PURCHASE OF COMMON STOCK	TOTAL COMMON STOCKHOLDERS' EQUITY
	SHARES	AMOUNT					
BALANCE AT AUGUST 31, 1997	4,202,508	\$ 84,050	\$ 5,185,828	\$ 5,217,221	\$ (252,591)	\$ (129,807)	\$10,104,701
Repurchase of common stock	(374,765)	(7,495)	(775,131)	(2,364,042)	--	--	(3,146,668)
Stock options exercised	19,709	394	66,470	--	--	--	66,864
Dividends on common stock - \$.15 per share	--	--	--	(621,798)	--	--	(621,798)
Comprehensive earnings, 1998:							
Foreign currency translation adjustment	--	--	--	--	(140,930)	--	(140,930)
Net income	--	--	--	2,619,315	--	--	2,619,315
Comprehensive earnings 1998	--	--	--	--	--	--	2,478,385
BALANCE AT AUGUST 31, 1998	3,847,452	76,949	4,477,167	4,850,696	(393,521)	(129,807)	8,881,484
Repurchase of common stock	(80,989)	(1,620)	(186,275)	(326,227)	--	--	(514,122)
Issuance of common stock for services provided	3,200	64	21,986	--	--	--	22,050
Stock options exercised	95,440	1,909	300,928	--	--	--	302,837
Dividends on common stock - \$.15 per share	--	--	--	(581,104)	--	--	(581,104)
Comprehensive earnings, 1999:							
Foreign currency translation adjustment	--	--	--	--	74,960	--	74,960
Net income	--	--	--	2,538,185	--	--	2,538,185
Comprehensive earnings 1999	--	--	--	--	--	--	2,613,145
BALANCE AT AUGUST 31, 1999	3,865,103	77,302	4,613,806	6,481,550	(318,561)	(129,807)	10,724,290
Repurchase of common stock	(74,874)	(1,498)	(149,748)	(400,137)	--	--	(551,383)
Stock options exercised	12,889	258	68,492	--	--	--	68,750
Payment received on note receivable	--	--	--	--	--	129,807	129,807
Dividends on common stock - \$.16 per share	--	--	--	(618,932)	--	--	(618,932)
Comprehensive earnings, 2000:							
Foreign currency translation adjustment	--	--	--	--	(275,533)	--	(275,533)
Net income	--	--	--	2,630,805	--	--	2,630,805
Comprehensive earnings 2000	--	--	--	--	--	--	2,355,272
BALANCE AT AUGUST 31, 2000	3,803,118	\$ 76,062	\$ 4,532,550	\$ 8,093,286	\$ (594,094)	\$ --	\$12,107,804

See notes to consolidated financial statements.

NORTHERN TECHNOLOGIES INTERNATIONAL CORPORATION  
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS  
YEARS ENDED AUGUST 31, 2000, 1999, AND 1998

	2000	1999	1998
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Net income	\$ 2,630,805	\$ 2,538,185	\$ 2,619,315
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	198,264	156,540	118,127
Impairment loss	--	50,941	--
Equity in income of international corporate joint ventures and European holding company	(854,032)	(368,711)	(549,875)
Dividends received from international corporate joint ventures	273,119	88,890	284,461
Deferred income taxes	(150,000)	(30,000)	20,000
Deferred gross profit	(10,000)	(60,000)	2,000
Common stock issued for services	--	22,050	--
Changes in assets and liabilities:			
Receivables:			
Trade receivables	314,272	(662,108)	122,232
International corporate joint ventures	(134,583)	(121,389)	165,387
Inventories	83,864	(44,005)	(127,902)
Prepaid expenses and other	(14,058)	81,251	8,937
Accounts payable	71,908	(7,276)	(5,873)
Income taxes	6,618	240,772	(310,451)
Accrued liabilities	204,656	98,285	(298,151)
Total adjustments	(9,972)	(554,760)	(571,108)
Net cash provided by operating activities	2,620,833	1,983,425	2,048,207
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Additions to property	(302,224)	(316,759)	(110,809)
Investments in international corporate joint ventures	(101,083)	(522,661)	(199,311)
(Increase) decrease in other assets	(155,920)	198,103	218,438
Payment on note receivable from purchase of common stock	129,807	--	--
Net cash used in investing activities	(429,420)	(641,317)	(91,682)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Dividends paid	(618,932)	(581,104)	(621,798)
Repurchase of common stock	(551,383)	(319,122)	(3,146,668)
Issuance of common stock	68,750	107,837	66,864
Net cash used in financing activities	(1,101,565)	(792,389)	(3,701,602)
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>1,089,848</b>	<b>549,719</b>	<b>(1,745,077)</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<b>2,750,209</b>	<b>2,200,490</b>	<b>3,945,567</b>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<b>\$ 3,840,057</b>	<b>\$ 2,750,209</b>	<b>\$ 2,200,490</b>

See notes to consolidated financial statements.

NORTHERN TECHNOLOGIES INTERNATIONAL CORPORATION  
AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
YEARS ENDED AUGUST 31, 2000, 1999, AND 1998

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1. NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES

**BUSINESS OPERATIONS** - Northern Technologies International Corporation and Subsidiaries (the Company) are engaged in the development, manufacture, and marketing of proprietary material science based industrial packaging products and electronic sensing instruments.

**CONSOLIDATION** - The consolidated financial statements include the accounts of Northern Technologies International Corporation and its wholly owned subsidiaries. All significant intercompany transactions have been eliminated.

**CASH EQUIVALENTS** - The Company considers investments with an original maturity of three months or less to be cash equivalents.

**INVENTORIES** - Inventories are recorded at the lower of cost (first-in, first-out basis) or market.

**PROPERTY AND DEPRECIATION** - Property and equipment are stated at cost. Depreciation is computed using the straight-line method at rates based on the estimated service lives of the various assets as follows:

Buildings and improvements	5-20 years
Machinery and equipment	2-10 years

**INVESTMENTS IN INTERNATIONAL CORPORATE JOINT VENTURES** - Investments in international corporate joint ventures are accounted for using the equity method. Intercompany profits on inventories held by the international corporate joint ventures which were purchased from the Company have been eliminated based on the Company's ownership percentage in each international corporate joint venture.

**INVESTMENT IN EUROPEAN HOLDING COMPANY** - Investment in the European holding company is accounted for using the equity method.

**RECOVERABILITY OF LONG-LIVED ASSETS** - The Company reviews its long-lived assets whenever events or changes in circumstances indicate the carrying amount of the assets may not be recoverable. The Company determines potential impairment by comparing the carrying value of the assets with expected net cash flows expected to be provided by operating activities of the business or related products. Should the sum of the expected future net cash flows be less than the carrying value, the Company would determine whether an impairment loss should be recognized. An impairment loss would be measured by comparing the amount by which the carrying value exceeds the fair value of the asset based on market value that is based on the discounted cash flows expected to be generated by the asset. As of August 31, 2000, the Company did not consider any of its assets impaired.

**INCOME TAXES** - The Company utilizes the liability method of accounting for income taxes as set forth in Statement of Financial Accounting Standards (SFAS) No. 109, ACCOUNTING FOR INCOME TAXES. SFAS No. 109 requires an asset and liability approach to financial accounting and reporting for income taxes. Deferred income tax assets and liabilities are computed annually for differences between the financial statement and tax basis of assets and liabilities that will result in taxable or deductible amounts in the future, based on enacted tax laws and rates applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized. Income tax expense is the tax payable or refundable for the period plus or minus the change during the period in deferred tax assets and liabilities.

FOREIGN CURRENCY TRANSLATION - The functional currency of the international corporate joint ventures and the foreign company 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 other comprehensive income (loss).

REVENUE RECOGNITION - Revenue is recognized when products are shipped. A portion of the gross profit on products shipped to the Company's international corporate joint ventures is deferred until such products are sold by the international corporate joint ventures.

RESEARCH AND DEVELOPMENT - Research and development expenditures are expensed as incurred. Total research and development expenses were \$587,434, \$578,231, and \$487,456 for the fiscal years ended August 31, 2000, 1999, and 1998, respectively.

FEES FOR TECHNICAL SUPPORT AND OTHER SERVICES PROVIDED TO INTERNATIONAL CORPORATE JOINT VENTURES - Fees for technical support and other services to the international corporate joint ventures are recognized at the time the service is provided.

STOCK-BASED COMPENSATION - The Company has adopted SFAS No. 123, ACCOUNTING FOR STOCK-BASED COMPENSATION. This statement defines a fair value-based method of accounting for an employee stock option or similar equity instrument and encourages all entities to adopt that method of accounting for all of their employee stock compensation plans. However, the statement also allows an entity to continue to measure compensation cost for those plans using the intrinsic value-based method of accounting prescribed by Accounting Principles Board (APB) Opinion No. 25, ACCOUNTING FOR STOCK ISSUED TO EMPLOYEES. Under the fair value-based method, compensation cost is measured at the grant date based on the value of the award and is recognized over the service period, which is usually the vesting period. Under the intrinsic value-based method, compensation cost is the excess, if any, of the quoted market price of the stock at the grant date or other measurement date over the amount an employee must pay to acquire the stock. The Company accounts for stock options grants and awards to employees in accordance with APB Opinion No. 25 and related interpretations.

NET INCOME PER SHARE - Basic net income per share is computed by dividing net income by the weighted average number of common shares outstanding during the period. Diluted net income per share assumes the exercise of stock options using the treasury stock method, if dilutive. Diluted net income per share is computed by dividing net income by the weighted average common and common equivalent shares outstanding during the period. For the fiscal years ended August 31, 2000, 1999, and 1998, the assumed exercise of stock options increased the weighted average common and common equivalent shares outstanding by 11,111, 41,976, and 73,313 shares, respectively. Options to purchase 15,489, 29,041, and 11,575 shares of common stock as of August 31, 2000, 1999, and 1998, respectively, were not included in the computations of diluted net income per share because the options' exercise prices were greater than the average market price of the Company's common stock during the respective periods.

USE OF ESTIMATES - The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America (generally accepted accounting principles) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

FAIR VALUE DISCLOSURE OF FINANCIAL INSTRUMENTS - Cash and cash equivalents, receivables, and current liabilities are carried at amounts which reasonably approximate their fair value due to their short-term nature.

NEW ACCOUNTING STANDARDS - In June 1998 the Financial Accounting Standards Board issued SFAS No. 133, ACCOUNTING FOR DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES. SFAS No. 133 requires companies to record derivatives on the balance sheet as assets and liabilities, measured at fair value. Gains or losses resulting from changes in the values of those derivatives would be accounted for depending on the use of the derivative and whether it qualifies for hedge accounting. The Company will adopt SFAS No. 133 in the first quarter of fiscal year 2001. The Company does not anticipate that the adoption of SFAS No. 133 will have a significant impact on the Company's financial position or the results of its operations.

In December 1999 the Securities and Exchange Commission released Staff Accounting Bulletin (SAB) No. 101 that provides the staff's views in applying generally accepted accounting principles to selected revenue recognition issues. The Company is required to modify its revenue recognition policy to comply with SAB No. 101, as amended, no later than August 31, 2001. Management has not yet determined the effects SAB No. 101 will have on the Company's financial position or the results of its operations.

2. INVENTORIES

Inventories at August 31 consist of the following:

	2000	1999
Production materials	\$ 267,175	\$ 218,701
Work-in-process	23,947	24,753
Finished goods	638,539	770,071
	-----	-----
	\$ 929,661	\$ 1,013,525
	=====	=====



3. PROPERTY AND EQUIPMENT

Property and equipment at August 31 consist of the following:

	2000	1999
Land	\$ 246,097	\$ 246,097
Buildings and improvements	1,180,938	1,100,757
Machinery and equipment	1,168,812	964,152
	-----	-----
	2,595,847	2,311,006
Less accumulated depreciation	1,376,658	1,195,777
	-----	-----
	\$ 1,219,189	\$ 1,115,229
	=====	=====

4. INVESTMENTS IN INTERNATIONAL CORPORATE JOINT VENTURES AND EUROPEAN HOLDING COMPANY

JOINT VENTURES - The Company participates in various international corporate joint ventures in countries outside the United States and in similar noncontractual arrangements in various other countries. The international corporate joint ventures provide for the manufacturing, marketing, and distribution of materials science based industrial packaging products. The Company also has a 50% ownership interest in NTI ASEAN, LLC for its joint venture investments in the ASEAN region, which does not encompass Japan or South Korea. An existing joint venture partner owns the remaining 50% interest in NTI ASEAN, LLC. The Company has an ownership interest either directly or indirectly in international corporate joint ventures in the following countries:

Country -----	Date of Original Investment -----
Japan	1987
France	1990
Taiwan*	1990
Germany	1991
Singapore*	1991
Sweden	1991
Brazil	1993
Austria	1994
Russia	1994
South Korea	1994
Finland	1995
Italy	1996
United Kingdom	1997
Czech Republic	1997
Poland	1998
Thailand*	1998
China*	2000
India	2000
Malaysia*	2000

\*Indirect ownership interest through NTI ASEAN, LLC.

Fees earned from the international corporate joint ventures under licenses and technical and other support agreements were \$2,749,578, \$2,459,697, and \$1,868,938 for the fiscal years ended August 31, 2000, 1999, and 1998, respectively.

The Company incurred expenses associated with the performance of its services to its international corporate joint ventures of \$1,312,213, \$741,703, and \$566,051 for the fiscal years ended August 31, 2000, 1999, and 1998, respectively. These expenses were incurred primarily in conjunction with the performance of the technical services to existing international corporate joint ventures, travel and legal fees regarding the development of new joint ventures.

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

	August 31	
	2000	1999
Current assets	\$ 10,465,397	\$ 11,417,847
Total assets	12,507,607	12,595,710
Current liabilities	4,759,056	5,658,770
Noncurrent liabilities	44,719	52,968
Joint ventures' equity	7,703,832	6,883,972
Northern Technologies International Corporation's share of international corporate joint ventures' equity	3,602,692	3,424,623

	Fiscal Years Ended August 31		
	2000	1999	1998
Sales*	\$ 23,913,708	\$ 22,022,767	\$ 19,577,995
Gross profit	12,448,148	11,389,838	9,930,884
Net income	1,810,885	1,038,785	1,216,111
Northern Technologies International Corporation's share of equity in income of international corporate joint ventures	857,687	369,325	556,644

\* Excludes sales of NTI ASEAN, LLC's joint ventures

During fiscal year 1999, the Company purchased the local 50% ownership interests of two international corporate joint ventures the Company did not previously own for a total of \$452,152. The Company has not consolidated the accounts of the two international corporate joint ventures in its financial statements due to the Company's intention of reducing its ownership in fiscal year 2000. The Company sold its ownership interest over 50% in one of the international corporate joint ventures in fiscal year 2000. The Company sold a portion of its ownership interest over 50% in the other international corporate joint venture in fiscal year 2000 and does not have unilateral control of the latter international corporate joint venture's operations.

EUROPEAN HOLDING COMPANY - During the fiscal year 1997 the Company invested \$254,639 for a 50% ownership interest in a European holding company. To date, the entity has been inactive and its assets as of August 31, 2000 and 1999 consisted primarily of cash and cash equivalents. The Company's share of equity in loss of the European holding company was \$3,655, \$614, and \$6,769 for the fiscal years ended August 31, 2000, 1999, and 1998, respectively.

5. STOCKHOLDERS' EQUITY

During fiscal years 2000, 1999, and 1998, the Company acquired and retired 74,874, 80,989, and 374,765 shares of common stock for \$551,383, \$514,122, and \$3,146,668, respectively.

During fiscal year 1999 the Company issued 3,200 shares of common stock in return for services provided. The value of the common stock issued, \$22,050, was determined based on the market value of the Company's common stock.

A note receivable of \$129,807 (including accrued interest of \$4,432) resulting from the exercise of warrants was presented as a reduction of stockholders' equity prior to fiscal year 2000. The note receivable had an interest rate of 11% and was due on demand. The increase in accrued interest receivable on the outstanding note receivable as of August 31, 1999 had been fully reserved for, due to the uncertainty as to when the interest would be paid. The note receivable and all interest were paid in full in fiscal year 2000.

During fiscal years 2000 and 1994 the Company's Board of Directors and shareholders approved stock option plans (the Plans) providing for the granting of options to purchase 450,000 shares of common stock in toto. Under the Plans, incentive stock options and nonqualified stock options could be granted to directors, officers, nonofficer employees, and others. The options have a term of five years and become exercisable ratably over a three- or four-year period beginning on the first annual anniversary date of the grant. Options are granted at prices equal to the market value of the stock on the date of grant.

A summary of the status of the Company's stock options for the years ended August 31 is as follows:

	2000		1999		1998	
	Shares	Wgt'd Avg Exer Price	Shares	Wgt'd Avg Exer Price	Shares	Wgt'd Avg Exer Price
Outstanding at beginning of year	80,796	\$ 6.83	124,236	\$ 4.24	132,370	\$ 3.46
Granted	47,655	6.89	52,000	6.31	11,575	11.81
Exercised	(12,889)	5.33	(95,440)	3.17	(19,709)	3.39
Canceled	(21,000)	9.02	--	--	--	--
Outstanding at end of year	94,562	\$ 6.57	80,796	\$ 6.83	124,236	\$ 4.24
Options exercisable at year-end	19,718	6.07	17,751	\$ 6.51	101,909	\$ 3.25

The following table summarizes information about stock options outstanding at August 31, 2000:

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Number Outstanding	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
\$5.00 - \$7.00	92,987	3.43	\$ 6.51	18,668	\$ 5.81
\$10.63	1,575	2.22	10.63	1,050	10.63
\$5.00 - \$10.63	94,562	3.41	\$ 6.57	19,718	\$ 6.07

If compensation cost for the Company's Plan had been determined based on the fair value at the grant date for awards in the fiscal years ended August 31, consistent with the provisions of SFAS No. 123, the Company's net income would have changed to the pro forma amounts indicated below:

	2000	1999	1998
Net income, as reported	\$ 2,630,805	\$ 2,538,185	\$ 2,619,315
Net income, pro forma	2,558,094	2,488,042	2,594,076
Basic net income per common share, as reported	\$ .68	\$ .65	\$ .64
Basic net income per common share, pro forma	.66	.64	.64
Diluted net income per share, as reported	.68	.64	.63
Diluted net income per share, pro forma	.66	.63	.62

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:

	2000	1999	1998
Dividend yield	2.0%	2.0%	2.0%
Expected volatility	46.6%	48.2%	49.0%
Expected life of option	5 years	5 years	5 years
Average risk-free interest rate	5.79%	4.71%	6.16%
Average fair value of options on grant date	\$ 2.84	\$ 2.57	\$ 5.09

## 6. SEGMENT INFORMATION

The Company is engaged in the development, manufacture, and marketing of proprietary materials science based industrial packaging products and electronic sensing instruments. Further disclosure regarding the two businesses is not presented, as management uses the consolidated information to allocate resources and evaluate performance.

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

	2000	1999	1998
Sales to unaffiliated customers in the U.S.A.	74%	75%	70%
Sales outside the U.S.A. to:			
International corporate joint ventures in which the Company is a shareholder directly and indirectly	6	6	10
Unaffiliated customers	20	19	20
	-----	-----	-----
	100%	100%	100%
	=====	=====	=====

One customer accounted for approximately 14% and 16% of net sales for the fiscal years ended August 31, 2000 and 1998, respectively. No single customer accounted for more than 10% of net sales for the fiscal year ended August 31, 1999.

7. RETIREMENT 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 1/2% of the employee's salary. The Company recognized expense for the savings plan of \$37,000, \$39,000, and \$40,000 for the fiscal years ended August 31, 2000, 1999, and 1998, respectively.

8. RELATED-PARTY TRANSACTIONS

The Company paid reimbursement for travel and related expenses of \$378,000, \$419,500, and \$458,000 for the fiscal years ended August 31, 2000, 1999, and 1998, respectively, to a financial and management consulting firm of which the Company's Co-Chief Executive Officer and Chairman of the Board and the Company's other Co-Chief Officer and President are officers and directors.

9. INCOME TAXES

The provisions for income taxes for the fiscal years ended August 31 consisted of the following:

	2000	1999	1998
Current:			
Federal	\$ 1,395,000	\$ 990,000	\$ 1,180,000
State	130,000	110,000	120,000
	-----	-----	-----
	1,525,000	1,100,000	1,300,000
Deferred:			
Federal	(140,000)	(5,000)	18,000
State	(10,000)	(25,000)	2,000
	-----	-----	-----
	(150,000)	(30,000)	20,000
	-----	-----	-----
	\$ 1,375,000	\$ 1,070,000	\$ 1,320,000
	=====	=====	=====

Reconciliations of the expected federal income tax at the statutory rate with the provisions for income taxes for the the three fiscal years ended August 31 are as follows:

	2000	1999	1998
Tax computed at statutory rates	\$ 1,400,000	\$ 1,263,000	\$ 1,379,000
State income tax, net of federal benefit	100,000	71,000	80,000
Equity in income of international joint ventures	(290,000)	(125,000)	(187,000)
Change in valuation allowance	--	(162,000)	--
Other	165,000	23,000	48,000
	-----	-----	-----
	\$ 1,375,000	\$ 1,070,000	\$ 1,320,000
	=====	=====	=====

The Company has not recognized a deferred tax liability relating to investments in international corporate joint ventures and European holding company that are essentially permanent in duration of \$1,020,000 and \$840,000 at August 31, 2000 and 1999, respectively. If some or all of the undistributed earnings of the international corporate joint ventures and European holding company are remitted to the Company in the future, income taxes, if any, after the application of foreign tax credits will be calculated and provided at that time.

The tax effect of the temporary differences and tax carryforwards comprising the net deferred taxes shown on the balance sheets at August 31 are as follows:

	2000	1999
Current:		
Allowance for doubtful accounts	\$ 10,000	\$ 10,000
Inventory costs	35,000	20,000
Prepaid expenses and other	90,000	96,000
Accrued expenses	65,000	22,000
Deferred gross profit	20,000	22,000
	-----	-----
Total current	\$ 220,000	\$ 170,000
	=====	=====
Noncurrent:		
Excess of book over tax depreciation	\$ 80,000	\$ 76,000
Expenses incurred to support international joint ventures	230,000	91,000
Interest receivable relating to notes	--	43,000
	-----	-----
Total noncurrent	\$ 310,000	\$ 210,000
	=====	=====

#### 10. COMMITMENTS AND CONTINGENCIES

A subsidiary of the Company acquired a one-third ownership in an Ohio limited liability company (the LLC). The LLC owns and operates a rental property located in Beachwood, Ohio, acquired at a cost of \$2,205,000 in fiscal year 2000. The Company has guaranteed up to \$339,235 of the LLC's \$2,035,000 mortgage obligation. The Company's subsidiary has entered into a 15 year lease agreement for 16,826 square feet of office, manufacturing, laboratory and warehouse space requiring monthly payments of \$13,194 (approximately \$9.41 per square foot), which can be adjusted annually according to the annual consumer price index through November 2014. Total rent expense under the lease was approximately \$110,000 for the year ended August 31, 2000. By its ownership in LLC the Company's subsidiary is entitled to one third of the LLC's operating results. The rental property is now fully leased.

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.

11. STATEMENTS OF CASH FLOWS

Supplemental disclosures of cash flow information for the three fiscal years ended August 31 consist of:

	2000	1999	1998
Cash paid during the year for income taxes	\$ 1,361,000	\$ 733,047	\$ 1,610,451
Increase (decrease) in the Company's investment in international corporate joint ventures and accumulated other comprehensive income (loss) due to changes in exchange rates	(275,533)	74,960	(140,930)
Issuance of common stock in exchange for services	--	22,050	--
Exercise of stock options with outstanding common stock	--	195,000	--

12. SUBSEQUENT EVENT

On November 17, 2000, the Company's Board of Directors declared a \$.17 per share dividend on all outstanding shares of the Company's common stock to be distributed on December 15, 2000 to holders of record on December 1, 2000.

## 13. QUARTERLY INFORMATION (UNAUDITED)

	Quarter Ended			
	November 30	February 29	May 31	August 31
Fiscal year 2000:				
Net sales	\$2,831,864	\$2,693,682	\$2,812,990	\$2,693,663
Gross profit	1,483,344	1,345,997	1,467,029	1,173,220
Income before income taxes	963,791	694,199	1,122,746	1,225,069
Income taxes	290,000	220,000	360,000	505,000
Net income	673,791	474,199	762,746	720,069
Net income per share:				
Basic	\$ .17	\$ .12	\$ .20	\$ 0.19
Diluted	.17	.12	.20	0.19
Weighted average common shares assumed outstanding:				
Basic	3,867,379	3,870,127	3,865,524	3,829,061
Diluted	3,870,919	3,890,481	3,874,605	3,841,818

	Quarter Ended			
	November 30	February 28	May 31	August 31
Fiscal year 1999:				
Net sales	\$2,155,395	\$2,005,873	\$2,442,319	\$3,266,944
Gross profit	1,085,692	1,027,387	1,192,792	1,837,732
Income before income taxes	777,643	580,278	907,074	1,343,190
Income taxes	220,000	205,000	245,000	400,000
Net income	557,643	375,278	662,074	943,190
Net income per share:				
Basic	\$ .14	\$ .10	\$ .17	\$ .24
Diluted	.14	.10	.17	.24
Weighted average common shares assumed outstanding:				
Basic	3,856,408	3,871,863	3,863,446	3,886,833
Diluted	3,900,463	3,911,779	3,924,514	3,912,202

During the fourth quarters of fiscal years 2000 and 1999, the Company adjusted the carrying value of inventory as a result of a complete annual physical count and valuation. This annual counting and pricing was more comprehensive than that which had been conducted on an interim basis. As a result, the Company increased cost of sales by approximately \$300,000 in the fourth quarter of fiscal year 2000 and decreased cost of sales by approximately \$50,000 in the fourth quarter of fiscal year 1999. It is not practicable to determine the periods of the fiscal year to which these adjustments relate.



ITEM 8. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

None.

PART III

ITEM 9. DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS AND CONTROL PERSONS; COMPLIANCE WITH SECTION 16(a) OF THE EXCHANGE ACT.

A. DIRECTORS OF THE REGISTRANT

The following table sets forth certain information as of November 17, 2000, which has been furnished to the Company by the directors named below.

NAME ----	AGE ---	PRINCIPAL OCCUPATION -----	DIRECTOR SINCE -----
Vincent J. Graziano	67	Consultant	1979
Dr. Donald A. Kubik	60	Vice Chairman and Chief Technology Officer of the Company	1995
Richard G. Lareau	72	Partner of Oppenheimer Wolff & Donnelly LLP	1980
Philip M. Lynch	64	Co-Chief Executive Officer and Chairman of the Board of the Company and Executive Vice President of Inter Alia Holding Company	1979
Haruhiko Rikuta	35	Corporate Officer of Taiyonic Limited and President of NTI ASEAN, LLC	1997
Prof. Milan R. Vukceвич	63	Chief Scientist Research and Development of Bicron Saint-Gobain Industrial Ceramics	1995

Mr. Sidney Dworkin, having been a Company director since 1979, died of complications from cancer on October 17, 2000. Mr. Dworkin was wise, upbeat, honest, straightforward and generous. The Company was honored by his directorship service and will greatly miss his advice and counsel.

Mr. Graziano was employed by the Company from 1976 until his retirement from the Company in 1999, and was President of the Company at the time he retired. Since his retirement from the Company in September 1999 Mr. Graziano has been serving, at will, as a consultant to the Company. Prior to joining the Company, Mr. Graziano served as Manager of Manufacturing Systems with the management consulting department of Peat, Marwick, Mitchell & Co. in Europe and the United States for nine years.

Mr. Gerhard Hahn has been employed as General Manager by Knuppel KG, a German packaging firm, since 1966. Mr. Hahn has also been employed by Excor Korrosionsschutz-Technologien and Produkte GmbH (the Company's German joint venture) since 1991. Mr. Hahn, due to extensive work demands resigned from his directorship with the Company effective February 18, 2000. Mr. Hahn's contributions as a member of the Board of Directors of the Company, particularly regarding Europe, will be greatly missed.

Dr. Kubik has been employed by the Company since 1978, was named Vice Chairman in September 1999. Dr. Kubik served as Vice President of the Company from 1979 to September 1999, and was Treasurer of the Company from 1998 to September 1999. Dr. Kubik was appointed Vice Chairman in September 1999, and is a member of the Executive Committee, which served as Co-Chief Executive Officer of the Company from September 1999 to May 2000. During his employment as Chief Technology Officer with the Company, Dr. Kubik has been responsible for developing the patent that led to the Company's introduction of protective plastic film and paper products incorporating volatile corrosion inhibitors. Prior to joining the Company, Dr. Kubik held a research and development position with 3M Company.

Mr. Lareau has been a partner of the law firm of Oppenheimer Wolff & Donnelly LLP for more than five years. Mr. Lareau also serves as a director of Nash Finch Company, a public company, and as a trustee of Mesabi Trust.

Mr. Lynch has been Executive Vice President of Inter Alia Holding Company, a financial and management consulting firm, for more than five years. Mr. Lynch is also a member of the Board of Directors of the Fosbel Group of Companies: Fosbel International (U.K.), Fosbel, Inc. (U.S.), Fosbel Japan, Ltd. (Tokyo), Fosbel do Brasil (San Paulo), and Fosbel Europe BV, (operating in 17 Western and three Eastern European countries). The Fosbel Group is itself a joint venture between multinational listed companies: Glaverbel S.A., (Bruxelles), a leading Belgian glass manufacturing company and an affiliate of Asahi Glass Co., Ltd., and Burmah Castrol plc, an English petrochemical and materials science company.

Mr. Rikuta, a citizen of Japan, has been employed at Taiyo Petroleum Gas Co. Ltd. as Manager, ZERUST Department, since February 1993. From August 1991 to January 1993, Mr. Rikuta served as a Sales Representative of the Company. Mr. Rikuta received a B.A. degree in Economics from Seijo University in Tokyo, Japan in March 1989. In May 1991, Mr. Rikuta received a B.A. degree in International Relations from the University of Wisconsin in Milwaukee, Wisconsin.

Prof. Vukceвич is employed as Chief Scientist Research and Development of Bicon Saint-Gobain Industrial Ceramics. Prof. Vukceвич was employed by GE Lighting from 1973 to 1995, holding various positions including Chief Scientist, Manager of Metallurgical Engineering and Coordinator of International Research and Development in Materials Science.

B. EXECUTIVE OFFICERS OF THE REGISTRANT

The executive officers of the Company, their ages and the offices held, as of November 17, 2000, are as follows:

NAME ----	AGE ---	POSITION IN THE COMPANY -----
Philip M. Lynch	64	Chairman of the Board and Co-Chief Executive Officer
G. Patrick Lynch	33	President and Co-Chief Executive Officer*
Dr. Donald A. Kubik	60	Vice Chairman, Chief Technology Officer*
Loren M. Ehrmantraut	73	Chief Financial Officer*
Matjaz Korosec	33	Vice President of Financial Planning and Treasurer*
Elsie F. Gilles	59	Controller and Assistant Secretary
Irina V. Roytman	35	Vice President and Coordinator for Eastern Europe
Tiffany M. Swann	32	Corporate Secretary
Prof. Efim Ya. Lyublinski	63	Vice President and Director of Field Technical Support and Applications Engineering

\*Members of the Executive Committee

Mr. Philip M. Lynch has been Executive Vice President of Inter Alia Holding Company for more than five years. Mr. Lynch is the father of Mr. G. Patrick Lynch. Refer to "Directors of the Registrant" for a more detailed discussion.

Mr. G. Patrick Lynch, an employee of the Company since 1995, has been President and Co-Chief Executive Officer since May, 2000. Mr. G. Patrick Lynch was Vice President of Strategic Planning, Corporate Secretary and a member of the Executive Committee, which served as Co-Chief Executive Officer from September 1999 to May 2000. Mr. G. Patrick Lynch is also an officer and director of Inter Alia Holding Company. Prior to joining the Company, Mr. G. Patrick Lynch held positions in sales management for Fuji Electric Co., Ltd. in Tokyo, Japan, and programming project management for BMW AG in Munich, Germany. Mr. G. Patrick Lynch received an M.B.A. degree from the University of Michigan Business School in Ann Arbor, Michigan. Mr. G. Patrick Lynch is the son of Mr. Philip M. Lynch.

Dr. Donald A. Kubik has been employed by the Company since 1978. Refer to "Directors of the Registrant" for a more detailed discussion.

Mr. Loren M. Ehrmantraut has been employed by the Company since 1973. He has served as Chief Financial Officer since 1997 and as Secretary of the Company from 1978 to September 1999. He is a member of the Executive Committee, which served as Co-Chief Executive Officer of the Company from September 1999 to May 2000. From 1974 to March 1997, Mr. Ehrmantraut served as Treasurer of the Company. Prior to joining the Company, Mr. Ehrmantraut spent four years with Bankers Mortgage Corporation and its subsidiaries performing accounting, finance and personnel duties. Prior to his employ with Bankers Mortgage Corporation, Mr. Ehrmantraut served as controller for Physicians and Surgeons Underwriters Insurance Company, office manager for Employers Overload Corporation, accountant, auditor, and various personnel positions with American Hardware Mutual Insurance Company and as an auditor with Ernst and Ernst. Effective November 20, 2000 Mr. Ehrmantraut relinquishes the position of Chief Financial Officer and assumes the positions of the Head of Investor Relations of the Company and Advisor to the Board of Directors.

Mr. Matjaz Korosec has been employed by the Company since June 1999, in the capacity of Vice President of Financial Planning and Treasurer. He is a member of the Executive Committee, which served as Co-Chief Executive Officer of the Company from September 1999 to May 2000. Previously, Mr. Korosec was Advisor to the Government and Head of Debt Management at the Ministry of Finance of the Republic of Slovenia. He also served on the Board of Directors of the Slovenian Ecological Fund. Prior to this, he was Controller of an Industrial Division of Honeywell GmbH in Vienna, Austria. Mr. Korosec is a Slovenian citizen. Mr. Korosec holds an M.B.A. degree from the University of Michigan Business School in Ann Arbor, Michigan. Effective November 20, 2000 Mr. Korosec relinquishes the position of Treasurer and and assumes the position of Chief Financial Officer of the Company.

Ms. Elsie F. Gilles has been employed by the Company since 1985, serving in a variety of capacities in the areas of accounting and personnel. Ms. Gilles has been Controller and Assistant Corporate Secretary of the Company since 1998. Effective November 20, 2000 Ms. Gilles relinquishes the position of Controller and assumes the position of Treasurer of the Company.

Ms. Irina V. Roytman has been employed by the Company since September 1994 serving in a variety of capacities in the area of international business development and was named Vice President and Coordinator for Eastern Europe in July 2000. Ms. Roytman holds BS in engineering from the Technical University of St. Petersburg.

Ms. Tiffany Swann has been employed by the Northern Instruments Corporation LLC, the Company's subsidiary in Ohio as Vice President, Marketing since April 1999 and was named Corporate Secretary of the Company in November, 2000. From February 1995 until April 1999 she was employed in the furniture industry by the Mitchell Gold Company as a Field Account Manager. Ms. Swann received a BFA from the University of North Carolina.

Prof. Efim Ya. Lyublinski has been employed by the Company since March 2000 in the position of Vice President and Director of Field Technical Support and Applications Engineering. Prof. Lyublinski is a Member of the Russian Academy of Natural Sciences. From 1984 to 1999 Prof. Lyublinski was Head of Laboratory of Complex Methods of Corrosion Protection at the Central Research Institute of Structural Materials („Prometey“), St. Petersburg. Prof Lyublinski also held a Senior Consulting Position with Osmos Technology, Boston, Massachusetts from 1995 to 1999. Prof. Lyublinski holds 14 patents, 64 inventions and has authored 8 books, 6 booklets, 140 articles and 75 contributions to various conferences in the areas of materials science and corrosion.

C. COMPLIANCE WITH SECTION 16(a) OF THE EXCHANGE ACT

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires the Company's directors and executive officers and all persons who beneficially own more than 10% of the outstanding shares of the Company's Common Stock to file with the Securities and Exchange Commission initial reports of ownership and reports of changes in ownership of the Company's Common Stock. Executive officers, directors and greater than 10% beneficial owners are also required to furnish the Company with copies of all Section 16(a) forms they file. To the Company's knowledge, based upon a review of the copies of such reports furnished to the Company and written representations that no other reports were required, during the year ended August 31, 2000, none of the Company's directors or officers or beneficial owners of greater than 10% of the Company's Common Stock failed to file on a timely basis the forms required by Section 16 of the Exchange Act.

ITEM 10. EXECUTIVE COMPENSATION.

A. COMPENSATION OF DIRECTORS

DIRECTORS FEES. Each person who was a non-employee director received an annual retainer of \$5,000 in fiscal 2000 for services rendered as a director of the Company. Each non-employee director of the Company further received \$750 for each Board meeting and \$500 for each Committee (e.g. Audit, Compensation and Strategic Planning Committees) meeting attended. The Chairman of the Board does not receive any Board or committee meeting fee. The Company pays the premium on a group insurance policy for the Chairman of the Board.

AUTOMATIC OPTION GRANTS TO NON-EMPLOYEE DIRECTORS. Pursuant to the Company's 1994 and 2000 Stock Incentive Plan (the "Plan"), each non-employee director of the Company is automatically granted a non-qualified option to purchase 2,000 shares of Common Stock (a "Director Option") on the first day of each fiscal year in respect of their past year's services as a non-employee director of the Company. Non-employee directors who are elected or appointed to the Board following the first day of the Company's fiscal year receive pro-rata portion of 2,000 shares of Common Stock calculated by dividing the number of months remaining in the fiscal year at the time of election or appointment divided by twelve, which options are granted at the end of the relevant fiscal year.

On September 1, 1997, Messrs. Dworkin, Hahn, Lareau, Lynch and Vukceвич each received a Director Option to purchase 2,000 shares of Common Stock at an exercise price of \$12.00 per share; however, these options were returned and cancelled in fiscal 2000. On November 19, 1997, Mr. Rikuta received a Director Option to purchase 1,575 shares of Common Stock at an exercise price of \$10.625 per share. On September 1, 1998, Messrs. Dworkin, Hahn, Lareau, Lynch, Rikuta and Vukceвич each received a Director Option to purchase 2,000 shares of Common Stock at an exercise price of \$6.25 per share, and on September 1, 1999, the same individuals each received a Director Option to purchase 2,000 shares of Common Stock at an exercise price of \$6.5625 per share. Subsequently, Mr. Lynch returned his September 1, 1999 Director Option to purchase 2,000 shares to the Option Plan. All of such Director Options granted vest in equal one-third installments over a three-year period. On November 17, 2000, the Board of Directors approved the automatic option grants as of September 1, 2000 to Messrs. Dworkin, Lareau, Lynch, Rikuta, and Vukceвич each received a Director Option to purchase 2,000 shares of Common Stock at an exercise price of \$6.75.

B. SUMMARY OF CASH AND CERTAIN OTHER COMPENSATION PAID TO EXECUTIVE OFFICERS

The following table provides summary information concerning cash and non-cash compensation paid or accrued by the Company to or on behalf of the Company's Co-Chief Executive Officers and the most highly compensated executive officers of the Company whose cash and non-cash salary and bonus exceeded \$100,000 in the fiscal year ended August 31, 2000 (the "Named Executive Officers").

SUMMARY COMPENSATION TABLE

NAME AND PRINCIPAL POSITION	YEAR	ANNUAL COMPENSATION		LONG-TERM COMPENSATION	ALL OTHER COMPENSATION (\$)(2)
		SALARY (\$)	BONUS (\$)(1)	SECURITIES UNDERLYING OPTIONS (#)	
Philip M. Lynch CHAIRMAN OF THE BOARD AND CO-CHIEF EXECUTIVE OFFICER	2000	\$0	\$0	0	0(3)
	1999	0	0	0	0(3)
	1998	0	0	2,000	0(3)
Donald A. Kubik (4) VICE CHAIRMAN	2000	200,000	0	0	5,000
	1999	200,000	0	8,000	4,667
	1998	200,000	55,000	0	5,000
Loren M. Ehrmantraut (4) CHIEF FINANCIAL OFFICER	2000	51,568	0	0	1,805
	1999	117,410	0	10,000	3,025
	1998	117,410	55,000	0	5,000
G. Patrick Lynch (4) PRESIDENT AND CO-CHIEF EXECUTIVE OFFICER	2000	95,000	0	3,000	3,325(3)
	1999	45,416	0	0	1,571(3)
	1998	32,691	0	0	1,211(3)
Matjaz Korosec (4) (5) VICE PRESIDENT OF FINANCIAL PLANNING AND TREASURER	2000	90,000	0	3,000	1,650
	1999	35,250	0	0	0

- (1) Bonuses paid in 1998 were earned in 1997. There were no bonuses paid in 2000 or 1999. On November 17, 2000 the Board of Directors approved bonuses to be paid in fiscal year 2001 related for the services performed in the fiscal year 2000 for Messrs. Kubik, Ehrmantraut, G. Lynch and Korosec in the amount of \$20,000 each, for which an accrual was made in the fiscal year 2000.
- (2) Compensation hereunder consists of contributions to the 401(k) plans of the Named Executive Officers.
- (3) Does not include any commissions payable to Inter Alia Holding Company, an entity of which Mr. Philip Lynch and Mr. G. Patrick Lynch are officers and directors, under a certain Manufacturer's Representative Agreement. See "Item 12 - Certain Relationships and Related Party Transactions."
- (4) Member of the Executive Committee, which served as Co-Chief Executive Officer of the Company from September 1999 to May 2000.
- (5) Mr. Korosec joined the Company during the fiscal year ended August 31, 1999.

C. OPTION GRANTS AND EXERCISES.

The following tables provide information for the year ended August 31, 2000 as to individual grants of options to purchase shares of the Common Stock, exercises of options and the potential realizable value of the options held by the Named Executive Officers at August 31, 2000.

OPTION GRANTS IN FISCAL 2000

NAME	OPTIONS GRANTED (1)	PERCENT OF TOTAL OPTIONS GRANTED TO EMPLOYEES IN FISCAL YEAR (2)	EXERCISE OR BASE PRICE (\$/SHARE)	EXPIRATION DATE
G. Patrick Lynch	3,000	8.4%	7.00	09/17/04
Matjaz Korosec	3,000	8.4%	7.00	09/17/04

(1) These options were granted under the Plan. The options vest in three equal installments on the first, second and third anniversary of the date of grant. To the extent not already exercisable, options granted under the Plan become immediately exercisable in full upon certain "changes in control" (as defined in the Plan) of the Company.

AGGREGATED OPTION EXERCISES IN FISCAL 2000 AND FISCAL 2000 YEAR-END OPTION VALUES

NAME	SHARES ACQUIRED ON EXERCISE (#)	VALUE REALIZED (\$)	NUMBER OF UNEXERCISED OPTIONS AT AUGUST 31, 2000		VALUE OF UNEXERCISED IN-THE-MONEY OPTIONS AT AUGUST 31, 2000 (1) (\$)	
			EXERCISABLE	UNEXERCISABLE	EXERCISABLE	UNEXERCISABLE
Philip M. Lynch	3,000	8,000	667	1,333	1,254	2,506
Donald A. Kubik	2,667	1,334		5,333		10,026
Loren M. Ehrmanntraut			3,333	6,667	6,266	12,534
G. Patrick Lynch				3,000		3,390
Matjaz Korosec				3,000		3,390

(1) Value is calculated as the excess of the fair market value of the Common Stock on August 31, 2000 over the exercise price of the options. On August 31, 2000, the fair market value of the Common Stock was \$8.13 per share.

ITEM 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT.

The following table sets forth information regarding the beneficial ownership of the Common Stock of the Company as of November 17, 2000, unless other noted, (a) by each stockholder who is known by the Company to own beneficially more than 5% of the outstanding Common Stock, (b) by each director, (c) by each Named Executive Officer, and (d) by all executive officers and directors of the Company as a group.

NAME	SHARES OF COMMON STOCK BENEFICIALLY OWNED (1)	
	AMOUNT	PERCENT OF CLASS (2)
Inter Alia Holding Company	911,668 (3)	24.0%
Elsie F. Gilles	4,200 (4)	*
Vincent J. Graziano	37,034 (5)	1.0
Dr. Donald A. Kubik	108,674 (6)	2.9
Richard G. Lareau	28,677 (7)	*
Philip M. Lynch	1,334 (8)	*
Haruhiko Rikuta	19,576 (9)	*
Prof. Milan R. Vukceovich	5,931 (10)	*
Loren M. Ehrmanntraut	53,666 (11)	1.4
G. Patrick Lynch	2,700 (12)	*
Matjaz Korosec	1,500 (13)	*
Irina Roytman	1,650 (14)	*
Tiffany Swann	334 (15)	*
All directors and executive officers as a group (14 persons)	1,176,944 (16)	31.0

\* Less than 1%.

- (1) Shares not outstanding but deemed beneficially owned by virtue of the right of a person or member of a group to acquire them within 60 days are treated as outstanding only when determining the amount and percent owned by such person or group. Unless otherwise noted, all of the shares owned or held by individuals or entities possessing sole voting and investment power with respect to such shares.
- (2) Based on 3,794,284 shares of Common Stock outstanding as of November 17, 2000.
- (3) Includes 911,668 shares held of record by Inter Alia Holding Company, a financial and management consulting firm of which Mr. Philip M. Lynch, the Chairman of the Board of Directors and the Co-Chief Executive Officer of the Company, and Mr. G. Patrick Lynch, President and the Co-Chief Executive Officer of the Company are officers and directors.
- (4) Includes 1,000 shares of Common Stock, which may be acquired within 60 days pursuant to the exercise of options.
- (5) Includes 31,700 shares held jointly with his wife Leone A. Medin and includes 5,334 shares of Common Stock, which may be acquired within 60 days pursuant to the exercise of options.



- (6) Includes 2,667 shares of Common Stock, which may be acquired within 60 days pursuant to the exercise of options.
- (7) Includes 4,001 shares of Common Stock, which may be acquired within 60 days pursuant to the exercise of options.
- (8) Does not include 911,668 shares held of record or beneficially owned by Inter Alia Holding Company, of which Mr. Philip M. Lynch is an officer and director. Includes 1,334 shares of Common Stock, which may be acquired within 60 days pursuant to the exercise of options.
- (9) Includes 3,576 shares of Common Stock, which may be acquired within 60 days pursuant to the exercise of options.
- (10) Includes 657 shares held jointly with his wife Michelle Vukceвич, and includes 2,001 shares of Common Stock, which may be acquired within 60 days pursuant to the exercise of options.
- (11) Includes 6,666 shares of Common Stock, which may be acquired within 60 days pursuant to the exercise of options.
- (12) Includes 1,000 shares of Common Stock, which may be acquired within 60 days pursuant to the exercise of options. Does not include 911,688 shares held of record or beneficially owned by Inter Alia Holding Company, of which Mr. G. Patrick Lynch is an officer and director.
- (13) Includes 500 shares held jointly with his wife Margaret D. Korosec, and includes 1,000 shares of Common Stock, which may be acquired within 60 days pursuant to the exercise of options.
- (14) Includes 350 shares held jointly with her husband Alexander Roytman, and includes 1,000 shares of Common Stock, which may be acquired within 60 days pursuant to the exercise of options.
- (15) Includes 334 shares of Common Stock, which may be acquired within 60 days pursuant to the exercise of options.
- (16) Includes (i) 911,668 shares held of record by Inter Alia Holding Company, a financial and management consulting firm of which Mr. Philip M. Lynch, the Chairman of the Board of Directors and the Co-Chief Executive Officer of the Company, and Mr. G. Patrick Lynch, President and the Co-Chief Executive Officer of the Company are officers and directors, , and (ii) options to purchase 27,579 shares which are held by officers and directors of the Company which are exercisable within 60 days.

ITEM 12. CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS.

On October 1, 1976, the Company entered into a Manufacturer's Representative Agreement with The Saxxon Organization, Incorporated (the "Agreement"). The Agreement has no expiration date and may be terminated by either party upon 60 days written notice. Effective January 9, 1980, the Agreement was assigned to Inter Alia Holding Company, a financial and management consulting firm of which Philip M. Lynch, the Chairman of the Board of Directors of the Company, is an officer and director. Under the Agreement, Inter Alia Holding Company (or the "Representative") is entitled to commissions from the Company on the net proceeds of sales of the Company's product generated by Inter Alia Holding Company. The Representative acts as an independent manufacturer's representative of the Company. It has a non-exclusive worldwide right to offer for sale and solicit orders for the Company's products in accordance with prices determined by the Company. The Representative is responsible for all of its own operating expenses with no entitlement for reimbursement from the Company for this activity. The Representative has not effected any sales within the United States. The Representative has developed sales outside the United States, which resulted in commissions of approximately \$42,590, \$45,484, and \$51,754 for the fiscal years ended August 31, 2000, 1999 and 1998, respectively. In light of the Company's own domestic sales effort and its distributor network within the United States, the Company does not anticipate the Representative developing any sales within the United States. Additionally, the Company's expanding international joint venture program may also limit opportunities abroad for the Representative. Thus, the Company does not anticipate that the Representative will develop any significant sales volume for the Company in the future.

On August 31, 1984, Inter Alia Holding Company purchased 119,083 shares of the Common Stock and paid therefore by signing a promissory note. The promissory note (the "Note") had a face value of \$125,375 and bore interest at 11% per year. The Note was originally due on December 31, 1992, subsequently adjusted to a demand note. The balance of the Note, including accrued interest of \$132,826, amounted to \$258,201 as of August 31, 2000 and was paid on the same day.

The Company paid reimbursement for travel and related Company expenses of \$378,000, \$419,500 and \$458,000 for the year ended August 31, 2000, 1999 and 1998, respectively, to Inter Alia Holding Company of which the Company's Co-Chief Executive Officer and Chairman of the Board is and officer and director. Such reimbursements of travel and related expenses were not related to the functions of Inter Alia Holding Company as representative, but rather were paid in respect of the conduct of business for and on behalf of the Company. Mr. G. Patrick Lynch, President and Co-Chief Executive Officer of the Company is also an officer and director of Inter Alia Holding Company.

Mr. Vincent Graziano, who has retired as President and Co-Chief Executive Officer of the Company, but remains a director of the Company, has agreed to render services to the Company, at will, on a half time/half salary basis from December 1, 1999 to December 31, 2000. Mr. Vincent Graziano has received \$143,750 for his services in fiscal year 2000.

ITEM 13. EXHIBITS AND REPORTS ON FORM 8-K.

(a) EXHIBITS

Reference is made to the Exhibit Index hereinafter contained, at page 45 of this Report.

A copy of any exhibits listed or referred to herein will be furnished at a reasonable cost to any person who is a stockholder upon receipt from any such person of a written request for any such exhibit. Such request should be sent to: Mr. Matjaz Korosec, 6680 N. Highway 49, Lino Lakes, Minnesota 55014; Attn: Stockholder Information.

The following is a list of each management contract or compensatory plan or arrangement required to be filed as an exhibit to this Annual Report on Form 10-KSB pursuant to Item 13(a):

- A. Form of Incentive Stock Option Agreement for 1994 Stock Incentive Plan (incorporated by reference to Exhibit 10.1 to the Company's Annual Report on Form 10-KSB for the fiscal year ended August 31, 1993).
- B. Form of Non-Qualified Stock Option Agreement for 1994 Stock Incentive Plan (incorporated by reference to Exhibit 10.2 to the Company's Annual Report on Form 10-KSB for the fiscal year ended August 31, 1993).
- C. 1994 Stock Incentive Plan (incorporated by reference to Exhibit 10.3 to the Company's Annual Report on Form 10-KSB for the year ended August 31, 1993).
- D. 2000 Stock Incentive Plan (filed herewith)
- E. Form of Incentive for Stock Option Agreement for 2000 Stock Incentive Plan (filed herewith).
- F. Form of Non-Qualified Stock Option Agreement for 2000 Stock Incentive Plan (filed herewith)

(b) REPORTS ON FORM 8-K

The Company did not file any Current Reports on Form 8-K during the fourth quarter of fiscal 2000.

SIGNATURES

Pursuant to the requirements of Section 13 or 15 of the Securities 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

Dated: November 17, 2000

By: /s/ Philip M. Lynch

-----  
Philip M. Lynch  
Chairman and Co-Chief Executive  
Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed below by the following persons on behalf of the Registrant on November 17, 2000 in the capacities indicated.

NAME	TITLE
- - - - -	- - - - -
/s/ Philip M. Lynch ----- Philip M. Lynch	Co-Chief Executive Officer and Chairman of the Board of Directors (principal executive officer)
/s/ G. Patrick Lynch ----- G. Patrick Lynch	President and Co-Chief Executive Officer (principal executive officer)
/s/ Matjaz Korosec ----- Matjaz Korosec	Vice President of Financial Planning and Treasurer
/s/ Donald A. Kubik, Ph.D. ----- Donald A. Kubik, Ph.D.	Vice Chairman; Director
/s/ Loren M. Ehrmantraut ----- Loren M. Ehrmantraut	Chief Financial Officer (principal financial officer and principal accounting officer)
/s/ Richard G. Lareau ----- Richard G. Lareau	Director
/s/ Milan R. Vukceвич, Ph.D. ----- Milan R. Vukceвич, Ph.D.	Director
----- Vincent J. Graziano	Director
/s/ Haruhiko Rikuta ----- Haruhiko Rikuta	Director

NORTHERN TECHNOLOGIES INTERNATIONAL CORPORATION  
EXHIBIT INDEX TO ANNUAL REPORT ON FORM 10-KSB  
FOR THE YEAR ENDED AUGUST 31, 2000

Item No. -----	Item -----	Method of Filing -----
3.1	Certificate of Incorporation	Incorporated by reference to Exhibit 3.1 contained in the Registration Statement on Form 10 (File No. 0-19331).
3.2	Bylaws	Incorporated by reference to Exhibit 3.2 contained in the Registration Statement on Form 10 (File No. 0-19331).
10.1	Form of Incentive Stock Option Agreement for 1994 Stock Incentive Plan	Incorporated by reference to Exhibit 10.1 to the Company's Annual Report on Form 10-KSB for the fiscal year ended August 31, 1993.
10.2	Form of Non-Qualified Stock Option Agreement for 1994 Stock Incentive Plan	Incorporated by reference to Exhibit 10.2 to the Company's Annual Report on Form 10-KSB for the fiscal year ended August 31, 1993.
10.3	1994 Stock Incentive Plan	Incorporated by reference to Exhibit 10.3 to the Company's Annual Report on Form 10-KSB for the year ended August 31, 1993.
10.4	2000 Stock Incentive Plan	Filed herewith electronically.
10.5	Form of Incentive Stock Option Agreement for 2000 Stock Incentive Plan	Filed herewith electronically.
10.6	Form of Non-Qualified Stock Option Agreement for 2000 Stock Incentive Plan	Filed herewith electronically.
21.1	Subsidiaries of the Registrant	Filed herewith electronically.
23.1	Independent Auditors' Consent	Filed herewith electronically.
27.1	Financial Data Schedule	Filed herewith electronically.

## 2000 STOCK INCENTIVE PLAN

## NORTHERN TECHNOLOGIES INTERNATIONAL CORPORATION

## 2000 STOCK INCENTIVE PLAN

## I. Purpose of Plan.

The purpose of the Northern Technologies International Corporation 2000 Stock Incentive Plan (the "Plan") is to advance the interests of Northern Technologies International Corporation (the "Company") and its stockholders by enabling the Company and its Subsidiaries to attract and retain persons of ability to perform services for the Company and its Subsidiaries by providing an incentive to such individuals through equity participation in the Company and by rewarding such individuals who contribute to the achievement by the Company of its economic objectives.

## II. Definitions.

The following terms will have the meanings set forth below, unless the context clearly otherwise requires:

- A. "Board" means the Board of Directors of the Company.
- B. "Broker Exercise Notice" means a written notice pursuant to which a Participant, upon exercise of an Option, irrevocably instructs a broker or dealer to sell a sufficient number of shares or loan a sufficient amount of money to pay all or a portion of the exercise price of the Option and/or any related withholding tax obligations and remit such sums to the Company and directs the Company to deliver stock certificates to be issued upon such exercise directly to such broker or dealer.
- C. "Change in Control" means an event described in Section 13.1 of the Plan.
- D. "Code" means the Internal Revenue Code of 1986, as amended.
- E. "Committee" means the group of individuals administering the Plan, as provided in Section 3 of the Plan.
- F. "Common Stock" means the common stock of the Company; par value \$.02 per share, or the number and kind of shares of stock or other securities into which such Common Stock may be changed in accordance with Section 4.3 of the Plan.
- G. "Disability" means the disability of the Participant such as would entitle the Participant to receive disability income benefits pursuant to the long-term disability plan of the Company or Subsidiary then covering the Participant or, if no such plan exists or is applicable to the Participant, the permanent and total disability of the Participant within the meaning of Section 22(e)(3) of the Code.
- H. "Eligible Recipients" means all employees (including, without limitation, officers and directors who are also employees) of the Company or any Subsidiary, any non-employee consultants and independent contractors of the Company or any Subsidiary and any joint venture partners (including without limitation, officers, directors and partners thereof) of the Company or any Subsidiary.
- I. "Exchange Act" means the Securities Exchange Act of 1934, as amended.
- J. "Fair Market Value" means, with respect to the Common Stock, as of any date (or, if no shares were traded or quoted on such date, as of the next preceding date on which there was such a trade or quote), the closing market price per share of the Common Stock as reported on the American Stock Exchange Composite Tape on that date.
- K. "Incentive Award" means an Option, Stock Appreciation Right, Restricted Stock Award, Performance Unit or Stock Bonus granted to an Eligible Recipient pursuant to the Plan.
- L. "Incentive Stock Option" means a right to purchase Common Stock granted to an Eligible Recipient pursuant to Section 6 of the Plan that qualifies as an "incentive stock option" within the meaning of Section 422 of the Code.
- M. "Non-Employee Director" means any member of the Board of Directors of the Company who is not an employee of the Company or any Subsidiary.
- N. "Non-Statutory Stock Option" means a right to purchase Common Stock granted to an Eligible Recipient pursuant to Section 6 of the Plan that does not qualify as an Incentive Stock

Option.

- O. "Option" means an Incentive Stock Option or a Non-Statutory Stock Option.
- P. "Participant" means an Eligible Recipient who receives one or more Incentive Awards under the Plan.
- Q. "Performance Unit" means a right granted to an Eligible Recipient pursuant to Section 9 of the Plan to receive a payment from the Company, in the form of stock, cash or a combination of both, upon the achievement of established performance goals.
- R. "Previously Acquired Shares" means shares of Common Stock that are already owned by the Participant or, with respect to any Incentive Award, that are to be issued upon the grant, exercise or vesting of such Incentive Award.
- S. "Restricted Stock Award" means an award of Common Stock granted to an Eligible Recipient pursuant to Section 8 of the Plan that is subject to the restrictions on transferability and the risk of forfeiture imposed by the provisions of such Section 8.
- T. "Retirement" means termination of employment or service pursuant to and in accordance with the regular (or, if approved by the Board for purposes of the Plan, early) retirement/pension plan or practice of the Company or Subsidiary then covering the Participant, provided that if the Participant is not covered by any such plan or practice, the Participant will be deemed to be covered by the Company plan or practice for purposes of this determination.
- U. "Securities Act" means the Securities Act of 1933, as amended.
- V. "Stock Appreciation Right" means a right granted to an Eligible Recipient pursuant to Section 7 of the Plan to receive a payment from the Company in the form of stock, cash or a combination of both, equal to the difference between the Fair Market Value of one or more shares of Common Stock and the exercise price of such shares under the terms of such Stock Appreciation Right.
- W. "Stock Bonus" means an award of Common Stock granted to an Eligible Recipient pursuant to Section 10 of the Plan.
- X. "Subsidiary" means any entity that is directly or indirectly controlled by the Company or any entity in which the Company has a significant equity interest, as determined by the Committee.
- Y. "Tax Date" means the date any withholding tax obligation arises under the Code for a Participant with respect to an Incentive Award.

III. Plan Administration.

A. The Committee. The Plan will be administered by the Board, all of whom will be "disinterested persons" within the meaning of Rule 16b-3 under the Exchange Act, or by a committee consisting solely of not fewer than two members of the Board who are such "disinterested persons." As used in this Plan, the term "Committee" will refer to the Board or to such a committee, if established. To the extent consistent with corporate law, the Committee may delegate to any officers of the Company the duties, power and authority of the Committee under the Plan pursuant to such conditions or limitations as the Committee may establish; provided, however, that only the Committee may exercise such duties, power and authority with respect to Eligible Recipients who are subject to Section 16 of the Exchange Act. Each determination, interpretation or other action made or taken by the Committee pursuant to the provisions of the Plan will be conclusive and binding for all purposes and on all persons, and no member of the Committee will be liable for any action or determination made in good faith with respect to the Plan or any Incentive Award granted under the Plan.

B. Authority of the Committee.

1. In accordance with and subject to the provisions of the Plan, the Committee will have the authority to determine all provisions of Incentive Awards as the Committee may deem necessary or desirable and as consistent with the terms of the Plan, including, without limitation, the following: (i) the Eligible Recipients to be selected as Participants; (ii) the nature and extent of the Incentive Awards to be made to each Participant (including the number of shares of Common Stock to be subject to each Incentive Award, any exercise price, the manner in which Incentive Awards will vest or become exercisable and whether Incentive Awards will be granted in tandem with other Incentive Awards) and the form of written agreement, if any, evidencing such Incentive Award; (iii) the time or times when Incentive Awards will be granted; (iv) the duration of each Incentive Award; and (v) the restrictions and other conditions to which the payment or vesting of Incentive Awards may be subject. In addition, the Committee will have the authority under the Plan in its sole discretion to pay the economic value of any Incentive Award in the form of cash, Common Stock or any combination of both.
2. The Committee will have the authority under the Plan to amend or modify the terms of any outstanding Incentive Award in any manner, including, without limitation, the authority to modify the number of shares or other terms and conditions of an Incentive Award, extend the term of an Incentive Award, accelerate the exercisability or vesting or otherwise terminate any restrictions relating to an Incentive Award, accept the surrender of any outstanding Incentive Award or, to the extent not previously exercised or vested, authorize the grant of new Incentive Awards in substitution for surrendered Incentive Awards; provided, however that the amended or modified terms are permitted by the Plan as then in effect and that any Participant adversely affected by such amended or modified terms has consented to such amendment or modification. No amendment or modification to an Incentive Award, however, whether



pursuant to this Section 3.2 or any other provisions of the Plan, will be deemed to be a regrant of such Incentive Award for purposes of this Plan.

3. In the event of (i) any reorganization, merger, consolidation, recapitalization, liquidation, reclassification, stock dividend, stock split, combination of shares, rights offering, extraordinary dividend or divestiture (including a spin-off) or any other change in corporate structure or shares, (ii) any purchase, acquisition, sale or disposition of a significant amount of assets or a significant business, (iii) any change in accounting principles or practices, or (iv) any other similar change, in each case with respect to the Company or any other entity whose performance is relevant to the grant or vesting of an Incentive Award, the Committee (or, if the Company is not the surviving corporation in any such transaction, the board of directors of the surviving corporation) may, without the consent of any affected Participant, amend or modify the vesting criteria of any outstanding Incentive Award that is based in whole or in part on the financial performance of the Company (or any Subsidiary or division thereof) or such other entity so as equitably to reflect such event, with the desired result that the criteria for evaluating such financial performance of the Company or such other entity will be substantially the same (in the sole discretion of the Committee or the board of directors of the surviving corporation) following such event as prior to such event; provided, however, that the amended or modified terms are permitted by the Plan as then in effect.

#### IV. Shares Available for Issuance.

- A. Maximum Number of Shares Available. Subject to adjustment as provided in Section 4.3 of the Plan, the maximum number of shares of Common Stock that will be available for issuance under the Plan will be 200,000 shares.
- B. Accounting for Incentive Awards. Shares of Common Stock that are issued under the Plan or that are subject to outstanding Incentive Awards will be applied to reduce the maximum number of shares of Common Stock remaining available for issuance under the Plan. Any shares of Common Stock that are subject to an Incentive Award that lapses, expires, is forfeited or for any reason is terminated unexercised or unvested and any shares of Common Stock that are subject to an Incentive Award that is settled or paid in cash or any form other than shares of Common Stock will automatically again become available for issuance under the Plan. Any shares of Common Stock that constitute the forfeited portion of a Restricted Stock Award, however, will not become available for further issuance under the Plan.
- C. Adjustments to Shares and Incentive Awards. In the event of any reorganization, merger, consolidation, recapitalization, liquidation, reclassification, stock dividend, stock split, combination of shares, rights offering, divestiture or extraordinary dividend (including a spin-off) or any other change in the corporate structure or shares of the Company, the Committee (or, if the Company is not the surviving corporation in any such transaction, the board of directors of the surviving corporation) will make appropriate adjustment (which determination will be conclusive) as to the number and kind of securities available for issuance under the Plan and, in order to prevent dilution or enlargement of the rights of

Participants, the number, kind and, where applicable, exercise price of securities subject to outstanding Incentive Awards.

V. Participation.

Participants in the Plan will be those Eligible Recipients who, in the judgment of the Committee, have contributed, are contributing or are expected to contribute to the achievement of economic objectives of the Company or its Subsidiaries. Eligible Recipients may be granted from time to time one or more Incentive Awards, singly or in combination or in tandem with other Incentive Awards, as may be determined by the Committee in its sole discretion. Incentive Awards will be deemed to be granted as of the date specified in the grant resolution of the Committee, which date will be the date of any related agreement with the Participant.

VI. Options.

- A. Grant. An Eligible Recipient may be granted one or more Options under the Plan, and such Options will be subject to such terms and conditions, consistent with the other provisions of the Plan, as may be determined by the Committee in its sole discretion. The Committee may designate whether an Option is to be considered an Incentive Stock Option or a Non-Statutory Stock Option.
- B. Exercise Price. The per share price to be paid by a Participant upon exercise of an Option will be determined by the Committee in its discretion at the time of the Option grant, provided that (a) such price will not be less than 100% of the Fair Market Value of one share of Common Stock on the date of grant with respect to an Incentive Stock Option (110% of the Fair Market Value if, at the time the Incentive Stock Option is granted, the Participant owns, directly or indirectly, more than 10% of the total combined voting power of all classes of stock of the Company or any parent or subsidiary corporation of the Company), and (b) such price will not be less than 85% of the Fair Market Value of one share of Common Stock on the date of grant with respect to a Non-Statutory Stock Option.
- C. Exercisability and Duration. An Option will become exercisable at such times and in such installments as may be determined by the Committee in its sole discretion at the time of grant; provided, however, that no Option may be exercisable after 10 years from its date of grant.
- D. Payment of Exercise Price. The total purchase price of the shares to be purchased upon exercise of an Option will be paid entirely in cash (including check, bank draft or money order); provided, however, that the Committee, in its sole discretion and upon terms and conditions established by the Committee, may allow such payments to be made, in whole or in part, by tender of a Broker Exercise Notice, Previously Acquired Shares or by a combination of such methods.
- E. Manner of Exercise. An Option may be exercised by a Participant in whole or in part from time to time, subject to the conditions contained in the Plan and in the agreement evidencing such Option, by delivery in person, by facsimile or electronic transmission or through the mail of written notice of exercise to the Company (Attention: Chief Financial Officer) at its principal executive office in Lino Lakes, Minnesota and by paying in full the total exercise price for the shares of Common Stock to be purchased in accordance with Section 6.4 of the Plan.
- F. Aggregate Limitation of Stock Subject to Incentive Stock Options. To the extent that the aggregate Fair Market Value (determined as of the date an Incentive Stock Option is granted) of the shares of Common Stock with respect to which

incentive stock options (within the meaning of Section 422 of the Code) are exercisable for the first time by a Participant during any calendar year (under the Plan and any other incentive stock option plans of the Company or any subsidiary or parent corporation of the Company (within the meaning of the Code)) exceeds \$100,000 (or such other amount as may be prescribed by the Code from time to time), such excess Options will be treated as Non-Statutory Stock Options. The determination will be made by taking incentive stock options into account in the order in which they were granted. If such excess only applies to a portion of an incentive stock option, the Committee, in its discretion, will designate which shares will be treated as shares to be acquired upon exercise of an incentive stock option.

G. Automatic Grants to Non-Employee Directors.

1. Grant of Options. At such time as, following the effective date of the Plan, Non-Employee Directors are first elected or appointed to the Board of Directors, such Non-Employee Directors will be granted automatically, on a one-time basis on the date of their election or appointment, a Non-Statutory Stock Option to purchase the pro-rata portion of 2,000 shares of Common Stock, calculated by dividing the number of months remaining in the fiscal year at the time of election or appointment divided by twelve. Following the effective date of the Plan, Non-Employee Directors will be granted automatically, on the first day of each fiscal year, a Non-Statutory Stock Option to purchase 2,000 shares of Common Stock. Notwithstanding the foregoing provisions of this Section 6.7(a), a Non-Statutory Stock Option shall not be granted under this Section 6.7(a) to the extent a Non-Employee Director is automatically granted a similar option under the Company's 1994 Stock Incentive Plan. All automatic grants pursuant to this Section 6.7 are subject to adjustment as provided in Section 4.3 of the Plan.
2. Option Exercise Price. The per share price to be paid by the Non-Employee Director at the time an Option is exercised will be 100% of the Fair Market Value of one share of Common Stock on the date the Option is granted. The total purchase price of the shares to be purchased upon exercise will be paid entirely in cash (including check, bank draft or money order).
3. Duration of Options. Each Option will terminate five years after its date of grant and will become exercisable, on a cumulative basis, with respect to 33 1/3% of the shares covered by such Option on each anniversary of the date of its grant.
4. Effect of Termination of Directorship. In the event a Non-Employee Director's service as a director of the Company is terminated by reason of death, Disability or retirement all outstanding Options then held by the Non-Employee Director will become immediately exercisable in full and will remain exercisable following such termination until the expiration of any such Option. In the event that a Non-Employee Director's service as a director of the Company is terminated for any reason other than death, Disability or retirement, all outstanding Options then held by the Non-Employee Director will remain exercisable to the extent exercisable as of

such termination of service for a period of three months after such termination of service (but in no event after the expiration of any such Option). Such Options will not be subject to the termination provisions of Section 11 of the Plan.

5. Manner of Option Exercise. An Option may be exercised by a Non-Employee Director in whole or in part from time to time, subject to the conditions contained in the Plan and in the agreement evidencing such Option, by giving written notice of exercise to the Company at its principal executive office (such notice to specify the particular Option that is being exercised and the number of shares with respect to which the Option is being exercised) accompanied by payment, in cash or check payable to the Company, of the total purchase price of the shares to be purchased under the Option.
6. Non-Discretionary Grants. Options granted to Non-Employee Directors pursuant to this Section 6.7 are intended to qualify as "formula awards" within the meaning of Rule 16b-3 under the Exchange Act. As a result, other than as provided in Section 16 of the Plan, the Committee will not have the authority to amend the eligibility requirements for, or modify the terms of, such Options (including, without limitation, the authority to modify the rights of Non-Employee Directors in connection with termination of service as a director or a change in control of the Company) if such amendments or modifications would disqualify such Options from treatment as "formula awards."

#### VII. Stock Appreciation Rights.

- A. Grant. An Eligible Recipient may be granted one or more Stock Appreciation Rights under the Plan, and such Stock Appreciation Rights shall be subject to such terms and conditions, consistent with the other provisions of the Plan, as will be determined by the Committee in its sole discretion.
- B. Exercise Price. The exercise price of a Stock Appreciation Right will be determined by the Committee, in its discretion, at the date of grant but will not be less than 100% of the Fair Market Value of one share of Common Stock on the date of grant.
- C. Exercisability and Duration. A Stock Appreciation Right will become exercisable at such time and in such installments as may be determined by the Committee in its sole discretion at the time of grant; provided, however, that no Stock Appreciation Right may be exercisable after 10 years from its date of grant. A Stock Appreciation Right will be exercised by giving notice in the same manner as for Options, as set forth in Section 6.5 of the Plan.

#### VIII. Restricted Stock Awards.

- A. Grant. An Eligible Recipient may be granted one or more Restricted Stock Awards under the Plan, and such Restricted Stock Awards will be subject to such terms and conditions, consistent with the other provisions of the Plan, as may be determined by the Committee in its sole discretion. The Committee may impose such restrictions or conditions, not inconsistent with the provisions of the Plan, to the vesting of such Restricted Stock Awards as it deems appropriate, including, without limitation, that the Participant remain in the continuous employ or service of the Company or a Subsidiary for a certain period or that the Participant or the

Company (or any Subsidiary or division thereof) satisfy certain performance goals or criteria.

- B. Rights as a Stockholder; Transferability. Except as provided in Sections 8.1, 8.3 and 14.3 of the Plan, a Participant will have all voting, dividend, liquidation and other rights with respect to shares of Common Stock issued to the Participant as a Restricted Stock Award under this Section 8 upon the Participant becoming the holder of record of such shares as if such Participant were a holder of record of shares of unrestricted Common Stock.
- C. Dividends and Distributions. Unless the Committee determines otherwise in its sole discretion (either in the agreement evidencing the Restricted Stock Award at the time of grant or at any time after the grant of the Restricted Stock Award), any dividends or distributions (including regular quarterly cash dividends) paid with respect to shares of Common Stock subject to the unvested portion of a Restricted Stock Award will be subject to the same restrictions as the shares to which such dividends or distributions relate. In the event the Committee determines not to pay such dividends or distributions currently, the Committee will determine in its sole discretion whether any interest will be paid on such dividends or distributions. In addition, the Committee in its sole discretion may require such dividends and distributions to be reinvested (and in such case the Participants consent to such reinvestment) in shares of Common Stock that will be subject to the same restrictions as the shares to which such dividends or distributions relate.
- D. Enforcement of Restrictions. To enforce the restrictions referred to in this Section 8, the Committee may place a legend on the stock certificates referring to such restrictions and may require the Participant, until the restrictions have lapsed, to keep the stock certificates, together with duly endorsed stock powers, in the custody of the Company or its transfer agent or to maintain evidence of stock ownership, together with duly endorsed stock powers, in a certificateless book-entry stock account with the Company's transfer agent.

#### IX. Performance Units.

An Eligible Recipient may be granted one or more Performance Units under the Plan, and such Performance Units will be subject to such terms and conditions, consistent with the other provisions of the Plan, as may be determined by the Committee in its sole discretion. The Committee may impose such restrictions or conditions, not inconsistent with the provisions of the Plan, to the vesting of such Performance Units as it deems appropriate, including, without limitation, that the Participant remain in the continuous employ or service of the Company or any Subsidiary for a certain period or that the Participant or the Company (or any Subsidiary or division thereof) satisfy certain performance goals or criteria. The Committee will have the sole discretion either to determine the form in which payment of the economic value of vested Performance Units will be made to the Participant (i.e., cash, Common Stock or any combination thereof) or to consent to or disapprove the election by the Participant of the form of such payment.

#### X. Stock Bonuses.

An Eligible Recipient may be granted one or more Stock Bonuses under the Plan, and such Stock Bonuses will be subject to such terms and conditions, consistent with the other provisions of the Plan, as may be determined by the Committee in its sole discretion. The Participant will have all voting, dividend, liquidation and other rights with respect to the shares of Common Stock issued to a Participant as a Stock Bonus under this Section 10 upon the Participant becoming the holder of record of such shares; provided, however, that the Committee may impose such restrictions on the assignment or transfer of a Stock Bonus as it deems appropriate.

XI. Effect of Termination of Employment or Other Service.

- A. Termination Due to Death, Disability or Retirement. In the event a Participant's employment or other service with the Company and all Subsidiaries is terminated by reason of death, Disability or Retirement:
1. All outstanding Options and Stock Appreciation Rights then held by the Participant will remain exercisable to the extent exercisable as of such termination following such termination until the expiration date of such Option or Stock Appreciation Right;
  2. All Restricted Stock Awards then held by the Participant that have not vested will be terminated and forfeited; and
  3. All Performance Units and Stock Bonuses then held by the Participant will vest and/or continue to vest in the manner determined by the Committee and set forth in the agreement evidencing such Performance Units or Stock Bonuses.
- B. Termination for Reasons Other than Death, Disability or Retirement.
1. In the event a Participant's employment or other service is terminated with the Company and all Subsidiaries for any reason other than death, Disability or Retirement, or a Participant is in the employ or service of a Subsidiary and the Subsidiary ceases to be a Subsidiary of the Company (unless the Participant continues in the employ or service of the Company or another Subsidiary), all rights of the Participant under the Plan and any agreements evidencing an Incentive Award will immediately terminate without notice of any kind, and no Options or Stock Appreciation Rights then held by the Participant will thereafter be exercisable, all Restricted Stock Awards then held by the Participant that have not vested will be terminated and forfeited, and all Performance Units and Stock Bonuses then held by the Participant will vest and/or continue to vest in the manner determined by the Committee and set forth in the agreement evidencing such Performance Units or Stock Bonuses; provided, however, that if such termination is due to any reason other than termination by the Company or any Subsidiary for "cause," all outstanding Options and Stock Appreciation Rights then held by such Participant will remain exercisable to the extent exercisable as of such termination for a period of one month after such termination (but in no event after the expiration date of any such Option or Stock Appreciation Right).
  2. For purposes of this Section 11.2, "cause" (as determined by the Committee) will be as defined in any employment or other agreement or policy applicable to the Participant or, if no such agreement or policy exists, will mean (i) dishonesty, fraud, misrepresentation, embezzlement or deliberate injury or attempted injury, in each case related to the Company or any Subsidiary, (ii) any unlawful or criminal activity of a serious nature, (iii) any intentional and deliberate breach of a duty or duties that, individually or in the aggregate, are material in relation to the Participant's overall duties, or (iv) any material breach of any employment, service, confidentiality or noncompete agreement entered into with the Company or any Subsidiary.

- C. **Modification of Rights Upon Termination.** Notwithstanding the other provisions of this Section 11, upon a Participant's termination of employment or other service with the Company and all Subsidiaries, the Committee may, in its sole discretion (which may be exercised at any time on or after the date of grant, including following such termination), cause Options and Stock Appreciation Rights (or any part thereof) then held by such Participant to become or continue to become exercisable and/or remain exercisable following such termination of employment or service and Restricted Stock Awards, Performance Units and Stock Bonuses then held by such Participant to vest and/or continue to vest or become free of transfer restrictions, as the case may be, following such termination of employment or service, in each case in the manner determined by the Committee; provided, however, that no Option may remain exercisable beyond its expiration date.
- D. **Breach of Confidentiality or Noncompete Agreements.** Notwithstanding anything in this Plan to the contrary, in the event that a Participant materially breaches the terms of any confidentiality or noncompete agreement entered into with the Company or any Subsidiary or takes any other action that the Committee, in its sole discretion, deems to be adverse to the interests of the Company or any Subsidiary (an "Adverse Action"), whether such Adverse Action occurs before or after termination of such Participant's employment or other service with the Company or any Subsidiary, the Committee in its sole discretion may immediately terminate all rights of the Participant under the Plan and any agreements evidencing an Incentive Award then held by the Participant without notice of any kind. In addition, to the extent that a Participant takes such Adverse Action during the period beginning 6 months prior to, and ending 6 months following, the date of such employment or service termination, the Committee in its sole discretion will have the authority (by so providing in the agreement evidencing such Incentive Award at the time of grant) to rescind (i) any grant of an Incentive Award made to such Participant during such period and (ii) any exercise of an Option of the Participant that was exercised during such period, and to require the Participant to pay to the Company, within 10 days of receipt from the Company of notice of such rescission, the amount of any gain realized from such rescinded grant or exercise. Such payment will be made in cash (including check, bank draft or money order) or, with the Committee's consent, shares of Common Stock with a Fair Market Value on the date of payment equal to the amount of such payment. The Company will be entitled to withhold and deduct from future wages of the Participant (or from other amounts that may be due and owing to the Participant from the Company or Subsidiary) or make other arrangements for the collection of all amounts necessary to satisfy such payment obligation.
- E. **Date of Termination of Employment or Other Service.** Unless the Committee otherwise determines in its sole discretion, a Participant's employment or other service will, for purposes of the Plan, be deemed to have terminated on the date recorded on the personnel or other records of the Company or the Subsidiary for which the Participant provides employment or other service, as determined by the Committee in its sole discretion based upon such records.

XII. Payment of Withholding Taxes.

- A. General Rules. The Company is entitled to (a) withhold and deduct from future wages of the Participant (or from other amounts that may be due and owing to the Participant from the Company or a Subsidiary), or make other arrangements for the collection of, all legally required amounts necessary to satisfy any and all federal, state and local withholding and employment-related tax requirements attributable to an Incentive Award, including, without limitation, the grant, exercise or vesting of, or payment of dividends with respect to, an Incentive Award or a disqualifying disposition of stock received upon exercise of an Incentive Stock Option, or (b) require the Participant promptly to remit the amount of such withholding to the Company before taking any action, including issuing any shares of Common Stock, with respect to an Incentive Award.
- B. Special Rules. The Committee may, in its sole discretion and upon terms and conditions established by the Committee, permit or require a Participant to satisfy, in whole or in part, any withholding or employment-related tax obligation described in Section 12.1 of the Plan by electing to tender Previously Acquired Shares or a Broker Exercise Notice, or by a combination of such methods.

XIII. Change in Control.

- A. Change in Control. For purposes of this Section 13.1, a "Change in Control" of the Company will mean (a) the sale, lease, exchange or other transfer of substantially all of the assets of the Company (in one transaction or in a series of related transactions) to a person or entity that is not controlled, directly or indirectly, by the Company, (b) a merger or consolidation to which the Company is a party if the stockholders of the Company immediately prior to effective date of such merger or consolidation do not have "beneficial ownership" (as defined in Rule 13d-3 under the Exchange Act) immediately following the effective date of such merger or consolidation of more than 80% of the combined voting power of the surviving corporation's outstanding securities ordinarily having the right to vote at elections of directors, or (c) a change in control of the Company of a nature that would be required to be reported pursuant to Section 13 or 15(d) of the Exchange Act, whether or not the Company is then subject to such reporting requirements, including, without limitation, such time as (i) any person becomes, after the effective date of the Plan, the "beneficial owner" (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of 40% or more of the combined voting power of the Company's outstanding securities ordinarily having the right to vote at elections of directors, or (ii) individuals who constitute the Board on the effective date of the Plan cease for any reason to constitute at least a majority of the Board, provided that any person becoming a director subsequent to the effective date of the Plan whose election, or nomination for election by the Company's stockholders, was approved by a vote of at least a majority of the directors comprising the Board on the effective date of the Plan will, for purposes of this clause (ii), be considered as though such persons were a member of the Board on the effective date of the Plan.
- B. Acceleration of Vesting. Without limiting the authority of the Committee under Section 3.2 of the Plan, if a Change in Control of the Company occurs, then, if approved by the Committee in its sole discretion either in an agreement evidencing an Incentive Award at the time of grant or at any time after the grant of an Incentive Award, (a) all Options and Stock Appreciation Rights will become immediately exercisable in full and will remain exercisable for the remainder of their terms, regardless of whether the Participants to whom such Options or Stock Appreciation Rights have been granted remain in the employ or service of the Company or any Subsidiary; (b) all outstanding Restricted Stock Awards will become immediately fully vested; and (c) all Performance Units and Stock Bonuses then held by the Participant will vest and/or continue to vest in the manner determined by the Committee and set forth in the agreement evidencing such Performance Units or Stock Bonuses.



- C. Cash Payment for Options. If a Change in Control of the Company occurs, then the Committee, if approved by the Committee in its sole discretion either in an agreement evidencing an Incentive Award at the time of grant or at any time after the grant of an Incentive Award, and without the consent of any Participant effected thereby, may determine that some or all Participants holding outstanding Options will receive, with respect to and in lieu of some or all of the shares of Common Stock subject to such Options, as of the effective date of any such Change in Control of the Company, cash in an amount equal to the excess of the Fair Market Value of such shares immediately prior to the effective date of such Change in Control of the Company over the exercise price per share of such Options.
- D. Limitation on Change in Control Payments. Notwithstanding anything in Section 13.2 or 13.3 of the Plan to the contrary, if, with respect to a Participant, the acceleration of the vesting of an Incentive Award as provided in Section 13.2 or the payment of cash in exchange for all or part of an Incentive Award as provided in Section 13.3 (which acceleration or payment could be deemed a "payment" within the meaning of Section 280G(b)(2) of the Code), together with any other payments which such Participant has the right to receive from the Company or any corporation that is a member of an "affiliated group" (as defined in Section 1504(a) of the Code without regard to Section 1504(b) of the Code) of which the Company is a member, would constitute a "parachute payment" (as defined in Section 280G(b)(2) of the Code), then the payments to such Participant pursuant to Section 13.2 or 13.3 will be reduced to the largest amount as will result in no portion of such payments being subject to the excise tax imposed by Section 4999 of the Code; provided, however, that if such Participant is subject to a separate agreement with the Company or a Subsidiary which specifically provides that payments attributable to one or more forms of employee stock incentives or to payments made in lieu of employee stock incentives will not reduce any other payments under such agreement, even if it would constitute an excess parachute payment, then the limitations of this Section 13.4 will, to that extent, not apply.

XIV. Rights of Eligible Recipients and Participants: Transferability.

- A. Employment or Service. Nothing in the Plan will interfere with or limit in any way the right of the Company or any Subsidiary to terminate the employment or service of any Eligible Recipient or Participant at any time, nor confer upon any Eligible Recipient or Participant any right to continue in the employ or service of the Company or any Subsidiary.

- B. Rights as a Stockholder. As a holder of Incentive Awards (other than Restricted Stock Awards), a Participant will have no rights as a stockholder unless and until such Incentive Awards are exercised for, or paid in the form of, shares of Common Stock and the Participant becomes the holder of record of such shares. Except as otherwise provided in the Plan, no adjustment will be made for dividends or distributions with respect to such Incentive Awards as to which there is a record date preceding the date the Participant becomes the holder of record of such shares, except as the Committee may determine in its discretion.
- C. Restrictions on Transfer. Except pursuant to testamentary will or the laws of descent and distribution or as otherwise expressly permitted by the Plan, no right or interest of any Participant in an Incentive Award prior to the exercise or vesting of such Incentive Award will be assignable or transferable, or subjected to any lien; during the lifetime of the Participant, either voluntarily or involuntarily, directly or indirectly by operation of law or otherwise. A Participant will, however, be entitled to designate a beneficiary to receive an Incentive Award upon such Participant's death, and in the event of a Participant's death, payment of any amounts due under the Plan will be made to, and exercise of any Options (to the extent permitted pursuant to Section 9 of the Plan) may be made by, the Participant's legal representatives, heirs and legatees.
- D. Non-Exclusivity of the Plan. Nothing contained in the Plan is intended to modify or rescind any previously approved compensation plans or programs of the Company or create any limitations on the power or authority of the Board to adopt such additional or other compensation arrangements as the Board may deem necessary or desirable.

XV. Securities Law and Other Restrictions.

Notwithstanding any other provision of the Plan or any agreements entered into pursuant to the Plan, the Company will not be required to issue any shares of Common Stock under this Plan, and a Participant may not sell, assign, transfer or otherwise dispose of shares of Common Stock issued pursuant to Incentive Awards granted under the Plan, unless (a) there is in effect with respect to such shares a registration statement under the Securities Act and any applicable state securities laws or an exemption from such registration under the Securities Act and applicable state securities laws, and (b) there has been obtained any other consent, approval or permit from any other regulatory body which the Committee, in its sole discretion, deems necessary or advisable. The Company may condition such issuance, sale or transfer upon the receipt of any representations or agreements from the parties involved, and the placement of any legends on certificates representing shares of Common Stock, as may be deemed necessary or advisable by the Company in order to comply with such securities law or other restrictions.

XVI. Plan Amendment, Modification and Termination

The Board may suspend or terminate the Plan or any portion thereof at any time, and may amend the Plan from time to time in such respects as the Board may deem advisable in order that Incentive Awards under the Plan will conform to any change in applicable laws or regulations or in any other respect the Board may deem to be in the best interests of the Company; provided, however, that (a) the Board will not have the authority to amend the eligibility requirements for Options granted pursuant to Section 6.7 of the Plan, or to modify the number of shares, exercise price, exercisability, duration, manner of payment or other terms with respect to such Options, more than once every six months, other than to comply with changes in the Code, the Employee Retirement Income Security Act or the rules promulgated thereunder; and (b) no amendments to the Plan will be effective without approval of the stockholders of the Company if stockholder approval of the amendment is then required pursuant to Rule 16b-3 under the Exchange Act, Section 422 of the Code or the rules of the National Association of Securities Dealers, Inc. No termination, suspension or amendment of the Plan may adversely affect any outstanding Incentive Award without the consent of the affected Participant; provided, however, that this sentence will not impair the right of the Committee to take whatever action it deems appropriate under Sections 4.3 and 13 of the Plan.

XVII. Effective Date and Duration of the Plan

The Plan is effective as of November 19, 1999, the date it was adopted by the Board. The Plan will terminate at midnight on November 18, 2009, and may be terminated prior to such time to by Board action, and no Incentive Award will be granted after such termination. Incentive Awards outstanding upon termination of the Plan may continue to be exercised, or become free of restrictions, in accordance with their terms.

XVIII. Miscellaneous

- A. Governing Law. The validity, construction, interpretation, administration and effect of the Plan and any rules, regulations and actions relating to the Plan will be governed by and construed exclusively in accordance with the laws of the State of Minnesota.
- B. Successors and Assigns. The Plan will be binding upon and inure to the benefit of the successors and permitted assigns of the Company and the Participants.

## FORM OF INCENTIVE STOCK OPTION AGREEMENT

## INCENTIVE STOCK OPTION AGREEMENT

THIS AGREEMENT is entered into and effective as of this \_\_\_\_\_ day of \_\_\_\_\_, 2000 (the "Date of Grant"), by and between Northern Technologies International Corporation (the "Company") and \_\_\_\_\_ (the "Optionee").

A. The Company has adopted the Northern Technologies International Corporation 2000 Stock Incentive Plan (the "Plan") authorizing the Board of Directors of the Company, or a committee as provided for in the Plan (the Board or such a committee to be referred to as the "Committee"), to, among other things, grant Incentive Stock Options (as defined in the Plan) to employees.

B. The Company desires to give the Optionee an inducement to acquire a proprietary interest in the Company and an added incentive to advance the interests of the Company by granting to the Optionee an option to purchase shares of common stock of the Company pursuant to the Plan.

Accordingly, the parties agree as follows:

## XIX. GRANT OF OPTION.

The Company hereby grants to the Optionee the right, privilege, and option (the "Option") to purchase \_\_\_\_\_ shares (the "Option Shares") of the Company's common stock, \$.02 par value (the "Common Stock"), according to the terms and subject to the conditions hereinafter set forth and as set forth in the Plan. The option is intended to be an "incentive stock option," as that term is used in Section 422 of the Internal Revenue Code of 1986, as amended (the "Code").

## XX. OPTION EXERCISE PRICE.

The per share price to be paid by Optionee in the event of an exercise of the Option will be \$\_\_\_\_\_.

## XXI. DURATION OF OPTION AND TIME OF EXERCISE

- A. Initial Period of Exercisability. The Option will become exercisable with respect to the Option Shares in \_\_\_\_\_ installments. The following table sets forth the initial dates of exercisability of each installment and the number of Option Shares as to which this Option will become exercisable on such dates:

Initial Date of Exercisability -----	Number of Option Shares Available for Exercise -----
--	--

The foregoing rights to exercise this Option will be cumulative with respect to the Option Shares becoming exercisable on each such date but in no event will this Option be exercisable after, and this Option will become void and expire as to all unexercised Option Shares at, 5:00 p.m. (Minneapolis, Minnesota time) on \_\_\_\_\_, \_\_\_\_ (the "Time of Termination").

60

## B. Termination of Employment or Other Service.

- In the event that the Optionee's employment or other service with the Company and all Subsidiaries is terminated by reason of the Optionee's death, Disability or Retirement (as such terms are defined in the Plan), this Option will remain exercisable to the extent exercisable as of such termination following such termination until the Time of Termination.
- In the event the Optionee's employment or other service with the Company and all Subsidiaries is terminated for any reason other than death, Disability or Retirement, all rights of the Optionee under the Plan and this Agreement will immediately terminate without notice of any kind, and this Option will no longer be exercisable; provided, however, that if such termination is due to any reason other than termination by the Company or any Subsidiary for "cause" (as defined in the Plan), this Option will remain exercisable to the extent exercisable as of such termination for a period of one month after such termination (but in no event will this Option be exercisable after the Time of Termination).

## C. Change in Control.

- If any events constituting a Change in Control (as defined in Section 13.1 of the Plan) of the Company occur, then this Option will become immediately exercisable in full and will remain exercisable until the Time of Termination, regardless

of whether the Optionee remains in the employ or service of the Company or any Subsidiary. In addition, if a Change in Control of the Company occurs, the Committee, in its sole discretion and without the consent of the Optionee, may determine that the Optionee will receive, with respect to some or all of the Option Shares, as of the effective date of any such Change in Control of the Company, cash in an amount equal to the excess of the Fair Market Value (as defined in the Plan) of such Option Shares immediately prior to the effective date of such Change in Control of the Company over the option exercise price per share of this Option.

2. Notwithstanding anything in this Section 3.3 to the contrary, if, with respect to the Optionee, acceleration of the vesting of this Option or the payment of cash in exchange for all or part of this Option as provided above (which acceleration or payment could be deemed a "payment" within the meaning of Section 280G(b)(2) of the Code), together with any other payments which the Optionee has the right to receive from the Company or any corporation which is a member of an "affiliated group" (as defined in Section 1504(a) of the Code without regard to Section 1504(b) of the Code) of which the Company is a member, would constitute a "parachute payment" (as defined in Section 280G(b)(2) of the Code), the payments to the Optionee as set forth herein will be reduced to the largest amount as will result in no portion of such payments being subject to the excise tax imposed by Section 4999 of the Code; provided, however, that if the Optionee is subject to a separate agreement with the Company or a Subsidiary that specifically provides that payments attributable to one or more forms of employee stock incentives or to payments made in lieu of employee stock incentives will not reduce any other payments under such agreement, even if it would constitute an excess parachute payment, then the limitations of this Section 3.3(b) will, to that extent, not apply.

XXII. MANNER OF OPTION EXERCISE.

- A. Notice. This Option may be exercised by the Optionee in whole or in part from time to time, subject to the conditions contained in the Plan and in this Agreement, by delivery, in person, by facsimile or electronic transmission or through the mail, to the Company at its principal executive office in Lino Lakes, Minnesota (Attention: Chief Financial Officer), of a written notice of exercise. Such notice will be in a form satisfactory to the Committee, will identify the Option, will specify the number of Option Shares with respect to which the Option is being exercised, and will be signed by the person or persons so exercising the Option. Such notice will be accompanied by payment in full of the total purchase price of the Option Shares purchased. In the event that the Option is being exercised, as provided by the Plan and Section 3.2 above, by any person or persons other than the Optionee, the notice will be accompanied by appropriate proof of right of such person or persons to exercise the Option. As soon as practicable after the effective exercise of the Option, the Optionee will be recorded on the stock transfer books of the Company as the owner of the Option Shares purchased, and the Company will deliver to the Optionee one or more duly issued stock certificates evidencing such ownership.
- B. Payment. At the time of exercise of this Option, the Optionee will pay the total purchase price of the Option Shares to be purchased solely in cash (including a check, bank draft or money order, payable to the order of the Company); provided, however, that the Committee, in its sole discretion, may allow such payment to be made, in whole or in part, by tender of a Broker Exercise Notice, Previously Acquired Shares or by a combination of such methods. For purposes of this Agreement, the terms "Broker Exercise Notice" and "Previously Acquired Shares" will have the meanings set forth in the Plan. In the event the Optionee is permitted to pay the total purchase price of this Option in whole or in part with Previously Acquired Shares, the value of such shares will be equal to their Fair Market Value on the date of exercise of this Option.

XXIII. ADVERSE ACTION

- A. Termination. Notwithstanding anything in this Agreement to the contrary, in the event that the Optionee materially breaches the terms of any confidentiality or noncompete agreement entered into with the Company or takes any other Adverse Action (as defined in the Plan), whether such Adverse Action occurs before or after termination of the Optionee's employment or other service with the Company or any Subsidiary, the Committee in its sole discretion may immediately terminate all rights of the Optionee under this Agreement without notice of any kind.
- B. Rescission. In addition to the Company's right of termination as provided in Section 5.1, to the extent that the Optionee takes such Adverse Action during the period beginning 6 months prior to, and ending 6 months following, the date of such employment or service termination, the Committee in its sole discretion will have the authority to rescind (i) this Option if it was granted during such period and (ii) any exercise of this Option by the Optionee during such period, and to require the Optionee to pay to the Company, within 10 days of receipt from the Company of notice of such rescission, the amount of any gain realized from this rescinded grant or exercise. Such payment will be made in cash (including check, bank draft or money order) or, with the Committee's consent, shares of Common Stock with a Fair Market Value on the date of payment equal to the amount of such payment. The Company will be entitled to withhold and deduct from future wages of the Optionee (or from other amounts that may be due and owing to the Optionee from the Company or Subsidiary) or make other arrangements for the collection of all amounts necessary to satisfy such payment obligation.

- C. Certification. Upon exercise, payment or delivery pursuant to this Option, the Optionee or grantee shall certify on a form acceptable to the Committee that he or she is in compliance with the terms and conditions of the Plan and this Agreement.

XXIV. NONTRANSFERABILITY.

Neither this Option nor the Option Shares acquired upon exercise may be transferred by the Optionee, either voluntarily or involuntarily, or subjected to any lien, directly or indirectly, by operation of law or otherwise, except as provided in the Plan. Any attempt to transfer or encumber this Option or the Option Shares other than in accordance with this Agreement and the Plan will be null and void and will void this Option.

XXV. LIMITATION OF LIABILITY.

Nothing in this Agreement will be construed to (a) limit in any way the right of the Company to terminate the employment or service of the Optionee at any time, or (b) be evidence of any agreement or understanding, express or implied, that the Company will retain the Optionee in any particular position, at any particular rate of compensation or for any particular period of time.

XXVI. WITHHOLDING TAXES.

The Company is entitled to (a) withhold and deduct from future wages of the Optionee (or from other amounts which may be due and owing to the Optionee from the Company), or make other arrangements for the collection of, all legally required amounts necessary to satisfy any federal, state or local withholding and employment-related tax requirements attributable to the grant or exercise of this Option or otherwise incurred with respect to this Option, or (b) require the Optionee promptly to remit the amount of such withholding to the Company before acting on the Optionee's notice of exercise of this Option. In the event that the Company is unable to withhold such amounts, for whatever reason, the Optionee hereby agrees to pay to the Company an amount equal to the amount the Company would otherwise be required to withhold under federal, state or local law.

XXVII. ADJUSTMENTS.

In the event of any reorganization, merger, consolidation, recapitalization, liquidation, reclassification, stock dividend, stock split, combination of shares, rights offering, divestiture or extraordinary dividend (including a spin-off), or any other change in the corporate structure or shares of the Company, the Committee (or, if the Company is not the surviving corporation in any such transaction, the board of directors of the surviving corporation), in order to prevent dilution or enlargement of the rights of the Optionee, will make appropriate adjustment (which determination will be conclusive) as to the number, kind and exercise price of securities subject to this Option.

XXVIII. SUBJECT TO PLAN.

The Option and the Option Shares granted and issued pursuant to this Agreement have been granted and issued under, and are subject to the terms of, the Plan. The terms of the Plan are incorporated by reference in this Agreement in their entirety, and the Optionee, by execution of this Agreement, acknowledges having received a copy of the Plan. The provisions of this Agreement will be interpreted as to be consistent with the Plan, and any ambiguities in this Agreement will be interpreted by reference to the Plan. In the event that any provision of this Agreement is inconsistent with the terms of the Plan, the terms of the Plan will prevail.

XXIX. MISCELLANEOUS.

- A. Binding Effect. This Agreement will be binding upon the heirs, executors, administrators and successors of the parties to this Agreement.
- B. Governing Law. This Agreement and all rights and obligations under this Agreement will be construed in accordance with the Plan and governed by the laws of the State of Minnesota.
- C. Entire Agreement. This Agreement and the Plan set forth the entire agreement and understanding of the parties to this Agreement with respect to the grant and exercise of this Option and the administration of the Plan and supersede all prior agreements, arrangements, plans and understandings relating to the grant and exercise of this Option and the administration of the Plan.
- D. Amendment and Waiver. Other than as provided in the Plan, this Agreement may be amended, waived, modified or canceled only by a written instrument executed by the parties hereto or, in the case of a waiver, by the party waiving compliance.



The parties to this Agreement have executed this Agreement effective the day and year first above written.

NORTHERN TECHNOLOGIES  
INTERNATIONAL CORPORATION

By: \_\_\_\_\_

Its: \_\_\_\_\_

OPTIONEE

\_\_\_\_\_  
(Signature)

\_\_\_\_\_  
(Name and Address)

\_\_\_\_\_

\_\_\_\_\_

FORM OF NON-QUALIFIED STOCK OPTION AGREEMENT

NON-STATUTORY STOCK OPTION AGREEMENT

THIS AGREEMENT is entered into and effective as of this \_\_\_\_\_ day of \_\_\_\_\_, 2000 (the "Date of Grant"), by and between Northern Technologies International Corporation (the "Company") and \_\_\_\_\_ (the "Optionee").

A. The Company has adopted the Northern Technologies International Corporation 2000 Stock Incentive Plan (the "Plan") authorizing the Board of Directors of the Company, or a committee as provided for in the Plan (the Board or such a committee to be referred to as the "Committee"), to, among other things, grant non-statutory stock options to employees, non-employee consultants and independent contractors of the Company and its Subsidiaries and any joint venture partners (including without limitation, officers, directors and partners thereof) of the Company or any Subsidiaries (as defined in the Plan).

B. The Company desires to give the Optionee an inducement to acquire a proprietary interest in the Company and an added incentive to advance the interests of the Company by granting to the Optionee an option to purchase shares of common stock of the Company pursuant to the Plan.

Accordingly, the parties agree as follows:

XXX. GRANT OF OPTION.

The Company hereby grants to the Optionee the right, privilege, and option (the "Option") to purchase \_\_\_\_\_ shares (the "Option Shares") of the Company's common stock, \$.02 par value (the "Common Stock"), according to the terms and subject to the conditions hereinafter set forth and as set forth in the Plan. The Option is not intended to be an "incentive stock option," as that term is used in Section 422 of the Internal Revenue Code of 1986, as amended (the "Code").

XXXI. OPTION EXERCISE PRICE.

The per share price to be paid by Optionee in the event of an exercise of the Option will be \$\_\_\_\_\_.

XXXII. DURATION OF OPTION AND TIME OF EXERCISE.

A. Initial Period of Exercisability. The Option will become exercisable with respect to the Option Shares in \_\_\_\_\_ installments. The following table sets forth the initial dates of exercisability of each installment and the number of Option Shares as to which this Option will become exercisable on such dates:

Initial Date of Exercisability -----	Number of Option Shares Available for Exercise -----
--	--

The foregoing rights to exercise this Option will be cumulative with respect to the Option Shares becoming exercisable on each such date but in no event will this Option be exercisable after, and this Option will become void and expire as to all unexercised Option Shares at, 5:00 p.m. (Minneapolis, Minnesota time) on \_\_\_\_\_, \_\_\_\_\_ (the "Time of Termination").

B. Termination of Employment or Other Service.

1. In the event that the Optionee's employment or other service with the Company and all Subsidiaries is terminated by reason of the Optionee's death, Disability or Retirement (as such terms are defined in the Plan), this Option will remain exercisable to the extent exercisable as of such termination following such termination until the Time of Termination.
2. In the event the Optionee's employment or other service with the Company and all Subsidiaries is terminated for any reason other than death, Disability or Retirement, all rights of the Optionee under the Plan and this Agreement will immediately terminate without notice of any kind, and this Option will no longer be exercisable; provided, however, that if such termination is due to any reason other than termination by the Company or any Subsidiary for "cause" (as defined in the Plan), this Option will remain exercisable to the extent exercisable as of such termination for a period of one month after such termination (but in no event will this Option be exercisable after the Time of Termination).

C. Change in Control.

1. If any events constituting a Change in Control (as defined in Section 13.1 of the Plan) of the Company occur, then this Option will become immediately exercisable in full and will remain exercisable until the Time of Termination, regardless of whether the Optionee remains in the employ or service of the Company or any Subsidiary. In addition, if a Change in Control of the Company occurs, the Committee, in its sole discretion and without the consent of the Optionee, may determine that the Optionee will receive, with respect to some or all of the Option Shares, as of the effective date of any such Change in Control of the Company, cash in an amount equal to the excess of the Fair Market Value (as defined in the Plan) of such Option Shares immediately prior to the effective date of such Change in Control of the Company over the option exercise price per share of this Option.
  
2. Notwithstanding anything in this Section 3.3 to the contrary, if, with respect to the Optionee, acceleration of the vesting of this Option or the payment of cash in exchange for all or part of this Option as provided above (which acceleration or payment could be deemed a "payment" within the meaning of Section 280G(b)(2) of the Code), together with any other payments which the Optionee has the right to receive from the Company or any corporation which is a member of an "affiliated group" (as defined in Section 1504(a) of the Code without regard to Section 1504(b) of the Code) of which the Company is a member, would constitute a "parachute payment" (as defined in Section 280C1(b)(2) of the Code), the payments to the Optionee as set forth herein will be reduced to the largest amount as will result in no portion of such payments being subject to the excise tax imposed by Section 4999 of the Code; provided, however, that if the Optionee is subject to a separate agreement with the Company or a Subsidiary that specifically provides that payments

attributable to one or more forms of employee stock incentives or to payments made in lieu of employee stock incentives will not reduce any other payments under such agreement, even if it would constitute an excess parachute payment, then the limitations of this Section 3.3(b) will, to that extent, not apply.

XXXIII. MANNER OF OPTION EXERCISE.

- A. Notice. This Option may be exercised by the Optionee in whole or in part from time to time, subject to the conditions contained in the Plan and in this Agreement, by delivery, in person, by facsimile or electronic transmission or through the mail, to the Company at its principal executive office in Lino Lakes, Minnesota (Attention: Chief Financial Officer), of a written notice of exercise. Such notice will be in a form satisfactory to the Committee, will identify the Option, will specify the number of Option Shares with respect to which the Option is being exercised, and will be signed by the person or persons so exercising the Option. Such notice will be accompanied by payment in full of the total purchase price of the Option Shares purchased. In the event that the Option is being exercised, as provided by the Plan and Section 3.2 above, by any person or persons other than the Optionee, the notice will be accompanied by appropriate proof of right of such person or persons to exercise the Option. As soon as practicable after the effective exercise of the Option, the Optionee will be recorded on the stock transfer books of the Company as the owner of the Option Shares purchased, and the Company will deliver to the Optionee one or more duly issued stock certificates evidencing such ownership.
- B. Payment. At the time of exercise of this Option, the Optionee will pay the total purchase price of the Option Shares to be purchased solely in cash (including a check, bank draft or money order, payable to the order of the Company); provided, however, that the Committee, in its sole discretion, may allow such payment to be made, in whole or in part, by tender of a Broker Exercise Notice, Previously Acquired Shares or by a combination of such methods. For purposes of this Agreement, the terms "Broker Exercise Notice" and "Previously Acquired Shares" will have the meanings set forth in the Plan. In the event the Optionee is permitted to pay the total purchase price of this Option in whole or in part with Previously Acquired Shares, the value of such shares will be equal to their Fair Market Value on the date of exercise of this Option.

XXXIV. ADVERSE ACTION

- A. Termination. Notwithstanding anything in this Agreement to the contrary, in the event that the Optionee materially breaches the terms of any confidentiality or noncompete agreement entered into with the Company or takes any other Adverse Action (as defined in the Plan), whether such Adverse Action occurs before or after termination of the Optionee's employment or other service with the Company or any Subsidiary, the Committee in its sole discretion may immediately terminate all rights of the Optionee under this Agreement without notice of any kind.
- B. Rescission. In addition to the Company's right of termination as provided in Section 5.1, to the extent that the Optionee takes such Adverse Action during the period beginning 6 months prior to, and ending 6 months following, the date of such employment or service termination, the Committee in its sole discretion will have the authority to rescind (i) this Option if it was granted during such period and (ii) any exercise of this Option by the Optionee during such period, and to require the Optionee to pay to the Company, within 10 days of receipt from the Company of notice of such rescission, the amount of any gain realized from this rescinded grant or exercise. Such payment will be made in cash (including check, bank draft or money order) or, with the Committee's consent, shares of Common Stock with a Fair Market Value on the date of payment equal to the amount of such payment. The Company will be entitled to withhold and deduct from future wages of the Optionee (or from other amounts that may be due and owing to the Optionee from the Company or Subsidiary) or make other arrangements for the collection of all amounts necessary to satisfy such payment obligation.

- C. Certification. Upon exercise, payment or delivery pursuant to this Option, the Optionee or grantee shall certify on a form acceptable to the Committee that he or she is in compliance with the terms and conditions of the Plan and this Agreement.

XXXV. NONTRANSFERABILITY.

Neither this Option nor the Option Shares acquired upon exercise may be transferred by the Optionee, either voluntarily or involuntarily, or subjected to any lien, directly or indirectly, by operation of law or otherwise, except as provided in the Plan. Any attempt to transfer or encumber this Option or the Option Shares other than in accordance with this Agreement and the Plan will be null and void and will void this Option.

XXXVI. LIMITATION OF LIABILITY.

Nothing in this Agreement will be construed to (a) limit in any way the right of the Company to terminate the employment or service of the Optionee at any time, or (b) be evidence of any agreement or understanding, express or implied, that the Company will retain the Optionee in any particular position, at any particular rate of compensation or for any particular period of time.

XXXVII. WITHHOLDING TAXES.

The Company is entitled to (a) withhold and deduct from future wages of the Optionee (or from other amounts which may be due and owing to the Optionee from the Company), or make other arrangements for the collection of, all legally required amounts necessary to satisfy any federal, state or local withholding and employment-related tax requirements attributable to the grant or exercise of this Option or otherwise incurred with respect to this Option, or (b) require the Optionee promptly to remit the amount of such withholding to the Company before acting on the Optionee's notice of exercise of this Option. In the event that the Company is unable to withhold such amounts, for whatever reason, the Optionee hereby agrees to pay to the Company an amount equal to the amount the Company would otherwise be required to withhold under federal, state or local law.

XXXVIII. ADJUSTMENTS.

In the event of any reorganization, merger, consolidation, recapitalization, liquidation, reclassification, stock dividend, stock split, combination of shares, rights offering, divestiture or extraordinary dividend (including a spin-off), or any other change in the corporate structure or shares of the Company, the Committee (or, if the Company is not the surviving corporation in any such transaction, the board of directors of the surviving corporation), in order to prevent dilution or enlargement of the rights of the Optionee, will make appropriate adjustment (which determination will be conclusive) as to the number, kind and exercise price of securities subject to this Option.

XXXIX. SUBJECT TO PLAN.

The Option and the Option Shares granted and issued pursuant to this Agreement have been granted and issued under, and are subject to the terms of, the Plan. The terms of the Plan are incorporated by reference in this Agreement in their entirety, and the Optionee, by execution of this Agreement, acknowledges having received a copy of the Plan. The provisions of this Agreement will be interpreted as to be consistent with the Plan, and any ambiguities in this Agreement will be interpreted by reference to the Plan. In the event that any provision of this Agreement is inconsistent with the terms of the Plan, the terms of the Plan will prevail.

XL. MISCELLANEOUS.

- A. Binding Effect. This Agreement will be binding upon the heirs, executors, administrators and successors of the parties to this Agreement.
- B. Governing Law. This Agreement and all rights and obligations under this Agreement will be construed in accordance with the Plan and governed by the laws of the State of Minnesota.
- C. Entire Agreement. This Agreement and the Plan set forth the entire agreement and understanding of the parties to this Agreement with respect to the grant and exercise of this Option and the administration of the Plan and supersede all prior agreements, arrangements, plans and understandings relating to the grant and exercise of this Option and the administration of the Plan.
- D. Amendment and Waiver. Other than as provided in the Plan, this Agreement may be amended, waived, modified or canceled only by a written instrument executed by the parties hereto or, in the case of a waiver, by the party waiving compliance.

The parties to this Agreement have executed this Agreement effective the day and year first above written.

NORTHERN TECHNOLOGIES  
INTERNATIONAL CORPORATION

By: \_\_\_\_\_

Its: \_\_\_\_\_

[By execution of this Agreement, the Optionee acknowledges having received a copy of the Plan.]

OPTIONEE

\_\_\_\_\_  
(Signature)

\_\_\_\_\_  
(Name and Address)

\_\_\_\_\_

\_\_\_\_\_

## SUBSIDIARIES OF THE REGISTRANT

Name of Subsidiary -----	State or Other Jurisdiction of Incorporation or Organization -----	Ownership Interest -----	Names Under Which Subsidiary Does Business -----
Northern Instruments Corporation, LLC	Ohio	100%	Same
NTI Facilities, Inc.	Ohio	100%	Same



INDEPENDENT AUDITORS' CONSENT

We consent to the incorporation by reference in Registration Statements No. 333-33931 and No. 333-32596 of Northern Technologies International Corporation on Form S-8 of our report dated November 17, 2000, appearing in the Annual Report on Form 10-KSB of Northern Technologies International Corporation for the fiscal year ended August 31, 2000.

/s/ Deloitte & Touche LLP  
Minneapolis, Minnesota  
November 28, 2000

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