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

FORM 10-QSB

[X] QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2004.

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

Commission file number: 0-16159

LECTEC CORPORATION
(Exact name of small business issuer 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)

(952) 933-2291
(Issuer's telephone number)

Not Applicable
(Former name, former address and former fiscal year, if changed from last report)

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

Yes [X] No [ ]

The number of shares outstanding of the issuer's common stock as of August 16, 2004 was 4,017,994 shares.

Transitional Small Business Disclosure Format (Check one):

Yes [ ] No [X]

LECTEC CORPORATION

REPORT ON FORM 10-QSB FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2004

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FORWARD-LOOKING STATEMENTS

From time to time, in reports filed with the Securities and Exchange Commission (including this Form 10-QSB), in press releases, and in other communications to shareholders or the investment community, the Company may provide forward-looking statements concerning possible or anticipated future results of operations or business developments which are typically preceded by the words "believes", "expects", "anticipates", "intends", "will", "may",

"should" or similar expressions. Such forward-looking statements are subject to risks and uncertainties which could cause results or developments to differ materially from those indicated in the forward-looking statements. Such risks and uncertainties include, but are not limited to, the Company's dependence on major customers and the continuance of prepayment terms; competitive forces including new products or pricing pressures; 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 and capital requirements for operating needs, expansion or capital expenditures and the matters discussed on the "Cautionary Statements" filed as Exhibit 99.01 to the Company's Report on Form 10-KSB for the year ended December 31, 2003.

PART I - FINANCIAL INFORMATION

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

LECTEC CORPORATION
CONDENSED BALANCE SHEETS

<TABLE>
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	(Unaudited) June 30, 2004	December 31, 2003
<S>	<C>	<C>
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 891,642	$ 483,844
Trade and other receivables, net of allowances of $36,197 and $46,000 at June 30, 2004 and December 31, 2003	652	203,866
Inventories:		
Raw materials	450,722	465,050
Work-in-process	90,081	41,354
Finished goods	296,062	587,065
	836,865	1,093,469
Prepaid expenses and other	72,153	220,813
Total current assets	1,801,312	2,001,992
PROPERTY, PLANT AND EQUIPMENT - AT COST, NET	416,650	477,063
OTHER ASSETS:		
Patents and trademarks, less accumulated amortization of $1,352,308 and $1,305,180 at June 30, 2004 and December 31, 2003	195,940	211,595
	$2,413,902	$2,690,650

</TABLE>

See notes to condensed financial statements.

LECTEC CORPORATION
CONDENSED BALANCE SHEETS - CONTINUED

<TABLE>
<CAPTION>

	(Unaudited) June 30, 2004	December 31, 2003
<S>	<C>	<C>
LIABILITIES AND SHAREHOLDERS' DEFICIT		
CURRENT LIABILITIES:		
Current maturities of long-term obligations	231,114	232,564
Accounts payable	218,717	336,749
Accrued expenses	366,564	361,828
Reserve for sales returns and credits	188,407	140,557
Customer deposits	1,402,613	1,710,282
Total current liabilities	2,407,415	2,781,980
LONG-TERM OBLIGATIONS, LESS CURRENT MATURITIES	57,982	62,438
COMMITMENTS AND CONTINGENCIES	-	-
SHAREHOLDERS' DEFICIT:		
Common stock, $.01 par value: 15,000,000 shares authorized; 4,017,994 and 3,979,327 shares issued and outstanding at June 30, 2004 and December 31, 2003, respectively	40,180	39,793
Additional paid-in capital	11,569,063	11,550,743
Accumulated deficit	(11,660,738)	(11,744,304)

	(51,495)	(153,768)
	$ 2,413,902	$ 2,690,650

</TABLE>

See notes to condensed financial statements.

LECTEC CORPORATION
CONDENSED STATEMENTS OF OPERATIONS
(Unaudited)

<TABLE>
<CAPTION>

	Three months ended June 30,		Six months ended June 30,	
	2004	2003	2004	2003
<S>	<C>	<C>	<C>	<C>
Net sales	$ 1,520,146	$ 1,624,416	$ 3,999,446	$ 3,270,106
Cost of goods sold	1,146,872	1,233,409	2,880,407	2,387,800
Gross profit	373,274	391,007	1,119,039	882,306
Operating expenses				
Sales and marketing	31,103	165,598	99,051	363,675
General and administrative	219,105	555,430	670,006	1,037,795
Research and development	121,561	97,249	268,801	198,781
Loss on sale of building	-	-	-	52,375
	371,769	818,277	1,037,858	1,652,626
Income (loss) from operations	1,505	(427,270)	81,181	(770,320)
Other income (expenses)				
Interest expense	(5,181)	(5,721)	(9,972)	(24,653)
Other, net	12,515	(557)	12,357	1,939
Net income (loss)	$ 8,839	$ (433,548)	$ 83,566	$ (793,034)
Net income (loss) per share:				
Basic	$ 0.00	$ (0.11)	$ 0.02	$ (0.20)
Diluted	$ 0.00	$ (0.11)	$ 0.02	$ (0.20)
Weighted average shares outstanding:				
Basic	4,016,089	3,966,395	3,997,708	3,966,395
Diluted	4,047,985	3,966,395	4,094,361	3,966,395

</TABLE>

See notes to condensed financial statements.

LECTEC CORPORATION
STATEMENTS OF CASH FLOWS
(Unaudited)

<TABLE>
<CAPTION>

	Six months ended June 30,	
	2004	2003
<S>	<C>	<C>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	$ 83,566	$(793,034)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Loss on sale of building	-	52,375
Depreciation and amortization	182,091	271,479
Changes in operating assets and liabilities:		
Trade and other receivables	203,214	137,525
Inventories	256,604	(333,878)
Prepaid expenses and other	148,660	80,247
Accounts payable	(118,032)	145,507
Accrued expenses and other	52,586	(266,155)
Customer deposits	(307,669)	537,302
Net cash provided by (used in) operating activities	501,020	(168,632)

CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property, plant and equipment	(74,550)	(11,005)
Proceeds from sale of property, plant and equipment	-	845,000
Investment in patents and trademarks	(31,473)	(43,993)
Net cash provided by (used in) investing activities	(106,023)	790,002
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayment of mortgage note payable	-	(820,000)
Repayment of long-term obligations	(5,906)	(61,674)
Proceeds from exercise of stock options	18,707	-
Net cash provided by (used in) financing activities	12,801	(881,674)
Net increase (decrease) in cash and cash equivalents	407,798	(260,304)
Cash and cash equivalents at beginning of period	483,844	671,588
Cash and cash equivalents at end of period	$ 891,642	$ 411,284
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid during the period for:		
Interest expense	$ 3,299	$ 36,785
SUPPLEMENTAL DISCLOSURES OF NON-CASH FINANCING ACTIVITIES:		
Fair value of warrants issued in connection with the sale of building	$ -	$ 158,000
Value of free rent received in connection with the sale of building	$ -	$ 228,512

</TABLE>

See notes to condensed financial statements.

LECTEC CORPORATION
NOTES TO CONDENSED FINANCIAL STATEMENTS
JUNE 30, 2004 AND 2003

(Unaudited)

(1) GENERAL

The accompanying condensed financial statements include the accounts of LecTec Corporation (the "Company") as of June 30, 2004 and December 31, 2003 and for the three and six month periods ended June 30, 2004 and 2003. 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-KSB for the year ended December 31, 2003. The interim condensed financial statements are unaudited and in the opinion of management, reflect all adjustments necessary for a fair presentation of results for the periods presented. Results for interim periods are not necessarily indicative of results for the year.

(2) BUSINESS SUMMARY AND CRITICAL ACCOUNTING POLICIES

BUSINESS SUMMARY

The Company is a health care and consumer products company that develops and manufactures products based on its advanced skin interface technologies. Primary products include a complete line of over-the-counter ("OTC") therapeutic patches. The Company is principally a contract manufacturer of topical therapeutic patches. All of the products manufactured by the Company are designed to be effective, safe, and highly compatible with skin.

CRITICAL ACCOUNTING POLICIES

Some of the Company's most critical accounting policies include:

Revenue Recognition. For domestic sales, revenue is recognized when the product has been shipped to the customer and collection is probable. For international sales, revenue is recognized when the product is received by the customer and collection is probable.

Impairment of Long-Lived Assets. The carrying value of long-lived assets is reviewed periodically or when factors indicating impairment are present. Projected discounted cash flows are used when reviewing these assets. The amount of impairment loss is measured as the amount by which the carrying value of the assets exceeds the fair value of the assets. Based on the Company's decision to wind down manufacturing operations, the Company reviewed its long-lived assets for impairment at June 30, 2004. No impairment was noted as a result of this review.

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

LIQUIDITY, GOING CONCERN, AND WIND DOWN OF MANUFACTURING OPERATIONS

The accompanying financial statements have been prepared in conformity

with accounting principles generally accepted in the United States of America, 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 $11,660,738 as of June 30, 2004 and, as of that date, the Company's current liabilities exceeded its current assets by $606,103. In addition, during 2004 the Company's two largest customers are going to discontinue their supply arrangements with the Company. It is management's intent to wind down its manufacturing operations, sell off manufacturing assets, renegotiate its facility leases and fund continuing operations with royalty income from licensing agreements or from other income derived from protection of rights pertaining to the Company's intellectual property.

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 the continuation of product prepayment terms with the Company's largest customer (Novartis Consumer Health, Inc.). 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 cease operations or be unable to continue in existence.

In connection with the pending cessation of manufacturing operations, the Company has implemented employee reduction and retention programs to reduce the number of employees needed to support the wind down of manufacturing operations while retaining those employees who are critical to that process and to managing the Company's ongoing licensing agreements and intellectual property portfolio. The Company is exploring its alternatives with respect to the sale of its manufacturing assets, the renegotiation or termination of its leases and other contractual obligations, and other adjustments resulting directly from the Company's exit from contract manufacturing operations. In addition, the Company will be considering other possible fundamental changes in future periods that could include, among other things, a sale of its remaining assets or of the business as a whole.

At June 30, 2004, the Company's cash resources are insufficient to fund operations for the foreseeable future without the continuation of prepayment terms on future product orders with the Company's largest customer ("Novartis"). On July 19, 2004, the Company entered into a new supply and licensing agreement ("Agreement") with Novartis, effective January 1, 2004. See the discussion under "Subsequent Event" in Note 11 of Part I, Item 1 below for a description of this new Agreement. Any cash obtained as a result of the Agreement will be used to fund continuing operations. However, there can be no assurance that the Company will receive sufficient cash to fund continuing operations. Furthermore, the Company does not have any other financing resources in place from which it can borrow or obtain additional working capital. These factors raise substantial doubt about its ability to continue as a going concern.

There can be no assurance that sources of additional capital or funds will be available on terms acceptable to the Company, if at all. If the Company is not successful in obtaining additional funding, or in continuing prepayment terms on future product orders with its largest customer, it may not be able to continue as a going concern.

(3) NET INCOME (LOSS) PER SHARE

The Company's basic net income (loss) per share amounts have been computed by dividing net income (loss) by the weighted average number of outstanding common shares. The Company's diluted net income (loss) per share amounts have been computed by dividing net income (loss) by the weighted average number of outstanding common shares and common share equivalents, when dilutive. Options and warrants to purchase 551,528 and 427,195 shares of common stock with weighted average exercise prices of $2.75 and $3.33 were outstanding during the three and six months ended June 30, 2004, respectively, but were excluded from the calculation because they were antidilutive. Options and warrants to purchase 1,315,945 and 1,252,680 shares of common stock with weighted average exercise prices of $1.89 and $1.95 were outstanding during the three and six months ended June 30, 2003, respectively, but were excluded from the calculation because they were antidilutive.

(4) SEGMENTS

The Company operates its business in one reportable segment - the manufacture and sale of products based on advanced skin interface technologies. The Company also has only one major product line - therapeutic topical skin patch products for the consumer market. The Company's products have similar economic characteristics, technology, manufacturing processes, and regulatory environments. Customers and distribution and marketing strategies vary within individual products as well as overlap between products.

(5) LONG-TERM OBLIGATIONS

In May 2002, the Company entered into a $220,000 promissory note ("Recall Debt Note") with Novartis 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 Recall Debt

Note was originally due in December 2003 and is subject to ongoing negotiations regarding payment. Interest is accrued at the prime rate plus 2.0% (effective rate of 6.0% at June 30, 2004). The Recall Debt Note is collateralized by substantially all of the Company's assets.

On July 19, 2004, the Company entered into a new supply and licensing agreement ("Agreement") with Novartis, effective January 1, 2004. Under the Agreement, Novartis released the recall debt of $250,000 ($220,000 principal and $30,000 of accrued interest) and forgave and relinquished any claim for payment of any of the obligations of the Company under the Recall Debt Note. See the discussion under "Subsequent Event" in Note 11 of Part I, Item 1 below for a description of this new Agreement.

The Company has capital lease obligations related to its leased corporate facility as well as leased office and production equipment. Capital lease obligations are due through June 2013 in various monthly installments up to $879 and carry interest up to 19.1%. The obligations are generally collateralized by equipment underlying the leases. At June 30, 2004, the principal balance remaining on capital lease obligations was $69,096.

(6) CUSTOMER DEPOSITS

The Company receives advance payments from customers for future product orders and records these amounts as liabilities. At June 30, 2004, the Company had recorded customer deposits of $1,402,613.

(7) SALE OF CORPORATE FACILITY

In February 2003, the Company sold its corporate facility in Minnetonka, Minnesota for an aggregate purchase price of $910,270, repaid the balance of the mortgage note payable of $820,000, 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 granted the Company free rent for the twelve months following the sale/leaseback transaction and thereafter extends the lease at costs based on current market conditions. The lease has been extended to February 2005 at a base rent per month of $10,853. Also in connection with the sale, the purchaser received a warrant to purchase 200,000 shares of common stock at $0.90 per share.

(8) STOCK BASED COMPENSATION

In July 2002, 803,958 stock options with a weighted average exercise price of $4.54 per share were re-priced to $0.81 per share. At June 30, 2004, 176,000 of these options were outstanding and 174,333 were exercisable. No compensation expense was recorded by the Company in connection with the re-pricing because the exercise price exceeded the market price on the date of the re-pricing. During the first quarter ended March 31, 2004, the market price was higher than the exercise price and the Company recorded compensation expense of $76,765. However, during the six months ended June 30, 2004 the ending market price for the Company's common stock was below the exercise price of the re-priced options. Accordingly, the Company recorded compensation income of $76,765 during the second quarter ended June 30, 2004, thereby having no compensation expense or income for the six months ended June 30, 2004.

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 related to stock option grants is reflected in net income or loss for the three and six months ended June 30, 2004 and 2003. The following table illustrates the effect on net income or loss if the Company had applied the fair value recognition provisions of Financial Accounting Standards Board ("FASB") Statement No. 123, Accounting for Stock-Based Compensation:

<TABLE>
<CAPTION>

	Three months ended June 30,		Six months ended June 30,	
	2004	2003	2004	2003
<S>	<C>	<C>	<C>	<C>
Net income (loss), as reported	$ 8,839	$(433,548)	$ 83,566	$(793,034)
Less: compensation expense determined under the fair value method	(26,771)	(50,703)	(53,576)	(100,657)
Pro-forma net income (loss)	$(17,932)	$(484,251)	$ 29,990	$(893,691)
Net income (loss) per share:				
Basic, as reported	$ 0.00	$ (0.11)	$ 0.02	$ (0.20)
Basic, pro-forma	(0.00)	(0.12)	0.01	(0.23)
Diluted, as reported	0.00	(0.11)	0.02	(0.20)
Diluted, pro-forma	(0.00)	(0.12)	0.01	(0.23)

</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, 2004 and 2003 was $1.09 and $0.44, respectively. 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, 2004 and 2003; zero dividend yield, expected volatility of 182% and 153%, risk-free interest rates of 2.72% and 2.85% and expected lives of 3.0 and 4.0 years, respectively.

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

No federal or state income taxes were provided for the three and six months ended June 30, 2004, due to available tax credit and net operating loss carryforwards to the current periods. The provision for income tax benefits for the three and six months ended June 30, 2004 and 2003 has been offset by a valuation allowance for deferred taxes.

(10) RECENT ACCOUNTING PRONOUNCEMENTS

In November 2002, the FASB issued Financial Interpretations No. 45 (FIN 45), "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others". FIN 45 addresses the disclosure requirements of a guarantor in its interim and annual financial statements about its obligations under certain guarantees that it has issued. FIN 45 also requires a guarantor to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. The disclosure requirements of FIN 45 were effective for the Company for the year ended December 31, 2002. The liability recognition requirements are applicable prospectively to all guarantees issued or modified after January 1, 2003. The Company currently does not have guarantees within the scope of this pronouncement, and therefore this interpretation is not anticipated to have an impact on the Company's financial position or results of operations.

In January 2003, the FASB issued 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 before 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 consolidated financial position or results of operations.

(11) SUBSEQUENT EVENT

On July 19, 2004, the Company entered into a supply and licensing agreement, effective as of January 1, 2004 (the "Agreement"), with Novartis Consumer Health, Inc. ("Novartis"). The Agreement replaces the Company's prior supply and licensing agreement with Novartis dated May 8, 2002. The Agreement requires the Company to manufacture, sell and deliver to Novartis vapor patches for sale to the pediatric market in the United States, Canada and Mexico. Under the Agreement, Novartis has the option until March 31, 2005 to extend the use of vapor patches to the adult cough/cold category in the United States, Canada and Mexico at no additional cost and under the same terms and conditions as set forth in the Agreement. In order to provide the Company with working capital funds necessary to enable it to manufacture and deliver vapor patches to Novartis in accordance with the Agreement, Novartis has or will advance up to $2,000,000 at any time to the Company for use by the Company to pay current accounts payable and expenses incurred exclusively for the manufacture and delivery of vapor patches. In consideration of the advanced funds, the Company executed and delivered to Novartis a promissory note in the principal amount of $2,000,000 and a security agreement. Under the security agreement, the Company has pledged substantially all of its assets to secure the $2,000,000 advance payment note. The advance payment note will be repaid by the Company from time to time by the delivery to Novartis of vapor patches under the Agreement.

Under the Agreement, the Company has granted to Novartis an exclusive license (the "License") to all of the intellectual property of the Company to the extent that it is used or useful in the production of the vapor patches being supplied under the Agreement for a fee of $1,065,000, which is being paid to the Company by Novartis as follows: (1) release of $250,000 in debt on July 19, 2004, (2) payment of $407,500 in cash on July 22, 2004, and (3) payment of $407,500 in cash on October 1, 2004. The License began on July 19, 2004, and will continue for the duration of any patents included in the licensed intellectual property and, with respect to all other elements of the licensed intellectual property, for the maximum duration permitted under applicable law. Upon the expiration of the patents included in the licensed intellectual property, Novartis will have a non-revocable, perpetual, fully paid-up license to the intellectual property used or useful in the production of vapor patches for the pediatric market (and the adult cough/cold market if Novartis has exercised its option in that regard). Commencing on January 1, 2005, Novartis is required by the Agreement to pay royalties, at an agreed upon percentage, to the Company based on net semi-annual sales of vapor patches by Novartis for each year the License is in effect.

The Agreement will continue in effect until February 5, 2005, except that the provisions relating to the License will continue in effect until the conclusion of the term of the License. The Company may not assign or otherwise transfer the Agreement (other than to an affiliate) without the prior written consent of Novartis, except that the Company may assign the Agreement in connection with the transfer or sale of all or substantially all of its assets or business or its merger or consolidation with another company, so long as (1) such acquirer or successor in interest agrees in writing to be bound by the Agreement, and (2) the Company gives Novartis written notice of any such assignment and 15 days to object thereto. Novartis may object to an assignment

only if such acquirer or successor in interest (a) is a direct competitor of Novartis, or (b) prior to February 5, 2005, in Novartis' reasonable discretion, is not a manufacturer which has a proven record of operational quality at least equal to that of the Company or does not have sufficient financial wherewithal. A copy of the Agreement, the promissory note, and the security agreement are filed as exhibits to this Form 10-QSB.

In conjunction with the signing of the Agreement, the Company entered into a non binding Letter of Intent with Novartis to enter into a purchase agreement through which Novartis shall purchase certain manufacturing equipment from the Company for approximately $900,000. The Letter of Intent shall be in effect until midnight September 30, 2004 (US Eastern Standard Time). The manufacturing equipment will remain with the Company until it has satisfied its supply obligation to Novartis.

ITEM 2 - MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

THREE AND SIX MONTHS ENDED JUNE 30, 2004 AND 2003

RESULTS OF OPERATIONS

Net sales for the second quarter of 2004 were $1,520,146 compared to net sales of $1,624,416 for the second quarter of 2003, a decrease of $104,270, or 6.4%. For the first six months of 2004, net sales increased $729,340, or 22.3% to $3,999,446 compared to net sales of $3,270,106 for the first six months of 2003. The decrease in net sales for the second quarter was attributable to lower contract manufacturing sales from three customers for which the Company does not anticipate any future orders, partially offset by higher contract manufacturing net sales from the Company's largest customer. The increase in net sales for the first six months of 2004, resulted primarily from higher sales to the Company's largest customer due to product acceptance and a stronger cough/cold season. Net sales of therapeutic branded consumer products for the three and six month periods ended June 30, 2004 compared to the same periods in 2003, were lower because the Company no longer manufactures these products and is selling off remaining inventory. The Company expects net sales of therapeutic branded consumer products to be minimal during the manufacturing wind down period (see "Wind Down of Manufacturing Operations" below).

Gross profit for the second quarter of 2004 was $373,274, compared to $391,007 for the second quarter of 2003, a decrease of 4.5%. Gross profit as a percent of net sales for the second quarter of 2004 was 24.6% compared to 24.1% for the second quarter of the prior year. Gross profit for the first six months of 2004 was $1,119,039, compared to $882,306 for the first six months of 2003, an increase of 26.8%. Gross profit as a percent of net sales for the first six months of 2004 was 28.0% compared to 27.0% for the same period in 2003. The decrease in gross profit dollars for the second quarter of 2004 is attributable to lower contract manufacturing sales volume coupled with some changes in customer mix. The increase in gross profit dollars for the first six months of 2004 resulted primarily from the increased contract manufacturing sales volume. The increase in gross profit as a percentage of net sales for the second quarter and first six months of 2004 resulted primarily from lower inventory obsolescence costs offset in part by accruals in 2004 for employee severance costs related to the manufacturing wind down (see "Wind Down of Manufacturing Operations" below).

Sales and marketing expenses were $31,103 and $165,598 during the second quarters of 2004 and 2003, and as a percentage of net sales, were 2.0% and 10.2%, respectively. Sales and marketing expenses were $99,051 and $363,675 for the first six months of 2004 and 2003, and as a percentage of net sales, were 2.5% and 11.1%, respectively. The decreases in sales and marketing expenses for the second quarter and first six months of 2004 were primarily due to reductions in salaries and related benefits, travel expenditures, broker commissions and other retail-related costs, and the elimination of advertising expenses, as the Company retrenched to a position of supporting the contract manufacturing business that reduced the sales force and consolidated the consumer and contract marketing efforts. Currently the Company has no employee sales force and operates with a staff of one part time sales/customer service employee. The Company anticipates sales and marketing expenditures will continue to decrease during the manufacturing wind down period (see "Wind Down of Manufacturing Operations" below).

General and administrative expenses were $219,105 and $555,430 during the second quarters of 2004 and 2003, and as a percentage of net sales, were 14.4% and 34.2%, respectively. General and administrative expenses were $670,006 and $1,037,795 for the first six months of 2004 and 2003, and as a percentage of net sales, were 16.8% and 31.7%, respectively. The decreases in general and administrative expenses for the second quarter and first six months of 2004 were primarily due to declines in headcount, consulting costs, corporate legal fees, travel and entertainment expenses, building depreciation and bad debt expense, and the reversal of compensation expense booked during the first quarter of 2004 related to re-priced stock options outstanding (see Note 8 of Notes to Condensed Financial Statements in Item 1 of this Report). The reductions in expenses were partially offset by accruals for employee severance costs. The Company anticipates general and administrative expenditures will continue to decrease during the manufacturing wind down period (see "Wind Down of Manufacturing Operations" below).

Research and development expenses for the second quarters of 2004 and 2003 were $121,561 and $97,249, and as a percentage of net sales, were 8.0% and 6.0%, respectively. Research and development expenses for the first six months of 2004 and 2003 were $268,801 and $198,781, and as a percentage of net sales, were 6.7% and 6.1%, respectively. The increases in research and development expenses for the

second quarter and first six months of 2004 resulted primarily from an increase in patent-related legal costs and accruals for employee severance costs, which were offset in part by decreases in headcount and compensation related expenses due to staff turnover and the reversal of compensation expense recorded during the first quarter of 2004 related to re-priced stock options outstanding (see Note 8 of Notes to Condensed Financial Statements in Item 1 of this Report). The Company anticipates research and development expenditures will decrease during the manufacturing wind down period (see "Wind Down of Manufacturing Operations" below).

During the six months ended June 30, 2003, the Company recorded a loss of $52,375 on the February 2003 sale and leaseback of its Minnetonka, Minnesota corporate facility. The Company also repaid an outstanding mortgage note payable in connection with the building sale (see Note 7 of Notes to Condensed Financial Statements in Item 1 of this Report).

Interest expense declined in the second quarter of 2004 to $5,181 from $5,721 in the second quarter of 2003 and declined in the first six months of 2004 to $9,972 from $24,653 for the same period in the prior year. The declines resulted primarily from the absence of mortgage interest in connection with the sale of the Minnetonka, Minnesota corporate facility in February 2003. Net other income (expense) increased in the second quarter of 2004 to $12,515 from ($557) in the second quarter of 2003. For the first six months of 2004 net other income was $12,357 compared to net other income of $1,939 for the first six months of 2003. The increase in net other income resulted primarily from the sale of some excess shelving the Company no longer needed.

The Company recorded net income of $8,839 for the second quarter of 2004 compared to a net loss of $433,548 for the second quarter of 2003. For the first six months of 2004, the Company recorded a net income of $83,566 compared to a net loss of $793,034 for the same period in the prior year. The improvement in net income (loss) was primarily the result of higher contract manufacturing sales coupled with lower operating expenses resulting from the shift in focus to contract manufacturing and other cost reduction efforts.

No federal or state income taxes were provided for the second quarter or first six months of 2004, due to available tax credit and net operating loss carryforwards to the current periods. The provision for income tax benefits for the second quarter and first six months of 2004 and 2003 was offset principally by a valuation allowance for deferred taxes.

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

LIQUIDITY AND CAPITAL RESOURCES

Cash and cash equivalents increased by $407,798 during the first six months of 2004 to $891,642 at June 30, 2004. The increase in cash and cash equivalents during the first six months of 2004 was due to cash provided by operating activities of $501,020. Trade and other receivables decreased $203,214 during the first six months of 2004 to $652 at June 30, 2004, primarily due to lower branded consumer products sales and collection of outstanding balances. Inventories decreased by $256,604 during the first six months of 2004 to $836,865 at June 30, 2004, from $1,093,469 at December 31, 2003, due primarily to the shipment of several lots of contract manufacturing finished goods in January and February 2004 which were produced in the fourth quarter of 2003. Accounts payable decreased $118,032 during the first six months of 2004 to $218,717 at June 30, 2004, from $336,749 December 31, 2003, primarily due to the timing of inventory purchases and raw material receipts.

During the second quarter of 2004, the Company purchased a piece of equipment it had previously been leasing for a fair market lease buy out of $74,550. There were no future material commitments for capital expenditures at June 30, 2004. Investments in patents and intellectual property was $31,473 for the first half of 2004 relating to expanding the coverage area for the Company's patent portfolio. Cash used in financing activities totaled $12,801 for the first half of 2004, due to the receipt of $18,707 in proceeds related to exercises of stock options and repayment of long-term capital lease obligations of $5,906.

The Company had a working capital deficit of $606,103 and a current ratio of 0.75 at June 30, 2004 compared to a working capital deficit of $779,988 and a current ratio of 0.72 at December 31, 2003. The

improvement in working capital deficit and current ratio during the first six months of 2004 is primarily attributable to higher cash and cash equivalents and lower inventory levels coupled with lower customer deposits when compared to December 31, 2003.

On July 19, 2004, the Company entered into a new supply and licensing agreement with Novartis, effective January 1, 2004. See the discussion under "Subsequent Event" in Note 11 of Part I, Item 1 above for a description of this new agreement. Under the Agreement, the Company will continue to receive advance payments against future orders. At June 30, 2004, the amount owed to Novartis under product prepayment deposits was $1,342,317. The Company has also been receiving advance product payments from other customers. Maintaining adequate levels of working capital to support the Company's manufacturing operations has been and will be dependent upon the continuation of these advance product payments.

WIND DOWN OF MANUFACTURING OPERATIONS

In September 2003, the Company learned that, as a result of a change in

its internal supplier selection criteria, Novartis intends to stop using the Company as a contract manufacturer for its topical patches during the fourth quarter of 2004. In addition, Johnson & Johnson Consumer Products Company, the Company's second largest customer, has indicated that it also intends to stop using the Company as a contract manufacturer during the third quarter of 2004. Novartis and Johnson & Johnson accounted for approximately 55% and 16% of the Company's net sales for the year ended December 31, 2003. Based on these anticipated changes, the Board of Directors has determined that the Company will wind down its manufacturing operations.

On July 19, 2004, in preparation for the wind down of its manufacturing operations, the Company entered into a new supply and licensing agreement with Novartis, effective January 1, 2004. See the discussion under "Subsequent Event" in Note 11 of Part I, Item 1 above for a description of this new agreement.

It is management's intent to wind down its manufacturing operations, sell off manufacturing assets, renegotiate its facility leases and fund continuing operations with licensing fees and royalty income from licensing agreements or from other income derived from protection of rights pertaining to the Company's intellectual property. However, there can be no assurance that the Company will be successful in the wind down of manufacturing operations, selling off the manufacturing assets, renegotiating its manufacturing facility leases, or in the protection of the Company's rights related to intellectual property. There can also be no assurance that future licensing fees and royalty income, if any, will be sufficient to fund future operations.

The Company currently believes that it will be able to wind down and exit its manufacturing operations and facility lease obligations without defaulting on its contractual obligations to any contract manufacturing customer. However, there can be no assurance that the Company will be able to exit manufacturing or its facility leases without defaulting on contractual obligations or other debts which become due and payable.

In connection with the pending cessation of manufacturing operations, the Company has implemented employee reduction and retention programs to reduce the number of employees needed to support the wind down of manufacturing operations while retaining those employees who are critical to that process and to managing the Company's ongoing licensing agreements and intellectual property portfolio. The Company currently has 25 full time and one part time employee. The Company is exploring its alternatives with respect to the sale of its manufacturing assets, the renegotiation or termination of its leases and other contractual obligations, and other adjustments resulting directly from its exit from manufacturing operations. In addition, the Company will be considering other possible fundamental changes in future periods that could include, among other things, a sale of its remaining assets or of the business as a whole.

The Company believes its existing cash and cash equivalents may not be sufficient to fund operations through 2004. The Company currently does not have any new or additional committed sources of capital or financing identified, and there can be no assurance that additional funding will be available in a timely manner, on acceptable terms, or at all. In addition, the Company may not be successful in winding down its manufacturing operations without defaulting on its existing contractual obligations, and may require additional funds for its ongoing operations during the wind down period. If adequate funds are not available,

the Company may be forced to further scale-back, eliminate certain aspects of or cease operations entirely in the near future, or attempt to obtain funds through unfavorable arrangements with partners or others that may require the Company to relinquish rights to certain technologies or potential markets or which otherwise may be materially unfavorable to the Company. The survivability of the Company is also dependant upon the Company continuing to receive cash under the prepayment agreement it has with the Company's largest customer. All these factors, among others, raise substantial doubt about the Company's ability to continue as a going concern. The Company's continuation as a going concern is dependent upon its ability to generate sufficient cash flow to meet its obligations on a timely basis, to continue to receive prepayment from the Company's largest customer, to obtain additional funding as may be required, and ultimately to attain successful operations.

ITEM 3 - CONTROLS AND PROCEDURES

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we have evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 (the "Exchange Act")). Based upon this evaluation, the principal executive officer and principal financial officer have concluded that, as of the end of the period covered by this report, our disclosure controls and procedures were effective in timely alerting them to the material information relating to the Company required to be included in the reports we file or submit under the Exchange Act.

During the quarter ended June 30, 2004, there were no changes in the Company's internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II - OTHER INFORMATION

ITEM 1 - LEGAL PROCEEDINGS

None.

ITEM 2 - CHANGES IN SECURITIES AND SMALL BUSINESS ISSUER PURCHASES OF EQUITY SECURITIES

None.

ITEM 3 - DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4 - SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

ITEM 5 - OTHER INFORMATION

None.

ITEM 6 - EXHIBITS AND REPORTS ON FORM 8-K

(a) EXHIBITS

<TABLE>
<CAPTION>

Exhibit No.	Description
<S>	<C>
3.01	Articles of Incorporation of LecTec Corporation, as amended (Incorporated herein by reference to the Company's Form S-1 Registration Statement (file number 33-9774C) filed on October 31, 1986 and amended on December 12, 1986).
3.02	Bylaws of LecTec Corporation (Incorporated herein by reference to the Company's Form S-1 Registration Statement (file number 33-9774C) filed on October 31, 1986 and amended on December 12, 1986).
*10.01	Supply and License Agreement By and Between LecTec Corporation and Novartis Consumer Health, Inc. executed on July 19, 2004 and effective as of January 1, 2004, filed herewith.
10.02	Promissory Note By and Between LecTec Corporation and Novartis Consumer Health, Inc. executed on July 19, 2004 and effective as of January 1, 2004, filed herewith.
10.03	Security Agreement By and Between LecTec Corporation and Novartis Consumer Health, Inc. executed on July 19, 2004 and effective as of January 1, 2004, filed herewith.
31.01	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, filed herewith.
31.02	Certification of Acting Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, filed herewith.

</TABLE>

<TABLE>

<S>	<C>
32.01	Chief Executive Officer and Acting Chief Financial Officer Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, filed herewith.
99.01	Cautionary Statements (Incorporated herein by reference to Exhibit 99.01 to the Company's Report on Form 10-KSB for the fiscal year ended December 31, 2003).

</TABLE>

Exhibit Notes:

*	Confidential treatment has been requested for portions of this Exhibit pursuant to Rule 24b-2 under the Securities Exchange Act of 1934 as amended. The confidential portions have been deleted and filed separately with the Securities and Exchange Commission.

(b) REPORTS ON FORM 8-K

One Current Report on Form 8-K was filed by the Company during the quarter ended June 30, 2004, concerning a change in the Company's independent accountants.

The Form 8-K, filed April 23, 2004, reported that, effective April 19, 2004, the Board of Directors of the Company dismissed its independent accountants, Grant Thornton LLP, and appointed Lurie Besikof Lapidus & Company, LLP as its new independent accountants. The decision to change accountants was approved by the Company's Board of Directors upon the recommendation of its Audit Committee.

SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

LECTEC CORPORATION

Date August 16, 2004

By /s/ Timothy P. Fitzgerald

Timothy P. Fitzgerald
Chief Executive Officer & President
(principal financial officer and
duly authorized officer)

EXHIBIT 10.01

SUPPLY AND LICENSE AGREEMENT

THIS SUPPLY AND LICENSE AGREEMENT ("Agreement") entered into as of January 1, 2004 (the "Effective Date") by and between NOVARTIS CONSUMER HEALTH, INC., 200 Kimball Drive, Parsippany, NJ 07054, a Delaware corporation ("Novartis") and LECTEC CORPORATION, 10701 Red Circle Drive, Minnetonka, MN 55343, a Minnesota corporation ("LecTec").

RECITALS

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

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

C. The parties entered into a Supply and Non-Exclusive License Agreement dated as of May 8, 2002 (the "Prior Agreement") pursuant to which Novartis undertook to purchase, and LecTec undertook to manufacture and sell to Novartis, certain LecTec patch products. As used herein "Products" shall mean Vapor Patches for sale to the pediatric market (the "Field of Use") in the United States, Canada and Mexico (the "Territory"). The licensed patents are shown in Exhibit C (the "Licensed Patents") and made a part of this Agreement. All capitalized terms used herein and not otherwise defined have the meanings ascribed to them in the Prior Agreement.

D. Pursuant to the terms of the Prior Agreement, Novartis provided financial assistance to LecTec in the form of advance payments of the purchase price of the Products and LecTec issued the Advance Payment Note to Novartis and granted a security interest and a non-exclusive license to Novartis for the purpose of securing LecTec's performance and repayment obligations.

E. LecTec is indebted to Novartis for (i) an unpaid balance of the Advance Payment Note due and payable as of December 31, 2003 (as extended by mutual agreement of the parties) in the amount of one million thirty thousand twenty-one and 00/100 dollars ($1,030,021.00); (ii) an additional obligation defined in the Prior Agreement and referred to herein as the "Recall Debt; " and (iii) the balance of the net advance payments of the purchase price of the Products made to LecTec subsequent to December 31, 2003, after credit has been given for the aggregate purchase price of all Products delivered by LecTec to Novartis.

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

F. LecTec has informed Novartis that it intends to discontinue its manufacturing operations and wind up its business and that it desires to do so in a manner that (i) will enable it to discontinue such operations in an orderly manner consistent with the preservation of the value of LecTec's assets, and (ii) will provide for an orderly transition from LecTec to Novartis (or to a contract manufacturer designated by Novartis) of the manufacturing function with regard to the Products.

G. Novartis has been providing and is willing to continue to provide financial assistance to LecTec, pursuant to the terms set forth in this Agreement, by way of additional advance payments for Products, which financial assistance is required by LecTec to enable it to accomplish the discontinuance of manufacturing operations as described above.

NOW, THEREFORE, in consideration of the premises and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties, intending to be bound, hereby agree as follows:

ARTICLE 1
INVENTORY REQUIREMENTS AND OTHER OBLIGATIONS

1.1 Production and Sale of Product Inventory. From the Effective Date until February 5, 2005 or such earlier or later date as the parties may mutually agree upon (the "Manufacturing Period"), LecTec shall manufacture, sell and cause to be delivered to Novartis, Products in the quantities set forth in the Purchase Order and Novartis shall purchase such Products in the quantities and at the prices set forth in the Purchase Order. As used herein, "Purchase Order" shall mean the order by Novartis for Products at the prices and upon the delivery schedule to be purchased by Novartis during the Manufacturing Period as set forth in Exhibit 1.1 hereto and made a part hereof.

1.2 Exclusivity. LecTec shall manufacture and sell the Products exclusively to Novartis, provided, however, that the term "exclusively" as used herein shall be limited to mean that LecTec may not manufacture the Products or any other Vapor Patches (collectively, "Comparable Products") for sale to any other customers for pediatric use (the "Field of Use") in the United States, Canada or Mexico (the "Territory"). Novartis shall have the option until March 31, 2005 to extend the Territory and the exclusive Field of Use to the adult cough/cold category at no additional cost and under the same terms and conditions set forth in this Agreement.

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

1.4 Production Standards. All Products sold and delivered to Novartis hereunder shall (a) conform in all material respects with the specifications set forth in that certain Quality Assurance Agreement by and between Novartis and LecTec, dated as of May 5, 2000 (the "QA

Agreement"), and with such further specifications as shall be agreed to by all parties in writing (the "Specifications"); (b) be manufactured, packaged and sold to Novartis without any material deviation from or breach of (i) the QA Agreement, and (ii) any applicable laws, regulations, and requirements of any government or governmental agency; and (iii) be subject to the warranties set forth in this Agreement.

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

1.6 Amendment of Purchase Order. LecTec shall use its commercially reasonable efforts to accommodate any Novartis requests for delivery of Products in excess of the quantities described in the Purchase Order, or for delivery of Products sooner than that allowed or specified in the Purchase Order. If Novartis' business conditions necessitate reduction or delay in its requirements for Products, then LecTec shall use its commercially reasonable efforts to implement such requested changes. Notwithstanding the foregoing, LecTec shall not take any action in response to any such requests which would result in charges to Novartis in addition to those set forth in the respective purchase order without Novartis' prior written consent. Article 2

ARTICLE 2
PAYMENT

2.1 Prices. In consideration of the satisfactory manufacture and delivery to Novartis of the ordered quantities of Products, Novartis shall pay LecTec for the Products in accordance with the prices set forth in Exhibit 2.1. Subject to the provisions of Section 2.5 hereof, Novartis shall make such payments within thirty (30) days of the date of each LecTec invoice issued upon shipment of the Products. Such payments shall be without prejudice to the inspection and credit rights of Novartis under Article 3 of this Agreement.

2.2 Taxes. Novartis shall bear the cost of taxes of any kind, nature or description whatsoever applicable to the sale of any Products by LecTec to Novartis (other than taxes based upon the income of LecTec or LecTec's employees or due to the fact that LecTec conducts business or otherwise is present in a particular tax jurisdiction), unless Novartis is exempt therefrom and provides to LecTec tax exemption certificates or permits acceptable to the appropriate taxing authorities.

*2.3 **

*2.4 **

2.5 Advance Payments. In order to provide LecTec with working capital funds necessary to enable it to manufacture and deliver Products to Novartis pursuant to this Agreement, Novartis shall advance funds (each such advance, an "Advance Payment" and, collectively, the "Advance Payments") to LecTec for use by LecTec (a) to pay current accounts payable and expenses not exceeding $2,000,000.00 in the aggregate and thereafter (b) exclusively for the manufacture and delivery of Products. Subject to the full and timely performance by LecTec of the Product shipment requirements set forth in the Purchase Order and all other obligations of LecTec under this Agreement, Novartis shall disburse the Advance Payments to LecTec in installments in accordance with the schedule designated as "LecTec Payments" in Exhibit 2.5.

Novartis shall have no obligation to disburse any Advance Payment (x) if LecTec shall fail to make any delivery of Products to Novartis in strict compliance with the provisions of the Purchase Order, time being of the essence or (y) if such Advance Payment would cause the unpaid principal balance of the New Advance Payment Note, as defined in Section 2.5.1 to exceed $2,000,000.00. In the event that Novartis shall withhold any Advance Payment by reason of clause (y) in the preceding sentence, Novartis shall thereafter disburse the withheld Advance Payment, in whole or in part, from time to time at the request of LecTec at such time or times as the making of such disbursement will not cause the unpaid principal balance of the New Advance Payment Note to exceed $2,000,000.00,

provided that Novartis shall have no obligation to disburse such withheld Advance Payment unless LecTec shall be in compliance with its obligations under this Agreement at the time of its request therefore.

2.5.1 The Advance Payments disbursed to LecTec as provided in Section 2.5 together with the outstanding balance of advances made by Novartis to LecTec on and after the date of the Prior Agreement, including such amounts advanced subsequent to December 31, 2003, as set forth in Schedule 2.5.1 ("Schedule of Inventory Payments") annexed hereto and made a part of this Agreement shall be deemed to be a loan from Novartis to LecTec. On the Effective Date, LecTec shall execute and deliver to Novartis (a) a promissory note in the principal amount of $2,000,000.00 in the form attached hereto as Exhibit 2.5.1(a) (the "New Advance Payment Note"), (b) a security agreement in the form attached hereto as Exhibit 2.5.1(b) ("New Security Agreement"), and (c) such other documents as shall reasonably be deemed necessary by Novartis to perfect its security interests in the assets of LecTec as provided in the Security Agreement.

2.5.2 Unless otherwise prepaid in accordance with the terms of the Advance Payment Note, LecTec shall repay the principal amount of the New Advance Payment Note (or so much thereof as shall actually have been disbursed to it in accordance with the provisions of Section 2.5) in monthly installments equal to the aggregate purchase price of all Products delivered by LecTec to Novartis during such calendar month pursuant to the Purchase Order. Novartis shall credit the aggregate purchase price of Products delivered, determined as provided in this Agreement, against the payment obligations of LecTec under or by reason of (a) first, the outstanding balance as of the Effective Date of advances made to LecTec until such balance and all obligations of LecTec under the Advance Payment Note shall have been fully satisfied and (b) second, the New Advance Payment Note, and such credits shall constitute full payment by Novartis of the purchase

price of such Products until such time as all of LecTec's obligations under Section 2.5.1 shall have been paid in full.

2.5.3 Notwithstanding the provisions of Section 10.2 of this Agreement, LecTec shall be deemed to be in default of its obligations under Section 2.5.2: (a) if, during the Manufacturing Period, two consecutive Batches, as defined in Section 2.4 or any three Batches, as so defined, are rejected by Novartis based upon a commercially reasonable determination by Novartis, made without regard to the procedures set forth in Article 3 of this Agreement, that such Batches, as so defined, fail to comply with the Product quality provisions of Section 8.1 of this Agreement, or (b) if LecTec shall fail to deliver any Batch, as so defined, by the later of (i) the thirty (30) day period commencing upon Novartis' QA release or rejection and (ii) thirty (30) days following the date specified for delivery in the Purchase Order, unless such failure to make timely delivery is attributable exclusively to changes ordered by Novartis in Product specifications or Product packaging specifications.

ARTICLE 3
INSPECTIONS AND ACCEPTANCE

3.1 Inspection; Right of Rejection. Novartis shall accept any delivery of Products hereunder if, in Novartis' sole and reasonable discretion, Novartis determines that the delivery complies fully with the Purchase Order, the Specifications and the requirements of this Agreement. Novartis shall have the right to inspect all Products delivered hereunder within thirty (30) days of its receipt of the Products and all required documentation. Novartis shall provide LecTec with written notice of its acceptance or rejection of the shipment within sixty (60) days of receipt of the Products and all required documentation. Any notice of rejection shall specify the reason(s) therefor. Except in the event of any investigation, corrective action or retesting of a shipment, if Novartis fails to provide LecTec with written notice of its acceptance or rejection of the shipment within sixty (60) days of receipt of the Products and all required documentation, then the shipment shall be deemed to have been accepted by Novartis. Novartis' prior payment of any invoice for a shipment which is timely rejected under this Section 3.1 shall not prejudice Novartis' right under Section 3.2 to seek replacement Products or a credit or refund, as Novartis may deem appropriate, with respect to any such rejected Products.

3.2 Replacements. If Novartis notifies LecTec that any Products, or any part thereof, are rejected pursuant to Section 3.1, then, at Novartis' option, (a) LecTec shall, at no additional charge, deliver replacement Products to Novartis as soon as reasonably practicable thereafter (but, in any event, within ninety (90) days after the initial notification by Novartis); or (b) the quantity of Products so rejected shall be deemed to have been deleted from the Purchase Order, and Novartis shall not be obligated to make any payments to LecTec with respect to such quantity or the rejected shipment (or, if payment has already been made for such Products, then Novartis shall be entitled to a credit in such amount). Novartis shall give commercially reasonable cooperation to LecTec to determine the nature and extent of any problem giving rise to a rejection of Products, including, without limitation, prompt samples of any allegedly non-conforming Products.

3.3 Returns. Novartis shall not return any rejected Products to LecTec except upon a return material authorization ("RMA") from LecTec. LecTec shall pay the freight to deliver replacement Products to Novartis for rightfully rejected Products, and LecTec shall pay the freight to return to LecTec or its designee rejected Products for which LecTec has provided to Novartis an RMA.

ARTICLE 4
DOCUMENTATION AND INFORMATION

4.1 Confirmation. LecTec shall submit to Novartis the batch manufacturing and testing documents relating to any Products ordered hereunder, within ten (10) days of the completion of the manufacturing process with respect to any particular batch of Products. LecTec shall provide such documentation as reasonably requested by Novartis solely (a) to assist Novartis in determining whether any manufactured or delivered Products comply fully with the Specifications and the requirements of this Agreement; (b) to assist Novartis in obtaining any and all regulatory approvals necessary to market the Products in the Territory; or (c) to enable Novartis to comply with any statutory or regulatory requirements or with a request by any governmental or regulatory authority in the Territory. Such records and reports shall be subject to the confidentiality provisions of Article 7 of this Agreement, shall be deemed LecTec's Confidential Information, and shall be subject to the requirements of Section 1.3 of the QA Agreement.

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

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

ARTICLE 5
PRODUCTION PROCEDURES

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

5.2 Product Packaging. The Products shall be delivered to Novartis packaged in accordance with the Specifications and the production schedule set forth in Exhibit 1.1. At a time designated by Novartis, it shall have the Products packaged with another packager and the cost of the Products from LecTec shall be reduced as set forth in Exhibit 2.1. Notwithstanding the foregoing, Novartis shall have the right to require any special or varied packing that it believes is reasonably necessary to meet customs or regulatory requirements. Reasonable incremental costs which result directly from any packing changes required by Novartis will be borne by Novartis.

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

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

5.4.1 LecTec shall Dispose or arrange for the Disposal of Waste and at an Approved Disposal Facility. Novartis shall have the right to unilaterally modify any designation of any Approved Disposal Facility at any time based upon audit and inspection results. LecTec shall only transport Waste to an Approved Disposal Facility by means of a transporter lawfully permitted to transport the particular types of Waste at issue. LecTec shall be solely responsible for the proper Disposal of Waste. For purposes of this Section 5.4.1,

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

5.4.1.2 "Waste" shall mean, for purposes of this Agreement only, all materials that are produced or generated in connection with the

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

5.4.1.3 "Hazardous Waste" shall mean (a) any material or substance defined as or containing materials defined as a "hazardous substance" pursuant to any applicable laws or regulations, including the Comprehensive Environmental Response, Compensation and Liability Act, as amended, the Resource Conservation and Recovery Act, as amended, and any similar successor or supplementary legislation, and the regulations promulgated thereunder, or (b) any material or substance that is radioactive; and

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

5.4.2 Notwithstanding anything to the contrary herein, (i) if LecTec and/or any LecTec Contractor fails to comply with the obligations set forth in this Section 5.4, then LecTec shall be responsible for any claims, suits, or liabilities resulting therefrom (including, without limitation, those based on strict liability and joint and several liability), and LecTec shall indemnify, defend and save Novartis (including officers, directors, employees and agents of Novartis) harmless from and against any and all such claims, suits, and liabilities; and (ii) LecTec shall indemnify, defend and save Novartis (including officers, directors, employees and agents of Novartis) harmless from and against any and all claims, suits, and liabilities which arise directly or indirectly from the storage, release, transportation or disposal of chemicals, raw materials, product, waste or any other substance by LecTec and/or any LecTec Contractor.

ARTICLE 6
OWNERSHIP, PATENT AND LICENSE PROVISIONS

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

6.2 License to Novartis.

6.2.1 A promissory note issued by LecTec to Novartis to evidence the Recall Debt of LecTec to Novartis in the amount of $250,000 (the "Recall Debt Note") became due and payable, by its terms, on December 31, 2003.

6.2.2 Upon the signing of this Agreement by both parties, Novartis shall release the Recall Debt and forgive and relinquish any claim for payment of any of the obligations of LecTec under the Recall Debt Note in partial consideration of the sale by LecTec to Novartis of the license described in Section 6.2.3.

6.2.3 On the Effective Date, LecTec shall grant to Novartis, and Novartis shall accept, a license (the "License") to all of the intellectual property of LecTec used or useful in the production of the Products including, without limitation, the trade name "Triaminic Vapor Patch," the Licensed Patents listed in Exhibit C, designs, bills of material, manufacturing procedures, and know-how associated with the Products, together with copies of any documentary materials embodying the know-how used in the design, packaging, testing and production of the Products (collectively, the "Intellectual Property"). For the sake of clarity, the Intellectual Property shall not include any other LecTec trade names and shall not extend to the foregoing materials used in the design and production of Comparable Products (as such term is defined in Section 1.2 hereof) to the extent such Intellectual Property is not also used or useful in the design and production of the Products. The License shall give Novartis the exclusive right to manufacture and sell the Products for the Field of Use within the Territory. The term of the License shall be co-terminous with the duration of any patents included in the Intellectual Property and, with respect to all other elements of the Intellectual Property, shall be for the maximum duration permitted under applicable law, and shall continue beyond the end of the Manufacturing Period of Section 1.1 and Exhibit 1.1. All terms, conditions and obligations of this Agreement that are required, or relate to, or are appropriate for this License, including but not limited to the Royalties of Section 6.2.3.1 shall continue in full force and effect beyond the Manufacturing Period and until the term of this License expires. Upon the expiration of the patents included in the Intellectual Property, Novartis shall have a

non-revocable, perpetual, fully paid-up, royalty-free license to the Intellectual Property.

The License shall include the right of Novartis to grant sublicenses to any Novartis Affiliate or any other third party contract manufacturer of the Products, provided, in each case (i) such sublicensee shall manufacture the Products only for Novartis; (ii) Novartis shall give written notice to LecTec of the grant of such sublicense at least ten (10) days prior to the effective date of such sublicense; (iii) such sublicense shall terminate when the License terminates; and (iv) Novartis shall give prompt written notice to LecTec if Novartis becomes aware that there has been a material breach of any of the foregoing terms by a sublicensee. The License shall be assignable by Novartis to any Novartis Affiliate or to any entity that is a successor to Novartis by merger or sale of all or substantially all of the assets of Novartis or to any entity that acquires from Novartis the rights to manufacture, distribute or sell the Product so long as (i) such acquiror or successor in interest agrees in writing to be bound by all the terms and conditions hereof; and (ii) Novartis shall first give LecTec written notice of any such assignment. Any purported assignment, transfer, or attempt to assign or transfer any interest or right hereunder except in compliance with this Section 6.2.3 shall be null, void and of no effect. Any such assignment shall be subject to the limitations on duration and scope of the License set forth in Article 6.

6.2.3.1 Licensing Fee and License Royalty Rate. The Licensing Fee for the License described in Section 6.2.3 shall be $ 1,065,000.00. This amount shall be paid to LecTec by (i) forgiveness of the Recall Debt Note as stated under Section 6.2.2, (ii) payment of $407,500.00 in cash within ten (10) days of execution of

this Agreement and (iii) payment of $407,500.00 in cash on October 1, 2004. Commencing on January 1, 2005 Novartis shall pay Royalties to LecTec based on net semi-annual sales of Products by Novartis for each year the license is in effect. The term "net sales" as used in Section 6.2.3.1 shall mean gross revenues from the arms-length sale to unaffiliated third-parties of Products manufactured by or on behalf of Novartis pursuant to the License less transportation charges to customers, including insurance; sales, excise and taxes and duties paid or allowed and any other governmental charges imposed upon the sale of any Products; Product royalties to any party other than LecTec, normal and customary trade, quantity and cash discounts allowed; allowances, chargebacks and credits to customers on account of rejection or return of Product. Royalties pursuant to Section 6.2.3.1 shall be payable semi-annually not later than ninety (90) days following the end of Novartis' two-quarter period by certified check or wire transfer payable to LecTec or its assignee. Novartis shall furnish to LecTec or its assignee, at the time of each semi-annual royalty payment, an accounting of its net sales of Product in reasonable detail. Royalty Rates are based on semi-annual sales and are shown in Exhibit 6.2.3.1 hereto and made a part hereof. For the sake of clarity, Novartis shall not owe any royalty payments for any vapor patch products distributed by Novartis that would not infringe or contribute to the infringement of a valid, enforceable claim of the licensed patents listed in Exhibit C.

*Solely to ensure proper accounting for and payment of the royalties due LecTec under Article 6, LecTec may request, not more than once per calendar year during the term of the License, reasonable access during normal business hours and upon at least ten (10) days prior written notice by LecTec's independent certified accountants, reasonably acceptable to Novartis("LecTec Auditor"), to examine and copy the records of Novartis relating to the sale of Products during the term of the License. The LecTec Auditor may not disclose any such Novartis records to LecTec but shall report to LecTec and Novartis only the results of its audit in respect of whether Novartis has properly accounted for and paid the royalties due to LecTec under Article 6, which report shall be final and binding upon the parties. Except in the case of fraud or manifest error, LecTec shall bear the cost of any such audit by the LecTec Auditor. If such audit determines that Novartis has underpaid any royalties, Novartis shall promptly pay the amount underpaid and simple interest thereon at the rate of ** per annum and also the LecTec audit cost in the event such underpayment exceeds ** of the royalties due. Any other provision of this Section 6.3.2.1 to the contrary not withstanding, LecTec may not request the audit of Novartis records for any royalty period more than two (2) years prior to the date of such request.*

6.3 Third Party Obligation -- Reduction in Royalties. In the event Novartis is required or enters into a settlement agreement to obtain a license from any unaffiliated third party under any patent or other intellectual property right and is obligated to pay a royalty to such unaffiliated third party or parties in any country in respect of the Product or its method of use, for which royalties are due under this Agreement, and such third party patent or intellectual property right

*overlaps the patents of Exhibit C then Novartis shall have the right to deduct the amount of such royalties which Novartis pays to such unaffiliated party or parties for such product in such country from the royalties to be paid to LecTec under this Agreement for such product in such country, the deduction being limited to a maximum of ** of the royalties to be paid to LecTec for sale in*

*such country provided that Novartis' combined royalty payments to LecTec and such unaffiliated party or parties do not exceed a total of **. Any excess in the amount of royalties paid by Novartis to an unaffiliated third party or parties over the amount of royalties payable to LecTec under this Agreement, shall be carried forward to future royalty payments until such excess amounts are fully exhausted.*

LecTec warrants that it has no licenses to third party patent holders or royalty obligations to third parties that concern the manufacture, sale, offer for sale, use or import of the Product. Without limiting the generality of the foregoing, LecTec shall remain responsible for any royalty obligations due to third parties under LecTec Patent Rights which have been licensed to LecTec and are sub-licensed to Novartis hereunder. LecTec will not be entitled to add such royalties due to third parties to the Novartis royalty rates.

*6.4 Third Party Competition. In the event competition in the sale of a Product that would, in the opinion of Novartis patent counsel, infringe the patents of Exhibit C ("Competitive Product") occur in the Territory, LecTec shall, at the request of Novartis, commence legal action against, or settlement negotiations with, the independent third party to cause the cessation of the making, having made, selling or distributing the Competitive Product, or to reach a settlement with the independent third party. Should such Competitive Product achieve ** ACV (All Commodity Volume) distribution in any Food or Drug or Mass (FDM) channel in any country in the Territory, then any royalty otherwise payable for said country shall be suspended until such time that the independent third party ceases to make, have made, sell or distribute the Competitive Product in said country. Such suspension of royalty payments shall be effective on the date of Novartis' written notification to LecTec of the aforesaid distribution level of such Competitive Product. Upon cessation of manufacturing and distribution of the Competitive Product by the third party or settlement with the third party, any suspended Royalty payments shall resume as if never suspended.*

6.5 Notification. Each party hereto shall promptly inform the other party of any infringement of the LecTec Patent Rights of which it has knowledge.

6.6 Right to bring action. Novartis shall have the right, in its sole discretion, to initiate legal action in respect of any infringement of the LecTec Patent Rights in the Field of Use in the Territory. In any suit against an infringement brought by either party, the prosecuting party shall have the right to control such suit and to join as a party to such suit the other party to the Agreement, and such other party shall reasonably cooperate in any such suit.

6.7 Costs and Expenses: Recovery. The costs and expenses (including attorneys' fees) of any suit against an infringement brought in accordance with this Section 6 shall be borne by the party controlling the prosecution of such suit. Any monetary recovery in connection with such infringement action shall first be applied to reimburse Novartis and LecTec for their out-of-pocket expenses (including reasonable attorneys' fees) in prosecuting such infringement action.

Once the parties have been reimbursed for their out-of-pocket expenses, the remainder will be apportioned in proportion to damages incurred by the parties.

6.8 LecTec shall promptly advise Novartis of any additions to, or deletions from the list of LecTec's Patents set forth in Exhibit C, including the issuance of patents upon any patent applications included therein.

6.9 LecTec shall, at its expense, diligently take all steps and incur all costs necessary to maintain the LecTec Patents on Exhibit C in full force and effect. If LecTec shall elect not maintain any of such Patents, it shall promptly notify Novartis of that election and shall, at Novartis' request, assign to Novartis or its designee all right, title and interest in and to such Patents, and the payment of a royalty hereunder shall cease.

6.10 LecTec Property. Subject to the provisions of Sections 6.2 and 6.9, all materials, inventions, know-how, trademarks, information, data, writings and other property, in any form whatsoever, which is provided to Novartis by or on behalf of LecTec, or which is used by LecTec with respect to the performance of its obligations hereunder, and which was owned by LecTec prior to its performance or is developed or acquired in the course of such performance hereunder, shall remain the property of LecTec (the "LecTec Property"). Novartis shall acquire no right, title or interest in the LecTec Property as a result of LecTec's performance hereunder except as provided in Sections 6.2 and 6.9. Without limiting the foregoing, as between the parties hereto, all the intellectual property rights for the Products other than the Packaging IP Rights shall be deemed to be LecTec Property subject to the License granted to Novartis under Section 6.2 hereof.

ARTICLE 7
TRADE SECRETS; CONFIDENTIALITY AND PUBLICITY

7.1 Confidential Information. During the period that this Agreement is in effect and thereafter, LecTec and Novartis shall not disclose to anyone in any manner whatsoever or use for any purpose other than its performance of this Agreement or for a purpose which is otherwise authorized under this Agreement (except as authorized in writing by the disclosing party) any information it receives from the other party ("Confidential Information"), including, without limitation, intellectual property, inventions, works of authorship, trade secrets or know-how or other information relating in any way to the Products, processes, and services of the other party.

7.2 Limitations. Each party shall limit disclosure of Confidential Information received hereunder to only those of its employees who are directly concerned

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

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

7.4 Effect of Termination. Upon termination of this Agreement, each party shall return to the other all copies of the other party's Confidential Information, and shall make no further use of such Confidential Information, except for one copy which may be retained in the receiving party's confidential files. This provision shall not apply if Novartis terminates this Agreement for breach of contract pursuant to Section 10.2.

7.5 Exceptions. The obligations of this Section 7 shall not apply to information

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

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

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

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

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

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

ARTICLE 8
QUALITY OF PRODUCTS; COMPLIANCE WITH LAW

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

8.1.1 No Products constituting or being a part of any shipment hereunder shall at the time of any such shipment be (i) adulterated or misbranded within the meaning of the Federal Food, Drug and Cosmetic Act, as amended from time to time (the "Act"), or

regulations promulgated thereunder, as such law or regulation is constituted and in effect at the time of any such shipment, or (ii) an article which may not, under the provisions of Sections 404, 505 or 512 of the Act, be introduced into interstate commerce;

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

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

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

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

Products; and

8.1.6 LecTec owns or has the right to use all necessary copyright, trademark, patents, trade secrets and other intellectual property rights which it shall use to perform its obligations hereunder with respect to sales of the Products in the United States, Canada and Mexico.

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

8.3 Remedy. In the event that Products are delivered to Novartis by LecTec that are not in compliance with the warranties made in Section 8.1 then, at Novartis's option (i) LecTec shall replace the non-compliant Products at no additional charge (which replacement Products shall be delivered to Novartis as soon as reasonably practicable, but in no event more than ninety (90) days after the initial notification by Novartis); or (ii) LecTec shall credit Novartis's account in the amount of the price of the non-compliant Products. Novartis shall give commercially reasonable cooperation to LecTec to determine the nature and extent of any problem giving rise to a breach of warranties, including, without limitation, prompt samples of any allegedly non-compliant Products. Returns of non-compliant Products shall be subject to the provisions of Section 3.3.

8.4 Quality Assurance Representative. Novartis shall have the right, at its expense, to place a quality assurance representative in the manufacturing facilities of LecTec at all times or from time to time during the term of this Agreement as determined by Novartis. LecTec shall provide complete access to its manufacturing operations respecting the Products to such representative

and shall permit such representative to conduct such inspections of materials and processes as such representative shall determine to be appropriate to assure Novartis that LecTec is at all times in compliance with the representations and warranties made in Section 8.1.

ARTICLE 9
INDEMNIFICATION AND INSURANCE

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

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

9.3 Product Recalls and Withdrawals. Each party shall promptly notify the other party of any legal and/or factual circumstances which might, under applicable laws and regulations, necessitate a field correction, recall or withdrawal of any Products (collectively, a "Regulatory Recall") and shall consult with each other regarding the appropriate steps to be taken. Novartis shall determine whether any Regulatory Recall shall take place. Novartis shall notify all regulatory authorities of any such Regulatory Recall, and shall take all steps necessary to effectuate such Regulatory Recall. LecTec shall assist Novartis in each of these activities to the extent reasonably requested by Novartis. LecTec shall reimburse Novartis for the costs of any such Regulatory Recall to the extent such Regulatory Recall was made necessary by the actions or inaction of LecTec. If LecTec is unable in good faith to obtain the recall insurance required by Section 9.4.6 for a reasonable premium, then the maximum amount which LecTec shall be required to reimburse Novartis pursuant to the preceding sentence shall be $500,000 per Regulatory Recall, not including the cost of any replacement Products made necessary by the

applicable Regulatory Recall. Novartis shall reimburse LecTec for the costs of any such Regulatory Recall to the extent such Regulatory Recall was made necessary by the actions or inaction of Novartis. Any claim for such reimbursement of costs incurred in such a Regulatory Recall shall be subject to audit by Novartis' CPA Firm.

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

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

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

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

*9.4.4 *product liability insurance with limits not less than $5,000,000;*

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

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

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

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

ARTICLE 10
TERM AND TERMINATION

10.1 Initial Term; Renewal. This Agreement shall commence on the Effective Date and shall continue in effect until the end of the Manufacturing Period as defined in Section 1.1 except that the provisions hereof respecting the License granted to Novartis as provided in Section 6.2.3 hereof shall continue in effect until the conclusion of the term of the License.

10.2 Termination for Cause. If either party materially breaches this Agreement, the other party shall give such breaching party written notice thereof with reasonable detail. If the breaching party fails to cure such breach within forty-five (45) days of its receipt of such notice, then the non-breaching party may terminate this Agreement at no cost upon written notice thereof.

10.3 Termination on Insolvency. Either party may terminate the Agreement without notice if the other party becomes insolvent, makes or has made an assignment for the benefit of creditors, is the subject of proceedings in voluntary or involuntary bankruptcy instituted on behalf of or against such party (except for involuntary bankruptcies which are dismissed within ninety (90) days), or has a receiver or trustee appointed for substantially all of its property.

Without limitation, Novartis' rights under this Agreement shall include those rights afforded by 11 U.S.C. Section 365(n) of the United States Bankruptcy Code (the "USBC") and any successor thereto. If the bankruptcy trustee of LecTec as a debtor or debtor-in-possession rejects this Agreement under 11 U.S.C. Section 365(o) of the USBC, Novartis may elect to retain its rights licensed from LecTec hereunder (and any other supplementary agreements hereto) for the duration of this Agreement and avail itself of all rights and remedies to the full extent contemplated by this Agreement and 11 U.S.C. Section 365(n) of the USBC, and any other relevant laws.

10.4 In the event that Novartis terminates this agreement pursuant to Article 10.2 (Termination For Cause), Novartis shall retain all its rights to license the Intellectual Property as set forth in Article 6 on a royalty free basis. In the event that LecTec terminates this agreement pursuant to Article 10.2 (Termination For Cause), LecTec shall retain all rights to license the Intellectual Property to other third parties.

ARTICLE 11
AUDIT AND INSPECTION RIGHTS

11.1 Audit, Inspection and Observation. During the term of this Agreement, Novartis shall have the right, at its sole cost and expense, to send Novartis representatives to audit, inspect and observe the manufacture, storage, disposal and transportation of the Products, and all other materials reasonably related thereto or used in connection therewith, upon reasonable prior notice to LecTec and during LecTec's normal business hours. Such Novartis representatives shall have no responsibility or authority for supervision of LecTec employees performing such manufacture, storage, disposal or transportation operations. Such Novartis representatives shall comply with any reasonable LecTec health, safety or security rules or policies while at LecTec's premises. The audit, inspection and observations rights set forth in this Section 11.1 are solely for

the purpose of determining LecTec's compliance with the terms of this Agreement and the QA Agreement.

11.2 Action Plan. If, as a result of any such audit, inspection or observation under Section 11.1, Novartis reasonably concludes that LecTec is not in compliance with any of its obligations hereunder, it shall so notify LecTec in writing, specifying such areas of non-compliance in reasonable detail. LecTec shall provide to Novartis within thirty (30) days of Novartis' request a

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

11.3 Government Inspections. LecTec shall inform Novartis within twenty-four (24) hours of any notification to LecTec of any site visits to the LecTec facility by the FDA, state or federal regulatory agencies or any other governmental or regulatory agency, relating, directly or indirectly, to the manufacture of the Products, and shall provide to Novartis all other materials related thereto or used in connection therewith. Novartis shall have the option of participating in any site visit by any governmental or regulatory agency (except to the extent such governmental or regulatory agency visitor objects) if the site visit relates, directly or indirectly, to the manufacturing, storage, disposal and transportation of the Products. If Novartis does not participate in the site visit for any reason, LecTec shall report in writing the results of the visit to Novartis within seven (7) days of the occurrence thereof. In the event that any such governmental or regulatory agency finds that the site is deficient or unsatisfactory in any material respect, LecTec shall cure all such material deficiencies within the earlier of ninety (90) days or such cure period as ordered by the government or regulatory agency. If all such deficiencies are not cured by LecTec within the required time frame, Novartis may deem such condition to be a material breach of this Agreement without the required 45-day cure period in Section 10.2 of this Agreement and thus may immediately terminate this Agreement.

ARTICLE 12
MISCELLANEOUS

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

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

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

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

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

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

or to such other address as may be specified in a notice given to the other party in accordance with this Section 12.4. Any notice, if sent properly addressed, postage prepaid, shall be deemed made three (3) days after the date of mailing as indicated on the certified or registered mail receipt, or on the next business day if sent by express courier service or on the date of delivery or transmission (if delivered or sent during ordinary business hours, otherwise on the next business day) if hand-delivered or sent by confirmed facsimile transmission.

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

12.6 Entire Agreement; Amendment. This Agreement, including all Exhibits annexed hereto (which are incorporated herein by reference), represents and incorporates the entire understanding between the parties hereto with respect to the subject matter of this Agreement and supersedes any prior offers, proposals, drafts or other communications with respect thereto including, without limitation, the

Prior Agreement. Each party acknowledges that there are no warranties, representations, covenants or understandings of any kind, nature or description whatsoever made by any party to any other, except such as are expressly hereinabove set forth. This Agreement shall not be subject to change or modification except by the execution of a writing specified to be an explicit amendment to this Agreement duly executed by all parties hereto.

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

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

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

Novartis, which consent shall not be unreasonably withheld, except that LecTec may assign this Agreement in connection with the transfer or sale of all or substantially all of its assets or business or its merger or consolidation with another company, so long as (i) such acquirer or successor in interest agrees in writing to be bound by all the terms and conditions hereof; and (ii) LecTec shall first give Novartis written notice of any such assignment, and fifteen (15) days to object thereto. The only grounds upon which Novartis may object to such an assignment are if such acquirer or successor in interest is (a) a direct competitor of Novartis; or prior to the end of the Manufacturing Period (b) in Novartis' reasonable discretion, is not a manufacturer which has a proven record of operational quality at least equal to that of LecTec; or prior to the end of the Manufacturing Period (c) in Novartis' reasonable discretion, does not have sufficient financial wherewithal. Any purported assignment, transfer, or attempt to assign or transfer any interest or right hereunder except in compliance with this Section 12.9 shall be null, void and of no effect.

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

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

12.11.1 A party claiming relief under this Section 12.11 shall give prompt written notice thereof to the other party, together with its best estimate of when such condition will end and its full performance may be resumed.

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

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

12.12 Survival of Terms. Sections 6, 7, 9, 10.3 and 10.4 shall survive and continue in full force and effect in accordance with their respective terms notwithstanding any termination of this Agreement.

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

NOVARTIS CONSUMER HEALTH, INC.

BY: _____
ITS:

LECTEC CORPORATION

BY: _____
ITS:

EXHIBIT C

LICENSED PATENTS

1. *U.S. Pat. No. 6,090,403*

2. *U.S. Pat. Nos. 5,536,263; 5,741,510; 6,096,333; 6,096,334 and 6,361,790.*

3. *CA Pat. No. 2 133 598*

4. *MX Pat. No. 187839*

5. *Any reexamination and reissue of the above-listed patents, if applicable.*

EXHIBIT 1.1

PRODUCTION SCHEDULE

See Attached

<TABLE>
<CAPTION>

Client	Client PO	Flavor	L #	Coat Date	Ship Date	
<S>	<C>	<C>	<C>	<C>	<C>	<C>
**	115193	Cherry	L152	**	**	
**	115194	Cherry	L153	**	**	
**	115195	Cherry	L154	**	**	
**	115196	Cherry	L155	**	**	
**	115197	Cherry	L156	**	**	
**	115198	Cherry	L157	**	**	
**	115199	Cherry	L158	**	**	
**	116427	Cherry	L21	**	**	
**	116428	Cherry	L22	**	**	
**	116429	Cherry	L23	**	**	
**	116430	Cherry	L24	**	**	
**	115191	Menthol	L159	**	**	
**	115190	Menthol	L160	**	**	
**	116431	Cherry	L25	**	**	
**	115200	Cherry	L161	**	**	
**	115201	Cherry	L162	**	**	
**	115397	Cherry	L163	**	**	
**	115202	Cherry	L164	**	**	
**	115203	Cherry	L165	**	**	
**	115204	Cherry	L166	**	**	
**	116432	Cherry	L26	**	**	
**	116433	Cherry	L27	**	**	
**	116434	Cherry	L28	**	**	
**	116435	Cherry	L29	**	**	
**	116436	Cherry	L30	**	**	
**	116437	Cherry	L31	**	**	
**	116438	Cherry	L32	**	**	
**	115205	Cherry	L167	**	**	
**	115398	Cherry	L168	**	**	
**	116439	Cherry	L33	**	**	
**	116440	Cherry	L34	**	**	
**	116441	Cherry	L35	**	**	
**	nya	Cherry	L169	**	**	
**	nya	Cherry	L170	**	**	
**	nya	Menthol	L171	**	**	
**	n/a	Cherry	L36	**	**	
**	n/a	Cherry	L37	**	**	
**	n/a	Cherry	L38	**	**	
**	n/a	Cherry	L39	**	**	
**	n/a	Cherry	L40	**	**	
**	n/a	Cherry	L41	**	**	
**	n/a	Cherry	L42	**	**	
**	n/a	Cherry	L43	**	**	
**	n/a	Cherry	L44	**	**	
**	n/a	Cherry	L45	**	**	
**	n/a	Cherry	L46	**	**	
**	n/a	Cherry	L47	**	**	
**	n/a	Cherry	L48	**	**	
**	n/a	Cherry	L49	**	**	
**	n/a	Cherry	L50	**	**	
**	n/a	Cherry	L51	**	**	
**	n/a	Cherry	L52	**	**	
**	n/a	Cherry	L172	**	**	**
**	n/a	Cherry	L173	**	**	**
**	n/a	Cherry	L174	**	**	**
**	n/a	Cherry	L175	**	**	**
**	n/a	Cherry	L176	**	**	**
**	n/a	Menthol	L177	**	**	**
**	n/a	Menthol	L178	**	**	**
**	n/a	Cherry	L179	**	**	**
**	n/a	Cherry	L180	**	**	**
**	n/a	Cherry	L181	**	**	**
**	n/a	Cherry	L182	**	**	**
**	n/a	Cherry	L183	**	**	**

</TABLE>

EXHIBIT 2.1

PRODUCT PACKAGING PRICING

LecTec Pricing – Vapor Patch

United States and Mexico

*Pricing for lots through and including **.*

<TABLE>
<CAPTION>

MARKET	SIX PATCHES WITH CARTON AND STICKERS	SIX PATCHES WITHOUT CARTON	PRICE DIFFERENCE
<S>	<C>	<C>	<C>
UNITED STATES	**	**	**
MEXICO	**	**	**

</TABLE>

*Pricing for ** and **.*

<TABLE>
<CAPTION>

MARKET	SIX PATCHES WITHOUT CARTON
<S>	<C>
UNITED STATES	**
MEXICO	**

</TABLE>

*Effective all lots manufactured subsequent to ** the price will increase by ** for each patch.*

All prices are in U.S. Dollars.

EXHIBIT 2.5

ADVANCE PAYMENTS AND DELIVERY SCHEDULE

See Attached

REVISED 7/14/04

EXHIBIT 2.5
ADVANCE PAYMENTS AND DELIVERY SCHEDULE
JANUARY 2004 THROUGH FEBRUARY 2005

<TABLE>
<CAPTION>

		ACTUAL January	ACTUAL February	ACTUAL March	ACTUAL April	ACTUAL May	ACTUAL June	July	August	September
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
LecTec Payments		**	**	**	**	**	**	**	**	**
Mexico		**	**	**	**	**	**	**	**	**
US Cherry		**	**	**	**	**	**	**	**	**
US Menthol		**	**	**	**	**	**	**	**	**
Total Lots		**	**	**	**	**	**	**	**	**
Lot Size										
** Mexico				**			**	**	**	**
** US Cherry		**	**	**	**	**	**	**	**	**
** US Menthol		**	**	**	**	**	**	**		
TOTAL PATCHES		**	**	**	**	**	**	**	**	**
Cost per Patch	EFFECTIVE LOT ** Cost per Patch									
**	**	**	**	**	**	**	**	**	**	**
**	**	**	**	**	**	**	**	**	**	**
**	**	**	**	**	**	**	**	**	**	**
NCH COST		**	**	**	**	**	**	**	**	**
AGGREGATE CASH ADVANCE	$	1,030,021	$1,324,677	$ 644,413	$1,022,988	$1,107,465	$1,279,541	$1,342,317	$1,298,578	$1,519,578	$1,391,829

</TABLE>

<TABLE>
<CAPTION>

	October	November	December	January	February	TOTALS
<S>	<C>	<C>	<C>	<C>	<C>	<C>
LecTec Payments	**	**	**	**	**	**
Mexico	**	**	**	**	**	**
US Cherry	**	**	**	**	**	**

US Menthol	**	**	**	**	**	**
Total Lots	**	**	**	**	**	**
Lot Size						
** Mexico	**	**	**			**
** US Cherry	**		**	**	**	**
** US Menthol	**			**		**
TOTAL PATCHES	**	**	**	**	**	**
EFFECTIVE LOT **						
Cost per Patch						
**	**	**	**	**	**	**
**	**	**	**	**	**	**
**	**	**	**	**	**	**
NCH COST	**	**	**	**	**	**

AGGREGATE CASH ADVANCE	$1,297,779	$1,052,580	$737,840	$82,800	$ -

</TABLE>

NOTE: ALL PRICES IN US $

Section 2.5.1(a)
Form of New Advance Payment Note

PROMISSORY NOTE

January 1, 2004 Minnetonka, Minnesota

FOR VALUE RECEIVED, the undersigned, LECTEC CORPORATION, a Minnesota corporation with a mailing address of 10701 Red Circle Drive, Minnetonka, MN 55343 (hereinafter referred to as the "LecTec"), promises to pay to the order of NOVARTIS CONSUMER HEALTH, INC. with a mailing address of 200 Kimball Drive, Parsippany, NJ 07054 (hereinafter referred to as "Novartis"), the lesser of the sum of Two Million ($2,000,000.00) Dollars or so much thereof as has been advanced and remains outstanding pursuant to Section 2.5 of the Supply and License Agreement between LecTec and Novartis dated as of January 1, 2004, (the "Agreement") together with interest and costs thereon as set forth below, such interest and costs being payable only in the event of default by LecTec hereunder.

All amounts outstanding under this Note, together with interest thereon, shall be repaid in full on upon Novartis' acceptance of final shipment of Product delivered by LecTec under the Agreement. This Note may be subject to mandatory prepayment under circumstances as set forth in the Agreement.

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

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

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

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

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

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

LECTEC CORPORATION

By: _____
Name:

Its: _____
Title:

Section 2.5.1(b)
Form of New Security Agreement

SECURITY AGREEMENT

THIS SECURITY AGREEMENT ("Security Agreement") dated as of January 1, 2004 between NOVARTIS CONSUMER HEALTH, INC., 200 Kimball Drive, Parsippany, NJ 07054 ("Creditor"), a Delaware corporation, and LECTEC CORPORATION, 10701 Red Circle Drive, Minnetonka, MN 55343 ("Debtor"), a Minnesota corporation.

RECITALS

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

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

NOW, THEREFORE, the parties hereby agree as follows:

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

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

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

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

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

(B) The address specified above is Debtor's chief executive office and principal place of business and Debtor is incorporated under the laws of the state of Minnesota.

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

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

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

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

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

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

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

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

(A) All the rights and remedies of a secured party under the Uniform Commercial Code as in effect at the time in Minnesota, all of which rights and

remedies shall be cumulative, and none exclusive, to the extent permitted by law, in addition to any other rights and remedies contained in this Security Agreement.

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

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

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

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

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

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

following addressees:

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

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

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

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

13. Entire Agreement; Amendment. This Security Agreement, including Exhibit A annexed hereto, and the Supply Agreement represent and incorporate the entire understanding between the parties hereto with respect to the subject matter of this Security Agreement and supersedes any prior offers, proposals, drafts or other

communications with respect thereto. In the event of a conflict between the terms of this Security Agreement and the Supply Agreement, the provisions of the Supply Agreement shall prevail. Each party acknowledges that there are no warranties, representations, covenants or understandings of any kind, nature or description whatsoever made by any party to any other, except such as are expressly hereinabove set forth. This Security Agreement shall not be subject to change or modification except by the execution of a writing specified to be an explicit amendment to this Security Agreement duly executed by all parties hereto.

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

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

LECTEC CORPORATION

By: _____
Name: _____
Title: _____

NOVARTIS CONSUMER HEALTH, INC.

By: _____
Name: _____
Title: _____

Exhibit 6.2.3.1
License Royalty Rates

<TABLE>
<CAPTION>

Novartis Net Semi-Annual Sales	Royalty Percentage
<S>	<C>
Less than **	**
**	**
over **	**

</TABLE>

Exhibit 10.02

PROMISSORY NOTE

January 1, 2004

Minnetonka, Minnesota

FOR VALUE RECEIVED, the undersigned, LECTEC CORPORATION, a Minnesota corporation with a mailing address of 10701 Red Circle Drive, Minnetonka, MN 55343 (hereinafter referred to as the "LecTec"), promises to pay to the order of NOVARTIS CONSUMER HEALTH, INC. with a mailing address of 200 Kimball Drive, Parsippany, NJ 07054 (hereinafter referred to as "Novartis"), the lesser of the sum of Two Million ($2,000,000.00) Dollars or so much thereof as has been advanced and remains outstanding pursuant to Section 2.5 of the Supply and License Agreement between LecTec and Novartis dated as of January 1, 2004, (the "Agreement") together with interest and costs thereon as set forth below, such interest and costs being payable only in the event of default by LecTec hereunder.

All amounts outstanding under this Note, together with interest thereon, shall be repaid in full on upon Novartis' acceptance of final shipment of Product delivered by LecTec under the Agreement. This Note may be subject to mandatory prepayment under circumstances as set forth in the Agreement.

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

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

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

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

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

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

LECTEC CORPORATION

By /s/ Timothy P. Fitzgerald

Name

Its: CEO

Title

Exhibit 10.03

SECURITY AGREEMENT

THIS SECURITY AGREEMENT ("Security Agreement") dated as of January 1, 2004 between NOVARTIS CONSUMER HEALTH, INC., 200 Kimball Drive, Parsippany, NJ 07054 ("Creditor"), a Delaware corporation, and LECTEC CORPORATION, 10701 Red Circle Drive, Minnetonka, MN 55343 ("Debtor"), a Minnesota corporation.

RECITALS

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

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

NOW, THEREFORE, the parties hereby agree as follows:

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

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

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

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

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

(B) The address specified above is Debtor's chief executive office and principal place of business and Debtor is incorporated under the laws of the state of Minnesota.

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

(A) DEBTOR FAILS TO PAY THE LIABILITIES WHEN DUE AND PAYABLE AS PROVIDED IN THE NOTE;

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

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

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

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

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

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

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

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

7. Subordination by Creditor. On no more than a single occasion and upon the written request of Debtor, Creditor shall subordinate its security interest in the Collateral to a security interest that Debtor may propose to grant to an institutional lender to secure a new loan to Debtor in a

principal amount of not less than $1,000,000. Such subordination shall have the effect only of making Creditor's security interest in the Collateral junior to the security interest granted to such new lender notwithstanding the priority of the perfection of Creditor's security interest and shall not otherwise affect any of Creditor's rights under the Note or this Security Agreement.

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

9. Enforcement. If and to the extent that any provision of this Security Agreement is determined by any legislature, court or administrative agency to be, in whole or in part, invalid or unenforceable, such provision or part thereof shall be deemed to be surplusage and, to the extent not so determined to be invalid or unenforceable, each provision hereof shall remain in full force and effect unless the purposes of this Security Agreement cannot be achieved. In the event any provisions shall be held invalid, illegal or

unenforceable the parties shall use commercially reasonable efforts to substitute a valid, legal and enforceable provision which insofar as practical implements the purposes hereof.

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

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

Creditor:	*Novartis Consumer Health, Inc.* *200 Kimball Drive* *Parsippany, New Jersey 07054* *Attn: General Counsel*
Debtor:	*LecTec Corporation* *10701 Red Circle Dr.* *Minnetonka, Minnesota 55343* *Attn: Chief Executive Officer*

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

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

13. Entire Agreement; Amendment. This Security Agreement, including Exhibit A annexed hereto, and the Supply Agreement represent and incorporate the entire understanding between the parties hereto with respect to the subject matter of this Security Agreement and supersedes any prior offers, proposals, drafts or other communications with respect thereto. In the event of a conflict between the terms of this Security Agreement and the Supply Agreement, the provisions of the Supply Agreement shall prevail.

Each party acknowledges that there are no warranties, representations, covenants or understandings of any kind, nature or description whatsoever made by any

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

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

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

LECTEC CORPORATION

By: /s/ Timothy P. Fitzgerald

Name: Timothy P Fitzgerald

Title: CEO

NOVARTIS CONSUMER.HEALTH, INC.

By: /s/ Lynne Millheiser

Name: Lynne Millheiser

Title: SVP OTC NA

EXHIBIT 31.01

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER

I, Timothy P. Fitzgerald, Chief Executive Officer and President of LecTec Corporation, a Minnesota corporation, certify that:

1. I have reviewed this Quarterly Report on Form 10-QSB 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 period covered by this 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 small business issuer as of, and for, the periods presented in this report;

4. The small business issuer'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)) and 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 small business issuer, 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;

b) Evaluated the effectiveness of the small business issuer's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

c) Disclosed in this report any change in the small business issuer's internal control over financial reporting that occurred during the small business issuer's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the small business issuer's internal control over financial reporting; and

5. The small business issuer's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the small business issuer's auditors and the audit committee of the small business issuer'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 small business issuer'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 small business issuer's internal control over financial reporting.

Date: August 16, 2004

/s/ Timothy P. Fitzgerald

Timothy P. Fitzgerald
Chief Executive Officer and President

EXHIBIT 31.02

CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER

I, Timothy P. Fitzgerald, Acting Chief Financial Officer of LecTec Corporation, a Minnesota corporation, certify that:

1. I have reviewed this Quarterly Report on Form 10-QSB 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 period covered by this 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 small business issuer as of, and for, the periods presented in this report;

4. The small business issuer'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)) and 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 small business issuer, 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;

b) Evaluated the effectiveness of the small business issuer's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

c) Disclosed in this report any change in the small business issuer's internal control over financial reporting that occurred during the small business issuer's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the small business issuer's internal control over financial reporting; and

5. The small business issuer's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the small business issuer's auditors and the audit committee of the small business issuer'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 small business issuer'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 small business issuer's internal control over financial reporting.

Date: August 16, 2004

/s/ Timothy P. Fitzgerald

Timothy P. Fitzgerald
Acting Chief Financial Officer

EXHIBIT 32.01

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 Annual Report of LecTec Corporation (the "Company") on Form 10-QSB for the quarter ended June 30, 2004 as filed with the Securities and Exchange Commission (the "Report"), I, Timothy P. Fitzgerald, Chief Executive Officer and President 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, to the best of my knowledge that:

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

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

/s/ Timothy P. Fitzgerald

Timothy P. Fitzgerald
Chief Executive Officer and President
(principal executive and financial officer)
August 16, 2004