SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED DECEMBER 31, 1998.

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE TRANSITION PERIOD FROM _____ to_____

Commission file number: 0-16159

LECTEC CORPORATION
(Exact name of Registrant as specified in its charter)

Minnesota	*41-1301878*
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*
10701 Red Circle Drive, Minnetonka, Minnesota	*55343*
(Address of principal executive offices)	*(Zip Code)*

Registrant's telephone number, including area code: (612) 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 [ ]

The number of shares outstanding of the registrant's common stock as of February 11, 1999 was 3,870,329 shares.

LECTEC CORPORATION

FORM 10-Q - QUARTERLY REPORT FOR THE QUARTERLY PERIOD ENDED DECEMBER 31, 1998

TABLE OF CONTENTS

PART I - FINANCIAL INFORMATION

PART II - OTHER INFORMATION

PART I - FINANCIAL INFORMATION
ITEM 1 - FINANCIAL STATEMENTS AND NOTES TO FINANCIAL STATEMENTS

LECTEC CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

<TABLE>
<CAPTION>

	(Unaudited) December 31, 1998	June 30, 1998
<S>	<C>	<C>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 1,022,455	$ 2,186,532
Receivables		
Trade, net of allowances of $95,083 (unaudited) and $90,818 at December 31, 1998 and June 30, 1998	2,668,087	2,251,757
Refundable income taxes	7,544	59,544
Other	39,017	30,624
	2,714,648	2,341,925
Inventories		
Raw materials	1,130,201	1,184,778
Work-in-process	18,400	15,055
Finished goods	736,311	518,178
Total inventories	1,884,912	1,718,011
Prepaid expenses and other	228,677	103,063
Deferred income taxes	379,000	379,000
Total current assets	6,229,692	6,728,531
PROPERTY, PLANT AND EQUIPMENT - AT COST		
Building and improvements	1,919,402	1,816,277
Equipment	6,853,571	6,791,765
Furniture and fixtures	396,367	384,260
	9,169,340	8,992,302
Less accumulated depreciation	5,313,847	4,933,465
	3,855,493	4,058,837
Land	247,731	247,731
	4,103,224	4,306,568
OTHER ASSETS		
Patents and trademarks, less accumulated amortization of $1,072,636 (unaudited) and $1,001,157 at December 31, 1998 and June 30, 1998	255,968	273,999
Long-term investments	8,676	8,676
	264,644	282,675
	$10,597,560	$11,317,774

</TABLE>

See accompanying notes to the consolidated financial statements.

LECTEC CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS - CONTINUED

<TABLE>
<CAPTION>

	(Unaudited)

	December 31, 1998	June 30, 1998
<S>	<C>	<C>
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable	$ 1,477,242	$ 809,147
Accrued expenses		
Payroll related	350,657	384,135
Other	182,327	199,388
Total current liabilities	2,010,226	1,392,670
DEFERRED INCOME TAXES	222,000	222,000
SHAREHOLDERS' EQUITY		
Common stock, $.01 par value: 15,000,000 shares authorized; issued and outstanding 3,870,300 shares (unaudited) at December 31, 1998 and 4,036,000 shares at June 30, 1998	38,703	40,360
Additional paid-in capital	11,246,373	11,769,053
Unrealized losses on securities available-for-sale	(8,508)	(8,508)
Deficit in retained earnings	(2,911,234)	(2,097,801)
	8,365,334	9,703,104
	$10,597,560	$11,317,774

</TABLE>

See accompanying notes to the consolidated financial statements.

LECTEC CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)

<TABLE>
<CAPTION>

	Three months ended December 31,		Six months ended December 31,	
	1998	1997	1998	1997
<S>	<C>	<C>	<C>	<C>
Net sales	$ 3,103,277	$ 3,308,962	$ 6,006,334	$ 6,939,772
Cost of goods sold	2,177,539	2,362,392	4,063,343	4,784,343
Gross profit	925,738	946,570	1,942,991	2,155,429
Operating expenses				
Sales and marketing	545,938	244,879	879,471	505,224
General and administrative	781,630	470,347	1,368,091	1,001,693
Research and development	286,025	261,737	566,038	508,329
	1,613,593	976,963	2,813,600	2,015,246
Earnings (loss) from operations	(687,855)	(30,393)	(870,609)	140,183
Other income, net	26,987	12,623	58,788	21,417
Earnings (loss) before income taxes	(660,868)	(17,770)	(811,821)	161,600
Income tax expense (benefit)	348	(19,677)	1,612	8,000
Net earnings (loss)	$ (661,216)	$ 1,907	$ (813,433)	$ 153,600
Net earnings (loss) per share				
Basic	$ (0.17)	$ 0.00	$ (0.21)	$ 0.04

Diluted	$ (0.17)	$ 0.00	$ (0.21)	$ 0.04
Weighted average shares outstanding				
Basic	3,907,995	4,062,354	3,945,599	3,952,586
Diluted	3,907,995	4,073,910	3,945,599	3,966,996

</TABLE>

See accompanying notes to the consolidated financial statements.

LECTEC CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

<TABLE>
<CAPTION>

	Six Months Ended December 31,	
	1998	1997
<S>	<C>	<C>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net earnings (loss)	$ (813,433)	$ 153,600
Adjustments to reconcile net earnings (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	451,861	427,226
Loss on sale of investments	--	9,810
Changes in operating assets and liabilities:		
Trade and other receivables	(424,723)	(496,923)
Refundable income taxes	52,000	328,094
Inventories	(166,901)	106,020
Prepaid expenses and other	(125,614)	(41,171)
Accounts payable	608,632	322,452
Accrued expenses	(50,539)	(2,539)
Net cash provided by (used in) operating activities	(468,717)	806,569
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property, plant and equipment	(177,038)	(270,512)
Investment in patents and trademarks	(53,448)	(39,498)
Sale of investments	--	422,598
Net cash provided by (used in) investing activities	(230,486)	112,588
CASH FLOWS FROM FINANCING ACTIVITIES:		
Retirement of common stock	(464,874)	--
Net cash used in financing activities	(464,874)	--
Net increase (decrease) in cash and cash equivalents	(1,164,077)	919,157
Cash and cash equivalents at beginning of period	2,186,532	665,190
Cash and cash equivalents at end of period	$ 1,022,455	$ 1,584,347

</TABLE>

See accompanying notes to the consolidated financial statements.

LECTEC CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS - CONTINUED
(UNAUDITED)

<TABLE>
<CAPTION>

	Six Months Ended December 31,

	1998	1997
<S>	<C>	<C>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid during the period for:		
Interest expense	$ --	$ 872
Income taxes	22,010	10,676
SUPPLEMENTAL SCHEDULE OF NONCASH ACTIVITIES:		
Conversion of Pharmadyne minority shareholders' interest in the Pharmadyne subsidiary into LecTec Corporation common stock	$ --	$ 1,369,411

</TABLE>

See accompanying notes to the consolidated financial statements.

LECTEC CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
QUARTERS ENDED DECEMBER 31, 1998 AND 1997

(1) GENERAL

The accompanying consolidated financial statements include the accounts of LecTec Corporation (the "Company"), LecTec International Corporation, a wholly-owned subsidiary, and Pharmadyne Corporation, a wholly-owned subsidiary which was merged into LecTec Corporation on December 31, 1997. All significant intercompany balances and transactions have been eliminated in consolidation. The Company's financial statements for the three months and six months ended December 31, 1998 should be read in conjunction with its Annual Report on Form 10-K and its Annual Report to Shareholders for the fiscal year ended June 30, 1998. The interim financial statements are unaudited and in the opinion of management, reflect all adjustments necessary for a fair presentation of results for the periods presented. Results for interim periods are not necessarily indicative of results for the year.

The Company's basic net earnings (loss) per share amounts have been computed by dividing net earnings (loss) by the weighted average number of outstanding common shares. The Company's diluted net earnings (loss) per share amounts have been computed by dividing net earnings (loss) by the weighted average number of outstanding common shares and common share equivalents, when dilutive. Options and warrants to purchase 873,066 and 753,355 shares of common stock with a weighted average exercise price of $7.70 and $8.29 were outstanding during the three months ended December 31, 1998 and 1997, but were excluded because they were antidilutive. Options and warrants to purchase 870,323 and 736,460 shares of common stock with a weighted average exercise price of $7.72 and $8.34 were outstanding during the six months ended December 31, 1998 and 1997, but were excluded because they were antidilutive.

(2) 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 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. During the quarter and six months ended December 31, 1998, 74,800 and 165,650 shares were repurchased for $223,663 and $524,338, including $59,463 which was settled after December 31, 1998. Through December 31, 1998 the Company has repurchased a total of 195,150 shares at a cost of $648,900. During the period from January 1, 1999 through February 10, 1999 the Company did not repurchase any additional shares.

(3) COMPREHENSIVE INCOME

As of July 1, 1998, the Company adopted Statement of Financial Accounting Standards No. 130, Reporting Comprehensive Income, which establishes new rules for the reporting and display of comprehensive income and it components. SFAS 130 requires companies to report, in addition to net income, other components of comprehensive income, including unrealized gains or losses on securities available-for-sale. Total comprehensive loss for the second quarter of fiscal 1998 was $661,216 and total comprehensive income for the second quarter of fiscal 1997 was $7,274. Total comprehensive loss for the first

six months of fiscal 1998 was $813,433 and total comprehensive income for the first six months of fiscal 1997 was $174,487. Adoption of this disclosure standard had no effect on the Company's results of operations or financial position as reported in the consolidated financial statements.

(4) NEW ACCOUNTING PRONOUNCEMENTS

Additionally, the Company adopted SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information," effective July 1, 1998. SFAS No. 131 requires the Company to disclose financial and other information about its business segments, their products and services, geographic areas, sales, profits, assets and other information. SFAS No. 131 is effective for financial statements for periods beginning after December 15, 1997, however the statement does not need to be applied to interim financial statements in the initial year of application. Comparative information for the interim period in the initial year of application will be reported in the Company's financial statements for interim periods in fiscal 2000.

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

THREE MONTHS AND SIX MONTHS ENDED DECEMBER 31, 1998 AND 1997

RESULTS OF OPERATIONS

NET SALES

Net sales for the second quarter of fiscal 1999 were $3,103,277 compared to net sales of $3,308,962 for the second quarter of fiscal 1998, a decrease of 6.2%. The decrease was primarily the result of decreased medical tape and conductive product sales which were partially offset by increased sales of therapeutic products. Conductive product sales, the Company's largest product group, decreased by 5.2% from the prior year while medical tape sales, the Company's second largest product group, decreased by 39.3% from the prior year and therapeutic product sales increased to $429,715 from $62,380 in the prior year. The conductive product sales decrease was primarily due to normal period-to-period fluctuations of sales to the Company's customers. Medical tape product sales decreased primarily due to the absence of sales in fiscal 1999 to several large international customers who purchase intermittently. The therapeutic product sales increase was primarily the result of sales of the various TheraPatch(R) brand products directly to retailers. In the prior year the Company had no patch sales to either CNS, Inc. (the Company's former distributor to retailers of its analgesic patch product), nor to a former direct marketing distributor. Effective July 1, 1998, the Company assumed responsibility for the retail distribution of the analgesic patch product that CNS, Inc. had previously handled, and in September 1998, the Company began the launch of its TheraPatch family of patch products. The product family launch included two patches for topical pain relief and two patches for cough suppression.

Net sales for the first six months of fiscal 1999 were $6,006,334 compared to net sales of $6,939,772 for the first six months of fiscal 1998, a decrease of 13.5%. The decrease was primarily the result of decreased medical tape and conductive product sales. Conductive product sales decreased by 4.4% from the prior year, while medical tape product sales decreased by 34.0% and therapeutic product sales increased by 2.9%. Conductive product sales decreased primarily as a result of normal period-to-period fluctuations of sales to the Company's customers. Medical tape product sales decreased primarily due to the absence of sales in fiscal 1999 to several large international customers who purchase intermittently and due to the discontinuance of sales to several low-margin slit roll customers. The therapeutic product sales increase resulted from increased sales volumes of corn and callus therapeutic products. Patch product sales for the first six months of fiscal 1999 and fiscal 1998 were comparable in dollar amount. However, decreased unit volume in 1999 was offset by increased unit selling price as the Company sold directly to retailers rather than to CNS, Inc., the Company's exclusive distributor to retailers in the prior year.

GROSS PROFIT

Gross profit for the second quarter of fiscal 1999 was $925,738 compared to $946,570 for the second quarter of fiscal 1998, a decrease of 2.2%. Gross profit as a percent of net sales for the second quarter of fiscal 1999 was 29.8% compared to 28.6% for the second quarter of fiscal 1998. The increase in the gross profit percent for the quarter resulted primarily from a shift in the sales mix toward higher margin patch products.

Gross profit for the first six months of fiscal 1999 was $1,942,991 compared to $2,155,429 for the first six months of fiscal 1998, a decrease of 9.9%. Gross profit as a percent of net sales for the first six months of fiscal 1999 was 32.3% compared to 31.1% for the first six months of fiscal 1998. The increase in the gross profit percent for the first six months resulted primarily from higher margins on patch sales, primarily as a result of sales directly to retailers rather than to a distributor, and lower obsolescence

expense, due in part to decreased inventory levels. These factors were partially offset by higher scrap and material usage costs, due primarily to the start-up of production on retail TheraPatch products.

SALES AND MARKETING EXPENSES

Sales and marketing expenses were $545,938 and $244,879 during the second quarters of fiscal 1999 and 1998, and as a percentage of net sales, were 17.6% and 7.4%. The increase in sales and marketing expenses for the quarter was primarily the result of expenses associated with the launch of the TheraPatch product family to retailers, as well as ongoing sales activities related to the Company's new Consumer Products Division. The increase in expenses was primarily due to increases in advertising, promotion and travel expense, as well as an increase in sales staff. These expenses associated with the Company's new Consumer Products Division were not present in the prior year. The Company anticipates that sales and marketing expenses, as a percentage of sales, will decrease as the sales volume of patch products increases.

Sales and marketing expenses were $879,471 and $505,224 during the first six months of fiscal 1999 and 1998, and as a percentage of net sales, were 14.6% and 7.3%. The increase in sales and marketing expenses for the first six months of fiscal 1999 compared to the first six months of fiscal 1998 resulted from the same factors responsible for the increase in expenses for the second quarter of fiscal 1999.

GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses were $781,630 and $470,347 during the second quarters of fiscal 1999 and 1998, and as a percentage of net sales, were 25.2% and 14.2%. The increase in general and administrative expenses for the quarter included approximately $126,000 of expenses related to the re-negotiation and modification of the license agreement for the development and commercialization of cotinine, and $42,000 of legal expenses associated with work on new and existing patents. Increased regulatory and quality assurance expenses associated with achieving and maintaining ISO 9001 and EN 46001 certification were also factors in the increase in general and administrative expenses for the quarter. The Company anticipates that general and administrative expenses, as a percentage of sales, will be approximately 20% of net sales for the remainder of fiscal 1999.

General and administrative expenses were $1,368,091 and $1,001,693 during the first six months of fiscal 1999 and 1998, and as a percentage of net sales, were 22.8% and 14.4%. The increase in general and administrative expenses for the first six months of fiscal 1999 compared to the first six months of fiscal 1998 resulted from the same factors responsible for the increase in expenses for the second quarter of fiscal 1999.

RESEARCH AND DEVELOPMENT EXPENSES

Research and development expenses for the second quarters of fiscal 1999 and 1998 were $286,025 and $261,737, and as a percentage of net sales, were 9.2% and 7.9%. The increase in research and development expenses for the quarter was primarily due to increases in staff.

Research and development expenses for the first six months of fiscal 1999 and 1998 were $566,038 and $508,329, and as a percentage of net sales, were 9.4% and 7.3%. The increase in research and development expenses for the first six months reflects increased staffing levels and increased costs for testing and test runs of products under development.

OTHER INCOME, NET

Other income, net increased in the second quarter of fiscal 1999 to $26,987 from $12,623 in the second quarter of 1998. Other income, net increased in the first six months of fiscal 1999 to $58,788 from $21,417 in the first six months of 1998. Other income was higher in both the second quarter and first six months of fiscal 1999 due to increased investment income as a result of higher cash and cash equivalent balances in fiscal 1999 compared to cash, cash equivalent and short-term investment balances during 1998, and a loss on the sale of investments incurred during fiscal 1998.

EARNINGS (LOSS) BEFORE INCOME TAXES

The Company recorded a loss before income taxes of $660,868 in the second quarter of fiscal 1999 compared to a loss before income taxes of $17,770 in fiscal 1998. For the first six months of fiscal 1999, the Company recorded a loss before income taxes of $811,821 compared to earnings before income taxes of $161,600 for the first six months of fiscal 1998. The loss for the second quarter and first six months of fiscal 1999 was primarily the result of increased sales and marketing expenses related to the Company's new Consumer Products Division and increased general and administrative expenses, primarily those expenses related to the modification of the cotinine license agreement and achievement of ISO 9001 and EN 46001 certification.

INCOME TAX EXPENSE (BENEFIT)

The Company recorded income tax expense of $348 in the second quarter of fiscal 1999 compared to an income tax benefit of $19,677 in the second quarter of fiscal 1998. For the first six months of fiscal 1999 the Company recorded income tax expense of $1,612 as compared to income tax expense of $8,000 in the first six months of fiscal 1998. Income tax expense for both the second quarter and first six months of fiscal 1999 reflect minimal tax expense associated with the Company's foreign sales corporation subsidiary and does not include any loss benefit as it may not be realizable. The income tax benefit recorded during the second quarter of fiscal 1998 reflects the adjustment of the income tax expense for the first six months of fiscal 1998 to reflect minimal income tax expense due to the utilization of NOL carryforwards.

IMPACT 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 $1,164,077 to $1,022,455 during the first six months of fiscal 1999. Receivables increased by $372,723 to $2,714,648 during the same period primarily as a result of higher sales in December of 1998 as compared to sales in June of 1998. Inventories increased by $166,901 during the six months ended December 31, 1998 to $1,884,912 primarily due to increased finished goods inventory of TheraPatch products necessary for the timely fulfillment of retail orders. Accounts payable increased by $668,095 to $1,477,242 during the first six months of fiscal 1999 primarily due to increased raw material, advertising and promotional payables related to the launch of the TheraPatch product family, amounts related to the modification of the cotinine license agreement, and repurchases of the Company's Common Stock made before, and settled after, December 31, 1998. Capital spending totaled $177,038 during the first six months of fiscal 1999. There were no material commitments for capital expenditures at December 31, 1998.

Working capital decreased to $4,219,466 at the end of the first six months of fiscal 1999 from $5,335,861 at the end of fiscal 1998. The Company had a current ratio at the end of the first six months of fiscal 1999 of 3.1 as compared to 4.8 at the end of fiscal 1998.

The Company had no short or long-term debt as of December 31, 1998. During August 1997 the Company obtained an unsecured $1,000,000 working capital line of credit which expired in September 1998. There were no borrowings outstanding on the line of credit during fiscal 1998 or fiscal 1999. Shareholders' equity decreased by $1,337,770 to $8,365,334 during the first six months of fiscal 1999. Of this decrease, $524,337 was due to the repurchase of shares under the stock purchase program announced in April of 1998 authorizing the repuchase of up to 500,000 shares. As of February 10, 1999 the Company has

repurchased a total of 195,150 shares at a cost of $648,900 under the share repurchase program.

Management believes that existing cash and cash equivalents, internally-generated cash-flow and the expected renewal of the short-term line of credit will be sufficient to support anticipated operating and capital spending requirements for the next twelve to eighteen months.

IMPACT OF THE YEAR 2000 ISSUE

The Year 2000 ("Y2K") issue is the result of computer systems using a two-digit format, as opposed to four digits, to indicate the year. Such computer systems may be unable to interpret dates beyond the year 1999, which could cause a system failure or other computer errors, leading to disruptions in operations. A number of other date issues (i.e. incorrect handling of leap years) may also cause problems. All of these issues are collectively referred to as Y2K. In fiscal 1998, the Company developed a comprehensive program for Y2K compliance consisting of two parts; internal systems compliance and third party compliance.

The internal systems compliance program includes informational, manufacturing, financial and communication systems. A committee consisting of representatives from all key areas of the Company developed the program. The internal systems compliance program consists of four-phases. Phase I is the identification of all internal computer systems in the Company, including embedded microprocessor or similar circuitry. Phase II is the determination of Y2K compliance for these systems. Phase III is development and implementation of action plans to achieve compliance where needed, and is followed by the testing in Phase IV of these systems after action plans have been completed.

The third party compliance program consists of three phases with Phase I being the identification of major and/or critical third party vendors and customers. Phase II consists of contacting these third parties and determining their Y2K compliance. Phase III involves establishing risk and developing contingency plans where necessary (i.e. third party compliance can not be established or the risks associated with noncompliance are significant).

The Company has completed Phases I and II of the internal systems compliance program and found the majority of its systems and all of its core systems to be Y2K compliant. The Y2K compliant status of the core systems benefited from upgrades undertaken during the past several years to make these systems adequate for the business needs of the Company. Plans to achieve Y2K compliance for the non-core systems were developed and completed by the end of calendar 1998 (Phase III). Phase IV of the program, testing of systems after implementation of changes, is currently underway and is expected to be completed by March 31, 1999. The Company is approximately 85% complete with Phase IV. The Company expects to have substantially completed all aspects of the internal systems compliance program by March 31, 1999, and considers the risk that compliance will not be achieved to be minimal.

The Company has completed Phase I of the third party compliance program and is approximately 95% complete with Phase II. Initial questionnaires have been sent to major and/or critical third party vendors and customers, and approximately 90% of those contacted have responded. Responses are being sought from the remaining major and/or critical vendors and customers. The Company is

approximately 50% complete with Phase III, the evaluation of responses, establishment of risk and the development of contingency plans. Because of the diversity of sources available for the Company's raw material, packaging material and supplies, the Company believes that third party Y2K compliance issues for these third parties will not have a material adverse effect on the Company's financial position, operations or cash flow. There can, however, be no assurance that this will be the case. If certain critical third party providers, such as those providers supplying electricity, water or telephone service, experience difficulties resulting in disruption of service to the Company, a shutdown of the Company's operations at individual facilities could occur for the duration of the disruption. The Company expects to have substantially completed all phases of the third party compliance program by June 30, 1999.

All costs for Y2K compliance have been expensed in the period incurred and have been paid from operating funds. The Company does not specifically track internal staff time spent on the Y2K issue, however, it has included an estimate of the cost of this time in the estimated total costs. The Company estimates the total costs for both the internal systems compliance program and the third party compliance program through December 31, 1998 to be approximately $20,000, while total costs for Y2K compliance are estimated to be less than $50,000.

The Company's ability to successfully identify and address Y2K issues involves inherent risks and uncertainties, and depends upon a number of factors including, but not limited to, the availability of key Y2K personnel, the

Company's ability to locate and correct all relevant computer codes, the readiness of third parties, and the Company's ability to respond to unforeseen Y2K complications. Depending upon such factors, the Y2K issues faced by the Company could result in, among other things, business disruption, operation problems, financial loss, legal liability and similar adverse consequences.

FORWARD-LOOKING STATEMENTS

From time to time, in reports filed with the Securities and Exchange Commission, 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 new brand strategy; impact of interruptions to production; dependence on key personnel; need for regulatory approvals; changes in governmental regulatory requirements or accounting pronouncements, unforeseen Y2K complications and third party disruptions; and ability to satisfy funding requirements for operating needs, expansion or capital expenditures.

PART I - FINANCIAL INFORMATION
ITEM 3 - QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not applicable.

PART II

OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

None.

Item 2. CHANGES IN SECURITIES

There have been no changes in the rights of security holders.

Item 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

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

The Regular Annual Meeting of Shareholders of the Company was held on November 19, 1998. The following matters were voted on by Shareholders:

1. *The election of seven directors to serve on the Board of Directors for a term of one year and until their successors are duly elected and qualified.*

2. *The ratification of the appointment of Grant Thornton LLP as the Company's independent auditor for the Company's current fiscal year.*

3. *A proposal to approve the LecTec Corporation 1998 Stock Option Plan.*

4. *A proposal to approve the LecTec Corporation 1998 Directors' Stock Option Plan.*

5. *A proposal to approve the LecTec Corporation Employee Stock Purchase Plan.*

The results of the voting on these matters were as follows:

1. *Board of Directors:*

	For	Withhold Authority	Total

Lee M. Berlin	3,590,671	60,883	3,651,554
Alan C. Hymes, M.D.	3,585,779	65,775	3,651,554
Paul O. Johnson	3,196,563	454,991	3,651,554
Bert J. McKasy	3,590,386	61,168	3,651,554
Marilyn K. Speedie, Ph.D.	3,514,801	136,753	3,651,554
Donald C. Wegmiller	3,514,003	137,551	3,651,554
Rodney A. Young	3,513,299	138,255	3,651,554

2. Appointment of Grant Thornton LLP as independent auditor for the Company:

For	Against	Abstain	Non-Vote	Total
3,593,310	12,955	45,289	-	3,651,554

3. Approval of the LecTec Corporation 1998 Stock Option Plan:

For	Against	Abstain	Non-Vote	Total
2,386,531	231,544	80,189	953,290	3,651,554

4. Approval of the LecTec Corporation 1998 Directors' Stock Option Plan:

For	Against	Abstain	Non-Vote	Total
2,387,161	171,270	139,833	953,290	3,651,554

5. Approval of the LecTec Corporation Employee Stock Purchase Plan:

For	Against	Abstain	Non-Vote	Total
2,511,797	94,358	92,109	953,290	3,651,554

Item 5. OTHER INFORMATION

None.

Item 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) EXHIBITS

Item No.	Item	Method of Filing
10.01	First Amendment, dated December 31, 1998, to License Agreement dated March 9, 1993, between LecTec Corporation, Pharmaco Behavioral Associates, Inc. and The Regents of the University of Minnesota . . .	Filed herewith.*
10.02	Separate License Agreement dated December 31, 1998 between LecTec Corporation and Robert M. Keenan, M.D., Ph.D. . .	Filed herewith.
27.01	Financial data schedule	Filed herewith.

(b) REPORTS ON FORM 8-K

None.

Notes:

* Confidential treatment requested 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 Securites and Exchange Commission together with a confidential treatment request.

SIGNATURES

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

LECTEC CORPORATION

Date February 12, 1999 */s/ Rodney A. Young*

Rodney A. Young, Chief Executive Officer & President

Date February 12, 1999 */s/ Deborah L. Moore*

Deborah L. Moore, Chief Financial Officer

EXHIBIT 10.01

FIRST AMENDMENT TO LICENSE AGREEMENT

THIS AGREEMENT (hereinafter referred to as "this Agreement") by and among LECTEC CORPORATION, a Minnesota corporation, having offices at 10701 Red Circle Drive, Minnetonka, Minnesota, 55343 (hereinafter referred to as "Company"), PHARMACO BEHAVIORAL ASSOCIATES, INC., a Minnesota corporation, having offices at 8200 Harriet Avenue South, Bloomington, Minnesota 55420 (hereinafter referred to as "Pharmaco"), and THE REGENTS OF THE UNIVERSITY OF MINNESOTA, a Minnesota constitutional corporation, having offices at Morrill Hall, 100 Church Street, Minneapolis, MN 55455 (hereinafter referred to as "the University") is made as of December 31, 1998 ("Effective Date") and shall be deemed effective retroactively to March 9, 1993 ("Original Agreement Date").

RECITALS

WHEREAS, Company, Pharmaco and the University entered into a License Agreement dated March 9, 1993 ("Original Agreement"), which granted Company a license to make, have made, use and sell certain products, subject to certain payment obligations from Company to Pharmaco and the University, with certain sublicense rights;

WHEREAS, Company, Pharmaco and the University now desire to amend the Original Agreement as provided herein;

NOW, THEREFORE, in consideration of the premises, covenants and conditions herein contained, the parties agree as follows:

1.0 DEFINITIONS

"ARTICLE I - DEFINITIONS" of the Original Agreement shall be amended as follows:

1.1 Paragraph A shall be deleted and replaced in its entirety by the following:

A. "technology" shall mean any knowledge, information, knowhow and devices, whether patentable or not, in the possession of Pharmaco relating to:

(i) use of cotinine for body weight management, including but not limited to US. Patent Application/Serial No. 07/964,277, filed October 21, 1992, and issued as U.S. Patent No. 5,643,928, and corresponding foreign patent applications or patents listed in Appendix A;

(ii) therapeutic method to alleviate the craving associated with cessation of tobacco with cotinine, including but not limited to U.S. Patent Application/Serial No. 07/885,314, filed May 18, 1992, and issued as U.S. Patent No. 5,596,007, and corresponding foreign patent applications or patents listed in Appendix A;

(iii) use of cotinine to assist in the cessation of tobacco smoking, including but not limited to U.S. Patent Application/Serial No. 07/971,573, filed November 5, 1992, and corresponding foreign patent applications listed in Appendix A;

(iv) use of cotinine to assist in the cessation of tobacco smoking, including but not limited to U.S. Patent Application/Serial No. 08/293,585, filed August 22, 1994, and issued as U.S. Patent No. 5,612,357, and corresponding foreign patent applications or patents listed in Appendix A; and

(v) use of cotinine to alleviate tobacco withdrawal syndrome,

including but not limited to U.S. Patent Application/Serial No. 08/691,888, filed August 1, 1996, and issued as U.S. Patent No. 5,747,512, and corresponding foreign patent applications or patents listed in Appendix A.

1.2 Paragraph C shall be deleted in its entirety and replaced with the following:

"Subject Patent Applications" shall mean any patent application that has been filed or is filed in the United States or in a foreign country that covers the Technology and/or Improvements made solely by Pharmaco, jointly by Pharmaco and Company or solely by Company, including but not limited to those patent applications listed in paragraph A above.

1.3 A new paragraph J shall be added as follows:

J. "Phase I Studies" shall mean pilot efficacy studies described in Appendix B hereto ("Phase I Studies") to be conducted by Company.

1.4 A new paragraph K shall be added as follows:

K. "Phase I Funds" shall mean any funds obtained by Company specifically to enable Company to conduct the Phase I Studies. Company may use its own funds or funds from a Third Party Source (but not from any Sublicensee, Affiliate, shareholder, officer or director of Company) as Phase I Funds. Phase I Funds shall not be deemed Net Sales revenues, lump sum payments, milestone payments or part of the Revenue Sharing Pool.

1.5 A new paragraph L shall be added as follows:

L. "Third Party Source" shall mean any third-party source of Phase I Study Funds, including, without limitation, any venture capital firm, partnership, limited liability company or non-profit medical or health research foundation. A Sublicensee, Affiliate, shareholder, officer or director of Company may not be a Third Party Source.

2.0 LICENSE GRANT AND COMMERCIAL EFFORT

"ARTICLE IV - LICENSE GRANT AND COMMERCIAL EFFORT" of the Original Agreement shall be amended as follows:

2.1 A new paragraph J shall be added as follows:

J. As an express condition to the continuation of the License to Company from and after the Effective Date and as a measure of its "best efforts" under paragraph E above, Company shall meet each of the following milestones:

(i) Company shall itself provide or obtain from a Third Party Source the Phase I Study Funds within eighteen (18) months of the Effective Date;

(ii) assuming the Phase I Study Funds have been provided by Company or obtained from a Third Party Source, Company shall complete the Phase I Studies within twenty (20) months of Company's provision or receipt of such funds; and

(iii) assuming the Phase I Studies are conducted, within eighteen (18) months after the completion of the Phase I Studies, Company shall negotiate but not execute a bona fide, arm's-length agreement ("Proposed Agreement") with a marketing/development partner for the development and commercialization of Licensed Product(s) (provided such partner may not be an Affiliate) and deliver a complete copy of such Proposed Agreement to Pharmaco for its written approval, which approval shall not be unreasonably withheld or delayed and which approval shall be granted as provided in Article IV K below. Such a Proposed Agreement may be with a

Sublicensee.

Company shall give Pharmaco and the University ten (10) days' written notice of its achievement or failure to achieve each of the foregoing milestones. At its sole election, Company may extend any of the foregoing milestone deadlines one or more times for up to a maximum of twelve (12) months by the payment to Pharmaco of $25,000 per additional month, which payment shall be made in advance of the additional extension period being purchased. If Company fails to achieve any of the above milestones and has not purchased an extension as provided in the preceding sentence, at Pharmaco's sole election and upon ten (10) days prior written notice to Company and the University, Pharmaco may terminate the License as its sole remedy for such failure.

2.2 A new paragraph K shall be added as follows:

K. Pharmaco may review any Proposed Agreement submitted to Pharmaco under paragraph J(iii) above limited solely and exclusively to the question of whether such Proposed Agreement constitutes a bona fide, arm's-length transaction with a recognized healthcare products company aimed at pursuit of the development and commercialization of Licensed

Product(s). Within ten (10) days of its receipt of a Proposed Agreement, Pharmaco shall deliver to Company its written approval thereof or its written objections thereto within the foregoing limited scope of review. If no such written objection is delivered to Company within such ten (10) day period, Pharmaco's approval shall be conclusively deemed given to Company to enter into the Proposed Agreement. Pharmaco's delay in granting its approval of a Proposed Agreement or its written objection to a Proposed Agreement (or any arbitration under paragraph L below) shall not be counted in whether Company has completed the milestone deadline in paragraph J(iii) above in a timely manner, so long as Company has completed its negotiations and delivered the Proposed Agreement to Pharmaco prior to such deadline. Within ten (10) days of the earlier of (i) Company's receipt of Pharmaco's written approval, (ii) expiration of the ten (10) day review period if Pharmaco has not delivered its written objection or (iii) receipt of an arbitral award in favor of Company under paragraph L below, Company shall execute the Proposed Agreement and shall perform such Proposed Agreement in accordance with its terms. If Company does not so execute the Proposed Agreement within such ten (10) day period, Company shall be deemed to have failed to meet the deadline in Article IV, paragraph J(iii) above.

2.3 A new paragraph L shall be added as follows:

L. If Pharmaco does deliver such written objections to the Proposed Agreement on a timely basis and Company disagrees with such objections, Company and Pharmaco shall immediately submit such dispute to expedited final and binding arbitration in Minneapolis, Minnesota, by a single arbitrator designated by the American Arbitration Association ("AAA"), with such arbitration to be conducted under the AAA Commercial Arbitration Rules then in effect. Any such arbitration shall be limited solely and exclusively to the question of whether such Proposed Agreement constitutes a bona fide, arm's-length transaction with a recognized healthcare products company and is aimed at the pursuit of the development and commercialization of Licensed Product(s). Each party in such an arbitration shall bear its legal costs and attorneys' fees thereby incurred, and Company shall pay the costs of the arbitration. The arbitral award may be enforced in any court of competent jurisdiction. Company and Pharmaco shall give written notice of any such dispute and arbitration to the University but shall not make the University a party thereto or otherwise involve the University, provided, however, at the University's election, the University or its legal counsel may observe any such arbitration and receive copies of any materials submitted by either party to the arbitrator.

3.0 ROYALTIES, REPORTS AND RECORDS

"ARTICLE V - ROYALTIES, REPORTS AND RECORDS" of the Original Agreement shall be amended as follows:

3.1 Paragraph A shall be deleted in its entirety and replaced with the following:

A. From the Original Agreement Date, Company shall pay the University as royalties an amount which represents one and one-half percent (1 1/2 %) of the Net Sales of Licensed Products. Net of the foregoing payments to the University, Company shall pay or cause to be paid to Pharmaco a royalty of fifty percent (50%) of the remaining Revenue Sharing Pool after accounting for previous payments credited against royalty payments unless subparagraph (i) of this paragraph A is applicable, in which event the Revenue Sharing Pool shall be divided among Company, Pharmaco and any Third Party Source as provided therein. In the event that no Subject Patent(s) issue, the royalty rates and term shall be re-negotiated among the parties from the date that it is certain that no Subject Patent(s) will issue.

*(i) Company and Pharmaco acknowledge that, as of the Effective Date, Company has insufficient cash to provide the Phase I Study Funds. To attract a Third Party Source for the Phase I Study Funds, at its sole election, Company may offer a percentage of the Revenue Sharing Pool in exchange for such Third Party Source's financing of the Phase I Studies. If Company enters into an agreement with a Third Party Source to provide the Phase I Study Funds, the percentages of the Revenue Sharing Pool to be retained by the Company and to be paid to Pharmaco shall be ****

(ii) If Company engages such a Third Party Source to provide the Phase I Study Funds, Company shall give ten (10) days' written notice thereof to Pharmaco and shall provide Pharmaco a copy of the agreement with such Third Party Source.

3.2 The first sentence of paragraph B shall be deleted in its entirety.

3.3 The second sentence of paragraph G shall be deleted in its entirety and replaced with the following:

Company shall pay the University and Pharmaco within twenty (20) days following Company's receipt of any lump sum payment or milestone payment from a Sublicensee or any running royalty payments from a Sublicensee with respect to such Sublicensee's Net Sales of Licensed Product. Company shall pay the University and Pharmaco within sixty (60) days following each calendar quarter with respect to Company's own Net Sales of Licensed Products.

3.4 Paragraph I shall be deleted in its entirety.

*** *Confidential treatment requested pursuant to Rule 24b-2 of the Securities Exchange Act of 1934, as amended.*

4.0 TERM AND TERMINATION

"ARTICLE VII - TERM AND TERMINATION" shall be amended as follows:

Paragraph B(3) and the final sentence of paragraph B shall be deleted and replaced with the following:

(3) if Company fails to meet any of the milestone deadlines in paragraph J of Article IV and has not purchased any extension(s) thereof from Pharmaco as provided therein.

If Company does not cure or take substantial measures to cure the above-specified conditions within sixty (60) days of receipt of notice

of termination in the case of subparagraphs (1) or (2) or ten (10) days of receipt of notice of termination in the case of subparagraph (3), such termination shall become effective.

5.0 COUNTERPART EXECUTION; FACSIMILE TRANSMISSION

This Agreement may be executed in one or more counterparts, each of which shall be deemed an original but all of which together shall constitute one and the same instrument. The parties acknowledge that each may rely upon the other party's facsimile transmission of its executed counterpart hereof, provided, each party shall exchange executed originals by mail or courier service as soon as practicable thereafter.

IN WITNESS WHEREOF, Pharmaco, the University and Company have caused this Agreement to be executed by their duly authorized officers.

REGENTS OF THE UNIVERSITY OF MINNESOTA

By:/s/ Anthony L. Strauss
Anthony L. Strauss
Director

LECTEC CORPORATION

By:/s/ Rodney A. Young
Rodney A. Young
CEO and President

PHARMACO BEHAVIORAL ASSOCIATES, INC.

By:/s/ Robert M. Keenan, M.D., Ph.D.
Robert M. Keenan, M.D., Ph.D.
Chief Executive Officer and Chairman

EXHIBIT 10.02

SEPARATE LICENSE AGREEMENT

THIS AGREEMENT is made as of December 31, 1998 by and between LECTEC CORPORATION, a Minnesota corporation, having offices at 10701 Red Circle Drive, Minnetonka, Minnesota 55343 ("Company"), and ROBERT M. KEENAN, M.D., Ph.D., an individual resident of Maryland, having offices at 810 Gleneagles Court, Suite 310, Towson, Maryland 21286 ("Keenan").

Recitals

WHEREAS, Keenan owns the rights to a United States patent No. 5,573,774, entitled "Nicotine Metabolites, Nicotine Dependence and Human Body Weight" and issued on November 12, 1996, and to three U.S. patent applications, Serial No. 12,379, filed February 2, 1993, Serial No. 236,190, filed May 2, 1994 and Serial No. 08/745,996, filed _____ (collectively, the "Keenan Patents");

WHEREAS, Company, The Regents of the University of Minnesota and Pharmaco Behavioral Associates, Inc., a Minnesota corporation, are parties to that certain License Agreement dated March 9, 1993, as amended as of December 31, 1998 ("the Pharmaco License Agreement");

WHEREAS, Company desires to obtain a license to make, have made, use and sell products utilizing the cotinine portion of the Keenan Patents and improvements thereon (but not as to any other portions of such patent or patent applications);

NOW, THEREFORE, in consideration of the premises, the license granted herein, and the covenants and conditions herein contained; the parties agree as follows:

ARTICLE I - Incorporation by Reference

Company and Keenan do hereby adopt and incorporate by reference herein the following provisions of the Pharmaco License Agreement as if such Agreement were written to apply to Keenan as the sole licensor and the cotinine portions only of the Keenan Patents as the sole licensed patents or patent applications thereunder:

Article I - Definitions of "Technology," "Improvements," "Subject Patent Applications," "Subject Patent(s)," "Licensed Product(s)," "Affiliate(s)" and "Sublicensee(s)"

Article III - Inventions and Patent Applications

Article IV - License Grant and Commercial Effort, subject to Article IV below

Article VI - Infringement

Article VIII - Confidential Information and Non-Disclosure

Article IX - Indemnification

Article X - Miscellaneous, provided, however, any notice sent to Keenan shall be addressed to him as provided at the top of page 1 hereof.

ARTICLE II - Representations or Warranties

To the best of Keenan's knowledge, Keenan owns and has the exclusive right to use and license the Keenan Patents, free and clear of all material liens, claims and restrictions, and, to the best of Keenan's knowledge, the use of the Keenan Patents will not infringe on or otherwise act adversely to the right or claimed right of any person under or with respect to any patent,

trademark, tradename, copyright, trade secret or other intangible asset. Except as set forth in the preceding sentence, Keenan disclaims all other representations or warranties, express or implied.

ARTICLE III – Limited License; No Other Rights

Any other provision notwithstanding, the license granted herein to Company is limited solely and exclusively to the cotinine portions of the Keenan Patents for weight loss or smoking cessation. No rights are granted herein as to any other chemical compounds cited in the Keenan Patents or for any other use.

ARTICLE IV – Consideration

Upon execution of this Agreement, Company shall pay Keenan One Hundred Dollars ($ 100.00) as the sole and exclusive compensation for the license of the Keenan Patents.

ARTICLE V – Term and Termination

Keenan shall have the right to terminate this Agreement and the license granted hereunder upon the same conditions and with same notice to Company as Pharmaco may terminate the Pharmaco License Agreement under Article VII thereof.

IN WITNESS WHEREOF, Company and Keenan have caused this Agreement to be duly executed as of the date noted on page 1 hereof.

LECTEC CORPORATION

By:/s/ Rodney A. Young	*/s/ Robert M. Keenan, M.D., Ph.D.*
Rodney A. Young,	*Robert M. Keenan, M.D., Ph.D.*
CEO and President	

<TABLE> <S> <C>

<ARTICLE> 5
<CURRENCY>RWA

<S>	<C>
<PERIOD-TYPE>	6-MOS
<FISCAL-YEAR-END>	JUN-30-1999
<PERIOD-END>	DEC-31-1998
<EXCHANGE-RATE>	1
<CASH>	1,022,455
<SECURITIES>	0
<RECEIVABLES>	2,809,731
<ALLOWANCES>	95,083
<INVENTORY>	1,884,912
<CURRENT-ASSETS>	6,229,692
<PP&E>	9,417,071
<DEPRECIATION>	5,313,847
<TOTAL-ASSETS>	10,597,560
<CURRENT-LIABILITIES>	2,010,226
<BONDS>	0
<PREFERRED-MANDATORY>	0
<PREFERRED>	0
<COMMON>	38,703
<OTHER-SE>	8,326,631
<TOTAL-LIABILITY-AND-EQUITY>	10,597,560
<SALES>	6,006,334
<TOTAL-REVENUES>	6,006,334
<CGS>	4,063,343
<TOTAL-COSTS>	4,063,343
<OTHER-EXPENSES>	0
<LOSS-PROVISION>	24,000
<INTEREST-EXPENSE>	0
<INCOME-PRETAX>	(811,821)
<INCOME-TAX>	1,612
<INCOME-CONTINUING>	(813,433)
<DISCONTINUED>	0
<EXTRAORDINARY>	0
<CHANGES>	0
<NET-INCOME>	(813,433)
<EPS-PRIMARY>	(.21)
<EPS-DILUTED>	(.21)

</TABLE>