SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark One)

[ ] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE FISCAL YEAR ENDED _______________.

[X] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE TRANSITION PERIOD FROM July 1, 2001 to December 31, 2001.

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.)

10701 RED CIRCLE DRIVE, MINNETONKA, MINNESOTA	55343
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (952) 933-2291

Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to Section 12(g) of the Act: Common Stock, par value $0.01 per share.

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 by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein; and will not be contained, to the best of the Registrant's knowledge, in the definitive proxy statement incorporated by reference in Part III of this Form 10-K, or any amendment to this Form 10-K. [ ]

The aggregate market value of the Common Stock held by non-affiliates of the Registrant as of March 18, 2002 was $4,087,510 based upon the last reported sale price of the Common Stock at that date by the Nasdaq Stock Market.

The number of shares outstanding of the Registrant's Common Stock as of March 18, 2002 was 3,953,578 shares.

DOCUMENTS INCORPORATED BY REFERENCE

Part III of this Transition Report on Form 10-K incorporates by reference information from the Registrant's Proxy Statement for its Annual Meeting of Shareholders to be held in June 2002.

PART I

Item 1. BUSINESS

GENERAL

LecTec Corporation (the "Company") is a health care and consumer products company that develops, manufactures and markets products based on its advanced skin interface technologies. Primary products include a complete line of over-the-counter ("OTC") therapeutic patches and a line of skin care products. The Company markets and sells its products to consumers through retail outlets (food, chain drug, and mass merchandise stores), other health care consumer products companies and direct via the Internet. All of the products manufactured by the Company are designed to be effective, safe and highly compatible with skin.

The Company is an innovator in hydrogel-based topical delivery of therapeutic OTC medications which provide alternatives to topical creams and ointments. A hydrogel is a gel-like material having an affinity for water and similar compounds. These gels are ideal for delivering medication onto the skin. The Company holds multiple domestic and international patents.

Effective January 14, 1999, the Company was certified as meeting the requirements of ISO 9001 and EN46001 quality system standards. Certification was granted by TUV Product Service GmbH. On September 21, 2001 the quality system was re-audited and certification was expanded to include ISO 13485, as well as recognition to be certified as a contract manufacturer for other consumer products companies. Meeting these standards confirms that the Company has achieved the highest level of quality systems compliance demonstrated by world-class design and manufacturing firms.

The Company, through its research and development efforts, is investigating new products for topical delivery of OTC drugs. In addition, new technologies and existing technologies are being developed and refined to focus on new skin care and comfort care consumer products targeting new retail customers and new markets.

The Company was organized in 1977 as a Minnesota corporation and went public in December 1986. Its principal executive office is located at 10701 Red Circle Drive, Minnetonka, Minnesota 55343, and its telephone number is (952) 933-2291.

On September 5, 2001, the Company elected to change its fiscal year end from June 30 to December 31. Previously, the fiscal year ran from July 1 through June 30. This Transition Report on Form 10-K covers the period from July 1, 2001 through December 31, 2001 (the "Transition Period"). Hereafter, the fiscal year will correspond with the calendar year. The most recent results and analysis for a 12 month reporting period, is fiscal year 2001, covering the period from July 1, 2000 through June 30, 2001.

PRODUCTS

The Company's core competency is skin interface hydrogel technology. This competency results in products which are beneficial to human skin. The products are convenient to use and less messy than creams and lotions. The adhesive characteristics, dimensions, drug stability, shelf life and manufacturability of the Company's products are highly consistent and reproducible from product to product.

The Company designs, manufactures and markets topical ointment-based patch products for the application of OTC drugs and skin care ingredients. Therapeutic patch products use a hydrogel coated, breathable cloth patch to deliver OTC drugs and other therapeutic compounds onto the skin. Products currently manufactured using the adhesive-based patch technology are analgesics for localized pain relief, cooling gel comfort strips, vapor cough suppressants, anti-itch, cold sore, psoriasis, sinus and allergy,

acne treatment products, wart removers, and a corn and callus remover. The analgesic, cooling, anti-itch, cold sore, psoriasis and sinus and allergy patches are marketed under the LecTec brand name TheraPatch(R). The acne treatment patches are marketed by Johnson & Johnson Consumer Products Company under the Neutrogena(R) On-the-Spot(R) Acne Patch and CLEAN & CLEAR(R) brand names. The vapor cough suppressant patches are marketed under the TheraPatch brand name as well as by Novartis Consumer Health, Inc. under the Triaminic(R) brand name. The wart removers and corn and callus removers are sold by LecTec to certain customers who market them under their own brand name.

Sales of therapeutic consumer products accounted for approximately 80% and 60% of the Company's total sales for the six month periods ended December 31, 2001 and 2000 respectively. Sales of therapeutic consumer products accounted for approximately 58%, 36% and 15% of the Company's total sales for fiscal years ended June 30, 2001, 2000 and 1999 respectively.

Beginning in February 2002, the Company expanded into the skin care cosmeceutical market by launching a three-product line of skin care products under the Company's brand name NeoSkin(R) . These products include pre-formed face masks, under eye gel patches and cucumber eye pads.

In March 2001, the Company sold its medical tape manufacturing equipment and other related assets. The sale of the medical tape equipment finalized the Company's plan, adopted at the end of the fiscal year ended June 30, 2000, to exit the low margin medical tape business.

Sales of medical tapes accounted for approximately 0% and 2% of the Company's total sales for the six month periods ended December 31, 2001 and 2000 respectively. Sales of medical tapes accounted for approximately 1%, 13% and 22% of the Company's total sales for fiscal years 2001, 2000 and 1999 respectively. No sales are expected in fiscal 2002.

In April 2001, the Company sold its diagnostic electrode and electrically conductive adhesive hydrogel business assets which were used to produce the Company's conductive products. The conductive products included diagnostic electrodes and electrically conductive adhesive hydrogels. Under a manufacturing and supply agreement between the Company and the buyer, the Company continued to manufacture, and supply to the buyer, certain conductive products through January 2002. The Company supplied the products at its cost of production through October 31, 2001, and at its cost of production plus ten percent from November 1, 2001 through January 31, 2002. The Company is continuing to manufacture and supply the buyer electrically conductive adhesive hydrogels, at margins of approximately 30%, subsequent to expiration of the manufacturing and supply agreement. The Company anticipates supplying the product to the buyer through the second quarter of calendar 2002.

Sales of conductive products accounted for approximately 20% and 38% of the Company's total sales for the six month periods ended December 31, 2001 and 2000 respectively. Sales of conductive products accounted for approximately 41%, 51% and 63% of the Company's total sales for fiscal years ended June 30, 2001, 2000 and 1999 respectively.

MARKETING AND MARKETING STRATEGY

The Company markets and sells its products to consumers through retail outlets (food, chain drug, and mass merchandise stores), healthcare consumer products companies and via the Internet.

In 1998 the Company entered into the consumer products market. The entry was supported by the hiring of a new retail sales executive in May 1998 and a retail sales team in the year ended June 30, 1999. In the consumer products markets, retail broker and manufacturer's representative contracts have been established. The TheraPatch brand is the umbrella brand for the Company's therapeutic patch products introduced to all markets.

In addition to the retail sales team hired for entry into the retail consumer products markets, the Company has sales teams which support sales to consumer products companies who sell directly to the consumer. Approximately 66% and 75% of the sales of the Company's consumer patch products during

the six month periods ended December 31, 2001 and 2000 respectively, were derived from contract manufacturing agreements with other companies that act as resellers of our products. Under these agreements, the Company's products are marketed and sold under another company's brand name and by another company's sales force. The Company's success depends in part upon its ability to enter into additional reseller agreements with new third parties while maintaining existing reseller relationships, and in part on the ability to get consumers to purchase the Company's products from the retailers. The Company believes its relationships with existing third party resellers has been a significant factor in the success to date of its therapeutic consumer products business, and any deterioration or termination of these relationships would adversely affect business. The Company also believes that the absence of advertising expenditures could limit its ability to sell product to the ultimate consumer and execute its business strategy.

The Company experiences seasonality in the sales of three of its therapeutic patch products. The vapor cough suppressant patches and cold sore patches experience increased sales during the cough and cold season which typically includes the winter months. The anti-itch patches experience increased sales during the summer months when insects bites and itching associated with poison oak/ivy/sumac are prevalent. The therapeutic patch product affected least by seasonality is TheraPatch Warm, which is primarily sold for arthritis and chronic back pain.

The Company currently sells its products in the U.S., Asia and Canada. In prior years, the Company also sold its conductive products in Europe, Latin America, Asia and the Middle East. Except for sales of the TheraPatch brand patch product into Canada, all of the Company's international sales were denominated in U.S. dollars, thus, most of the impact of the foreign currency transaction gains and losses were borne by the Company's customers. The January 1, 1999 euro currency conversion did not have a material impact on the Company's financial statements. Export sales accounted for approximately 2% and 9% of total sales for the six month periods ended December 31, 2001 and 2000 respectively. Export sales accounted for approximately 8%, 13% and 13% of total sales for the fiscal years ended June 30, 2001, 2000 and 1999 respectively.

The Company's international sales are made by the Company's corporate sales force. The Company does not maintain a separate international marketing staff or operations. The following tables set forth export sales by geographic area:

<TABLE>
<CAPTION>

	Six-month periods ended December 31		Years ended June 30		
	2001	2000	2001	2000	1999
<S>	<C>	<C>	<C>	<C>	<C>
Europe	$ -	$422,757	$ 815,796	$1,006,412	$1,216,199
Latin America	-	139,613	139,613	547,904	371,654
Asia	46,512	24,135	72,851	46,279	31,935
Canada	80,146	135,770	215,686	298,884	7,011
Other	-	3,100	7,950	36,234	28,333
Total Export Sales	$ 126,658	$725,375	$1,251,896	$1,935,713	$1,655,132

</TABLE>

CUSTOMERS

Novartis Consumer Health, Inc. (Novartis) accounted for 33% and 18% of the Company's total sales for the six month periods ended December 31, 2001 and 2000 respectively, and 20% of the Company's total sales for the fiscal year ended June 30, 2001. The fiscal year ended June 30, 2001 was the first full year of sales to Novartis. The Company's reseller agreement with Novartis provides that Novartis will purchase from the Company hydrogel patches which emit vapors that, when inhaled, provide relief of cough and cold symptoms. The agreement has an initial term that expires May 15, 2005. The Company's principal duty under the agreement is to manufacture the patches ordered by Novartis. The Company may not manufacture and sell the patches or any other vapor patches in the pediatric field of

use and in the United States to any other reseller, but may manufacture and sell competing patches under the Company's own brand name. The agreement does not require Novartis to purchase a minimum quantity each year. The Company's results of operations could be adversely affected if Novartis decreased the purchases it makes under the agreement. In addition, if the agreement were cancelled, which Novartis has the right to do upon six months notice, the Company's results of operations would be adversely affected. If the Company is unable to extend or renew the agreement upon its expiration, its results of operations would be adversely affected.

Johnson & Johnson Consumer Products Company (J&J) accounted for 14% and 22% of the Company's total sales for the six month periods ended December 31, 2001 and 2000, and 16% of the Company's total sales for the fiscal year ended June 30, 2001. The fiscal year ended June 30, 2001 was the first full year of sales to J&J. The reseller agreement with J&J provides that J&J will purchase from the Company hydrogel patches for use in the treatment of acne. The agreement has an initial term that expires May 24, 2002. The Company's principal duty under the agreement is to manufacture the patches ordered by J&J. Under the terms of the agreement J&J is required to purchase a minimum amount of patches in each year of the initial two-year term. During the term of the agreement, J&J has the exclusive worldwide right to market, sell and distribute the patches and the right of first negotiation as to any of the Company's new acne products utilizing the same technology as the patches. The Company's operations would be adversely affected if the reseller purchased only the minimum requirement. In addition, if the agreement were cancelled due to the Company's breach, the Company's results of operations would be adversely affected. If the Company is unable to extend or renew the agreement upon its expiration, its results of operations would be adversely affected.

Spacelabs Burdick Inc. accounted for 0% and 13% of the Company's total sales for the six month periods ended December 31, 2001 and 2000. Spacelabs Burdick Inc. accounted for 12%, 17% and 22% of the Company's total sales for the fiscal years ended June 30, 2001, 2000 and 1999. This conductive products customer no longer generates sales due to the sale of the conductive business assets during the year ended June 30, 2001.

Ludlow Technical Products accounted for 20% of the Company's total sales for the six month period ended December 31, 2001. The six month period ended December 31, 2001 was the first full period of sales to Ludlow. These sales were attributable to the manufacturing and supply agreement between the Company and Ludlow Company LP as a result of the sale of the Company's diagnostic electrode and electrically conductive adhesive hydrogel business. The Company anticipates sales to Ludlow will continue through the second quarter of calendar 2002.

The Company sold its products to approximately 163 and 253 active customers (excluding TheraPatch sales to individual consumers) during the six month periods ended December 31, 2001 and 2000 respectively. The Company's backlog orders as of February 28, 2002 totaled $1,640,000, compared to approximately $2,638,000 on February 28, 2001. The Company sold its products to approximately 310, 275 and 240 active customers (excluding TheraPatch sales to individual consumers) during the fiscal years ended June 30, 2001, 2000 and 1999.

COMPETITION

The markets for OTC drug delivery patches and skin care products are highly competitive. Firms in the consumer and medical industries compete on the basis of product performance, pricing, distribution and service. Competitors in the United States and abroad are numerous and include, among others, major pharmaceutical and consumer product companies which have significantly greater financial, marketing and technological resources than the Company. However, the Company believes that it competes on the basis of proprietary technology, speed-to-market, flexibility, innovative "first-in-category" patches, customer focus and its ability to manufacture and market its products to targeted market segments.

The Company's OTC TheraPatch family of analgesic, cooling, vapor, anti-itch, cold sore, psoriasis and sinus and allergy patches competes with ointments, lotions and creams manufactured by various competitors including Mentholatum/Rohto Pharmaceuticals, Inc.

MANUFACTURING

The Company manufactures its therapeutic membranes at the Company's Minnetonka, Minnesota facility. The Minnetonka facility also processes raw materials and manufactures the Company's therapeutic products. The Company's therapeutic products consist primarily of hydrogel-based, individually wrapped, breathable, self-adhering cloth patches that topically deliver therapeutic OTC medications. The Company's second facility in Edina, Minnesota is the primary site for the packaging of therapeutic products and the majority of the Company's warehouse capacity. The Company believes that the raw materials used in manufacturing its products are generally available from multiple suppliers.

To assure that the Company's customers receive quality products, the Company's manufacturing process complies with standards that meet the requirements of ISO 9001, EN46001 and ISO 13485. Meeting these standards demonstrates that the Company has achieved the highest level of quality systems compliance as demonstrated by world-class manufacturers.

RESEARCH AND DEVELOPMENT

The Company's research and development staff consists of professionals drawn from the business and academic communities with experience in the *biological, chemical, pharmaceutical and engineering sciences. The research and development staff is responsible for the investigation, development and implementation of new and improved products and new technologies.*

The Company may develop products internally, jointly with corporations and/or with inventors from outside the Company. The Company may then market resulting products by sponsoring partners or through a marketing arrangement with appropriate health care companies. Research and development contract opportunities are evaluated on an individual basis.

The Company, through its research and development efforts, is investigating new products for topical delivery of OTC drugs. In addition, existing technologies are being refined to focus on new products targeting new customers and new markets such as the new NeoSkin skin care product.

During the six month periods ended December 31, 2001 and 2000, the Company spent approximately $466,000 and $442,000 on research and development respectively. During the fiscal years ended June 30, 2001, 2000 and 1999 the Company spent approximately $920,000, $1,095,000 and $1,170,000 on research and development respectively.

GOVERNMENTAL AND ENVIRONMENTAL REGULATION

The Company's Quality System includes design planning, testing, manufacturing, packaging, labeling and distribution of the Company's products which are subject to federal and foreign regulations, and in some instances, state and local government regulations.

UNITED STATES REGULATION

The Company is subject to Food and Drug Administration ("FDA") regulations concerning manufacturing practices and reporting obligations. These regulations require that manufacturing and quality assurance be performed according to FDA guidelines and in accordance with applicable Code of Federal Regulation documentation, control and testing requirements. The Company is also subject to inspection by the FDA at any time. The Company is required to report to the FDA serious adverse product incidents, as well as, maintain a documentation and record keeping system in accordance with FDA regulations. The advertising of the Company's products is also subject to both FDA and Federal Trade Commission jurisdiction. If the FDA believes that the Company is not in compliance with any aspect of the law, it can institute proceedings to detain or seize products, issue a recall, stop future violations and assess civil and criminal penalties against the Company, its officers and its employees.

The products manufactured by the Company's continuing consumer products business are classified as either non-drugs or over-the-counter (OTC) drugs, which are either not regulated or regulated by published FDA OTC monographs. Monographs are used to regulate OTC drugs that contain ingredients known to be safe and effective. Monographs have also established acceptable ingredients, combinations, concentrations and specific labeling requirements.

Until all finished good electrodes sold in the United States reach their expiration date, the Company will continue to be subject to federal FDA policy including current Good Manufacturing Practices ("GMP") and quality system regulations. The Company's hydrogels sold domestically also continue to be subject to GMP and quality system regulations as they are sold to distributors for processing into finished commercial goods.

INTERNATIONAL REGULATION

The Company's topical OTC drug delivery patches are marketed in Canada under applicable Canadian OTC monographs where appropriate, and are reviewed and approved prior to commercialization by the Health Protection branch of Health Canada.

ENVIRONMENTAL REGULATION

The Company does not use solvents that have an adverse effect on the environment in the manufacturing of its products. The Company does not anticipate any major expenditure for environmental controls during the next fiscal year.

PATENTS AND TRADEMARKS

The Company has U.S. and international patents on adhesive hydrogels, electrodes and transdermal and topical delivery systems. Twelve active U.S. patents and three active international patents are currently assigned or licensed to the Company. Seventeen U.S. and international applications are pending including two which are on appeal. International patent applications are pending in numerous European countries, Canada and Japan. The patents most pertinent to the Company's major products have a remaining duration ranging from eight to twenty 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 thereunder will provide a competitive advantage.

No trademarks were registered during the six month period ended December 31, 2001. Five trademark registrations are pending.

The Company expects that its products will be subject to continuous modifications due to improvements in materials and technological advances for medical products. Therefore, the Company's continued success does not depend solely upon ownership of patents, but upon technical expertise, creative skills and the ability to forge these talents into the timely release of new products.

The Company uses both patents and trade secrets to protect its proprietary property and information. In addition, the Company monitors competitive products and patent publications to be aware of potential infringement of its rights. To the extent the Company relies on confidential information to maintain competitive position, there can be no assurance that other parties will not independently develop the same or similar information.

EMPLOYEES

As of December 31, 2001, the Company employed 68 full-time employees. None of the Company's employees are represented by labor unions or other collective bargaining units. The Company believes relations with its employees are good.

EXECUTIVE OFFICERS OF THE REGISTRANT

<TABLE>
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Name	Age	Title
<S>	<C>	<C>
Rodney A. Young	47	Chairman, Chief Executive Officer and President
Douglas J. Nesbit	49	Chief Financial Officer, Secretary and Treasurer
Timothy P. Fitzgerald	62	Vice President, Operations
John D. LeGray	56	Vice President, Quality Assurance and Regulatory Affairs
Jane M. Nichols	55	Vice President, Marketing and New Business Development
Timothy R. J. Quinn	41	Vice President, Consumer Products

</TABLE>

Rodney A. Young, was appointed a Director, Chief Executive Officer and President of LecTec in August 1996. In November 1996 he was appointed as Chairman of the Board. Prior to assuming the leadership role with LecTec, Mr. Young served Baxter International, Inc. for five years in various management roles, most recently as Vice President and General Manager of the Specialized Distribution Division. In addition to fulfilling his role as Chairman and Director of the Company, Mr. Young also serves as a Director of Possis Medical, Inc., Delta Dental Plan of Minnesota, and Health Fitness Corporation.

Douglas J. Nesbit is Chief Financial Officer, Secretary and Treasurer. He joined the Company in August 2000. Mr. Nesbit's professional background includes public accounting experience with the big five firm of KPMG, LLP. Prior to joining LecTec he was the Chief Financial Officer at Total Solutions Group, Inc. and Corporate Treasurer at Secure Computing Corporation. Mr. Nesbit also serves as a Director of the Minnesota Society of Certified Public Accountants.

Timothy P. Fitzgerald is Vice President, Operations. He joined the Company in February 2000. Mr. Fitzgerald's career includes technical and senior management positions at Bell & Howell Co., International Data Engineering, Inc. and Varitronic Systems, Inc.

John D. LeGray is Vice President, Quality Assurance and Regulatory Affairs. He joined the Company in September 1997. Mr. LeGray's career includes technical and management positions at DiaSorin Inc., Bayer Corporation and Abbott Laboratories.

Jane M. Nichols is Vice President, Marketing and New Business Development. She joined the Company in April 1997. Ms. Nichols' career includes clinical, technical and management roles at Methodist Hospital and Park Nicollet Medical Centers, and senior marketing positions at 3M Company and Ecolab.

Timothy R. J. Quinn is Vice President and General Manager, Consumer Products. He joined the Company in May 1998. Mr. Quinn's career includes extensive sales and marketing experience in the consumer products industry. Prior to joining LecTec, he was Vice President of Sales at Redmond Products. Prior to Redmond, Mr. Quinn served in a variety of sales and marketing management positions for Lederle Laboratories and General Foods Corporation.

ITEM 2. PROPERTIES

The Company owns a building located in Minnetonka, Minnesota, containing 18,000 square feet of office and laboratory space and 12,000 square feet of manufacturing and warehouse space. In addition, the Company leases a building in Edina, Minnesota containing 29,000 square feet of manufacturing and warehouse space. The Edina building lease term extends through June 30, 2002.

The Company is currently in the process of renegotiating an extension to the lease.

ITEM 3. LEGAL PROCEEDINGS

None

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

None

PART II

Item 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

The Company's common stock trades on the Nasdaq National Market tier of the Nasdaq Stock Market ("Nasdaq") under the symbol LECT.

The following table sets forth the high and low daily trade price information for the Company's common stock for each quarter of the six-month period ended December 31, 2001, and the fiscal years ended June 30, 2001 and 2000. Such prices reflect interdealer prices, without retail mark-up, mark-down, or commission, and may not necessarily represent actual transactions.

<TABLE>
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	SIX MONTHS ENDED DECEMBER 31, 2001		YEAR ENDED JUNE 30, 2001		YEAR ENDED JUNE 30, 2000	
	HIGH	LOW	HIGH	LOW	HIGH	LOW
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Quarter ended Sept. 30	$2.30	$1.53	$4.22	$2.00	$4.38	$2.69
Quarter ended Dec. 31	1.95	1.00	2.75	1.00	3.13	1.19
Quarter ended March 31	N/A	N/A	3.13	1.56	5.00	1.38
Quarter ended June 30	N/A	N/A	3.00	1.56	4.88	2.00

</TABLE>

As of March 22, 2002 the Company had 3,953,578 shares of common stock outstanding, and approximately 328 common shareholders of record which number does not include beneficial owners whose shares were held of record by nominees or broker dealers.

The Company has not declared or paid cash dividends on its common stock since its inception, and intends to retain all earnings for use in its business for the foreseeable future.

ITEM 6. SELECTED CONSOLIDATED FINANCIAL DATA

Please see Item 1 of this report for information regarding the disposition of the Company's conductive business assets and medical tape assets during the first half of calendar year 2001 that affect the comparability of the information set forth below.

CONSOLIDATED STATEMENT OF OPERATIONS DATA

<TABLE>
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	Six-months ended December 31,		Year ended June 30,				
	2001	2000	2001 (a)	2000 (b)	1999	1998	1997 (c)
		(unaudited)					
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Net sales	$5,119,391	$8,245,378	$15,928,832	$14,596,346	$12,279,075	$12,922,365	$12,256,327
Gross profit	1,489,139	2,992,804	5,422,601	5,121,217	4,093,561	3,715,032	4,324,180
Loss from operations	(2,557,456)	(1,203,196)	(3,135,622)	(2,890,497)	(1,771,324)	(474,935)	(2,215,951)
Earnings (loss) before equity in losses of unconsolidated subsidiary	(2,562,920)	(1,286,897)	1,343,492	(2,859,276)	(1,683,257)	(404,061)	(2,140,660)
Equity in losses of unconsolidated subsidiary	--	--	--	--	--	--	126,067
Net earnings (loss)	(2,562,920)	(1,286,897)	1,343,492	(2,859,276)	(1,683,257)	(404,061)	(2,266,727)
Net earnings (loss) per share							
Basic	(.65)	(.33)	.34	(.74)	(.43)	(.10)	(.59)
Diluted	(.65)	(.33)	.34	(.74)	(.43)	(.10)	(.59)

</TABLE>

CONSOLIDATED BALANCE SHEET DATA
<TABLE>
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	December 31,	June 30,

	2001	2000	2001	2000	1999	1998	1997
	----	----	----	----	----	----	----
		(unaudited)					
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Cash, cash equivalents and short-term investments	$1,425,205	285,620	$3,376,723	$ 100,171	$1,022,025	$2,186,532	$1,242,777
Current assets	3,790,987	5,179,994	7,301,333	5,236,110	5,904,111	6,728,531	6,873,696
Working capital	1,106,202	1,100,455	4,279,728	1,512,561	3,497,926	5,335,861	4,035,084
Property, plant and equip, net	2,262,094	2,928,073	2,422,494	3,039,088	4,028,491	4,306,568	4,592,304
Total assets	6,350,154	8,360,011	9,967,776	8,474,549	10,132,573	11,317,774	11,837,356
Long-term liabilities	125,170	838,718	859,623	31,184	217,868	222,000	211,000
Shareholders' equity	3,540,199	3,441,754	6,086,548	4,719,816	7,508,520	9,703,104	8,787,744

</TABLE>

(a) Includes a nonrecurring restructuring charge of $303,759 related to the sale of the conductive business assets and a gain on disposition of assets of $4,662,210 related to the sale of the conductive business assets and the disposition of the medical tape assets.

(b) Includes a charge of $730,000 or $.19 per share related to the plan to exit the medical tape product line.

(c) Includes a nonrecurring restructuring charge of $2,180,353 or $.57 per share related to the elimination of the Pharmadyne subsidiary.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

On September 5, 2001, the Company's Board of Directors approved a change in the Company's fiscal year end from June 30 to December 31. The change was effective immediately. Therefore, the Company is filing this Transition Report on Form 10-K for the transition period from July 1, 2001 to December 31, 2001.

RESULTS OF OPERATIONS

COMPARISON OF THE SIX-MONTHS ENDED DECEMBER 31, 2001 AND 2000

NET SALES

Net sales were $5,119,391 for the six-month period ended December 31, 2001, a decrease of 37.9% from net sales of $8,245,378 for the six-month period ended December 31, 2000. The decrease in net sales for the six month period ended December 31, 2001 was primarily due to decreased conductive product sales resulting from the sale of the assets of the conductive products division.

Net sales of therapeutic consumer products decreased 17.9% for the six-month period ended December 31, 2001 to $4,095,055 from $4,986,215 for the six-month period ended December 31, 2000. The decrease for the six-month period ended December 31, 2001 was primarily the result of softening demand from contract manufacturing customers in response to a slowing economy and a weaker than expected cough/cold season. The decrease in contract manufacturing therapeutic consumer product sales was partially offset by an increase in LecTec branded TheraPatch consumer product sales. Management believes that sales of the Company's therapeutic patch products along with sales of its new skin care products will represent substantially all of total net sales during calendar 2002 due to increased TheraPatch brand name recognition, anticipated sales growth of the vapor product and acne products to Novartis Consumer Health, Inc. and Johnson & Johnson Consumer Products Worldwide respectively, the introduction of the Company's skin care product line, and the decrease in conductive product sales due to the sale of the conductive business assets.

Net sales of conductive products (medical electrodes and conductive hydrogels) decreased by 67.0% for the six-month period ended December 31, 2001 to $1,024,336 from $3,103,727 for the six-month period ended December 31, 2000. The decrease for the six-month period ended December 31, 2001 was primarily the result of the sale of the assets of the conductive products division. Under a manufacturing and supply agreement between the Company and the buyer of the Company's conductive products division, the Company continued to manufacture, and supply to the buyer, certain conductive products through January 2002. The Company supplied the products at its cost of production through October 31, 2001, and at its cost of production plus ten percent from November 1, 2001 through January 31, 2002. The Company will continue to manufacture and supply the buyer conductive hydrogels, at margins of approximately 30%, through the second quarter of calendar 2002. The Company expects calendar 2002 conductive sales to continue to decrease significantly due to the expiration of deliveries under the manufacturing and supply agreement with the buyer of the Company's conductive products division.
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There were no sales of medical tape products for the six-month period ended December 31, 2001. Medical tape product sales were $155,436 for the six-month period ended December 31, 2000. The decrease for the six-month period ended December 31, 2001 resulted from exiting the medical tape business. The Company expects no medical tape sales in calendar 2002.

Export sales were 2% and 9% of total net sales for the six-month periods ended December 31, 2001 and 2000 respectively. The decrease for the current six-month period ended December 31, 2001 resulted primarily from the absence of conductive product sales as a result of the sale of the assets of the conductive products division. All international sales were in U. S. dollars with the exception of TheraPatch brand products sold in Canada. Export sales decreased by $598,717 in the six-month period ended December 31, 2001 compared *to the six-month period ended*

December 31, 2000 primarily as a result of the sale of the assets of the conductive products division. The Company anticipates international sales as a percent of total net sales in calendar 2002 will be comparable to the six-month period ended December 31, 2001.

GROSS PROFIT

The Company's gross profit was $1,489,139 for the six-month period ended December 31, 2001, down from $2,992,804 for the six-month period ended December 31, 2000. As a percentage of net sales, gross profits were 29.1% and 36.3% for the six-month periods ended December 31, 2001 and 2000. Gross profit for the six-month period ended December 31, 2001 decreased by 50.2% from the prior year resulting primarily from decreased sales volumes, lower production levels and less absorption of overhead expenses. The decrease in gross profit percent for the six-month period ended December 31, 2001 was also affected by the Company entering into a manufacturing and supply agreement with the buyer of the assets of the conductive products division to continue to manufacture, and supply the buyer certain conductive products at the Company's cost through October 31, 2001 and at its cost of production plus ten percent thereafter.

SALES AND MARKETING EXPENSES

Sales and marketing expenses totaled $2,308,045 or 45.1% of net sales for the six-month period ended December 31, 2001, compared to $2,294,571 or 27.8% of net sales for the six-month period ended December 31, 2000. The increase in sales and marketing expenses as a percent of sales was primarily due to decreased sales. The Company anticipates sales and marketing expenses as a percent of sales in calendar 2002 will decrease due to expense reduction measures initiated in the latter part of calendar 2001.

GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses totaled $1,272,244 or 24.9% of net sales for the six-month period ended December 31, 2001, compared to $1,459,907 or 17.7% of net sales for the six-month period ended December 31, 2000. The decrease for the six-month period ended December 31, 2001 was primarily due to a decrease of $189,000 in payroll related expenses and employment fees which more than offset a slight increase in other expense categories. The Company anticipates general and administrative expenses as a percent of sales in calendar 2002 will decrease due to expense reduction measures initiated in the latter part of calendar 2001.

RESEARCH AND DEVELOPMENT EXPENSES

Research and development expenses totaled $466,306 or 9.1% of net sales for the six-month period ended December 31, 2001, compared to $441,523 or 5.4% of net sales for the six-month period ended December 31, 2000. The increase for the six-month period ended December 31, 2001 primarily resulted from an increase of $20,000 in test run production costs associated with new product development. Management believes that research and development expenditures as a percent of sales will decrease in calendar 2002.

OTHER INCOME AND EXPENSE

Interest expense totaled $67,558 for the six-month period ended December 31, 2001 compared to $72,919 for the six-month period ended December 31, 2000. The decrease for the six-month period ended December 31, 2001 was primarily due to a decrease in interest expense associated with no borrowings on the line of credit during the period. This decrease was offset by an increase in interest expense associated with the mortgage agreement. Other income for the six-month period ended December 31, 2001 was $45,996 compared to other expense of $13,782 for the six-month period ended December 31, 2000. The current six-month period increase was primarily the result of increased interest income due to higher cash and cash equivalent balances.

INCOME TAXES

The Company recorded an income tax benefit for the six-month period ended December 31, 2001 of $16,098, and no income tax expense or benefit for the six-month period ended December 31, 2000. The income tax benefit for the six-month period ended December 31, 2001 resulted from a difference between actual income tax liability and estimated income tax liability for the fiscal year ended June 30, 2001. There was no income tax benefit recorded for the six-month period ended December 31, 2000 related to the loss before income taxes since the tax benefit may not be realizable by the Company.

OPERATIONS SUMMARY

The net loss for the six-month period ended December 31, 2001 resulted primarily from a decrease in gross profit resulting from a decrease in sales volumes and the impact of the manufacturing and supply agreement between the Company and the buyer of the assets of the conductive products division. The decrease in gross profit was slightly offset by a decrease in general and administrative expenses associated with payroll related expenses. The net loss for the six-month period ended December 31, 2000 resulted primarily from an increase in advertising expenses associated with retail sales of the Company's TheraPatch products which more than offset an increase in gross profit. The *increase in gross profit resulted from increased sales volume and a shift in the sales mix toward higher-margin therapeutic consumer products.*

COMPARISON OF THE YEARS ENDED JUNE 30, 2001, 2000 AND 1999

NET SALES

Net sales were $15,928,832 for the year ended June 30, 2001, an increase of 9.1% from net sales of $14,596,346 for the year ended June 30, 2000. Net sales were $12,279,075 for the year ended June 30, 1999. The increase in both years was primarily the result of increased therapeutic consumer product sales, partially offset by decreased medical tape and conductive product sales.

Net sales of therapeutic consumer products increased 77.0% for the year ended June 30, 2001 to $9,237,472 from $5,218,199 for the year ended June 30, 2000. Net sales of therapeutic consumer products were $1,804,249 for the year ended June 30, 1999. The increase for the year ended June 30, 2001 was primarily the result of sales of the new vapor product to Novartis Consumer Health, Inc as well as sales of the acne product to Johnson & Johnson Consumer Products Worldwide. The increase for the year ended June 30, 2000 was primarily the result of increased TheraPatch product sales, which increased 127.1%, and sales of the new acne product to Johnson & Johnson Consumer Products Worldwide.

Net sales of conductive products (medical electrodes and conductive hydrogels) decreased by 11.9% for the year ended June 30, 2001 to $6,563,924 from $7,450,755 for the year ended June 30, 2000. Net conductive product sales were $7,758,286 for the year ended June 30, 1999. The decrease for the year ended June 30, 2001 was primarily the result of the sale of the assets of the conductive products division in the fourth quarter. The decrease for the year ended June 30, 2000 net sales was primarily due to a decrease in units sold.

Net sales of medical tapes decreased by 93.4% for the year ended June 30, 2001 to $127,436 from $1,927,392 for the year ended June 30, 2000. Net medical tape sales were $2,716,540 for the year ended June 30, 1999. The decrease for the year ended June 30, 2001 was primarily the result of exiting the medical tape business. The decrease for the year ended June 30, 2000 was primarily the result of reduced sales to low-margin slit roll tape customers.

Export sales, consisting primarily of electrodes, semi-finished conductive products sold to overseas converters for final processing, packaging and marketing, as well as TheraPatch brand therapeutic consumer products, were 8%, 13% and 13% of total net sales for the years ended June 30,

2001, 2000 and 1999 respectively. All international sales were in U. S. dollars with the exception of TheraPatch brand products sold in Canada. Export sales decreased by $683,817 for the year ended June 30, 2001 primarily as a result of the exit from the medical tape business and the sale of the assets of the conductive products division.

GROSS PROFIT

The Company's gross profit was $5,422,601 for the year ended June 30, 2001, up from $5,121,217 for the year ended June 30, 2000. Gross profit was $4,093,561 for the year ended June 30, 1999. As a percentage of net sales, gross profit was 34.0%, 35.1% and 33.3% for the years ended June 30, 2001, 2000 and 1999 respectively. Gross profit for the year ended June 30, 2001 increased 5.9% from the prior year and gross profit for the year ended June 30, 2000 increased 25.1% from the prior year. The increase in gross profit for the year ended June 30, 2001 resulted primarily from increased sales. The slight decrease in gross profit percent for the year resulted primarily from the Company entering into a manufacturing and supply agreement with the buyer of the assets of the conductive products division to continue to manufacture, and supply the buyer certain conductive products at the Company's cost. The increase in gross profit for the year ended June 30, 2000 resulted primarily from a shift in the sales mix to higher margin therapeutic consumer products.

SALES AND MARKETING EXPENSES

Sales and marketing expenses totaled $4,377,580 or 27.5% of net sales for the year ended June 30, 2001, compared to $3,672,908 or 25.2% of net sales for the year ended June 30, 2000, and $2,187,710 or 17.8.% of net sales for the year ended June 30, 1999. The increase for the year ended June 30, 2001 was primarily due to an increase of $697,000 in media advertising expense related to a TV ad campaign for TheraPatch Anti-Itch for Kids. The increase for the year ended June 30, 2000 was primarily due to increases of $280,000 in TheraPatch related advertising, $256,000 in cooperative marketing retail promotions and $607,000 in slotting fees.

GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses totaled $2,957,098 or 18.6% of net sales for the year ended June 30, 2001, compared to $2,598,998 or 17.8% of net sales for the year ended June 30, 2000, and $2,507,432 or 20.4% of net sales for the year ended June 30, 1999. The increase for the year ended June 30, 2001 was primarily due to an increase of $270,000 in payroll related expenses, and employment fees related to the hiring of a new CFO. The increase for the year ended June 30, 2000 was primarily the result of an increase of $154,000 in consulting expense which more than offset a decrease in legal expenses. Legal expense in the prior year included approximately $126,000 related to the re-negotiation and modification of the license agreement for the development and commercialization of cotinine as well as legal expenses associated with work on new and existing patents.

RESEARCH AND DEVELOPMENT EXPENSES

Research and development expenses totaled $919,786 or 5.8% of net sales for the year ended June 30, 2001, compared to $1,094,808 or 7.5% of net sales for the year ended June 30, 2000, and $1,169,743 or 9.5% of net sales for the year ended June 30, 1999. The decrease for the year ended June 30, 2001 primarily resulted from a decrease of $60,000 in test-run production costs. The decrease was primarily the result of decreased activity due to exiting the conductive products and tape business segments. The decrease for the year ended June 30, 2000 primarily reflects a decrease of $60,000 in test-run production costs.

OTHER INCOME AND EXPENSE

Interest expense totaled $151,272 for the year ended June 30, 2001 compared to $35,405 for the year ended June 30, 2000 and $1,173 for the year ended June 30, 1999. The increase for the year ended June 30, 2001 was primarily due to interest expense associated with increased borrowings on the line of

credit and interest expense associated with the mortgage agreement. The increase for the year ended June 30, 2000 was primarily due to interest expense associated with the line of credit. Gain on disposition of assets totaled $4,622,210 for the year ended June 30, 2001 due to the sale of the conductive business assets and the disposition of the medical tape equipment. There was no gain on disposition of assets for the years ended June 30, 2000 and 1999. Other income decreased to $16,176 for the year ended June 30, 2001 from $27,692 for the year ended June 30, 2000 and $89,240 for the year ended June 30, 1999 primarily due to decreased interest income as a result of lower cash and cash equivalent balances.

INCOME TAXES

The Company recorded an income tax expense for the year ended June 30, 2001 of $48,000, an income tax benefit for the year ended June 30, 2000 of $38,934 and no income tax expense or benefit for the year ended June 30, 1999. The income tax expense for the year ended June 30, 2001 resulted from an alternative minimum tax liability after offsetting regular taxable income with prior years net operating loss carry forwards. The income tax benefit for the year ended June 30, 2000 resulted primarily from the refund of taxes previously paid by the Company's foreign sales corporation. The foreign sales corporation was dissolved during the year ended June 30, 2000. There was no income tax benefit recorded during the years ended June 30, 2000 and 1999 related to the loss before income taxes since the tax benefit may not be realizable by the Company.

OPERATIONS SUMMARY

The net earnings for the year ended June 30, 2001 resulted primarily from the gain on the sale of the assets of the conductive products division, which was partially offset by a non-recurring restructuring charge. The restructuring charge consists primarily of future rental payments for a leased facility, separation costs, and other costs associated with the wind-down of conductive business activity. Excluding the gain and restructuring charge, the Company incurred a comparable net loss to the year ended June 30, 2000. The net loss excluding the gain and restructuring charge for the year ended June 30, 2001 resulted primarily from an increase in advertising expenses associated with retail sales of the Company's TheraPatch products which more than offset an increase in gross profit. The increase in gross profit resulted from increased sales volume. The net loss for the year ended June 30, 2000 resulted primarily from increased sales and marketing expenses and charges related to the plan to exit the medical tape business which more than offset an increase in gross profit. The increase in gross profit resulted from increased sales volume and a shift in the sales mix toward higher-margin therapeutic consumer products. The net loss for the year ended June 30, 1999 resulted primarily from increased sales and marketing expenses related to the Company's investment in the consumer products market, and increased general and administrative expenses related primarily to expenses associated with the modification of the cotinine license agreement and achievement of ISO 9001 and EN 46001 certification.

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 decreased by $1,951,518 to $1,425,205 at December 31, 2001 from $3,376,723 at June 30, 2001. This decrease was primarily due to the net loss for the six-month period ended December 31, 2001 of $2,562,920. Accounts receivable decreased by $1,030,397 to $547,838 primarily due to decreased sales during the period. Inventories decreased by $524,395 to $1,527,543 primarily due to lower inventory levels required for current production levels.

Working capital totaled $1,106,202 at December 31, 2001 compared to $4,279,728 at June 30, 2001. The Company's current ratio was 1.4 at December 31, 2001 compared to 2.4 at June 30, 2001.

Capital spending for equipment totaled $94,580 for the six-month period ended December 31, 2001. There were no material commitments for capital expenditures at December 31, 2001. Net property, plant and equipment decreased by $160,400 to $2,262,094 at December 31, 2001 from $2,422,494 at June 30, 2001, reflecting the excess of depreciation expense over capital spending.

Accounts payable decreased by $547,365 to $628,363 at December 31, 2001 from $1,175,728 at June 30, 2001 primarily due to decreased payables related to decreased manufacturing production as well as a decrease in the average number of days outstanding before payment.

The Company finalized a two year extension of its $2,000,000 asset based line of credit in November 2001 with terms similar to the terms of the $2,000,000 line of credit as originally finalized in November 1999. There were no borrowings outstanding on the line of credit at December 31, 2001 and June 30, 2001. The Company was in default at December 31, 2001 with covenants relating to the minimum book net worth and the maximum loss before taxes. This was the result of financial results not meeting expectations due to the softening of the economy, which was magnified by the uncertainties resulting from the events of September 11. Until the Company cures or gets a waiver for the covenant defaults, the line of credit is not available for borrowings. The Company is currently renegotiating the line of credit with the lender.

During the year ended June 30, 2001, the Company entered into a mortgage agreement with gross proceeds of $820,000. Shareholders' equity decreased by $2,546,349 to $3,540,199 as of December 31, 2001 from $6,086,548 as of June 30, 2001, primarily due to the net loss incurred during the six-month period ended December 31, 2001.

Management expects the Company to continue to operate at a net loss and experience negative cash flow from operating activities for the foreseeable future. The Company's existing cash, cash equivalents and secured line of credit will be insufficient to fund operations in the near term. The Company has received an offer to factor its receivables and is negotiating advances and a short-term loan from a customer. In addition, management is exploring other options for additional capital. Management believes that the Company will have sufficient cash and borrowing capacity to ensure the Company will continue operations in the near term.

FORWARD-LOOKING STATEMENTS

From time to time, in reports filed with the Securities and Exchange Commission (including this Form 10-K), 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", "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, the buying patterns of major customers; competitive forces including new products or pricing pressures; costs associated with and acceptance of the Company's TheraPatch brand strategy; impact of interruptions to production; dependence on key personnel; need for regulatory approvals; changes in governmental regulatory requirements or accounting pronouncements; ability to satisfy funding requirements for operating needs, expansion or capital expenditures and the matters discussed on our "Cautionary Statements" filed as Exhibit 99.01 to this from 10-K for the six-months ended December 31, 2001.

ITEM 7a. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company has no history of, and does not anticipate in the future, investing in derivative financial instruments, derivative commodity instruments or other such financial instruments. Transactions with international customers are entered into in U.S. dollars with the exception of TheraPatch sales to Canadian customers, precluding the need for foreign currency hedges. Canadian sales have not been material. Additionally, the Company invests in money market funds which experience minimal volatility. Thus, the exposure to market risk is not material.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

LecTec Corporation Financial Statements Furnished Pursuant to the Requirements of Form 10-K.

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Shareholders and
Board of Directors
LecTec Corporation

We have audited the accompanying balance sheets of LecTec Corporation as of December 31, 2001 and June 30, 2001, and the related statements of operations, shareholders' equity, and cash flows for the six months ended December 31, 2001 and each of the three years in the period ended

June 30, 2001. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of LecTec Corporation as of December 31, 2001 and June 30, 2001, and the results of their operations and their cash flows for the six months ended December 31, 2001 and each of the three years in the period ended June 30, 2001, in conformity with accounting principles generally accepted in the United States of America.

We have also audited Schedule II of LecTec Corporation for the six months ended December 31, 2001 and each of the three years in the period ended June 30, 2001. In our opinion, this Schedule presents fairly, in all material respects, the information required to be set forth therein.

/s/ GRANT THORNTON LLP

Minneapolis, Minnesota
January 29, 2002 (except for Note C, as to which the date is April 10, 2002)

LECTEC CORPORATION

BALANCE SHEETS

<TABLE>
<CAPTION>

ASSETS	December 31, 2001	June 30, 2001
<S>	<C>	<C>
CURRENT ASSETS		
Cash and cash equivalents	$1,425,205	$3,376,723
Receivables		
Trade, net of allowances of $99,000 and $108,500 at December 31, 2001 and June 30, 2001	487,504	1,519,232
Other	60,334	59,003
Inventories	1,527,543	2,051,938
Prepaid expenses and other	290,401	294,437
Total current assets	3,790,987	7,301,333
PROPERTY, PLANT AND EQUIPMENT		
Land	247,731	247,731
Building and improvements	1,971,031	1,971,031
Equipment	4,533,719	4,439,139
Furniture and fixtures	414,857	414,857
	7,167,338	7,072,758
Less accumulated depreciation	4,905,244	4,650,264
	2,262,094	2,422,494
OTHER ASSETS		
Patents and trademarks, less accumulated amortization of $1,227,627 and $1,189,787 at December 31, 2001 and June 30, 2001	297,073	243,949
	$6,350,154	$9,967,776

</TABLE>

The accompanying notes are an integral part of these statements.

<TABLE>
<CAPTION>

LIABILITIES AND SHAREHOLDERS' EQUITY	December 31, 2001	June 30, 2001
<S>	<C>	<C>
CURRENT LIABILITIES		
Current maturities of long-term obligations	$ 938,800	$ 38,311
Accounts payable	628,363	1,175,728
Accrued expenses		
Payroll related	349,885	366,467

Retail support programs	328,133	595,509
Restructuring charges	105,232	274,698
Other	259,372	495,892
Customer deposits	75,000	75,000
Total current liabilities	2,684,785	3,021,605
LONG-TERM OBLIGATIONS, less current maturities	125,170	859,623
COMMITMENTS AND CONTINGENCIES	-	-
SHAREHOLDERS' EQUITY		
Common stock, $.01 par value; 15,000,000 shares authorized; 3,940,920 and 3,922,384 shares issued and outstanding at December 31, 2001 and June 30, 2001	39,409	39,224
Additional contributed capital	11,360,552	11,344,166
Accumulated deficit	(7,859,762)	(5,296,842)
	3,540,199	6,086,548
	$ 6,350,154	$ 9,967,776

</TABLE>

LECTEC CORPORATION

STATEMENTS OF OPERATIONS

<TABLE>
<CAPTION>

	Six months ended December 31, 2001	Years ended June 30, 2001	2000	1999
<S>	<C>	<C>	<C>	<C>
Net sales	$ 5,119,391	$ 15,928,832	$ 14,596,346	$ 12,279,075
Cost of goods sold	3,630,252	10,506,231	9,475,129	8,185,514
Gross profit	1,489,139	5,422,601	5,121,217	4,093,561
Operating expenses				
Sales and marketing	2,308,045	4,377,580	3,672,908	2,187,710
General and administrative	1,272,244	2,957,098	2,598,998	2,507,432
Research and development	466,306	919,786	1,094,808	1,169,743
Restructuring charge	-	303,759	-	-
Medical tape asset impairment	-	-	645,000	-
	4,046,595	8,558,223	8,011,714	5,864,885
Loss from operations	(2,557,456)	(3,135,622)	(2,890,497)	(1,771,324)
Other income (expenses)				
Interest expense	(67,558)	(151,272)	(35,405)	(1,173)
Gain on disposition of assets	-	4,662,210	-	-
Other, net	45,996	16,176	27,692	89,240
Earnings (loss) before income taxes	(2,579,018)	1,391,492	(2,898,210)	(1,683,257)
Income taxes	(16,098)	48,000	(38,934)	-
Net earnings (loss)	$ (2,562,920)	$ 1,343,492	$ (2,859,276)	$ (1,683,257)
Net earnings (loss) per share				
Basic	$ (0.65)	$ 0.34	$ (0.74)	$ (0.43)
Diluted	$ (0.65)	$ 0.34	$ (0.74)	$ (0.43)
Weighted average shares outstanding				
Basic	3,925,608	3,911,577	3,885,911	3,906,694
Diluted	3,925,608	3,925,851	3,885,911	3,906,694

</TABLE>

The accompanying notes are an integral part of these statements.

LECTEC CORPORATION

STATEMENTS OF SHAREHOLDERS' EQUITY

<TABLE>
<CAPTION>

	Common stock		Additional contributed capital	Accumulated other comprehensive gain (loss)	Accumulated deficit	Comprehensive earnings (loss)
	Shares	Amount				
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Balance at July 1, 1998	4,036,000	$40,360	$11,769,053	$ (8,508)	$(2,097,801)	
Common shares issued upon exercise of options	1,000	10	2,390	-	-	
Common shares issued in connection with the						

employee stock option plan	15,126	151	32,855	-	-	
Shares repurchased	(175,650)	(1,756)	(541,644)	-	-	
Net loss	-	-	-	-	(1,683,257)	$(1,683,257)
Unrealized loss on securities available-for-sale	-	-	-	(3,333)	-	(3,333)
Comprehensive loss						$(1,686,590)
Balance at June 30, 1999	3,876,476	38,765	11,262,654	(11,841)	(3,781,058)	
Common shares issued upon exercise of options	500	5	1,295	-	-	
Common shares issued in connection with the employee stock purchase plan	27,489	275	52,311	-	-	
Net loss	-	-	-	-	(2,859,276)	$(2,859,276)
Unrealized gain on securities available-for-sale	-	-	-	16,686	-	16,686
Comprehensive loss						$(2,842,590)
Balance at June 30, 2000	3,904,465	39,045	11,316,260	4,845	(6,640,334)	
Realized loss on securities available for sale	-	-	-	(4,845)	-	
Common shares issued in connection with the employee stock purchase plan	17,919	179	27,906	-	-	
Net earnings	-	-	-	-	1,343,492	$ 1,343,492
Comprehensive earnings						$ 1,343,492
Balance at June 30, 2001	3,922,384	39,224	11,344,166	-	(5,296,842)	
Common shares issued in connection with the employee stock purchase plan	18,536	185	16,386	-	-	
Net loss	-	-	-	-	(2,562,920)	$(2,562,920)
Comprehensive loss						$(2,562,920)
Balance at December 31, 2001	3,940,920	$39,409	$11,360,552	$ -	$(7,859,762)	

</TABLE>

The accompanying notes are an integral part of these statements.

LECTEC CORPORATION

STATEMENTS OF CASH FLOWS

<TABLE>
<CAPTION>

<S>	Six months ended December 31, 2001 <C>	Years ended June 30, 2001 <C>	2000 <C>	1999 <C>
Cash flows from operating activities:				
Net earnings (loss)	$(2,562,920)	$ 1,343,492	$(2,859,276)	$(1,683,257)
Adjustments to reconcile net earnings (loss) to net cash used in operating activities:				
Medical tape asset impairment and inventory write-down	-	-	730,000	-
Gain on disposition of assets	-	(4,662,210)	-	-
Restructuring charge	-	274,698	-	-
Depreciation and amortization	292,820	521,276	908,024	851,087
Deferred income taxes	-	-	157,000	-
Changes in operating assets and liabilities, net of dispositions:				
Trade and other receivables	1,030,397	(297,647)	(294,165)	(61,620)
Refundable income taxes	-	-	-	52,000
Inventories	524,395	(177,646)	(336,162)	(278,513)
Prepaid expenses and other	4,036	(73,923)	(45,840)	(71,611)
Accounts payable	(547,365)	(103,675)	265,643	835,761
Accrued expenses	(689,944)	337,513	42,917	167,154
Customer deposits	-	(85,000)	160,000	-
Net cash used in operating activities	(1,948,581)	(2,923,122)	(1,271,859)	(188,999)
Cash flows from investing activities:				
Purchase of property, plant and equipment	(94,580)	(371,906)	(424,448)	(419,469)
Investment in patents and trademarks	(90,964)	(141,215)	(138,553)	(79,513)
Net proceeds from disposition of assets	-	6,666,988	-	-
Proceeds from the sale of investments	-	11,076	-	-
Net cash provided by (used in)				

investing activities	(185,544)	6,164,943	(563,001)	(498,982)
Cash flows from financing activities:				
Issuance of common stock	16,571	28,085	53,586	35,006
Repurchases and retirement of common stock	-	-	-	(543,400)
Net borrowings (repayments) on note payable	-	(837,542)	837,542	-
Proceeds from borrowing on long-term obligations	187,832	867,703	33,649	36,849
Repayment of long-term obligations	(21,796)	(23,515)	(11,771)	(4,981)
Net cash provided by (used in) financing activities	182,607	34,731	913,006	(476,526)
Net increase (decrease) in cash and cash equivalents	(1,951,518)	3,276,552	(921,854)	(1,164,507)
Cash and cash equivalents - beginning	3,376,723	100,171	1,022,025	2,186,532
Cash and cash equivalents - end	$ 1,425,205	$ 3,376,723	$ 100,171	$ 1,022,025

</TABLE>

LECTEC CORPORATION

STATEMENTS OF CASH FLOWS - CONTINUED

<TABLE>
<CAPTION>

<S>	Six months ended December 31, 2001 <C>	Years ended June 30, 2001 <C>	2000 <C>	1999 <C>
Supplemental disclosure of cash flow information:				
Cash paid during the year for interest	$ 57,600	$ 161,664	$ 28,085	$ 792
Cash paid during the year for income taxes	$ 56,000	$ 2,000	$ -	$ 22,010

</TABLE>

The accompanying notes are an integral part of these statements.

LECTEC CORPORATION

NOTES TO FINANCIAL STATEMENTS

NOTE A - SUMMARY OF ACCOUNTING POLICIES

LecTec Corporation (the "Company") is primarily engaged in the research, design, manufacture and sale of therapeutic consumer products. The Company's customers are located throughout the United States as well as Canada and Asia. A summary of the Company's significant accounting policies consistently applied in the preparation of the accompanying financial statements follows:

Cash and Cash Equivalents

The Company considers all highly liquid temporary investments purchased with original maturities of three months or less to be cash equivalents. At times, cash and cash equivalents may be in excess of FDIC insurance limits.

Accounts Receivable

The Company grants credit to customers in the normal course of business, but generally does not require collateral or any other security to support amounts due. Management performs on-going credit evaluation of customers. The Company maintains allowances for potential credit losses which, when realized, have been within management expectations.

Investments

The Company has had investments which were classified as available-for-sale and were reported at fair value. The Company utilized the specific identification method in computing realized gains and losses on these investments.

Inventories

Inventories are stated at the lower of cost (determined on a first-in, first-out basis) or market and consist of the following:

<TABLE>
<CAPTION>

<S>	December 31, 2001 <C>	June 30, 2001 <C>

Raw materials	$1,159,685	$1,517,167
Work in process	5,198	4,850
Finished goods	362,660	529,921
	----------	----------
	$1,527,543	$2,051,938
	==========	==========

</TABLE>

NOTE A - SUMMARY OF ACCOUNTING POLICIES - Continued

Long-Lived Assets

Property, plant, and equipment is recorded at cost. Depreciation is provided in amounts sufficient to relate the cost of depreciable assets to operations over their estimated service lives. The straight-line method of depreciation is followed for financial reporting purposes, and accelerated methods are used for tax purposes. Estimated useful lives used in the calculation of depreciation for financial statement purposes are:

Buildings and improvements	5 - 40 years
Equipment	4 - 15 years
Furniture and fixtures	5 - 7 years

Patents and trademarks consist primarily of the cost of applying for patents and trademarks and are amortized on a straight-line basis over the estimated useful life of the asset, generally five years.

The carrying value of long-lived assets is reviewed periodically or when factors indicating impairment are present. Projected undiscounted cash flows are used when reviewing these assets.

Revenue Recognition

Revenue is recognized when the product has been shipped and accepted by the customer and collection is probable.

Advertising

The Company expenses the cost of advertising as incurred, except for the cost of television commercials which are expensed as the commercials are broadcast. Advertising expense totaled approximately $682,000, $1,233,000, $536,000 and $271,000, for the six months ended December 31, 2001 and the years ended June 30, 2001, 2000 and 1999.

Research and Development

Research and development costs are expensed as incurred.

NOTE A - SUMMARY OF ACCOUNTING POLICIES - Continued

Net Earnings (Loss) Per Share

Basic net earnings (loss) per share is computed by dividing net earnings (loss) by the weighted average number of common shares outstanding. Diluted net earnings (loss) per share is computed by dividing net earnings (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 and warrants to purchase 1,203,763, 1,044,129, 1,048,205 and 897,506 shares of common stock with a weighted average exercise price of $4.75, $5.39, $6.07 and $7.54 were outstanding during the six months ended December 31, 2001 and the years ended June 30, 2001, 2000 and 1999, but were excluded because they were antidilutive.

Stock Based Compensation

The Company utilizes the intrinsic value method of accounting for its stock-based employee compensation plan. Pro-forma information related to the fair value based method of accounting is disclosed in Note H.

Fair Value of Financial Instruments

Due to their short-term nature, the carrying value of current financial assets and liabilities approximates their fair values. The fair value of long-term obligations, if recalculated based on current interest rates, would not significantly differ from the recorded amounts.

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 the 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.

NOTE B - CHANGE IN YEAR END

Effective September 5, 2001, the Company changed its year end to December 31 from June 30.

The following unaudited condensed information presents the six month period ended December 31, 2000 and is presented for comparative purposes to the six month period ended December 31, 2001, which is included in the financial statements.

<TABLE>
<CAPTION>

STATEMENT OF OPERATIONS

	Six months ended December 31, 2000
Net sales	$ 8,245,378
Cost of goods sold	5,252,574
Gross profit	2,992,804
Operating expenses	4,196,000
Loss from operations	(1,203,196)
Other expense, net	(86,701)
Loss before income taxes	(1,289,897)
Income taxes	-
Net loss	$(1,289,897)

STATEMENT OF CASH FLOWS

	Six months ended December 31, 2000
Cash flows from operating activities	$ 112,252
Cash flows from investing activities:	
Purchase of property and equipment	(183,651)
Investment in patents and trademarks	(85,789)
Proceeds from the sale of investments	11,076
Net cash used in investing activities	(258,364)
Cash flows from financing activities:	
Issuance of common stock	16,681
Net repayments on note payable	(494,217)
Proceeds from borrowing on long-term obligations	820,000
Repayment of long-term obligations	(10,903)
Net cash provided by financing activities	331,561
Net increase in cash and cash equivalents	185,449
Cash and cash equivalents at beginning of period	100,171
Cash and cash equivalents at end of period	$ 285,620

</TABLE>

NOTE C - LIQUIDITY

Since inception, the Company has experienced negative cash flows and incurred net losses, resulting in an accumulated deficit of $7,859,762 at December 31, 2001. Management expects to continue to operate at a net loss and experience negative cash flow from operating activities.

The Company has received an offer to factor its receivables and is negotiating advances and a short-term loan from a customer. In addition, management is exploring other options for additional capital. Management believes that the Company has sufficient cash and borrowing capacity to ensure the Company will continue operations in the near term.

NOTE D - NOTE PAYABLE TO BANK

The Company maintains a secured line of credit with a maximum borrowing of $2,000,000 as defined in the agreement. The credit agreement expires November 22, 2003 and includes interest computed at the prime rate plus 3% (effective rate of 7.75% and 9.75% at December 31, 2001 and June 30, 2001). The agreement includes a minimum annual interest charge for each year of the agreement ($50,000, $80,000 and $95,000 for the years ended November 22, 2002, 2001 and 2000). There were no borrowings outstanding on the line of credit at December 31, 2001. The Company was not in compliance with certain covenants at December 31, 2001. Borrowings under the credit agreement are collateralized by substantially all of the Company's assets.

NOTE E - LONG-TERM OBLIGATIONS

The Company has a mortgage note payable to a bank. The principal balance of $820,000 at December 31, 2001 and June 30, 2001, is due in December 2002 with monthly interest payments due computed at the prime rate plus 5% (effective rate of 9.75% at December 31, 2001 and 11.75% at June 30, 2001). The mortgage is collateralized by the Company's real property. The remainder of long-term obligations consists of capital lease obligations, due in various monthly installments up to $8,015 including interest up to 19.1% through June 2005, collateralized by equipment.

NOTE E - LONG-TERM OBLIGATIONS - Continued

Maturities of long-term obligations are as follows:

<TABLE>
<CAPTION>

Years ending December 31:	
<S>	<C>
2002	$ 938,800
2003	114,400
2004	8,200
2005	2,570

	$1,063,970
	==========

</TABLE>

NOTE F - COMMITMENTS AND CONTINGENCIES

Leases

The Company conducts portions of its operations in a leased facility that expires June 30, 2002. The lease provides for payment of a portion of taxes and other operating expenses by the Company. Total rent expense for operating leases was $98,215, $265,595, $260,481 and $250,641 for the six months ended December 31, 2001 and years ended June 30, 2001, 2000 and 1999. The Company also leases various equipment under operating leases that expire December, 2004.

Future minimum lease commitments under all operating leases are as follows:

<TABLE>
<CAPTION>

Years ending December 31:	
<S>	<C>
2002	$142,800
2003	2,300
2004	1,900

</TABLE>

NOTE F - COMMITMENTS AND CONTINGENCIES - Continued

Employee Benefit Plan

The Company maintains a contributory 401(k) profit sharing benefit plan covering substantially all employees. The Company matches 50% of employee contributions up to 5% of a participant's compensation. The Company's contributions under this plan were $35,561, $86,750, $81,474 and $71,006 for the six months ended December 31, 2001 and the years ended June 30, 2001, 2000 and 1999. The Company may also make a discretionary contribution. No discretionary contributions were made for the six months ended December 31, 2001 and each of the three years ended June 30, 2001, 2000 and 1999.

Legal Proceedings

The Company is subject to various legal proceedings in the normal course of business. Management believes these proceedings will not have a material adverse effect on the Company's financial position or results of operations.

NOTE G - INCOME TAXES

Income tax expense (benefit) consists of the following:

<TABLE>
<CAPTION>

	Six months ended December 31, 2001	Years ended June 30, 2001	2000	1999
<S>	<C>	<C>	<C>	<C>
Current	$(16,098)	$48,000	$(195,934)	$ -
Deferred	-	-	157,000	-
	$(16,098)	$48,000	$ (38,934)	$ -

</TABLE>

NOTE G - INCOME TAXES - Continued

Differences between income tax expense (benefit) and the statutory federal income tax rate of 34% are as follows:

<TABLE>
<CAPTION>

	December 31, 2001	June 30, 2001	June 30, 2000	June 30, 1999
<S>	<C>	<C>	<C>	<C>
Federal statutory income tax rate	(34.0)%	34.0%	(34.0)%	(34.0)%
State income taxes, net of federal effect	.1	.1	.1	--
Change in valuation allowance	42.0	(35.4)	33.6	34.4
Other	(8.7)	4.8	(1.0)	(.4)
	(.6)%	3.5%	(1.3)%	--

</TABLE>

Deferred tax assets and liabilities consists of the following:

<TABLE>
<CAPTION>

	December 31, 2001	June 30, 2001
<S>	<C>	<C>
Current assets and liabilities:		
Inventories	$ 79,200	$ 150,500
Vacation pay	63,300	57,300
Restructuring accrual	48,300	109,400
Other	120,500	227,800
Net current asset	311,300	545,000
Long-term assets and liabilities:		
Net operating loss carryforwards	2,788,300	1,640,000
Tax credit carryforwards	316,300	287,600
Tax depreciation in excess of book depreciati	(83,200)	(210,100)
Charitable contribution carryforwards	14,300	--
Other	68,300	70,200
Net long-term asset	3,104,000	1,787,700
Net deferred tax asset	3,415,300	2,332,700
Less valuation allowance	(3,415,300)	(2,332,700)
Net deferred tax asset	$ --	$ --

</TABLE>

NOTE G - INCOME TAXES - Continued

At December 31, 2001, the Company has available net operating loss carryforwards of approximately $8,200,000 which can be used to reduce future taxable income. The utilization of a portion of these net operating loss carryforwards is restricted under Section 382 of the Internal Revenue Code due to past ownership changes. These net operating loss carryforwards begin to expire in 2007. A valuation allowance has been recorded for these net operating loss carryforwards and all other deferred tax assets as they may not be realizable. The Company continually reviews the adequacy of the valuation allowance and recognizes those benefits only as the Company's assessment indicates that it is more likely than not that future tax benefits will be realized.

NOTE H - EQUITY TRANSACTIONS

Employee Stock Purchase Plan

The Company's employee stock purchase plan, adopted November 19, 1998, allows eligible employees to purchase shares of the Company's common stock through payroll deductions. The purchase price is the lower of 85% of the fair market value of the stock on the first or last day of each six-month period during which an employee participated in the plan. The Company has reserved 200,000 shares under the plan. The Company issued 18,536, 17,919, 27,489 and 15,126 shares in connection with purchases by employees for $16,571, $28,085, $52,586 and $33,006 for the six months ended December 31, 2001 and three years ended June 30, 2001, 2000 and 1999.

Stock Options and Warrants

The Company has stock option plans for the benefit of selected officers, employees and directors of the Company. A total of 751,000 shares of common stock are available for grants of options under the plans at December 31, 2001. Options under the Company's plans are granted at fair market value and expire at five or ten years from the grant date. Options given to directors are exercisable at the date of grant. Options given to selected officers and employees are exercisable at such times as set forth in the individual option agreements, generally vesting 100% after three to four years.

NOTE H - EQUITY TRANSACTIONS - Continued

A summary of the Company's stock option transactions for the six months ended December 31, 2001 and the years ended June 30, 2001, 2000 and 1999 is as follows:

<TABLE>
<CAPTION>

<S>	Number of shares <C>	Weighted average exercise price <C>
Outstanding at July 1, 1998	847,620	$7.86
Granted	304,200	2.76
Exercised	(1,000)	2.00
Canceled	(16,994)	8.74
Outstanding at June 30, 1999	1,133,826	6.48
Granted	115,000	3.04
Exercised	(500)	2.00
Canceled	(221,704)	8.44
Outstanding at June 30, 2000	1,026,622	5.68
Granted	285,000	2.20
Exercised	--	--
Canceled	(176,007)	5.23
Outstanding at June 30, 2001	1,135,615	4.87
Granted	109,000	1.82
Exercised	--	--
Canceled	(167)	2.94
Outstanding at December 31, 2001	1,244,448	4.60

=========

</TABLE>

A total of 754,709, 716,667, 604,971 and 593,876 options were exercisable at December 31, 2001, June 30, 2001, 2000 and 1999, with a weighted average price of $6.02, $5.93, $6.54 and $7.83.

NOTE H - EQUITY TRANSACTIONS - Continued

The following information applies to grants that are outstanding at December 31, 2001:

<TABLE>
<CAPTION>

		Options outstanding			Options exercisable	
	Range of exercise prices	Number outstanding	Weighted average remaining contractual life	Weighted average exercise price	Number exercisable	Weighted average exercise price
<S>	<C>	<C>	<C>	<C>	<C>	<C>
	$1.75 - $2.50	427,500	4.1 years	$2.09	88,918	$ 2.05
	$2.75 - $3.88	322,200	3.0 years	2.93	191,043	2.96
	$4.38 - $6.25	175,500	5.9 years	5.36	155,500	5.42
	$6.63 - $9.52	181,248	3.5 years	7.98	181,248	7.98
	$10.00 - $11.25	138,000	4.4 years	10.91	138,000	10.91
		1,244,448			754,709	

</TABLE>

The weighted average fair value of the options granted during the six months ending December 31, 2001 and the years ending June 30, 2001, 2000 and 1999 was $1.29, $1.52, $1.84 and $1.47. The fair value of each option grant is estimated on the date of grant using the Black-Scholes option valuation model with the following weighted-average assumptions used for all grants during the six months ending December 31, 2001 and the years ending June 30, 2001, 2000 and 1999: zero dividend yield, expected volatility of 95%, 96%, 74% and 62%, risk-free interest rate of 4.18%, 4.97%, 6.53% and 5.77% and expected lives of 4.0 years.

Management believes the Black-Scholes option valuation model currently provides the best estimate of fair value. However, the Black-Scholes option valuation model was developed for use in estimating the fair value of traded options which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of several subjective assumptions. The Company's employee and director stock options have characteristics different from those of traded options, and changes in the subjective input assumptions can materially affect the fair value estimate. In management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its employee and director stock options.

NOTE H - EQUITY TRANSACTIONS - Continued

The Company's net earnings (loss) and net earnings (loss) per share for the six months ending December 31, 2001 and the years ending June 30, 2001, 2000 and 1999 would have been changed to the pro forma amounts indicated below had the fair value method been used for options granted to employees and directors. These effects may not be representative of the future effects of applying this method.

	Six months ended December 31, 2001		Years ended June 30, 2001		2000		1999	
	As reported	Pro forma	As reported	Pro forma	As reported	Pro forma	As reported	Pro forma
Net earnings (loss)	$(2,562,920)	$(2,745,293)	$1,343,492	$873,179	$(2,859,276)	$(3,447,381)	$(1,683,257)	$(2,201,974)
Net earnings (loss) per share - basic/diluted	$(.65)	$(.70)	$.34	$.22	$(.74)	$(.89)	$(.43)	$(.56)

Stock Repurchase Program

In April 1998, the Company's Board of Directors authorized a stock repurchase program pursuant to which up to 500,000 shares, or approximately 12.4% of the Company's outstanding common stock, may be repurchased. The shares may be purchased from time to time through open market transactions, block purchases, tender offers, or in privately negotiated transactions. The total consideration for all shares repurchased under this program cannot exceed $2,000,000. There were no shares repurchased during the six months ending December 31, 2001 and years ended June 30, 2001 and 2000. During the year ended June 30, 1999, the Company repurchased 175,650 shares for $543,400.

Warrants

The Company has outstanding warrants to an outside party to purchase 12,953 shares of common stock. The warrants are fully exercisable and entitle the holder to purchase common stock at $6.25 per share until November 20, 2004.

NOTE I - SEGMENT INFORMATION

The Company operates its business in one reportable segment - the manufacture and sale of products based on advanced skin interface technologies. Each of the Company's major product lines have similar economic characteristics, technology, manufacturing processes, and regulatory environments. Customers and distribution and marketing strategies vary within major product lines as well as overlap between major product lines. The Company's executive decision makers evaluate sales performance based on the total sales of each major product line

NOTE I - SEGMENT INFORMATION - Continued

and profitability on a total company basis, due to shared infrastructures, to make operating and strategic decisions. The Company sold the conductive and medical tape product lines during fiscal year ending June 30, 2001, but continues to manufacture conductive products for the buyer. Net sales by major product line were as follows:

	Six months ended December 31, 2001	Years ended June 30, 2001	2000	1999
Conductive products	$1,024,336	$ 6,563,924	$ 7,450,755	$ 7,758,286

Medical tape products	--	127,436	1,927,392	2,716,540
Therapeutic consumer products	4,095,055	9,237,472	5,218,199	1,804,249
	$5,119,391	$15,928,832	$14,596,346	$12,279,075

</TABLE>

Export sales accounted for approximately 2%, 8%, 13% and 13% of total net sales during the six months ended December 31, 2001 and years ended June 30, 2001, 2000, and 1999. Export sales are attributed to geographic region based upon the location of the customer. The conductive and medical tape product lines have been sold during the year ended June 30, 2001 and 2000 and accounted for all the export sales other than to Canada and Asia. Export sales by geographic area were as follows:

<TABLE>
<CAPTION>

	Six months ended December 31,	Years ended June 30,		
	2001	2001	2000	1999
<S>	<C>	<C>	<C>	<C>
Europe	$ --	$ 815,796	$1,006,412	$1,216,199
Latin America	--	139,613	547,904	371,654
Asia	46,512	72,851	46,279	31,935
Canada	80,146	215,686	298,884	7,011
Middle East	--	--	10,272	--
Other	--	7,950	25,962	28,333
	$ 126,658	$1,251,896	$1,935,713	$1,655,132

</TABLE>

NOTE J - MAJOR CUSTOMERS

The Company had sales greater than 10% to the following customers:

<TABLE>
<CAPTION>

	Six months ended December 31,	Year ended June 30,		
	2001	2001	2000	1999
Customers:				
<S>	<C>	<C>	<C>	<C>
A	33%	20%	*	*
B	14%	16%	*	*
C	20%	*	*	*
D	*	12%	17%	22%

</TABLE>

*Sales were less than 10%.

The accounts receivable from customer A represented 13% and 18% of trade receivables at December 31, 2001 and June 30, 2001. The accounts receivable from customer B represented 19% of trade receivables at December 31, 2001 and June 30, 2001. The accounts receivable from customer C represented 14% and 15% of trade receivables at December 31, 2001 and June 30, 2001. Management believes that the loss of these three major customers could have a material adverse effect on the Company. There were no accounts receivable from customer D at June 30, 2001 as this conductive products customer will no longer generates sales due to the sale of the Company's conductive business assets during the year ended June 30, 2001.

NOTE K - RECENT ACCOUNTING PRONOUNCEMENTS

In July 2001, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) 141, Business Combinations, and SFAS 142, Goodwill and Intangible Assets. SFAS 141 is effective for all business combinations completed after June 30, 2001. SFAS 142 is effective for fiscal years beginning after December 15, 2001. The Company is currently reviewing the affect of these Statements on their financial statements.

In September 2001, the FASB issued SFAS 143, Accounting for Asset Retirement Obligations and SFAS 144, Accounting for the Impairment or Disposal of Long-lived Assets. SFAS 143 gives guidance on the accounting for asset retirement obligations. SFAS 144 clarifies the guidance used to measure impairment and clarifies the accounting for disposals of long-lived assets. These Statements are effective for the Company for the year ended December 31, 2002. The Company is currently reviewing the affect of these Statements on their financial statements.

NOTE L - QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

<TABLE>
<CAPTION>

<S>	Quarter ended September 30, 2001 <C>	Quarter ended December 31, 2001 <C>
Net sales	$2,725,261	$2,394,130
Gross profit	940,681	548,458
Net loss	(1,190,124)	(1,372,796)
Net loss per share		
Basic and diluted	$(.30)	$(.35)
Weighted average common shares outstanding		
Basic and diluted	3,922,384	3,928,831

</TABLE>

<TABLE>
<CAPTION>

	Year ended June 30, 2001			
<S>	First quarter <C>	Second quarter <C>	Third quarter* <C>	Fourth quarter** <C>
Net sales	$4,188,894	$4,056,484	$4,171,778	$3,511,676
Gross profit	1,634,031	1,358,773	1,436,641	993,156
Net earnings (loss)	(597,901)	(691,996)	(543,781)	3,177,170
Net earnings (loss) per share				
Basic	$ (0.15)	$ (0.18)	$ (0.14)	$ 0.81
Diluted	$ (0.15)	$ (0.18)	$ (0.14)	$ 0.80
Weighted average common shares outstanding				
Basic	3,904,465	3,908,364	3,915,676	3,917,961
Diluted	3,904,465	3,908,364	3,915,676	3,990,170

</TABLE>

* Includes a gain of $103,624 from the disposition of the Medical Tape assets (see note M).

** Includes a gain of $4,558,586 from the sale of the Conductive Business assets and a related restructuring charge of $303,759 (see note N).

NOTE L - QUARTERLY FINANCIAL INFORMATION (UNAUDITED) - Continued

<TABLE>
<CAPTION>

Year ended June 30, 2000

	First quarter	Second quarter	Third quarter	Fourth quarter*
<S>	<C>	<C>	<C>	<C>
Net sales	$ 3,008,752	$ 3,299,705	$ 3,934,825	$ 4,353,064
Gross profit	939,281	1,063,014	1,511,661	1,607,261
Net loss	(603,282)	(795,167)	(643,328)	(817,499)
Net loss per share				
Basic and diluted	$ (0.16)	$ (0.20)	$ (0.17)	$ (0.21)
Weighted average common shares outstanding				
Basic and diluted	3,876,476	3,881,352	3,890,494	3,895,479

</TABLE>

* Includes a charge of $645,000 relating to the disposition of Medical Tape assets (see note M).

NOTE M - DISPOSITION OF MEDICAL TAPE ASSETS

During the third quarter of 2001, the Company sold its medical tape manufacturing equipment and other related assets. Net proceeds from the sale were $630,000 consisting of the purchase price of $700,000 less transaction costs of $70,000. The Company realized a gain on the sale of $103,624. The sale of the medical tape equipment finalized the Company's plan to exit the medical tape business which was adopted at the end of the fiscal year 2000. Adoption of this plan originally resulted in a charge of $645,000 during fiscal year 2000 related to the write-down of the medical tape equipment to its estimated fair market value of $525,375 at June 30, 2000.

NOTE N - SALE OF CONDUCTIVE BUSINESS ASSETS AND RESTRUCTURING

During the fourth quarter of the year ending June 30, 2001, the Company sold its diagnostic electrode and electrically conductive adhesive hydrogel business assets which were used to produce the Company's conductive products. Net proceeds from the sale were $6,036,988 consisting of the purchase price of $7,268,404 less transaction costs of $1,231,416. The net assets sold as part of the transaction were carried at a cost of $1,478,402. The Company realized a gain on the sale of $4,558,586. Under a manufacturing and supply agreement between the Company and the buyer, the Company will continue to manufacture, and supply to the buyer, certain conductive products for the six months ending December 31, 2001 and a portion of the year ending December 31, 2002. The Company will supply the products at its cost of production through October 31, 2001 and at its cost of production plus 10% until January 31, 2002. Thereafter, the Company will supply the products at normal margins.

NOTE N - SALE OF CONDUCTIVE BUSINESS ASSETS AND RESTRUCTURING - Continued

Revenues and cost of goods sold for the medical tape business and conductive business are as follows:

<TABLE>
<CAPTION>

	Six months ended December 31, 2001	Year ended June 30, 2001	2000	1999
<S>	<C>	<C>	<C>	<C>
Net sales				
Conductive products	$ 1,024,000	$ 6,564,000	$ 7,451,000	$ 7,758,000
Medical tape products	--	127,000	1,927,000	2,717,000
	1,024,000	6,691,000	9,378,000	10,475,000
Cost of good sold				
Conductive products	1,019,000	4,940,000	5,230,000	4,780,000
Medical tape products	--	178,000	2,048,000	2,685,000

	1,019,000	5,118,000	7,278,000	7,465,000
Gross profit	$ 5,000	$ 1,573,000	$ 2,100,000	$ 3,010,000

</TABLE>

A non-recurring restructuring charge of $303,759 was incurred in the fourth quarter of the year ending June 30, 2001 relating to the sale of the Company's conductive business assets. The restructuring charge consists primarily of future rental payments for a leased facility, separation costs, and other costs associated with the wind-down of conductive business activity. During the six months ending December 31, 2001 and the year ended June 30, 2001, the separation costs include the termination of 23 production and 4 administrative employees. The total restructuring charge decreased the June 30, 2001 net income per basic and diluted share by $.08. The Company expects to complete the restructuring during fiscal year ending December 31, 2002.

Selected information regarding the restructuring accrual is as follows:

<TABLE>
<CAPTION>

<S>	Separation costs <C>	Facility costs <C>	Other costs <C>	Total <C>
Accrual at April 1, 2001	$ --	$ --	$ --	$ --
Restructuring accrual	111,637	122,702	69,420	303,759
Payments	(9,641)	--	(19,420)	(29,061)
Accrual at June 30, 2001	101,996	122,702	50,000	274,698
Payments	(80,066)	(61,350)	(28,050)	(169,466)
Accrual at December 31, 2001	$ 21,930	$ 61,352	$ 21,950	$ 105,232

</TABLE>

Item 9.

CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

PART III

Item 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information required under this item with respect to directors will be included under the heading "Election of Directors" in the Company's definitive Proxy Statement for the Annual Meeting of Shareholders to be held in June 2002, and is incorporated herein by reference. The information required under this item with respect to executive officers is included under the heading "Executive Officers of the Registrant" of Item 1 of this Form 10-K. The information required under this item with respect to officers, directors and persons who beneficially own more than 10% of the Company's Common Stock will be included under the heading "Section 16(a) Beneficial Ownership Reporting Compliance" in the Company's definitive Proxy Statement for the Annual Meeting of Shareholders to be held in June 2002, and is incorporated herein by reference.

Item 11. EXECUTIVE COMPENSATION

The information required under this item will be included under the heading "Executive Compensation" in the Company's definitive Proxy Statement for the Annual Meeting of Shareholders to be held in June 2002, and is incorporated herein by reference.

Item 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information required under this item will be included under the heading "Security Ownership of Certain Beneficial Owners and Management" in the Company's definitive Proxy Statement for the Annual Meeting of Shareholders to be held in June 2002, and is incorporated herein by reference.

Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Information required under this item with respect to certain relationships and related transactions will be included under the heading "Certain Relationships and Related Transactions" in the Company's definitive Proxy Statement for the Annual Meeting of Shareholders to be held in June 2002, and is incorporated herein by reference.

PART IV

Item 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

(a) Financial Statements, Schedules and Exhibits

1. Financial Statements

The following financial statements of the Company are filed as a part of this Form 10-K in Part II, Item 8:

(i) Report of Independent Certified Public Accountants
(ii) Balance Sheets at December 31, 2001and June 30, 2001

(iii) Statements of Operations for the six months ended December 31, 2001 and the years ended June 30, 2001, 2000 and 1999

(iv) Statements of Shareholders' Equity for the six months ended December 31, 2001 and for the years ended June 30, 2001, 2000 and 1999

(v) Statements of Cash Flows for the six months ended December 31, 2001 and for the years ended June 30, 2001, 2000 and 1999

(vi) Notes to Financial Statements

2. Financial Statement Schedules

(i) Schedule II - Valuation and Qualifying Accounts, for the six months ended December 31, 2001 and each of the three years in the period ended June 30, 2001

(ii) Other Schedules - All other schedules have been omitted because of the absence of the conditions under which they are required or because the required information is included in the financial statements or the notes thereto.

3. Exhibits

<TABLE>
<CAPTION>

<S>	<C>	<C>	Method of Filing <C>
	3.01	Articles of Incorporation of LecTec Corporation, as amended	(1)
	3.02	By laws of LecTec Corporation	(1)
	10.01	Certificate of Secretary pertaining to Resolution of Board of Directors of LecTec Corporation, dated October 30, 1986, implementing a Profit Sharing Bonus Plan	(1)
	**10.02	LecTec Corporation 1989 Stock Option Plan	(2)
	**10.03	LecTec Corporation 1991 Directors' Stock Option Plan	(2)
	10.04	Building lease dated May 24, 1991 between LecTec Corporation and Sierra Development Co.	(2)

</TABLE>

<TABLE>

<S>	<C>	<C>	<C>
	10.05	First amendment dated May 5, 1997 between LecTec Corporation and Rushmore Plaza Partners Limited Partnership	(2)
	10.06	Articles of Merger of Pharmadyne Corporation into LecTec Corporation dated December 31, 1997	(3)
	**10.07	Change In Control Termination Pay Plan adopted May 27, 1998	(3)
	**10.08	LecTec Corporation Employee Stock Purchase Plan	(4)
	**10.09	LecTec Corporation 1998 Stock Option Plan	(5)
	**10.10	LecTec Corporation 1998 Directors' Stock Option Plan	(5)
	10.11	Credit and Security Agreement by and between LecTec Corporation and Wells Fargo business Credit, Inc. dated November 22, 1999	(6)
	10.12	First Amendment To Credit and Security Agreement and Waiver of Defaults by and between LecTec Corporation and Wells Fargo Business Credit, dated February 9, 2000	(6)
	10.13	Second Amendment to Credit and Security Agreement and Waiver of Defaults by and Between LecTec Corporation and Wells Fargo Business Credit, Inc. dated September 26, 2000	(8)
	*10.14	Supply Agreement dated as of March 21, 2000 by and between LecTec Corporation and Johnson & Johnson Consumer Companies, Inc. and Neutrogena Corporation	(7)
	*10.15	Supply Agreement dated as of May 15, 2000 by and between LecTec Corporation and Novartis Consumer Health, Inc.	(7)
	10.16	Credit and Security Agreement by and between LecTec Corporation and Wells Fargo Bank Minnesota, National Association dated September 28, 2000	(8)
	10.17	Loan Agreement and Promissory Note by and between LecTec Corporation and Equity Holdings II dated December 21, 2000	(9)
	10.18	Asset Purchase Agreement dated November 17, 2000 by and among The Ludlow Company LP, Sherwood Services AG and LecTec Corporation	(10)
	10.19	Asset Purchase Agreement dated March 13, 2001 by and among The National Medical Products Co. Ltd. and LecTec Corporation	(11)
	**10.20	LecTec Corporation 2001 Stock Option Plan	(12)
	10.21	Fifth Amendment to Credit and Security Agreement and Waiver of Defaults by and Between LecTec Corporation and Wells Fargo Business Credit, Inc. dated November 13, 2001	(13)
	23.01	Consent of Grant Thornton LLP	(13)

</TABLE>

<TABLE>

<S>	<C>	<C>	<C>
	99.01	Cautionary Statements	(13)

</TABLE>

- --

* Confidential treatment has been granted for portions of this Exhibit pursuant to Rule 24b-2 under the Securities Exchange Act of 1934 as amended. The confidential portions have been deleted and filed separately with the United States Securities and Exchange Commission.

** Management contract or compensatory plan or arrangement required to be filed as an exhibit to this Form 10-K.

(1) Incorporated herein by reference to the Company's Form S-18 Registration Statement (file number 33-9774C) filed on October 31, 1986 and amended on December 12, 1986.

(2) Incorporated herein by reference to the Company's Annual Report on Form 10-K for the year ended June 30, 1997.

(3) Incorporated herein by reference to the Company's Annual Report on Form 10-K for the year ended June 30, 1998.

(4) Incorporated herein by reference to the Company's Registration Statement on Form S-8 (file number 333-72571) filed on February 18, 1999.

(5) Incorporated herein by reference to the Company's Registration Statement on Form S-8 (file number 333-72569) filed on February 18, 1999.

(6) Incorporated herein by reference to the Company's Quarterly Report on Form 10-Q for the quarter ended December 31, 1999.

(7) Incorporated herein by reference to the Company's Annual Report on Form 10-K for the year ended June 30, 2000, as amended.

(8) Incorporated herein by reference to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2000.

(9) Incorporated herein by reference to the Company's Quarterly Report on Form 10-Q for the quarter ended December 31, 2000.

(10) Incorporated herein by reference to the Company's Definitive Proxy Statement on Schedule 14A filed with the Commission on March 15, 2001

(11) Incorporated herein by reference to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2001.

(12) Incorporated herein by reference to the Company's Registration Statement on Form S-8 (file number 333-68920) filed on September 4, 2001.

(13) Filed herewith.

(b) Reports on Form 8-K

None.

LecTec Corporation
Schedule II
Valuation and Qualifying Accounts
Six Months Ended December 31, 2001 and the Three Years Ended June 30, 2001

<TABLE>
<CAPTION>

Description	Balance at beginning of period	Charged to costs and expenses	Charge to other accounts	Deductions	Balance at end of period
<S>	<C>	<C>	<C>	<C>	<C>
Allowance for doubtful accounts					
Year ended June 30, 1999	$90,818	$48,000	--	$37,067	$101,751
Year ended June 30, 2000	101,751	48,000	--	22,626	127,125
Year ended June 30, 2001	127,125	24,000	--	42,672	108,453
Six months ended Dec. 31, 2001	108,453	16,500	--	25,944	99,009
Allowance for sales returns and credits					
Year ended June 30, 1999	$88,668	$61,876	--	$93,787	$56,757
Year ended June 30, 2000	56,757	345,855	--	160,206	242,406

Year ended June 30, 2001	242,406	710,646	--	382,254	570,798
Six months ended Dec. 31, 2001	570,798	201,887	--	514,969	257,716
Allowance for inventory obsolescence					
Year ended June 30, 1999	$210,222	$243,198	--	$168,811	$284,609
Year ended June 30, 2000	284,609	267,911	--	406,545	145,975
Year ended June 30, 2001	145,975	326,257	--	343,442	128,790
Six months ended Dec. 31, 2001	128,790	60,000	--	99,635	89,155

</TABLE>

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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, on the 15th day of April, 2002.

LECTEC CORPORATION

/s/Rodney A. Young

Rodney A. Young
Chairman, Chief Executive Officer and President

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Rodney A. Young and Douglas J. Nesbit (with full power to act alone), as his or her true and lawful attorneys-in-fact and agents, with full powers of substitution and re-substitution, for him or her and in his or her name, place and stead, in any and all capacities, to sign any and all amendments to the Transition Report on Form 10-K of LecTec Corporation, and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents full power and authority to do and perform each and every act and thing requisite or necessary to be done in and about the premises, as fully to all intents and purposes as he or she might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or their substitute or substitutes, lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the date indicated.

/s/Rodney A. Young Rodney A. Young Chairman, Chief Executive Officer and President (Principal Executive Officer)	April 15, 2002
/s/Douglas J. Nesbit Douglas J. Nesbit Chief Financial Officer (Principal Financial Officer and Accounting Officer)	April 15, 2002
/s/Lee M. Berlin Lee M. Berlin Director	April 15, 2002
/s/Bert J. McKasy Bert J. McKasy Director	April 15, 2002
/s/Marilyn K. Speedie Marilyn K. Speedie Director	April 15, 2002
/s/Donald C. Wegmiller Donald C. Wegmiller Director	April 15, 2002

EXHIBIT INDEX

Exhibits

3.01 Articles of Incorporation of Registrant, as amended (Note 1).

3.02 By-laws of Registrant (Note 1).

10.01 Certificate of Secretary pertaining to Resolution of Board of Directors of LecTec Corporation, dated October 30, 1986, implementing a Profit Sharing Bonus Plan (Note 1).

***10.02 LecTec Corporation 1989 Stock Option Plan (Note 2).*

***10.03 LecTec Corporation 1991 Directors' Stock Option Plan (Note 2).*

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***10.20 LecTec Corporation 2001 Stock Option Plan (Note 12).*

10.21 Fifth Amendment to Credit and Security Agreement and Waiver of Defaults by and Between LecTec Corporation and Wells Fargo Business Credit, Inc. dated November 13, 2001. (Filed herewith)

23.01 Consent of Grant Thornton LLP. (Filed herewith)

99.01 Cautionary Statements. (Filed herewith)

Notes:

** Confidential treatment has been granted for portions of this Exhibit pursuant to Rule 24b-2 under the Securities Exchange Act of 1934 as amended. The confidential portions have been deleted and filed separately with the United States Securities and Exchange Commission.*

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(3) Incorporated herein by reference to the Company's Annual Report on Form 10-K for the year ended June 30, 1998.

(4) Incorporated herein by reference to the Company's Registration Statement on Form S-8 (file number 333-72571) filed on February 18, 1999.

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(6) Incorporated herein by reference to the Company's Quarterly Report on Form 10-Q for the quarter ended December 31, 1999.

(7) Incorporated herein by reference to the Company's Annual Report on Form 10-K for the year ended June 30, 2000, as amended.

(8) Incorporated herein by reference to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2000. (7)

(9) Incorporated herein by reference to the Company's Quarterly Report on Form 10-Q for the quarter ended December 31, 2000.

(10) Incorporated herein by reference to the Company's Definitive Proxy Statement on Schedule 14A filed with the Commission on March 15, 2001.

(11) Incorporated herein by reference to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2001.

(12) Incorporated herein by reference to the Company's Registration Statement on Form S-8 (file number 333-68920) filed on September 4, 2001.

EXHIBIT 10.21

FIFTH AMENDMENT TO CREDIT AND SECURITY AGREEMENT

This Amendment, dated as of November 13, 2001, is made by and between LECTEC CORPORATION, a Minnesota corporation (the "Borrower"), and WELLS FARGO BUSINESS CREDIT, INC., a Minnesota corporation (the "Lender").

RECITALS

The Borrower and the Lender have entered into a Credit and Security Agreement dated as of November 22, 1999 as amended by that certain First Amendment to Credit and Security Agreement dated as of February 9, 2000, that certain Second Amendment to Credit and Security Agreement dated as of September 26, 2000, that certain Third Amendment to Credit and Security Agreement dated as of September 28, 2000, that certain Fourth Amendment to Credit and Security Agreement dated as of October 26, 2000, a Waiver Agreement dated November 16, 2000 and a Waiver Agreement dated March 23, 2001 (as so amended and modified, the "Credit Agreement"). Capitalized terms used in these recitals have the meanings given to them in the Credit Agreement unless otherwise specified.

The Borrower has requested that certain amendments be made to the Credit Agreement, which the Lender is willing to make pursuant to the terms and conditions set forth herein.

NOW, THEREFORE, in consideration of the premises and of the mutual covenants and agreements herein contained, it is agreed as follows:

1. Defined Terms. Capitalized terms used in this Amendment which are defined in the Credit Agreement shall have the same meanings as defined therein, unless otherwise defined herein. In addition, Section 1.1 of the Credit Agreement is amended by adding or amending, as the case may be, the following definitions:

"Collateral" means all of the Borrower's Accounts, chattel paper, deposit accounts, documents, Equipment, General Intangibles, goods, instruments, Inventory, Investment Property, letter-of-credit rights, letters of credit, all sums on deposit in any Collateral Account, and any items in any Lockbox; together with (i) all substitutions and replacements for and products of any of the foregoing; (ii) in the case of all goods, all accessions; (iii) all accessories, attachments, parts, equipment and repairs now or hereafter attached or affixed to or used in connection with any goods; (iv) all warehouse receipts, bills of lading and other documents of title now or hereafter covering such goods; (v) all collateral subject to the Lien of any Security Document; (vi) any money, or other assets of the Borrower that now or hereafter come into the possession, custody, or control of the Lender; (vii) all sums on deposit in the Special Account; and (viii) proceeds of any and all of the foregoing.

"Documentary L/C Amount" means the sum of (i) the aggregate face amount of any issued and outstanding documentary Letters of Credit and (ii) the unpaid amount of the Obligation of Reimbursement with respect to documentary Letters of Credit.

"L/C Amount" means the sum of the Documentary L/C Amount and the Standby L/C Amount.

"Maximum Line" means $2,000,000 unless said amount is reduced pursuant to Section 2.10, in which event it means the amount to which said amount is reduced.

"Note" or "Revolving Note" means the Borrower's revolving promissory note, payable to the order of the Lender in substantially the form of Exhibit A hereto, as the same may hereafter be amended, supplemented or restated from time to time, and any note or notes issued in substitution therefor, as the same may hereafter be amended, supplemented or restated from time to time and any note or notes issued in substitution therefor.

In addition, the definitions of and all references to "Eximbank Adjusted Maximum Line," "Eximbank Agreement," "Eximbank Note," and "Tangible Net Worth" are hereby deleted.

2. Rules of Interpretation. Section 1.2 of the Credit Agreement is amended to read as follows:

"Section 1.2 Other Definitional Terms; Rules of Interpretation. The words "hereof", "herein" and "hereunder" and words of similar import when used in this Agreement shall refer to this Agreement as a whole and not to any particular provision of this Agreement. All accounting terms not otherwise defined herein have the meanings assigned to them in accordance with GAAP. All terms defined in the UCC and not otherwise defined herein have the meanings assigned to them in the UCC. References to Articles, Sections, subsections, Exhibits, Schedules and the like, are to Articles, Sections and subsections of, or Exhibits or Schedules attached to, this Agreement unless otherwise expressly provided. The words "include", "includes" and "including" shall be deemed to be followed by the phrase "without limitation". Unless the context in which used herein otherwise clearly requires, "or" has the inclusive meaning represented by the phrase "and/or". Defined terms include in the singular number the plural and in the plural number the singular. Reference to any agreement (including the Loan Documents), document or instrument means such agreement, document or instrument as amended or modified and in effect from time to time in accordance with the terms thereof (and, if applicable, in accordance with the terms hereof and the other Loan Documents), except where otherwise explicitly provided,

and reference to any promissory note includes any promissory note which is an extension or renewal thereof or a substitute or replacement therefor. Reference to any law, rule, regulation, order, decree, requirement, policy, guideline, directive or interpretation means as amended, modified, codified, replaced or reenacted, in whole or in part, and in effect on the determination date, including rules and regulations promulgated thereunder."

3. Letters of Credit. Section 2.2 of the Credit Agreement is hereby deleted in its entirety and replaced with the following:

Section 2.2 Letters of Credit.

(a) The Lender agrees, on the terms and subject to the conditions herein set forth, to cause an Issuer to issue, from the Funding Date to the Termination Date, one or more irrevocable standby or documentary letters of credit (each, a "Letter of Credit") for the Borrower's account. The Lender shall have no obligation to cause an Issuer to issue any Letter of Credit if the face amount of the Letter of Credit to be issued would exceed the lessor of:

(b) (i) with respect to irrevocable standby Letters of Credit, $250,000 less the Standby L/C Amount, plus

(ii) with respect to documentary Letters of Credit, $300,000 less the Documentary L/C Amount; or

(iii) with respect to the aggregate of irrevocable

standby Letters of Credit plus documentary Letters of Credit, the Borrowing Base less the sum of (A) all outstanding and unpaid Revolving Advances and (B) the L/C Amount.

(c) Each Letter of Credit, if any, shall be issued pursuant to a separate L/C Application entered into by the Borrower and the Lender for the benefit of the Issuer, completed in a manner satisfactory to the Lender and the Issuer. The terms and conditions set forth in each such L/C Application shall supplement the terms and conditions hereof, but if the terms of any such L/C Application and the terms of this Agreement are inconsistent, the terms hereof shall control.

(d) No Letter of Credit shall be issued with an expiry date later than the Termination Date in effect as of the date of issuance.

(e) Any request to cause an Issuer to issue a Letter of Credit under this Section 2.2 shall be deemed to be a representation by the Borrower that the conditions set forth in Section 4.2 have been satisfied as of the date of the request.

4. Minimum Interest. Section 2.6(b) of the Credit Agreement is hereby deleted in its entirety and replaced with the following:

Section 2.6 (b) MINIMUM INTEREST CHARGE. Notwithstanding the interest payable pursuant to Section 2.6(a) and 2.6(c), (i) so long as all activity hereunder relates to Letters of Credit and there are no Advances hereunder, the Borrower shall pay to the Lender interest of not less than $50,000 per year of this Agreement or (ii) if there are any Advances hereunder, the Borrower shall pay to the Lender Interest of not less than $100,000 per year of this Agreement (the "Minimum Interest Charge") during the term of this Agreement, and the Borrower shall pay any deficiency between the Minimum Interest Charge and the amount of interest otherwise calculated under Sections 2.6(a) and 2.6(c) on the date and in the manner provided in Section 2.8.

5. Unused Line Fee. The Lender agrees that so long as all activity under the Credit Agreement relates to Letters of Credit and there are no Advances, the unused line fee required under Section 2.7(b) of the Credit Agreement shall be waived.

6. Letter of Credit Fees. Section 2.7(c) of the Credit Agreement is hereby deleted in its entirety and replaced with the following:

Section 2.7(c) LETTER OF CREDIT FEES.

(i) Irrevocable Standby Letters of Credit. The Borrower agrees to pay the Lender a fee with respect to each irrevocable standby Letter of Credits, if any, accruing on a daily basis and computed at the annual rate of two percent (2%) of the aggregate amount that may then be drawn on all issued and outstanding irrevocable standby Letters of Credit assuming compliance with all conditions for drawing thereunder (the "Aggregate Standby Face Amount"), from and including the date of issuance of such irrevocable standby Letter of Credit until such date as such irrevocable standby Letter of Credit shall terminate by its terms or be returned to the Lender, due and payable monthly in arrears on the first day of each month and on the Termination Date; provided, however that during Default Periods, in the Lender's sole discretion and without waiving any of its other rights and remedies, such fee shall increase to four percent (4%) of the Aggregate Standby Face Amount. The foregoing fee shall be in addition to any and all fees, commissions and charges of any Issuer of a

Letter of Credit with respect to or in connection with such irrevocable standby Letter of Credit.

(ii) Documentary Letters of Credit. The Borrower agrees to pay the Lender a fee with respect to each documentary Letter of Credit, if any, computed at two percent (2%) of the face amount of such documentary Letter of Credit, due and payable upon issuance of such documentary Letter of Credit; provided, however that during Default Periods, in the

Lender's sole discretion and without waiving any of its other rights and remedies, such fee shall increase to four percent (4%). The foregoing fee shall be in addition to any and all fees, commissions and charges of any Issuer of a Letter of Credit with respect to or in connection with such Letter of Credit.

7. Maturity Date. The next "Maturity Date" under Section 2.10 shall be November 22, 2003.

8. Financing Statements. Section 3.6 of the Credit Agreement is amended by adding the following new sentence before the first sentence of that Section:

"The Borrower authorizes the Lender to file from time to time where permitted by law, such financing statements against collateral described as "all personal property" as the Lender deems necessary or useful to perfect the Security Interest."

9. Minimum Book Net Worth. Section 6.12 of the Credit Agreement is hereby deleted its entirety and replaced with the following:

Section 6.12 Minimum Book Net Worth. The Borrower will maintain, during each period described below, its Book Net Worth, determined as at the end of each month, at an amount not less than the amount set forth opposite such period:

<Table>
<Caption>

Period Ended	*Minimum Book Net Worth*
<S>	*<C>*
October 31, 2001	*$4,607,000*
November 30, 2001	*$4,264,000*
December 31, 2001	*$3,769,000*
January 31, 2002	*$3,577,000*
February 28, 2002	*$3,429,000*
March 31, 2002	*$3,226,000*
April 30, 2002	*$3,098,000*
May 31, 2002	*$2,874,000*
June 30, 2002	*$2,933,000*

</Table>

10. Minimum Earnings/Maximum Loss Before Taxes. Section 6.13 of the Credit Agreement is hereby deleted in its entirety and replaced with the following:

Section 6.13 Minimum Earnings/Maximum Loss Before Taxes. The Borrower will achieve during each period described below, year-to-date Earnings or Loss

Before Taxes, of not less than/greater than the amount set forth opposite such period [bracketed amounts indicate maximum Loss Before Taxes]:

Period Ended	Minimum Earnings/Maximum Loss Before Taxes
October 31, 2001	[$1,479,000]
November 30, 2001	[$1,822,000]
December 31, 2001	[$2,318,000]
January 31, 2002	[$ 292,000]
February 28, 2002	[$ 440,000]
March 31, 2002	[$ 643,000]
April 30, 2002	[$ 771,000]
May 31, 2002	[$ 995,000]
June 30, 2002	[$ 936,000]

11. New Covenants. Section 6.14 of the Credit Agreement is hereby deleted in its entirety and replaced with the following:

Section 6.14 New Covenants. On or before June 30, 2002, the Borrower and the Lender shall agree on new financial covenant levels for periods after such date. The new covenant levels will be based on the Borrower's projections for such periods and shall be no less stringent than the present levels.

12. Tangible Net Worth Covenant. Section 6.15 of the Credit Agreement relating to a Tangible Net Worth Covenant is hereby deleted in its entirety.

13. Capital Expenditures. Section 7.10 of the Credit Agreement is hereby deleted in its entirety and replaced with the following:

Section 7.10 Capital Expenditures. The Borrower will not incur or contract to incur Capital Expenditures of more than $150,000 in any single transaction or more than $350,000 in the aggregate during any fiscal year.

14. No Other Changes. Except as explicitly amended by this Amendment, all of the terms and conditions of the Credit Agreement shall remain in full force and effect and shall apply to any advance or letter of credit thereunder.

15. Conditions Precedent. This Amendment shall be effective when the Lender shall have received an executed original hereof, together with each of the following, each in substance and form acceptable to the Lender in its sole discretion:

(a) The Note, executed by the Borrower;

(b) A Certificate of the Secretary of the Borrower certifying as to (i) the resolutions of the board of directors of the Borrower approving the execution and delivery of this Amendment, (ii) the fact that the articles of incorporation and bylaws of the Borrower, which were certified and delivered to the Lender pursuant to the Certificate of Authority of the Borrower's secretary or assistant secretary dated as of November 22, 1999, continue in full force and effect and have not been amended or otherwise modified except as set forth in the Certificate to be delivered, and (iii) certifying that the officers and agents of the Borrower who have been certified to the Lender, pursuant to the Certificate of Authority of the Borrower's secretary or assistant secretary dated as of November 22, 1999, as being authorized to sign and to act on behalf of the Borrower continue to be so authorized or setting forth the sample signatures of each of the officers and agents of the Borrower authorized to execute and deliver this Amendment and all other documents, agreements and certificates on behalf of the Borrower.

(c) Such other matters as the Lender may require.

16. Representations and Warranties. The Borrower hereby represents and warrants to the Lender as follows:

(a) The Borrower has all requisite power and authority to execute this Amendment and to perform all of its obligations hereunder, and this Amendment has been duly executed and delivered by the Borrower and constitutes the legal, valid and binding obligation of the Borrower, enforceable in accordance with its terms.

(b) The execution, delivery and performance by the Borrower of this Amendment have been duly authorized by all necessary corporate action and do not (i) require any authorization, consent or approval by any governmental department, commission, board, bureau, agency or instrumentality, domestic or foreign, (ii) violate any provision of any law, rule or regulation or of any order, writ, injunction or decree presently in effect, having applicability to the Borrower, or the articles of incorporation or by-laws of the Borrower, or (iii) result in a breach of or constitute a default under any indenture or loan or credit agreement or any other agreement, lease or instrument to which the Borrower is a party or by which it or its properties may be bound or affected.

(c) All of the representations and warranties contained in Article V of the Credit Agreement are correct on and as of the date hereof as though made on and as of

such date, except to the extent that such representations and warranties relate solely to an earlier date.

17. References. All references in the Credit Agreement to "this Agreement" shall be deemed to refer to the Credit Agreement as amended hereby; and any and all references in the Security Documents to the Credit Agreement shall be deemed to refer to the Credit Agreement as amended hereby.

18. No Waiver. The execution of this Amendment and acceptance of any documents related hereto shall not be deemed to be a waiver of any Default or Event of Default under the Credit Agreement or breach, default or event of default under any Security Document or other document held by the Lender, whether or not known to the Lender and whether or not existing on the date of this Amendment.

19. Release. The Borrower hereby absolutely and unconditionally releases and forever discharges the Lender, and any and all participants, parent corporations, subsidiary corporations, affiliated corporations, insurers, indemnitors, successors and assigns thereof, together with all of the present and former directors, officers, agents and employees of any of the foregoing, from any and all claims, demands or causes of action of *any kind, nature or description, whether arising in law or equity or upon contract or tort or under any state or federal law or otherwise, which the Borrower has had, now has or has made claim to have against any such person for or by reason of any act, omission, matter, cause or thing whatsoever arising from the beginning of time to and including the date of this Amendment, whether such claims, demands and causes of action are matured or unmatured or known or unknown.*

20. Costs and Expenses. The Borrower hereby reaffirms its agreement under the Credit Agreement to pay or reimburse the Lender on demand for all costs and expenses incurred by the Lender in connection with the Loan Documents, including without limitation all reasonable fees and disbursements of legal counsel. Without limiting the generality of the foregoing, the Borrower specifically agrees to pay all fees and disbursements of counsel to the Lender for the services performed by such counsel in connection with the preparation of this Amendment and the documents and instruments incidental hereto. The Borrower hereby agrees that the Lender may, at any time or from time to time in its sole discretion and without further authorization by the Borrower, make a loan to the Borrower under the Credit Agreement, or apply the proceeds of any loan, for the purpose of paying any such fees, disbursements, costs and expenses.

21. Miscellaneous. This Amendment may be executed in any number of counterparts, each of which when so executed and delivered shall be deemed an original and all of which counterparts, taken together, shall constitute one and the same instrument.

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be duly executed as of the date first written above.

WELLS FARGO BUSINESS CREDIT, INC.	LECTEC CORPORATION
By /s/Terry Jackson	By /s/Douglas Nesbit
Terry S. Jackson	Douglas Nesbit
Its Vice President	Its Chief Financial Officer

Exhibit A to Credit and Security Agreement

REVOLVING NOTE

$2,000,000.00 — *Minneapolis, Minnesota*
November 13, 2001

For value received, the undersigned, LECTEC CORPORATION, a Minnesota corporation (the "Borrower"), hereby promises to pay on the Termination Date under the Credit Agreement (defined below), to the order of WELLS FARGO BUSINESS CREDIT, INC., a Minnesota corporation (the "Lender"), at its main office in Minneapolis, Minnesota, or at any other place designated at any time by the holder hereof, in lawful money of the United States of America and in immediately available funds, the principal sum of Two Million and 00/100 Dollars ($2,000,000.00) or, if less, the aggregate unpaid principal amount of all Revolving Advances made by the Lender to the Borrower under the Credit Agreement (defined below) together with interest on the principal amount hereunder remaining unpaid from time to time, computed on the basis of the actual number of days elapsed and a 360-day year, from the date hereof until this Note is fully paid at the rate from time to time in effect under the Credit and Security Agreement dated November 22, 1999 (as amended, supplemented or restated from time to time, the "Credit Agreement") by and between the Lender and the Borrower. The principal hereof and interest accruing thereon shall be *due and payable as provided in the Credit Agreement. This Note may be prepaid only in accordance with the Credit Agreement.*

This Note is issued pursuant, and is subject, to the Credit Agreement, which provides, among other things, for acceleration hereof. This Note is the Revolving Note referred to in the Credit Agreement. This Note is secured, among other things, pursuant to the Credit Agreement and the Security Documents as therein defined, and may now or hereafter be secured by one or more other security agreements, mortgages, deeds of trust, assignments or other instruments or agreements.

The Borrower hereby agrees to pay all costs of collection, including attorneys' fees and legal expenses in the event this Note is not paid when due, whether or not legal proceedings are commenced.

Presentment or other demand for payment, notice of dishonor and protest are expressly waived.

LECTEC CORPORATION

By /s/Douglas Nesbit

Douglas Nesbit
Its Chief Financial Officer

EXHIBIT 23.01

CONSENT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

We have issued our report dated January 29, 2002 accompanying the financial statements included in the Transition Report of LecTec Corporation on Form 10-K for the transition period from July 1, 2001 to December 31, 2001. We hereby consent to the incorporation by reference of said report in the Registration Statements of LecTec Corporation on Form S-3 (File No. 333-40183, effective November 17, 1997) and Forms S-8 (File No. 33-121780, effective April 21, 1987, File No. 33-45931, effective February 21, 1992, File No. 333-46283, effective February 13, 1998, File No. 333-46289, effective February 13, 1998, File No. 333-72569, effective February 18, 1999, File No. 333-72571, effective February 18, 1999 and File No. 333-68920, effective September 4, 2001).

/s/ GRANT THORNTON LLP

Minneapolis, Minnesota
April 15, 2002

EXHIBIT 99.01

CAUTIONARY STATEMENTS FOR PURPOSES OF THE "SAFE HARBOR" PROVISIONS OF THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

The Private Securities Litigation Reform Act of 1995 provides public companies with a "safe harbor" from liability for forward-looking statements if those statements are accompanied by meaningful cautionary statements identifying important factors that could cause actual results to differ materially from those contained in the forward-looking statements. The Company hereby identifies the following important factors which could cause the Company's actual results to differ materially from those contained in any forward-looking statement made by the Company from time to time in any report, proxy statement, registration statement or other written communication or in oral forward-looking statements made from time to time by the Company's offices or agents.

WE NEED TO RAISE ADDITIONAL CASH DURING 2002

We expect to continue to operate at a net loss and experience negative cash flow from operating activities through the foreseeable future. Our existing cash, cash equivalents and our existing secured line of credit will be insufficient to fund operations through 2002 without raising additional debt or equity capital.

We have received an offer to factor our receivables and we are negotiating advances and a short-term loan from a customer. In addition, we are exploring other options for additional capital. We believe that the we have sufficient cash and borrowing capacity to ensure we will continue operations in the near term. If we cannot obtain additional funds when required, we may be unable to realize our current plans and may be forced to cease operations.

WE HAVE A HISTORY OF LOSSES AND WE EXPECT LOSSES TO CONTINUE FOR THE FORESEEABLE FUTURE

Although we have generated differing levels of revenue over the last several years, we have not had profitable operations. We expect to continue to incur losses for the foreseeable future. We have expended a substantial amount of our resources in sales and marketing efforts and researching and developing technology relating to our products.

We expect to incur substantial operating losses in the foreseeable future as we invest in our therapeutic and skin care consumer products businesses. Our losses may increase in the future, and even if we achieve our revenue targets, we may not be able to sustain or increase profitability on a quarterly or annual basis. The amount of future net losses, and the time required to reach profitability, are both highly uncertain. We cannot assure you that we will ever be able to achieve or sustain profitability.

OUR SUCCESS DEPENDS ON A SINGLE FAMILY OF PRODUCTS

We have adopted a strategy of focusing our efforts on our therapeutic consumer products business. As a result, our revenue and profitability depend on sales of our topical ointment-based products for the application of over-the-counter drugs. A reduction in demand for these products would have a material adverse effect on our business. Accordingly, we cannot assure you that sales of our therapeutic consumer products represent long-term consumer acceptance of these products, or that the recent increase in therapeutic consumer products sales is indicative of future growth rates for sales of these products. The sustainability of current levels of therapeutic consumer products sales and the future growth of such sales, if any, will depend on, among other factors:

- continued consumer trial of our products;

- generation of repeat consumer sales;

- further development and sales of our TheraPatch brand name products;

- development of further relationships with resellers of our products;

- competition from substitute products;

- effective consumer advertising.

We cannot assure you that we will maintain or increase our current level of therapeutic consumer products sales or profits in future periods.

OUR SUCCESS DEPENDS ON OUR RELATIONSHIPS WITH RESELLERS OF OUR PRODUCTS

A significant portion of the sales of our therapeutic consumer products are derived from agreements with other companies that act as resellers of our products. Under these agreements, our products are marketed and sold under another company's brand name and by another company's sales force. Our success depends in part upon our ability to enter into additional reseller agreements with new third parties while maintaining our existing reseller relationships. We believe our relationships with our existing third party resellers have been a significant factor in the success to date of our therapeutic consumer products business, and any deterioration or termination of these relationships would seriously adversely affect our business.

OUR FUTURE SUCCESS DEPENDS ON OUR ABILITY TO MANAGE ANY GROWTH IN OUR THERAPEUTIC CONSUMER PRODUCTS BUSINESS

If we are successful in increasing the sales of our therapeutic consumer products we may be required to expand our operations, particularly in the areas of research and development, sales and marketing, and manufacturing. If we are required to expand our operations in these areas, those expansions will likely result in new and increased responsibilities for management personnel and place significant strain on our management, operating and financial systems and other resources. To accommodate any such growth and compete effectively, we will be required to implement improved information systems, procedures and controls, and to expand, train, motivate and manage our work force. Our future success will depend to a significant extent on the ability of our current and future management personnel to operate effectively both independently and as a group. We cannot assure you that our personnel, systems, procedures and controls will be adequate to support our future operations.

We manufacture our therapeutic consumer products in quantities sufficient to satisfy our current level of sales. To meet any increases in sales, we may need to increase our production significantly beyond our present manufacturing capacity. Accordingly, we may be required to increase our manufacturing capacities. We cannot assure you that increasing our capacity can be accomplished on a profitable basis.

THE MARKET FOR OUR PRODUCTS IS COMPETITIVE AND WE MAY NOT HAVE THE RESOURCES REQUIRED TO COMPETE EFFECTIVELY

The markets for the therapeutic consumer products we sell are relatively new and therefore subject to rapid and significant change. We face significant competition in the development and marketing of these products. We cannot assure you that we will be able to compete effectively in the sale of our products. Competitors in the United States and abroad are numerous and include, among others, major pharmaceutical and consumer product companies. Our competitors may succeed in developing technologies and products that are more effective than those we are developing and could render our therapeutic consumer products obsolete and noncompetitive. Many of our competitors have substantially greater financial and technical resources, marketing capabilities and regulatory experience. In addition, these companies compete with us in recruiting and retaining highly qualified personnel. As a result, we cannot assure you that we will be able to compete successfully with these organizations.

PATENTS AND OTHER PROPRIETARY RIGHTS PROVIDE UNCERTAIN PROTECTION OF OUR PROPRIETARY INFORMATION AND OUR INABILITY TO PROTECT A PATENT OR OTHER PROPRIETARY RIGHT MAY ADVERSELY AFFECT OUR BUSINESS

The patent position of companies engaged in the sale of products such as ours is uncertain and involves complex legal and factual questions. Issued patents can later be held invalid by the patent office issuing the patent or by a court. We cannot assure you that our patents will not be challenged, invalidated or circumvented or that the rights granted thereunder will provide us a competitive advantage. In addition, many other organizations are engaged in research and development of products similar to our therapeutic consumer products. Such organizations may currently have, or may obtain in the future, legally blocking proprietary rights, including patent rights, in one or more products or methods under development or consideration by us. These rights may prevent us from commercializing new technology, or may require us to obtain a license from the organizations to use their technology.

We also rely on trade secrets and other unpatented proprietary information in the manufacturing of our therapeutic consumer products. To the extent we rely on confidential information to maintain our competitive position, there can be no assurance that other parties will not independently develop the same or similar information.

There has been substantial litigation regarding patent and other intellectual property rights in the consumer products industry. Litigation could result in substantial costs and a diversion of our effort, but may be necessary to enforce any patents issued to us, protect our trade secrets or know-how, defend against claimed infringement of the rights of others or determine the scope and validity of the proprietary rights of others. We cannot assure you that third parties will not pursue litigation that could be costly to us. An adverse determination in any litigation could subject us to significant liabilities to third parties, require us to seek licenses from or pay royalties to third parties or prevent us from manufacturing or selling our products, any of which could have a material adverse effect on our business.

WE ARE SUBJECT TO REGULATION BY REGULATORY AUTHORITIES INCLUDING THE FDA WHICH MAY AFFECT THE MARKETING OF OUR PRODUCTS

The research, development, manufacture, labeling, distribution, marketing and advertising of our products, and our ongoing research and development activities, are subject to extensive regulation by governmental regulatory authorities in the United States and other countries. Failure to comply with regulatory requirements for marketing our products could subject us to regulatory or judicial enforcement actions, including, but not limited to, product recalls or seizures, injunctions, civil penalties, criminal prosecution, refusals to approve new products and suspensions and withdrawals of existing approvals. Currently, the majority of our therapeutic consumer products are regulated as over-the-counter products. We cannot assure you that the FDA will continue to regulate these products as over-the-counter products. If the FDA changed its approach to regulating our products, we would be faced with significant additional costs and may be unable to sell some or all of our products. Any such change would have a material adverse effect on our business. Delays in obtaining regulatory approvals for any new products could have a material adverse effect on our business. Even if regulatory approval of a new product is granted, such approval may include significant limitations on the indicated uses of the product or the manner in which or conditions under which the product may be marketed.

WE MAY BE REQUIRED TO REDUCE OR ELIMINATE SOME OR ALL OF OUR SALES AND MARKETING EFFORTS OR RESEARCH AND DEVELOPMENT ACTIVITIES IF WE FAIL TO OBTAIN ADDITIONAL FUNDING THAT MAY BE REQUIRED TO SATISFY OUR FUTURE CAPITAL EXPENDITURE NEEDS

We plan to continue to spend substantial funds to expand our sales and marketing efforts and our research and development activities related to our therapeutic consumer products. Our future liquidity and capital requirements will depend upon numerous factors, including the costs and timing of sales and

marketing, manufacturing and research and development activities, the extent to which our therapeutic consumer products gain market acceptance and competitive *developments. Any additional required financing may not be available on satisfactory terms, if at all. If we are unable to obtain financing, we may be required to reduce or eliminate some or all of our sales and marketing efforts or research and development activities.*

WE HAVE LIMITED STAFFING AND WILL CONTINUE TO BE DEPENDENT UPON KEY EMPLOYEES

Our success is dependent upon the efforts and abilities of our key employees. If key individuals leave, we could be adversely affected if suitable replacement personnel are not quickly recruited. Recent departures that will not be filled due to a hiring freeze, recent reductions in force and a furlough of eleven employees further accentuates our reliance on these key employees. Our future success depends upon our ability to continue to attract and retain qualified scientific, marketing and technical personnel. There is intense competition for qualified personnel in all functional areas and competition will make it difficult to attract and retain the qualified personnel necessary for the development and growth of our business.

THE PRICE OF OUR COMMON STOCK COULD BE HIGHLY VOLATILE DUE TO A NUMBER OF FACTORS

The trading price of our common stock may fluctuate widely as a result of a number of factors, including:

- *performance of our therapeutic consumer products in the market;*
- *regulatory developments in both the United States and foreign countries;*
- *market perception and customer acceptance of our therapeutic consumer products;*
- *increased competition;*
- *relationships with resellers of our products;*
- *economic and other external factors; and*
- *period-to-period fluctuations in financial results.*

In addition, the price of our common stock has from time to time experienced significant price and volume fluctuations that may be unrelated to our operating performance.

WE MAY NOT CONTINUE TO MEET THE REQUIREMENTS FOR CONTINUED LISTING ON NASDAQ

The National Association of Securities Dealers, Inc. which administers Nasdaq, has adopted certain criteria for continued eligibility on Nasdaq. In order to continue to be included on Nasdaq, a company must maintain $4 million in net tangible assets, a public float of 750,000 shares and a $5 million market value of its public float. As of November 1, 2002, the $4 million in net tangible assets criteria will be replaced with a $10 million stockholder equity test. In addition, continued inclusion requires two market-makers, at least 400 holders of our common stock and a minimum bid price of $1 per share of common stock. Our failure to meet these maintenance criteria, as now in effect or as may be later amended, may result in the delisting of our common stock from Nasdaq. In such event, trading, if any, in our common stock may then continue to be conducted in the non-Nasdaq over-the-counter market in less orderly markets commonly referred to as the electronic bulletin board and the "pink sheets." As a result, an investor may find it more difficult to dispose of or to obtain accurate quotations as to the market value of our common stock. If Nasdaq were to begin delisting proceedings against us, it could reduce the level of liquidity currently available to our shareholders. If our common stock were delisted, the price of our common stock would, in all likelihood, decline.