

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-QSB

Quarterly Report Pursuant to Section 13 or 15 (d) of
The Securities Exchange Act of 1934

For the Quarterly Period Ended:
November 30, 1998

Commission File Number
1-11038

NORTHERN TECHNOLOGIES INTERNATIONAL CORPORATION
(Exact name of registrant as specified in its charter)

Delaware
(State of Incorporation)

41-0857886
(I.R.S. Employer Identification Number)

6680 N. Highway 49, Lino Lakes, MN 55014
(Address of principal executive offices)

(651) 784-1250
(Registrant's telephone number)

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

YES X NO
----- -----

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

Class -----	Outstanding as of December 31, 1998 -----
Common Stock, \$.02 par value	3,874,359

"This document consists of 12
pages. No exhibits are being filed."

PART I - FINANCIAL INFORMATION

ITEM 1 - FINANCIAL STATEMENTS

NORTHERN TECHNOLOGIES INTERNATIONAL CORPORATION

BALANCE SHEETS (UNAUDITED)

	NOVEMBER 30, 1998	AUGUST 31, 1998
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 2,338,348	\$2,200,490
Receivables:		
Trade, less allowance for doubtful accounts of \$28,000 and \$25,000, respectively	1,190,239	1,042,428
Corporate joint ventures	546,573	352,164
Income tax receivable	20,363	-
Inventories	831,738	969,520
Prepaid expenses and other	116,418	118,259
Deferred income taxes	230,000	230,000
	-----	-----
Total current assets	5,273,679	4,912,861
PROPERTY AND EQUIPMENT, net	954,966	955,010
OTHER ASSETS:		
Investments in corporate joint ventures	3,068,101	2,754,165
Investment in European holding company	249,510	247,869

Deferred income taxes	120,000	120,000
Other	334,797	357,106
	-----	-----
	3,772,408	3,479,140
	-----	-----
	\$10,001,053	\$9,347,011
	=====	=====

LIABILITIES AND STOCKHOLDERS' EQUITY

CURRENT LIABILITIES:

Accounts payable	\$ 93,898	\$ 156,604
Income taxes payable	-	66,416
Dividends payable	577,913	-
Accrued liabilities:		
Payroll	59,150	3,132
Other	81,082	119,375
	-----	-----
Total current liabilities	812,043	345,527

DEFERRED GROSS PROFIT

120,000	120,000
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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 3,873,359 and 3,847,452, respectively	77,467	76,949
Additional paid-in capital	4,567,180	4,477,167
Retained earnings	4,830,426	4,850,696
Cumulative foreign currency translation adjustments	(276,256)	(393,521)
	-----	-----
Notes and related interest receivable from purchase of common stock	9,198,817	9,011,291
	(129,807)	(129,807)
	-----	-----
Total stockholders' equity	9,069,010	8,881,484
	-----	-----
	\$10,001,053	\$9,347,011
	=====	=====

See notes to financial statements.

NORTHERN TECHNOLOGIES INTERNATIONAL CORPORATION

STATEMENTS OF INCOME (UNAUDITED)
THREE MONTHS ENDED NOVEMBER 30, 1998 AND 1997

	1998	1997
SALES	\$2,155,395	\$2,682,741
COST OF GOODS SOLD	1,069,703	1,387,515
	-----	-----
GROSS PROFIT	1,085,692	1,295,226
OPERATING EXPENSES:		
Selling	341,631	272,735
General and administrative	512,628	524,401
Research, engineering, and technical support	102,479	112,128
	-----	-----
	956,738	909,264
	-----	-----
OPERATING INCOME	128,954	385,962
CORPORATE JOINT VENTURES AND EUROPEAN HOLDING COMPANY:		
Equity in income of corporate joint ventures and European holding company	177,803	114,145
Fees for technical assistance to corporate joint ventures	594,713	466,821
Corporate joint ventures expense	(139,849)	(185,638)
	-----	-----
	632,667	395,328
INTEREST INCOME	16,022	32,716
	-----	-----
INCOME BEFORE INCOME TAXES	777,643	814,006
INCOME TAXES	220,000	250,000
	-----	-----
NET INCOME	\$ 557,643	\$ 564,006
	=====	=====
NET INCOME PER SHARE:		
Basic	\$.14	\$.13
	=====	=====
Diluted	\$.14	\$.13
	=====	=====
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING:		
Basic	3,856,408	4,194,464
	=====	=====
Diluted	3,900,463	4,284,746
	=====	=====

See notes to financial statements.

NORTHERN TECHNOLOGIES INTERNATIONAL CORPORATION

STATEMENTS OF CASH FLOWS (UNAUDITED)
THREE MONTHS ENDED NOVEMBER 30, 1998 AND 1997

	1998	1997
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 557,643	\$ 564,006
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation	31,275	29,700
Equity in income of corporate joint ventures and European holding company	(177,803)	(114,145)
Change in current assets and liabilities:		
Receivables:		
Trade	(147,811)	(254,599)
Corporate joint ventures	(194,409)	(563)
Income tax receivable	(20,363)	-
Inventories	137,782	(58,923)
Prepaid expenses and other	10,741	(10,690)
Accounts payable	(62,706)	7,511
Income taxes payable	(66,416)	(281,095)
Accrued liabilities	17,725	(28,686)
	-----	-----
Total adjustments	(471,985)	(711,490)
	-----	-----
Net cash provided by (used in) operating activities	85,658	(147,484)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investment in corporate joint ventures	(20,509)	(79,311)
Additions to property	(31,231)	(36,291)
Decrease (increase) in other assets	13,409	(22,000)
	-----	-----
Net cash used in investing activities	(38,331)	(137,602)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repurchase of common stock	-	(672,206)
Issuance of common stock	90,531	21,774
	-----	-----
Net cash provided by (used in) financing activities	90,531	(650,432)
	-----	-----
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	137,858	(935,518)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	2,200,490	3,945,567
	-----	-----
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$2,338,348	\$3,010,049
	=====	=====

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS (UNAUDITED)
THREE MONTHS ENDED NOVEMBER 30, 1998 AND 1997

1. INTERIM FINANCIAL INFORMATION

In the opinion of management, the accompanying unaudited financial statements contain all necessary adjustments, which are of a normal recurring nature, to present fairly the financial position of Northern Technologies International Corporation as of November 30, 1998 and the results of its operations and its cash flows for the three months ended November 30, 1998 and 1997, in conformity with generally accepted accounting principles.

These financial statements should be read in conjunction with the financial statements and related notes as of and for the year ended August 31, 1998 contained in the Company's filing on Form 10-KSB dated November 20, 1998 and with Management's Discussion and Analysis of Financial Condition and Results of Operations appearing on pages 7 through 10 of this quarterly report.

Certain fiscal year 1998 amounts have been reclassified to conform to fiscal year 1999 presentations. These classification had no effect on stockholders' equity, sales, or net income as previously reported.

2. COMPREHENSIVE INCOME

Effective September 1, 1998, the Company adopted Statement of Financial Accounting Standards No. 130, REPORTING COMPREHENSIVE INCOME, which establishes standards for reporting and display of comprehensive income and its components in a full set of general purpose financial statements. Comprehensive income is defined as all changes in stockholders' equity except those resulting from investments by and distributions to owners. Annual financial statements for prior periods will be reclassified as required. The Company's total comprehensive incomes were as follows:

	Three Months Ended November 30	
	1998	1997
Net income	\$557,643	\$564,006
Other comprehensive income (loss)	117,265	(51,464)
	-----	-----
Total comprehensive income	\$674,908	\$512,542
	=====	=====

3. INVENTORIES

Inventories consist of the following:

	November 30, 1998	August 31, 1997
Production materials	\$168,971	\$163,177
Work in process	47,491	32,334
Finished goods	615,276	774,009
	-----	-----
	\$831,738	\$969,520
	=====	=====

4. PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	November 30, 1998	August 31, 1998
Land	\$ 246,097	\$ 246,097
Buildings and improvements	1,077,670	1,077,670
Machinery and equipment	705,233	674,002
	-----	-----
	2,029,000	1,997,769
Less accumulated depreciation	1,074,034	1,042,759
	-----	-----
	\$ 954,966	\$ 955,010
	=====	=====

5. INVESTMENT IN CORPORATE JOINT VENTURES

During the three months ended November 30, 1998, the Company invested an additional \$20,509 in an existing foreign joint venture.

6. STOCKHOLDERS' EQUITY

During the three months ended November 30, 1998, stock options for the purchase of 25,907 shares of the Company's common stock were exercised at prices between \$3.00 and \$12.00 per share.

7. SUPPLEMENTAL CASH FLOW INFORMATION

During the three months ended November 30, 1998, the Company declared a cash dividend of \$.15 per share payable on December 18, 1998 to shareholders of record on December 4, 1998.

During the three months ended November 30, 1997, the Company declared a cash dividend of \$.15 per share payable on December 15, 1997 to shareholders of record on December 1, 1997.

8. INCOME PER SHARE

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

ITEM 2 - MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

RESULTS OF OPERATIONS

GENERAL - The Company conducts all foreign transactions based on the U.S. dollar, except for its investments in foreign joint ventures. The exchange rate differential relating to investments in foreign joint ventures is accounted for under the requirements of SFAS No. 52.

SALES - Net sales decreased by \$527,346 during the first quarter of fiscal 1999 from those in the first quarter of fiscal 1998. This decrease was due to a decrease in demand for corrosion inhibiting products.

COST OF SALES - Cost of goods sold as a percentage of net sales was 50% for the first quarter of fiscal 1999 compared to 52% for the first quarter of fiscal 1998. The variation is primarily due to the mix of product sales.

OPERATING EXPENSES - As a percentage of sales, total operating expenses increased from 34% in the first quarter of fiscal 1998 to 44% in the first quarter of fiscal 1999.

Operating expense classification percentages of sales were as follows:

	Three Months Ended November 30	
	1998	1997
Selling	16%	10%
General and administrative	24%	20%
Research, engineering, and technical support	4%	4%

Selling expenses increased for the first three months of fiscal 1999 as compared to the same period in 1998 due primarily to increases in distributor commissions, product promotion, and travel expense. Selling expenses as a percentage of sales increased for the three months ended November 30, 1998 as compared to the same period in fiscal 1998 due to the decrease in sales in fiscal 1999 and the increase in fiscal 1999 selling expenses.

General and administrative expenses decreased for the first three months of fiscal 1999 as compared to the same period in 1998 due primarily to decreases in salary expense and travel expense. General and administrative expenses as a percentage of sales increased for the three months ended November 30, 1998 as compared to the same period in fiscal 1998 due to the decrease in sales in fiscal 1999 not being fully offset by the decrease in fiscal 1999 general and administrative expenses.

Research, engineering and technical support expenses for the first three months of fiscal 1999 were lower than the comparable period in fiscal 1998 due primarily to decreases in staff salaries and supplies. Such expenses, as a percentage of sales, were substantially unchanged for the first three months of fiscal 1999 as compared to the same period in fiscal 1998.

CORPORATE JOINT VENTURES AND EUROPEAN HOLDING COMPANY - Net earnings from corporate joint ventures and European holding company increased in the first three months of fiscal 1999 to \$632,667 from \$395,328 in the first three months of fiscal 1998. This net increase is due to the weakening of the U.S. dollar when compared to the local currencies of the Company's corporate joint ventures, increased sales

of the corporate joint ventures, and lower travel and legal expenses incurred by the Company in its corporate joint ventures and in establishing new corporate joint ventures.

INCOME TAXES - Income tax expense for the three months ended November 30, 1998 and 1997 was calculated based upon management's estimate of the annual effective rates. The effective income tax rates for fiscal 1999 and 1998 is lower than the statutory rate primarily due to equity in income of joint ventures being recognized on an after tax basis for these entities. To the extent the joint ventures' undistributed earnings are distributed to the Company, it does not result in any material additional income tax liability after the application of foreign tax credits.

LIQUIDITY AND CAPITAL RESOURCES

At November 30, 1998, the Company's working capital was \$4,461,636, including \$2,338,348 in cash and cash equivalents, compared to working capital of \$4,567,334 including cash and cash equivalents of \$2,200,490 as of August 31, 1998.

Net cash provided from past operations has been sufficient to meet liquidity requirements, capital expenditures, research and development costs and expansion of operations of the Company's joint ventures. Cash flows from operations for the three months ended November 30, 1998 was \$85,658. The net cash flow from operations for the three months ended November 30, 1998 resulted principally from net income and a decrease in inventories offset by equity income of corporate joint ventures and European holding company and increases in receivables. Cash flows used in operations for the three months ended November 30, 1997 was \$147,484. The net cash flow used in operations for the three months ended November 30, 1997 was principally from an increase in trade receivables, a decrease in income taxes payable, and equity in income of corporate joint ventures and European holding company partially offset by net income.

Cash used in investing activities for the three months ended November 30, 1998 was \$38,331, which resulted from investments in corporate joint ventures and additions to property partially offset by decreases in other assets. Cash used in investing activities for the three months ended November 30, 1997 was \$137,602, which resulted principally from additions to property and investments in corporate joint ventures.

Cash provided by financing activities for the three months ended November 30, 1998 was \$90,531, which resulted from payments received from the exercise of stock options. Cash used in financing activities for the three months ended November 30, 1997 was \$650,432, which resulted from the purchase of common stock for \$672,206 partially offset by \$21,774 from the exercise of stock options.

The Company expects to meet future liquidity requirements with its existing cash and cash equivalents and from cash flows of future operating earnings and distributions of earnings and technical assistance fees from the corporate joint venture investments.

The Company has no long-term debt and no material lease commitments at November 30, 1998.

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

IMPACT OF YEAR 2000

Computer programs have historically been written to abbreviate dates by using two digits instead of four digits to identify a particular year. The so-called "year 2000 problem" or "millennium bug" is the

inability of computer software or hardware (collectively, Systems) to recognize or properly process dates ending in "00" and dates after the year 2000. Significant attention is being focused as the year 2000 approaches on updating or replacing such Systems in order to avoid System failures, miscalculations or business interruptions that might otherwise result. The Company believes it is taking the steps necessary to insure that this potential problem does not adversely affect the Company's operating results in the future, and is continuing the as-yet incomplete assessment of the impact of the year 2000 problem on the Company.

The Company has taken, and will continue to take, actions intended to minimize the impact of the year 2000 problem and maximize the Company's state of readiness for the year 2000. However, it is impossible to eliminate year-2000 risks entirely. Unfortunately, there is no single test that can be used to conclusively determine whether Systems are year-2000 compliant. To the contrary, the technology community identifies additional potential year 2000 risks regularly. Also impeding year-2000 testing is the high degree of integration between various Systems and the difficulty in conducting full-scale live testing. Consequently, interrelated Systems believed secure in a test environment could conceivably fail when operating together under real-time workloads.

The Company's state of readiness for the year 2000, the Company's estimated costs associated with year-2000 issues, the risks the Company faces associated with year-2000 issues and the Company's year-2000 contingency plans are summarized below.

STATE OF READINESS - All major internal information technology (IT) systems have been replaced. Year-2000 issues were addressed when selecting and implementing these new systems, and the Company believes they are year-2000 compliant. The Company has also reviewed its major non-IT systems, including hardware, software, phone and security systems, and the Company believes they are year-2000 compliant. The Company anticipates continuing to invest in IT and non-IT technology to accommodate the Company's future growth, and the Company expects these investments and upgrades to be year-2000 compliant. The Company is currently implementing a testing program of its other various Systems, and expects to substantially complete this testing before August 31, 1999. The Company is in the process of reviewing the year-2000 readiness of the corporate joint ventures.

COSTS ASSOCIATED WITH YEAR-2000 ISSUES - Until the Company completes its System testing, it will be unable to quantify the total expected costs associated with year-2000 issues. The Company believes that these costs will not have a material adverse effect on the Company's business, financial condition, results of operations and cash flows. The total amount the Company has expended on year-2000 issues through November 30, 1998 was approximately \$20,000. The Company anticipates that future costs associated with year-2000 issues will be financed with cash flows from operations.

RISKS ASSOCIATED WITH YEAR-2000 ISSUES - The Company is dependent on computer processing in its business activities and the year-2000 problem creates the risk of unforeseen problems in the Company's Systems and the Systems of third parties with whom the Company does business. The failure of the Company's Systems and/or third parties' Systems could have a material adverse effect on the Company's results of operations, liquidity, and financial condition. Due to the general uncertainty inherent in the year-2000 problem, resulting in part from the uncertainty of the year 2000 readiness of third-party suppliers and customers, the Company is unable to determine at this time whether the consequences of year 2000 failures will have a material impact on the Company's results of operations, liquidity, or financial condition. The Company believes that it may need to temporarily reduce its operations if third party suppliers are not year-2000 compliant. The Company is also unable at this time to determine what the reasonably likely worst case year-2000 scenario is for the Company.

CONTINGENCY PLANS - The Company has not yet developed specific contingency plans for the millennium bug because its assessment of year-2000 issues is incomplete. The Company plans on developing, to the extent practicable, a business interruption contingency plan to address internal and external issues specific to the year-2000 problem before August 31, 1999. However, the Company believes that due to the widespread nature of the year-2000 problem, the contingency planning process is an ongoing one which will require modifications as the Company obtains additional information regarding the Company's internal systems and equipment and the status of third-party year-2000 readiness.

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 are scheduled to remain legal tender in the participating countries between January 1, 1999 and 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 and the corporate joint ventures have been evaluating the potential impact the Euro Conversion and 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. Significant noncompliance by the Company's corporate joint ventures and their customers or suppliers could adversely impact the Company's results of operations, liquidity or financial condition. To date, the Euro Conversion has not had a material impact on the overall business operations of the Company. However, there can be no assurance that the Euro Conversion will not have a material impact on the overall business operations of the Company in the future.

PART II - OTHER INFORMATION

ITEM 1 - LEGAL PROCEEDINGS

None

ITEM 2 - CHANGES IN SECURITIES

None

ITEM 3 - DEFAULTS UPON SENIOR SECURITIES

None

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

None

ITEM 5 - OTHER INFORMATION

None

ITEM 6 - EXHIBITS AND REPORTS ON FORM 8-K

None

SIGNATURES

Pursuant to the requirements of the Securities and Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

NORTHERN TECHNOLOGIES
INTERNATIONAL CORPORATION

January 12, 1999

/s/ Loren M. Ehrmantraut

Loren M. Ehrmantraut
Chief Financial Officer and Corporate Secretary

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AUG-31-1999
SEP-01-1998
NOV-30-1998
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