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

FORM 10-Q

(Mark One)

☑ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended March 31, 2011

or

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from __________ to __________

Commission file number: 0-16159

LECTEC CORPORATION

(Exact name of registrant as specified in its charter)

Minnesota	41-1301878
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
1407 South Kings Highway, Texarkana, TX	75501
(Address of principal executive offices)	(Zip Code)

(903)-832-0993
(Registrant's telephone number, including area code)

Not Applicable
(Former name, former address and former fiscal year, if changed since last report)

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 ☑ NO ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES ☐ NO ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐	Accelerated filer ☐	Non-Accelerated filer ☐ (Do not check if a smaller reporting company)	Smaller reporting company ☑

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES ☐ NO ☑

As of May 16, 2011, the registrant had 4,305,026 shares of common stock outstanding.

LECTEC CORPORATION

REPORT ON FORM 10-Q FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2011

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Forward-Looking Statements

From time to time, in reports filed with the Securities and Exchange Commission (including this Form10-Q), in press releases, and in other communications to shareholders or the investment community, the Company may provide forward-looking statements concerning possible or anticipated future results of operations or business developments which are typically preceded by the words "believes," "wants," "expects," "anticipates," "intends," "will," "may," "should," or similar expressions. Such forward-looking statements are subject to risks and uncertainties which could cause results or developments to differ materially from those indicated in the forward-looking statements. Such risks and uncertainties include, but are not limited to, pursuit of, and competition for, business opportunities, the outcome of merger and acquisition strategy, dilutive transactions, the Company's receipt of royalty payments from Novartis Consumer Health, Inc., which is selling an adult vapor patch licensed by the Company, the Company's dependence on key personnel and Board of Director members, the success or failure of any attempt by the Company to protect or enforce its patents and territories of coverage, the issuance of new accounting pronouncements, the availability of opportunities for license, sale or strategic partner agreements related to patents that the Company holds, volatility in the price of our common stock and other risks and uncertainties as described in "Risk Factors" included in Item 1A as filed in the Company's Form 10-K for the year ended December 31, 2010.

PART 1 — FINANCIAL INFORMATION

ITEM 1 — CONDENSED FINANCIAL STATEMENTS AND NOTES TO CONDENSED FINANCIAL STATEMENTS

LECTEC CORPORATION
CONDENSED BALANCE SHEETS

	March 31, 2011 (Unaudited)	December 31, 2010
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 5,641,238	$ 7,076,827
Certificates of deposit	3,183,737	1,959,573
Royalty receivable	25,007	42,117
Infringement receivable and prepaid expenses	2,451,751	470,651
Deferred tax asset	18,000	538,000
Total current assets	11,319,733	10,087,168
FIXED ASSETS:		
Office equipment	9,847	9,847
Accumulated depreciation	(6,844)	(6,199)
	3,003	3,648
OTHER ASSETS:		
Patent costs	48,032	52,661
TOTAL ASSETS	$ 11,370,768	$ 10,143,477
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 115,835	$ 62,305
Accrued expenses	116,626	52,044
Total current liabilities	232,461	114,349
COMMITMENTS AND CONTINGENCIES		
SHAREHOLDERS' EQUITY:		
Common stock, $.01 par value; 15,000,000 shares authorized; 4,305,026 shares issued and outstanding at March 31, 2011 and December 31, 2010	43,050	43,050
Additional contributed capital	13,140,294	12,936,327
Accumulated deficit	(2,045,037)	(2,950,249)
	11,138,307	10,029,128
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 11,370,768	$ 10,143,477

The accompanying notes are an integral part of these condensed financial statements.

LECTEC CORPORATION
CONDENSED STATEMENTS OF OPERATIONS
(Unaudited)

	Three Months Ended March 31, 2011	Three Months Ended March 31, 2010
REVENUE		
Infringement income	$ 3,600,000	$ —
Royalty and licensing fees	25,007	19,529
Total revenue	3,625,007	19,529
OPERATING EXPENSES	2,137,987	394,475
Income (loss) from operations	1,487,020	(374,946)
INTEREST AND MISCELLANEOUS INCOME	1,692	4,018
INCOME (LOSS) BEFORE INCOME TAXES	1,488,712	(370,928)
INCOME TAX BENEFIT (EXPENSE)	(583,500)	125,000
NET INCOME (LOSS)	$ 905,212	$ (245,928)
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING:		
Basic	4,305,026	4,301,693
Diluted	4,310,661	4,301,693
INCOME (LOSS) PER COMMON SHARE:		
Basic	$ 0.21	$ (0.06)
Diluted	$ 0.21	$ (0.06)

The accompanying notes are an integral part of these condensed financial statements.

LECTEC CORPORATION
CONDENSED STATEMENTS OF CASH FLOWS
(Unaudited)

	Three Months Ended March 31, 2011	Three Months Ended March 31, 2010
Cash flows from operating activities:		
Net income (loss)	$ 905,212	$ (245,928)
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Compensation expense related to issuance of stock options	203,967	—
Depreciation expense	645	716
Amortization of patent costs	4,629	4,500
Deferred income tax	520,000	(173,000)
Changes in operating assets and liabilities:		
Royalty receivable	17,110	11,996
Infringement receivable and prepaid expenses	(1,981,100)	16,803
Income tax payable	63,500	(777,000)
Accounts payable	53,530	94,933
Accrued expenses	1,082	(251,237)
Net cash used in operating activities	(211,425)	(1,318,217)
Cash flows from investing activities:		
Purchase of certificates of deposit	(1,224,164)	—
Purchase of office equipment	—	(1,257)
Investment in patents	—	(7,731)
Net cash used in investing activities	(1,224,164)	(8,988)
Cash flows from financing activities:		
Payments of dividend	—	(4,298,350)
Stock option exercised	—	39,000
Net cash used in financing activities	—	(4,259,350)
Net decrease in cash and cash equivalents	(1,435,589)	(5,586,555)
Cash and cash equivalents — beginning of period	7,076,827	15,766,107
Cash and cash equivalents — end of period	$ 5,641,238	$ 10,179,552

The accompanying notes are an integral part of these condensed financial statements.

LECTEC CORPORATION
Notes to Condensed Financial Statements
March 31, 2011 and 2010
(Unaudited)

(1) Basis of Presentation

The accompanying condensed financial statements include the accounts of LecTec Corporation (the "Company") as of March 31, 2011 and December 31, 2010 and for the three month periods ended March 31, 2011 and 2010. The Company's condensed financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America and should be read in conjunction with the Company's Annual Report on Form 10-K for the year ended December 31, 2010. The interim condensed financial statements are unaudited and in the opinion of management, reflect all adjustments necessary for a fair presentation of results for the periods presented. Results for interim periods are not necessarily indicative of results for the full year.

(2) Business/Premises Summary and Critical Accounting Policies

Business Summary

The Company is an intellectual property ("IP") licensing and holding company whose primary strategy is to pursue a merger to leverage its cash asset and improve shareholder value and liquidity. LecTec is in discussions with AxoGen Corporation as a candidate for this strategy. LecTec also has a licensing agreement ("Novartis Agreement") with Novartis Consumer Health, Inc., under which LecTec receives royalties from time to time based upon a percentage of Novartis' net sales of licensed products. LecTec's intellectual property portfolio contains domestic and international patents based on its original hydrogel patch technology and patent applications on a hand sanitizer patch. LecTec has completed through settlement its previous legal action against five defendants and on May 9, 2011 sold a significant portion of its hydrogel patch intellectual property to Endo Pharmaceuticals Inc. for $2,000,000. Such actions have ended LecTec's current pursuit of legal action regarding its intellectual property. The LecTec anti-microbial hand sanitizer patch is intended to be dry, thereby rendering the patch harmless in the event that it is licked, chewed, or exposed to the eye. An initial prototype of the hand sanitizer patch has been developed and LecTec is exploring the engagement of a strategic partner to complete its hand sanitizer patch development. An effort to monetize the remainder of LecTec's intellectual property is also ongoing, however, any substantial additional value is uncertain.

The Company was organized in 1977 as a Minnesota corporation and went public in December 1986. The Company's principal executive office is located at 1407 South Kings Highway, Texarkana, Texas 75501, its telephone number is (903) 832-0993, its corporate internet Website is www.lectec.com, and the Company's stock trades on the Over the Counter ("OTC") Bulletin Board under the symbol LECT.OB.

Corporate Office and Premises Summary

The Company has one leased facility in Texas and two record storage facilities in Minnesota as of March 31, 2011. In July 2008, the Company moved its corporate headquarter facilities (principal executive office) from Edina, Minnesota to Texarkana, Texas. In connection with this relocation, the Company entered into a Lease Agreement with Lockaway Storage, Inc. on July 23, 2008 (the "Texas Lease"), pursuant to which the Company agreed to lease approximately 1,200 square feet of space located at 1407 South Kings Highway, Texarkana, Texas 75501. In February 2010, the Company renewed the Texas Lease until March 1, 2011 at a monthly lease rate of $750 per month and has subsequently renewed the Texas lease until March 1, 2012 at a monthly lease rate of $750 per month. The Texas Lease contains customary representations, warranties, and covenants on the part of the Company and the landlord.

In addition to the Texas Lease, the Company currently maintains two storage facilities in Minnesota for record retention purposes at a cost of approximately $4,153 per year.

Critical Accounting Policies

The Company's most critical accounting policies include:

Use of Estimates

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect certain reported amounts of assets and liabilities and the 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.

Credit Risk

A significant amount of cash is deposited in one financial institution. Certain amounts of the Company's cash exceed federally insured limits. The Company has not experienced any losses and does not believe it is exposed to any significant credit risk on cash and cash equivalents.

Royalty Receivable

The Company grants credit to its only customer, Novartis, in the normal course of business and under the terms contained in the Novartis Agreement. Pursuant to the Novartis Agreement, Novartis pays the royalty income within the terms defined in the Novartis Agreement.

Infringement Receivable and Prepaid Expenses

Infringement receivable and prepaid expenses contains net proceeds from the settlement of litigation matters and prepaid legal costs. Release of such funds to the Company will occur pursuant to the procedures established for the trust account which is maintained by the Company's legal counsel.

Patent Costs

Patent costs consist primarily of the cost of applying for patents and are amortized on a straight-line basis over the estimated useful life of the asset, which is generally five years. Patent maintenance costs are expensed as incurred.

The carrying value of patent costs is reviewed periodically or when factors indicating impairment are present. The impairment loss is measured as the amount by which the carrying value of the assets exceeds the fair value of the assets. The Company believes that no impairment existed at March 31, 2011.

Revenue Recognition

Royalty and licensing fees are recognized when earned under the terms of the Novartis Agreement based upon sales information of licensed products provided by Novartis, and when collection is reasonably assured. Infringement income is recognized when settlement agreements have been signed and collection is reasonably assured.

Share-Based Compensation

The Company accounts for share-based compensation in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 718, *Compensation-Stock Compensation*, which requires that compensation cost relating to share-based payment transactions (including the cost of all employee stock options), be recognized in the financial statements. That cost is measured based on the estimated fair value of the equity or liability instruments issued. Share-based payment accounting covers a wide range of share-based compensation arrangements including share options, restricted share plans, performance-based awards, share appreciation rights, and employee share purchase plans.

Off-Balance Sheet Arrangements

The Company does not have any "off-balance sheet arrangements" (as such term is defined in Item 303 of Regulation S-K) that are reasonably likely to have a current or future effect on the Company's financial condition, changes in financial condition, revenue or expense, operating results, liquidity, capital expenditures or capital resources.

Recent Accounting Pronouncements

In December 2010, FASB issued Accounting Standards Update (ASU) No. 2010-29 “Business Combinations (Topic 805) — Disclosure of Supplementary Pro Forma Information for Business Combinations.” If a public entity presents comparative financial statements, the entity should disclose revenue and earnings of the combined entity as though the business combination that occurred during the current year had occurred as of the beginning of the comparable prior annual reporting period only. ASU 2010-29 also expands the supplementary pro forma disclosures. ASU 2010-29 is effective prospectively for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2010. ASU 2010-29 will only affect the Company if there are future business combinations.

(3) Income (Loss) Per Common Share

Basic income (loss) per common share is computed by dividing net income (loss) by the weighted average number of common shares outstanding. Diluted income (loss) per common share is computed by dividing net income (loss) by the weighted average number of common shares outstanding and common share equivalents related to stock options and warrants when dilutive.

Common stock options to purchase 474,000 shares of common stock with a weighted average exercise price of $3.78 were outstanding at March 31, 2011. The Company had a loss from operations for the quarter ended March 31, 2010; those shares were excluded from the net loss per common share computation because they were antidilutive. The Company had net income from operations for the quarter ended March 31, 2011.

Diluted net income per common share for the three months ended March 31, 2011 was computed as follows:

Net income for per share computation	$ 905,212
Weighted-average common shares outstanding	4,305,026
Incremental shares from assumed exercise of stock options	5,635
Shares outstanding — diluted	4,310,661

(4) Income Taxes

Deferred income taxes are provided for temporary differences between the financial reporting and tax basis of assets and liabilities. Deferred taxes are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of the enactment.

In evaluating the ultimate realization of deferred income tax assets, management considers whether it is more likely than not that the deferred income tax assets will be realized. Management establishes a valuation allowance if it is more likely than not that all or a portion of the deferred income tax assets will not be utilized. The ultimate realization of deferred income tax assets is dependent on the generation of future taxable income, which must occur prior to the expiration of the net operating loss carryforwards.

(5) Novartis Supply and License Agreement

In 2004, the Company entered into a supply and licensing agreement with Novartis (the Novartis Agreement). By December 31, 2004, the supply portion of the Novartis Agreement was completed and the Company no longer manufactured any product. Under the Novartis Agreement, the Company granted Novartis an exclusive license (the “License”) to all of the intellectual property of the Company to the extent that it is used or useful in the production of the vapor patches that Novartis is selling under the Novartis Agreement. The License will continue in effect for the duration of the patents lives permitted under applicable law. Upon the expiration of the patents included in the licensed intellectual property, Novartis will have a non-revocable, perpetual, fully paid-up license to the intellectual property used or useful in the production of vapor patches for the adult cough/cold market. Novartis is required by the Novartis Agreement to pay royalties, at an agreed upon percentage, to the Company based on net sales of vapor patches by Novartis for each year the License is in effect.

During the three months ended March 31, 2011 and 2010, the Company recorded revenue of $25,007 and $19,529, respectively, for royalties covered under the Agreement.

(6) Patents and Trademarks

The Company's policy is to protect its proprietary position by securing U.S. and foreign patents that cover the technology, inventions and improvements related to its business. The Company has 4 pending and 9 granted U.S. patents, multiple international pending and granted patents and a foreign application through the Patent Cooperation Treaty ("PCT") related to its patch technologies. The Company's issued U.S. patents have a remaining legal duration ranging from one to 11 years. Issued patents can later be held invalid by the patent office issuing the patent or by a court. The Company cannot be certain that its patents will not be challenged, invalidated or circumvented or that the rights granted under the Company's patents will provide a competitive advantage.

The Company uses both patents and trade secrets to protect its proprietary property and information, but there can be no assurance that other parties will not independently develop the same or similar information to our detriment.

On July 25, 2008, the Company filed a complaint for patent infringement against five companies, alleging that those companies had infringed upon two of the Company's patents relating to its medicated patch technology. The Company has subsequently settled with all such parties. See PART II, ITEM 1 of this Form 10-Q for additional information.

(7) Stock Option

In January and February 2011, the Company granted options to purchase 20,000 shares of common stock each to two directors of the Company. The options have an exercise price of $3.50 per share, vest as to 5,000 shares immediately and then additional 5,000 shares each of the following three quarters and will expire seven years from the grant date. The fair value of the option is the estimated present value at the grant date using the Black-Scholes-Merton option pricing model with the following weighted-average assumptions: risk free interest rate 2.88%, expected life 7 years, expected volatility 172.94% and expected dividend rate 0.00%.

In February 2011, a director resigned and his previously granted option of 20,000 shares was cancelled.

The Company recorded share-based compensation of $203,967 during the three months ended March 31, 2011. There was no share-based compensation during the months ended March 31, 2010. At March 31, 2011, there was approximately $308,555 of total unrecognized compensation cost related to nonvested share-based compensation arrangements. The cost is expected to be recognized in the next three quarters.

(8) Subsequent Events

On April 25, 2011, the Company entered into a Confidential Settlement Agreement and Mutual Release (the "POP Settlement Agreement") with Prince of Peace Enterprises, Inc. ("POP") to settle the Company's claims against POP that POP infringed the Patents-In-Suit. Pursuant to the Settlement Agreement, POP paid the Company a one—time sum of $225,000 and the Company granted to POP a fully paid—up, world—wide, non—exclusive and irrevocable license to (a) U.S. Patent Nos. 5,536,263 and 5,741,510 (the "Patents—In—Suit"), (b) any patent that claims priority, directly or indirectly, from the Patents—In—Suit (the "Family Patents") and (c) any foreign counterparts of the Family Patents, for use in connection with any product or process sold or used by POP, other than products covered by exclusive licenses previously granted to other companies. Such settlement proceeds are before paying contingent legal fees and prior to any tax effect. In addition, under the Settlement Agreement the Company and POP entered into mutual releases of all claims.

On May 5, 2011, the Company made a $500,000 loan to AxoGen Corporation and was given a note in return that bears interest at an annual rate of 8%, has a maturity date of June 30, 2013, is secured by AxoGen assets and is subordinated to the interests of AxoGen's senior lenders.

On May 9, 2011, the Company sold certain of its patents relating to its hydrogel patch technology to Endo Pharmaceuticals Inc. for $2,000,000, which proceeds will be subject to income taxation and related expenses.

On May 16, 2011, the Company and its litigation counsel Rader, Fishman & Grauer PLLC ("Rader") signed a Release and Settlement Agreement. Pursuant to such letter, Rader will no longer act as counsel to the Company, except as to matters arising specifically from the Company's recently concluded patent infringement litigation and sale of patents. The parties have also agreed to mutual releases of claims against each other with regard to certain matters. A final reconciliation of the escrow account is in the process of being completed.

In conjunction with this subsequent event the parties have agreed that the Company will receive approximately $1,760,000 from the escrow account which relates to: (1) the funds remaining from an original contribution to pay litigation expenses: (2) the receipt of settlement funds net of legal expenses; and (3) fees related to the sale of hydrogel patch technology to Endo Pharmaceuticals Inc. This amount does not include the $2.0 million proceeds from the sale of hydrogel patch technology to Endo Pharmaceuticals Inc. These estimates also do not reflect any income tax affects.

It is currently estimated that Rader will receive $2.2 million in aggregate fees related to the Company's settlement of its patent infringement claims against Chattem Inc. and POP and the Company's sale of patents relating to its hydrogel patch technology to Endo Pharmaceuticals Inc.

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

OVERVIEW

Our business plan is primarily focused on pursuing a merger, while also attempting to engage a strategic partner to complete development of the hand sanitizer patch and pursue manufacturing and marketing/co-marketing arrangements; and further monetization, if possible, of our IP portfolio, excluding our hand sanitizer patch, through licensing, selling or engaging strategic partners for the remaining portion of our hydrogel IP. It is currently management's intent to fund operations with royalty income from licensing agreements or from other income derived from sale of assets, in conjunction with reducing operational costs.

Merger/Acquisition Opportunities. We believe that our cash balance and public company status provide the potential for merger opportunities. In evaluating any such opportunities, primary consideration will be given to companies generating revenue and addressing sizable markets which we believe may attract significant investment interest. Any transaction under consideration should also be expected to provide increased liquidity for our shareholders. Our current intention is not to seek multiple investments, but to focus our efforts on identifying a single transaction in which to apply our cash balance and public company status. Although opportunities related to our current business areas will be of greatest interest, we will evaluate situations in other areas in which we have the capability to make an appropriate and informed review. The Company has identified AxoGen Corporation as a potential target for its merger strategy.

Hand Sanitizer Patch. Due to the growing worldwide concern regarding the spread of germs through hand contact, we filed patents for, and screened, identified and tested technologies suitable for, an anti-microbial hand sanitizer patch. This activity has lead to the development of a prototype that is ready to begin efficacy and other testing to determine its market viability. We are seeking to engage a strategic partner to complete the development of our hand sanitizer patch and pursue manufacturing and marketing/co-marketing arrangements. Because the hand sanitizer patch is a consumer product, we believe that engaging an established strategic partner is the best go-to-market strategy because we will be able to leverage any such partner's competencies regarding the development and manufacturing of products, customer requirements and marketing and distribution strategies. If we are not able to engage an acceptable strategic partner, we will evaluate how, or if, to proceed with our hand sanitizer patch in light of progress made in our other strategic initiatives.

IP Portfolio, Excluding Hand Sanitizer Patch. We completed an evaluation of our IP portfolio, which included conducting both a current analysis of our portfolio and referring to our 2007 extensive market research and intellectual property report. Based on this evaluation, we believe that the best strategy to derive further value, if any, from our IP portfolio, other than our hand sanitizer patch, is to pursue licensing of this IP, and to engage strategic partners to help us further develop, if necessary, manufacture and/or market this IP, or sell all or a portion of this IP. In accordance with this strategy, on May 9, 2011 we sold certain patents related to a significant portion of our hydrogel IP to Endo Pharmaceuticals Inc. for $2,000,000. We believe the limited time left before the expiration of the remaining hydrogel IP greatly limits its further value.

Although we believe that our strategy will result in increased value for our shareholders, there can be no assurance that our strategy, or any component thereof, will be successful. The effort to monetize the remainder of LecTec's intellectual property is ongoing, however, any substantial additional value is uncertain.

COMPARISON OF THE THREE MONTHS ENDED MARCH 31, 2011 and 2010

Results of Operations

The Company recorded infringement income of $3,600,000 for the quarter ended March 31, 2011. This income was related to a settlement with one defendant in the Company's ongoing litigation efforts (See Part II, Item 1 of this Form 10-Q). The Company received no infringement income during the first quarter ended March 31, 2010. The Company recorded royalty income of $25,007 and $19,529 for the three months ended March 31, 2011 and 2010, respectively, an increase of $5,478. The increase in royalty revenue resulted from higher sales from the seasonal cough/cold demand of Novartis' patch products using Company IP. The royalty income recorded during the three month periods ended March 31, 2011 and 2010 was based on information provided by Novartis.

Operating expenses increased $1,743,512 to $2,137,987 for the three months ended March 31, 2011, from operating expenses of $394,475 for the comparable period in 2010. Of such increase, $1,575,418 related to litigation contingency fees and expenses and $203,967 related to non-cash expenses for stock option grants. Without including such litigation and stock option grant expenses, operating expenses decreased by $35,873. Such lower operating expenses were the result of reduced rent, salary, research and development and accounting expenditures, offset by increases in intellectual property and merger strategy related expenses.

The Company recorded net income of $905,212 or $0.21 per basic and diluted share for the three months ended March 31, 2011, compared to a net loss of $(245,928) or $(0.06) per basic and diluted share, for the same period in 2010. The increase in net income of $1,151,140 for the three month period ended March 31, 2011 from the comparable period in 2010 is due to the increase in infringement and royalty income, offset by operating expenses, discussed above.

Income Taxes

The income tax expense for the three months ended March 31, 2011 was due to income generated in the first quarter of 2011. The income tax benefit for the three months ended March 31, 2010 was principally the result of the federal tax benefit of the operating loss for the quarter ended March 31, 2010.

Effect of Inflation

Inflation has not had a significant impact on the Company's operations or cash flow.

Liquidity and Capital Resources

Cash and cash equivalents and certificates of deposit decreased $211,425 for the three month period ended March 31, 2011, to $8,824,975 from cash and cash equivalents and certificates of deposit of $9,036,400 at December 31, 2010. The decrease in cash and cash equivalents and certificates of deposit resulted primarily from the Company's current operating expenses. The Company's prepaid expenses and infringement escrow account as of March 31, 2011 had a balance of $2,451,751 which is not reflected in cash and cash equivalents and certificates of deposit because it is still maintained in an escrow account for the benefit of the Company.

The Company had no material commitments for capital expenditures at March 31, 2011 or 2010.

The Company had working capital of $11,087,272 and a current ratio of 48.7 at March 31, 2011 compared to working capital of $9,972,819 and a current ratio of 88.21 at December 31, 2010. The increase in working capital and decrease in the current ratio at March 31, 2011, compared to December 31, 2010, was primarily due to the Company recording infringement litigation income and offset by income taxes and operating expenses of the Company

Shareholders' equity increased $1,109,179 to $11,138,307 at March 31, 2011 from $10,029,128 at December 31, 2010, due to net income of $905,212, in addition to compensation expense of $203,967 related to stock option grants, during the three months ended March 31, 2011.

On May 5, 2011, the Company made a $500,000 loan to AxoGen Corporation and was given a note in return that bears interest at an annual rate of 8%, has a maturity date of June 30, 2013, is secured by AxoGen assets and is subordinated to the interests of AxoGen's senior lenders.

On May 9, 2011, the Company sold certain of its patents relating to its hydrogel patch technology to Endo Pharmaceuticals Inc. for $2,000,000, which proceeds will be subject to income taxation and related expenses.

The Company entered into a contingency fee agreement with Rader, Fishman & Grauer PLLC, who is our legal counsel in our recently concluded patent infringement litigation. See Part II, Item 1 of this Form 10-Q for additional information concerning this litigation. Under this agreement, the Rader firm receives a percentage of any recovery in the litigation or other proceeds resulting from a settlement of the litigation or related transactions with defendants as its primary compensation for representing the Company in this matter. The Company is also obligated (i) to reimburse the Rader firm for its out-of-pocket expenses in connection with the litigation through an upfront advance of $50,000 and monthly advances of $10,000, and (ii) to engage and pay for expert services needed in the litigation, provided that the Company's obligation to advance such funds and pay such expert expenses will be suspended if the Company's cash levels fall below certain thresholds. Thereafter, if the Company's cash levels exceed such thresholds, or there is a recovery in or other proceeds from the litigation, then the Rader firm will be reimbursed for any expenses it has covered while such advances and payments were suspended.

The Company earns interest on its available cash in addition to the trust arrangement the Company has with the Rader firm. Interest income earned during the three month periods ended March 31, 2011 and 2010 was $3,664 and $4,018, respectively. The average interest the Company earns on its available cash is less than 1%. The decrease in interest income for the three month period ended March 31, 2011 from the comparable period in 2010, results from a decrease in the Company's cash available for investments due to operating and litigation expenses.

The Company currently estimates that it will receive $50,000 to 75,000 per year in royalty income based upon historical royalty income and cash receipt activity from Novartis. Royalty income is uncertain because it is subject to factors that the Company cannot control. There can be no assurance that the anticipated revenue stream or the anticipated expenses will be as planned, or that the Company will be successful in negotiating new licensing opportunities with Novartis or other companies, raising additional capital, due to the uncertainties and risks described in "Risk Factors" in Item 1A. filed on Form 10-K for the period ending December 31, 2010.

CRITICAL ACCOUNTING POLICIES

Management believes that the Company has not adopted any critical accounting policies which, if changed, would result in a material change in financial estimates, financial condition, results of operation or cash flows for the three months ended March 31, 2011 and 2010. The critical accounting policies appear in Note 2 of Notes to Condensed Financial Statements in this Form 10-Q.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS

Not Applicable.

ITEM 4T. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

The Company maintains "disclosure controls and procedures" as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, (the "Exchange Act"), that are designed to ensure that information required to be disclosed by us in reports we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our principal executive officer and principal financial officer, and Board of Directors, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating our disclosure controls and procedures, management recognizes that disclosure controls and procedures, no matter how well conceived and operated, can provide only reasonable assurance of achieving the desired objectives, and we necessarily are required to apply our judgment in evaluating the cost-benefit relationship of possible disclosure controls and procedures.

Our management, including our principal executive officer and principal financial officer, evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of March 31, 2011 and concluded that our disclosure controls and procedures were effective.

Changes in Internal Controls Over Financial Reporting

During the quarter ended March 31, 2011, there were no changes in the Company's internal control over financial reporting (as defined in Rule 13a-15(f) and 15d—15(f) under the Exchange Act) that have materially affected, are the reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II — OTHER INFORMATION

ITEM 1 — LEGAL PROCEEDINGS

On July 25, 2008, we filed a complaint for patent infringement (the "Complaint") against five companies, including Chattem, Inc. (Ticker: CHTT), Endo Pharmaceuticals, Inc. (Ticker: ENDP), Johnson & Johnson Consumer Company, Inc. (Ticker: JNJ), The Mentholatum Company, Inc. (Division of Rohto Pharmaceuticals, Ticker RPHCF.PK), and Prince of Peace Enterprises, Inc. (Private Company) (collectively, the "Defendants") in the U.S. District Court for the Eastern District of Texas. The Complaint alleged, among other things, that the Defendants infringed two of our patents (the "Patents—In—Suit"), which relate to our medicated patch technology. We sought to enjoin the Defendants from infringing the Patents—In—Suit and to recover monetary damages related to such infringement, as well as interest and litigation costs.

In October 2008, all five of the Defendants filed answers (the "Answers") in response to the Complaint denying our claims therein, and asserting certain affirmative defenses and counterclaims against us, including assertions that the Patents—In—Suit are invalid and unenforceable, and claims for attorneys' fees and costs. On October 20, 2008, we filed our replies to the Answers, denying such counterclaims and affirmative defenses, including the claims that the Patents—In—Suit are invalid and unenforceable.

On December 3, 2008, our counsel in the litigation, Rader, Fishman & Grauer PLLC (the "Counsel"), participated in a scheduling conference in this case. As a result of that conference, the Court scheduled a Markman hearing for May 6, 2010 and a final pretrial conference for January 3, 2011 to address any final matters before the start of trial on January 4, 2011.

In February 2009, Counsel filed with the Court a motion to preliminarily enjoin the five defendants from infringing the Patents-In Suit pending the trial.

On May 29, 2009, November 11, 2009 and December 18, 2009 the Company entered into a settlement agreement with the Mentholatum Company, Endo Pharmaceuticals Inc. and Johnson and Johnson Consumer Companies, Inc., respectively, pursuant to which the Company was paid $600,000, $23,000,000 and $1,200,000, respectively, in settlement of its claims against such parties.

On May 6, 2010 a Markman hearing occurred in Texarkana, Texas and the US District Court for the Eastern District of Texas issued Orders concerning it on May 20, 2010. The first Order was based on our motion to strike an exhibit from Chattem, Inc.'s Opposition Brief, and our motion to strike was granted by the Court. The second Order issued by the court denied Defendant's motion request for leave to file for summary judgment as to non-infringement, but granted the request for leave to file for summary judgment as to invalidity of patents. The Court also issued its Markman ruling interpreting the terms "cured" and "non-occlusive" contained in our patents.

We engaged in voluntary mediation with Chattem, Inc. in July 2010. A Report of Mediation by the Hon. Harlan A. Martin was filed stating that the parties were unable to reach settlement. On September 28, 2010 the United States District Court for the Eastern District of Texas issued an Order regarding Prince of Peace's and Chattem's ("Defendants") requests to file motions for summary judgment: (1) of invalidity due to the on-sale bar of 35 U.S.C. § 102(b); and (2) regarding Defendants' defenses of equitable estoppels and laches and our motions: (3) on, and to preclude testimony related to, Defendants' 35 U.S.C. § 102(b) defense based on the Aqua-Patch; and (4) on infringement by Defendants. The Order granted Defendants' the right to file a summary judgment motion regarding on-sale bar, but denied them the opportunity regarding the equitable defenses of estoppel and laches. With regard to the equitable issues, the Court stated that the custom in patent cases is to hold a separate bench proceeding after the jury trial on such issues. The Order granted us the right to file summary judgment motions on infringement and to preclude Defendants Aqua-Patch defense. The court denied all summary judgments motions.

On March 23, 2011, the Company entered into a Confidential Settlement Agreement and Mutual Release (the "Chattem Settlement Agreement") with Chattem to settle the Company's claims against Chattem that Chattem infringed the Patents-In-Suit. Pursuant to the Settlement Agreement, Chattem paid a one—time sum of $3,600,000, which was deposited into the Company's infringement escrow account that it has with our Counsel, and the Company granted to Chattem a fully paid—up, world—wide, non—exclusive and irrevocable license to (a) the Patents—In—Suit, (b) any patent that claims priority, directly or indirectly, from the Patents —In—Suit (the "Family Patents") and (c) any foreign counterparts of the Family Patents, for use in connection with any product or process sold or used by Chattem, other than products covered by exclusive licenses previously granted to other companies. Such settlement proceeds are before paying contingent legal fees and prior to any tax effect. In addition, under the Settlement Agreement the Company and Chattem entered into mutual releases of all claims.

On April 25, 2011, the Company entered into a Confidential Settlement Agreement and Mutual Release (the "POP Settlement Agreement") with Prince of Peace Enterprises, Inc. ("POP") to settle the Company's claims against POP that POP infringed the Patents-In-Suit. Pursuant to the Settlement Agreement, POP paid the Company a one—time sum of $225,000 and the Company granted to POP a fully paid—up, world—wide, non—exclusive and irrevocable license to (a) the Patents—In—Suit, (b) the "Family Patents" and (c) any foreign counterparts of the Family Patents, for use in connection with any product or process sold or used by POP, other than products covered by exclusive licenses previously granted to other companies. Such settlement proceeds are before paying contingent legal fees and prior to any tax effect. In addition, under the Settlement Agreement the Company and POP entered into mutual releases of all claims.

LecTec has completed, through settlement, its previous legal action against the five defendants. It currently has no active or pending litigation matters.

ITEM 1A— RISK FACTORS

Item 1A ("Risk Factors") of our most recently filed Form 10-K sets forth information relating to important risks and uncertainties that could materially have an adverse effect on our business, financial condition, or operating results. There have been no material changes to the risk factors described in our most recently filed Form 10-K; however, those risk factors continue to be relevant to an understanding of our business, financial condition, and operating results, etc. Accordingly, potential and current investors should review and consider these risk factors in making any investment decision with respect to our securities. An investment in our securities continues to have a high degree of risk.

ITEM 2 — UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None.

ITEM 3 — DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4 — (REMOVED AND RESERVED)

This item was removed and reserved pursuant to SEC Release No. 33-9089A issued on February 23, 2010.

ITEM 5 — OTHER INFORMATION

None.

ITEM 6 — EXHIBITS

Exhibit No.	Description
3.01	Articles of Incorporation of LecTec Corporation, as amended (Incorporated herein by reference to the Company's Form S-1 Registration Statement (file number 33-9774C) filed on October 31, 1986 and amended on December 12, 1986).
3.02	Bylaws of LecTec Corporation (Incorporated herein by reference to the Company's Form S-1 Registration Statement (file number 33-9774C) filed on October 31, 1986 and amended on December 12, 1986).
10.1	Confidential Settlement Agreement and Mutual Release by and between LecTec Corporation and Chattem, Inc., dated March 23, 2011.
31.01	Certification of Principal Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, filed herewith.
31.02	Certification of Principle Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, filed herewith.
32.01	Certification Pursuant to 18 U.S.C. §1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, filed herewith.

SIGNATURES

Pursuant to the requirements 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.

LECTEC CORPORATION

Date: May 17, 2011

By: /s/ Gregory G. Freitag
Gregory G. Freitag
Chief Executive Officer, Chief Financial Officer, & Director
(Principal Financial Officer and Principal Executive Officer)

EXHIBIT INDEX

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Exhibit 10.1

CONFIDENTIAL SETTLEMENT AGREEMENT AND MUTUAL RELEASE

This Settlement Agreement and Mutual Release (“Agreement”), effective as of the date of the last signature appearing below (“Effective Date”), is by and between LecTec Corporation, a Minnesota corporation, having a principal place of business at 1407 South Kings Highway, Texarkana, Texas 75501 (‘‘LecTec’’), and Chattem, Inc., a Tennessee corporation with its principal place of business at 1715 W. 38th Street, Chattanooga, Tennessee 37409 (“Chattem”). LecTec and Chattem are sometimes referred to herein individually as a “Party” and collectively as “Parties.”

RECITALS

WHEREAS LecTec filed suit against Chattem and four other defendants in the United States District Court for the Eastern District of Texas, Civil Action Number 5:08-CV- 00130-DF (“the Litigation”) claiming infringement of LecTec’s Re-Examined United States Patent Nos. 5,536,263 and 5,741,510 (“the ‘263 patent” and “the ‘510 patent,” respectively; collectively, the “Patents-In-Suit”) by, in the case of Chattem, selling certain Icy Hot and Capzasin brand patches;

WHEREAS LecTec and Chattem now desire to resolve the Litigation, under the terms and conditions hereof, without acknowledgement of liability by any Party.

AGREEMENTS

NOW THEREFORE, in consideration of the mutual promises and covenants contained herein, and for such other and further consideration, the receipt and sufficiency of which is hereby acknowledged, the Parties agree as follows:

1. **Payment From Chattem to LecTec**. Chattem shall pay LecTec the total sum of $3.6 million dollars ($3,600,000.00) in one payment (the "Settlement Payment") within five (5) business days of the execution of this Agreement by all Parties, and LecTec providing to Chattem all necessary forms for payment, including, but not limited to, a W-9. The Settlement Payment shall be due and owing irrespective of any further developments in the Litigation except failure by LecTec to perform in accordance with this Agreement, including any possible determination that either of the Patents In-Suit is invalid or unenforceable. Chattem shall make the payment by wire transfer to LecTec and Rader, Fishman & Grauer PLLC, in accordance with wiring instructions provided by Rader, Fishman & Grauer PLLC on behalf of LecTec.

2. **Termination of The Litigation**. Promptly upon LecTec's receipt of an original counterpart of this Agreement, and payment of the Settlement Payment pursuant to Section 1 herein, LecTec and Chattem shall cause their representatives to file with the Court an Agreed Order of Dismissal to terminate the Litigation as against Chattem with prejudice, and shall cooperate fully to ensure entry by the Court.

3. **Mutual General Release**. LecTec, on behalf of itself and its officers, directors, employees, investors, shareholders, administrators, predecessor and successor corporations, attorneys, affiliates, agents, and assigns, HEREBY FULLY AND FOREVER RELEASES, ACQUITS AND DISCHARGES CHATTEM, ITS OFFICERS, DIRECTORS, EMPLOYEES, INVESTORS, SHAREHOLDERS, ADMINISTRATORS, ATTORNEYS, PREDECESSOR AND SUCCESSOR CORPORATIONS, AFFILIATES, PARENTS, RELATED ENTITIES, AGENTS, AND ASSIGNS, of and from any claim, duty, obligation or cause of action relating to any matters of any kind, whether presently known or unknown, suspected or unsuspected, arising from the beginning of time to the date of this agreement, including but not limited to all claims related to the matters alleged in the Lawsuit and any other matters connected in any way with patch products sold by Chattem or any of its subsidiaries, parents, affiliates or related entities anywhere in the world. LecTec further releases and forever discharges the direct and indirect customers, distributors, and manufacturers of Chattem, and any subsidiaries, parents, affiliates or related entities of either of them, of and from any claim, duty, obligation or cause of action relating to any matters of any kind, whether presently known or unknown, suspected or unsuspected, arising from the beginning of time to the date of this Agreement, related to any matters connected in any way with patch products sold by Chattem or any of its subsidiaries, parents, affiliates or related entities anywhere in the world. The foregoing release does not extend to any prospective obligations incurred under this Agreement, if any.

Chattem, on behalf of itself and its officers, directors, employees, investors, shareholders, administrators, predecessor and successor corporations, attorneys, affiliates, agents, and assigns, hereby fully and forever release, acquit and discharge LecTec, its officers, directors, employees, investors, shareholders, administrators, attorneys, predecessor and successor corporations, affiliates, agents, and assigns, of and from any claim, duty, obligation or cause of action relating to any matters of any kind, whether presently known or unknown, suspected or unsuspected, arising from the beginning of time to the date of this Agreement, including but not limited to all claims related to the matters alleged in the Lawsuit and any other matters connected in any way with patch products sold by Chattem or any of their subsidiaries, affiliates or related entities anywhere in the world. Chattem further releases and forever discharges the direct and indirect customers and distributors of LecTec, and any of its subsidiaries, affiliates, or related entities, of and from any claim, duty, obligation or cause of action relating to any matters of any kind, whether presently known or unknown, suspected or unsuspected, arising from the beginning of time to the date of this Agreement, related to any matters connected in any way with patch products sold by LecTec or any of its subsidiaries, affiliates, or related entities anywhere in the world. The foregoing release does not extend to any prospective obligations incurred under this Agreement, if any.

4. **Covenant Not to Sue**. LecTec covenants not to sue Chattem, or any of its subsidiaries, parents, affiliates or other related or controlled entities ("Chattem") or any of their direct or indirect customers, distributors or manufacturers of patch products, for any infringement of (a) the Patents-In-Suit, (b) any patent that claims priority, directly or indirectly, from the Patents-In-Suit (the "Family Patents"), including without limitation U.S. Patent Nos. 6,096,333; 6,096,334, and 6,361,790, (c) any foreign counterparts of the Patents-In-Suit or any of the Family Patents, or (d) any other patent owned by LecTec resulting from a patent application filed before the Effective Date of this Agreement. Without limiting the foregoing covenant in any way, the Parties agree that the foregoing covenant shall apply to any and all products and processes now or hereafter made, have made, used, sold, offered for sale, imported, or exported by Chattem, including but not limited to ICYHOT, and CAPZASIN. The foregoing covenant shall not apply to sales by customers or manufacturers of Chattem of patch products that were not sold to or purchased from Chattem. The foregoing covenant shall not apply to past sales made by any entity that may be acquired by Chattem or which may become an affiliate of Chattem in the future if such entity was in the business of making or selling patch products prior to being acquired by Chattem or becoming an affiliate of Chattem, including without limitation any of the other four defendants in the Litigation. Provided, however, that this covenant will apply to future manufacture, import, export, use or sale of patch products by any entity which may be acquired by Chattem or which may become an affiliate of Chattem. This covenant not to sue excludes (i) "Vapor Patches," over-the-counter patches which emit vapors, that when inhaled provide relief from cough and cold symptoms; (ii) non-occlusive, medicated hydrogel patch products for the application to the body of a human or animal to alleviate pain which include a prescription pain medicine and which are sold under a prescription from a doctor; and (iii) hand sanitizing patch technology including, but not limited to, the technology that is described in U.S. Patent applications 61/038,958; 61/034862; 61/409,786; 61/308,820; and any foreign counterparts that relate to these applications.

5. **License Grant**. Limited by the exceptions described in this paragraph 5, LecTec hereby grants to Chattem and any of its subsidiaries, parents, affiliates, related entities, direct or indirect customers, distributors or manufacturers of patch products, a fully paid-up, world-wide, non-exclusive and irrevocable license under the (a) the Patents-in-Suit; (b) the Family Patents; or (c) any foreign counterparts of the Family Patents to make, have made, use, sell, offer for sale, import, export, or otherwise dispose of any apparatus, method, product, component, service, product by process or device associated with any patch products sold by Chattem or any of its subsidiaries, affiliates, related entities, direct or indirect customers, distributors or manufacturers of patch products for the past, present and future until the expiration of the last patent described above. This license grant excludes (i) "Vapor Patches," over-the-counter patches which emit vapors, that when inhaled provide relief from cough and cold symptoms; and (ii) non-occlusive, medicated hydrogel patch products for the application to the body of a human or animal to alleviate pain which include a prescription pain medicine and which are sold under a prescription from a doctor.

6. **Agreement Regarding Transfer of Patents and Contingent License**. LecTec agrees that it will not assign or otherwise transfer the patents referred to in the Covenant Not to Sue and License Grant set forth in Paragraphs 4 and 5 unless and until the transferee agrees in writing to be bound by said Covenant Not to Sue and License Grant, and such writing is provided to Chattem. In the event that any of the patents referred to in this Agreement are assigned or otherwise transferred from LecTec (the "Transferred Patents") without such a writing, Chattem shall have, and LecTec does hereby grant, an immediate fully paid-up, non-exclusive, irrevocable, worldwide license under the Transferred Patents to make, have made, use, sell, offer for sale and import products covered by the Transferred Patents. In the event that LecTec files for bankruptcy, Chattem shall have, and LecTec does hereby grant, an immediate fully paid-up, non-exclusive, irrevocable, worldwide license under all of the patents referenced in this Agreement to make, have made, use, sell, offer for sale and import products covered by any such patents.

7. **Agreement Not To Challenge Patents**. Chattem covenants not to challenge or assist in challenging the validity or enforceability of the patents identified in this Agreement, so long as none of these patents identified in this Agreement are asserted against Chattem or any of its subsidiaries, parents, affiliates, related entities, or direct or indirect customers, distributors or manufacturers.

8. **Costs**. Each Party shall bear its own costs, expert fees, attorneys' fees and other fees incurred in connection with the Litigation and this Agreement.

9. **Representations and Warranties**. Each Party represents and warrants that (a) it has the full right and power to enter into this Agreement and to grant the covenants and releases referred to herein, (b) there are no outstanding agreements, assignments, options, liens or encumbrances inconsistent with the provisions of this Agreement; and (c) the undersigned has the authority to act on its behalf and on behalf of all who may claim through it to the terms and conditions of this Agreement.

10. **Severability**. In the event that any provision hereof, except for the Mutual General Release and Covenant Not to Sue provisions, becomes or is declared by a court of competent jurisdiction to be illegal, unenforceable or void, this Agreement shall continue in full force and effect without said provision.

11. **Entire Understanding**. This Agreement represents the entire agreement and understanding between the Parties and supersedes and replaces any and all prior agreements and understandings relating to these matters.

12. **Amendments**. This Agreement may only be amended by a written agreement signed by both Parties.

13. **Confidentiality**. This Agreement shall be confidential between the Parties. However, if a party finds that the Agreement is material and needs to be disclosed to the Securities and Exchange Commission ("SEC"), the disclosure in Form 8-K should be no broader than necessary to achieve compliance. In making a 10-K or 10-Q filing with the SEC in which the Agreement will be filled as an exhibit, the disclosing Party must file in accordance with the SEC guidelines, and submit to the SEC at the time of filing the 10-K or 10-Q, a request for confidential treatment of the Agreement, which may or may not be granted by the SEC. In connection with the request for confidential treatment of the Agreement, the Party will submit a redacted version of the Agreement that contains is no broader a disclosure than necessary to achieve compliance. If the SEC does not grant the disclosing Party's request for confidential treatment, the disclosing Party will promptly inform the non-disclosing Party of that decision and the Parties will cooperate to petition to the SEC for reconsideration. The Parties further agree that, except as provided for in this Section, each will not make, issue or release any public announcement, press release, statement or acknowledgment of the existence of, or reveal publicly the terms, conditions and status of, the transactions contemplated herein without the prior written consent of the other Party (which shall not be unreasonably withheld) as to the content and time of release and the media in which such statement or announcement is to be made. Provided, however, that (a) without such consent, a Party may issue a press release that only includes information with respect to this Agreement that has already been made public in a Form 8-K, and (b) in the case of announcements, statements, acknowledgments or revelations which either Party is required to make, issue or release by law or by regulatory requirements or by the regulations of national stock exchanges, or by bona fide contractual requirements, the making, issuing or releasing of any such announcement, statement, acknowledgment or revelation by the party so required shall not constitute a breach of this Agreement if (i) the disclosure is no broader than necessary to achieve compliance; and (ii) the disclosing Party shall have given sufficient prior written notice (but not less than thirty (30) days) to the other Party, to enable the other party to review and comment on the scope and content of the disclosure, and to intervene to protect the confidentiality of the disclosure in such other party's discretion. Neither Party shall use the name of the other Party or its affiliates, subsidiaries, parents or related entities for advertising or promotional purposes of any kind.

14. **Governing Law and Jurisdiction**. This Agreement shall be governed by and construed in accordance with the laws of the State of Texas, without giving effect to any choice of law provisions thereof. In the event of any dispute arising under this Agreement, LecTec and Chattem agree to submit themselves to the exclusive jurisdiction of the state or federal courts located in the Eastern District of Texas, and waive any objection on the grounds of lack of personal jurisdiction or venue (forum non conveniens or otherwise) to the exercise of such jurisdiction over either of them by these courts. Each party waives the right to a trial by jury.

15. **Binding Effect**. This Agreement shall be binding upon any party to whom any of the patents referred to in this Agreement may be assigned, licensed, or otherwise transferred.

16. **No Assignment or Sublicense by Chattem**. Chattem may not assign or transfer this Agreement, including the rights and obligations thereunder, to any third-party, except in connection with a sale to a third-party of substantially all of Chattem's assets or the sale of Chattem's patch products business ("Acquisition"), in which case this Agreement may be assigned to the third-party purchaser, but the provisions of Paragraphs 4 (Covenant Not to Sue), 5 (License Grant) and 6 (Contingent License) shall only apply to the sale of patch products that were offered for sale by Chattem prior to the date of the Acquisition, and to any new products developed or sold after the date of the Acquisition. Provided, however, that the provisions of paragraphs 4, 5, and 6 shall not apply to past sales of any patch products that were offered for sale by the acquiring entity prior to the date of the Acquisition. Chattem may not sublicense any license rights that they may obtain under Paragraphs 5 and 6 of this Agreement to any third-party, except as provided herein or in connection with an arrangement for the manufacture of patch products to be sold by or to Chattem or its direct or indirect customers, distributors or manufacturers under a Chattem brand or to be "private-labeled" by a customer of Chattem.

17. **Counterparts**. This Agreement shall be executed in two (2) counterparts, whereby LecTec and Chattem shall each execute a duplicate original thereof, and each counterpart shall have the same force and effect as an original and shall constitute an effective, binding agreement on the part of each of the undersigned.

IN WITNESS WHEREOF, LecTec and Chattem have caused this Agreement to be executed by their duly authorized representatives, whose signatures appear below.

Chattem, Inc.

By: /s/ Robert Long   Dated: March 23, 2011
Robert Long,
Vice President and Chief Financial Officer

LecTec Corporation

By: /s/ Greg Freitag   Date: March 22, 2011
Greg Freitag
Chief Executive Officer

EXHIBIT 31.01

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Gregory G. Freitag, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of LecTec Corporation;

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

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

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

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

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 17, 2011

/s/ Gregory G. Freitag
Gregory G. Freitag
Chief Executive Officer

EXHIBIT 31.02

CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Gregory G. Freitag, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of LecTec Corporation;

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

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

4. The registrant’s other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

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

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

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

d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

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

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

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

Date: May 17, 2011

/s/ Gregory G. Freitag
Gregory G. Freitag
Chief Financial Officer

EXHIBIT 32.01

CERTIFICATION PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002 (SUBSECTIONS (A) AND (B) OF SECTION 1350, CHAPTER 63 OF TITLE 18, UNITED STATES CODE)

In connection with the Quarterly Report of LecTec Corporation (the “Company”) on Form 10-Q for the quarter ended March 31, 2011 as filed with the Securities and Exchange Commission (the “Report”), I, Gregory G. Freitag, Chief Executive Officer and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, to the best of my knowledge that:

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

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

/s/ Gregory G. Freitag

Gregory G. Freitag
Chief Executive Officer
(Principal Executive and Financial Officer)
May 17, 2011