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

FORM 10-K

(Mark One)
/ X / ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE FISCAL YEAR ENDED JUNE 30, 1999.

/ / 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 [ ]

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 September 22, 1999 was $8,660,427 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 September 22, 1999 was 3,876,476 shares.

DOCUMENTS INCORPORATED BY REFERENCE

Part III of this Annual Report on Form 10-K incorporates by reference information from the Registrant's Proxy Statement for its Annual Meeting of Shareholders to be held November 11, 1999 (1999 Proxy Statement).

PART I

ITEM 1. BUSINESS

GENERAL

LecTec Corporation (the "Company") designs, manufactures and markets diagnostic ECG ("electrocardiograph") electrodes, conductive and non-conductive adhesive hydrogels, medical tapes and patches for the topical application of over-the-counter ("OTC") drugs and therapeutic and skin care ointments. The Company markets and sells its products to medical products distributors, physician clinics, hospital purchasing organizations, hospitals, long-term care facilities, consumers through retail outlets (food, chain drug and discount stores) and original equipment manufacturers ("OEM"s). All of the products manufactured by the Company are designed to be highly compatible with skin.

The Company developed one of the first solid gel disposable ECG electrodes which did not require the use of aqueous conductive gels in order to maintain contact with the skin. The Company has since continued to develop, manufacture and market electrodes as well as hydrogels, medical tapes, OTC topical delivery patches and therapeutic products. A hydrogel is a gel-like material having an affinity for water and similar compounds. These gels are ideal for electrical conductivity and skin compatibility. The Company holds multiple domestic and foreign 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. Meeting these standards, particularly EN46001, confirms that the Company has achieved the highest level of quality systems compliance demonstrated by world-class design and manufacturing firms. For medical devices, EN46001 is awarded only to those companies which satisfy the rigorous standards of ISO 9001 and comply with the European Union's Medical

Device Directive.

The Company, through its research and development efforts, is investigating new products for topical delivery of OTC drugs and ointments, new conductive adhesive hydrogel polymers and improved medical tapes, as well as a smoking cessation pill. In addition, existing technologies are being refined to focus on new products targeting new customers and new markets.

The Company was organized in 1977 as a Minnesota corporation. Its principal executive office is located at 10701 Red Circle Drive, Minnetonka, Minnesota 55343, and its telephone number is (612) 933-2291.

PRODUCTS

The Company's core competency is skin interface technology. This competency results in products which are chemically compatible with human skin, thereby reducing skin irritation and reducing damage to the skin as well as the risk of infection. The electrical properties, adhesive characteristics, dimensions, drug stability, shelf life and manufacturability of the Company's products are highly consistent and reproducible from product to product.

CONDUCTIVE PRODUCTS

The Company's conductive products include diagnostic electrodes and electrically conductive adhesive hydrogels.

The Company applies its patented conductive, skin compatible, adhesive hydrogel technology to cardiac diagnostic electrodes. The Company's patented natural and synthetic-based hydrogel polymers are self-adherent and are capable of being made electrically conductive. Using natural-based polymers, the Company developed the first solid gel disposable diagnostic ECG electrodes. All of the Company's electrodes meet or exceed all national and international performance standards.

The solid gel design of the Company's electrodes provides more consistent electrical performance and eliminates clean-up time for the clinician. Currently the Company has three different types of diagnostic electrodes: LecTec 1000 Series, a disposable electrode made of natural polymer solid gel with

gentle adhesion; LecTec 3000 Series and LecTec 3009 Series, synthetic solid gel electrodes with higher levels of adhesion which meet all AAMI ("American Association for Medical Instrumentation") standards including defibrillation recovery; and LecTec 4000 Series, a synthetic solid gel, silver substrate electrode which also meets all AAMI standards including defibrillation recovery.

The Company pioneered hydrogel technology and manufactures synthetic and natural-based hydrogels. These hydrogels are resistant to dehydration, evaporation and changes in electrical and physical properties. Hydrogels are also used topically to deliver specific medications to the skin. Hydrogels are manufactured with various levels of conductivity, as well as with varying degrees of self-adhesive properties, for diagnostic electrodes, electrosurgical grounding pads, external defibrillation, pacing and monitoring electrodes, TENS ("Transcutaneous Electronic Nerve Stimulation") products and iontophoretic return electrodes.

Sales of conductive products accounted for approximately 63%, 61% and 63% of the Company's total sales for fiscal years 1999, 1998 and 1997.

MEDICAL TAPE PRODUCTS

The Company manufactures and markets hypoallergenic medical tape products in various individual slit roll widths and in large jumbo rolls for the world market. The Company's medical tape business includes the U.S. health care market (hospitals and alternate care segments), the U.S. consumer market and the international health care market. The Company's medical tape product line is comprised of the standard paper, plastic and cloth products widely used in the health care industry.

The Company manufactures and markets the individual slit roll widths under the private label brand names of customers and under the LecTec brand name. The large jumbo rolls are converted by the customer into individual slit roll widths for ultimate sale to consumers.

Sales of medical tapes accounted for approximately 22%, 32% and 25% of the Company's total sales for fiscal years 1999, 1998 and 1997.

THERAPEUTIC CONSUMER PRODUCTS

The Company manufactures and markets patches for the topical application of OTC drugs and other therapeutic ointments and skin care compounds. 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 analgesic patches for localized pain relief, cough suppressant patches, anti-itch patches, wart removers, and a corn and callus remover. These products are marketed as OTC products. The analgesic, cough suppresant and anti-itch patches are marketed under the LecTec brand name TheraPatch(R) while the wart removers and corn and callus removers are marketed under the private label of the customer.

Sales of therapeutic consumer products accounted for approximately 15%, 7% and 12% of the Company's total sales for fiscal years 1999, 1998 and 1997.

MARKETING AND MARKETING STRATEGY

The Company markets and sells its products to medical products distributors, physician clinics, hospital purchasing organizations, hospitals, long-term care facilities, consumers through retail outlets (food, chain drug and discount stores) and original equipment manufacturers.

A major entry into the consumer products markets was supported by the hiring of a new retail sales executive late in fiscal 1998 and a retail sales team in fiscal 1999. In the consumer products markets, retail broker and manufacturer's representative contracts have been established. The TheraPatch(R) brand is the umbrella brand for the Company's topical patches 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 address other markets into which it sells. These teams support sales to:

* end-user organizations such as physician clinics, hospital purchasing organizations, individual hospitals and long-term care facilties,
* medical products distributors who sell to end-user organizations, and
* OEMs which either include the Company's product with the product they sell (e.g., electrodes purchased from the Company may be included with electrocardiogram machines manufactured and sold by an OEM), or use the Company's jumbo rolls of hydrogels and medical tapes to manufacture a finished product for sale to the end-user (e.g., hydrogel purchased from the Company may be used by an OEM to make electrodes, or jumbo rolls of tape purchased from the Company may be slit, cut and wound on small cores by an OEM resulting in a product ready for the end-user).

The Company has not experienced any significant seasonality in sales of its products.

The Company sells its products in the U.S., Europe, Latin America, Asia, Canada and Middle East. All of the Company's international sales are denominated in U.S. dollars, thus, the impact of the foreign currency transaction gains and losses are borne by the Company's customers. The Company does not believe the January 1, 1999 euro currency conversion has had, nor will have, a material impact on its financial statements. Export sales accounted for approximately 13%, 26% and 19% of total sales for 1999, 1998 and 1997.

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 table sets forth export sales by geographic area:

	Years ended June 30		
	1999	1998	1997
Europe	$1,216,199	$1,705,996	$1,456,141
Latin America	371,654	371,854	484,319
Asia	31,935	62,027	132,590
Canada	7,011	199,082	117,966
Middle East	--	912,240	14,854
Other	28,333	71,949	82,062
Total Export Sales	$1,655,132	$3,323,148	$2,287,932

CUSTOMERS

Spacelabs Burdick Inc. accounted for 22%, 18% and 19% of the Company's total sales for the fiscal years 1999, 1998 and 1997. The Company sold its products to approximately 240, 190 and 140 active customers during 1999, 1998 and 1997. The Company's backlog orders (purchase orders received from customers for future shipment) as of August 12, 1999 totaled $913,000 (all of which the Company expects to fill in fiscal 2000), compared with approximately $911,000 on August 12, 1998.

COMPETITION

The markets for electrodes, hydrogels, medical tapes and topical OTC drug delivery patches are highly competitive. Firms in the medical and consumer industries compete on the basis of product performance, pricing, distribution and service. Many of the Company's major competitors 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.

Over the past several years there have been a number of mergers within the electrode and hydrogel industries, resulting in fewer but larger competitors. The Company has also noted a consolidation of customers and a reduction in the number of manufacturers of medical tapes.

The Company's primary competitor for electrode and hydrogel sales is Tyco International and the dominant competitors for medical tape sales are 3M Company and Johnson & Johnson. The Company's OTC TheraPatch family of analgesic, anti-itch and cough suppressant patches competes with ointments, lotions and creams manufactured by various competitors including Mentholatum/Rohto Pharmaceuticals, Inc.

MANUFACTURING

The Company manufactures its conductive and therapeutic membranes at the Company's Minnetonka, Minnesota facility. The Minnetonka facility also manufactures and packages the Company's therapeutic products and conducts raw material processing operations. The Company's second manufacturing facility in Edina, Minnesota is the primary site for the manufacturing and packaging of medical tape and diagnostic electrodes. The Edina location also provides 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.

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 an appropriate distributor. 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 and ointments, new conductive adhesive hydrogel polymers and improved medical tapes, as well as a smoking cessation pill. In addition, existing technologies are being refined to focus on new products targeting new customers and new markets.

The Company believes that cotinine is a promising non-nicotine drug for use in treating tobacco withdrawal symptoms. Because of the additional cost associated with the remaining clinical work on cotinine, the Company is actively seeking outside partners to help fund this development and move this non-nicotine program to completion.

During fiscal years 1999, 1998 and 1997, the Company spent approximately $1,170,000, $1,037,000 and $1,515,000 on research and development.

GOVERNMENTAL AND ENVIRONMENTAL REGULATION

The Company's Quality System includes design development 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's electrodes sold in the United States are subject to federal Food and Drug Administration (the "FDA") policy and are marketed pursuant to Section 510(k) notification, which is a means of obtaining FDA clearance to market a medical device. The Company's finished goods electrodes

and medical tapes sold in the United States are subject to the FDA's current Good Manufacturing Practices ("GMP") and quality system regulations.

The Company's hydrogels and jumbo roll medical tapes sold domestically are also subject to GMP and quality system regulations as they are sold to OEMs and distributors for processing into finished commercial goods.

The Company's topical OTC drug delivery patches are marketed under applicable federal FDA OTC monographs. Any new drug development products, such as the Company's cotinine-based smoking cessation product would be marketed only after approval of a New Drug Application containing full reports of detailed laboratory and clinical investigations on laboratory animals and human patients.

FOREIGN REGULATION

The Company's finished goods electrodes and medical tapes sold into the European Community (the "EC") are considered to be Class I, non-sterile and non-measuring medical devices. These products are "CE" marked and "self declared" as being compliant to the Medical Device Directive 93/42/EEC. An authorized representative for the Company has been established in the EC as required by European law. Foreign sales of the Company's finished goods electrodes and medical tapes are made only into the EC.

There are no foreign regulatory approvals required to sell the Company's hydrogels and jumbo roll medical tapes into foreign countries because these products are sold to OEM customers for processing into finished commercial goods.

The Company's topical OTC drug delivery patches are not currently sold outside the United States.

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 foreign patents on adhesive hydrogels, electrodes, transdermal and topical delivery systems and tape structures. Twenty-six active U.S. patents and twenty-two active international patents are currently assigned or licensed to the Company. Five U.S. patents were issued to the Company during fiscal 1999. Eleven U.S. and foreign applications are pending

including two which are on appeal. Foreign patent applications are pending in numerous European countries, Australia, New Zealand, Canada and Japan. The patents most pertinent to the Company's major products have a remaining duration ranging from two to eighteen years. Three of these patents have a remaining duration of less than five years and the expiration of these patents is not expected to have a material effect on the Company's proprietary position.

No trademark registrations were received in fiscal 1999. Eight 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.

EMPLOYEES

As of June 30, 1999, the Company employed 93 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
Rodney A. Young	44	Chairman, Chief Executive Officer and President
Deborah L. Moore	42	Chief Financial Officer, Secretary and Treasurer
Jane M. Nichols	53	Vice President, Marketing and New Business Development
Daniel M. McWhorter	59	Vice President, Research and Development
John D. LeGray	53	Vice President, Quality Assurance and Regulatory Affairs
</table>

Rodney A. Young is Chairman, Chief Executive Officer and President. He joined the Company in August 1996. Prior to joining LecTec, Mr. Young had 21 years of health care industry experience including sales and marketing for Upjohn Company and 3M Company. Prior to joining the Company, he was Vice President and General Manager of the Specialized Distribution Division of Baxter International, Inc.

Deborah L. Moore is Chief Financial Officer, Secretary and Treasurer. She joined the Company in February 1997. Ms. Moore's 22-year professional background includes public accounting with the big five firms of Ernst & Young LLP and Deloitte & Touche LLP. Prior to joining LecTec she was the Vice President of Corporate Development for Varitronic Systems, Inc.

Jane M. Nichols is Vice President, Marketing and New Business Development. She joined the Company in April 1997. Ms. Nichols' 27-year career includes clinical, technical and management roles at Methodist Hospital and Park Nicollet Medical Centers, and senior marketing positions at 3M Company and Ecolab.

Daniel M. McWhorter is Vice President, Research and Development. He joined the Company in January 1997. Mr. McWhorter has more than 27 years of experience in the medical products industry including both technical and general management positions at The Kendall Company and Pharmacia Deltec and senior technical positions at Abbott Laboratories and Mentor Corporation.

John D. LeGray is Vice President, Quality Assurance and Regulatory Affairs. He joined the Company in September 1997. Mr. LeGray's 32-year career includes technical and management positions at DiaSorin Inc., Bayer Corporation and Abbott Laboratories.

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.

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 fiscal 1999 and 1998. Such prices reflect interdealer prices, without retail mark-up, mark-down, or commission, and may not necessarily represent actual transactions.

YEARS ENDED JUNE 30,	1999		1998	
	HIGH	LOW	HIGH	LOW
First Quarter	$4.000	$2.250	$9.750	$5.375
Second Quarter	4.000	2.125	7.000	4.500
Third Quarter	3.000	1.250	5.750	3.875
Fourth Quarter	4.750	1.813	4.469	3.250

As of September 22, 1999 the Company had 3,876,476 shares of common stock outstanding, and 337 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

CONSOLIDATED STATEMENT OF OPERATIONS DATA

<TABLE>
<CAPTION>

Years ended June 30,	1999	1998	1997	1996	1995
<S>	<C>	<C>	<C>	<C>	<C>
Net sales	$ 12,279,075	$ 12,922,365	$ 12,256,327	$ 13,100,754	$ 14,138,290
Gross profit	4,093,561	3,715,032	4,324,180	4,969,659	5,697,562
Earnings (loss) from operations	(1,771,324)	(474,935)	(2,215,951)*	(724,074)	69,761
Earnings (loss) before equity in losses of unconsolidated subsidiary	(1,683,257)	(404,061)	(2,140,660)*	(632,193)	153,863
Equity in losses of unconsolidated subsidiary	--	--	126,067	--	--
Net earnings (loss)	(1,683,257)	(404,061)	(2,266,727)*	(632,193)	153,863
Net earnings (loss) per common and common equivalent share (BASIC AND DILUTED)	(.43)	(.10)	(.59)*	(.17)	.04

<CAPTION>
CONSOLIDATED BALANCE SHEET DATA

At June 30,	1999	1998	1997	1996	1995
<S>	<C>	<C>	<C>	<C>	<C>
Cash, cash equivalents and short-term investments	$ 1,022,025	$ 2,186,532	$ 1,242,777	$ 800,693	$ 839,942
Current assets	5,898,768	6,728,531	6,873,696	5,624,682	5,764,363
Working capital	3,471,715	5,335,861	4,035,084	4,240,024	4,490,796
Property, plant and equipment, net	4,028,491	4,306,568	4,592,304	5,112,975	5,559,807
Long-term investments	5,343	8,676	8,013	574,806	568,156
Total assets	10,132,573	11,317,774	11,837,356	12,494,003	12,646,745
Long-term liabilities	197,000	222,000	211,000	174,000	167,000
Shareholders' equity	7,508,520	9,703,104	8,787,744	10,935,345	11,206,178

</TABLE>

** Includes a nonrecurring restructuring charge of $2,180,353 or $.57 per share.*

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

RESULTS OF OPERATIONS

NET SALES

Net sales were $12,279,075 in 1999, a decrease of 5.0% from net sales of $12,922,365 in 1998. Net sales were $12,256,327 in 1997. The decrease in 1999 net sales was primarily the result of decreased medical tape sales, partially offset by increased therapeutic consumer product sales. The increase in 1998 net sales was due primarily to increased medical tape sales.

Net sales of conductive products (medical electrodes and conductive hydrogels) decreased by 1.9% in 1999 to $7,758,286 from $7,906,676 in 1998. Conductive product net sales were $7,713,932 in 1997. These fluctuations in sales were primarily volume-related. The Company expects fiscal 2000

conductive sales to be comparable to fiscal 1999 sales.

Net sales of medical tapes decreased by 34.7% in 1999 to $2,716,540 from $4,157,199 in 1998. Medical tape net sales were $3,092,962 in 1997. The decrease in 1999 was primarily the result of the absence of sales in 1999 to an international customer. The increase in 1998 was primarily attributable to the presence in 1998 of sales to this same international customer who did not place an order in 1997. Excluding sales to this international customer, medical tape sales to all other customers decreased by 16.5% in 1999 and increased by 5.2% in 1998. The decrease in 1999 sales to all other customers was primarily the result of the discontinuance of sales to several low-margin medical tape customers. The increase in 1998 was primarily the result of increased sales volume. The Company expects a decrease in fiscal 2000 medical tape sales from 1999 levels due to discontinued sales to other low-margin medical tape customers.

Net sales of therapeutic consumer products increased 113.3% in 1999 to $1,804,249 from $846,050 in 1998. Net sales of therapeutic consumer products were $1,449,433 in fiscal 1997. The increase in 1999 was primarily the result of increased TheraPatch sales to retailers, both as a result of increased volumes and increased unit selling price. The higher unit selling price in 1999 was the result of the Company selling directly to retailers rather than to CNS, Inc., the Company's exclusive distributor to retailers in the prior year. The decrease in 1998 sales was primarily due to decreased analgesic patch sales to CNS, Inc. and decreased wart remover product sales. The agreement under which CNS distributed the TheraPatch product was terminated at the end of fiscal 1998 and the Company assumed responsibility for retail distribution of the product. Management believes that sales of the Company's therapeutic patch products will represent an increased percentage of total net sales during fiscal 2000 due to continued sales growth resulting from increased TheraPatch brand name recognition, additional product offerings and expansion of the number of retailers selling the TheraPatch family of products.

International sales, consisting primarily of semi-finished conductive and medical tape products sold to overseas converters for final processing, packaging and marketing, were 13.5%, 25.7% and 18.7% of total net sales in 1999, 1998 and 1997. All international sales are in U. S. dollars. The decrease in the percent for 1999 resulted primarily from the absence in 1999 of medical tape sales to an international customer as well as decreased conductive sales to another customer who began manufacturing product previously purchased from the Company. The increase in the percent for 1998 resulted primarily from increased sales to the same international medical tape customer who accounted for the decrease in 1999. The Company expects fiscal 2000 international sales will be approximately 10% of total net sales.

GROSS PROFIT

The Company's gross profit was $4,093,561 in 1999, up from $3,715,032 in 1998. Gross profit was $4,324,180 in 1997. As a percentage of net sales, gross profit was 33.3% in 1999, 28.8% in 1998 and 35.3% in 1997. Gross profit in 1999 increased by 10.2% from the prior year and gross profit in 1998 decreased by 14.1% from the prior year. The increase in gross profit in 1999 resulted primarily from a shift in the sales mix to higher margin therapeutic consumer products from lower margin medical tape products, as well as higher margins on therapeutic patch sales primarily as a result of sales made directly to retailers rather than to a distributor. The decrease in gross profit in 1998 resulted primarily from a shift in the sales mix from higher margin conductive and therapeutic consumer products to lower margin

medical tape products, increased material costs, and a shift in labor costs from research and development to manufacturing.

SALES AND MARKETING EXPENSES

Sales and marketing expenses totaled $2,187,710 or 17.8% of net sales in 1999, compared to $1,042,788 or 8.1% of net sales in 1998, and $597,169 or 4.9% of net sales in 1997. The 1999 increase was primarily due to increased sales staff and advertising and slotting fees to establish new retail accounts. The 1998 increase was primarily due to increased sales promotion expense, as well as increased staffing levels and consulting expense. The 1998 increases were greatest in the fourth quarter and were largely related to the launch of the new TheraPatch family of patch products. The Company anticipates sales and marketing expenses as a percent of sales in fiscal 2000 will be approximately 20% due to sales and marketing efforts, particularly marketing programs associated with the TheraPatch product line.

GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses totaled $2,507,432 or 20.4% of net sales in 1999, compared to $2,110,084 or 16.3% of net sales in 1998, and $2,247,449 or 18.3% of net sales in 1997. The increase in 1999 was primarily the result of increased regulatory and quality assurance expenses associated with achieving and maintaining ISO 9001 and EN 46001 certification, expenses related to the re-negotiation and modification of the license agreement for the development and commercialization of cotinine, and legal expenses associated with work on new and existing patents. The 1998 decrease was primarily due to the absence of goodwill amortization and lower fees associated with executive recruitment. The Company anticipates general and administrative expenses in fiscal 2000 will be comparable to fiscal 1999.

RESEARCH AND DEVELOPMENT EXPENSES

Research and development expenses totaled $1,169,743 or 9.5% of net sales in 1999, compared to $1,037,095 or 8.0% of net sales in 1998, and $1,515,160 or 12.4% of net sales in 1997. The increase in 1999 reflects increased staffing levels and increased costs for testing of products under development. The decrease in research and development expense for 1998 reflects reductions in research costs associated with the internal development of the cotinine-based smoking cessation product as well as a shift in labor costs to manufacturing. The higher levels of research and development expenditures in 1997 reflect the utilization of internally generated funds to develop additional

therapeutic consumer products and a cotinine-based smoking cessation product. Management believes that research and development expenditures as a percent of sales will be comparable in fiscal 2000 to fiscal 1999.

RESTRUCTURING CHARGE

During 1997 the Company recorded a nonrecurring restructuring charge of $2,180,000 related to its plan for eliminating the Pharmadyne Corporation subsidiary. The restructuring charge included approximately $1,369,000 for the planned acquisition of the minority interests in Pharmadyne in exchange for newly issued shares of LecTec Corporation common stock, $480,000 for the write-off of Pharmadyne's 15% interest in Natus, L.L.C., an Arizona-based direct marketing company, and $331,000 for the completion of restructuring activities, consisting primarily of fees for professional services. In October 1997, the Company issued 221,948 new shares of its common stock to acquire the minority interests in Pharmadyne. In November 1997, the newly issued shares were registered with the Securities and Exchange Commission. On December 31, 1997, Pharmadyne Corporation was merged into LecTec Corporation.

OTHER INCOME, NET

Other income, net totaled $88,067 in 1999, compared to $69,874 in 1998 and $75,291 in 1997.

INCOME TAX BENEFIT

The Company recorded no income tax expense or benefit in 1999, an income tax benefit of $1,000 in 1998 and no income tax expense or benefit in 1997. There was no income tax benefit recorded during 1999 and the tax benefit recorded in 1998 was minimal since the loss benefit for these two years may not be realizable by the Company. There was no income tax benefit recorded during 1997 due primarily to the effect of the non-deductible restructuring charge.

EQUITY IN LOSSES OF UNCONSOLIDATED SUBSIDIARY

During 1997 the Company recorded $126,000 of equity in the losses of Natus L.L.C. The remaining investment in Natus L.L.C. of $480,000 was fully written off in 1997 as part of the $2,180,000 restructuring charge.

OPERATIONS SUMMARY

The net loss for 1999 resulted primarily from increased sales and marketing expenses related to the Company's investment in its 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. The net loss for 1998 resulted primarily from a decrease in the gross profit percent due to a shift in the sales mix from higher margin conductive and therapeutic consumer products to lower margin medical tape products and increased material costs and material usage. In 1997, the restructuring charge of $2,180,000 or $.57 per share was the primary component of the total net loss of $2,267,000 or $.59 per share. Excluding the impact of this one-time charge, the loss for 1997 was $87,000 or $.02 per share.

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 $1,164,507 to $1,022,025 at June 30, 1999 from $2,186,532 at June 30, 1998. This decrease was primarily due to the net loss for fiscal 1999 of $1,683,257. Inventories increased by $278,513 to $1,996,524 primarily due to increased raw material and finished goods inventory related to TheraPatch products necessary for the timely fulfillment of retail orders.

Working capital totaled $3,471,715 at June 30, 1999, compared to $5,335,861 at the end of fiscal 1998. The Company's current ratio was 2.4 at June 30, 1999 compared to 4.8 at June 30, 1998.

Capital spending for plant improvements and equipment totaled $419,469 in 1999. There were no material commitments for capital expenditures at June 30, 1999. Net property, plant and equipment decreased by $278,077 to $4,028,491 at June 30, 1999 from $4,306,568 at June 30, 1998, reflecting the excess of depreciation expense over capital spending.

Accounts payable increased by $867,629 to $1,676,776 at June 30, 1999 from $809,147 at June 30, 1998 reflecting increased raw materials, advertising and promotional, and slotting fee payables related to the TheraPatch product family, as well as an increase in the average number of days outstanding before payment.

The Company has no short or long-term debt. The Company had an unsecured $1,000,000 working capital line of credit through September 1, 1998. There were no borrowings outstanding under the line of credit during the fiscal years ended June 30, 1999 or 1998. The Company is currently reviewing a proposal from a bank to provide a new secured asset-based line of credit and expects to finalize the credit line by December 31, 1999. Shareholders' equity decreased by $2,194,584 to $7,508,520 as of June 30, 1999 from $9,703,104 as of June 30, 1998, primarily due to the net loss incurred during 1999 and the impact of the shares repurchased under its stock repurchase program. In April 1998, the Company announced a stock repurchase program authorizing the repurchase of up to 500,000 shares to be funded with internally generated funds. As of September 22, 1999 the Company has repurchased 205,150 shares of common stock under the program for an aggregate purchase price of approximately $668,000. There have been no repurchases since March 1999.

Management believes that existing cash and cash equivalents, internally-generated cash flow and the new secured line of credit the Company expects to obtain will be sufficient to support anticipated

operating and capital spending requirements during fiscal 2000. Management is currently evaluating additional sources of capital that may be appropriate for funding longer-term growth and expansion of the business. Maintaining adequate levels of working capital depends in part upon the success of the Company's products in the marketplace, the relative profitability of those products and the Company's ability to control operating expenses. Funding of the Company's operations in future periods may require additional investments in the Company in the form of equity or debt. There can be no assurance that the Company will achieve desired levels of sales or profitability, or that future capital infusions will be available.

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 five-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. Phase V involves establishing risk and developing contingency plans where necessary (i.e., compliance can not be established or the risks associated with errors in establishing compliance are significant).

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 cannot 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, was completed by June 30, 1999. Phase V, development of contingency plans where necessary, is currently in process and is expected to be essentially completed by October 31, 1999.

The Company has completed Phase I and II of the third party compliance program for current vendors and customers and is contacting new vendors and customers to determine their Y2K compliance. The Company is approximately 90% 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 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 October 31, 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 June 30, 1999 to be approximately $24,000, while total costs for Y2K compliance are estimated to be less than $35,000.

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 (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 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.

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, precluding the need for foreign currency hedges. Additionally, the Company invests in money market funds and short-term commercial paper, which experience minimal volatility. Thus, the exposure to market risk is not material.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Shareholders and
Board of Directors
LecTec Corporation

We have audited the accompanying consolidated balance sheets of LecTec Corporation and subsidiaries as of June 30, 1999 and 1998, and the related consolidated statements of operations, comprehensive loss, shareholders' equity, and cash flows for each of the three years in the period ended June 30, 1999. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe 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 consolidated financial position of LecTec Corporation and subsidiaries as of June 30, 1999 and 1998, and the consolidated results of their operations and their consolidated cash flows for each of the three years in the period ended June 30, 1999, in conformity with generally accepted accounting principles.

/s/ GRANT THORNTON LLP

Minneapolis, Minnesota
August 18, 1999

LECTEC CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

<TABLE>
<CAPTION>

ASSETS	June 30, 1999	June 30, 1998
<S>	<C>	<C>
CURRENT ASSETS		
Cash and cash equivalents	$ 1,022,025	$ 2,186,532
Receivables		
Trade, net of allowance of $101,751 in 1999 and $90,818 in 1998	2,335,314	2,251,757
Refundable income taxes	7,544	59,544
Other	8,687	30,624
	2,351,545	2,341,925
Inventories	1,996,524	1,718,011
Prepaid expenses and other	174,674	103,063

Deferred income taxes	354,000	379,000
Total current assets	5,898,768	6,728,531
PROPERTY, PLANT AND EQUIPMENT – AT COST		
Land	247,731	247,731
Building and improvements	1,841,742	1,816,277
Equipment	7,157,016	6,791,765
Furniture and fixtures	413,013	384,260
	9,659,502	9,240,033
Less accumulated depreciation	5,631,011	4,933,465
	4,028,491	4,306,568
OTHER ASSETS		
Patents and trademarks, less accumulated amortization of $1,154,698 in 1999 and $1,001,157 in 1998	199,971	273,999
Other	5,343	8,676
	205,314	282,675
	$10,132,573	$11,317,774

</TABLE>

The accompanying notes are an integral part of these statements.

LECTEC CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS – CONTINUED

<TABLE>
<CAPTION>

LIABILITIES AND SHAREHOLDERS' EQUITY	June 30, 1999	June 30, 1998
<S>	<C>	<C>
CURRENT LIABILITIES		
Accounts payable	$ 1,676,776	$ 809,147
Accrued expenses		
Payroll related	403,075	384,135
Retail support programs	165,472	--
Other	181,730	199,388
Total current liabilities	2,427,053	1,392,670
DEFERRED INCOME TAXES	197,000	222,000
COMMITMENTS AND CONTINGENCIES	--	--
SHAREHOLDERS' EQUITY		
Common stock, $.01 par value; 15,000,000 shares authorized; 3,876,476 shares and 4,036,000 shares issued and outstanding at June 30, 1999 and 1998	38,765	40,360
Additional paid-in capital	11,262,654	11,769,053
Accumulated other comprehensive loss	(11,841)	(8,508)
Deficit in retained earnings	(3,781,058)	(2,097,801)
	7,508,520	9,703,104
	$ 10,132,573	$ 11,317,774

</TABLE>

The accompanying notes are an integral part of these statements.

LECTEC CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

<TABLE>
<CAPTION>

	Years ended June 30,

	1999	1998	1997
<S>	<C>	<C>	<C>
Net sales	$ 12,279,075	$ 12,922,365	$ 12,256,327
Cost of goods sold	8,185,514	9,207,333	7,932,147
Gross profit	4,093,561	3,715,032	4,324,180
Operating expenses			
Sales and marketing	2,187,710	1,042,788	597,169
General and administrative	2,507,432	2,110,084	2,247,449
Research and development	1,169,743	1,037,095	1,515,160
Restructuring charge	--	--	2,180,353
	5,864,885	4,189,967	6,540,131
Loss from operations	(1,771,324)	(474,935)	(2,215,951)
Other income, net	88,067	69,874	75,291
Loss before income taxes and equity in losses of unconsolidated subsidiary	(1,683,257)	(405,061)	(2,140,660)
Income tax benefit	--	(1,000)	--
Loss before equity in losses of unconsolidated subsidiary	(1,683,257)	(404,061)	(2,140,660)
Equity in losses of unconsolidated subsidiary	--	--	126,067
Net loss	$ (1,683,257)	$ (404,061)	$ (2,266,727)
Net loss per share - basic and diluted	$ (.43)	$ (.10)	$ (.59)
Weighted average shares outstanding - basic and diluted	3,906,694	4,005,455	3,836,618

</TABLE>

The accompanying notes are an integral part of these statements.

LECTEC CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

<TABLE>
<CAPTION>

	Years ended June 30,		
	1999	1998	1997
<S>	<C>	<C>	<C>
Net loss	$(1,683,257)	$ (404,061)	$(2,266,727)
Other comprehensive income (loss)			
Unrealized gains (losses) on securities available-for-sale			
Unrealized holding gains (losses) arising during period	(3,333)	13,949	10,794
Reclassification adjustment for losses included in net loss	--	10,915	--
	(3,333)	24,864	10,794
Comprehensive loss	$(1,686,590)	$ (379,197)	$(2,255,933)

</TABLE>

The accompanying notes are an integral part of these statements.

LECTEC CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

YEARS ENDED JUNE 30, 1999, 1998 AND 1997

<TABLE>
<CAPTION>

	Common stock		Additional paid-in capital	Accumulated other comprehensive loss	Retained earnings (deficit)	Total shareholders' equity
	Shares	Amount				
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Balance, June 30, 1996	3,835,800	$38,358	$10,368,166	$(44,166)	$ 572,987	$10,935,345
Net loss	--	--	--	--	(2,266,727)	(2,266,727)
Cost of shares retired	(8,278)	(83)	(54,023)	--	--	(54,106)
Common shares issued upon exercise of options	15,278	153	51,690	--	--	51,843
Unrealized gain on securities available-for-sale	--	--	--	10,794	--	10,794
Investment by minority shareholders in consolidated subsidiary	--	--	83,595	--	--	83,595
Tax benefit from exercise of stock options	--	--	27,000	--	--	27,000
Balance, June 30, 1997	3,842,800	38,428	10,476,428	(33,372)	(1,693,740)	8,787,744
Net loss	--	--	--	--	(404,061)	(404,061)
Cost of shares retired	(10,863)	(109)	(40,627)	--	--	(40,736)
Common shares issued upon exercise of options	11,615	116	38,629	--	--	38,745
Unrealized gain on securities available-for-sale	--	--	--	24,864	--	24,864
Common shares issued to acquire minority shares of consolidated subsidiary	221,948	2,220	1,367,191	--	--	1,369,411
Shares repurchased	(29,500)	(295)	(124,268)	--	--	(124,563)
Warrants issued for services	--	--	50,000	--	--	50,000
Tax benefit from exercise of stock options	--	--	1,700	--	--	1,700
Balance, June 30, 1998	4,036,000	40,360	11,769,053	(8,508)	(2,097,801)	9,703,104
Net loss	--	--	--	--	(1,683,257)	(1,683,257)
Common shares issued upon exercise of options	1,000	10	1,990	--	--	2,000
Unrealized loss on securities available-for-sale	--	--	--	(3,333)	--	(3,333)
Common shares issued in connection with the employee stock purchase plan	15,126	151	32,855	--	--	33,006
Shares repurchased	(175,650)	(1,756)	(541,644)	--	--	(543,400)
Tax benefit from exercise of stock options	--	--	400	--	--	400
Balance, June 30, 1999	3,876,476	$38,765	$11,262,654	$(11,841)	$(3,781,058)	$ 7,508,520

</TABLE>

The accompanying notes are an integral part of these statements.

LECTEC CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

<TABLE>
<CAPTION>

	Years ended June 30,		
	1999	1998	1997
<S>	<C>	<C>	<C>
Cash flows from operating activities:			
Net loss	$(1,683,257)	$ (404,061)	$(2,266,727)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:			
Restructuring charge	--	--	2,180,353
Depreciation and amortization	851,087	844,594	1,014,251
Warrants issued for services	--	50,000	--
Loss on sales of investments	--	10,915	--
Deferred income taxes	--	(2,000)	(45,000)
Equity in losses of unconsolidated subsidiary	--	--	126,067
Changes in operating assets and liabilities:			
Trade and other receivables	(61,620)	(80,617)	(171,781)
Refundable income taxes	52,000	341,719	(25,683)
Inventories	(278,513)	859,010	(565,694)
Prepaid expenses and other	(71,611)	(18,192)	38,228
Accounts payable	867,629	29,448	(31,552)
Accrued expenses	167,154	(104,279)	(104,152)
Net cash provided by (used in) operating activities	(157,131)	1,526,537	148,310
Cash flows from investing activities:			
Purchase of property, plant and equipment	(419,469)	(406,515)	(187,040)
Investment in patents and trademarks	(79,513)	(62,999)	(104,705)
Sale of investments	--	590,873	--
Other	--	--	10,195
Net cash provided by (used in) investing activities	(498,982)	121,359	(281,550)
Cash flows from financing activities:			
Issuance of common stock	35,006	38,745	51,843
Repurchases and retirement of common stock	(543,400)	(165,299)	(54,106)
Net cash used in financing activities	(508,394)	(126,554)	(2,263)

Net increase (decrease) in cash and cash equivalents	(1,164,507)	1,521,342	(135,503)
Cash and cash equivalents at beginning of year	2,186,532	665,190	800,693
Cash and cash equivalents at end of year	$ 1,022,025	$ 2,186,532	$ 665,190

</TABLE>

The accompanying notes are an integral part of these statements.

LECTEC CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS - CONTINUED

<TABLE>
<CAPTION>

	Years ended June 30,		
	1999	1998	1997
<S>	<C>	<C>	<C>
Supplemental disclosures:			
Cash paid during the year for interest	$ 792	$ 1,106	$ 6,189
Cash paid during the year for income taxes	$22,010	$16,732	$ 6,000

Supplemental schedule of non-cash activities:

During fiscal 1998, the Company issued 221,948 shares of common stock in exchange for the minority interest in Pharmadyne, valued at $1,369,411
</TABLE>

The accompanying notes are an integral part of these statements.

LECTEC CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 1999, 1998 AND 1997

NOTE A - SUMMARY OF ACCOUNTING POLICIES

LecTec Corporation (the "Company") is primarily engaged in the research, design, manufacture and sale of diagnostic electrodes, conductive hydrogels, medical tapes and therapeutic consumer products. The Company sells and extends credit without collateral to customers located throughout the United States as well as Europe, Latin America, Asia, Canada and the Middle East. A summary of the Company's significant accounting policies consistently applied in the preparation of the accompanying financial statements follows:

Basis of Financial Statement Presentation

The consolidated financial statements include the accounts of LecTec Corporation ("LecTec"), LecTec International Corporation, a wholly-owned subsidiary, and Pharmadyne Corporation, a wholly-owned owned subsidiary which was merged into LecTec Corporation on December 31, 1997 (note H). All intercompany accounts and transactions have been eliminated in consolidation.

Cash and Cash Equivalents

The Company considers all highly liquid temporary investments with an original maturity of three months or less to be cash equivalents. Cash equivalents consist primarily of short-term commercial paper.

Investments

The Company's investments are classified as available-for-sale and are reported at fair value. The Company utilizes the specific identification method in computing realized gains and losses.

Inventories

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

	June 30	
	1999	1998

Raw materials	$1,324,973	$1,184,778
Work in process	69,324	15,055
Finished goods	602,227	518,178
	$1,996,524	$1,718,011

NOTE A - SUMMARY OF ACCOUNTING POLICIES - Continued

Depreciation and Amortization

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

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

Revenue Recognition

Sales are recognized at the time of shipment.

Stock Options

The Company accounts for the issuance of stock options using the intrinsic value method.

Net Earnings (Loss) Per Share

The Company's basic net earnings (loss) per share amounts are computed by dividing net earnings (loss) by the weighted average number of outstanding common shares. The Company's diluted net earnings per share amounts are computed by dividing net earnings by the weighted average number of outstanding common shares and common share equivalents, when dilutive. Options and warrants to purchase 897,506, 795,997 and 628,062 shares of common stock with a weighted average exercise price of $7.54, $8.09 and $8.82 were outstanding during the years ended June 30, 1999, 1998 and 1997, but were excluded because they were antidilutive.

NOTE A - SUMMARY OF ACCOUNTING POLICIES - Continued

Use of Estimates

In preparing consolidated financial statements in conformity with generally accepted accounting principles, 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 - LINE OF CREDIT

The Company had an unsecured $1,000,000 working capital line of credit through September 1, 1998 with interest at the bank's reference rate (effective rate of 8.5% at June 30, 1998). There were no borrowings outstanding on the line of credit during the fiscal years ended June 30, 1999 and 1998. Management believes the Company will be able to obtain a new secured asset-based line of credit when required.

NOTE C - COMMITMENTS AND CONTINGENCIES

The Company conducts portions of its operations in a leased facility. The lease provides for payment of a portion of taxes and other operating expenses by the Company.

The minimum rental commitments under all operating leases, which expire at various times through June 30, 2002, are as follows for the years ending June 30:

2000	$265,557
2001	270,350
2002	270,921
	$806,828

Total rent expense for operating leases was $250,641, $248,931 and $224,849 for the years ended June 30, 1999, 1998 and 1997.

NOTE C - COMMITMENTS AND CONTINGENCIES - Continued

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 D - INCOME TAXES

The provision for income taxes consists of the following:

	Years ended June 30,		
	1999	1998	1997
Current			
Federal	$ --	$ (1,000)	$ 43,000
State	--	2,000	2,000
	--	1,000	45,000
Deferred			
Federal	--	(2,000)	(45,000)
State	--	--	--
	--	(2,000)	(45,000)
	$ --	$ (1,000)	$ --

Deferred tax assets and liabilities represent the tax effects, based upon current tax law, of cumulative future deductible or taxable items that have been recognized in the financial statements as follows:

	June 30,	
	1999	1998
Deferred current assets and liabilities:		
Net operating loss carryforwards	$ 1,656,500	$ 1,147,800
Tax credit carryforwards	253,600	244,900
Inventory	199,400	146,800
Vacation pay	67,100	63,700
Other	40,900	46,100
	2,217,500	1,649,300
Valuation allowance	(1,863,500)	(1,270,300)
Net current asset	$ 354,000	$ 379,000

NOTE D - INCOME TAXES - Continued

	June 30,	
	1999	1998

Deferred long-term assets and liabilities:		
Tax depreciation in excess of book depreciation	*$(273,400)*	*$(289,700)*
Charitable contribution carryforwards	*18,900*	*18,400*
Other	*57,500*	*49,300*
Net long-term liability	*$(197,000)*	*$(222,000)*

At June 30, 1999, the Company has available net operating loss carryforwards of approximately $4,900,000 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 as they may not be realizable.

At June 30, 1999, the Company has available tax credit carryforwards of approximately $254,000 which can be used to reduce future tax liabilities. These carryforwards begin to expire in 2008. A valuation allowance has been recorded for a portion of the tax credit carryforwards as they may not be fully realizable.

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

	1999	*1998*	*1997*
Federal statutory income tax rate	*(34.0)%*	*(34.0)%*	*(34.0)%*
State income taxes, net of federal effect	*--*	*0.3*	*0.1*
Nondeductible restructuring charge	*--*	*--*	*34.6*
Foreign sales corporation	*--*	*(11.1)*	*(2.1)*
Losses producing no current benefit	*34.4*	*58.0*	*.6*
Tax exempt investment income	*--*	*(1.7)*	*(0.8)*
Goodwill amortization	*--*	*--*	*2.3*
Prior years' overaccruals	*--*	*(3.7)*	*--*
Other	*(0.4)*	*(8.0)*	*(.7)*
	--%	*(0.2)%*	*--%*

NOTE E - 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 of which 15,126 shares have been purchased by employees for $33,006 as of June 30, 1999.

NOTE F - EMPLOYEE BENEFIT PLAN

The Company maintains a contributory 401(k) profit sharing benefit plan covering substantially all employees who have completed one hour of service. The Company matches 50% of voluntary employee contributions to the plan not to exceed 50% of a maximum 5% of a participant's compensation. The Company's contributions under this plan were $71,006, $54,901 and $37,936 for the years ended June 30, 1999, 1998 and 1997. The Company may also make a discretionary contribution. No discretionary contributions were made for the years ended June 30, 1999, 1998 and 1997.

NOTE G - 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 1,673,049 shares of common stock are reserved for issuance under the plans. 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 four years.

NOTE G - STOCK OPTIONS AND WARRANTS - Continued

A summary of the Company's stock option transactions for the years ended June 30, 1999, 1998 and 1997 is as follows:

	Number of shares	Weighted average exercise price
Outstanding at June 30, 1996	524,695	$8.65
Granted	343,350	8.26
Exercised	(15,278)	3.39
Canceled	(129,934)	9.30
Outstanding at June 30, 1997	722,833	8.46
Granted	219,000	5.31
Exercised	(11,615)	3.35
Canceled	(82,598)	6.37
Outstanding at June 30, 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

A total of 593,876, 459,994 and 371,946 options were exercisable at June 30, 1999, 1998 and 1997, with a weighted average price of $7.83, $8.35 and $8.30.

The following information applies to grants that are outstanding at June 30, 1999:

<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>
$2.00 -$ 3.19	280,200	5.0 years	$2.67	29,000	$2.00
3.35 - 5.00	196,974	7.4 years	4.61	83,099	4.41
6.00 - 8.63	297,321	5.9 years	7.08	191,196	7.34
9.00 - 13.50	359,331	4.2 years	9.98	290,581	9.72
	1,133,826			593,876	

</TABLE>

NOTE G - STOCK OPTIONS AND WARRANTS - Continued

The weighted average fair value of the options granted during 1999, 1998 and 1997 were $1.47, $2.77 and $4.45. 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 in 1999, 1998 and 1997: zero dividend yield, expected volatility of 62%, 52% and 54%, risk-free interest rate of 5.77%, 5.57% and 6.22% and expected lives of 4.09, 5.16 and 5.09 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.

The Company's net loss and net loss per share for 1999, 1998 and 1997 would have been increased 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.

<TABLE>

<CAPTION>

	1999		1998		1997	
	As reported	Pro forma	As reported	Pro forma	As reported	Pro forma
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Net loss	$(1,683,257)	$(2,201,974)	$(404,061)	$(897,365)	$(2,266,727)	$(2,620,449)
Net loss per share - basic/diluted	$(.43)	$(.56)	$(.10)	$(.22)	$(.59)	$(.68)

</TABLE>

During 1998, the Company issued a warrant to an outside consultant for the purchase of 12,953 shares of the Company's common stock at $6.25 per share, expiring November 20, 2004, in exchange for recruiting and placement services. The fair value of the warrant granted was calculated on the date of grant using the Black-Scholes option-pricing model.

NOTE H - PHARMADYNE CORPORATION AND RESTRUCTURING

During 1993 through 1996, the Company made various investments in and advances to Pharmadyne Corporation resulting in a cumulative ownership of 61%.

During 1997, the Company adopted a plan for eliminating the Pharmadyne subsidiary and recorded a nonrecurring restructuring charge of $2,180,353 which increased the 1997 net loss by $.57 per share. The restructuring charge included approximately $1,369,000 for the planned acquisition of the minority interests in Pharmadyne in exchange for newly issued shares of LecTec Corporation common stock and $331,000 for completion of restructuring activities, consisting primarily of fees for professional services. The restructuring charge also included $480,000 for the write-off of Pharmadyne's 15% interest in Natus, L.L.C., an Arizona-based direct marketing company. During 1997, the Company recorded $126,067 of equity in the losses of Natus, L.L.C.

In October 1997, the Company issued 221,948 new shares of its common stock to acquire the minority interests in Pharmadyne. In November 1997, the newly issued shares were registered with the Securities and Exchange Commission. On December 31, 1997, Pharmadyne Corporation was merged into LecTec Corporation.

NOTE I - SEGMENT INFORMATION

During 1999, the Company adopted SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information." 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.

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 and profitability on a total company basis, due to shared infrastructures, to make operating and strategic decisions. Net sales by major product line were as follows:

NOTE I - SEGMENT INFORMATION - Continued

Years ended June 30,	1999	1998	1997
Conductive products	$ 7,758,286	$ 7,906,676	$ 7,713,932
Medical tape products	2,716,540	4,157,199	3,092,962
Therapeutic consumer products	1,804,249	858,490	1,449,433
	$12,279,075	$12,922,365	$12,256,327

Export sales accounted for approximately 13%, 26%, and 19% of total sales during the years ended June 30, 1999, 1998, and 1997. Export sales are attributed to geographic region based upon the location of the customer. Export sales by geographic area were as follows:

Years ended June 30,	1999	1998	1997
Europe	$1,216,199	$1,705,996	$1,456,141
Latin America	371,654	371,854	484,319
Asia	31,935	62,027	132,590
Canada	7,011	199,082	117,966
Middle East	--	912,240	14,854
Other	28,333	71,949	82,062
	$1,655,132	$3,323,148	$2,287,932

One customer accounted for 22%, 18% and 19% of total sales for the years ended June 30, 1999, 1998 and 1997. The accounts receivable from this customer represented 26% and 18% of trade receivables at June 30, 1999 and 1998. The accounts receivable from another customer represented 11% of trade receivables at June 30, 1999 and the accounts receivable from another customer represented 10% of trade receivables at June 30, 1998.

NOTE J - 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. During the years ended June 30, 1999 and 1998, the Company repurchased 175,650 and 29,500 shares for $543,400 and $124,563.

NOTE K - RISKS AND UNCERTAINTIES

The Year 2000 issue relates to limitations in computer systems and applications that may prevent proper recognition of the year 2000. The potential effect of the Year 2000 issue on the Company and its business partners will not be fully determinable until the year 2000 and thereafter. If Year 2000 modifications are not properly completed either by the Company or entities with whom the Company conducts business, the Company's financial condition and results of operations could be adversely impacted.

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 November 11, 1999, 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.

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 November 11, 1999, 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 November 11, 1999, 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 on November 11, 1999, 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 consolidated financial statements of the Company and its subsidiaries are filed as a part of this Form 10-K in Part II, Item 8:

(i) Report of Independent Certified Public Accountants

(ii) Consolidated Balance Sheets at June 30, 1999 and 1998

(iii) Consolidated Statements of Operations for the years ended June 30, 1999, 1998 and 1997

(iv) Consolidated Statements of Comprehensive Loss for the years ended June 30, 1999, 1998 and 1997

(v) Consolidated Statements of Shareholders' Equity for the years ended June 30, 1999, 1998 and 1997

(vi) Consolidated Statements of Cash Flows for the years ended June 30, 1999, 1998 and 1997

(vii) Notes to the Consolidated Financial Statements

2. Financial Statement Schedules

(iii) 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

		Method of Filing
3.01	Articles of Incorporation of Registrant, as amended	(1)
3.02	By-laws of Registrant	(1)
10.01	Service Agreement dated July 1, 1986, between LecTec International, Inc., a U.S. Virgin Islands corporation, and LecTec Corporation, relating to the sale, lease or rental of certain property outside the United States.	(1)
10.02	Distribution and Commission Agreement dated July 1, 1986, between LecTec International, Inc., a U.S. Virgin Islands corporation, and LecTec Corporation, relating to the sale, lease or rental of certain property outside the United States.	(1)

10.03	Certificate of Secretary pertaining to Resolution of Board of Directors of LecTec Corporation, dated October 30, 1986, implementing a Profit Sharing Bonus Plan.	(1)
10.04	Research Agreement dated December 31, 1991, between LecTec Corporation and the University of Minnesota, whereby LecTec Corporation received exclusive rights to market and sell a non-nicotine compound to be mutually developed for smoking cessation.	(2)
10.05	Assignment and Mutual Release Agreement dated March 9, 1993 between Pharmaco Behavioral Associates, Inc., Robert M. Keenan, Ph.D., M.D. and the University of Minnesota, whereby the University assigned title, royalty and patent rights associated with the technology to alleviate symptoms of tobacco withdrawal to Pharmaco Behavioral Associates, Inc. and Dr. Keenan. Also included is a mutual release of all parties on all past title, royalty and patent rights.	(2)

10.06	*License Agreement dated March 9, 1993 between Pharmaco Behavioral Associates, Inc. and LecTec Corporation, whereby the Company received an exclusive, worldwide license to market, make and sublicense product associated with the technology to alleviate symptoms of tobacco withdrawal.*	*(2)*
10.07	*Consultant Contract and Invention Assignment dated March 9, 1993 between Robert Keenan, Ph.D., M.D. and LecTec Corporation, whereby the Company received assignment of patent and invention rights associated with the technology to alleviate symptoms of tobacco withdrawal including provisions that the Company enter into a consulting agreement with Dr. Keenan.*	*(2)*
10.08	*Marketing and Distribution Agreement dated January 11, 1996 between LecTec Corporation, Pharmadyne Corporation (formerly Natus Corporation) and CNS, Inc. regarding an analgesic pain patch*	*(3)*
10.09	*LecTec Corporation 1989 Stock Option Plan*	*(4)*
10.10	*LecTec Corporation 1991 Directors' Stock Option Plan*	*(4)*
10.11	*Building lease dated May 24, 1991 between LecTec Corporation and Sierra Development Co. for the lease of the manufacturing and warehouse facility located in Edina, Minnesota*	*(4)*
10.12	*First amendment dated May 5, 1997 between LecTec Corporation and Rushmore Plaza Partners Limited Partnership for the extension of the previous lease of the manufacturing and warehouse facility located in Edina, Minnesota*	*(4)*
10.13	*Articles of Merger of Pharmadyne Corporation into LecTec Corporation dated December 31, 1997 , whereby Pharmadyne, a wholly-owned subsidiary, is merged into LecTec Corporation*	*(5)*

10.14	*Change In Control Termination Pay Plan adopted May 27, 1998, for the benefit of certain employees of LecTec Corporation in the event of a Change in Control*	*(5)*
10.15	*Termination Agreement dated July 30, 1998 between LecTec Corporation and CNS, Inc., whereby the Marketing and Distribution Agreement date January 11, 1996 is terminated*	*(5)*
10.16	*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, whereby certain provisions of the March 9, 1993 agreement are modified*	*(6)*
10.17	*Separate License Agreement dated December 31, 1998 between LecTec Corporation and Robert M, Keenan, M.D., Ph.D., whereby LecTec obtains a license to the cotinine portion of certain patents*	*(6)*
10.18	*LecTec Corporation Employee Stock Purchase Plan*	*(7)*
10.19	*LecTec Corporation 1998 Stock Option Plan*	*(8)*
10.20	*LecTec Corporation 1998 Directors' Stock Option Plan*	*(8)*
**10.21*	*Letter of Intent dated April 19, 1999 between LecTec Corporation and Johnson & Johnson Consumer Companies, Inc., whereby the parties agree to certain milestones leading to the development of a skin care product*	*(9)*
21.01	*Subsidiaries of the Company*	*(9)*
23.01	*Consent of Grant Thornton LLP*	*(9)*
27.01	*Financial Data Schedule*	*(9)*

- - ----------

** 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 United States Securities and Exchange Commission together with a confidential treatment request.*

(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, 1993.

(3) Incorporated herein by reference to the Company's Annual Report on Form 10-K for the year ended June 30, 1996.

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

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

(6) Incorporated herein by reference to the Company's Quarterly Report on Form 10-Q for the quarter ended December 31, 1998.

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

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

(9) Filed herewith.

(b) 1. Reports on Form 8-K.

None.

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS ON SCHEDULE II

Board of Directors
LecTec Corporation

In connection with our audit of the consolidated financial statements of LecTec Corporation and Subsidiaries referred to in our report dated August 18, 1999 which is included in the Annual Report to shareholders and incorporated by reference, we have also audited Schedule II for each of the three years in the period ended June 30, 1999. 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
August 18, 1999

LecTec Corporation and Subsidiaries
Schedule II
Valuation and Qualifying Accounts
Three Years Ended June 30, 1999

<TABLE>
<CAPTION>

Description	Balance at Beginning of Period	Charged to costs and expenses	Charge to other accounts	Deductions (a)	Balance at end of period
<S>	<C>	<C>	<C>	<C>	<C>
Allowance for doubtful accounts					
Year ended June 30, 1997	$38,974	$56,000	$--	$46,445	$ 48,529
Year ended June 30, 1998	48,529	48,000	--	5,711	90,818
Year ended June 30, 1999	90,818	48,000	--	37,067	101,751

(a) Write-offs, less recoveries
</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 24th day of September, 1999.

LECTEC CORPORATION

/s/Rodney A. Young

Rodney A. Young
Chairman, Chief Executive Officer and President
(Principal Executive Officer)

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)*	*September 24, 1999*
/s/Deborah L. Moore *Deborah L. Moore* *Chief Financial Officer and Secretary* *(Principal Financial Officer and Accounting Officer)*	*September 24, 1999*
/s/Lee M. Berlin *Lee M. Berlin* *Director*	*September 24, 1999*
/s/Alan C. Hymes *Alan C. Hymes* *Director*	*September 24, 1999*
/s/Paul O. Johnson *Paul O. Johnson* *Director*	*September 24, 1999*
/s/Donald C. Wegmiller *Donald C. Wegmiller* *Director*	*September 24, 1999*

EXHIBIT INDEX

Exhibits

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23.01	*Consent of Grant Thornton LLP.....*
27.01	*Financial Data Schedule.....*

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 United States Securities and Exchange Commission together with a confidential treatment request.*
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EXHIBIT 10.21

LETTER OF INTENT

April 19, 1999

Jane Nichols
Vice President of Marketing and New Business Development
LecTec Corporation
10701 Red Circle Drive
Minnetonka, MN 55343

Re: Letter of Intent

Dear Ms. Nichols:

*This is a Letter of Intent under which Johnson & Johnson Consumer Companies, Inc., and (*), hereinafter collectively referred to as "JJC" and LecTec Corporation (hereinafter "LECTEC") agree that JJC will conduct limited efficacy and consumer studies (the "Study") to confirm the consumer acceptance of LECTEC's (*), which is covered under patents listed on Attachment A (the "Technology"). Within sixty (60) days of the signing of this Letter of Intent, the parties will enter into an agreement having the following terms agreed to by the parties hereto (hereinafter, "Agreement"):*

1. JJC will conduct limited efficacy and consumer studies (the "Study") to confirm the consumer acceptance of LECTEC's Technology.

2. The duration of the Agreement will be nine (9) months from the date of signing, which may be extended upon the agreement of the parties.

*3. LECTEC will provide the following: (1) a prototype (*), which (a) contains (*), and/or other ingredients as listed in the product specifications, which are included as Attachments B and C, (b) delivers the product attributes and costs mutually agreed upon and included in Attachments B and C, and (c) has sufficient variability (*); (2) a copy of its safety protocols and data, and biocompatibility NAMSA protocol; (3) a copy of its stability protocol and data on product compatibility, and (*)/product stability (*); (4) complete access to its manufacturing facility to allow an audit by JJC in terms of operations, analytical, quality assurance, water supply, etc.; (5) right to market searches already conducted, if any; (6) the ingredients in percentages, materials of construction and any other information, in confidence*

** Confidential Treatment Has Been Requested*

as provided herein and further described in attachment E, necessary for JJC to conduct a right to market search, audits, or regulatory submissions; and (7) samples in sufficient quantities to conduct the efficacy and consumer studies. Any information provided under (6) ("Product Information") shall be disclosed in confidence under the separate nondisclosure agreement attached as Attachment E. LECTEC may decide, in its sole discretion, whether JJC will receive any copies of the Product Information. LECTEC will provide the production capacity for the product and allow JJC access to inspect LECTEC's manufacturing facility for compliance with GMP and JJC's quality assurance standards; such information and inspection shall also be subject to the separate nondisclosure agreement in Attachment E.

Documents pertaining to identification of suppliers, material specifications, critical processing steps typically found in work instructions, and product formulation will not be disclosed under any circumstances. To the extent that information of this nature is required for regulatory submissions, the equivalent to Premarket Approval (PMA) or Drug Master File summary documents

will be set up as Manufacturing Files and will be sent directly to the appropriate designated Points of Contact as defined in Attachment E. All such information shall be disclosed in confidence under the separate nondisclosure agreement attached as Attachment E.

*4. JJC will conduct (1) appropriate safety, efficacy and consumer studies to determine the optimum prototype for completion of product development, (2) duplicate stability studies for purposes of cross validation and qualification of test methods, (3) (*) for claims support, (4) regulatory review of the product ingredients, (5) right to market search, and (6) quality assurance audit of LECTEC's manufacturing facility. After the completion of the Study, JJC will notify LECTEC within 10 business days of its decision whether to commercialize the product (the "Product"). Upon JJC's decision to commercialize the Product, the parties will enter into an exclusive supply agreement (hereinafter referred as the "Supply Agreement") which shall contain, inter alia, the terms and conditions set forth in Attachment D.*

*5. Within 15 business days of signing this Letter of Intent, JJC will pay LECTEC (*) as compensation for LECTEC's completion of its concept phase. JJC will also pay LECTEC according to the following schedule:*

*1. (*) - for completion of the first phase of the Study, hereinafter referred to as the "Feasibility Phase", which involves the delivery of prototypes that pass the following criteria: (a) (*); (b) right to market clearance (c) meeting manufacturing content specifications for (*) in the product prototype. Completion date: (*).*

*2. (*) - for completion of the second phase, hereinafter referred to as the "Design Phase", which involves the delivery of the final design of the Product, including the production of multiple batches for stability testing on a commercial scale. This milestone includes consumer preference and (*). Completion date: (*).*

** Confidential Treatment Has Been Requested*

*3. (*) - for completion of the third phase, hereinafter referred to as the "Transfer Phase", which includes complete validation of the activities to assess product performance, product manufacturing, process reproducibility and delivery of a product which meets mutually agreed upon finished product specifications and is produced under conditions representing full production. Prior to the completion of the Design Phase, LECTEC and JJC's contract manufacturing representative will meet to discuss and agree upon the appropriate criteria for successful completion of this third phase. A mutually agreed upon document will be finalized within ten business days from such a meeting, which will detail the product and process performance measures for the Transfer Phase. These will be used to evaluate LECTEC's actual results versus the agreed-upon standards, over a specified period of time. When these criteria are met by LECTEC, full payment of (*) will be made by JJC.*

*These payments, which total (*), are fully creditable against purchases under the Supply Agreement (see Attachment D) in two segments: (*) after the first (*) are shipped, and a second (*) after the next (*) are shipped. ((*).)*

*6. JJC will have the right to terminate the agreement at any time, upon 30 days' prior written notice, subject to the following cancellation fee(s): JJC will purchase (*), created artwork, and purchase printing plates. LECTEC will be compensated for unique raw materials (*) and any additional raw materials and packaging materials purchased to meet launch deadlines with JJC's approval but not consumed if the agreement is terminated. Once this Letter of Intent has been signed, if the parties cannot come to a definitive agreement, they agree to be governed by terms of this Letter of Intent and Summary of Terms for the Supply Agreement attached hereto as Attachment D.*

	CANCELLATION FEE TO BE PAID BY JJC TO LECTEC
1. If JJC terminates the project after the	(*)

Feasibility Phase

2. If JJC terminates the project after the Design Phase	*(*)*
3. If JJC terminates the project after the Transfer Phase	*(*)*

*Upon termination, LECTEC will have the option to commercialize a product using the Technology (*), as long as this product does not embody any confidential information, as defined in paragraph 11 below, which has been provided to LECTEC from JJC or its affiliates. LECTEC agrees that it will not market, supply to others, or license the Technology to make and sell the aforementioned product unless that product is sufficiently different from the Product. In terms of product attributes, "sufficiently different" means (*)*

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*(*). The restriction on the use of these two attributes extends for a period of (*) from the date of termination.*

*7. Notwithstanding the above-mentioned cancellation fees, a key decision factor for JJC's commercialization of the Product is LECTEC's achievement of the cost targets for the finished Product. If LECTEC cannot meet the cost targets established by JJC for each brand, JJC has the option to terminate the project, without incurring any cancellation fee to LECTEC. (*).*

*8. Any invention made or technology developed by either party as a result of work performed on skin care products under the Agreement will be owned as follows: all inventions made solely by JJC would belong to JJC; all inventions made solely by LECTEC would belong to LECTEC. All inventions made jointly by JJC and LECTEC would be owned jointly; provided that during the term of the Agreement, JJC will have exclusive right to use and sell, and LecTec will have the exclusive right to manufacture, products incorporating such joint inventions (*) (hereinafter, "Field"). JJC will have the right to a copy of data and information generated by LECTEC under the performance of the Agreement. LecTec will have the right to a copy of data and information generated by JJC under performance of the agreement. Each party will have responsibility for filing patent applications for the invention it owns. For joint inventions, the parties will jointly cause patent applications to be filed and will share equally expenses for drafting and prosecuting patent applications on an equal basis and for the maintenance of issued patents.*

*9. LECTEC agrees not to engage any other company to conduct any tests (*) using the Technology, or to negotiate for the marketing rights to such a product for the period covering the duration of this Study. JJC will not engage any other companies to develop (*), or negotiate the marketing rights to such a product for the period covering the duration of the Study.*

10. Either party may, upon signing this Letter of Intent and determination by its corporate counsel that this constitutes a "material event", make an announcement regarding the execution of the Letter of Intent. No mention of specific products will be included. However, any announcement by LECTEC will be submitted to JJC at least seven (7) days in advance of publication of such announcement for review and approval, not to be unreasonably withheld.

11. In order to accomplish the objectives of the Agreement, it may be necessary for the parties to exchange materials and information which are considered to be confidential and proprietary to the disclosing party. Each party agrees to limit its disclosure of Confidential

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Information to the other party to that reasonably necessary to achieve the

objectives of this Agreement.

All information disclosed hereunder which is considered by the disclosing party to be confidential and proprietary shall be in writing and marked "Confidential", or if initially disclosed orally or visually, designated as being confidential at the time of disclosure and confirmed in writing within thirty (30) days (hereinafter "Confidential Information"). All written documents containing Confidential Information and other confidential material in tangible form received by either party under this Agreement shall remain the property of the originating party, and all and any such other materials shall be promptly returned to the originating party upon request.

Each party agrees that all Confidential Information received from the other party under this Agreement shall be maintained in confidence during the term of this Agreement and for a period of three (3) years thereafter, and the receiving party agrees not to use such Confidential Information for any purpose other than to further the objectives of this Agreement without the prior written consent of the other party. Each party shall use the same standard of care to protect the confidentiality of information received from the other party as it uses to protect its own confidential information, and shall limit disclosure of such information to those of its personnel and consultants who have an actual need to know and have a written obligation to protect the confidentiality thereof.

Notwithstanding the preceding provisions, obligations regarding confidentiality and use of Confidential Information disclosed hereunder shall not include:

a) information which, at the time of disclosure, was published, known publicly, or otherwise in the public domain;

b) information which, after disclosure, is published, becomes known publicly, or otherwise becomes part of the public domain through no fault of the receiving party;

c) information which, prior to the time of disclosure, is known to the receiving party as evidenced by its written records; and

d) information which, after disclosure, is made available to the receiving party in good faith by a third party who is under no obligation of confidentiality or secrecy to the disclosing party.

The disclosure of Confidential Information hereunder by either party shall not result in any right or license under any patent or know-how being granted to the other party, nor shall it be construed to impose on the other party any restriction, duty or obligation other than that of confidentiality and non-use as expressly provided herein.

JOHNSON & JOHNSON CONSUMER COMPANIES, INC.	*LECTEC CORPORATION*
/s/ Colleen Goggins	*/s/Rodney A. Young*
Company Group Chairman	*Chairman/CEO/President*
Title	*Title*
April 20, 1999	*May 3, 1999*
Date	*Date*

*(*)*

*/s/ (*)*

Director Strategic Procurement

- - ----------

Title

April 26, 1999

- - ----------

Date

** Confidential Treatment Has Been Requested*

Attachment A

List of Patents Covering the Technology

(Confidential Treatment Has Been Requested)

Attachment B

(Confidential Treatment Has Been Requested)

Attachment B (continued)

(Confidential Treatment Has Been Requested)

ATTACHMENT B (CONT.)

(Confidential Treatment Has Been Requested)

ATTACHMENT C

(Confidential Treatment Has Been Requested)

ATTACHMENT C (CONTINUED)

(Confidential Treatment Has Been Requested)

ATTACHMENT C (CONTINUED)

(Confidential Treatment Has Been Requested)

ATTACHMENT D

SUMMARY OF TERMS FOR THE SUPPLY AGREEMENT BETWEEN JOHNSON & JOHNSON CONSUMER COMPANIES, INC. AND LECTEC CORPORATION

*Within (*) of signing the Letter of Intent, JJC and LECTEC will have negotiated and finalized a supply agreement (hereinafter, "Supply Agreement").*

THE SUPPLY AGREEMENT WILL CONTAIN THE FOLLOWING PROVISIONS:

1. *Product Unit - LECTEC will supply the Product as defined in Attachments B and C.*
2. *Exclusivity - LECTEC will agree, provided JJC commercializes the Product, that the supply agreement is exclusive to JJC and its affiliates and that LECTEC will not during the term of the supply agreement engage in business, directly or indirectly or through a third party, that will compete with JJC and its Affiliates regarding the manufacture or sale of products using the Technology, (*).*
3. *Term - The initial term of supply will be for a period of (*) from the date of the first purchase order. JJC, or its Affiliates, will have the right to terminate the supply agreement any time after this initial period by giving (*) months prior notice. JJC, or its Affiliates, at their sole option, may extend the Supply Agreement for two additional (*) year terms after the expiration of the initial term by giving LECTEC written notice of such extension at least (*) days prior to the expiration of the then-existing term, subject to renegotiation of minimum purchase quantities for such renewal term, not to exceed, in any year, (*) of the prior year's minimum purchase quantity.*
4. *Price - The price for the Product shipped to JJC will be targeted at (*). For the first launch quantity a prepayment of the cost of the packaging components and the unique raw materials for the formulation will be required. This will be quantified and approved by the JJC contract manufacturing person for each group. The timing of the first raw material and packaging orders will be in (*).*
5. *Price Adjustments - At the end of each contract year, LECTEC will notify JJC, or its Affiliates, of the actual change in its purchase price per unit of raw materials consumed, provided that it has negotiated in good faith with its suppliers to obtain a fair market price for such raw materials. If any change in the per unit cost of raw materials are determined to have increased or decreased by more than 3 percent in the aggregate, then the current price will be increased or decreased accordingly to reflect changes in the cost of raw materials. The price will be firm for the first (*) of the Supply Agreement. The price may be adjusted for the second (*) of the term and any additional renewal terms according to the formula above.*

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6. *Minimum Purchase Quantity -(*) per contract year, which represents the combined total from the Products sold by (*) JJC or its Affiliates. If JJC does not order (*), JJC may pay for any shortfall between the number ordered and (*). This Minimum Purchase Quantity is subject to renegotiation (*) (see Item 3).*
7. *Forecasts - (*) months prior to the start of each contract year, JJC, or its affiliates, will provide LECTEC with a non-binding estimate of requirements for the Product Unit for that year. JJC, or its Affiliates, will place binding orders at least three months prior to the desired delivery date, which LECTEC will agree to fill on the desired delivery dates within 90 days of receipt. This is volume dependent. The lead time for raw materials is 8 weeks and production of each (*) quantity is four weeks through final pack out. We can shorten this by buying raw material ahead but JJC would need to authorize and guarantee consumption.*
8. *Improvements - JJC and its Affiliates will have exclusive access to any improvement, including but not limited to design, packaging, ingredients and next-generation technology for the Product (*). The prices to be paid for such improved products will be mutually agreed by the parties.*
9. *Right of First Refusal - JJC and its Affiliates will have the right of first refusal for new products, which use the Technology (*). Within 60 days after receiving notification from LECTEC regarding such products, JJC*

or its Affiliate will notify LecTec concerning their level of interest. If JJC or its Affiliates have interest in promoting or selling such new products, then the parties will proceed to negotiate in good faith, for a period not to exceed 60 days, to reach agreement on terms for a supply agreement relating to such new products.

10. *Trade Names, Trademarks - JJC, and its Affiliates, will have the right to sell the Product under its own trade names and trademarks. Such trade names and trademarks, including any goodwill belonging to them, will be the exclusive property of JJC, or of its parent or Affiliate companies, as the case may be.*
11. *Government Approvals - In any country where JJC or its Affiliates sell the Product, JJC, directly or through a third party, will be responsible, at its expense, to obtain any necessary approvals, registrations or permits required in that country. LECTEC will provide all relevant data in its possession in connection with such approvals and registrations, and will cooperate in assisting JJC, or its affiliates, obtaining such approvals and registrations. LecTec will be reimbursed for additional studies.*
12. *Warranty - LECTEC represents that the Product supplied by it to JJC or its affiliates will meet the specifications, and will be free from defects in design, material or workmanship. LECTEC will be responsible for any third party liabilities or costs resulting from LECTEC's failure to manufacture the product in accordance with the specifications. In addition, LECTEC will either replace defective Products or refund the price paid for such defective Products, as the parties shall mutually agree in good faith. However, if defective Products are supplied more than once during any two-year period, the determination on whether to replace the Products or refund the purchase price will be at JJC's option.*

** Confidential Treatment Has Been Requested*

13. *GMP; Year 2000 Compliance - LECTEC will manufacture the product in accordance with all applicable laws and in accordance with U.S. Good Manufacturing Practices and JJC's QA requirements. At the time of supply production, LECTEC will have installed (*). JJC will have the right to inspect LECTEC's facilities to ensure compliance with these requirements. JJC will provide LECTEC with a notice of inspection two weeks prior to the visit. Failure to remedy any breaches of these requirements within 60 days of written notice will be considered a breach of the supply terms. LECTEC will ensure the availability of all data that is requested by the regulatory agency in the event of a regulatory inspection. If the FDA inspector needs to review the raw data, LECTEC will agree to discuss and agree with the FDA inspector the best means to accomplish his or her review of the records. LECTEC will fund if required. LECTEC represents and warrants that its manufacturing facilities for the Product will be Year 2000 compliant prior to June 30, 1999. Failure of LECTEC to supply Product as a result of a Year 2000 problem or if LECTEC fails to be compliant by year-end will be deemed a breach of the Supply Agreement.*
14. *Continuation - The agreement may be terminated by a party upon material breach by the other party (assuming the breaching party has received 60 days notice of such breach and has not cured the breach within that time period).*
15. *If at any time LECTEC fails to supply product, for reasons of force majeure which continue for at least 60 days or any uncured material breach, LECTEC will make available its technology so that JJC may continue to manufacture or obtain its supply of product under a (*) license.*

** Confidential Treatment Has Been Requested*

ATTACHMENT E

NONDISCLOSURE AGREEMENT

*THIS AGREEMENT is made effective as of the ____ day of _____, 1999 by and between Johnson & Johnson Consumer Companies, Inc., and (*),*

(collectively, "JJC"), and LecTec Corporation ("LecTec") to assure the protection and preservation of certain information to be disclosed or made available by LecTec in connection with the marketing and sale of certain products it has developed, as set forth in the Letter of Intent between JJC and LecTec, dated March __, 1999 (the "Letter of Intent"). Capitalized terms used herein, but not defined, shall have the meanings assigned to them in the Letter of Intent.

*1. Limited Purpose; Product Information. The parties desire to enter into this Nondisclosure Agreement with regard to certain information to be disclosed by LecTec to JJC pursuant to Paragraph 3 of the Letter of Intent (the "Product Information"). LecTec will disclose the Product Information to JJC for the sole purpose of JJC's evaluation of the safety of the Technology, and the procurement of certain legal and regulatory approval for the marketing, sale and distribution of the (*) products manufactured by LecTec, all as expressly provided in the Letter of Intent. No license or other transfer of any right, title or interest in such Product Information is intended or shall be deemed to have resulted from any disclosure by LecTec hereunder.*

2. Duty of Nondisclosure; Exclusions. JJC agrees that:

(a) all Product Information shall remain the property of LecTec and shall be returned to LecTec promptly upon its request, together with all copies thereof;

(b) JJC shall protect the Product Information with at least the same degree of care used to protect its own confidential information from unauthorized use or disclosure and shall not use it for any purpose other than as specified in Paragraph 1 above;

(c) JJC shall not disclose the Product Information to any third party without the express written consent of LecTec;

(d) Product Information supplied shall not be reproduced by JJC in any form without the express written consent of LecTec; and

(e) JJC shall advise its employees or agents who might have access to such Product Information of the confidential nature thereof, and shall obtain from each of such employees and agents an agreement to abide by the terms of this Nondisclosure Agreement, as set forth in Paragraph 3(c).

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(f) Exclusions. Notwithstanding the preceding provisions, obligations regarding confidentiality and use of the Product Information disclosed hereunder shall not include:

(1) information which, at the time of disclosure, was published, known publicly, or otherwise in the public domain;

(2) information which, after disclosure, is published, becomes known publicly, or otherwise becomes part of the public domain through no fault of JJC;

(3) information which, prior to the time of disclosure, is known to JJC as evidenced by its written records; and

(4) information which, after disclosure, is made available to JJC in good faith by a third party who is under no obligation of confidentiality or secrecy to the disclosing party.

However, the foregoing exceptions shall not apply if the Product Information, or any portion thereof: (1) is merely embraced by more general information in the public domain or JJC's possession, or (2) is a combination which can be reconstructed from multiple sources in the public domain or JJC's

possession, none of which show the whole combination and principal function of the Product Information.

3. Procedure for Disclosure of Product Information.

(a) Form of Information. LecTec may decide, in its sole discretion, whether JJC will receive any copies of the Product Information disclosed hereunder. If LecTec chooses to provide such documentation, all copies shall be marked "Product Information." If the Product Information is disclosed orally or visually, it shall be designated as being Product Information at the time of disclosure and, if LecTec chooses to provide JJC documentation thereof, such information shall be confirmed in writing within thirty (30) days after such initial disclosure.

*(b) Point of Contact. JJC shall appoint a point of contact in its law department and a point of contact in each of its applicable regulatory affairs departments (*) to whom the Product Information will be disclosed by LecTec ("Point of Contact"). LecTec and the Points of Contact shall coordinate and control the disclosure. The Points of Contact may disclose the Product Information only to those JJC employees or consultants with a specific need to know such information for the limited purpose set forth in Paragraph 1.*

(c) Written Agreement Required. JJC agrees that, prior to disclosure of any Product Information by LecTec hereunder, any individuals to whom the Product Information

** Confidential Treatment Has Been Requested*

may be disclosed shall have executed a written agreement requiring that individual to treat the Product Information in accordance with this Nondisclosure Agreement.

4. Continuing Obligation. The termination of this Nondisclosure Agreement shall not relieve JJC of the obligations imposed by Section 2 hereof with respect to Product Information disclosed prior to the effective date of such termination. The provisions of Section 2 shall survive the termination of this Nondisclosure Agreement, the Letter of Intent, the Agreement and the Supply Agreement.

5. Governing Law; Jurisdiction. This Agreement shall be governed by the laws of the State of Minnesota, excluding its choice of law provisions. Any dispute arising under this Agreement shall be litigated in a court of competent jurisdiction in the state of Minnesota.

6. Entire Agreement. This Agreement contains the final, complete and exclusive agreement of the parties relative to the subject matter hereof and may not be changed, modified, amended or supplemented except by a written instrument signed by both parties.

AGREED TO:	*AGREED TO:*
JOHNSON & JOHNSON CONSUMER COMPANIES, INC.	*LECTEC CORPORATION*
By: _____	*By: _____*
Title: _____	*Title: _____*
Date: _____	*Date: _____*

(CONFIDENTIAL TREATMENT HAS BEEN REQUESTED.)

By: _____

Title: _____

Date: _____

Attachment F

(Confidential Treatment Has Been Requested.)

Attachment F (continued)

(Confidential Treatment Has Been Requested.)

EXHIBIT 21.01

Subsidiaries of the Company

LecTec International Corporation

Incorporated in the state of Minnesota

Registered office:	*10701 Red Circle Drive* *Minnetonka, MN 55343*
Corporate office:	*55-11 Curacao Gade* *P. O. Box 309420* *Charlotte Amalie* *St. Thomas, Virgin Islands 00803-9420*
Records office:	*C/O Chase Trade, Inc.* *55-11 Curacao Gade* *P. O. Box 309420* *Charlotte Amalie* *St. Thomas, Virgin Islands 00803-9420*

EXHIBIT 23.01

CONSENT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

We have issued our report dated August 18, 1999 accompanying the consolidated financial statements included in the Annual Report of LecTec Corporation on Form 10-K for the year ended June 30, 1999. 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 and File No. 333-72571, effective February 18, 1999).

/s/ Grant Thornton LLP

Minneapolis, Minnesota
September 23, 1999

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