SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 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

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

Yes [X] No [ ]

The number of shares outstanding of the registrant's common stock as of November 11, 1999 was 3,876,476 shares.

LECTEC CORPORATION

FORM 10-Q - FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 1999

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

LECTEC CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	(Unaudited) September 30, 1999	June 30, 1999
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 542,567	$ 1,022,025
Receivables		
Trade, net of allowances of $112,032 (unaudited) and $101,751 at September 30, 1999 and June 30, 1999	2,178,237	2,335,314
Refundable income taxes	7,544	7,544
Other	8,434	8,687
	2,194,215	2,351,545
Inventories		
Raw materials	1,575,671	1,324,973
Work-in-process	40,553	69,324
Finished goods	532,108	602,227
Total inventories	2,148,332	1,996,524
Prepaid expenses and other	241,571	174,674
Deferred income taxes	354,000	354,000
Total current assets	5,480,685	5,898,768
PROPERTY, PLANT AND EQUIPMENT - AT COST		
Land	247,731	247,731
Building and improvements	1,929,956	1,841,742
Equipment	7,191,182	7,157,016
Furniture and fixtures	413,013	413,013
	9,781,882	9,659,502
Less accumulated depreciation	5,824,050	5,631,011
	3,957,832	4,028,491
OTHER ASSETS		
Patents and trademarks, less accumulated amortization of $1,196,239 (unaudited) and $1,154,698 at September 30, 1999 and June 30, 1999	163,285	199,971
Other	5,343	5,343
	168,628	205,314
	$ 9,607,145	$10,132,573

See accompanying notes to the consolidated financial statements.

LECTEC CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS - CONTINUED

	(Unaudited) September 30, 1999	June 30, 1999
LIABILITIES AND SHAREHOLDERS' EQUITY		

CURRENT LIABILITIES		
Accounts payable	$ 1,750,377	$ 1,676,776
Accrued expenses		
Payroll related	418,969	403,075
Retail support programs	143,031	165,472
Other	192,530	181,730
Total current liabilities	2,504,907	2,427,053
DEFERRED INCOME TAXES	197,000	197,000
SHAREHOLDERS' EQUITY		
Common stock, $.01 par value: 15,000,000 shares authorized; 3,876,476 shares (unaudited) and 3,876,476 shares issued and outstanding at September 30, 1999 and June 30, 1999	38,765	38,765
Additional paid-in capital	11,262,654	11,262,654
Accumulated other comprehensive loss	(11,841)	(11,841)
Deficit in retained earnings	(4,384,340)	(3,781,058)
	6,905,238	7,508,520
	$ 9,607,145	$ 10,132,573

</TABLE>

See accompanying notes to the consolidated financial statements.

LECTEC CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)

<TABLE>
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	Three months ended September 30,	
	1999	1998
<S>	<C>	<C>
Net sales	$ 3,008,752	2,903,057
Cost of goods sold	2,069,471	1,885,804
Gross profit	939,281	1,017,253
Operating expenses		
Sales and marketing	735,045	333,533
General and administrative	559,090	586,461
Research and development	269,762	280,013
	1,563,897	1,200,007
Loss from operations	(624,616)	(182,754)
Other income, net	21,334	31,801
Loss before income taxes	(603,282)	(150,953)
Income tax expense	--	1,264
Net loss	$ (603,282)	$ (152,217)
Net loss per share - basic and diluted	$ (0.16)	$ (0.04)
Weighted average shares outstanding - basic and diluted	3,876,476	3,983,198

</TABLE>

See accompanying notes to the consolidated financial statements.

LECTEC CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
(UNAUDITED)

<TABLE>
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	Three months ended September 30, 1999	1998
<S>	<C>	<C>
Net loss	$(603,282)	$(152,217)
Other comprehensive income (loss)		
Unrealized holding gains (losses) arising during period	--	--
Comprehensive loss	$(603,282)	$(152,217)

</TABLE>

See accompanying notes to the consolidated financial statements.

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

<TABLE>
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	Three Months Ended September 30, 1999	1998
<S>	<C>	<C>
Cash flows from operating activities:		
Net loss	$ (603,282)	$ (152,217)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	234,580	227,001
Changes in operating assets and liabilities:		
Trade and other receivables	157,330	783
Inventories	(151,808)	(128,554)
Prepaid expenses and other	(66,897)	(96,860)
Accounts payable	73,601	355,632
Accrued expenses	4,253	2,719
Net cash provided by (used in) operating activities	(352,223)	208,504
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property, plant and equipment	(122,380)	(61,042)
Investment in patents and trademarks	(4,855)	(27,562)
Net cash used in investing activities	(127,235)	(88,604)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repurchases and retirement of common stock	--	(300,675)
Net cash used in financing activities	--	(300,675)
Net decrease in cash and cash equivalents	(479,458)	(180,775)
Cash and cash equivalents at beginning of period	1,022,025	2,186,532
Cash and cash equivalents at end of period	$ 542,567	$ 2,005,757

</TABLE>

See accompanying notes to the consolidated financial statements.

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

<TABLE>
<CAPTION>

	Three Months Ended September 30,	
	1999	1998
<S>	<C>	<C>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid during the period for:		
Interest expense	$ 1,114	$ -
Income taxes	-	8,400

</TABLE>

See accompanying notes to the consolidated financial statements.

LECTEC CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
QUARTERS ENDED SEPTEMBER 30, 1999 AND 1998

(1) GENERAL

The accompanying consolidated financial statements include the accounts of LecTec Corporation (the "Company") and LecTec International Corporation, a wholly-owned subsidiary. All significant intercompany balances and transactions have been eliminated in consolidation. The Company's financial statements for the three months ended September 30, 1999 should be read in conjunction with its Annual Report on Form 10-K and its Annual Report to Shareholders for the fiscal year ended June 30, 1999. The interim financial statements are unaudited and in the opinion of management, reflect all adjustments necessary for a fair presentation of results for the periods presented. Results for interim periods are not necessarily indicative of results for the year.

(2) NET EARNINGS (LOSS)

The Company's basic net earnings (loss) per share amounts have been computed by dividing net earnings (loss) by the weighted average number of outstanding common shares. The Company's diluted net earnings (loss) per share amounts have been computed by dividing net earnings (loss) by the weighted average number of outstanding common shares and common share equivalents, when dilutive. Options and warrants to purchase 1,142,883 and 867,579 shares of common stock with a weighted average exercise price of $6.48 and $7.75 were outstanding during the three months ended September 30, 1999 and 1998, but were excluded because they were antidilutive.

(3) SEGMENTS

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:

Three months ended September 30,	1999	1998
Conductive products	$1,576,783	$1,974,546
Medical tape products	568,790	747,883
Therapeutic consumer products	863,179	180,628
	$3,008,752	$2,903,057

(4) 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 quarter ended September 30, 1999 no shares were repurchased and during the quarter ended September 30, 1998, 90,850 shares were repurchased for $300,675. Through September 30, 1999 the Company has repurchased a total of 205,150 shares at a cost of $667,963 under this program.

(5) 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.

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

QUARTERS ENDED SEPTEMBER 30, 1999 AND 1998

RESULTS OF OPERATIONS

Net sales for the first quarter of fiscal 2000 were $3,008,752 compared to net sales of $2,903,057 for the first quarter of fiscal 1999, an increase of 3.6%. The increase was primarily the result of increased therapeutic consumer product sales which more than offset decreased conductive product and medical tape sales. Therapeutic consumer product sales increased by 377.9% from $180,628 to $863,179 while conductive product sales, the Company's largest product group, decreased by 20.1% and medical tape product sales decreased by 23.9%. The therapeutic consumer product sales increase was primarily the result of increased TheraPatch(R) sales volume, especially TheraPatch Vapor products. The conductive product sales decrease was primarily the result of period-to-period fluctuations in ordering patterns of two customers and the absence of sales to a former customer who began manufacturing their own product. Sales to the former customer in the prior year quarter were approximately $152,000. Medical tape product sales decreased primarily due to a decrease in sales to several low-margin medical tape customers.

Gross profit for the first quarter of fiscal 2000 was $939,281 compared to $1,017,253 for the first quarter of fiscal 1999, a decrease of 7.7%. Gross profit as a percent of net sales for the first quarter of fiscal 2000 was 31.2% compared to 35.0% for the first quarter of fiscal 1999. The decrease in gross profit for the quarter resulted primarily from increased labor, material and contract packaging costs which more than offset the favorable impact of a change in the sales mix toward higher-margin therapeutic consumer products. Labor costs were higher in the current quarter primarily due to an increase in staffing levels and increased contract and temporary labor. The increased material and contract packaging costs were primarily related to production of our therapeutic patch products. The installation of an automated packaging machine in the second quarter is expected to reduce patch manufacturing costs.

Sales and marketing expenses were $735,045 and $333,533 during the first quarters of fiscal 2000 and 1999, and as a percentage of net sales, were 24.4% and 11.5%. The increase in sales and marketing expense for the quarter was primarily due to increased retail slotting fees, account performance expense, advertising and staffing levels related to therapeutic consumer products sales activities. The Company anticipates that sales and marketing expenses as a percent of sales for the remainder of fiscal 2000 will be comparable to the first quarter of fiscal 2000 due to marketing programs associated with therapeutic consumer product sales.

General and administrative expenses were $559,090 and $586,461 during the first quarters of fiscal 2000 and 1999, and as a percentage of net sales, were 18.6% and 20.2%. The decrease in general and administrative expenses for the quarter was primarily due to decreased consulting and legal expenses.

Research and development expenses for the first quarters of fiscal 2000 and 1999 were $269,762 and $280,013, and as a percentage of net sales, were 9.0% and 9.6%. The decrease in research and development expense for the quarter primarily reflects decreased costs for the testing of products under development.

Other income, net decreased in the first quarter of fiscal 2000 to $21,334 from $31,801 in the first quarter of fiscal 1999. The decrease was primarily the result of decreased interest income due to lower cash and cash equivalent balances.

The Company recorded a loss before income taxes of $603,282 in the first quarter of fiscal 2000 compared to a loss before income taxes of $150,953 for the first quarter of fiscal 1999. The increased

loss in the current year first quarter was primarily the result of increased sales and marketing expenses related to therapeutic consumer products retail sales activities.

The Company recorded no income tax expense or benefit in the first quarter of fiscal 2000 compared to income tax expense of $1,264 in the first quarter of fiscal 1999. There was no income tax benefit recorded during the first quarters of fiscal 2000 and 1999 since the loss benefit may not be realizable by the Company. Income tax expense in the first quarter of fiscal 1999 reflects minimal tax expense associated with the Company's foreign sales corporation subsidiary.

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 $479,458 to $542,567 during the first quarter of fiscal 2000. Accounts receivable decreased by $157,330 to $2,194,215 primarily due to a reduction of accounts 31 to 60 days old. Inventories increased by $151,808 to $2,148,332 primarily due to increased raw materials inventory. Accounts payable increased by $73,601 to $1,750,377 during the first quarter of fiscal 2000. Capital spending for plant improvements and equipment totaled $122,380 during the first quarter of fiscal 2000. There were no material commitments for capital expenditures at September 30, 1999.

Working capital decreased to $2,975,778 at the end of the first quarter of fiscal 2000 from $3,471,715 at the end of fiscal 1999. The Company had a current ratio at the end of the first quarter of fiscal 2000 of 2.2 as compared to 2.4 at the end of fiscal 1999.

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 $2,000,000 secured, asset-based line of credit and expects to finalize the line of credit by December 31, 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 (e.g., 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 (e.g., situations where 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 (e.g., situations where 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, was substantially completed by October 31, 1999 and the need for additional contingency measures will continue to be evaluated throughout the remainder of calendar year 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 had 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 September 30, 1999 to be approximately $25,000, while total costs for Y2K compliance are estimated to be less than $30,000.

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-Q), in press releases, and in other communications to shareholders or the investment community, the Company may provide forward-looking statements concerning possible or anticipated future results of operations or business developments which are typically preceded by the words "believes", "expects", "anticipates", "intends", "will", "may", "should" or similar expressions. Such forward-looking statements are subject to risks and uncertainties which could cause results or developments to

differ materially from those indicated in the forward-looking statements. Such risks and uncertainties include, but are not limited to, the buying patterns of major customers; competitive forces including new products or pricing pressures; costs associated with and acceptance of the Company's new brand strategy; impact of interruptions to production; dependence on key personnel; need for regulatory approvals; changes in governmental regulatory requirements or accounting pronouncements, unforeseen Y2K complications and third party disruptions; and ability to satisfy funding requirements for operating needs, expansion or capital expenditures.

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

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.

PART II

OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

None.

Item 2. CHANGES IN SECURITIES

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

Item 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

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

None.

Item 5. OTHER INFORMATION

None.

Item 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) EXHIBITS

<TABLE>
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Item No.	Item	Method of Filing
27	Financial data schedule	Filed herewith.

</TABLE>

(b) REPORTS ON FORM 8-K

None.

SIGNATURES

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

LECTEC CORPORATION

Date	*November 12, 1999*	*/s/ Rodney A. Young*
		Rodney A. Young, Chief Executive Officer & President
Date	*November 12, 1999*	*/s/ Deborah L. Moore*
		Deborah L. Moore, Chief Financial Officer

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