SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-KSB

(Mark one)

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

FOR THE FISCAL YEAR ENDED AUGUST 31, 1997 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 incorporation or organization)	(I.R.S. Employer Identification No.)

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

Registrant's telephone number, including area code: (612) 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 [X] 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, 1997 were $8,729,318.

As of November 14, 1997, 4,202,488 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 $31,036,387.

Documents incorporated by reference: None.

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

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."

ITEM 1. 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."

(b) BUSINESS OF THE COMPANY.

GENERAL

The Company is a developer, manufacturer and marketer of proprietary corrosion inhibiting products and electronic sensing instruments. The Company's dry corrosion inhibiting products, marketed under the name ZERUST(TM), are utilized in protective packaging serving a wide variety of companies in industries such as transportation, nuclear and fossil fuel power generation, electronics, aerospace, on-and off-road automotive equipment, agriculture and metal processing. The ZERUST product line accounted for approximately 98% of the Company's sales during its fiscal year ended August 31, 1997.

The Company's electronic sensing instruments include portable oil quality analyzers for on-site evaluation of oils and fluids, instruments that provide for on- and off-line measurement of fiber denier and critical tubing measurements and measurement devices for slow moving materials and moisture testing which utilize a microwave technology.

JOINT VENTURES, FOREIGN TRADING COMPANY AND EUROPEAN HOLDING COMPANY

The Company participates in an expanding number of international joint venture arrangements that manufacture, market and distribute corrosion inhibiting products. The Company manufactures and supplies the proprietary ingredient that makes the finished product functional, but the actual manufacturing of the finished product takes place in the foreign country. Manufacturing the product in the foreign country lowers shipping costs and improves on-time delivery to foreign customers. The 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 having to develop its own international sales force. The Company's joint venture partners are knowledgeable in the applicable environmental, tax and other laws of the foreign country, as well as the local customs and business practices, and have a vested interest in making the joint venture a success.

All of the Company's joint ventures are owned 50% by the Company, except where the Company has allowed Taiyo Petroleum Gas Co. Ltd. to purchase from the joint venture a portion of the ownership that the Company would otherwise have purchased. For instance, the Company owns 40%, 40% and 25% and Taiyo Petroleum Gas Co. Ltd. owns 10%, 10% and 25% of the joint ventures in Taiwan, Singapore and South Korea, respectively. In 1997, the Company organized NTI Asean LLC, a Nevada limited liability company, as the Company's vehicle for its joint venture investments in the Asia-Pacific market. The Company maintains a 50% interest in NTI Asean LLC with the remaining 50% ownership interest owned by Taiyo Petroleum Gas Co. Ltd. The Company has established the following corporate joint ventures:

Country	Date of Investment
Japan	1987
Taiwan	1990
France	1990
Germany	1991
Sweden	1991
Singapore	1991
Brazil	1993
Russia	1994
South Korea	1994
Finland	1995
Italy	1996
United Kingdom	1997
Czech-Republic	1997

In addition to the Company's investments in the corporate joint ventures listed above, the Company created joint venture entities during fiscal 1997 in Thailand and Indonesia (to be funded through NTI Asean LLC) and Poland. The Company anticipates that the funding of these joint venture investments will occur in fiscal 1998. Additionally, during fiscal 1997, the Company purchased a 50% ownership interest in a European holding company; however, to date, this entity has been inactive.

The Company also owns a 50% ownership interest in a foreign trading company. The trading company sells merchandise directly and serves as an intermediary in the arrangement of sales of goods on which it receives commissions. The trading company's transactions include sales of ZERUST products produced by one of the Company's international corporate joint ventures.

While the Company is not aware of any specific potential risk beyond its initial investment and undistributed earnings of the 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 the joint ventures. 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 maintain.

PRODUCTS

The Company operates in two industry segments: corrosion inhibiting packaging products and electronic sensing instruments. Corrosion inhibiting packaging products accounted for approximately 98% of the Company's sales in fiscal 1997.

CORROSION INHIBITING PACKAGING PRODUCTS. Corrosion affects products and components in the manufacturing industry. It encompasses the corrosion of ferrous (iron and steel) metals as well as the deterioration 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 may require specialized application equipment. In addition, the oils and greases may pose unacceptable health and fire hazards and may collect and trap dirt and debris that, in some cases, may actually initiate corrosion. Should the removal of the oils and greases be required, solvents and specialized safety equipment may be necessary that typically introduce additional health and hazardous waste disposal problems.

ZERUST volatile corrosion inhibiting ("VCI") products contain proprietary chemical systems that emit a nontoxic vapor that is diffused throughout an enclosure. Electron scanning instrumentation shows that the VCI-rich atmosphere causes VCI molecules to condense in a microscopic layer on all surfaces they can reach. The inhibiting layer is maintained so long as the product remains in the ZERUST package. Electron scanning further shows that once the contents are removed from the ZERUST package, the VCI layer revolatizes from the contents' surfaces within two hours, leaving a clean, dry and corrosion-free product. The protective mechanism enables parts to arrive ready for immediate use. By eliminating costly greasing and degreasing processes, ZERUST VCI technology offers significant savings in labor, material and space compared to other methods of corrosion prevention.

In 1980, the Company developed a means of combining ZERUST VCI systems with polyethylene and polypropylene resins. 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 offered packaging engineers the 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 additives in liquid form for VCI enhancement of corrugated cardboard, solid fibre and chipboard packaging materials.

ELECTRONIC SENSING INSTRUMENTS. The Company's electronic sensing instruments accounted for approximately 2% of the Company's sales in fiscal 1997. The Company's electronic sensing instruments include oil quality analyzers, fiber monitors and testers and a tubing monitor. 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 also includes measurement devices for slow moving materials and moisture testing which utilize a microwave technology. The Company does not expect that its electronic sensing instruments will increase as a percentage of sales in fiscal 1998.

MANUFACTURING

The Company produces certain proprietary corrosion inhibiting products and electronic sensing instruments at its facility in Lino Lakes, Minnesota. The corrosion inhibiting additives are produced by selected contractors based upon the Company's proprietary formulation. The Company's inhibiting final products include flexible packaging and other products that are produced to customer specification by selected contractors who are supplied with the necessary corrosion inhibiting additives by the Company.

SALES AND MARKETING

The Company markets its products principally in the United States 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 respond to their technical requirements. The Company has also entered into joint venture arrangements with foreign entities pursuant to which the Company sells certain corrosion inhibiting formulations to foreign entities, who then manufacture and market finished products. The Company receives fees for providing technical and other support to the joint ventures in accordance with the terms of the joint venture arrangements.

COMPETITION

The Company is aware of competing organizations that manufacture and market corrosion inhibiting products which are similar to the Company's ZERUST products. The Company evaluates these products on an ongoing basis and is satisfied that none of the products in the market at this time are superior to the Company's products. In addition, corrosion inhibiting paper products are marketed by competitors as an alternative to the Company's film products. As the Company's film serves a dual role of moisture barrier as well as a dispenser of corrosion inhibitors, it avoids a shortcoming of the paper inhibiting products whose inhibitors are adversely affected and can leach out when heavy moisture is encountered.

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 are related to price sensitivity rather than differences in product capabilities.

Some of the Company's competitors, in both the corrosion inhibiting 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 recognition. The Company competes with such companies by providing high quality products and by attempting to provide the highest level of customer service, including delivery of its products on a timely basis at a competitive price.

SIGNIFICANT CUSTOMERS

One customer accounted for approximately 14% of net sales for the fiscal year ended August 31, 1997. No customer of the Company represented 10% or more of the Company's net sales for the fiscal years ended August 31, 1996 and 1995.

RESEARCH AND DEVELOPMENT

Research and development expenditures, including engineering and technical support, were $432,943, $370,045 and $353,887 in fiscal 1997, 1996 and 1995, respectively. The Company's research and development activities are conducted at its Minnesota headquarters. The Company's research and development activities are directed at the improvement of existing products, new product development and quality assurance through testing of the Company's contract manufactured corrosion inhibiting products.

In 1997, a corrosion testing laboratory was established in Germany under the sponsorship of Excor, the Company's corporate joint venture. This laboratory works in conjunction with the domestic research and development operation on testing directed at the improvement of existing products and new product development.

PATENTS AND TRADEMARKS

The Company currently owns one United States patent, which will expire in 2000, relating to its corrosion inhibiting products. Although the Company has sought patent protection for its technology and products, it does not believe such protection is critical to its commercial success. 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 licenses. 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. The Company also has several trademarks in the United States and certain foreign countries. 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, 1997. 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 from various suppliers. The Company has sufficient working capital to meet all obligations when due.

EMPLOYEES

As of August 31, 1997, the Company had 25 full-time employees, including five engaged in administration, eight in sales and marketing, four in research and development and eight in operations. 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 threatened labor or employment disputes or work interruptions.

CERTAIN IMPORTANT FACTORS

In addition to the factors 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. These factors, and their impact on the success of the Company's operations and its ability to achieve its goals, include the following:

(1) the ability of the Company's investments in existing and future joint ventures to generate a positive rate of return and demonstrate a pattern of growth consistent with current performance;

(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 current operating performance.

ITEM 2. DESCRIPTION OF PROPERTY.

The Company's office, production facilities and 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. The Company built a warehouse on this parcel of approximately 18,000 square feet that was completed in November 1996. The parcel of land on which this new warehouse is located is of sufficient size should the Company choose to relocate its entire facility to the new location, although the Company has no current plans to do so.

ITEM 3. LEGAL PROCEEDINGS.

There are no material pending or threatened legal, governmental, administrative or other proceedings to which the Company is a party or of which any of its property is 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 the American Stock Exchange under the symbol NTI.

	COMMON STOCK HIGH	COMMON STOCK LOW
1997:		
Fourth fiscal quarter...............	$12 1/2	$7
Third fiscal quarter................	8 7/16	6 3/8
Second fiscal quarter...............	8 1/8	5 1/2
First fiscal quarter................	7	4 3/4
1996:		
Fourth fiscal quarter...............	$5 1/4	$4 3/4
Third fiscal quarter................	5 7/8	4 7/8
Second fiscal quarter...............	5 7/16	4 3/4
First fiscal quarter................	7 5/8	4 5/8

The Company declared Common Stock cash dividends of $.10 per share to shareholders of record on December 4, 1995; $.12 per share to shareholders of record on December 6, 1996; and $.15 per share to shareholders of record on December 1, 1997. The Company's Board of Directors will continue to evaluate the payment of dividends based on the Company's net income and operating cash requirements.

As of August 31, 1997, the Company's Common Stock was held of record by approximately 620 persons.

The following is information regarding all securities sold by the Company during the fiscal year ended August 31, 1997 which were not registered under the Securities Act of 1933, as amended (the "Securities Act"):

1. On November 15, 1996, the Company issued 3,000 shares of Common Stock to six employees for services provided in fiscal 1996.

2. In November 1996, the Company issued 8,000 shares of Common Stock to two individuals upon the exercise of certain stock options at an exercise price of $3.00 per share and 833 shares of Common Stock to one individual upon the exercise of a stock option at an exercise price of $3.125 per share.

3. In December 1996, the Company issued 200 shares of Common Stock to one individual upon the exercise of a stock option at an exercise price of $3.125 per share.

4. In July 1997, the Company issued 200 shares of Common Stock to one individual upon the exercise of a stock option at an exercise price of $3.125 per share.

All of the above sales were made in reliance on Section 4(2) of the Securities Act as transactions by an issuer not involving any public offering. In all such transactions, the recipients of securities represented their intentions to acquire the securities for investment only and not with a view to or for sale in connection with any distribution thereof and appropriate legends were affixed to the securities issued in such transactions. All recipients had adequate access, through their relationships with the Company, to information about the Company.

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

RESULTS OF OPERATIONS

FISCAL 1997 COMPARED TO FISCAL 1996

NET SALES AND GROSS PROFIT. The Company's net sales of $8,729,318 in fiscal 1997 increased by $1,860,134, or 27.1% from net sales of $6,869,184 in fiscal 1996. The increase in net sales is primarily due to an increase in the volume of corrosion inhibiting products sold to new and existing customers. Fiscal 1997 sales to an existing customer increased significantly over fiscal 1996 and represents approximately 14% of total net sales in fiscal 1997. The cost of sales increased as a percentage of sales to 47.4% in fiscal 1997 from 45.2% in fiscal 1996. The variation in the cost of sales percentage reflects changes in product mix. The Company anticipates that its annual cost of sales percentage for fiscal 1998 will not vary significantly under its current pricing structure.

SELLING EXPENSES. The Company's selling expenses increased by $257,630 or 30.9%, to $1,092,280 in fiscal 1997 from $834,650 in fiscal 1996. As a percentage of sales these costs increased to 12.5% in fiscal 1997 from 12.2% in fiscal 1996. The increase in fiscal 1997 selling expenses was primarily related to increases in distributor commissions, salaries, travel and various promotional expenses.

GENERAL ADMINISTRATIVE EXPENSES. The Company's general and administrative expenses increased by $491,983 or 35.3% to $1,886,016 in fiscal 1997 from $1,394,033 in fiscal 1996. As a percentage of sales these costs increased to 21.6% in fiscal 1997 from 20.3% in fiscal 1996. The increase in fiscal 1997 general and administrative expenses was primarily due to increases in salaries and related expenses, various professional fees, insurance, legal and real estate and other expenses associated with the Company's expanded warehouse facility completed in November 1996.

RESEARCH, ENGINEERING AND TECHNICAL SUPPORT EXPENSES. The Company's research, engineering and technical support expenses increased by $62,898 or 17.0% to $432,943 in fiscal 1997 from $370,045 in fiscal 1996. As a percentage of sales these costs decreased to 5.0% in fiscal 1997 from 5.4% in fiscal 1996. The increase in fiscal 1997 research, engineering and technical support expenses was primarily due to increases in salaries and travel. The Company anticipates that its fiscal 1998 research, engineering and technical support expenses will approximate expenses incurred in fiscal 1997.

JOINT VENTURES. The Company continues its business program of establishing joint venture arrangements in international markets. The Company manufactures and supplies patented and proprietary ingredients which make the finished products functional and enable manufacturing of the finished products to take place in the foreign countries. The joint ventures market the finished products and the joint ventures' profit is shared by the respective joint venture shareholders in accordance with share ownership. The Company also has an investment in a foreign company that operates as a trading company. The Company's investments in corporate joint ventures and the foreign trading company are accounted for using the equity method and resulted in income to the Company of $712,244 and $488,969 for fiscal 1997 and fiscal 1996, respectively. In addition, the Company received fees for technical and other support to the joint ventures based on the revenues of the individual joint ventures. The Company recognized fees for such assistance of $2,213,228 and $1,659,792 for fiscal 1997 and fiscal 1996, respectively. The increase in equity income in corporate joint ventures and the foreign trading company and fees for technical and other support to corporate joint ventures was primarily due to the joint ventures' increasing revenues and profitability as they progress. Sales of the corporate joint ventures in fiscal 1997 increased by $4,701,791 or 33.1% to $18,909,466. Net income of the corporate joint ventures in fiscal 1997 of $1,489,856 represents a 27.5% increase over fiscal 1996. The Company anticipates that in the future it will consider entering into joint ventures in other foreign countries. The Company recognized expenses related to corporate joint ventures of $457,263 and $346,677 in fiscal 1997 and fiscal 1996, respectively. The expenses consisted primarily of legal fees regarding the development of new joint ventures and travel, meetings and technical services regarding existing joint ventures. The Company anticipates that expenses relating to corporate joint ventures will continue to increase in the future due to the development of new corporate joint ventures and the Company providing ongoing technical and other support to existing joint ventures.

INCOME TAXES. The Company's effective income tax rates were 31.5% and 34.3% for fiscal 1997 and fiscal 1996, respectively. The effective income tax rate was lower than the statutory rate primarily due to equity in income of corporate joint ventures being recognized on an after tax basis for these entities. To the extent the joint ventures' undistributed earnings were distributed to the Company during fiscal 1997 and fiscal 1996, it did not result in material additional income tax liability after the application of foreign tax credits.

FISCAL 1996 COMPARED TO FISCAL 1995

NET SALES AND GROSS PROFIT. The Company's sales increased by $655,052, or 10.5%, to $6,869,184 in fiscal 1996 from $6,214,132 in fiscal 1995. The increase in sales is primarily due to an increase in the volume level of shipments of corrosion inhibiting products. The cost of sales decreased as a percentage of sales to 45.2% in fiscal 1996 from 47.4% in fiscal 1995. The variation in the cost of sales percentage was primarily due to product mix.

SELLING EXPENSES. The Company's selling expenses increased by $58,198, or 7.5%, to $834,650 in fiscal 1996 from $776,452 in fiscal 1995. As a percentage of sales these costs decreased to 12.2% from 12.5% for fiscal 1996 compared to fiscal 1995. The increase in fiscal 1996 selling expenses was primarily due to an increase in sales salaries and related expenses and travel expense.

GENERAL AND ADMINISTRATIVE EXPENSES. The Company's general and administrative expenses increased by $417,302, or 42.7%, to $1,394,033 in fiscal 1996 from $976,731 in fiscal 1995. As a percentage of sales these costs increased to 20.3% from 15.7% for fiscal 1996 compared to fiscal 1995. The increase in fiscal 1996 general and administrative expenses was primarily due to increases in salaries and related expenses, various professional fees, meeting expenses and waste disposal expense.

RESEARCH, ENGINEERING AND TECHNICAL SUPPORT EXPENSES. The Company's research, engineering and technical support expenses increased by $16,158 or 4.6% to $370,045 in fiscal 1996 from $353,887 in fiscal 1995. As a percentage of sales these costs decreased to 5.4% in fiscal 1996 from 5.7% in fiscal 1995. The increase in fiscal 1996 research, engineering and technical support expenses was primarily due to increases in salaries.

JOINT VENTURES. The Company's investments in corporate joint ventures and the foreign trading company are accounted for using the equity method and resulted in income to the Company of $488,969 and $428,639 for fiscal 1996 and fiscal 1995, respectively. In addition, the Company received fees for technical and other support to the joint ventures based on the revenues of the individual joint ventures. The Company recognized fees for such assistance of $1,659,792 and $1,313,522 for fiscal 1996 and fiscal 1995, respectively. The increase in equity income in corporate joint ventures and the foreign trading company and fees for technical and other support to corporate joint ventures was primarily due to the joint ventures' increasing revenues and profitability as they progress. The Company recognized expenses related to corporate joint ventures of $346,677 and $340,009 in fiscal 1996 and fiscal 1995, respectively. The expenses consisted primarily of legal fees regarding the development of new joint ventures and travel and technical services regarding existing joint ventures.

INCOME TAXES. The Company's effective income tax rates were 34.3% and 30.9% for fiscal 1996 and fiscal 1995, respectively. The effective income tax rate was lower than the statutory rate primarily due to equity in income of corporate joint ventures being recognized on an after tax basis for these entities. To the extent the joint ventures' undistributed earnings were distributed to the Company during fiscal 1996 and fiscal 1995, it did not result in material additional income tax liability after the application of foreign tax credits.

LIQUIDITY AND CAPITAL RESOURCES

At August 31, 1997, the Company's working capital was $5,826,590, including $3,945,567 in cash and cash equivalents, with a current ratio of 7.1:1. At August 31, 1996, the Company's working capital was $5,284,403, including $3,707,520 in cash and cash equivalents, with a current ratio of 6.8:1. At August 31, 1997, the Company had no long-term debt and no material lease commitments.

In late 1995, the Company purchased an approximately 10 acre parcel of land and began constructing an off-site warehouse on the site in March 1996. The land, site development and construction of the warehouse was completed in November 1996 and cost approximately $700,000 and was funded with existing cash and cash equivalents.

In fiscal 1997, the Company repurchased 9,000 shares of its Common Stock in various open market transactions at prices ranging from $4.92 per share to $7.13 per share. During fiscal 1997, holders of stock options exercise their right to purchase 9,233 shares of Common Stock ranging from $3.00 to $3.13 per share. In fiscal 1996, the Company repurchased 61,165 shares of its Common Stock in various open market transactions at prices ranging from $4.88 per share to $5.25 per share. During fiscal 1996, holders of stock options exercised their rights to purchase 13,167 shares of Common Stock at prices ranging from $3.00 to $3.13 per share.

On April 25, 1994, Inter Alia Holding Company ("Inter Alia") exercised a warrant to purchase 233,000 shares of Common Stock at an exercise price of $2.50 per share, for an aggregate exercise price of $582,500. In connection with such exercise, Inter Alia paid $4,660 in cash and issued a promissory note to the Company in the amount of $577,840, which had an interest rate of 7.25% per annum and was due

December 31, 1995. The note was collateralized by marketable equity securities. This note was paid in full in fiscal 1996.

Over the past three fiscal years, cash flow from operations has been sufficient to meet liquidity requirements, capital expenditures, research and development costs and expansion of operations. Cash flow from operations totaled $1,753,483, $1,672,589 and $1,463,930 for the fiscal years ended August 31, 1997, 1996 and 1995, respectively. This net cash flow resulted principally from net income.

Net cash used in investing activities totaled $985,457, $98,151 and $147,722 for the fiscal years ended August 31, 1997, 1996 and 1995, respectively. The primary uses of cash in fiscal 1997 were investments in corporate joint ventures, trading investment, property and the issuance of a note receivable to a joint venture partner. The primary uses of cash in fiscal 1996 and 1995 were investments in corporate joint ventures and additions to property. In fiscal 1996, the Company's expenditures of cash for investing activities were offset by payments of $743,875 on notes receivable from the purchase of Common Stock.

Net cash used in financing activities was $529,979, $698,219 and $687,458 for the fiscal years ended August 31, 1997, 1996 and 1995, respectively. The primary uses of cash resulted from the payment of dividends in fiscal 1997, 1996 and 1995 and the repurchase of Common Stock in fiscal 1997, 1996 and 1995. The primary source of cash provided by financing activities was proceeds from the issuance of Common Stock upon the exercise of outstanding stock options and warrants in fiscal 1997, 1996 and 1995, respectively.

Inflation historically has had little effect on the Company.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In February 1997, the Financial Accounting Standards Board ("FASB") issued SFAS No. 128, EARNINGS PER SHARE, which is effective for interim and annual reporting periods ending after December 15, 1997. SFAS No. 128 supersedes Accounting Principles Board Opinion No. 15, EARNINGS PER SHARE, and replaces the presentation of primary earnings per share with a presentation of basic earnings per share. It also requires dual presentation for all entities with complex capital structures and provides guidance on other computational changes. The implementation of SFAS No. 128 is expected to increase earnings per share by $0.01 per share and an immaterial amount for the years ended August 31, 1997 and 1996, respectively.

ITEM 7. FINANCIAL STATEMENTS

INDEX TO FINANCIAL STATEMENTS

The following items are included herein:

INDEPENDENT AUDITORS' REPORT

Board of Directors
Northern Technologies International Corporation
Lino Lakes, Minnesota

We have audited the accompanying balance sheets of Northern Technologies International Corporation (the Company) as of August 31, 1997 and 1996 and the related statements of income, stockholders' equity, and cash flows for each of the three years in the period ended August 31, 1997. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the 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 financial statements present fairly, in all material respects, the financial position of Northern Technologies International Corporation at August 31, 1997 and 1996 and the results of its operations and its cash flows for each of the three years in the period ended August 31, 1997, in conformity with generally accepted accounting principles.

/s/ Deloitte & Touche LLP
Minneapolis, Minnesota
November 19, 1997

NORTHERN TECHNOLOGIES INTERNATIONAL CORPORATION

BALANCE SHEETS
AUGUST 31, 1997 AND 1996

	1997	1996
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 3,945,567	$ 3,707,520
Receivables:		
Trade, less allowance for doubtful accounts of $27,000 and $26,000, respectively	1,164,660	1,127,975
Corporate joint ventures	517,551	524,577
Inventories (Note 2)	841,618	584,212
Prepaid expenses and other	77,196	78,603
Deferred income taxes (Note 8)	240,000	170,000
Total current assets	6,786,592	6,192,887
PROPERTY AND EQUIPMENT, net (Note 3)	962,328	980,816
OTHER ASSETS:		
Investments in corporate joint ventures (Note 4)	2,291,600	1,726,328
Investment in foreign company (Note 4)	132,000	159,879
Investment in European holding company (Note 4)	254,639	-
Deferred income taxes (Note 8)	130,000	90,000
Other	625,544	164,140
	3,433,783	2,140,347
	$ 11,182,703	$ 9,314,050
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 162,477	$ 154,859
Income taxes	376,867	463,700
Accrued liabilities:		
Payroll	230,951	177,381
Other	189,707	112,544
Total current liabilities	960,002	908,484
DEFERRED GROSS PROFIT	118,000	109,000
CONTINGENCIES (Note 9)		
STOCKHOLDERS' EQUITY (Note 5):		
Preferred stock, no par value; authorized 10,000 shares; none issued		
Common stock, $.02 par value per share; authorized 10,000,000 shares; issued and outstanding 4,202,508 and 4,199,275 shares, respectively	84,050	83,985
Additional paid-in capital	5,185,828	5,158,344
Retained earnings	5,217,221	3,143,526
Cumulative foreign currency translation adjustments	(252,591)	40,518
	10,234,508	8,426,373
Notes and related interest receivable from purchase of common stock	(129,807)	(129,807)
Total stockholders' equity	10,104,701	8,296,566
	$ 11,182,703	$ 9,314,050

See notes to financial statements.

NORTHERN TECHNOLOGIES INTERNATIONAL CORPORATION

STATEMENTS OF INCOME
YEARS ENDED AUGUST 31, 1997, 1996, AND 1995

	1997	1996	1995
SALES (Note 6)	$ 8,729,318	$ 6,869,184	$ 6,214,132
COST OF GOODS SOLD	4,141,704	3,106,913	2,948,554
GROSS PROFIT	4,587,614	3,762,271	3,265,578
OPERATING EXPENSES:			
Selling	1,092,280	834,650	776,452
General and administrative	1,886,016	1,394,033	976,731
Research, engineering, and technical support	432,943	370,045	353,887
	3,411,239	2,598,728	2,107,070
OPERATING INCOME	1,176,375	1,163,543	1,158,508
CORPORATE JOINT VENTURES, FOREIGN COMPANY, AND EUROPEAN HOLDING COMPANY:			
Equity in income of corporate joint ventures, foreign company, and European holding company (Note 4)	712,244	488,969	428,639
Fees for technical and other support to corporate joint ventures (Note 4)	2,213,228	1,659,792	1,313,522
Corporate joint venture expense (Note 4)	(457,263)	(346,677)	(340,009)
	2,468,209	1,802,084	1,402,152
OTHER INCOME:			
Interest income	160,396	197,216	91,766
Other income	15,868	14,908	15,576
	176,264	212,124	107,342
INCOME BEFORE INCOME TAXES	3,820,848	3,177,751	2,668,002
INCOME TAXES (Note 8)	1,205,000	1,090,000	825,000
NET INCOME	$ 2,615,848	$ 2,087,751	$ 1,843,002
NET INCOME PER COMMON AND COMMON EQUIVALENT SHARE	$ .61	$ .49	$ .42
WEIGHTED AVERAGE NUMBER OF COMMON AND COMMON EQUIVALENT SHARES OUTSTANDING	4,273,500	4,290,099	4,353,747

See notes to financial statements.

NORTHERN TECHNOLOGIES INTERNATIONAL CORPORATION

STATEMENTS OF STOCKHOLDERS' EQUITY

	COMMON STOCK		ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS	CUMULATIVE FOREIGN CURRENCY TRANSLATION ADJUSTMENTS	NOTES AND RELATED INTEREST RECEIVABLE FROM PURCHASE OF COMMON STOCK	TOTAL COMMON STOCKHOLDERS' EQUITY
	SHARES	AMOUNT					
BALANCE AT AUGUST 31, 1994	4,220,773	$ 84,415	$5,027,373	$ 716,178	$ 55,424	$ (936,503)	$4,946,887
Repurchase of common stock	(113,000)	(2,260)	(169,500)	(540,140)	-	-	(711,900)
Payments received on notes receivable	-	-	-	-	-	62,821	62,821
Warrants exercised	137,000	2,740	339,760	-	-	-	342,500
Dividends on common stock - $.075 per share	-	-	-	(318,058)	-	-	(318,058)
Foreign currency translation adjustment	-	-	-	-	44,141	-	44,141
Net income	-	-	-	1,843,002	-	-	1,843,002
BALANCE AT AUGUST 31, 1995	4,244,773	84,895	5,197,633	1,700,982	99,565	(873,682)	6,209,393
Repurchase of common stock	(61,165)	(1,223)	(91,748)	(220,330)	-	-	(313,301)
Payments received on notes receivable	-	-	-	-	-	743,875	743,875
Issuance of common stock for services provided	2,500	50	12,763	-	-	-	12,813
Stock options exercised	13,167	263	39,696	-	-	-	39,959
Dividends on common stock - $.10 per share	-	-	-	(424,877)	-	-	(424,877)
Foreign currency translation adjustment	-	-	-	-	(59,047)	-	(59,047)
Net income	-	-	-	2,087,751	-	-	2,087,751
BALANCE AT AUGUST 31, 1996	4,199,275	83,985	5,158,344	3,143,526	40,518	(129,807)	8,296,566
Repurchase of common stock	(9,000)	(180)	(15,500)	(37,420)	-	-	(53,100)
Issuance of common stock for services provided	3,000	60	15,315	-	-	-	15,375
Stock options exercised	9,233	185	27,669	-	-	-	27,854
Dividends on common stock - $.12 per share	-	-	-	(504,733)	-	-	(504,733)
Foreign currency translation adjustment	-	-	-	-	(293,109)	-	(293,109)
Net income	-	-	-	2,615,848	-	-	2,615,848
BALANCE AT AUGUST 31, 1997	4,202,508	$ 84,050	$5,185,828	$5,217,221	$(252,591)	$ (129,807)	$10,104,701

See notes to financial statements.

NORTHERN TECHNOLOGIES INTERNATIONAL CORPORATION

STATEMENTS OF CASH FLOWS (NOTE 10)
YEARS ENDED AUGUST 31, 1997, 1996, AND 1995

	1997	1996	1995
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	$ 2,615,848	$ 2,087,751	$ 1,843,002
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	100,497	88,411	77,466
Equity in income of corporate joint ventures, foreign company, European holding company	(712,244)	(488,969)	(428,639)
Dividends received from corporate joint ventures and foreign company	69,147	161,583	188,925
Deferred income taxes	(110,000)	(50,000)	(80,000)
Deferred gross profit	9,000	8,500	44,750
Change in assets and liabilities:			
Receivables:			
Trade receivables	(36,685)	(296,538)	(129,522)
Corporate joint ventures	7,026	(117,947)	(140,608)
Inventories	(257,406)	(53,618)	(104,747)
Prepaid expenses and other	1,407	(72,740)	(1,091)
Accounts payable	7,618	20,316	33,268
Income taxes	(86,833)	321,320	15,190
Accrued liabilities	146,108	64,520	145,936
Total adjustments	(862,365)	(415,162)	(379,072)
Net cash provided by operating activities	1,753,483	1,672,589	1,463,930
CASH FLOWS FROM INVESTING ACTIVITIES:			
Additions to property	(82,009)	(726,978)	(47,003)
Investments in corporate joint ventures and European holding company	(442,044)	(104,000)	(90,000)
Increase in other assets	(461,404)	(11,048)	(10,719)
Payments on notes receivable from purchase of common stock	-	743,875	-
Net cash used in investing activities	(985,457)	(98,151)	(147,722)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Dividends paid	(504,733)	(424,877)	(318,058)
Repurchase of common stock	(53,100)	(313,301)	(711,900)
Issuance of common stock	27,854	39,959	342,500
Net cash used in financing activities	(529,979)	(698,219)	(687,458)
NET INCREASE IN CASH AND CASH EQUIVALENTS	238,047	876,219	628,750
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	3,707,520	2,831,301	2,202,551
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 3,945,567	$ 3,707,520	$ 2,831,301

See notes to financial statements.

NORTHERN TECHNOLOGIES INTERNATIONAL CORPORATION

NOTES TO FINANCIAL STATEMENTS
YEARS ENDED AUGUST 31, 1997, 1996, AND 1995

1. NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES

BUSINESS OPERATIONS - Northern Technologies International Corporation (the Company) is engaged in the development, manufacture, and marketing of proprietary corrosion inhibiting products and electronic sensing instruments.

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

INVESTMENTS IN FOREIGN AND EUROPEAN HOLDING COMPANY - Investments in foreign and European holding company are accounted for using the equity method.

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 corporate joint ventures and the foreign company is the applicable local currency, except for the Company's corporate joint venture in Brazil, for which the functional currency is the U.S. dollar. 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 excluded from net income and accumulated in a separate component of stockholders' equity.

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

RESEARCH AND DEVELOPMENT - Research and development expenditures are expensed as incurred. Total research and development expenses were $432,943, $370,045, and $353,887 for the years ended August 31, 1997, 1996, and 1995, respectively.

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

INCOME PER SHARE - Income per share of common stock was computed by dividing net income by the weighted average number of common and common equivalent shares outstanding during each year. This amount includes common stock equivalents of 68,898, 56,830, and 106,512 for the years ended August 31, 1997, 1996, and 1995, respectively, resulting from the assumed exercise of outstanding options and warrants using the treasury stock method.

USE OF ESTIMATES - The preparation of the financial statements in conformity with 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 STANDARD - In February 1997, the Financial Accounting Standards Board issued SFAS No. 128, EARNINGS PER SHARE, which is effective for interim and annual reporting periods ending after December 15, 1997. SFAS No. 128 supersedes Accounting Principles Board Opinion No. 15, EARNINGS PER SHARE, and replaces the presentation of primary earnings per share with a presentation of basic earnings per share. It also requires dual presentation for all entities with complex capital structures and provides guidance on other computational changes. The implementation of SFAS No. 128 is expected to increase basic income per share by $.01 per share and an immaterial amount for the years ended August 31, 1997 and 1996, respectively, due to the elimination of common stock equivalents from the calculation.

2. INVENTORIES

Inventories at August 31 consist of the following:

	1997	1996
Production materials	$ 276,631	$ 150,139
Work-in-process	21,301	22,619
Finished goods	543,686	411,454
	$ 841,618	$ 584,212

3. PROPERTY AND EQUIPMENT

Property and equipment at August 31 consist of the following:

	1997	1996
Land	$ 246,097	$ 246,097
Buildings and improvements	1,044,996	979,369
Machinery and equipment	603,919	587,537
	1,895,012	1,813,003
Less accumulated depreciation	932,684	832,187
	$ 962,328	$ 980,816

4. INVESTMENTS IN CORPORATE JOINT VENTURES, FOREIGN COMPANY, AND EUROPEAN HOLDING COMPANY

JOINT VENTURES - The Company participates in various corporate joint ventures in countries outside the United States and in similar noncontractual arrangements in various other countries. All joint ventures are owned 50% by the Company except where the Company has allowed a related third party company to purchase from the joint venture a portion of the ownership which would have been otherwise purchased by the Company. Related third parties own 10%, 10%, and 25% of the joint ventures in Taiwan, Singapore, and South Korea, respectively. The joint ventures manufacture, market, and distribute corrosion inhibiting products. The Company has established corporate joint ventures as follows:

Country	Date of Investment
Japan	1987
Taiwan	1990
France	1990
Germany	1991
Sweden	1991
Singapore	1991
Brazil	1993
Russia	1994
South Korea	1994
Finland	1995
Italy	1996
United Kingdom	1997
Czech - Republic	1997

Fees earned from the corporate joint ventures under licenses and technical and other support agreements were $2,213,228, $1,659,792, and $1,313,522 for the years ended August 31, 1997, 1996, and 1995, respectively.

The Company incurred expenses associated with corporate joint ventures of $457,263, $346,677, and $340,009 for the years ended August 31, 1997, 1996, and 1995, respectively. These expenses consist primarily of legal fees regarding the development of new joint ventures and travel and technical services regarding existing joint ventures.

Summarized financial information from the audited and unaudited financial statements of joint ventures carried on the equity basis is as follows:

	August 31	
	1997	1996
Current assets	$ 9,098,272	$ 6,200,415
Total assets	9,807,218	7,350,225
Current liabilities	4,745,910	3,636,430
Noncurrent liabilities	34,191	27,735
Stockholders' equity	5,027,117	3,686,060
Northern Technologies International Corporation's share of corporate joint ventures' equity	2,291,600	1,726,328

	Years Ended August 31		
	1997	1996	1995
Sales	$18,909,466	$14,207,675	$10,984,299
Gross profit	10,224,861	7,743,600	4,704,073
Net income	1,489,856	1,168,273	895,575
Northern Technologies International Corporation's share of equity in income of corporate joint ventures	708,598	483,181	419,996

FOREIGN COMPANY - The Company has a 50% interest in a foreign trading company located in Austria. The trading company sells merchandise directly and serves as an intermediary in the arrangement of sales of goods on which it receives commissions.

Summarized financial information from the unaudited financial statements of the foreign company carried on the equity basis is as follows:

	August 31, 1997	August 31, 1996
Current assets	$ 443,818	$ 841,893
Total assets	661,971	1,217,270
Current liabilities	397,971	897,512
Stockholders' equity	264,000	319,758
Northern Technologies International Corporation's share of foreign company's equity	132,000	159,879

	Years Ended August 31, 1997	1996	1995
Sales	$ 848,620	$1,514,567	$ 861,795
Gross profit	582,915	819,988	56,075
Net income	7,292	11,576	17,287
Northern Technologies International Corporation's share of equity income of foreign company	3,646	5,788	8,643

EUROPEAN HOLDING COMPANY - During 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, 1997 consist primarily of cash and cash equivalents.

5. STOCKHOLDERS' EQUITY

During 1997, 1996, and 1995, the Company acquired and retired 9,000; 61,165; and 113,000 shares of common stock for $53,100; $313,301; and $711,900, respectively.

During 1997 and 1996, certain employees received 3,000 and 2,500 shares of common stock, respectively, in return for services provided and expensed in 1996 and 1995, respectively. The value of the common stock issued, $15,375 and $12,813 in 1997 and 1996, respectively, 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 has been shown as a reduction of stockholders' equity. The note receivable bears interest at a rate of 11% and is due on demand. The increase in accrued interest receivable on the outstanding note receivable as of August 31, 1997 and 1996 has been fully reserved for, due to the uncertainty as to when the interest would be paid.

During 1994, the Company's Board of Directors and shareholders approved a stock option plan (the Plan) providing for the granting of options to purchase 250,000 shares of common stock. Under the Plan, incentive stock options and nonqualified stock options may 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:

	1997		1996		1995	
	Shares	Wgtd Avg Exer Price	Shares	Wgtd Avg Exer Price	Shares	Wgtd Avg Exer Price
Outstanding at beginning of year	133,203	$ 3.34	133,390	$ 3.02	122,170	$ 3.02
Granted	12,000	5.00	13,870	6.13	17,000	3.00
Exercised	(9,233)	3.02	(13,167)	3.04	-	-
Canceled	(3,600)	5.50	(890)	3.00	(5,780)	3.00
Outstanding at end of year	132,370	3.46	133,203	3.34	133,390	3.02
Options exercisable at year end	85,608	3.16	57,005	3.02	36,975	3.03

The Company applies Accounting Principles Board (APB) Opinion No. 25 and related interpretations in accounting for the Plan. No compensation cost has been recognized for options issued under the Plan when the exercise price of the options granted are at least equal to the fair value of the common stock on the date of grant. Had compensation cost for the Company's stock option plan been determined based on the fair value at the grant date for awards in the 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:

	1997	1996
Net income, as reported	$ 2,615,848	$ 2,087,751
Net income, pro forma	2,603,869	2,081,235
Net income per common share, as reported	$ .61	$ .49
Net income per common share, pro forma	.61	.49

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

	1997	1996
Dividend yield	2.0%	2.0%
Expected volatility	49.8%	47.6%
Expected life of option	5	5
Risk-free interest rate	6.50%	5.98%
Fair value of options on grant date	$2.27	$2.81

The following table summarizes information about stock options outstanding at August 31, 1997:

Range of Exercise Prices	Options Outstanding: Number Outstanding	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Options Exercisable: Number Exercisable	Weighted Average Exercise Price
$3.00 - $3.13	110,100	1.77	$ 3.02	81,849	$ 3.02
$5.00 - $6.75	22,270	3.56	5.62	3,759	6.20
$3.00 - $6.75	132,370	2.07	$ 3.46	85,608	$ 3.16

6. SALES INFORMATION

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

	1997	1996	1995
U.S.A. (unaffiliated customers)	74%	75%	79%
Outside the U.S.A.:			
Corporate joint ventures in which the Company is a stockholder	17	16	15
Unaffiliated customers Other foreign countries	9	9	6
	100%	100%	100%

One customer accounted for approximately 14% of net sales for the year ended August 31, 1997. No single customer accounted for more than 10% of net sales for the years ended August 31, 1996 and 1995.

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 participants' contributions or 3-1/2% of the employee's salary. The Company recognized expense for the savings plan of $36,000, $34,000, and $33,000 for the years ended August 31, 1997, 1996, and 1995, respectively.

8. INCOME TAXES

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

	1997	1996	1995
Current:			
Federal	$ 1,200,000	$ 1,040,000	$ 820,000
State	115,000	100,000	85,000
	1,315,000	1,140,000	905,000
Deferred:			
Federal	(101,000)	(46,000)	(73,000)
State	(9,000)	(4,000)	(7,000)
	(110,000)	(50,000)	(80,000)
	$ 1,205,000	$ 1,090,000	$ 825,000

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

	1997	1996	1995
Tax computed at statutory rates	$1,337,000	$1,112,000	$ 934,000
State income tax, net of federal benefit	71,000	63,000	51,000
Equity in income of joint ventures	(242,000)	(166,000)	(163,000)
Other	39,000	81,000	3,000
	$1,205,000	$1,090,000	$ 825,000

The Company has not recognized a deferred tax liability relating to investments in foreign corporate joint ventures and foreign company that are essentially permanent in duration of $650,000 and $450,000 at August 31, 1997 and 1996, respectively. If some or all of the undistributed earnings of the foreign corporate joint ventures and foreign company are remitted to the Company in the future, income taxes, if any, after the application of foreign tax credits, will be 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:

	1997	1996
Current:		
Allowance for doubtful accounts	$ 10,000	$ 9,000
Inventory costs	22,000	30,000
Prepaid expenses and other	73,000	27,000
Accrued expenses	92,000	65,000
Deferred gross profit	43,000	39,000
Total current	$ 240,000	$ 170,000
Noncurrent:		
Excess of book over tax depreciation	$ 37,000	$ 34,000
Investment write-offs	568,000	568,000
Joint venture expenses	60,000	28,000
Interest receivable relating to notes	33,000	28,000
Valuation allowance	(568,000)	(568,000)
Total noncurrent	$ 130,000	$ 90,000

9. CONTINGENCIES

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.

10. STATEMENTS OF CASH FLOWS

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

	1997	1996	1995
Cash paid during the year for income taxes	$ 1,401,833	$ 818,680	$ 887,972
(Decrease) increase in the Company's investment in joint ventures and foreign company and cumulative foreign currency translation adjustments due to changes in exchange rates	(293,109)	(59,047)	44,141
Issuance of common stock in exchange for services provided in 1996 and 1995 and accrued for at August 31, 1996 and 1995, respectively	15,375	12,813	-
Accrued expense decrease resulting from a reduction in principal balance and accrued interest receivable relating to notes receivable from purchase of common stock	-	-	62,821

11. QUARTERLY INFORMATION (UNAUDITED)

	Quarter Ended			
	November 30	February 28	May 31	August 31
Fiscal 1997:				
Net sales	$ 1,921,414	$ 2,092,961	$ 2,518,582	$ 2,196,361
Gross profit	1,008,712	1,122,985	1,317,256	1,138,661
Income before income taxes	731,322	865,789	1,108,260	1,115,477
Income taxes	210,000	315,000	375,000	305,000
Net income	521,322	541,789	733,260	819,477
Net income per common and common equivalent share	$ .12	$ .13	$ .17	$ .19
Fiscal 1996:				
Net sales	$ 1,618,599	$ 1,607,319	$ 1,751,478	$ 1,891,788
Gross profit	860,989	843,716	942,117	1,115,449
Income before income taxes	606,635	670,424	737,039	1,163,653
Income taxes	170,000	230,000	230,000	460,000
Net income	436,635	440,424	507,039	703,653
Net income per common and common equivalent share	$ .10	$ .10	$ .12	$ .17

During the fourth quarters of 1997 and 1996, 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 decreased cost of sales by approximately $50,000 and $76,000 in the fourth quarters of 1997 and 1996, respectively. It is not practicable to determine the periods of the fiscal year to which these adjustments relate.

12. SUBSEQUENT EVENTS

On November 19, 1997, the Company's Board of Directors declared a $.15 per share dividend on all outstanding shares of the Company's common stock to be distributed on December 15, 1997 to holders of record on December 1, 1997.

On November 18, 1997, the Company acquired 64,000 shares of its common stock for $672,000.

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 14, 1997, which has been furnished to the Company by the directors named below.

NAME	AGE	PRINCIPAL OCCUPATION	DIRECTOR SINCE
Sidney Dworkin	76	Chairman of the Board and Chief Executive Officer of Advanced Modular Systems, Inc.	1979
Vincent J. Graziano	64	Co-Chief Executive Officer and President of the Company	1979
Gerhard Hahn	53	General Manager of Knuppel KG	1996
Dr. Donald A. Kubik	57	Vice President of the Company	1995
Richard G. Lareau	69	Partner of Oppenheimer Wolff & Donnelly	1980
Philip M. Lynch	61	Co-Chief Executive Officer and Chairman of the Board of the Company and Executive Vice President of Inter Alia Holding Company	1979
Dr. Milan R. Vukcevich	60	Director of Materials Research and Development of Bicron Saint-Gobain Industrial Ceramics	1995

Mr. Dworkin has been Chairman of the Board and Chief Executive Officer of Advanced Modular Systems, Inc., a company which sells and leases modular buildings, since 1988. In addition, since September 1987, Mr. Dworkin has been an independent venture capitalist. Mr. Dworkin also serves as a director of CCA Industries, Inc., Cragar Industries, Inc., Consolidated Healthcare, Inc., Entitle Design, Inc., QEP, Inc. and Interactive Technologies, Inc. and as Chairman of the Board of Comtrex Systems Corp. and Marbledge Group, Inc.

Mr. Graziano has been employed by the Company since 1976 and has been President of the Company and a director of the Company since 1979. 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. 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 was appointed to the Board in April 1996.

Dr. Kubik has been employed by the Company since 1978 and has been a Vice President of the Chemical Division of the Company since 1979. Dr. Kubik was appointed as a director of the Company in August 1995. During his employ as senior chemist with the Company, Dr. Kubik was 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 for more than five years. Mr. Lareau also serves as a director of Ceridian Corporation, Merrill Corporation, Nash Finch Company, all public companies, 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 ("Inter Alia"), 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.

Dr. Vukcevich was appointed to the Board of Directors in 1995. Dr. Vukcevich is employed as Director of Materials Research and Development of Bicron Saint-Gobain Industrial Ceramics. Dr. Vukcevich 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 14, 1997, are as follows:

NAME	AGE	POSITION IN THE COMPANY
Vincent J. Graziano	64	Co-Chief Executive Officer, President and Director
Philip M. Lynch	61	Chairman of the Board and Co-Chief Executive Officer
Dr. Donald A. Kubik	57	Vice President and Director
Ernest R. Peake	62	Vice President
Loren M. Ehrmanntraut	70	Chief Financial Officer and Secretary
Constance M. Fason	49	Vice President - Domestic Marketing and Sales

Mr. Graziano has been employed by the Company since 1976 and has been President of the Company and a director of the Company since 1979. Refer to "Directors of the Registrant" for a more detailed discussion.

Mr. Lynch has been Executive Vice President of Inter Alia, a financial and management consulting firm, for more than five years. Refer to "Directors of the Registrant" for a more detailed discussion.

Dr. Kubik has been employed by the Company since 1978 and has been a Vice President of the Company since 1979. Refer to "Directors of the Registrant" for a more detailed discussion.

Mr. Peake has been employed by the Company since 1978 and has been a Vice President of the Company since 1979. Prior to joining the Company, Mr. Peake spent eight years in the medical patient monitoring field, including five years with Marcom, Inc. as Operations Manager and as a partner and Vice President of Advance Design, Inc. Mr. Peake also spent three years with Honeywell as a Principal Development Engineer.

Mr. Ehrmanntraut has been employed by the Company since 1973. He has served as Chief Financial Officer since 1997 and as Secretary of the Company since 1978. From 1974 to March 1997, Mr. Ehrmanntraut served as Treasurer of the Company. Prior to joining the Company, Mr. Ehrmanntraut 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. Ehrmanntraut 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.

Ms. Fason has been Vice President-Domestic Marketing and Sales of the Company since September 1997. Prior to joining the Company, Ms. Fason spent 12 years at Cataphote, Inc., a company that manufactures and markets highway safety products (pavement marking materials). Most recently, from February 1993 to December 1996, Ms. Fason served as President and Chief Executive Officer of Cataphote and from March 1990 to February 1993, Ms. Fason served as Executive Vice President and General Manager of Cataphote.

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, 1997, 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, except that Connie L. Magnuson, the Company's former Treasurer, failed to file a timely report under Section 16(a) reporting her appointment as an executive officer of the Company. Such required report has subsequently been filed.

ITEM 10. EXECUTIVE COMPENSATION.

A. COMPENSATION OF DIRECTORS

DIRECTORS FEES. Each person who was a non-employee director received an annual retainer of $7,500 in fiscal 1997 for services rendered as a director of the Company. Each non-employee director of the Company receives $750 for each Board meeting and $500 for each Board committee 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 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 while serving 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.

On September 1, 1996, Messrs. Dworkin, Hahn, Lareau, Lynch and Vukcevich each received a Director Option to purchase 2,000 shares of Common Stock at an exercise price of $5.00 per share. On September 1, 1997, Messrs. Dworkin, Hahn, Lareau, Lynch and Vukcevich each received a Director Option to purchase 2,000 shares of Common Stock at an exercise price of $12.00 per share. All of such Director Options granted vest in equal one-third installments over a three-year period.

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, 1997 (the "Named Executive Officers").

SUMMARY COMPENSATION TABLE

NAME AND PRINCIPAL POSITION	YEAR	ANNUAL COMPENSATION SALARY ($)	BONUS ($)	LONG-TERM COMPENSATION SECURITIES UNDERLYING OPTIONS (#)	ALL OTHER COMPENSATION ($)(1)
Vincent J. Graziano	1997	$217,107	$55,000	0	$4,750
PRESIDENT AND CO-CHIEF EXECUTIVE OFFICER	1996	190,443	45,000	0	4,750
	1995	182,516	40,000	0	5,574
Philip M. Lynch	1997	0	0	2,000	0 (2)
CHAIRMAN OF THE BOARD AND CO-CHIEF	1996	0	0	2,000	0 (2)
EXECUTIVE OFFICER	1995	0	0	2,000	0 (2)
Donald A. Kubik	1997	176,082	55,000	0	4,750
VICE PRESIDENT	1996	152,749	45,000	0	5,496
	1995	136,487	35,000	0	5,287
Loren M. Ehrmanntraut	1997	117,410	55,000	0	5,013
CHIEF FINANCIAL OFFICER AND SECRETARY	1996	107,410	40,000	0	5,159
	1995	92,811	30,000	0	3,584

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(1) Compensation hereunder consists of contributions to the 401(k) plans of the Named Executive Officers.

(2) Does not include any commissions payable to Inter Alia, an entity affiliated with Mr. Lynch, under a certain Manufacturer's Representative Agreement. See "Item 12 - Certain Relationships and Related Transactions."

C. OPTION GRANTS AND EXERCISES.

The following tables provide information for the year ended August 31, 1997 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, 1997.

OPTION GRANTS IN FISCAL 1997

NAME	OPTIONS GRANTED (1)	PERCENT OF TOTAL OPTIONS GRANTED TO EMPLOYEES IN FISCAL YEAR (2)	EXERCISE OR BASE PRICE ($/SHARE)	EXPIRATION DATE
Philip M. Lynch	2,000	0%	$5.00	8/31/01

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(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 (September 1, 1996). 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.

(2) Mr. Lynch is not an employee of the Company. No options were granted to any employees of the Company during fiscal 1997.

AGGREGATED OPTION EXERCISES IN FISCAL 1997 AND
FISCAL 1997 YEAR-END OPTION VALUES

NAME	SHARES ACQUIRED ON EXERCISE(#)	VALUE REALIZED ($)	NUMBER OF UNEXERCISED OPTIONS AT AUGUST 31, 1997		VALUE OF UNEXERCISED IN-THE-MONEY OPTIONS AT AUGUST 31, 1997 (1)	
			EXERCISABLE	UNEXERCISABLE	EXERCISABLE	UNEXERCISABLE
Vincent J. Graziano	0	$ 0	29,250	8,750	$262,860	$78,750
Philip M. Lynch	0	0	4,000	4,000	33,239	27,001
Donald A. Kubik	8,333	28,541	7,500	7,500	67,500	67,500
Loren M. Ehrmanntraut	0	0	25,000	7,500	224,675	67,500

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(1) Value is calculated as the excess of the fair market value of the Common Stock on August 31, 1997 over the exercise price of the options. On August 31, 1997, the fair market value of the Common Stock was $12.00 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 14, 1997, 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) each Named Executive Officer, and (d) by all executive officers and directors of the Company as a group.

	SHARES OF COMMON STOCK BENEFICIALLY OWNED (1)	
NAME	AMOUNT	PERCENT OF CLASS
Inter Alia Holding Company.................	911,668 (3)	21.7%
Herman H. Lee..............................	256,545 (4)	6.1
Sidney Dworkin.............................	52,500 (5)	1.2
Vincent J. Graziano........................	79,750 (6)	1.9
Gerhard Hahn...............................	3,641 (7)	*
Dr. Donald A. Kubik........................	95,840 (8)	2.3
Richard G. Lareau..........................	33,676 (9)	*
Philip M. Lynch............................	6,000 (10)	*
Dr. Milan R. Vukcevich.....................	2,064 (11)	*
Loren M. Ehrmanntraut......................	54,000 (12)	1.3
All directors and executive officers as a group (10 persons)....................	1,299,904 (13)	30.3

* 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 4,202,488 shares of Common Stock outstanding as of November 14, 1997.

(3) Includes 911,668 shares held of record by Inter Alia, a financial and management consulting firm of which Mr. Lynch, the Chairman of the Board of Directors and the Co-Chief Executive Officer of the Company, is an officer and director.

(4) Includes 254,545 shares beneficially owned by Mr. Lee, based on information provided to the Company by Mr. Lee. Includes 2,000 shares beneficially owned by Mr. Lee's wife as to which he disclaims any beneficial interest.

(5) Does not include 21,015 shares held by Sidelmar, a partnership in which Mr. Dworkin, a director of the Company, is a general partner. Includes 6,000 shares of Common Stock which may be acquired within 60 days pursuant to the exercise of options.

(6) Includes 29,250 shares of Common Stock which may be acquired within 60 days pursuant to the exercise of options.

(7) Includes 1,141 shares of Common Stock which may be acquired within 60 days pursuant to the exercise of options.

(8) Includes 7,500 shares of Common Stock which may be acquired within 60 days pursuant to the exercise of options.

(9) Includes 6,000 shares of Common Stock which may be acquired within 60 days pursuant to the exercise of options.

(10) Does not include 911,668 shares held of record or beneficially owned by Inter Alia Holding Company, of which Mr. Lynch is a stockholder, officer and director. Includes 6,000 shares of Common Stock which may be acquired within 60 days pursuant to the exercise of options.

(11) Includes 1,734 shares of Common Stock which may be acquired within 60 days pursuant to the exercise of options.

(12) Includes 25,000 shares of Common Stock which may be acquired within 60 days pursuant to the exercise of options.

(13) Includes (i) 911,668 shares held of record by Inter Alia Holding Company, a financial and management consulting firm of which Mr. Lynch, the Chairman of the Board of Directors and the Co-Chief Executive Officer of the Company, is a stockholder, officer and director, (ii) 21,015 shares held of record by Sidelmar, a partnership in which Mr. Dworkin, a director of the Company, is a general partner, and (iii) options to purchase 88,875 shares which are held by officers and directors of the Company which are exercisable within 60 days.

ITEM 12. CERTAIN RELATIONSHIPS AND RELATED 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, a financial and management consulting firm of which Philip M. Lynch, the Chairman of the Board of Directors of the Company, is a stockholder, officer and director. Under the Agreement, Inter Alia (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. 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. The Representative has not effected any sales within the United States. The Representative's effort has developed sales outside the United States, specifically in France, which resulted in commissions of approximately $42,582, $52,950 and $52,057 for the fiscal years ended August 31, 1997, 1996 and 1995, 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.

On August 31, 1984, Inter Alia purchased 119,083 shares of the Common Stock and paid therefor by signing a promissory note. The promissory note (the "Note") has a face value of $125,375 and bears interest at 11% per year. The Note was originally due on December 31, 1992 and is currently due on demand. The outstanding balance of the Note, including accrued interest of $92,579, was $217,954 at August 31, 1997.

Gerhard Hahn, a director of the Company, is a shareholder and General Manager of Knuppel KG. Knuppel KG is a 50% partner with the Company in a joint venture in Germany. The German joint venture entity has granted a loan of 750,000 DM to Knuppel KG. The loan is secured by Knuppel KG's equity in the German joint venture and bears interest at 7.5% per annum.

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

(A) EXHIBITS

Reference is made to the Exhibit Index hereinafter contained, at page 39 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. Loren M. Ehrmanntraut, 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 (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 (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).

(B) REPORTS ON FORM 8-K

The Company did not file any Current Reports on Form 8-K during the fourth quarter of fiscal 1997.

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 25, 1997

By: /s/ Vincent J. Graziano
Vincent J. Graziano
President

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 25, 1997 in the capacities indicated.

NAME	TITLE
/s/ Vincent J. Graziano Vincent J. Graziano	Co-Chief Executive Officer, President and Director (principal executive officer)
/s/ Loren M. Ehrmanntraut Loren M. Ehrmanntraut	Chief Financial Officer and Secretary (principal financial officer and principal accounting officer)
/s/ Philip M. Lynch Philip M. Lynch	Co-Chief Executive Officer and Chairman of the Board of Directors
/s/ Sidney Dworkin Sidney Dworkin	Director
/s/ Gerhard Hahn Gerhard Hahn	Director
/s/ Donald A. Kubik, Ph.D. Donald A. Kubik, Ph.D.	Director
/s/ Richard G. Lareau Richard G. Lareau	Director
/s/ Milan R. Vukcevich, Ph.D. Milan R. Vukcevich, Ph.D.	Director

NORTHERN TECHNOLOGIES INTERNATIONAL CORPORATION
EXHIBIT INDEX TO ANNUAL REPORT ON FORM 10-KSB
FOR THE YEAR ENDED AUGUST 31, 1997

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	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	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.
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.

EXHIBIT 21.1

SUBSIDIARIES OF THE REGISTRANT

Name of Subsidiary	State or Other Jurisdiction of Incorporation or Organization	Ownership Interest	Names Under Which Subsidiary Does Business
Special Control Systems, Inc.	Ohio	100%	Same

EXHIBIT 23.1

INDEPENDENT AUDITORS' CONSENT

We consent to the incorporation by reference in the Registration Statements of Northern Technologies International Corporation on Form S-8 relating to the Northern Technologies International Corporation 1994 Stock Incentive Plan of our report dated November 19, 1997, appearing in the Annual Report on Form 10-K of Northern Technologies International Corporation for the fiscal year ended August 31, 1997.

/s/ Deloitte & Touche LLP
Minneapolis, Minnesota
November 25, 1997

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YEAR
AUG-31-1997
SEP-01-1996
AUG-31-1997
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