

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

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2003.

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 No

Indicate by check mark whether the registrant is an accelerated filer (as
defined in Rule 12b-2 of the Exchange Act).

Yes No

The number of shares outstanding of the registrant's common stock as of August
12, 2003 was 3,966,395 shares.

LECTEC CORPORATION

FORM 10-Q FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2003

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ITEM 1- CONDENSED FINANCIAL STATEMENTS AND NOTES TO CONDENSED
FINANCIAL STATEMENTS

LECTEC CORPORATION
CONDENSED BALANCE SHEETS

<Table>
<Caption>

	June 30, 2003	December 31, 2002
	(UNAUDITED)	
<S>	<C>	<C>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 411,284	\$ 671,588
Trade receivables and other, net of allowances of \$93,772 and \$80,655 at June 30, 2003 and December 31, 2002	181,371	318,896
Inventories		
Raw materials	784,487	716,957
Work-in-process	39,312	24,294
Finished goods	520,868	269,538
	1,344,667	1,010,789
Prepaid expenses and other	261,096	112,831
	2,198,418	2,114,104
PROPERTY, PLANT AND EQUIPMENT - AT COST, NET	582,387	1,750,241
OTHER ASSETS		
Patents and trademarks, less accumulated amortization of \$1,375,104 and \$1,319,840 at June 30, 2003 and December 31, 2002	274,591	285,862
	\$ 3,055,396	\$ 4,150,207

</Table>

The accompanying notes are an integral part of these
condensed financial statements.

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LECTEC CORPORATION
CONDENSED BALANCE SHEETS - CONTINUED

<Table>
<Caption>

	June 30, 2003	December 31, 2002
	(UNAUDITED)	
<S>	<C>	<C>
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Current maturities of long-term obligations	276,888	1,154,404
Accounts payable	733,157	587,650
Accrued expenses	180,082	286,149
Accrued payroll	160,968	181,984
Reserve for sales returns and credits	178,549	312,378
Customer deposits	1,187,375	650,073
	2,717,019	3,172,638
LONG-TERM OBLIGATIONS, LESS CURRENT MATURITIES	6,612	10,770
COMMITMENTS AND CONTINGENCIES	--	--
SHAREHOLDERS' EQUITY		
Common stock, \$.01 par value: 15,000,000 shares authorized; 3,966,395 shares issued and outstanding at June 30, 2003 and December 31, 2002	39,664	39,664
Additional paid-in capital	11,547,678	11,389,678
Accumulated deficit	(11,255,577)	(10,462,543)
	331,765	966,799

\$ 3,055,396 \$ 4,150,207
=====

</Table>

The accompanying notes are an integral part of these
condensed financial statements.

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LECTEC CORPORATION
CONDENSED STATEMENTS OF OPERATIONS
(UNAUDITED)

<Table>

<Caption>

	Three months ended June 30,		Six months ended June 30,	
	2003	2002	2003	2002
<S>	<C>	<C>	<C>	<C>
Net sales	\$ 1,624,416	\$ 1,583,007	\$ 3,270,106	\$ 3,097,502
Cost of goods sold	1,233,409	1,126,759	2,387,800	2,176,395
	391,007	456,248	882,306	921,107
Gross profit				
Operating expenses				
Sales and marketing	165,598	461,283	363,675	929,860
General and administrative	555,430	609,571	1,037,795	1,204,983
Research and development	97,249	115,385	198,781	284,523
Loss on sale of building	--	--	52,375	--
	818,277	1,186,239	1,652,626	2,419,366
Loss from operations	(427,270)	(729,991)	(770,320)	(1,498,259)
Other income (expenses)				
Interest expense	(5,721)	(38,065)	(24,653)	(76,831)
Other, net	(557)	453	1,939	506
	(433,548)	(767,603)	(793,034)	(1,574,584)
Loss before income taxes				
Income taxes	--	--	--	--
	\$ (433,548)	\$ (767,603)	\$ (793,034)	\$ (1,574,584)
Net loss				
Net loss per share - basic and diluted	\$ (0.11)	\$ (0.19)	\$ (0.20)	\$ (0.40)
Weighted average shares outstanding - basic and diluted	3,966,395	3,954,877	3,966,395	3,952,622

</Table>

The accompanying notes are an integral part of these
condensed financial statements.

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LECTEC CORPORATION
STATEMENTS OF CASH FLOWS
(UNAUDITED)

<Table>

<Caption>

	Six Months Ended June 30,	
	2003	2002
<S>	<C>	<C>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	\$ (793,034)	\$ (1,574,584)
Adjustments to reconcile net loss to net cash used in operating activities:		
Loss on sale of building	52,375	--
Depreciation and amortization	271,479	320,270
Common stock issued for consulting services	--	19,009
Changes in operating assets and liabilities:		

Trade and other receivables	137,525	90,827
Inventories	(333,878)	168,329
Prepaid expenses and other	80,247	78,421
Accounts payable	145,507	(139,442)
Accrued expenses	(266,155)	(178,435)
Customer deposits	537,302	577,642
	-----	-----
Net cash used in operating activities	(168,632)	(637,963)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property, plant and equipment	(11,005)	(18,093)
Investment in patents and trademarks	(43,993)	(40,703)
	-----	-----
Net cash used in investing activities	(54,998)	(58,796)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Issuance of common stock	--	2,272
Proceeds from sale of building	845,000	--
Payoff of building mortgage loan	(820,000)	--
Repayment of long-term obligations	(61,674)	(58,470)
	-----	-----
Net cash used in financing activities	(36,674)	(56,198)
	-----	-----
Net decrease in cash and cash equivalents	(260,304)	(752,957)
Cash and cash equivalents at beginning of period	671,588	1,425,205
	-----	-----
Cash and cash equivalents at end of period	\$ 411,284	\$ 672,248
	=====	=====

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:

Cash paid during the period for:

Interest expense	\$ 36,785	\$ 77,101
Income taxes	\$ 1,500	\$ --

SUPPLEMENTAL DISCLOSURE OF NON-CASH FINANCING ACTIVITIES:

Sales credit obligation exchanged for a long-term note payable	\$ --	\$ 220,000
Fair value of warrants issued in connection with the sale of the building	\$ 158,000	\$ --
Value of free rent received in connection with the sale of the building	\$ 228,512	\$ --

</Table>

The accompanying notes are an integral part of these condensed financial statements.

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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, 2003 and 2002. 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 the Company's Annual Report on Form 10-K for the year ended December 31, 2002. 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.

Certain reclassifications have been made to the statements of operations for the three and six month periods ended June 30, 2002, to conform to the presentation used in 2003. Such reclassifications had no effect on the previously reported net loss or stockholders' equity.

(2) LIQUIDITY AND GOING CONCERN

The accompanying financial statements have been prepared in conformity with generally accepted accounting principles, which contemplate continuation of the Company as a going concern. However, the Company has experienced recurring negative cash flows from operations and net losses resulting in an accumulated deficit of \$11,255,577 as of June 30, 2003 and, as of that date, the Company's current liabilities exceeded its current assets by \$518,601.

In view of the matters described in the preceding paragraph, recoverability of a major portion of the recorded asset amounts shown in the accompanying balance sheet is dependent upon profitable operations of the Company and access to working capital financing. The financial statements do not

include any adjustments relating to the recoverability and classification of recorded asset amounts or amounts and classification of liabilities that might be necessary should the Company be unable to continue in existence. Management expects to continue to operate at a net loss and experience negative cash flow from operating activities through the foreseeable future.

At June 30, 2003, the Company's cash resources and available borrowings are insufficient to fund operations for the next 12 months without additional borrowings or equity capital. These factors raise substantial doubt about its ability to continue as a going concern.

Management currently is exploring available options for additional capital including borrowings secured by otherwise unencumbered assets or private issuances of common stock. However, there is no assurance that such funds will be available on terms acceptable to the Company. If the Company is not successful in obtaining additional funding it may not be able to continue as a going concern.

(3) NET LOSS PER SHARE

The Company's basic net loss per share amounts have been computed by dividing net loss by the weighted average number of outstanding common shares. The Company's diluted net loss per share amounts have been computed by dividing net loss by the weighted average number of outstanding common shares and common share equivalents, when dilutive. Options and warrants to purchase 1,315,945 and 1,252,680 shares of common stock with a weighted average exercise price of \$1.89 and \$1.95 were outstanding during the three and six months ended June 30, 2003, but were excluded from the calculation because they were antidilutive. Options and warrants to purchase 1,205,229 and 1,231,893 shares of common stock with a weighted average exercise price of \$4.64 and \$4.63 were outstanding during the three and six months ended June 30, 2002, but were excluded from the calculation because they were antidilutive.

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(4) 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 three months ended March 31, 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 for the three and six month periods ended June 30, 2003 and June 30, 2002 were as follows:

<Table>
<Caption>

	Three months ended June 30,		Six months ended June 30,	
	2003	2002	2003	2002
<S>	<C>	<C>	<C>	<C>
Therapeutic consumer products	\$ 1,625,340	\$ 1,250,709	\$ 3,266,954	\$ 2,147,916
Skin care products	(924)	66,191	3,152	358,263
Conductive products	--	266,107	--	591,323
	\$ 1,624,416	\$ 1,583,007	\$ 3,270,106	\$ 3,097,502

</Table>

(5) LONG-TERM OBLIGATIONS AND SALE OF CORPORATE FACILITY

The Company had a mortgage note payable to a bank. The principal balance of \$820,000 was due in December 2002 and was extended until April 2003. Monthly interest payments were computed at the prime rate plus 5.0% (effective rate of 9.25% at December 31, 2002). The mortgage was collateralized by the Company's real property. On February 25, 2003, the Company sold its corporate facility in Minnetonka, Minnesota for an aggregate purchase price of \$910,270, repaid the mortgage note payable, and recorded a loss on sale of \$52,375 during the quarter ended March 31, 2003. In connection with the sale, the Company entered into a lease of its corporate facility which grants the Company free rent for the 12 months following the sale/leaseback transaction and thereafter extends the lease at costs based on current market conditions. Also in connection with the sale, the purchaser received a warrant to purchase 200,000 shares of common stock at \$0.90 per share.

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 2.0% (effective rate of 6% at June 30, 2003). The promissory note is collateralized by substantially all of the Company's assets.

(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 this customer for future product orders. The Company is also receiving advance product payments from other customers. At June 30, 2003, the Company had recorded customer deposits of \$1,187,375 from these customers.

(7) SALE OF CONDUCTIVE BUSINESS ASSETS

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.

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The Company supplied the products at its cost of production through October 2001, and at its cost of production plus ten percent from November 2001 through January 2002. The Company continued to manufacture and supply the buyer electrically conductive adhesive hydrogels, at margins of approximately 30%, through September 2002. The Company anticipates no additional sales to the buyer in 2003.

(8) STOCK BASED COMPENSATION

The Company utilizes the intrinsic value method of accounting for stock based employee compensation plans. All options granted had an exercise price equal to the market value of the underlying common stock on the date of grant and no compensation cost is reflected in net loss, for the three and six months ended June 30, 2003 and 2002. The following table illustrates the effect on net loss if the Company had applied the fair value recognition provisions of FASB Statement No. 123, Accounting for Stock-based Compensation:

<Table>

<Caption>

	Three months ended June 30, -----		Six months ended June 30, -----	
	2003	2002	2003	2002
<S>	<C>	<C>	<C>	<C>
Net loss, as reported	\$ (433,548)	\$ (767,603)	\$ (793,034)	\$ (1,574,584)
Less: compensation expense Determined under the fair value Method	(50,703)	(64,772)	(100,657)	(129,544)
Pro-forma net loss	\$ (484,251)	\$ (832,375)	\$ (893,691)	\$ (1,704,128)
Net loss per share:				
Basic and diluted, as reported	\$ (0.11)	\$ (0.19)	\$ (0.20)	\$ (0.40)
Basic and diluted, pro-forma	\$ (0.12)	\$ (0.21)	\$ (0.23)	\$ (0.43)

</Table>

The pro-forma information above should be read in conjunction with the related historical information.

The weighted average fair value of options granted during the six months ended June 30, 2003 and 2002 was \$0.44 and \$0.63. The fair value of each option grant is estimated on the date of grant using the Black-Scholes option valuation model with the following weighted-average assumptions used for all grants during the six months ended June 30, 2003 and 2002, zero dividend yield, expected volatility of 153% and 121%, risk-free interest rates of 2.85% and 3.13% and expected lives of 4.0 years.

Management believes the Black-Scholes option valuation model currently provides the best estimate of fair value. However, the Black-Scholes option valuation model was developed for use in estimating the fair value of traded options which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of several subjective assumptions. The Company's employee and director stock options have characteristics different from those of traded options, and changes in the subjective input assumptions can materially affect the fair value estimate.

(9) INCOME TAXES

The provision for income tax benefits for the three and six months ended June 30, 2003 and 2002 has been offset by a valuation allowance for deferred taxes.

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(10) RECENT ACCOUNTING PRONOUNCEMENTS

In January 2003, the Financial Accounting Standards Board (FASB) issued

Financial Interpretations No. 46 (FIN 46), "Consolidation of Variable Interest Entities." FIN 46 is an interpretation of Accounting Research Bulletin No. 51, "Consolidated Financial Statements," and addresses consolidation by business enterprises of variable interest entities. FIN 46 applies immediately to variable interest entities created or obtained after January 31, 2003 and applies in the first fiscal year or interim period beginning after June 15, 2003, to variable interest entities in which an enterprise holds a variable interest that it acquired before February 1, 2003. This interpretation is not anticipated to have an impact on the Company's financial position or results of operations.

In April 2003, the FASB issued Statement 149, Amendment of Statement 133 on Derivative Instruments and Hedging Activities. Statement 149 clarifies implementation issues and amends Statement 133, to include the conclusions reached by the FASB on certain FASB Staff Implementation Issues that, while inconsistent with Statement 133's conclusions, were considered by the Board to be preferable, amends discussion of financial guarantee contracts and the application of the shortcut method to an interest-rate swap agreement that includes an embedded option, and amends other pronouncements. Statement 149 is effective to contracts entered into or modified, and hedging arrangements designated after June 30, 2003, with various exceptions as outlined in the statement. Adoption of Statement 149 is not anticipated to have an impact on the Company's consolidated financial position or results of operations.

In May 2003, the FASB issued Statement 150, Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity. Statement 150 changes the classification in the statement of financial position of certain common financial instruments from either equity or mezzanine presentation to liabilities and requires an issuer of those financial statements to recognize changes in fair value or redemption amount, as applicable, in earnings. SFAS 150 is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. Adoption of Statement 150 is not anticipated to have an impact on the Company's financial position or results of operations.

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PART I - FINANCIAL INFORMATION

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

QUARTER AND SIX MONTHS ENDED JUNE 30, 2003 AND 2002

RESULTS OF OPERATIONS

Net sales for the second quarter ended June 30, 2003 were \$1,624,416 compared to net sales of \$1,583,007 for the comparable quarter of 2002, an increase of 2.6%. The increase was the result of higher therapeutic consumer contract manufacturing sales as the Company rebounded from soft contract manufacturing sales in the prior year and also a shift in the Company's strategic focus from retail consumer products to contract manufacturing. Contract manufacturing net sales increased 53.1% to \$1,492,001 for the second quarter of 2003 from \$974,744 for the same period in the prior year. Therapeutic retail consumer product sales declined 51.7% in the second quarter of 2003 to \$133,339 from \$275,965 for the same period in the prior year. The retail consumer product sales decrease was primarily the result of a planned reduction in the number of products offered and the discontinued active promotion of the NeoSkin(R) line of skin care products due to the inability to fund national advertising programs. The Neoskin product line was launched in the second quarter of 2002 and includes pre-formed face masks and under eye gel patches. Net sales of skin care products totaled (\$924) in the second quarter of 2003 compared to net sales of \$66,191 for the second quarter of 2002. Also offsetting the contract manufacturing sales increase was the absence of conductive product sales in the second quarter of 2003. The Company supplied conductive products to the purchaser under the terms of the asset sale agreement through September 2002. The Company expects no future conductive product sales.

Net sales for the first six months of 2003 were \$3,270,106 compared to net sales of \$3,097,502 for the first six months of 2002, an increase of 5.6%. The increase was primarily due to an increase in sales of consumer contract therapeutic patch products. Contract manufacturing net sales increased 113.2% to \$2,825,539 from \$1,325,416 for the first six months of 2003 compared to the same period of 2002. Offsetting the contract manufacturing sales increase was a decline in therapeutic retail consumer brand product sales, which decreased 46.3% to \$441,415 for the six month period ended June 30, 2003, from \$822,500 for the comparable six months of the prior year. The decline was attributable to a planned reduction in the number of products the Company offers to the retail market and the discontinued active promotion of the NeoSkin(R) line of skin care products due to the inability to fund national advertising programs. Net sales of skin care products totaled \$3,152 for the six months ended June 30, 2003, compared to net sales of \$358,263 for the same period in 2002. There were no sales of conductive products during the six months ended June 30, 2003, compared to net sales of \$591,323 for the six months ended June 30, 2002. The decline was due to the reasons stated above.

Gross profit for the second quarter of 2003 was \$391,007, compared to \$456,248 for the second quarter of 2002, a decrease of 14.3%. Gross profit as a percent of net sales for the second quarter of 2003 was 24.1% compared to 28.8% for the second quarter of the prior year. The decrease in gross profit dollars and gross profit as a percentage of net sales for the second quarter of 2003 compared to the same quarter of 2002 resulted primarily from the shift in sales

mix to lower margin consumer contract manufacturing products and to higher inventory obsolescence costs related to the product discontinuations discussed above.

Gross profit for the first six months of 2003 was \$882,306 compared to \$921,107 for the first six months of 2002, a decrease of 4.2%. Gross profit as a percent of net sales for the first six months of 2003 was 27.0% compared to 29.7% for the first six months of 2002. The decrease in gross profit dollars and gross profit as a percentage of net sales for the first six months of 2003 compared to the same period of 2002 resulted primarily from the shift in sales mix to lower margin consumer contract manufacturing products and to higher inventory obsolescence costs related to the product discontinuations discussed above.

Sales and marketing expenses were \$165,598 and \$461,283 during the second quarters ended June 30, 2003 and 2002, and as a percentage of net sales were 10.2% and 29.1%, respectively. The decrease in sales and marketing expenses for the second quarter of 2003 was primarily due to a decrease of \$123,067 in product promotional expenses and a decrease of \$122,084 in compensation

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related expenses. These decreases resulted from aggressive cost control/reduction programs implemented by management.

Sales and marketing expenses were \$363,675 and \$929,860 during the first six months of 2003 and 2002, and as a percentage of net sales, were 11.1% and 30.0%, respectively. The decrease in sales and marketing expenses for the first six months of 2003 as compared with the same period of 2002 was primarily due to a decrease of \$191,880 in product promotional expenses and a decrease of \$274,186 in compensation related expenses. The Company anticipates that sales and marketing expenses as a percentage of net sales will continue to decrease in 2003 due to the implementation of additional cost control/reduction programs by management.

General and administrative expenses were \$555,430 and \$609,571 during the second quarters of 2003 and 2002, and as a percentage of net sales, were 34.2% and 38.5%, respectively. The decrease in general and administrative expenses was primarily due to decreases in headcount and compensation related expenses of \$73,974 and a reduction in professional fees and services of \$39,261, which reductions were offset by an increase in rent expense of \$57,128 due to the sale and leaseback of the Company's Minnetonka, Minnesota corporate facility during the first quarter of 2003.

General and administrative expenses were \$1,037,795 and \$1,204,983 during the first six months of 2003 and 2002, and as a percentage of net sales, were 31.7% and 38.9%, respectively. The decrease in general and administrative expenses for the six months ended June 30, 2003 from the six months ended June 30, 2002 was primarily due to a decrease of \$186,136 in compensation related expenses and a decrease of \$41,537 in professional fees and services which reductions were offset by an increase in rent expense of \$76,171 discussed above. The Company anticipates that general and administrative expenses as a percent of net sales for the remainder of 2003 will continue to decrease.

Research and development expenses for the second quarters of 2003 and 2002 were \$97,249 and \$115,676, respectively, and as a percentage of net sales, were 6.0% and 7.3%, respectively. The decrease in research and development expenses was primarily due to decreases in headcount and compensation related expenses of \$15,185.

Research and development expenses were \$198,781 and \$284,523 during the first six months of 2003 and 2002, and as a percentage of net sales, were 6.1% and 9.2%, respectively. The decrease in research and development expenses for the six months ended June 30, 2003 from the six months ended June 30, 2002 was primarily due to a decrease of \$76,759 in compensation related expenses. The Company anticipates that research and development expenses as a percent of net sales for the remainder of 2003 will continue to decrease.

Interest expense declined in the second quarter of 2003 to \$5,721 from \$38,065 in the second quarter of 2002. The decline resulted primarily from the interest reduction related to the sale of the Minnetonka, Minnesota corporate facility and related payoff of debt in February 2003. Interest expense decreased in the first six months of 2003 to \$24,653 from \$76,831 in the first six months of 2002. The decrease resulted primarily from the absence of a line of credit in existence during a portion of 2002 and from the absence of interest expense associated with the mortgage on the corporate facility.

The Company recorded a net loss of \$433,548, or \$0.11 per basic and fully diluted share, compared to a net loss of \$767,603, or \$0.19 per basic and fully diluted share for the second quarters ended June 30, 2003 and 2002, respectively. For the six months ended June 30, 2003 and 2002 the Company recorded a net loss of \$793,034, or \$0.20 per basic and fully diluted share, compared to a net loss of \$1,574,584, or \$0.40 per basic and fully diluted share. The reduction in the net loss for the three and six months ended June 30, 2003 from the comparable periods in 2002 is due primarily to the reasons stated above including headcount reductions, a shift in strategic focus from retail consumer products to contract manufacturing and aggressive reductions of operating expenses.

The provision for income tax benefits for the second quarter of fiscal 2003 and 2002 and the six months ended June 30, 2003 and 2002 has been offset by a valuation allowance for deferred taxes.

Inflation has not had a significant impact on the Company's operations or cash flow.

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LIQUIDITY AND CAPITAL RESOURCES

Cash and cash equivalents decreased by \$260,304 to \$411,284 during the first six months of calendar 2003 compared to the cash and cash equivalent balance at December 31, 2002. The decrease in cash and cash equivalents during the period was primarily due to cash used in operating activities. Trade receivables decreased \$137,525 during the six months ended June 30, 2003 to \$181,371 from \$318,896 at December 31, 2002, primarily due to increased collections from retail sales customers. Inventories increased during the six months ended June 30, 2003 from December 31, 2002 by \$333,878, due primarily to increases in raw material purchases to meet future consumer contract manufacturing customer requirements. Accounts payable increased \$145,507 during the six months ended June 30, 2003 to \$733,157 from \$587,650 at December 31, 2002, primarily due to increased payables related to inventory purchases to meet ramped up customer requirements. Capital spending for manufacturing equipment and plant improvements totaled \$11,005 and investments in patents and trademarks totaled \$43,993 for the six months ended June 30, 2003. There were no material commitments for capital expenditures at June 30, 2003. Net cash used in financing activities totaled \$36,674 for the six months ended June 30, 2003, resulting primarily from the repayment of long-term capital lease obligations.

The Company had a working capital deficit of \$518,601 and a current ratio of 0.81 at June 30, 2003 compared to a working capital deficit of \$1,058,534 and a current ratio of 0.67 at December 31, 2002. The improvement in current ratio and working capital deficit during the six month period ended June 30, 2003 is attributable to the payoff of the \$820,000 mortgage payable related to the sale and leaseback of the Company's Minnetonka, Minnesota corporate facility in the first quarter of 2003, offset in part by the decline in cash and cash equivalents and trade receivables. See Note 5 of Notes to Condensed Financial Statements on page I-6 of this report for additional information on the corporate facility sale.

In August 2002, the Company and its bank mutually agreed to terminate a two-year, \$2,000,000 asset-based line of credit financing arrangement due to the Company's default of covenants relating to the minimum net worth and the maximum loss before income taxes.

Management expects the Company to continue to operate at a net loss and experience negative cash flow from operating activities for the foreseeable future. Management is exploring other options for additional capital to fund the Company's operations. In 2002, the Company renegotiated its Supply Agreement with a major customer and is receiving advance payments from the customer for future product orders. The Company is also receiving advance product payments from other customers. 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, the continuation of advance product payments and the Company's ability to control operating expenses. Funding of the Company's operations for the balance of 2003 and in future years will require additional investments in the Company in the form of equity or debt either by outside investors or as part of a business combination transaction. The Company is currently pursuing various potential sources of capital and business combination transactions. There can be no assurance that the Company will achieve desired levels of sales or profitability, or that a future capital infusion or business combination transaction will be available. If such desired levels of sales and profitability are not reached, and infusions of capital or a business combination transaction are not available, the Company may be forced to cease operations in the near future.

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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-Q for the quarter ended March 31, 2003.

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.

ITEM 4 - CONTROLS AND PROCEDURES

Under the supervision and with the participation of our management, including our principal executive and financial officer, we have evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15 under the Securities Exchange Act of 1934) as of the last day of the period covered by this quarterly report. Based upon this evaluation, the principal executive and financial officer has concluded that, as of such date, our disclosure controls and procedures were effective in making him aware on a timely basis of the material information relating to the Company required to be included in our periodic filings with the Securities and Exchange Commission.

There were no significant changes made in our internal controls over financial reporting (as defined in Rule 13(a)-15(f) under the Securities Exchange Act of 1934 during the period covered by this report that materially affected or are reasonable likely to materially affect our internal control over financial reporting.

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PART II - OTHER INFORMATION

ITEM 1 - LEGAL PROCEEDINGS

None.

ITEM 2(c) - 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 May 22, 2003. The following matters were voted on by Shareholders:

1. The election of five 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	294,148	3,671,901
	Alan C. Hymes, M.D.	290,546	3,671,901
	Marilyn K. Speedie, Ph.D.	235,665	3,671,901
	Donald C. Wegmiller	445,718	3,671,901
	Rodney A. Young	448,371	3,671,901

</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>	<C>	<C>
	3,562,631	12,704	96,566	--	3,671,901

</Table>

II-1

ITEM 5 - OTHER INFORMATION

In May 2003, the Company entered into a new operating lease for 14,376 square feet of warehouse and office space in Edina, MN. In July 2003, the Company vacated approximately 29,000 square feet of warehouse and office space, also in Edina, MN, which lease had expired under an operating lease.

On August 1, 2003, the Company announced that Rodney A. Young, Chairman, Chief Executive Officer and President, had resigned effective as of July 30, 2003, to pursue other opportunities. Dr. Alan C. Hymes, a co-founder and director of LecTec, has been appointed Chairman of the Board of Directors and interim Chief Executive Officer and President of the Company. Dr. Hymes will work in conjunction with other Board members to identify and recruit a new chief executive officer for the Company. The Company also announced that Board members Dr. Marilyn K. Speedie and Donald C. Wegmiller have tendered their resignations from the Board effective July 25, 2003. At a meeting of the Board held on July 30, 2003, Lee Berlin, a former director and Chief Executive Officer of LecTec, was reappointed to the Board. The Board of Directors now consists of Dr. Hymes, Lee Berlin and Judd Berlin, son of Lee Berlin.

ITEM 6 - EXHIBITS AND REPORTS ON FORM 8-K

(a) EXHIBITS

<Table>
<Caption>

Item No.	Item
<S>	<C>
10.21	Office/warehouse lease dated May 23, 2003, by and between SMD Lincoln Investments LLC and LecTec Corporation.
31.1	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Acting Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	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.
99.1	Cautionary Statements, incorporated herein by reference to Exhibit 99.1 to the Company's Form 10-K for the fiscal year ended December 31, 2002.

</Table>

(b) REPORTS ON FORM 8-K

The Company filed one Current Report on Form 8-K during the quarter ended June 30, 2003. The Report on Form 8-K was dated May 7, 2003, and disclosed the Company's financial results for the first quarter ended March 31, 2003.

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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 12, 2003

By /s/ Alan C. Hymes, M.D.

Alan C. Hymes
Chairman of the Board,
Interim Chief Executive Officer & President
(principal financial officer)

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OFFICE/WAREHOUSE LEASE

THIS INDENTURE of lease, entered into this 23 day of May, 2003, by and between SMD LINCOLN INVESTMENTS LLC, a Minnesota limited liability corporation hereinafter referred to as "Landlord", and LECTEC CORPORATION, A MINNESOTA CORPORATION, hereinafter referred to as "Tenant".

DEFINITIONS:

"Premises" - That certain real property located in the City of EDINA, County of HENNEPIN, State of MINNESOTA and legally described on Exhibit "A" attached hereto and made a part hereof, including all buildings and site improvements located thereon.

"Building" - That certain office/warehouse building containing approximately 78,000 square feet located upon the Premises and commonly described as LINCOLN INDUSTRIAL CENTER.

"Demised Premises" - That certain portion of the Building located at 5618 LINCOLN DRIVE, consisting of approximately 14,316 square feet (4,179 square feet of office space and 10,137 square feet of warehouse space), as measured from the outside walls of the Demised Premises to the center of the partition wall, as shown on the floor plan attached hereto as Exhibit "B" and made a part hereof. The Demised Premises includes a non-exclusive easement for access to Common Areas, as hereinafter defined, and all licenses and easements appurtenant to the Demised Premises.

"Common Areas" - The term "Common Area" means the entire area to be used for the non-exclusive use by Tenant and other tenants in the Building, including, but not limited to, corridors, lavatories, driveways, truck docks, parking lots and landscaped areas. Subject to reasonable rules and regulations promulgated by Landlord, the Common Areas are hereby made available to Tenant and its employees, agents, customers, and invitees for reasonable use in common with other tenants, their employees, agents, customers and invitees.

"Tenant's Proportionate Share" - eighteen and thirty-five one hundredths percent (18.35%), which is the quotient of 14,316 square feet divided by 78,000 square feet.

WITNESSETH:

TERM:

1. For and in consideration of the rents, additional rents, terms, provisions and covenants herein contained, Landlord hereby lets, leases and demises to Tenant the Demised Premises for the term of sixty-two (62) months commencing on the FIRST day of JULY, 2003 (the "Commencement Date") and expiring the LAST day of AUGUST, 2008 (the "Expiration Date"), unless sooner terminated as hereinafter provided.

NET RENT:

2. Landlord reserves, and Tenant shall pay Landlord, a total rental of TWO HUNDRED FIFTY-SEVEN THOUSAND SEVEN HUNDRED AND 00/100 DOLLARS (\$257,700.00), payable in advance, in equal monthly

installments as outlined below, commencing on the Commencement Date and continuing on the first day of each and every month thereafter for the next succeeding months during the balance of the term ("Base Rent"). Rental for partial months shall be prorated and adjusted accordingly.

<TABLE>
<CAPTION>

Period	Monthly Base Rent	Total Per Period
<S> July 1, 2003 through and Including August 31, 2003	<C> \$ 0.00	<C> \$ 0.00

September 1, 2003 through and Including August 31, 2008	\$4,295.00	\$ 257,700.00
	TOTAL	\$ 257,700.00

</TABLE>

ADDITIONAL RENT:

3. Tenant shall pay to Landlord throughout the term of this Lease the following:

a. Tenant shall pay its Proportionate Share of Real Estate Taxes. The term "Real Estate Taxes" shall mean all real estate taxes, all assessments and any taxes in lieu thereof which may be levied upon or assessed against the Premises of which the Demised Premises are a part. Tenant, in addition to all other payments to Landlord by Tenant required hereunder shall pay to Landlord, in each year during the term of this Lease and any extension or renewal thereof, Tenant's Proportionate Share of such real estate taxes and assessments paid in the first instance by Landlord.

Any tax year commencing during any lease year shall be deemed to correspond to such lease year. In the event the taxing authorities include in such real estate taxes and assessments the value of any improvements made by Tenant, or of machinery, equipment, fixtures, inventory or other personal property or assets of Tenant, then Tenant shall pay all the taxes attributable to such items in addition to its Proportionate Share of said aforementioned Real Estate Taxes. A photostatic copy of the tax statement submitted by Landlord to Tenant shall be sufficient evidence of the amount of Real Estate Taxes assessed or levied against the Premises of which the Demised Premises are a part.

b. Tenant's Proportionate Share of the annual aggregate Operating Expenses incurred by Landlord in the operation, maintenance and repair of the Premises. The term "Operating Expenses" shall include, but not be limited to, maintenance, repair, replacement and care of all common area lighting, common area plumbing and roofs, parking and landscaped areas, signs, snow removal, non-structural repair and maintenance of the exterior of the Building, insurance premiums, management fees up to a maximum of five percent (5%) of gross Building receipts, wages and fringe benefits of personnel (up to the level of property manager) employed for such work, costs of non-capital equipment purchased and used for such purposes, and the cost or portion thereof properly allocable to the Premises (amortized over such reasonable period as Landlord shall determine together with the interest at the rate of twelve percent (12%) per annum on the unamortized balance) of any capital improvements made to the Building by Landlord after the Base Year which result in a reduction of Operating Expenses or made to the Building by Landlord after the date of this Lease that are required under any governmental law or regulation that was not applicable to the Building at the time it was constructed.

c. In no event shall the total adjusted monthly rent be less than the BASE RENT per month during the term of this Lease.

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d. The payment of the sums set forth in this Article 3 shall be in addition to the Base Rent payable pursuant to Article 2 of this Lease. All sums due hereunder shall be due and payable within thirty (30) days of delivery of written certification by Landlord setting forth the computation of the amount due from Tenant. In the event the lease term shall begin or expire at any time during the calendar year, the Tenant shall be responsible for its Proportionate Share of Additional Rent under subdivisions a. and b. during the Lease and/or occupancy time.

e. Prior to commencement of this Lease and prior to the commencement of each calendar year thereafter commencing during the

term of this Lease or any renewal or extension thereof, Landlord may estimate for each calendar year (i) the total amount of Real Estate Taxes; (ii) the total amount of Operating Expenses; (iii) Tenant's Proportionate Share of Real Estate Taxes for such calendar year; (iv) Tenant's Proportionate Share of Operating Expenses for such calendar year; and (v) the computation of the annual and monthly rental payable during such calendar year as a result of increases or decreases in Tenant's Proportionate Share of Real Estate Taxes and Operating Expenses. Said estimates will be in writing and will be delivered or mailed to Tenant.

f. The amount of Tenant's Proportionate Share of Real Estate Taxes and Operating Expenses for each calendar year, so estimated, shall be payable as Additional Rent, in equal monthly installments, in advance, on the first day of each month during such calendar year at the option of Landlord. In the event that such estimate is delivered to Tenant before the first day of January of such calendar year, said amount, so estimated, shall be payable as Additional Rent in equal monthly installments, in advance on the first day of each month during such calendar year. In the event that such estimate is delivered to Tenant after the first day of January of such calendar year, said amount, so estimated, shall be payable as Additional Rent in equal monthly installments, in advance, on the first day of each month over the balance of such calendar year, with the number of installments being equal to the number of full calendar months remaining in such calendar year.

g. Upon completion of each calendar year during the term of this Lease or any renewal or extension thereof, Landlord shall cause its accountants to determine the actual amount of the Real Estate Taxes and Operating Expenses payable in such calendar year and Tenant's Proportionate Share thereof and deliver a written certification of the amounts thereof to Tenant. If Tenant has underpaid its Proportionate Share of Real Estate Taxes or Operating Expenses for such calendar year, Tenant shall pay the balance of its share of the same within 30 days after the receipt of such statement. If Tenant has overpaid its share of Real Estate Taxes or Operating Expenses for such calendar year, Landlord shall within 30 days after the date of the written certification either (i) refund such excess, or (ii) credit such excess against the most current monthly installment or installments due Landlord for its estimate of Tenant's Proportionate Share of Real Estate Taxes and Operating Expenses for the next following calendar year. A prorata adjustment shall be made for a fractional calendar year occurring during the term of this Lease or any renewal or extension thereof based upon the number of days of the term of the Lease during said calendar year as compared to three hundred sixty-five (365) days and all additional sums payable by Tenant or credits due Tenant as a result of the provisions of this Article 3 shall be adjusted accordingly.

h. Tenant, may during normal business hours and on reasonable prior notice to Landlord, audit Landlord's books and records that pertain to Real Estate Taxes and Operating Expenses. If Tenant's audit indicates that Landlord overcharged Tenant Operating Expenses or Real Estate Taxes, Landlord shall promptly repay all such overpayment to Tenant and adjust Tenant's estimated payments of Operating Expenses and Real Estate Taxes if necessary.

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COVENANT TO PAY RENT:

4. The covenants of Tenant to pay the Base Rent and the Additional Rent are each independent of any other covenant, condition, provision or agreement contained in this Lease. All rents are payable to Landlord at:

SMD LINCOLN INVESTMENTS LLC
C/O WELSH COMPANIES
CM 9660
ST. PAUL, MN 55170-9660

UTILITIES:

5. Landlord shall provide mains and conduits to supply water, gas, electricity and sanitary sewage to the Premises. Tenant shall pay, when due, all charges for sewer usage or rental, garbage, disposal, refuse removal, water, electricity, gas, fuel oil, L.P. gas, telephone and/or other utility services or energy source furnished to the Demised Premises during the term of this Lease, or any renewal or extension thereof. If Landlord elects to furnish any of the foregoing utility services or other services furnished or caused to be furnished to Tenant, then the rate charged by Landlord shall not exceed the rate Tenant would be required to pay to a utility company or service company furnishing any of the foregoing utilities or services. The charges thereof shall be deemed Additional Rent in accordance with Article 3.

CARE AND REPAIR OF DEMISED PREMISES:

6. Tenant shall, at all times throughout the term of this Lease, including renewals and extensions, and at its sole expense, keep and maintain the Demised Premises in a clean, safe, sanitary and first class condition and, subject to the other provisions of this Lease, in compliance with all applicable laws, codes, ordinances, rules and regulations. Tenant's obligations hereunder shall include, but not be limited to, the maintenance, and repair and replacement, if necessary, of heating and air conditioning fixtures, equipment, and systems, all lighting and plumbing fixtures and equipment, fixtures, motors and machinery, all interior walls, partitions, doors and windows, all exterior entrances exclusively serving the Demised Premises, windows, doors and docks and the replacement of all broken glass. When used in this provision, the term "repairs" shall include replacements or renewals when necessary. The Tenant shall keep and maintain all portions of the Demised Premises in a clean and orderly condition, free of accumulation of dirt and rubbish.

If Tenant fails, refuses or neglects to maintain or repair the Demised Premises as required in this Lease after notice shall have been given Tenant in accordance with Article 33 of this Lease and the applicable cure periods have expired, Landlord may make such repairs and upon completion thereof, Tenant shall pay to Landlord all costs reasonably incurred by Landlord in making such repairs within 30 days after presentation to Tenant of bill therefor.

Landlord shall maintain, repair and, as necessary, replace the structural portions of the Building; the Building foundation, the roof and roof membrane, and all Building systems, including, without limitation, provided, however, where structural repairs are required to be made by reason of the acts of Tenant, the costs thereof shall be borne by Tenant and payable by Tenant to Landlord upon demand. The Landlord shall be responsible for all outside maintenance of the Demised Premises, including grounds and parking areas. All such of which is the responsibility of the Landlord shall be provided as reasonably necessary to the comfortable use and occupancy of Demised Premises during business hours, except Saturdays, Sundays and holidays, upon the condition that the Landlord shall not be liable for damages for failure to do so due to causes beyond its control.

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SIGNS:

7. Any sign, lettering, picture, notice or advertisement installed on or in any part of the Premises and visible from the exterior of the Building, or visible from exterior of the Demised Premises, shall be approved and installed by Landlord (which approval will not be unreasonably withheld) at Tenant's expense. In the event of a violation of the foregoing by Tenant, Landlord may remove the same without any liability and may charge the actual out-of-pocket expense incurred by such removal to Tenant.

ALTERATIONS, INSTALLATION, FIXTURES:

8. Except as hereinafter provided, Tenant shall not make any alterations, additions, or improvements in or to the Demised Premises or add, disturb or in any way change any plumbing or wiring therein without the prior written consent of the Landlord, which consent will not be unreasonably withheld. In the event alterations are required by any governmental agency by reason of the particular use and occupancy of the Demised Premises by Tenant, Tenant shall make such alterations at its own cost and expense after first

obtaining Landlord's approval of plans and specifications therefor and furnishing such indemnification as Landlord may reasonably require against liens, costs, damages and expenses arising out of such alterations. Alterations or additions by Tenant must be built in compliance with all laws, ordinances and governmental regulations affecting the Premises and Tenant shall warrant to Landlord that all such alterations, additions, or improvements shall be in compliance with all relevant laws, ordinances, governmental regulations, and insurance requirements. Construction of such alterations or additions shall commence only upon Tenant obtaining and exhibiting to Landlord the requisite approvals, licenses and permits and indemnification against liens. All alterations, installations, physical additions or improvements to the Demised Premises made by Tenant shall at once become the property of Landlord and shall be surrendered to Landlord upon the termination of this Lease; provided, however, this clause shall not apply to movable equipment or furniture owned by Tenant which may be removed by Tenant at the end of the term of this Lease. Tenant shall have the right to make non structural changes to the Demised Premises without Landlord's consent, only if said non structural changes do not exceed \$5,000.00. In such event, Tenant will not be required to remove any such alterations, installation, physical additions or improvements to the Demised Premises.

POSSESSION:

9. Except as hereinafter provided, Landlord shall deliver possession of the Demised Premises to Tenant in the condition required by this Lease on or before the Commencement Date, but delivery of possession prior to or later than such Commencement Date shall not affect the expiration date of this Lease. Any occupancy by Tenant prior to the beginning of the term shall in all respects be the same as that of a Tenant under this Lease. Landlord shall have no responsibility or liability for loss or damage to fixtures, facilities or equipment installed or left on the Demised Premises during such early occupancy. If the Demised Premises are not ready for occupancy by the Commencement Date and possession is later than the Commencement Date, Rent shall begin on date of possession.

In the event the Demised Premises becomes available and ready for occupancy prior to the Commencement Date, Landlord may elect to permit Tenant to take occupancy of all or part of the Premises prior to such date. If Tenant occupies the Demised Premises prior to the Commencement Date, Tenant's occupancy of the Demised Premises shall be subject to all of the provisions of the Lease. Early occupancy of the Demised Premises shall not advance the expiration date of this Lease. Tenant shall have no obligation for Base Rent or Additional Rent during any early occupancy period.

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SECURITY AND DAMAGE DEPOSIT:

10. Tenant, contemporaneously with the execution of this Lease, has deposited with Landlord the sum of SEVEN THOUSAND EIGHT HUNDRED NINETY--SEVEN AND 86/100 DOLLARS (\$7,897.86), receipt of which is acknowledged hereby by Landlord, which deposit is to be held by Landlord, without liability for interest, as a security and damage deposit for the faithful performance by Tenant during the term hereof or any extension hereof. Prior to the time when Tenant shall be entitled to the return of this security deposit, Landlord may co-mingle such deposit with Landlord's own funds and to use such security deposit for such purpose as Landlord may determine. In the event of the failure of Tenant to keep and perform any of the terms, covenants and conditions of this Lease to be kept and performed by Tenant during the term hereof or any extension hereof, then Landlord, either with or without terminating this Lease, may (but shall not be required to) apply such portion of said deposit as may be necessary to compensate or repay Landlord for all losses or damages sustained or to be sustained by Landlord due to such breach on the part of Tenant, including, but not limited to overdue and unpaid Rent, any other sum payable by Tenant to Landlord pursuant to the provisions of this Lease, damages or deficiencies in the reletting of the Demised Premises, and reasonable attorneys' fees incurred by Landlord. Should the entire deposit or any portion thereof be appropriated and applied by Landlord in accordance with the provisions of this paragraph, Tenant, upon written demand by Landlord, shall remit forthwith to Landlord a sufficient amount of cash to restore said security deposit to the original sum deposited and Tenant's failure to do so within ten (10) business days after receipt of such demand shall constitute a breach of this Lease. Said security

deposit shall be returned to Tenant, less any depletion thereof as the result of the provisions of this paragraph, within 30 days after the end of the term of this Lease or any renewal thereof, or upon the earlier termination of this Lease. Tenant shall have no right to anticipate return of said deposit by withholding any amount required to be paid pursuant to the provision of this Lease or otherwise.

In the event Landlord shall sell the Premises, or shall otherwise convey or dispose of its interest in this Lease, Landlord may assign said security deposit or any balance thereof to Landlord's assignee, whereupon Landlord shall be released from all liability for the return or repayment of such security deposit and Tenant shall look solely to said assignee for the return and repayment of said security deposit. Said security deposit shall not be assigned or encumbered by Tenant without the written consent of Landlord and any assignment or encumbrance without such consent shall not bind Landlord. In the event of any rightful and permitted assignment of this Lease by Tenant, said security deposit shall be deemed to be held by Landlord as a deposit made by the assignee and Landlord shall have no further liability with respect to the return of said security deposit to Tenant.

USE:

11. The Demised Premises shall be used and occupied by Tenant solely for the purposes of GENERAL OFFICE AND WAREHOUSE and legal uses incidental thereto, so long as such use is in compliance with all applicable laws, ordinances and governmental regulations affecting the Building and Premises. The Demised Premises shall not be used in such manner that, in accordance with any requirement of law or of any public authority, Landlord shall be obliged on account of the purpose or manner of said use to make any addition or alteration to or in the Building. The Demised Premises shall not be used in any manner which will increase the rates required to be paid for public liability or for fire and extended coverage insurance covering the Premises. Tenant shall occupy the Demised Premises, conduct its business and control its agents, employees, invitees and visitors in such a way as is lawful and will not permit or create any nuisance, noise, odor, or otherwise interfere with, annoy or disturb any other tenant in the Building in its normal business operations or Landlord in its management of the Building. Tenant's use of the Demised Premises shall conform to all of Landlord's reasonable and nondiscriminatory rules and regulations relating to the use of the Premises. Outside storage on the Premises of any type of equipment, property or materials owned or used on the Premise by Tenant or its customers and suppliers shall not be permitted. Tenant shall be permitted outside storage of a trash compactor.

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ACCESS TO DEMISED PREMISES:

12. Tenant agrees to permit Landlord and the authorized representatives of the Landlord to enter the Demised Premises at reasonable times and upon reasonable notice during usual business hours for the purpose of inspecting the same and making any necessary repairs to the Demised Premises and performing any work therein that may be necessary to comply with any laws, ordinances, rules, regulations or requirements of any public authority or of the Board of Fire Underwriters or any similar body or that Landlord may reasonably deem necessary to prevent waste or deterioration in connection with the Demised Premises. Nothing herein shall imply any duty upon the part of Landlord to do any such work which, under any provision of this Lease, Tenant may be required to perform and the performance thereof by Landlord shall not constitute a waiver of Tenant's default in failing to perform the same. Landlord may, during the progress of any work in the Demised Premises, keep and store upon the Demised Premises all necessary materials, tools and equipment. The Landlord shall not in any event be liable for inconvenience, annoyance, disturbance, loss of business, or other damage of Tenant by reason of making repairs or the performance of any work in the Demised Premises, or on account of bringing materials, supplies and equipment into or through the Demised Premises during the course thereof and the obligations of Tenant under this Lease shall not thereby be affected in any manner whatsoever.

Landlord reserves the right to enter the Demised Premises at any time in the event of an emergency and at reasonable hours and upon reasonable notice to exhibit the Demised Premises to prospective purchasers or others, and to exhibit the Demised Premises to prospective tenants and to the

display "For Lease" or similar signs on windows or doors in the Demised Premises during the last ONE HUNDRED EIGHTY (180) days of the term of this Lease, all without hindrance or molestation by Tenant.

In exercising the above rights, Landlord will use commercially reasonable efforts to minimize its disruption of Tenant's business in the Demised Premises.

EMINENT DOMAIN:

13. In the event of any eminent domain or condemnation proceeding or private sale in lieu thereof in respect to the Premises during the term thereof, the following provisions shall apply:

a. If the whole of the Premises shall be acquired or condemned by eminent domain for any public or quasi-public use or purpose, then the term of this Lease shall cease and terminate as of the date possession shall be taken in such proceeding and all rentals shall be paid up to that date.

b. If any substantial part constituting less than the whole of the Premises shall be acquired or condemned as aforesaid, and in the event that such partial taking or condemnation shall materially affect the Demised Premises so as to render the Demised Premises unsuitable for the business of the Tenant, then the term of this Lease shall cease and terminate as of the date possession shall be taken by the condemning authority and Rent shall be paid to the date of such termination. In the event of a partial taking or condemnation of the Premises which shall not materially affect the Demised Premises so as to render the Demised Premises unsuitable for the business of the Tenant this Lease shall continue in full force and effect but with a proportionate abatement of the Base Rent and Additional Rent based on the portion, if any, of the Demised Premises taken. Landlord shall restore the Building and the Demised Premises to substantially the same condition as they were prior to such condemnation. Landlord shall commence restoration and shall restore the Building and the Demised Premises with reasonable promptness, subject to delays beyond Landlord's control. The parties shall have no right to terminate this Lease except as herein provided. Upon completion of such restoration, the Rent shall be adjusted based upon the portion, if any, of the Demised Premises restored.

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c. In the event of any condemnation or taking as aforesaid, whether whole or partial, Tenant shall not be entitled to any part of the award paid for such condemnation and Landlord is to receive the full amount of such award; Tenant hereby expressly waiving any right to claim to any part thereof.

d. Although all damages in the event of any condemnation shall belong to the Landlord, whether such damages are awarded as compensation for diminution in value of the leasehold or to the fee of the Demised Premises, Tenant shall have the right to claim and recover from the condemning authority, but not from Landlord, such compensation as may be separately awarded or recoverable by Tenant in Tenant's own right on account of any and all damage to Tenant's business by reason of the condemnation and for or on account of any cost or loss to which Tenant might be put in removing Tenant's merchandise, furniture, fixtures, leasehold improvements and equipment. However, Tenant shall have no claim against Landlord or make any claim with the condemning authority for the loss of its leasehold estate, any unexpired term or loss of any possible renewal or extension of said Lease or loss of any possible value of said Lease, any unexpired term renewal or extension of said Lease.

DAMAGE OR DESTRUCTION:

14. In the event of any damage or destruction to the Premises by fire or other cause during the term hereof, the following provisions shall apply:

a. If the Building is damaged by fire or any other cause to such extent that the cost of restoration, as reasonably estimated by Landlord, will either (i) equal or exceed thirty percent (30%) of the replacement value of the Building (exclusive of foundations) just prior to the occurrence of the damage; or (ii) require more than 180 days after the date of the damage to repair, then either party may, no later than the sixtieth (60th) day following the damage, give written notice to the other party of its election to terminate this Lease. Landlord shall, within 60 days after the date of the damage, inform Tenant in writing of Landlord's reasonable estimate of the amount of time Landlord requires to repair the damage.

b. If neither party terminates this Lease as permitted above, Landlord shall restore the Building and the Demised Premises with reasonable promptness, subject to delays beyond Landlord's control and delays in the making of insurance adjustments by Landlord. Landlord shall not be responsible for restoring or repairing leasehold improvements of the Tenant.

c. In the event of either of the elections to terminate, this Lease shall be deemed to terminate on the date of the receipt of the notice of election and all rents shall be paid up to that date. Tenant shall have no claim against Landlord for the value of any unexpired term of this Lease.

d. In any case where damage to the Building shall materially affect the Demised Premises so as to render them unsuitable in whole or in part for the purposes for which they are demised hereunder, then, unless such destruction was wholly or partially caused by the negligence or breach of the terms of this Lease by Tenant, its employees, contractors or licensees, a portion of the rent based upon the amount of the extent which the Demised Premises are rendered unsuitable shall be abated until repaired or restored. To the extent that the destruction or damage was wholly or partially caused by negligence or breach of the terms of this Lease by Tenant as aforesaid and if Landlord shall elect to rebuild, the rent equitably abate and the Tenant shall remain liable for the same.

CASUALTY INSURANCE:

15. a. Landlord shall at all times during the term of this Lease, at its expense, maintain a policy or policies of insurance with premiums paid in advance issued by an insurance company licensed to do business

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in the State of MINNESOTA insuring the Building and all improvements to, or alterations of, the Demised Premises using the standard Minnesota Special Cause of Loss Form or equivalent for the full replacement value, provided that Landlord shall not be obligated to insure any furniture, equipment, machinery, goods or supplies not covered by this Lease which Tenant may bring upon the Demised Premises.

b. Tenant shall not carry any stock of goods or do anything in or about the Demised Premises which will in any way impair or invalidate the obligation of the insurer under any policy of insurance required by this Lease.

c. Landlord hereby waives and releases all claims, liability and causes of action against Tenant and its agents, servants and employees for loss or damage to, or destruction of, the Premises or any portion thereof, including the buildings and other improvements situated thereon, resulting from fire, explosion and other perils included in broad form coverage insurance, whether caused by the negligence of any of said persons or otherwise. Likewise, Tenant hereby waives and releases all claims, liabilities and causes of action against Landlord and its agents, servants and employees for loss or damage to, or destruction of, any of the improvements, fixtures, equipment, supplies, merchandise and other property, whether that of Tenant or of others in, upon or about the Premises resulting from fire, explosion or the other perils included in broad form coverage insurance, whether caused by the negligence of any of said persons or

otherwise. The waiver shall remain in force whether or not Landlord or Tenant's insurers consent thereto.

d. In the event that the use of the Demised Premises by Tenant increases the premium rate for insurance carried by Landlord on the improvements of which the Demised Premises are a part, Tenant shall pay Landlord, within 30 days after receipt of Landlord's written demand, the amount of such premium increase. If Tenant installs any electrical equipment that overloads the power lines to the Building or its wiring, Tenant shall, at its own expense, make whatever changes are necessary to comply with the requirements of the insurance underwriter, insurance rating bureau and governmental authorities having jurisdiction.

PUBLIC LIABILITY INSURANCE:

16. Tenant shall, during the term hereof, keep in full force and effect, at its expense, a policy or policies of public liability insurance with respect to the Demised Premises and the business of Tenant in amounts no less than \$1,000,000 per occurrence, \$2,000,000 aggregate using current ISO Commercial General Liability forms or equivalent naming the Landlord as an additional insured. Such policy or policies shall provide that ten (10) days written notice must be given to Landlord prior to cancellation thereof. Tenant shall furnish a certificate of such insurance to Landlord at the time this Lease is executed that such coverage is in full force and effect.

DEFAULT:

17. a. In the event of any failure of Tenant to pay any rental due hereunder within ten (10) days after due, or any failure to perform any other terms, conditions or covenants of this Lease to be observed or performed by Tenant for more than thirty (30) days after written notice of such failure shall have been given to Tenant (provided, however, that if such failure is incapable of cure within such 30 day period, then such reasonably longer period of time provided that Tenant commences to cure such failure within such 30 day period and diligently pursues the same until completion), or if Tenant or an agent of Tenant shall falsify any report required to be furnished to Landlord pursuant to the terms of this Lease, or if Tenant shall become bankrupt or insolvent or file any debtor proceedings or any person shall take or have against Tenant in any court

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pursuant to any statute either of the United States or of any state a petition in bankruptcy or insolvency or for reorganization or for the appointment of a receiver or trustee of all or a portion of Tenant's or any such guarantor's property, or if Tenant or any such guarantor makes an assignment for the benefit of creditors, or petitions for or enters into an arrangement, or if Tenant shall abandon the Demised Premises or suffer this Lease to be taken under any writ of execution, then in any such event Tenant shall be in default hereunder, and Landlord, in addition to their rights of remedies it may have, shall have the immediate right of re-entry and may remove all persons and property from the Demised Premises and such property may be removed and stored in a public warehouse or elsewhere at the cost of, and for the account of Tenant, all without service of notice or resort to legal process and without being guilty of trespass or becoming liable for any loss or damage which may be occasioned thereby.

b. Should Landlord elect to re-enter the Demises Premises as herein provided, or should it take possession of the Demised Premises pursuant to legal proceedings or pursuant to any notice provided for by law, it may either terminate this Lease or it may, from time to time, without terminating this Lease, make such alterations and repairs as may be necessary in order to relet the Demised Premises and relet the Demised Premises or any part thereof upon such term or terms (which may be for a term extending beyond the term of this Lease) and at such rental or rentals and upon such other terms and conditions as Landlord in its sole discretion may deem advisable. Upon each such subletting all rentals received by the Landlord from such reletting shall be applied first to the payment of any indebtedness other than Rent due hereunder from Tenant to Landlord; second, to the payment of any costs and expenses of such reletting,

including customary brokerage fees and reasonable attorneys' fees and costs of such alterations and repairs; third, to the payment of the Rent due and unpaid payment of future Rent as the same may become due and payable hereunder. If such rentals received from such reletting during any month is less than that to be paid during that month by Tenant hereunder, Tenant, upon demand, shall pay any such deficiency to Landlord. No such re-entry or taking possession of the Demised Premises by Landlord shall be construed as an election on its part to terminate this Lease unless a written notice of such intention be given to Tenant, or unless the termination thereof be decreed by a court of competent jurisdiction. Notwithstanding any such reletting without termination, Landlord may at any time after such re-entry and reletting elect to terminate this Lease for any such breach. In addition to any other remedies it may have, it may recover from Tenant all damages it incurs by reason of such breach, including the cost of recovering the Demised Premises, reasonable attorneys' fees, and including the worth at the time of such termination of the excess, if any, of the amount of rent and charges equivalent to Rent reserved in this Lease for the remainder of the stated term over the then reasonable rental value of the Demised Premises for the remainder of the stated term, all of which amounts shall be immediately due and payable from Tenant to Landlord.

c. Landlord may, at its option, instead of exercising any other rights or remedies available to it in this Lease or otherwise by law, statute or equity, spend such money as is reasonably necessary to cure any default of Tenant herein and the amount so spent and costs incurred, including reasonable attorneys' fees, in curing such default, shall be paid by Tenant as Additional Rent upon demand.

d. In the event suit shall be brought for recovery of possession of the Demised Premises, for the recovery of Rent or any other amount due under the provisions of this Lease, or because of the breach of any other covenant herein contained on the part of Tenant to be kept or performed and a breach shall be established, Tenant shall pay to Landlord all expenses incurred therefor, including a reasonable attorneys' fees, together with interest on all such expenses at the rate of twelve percent (12%) per annum from the date of such breach of the covenants of this Lease.

e. Tenant hereby expressly waives any and all rights of redemption granted by or under any present or future laws in the event of Tenant being evicted or dispossessed for any cause, or in the event

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of Landlord obtaining possession of the Demised Premises by reason of the violation by Tenant of any of the covenants or conditions of this Lease, or otherwise. Tenant also waives any demand for possession of the Demised Premises and any demand for payment of Rent and any notice of intent to re-enter the Demised Premises, or of intent to terminate this Lease, other than the notices above provided in this Article, and waives any and every other notice or demand prescribed by any applicable statutes or laws.

f. No remedy herein or elsewhere in this Lease or otherwise by law, statute or equity, conferred upon or reserved to Landlord or Tenant shall be exclusive of any other remedy, but shall be cumulative and may be exercised from time to time and as often as the occasion may arise.

g. Landlord Default. For purposes hereof, the term "Landlord Default" shall mean, if Landlord fails to perform any of its obligations under this Lease within thirty (30) days after receiving notice from Tenant specifying the nature and extent of such failure provided; however, if the obligation shall not be reasonably curable within such thirty (30) day period, the time for cure shall be extended so long as Landlord shall continue to use reasonable efforts to effect a cure. If a Landlord Default has occurred, then, in addition to all rights, powers or remedies permitted by law or in equity, Tenant may cure such Landlord Default and charge the cost thereof to Landlord. Landlord shall be liable for and shall pay to Tenant within thirty (30) days of receiving Tenant's invoice, all reasonable attorneys' fees and other costs incurred by Tenant as a result of a Landlord Default. If

Landlord shall fail to pay within such thirty (30) day period the amount due, Tenant shall have the right to offset such amounts against the next installments of Rent due hereunder.

COVENANTS TO HOLD HARMLESS:

18. Except to the extent that the liability for damage or loss is caused by the acts, omissions or negligence of Landlord, its agents or employees, and subject to Paragraph 15(c) Tenant shall hold harmless Landlord from any liability for damages to any person or property in or upon the Demised Premises and the Premises, including the person and the property of Tenant and its employees and all persons in the Building at its or their invitation or sufferance, and from damages to the extent resulting from Tenant's failure to perform the covenants of this Lease. All property kept, maintained or stored on the Demised Premises shall be so kept, maintained or stored at the sole risk of Tenant. Tenant agrees to pay all sums of money in respect of any labor, service, materials, supplies or equipment furnished or alleged to have been furnished to Tenant in or about the Premises, and not furnished on order of Landlord, which may be secured by any Mechanic's, Materialmen's or other lien to be discharged at the time performance of any obligation secured thereby matures, provided that Tenant may contest such lien, but if such lien is reduced to final judgment and if such judgment or process thereon is not stayed, or if stayed and said stay expires, then and in each such event, Tenant shall forthwith pay and discharge said judgment. Landlord shall have the right to post and maintain on the Demised Premises notices of non-responsibility under the laws of the State of MINNESOTA.

Except to the extent that the liability for damage or loss is caused by the acts, omissions or negligence of Tenant, its agents or employees, and subject to Paragraph 15(c), Landlord shall hold harmless Tenant from any liability for damages to any person or property in or upon the Premises, and from damages to the extent resulting from Landlord's failure to perform the covenants of this Lease.

NON-LIABILITY:

19. Subject to the terms and conditions of Article 14 hereof, Landlord shall not be liable for damage to any property of Tenant or of others located on the Premises, nor for the loss of or damage to any property of Tenant or of others by theft or otherwise. Landlord shall not be liable for any injury or damage to persons or

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property resulting from fire, explosion, falling plaster, steam, gas, electricity, water, rain or snow, or leaks from any part of the Premises or from the pipes, appliances, or plumbing works, or from the roof, street or subsurface or from any other place or by dampness or by any such damage caused by other Tenants or persons in the Premises, occupants of adjacent property, of the buildings, or the public, or caused by operations in construction of any private, public or quasi-public work.

SUBORDINATION:

20. This Lease shall be subordinated to any mortgages that may now exist or that may hereafter be placed upon the Demised Premises and to any and all advances made thereunder, and to the interest upon the indebtedness evidenced by such mortgages, and to all renewals, replacements and extensions thereof; provided, however, that Tenant's possession of the Demised Premises will not be disturbed as long as Tenant is not in default beyond applicable cure periods under this Lease. In the event of execution by Landlord after the date of this Lease of any such mortgage, renewal, replacement or extension, Tenant agrees to execute a subordination agreement with the holder thereof which agreement shall provide that:

a. Such holder shall not disturb the possession and other rights of Tenant under this Lease so long as Tenant is not in default beyond applicable cure periods hereunder,

b. In the event of acquisition of title to the Demised Premises by such holder, such holder shall accept the Tenant as Tenant of the Demised Premises under the terms and conditions of this Lease and shall perform all the obligations of Landlord hereunder, and

c. Tenant shall recognize such holder as Landlord hereunder.

Tenant shall, upon receipt of a request from Landlord therefor, execute and deliver to Landlord or to any proposed holder of a mortgage or trust deed, or to any proposed purchaser of the Premises, a certificate in recordable form, certifying that this Lease is in full force and effect, and that there are no offsets against rent nor defenses to Tenant's performance under this Lease, or setting forth any such offsets or defenses claimed by Tenant as the case may be.

ASSIGNMENT OR SUBLETTING:

21. Tenant agrees to use and occupy the Demised Premises throughout the entire term hereof for the purpose or purposes herein specified and for no other purposes, in the manner and to substantially the extent now intended. Tenant further agrees, with the exception of any related entities, affiliates or surviving mergers, not to transfer or assign this Lease or sublet said Demised Premises, or any part thereof, whether by voluntary act, operation of law, or otherwise, without obtaining the prior written consent of Landlord in each instance. Tenant shall seek such consent of Landlord by a written request therefore, setting forth such information as Landlord may reasonably deem necessary. Landlord agrees not to withhold consent unreasonably. Consent by Landlord to any assignment of this Lease or to any subletting of the Demised Premises shall not be a waiver of Landlord's rights under this Article as to any subsequent assignment or subletting. Landlord's rights to assign this Lease are and shall remain unqualified. No such assignment or subleasing shall relieve the Tenant from any of Tenant's obligations in this Lease contained, nor shall any assignment or sublease or other transfer of this Lease be effective unless the assignee, subtenant or transferee, shall at the time of such assignment, sublease or transfer, assume in writing for the benefit of Landlord, its successors or assigns, all of the terms, covenants and conditions of this Lease thereafter to be performed by Tenant and shall agree in writing to be bound thereby. Should Tenant sublease in accordance with the terms of this Lease, fifty percent (50%) of any increase in rental (net of costs incurred in negotiating and consummating the transaction, including, without limitation, marketing and advertising cost, tenant allowances, brokerage commissions and attorneys' fees) received by Tenant over the per square foot rental rate which is being paid by Tenant shall be forwarded to and

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retained by Landlord, which increase shall be in addition to the Base Rent and Additional Rent due Landlord under this Lease.

ATTORNMENMENT:

22. In the event of a sale or assignment of Landlord's interest in the Premises or the Building in which the Demised Premises are located, or this Lease, or if the Premises come into custody or possession of a mortgagee or any other party whether because of a mortgage foreclosure, or otherwise, Tenant shall attorn to such assignee or other party and recognize such party as Landlord hereunder; provided, however, Tenant's peaceable possession will not be disturbed so long as Tenant faithfully performs its obligations under this Lease. Tenant shall execute, within 10 business days after receipt of written demand, any reasonable attornment agreement required by any such party to be executed, containing such provisions and such other provisions as such party may reasonably require.

NOVATION IN THE EVENT OF SALE:

23. In the event of the sale of the Demised Premises, Landlord shall be and hereby is relieved of all of the covenants and obligations created hereby accruing from and after the date of sale, and such sale shall result automatically in the purchaser assuming and agreeing to carry out all the covenants and obligations of Landlord herein thereafter. Notwithstanding the foregoing provisions of this Article, Landlord, in the event of a sale of the Demised Premises, shall cause to be included in this agreement of sale and purchase a covenant whereby the purchase of the Demised Premises assumes and agrees to carry out all of the covenants and obligations of Landlord herein.

Tenant agrees at any time and from time to time upon not less than ten (10) business days prior written request by the Landlord to execute, acknowledge and deliver to the Landlord a statement in writing certifying that this Lease is unmodified and in full force and effect as modified and stating the modifications, and the dates to which the Base Rent and other charges have been paid in advance, if any, it being intended that any such statement delivered pursuant to this paragraph may be relied upon by any prospective purchaser of the fee or mortgagee or assignee of any mortgage upon the fee of the Demised Premises.

SUCCESSORS AND ASSIGNS:

24. The terms, covenants and conditions hereof shall be binding upon and inure to the successors and assigns of the parties hereto.

REMOVAL OF FIXTURES:

25. Intentionally deleted.

QUIET ENJOYMENT:

26. Landlord warrants that it has full right to execute and to perform this Lease and to grant the estate demised, and that Tenant, upon payment of the rents and other amounts due and the performance of all the terms, conditions, covenant and agreements on Tenant's part to be observed and performed under this Lease, will peaceably and quietly enjoy the Demised Premises for the business uses permitted hereunder, subject, nevertheless, to the terms and conditions of this Lease.

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RECORDING:

27. Tenant shall not record this Lease without the written consent of Landlord. However, upon the request of either party hereto, the other party shall join in the execution of the memorandum lease for the purposes of recordation. Said memorandum lease shall describe the parties, the Demised Premises and the term of the Lease and shall incorporate this Lease by reference. This Article 27 shall not be construed to limit Landlord's right to file this Lease.

OVERDUE PAYMENTS:

28. All monies due under this Lease from Tenant to Landlord shall be due on demand, unless otherwise specified and if not paid within 10 days after due, shall result in the imposition of a service charge for such late payment in the amount of TWELVE percent (12%) of the amount due up to a maximum of \$500 per incident.

SURRENDER:

29. On the Expiration Date or upon the termination hereof upon a day other than the Expiration Date, Tenant shall peaceably surrender the Demised Premises broom-clean in good order, condition and repair, reasonable wear and tear and damage by casualty only excepted. On or before the Expiration Date or upon termination of this Lease on a day other than the Expiration Date, Tenant shall, at its expense, remove all trade fixtures, personal property and equipment and Tenant signs from the Demised Premises and any property not removed shall be deemed to have been abandoned. Any damage caused in the removal of such items shall be repaired by Tenant, at its expense. All alterations, additions, improvements and fixtures (other than trade fixtures) which shall have been made or installed by Landlord or Tenant upon the Demised Premises and all floor covering so installed shall remain upon and be surrendered with the Demised Premises as a part thereof, without disturbance, molestation or injury, and without charge, at the expiration or termination of this Lease. If the Demised Premises are not surrendered on the Expiration Date or the date of termination, Tenant shall indemnify Landlord against loss or liability, claims, without limitation, made by any succeeding Tenant founded on such delay. Tenant shall promptly surrender all keys for the Demised Premises to Landlord at the place then fixed for payment of rent and shall inform Landlord of combinations of any locks and safes on the Demised Premises.

HOLDING OVER:

30. In the event of a holding over by Tenant after expiration or termination of this Lease without the consent in writing of Landlord, Tenant shall be deemed a Tenant at sufferance and shall pay rent for such occupancy at the rate of one and one-half times the last-current aggregate Base and Additional Rent, prorated for the entire holdover period, plus all attorney's fees and expenses incurred by Landlord in enforcing its rights hereunder, plus any other damages occasioned by such holding over. Except as otherwise agreed, any holding over with the written consent of Landlord shall constitute Tenant a month-to-month Tenant.

ABANDONMENT:

31. In the event Tenant shall remove its fixtures, equipment or machinery or shall abandon the Demised Premises or any part thereof prior to the Expiration Date of this Lease, or shall discontinue or suspend the operation of its business conducted on the Demised Premises for a period of more than thirty (30) consecutive days (except during any time when the Demised Premises may be rendered untenable by reason of fire or other casualty), then in any such event Tenant shall be deemed to have abandoned the Demised Premises and Tenant shall be in default under the terms of this Lease.

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CONSENTS BY LANDLORD:

32. Whenever a provision is made under this Lease for Tenant securing the consent or approval by Landlord, such consent or approval shall only be in writing.

NOTICES:

33. Any notice required or permitted under this Lease shall be deemed sufficiently given or secured if sent by registered or certified return receipt mail to Tenant at 10701 RED CIRCLE DRIVE, MINNETONKA, MINNESOTA 55343 and to Landlord at the address then fixed for the payment of rent as provided in Article 4 of this Lease, and either party may by like written notice at any time designate a different address to which notices shall subsequently be sent or rent to be paid.

RULES AND REGULATIONS:

34. Tenant shall observe and comply with the reasonable and non-discriminatory rules and regulations as Landlord may prescribe on written notice to Tenant for the safety, care and cleanliness of the Building.

INTENT OF PARTIES:

35. Except as otherwise provided herein, the Tenant covenants and agrees that if it shall any time fail to pay any such cost or expense, or fail to take out, pay for, maintain or deliver any of the insurance policies above required, or fail to make any other payment or perform any other act on its part to be made or performed as in this Lease provided, then the Landlord may, but shall not be obligated so to do, and without notice to or demand upon the Tenant and without waiving or releasing the Tenant from any obligations of the Tenant in this Lease contained, pay any such cost or expense, effect any such insurance coverage and pay premiums therefor, and may make any other payment or perform any other act on the part of the Tenant to be made and performed as in this Lease provided, in such manner and to such extent as the Landlord may deem desirable, and in exercising any such right, to also pay all necessary and incidental costs and expenses, employ counsel and incur and pay reasonable attorneys' fees.

All sums so paid by Landlord and all necessary and incidental costs and expenses in connection with the performance of any such act by the Landlord, together with interest thereon at the rate of TWELVE percent (12%) per annum from the date of making of such expenditure, by Landlord, shall be deemed Additional Rent hereunder and shall be payable to Landlord on demand. Tenant covenants to pay any such sum or sums with interest as aforesaid and the Landlord shall have the same rights and remedies in the event of the nonpayment thereof by Tenant as in the case of default by Tenant in the payment of the Base

Rent payable under this Lease.

GENERAL:

36. The Lease does not create the relationship of principal agent or of partnership or of joint venture or of any association between Landlord and Tenant, the sole relationship between the parties hereto being that of landlord and tenant.

No waiver of any default hereunder shall be implied from any omission to take any action on account of such default if such default persists or is repeated, and no express waiver shall affect any default other than the default specified in the express waiver and that only for the time and to the extent therein stated.

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One or more waivers shall not then be construed as a waiver of a subsequent breach of the same covenant, term or condition. The consent to or approval by Landlord of any act by Tenant requiring Landlord's consent or approval shall not waive or render unnecessary Landlord's consent to or approval of any subsequent similar act by Tenant shall be construed to be both a covenant and a condition. No action required or permitted to be taken by or on behalf of Landlord under the terms or provisions of this Lease shall be deemed to constitute an eviction or disturbance of Tenant's possession of the Demised Premises. All preliminary negotiations are merged into and incorporated in this Lease. The laws of the State of MINNESOTA shall govern the validity, performance and enforcement of this Lease.

a. This Lease and the exhibits, if any, attached hereto and forming a part hereof, constitute the entire agreement between Landlord and Tenant affecting the Demised Premises. Any other agreements, subsequent alterations, amendments, changes or additions to this Lease shall be binding upon Landlord and Tenant only when reduced to writing and executed in the same form and manner in which this Lease is executed

b. If any agreement, covenant or condition of this Lease or the application thereof to any person or circumstance shall, to any extent, be invalid or unenforceable, the remainder of this Lease, or the application of such agreement, covenant or condition to persons or circumstances other than those as to which it is held invalid or unenforceable, shall not be affected thereby and each agreement, covenant or condition of this Lease shall be valid and be enforced to the fullest extent permitted by law.

HAZARDOUS MATERIAL:

37. a. The Demised Premises hereby leased shall be used by and/or at the sufferance of Tenant only for the purpose set forth in Article 11 above and for no other purposes. Tenant shall not use or permit the use of the Demised Premises in any manner that will tend to create waste or a nuisance, or will tend to unreasonably disturb other tenants in the Building or the Premises. Tenant, its employees and all person visiting or doing business with Tenant in the Demised Premises shall be bound by and shall observe the reasonable and non-discriminatory rules and regulations made by Landlord relating to the Demised Premises, the Building or the Premises of which notice in writing shall be given to the Tenant, and all such rules and regulations shall be deemed to be incorporated into and form a part of this Lease.

b. Tenant covenants through the Lease Term, at Tenant's sole cost and expense, promptly to comply with all laws and ordinances and the orders, rules and regulations and requirements of all federal, state and municipal governments and appropriate departments, commission, boards, and officers thereof, and the orders, rules and regulations of the Board of Fire Underwriters where the Demised Premises are situated, or any other body now or hereafter as well as extraordinary, which are applicable to the Demised Premises and to Tenant's particular use of the Demised Premises; provided, however, that Tenant is not required to make structural alterations or make capital expenditures to comply therewith unless such alterations or expenditures are required solely due to Tenant's particular use of the

Demised Premises. Tenant will likewise observe and comply with the requirements of all policies of public liability, fire and all other policies of insurance at any time in force with respect to the building and improvements on the Demised Premises and the equipment thereof.

c. In the event any Hazardous Material (as hereinafter defined) is brought or caused to be brought into or onto the Demised Premises, the Building or the Premises by Tenant, Tenant shall handle any such material in compliance with all applicable federal, state and/or local regulations. For purposes of this Article, "Hazardous Material" means and includes any hazardous, toxic or dangerous waste, substance or material defined as such in (or for purposes of) the Comprehensive Environmental Response, Compensation, and Liability Act, any so-called "Superfund" or "Superlien" law, or any federal, state or local statute, law, ordinance, code, rule, regulation, order decree regulating, relating to,

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or imposing liability or standards of conduct concerning, any hazardous, toxic or dangerous waste, substance or materials, as now or at any time hereafter in effect. Tenant shall submit to Landlord on an annual basis copies of its approved hazardous materials communication plan, OSHA monitoring plan, and permits required by the Resource Recovery and Conservation Act of 1976, if Tenant is required to prepare, file or obtain any such plans or permits. Tenant will indemnify and hold harmless Landlord from any losses, liabilities, damages, costs or expenses (including reasonable attorneys' fees) which Landlord suffers or incurs as a result of Tenant's introduction into or onto the Demised Premises, Building or Premises of any Hazardous Material. This Article shall survive the expiration or sooner termination of this Lease for a period of one year.

FORCE MAJEURE:

38. Either party's failure to perform the terms and conditions of this Lease, in whole or in part, shall not be deemed a breach or a default hereunder or give rise to any liability of such party to the other if such failure is attributable to any unforeseeable event beyond such party's reasonable control and not caused by the negligent acts or omissions or the willful misconduct of such party, including, without limitation, flood, drought, earthquake, storm, pestilence, lightning, and other natural catastrophes and acts of God; epidemic, war riot, civic disturbance or disobedience, and act of the public enemy; fire, accident, wreck, washout, and explosion; strike, lockout, labor dispute, and failure, threat of failure, or sabotage of such party's facilities; delay in transportation or car shortages, or inability to obtain necessary labor, materials, components, equipment, services, energy, or utilities through such party's usual and regular sources at usual and regular prices; and any law, regulation, order or injunction of a court or governmental authority, whether valid or invalid and including, without limitation, embargoes, priorities, requisitions, and allocations or restrictions of facilities, equipment or operations. In the event of the occurrence of such a force majeure event, the party unable to perform promptly shall notify the other party.

OPTION TO TERMINATE

39. Provided Tenant is not in default beyond applicable cure periods and has performed all of its covenants and obligations hereunder, Tenant shall have a one time option to terminate the Term of this Lease (hereinafter, the "Option to Terminate") at the end of the thirty-sixth (36th) month of the lease term and upon the following further terms and conditions.

Tenant can exercise said Option to Terminate only by giving Landlord six (6) months prior written notice and said notice must be accompanied by a termination fee equal to the unamortized transaction costs (including leasing commissions & tenant improvements amortized at 8% over the term of the lease). Such costs will be outlined and memorialized in a letter to tenant within 30 days of the Commencement Date of the lease.

It is understood and agreed that this Option to Terminate is personal to Lec Tec Corporation, and is not transferable; in the event of any assignment

or subleasing to any entity other than related entities, affiliates or surviving mergers of any or all of the Demised Premises said Option to Terminate shall be null and void.

If and from the date Tenant exercises the Option to Terminate, Tenant agrees that it waives any right it may have to assign or sublet all or part of the Demised Premises.

LANDLORD'S RIGHT TO RELEASE OFFICE SQUARE FOOTAGE

40. Landlord shall have the right to remove the 1,420 square feet of office space currently at 5610 Lincoln Drive from Lec Tec Corporation's total square footage and release it to a new tenant. At such time, Lec Tec Corporation's monthly Additional Rent shall be recalculated based on their new proportionate share of square footage and the monthly net rent shall remain unchanged.

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CAPTIONS

41. The captions are inserted only as a matter of convenience and for reference, and in no way define, limit or describe the scope of this Lease nor the intent or any provision thereof.

ATTACHMENTS:

42. See also Exhibits A through E, inclusive, which Exhibits are attached hereto and made a part hereof.

EXHIBIT	DESCRIPTION
Exhibit A	Legal Description
Exhibit B	Demised Premises
Exhibit C	Building Rules and Regulations
Exhibit D	Improvements
Exhibit E	Sign Criteria

SUBMISSION:

43. Submission of this instrument to Tenant or proposed Tenant or his agents or attorneys for examination, review, consideration or signature does not constitute or imply an offer to lease reservation of space, or option to lease, and this instrument shall have no binding legal effect until execution hereof by Landlord and Tenant or its agents.

REPRESENTATION:

44. Landlord, and Tenant warrant and represent that they have dealt with no real estate broker in connection with this Lease other than Welsh Companies, LLC, and that no other broker is entitled to any commission on account of this Lease. The party who breaches this warranty shall defend, hold harmless and indemnify the other from any loss, damage or expense, including reasonable attorneys' fees, arising from the breach. Landlord is solely responsible for paying the commission of the broker in accordance with the Listing Agreement.

IN WITNESS WHEREOF, the Landlord and the Tenant have caused these presents to be executed in form and manner sufficient to bind them at law, as of the day and year first above written.

Tenant:
LECTEC CORPORATION
(A MINNESOTA CORPORATION)

Landlord:
SMD LINCOLN INVESTMENTS LLC
(A MINNESOTA LIMITED LIABILITY CORPORATION)

By: /s/R.A. Young

By: /s/Scott Frederickson

Its: Chr., CEO and President

Its: Chief Manager

Date: 5/22/03

Date: 5/23/03

EXHIBIT A

LEGAL DESCRIPTION

Lot 1, Block 1, Prestige 2nd Addition,
Hennepin County, Minnesota

EXHIBIT B

[INSERT GRAPHIC]

EXHIBIT C

BUILDING RULES AND REGULATIONS

1. Any sign, lettering, picture, notice or advertisement installed on or in any part of the Premises and visible from the exterior of the Demised Premises, or visible from the exterior of the Premises, shall be installed at Tenant's sole cost and expense, and in such manner, character and style as Landlord may approve in writing. In the event of a violation of the foregoing by Tenant, Landlord may remove the same without any liability and may charge the expense incurred by such removal to Tenant.

2. No awning or other projection shall be attached to the outside walls of the Demised Premises. No curtains, blinds, shades or screens visible from the exterior of the Premises, shall be attached to or hung in, or used in connection with any window or door of the Premises without the prior written consent of Landlord. Such curtains, blinds, shades, screens or other fixtures must be of a quality, type, design and color, and attached in the manner approved by Landlord.

3. Tenant, its servants, employees, customers, invitees and guests shall not obstruct sidewalks, entrances, passages, corridors, vestibules, halls or stairways in and about the Demised Premises which are used in common with other tenants and their servants, employees, customers, guests and invitees, and which are not a part of doors or windows which would be unsightly from the Demised Premises corridors or from the exterior of the Demised Premises and will promptly remove any such objects upon notice from Landlord.

4. Tenant shall not make excessive noises, cause disturbances or vibrations or use or operate any electrical or mechanical devices that emit excessive sound or other waves or disturbances or create obnoxious odors, any of which may be offensive to the other tenants and occupants of the Demised Premises, or that would interfere with the operation of any device, equipment, radio, television broadcasting or reception from or within the Demised Premises or elsewhere and shall not place or install any projections, antennas, aerials or similar devices inside or outside of the Premises or on the Demised Premises without Landlord's approval.

5. Tenant shall not waste electricity, water or air conditioning and shall cooperate fully with Landlord to insure the most effective operation of the Demised Premises's heating and air conditioning systems and shall refrain from attempting to adjust any controls other than unlocked room thermostats, if any, installed for Tenant's use. Tenant shall keep corridor doors closed.

6. Tenant assumes full responsibility for protecting its space from theft, robbery and pilferage, which includes keeping doors locked and other means of entry to the Premises closed and secured after normal business hours.

7. Landlord shall have the right to prohibit any advertising by Tenant which in Landlord's reasonable opinion tends to impair the reputation of the Demised Premises or its desirability as an Demised Premises for office use, and upon written notice from Landlord, Tenant shall refrain from or discontinue such advertising.

8. The Premises shall not be used for lodging, sleeping or for any immoral or illegal purpose.

9. Tenant and Tenant's servants, employees, agents, visitors, and licensees shall observe faithfully and comply with the foregoing rules and regulations and such other and further appropriate rules and regulations as Landlord or Landlord's agent may from time to time adopt. Reasonable notice of any additional rules and regulations shall be given in such manner as Landlord may reasonably elect.

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10. Unless expressly permitted by the Landlord, no additional locks or similar devices shall be attached to any door or window and no keys other than those provided by the Landlord shall be made for any door. If more than two keys for one lock are desired by the Tenant, the Landlord may provide the same upon payment by the Tenant. Upon termination of this Lease or of the Tenant's possession, the Tenant shall surrender all keys of the Premises and shall explain to the Landlord all combination locks on safes, cabinets and vaults.

11. Any carpeting cemented down by Tenant shall be installed with a releasable adhesive. In the event of a violation of the foregoing by Tenant, Landlord may charge the expense incurred by such removal to Tenant.

12. The water and wash closets, drinking fountains and other plumbing fixtures shall not be used for any purpose other than those for which they were constructed, and no sweepings, rubbish, rags, coffee grounds, or other substances shall be thrown therein. All damages resulting from any misuse of the fixtures shall be borne by the Tenant who, or whose servants, employees, agents, visitors or licensees, shall have caused the same. No person shall waste water by interfering or tampering with the faucets or otherwise.

13. No electric circuits for any purpose shall be brought into the leased premises without Landlord's written permission specifying the manner in which same may be done.

14. No dogs or other animals shall be allowed in office, halls, corridors, or elsewhere in the building, except for seeing eye animals.

15. Tenant shall not throw anything out of the door or windows, or down any passageway or elevator shafts.

16. All loading, unloading receiving or delivery of goods, supplies or disposal of garbage or refuse shall be made only through entryways and freight elevators provided for such purposes and indicated by Landlord. Tenant shall be responsible for any damage to the building or the property of its employees or to others and injuries sustained by any person whomsoever resulting from the use of or moving of such articles in or out of the leased premises, and shall make all repairs and improvements required by Landlord or governmental authorities in connection with the use or moving of such articles.

17. All safes, equipment or other heavy articles shall be carried in or out of the Premises only at such time and in such manner as shall be prescribed in writing by Landlord, and Landlord shall in all cases have the right to specify the proper position of any such safe, equipment or other heavy article, which shall only be used by Tenant in a manner which will not interfere with or cause damage to the leased premises or the building in which they are located, or to the other tenants or occupants of said building. Tenant shall be responsible for any damage to the building or the property of its employees or other injuries sustained by any person whomsoever resulting from the use or moving of such articles in or out of the leased premises, and shall make all repairs and improvements required by Landlord or governmental authorities in connection with the use or moving of such articles.

18. Canvassing, soliciting and peddling in the building is prohibited and each Tenant shall cooperate to prevent the same.

19. Vending machines shall not be installed without permission of the Landlord.

20. Wherever in these Building Rules and Regulations the word "Tenant" occurs, it is understood and agreed that it shall mean Tenant's associates, agents, clerks, servants, and visitors. Wherever the word "Landlord" occurs, it is understood and agreed that it shall mean Landlord's agents,

clerks, servants and visitors.

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21. Tenant, it's servants, employees, customers, invitees and guests shall, when using the common parking facilities, if any, in and around the building, observe and obey all signs regarding fire lanes and no parking zones, and when parking always park between the designated lines. Landlord reserves the right to tow away, at the expense of the owner, any vehicle which is improperly parked in a no parking zone. All vehicles shall be parked at the sole risk of the owner, and Landlord assumes no responsibility for any damage to or loss of vehicles. No vehicles shall be parked over night outside the premises without notice to Landlord or it's agents.

22. All entrance doors to the Premises shall be locked when the Premises are not in use. All corridor doors shall also be closed during times when the air condition equipment in the Demised Premises is operating so as not to dissipate the effectiveness of the systems or place an overload thereon.

23. Landlord reserves the right at any time from time to time to rescind, alter or waiver, in whole or in part, any of these Rules and Regulations when it is deemed necessary, desirable, or proper, in Landlord's judgement, for its best interest or for the best interest of the tenants of the Demised Premises.

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EXHIBIT D

IMPROVEMENTS

The Landlord agrees to provide, at no expense to the Tenant, the following improvements to the Demised Premises:

1. Paint the office and warehouse walls white excluding the 1,420 square feet of office space in the front of 5610 Lincoln Drive.
2. Provide and install two (2) five ton and one (1) two and a half ton HVAC units in the warehouse/production areas.
3. Repair the warehouse floor and apply a clear floor sealer.
4. Service and certify that the existing HVAC units serving the Demised Premises are in good working condition as of the Commencement Date.
5. Re-key the space.
6. Install an overhead door in the wall between the two warehouse spaces.
7. Replace any burned out lights.
8. Install double doors in the demising wall separating the office from warehouse.
9. Remove the raised floor in the front of 5618 Lincoln Drive.
10. Install a utility sink in the warehouse area.

With the exception of those improvements outlined above the Tenant agrees to accept the Demised Premises in their "As-Is", "Where-Is" condition. Any additional improvements shall be completed at the Tenant's expense, and must receive Landlord's prior written approval.

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EXHIBIT E

SIGN CRITERIA

1. *In accordance with Article 7 of the attached lease, any and all signage is to be installed by Landlord at Tenant's sole cost and expense, and all signage material shall remain the property of the Tenant at the expiration of the Lease.*

2. *All units shall have signage on 24" x 48" white plaques mounted by the entry doors. Signage may contain name and company logo's, letter style per company choice.*

3. *All rear overhead loading dock doors shall be identified by Tenant's address and one line for Tenant's name beneath the address. All numbers and lettering on these doors shall be in 4" decal type black block lettering.*

4. *Any exterior signage requires the Landlord's approval.*

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER

I, Alan C. Hymes, M.D., certify that:

1. I have reviewed this quarterly report on Form 10-Q of LecTec Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the periods covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and we have:
 - (a) designed such disclosure controls and procedures or caused such disclosure controls and procedures to be designed under our supervision to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared; and
 - (b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of the end of the period covered by this report based on such evaluation; and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures; and
 - (c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that had materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 12, 2003

/s/ Alan C. Hymes, M.D.

Alan C. Hymes
Chairman of the Board,
Interim Chief Executive Officer & President

CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER

I, Alan C. Hymes, M.D., certify that:

1. I have reviewed this quarterly report on Form 10-Q of LecTec Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the periods covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and we have:
 - (a) designed such disclosure controls and procedures or caused such disclosure controls and procedures to be designed under our supervision to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared; and
 - (b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of the end of the period covered by this report based on such evaluation; and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures; and
 - (c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that had materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 12, 2003

/s/ Alan C. Hymes, M.D.

Alan C. Hymes
Chairman of the Board,
Interim Chief Executive Officer & President

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, 2003 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Alan C. Hymes, M.D., 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, to the best of my knowledge:

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/ Alan C. Hymes, M.D.

Alan C. Hymes
Chairman of the Board,
Interim Chief Executive Officer & President
(principal executive and financial officer)
August 12, 2003

A signed original of this written statement as required by Section 906 has been provided to LecTec Corporation and will be retained by LecTec Corporation and furnished to the Securities and Exchange Commission or its staff upon request.