UNITED STATES
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 JUNE 30, 2002.

[ ] 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: (952) 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 August 13, 2002 was 3,957,395 shares.

LECTEC CORPORATION

FORM 10-Q FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2002

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PART I - FINANCIAL INFORMATION

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PART I –FINANCIAL INFORMATION
ITEM 1– CONDENSED FINANCIAL STATEMENTS AND NOTES TO CONDENSED FINANCIAL STATEMENTS

LECTEC CORPORATION
CONDENSED BALANCE SHEETS
(UNAUDITED)

<TABLE>
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	June 30, 2002	December 31, 2001
<S>	<C>	<C>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 672,248	$1,425,205
Trade receivables and other, net of allowances of $87,500 and $99,000 at June 30, 2002 and December 31, 2001	677,011	547,838
Inventories		
Raw materials	733,791	1,159,685
Work-in-process	14,168	5,198
Finished goods	611,255	362,660
	1,359,214	1,527,543
Prepaid expenses and other	211,980	290,401
Total current assets	2,920,453	3,790,987
PROPERTY, PLANT AND EQUIPMENT -- AT COST, NET	2,004,198	2,262,094
OTHER ASSETS		
Patents and trademarks, less accumulated amortization of $1,271,908 and $1,227,627 at June 30, 2002 and December 31, 2001	293,495	297,073
	$5,218,146	$6,350,154

</TABLE>

See accompanying notes to the condensed financial statements

LECTEC CORPORATION
CONDENSED BALANCE SHEETS - CONTINUED
(UNAUDITED)

<TABLE>
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	June 30, 2002	December 31, 2001
<S>	<C>	<C>
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Current maturities of long-term obligations	941,999	938,800
Accounts payable	488,921	628,363
Accrued expenses	864,187	937,390
Customer deposits	652,642	75,000
Restructuring charges	--	105,232
Total current liabilities	2,947,749	2,684,785
LONG-TERM OBLIGATIONS, LESS CURRENT MATURITIES	283,501	125,170
COMMITMENTS AND CONTINGENCIES	--	--
SHAREHOLDERS' EQUITY		
Common stock, $.01 par value: 15,000,000 shares authorized; 3,957,395 and 3,940,920 shares issued and outstanding at June 30, 2002 and December 31, 2001	39,574	39,409
Additional paid-in capital	11,381,668	11,360,552
Accumulated deficit	(9,434,346)	(7,859,762)
	1,986,896	3,540,199
</TABLE>

	$ 5,218,146	$ 6,350,154

</TABLE>

See accompanying notes to the condensed financial statements.

LECTEC CORPORATION
CONDENSED STATEMENTS OF OPERATIONS
(UNAUDITED)

<TABLE>
<CAPTION>

	Three months ended June 30,		Six months ended June 30,	
	2002	2001	2002	2001
<S>	<C>	<C>	<C>	<C>
Net sales	$ 1,583,007	$ 3,411,859	$ 3,097,502	$ 7,160,418
Cost of goods sold	1,114,968	2,518,520	2,141,111	5,253,656
Gross profit	468,039	893,339	956,391	1,906,762
Operating expenses				
Sales and marketing	472,532	873,325	963,648	1,559,973
General and administrative	609,822	788,207	1,205,301	1,497,191
Research and development	115,676	259,027	285,701	478,263
Restructuring charge	--	303,759	--	303,759
	1,198,030	2,224,318	2,454,650	3,839,186
Loss from operations	(729,991)	(1,330,979)	(1,498,259)	(1,932,424)
Other income (expenses)				
Interest expense	(38,065)	(33,421)	(76,831)	(78,353)
Gain on disposition of assets	--	4,558,586	--	4,662,210
Other, net	453	30,985	506	29,957
Earnings (loss) before income taxes	(767,603)	3,225,171	(1,574,584)	2,681,390
Income taxes	--	48,000	--	48,000
Net earnings (loss)	$ (767,603)	$ 3,177,171	$(1,574,584)	$ 2,633,390
Net earnings (loss) per share				
Basic	$ (0.19)	$ 0.81	$ (0.40)	$ 0.67
Diluted	$ (0.19)	$ 0.81	$ (0.40)	$ 0.67
Weighted average shares outstanding				
Basic	3,954,877	3,917,961	3,952,622	3,916,825
Diluted	3,954,877	3,920,162	3,952,622	3,917,926

</TABLE>

See accompanying to the condensed financial statements.

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

<TABLE>
<CAPTION>

	Six Months Ended June 30,	
	2002	2001
<S>	<C>	<C>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	$(1,574,584)	$ 2,633,390
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Gain on disposition of assets	--	(4,662,210)
Depreciation and amortization	320,270	193,414
Common stock issued for consulting services	19,009	--
Changes in operating assets and liabilities, net of dispositions:		
Trade and other receivables	90,827	(753,150)
Inventories	168,329	(132,033)
Prepaid expenses and other	78,421	110,324
Accounts payable	(139,442)	(988,336)
Accrued expenses and other	(73,203)	373,529
Restructuring charge	(105,232)	274,698
Customer deposits	577,642	(85,000)
Net cash used in operating activities	(637,963)	(3,035,374)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property, plant and equipment	(18,093)	(188,255)
Investment in patents and trademarks	(40,703)	(55,426)
Net proceeds from disposition of assets	--	6,666,988
Net cash provided by (used in) investing activities	(58,796)	6,423,307
CASH FLOWS FROM FINANCING ACTIVITIES:		
Issuance of common stock	2,272	11,404
Net repayments on note payable	--	(343,325)
Proceeds from borrowing on long-term obligations	--	47,703
Repayment of long-term obligations	(58,470)	(12,612)
Net cash used in financing activities	(56,198)	(296,830)
Net increase (decrease) in cash and cash equivalents	(752,957)	3,091,103
Cash and cash equivalents at beginning of period	1,425,205	285,620
Cash and cash equivalents at end of period	$ 672,248	$ 3,376,723
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid during the period for:		
Interest expense	$ 77,101	$ 93,116
Income taxes	$ --	$ --
SUPPLEMENTAL DISCLOSURE OF NON-CASH FINANCING ACTIVITIES:		
Sales credit obligation exchanged for a long-term note payable	$ 220,000	$ --

</TABLE>

See accompanying to the condensed financial statements.

LECTEC CORPORATION
NOTES TO CONDENSED FINANCIAL STATEMENTS
(UNAUDITED)

(1) GENERAL

The accompanying condensed financial statements include the accounts of LecTec Corporation (the "Company") as of and for the three and six month periods ended June 30, 2002 and 2001. The Company's condensed financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America and should be read in conjunction with its Transition Report on Form 10-K for the transition period from July 1, 2001 to December 31, 2001. The interim condensed financial statements are unaudited and in the opinion of management, reflect all adjustments necessary for a fair presentation of results for the periods presented. Results for interim periods

are not necessarily indicative of results for the year.

(2) NET EARNINGS (LOSS) PER SHARE

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 1,205,229 and 1,067,568 shares of common stock with a weighted average exercise price of $4.64 and $5.11 were outstanding during the three months ended June 30, 2002 and 2001, but were excluded from the calculation because they were antidilutive. Options and warrants to purchase 1,231,893 and 1,052,569 shares of common stock with a weighted average exercise price of $4.63 and $5.18 were outstanding during the six months ended June 30, 2002 and 2001, but were excluded from the calculation 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 has 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. The Company's initial sales of skin care products occurred during the first quarter of calendar year 2002. The Company sold the conductive and medical tape product lines during the fiscal year ended June 30, 2001. Net sales by major product line were as follows:

<TABLE>
<CAPTION>

	Three months ended June 30,		Six months ended June 30,	
	2002	2001	2002	2001
<S>	<C>	<C>	<C>	<C>
Therapeutic consumer products	$1,250,709	$1,890,679	$2,147,916	$3,728,221
Skin care products	66,191	--	358,263	--
Conductive and medical tape products	266,107	1,521,180	591,323	3,432,197
	$1,583,007	$3,411,859	$3,097,502	$7,160,418

</TABLE>

(4) NOTE PAYABLE TO BANK

The Company finalized a two year extension of its $2,000,000 asset based line of credit in November 2001 with terms similar to the terms of the $2,000,000 line of credit as originally finalized in November 1999. There were no borrowings outstanding on the line of credit at June 30, 2002. The

Company was in default of covenants relating to the minimum book net worth and the maximum loss before income taxes at June 30, 2002. Until the Company cures or receives a waiver for the covenant defaults, the line of credit is not available for borrowings.

(5) LONG-TERM OBLIGATIONS

In May 2002, the Company entered into a $220,000 promissory note with a major customer related to the costs incurred by the customer associated with resolving a packaging issue that previously had been recorded as a sales credit by the Company. The principal balance of the note is due in December 2003. Monthly payments of interest are computed at the prime rate plus two percentage points (effective rate of 6.75% at June 30, 2002). The promissory note is collateralized by substantially all of the Company's assets.

In December 2000, the Company entered into a mortgage agreement with gross proceeds of $820,000. The principal balance of the mortgage is due in December 2002. Monthly payments of interest are computed at the prime rate plus five percentage points (effective rate of 9.75% at June 30, 2002). The mortgage is collateralized by the Company's real property. The balance at June 30, 2002 of $820,000 is classified as current maturities of long-term debt.

(6) CUSTOMER DEPOSITS

In May 2002 the Company renegotiated its Supply Agreement with a

major customer. Pursuant to the revised agreement, the Company is receiving advance payments from the customer for future product orders. At June 30, 2002 the Company had recorded deposits of $577,642.

(7) DISPOSITION OF MEDICAL TAPE ASSETS

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

(8) SALE OF CONDUCTIVE BUSINESS ASSETS AND RESTRUCTURING

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

A non-recurring restructuring charge of $303,759 was incurred in the quarter ended June 30, 2001 relating to the sale of the Company's conductive business assets. The restructuring charge consisted primarily of future rental payments for a leased facility, separation costs, and other costs associated with the wind-down of conductive business activity. The Company completed the restructuring in the second quarter of calendar 2002.

(9) CHANGE IN FISCAL YEAR END

On September 5, 2001, the Company elected to change its fiscal year end from June 30 to December 31. Previously, the fiscal year ran from July 1 through June 30. The Company filed a Transition Report on Form 10-K for the six months ended December 31, 2001. Hereafter, the fiscal year will correspond with the calendar year.

(10) INCOME TAXES

The provision for income taxes in the second quarter and first six months of calendar 2002 has been offset principally by a valuation allowance for deferred taxes. The Company recorded an income tax expense in the second quarter of calendar 2001 of $48,000 resulting from an alternative minimum tax liability for the fiscal year ended June 30, 2001 after offsetting regular taxable income with prior years net operating loss carryforwards.

(11) RECENT ACCOUNTING PRONOUNCEMENTS

Effective January 1, 2002 the Company adopted Statement of Financial Accounting Standards SFAS 142, "Goodwill and Intangible Assets."

SFAS 142 eliminates the amortization of goodwill and other intangible assets with indefinite lives and requires that these assets be tested for impairment annually or whenever an impairment indicator arises using the two step impairment test outlined in SFAS 142. The adoption of SFAS 142 did not affect the Company's financial position or results of operations.

Amortized intangible assets consist of the following:

<TABLE>
<CAPTION>

	June 30, 2002		December 31, 2001	
	Gross carrying amount	Accumulated amortization	Gross carrying amount	Accumulated amortization
<S>	<C>	<C>	<C>	<C>
Patents	$1,537,044	$1,265,965	$1,494,003	$1,223,859
Trademarks	28,359	5,943	30,697	3,768
	$1,565,403	$1,271,908	$1,524,700	$1,227,627

</TABLE>

Amortization expense of amortized intangible assets totaled $22,667 and $17,100 for the three months ended June 30, 2002 and 2001 and $44,281 and $34,909 for the six months ended June 30, 2002 and 2001. Amortization expense for the

succeeding years is expected to be as follows:

<TABLE>
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Years ended December 31:	
<S>	<C>
2002	$89,000
2003	88,000
2004	76,000
2005	55,000
2006	14,000

</TABLE>

PART I - FINANCIAL INFORMATION

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

QUARTERS AND SIX MONTHS ENDED JUNE 30, 2002 AND 2001

RESULTS OF OPERATIONS

Net sales for the second quarter of calendar 2002 were $1,583,007 compared to net sales of $3,411,859 for the second quarter of calendar 2001, a decrease of 53.6%. The decrease was primarily the result of decreased conductive product sales due to the sale of the assets of the conductive products division in April 2001 and decreased sales of consumer contract therapeutic patch products. Therapeutic consumer product sales decreased by 33.8% from $1,890,679 to $1,250,709 while conductive and medical tape product sales decreased by 82.5% from $1,521,180 to $266,107. The therapeutic consumer product sales decrease was primarily the result of decreased demand from consumer contract therapeutic patch customers resulting from the slowing economy and a weaker than expected cough/cold season. The Company expects decreased conductive product sales to continue due to the sale of the assets used to produce the conductive products. As part of this asset sale, the Company entered into a Manufacturing and Supply Agreement with the buyer. Under the terms of this Agreement, the Company supplied the products at its cost of production through October 31, 2001, and at its cost of production plus ten percent from November 1, 2001 through January 31, 2002. The Company is continuing to manufacture and supply the buyer, on a limited basis, electrically conductive adhesive hydrogels, at margins of approximately 30%, subsequent to expiration of the manufacturing and supply agreement. The Company anticipates supplying the product to the buyer through September 2002. In February 2002, the Company expanded into the skin care cosmeceutical market by launching a line of skin care products under the Company's brand name NeoSkin(R). These products include pre-formed face masks and under eye gel patches. Sales of skin care products totaled $66,191 for the second quarter of calendar 2002, a decrease from sales of $292,072 in the first quarter of calendar 2002. The decrease was primarily the result of the soft economy and the necessity for the Company to postpone national advertising programs.

Net sales for the first six months of calendar 2002 were $3,097,502 compared to net sales of $7,160,418 for the first six months of calendar 2001, a decrease of 56.7%. The decrease was primarily the result of decreased conductive product sales due to the sale of the assets of the conductive products division and decreased sales of consumer contract therapeutic patch products. Therapeutic consumer product sales decreased by 42.4% from $3,728,221 to $2,147,916 while conductive and medical tape product sales decreased by 82.8% from $3,432,197 to $591,323. Sales of skin care products were $358,263 for the first six months of calendar 2002. The therapeutic consumer product sales decrease was primarily the result of decreased demand from consumer contract therapeutic patch customers resulting from the slowing economy and a weaker than expected cough/cold season.

Gross profit for the second quarter of calendar 2002 was $468,039, compared to $893,339 for the second quarter of calendar 2001, a decrease of 47.6%. Gross profit as a percent of net sales for the second quarter of calendar 2002 was 29.6% compared to 26.2% for the second quarter of calendar 2001. The decrease in gross profit for the three months resulted primarily from decreased sales. The increase in gross profit as a percent of net sales for the quarter resulted primarily from a shift in the sales mix toward higher margin LecTec branded therapeutic consumer and skin care products.

Gross profit for the first six months of calendar 2002 was $956,391 compared to $1,906,762 for the first six months of calendar 2001, a decrease of 49.8%. Gross profit as a percent of net sales for the first six months of calendar 2002 was 30.9% compared to 26.6% for the first six months of calendar 2001. The decrease in gross profit for the six months resulted primarily from decreased sales. The increase in gross profit as a percent of net sales for the

six months resulted primarily from a shift in the sales mix toward higher margin LecTec branded therapeutic consumer and skin care products.

Sales and marketing expenses were $472,532 and $873,325 during the second quarters of calendar 2002 and 2001, and as a percentage of net sales, were 29.9% and 25.6% respectively. The decrease in sales and marketing expenses for the quarter was primarily due to a decrease of $261,000 in

product promotional expenses and a decrease of $75,000 in compensation related expenses. These decreases resulted from aggressive cost control/reduction programs implemented by management

Sales and marketing expenses were $963,648 and $1,559,973 during the first six months of calendar 2002 and 2001, and as a percentage of net sales, were 31.1% and 21.8%. The decrease in sales and marketing expenses for the first six months was primarily due to a decrease of $340,000 in product promotional expenses and a decrease of $111,000 in compensation related expenses. The Company anticipates that sales and marketing expenses as a percentage of net sales for the remainder of 2002 will decrease compared to the first six months of 2002 due to the planned implementation of additional cost control/reduction programs by management.

General and administrative expenses were $609,822 and $788,207 during the second quarters of calendar 2002 and 2001, and as a percentage of net sales, were 38.5% and 23.1% respectively. The decrease in general and administrative expenses for the quarter was primarily due to a decrease of $147,000 in compensation related expenses.

General and administrative expenses were $1,205,301 and $1,497,191 during the first six months of calendar 2002 and 2001, and as a percentage of net sales, were 38.9% and 20.9% respectively. The decrease in general and administrative expenses for the six months was primarily due to a decrease of $224,000 in compensation related expenses, a decrease of $42,000 in board of directors expense and a decrease of $24,000 in travel and lodging expenses. The Company anticipates that general and administrative expenses as a percent of net sales for the remainder of 2002 will decrease compared to the first six months of 2002.

Research and development expenses for the second quarters of calendar 2002 and 2001 were $115,676 and $259,027, and as a percentage of net sales, were 7.3% and 7.6% respectively. The decrease in research and development expenses for the current quarter was primarily due to a decrease of $112,000 in compensation related expenses.

Research and development expenses were $285,701 and $478,263 during the first six months of calendar 2002 and 2001, and as a percentage of net sales, were 9.2% and 6.7% respectively. The decrease in research and development expenses for the six months was primarily due to a decrease of $158,000 in compensation related expenses. The Company anticipates that research and development expenses as a percent of net sales for the remainder of 2002 will decrease compared to the first six months of 2002.

Interest expense increased in the second quarter of calendar 2002 to $38,065 from $33,421 in the second quarter of calendar 2001. The current year increase resulted primarily from the payment of required minimum interest associated with the line of credit. In the prior year minimum interest requirements were fulfilled. Interest expense decreased in the first six months of calendar 2002 to $76,831 from $78,353 in the first six months of calendar 2001. The decrease resulted primarily from the absence of borrowings under the line of credit that was offset by interest expense associated with the mortgage. Gain on disposition of assets totaled $4,558,586 in the second quarter of calendar 2001 due to the sale of the Company's conductive business assets. Gain on disposition of assets totaled $4,662,210 in the first six months of calendar 2001 due to the sale of the conductive business assets and the disposition of the Company's medical tape manufacturing equipment. Other income for the second quarter of calendar 2002 was $453 compared to other income of $30,985 for the second quarter of calendar 2001. Other income for the first six months of calendar 2002 was $506 compared to other income of $29,957 for the first six months of calendar 2001. The current quarter and six month decreases were primarily the result of decreased interest income due to lower cash and cash equivalent balances.

The Company recorded a loss before income taxes of $767,603 for the second quarter of calendar 2002 compared to earnings before income taxes of $3,177,171 for the second quarter of calendar 2001. The Company recorded a loss before income taxes of $1,574,584 for the first six months of calendar 2002 compared to earnings before income taxes of $2,633,390 for the first six months of calendar 2001. The earnings in the second quarter and first six months of calendar 2001 resulted

primarily from the gain on the sale of the assets of the conductive products division, which was partially offset by a non-recurring restructuring charge. Excluding the gain and restructuring charge, the Company had a loss before income taxes of $1,029,656 for the second quarter of calendar 2001 and a loss before income taxes of $1,677,061 for the first six months of calendar 2001. Excluding the gain and restructuring charge, the decrease in loss before income taxes in the current quarter was primarily the result of a decrease in operating expenses resulting from aggressive cost control/reduction programs implemented by management. This decrease was partially offset by decreased gross profit and sales volume related to the sale of the assets of the conductive products division and decreased demand from consumer contract therapeutic patch customers. Excluding the gain and restructuring charge related to the sale of the assets of the conductive products division, the Company's loss before income taxes for the first six months of calendar 2002 was comparable to the loss before income taxes for first six months of calendar 2001. A decrease in operating expenses was offset entirely by a decrease in gross profit.

The provision for income taxes in the second quarter and first six months of calendar 2002 has been offset principally by a valuation allowance for deferred taxes. The Company recorded an income tax expense in the second quarter of calendar 2001 of $48,000 resulting from an alternative minimum tax liability for the fiscal year ended June 30, 2001 after offsetting regular taxable income with prior years net operating loss carryforwards.

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 $752,957 to $672,248 during the first six months of calendar 2002. The decrease in cash and cash equivalents was primarily due to lower sales volume resulting in more cash used in operating activities. Accounts receivable increased by $129,173 to $677,011 during the first six months of calendar 2002 primarily due to the transfer of a sales credit obligation to long-term debt. Inventories decreased by $168,329 to $1,359,215 primarily due to lower inventory levels required for current production levels. Accounts payable of $488,921 at June 30, 2002 decreased by $139,442 during the first six months of calendar 2002 due to the decreased manufacturing production. Capital spending for manufacturing equipment and plant improvements totaled $18,093 during the first six months of calendar 2002. There were no material commitments for capital expenditures at June 30, 2002.

The Company had a deficit in working capital of $27,296 and a current ratio of 1.0 at June 30, 2002 compared to working capital of $1,106,202 and a current ratio of 1.4 at December 31, 2001. The decreases resulted primarily from lower cash and cash equivalent balances.

The Company finalized a two year extension of its $2,000,000 asset based line of credit in November 2001 with terms similar to the terms of the $2,000,000 line of credit as originally finalized in November 1999. There were no borrowings outstanding on the line of credit as of June 30, 2002. The Company was in default at June 30, 2002 with covenants relating to the minimum book net worth and the maximum loss before income taxes. This was the result of financial results not meeting expectations due to the continued soft economy. Until the Company cures or receives a waiver for the covenant defaults, the line of credit is not available for borrowings.

In December 2000, the Company entered into a mortgage agreement with gross proceeds of $820,000. The principal balance of the mortgage is due in December 2002. Monthly payments of interest are computed at the prime rate plus five percentage points (effective rate of 9.75% at June 30, 2002). The mortgage is collateralized by the Company's real property.

Management expects the Company to continue to operate at a net loss and experience negative cash flow from operating activities for the foreseeable future. In May 2002 the Company renegotiated its Supply Agreement with a major customer. Pursuant to the revised agreement, the Company is receiving advance payments from the customer for future product orders. The Company has also received an offer to factor its receivables and continues to seek ways to reduce costs. In addition, management is exploring

other options for additional capital. Management believes that the Company will have sufficient cash, as well as the ability to factor accounts receivable, to ensure the Company will continue operations through December 2002. 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 infusion will be available. If such desired levels of sales and profitability are not reached, and infusions of capital are not available, the company may be forced to cease operations.

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 that could cause results or developments to differ materially from those indicated in the forward-looking statements. Such risks and uncertainties include, but are not limited to, the buying patterns of major customers; competitive forces including new products or pricing pressures; costs associated with and acceptance of the Company's TheraPatch brand strategy; impact of interruptions to production; dependence on key personnel; need for regulatory approvals; changes in governmental regulatory requirements or accounting pronouncements; ability to satisfy funding requirements for operating needs, expansion or capital expenditures; and the matters discussed on our "Cautionary Statements" filed as Exhibit 99.1 to form 10-K for the transition period from July 1, 2001 to December 31, 2001.

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 with the exception of TheraPatch sales to Canadian customers, precluding the need for foreign currency hedges. Canadian sales have not been material. Additionally, the Company invests in money market funds that 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 AND USE OF PROCEEDS

None.

Item 3. DEFAULTS UPON SENIOR SECURITIES

None.

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

The Regular Annual Meeting of Shareholders of the Company was held on June 26, 2002. The following matters were voted on by Shareholders:

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

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

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

1. Board of Directors:

<TABLE>
<CAPTION>

	For	Withhold Authority	Total
<S>	<C>	<C>	<C>
Lee M. Berlin	3,456,219	90,981	3,547,200
Alan C. Hymes, M.D.	3,456,832	90,368	3,547,200
Bert J. McKasy	3,469,107	78,093	3,547,200
Marilyn K. Speedie, Ph.D.	3,469,107	78,093	3,547,200
Donald C. Wegmiller	3,466,107	81,093	3,547,200
Rodney A. Young	3,469,086	78,114	3,547,200

</TABLE>

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

<TABLE>
<CAPTION>

For	Against	Abstain	Non-Vote	Total
<S>	<C>	<C>		<C>
3,474,861	23,440	48,899	-	3,547,200

</TABLE>

Item 5. OTHER INFORMATION

On July 11, 2002, the Company received a warning from Nasdaq that the Company may be delisted from the Nasdaq Small Cap Market. The letter states, "For the last 30 consecutive trading days, the price of the Company's common stock has closed below the minimum $1.00 per share requirement for continued inclusion under Marketplace

Rule 4310(c)(4)." The Company has 180 calendar days, or until January 7, 2003 to regain compliance. Otherwise, Nasdaq will provide notification to the Company that the Company will be delisted. The Company is currently reviewing its options.

Item 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) EXHIBITS

<TABLE>
<CAPTION>

Item No.	Item	Method of Filing
<S>	<C>	<C>
*10.1	Supply and Non-Exclusive License Agreement By and Between LecTec Corporation and Novartis Consumer Health, Inc. dated May 8, 2002.	Filed herewith.
10.2	Promissory Note By and Between LecTec Corporation and Novartis Consumer Health, Inc. dated May 8, 2002.	Filed herewith.
10.3	Promissory Note By and Between LecTec Corporation and Novartis Consumer Health, Inc. dated May 8, 2002.	Filed herewith.
10.4	Security Agreement By and Between LecTec Corporation and Novartis Consumer Health, Inc. dated May 8, 2002.	Filed herewith.
99.1	Chief Executive Officer Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.	Filed herewith.
99.2	Chief Financial Officer Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.	Filed herewith.

</TABLE>

* Confidential treatment has been 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.

(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 August 14, 2002 */s/ Rodney A. Young*
Rodney A. Young, Chief Executive Officer & President

Date August 14, 2002 */s/ Douglas J. Nesbit*
Douglas J. Nesbit, Chief Financial Officer & Secretary
(Principal Financial Officer and
Chief Accounting Officer)

EXHIBIT 10.1

SUPPLY AND NON-EXCLUSIVE LICENSE AGREEMENT

THIS SUPPLY and NON-EXCLUSIVE LICENSE AGREEMENT ("Agreement") dated as of May 8, 2002 (the "Effective Date"), is between Novartis Consumer Health, Inc., 200 Kimball Drive, Parsippany, NJ 07054 ("Novartis"), a Delaware corporation, and LecTec Corporation, a Minnesota corporation, 10701 Red Circle Dr., Minnetonka, MN 55343 ("LecTec").

Background

A. LecTec is a manufacturer of medical and health-related consumer products, including a line of proprietary patch products for the over-the-counter market which emit vapors which, when inhaled, provide relief of cough and cold symptoms (the "Vapor Patches"). LecTec manufactures and sells such patch products under its own trade names and also manufactures and sells certain of such patch products to third parties.

B. Novartis is a manufacturer and reseller of health-related consumer products.

C. Novartis desires to obtain a supply of certain LecTec patch products, and LecTec desires to supply same, all upon the terms and conditions set forth below and in the attached exhibits.

D. LecTec and Novartis are parties to a certain Supply Agreement dated as of May 15, 2000 (the "Supply Agreement") which provides for the supply by LecTec to Novartis of Novartis's requirements for certain products as defined in the Supply Agreement. All capitalized terms not otherwise defined herein have the meanings ascribed to them in the Supply Agreement.

E. LecTec has advised Novartis that LecTec has liquidity problems that may interfere with its continued performance of its obligations under the Supply Agreement. Novartis has agreed to assist LecTec in resolving its liquidity problems by making advance payments for Products upon the terms set forth in this Agreement and the parties have agreed to amend the Supply Agreement in order to provide for such advance payment and to afford to Novartis increased assurance that its requirements for Products will be satisfied.

NOW, THEREFORE, the parties do hereby amend and restate the Supply Agreement as follows, intending that this Agreement shall supercede and replace the Supply Agreement:

1. GENERAL SCOPE OF AGREEMENT

1.1 Manufacturing. LecTec has developed and shall manufacture, sell and cause to be delivered to Novartis the products set forth in Exhibit A hereto (the "Products") in quantities sufficient to meet the total requirements, consistent with the forecasting and purchase

order mechanism set forth in Article 3 of this Agreement, of Novartis for use in the pediatric field of use (the "Field of Use") and in the countries set forth in Exhibit D hereto (the "Territory") of such Products. LecTec shall manufacture and sell the Products exclusively to Novartis, provided, however, "exclusivity" in the foregoing sentence shall mean that LecTec may not manufacture and sell the Products or any other Vapor Patches (collectively, "Comparable Products") in the Field of Use and in the Territory to any other customer. Notwithstanding such exclusivity, LecTec may continue to manufacture and sell Comparable Products directly to retailers under its "TheraPatch" trade name, or under any Other LecTec Trade Name (as defined below) even if such Comparable Products may compete directly with the Products in the Field of Use and in the Territory. The term "Other LecTec Trade Names" shall mean any LecTec trade names in existence at the Effective Date or as developed by LecTec during the term of this Agreement, but not including any third party's trade names which LecTec acquires or to which LecTec otherwise gains rights during the term of this Agreement.

*1.2 **

*1.2.1 **

1.3 Fulfillment of Requirements. Novartis shall purchase all of Novartis' requirements of the Products for use in the Territory and the Field of Use exclusively from LecTec, in accordance with and subject to the terms and conditions of this Agreement. This requirements obligation is limited to Novartis' requirements of Products which meet the Specifications (as defined below).

1.4 Minimum Requirements. During the period commencing on the Effective Date of the Supply Agreement (May 15, 2000) and ending on December 31, 2001 (the "Initial Period"), and during each calendar year thereafter (the Initial Period and each calendar year thereafter each being a "Period"), Novartis shall purchase at least the minimum requirements of Products set forth in Exhibit C hereto (the "Minimum Requirements").

1.4.1 In calculating whether Novartis has in fact purchased the Minimum Requirements, the parties shall count all variations of the Products purchased by Novartis from LecTec in the Period in one cumulative total. Any Products returned to LecTec by Novartis hereunder shall not be counted in such total (but replacements of such returned Products shall be included in such counting as if such replacements had been purchased at the time of the Products

being replaced).

** Denotes confidential information that has been omitted from the exhibit and filed separately, accompanied by a confidential treatment request, with the Securities and Exchange Commission pursuant to Rule 24b-2 of the Securities Exchange Act of 1934.*

1.4.2 Beginning on January 1, 2002 and in each January thereafter, if Novartis failed to purchase at least the Minimum Requirements of Products during the preceding Period, then, by February 28 of the applicable calendar year, Novartis shall either (a) place firm purchase orders for the shortfall ("Shortfall") and such Shortfall amount of Products shall be deemed added, on a one-time basis, to the Minimum Requirements for the Period in which such purchase order is placed; or (b) pay to LecTec an amount equal to forty percent (40%) of the difference between (i) the amount Novartis would have paid if it had actually purchased the Minimum Requirements of Products for such period and (ii) the amount actually paid for Products purchased during such period ("Compensatory Payment"). If Novartis elects not to place such orders for the Shortfall amount by such date, and elects not to make the Compensatory Payment by such date, then LecTec shall no longer be obligated to sell Products to Novartis on an exclusive basis within the Field of Use and the Territory and may thereafter sell Comparable Products to third parties within the Field of Use and the Territory. Upon such termination of Novartis' exclusivity, Novartis shall cease to have any requirements to purchase the Minimum Requirements of the Products. The provisions of this Section 1.4.2 shall not apply in the event that Novartis' failure to purchase the Minimum Requirements is due to the actions or omissions of LecTec.

1.5 Regulatory Compliance. As set forth below, LecTec shall be responsible for regulatory compliance in the manufacture of the Products and supply of same to Novartis. Novartis shall be responsible for regulatory compliance in the proper labeling, promotion, and advertising of the Products and the sale of same to end users according to existing OTC monograph requirements, directly or indirectly, which shall be under the exclusive control of Novartis. The parties shall cooperate in good faith to achieve such regulatory compliance.

1.6 Production Standards. All Products sold and delivered to Novartis hereunder shall (a) conform in all material respects with the specifications set forth in the Quality Assurance Agreement, attached hereto as Exhibit B (the "QA Agreement"), and with such further specifications as shall be agreed to by all parties in writing (the "Specifications"); (b) be manufactured, packaged and sold to Novartis without any material deviation from or breach of (i) the QA Agreement, and (ii) any applicable laws, regulations, and requirements of any government or governmental agency; and (c) be subject to the warranties set forth in Article 9 of this Agreement.

1.7 Brand Name. Novartis intends to market the Products under the proprietary names "Vapor Patch" or "VaporPatch" (as selected by Novartis in its own discretion). LecTec hereby acknowledges that it has no objection to Novartis seeking to register such names at its own expense and risk with the United States Trademark Office, or with other authorities, and shall file its consent thereto, as requested in writing by Novartis, but LecTec does not warrant or imply that such marks are otherwise available or will be granted. LecTec shall give commercially reasonable cooperation to Novartis to manufacture and label the Products with such name or names or other names as Novartis, in its sole discretion, may designate from time to time during the term of this Agreement. However, subject to the foregoing, nothing herein

shall be deemed to authorize the use of any LecTec trade name or trademark or any other mark that would dilute or reasonably tend to dilute any such LecTec trade name or trademark.

2. PAYMENT

2.1 Prices. In consideration of the satisfactory manufacture and delivery to Novartis of the ordered quantities of Products, and subject to adjustment in accordance with this Agreement, Novartis shall pay LecTec for the Products in accordance with the prices set forth in Exhibit C hereto. Except as provided in Section 2.10, Novartis shall make such payments within thirty (30) days of the date of each LecTec invoice issued upon shipment of the Products. Such payments shall be without prejudice to the inspection and credit rights of Novartis under Article 4 of this Agreement.

2.2 Taxes. Novartis shall bear the cost of taxes of any kind, nature or description whatsoever applicable to the sale of any Products by LecTec to Novartis (other than taxes based upon the income of LecTec or LecTec's employees), unless Novartis is exempt therefrom and provides to LecTec, at the time of the submission of any Purchase Order, tax exemption certificates or permits acceptable to the appropriate taxing authorities.

2.3 *

2.4 *

2.5 *

2.5.1 *

2.5.2 *

2.5.3 *

2.6 *

* Denotes confidential information that has been omitted from the exhibit and filed separately, accompanied by a confidential treatment request, with the Securities and Exchange Commission pursuant to Rule 24b-2 of the Securities Exchange Act of 1934.

2.7 Raw Material Vendors. Novartis may at any time identify to LecTec lower cost and comparable quality sources from which LecTec may obtain any of the Raw Materials. In such an event, except to the extent that such other source is unable to reasonably satisfy LecTec's quality, service or delivery standards, or any of LecTec's other standard vendor qualification requirements, LecTec shall utilize the sources identified by Novartis as soon as commercially feasible, and the prices charged to Novartis for Products shall be reduced by the amount of any resulting reductions in Raw Material costs. Novartis shall reimburse LecTec for any costs LecTec shall reasonably incur in implementing any such change in sources.

2.8 *

2.9 *

2.10 Advance Payment.

2.10.1 In order to provide LecTec with working capital funds necessary to enable it to manufacture and deliver Products to Novartis against purchase orders to be issued by Novartis following the Effective Date, Novartis shall advance funds (each such advance, an "Advance Payment" and, collectively, the "Advance Payments") to LecTec for use by LecTec (a) to pay current accounts payable and expenses not exceeding $250,000 in the aggregate and thereafter (b) exclusively for the manufacture and delivery of Products. Subject to the full and timely performance by LecTec of the Product shipment requirements set forth in Exhibit E attached hereto and made a part hereof and all other obligations of LecTec under this Agreement, Novartis shall disburse the Advance Payments to LecTec in installments in accordance with the schedule designated as "LecTec Payments" in Exhibit E

Novartis shall have no obligation to disburse any Advance Payment (x) if LecTec shall fail to make any delivery of Products to Novartis in strict compliance with the provisions of Section 2.10.3, time being of the essence or (y) if such Advance Payment would cause the unpaid principal balance of the Advance Payment Note, as defined in Section 2.10.2, to exceed $600,000. In the event that Novartis shall withhold any Advance Payment by reason of clause (y) in the preceding sentence, Novartis shall thereafter disburse the withheld Advance Payment, in whole or in part, from time to time at the request of LecTec at such time or times as the making of such disbursement will not cause the unpaid principal balance of the Advance Payment Note to exceed $600,000, provided that Novartis shall have no obligation to disburse such withheld Advance Payment unless LecTec shall be in compliance with its obligations under this Agreement at the time of its request therefore.

* Denotes confidential information that has been omitted from the exhibit and filed separately, accompanied by a confidential treatment request, with the Securities and Exchange Commission pursuant to Rule 24b-2 of the Securities Exchange Act of 1934.

2.10.2 The Advance Payments disbursed to LecTec as provided in Section 2.10.1 shall be deemed to be a loan from Novartis to LecTec. On the Effective Date, LecTec shall execute and deliver to Novartis (a) a promissory note in the principal amount of $1,200,000 in the form attached hereto as Exhibit F-1 (the "Advance Payment Note"), (b) a security agreement in the form attached hereto as Exhibit G ("Security Agreement"), and (c) such other

documents as shall reasonably be deemed necessary by Novartis to perfect its security interests in the assets of LecTec as provided in the Security Agreement.

2.10.3 Unless otherwise prepaid in accordance with the terms of the Advance Payment Note, LecTec shall repay the principal amount of the Advance Payment Note (or so much thereof as shall actually have been disbursed to it in accordance with the provisions of Section 2.10.1) in monthly installments equal to the aggregate purchase price of all Products delivered by LecTec to Novartis during such calendar month pursuant to purchase orders issued by Novartis. Novartis shall credit the aggregate purchase price of Products delivered, determined as provided in this Agreement, against the principal payment obligations of LecTec under the Advance Payment Note and such credits shall constitute full payment by Novartis of the purchase price of such Products until such time as all of LecTec's obligations under the Advance Payment Note shall have been paid in full.

Notwithstanding any provision in Section 3 of this Agreement to the contrary, LecTec shall produce and deliver Products to Novartis, and Novartis shall issue purchase orders calling for deliveries of Products, having aggregate purchase prices each month following the Effective Date in accordance with the schedule of Lots Required having the aggregate purchase prices designated as "NCH Cost" on Exhibit E.

Notwithstanding the provisions of Section 11.3 of this Agreement, LecTec shall be deemed to be in default of its obligations under this Section 2.10.3: (a) if, in the period from the Effective Date to December 31, 2002, two consecutive Batches, as defined in Section 7.2.1, or any three Batches, as so defined, are rejected by Novartis based upon a commercially reasonable determination by Novartis, made without regard to the procedures set forth in Section 4 of this Agreement, that such Batches, as so defined, fail to comply with the Product quality provisions of Section 9.1 of this Agreement, or (b) if LecTec shall fail to deliver any Batch, as so defined, by the later of (i) the thirty (30) day period commencing upon Novartis' QA release or rejection and (ii) thirty (30) days following the date specified for delivery in the applicable purchase order, unless such failure to make timely delivery is attributable exclusively to changes ordered by Novartis in Product specifications or Product packaging specifications.

2.10.4 In addition to its obligation to repay the Advance Payments, LecTec is currently indebted to Novartis in the amount of $220,000 for certain Product recall costs incurred by Novartis (the "Recall Debt"). On the Effective Date, LecTec shall execute and deliver to Novartis a promissory note in the principal amount of $220,000 in the form of Exhibit F-2 hereof (the "Recall Debt Note"). LecTec shall pay the principal amount of the Recall Debt Note together with interest thereon either by way of delivery of Products from time to time during the year 2003 or otherwise as designated in writing by Novartis, but in any event the Recall Debt

shall be repaid in full, together with interest thereon, not later than December 31, 2003. The Recall Debt Note will be secured pursuant to the Security Agreement.

2.10.5 Upon payment in full of all of LecTec's obligations under the Advance Payment Note and the Recall Debt Note and upon the request of LecTec, Novartis shall deliver both notes to LecTec for cancellation together with the Security Agreement and such other documents as may be necessary to effect a release of Novartis's security interests under the Security Agreement.

3. FORECASTS AND ORDERS

3.1 Rolling Forecasts. In order to assist LecTec in planning production, Novartis shall provide LecTec with a twelve (12) month rolling forecast of the quantities of Products and delivery dates required by Novartis, by month, for the following twelve (12) months. It is understood that such forecasts are intended to be estimates only and shall not be binding upon Novartis. Notwithstanding the foregoing, Novartis shall be bound to purchase from LecTec one hundred percent (100%) of those quantities of Products set forth in each such forecast as being Novartis' requirements of Products for the first three (3) months of each twelve (12) month period and, accordingly, shall issue purchase orders therefor pursuant to Section 3.2. LecTec shall, no later than ten (10) business days after receipt of each such forecast, notify Novartis in writing of any prospective problems of which it is then aware that might prevent it from meeting Novartis' forecasted order quantities or estimated delivery dates. Unless LecTec so informs Novartis that it would have problems in meeting Novartis' forecasted requirements, LecTec shall be obligated to deliver during any calendar year, pursuant to purchase orders provided under Section 3.2 of this Agreement, up to one hundred twenty percent (120%) of Novartis' estimated purchases for that calendar year (but in no single month more than one hundred fifty percent (150%) of those quantities of Products set forth in the most recent forecast as being Novartis' requirements of Products for the first month of the forecasted twelve (12) month period). LecTec shall further use its commercially reasonable efforts to comply with purchase orders for Products in excess of such one hundred twenty percent (120%) and one hundred fifty percent (150%) amounts.

3.2 Purchase Orders. Subject to Section 3.1 and for the period from the Effective Date through December 31, 2002, at least 120 days prior to the date on which Novartis desires to have a shipment of Products delivered (as defined in Section 2.4), Novartis shall furnish to LecTec a binding purchase order for such shipment, stating (a) the desired quantity of Products, and (b) the desired delivery date. After December 31, 2002, the parties shall negotiate in good faith the date that Novartis shall furnish a purchase order to LecTec, which

date shall be at least sixty (60) days prior to the desired delivery date, but no more than 120 days prior to the desired delivery date. Each such Novartis purchase order shall be subject to acceptance by LecTec. If LecTec has not indicated in writing its rejection of such a purchase order within five (5) business days from receipt of same, such purchase order shall be deemed accepted. If LecTec cannot accept a specific purchase order, it shall, within such 5-day period, inform Novartis in writing of the circumstances and of LecTec's proposed alternative delivery proposal. In such event, Novartis shall have no firm commitment to purchase, and LecTec shall have no firm

commitment to supply, unless Novartis furnishes LecTec with a new purchase order incorporating such alternative proposal and LecTec has accepted same.

3.3 Amendment of Purchase Orders. LecTec shall use its commercially reasonable efforts to accommodate any Novartis requests for delivery of Products in excess of the quantities described in any previously-submitted and accepted purchase order, or for delivery of Products sooner than that allowed pursuant to this Article 3. If Novartis' business conditions necessitate reduction or delay in purchase order requirements, then LecTec shall use its commercially reasonable efforts to implement such requested changes. Notwithstanding the foregoing, LecTec shall not take any action in response to any such requests which would result in charges to Novartis in addition to those set forth in the respective purchase order without Novartis' prior written consent. Any proposed amendment by Novartis (including, without limitation, any increase in order quantities or change in delivery dates or change in artwork) of an accepted purchase order under Section 3.2 shall follow the same procedure and have the same rejection and acceptance periods set forth therein for an original purchase order.

4. INSPECTIONS AND ACCEPTANCE

4.1 Inspection; Right of Rejection. Novartis shall accept any delivery of Products hereunder if, in Novartis' sole and reasonable discretion, Novartis determines that the delivery complies fully with the relevant purchase order, the Specifications and the requirements of this Agreement. Novartis shall have the right to inspect all Products delivered hereunder within thirty (30) days of its receipt of the Products and all required documentation. Novartis shall provide LecTec with written notice of its acceptance or rejection of the shipment within sixty (60) days of receipt of the Products and all required documentation. Any notice of rejection shall specify the reason(s) therefor. Except in the event of any investigation, corrective action or retesting of a shipment, if Novartis fails to provide LecTec with written notice of its acceptance or rejection of the shipment within sixty (60) days of receipt of the Products and all required documentation, then the shipment shall be deemed to have been accepted by Novartis. Novartis' prior payment of any invoice for a shipment which is timely rejected under this Section 4.1 shall not prejudice Novartis' right under Section 4.2 to seek replacement Products or a credit or refund, as Novartis may deem appropriate, with respect to any such rejected Products.

4.2 Replacements. If Novartis notifies LecTec that any Products, or any part thereof, are rejected pursuant to Section 4.1, then, at Novartis' option, (a) LecTec shall, at no additional charge, deliver replacement Products to Novartis as soon as reasonably practicable thereafter (but, in any event, within ninety (90) days after the initial notification by Novartis); or (b) the purchase order at issue shall be deemed terminated, and Novartis shall not be obligated to make any payments to LecTec with respect to such purchase order or the rejected shipment (or, if payment has already been made for such Products, then Novartis shall be entitled to a credit in such amount). Novartis shall give commercially reasonable cooperation to LecTec to determine the nature and extent of any problem giving rise to a rejection of Products, including, without limitation, prompt samples of any allegedly non-conforming Products.

4.3 Returns. Novartis shall not return any rejected Products to LecTec except upon a return material authorization ("RMA") from LecTec. LecTec shall pay the freight to deliver

replacement Products to Novartis for rightfully rejected Products, and LecTec shall pay the freight to return to LecTec or its designee rejected Products for which LecTec has provided to Novartis an RMA.

5. DOCUMENTATION AND INFORMATION

5.1 Confirmation. LecTec shall submit to Novartis the batch manufacturing and testing documents relating to any Products ordered hereunder, within ten (10) days of the completion of the manufacturing process with respect to any particular batch of Products. LecTec shall provide such documentation as reasonably requested by Novartis solely (a) to assist Novartis in determining whether any manufactured or delivered Products comply fully with the Specifications and the requirements of this Agreement; (b) to assist Novartis in obtaining any and all regulatory approvals necessary to market the Products in the Territory; or (c) to enable Novartis to comply with any statutory or regulatory requirements or with a request by any governmental or regulatory authority in the Territory. Such records and reports shall be subject to the confidentiality provisions of Article 8 of this Agreement, shall be deemed LecTec's Confidential Information, and shall be subject to the requirements of Section 1.3 of the QA Agreement.

5.2 Certificate of Analysis. Every shipment of the Products to Novartis shall be accompanied by a Certificate of Analysis from LecTec to certify the active ingredients therein. LecTec shall warrant the accuracy of each such

Certificate of Analysis to a reasonable degree of scientific certainty.

5.3 Books and Records. LecTec shall keep on file all books and records in connection with the manufacture and testing of the Products, including, but not limited to, those books and records relating to cross-over cleaning, process validation, installation qualification, operational qualification and cleaning validation for a period of seven (7) years, plus the active year, from the time of generation of such documents.

6. PRODUCTION PROCEDURES

6.1 No Reworked Products. LecTec shall not rework or reprocess any non-conforming Products without the prior written approval of Novartis.

6.2 Product Packaging. The Products shall be delivered to Novartis packaged in accordance with the Specifications. Notwithstanding the foregoing, Novartis shall have the right to require any special or varied packing that it believes is reasonably necessary to meet customs or regulatory requirements in the Territory. Reasonable incremental costs which result directly from any packing changes required by Novartis will be borne by Novartis.

6.3 Production Procedures. At an agreed upon time prior to its first production run of the Products for Novartis, and at some mutually agreeable time prior to the production of qualification batches, LecTec either shall provide to a designated Novartis employee, or shall permit such designated Novartis employee to review at LecTec's facility, for Novartis' review and approval, LecTec's production procedures for the Products ("Production Procedures"). Such

Production Procedures shall include the manufacturing site, manufacturing equipment, manufacturing process, manufacturing conditions and testing procedures for the manufacture of the Products. After such initial Novartis approval, if LecTec wishes to make any material change in any of the Production Procedures so documented and approved, LecTec shall provide notice thereof to the designated Novartis employee, and shall permit such designated Novartis employee to review such proposed changes at LecTec's facility, at least thirty (30) days prior to its first production run under such revised Production Procedures. All such changes to the Production Procedures must be approved in writing by Novartis prior to being implemented, which approval shall not unreasonably be withheld.

6.4 Waste Disposal. LecTec represents and warrants, to the best of its knowledge, and shall take all commercially reasonable actions necessary to ensure, that all facilities, equipment and practices used to perform LecTec's responsibilities under this Agreement by or on behalf of LecTec, or by any of LecTec's contractors of any rank (including, without limitation, environmental or safety and health consultants or waste management or disposal firms) (each a "LecTec Contractor") will be during the term of this Agreement, in full compliance with all health, safety and environmental laws, statutes, ordinances, regulations, rules, permits and pronouncements. LecTec assumes responsibility for disposing of any and all waste generated during the performance of its responsibilities under this Agreement (including, without limitation, during any manufacturing, storage and transportation activities) in accordance with all legal and professional standards.

6.4.1 LecTec shall Dispose or arrange for the Disposal of Waste and at an Approved Disposal Facility. Novartis shall have the right to unilaterally modify any designation of any Approved Disposal Facility at any time based upon audit and inspection results. LecTec shall only transport Waste to an Approved Disposal Facility by means of a transporter lawfully permitted to transport the particular types of Waste at issue. LecTec shall be solely responsible for the proper Disposal of Waste. For purposes of this Section 6.4.1,

6.4.1.1 "Dispose" or "Disposal" shall mean any discharge, deposit, injection, dumping, spilling, leaking, or placing of any Waste into or on any land or water and the arrangement of any of the foregoing, and shall include any storage, pretreatment, treatment (including incineration), any other actual disposal, use, sale, sampling or other transfer or application of Waste of any kind or nature whatsoever;

6.4.1.2 "Waste" shall mean, for purposes of this Agreement only, all materials that are produced or generated in connection with the manufacture of any chemical compounds pursuant to this Agreement and for which Disposal is required, including but not limited to materials that are Hazardous Waste, co-product, by-product, chemical compounds that fail to conform to the requirements of this Agreement, wastewaters, residues, wastes, bottoms and other remainders and materials, packaging of, or components of the chemical compounds, and components of any chemical compounds that are not used in the manufacture of the chemical compounds;

6.4.1.3 "Hazardous Waste" shall mean (a) any material or substance defined as or containing materials defined as a "hazardous substance" pursuant to any applicable

laws or regulations, including the Comprehensive Environmental Response, Compensation and Liability Act, as amended, the Resource Conservation and Recovery Act, as amended, and any similar successor or supplementary legislation, and the regulations promulgated thereunder, or (b) any material or substance that is radioactive; and

6.4.1.4 "Approved Disposal Facility" shall mean a disposal facility approved by Novartis, which approval shall not be unreasonably withheld.

6.4.2 Notwithstanding anything to the contrary herein, (i) if LecTec and/or any LecTec Contractor fails to comply with the obligations set forth in this Section 6.4, then LecTec shall be responsible for any claims, suits, or liabilities resulting therefrom (including, without limitation, those based on strict liability and joint and several liability), and LecTec shall indemnify, defend and save Novartis (including officers, directors, employees and agents of Novartis) harmless from and against any and all such claims, suits, and liabilities; and (ii) LecTec shall indemnify, defend and save Novartis (including officers, directors, employees and agents of Novartis) harmless from and against any and all claims, suits, and liabilities which arise directly or indirectly from the storage, release, transportation or disposal of chemicals, raw materials, product, waste or any other substance by LecTec and/or any LecTec Contractor.

7. OWNERSHIP AND LICENSE PROVISIONS

7.1 Novartis Property. All materials, inventions, know-how, trademarks, information, data, writings and other property, in any form whatsoever, which is provided to LecTec by and/or on behalf of Novartis, or which is used by LecTec with respect to the performance of its obligations hereunder, and which was owned by Novartis prior to being provided to LecTec, shall remain the property of Novartis (the "Novartis Property"). LecTec shall have a royalty-free license to use any Novartis Property supplied to it solely to the extent necessary to enable LecTec to perform its obligations hereunder. LecTec shall not acquire any other right, title or interest in the Novartis Property as a result of its performance hereunder. Without limiting the foregoing, Novartis Property shall include the copyrights and trademarks used in the packaging of the Products ("Packaging IP Rights").

7.2 Grant of Non-Exclusive License.

7.2.1 As used in this Section 7.2, references to Novartis shall include any Affiliate of Novartis, which is defined as any entity that directly or indirectly is in control of Novartis or is under common control of any entity that, directly or indirectly, is in control of Novartis. In order to assure Novartis of an uninterrupted supply of Products in accordance with the supply terms of this Agreement, LecTec hereby grants to Novartis, and Novartis hereby accepts, an irrevocable (except as provided in Section 7.2.2), term-limited, non-exclusive license (the "License") to all of the intellectual property of LecTec used in the production of the Products including, without limitation, all patents, designs, bills of materials, manufacturing procedures, and know-how associated with the Products, together with copies of all documentary materials embodying the know-how used in the design and production of the Products (collectively, the "Intellectual Property".) For the sake of clarity, the Intellectual Property shall not include any other LecTec trade names and shall not extend to the foregoing

materials used in the design and production of Comparable Products (as such term is defined in Section 1.1 hereof) to the extent that such Intellectual Property is not also used in the design and production of the Products. The License shall be subject to the following terms and conditions:

(a) Within ten (10) days of the Effective Date or as soon thereafter as is practicable but in no event more than thirty (30) days after the Effective Date, the parties shall select and engage a mutually acceptable independent escrow agent of national standing ("Escrow Agent"). Within ten (10) days of such selection and engagement of the Escrow Agent, Lectec shall deposit correct and complete copies of all documents and materials constituting the Intellectual Property, including, without limitation, the entire Product Control System documentation for the Products. Without removing or copying any of such deposited materials, upon prior notice to Lectec, Novartis may examine such materials at the time of their deposit or ask that the Escrow Agent do so on its behalf to confirm that the proper materials have been so deposited. All materials so deposited shall be subject to the License and shall be released to Novartis in accordance with the escrow agreement by and among the Escrow Agent, Novartis and LecTec upon the effectiveness of a License Activation Notice (as defined below). To facilitate the prompt release of such deposited materials, LecTec shall not exercise any rights that may be granted to it under the form of escrow agreement executed by the parties with the Escrow Agent to (i) provide contrary instructions to bar or delay such release, (ii) invoke any arbitration or other dispute resolution mechanism to bar or delay such release or (iii) provide notice of Lectec's intent to obtain an order from an arbitrator or court to bar or delay any such release. Any breach by LecTec of its undertaking in the preceding sentence will result in irreparable harm to Novartis for which Novartis will have no adequate remedy at law and, accordingly, Novartis may seek and obtain an order of temporary and permanent injunctive relief, an order of specific performance or any other appropriate equitable relief from a court of competent jurisdiction to prevent the commission or continuation of such breach by LecTec, provided, however, that after the release of such escrowed materials, LecTec may seek damages from Novartis if, in its

reasonable discretion, Lectec determines that a Material Failure did not occur and that no other event occurred that would have permitted the Escrow Agent to release such escrowed materials. Such damages shall be the difference between the royalty payments due to LecTec during the License Phase and the amount that LecTec would have been due if such sales of Products were made to Novartis under the terms of the Supply Phase, less Lectec's reasonable costs of manufacturing the same. Lectec shall bear the reasonable costs of the Escrow Agent for the establishment and operation of such escrow of the Intellectual Property, provided, (x) the Escrow Agent shall give written notice to Lectec and to Novartis of any non-payment of such costs by Lectec and (y) the Escrow Agent shall give at least ten (10) days written notice to Novartis prior to any release or return of such escrowed materials back to Lectec for any reason, including, without limitation, any non-payment of the costs of the escrow.

*(b) Novartis may commence to use the License as provided in Section 7.2.3 hereof ten (10) days after providing written notice to LecTec ("License Activation Notice") of LecTec's Material Failure to deliver Products to Novartis in accordance with accepted purchase orders. The License Activation Notice shall include a reasonably detailed specification of the nature, date and extent of such Material Failure. For purposes hereof, a "Material Failure" shall be defined as follows: (i) from the Effective Date to and including December 31, 2002, two (2) consecutive Batch Failures or a total of three (3) Batch Failures within such period; and (ii) after January 1, 2003 to the end of the Supply Phase, hereinafter defined, two (2) consecutive Batch Failures or a total of three (3) Batch Failures in any consecutive twelve (12) month period. For purposes hereof, a "Batch Failure" shall be defined as (a) the rejection of a Batch by Novartis based upon a commercially reasonable determination by it, made without regard to the procedures set forth in Section 4 of this Agreement, that such Batch fails to comply with the Product quality provisions of Section 9.1 of this Agreement or (b) if LecTec shall fail to deliver any Batch, as so defined, by the later of (x) the thirty (30) day period commencing upon Novartis' QA release or rejection and (y) thirty (30) days following the date specified for delivery in the applicable purchase order, unless such failure to make timely delivery is attributable exclusively to changes ordered by Novartis in Product specifications or Product packaging specifications. A "Batch" shall mean * folding cartons of the Products as intended for retail sale. A single purchase order may be for one or more Batches.*

(c) The period within the term of this Agreement from the Effective Date to the tenth (10th) day after a License Activation Notice shall be known as the "Supply Phase," and the period from the end of the Supply Phase to the end of the term of the Agreement shall be known as the "License Phase." The License shall be legally effective upon the Effective Date but may be used by Novartis only during the License Phase unless otherwise extended by the mutual agreement of the parties, and shall be terminable only as provided in Section 7.2.2 hereof. Once the License Phase has commenced, any other provision of this Agreement to the contrary notwithstanding, Novartis shall have no further obligation to purchase the Products from LecTec under this Agreement, exclusively or otherwise.

** Denotes confidential information that has been omitted from the exhibit and filed separately, accompanied by a confidential treatment request, with the Securities and Exchange Commission pursuant to Rule 24b-2 of the Securities Exchange Act of 1934.*

(d) At any time during the first six (6) months of the License Phase, LecTec may provide evidence to Novartis that LecTec has cured the problems that caused its Material Failure and that LecTec could again resume its supply obligations hereunder. Novartis may, in its sole business judgment, determine whether it would temporarily relinquish its use of the License and allow LecTec to resume such supply obligations, but any such decision by Novartis shall be without prejudice to the License for the full term hereof.

(e) The License shall include the right of Novartis to grant a limited sublicense to any Novartis Affiliate or any other third party contract manufacturer of the Products,

provided, in each such case, (i) such sublicensee shall enter into confidentiality and non-disclosure terms substantially equivalent to those set forth in Section 8 hereof; (ii) such sublicensee shall manufacture the Products only for Novartis or a Novartis Affiliate; (iii) Novartis shall give written notice to LecTec of the grant of such sublicense at least ten (10) days prior to the effective date of such sublicense; (iv) such sublicense shall terminate when the License terminates; and (v) Novartis shall give prompt written notice to LecTec if Novartis becomes aware that there has been a material breach of any of the foregoing terms by a sublicensee.

(f) In the event of a License Activation Notice, LecTec shall promptly cooperate with Novartis to ensure an orderly transition of manufacturing of the Products from LecTec to Novartis or to Novartis' authorized sublicensed third party contract manufacturer. Without limiting the foregoing, LecTec shall offer to sell at its original cost, and Novartis shall have the right, but no obligation, to buy at such cost, all usable raw materials, all usable work in progress, usable tooling, dies, and any other usable specially designed or Novartis specific ordered assets used by LecTec for manufacture of the Products during the Supply Phase (collectively, "Inventory and Tooling"). LecTec shall give Novartis prompt written notice of the available Inventory and Tooling available for purchase upon such terms, and Novartis shall have the exclusive right for ten (10) days from receipt of such notice to purchase such Inventory and Tooling; thereafter, LecTec may dispose of such Inventory and Tooling in its sole discretion. Novartis shall pay any freight or insurance charges for such purchased Inventory and Tooling. In addition, if requested in writing by Novartis and subject to reasonable scheduling, LecTec shall also furnish to Novartis up to three (3) manufacturing personnel experienced in the manufacture of the Products, subject to Novartis' payment for their services at their normal hourly or daily rates, to assist in such transition efforts, for a maximum period of two (2) weeks per person. Novartis shall also reimburse LecTec for any reasonable and ordinary out-of-pocket transportation, lodging, meal and other travel expenses of such requested personnel.

(g) If Novartis desires to continue to use the Intellectual Property after the end of

*the term of this Agreement, as extended by mutual agreement of the parties, but does not desire LecTec to be the manufacturer of any Products for Novartis, then the parties shall negotiate in good faith for at least ninety (90) days prior to the scheduled termination of this Agreement for mutually acceptable terms and conditions, provided, however, such rights, if granted, shall be on a worldwide, non-exclusive basis at a royalty rate not higher than * of Novartis' net sales of the licensed Products.*

7.2.2 If, at any time that notwithstanding the fact that (a) LecTec is willing and able to agree to renew the term or any renewal term of this Agreement and (b) LecTec is then willing and able to perform the Product supply obligations contained in this Agreement, this Agreement shall nevertheless be terminated (x) by reason of the failure of Novartis to consent to a renewal of the term as provided in Section 11.1, (y) in accordance with the provisions of Section 11.2, or (z) by reason of an uncured material breach of this Agreement by Novartis as provided in Section 11.3, then, in the event of such termination of this Agreement, LecTec may , in its sole discretion, revoke the License upon thirty (30) days written notice to Novartis. Notwithstanding such termination of the License, Novartis may sell off such inventory of the Products as was made in good faith by or for Novartis under the License prior to the effective date of such termination. Unless the License shall have been terminated as provided in the preceding sentence, it shall continue in effect for the maximum duration of time permitted under applicable law.

7.2.3 The License shall entitle Novartis to use the Intellectual Property to manufacture, by itself or through one or more contractors engaged for such purpose in accordance with Section 7.2.1(e), Products solely for commercial sale and distribution by Novartis, and for no other purpose. Except as provided in Section 7.2.5 and except for the limited purpose described in the preceding sentence, the License shall not permit Novartis to grant to any other party any rights or interests in any of the Intellectual Property.

*7.2.4 In the event that Novartis shall undertake the manufacture of Products as provided in Section 7.2.3, it shall pay a royalty to LecTec for the use of the Intellectual Property pursuant to the License in an amount which shall be * of the net sales of Products by Novartis. The term "net sales" as used in this Section 7.2.4 shall mean gross revenues from the sale of Products manufactured by or on behalf of Novartis pursuant to the License less customer returns, shipping or delivery charges paid by customers, sales taxes and customs duties. Royalties pursuant to this Section 7.2.4 shall be payable annually not later than ninety (90) days following the end of Novartis's fiscal year by certified check or wire transfer payable to LecTec or its assignee.*

Novartis shall furnish to LecTec or its assignee, at the time of each such annual royalty payment, an accounting of its net sales of Products in reasonable detail.

** Denotes confidential information that has been omitted from the exhibit and filed separately, accompanied by a confidential treatment request, with the Securities and Exchange Commission pursuant to Rule 24b-2 of the Securities Exchange Act of 1934.*

7.2.5 The License shall be assignable by Novartis (a) to any Affiliate or (b) to any entity that is a successor to Novartis by merger or sale of all or substantially all of the assets of Novartis or the segment of the business of Novartis engaged in the sale and distribution of Products. Any such assignment shall be subject to the limitations on duration and scope of the License set forth in Sections 7.2.2 and 7.2.3.

7.2.6 Solely to ensure proper accounting for and payment of the royalties due to LecTec under Section 7.2.4, LecTec may request, not more than once per calendar year during the term of the License, reasonable access during normal business hours and upon at least ten (10) days prior written notice by LecTec's independent certified accountants, reasonably acceptable to Novartis ("LecTec Auditor"), to examine and copy the records of Novartis relating to sales of the Products during the term of the License. The LecTec Auditor may not disclose any such Novartis records to LecTec but shall report to LecTec and Novartis only the results of its audit in respect of whether Novartis has properly accounted for and paid the royalties due to LecTec under Section 7.2.4, which report shall be final and binding upon the parties except in the case of fraud or manifest error, LecTec shall bear the cost of any such audit by the LecTec Auditor. If such audit determines that Novartis has underpaid any royalties, Novartis shall promptly pay the amount underpaid and simple interest thereon at the rate of five percent (5%) per annum. Any other provision of this Section 7.2.6 to the contrary notwithstanding, LecTec may not request the audit of Novartis records for any royalty year more than five (5) years prior to the date of such request.

7.3 LecTec Property. Subject to the provisions of Section 7.2, all materials, inventions, know-how, trademarks, information, data, writings and other property, in any form whatsoever, which is provided to Novartis by or on behalf of LecTec, or which is used by LecTec with respect to the performance of its obligations hereunder, and which was owned by LecTec prior to its performance or is developed or acquired in the course of such performance hereunder, shall remain the property of LecTec (the "LecTec Property"). Novartis shall acquire no right, title or interest in the LecTec Property as a result of LecTec's performance hereunder. Without limiting the foregoing, as between the parties hereto, all the intellectual property rights for the Products other than the Packaging IP Rights shall be deemed to be LecTec Property subject to the License granted to Novartis under Section 7.2 hereof.

7.4 Effect of Termination. Subject to the provisions of Section 7.2, upon the termination of this Agreement, each party shall return to its owner all Novartis Property or LecTec Property, as applicable, except for one copy which may be retained in the returning party's confidential files.

8. TRADE SECRETS, CONFIDENTIALITY AND PUBLICITY

8.1 Confidential Information. During the period that this Agreement is in effect and thereafter, LecTec and Novartis shall not disclose to anyone in any manner whatsoever or use for any purpose other than its performance of this Agreement (except as authorized in writing by the disclosing party) any information it receives from the other party ("Confidential Information"),

including, without limitation, intellectual property, inventions, works of authorship, trade secrets or know-how or other information relating in any way to the Products, processes, and services of the other party.

8.2 Limitations. Each party shall limit disclosure of Confidential Information received hereunder to only those of its employees who are directly concerned with the performance of any activities with respect to which the Confidential Information was disclosed. Each party agrees to advise those of its employees who receive any other party's Confidential Information that such Confidential Information (a) is proprietary and confidential to such party and (b) shall not be disclosed to anyone except as authorized by this Agreement or otherwise authorized by such party in writing. Each party further agrees to take at least such precautions as it normally takes with its own Confidential Information to prevent unauthorized disclosure of the other party's Confidential Information.

8.3 Injunctive Relief. Each party acknowledges that any unauthorized disclosure of any portion of the other party's Confidential Information shall cause irreparable injury to the other party and that no adequate or complete remedy shall be available at law to such other party to compensate for such injury. Accordingly, each party hereby also acknowledges that the other party shall be entitled to injunctive relief in the event of such unauthorized disclosure by a party or any of its employees in addition to whatever other remedies it might have at law.

8.4 Effect of Termination. Upon termination of this Agreement, each party shall return to the other all copies of the other party's Confidential Information, and shall make no further use of such Confidential Information, except for one copy which may be retained in the receiving party's confidential files.

8.5 Exceptions. The obligations of this Section 8 shall not apply to information

8.5.1 that is or has been in the possession of the recipient prior to receipt of the same from the disclosing party as evidenced by recipient's written records;

8.5.2 which the recipient lawfully obtains from any third party not under an obligation to the disclosing party to hold the same in confidence;

8.5.3 that is published or becomes part of the public domain without breach of any undertakings discussed hereinabove;

8.5.4 that is independently developed by personnel of the recipient without any use of or reliance upon the disclosing party's Confidential Information; or

8.5.5 that is required to be disclosed pursuant to judicial process, court order or administrative request, or that is otherwise required for any regulatory filing, provided that the recipient shall notify the other party sufficiently prior to disclosing such Confidential Information as to permit such other party to seek a protective order.

8.6 Press Releases. LecTec shall not issue any press release or other public statement disclosing the existence of or relating to this Agreement without prior written consent of Novartis, which consent shall not be unreasonably withheld or delayed. The foregoing shall not limit LecTec's rights to make such disclosures as reasonably required by applicable securities laws or the rules of any stock exchange where its securities are traded.

9. QUALITY OF THE PRODUCT; COMPLIANCE WITH LAW

9.1 Representations and Warranties. LecTec hereby represents and warrants that:

9.1.1 no Products constituting or being a part of any shipment hereunder shall at the time of any such shipment be (i) adulterated or misbranded within the meaning of the Federal Food, Drug and Cosmetic Act, as amended from time to time (the "Act"), or regulations promulgated thereunder, as such law or regulation is constituted and in effect at the time of any such shipment, or (ii) an article which may not, under the provisions of Sections 404, 505 or 512 of the Act, be introduced into interstate commerce;

9.1.2 all Products furnished to Novartis hereunder shall be in full compliance with the Specifications, and shall remain in full compliance with the Specifications for the full period of the expected shelf-life of such Products, so long as the Products are stored in accordance with the Specifications;

9.1.3 LecTec shall perform its obligations hereunder in compliance with any materially applicable federal, state and local laws and regulations, including without limitation the Act, the FDA's then-current Good Manufacturing Practices ("cGMP"), and any health, safety and environmental laws and regulations materially applicable to LecTec's manufacture and packaging of the Products and its other performance hereunder;

9.1.4 all Products furnished to Novartis hereunder shall have been manufactured in accordance with the terms of the QA Agreement;

9.1.5 LecTec's manufacturing, laboratory and packaging facilities shall remain in compliance with CGMP at all times during the term of this Agreement to the extent applicable to the manufacture and packaging of the Products; and

9.1.6 LecTec owns or has the right to use all necessary copyright, trademark, patents, trade secrets and other intellectual property rights which it shall use to perform its obligations hereunder with respect to the Territory.

9.2 Disclaimer. EXCEPT AS OTHERWISE SPECIFICALLY PROVIDED IN THIS AGREEMENT, LECTEC MAKES NO WARRANTY OF ANY KIND, EXPRESS OR IMPLIED, CONCERNING THE PRODUCTS, OR THE MERCHANTABILITY OR FITNESS THEREOF FOR ANY PURPOSE.

9.3 Remedy. In the event that Products are delivered to Novartis by LecTec which are not in compliance with the warranties made in Section 9.1 then, at Novartis' option (i)

LecTec shall replace the non-compliant Products at no additional charge (which replacement Products shall be delivered to Novartis as soon as reasonably practicable, but in no event more than ninety (90) days after the initial notification by Novartis); or (ii) LecTec shall credit Novartis' account in the amount of the price of the non-compliant Products. Novartis shall give commercially reasonable cooperation to LecTec to determine the nature and extent

of any problem giving rise to a breach of warranties, including, without limitation, prompt samples of any allegedly non-compliant Products. Returns of non-compliant Products shall be subject to the provisions of Section 4.3.

9.4 Quality Assurance Representative. Novartis shall have the right, at its expense, to place a quality assurance representative in the manufacturing facilities of LecTec at all times or from time to time during the term of this Agreement as determined by Novartis. LecTec shall provide complete access to its manufacturing operations respecting the Products to such representative and shall permit such representative to conduct such inspections of materials and processes as such representative shall determine to be appropriate to assure Novartis that LecTec is at all times in compliance with the representations and warranties made in Section 9.1.

10. INDEMNIFICATION AND INSURANCE

10.1 Novartis Indemnification. Novartis shall defend, indemnify and hold LecTec harmless against any and all claims, damages, expenses, reasonable attorneys' fees, settlement costs and judgments arising out of any death, personal injury, bodily injury or property damage to a third party alleged to have been caused by the Products, except to the extent that such injury or damage was the result of any breach of this Agreement by LecTec, including any warranty contained herein, or the result of any latent defects in the Products caused by the negligence or willful misconduct of LecTec. LecTec shall promptly notify Novartis of any such claim or action, shall reasonably cooperate with Novartis in the defense of such claim or action, and shall permit Novartis to control the defense and settlement of such claim or action, all at Novartis' cost and expense. For the sake of clarity, the foregoing indemnification, subject to its stated exclusions, shall extend during the License Phase to any Products made by Novartis or any Novartis Affiliate under the License and to any Products made for Novartis or any Novartis Affiliate by a third party contract manufacturer under any sublicense of the License.

10.2 LecTec Indemnification. LecTec shall defend, indemnify and hold Novartis harmless against any and all claims, damages, expenses, reasonable attorneys' fees, settlement costs and judgments arising out of any death, personal injury, bodily injury or property damage to a third party to the extent that such death, injury or damage is the result of (i) any breach of this Agreement by LecTec, including any warranty contained herein; (ii) any claim regarding a work-related death or injury to any LecTec employee; (iii) any claim regarding latent defects in the Products caused by the negligence or willful misconduct of LecTec; or (iv) any claim that the Products, or any means used to manufacture the Products, infringe any third party's patent, trade secret, trademark, copyright, or other proprietary interest in the Territory. Novartis shall promptly notify LecTec of any such claim or action, shall reasonably cooperate with LecTec in the defense of such claim or action, and shall permit LecTec to control the defense and settlement of such claim or action, all at LecTec's cost and expense.

10.3 Product Recalls and Withdrawals. Each party shall promptly notify the other party of any legal and/or factual circumstances which might, under applicable laws and regulations, necessitate a field correction, recall or withdrawal of any Products (collectively, a "Regulatory Recall") and shall consult with each other regarding the appropriate steps to be taken. Novartis shall determine whether any Regulatory Recall shall take place. Novartis shall notify all regulatory authorities of any such Regulatory Recall, and shall take all steps necessary to effectuate such Regulatory Recall. LecTec shall assist Novartis in each of these activities to the extent reasonably requested by Novartis. LecTec shall reimburse Novartis for the costs of any such Regulatory Recall to the extent such Regulatory Recall was made necessary by the actions or inaction of LecTec. If LecTec is unable in good faith to obtain the recall insurance required by Section 10.4.6 for a reasonable premium, then the maximum amount which LecTec shall be required to reimburse Novartis pursuant to the preceding sentence shall be $500,000 per Regulatory Recall, not including the cost of any replacement Products made necessary by the applicable Regulatory Recall. Novartis shall reimburse LecTec for the costs of any such Regulatory Recall to the extent such Regulatory Recall was made necessary by the actions or inaction of Novartis. Any claim for such reimbursement of costs incurred in such a Regulatory Recall shall be subject to audit by the CPA Firm.

10.4 LecTec's Insurance Coverage. LecTec shall obtain, at its own expense, policies of insurance in amounts no less than those specified below and shall cause its carrier or carriers to name Novartis as an additional insured on those coverages marked with an (*) below:

*10.4.1 *general liability insurance with combined limits of not less than $1,000,000 per occurrence and $1,000,000 per accident for bodily injury, including death, and property damage;*

10.4.2 workers' compensation and disability insurance in the amounts required by the law of the state(s) in which its workers are located, and employer's liability insurance with limits of not less than $1,000,000 per occurrence;

*10.4.3 *automobile liability insurance (in the event that the use of an automobile by LecTec is required in the performance of this Agreement) with combined limits of not less than $1,000,000 per occurrence and $1,000,000 per accident for bodily injury, including death, and property damage is required;*

*10.4.4 *product liability insurance with limits not less than*

$5,000,000;

10.4.5 property insurance for the replacement value of the facilities and equipment used to produce the Products;

*10.4.6 *excess insurance with limits not less than $5,000,000.*

10.5 Documentation of Coverage. Upon request, LecTec shall provide to Novartis evidence of its insurance or self insurance. LecTec shall provide Novartis thirty (30) days prior written notice of any cancellation or material change in coverage.

10.6 Novartis' Insurance Coverage. Novartis warrants and represents to LecTec that Novartis maintains a policy or program of insurance or self-insurance at levels sufficient to support the indemnification obligations assumed herein. Upon request, Novartis shall provide to LecTec evidence of its insurance or self-insurance. Novartis shall provide to LecTec thirty (30) days prior written notice of any cancellation or material change in coverage.

11. TERM AND TERMINATION

11.1 Initial Term; Renewal. This Agreement shall commence on the Effective Date and shall continue in effect until May 15, 2005 (the "Initial Term") and, thereafter, shall be renewed for subsequent one (1) year terms upon the mutual consent of the parties.

11.2 Termination for Convenience. Notwithstanding Section 11.1, Novartis may terminate this Agreement for convenience at no cost, at any time, by giving LecTec at least six (6) months prior written notice thereof.

11.3 Termination for Cause. If either party materially breaches this Agreement, the other party shall give such breaching party written notice thereof with reasonable detail. If the breaching party fails to cure such breach within forty-five (45) days of its receipt of such notice, then the non-breaching party may terminate this Agreement at no cost upon written notice thereof. In addition, either party may terminate this Agreement with immediate effect upon giving written notice to the other party in the event of insolvency, assignment for the benefit of creditors, or bankruptcy proceedings by or against the other party.

11.4 Survival. Notwithstanding any termination of this Agreement, the provisions of Sections 1.6, 1.7, 2.1, 2.2, 2.4, 2.5, 2.6, 2.9, 5.3, 6.4.2, 7, 8, 9, 10 and 13 shall remain in effect.

12. AUDIT AND INSPECTION RIGHTS

12.1 Audit, Inspection and Observation. During the term of this Agreement and any renewal thereof, Novartis shall have the right, at its sole cost and expense, to send Novartis representatives to audit, inspect and observe the manufacture, storage, disposal and transportation of the Products, and all other materials reasonably related thereto or used in connection therewith, upon reasonable prior notice to LecTec and during LecTec's normal business hours. Such Novartis representatives shall have no responsibility or authority for supervision of LecTec employees performing such manufacture, storage, disposal or transportation operations. Such Novartis representatives shall comply with any reasonable LecTec health, safety or security rules or policies while at LecTec's premises. The audit, inspection and observations rights set forth in this Section 12.1 are solely for the purpose of determining LecTec's compliance with the terms of this Agreement and the QA Agreement.

12.2 Action Plan. If, as a result of any such audit, inspection or observation under Section 12.1, Novartis reasonably concludes that LecTec is not in compliance with any of its obligations hereunder, it shall so notify LecTec in writing, specifying such areas of non-compliance in reasonable detail. LecTec shall provide to Novartis within thirty (30) days of

Novartis' request a written action plan with a time line for resolution of the problems identified within a reasonable, mutually agreed upon time frame.

12.3 Government Inspections. LecTec shall inform Novartis within twenty-four (24) hours of any notification to LecTec of any site visits to the LecTec facility by the FDA, state or federal regulatory agencies or any other governmental or regulatory agency, relating, directly or indirectly, to the manufacture of the Products, and shall provide to Novartis all other materials related thereto or used in connection therewith. Novartis shall have the option of participating in any site visit by any governmental or regulatory agency (except to the extent such governmental or regulatory agency visitor objects) if the site visit relates, directly or indirectly, to the manufacturing, storage, disposal and transportation of the Products. If Novartis does not participate in the site visit for any reason, LecTec shall report in writing the results of the visit to Novartis within seven (7) days of the occurrence thereof. In the event that any such governmental or regulatory agency finds that the site is deficient

or unsatisfactory in any material respect, LecTec shall cure all such material deficiencies within the earlier of ninety (90) days or such cure period as ordered by the government or regulatory agency. If all such deficiencies are not cured by LecTec within the required time frame, Novartis may deem such condition to be a material breach of this Agreement without the required 45-day cure period in Section 11.2 of this Agreement and thus may immediately terminate this Agreement.

13. MISCELLANEOUS

13.1 Waiver. Each party acknowledges and agrees that any failure on the part of the other party to enforce at any time, or for any period of time, any of the provisions of this Agreement shall not be deemed or construed to be a waiver of such provisions or of the right of such other party thereafter to enforce each an every such provision.

13.2 Enforcement. If and to the extent that any provision of this Agreement is determined by any legislature, court or administrative agency to be, in whole or in part, invalid or unenforceable, such provision or part thereof shall be deemed to be surplusage and, to the extent not so determined to be invalid or unenforceable, each provision hereof shall remain in full force and effect unless the purposes of this Agreement cannot be achieved. In the event any provisions shall be held invalid, illegal or unenforceable the parties shall use commercially reasonable efforts to substitute a valid, legal and enforceable provision which insofar as practical implements the purposes hereof.

13.3 Choice of Law. This Agreement shall be governed by, and construed in accordance with, the laws of the State of Minnesota as though made and to be fully performed in said State.

13.4 Notices. All notices required or permitted hereunder shall be given in writing and sent by confirmed facsimile transmission, or mailed postage prepaid by first-class certified or registered mail, or sent by a nationally recognized express courier service, or hand-delivered to the following addressees:

Novartis: *Novartis Consumer Health, Inc.*
200 Kimball Drive
Parsippany, NJ 07054
Attn: General Counsel

LecTec: *LecTec Corporation*
10701 Red Circle Dr.
Minnetonka, MN 55343
Attn: Chief Executive Officer

or to such other address as may be specified in a notice given to the other party in accordance with this Section 13.4. Any notice, if sent properly addressed, postage prepaid, shall be deemed made three (3) days after the date of mailing as indicated on the certified or registered mail receipt, or on the next business day if sent by express courier service or on the date of delivery or transmission (if delivered or sent during ordinary business hours, otherwise on the next business day) if hand-delivered or sent by confirmed facsimile transmission.

13.5 Captions. The captions of each section of this Agreement are inserted only as a matter of convenience and for reference and in no way shall be deemed to define, limit, enlarge, or describe the scope of this Agreement and the relationship of the parties hereto, and shall not in any way affect this Agreement or the construction of any provisions herein.

13.6 Entire Agreement; Amendment. This Agreement, including all Exhibits annexed hereto (which are incorporated herein by reference), represents and incorporates the entire understanding between the parties hereto with respect to the subject matter of this Agreement and supersedes any prior offers, proposals, drafts or other communications with respect thereto. Each party acknowledges that there are no warranties, representations, covenants or understandings of any kind, nature or description whatsoever made by any party to any other, except such as are expressly hereinabove set forth. This Agreement shall not be subject to change or modification except by the execution of a writing specified to be an explicit amendment to this Agreement duly executed by all parties hereto.

13.7 Effect of Forms. The parties recognize that, during the term of this Agreement, a purchase order, acknowledgment form or similar routine document (collectively, "Forms") may be used to implement or administer provisions of this Agreement. Therefore, the parties agree that the terms of this Agreement shall prevail in the event of any conflict between this Agreement and the printed provisions of such Forms, or typed provisions of Forms that appear to add to, vary, modify or conflict with the provisions of this Agreement.

13.8 Relationship. Nothing in this Agreement shall create between the parties a partnership, joint venture or principal-agent relationship and, for the avoidance of doubt, each of LecTec and Novartis now confirms and accepts that it is an independent contractor trading for and on its own behalf.

13.9 Assignment. LecTec may not assign or otherwise transfer this Agreement or any interest herein or any right hereunder (other than to an affiliate) without the prior written consent

of Novartis, which consent shall not be unreasonably withheld, except that LecTec may assign this Agreement in connection with the transfer or sale of all or substantially all of its assets or business or its merger or consolidation with another company, so long as (i) such acquiror or successor in interest agrees in writing to be bound by all the terms and conditions hereof; and (ii) LecTec shall first give Novartis written notice of any such assignment, and fifteen (15) days to object thereto. The only grounds upon which Novartis may object to such an assignment are if such acquiror or successor in interest is (a) a direct competitor of Novartis; (b) in Novartis' reasonable discretion, is not a manufacturer which has a proven record of operational quality at least equal to that of LecTec; or (c) in Novartis' reasonable discretion, does not have sufficient financial wherewithal. Any purported assignment, transfer, or attempt to assign or transfer any interest or right hereunder except in compliance with this Section 13.9 shall be null, void and of no effect.

13.10 Counterparts. This Agreement may be executed in two or more counterparts, each of which shall constitute an original and all of which together shall constitute a single instrument.

13.11 Force Majeure. A party shall not be liable for delayed performance or non-performance of this Agreement (other than payment of money when due) if such condition is due to events beyond its reasonable control, including, without limitation, fire, flood, storm, earthquake, any other Act of God, electrical or computer failures, supply or labor shortages, strikes, riot, civil disorder, war or government order or decree.

13.11.1 A party claiming relief under this Section 13.11 shall give prompt written notice thereof to the other party, together with its best estimate of when such condition will end and its full performance may be resumed.

13.11.2 In the event of a Force Majeure, or if for any other reason LecTec experiences any shortage and is therefore unable to supply Novartis with the full quantity of Products and with the delivery date as ordered by Novartis and accepted by LecTec, then Novartis shall be entitled to the same proportionate quantity of available Vapor Patches as the quantity of Products purchased by Novartis from LecTec in the twelve (12) months preceding the shortage bears to all orders for Vapor Patches received by LecTec from all its customers during such period, including LecTec's sales to Novartis, and including LecTec's sales of Comparable Products directly to retailers under its "TheraPatch" trade name, or under any Other LecTec Trade Name.

13.11.3 Notwithstanding the foregoing, if such condition continues without change for more than ninety (90) days, the other party may then elect to treat such delayed performance or non-performance as a material breach of this Agreement.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the day and year first above written.

LECTEC CORPORATION	*NOVARTIS CONSUMER HEALTH, INC.*
By: /s/ Douglas J. Nesbit	*By: /s/ Mark Smedley*
Name: Douglas J. Nesbit	*Name: Mark Smedley*
Title: CFO and Corp. Secretary	*Title: V.P. Supply and Logistics*
Date: 5/9/02	*Date: 5/14/02*

EXHIBIT A

Products

1. *Packages of six (6) menthol-scented hydrogel patches containing menthol, camphor, eucalyptus oil, and fragrance used for the topical application of vapor active ingredients for relief of symptoms due to coughs and colds. U.S and Canadian formulations.*

2. *Packages of six (6) mentholated cherry-scented hydrogel patches containing menthol, camphor, eucalyptus oil, and fragrance used for the topical application of vapor active ingredients for relief of symptoms due to coughs and colds. U.S and Canadian formulations.*

EXHIBIT C

Product Pricing and Minimum Purchase Requirements

Pricing

US Finished Product: Price per patch *
Canadian Price: *

Annual Minimum Purchase Requirements for US Pediatric Exclusivity
*

Annual Minimum Purchase Requirements for Canadian Pediatric Exclusivity
*

*** Denotes confidential information that has been omitted from the exhibit and filed separately, accompanied by a confidential treatment request, with the Securities and Exchange Commission pursuant to Rule 24b-2 of the Securities Exchange Act of 1934.**

EXHIBIT D

Territory

United States of America
Canada
Mexico

EXHIBIT E

Advance Payments and Delivery Schedule
April -December 2002

<TABLE>
<CAPTION>

	April	May	June	July	August	September	October	November	December	Total	
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
LECTEC											
PAYMENTS	$500,000	$250,000	$130,000	$370,000	$400,000	$340,000	$298,390	$0	$0	$2,288,390	
*											
*	*	*	*	*	*	*	*	*	0	4	
*	*	*	*	*	*	*	*	*	0	1	
*	*	*	*	*	*	*	*	*	0	24	
*	*	*	*	*	*	*	*	*	0	29	
Cartons Required:											
Lot Size											
*	*	*	*	*	*	*	*	*	0	1,885,000	$2,288,390.00
Carton Costs:											
*											
*	*	*	*	*	*	*	*	*	$0	$2,288,390	
AGGREGATE CASH ADVANCE	$500,000	$592,180	$643,270	$539,810	$466,350	$332,890	$236,730	$0	$0		

</TABLE>

Note: all prices in U.S. Dollars.

*** Denotes confidential information that has been omitted from the exhibit and filed separately, accompanied by a confidential treatment request, with the Securities and Exchange Commission pursuant to Rule 24b-2 of the Securities Exchange Act of 1934.**

EXHIBIT 10.2

PROMISSORY NOTE

$1,200,000 *May 8, 2002*
Minnetonka, Minnesota

FOR VALUE RECEIVED, the undersigned, LECTEC CORPORATION, a Minnesota corporation with a mailing address of 10701 Red Circle Drive, Minnetonka, MN 55343 (hereinafter referred to as the "LecTec"), promises to pay to the order of NOVARTIS CONSUMER HEALTH, INC. with a mailing address of 200 Kimball Drive, Parsippany, NJ 07054 (hereinafter referred to as "Novartis"), the lesser of the sum of One Million Two Hundred Thousand ($1,200,000) Dollars or so much thereof as has been advanced and remains outstanding pursuant to Section 2.10 of the Supply and Non-Exclusive License Agreement between LecTec and Novartis dated as of even date herewith (the "Agreement") together with interest and costs thereon as set forth below, such interest and costs being payable only in the event of default by LecTec hereunder.

All amounts outstanding under this Note, together with interest thereon, shall be repaid in full on December 31, 2002. This Note is subject to mandatory prepayment under circumstances as set forth in the Agreement.

Interest on the principal amount outstanding hereunder shall begin to accrue as of the date hereof, and shall be payable only in the event of default by LecTec hereunder on the date of such default whether or not any judgment has been issued thereon. Such default interest shall be payable at the rate per annum which shall be two (2) percentage points higher than the "prime" rate as reported in The Wall Street Journal on the first business day of each month, adjusted monthly.

This Note is the Note as defined in the Agreement, to which reference may be made for a description of the terms and conditions of advances of principal hereof and the method of payment by way of credits for products sold and delivered by LecTec to Novartis. The

indebtedness described herein shall have the benefit of the Collateral as set forth in a Security Agreement between LecTec and Novartis of even date herewith.

This Note may be prepaid, at any time, in whole or in part, without premium or fee. If this Note is not paid when due, LecTec agrees to pay all costs of collection, including reasonable attorneys' fees. LecTec hereby waives demand, presentment, notice of dishonor, protest, and notice of protest.

WITHOUT LIMITING OTHER RIGHTS ACCORDED TO NOVARTIS HEREUNDER, LECTEC HEREBY CERTIFIES THAT THE TRANSACTION CONTEMPLATED BY THIS NOTE IS A COMMERCIAL TRANSACTION AND HEREBY WAIVES (A) ITS RIGHTS TO NOTICE AND HEARING AS OTHERWISE ALLOWED BY LAW WITH RESPECT TO ANY PREJUDGMENT REMEDY WHICH NOVARTIS MAY DECIDE TO USE, AND (B) ALL RIGHTS AS OTHERWISE ALLOWED BY LAW TO REQUEST THAT NOVARTIS POST A BOND, WITH OR WITHOUT SURETY, TO PROTECT LECTEC OR ANY OTHER PERSON OR ENTITY LIABLE UNDER THIS NOTE AGAINST DAMAGES THAT MAY BE CAUSED BY ANY PREJUDGMENT REMEDY SOUGHT OR OBTAINED BY NOVARTIS BY VIRTUE OF ANY DEFAULT OR PRO-VISION OF THIS NOTE OR THE AGREEMENT, AND LECTEC HEREBY CONSENTS TO THE ISSUANCE OF ANY SUCH PREJUDGMENT REMEDY WITHOUT SUCH A BOND.

IN WITNESS WHEREOF, the undersigned has executed and delivered this Note as of the date and year first above written.

LECTEC CORPORATION

By /s/ Douglas J. Nesbit

Name: Douglas J. Nesbit

Title: CFO and Corp. Secretary

EXHIBIT 10.3

PROMISSORY NOTE

$220,000 *May 8, 2002*
Minnetonka, Minnesota

FOR VALUE RECEIVED, the undersigned, LECTEC CORPORATION, a Minnesota corporation with a mailing address of 10701 Red Circle Drive, Minnetonka, MN 55343 (hereinafter referred to as the "LecTec"), promises to pay to the order of NOVARTIS CONSUMER HEALTH, INC. with a mailing address of 200 Kimball Drive, Parsippany, NJ 07054 (hereinafter referred to as "Novartis"), the sum of Two Hundred Twenty Thousand ($220,000) Dollars together with interest and costs thereon as set forth below.

All amounts outstanding under this Note, together with interest thereon, shall be repaid in full on December 31, 2003. This Note may be subject to mandatory prepayment under circumstances as set forth in a certain Supply and Non-Exclusive License Agreement between LecTec and Novartis dated as of May 8, 2002 (the "Agreement").

Interest on the principal amount outstanding hereunder shall begin to accrue as of the date hereof, and shall be payable monthly in arrears on the tenth day of each month, commencing with the first payment on June 10, 2002. Interest shall be payable at the rate per annum which shall be two (2) percentage points higher than the "prime" rate as reported in The Wall Street Journal on the first business day of each month, adjusted monthly.

Interest shall be computed daily on the basis of a 360-day year, but shall be payable for the actual number of days in the month. Interest on sums advanced hereunder shall be payable at the rates set forth herein until all such sums are fully paid, whether before or after maturity, by acceleration or otherwise, and whether or not any judgment has been issued thereon.

All payments received by the holder hereof shall be applied first to the payment of costs, fees, and expenses due from LecTec to the holder, then to the payment of interest, and finally to the payment of principal. This Note is the Recall Debt Note as defined in the Agreement, to

which reference may be made for a description of a method of payment by way of credits for products sold and delivered by LecTec to Novartis that may be elected by Novartis. The indebtedness described herein shall have the benefit of the Collateral as set forth in a Security Agreement between LecTec and Novartis of even date herewith.

This Note may be prepaid, at any time, in whole or in part, without premium or fee. If this Note is not paid when due, LecTec agrees to pay all costs of collection, including reasonable attorneys' fees. LecTec hereby waives demand, presentment, notice of dishonor, protest, and notice of protest.

WITHOUT LIMITING OTHER RIGHTS ACCORDED TO NOVARTIS HERE-UNDER, LECTEC HEREBY CERTIFIES THAT THE TRANSACTION CONTEMPLATED BY THIS NOTE IS A COMMERCIAL TRANSACTION AND HEREBY WAIVES (A) ITS RIGHTS TO NOTICE AND HEARING AS OTHERWISE ALLOWED BY LAW WITH RESPECT TO ANY PREJUDGMENT REMEDY WHICH NOVARTIS MAY DECIDE TO USE, AND (B) ALL RIGHTS AS OTHERWISE ALLOWED BY LAW TO REQUEST THAT NOVARTIS POST A BOND, WITH OR WITHOUT SURETY, TO PROTECT LECTEC OR ANY OTHER PERSON OR ENTITY LIABLE UNDER THIS NOTE AGAINST DAMAGES THAT MAY BE CAUSED BY ANY PREJUDGMENT REMEDY SOUGHT OR OBTAINED BY NOVARTIS BY VIRTUE OF ANY DEFAULT OR PROVISION OF THIS NOTE OR THE AGREEMENT, AND LECTEC HEREBY CONSENTS TO THE ISSUANCE OF ANY SUCH PREJUDGMENT REMEDY WITHOUT SUCH A BOND.

IN WITNESS WHEREOF, the undersigned has executed and delivered this Note as of the date and year first above written.

LECTEC CORPORATION

By /s/ Douglas J. Nesbit, CFO and Corp. Secretary

Name and Title:

EXHIBIT 10.4

SECURITY AGREEMENT

THIS SECURITY AGREEMENT ("Security Agreement") dated as of May 8, 2002 between NOVARTIS CONSUMER HEALTH, INC., 200 Kimball Drive, Parsippany, NJ 07054 ("Creditor"), a Delaware corporation, and LECTEC CORPORATION, 10701 Red Circle Drive, Minnetonka, MN 55343 ("Debtor"), a Minnesota corporation.

Recitals

A. Creditor has agreed to advance funds to Debtor as provided in a certain Supply and Non-Exclusive License Agreement of even date herewith ("Supply Agreement") and Debtor is otherwise indebted to Creditor. Debtor has issued it promissory note (the "Note") to Creditor evidencing Debtor's obligation to repay advances made or to be made by Creditor to Debtor and such other indebtedness of Debtor to Creditor.

B. Debtor has agreed to grant a security interest in its assets as provided in this Security Agreement to secure its payment obligations under the Note.

NOW, THEREFORE, the parties hereby agree as follows:

1. Security Interest. To secure the full and prompt payment to Creditor of the obligations of Borrower under the Note (hereinafter, the "liabilities"), Debtor has granted and hereby grants to Creditor a continuing security interest in and to all of Debtor's accounts receivable, inventory, equipment and general intangibles (hereinafter, the "Collateral"), whether now owned or existing or hereafter acquired or arising, the proceeds of the Collateral, and all books and records (including, without limitation, customer lists, credit files, computer programs, print-outs, and other computer materials and records) of Debtor pertaining to the Collateral.

2. Disclosure of Security Interest. Debtor shall make appropriate entries upon its financial statements disclosing Creditor's security interest in the Collateral.

3. Financing Statements. At Creditor's request, Debtor shall execute or deliver to Creditor, at any time or times hereafter, all supplemental documentation that Creditor may reasonably request relating to the perfection of the security interest granted in Section 1, in form and substance acceptable to Creditor, and pay the costs of any recording or filing of the same.

4. Perfection and Priority; Location of Collateral. Debtor represents that:

(A) None of the Collateral is subject to any lien, security interest or other encumbrance, except as disclosed on Exhibit A attached hereto and made a part hereof;

(B) The address specified above is Debtor's chief executive office and

principal place of business and Debtor is incorporated under the laws of the state of Minnesota.

5. Event of Default. The occurrence of any one or more of the following events shall constitute an "Event of Default":

(A) Debtor fails to pay the Liabilities when due and payable as provided in the Note;

(B) Debtor fails or neglects to perform, keep or observe any other term, provision, condition, covenant, warranty or representation contained in this Security Agreement which is required to be performed, kept or observed and the same is not cured to Creditor's satisfaction within ten (10) days after

Creditor gives Debtor written notice thereof;

(C) Any material representation by Debtor to Creditor concerning its financial condition is not true and correct when made, in all material respects;

(D) The Collateral or any other of Debtor's material assets are attached, seized, levied upon or subjected to a writ or distress warrant, or come within the possession of any receiver, trustee, custodian or assignee for the benefit of creditors and the same is not cured within sixty (60) days thereafter; an application is made by any person other than Debtor for the appointment of a receiver, trustee, or custodian for the Collateral or any other of Debtor's assets and the same is not dismissed within sixty (60) days after the application therefor;

(E) An application is made by Debtor for the appointment of a receiver, trustee or custodian for the Collateral or any other of Debtor's assets; a petition under any section or chapter of the Bankruptcy Code or any similar law or regulation shall be filed by Debtor; Debtor makes an assignment for the benefit of its creditors or any case or proceeding is filed by Debtor for its dissolution, liquidation, or termination; or

(F) Debtor ceases to conduct its business as now conducted or is enjoined, restrained or in any way prevented by court order from conducting all or any material part of its business affairs; a petition under any section or chapter of the Bankruptcy Code or any similar law or regulation is filed against any Debtor or any case or proceeding is filed against Debtor for its dissolution or liquidation and such injunction, restraint or petition is not dismissed within sixty (60) days after the entry or filing thereof.

6. Remedies. Upon and after an Event of Default, Creditor shall have the following rights and remedies:

(A) All the rights and remedies of a secured party under the Uniform Commercial Code as in effect at the time in Minnesota, all of which rights and remedies shall be cumulative, and none exclusive, to the extent permitted by law, in addition to any other rights and remedies contained in this Security Agreement.

(B) The right to sell or to otherwise dispose of all or any Collateral in its then

condition, or after any further manufacturing or processing thereof, at public or private sale or sales, with such notice as may be required by law, in lots or in bulk, for cash or on credit, all as Creditor, in its sole discretion, may deem advisable; such sales may be adjourned from time to time with or without notice. Creditor shall have the right to conduct such sales on the premises of Debtor or elsewhere and shall have the right to use Debtor's premises without charge for such sales for such time or times as Creditor may see fit. Creditor is hereby granted a license or other right to use, without charge, Debtor's labels, patents, copyrights, rights of use of any name, trade secrets, trade names, trademarks and advertising matter, or any property of a similar nature, as it pertains to the Collateral; provided, however, that the grant of license and right to use herein shall be subject to the license provisions of the Supply Agreement. Creditor shall have the right to sell, lease or otherwise dispose of the Collateral, or any part thereof, for cash, credit or any combination thereof and Creditor may purchase all or any part of the Collateral at public or, if permitted by law, private sale and in lieu of actual payment of such purchase price, may setoff the amount of such price against the Liabilities. The proceeds realized from the sale of any Collateral shall be applied first to the reasonable costs, expenses (including attorneys' fees and expense) incurred by Creditor for collection and for acquisition, completion, protection, removal, storage, sale and delivery of the Collateral; second to interest due upon any of the Liabilities; third to the principal of the Liabilities; fourth to the holder of any junior lien or any of the Collateral. If any deficiency shall arise, Debtor shall remain liable to Creditor therefor. Notwithstanding anything else in this Agreement, Creditor shall not sell, lease or otherwise dispose of that portion of the Collateral consisting of the Intellectual Property, as that term is defined in the Supply Agreement, in whole or in part, so long as the Supply Agreement is in effect.

7. Subordination by Creditor. On no more than a single occasion and upon the written request of Debtor, Creditor shall subordinate its security interest in the Collateral to a security interest that Debtor may propose to grant to an institutional lender to secure a new loan to Debtor in a principal amount of not less than $1,000,000. Such subordination shall have the effect only of making Creditor's security interest in the Collateral junior to the security interest granted to such new lender notwithstanding the priority of the perfection of Creditor's security interest and shall not otherwise affect any of Creditor's rights under the Note or this Security Agreement.

8. Waiver. Each party acknowledges and agrees that any failure on the part of the other party to enforce at any time, or for any period of time, any of the provisions of this Security Agreement shall not be deemed or construed to be a waiver of such provisions or of the right of such other party thereafter to enforce each an every such provision.

9. Enforcement. If and to the extent that any provision of this Security Agreement is determined by any legislature, court or administrative agency to be, in whole or in part, invalid or unenforceable, such provision or part thereof shall be deemed to be surplusage and, to the extent not so determined to be invalid or unenforceable, each provision hereof shall remain in full force and effect unless the purposes of this Security Agreement cannot be achieved. In the event any provisions shall be held invalid, illegal or unenforceable the parties shall use commercially reasonable efforts to substitute a valid, legal and enforceable provision which insofar as practical implements the purposes hereof.

10. Choice of Law. This Agreement shall be governed by, and construed in accordance with, the laws of the State of Minnesota as though made and to be fully performed in said State.

11. Notices. All notices required or permitted hereunder shall be given in writing and sent by confirmed facsimile transmission, or mailed postage prepaid by first-class certified or registered mail, or sent by a nationally recognized express courier service, or hand-delivered to the following addressees:

Creditor: *Novartis Consumer Health, Inc.*
200 Kimball Drive
Parsippany, NJ 07054
Attn: General Counsel

Debtor: *LecTec Corporation*
10701 Red Circle Dr.
Minnetonka, MN 55343
Attn: Chief Executive Officer

or to such other address as may be specified in a notice given to the other party in accordance with this Section 11. Any notice, if sent properly addressed, postage prepaid, shall be deemed made three (3) days after the date of mailing as indicated on the certified or registered mail receipt, or on the next business day if sent by express courier service or on the date of delivery or transmission (if delivered or sent during ordinary business hours, otherwise on the next business day) if hand-delivered or sent by confirmed facsimile transmission.

12. Captions. The captions of each section of this Security Agreement are inserted only as a matter of convenience and for reference and in no way shall be deemed to define, limit, enlarge, or describe the scope of this Security Agreement and the relationship of the parties hereto, and shall not in any way affect this Security Agreement or the construction of any provisions herein.

13. Entire Agreement; Amendment. This Security Agreement, including Exhibit A annexed hereto, and the Supply Agreement represent and incorporate the entire understanding between the parties hereto with respect to the subject matter of this Security Agreement and supersedes any prior offers, proposals, drafts or other communications with respect thereto. In the event of a conflict between the terms of this Security Agreement and the Supply Agreement, the provisions of the Supply Agreement shall prevail. Each party acknowledges that there are no warranties, representations, covenants or understandings of any kind, nature or description whatsoever made by any party to any other, except such as are

expressly hereinabove set forth. This Security Agreement shall not be subject to change or modification except by the execution of a writing specified to be an explicit amendment to this Security Agreement duly executed by all parties hereto.

14 Counterparts. This Security Agreement may be executed in two or more counterparts, each of which shall constitute an original and all of which together shall constitute a single instrument.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the day and year first above written.

LECTEC CORPORATION

By: /s/ Douglas J. Nesbit

Name: Douglas J. Nesbit

Title: CFO and Corp. Secretary

NOVARTIS CONSUMER HEALTH, INC.

By: /s/ Mark Smedley

Name: Mark Smedley

Title: V.P. Supply and Logistics

Exhibit 99.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of LecTec Corporation (the "Company") on Form 10-Q for the period ended June 30, 2002 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Rodney A. Young, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

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

/s/ Rodney A. Young

Rodney A. Young
Chief Executive Officer & President
August 14, 2002

Exhibit 99.2

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of LecTec Corporation (the "Company") on Form 10-Q for the period ended June 30, 2002 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Douglas J. Nesbit, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

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

/s/ Douglas J. Nesbit

Douglas J. Nesbit
Chief Financial Officer and Secretary
August 14, 2002