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

FORM 10-Q

(Mark One)

☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended **September 30, 2008**

or

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to_____

Commission file number: 0-16159

LECTEC CORPORATION

(Exact name of registrant as specified in its charter)

Minnesota	41-1301878
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
1407 South Kings Highway, Texarkana, TX	75501
(Address of principal executive offices)	(Zip Code)

(903)-832-0993

(Registrant's telephone number, including area code)

Not Applicable

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES ☒ NO ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐ Accelerated filer ☐

Non-Accelerated filer ☐ (Do not check if a smaller reporting company) Smaller reporting company ☒

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES ☐ NO ☒

As of November 19, 2008 the registrant had 4,290,026 shares of common stock outstanding.

LECTEC CORPORATION

REPORT ON FORM 10-Q FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2008

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Forward-Looking Statements

From time to time, in reports filed with the Securities and Exchange Commission (including this Form 10-Q), in press releases, and in other communications to shareholders or the investment community, the Company may provide forward-looking statements concerning possible or anticipated future results of operations or business developments which are typically preceded by the words “believes,” “wants,” “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 royalty payments from Novartis Consumer Health, Inc., which is selling an adult vapor patch licensed by the Company, the Company’s dependence on key personnel and Board of Director members, the success or failure of any attempt by the Company to protect or enforce its patents and territories of coverage and the outcome of pending litigation, the issuance of new accounting pronouncements, the availability of opportunities for licensing agreements related to patents that the Company holds, limitations on market expansion opportunities, and other risks and uncertainties as described in the “Cautionary Statements” filed as Exhibit 99.01 to the Company’s Form 10-KSB for the year ended December 31, 2007 and updated in Exhibit 99.1 to our Form 10-QSB for the quarter ended March 31, 2008.

PART 1 - FINANCIAL INFORMATION

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

LECTEC CORPORATION
CONDENSED BALANCE SHEETS

ASSETS	September 30, 2008 (Unaudited)	December 31, 2007
CURRENT ASSETS:		
Cash and cash equivalents	$ 410,107	$ 832,925
Royalty receivable	14,022	100,431
Prepaid expenses and other	131,041	62,877
Total current assets	555,170	996,233
OTHER ASSETS:		
Office equipment	6,633	-
Patent costs	49,607	42,918
Prepaid insurance - director and officer	30,419	60,838
	86,659	103,756
TOTAL ASSETS	$ 641,829	$ 1,099,989
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 24,947	$ 13,407
Accrued expenses	52,903	57,767
Discontinued operations	130,000	130,000
Total current liabilities	207,850	201,174
COMMITMENTS AND CONTINGENCIES		
SHAREHOLDERS' EQUITY:		
Common stock, $.01 par value; 15,000,000 shares authorized; 4,290,026 and 4,176,048 shares issued and outstanding at September 30, 2008 and December 31, 2007, respectively	42,900	41,760
Additional contributed capital	12,652,219	12,198,278
Accumulated deficit	(12,261,140)	(11,341,223)
	433,979	898,815
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 641,829	$ 1,099,989

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

LECTEC CORPORATION
CONDENSED STATEMENTS OF OPERATIONS
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
REVENUE - ROYALTY AND LICENSING FEES	$ 14,022	$ -	$ 40,125	$ -
OPERATING EXPENSES	599,869	469,283	974,197	770,043
Loss from operations	(585,847)	(469,283)	(934,072)	(770,043)
Interest income	3,008	12,288	14,155	40,631
NET LOSS	$ (582,839)	$ (456,995)	$ (919,917)	$ (729,412)
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING:				
Basic and diluted	4,290,026	4,175,371	4,269,227	4,162,245
LOSS PER COMMON SHARE:				
Basic and diluted	$ (0.14)	$ (0.11)	$ (0.22)	$ (0.18)

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

LECTEC CORPORATION
CONDENSED STATEMENTS OF CASH FLOWS
(Unaudited)

	Nine Months Ended September 30,	
	2008	2007
Cash flows from operating activities:		
Net loss	$ (919,917)	$ (729,412)
Adjustments to reconcile net loss to net cash used in operating activities:		
Compensation expense related to stock options	455,080	332,925
Amortization of patent costs	16,591	17,210
Changes in operating assets and liabilities:		
Royalty receivable	86,409	-
Prepaid expenses and other	(37,745)	26,617
Accounts payable	11,540	14,677
Accrued expenses	(4,863)	(18,491)
Net cash used in operating activities	(392,905)	(356,474)
Cash flows from financing activities:		
Proceeds from the exercise of stock options	-	18,087
Net cash provided by financing activities	-	18,087
Cash flows from investing activities:		
Purchase of office equipment	(6,633)	
Investment in patents	(23,280)	-
Net cash used in investing activities	(29,913)	-
Net decrease in cash and cash equivalents	(422,818)	(338,387)
Cash and cash equivalents - beginning of period	832,925	1,281,785
Cash and cash equivalents - end of period	$ 410,107	$ 943,398

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

LECTEC CORPORATION
Notes to Condensed Financial Statements
September 30, 2008 and 2007

(Unaudited)

(1) Basis of Presentation

The accompanying condensed financial statements include the accounts of LecTec Corporation (the "Company") as of September 30, 2008 and December 31, 2007 and for the three and nine month periods ended September 30, 2008 and 2007, respectively. 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, 2007. 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 full year.

(2) Business/Premises Summary and Critical Accounting Policies

Business Summary

The Company is an intellectual property licensing and holding company. The Company earns royalties and licensing fees from licensing agreements pertaining to the Company's patents. The Company has one licensing agreement ("Novartis Agreement" or "Agreement") with Novartis Consumer Health, Inc. ("Novartis"), which pays royalties to the Company from time to time, within the terms of the Agreement, based upon a percentage of Novartis' net sales of licensed products. Previously, the Company was a contract manufacturer of hydrogel topical patches which were sold to major pharmaceutical customers until the Company ceased its manufacturing operations in December 2004. The Company holds multiple domestic and international patents based on its hydrogel technology. A hydrogel is a gel-like material having an affinity for water and similar compounds. These gels are ideal for delivering medication onto the skin.

Corporate Office Relocation and Premises Summary

The Company is currently finalizing a second lease amendment (the "Second Lease Amendment") that will allow for the Company to remain in the Edina, Minnesota premises until December 31, 2008. This will allow adequate time to vacate the premises and to move and dispose of remaining items at that facility. The monthly lease will remain at $2,400 per month. The terms of the Second Lease Amendment are the same as described below.

In May, 2008, the Company entered into a lease amendment (the "Lease Amendment") amending its lease dated May 23, 2003, between the Company and SMD Lincoln Investments (the "Minnesota Lease"), regarding the Company's previous headquarters located at 5610 Lincoln Drive, Edina, Minnesota (the "Leased Premises").

The Lease Amendment provided for a reduction in the amount of office space leased by the Company at the Leased Premises from 14,316 square feet to 3,299 square feet. In addition, pursuant to the Lease Amendment, the Company will pay a monthly rent of approximately $2,400. The Lease Amendment did not extend the term of the Minnesota Lease, which expired on August 31, 2008. The Company had previously negotiated with property management that the Company could stay in the Leased Premises until September 30, 2008 for a lease rate of $2,400 per month to allow the Company additional time to vacate its current space. The Company intends to vacate its Leased Premised by December 31, 2008.

On July 23, 2008, the Company moved its corporate headquarter facilities from Edina, Minnesota to Texarkana, Texas. In connection with this relocation, the Company entered into a Lease Agreement with Lockaway Storage, Inc. (the "Lessor") on July 23, 2008 (the "Texas Lease"), pursuant to which the Company agreed to lease approximately 1,200 square feet of space located at 1407 South Kings Highway, Texarkana, Texas 75501, for a term of 6 months, beginning on August 1, 2008 and ending on February 1, 2009. The monthly lease rate is $650 per month during the term of the Texas Lease, and the Company must also pay its pro rata share of the costs and expenses incurred by the Lessor to operate the common areas of the office and warehouse complex. The Texas Lease may be extended for a period of 6 or 12 months commencing at the expiration of the original lease term, at the option of the Company, at a monthly lease rate of $700. The Texas Lease contains customary representations, warranties and covenants on the part of the Company and the landlord. The Company believes this is an ideal location based upon favorable local lease rates, secure premises, tax advantages, community responsibility, etc.

On July, 23, 2008, the Company also opened an office in India, Level 2, Connaught Place, Bund Garden Road, Pune (India), 411001, to explore research, development and manufacturing opportunities for its advanced skin interface technologies and products. The Company chose India because the Company considers it one of the most robust, globally competitive, and cost-efficient locations for the development and manufacturing of pharmaceutical and medical products. The Company also wanted to have better access to the pool of well-educated scientific and engineering talent available in India. As of July 23, 2008, the Company has paid in advance $2,086 (including refundable security deposit of $250) for this lease, which expires on July 31, 2009.

Critical Accounting Policies

The Company's most critical accounting policies include:

Revenue Recognition. Royalty and licensing fees are recognized when earned under the terms of the Novartis Agreement, based upon sales information of licensed products sold by Novartis, and collection is reasonably assured.

Patent Costs. The carrying value of patent costs is reviewed periodically or when factors indicating impairment are present. Any impairment loss is measured as the amount by which the carrying value of the assets exceeds the fair value of the assets. The Company believes no such impairment currently exists.

Royalty Receivable. The Company grants credit to its only customer, Novartis, in the normal course of business and under the terms contained in the Agreement. Novartis pays royalty income within the terms defined in the Agreement. At September 30, 2008, the Company had an outstanding royalty receivable with Novartis of $14,022. Management believes, based upon past collection experience, that any and all amounts due from Novartis outstanding from time to time are fully collectible.

Use of Estimates. In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect certain reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Share-Based Compensation. In December 2004, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 123(R), *Share-Based Payment*, which requires that compensation cost relating to share-based payment transactions (including the cost of all employee stock options) be recognized in the financial statements. That cost is measured based on the estimated fair value of the equity or liability instruments issued. SFAS No. 123(R) covers a wide range of share-based compensation arrangements including share options, restricted share plans, performance-based awards, share appreciation rights, and employee share purchase plans. SFAS No. 123(R) replaces SFAS No. 123, *Accounting for Stock-Based Compensation*, and supersedes Accounting Principles Board ("APB") Opinion No. 25, *Accounting for Stock Issued to Employees*. The Company was required to apply SFAS No. 123(R) effective January 1, 2006. Thus, the Company's financial statements reflect the cost for (a) all share-based compensation arrangements granted after December 31, 2005 and for any such arrangements that are modified, cancelled, or repurchased after that date, and (b) the portion of previous share-based awards for which the requisite service had not been rendered as of that date, based on the grant date estimated fair value.

On September 26, 2008, the Compensation Committee of the Board of Directors of the Company granted stock options to each of the three members of the Board of Directors of the Company, as well as to its sole employee. The terms of the options granted to the four individuals were identical except that the options granted to Mr. William Johnson, the Company's only employee, qualified as incentive stock options under the Internal Revenue Code of 1986, as amended, while each of the three Directors of the Company was granted non-qualified stock options. Mr. William Johnson, Mr. C. Andrew Rollwagen and Dr. Daniel Sigg each received an option to purchase 16,000 shares of the Company's common stock at $4.00 per share and Mr. Judd Berlin received an option to purchase 66,000 shares of the Company's common stock at $4.00 per share. All of the options are fully vested and exercisable as of the date of grant and will expire on September 26, 2018. All of the options were granted under plans previously approved by the Company's shareholders and the exercise price for the options were issued at a price equal to the fair market value of the Company's common stock on the date of grant. All of the options provide that termination of service as a Director or employee of the Company for any reason other than for cause will not affect the terms of the option or cause the option to terminate.

The Company recorded share-based compensation expense of $455,080 or $0.11 per share for the three and nine months ended September 30, 2008. The fair value of the options granted were determined utilizing the Black-Scholes-Merton option pricing model. All of the Company's options were fully vested as of September 30, 2008 and there were no modifications to existing grants, during the three and nine month periods ended September 30, 2008 and 2007.

Recent Accounting Pronouncements:

In December 2007, the FASB issued SFAS No. 141R, (revised 2007), *Business Combinations*. SFAS 141R significantly changes the accounting for business combinations in a number of areas including the treatment of contingent consideration, pre-acquisition contingencies, transaction costs, in-process research and development, and restructuring costs. In addition, under SFAS 141R, changes in an acquired entity's deferred tax assets and uncertain tax position after the measurement period will impact income tax expense. SFAS 141R is effective for fiscal years beginning after December 15, 2008. In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No 51*. SFAS 160 changes the accounting and reporting for minority interests, which will be recharacterized as noncontrolling interests and classified as a component of equity. This new consolidation method significantly changes the accounting for transactions with minority interest holders. SFAS 160 is effective for fiscal years beginning after December 31, 2008. These standards will change our accounting treatment for business combinations on a prospective basis.

In February 2008, the FASB issued FASB Staff Position ("FSP") FAS 157-2, *Effective Date of FASB Statement No. 157,* ("FSP FAS 157-2"), which delays the effective date of SFAS No. 157 for all nonrecurring fair value measurements of non-financial assets and liabilities until fiscal years beginning after November 15, 2008. The Company has elected to defer the adoption of the nonrecurring fair value measurements disclosures of non-financial assets and liabilities. The adoption of FSP FAS 157-2 is not expected to have a material impact on the Company's financial statements.

(3) Loss Per Common Share

Basic loss per common share is computed by dividing net loss by the weighted average number of common shares outstanding. Diluted loss per common share is computed by dividing net loss by the weighted average number of common shares outstanding and common share equivalents related to stock options and warrants when dilutive. Common stock options to purchase 269,200 shares of common stock were outstanding during the three and nine months ended September 30, 2008. Common stock options and warrants to purchase 393,200 shares of common stock were outstanding during the three and nine months ended September 30, 2007. Because the Company had a loss from operations during the three and nine months ended September 30, 2008 and 2007, those shares were excluded from the loss per share computations because they were antidilutive.

(4) Income Taxes

The provision for income taxes for the three and nine months ended September 30, 2008 and 2007, was offset by a valuation allowance for deferred taxes. No federal or state income tax benefit was provided for the three and nine months ended September 30, 2008 and 2007, as the realization of such benefit is not reasonably assured.

(5) Novartis Supply and License Agreement

In July, 2004, the Company entered into a supply and licensing agreement with Novartis, effective January 1, 2004. By December 31, 2004, the supply portion of the Agreement was completed and the Company no longer manufactured any product. The Company moved into its Edina, Minnesota facility in February 2005 after vacating its previous manufacturing facility in Minnetonka, Minnesota. Under the Agreement, the Company granted Novartis an exclusive license (the "License") to all of the intellectual property of the Company to the extent that it is used or is useful in the production of the vapor patches that Novartis is selling under the Agreement. The License will continue in effect for the duration of the patents' life 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 and the adult cough/cold market. Novartis is required by the Agreement to pay royalties, at an agreed upon percentage, to the Company based on net sales of vapor patches by Novartis for each year the License is in effect.

In June 2006, Novartis issued a nationwide recall of all of its Triaminic® vapor patch products. In a press release issued by Novartis pertaining to the recall, Novartis explained that the recall was "due to the serious adverse health effects that could result if the product is ingested by a child removing the patch and chewing on it." At the same time that Novartis announced this voluntary recall, the U.S. Food and Drug Administration ("FDA") issued a release warning consumers "not to use the Triaminic Vapor Patch due to reports of serious adverse events associated with accidental ingestion by children." According to news reports, the recall resulted from an adverse event experienced by a child who suffered a seizure after chewing on a Triaminic Vapor Patch. Novartis confirmed to the Company that the patch involved in this incident was not manufactured by the Company. As a result of this recall, the Company has been proactive in assisting Novartis to resolve the FDA issues surrounding the product recall and thereby restore the Company's royalty income stream. The Company has met with Novartis representatives to discuss how to prevent an incident where a child or pet chews or ingests a patch.

In January 2007, the Company engaged an independent consulting firm to audit royalties due to the Company pursuant to the Agreement. In January 2008 the Company was paid $21,946 as settlement for underpaid royalty income and audit costs.

To address the product recall described above, the Company filed a provisional patent application with the U.S. Patent and Trademark Office (the "USPTO") in April 2007 for an adhesive patch with an aversive agent. The intention of the provisional patent is to introduce an aversive agent into patches that would be so repulsive, a child or pet would not want to chew, swallow, or ingest a patch, yet not impair the intended patch functionality. The Company's new child-proof/pet-proof patch technology is primarily designed to prevent children from ingesting a patch, but the aversive agent will protect anyone, including adults with dementia (i.e. Alzheimer disease) or even family pets, from chewing a discarded patch. It is expected that this technology can be applied to numerous patch formulations, most importantly patches potentially harmful if ingested (i.e. nicotine patches, Alzheimer's patches, estrogen patches, osteoporosis patches, nitroglycerin patches, lidocaine patches, contraceptive patches, antidepressant patches, or any future developed patch). The Company has received a pending trademark under the name of SAFEPATCH™.

In April 2007, the Company was informed that the USPTO had completed a re-examination of a patent pertinent to the Agreement and the Company was issued a re-examination certificate. The patent is entitled "Non-Occlusive Adhesive Patch for Applying Medication to the Skin" and covers the design for adhesive patches, which contain a reservoir of medication to be delivered into the body by absorption through the skin and inhalation of vapors.

In July 2007, Novartis began shipping a new adult vapor patch product in the United States for the 2007/2008 cough and cold season. Novartis has not announced whether it will re-introduce a vapor patch for the pediatric market.

During the three and nine month periods ended September 30, 2008, the Company recorded royalty income of $14,022 and $40,125, respectively, based upon information provided by Novartis related to royalties due to the Company from sales of the adult vapor patch during this period. The Company did not record any revenue for the comparable periods of 2007 due to the product recall discussed above.

(6) Discontinued Operations

The liability for discontinued operations at both September 30, 2008 and December 31, 2007 consisted of a reserve for sales returns and credits of $130,000 for sales prior to the discontinuance of operations in 2004.

(7) Equity Transactions

Stock Options

On September 26, 2008, the Compensation Committee of the Board of Directors of the Company granted stock options to each of the three members of the Board of Directors of the Company, as well as to its sole employee. The terms of the options granted to the four individuals were identical except that the options granted to Mr. William Johnson, the Company's only employee, qualified as incentive stock options under the Internal Revenue Code of 1986, as amended, while each of the three Directors of the Company was granted non-qualified stock options. Mr. William Johnson, Mr. C. Andrew Rollwagen and Dr. Daniel Sigg each received an option to purchase 16,000 shares of the Company's common stock at $4.00 per share and Mr. Judd Berlin received an option to purchase 66,000 shares of the Company's common stock at $4.00 per share. All of the options are fully vested and exercisable as of the date of grant and will expire on September 26, 2018. All of the options were granted under plans previously approved by the Company's shareholders and the exercise price for the options were issued at a price equal to the fair market value of the Company's common stock on the date of grant. All of the options provide that termination of service as a Director or employee of the Company for any reason other than for cause will not affect the terms of the option or cause the option to terminate.

Warrants

In connection with the sale of the Company's corporate facility during 2003, the Company issued warrants to an outside party to purchase 200,000 shares of the Company's common stock. The warrants were exercisable, and could be exercised on a cashless basis, and entitled the holder to purchase the Company's common stock at $0.90 per share until February 25, 2008.

On February 21, 2008, the warrant holder exercised, on a cashless basis, the warrant. Accordingly, the warrant holder forfeited a number of shares underlying the warrant with a "fair market value" (calculated pursuant to the warrant agreement) and received 113,978 shares of the Company's common stock upon exercise of the warrant. As a result of the cashless exercise, the Company did not receive any cash proceeds from the exercise. As of the filing date of this Form 10-Q, the Company has no outstanding warrants.

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

OVERVIEW

The Company's strategy is to evaluate and promote its current intellectual property portfolio for licensing purposes to domestic and foreign manufacturers to enable them to use the Company's proprietary patch technology to produce or sell topical patch products in the future. This effort will also enhance the Company's options with respect to future licensing opportunities, and may attract potential merger or acquisition candidates or the sale of the Company. The Company is taking steps to strengthen its patent portfolio for territories of use, including the United States, Europe, and other countries. The Company is also focused on strengthening its position with respect to the protection of its rights related to its current intellectual property portfolio. It is currently management's intent to fund operations with royalty income from licensing agreements or from other income derived from the protection of patent rights pertaining to the Company's intellectual property.

PATENTS AND TRADEMARKS

The Company has several U.S. and international patents related to its patch technology. Eighteen issued U.S. patents and forty-two issued international patents are currently assigned to the Company. The Company has four U.S. patent pending applications including provisional applications (see below) and two foreign applications. The patents most pertinent to the Company's major products have a remaining legal duration ranging from five to fourteen years. The Company also holds three registered U.S. trademarks.

In 2008 and 2007, the Company filed for two new provisional patents, which include (i) adding an aversive agent to our licensed patch or other patches to prevent ingestion by children or pets and (ii) a hand sanitizing patch that will kill targeted infectious organisms. The hand sanitizing patch will be dry, thereby rendering the patch harmless in the event that it is licked, chewed or exposed to the eye.

Issued patents can later be held invalid by the patent office issuing the patent or by a court. The Company cannot be certain that its patents will not be challenged, invalidated, circumvented, or that the rights granted under the Company's patents will provide a competitive advantage.

The Company uses both patents and trade secrets to protect its proprietary property and information. To the extent the Company relies on confidential information to maintain its competitive position, there can be no assurance that other parties will not independently develop the same or similar information.

On July 25, 2008, the Company filed a Complaint for patent infringement against five companies, alleging that the defendants have infringed upon two of the Company's patents relating to its medicated patch technology. The Company has disclosed details of the pending lawsuit in previous SEC filings. In October, 2008, all five of the defendants in these lawsuits filed answers to the Company's complaint. The Company is scheduled to appear in court on December 3, 2008 for a scheduling conference. See PART II, ITEM 1 of this Form 10-Q for additional information.

COMPARISON OF THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2008 AND 2007

Results of Operations

The Company recorded royalty income of $14,022 and $40,125, respectively, for the three and nine months ended September 30, 2008. The Company did not record any royalty income during the three or nine months ended September 30, 2007 as a result of the previously discussed product recall by Novartis. (See Note 5 of Notes to Condensed Financial Statements in this Form 10-Q). The royalty income recorded during the three and nine month periods ended September 30, 2008 was based on information provided by Novartis.

Operating expenses increased $130,585 to $599,868 for the three months ended September 30, 2008, from operating expenses of $469,283 for the comparable period in 2007. The increase in operating expenses resulted primarily from an increase in compensation expense related to the issuance of stock options of $455,080 in 2008 versus compensation expense of $332,925 in 2007, coupled with increases in consulting expenses relating to the Company's efforts to strengthen its patent protection rights and associated increases in legal costs. For the nine months ended September 30, 2008, operating expenses increased $204,154 to $974,197, from $770,043 for the nine months ended September 30, 2007. The increase in operating expenses resulted from increases in compensation expense related to the issuance of stock options, consulting, legal, and accounting costs related to efforts the Company is undertaking to enforce its patent portfolio.

The Company anticipates that it can further reduce operating expenses since many expenditures have been a one time expenditure. In addition, the Company will also reduce its operating expenses as a result of relocating its corporate office, reducing its rental/lease obligations, and decrease utility expenses. However, these savings may be offset with costs related to additional actions the Company decides to take with respect to protecting its intellectual property.

The Company recorded a net loss of $(582,839), or $(0.14) per basic and diluted share for the three months ended September 30, 2008, compared to a net loss of $(456,995), or $(0.11) per basic and diluted share, for the same period in 2007. For the nine months ended September 30, 2008, the Company recorded a net loss of $(919,917), or $(0.22) per basic and diluted share, compared to a net loss of $(729,412), or $(0.18) per basic and diluted share, for the same period in the 2007. The increase in net loss for the three and nine month periods ended September 30, 2008 from the comparable periods in 2007 is due to the increase in operating expenses, partially offset by the increase in royalty income discussed above.

Income Taxes

The provision for income tax benefits for the three and nine months ended September 30, 2008 and 2007 was offset by a valuation allowance for deferred taxes. No federal or state income tax benefit was provided for the three and nine months ended September 30, 2008 and 2007, as the realization of such benefits is not reasonably assured.

Effect of Inflation

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

Liquidity and Capital Resources

Cash and cash equivalents decreased $422,818 for the nine month period ended September 30, 2008, to $410,107, from cash and cash equivalents of $832,925 at December 31, 2007. The decrease in cash and cash equivalents resulted primarily from the Company incurring legal, consulting, and other costs related to the Company protecting its patent portfolio, which was partially offset by royalty payments of $126,535 received during 2008, relating to sales of licensed adult vapor patch product by Novartis.

There were no material commitments for capital expenditures at September 30, 2008 or 2007.

The Company had working capital of $347,320 and a current ratio of 2.67 at September 30, 2008 compared to working capital of $795,059 and a current ratio of 4.95 at December 31, 2007. The decline in working capital and the current ratio at September 30, 2008, compared to December 31, 2007, was primarily due to the net loss of ($919,917) which included non cash compensation expense of $455,080 that the Company incurred during the nine months ended September 30, 2008.

Shareholders' equity decreased $464,836 to $433,979 at September 30, 2008 from $898,815 at December 31, 2007, due to the net loss the Company incurred during the nine months ended September 30, 2008.

The Company is cautious about preserving its current cash position with respect to its current litigation efforts and the ability to sustain normal operations going forward. The Company is exploring the possibility of raising additional capital to allow the Company to sustain normal operations in addition to proceeding with research and development efforts in India and China relating to the Company's hand sanitizer patch, its patch with aversive agent, and related testing research. Without an infusion of cash, the royalty income received from Novartis may not be sufficient to fund our efforts. The Company earns interest on its available cash. Interest income earned during the three and nine month periods ended September 30, 2008 was $3,008 and $14,155, respectively (3.0% average annual interest). Interest income earned during the three and nine month periods ended September 30, 2007 was $12,288 and $40,631, respectively (4.9% average annual interest).

The Company's working capital requirements are dependent upon its receipt of adequate levels of royalty and licensing income to fund its operations. The Company currently estimates that it will receive $80,000 to $150,000 per year in royalty income based upon revised royalty estimates provided by Novartis. Royalty income is uncertain because it is subject to factors that the Company cannot control. There can be no assurance that the anticipated revenue stream or the anticipated expenses will be as planned, or that the Company will be successful in negotiating other licensing opportunities with Novartis or other companies, due to the uncertainties and risks described in the "Cautionary Statements" included as Exhibit 99.01 to the Company's annual report on Form 10-KSB for the fiscal year ended December 31, 2007 and Form 10-QSB for the first quarter ended March 31, 2008.

CRITICAL ACCOUNTING POLICIES

Management believes that the Company has not adopted any critical accounting policies which, if changed, would result in a material change in financial estimates, financial condition, results of operation or cash flows for the three months ended September 30, 2008 and 2007. The critical accounting policies appear in Note 2 of Notes to Condensed Financial Statements in this Form 10-Q.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS

Not Applicable.

ITEM 4. 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"), that are designed to ensure that information required to be disclosed by us in reports we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, and Board of Directors, as appropriate, to allow timely decisions regarding required disclosure. 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.

During the three months ended September 30, 2008, 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

On July 25, 2008, the Company filed a complaint for patent infringement (the "Complaint") against five companies, including Chattem, Inc., Endo Pharmaceuticals, Inc., Johnson & Johnson Consumer Company, Inc., The Mentholatum Company, Inc. and Prince of Peace Enterprises, Inc. (collectively, the "Defendants") in the U.S. District Court for the Eastern District of Texas. The Complaint alleges, among other things, that the Defendants have infringed two of the Company's patents (the "Patents"), which relate to the Company's medicated patch technology. The Company is seeking to enjoin the Defendants from infringing the Patents and to recover monetary damages related to such infringement, as well as interest and litigation costs. In October 2008, all five of the Defendants filed answers (the "Answers") in response to the Complaint denying the Company's claims therein, and asserting certain affirmative defenses and counterclaims against the Company, including assertions that the Patents are invalid and unenforceable, and claims for attorneys' fees and costs. On October 20, 2008, the Company filed its replies to the Answers, denying such counterclaims and affirmative defenses, including the claims that the Patents are invalid and unenforceable. The Company is scheduled to appear in court on December 3, 2008 for a scheduling conference.

ITEM 1A - RISK FACTORS

Not Applicable.

ITEM 2 - UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

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

Exhibit No.	Description
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).
31.01	Certification of Principal Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, filed herewith.
31.02	Certification of Principle Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, filed herewith.
32.01	Certification Pursuant to 18 U.S.C. §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-QSB for the quarter ended March 31, 2008).

SIGNATURES

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

LECTEC CORPORATION

Date: November 19, 2008

By /s/ Judd A. Berlin
Judd A. Berlin
Chief Executive Officer, Chief Financial Officer, & Director
(principal financial officer and duly authorized officer)

EXHIBIT INDEX

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99.01	Cautionary Statements (Incorporated herein by reference to Exhibit 99.01 to the Company's Report on Form 10-QSB for the quarter ended March 31, 2008).

EXHIBIT 31.01

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER PURSUANT TO SECTION 302 OF SARBANES-OXLEY ACT OF 2002

I, Judd A. Berlin, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of LecTec Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the 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 registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant 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 registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principals;

c) Evaluated the effectiveness of the registrant'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

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 19, 2008

/s/ Judd A. Berlin
Judd A. Berlin
Chief Executive Officer

EXHIBIT 31.02

CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER PURSUANT TO SECTION 302 OF SARBANES-OXLEY ACT OF 2002

I, Judd A. Berlin, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of LecTec Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the 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 registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant 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 registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principals;

c) Evaluated the effectiveness of the registrant'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

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 19, 2008

/s/ Judd A. Berlin
Judd A. Berlin
Chief Financial Officer

EXHIBIT 32.01

CERTIFICATION PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002 (SUBSECTIONS (A) AND (B) OF SECTION 1350, CHAPTER 63 OF TITLE 18, UNITED STATES CODE)

In connection with the Quarterly Report of LecTec Corporation (the "Company") on Form 10-Q for the quarter ended September 30, 2008 as filed with the Securities and Exchange Commission (the "Report"), I, Judd A. Berlin, Chief Executive Officer and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 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/ Judd A. Berlin
Judd A. Berlin
Chief Executive Officer
(principal executive and financial officer)
November 19, 2008