SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 1996.

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 (State or other jurisdiction of incorporation or organization)	41-1301878 (I.R.S. Employer Identification No.)
10701 Red Circle Drive, Minnetonka, Minnesota (Address of principal executive offices)	55343 (Zip Code)

Registrant's telephone number, including area code: (612) 933-2291

Securities registered pursuant to Section 12(b) of the Act:	None
Securities registered pursuant to Section 12(g) of the Act:	Common stock, par value $0.01 per share.

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

Yes __X__ No ____

The number of shares outstanding of the registrant's common stock as of November 1, 1996 was 3,835,989 shares.

LECTEC CORPORATION

Table of Contents

Part I

Financial Information

Part II

Other Information

<TABLE>
<CAPTION>

LECTEC CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	September 30, 1996	June 30, 1996
ASSETS	(Unaudited)	
CURRENT ASSETS		
<S>	<C>	<C>
Cash and cash equivalents	$ 443,931	$ 800,693
Receivables		
Trade, less allowance for doubtful accounts of $37,991 (unaudited) and $74,208 at September 30, 1996 and June 30, 1996, respectively	2,218,929	1,847,736
Refundable income taxes	55,580	55,580
Other	55,841	182,247
	2,330,350	2,085,563
Inventories		
Raw materials	1,379,241	1,144,078
Work-in-process	463,440	229,974
Finished goods	403,554	637,275
Total inventories	2,246,235	2,011,327
Prepaid expenses and other	259,335	123,099
Deferred tax asset	429,000	429,000
Total current assets	5,708,851	5,449,682
PROPERTY, PLANT AND EQUIPMENT - AT COST		
Building and improvements	1,632,423	1,629,630
Equipment	6,424,864	6,414,132
Furniture and fixtures	366,745	354,985
	8,424,032	8,398,747
Less accumulated depreciation	3,697,124	3,533,503
	4,726,908	4,865,244
Construction in progress	8,890	--
Land	247,731	247,731
	4,983,529	5,112,975
OTHER ASSETS		
Patents and trademarks, less accumulated amortization of $727,999 (unaudited) and $687,871 at September 30, 1996 and June 30, 1996, respectively	418,124	417,681
Goodwill, less accumulated amortization of $491,670		

(unaudited) and $442,503 at September 30, 1996 and June 30, 1996, respectively	98,330	147,497
Long-term investments	576,114	574,806
Investment in limited liability company	583,326	606,167
Other	3,654	10,195
	1,679,548	1,756,346
	$12,371,928	$12,319,003

</TABLE>

See accompanying notes to the consolidated financial statements.

<TABLE>
<CAPTION>

LECTEC CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

LIABILITIES AND SHAREHOLDERS' EQUITY	September 30, 1996 (Unaudited)	June 30, 1996
<S>	<C>	<C>
CURRENT LIABILITIES		
Accounts payable	$ 805,001	$ 894,846
Accrued expenses		
Payroll related	242,763	304,527
Other	91,407	10,285
Total current liabilities	1,139,171	1,209,658
DEFERRED INCOME TAXES	174,000	174,000
SHAREHOLDERS' EQUITY		
Common stock, $.01 par value: 15,000,000 shares authorized; issued and outstanding: 3,836,000 shares (unaudited) at September 30, 1996 and 3,835,800 shares at June 30, 1996	38,360	38,358
Additional paid-in capital	10,452,884	10,368,166
Unrealized losses on securities available-for-sale	(42,858)	(44,166)
Retained earnings	610,371	572,987
	11,058,757	10,935,345
	$ 12,371,928	$ 12,319,003

</TABLE>

See accompanying notes to the consolidated financial statements.

<TABLE>
<CAPTION>

LECTEC CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

Three months ended September 30,

	1996	1995
	(Unaudited)	(Unaudited)
<S>	<C>	<C>
Net sales	$ 2,973,483	$ 3,462,451
Cost of goods sold	1,898,394	2,123,247
Gross profit	1,075,089	1,339,204
Operating expenses		
Selling, general and administrative	553,216	941,490
Research and development	500,202	511,033
	1,053,418	1,452,523
Earnings (loss) from operations	21,671	(113,319)
Other income (expense)		
Interest income	16,755	9,823
Dividend income	9,432	9,131
Interest expense	(1,230)	--
Other	15,000	--
	39,957	18,954
Earnings (loss) before income taxes and equity in losses of unconsolidated subsidiary	61,628	(94,365)
Income tax expense	1,403	1,001
Earnings (loss) before equity in losses of unconsolidated subsidiary	60,225	(95,366)
Equity in losses of unconsolidated subsidiary	22,841	--
Net earnings (loss)	$ 37,384	$ (95,366)
Net earnings (loss) per common and common equivalent share	$ 0.01	$ (0.03)
Weighted average number of common and common equivalent shares outstanding during the period	3,835,956	3,788,308

</TABLE>

See accompanying notes to the consolidated financial statements.

<TABLE>
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LECTEC CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three months Ended September 30, 1996	Three months Ended September 30, 1995
Cash flows from operating activities:	(Unaudited)	(Unaudited)
<S>	<C>	<C>
Net earnings (loss)	$ 37,384	$ (95,366)

Adjustments to reconcile net (loss) earnings to net cash used in operating activities:		
Depreciation and amortization	*252,916*	*264,979*
Gain on sale of equipment	*(15,000)*	*--*
Equity in losses of unconsolidated subsidiary	*22,841*	*--*
Changes in operating assets and liabilities:		
Trade and other receivables	*(244,787)*	*(265,796)*
Inventories	*(234,908)*	*(271,559)*
Prepaid expenses and other	*(129,695)*	*(171,874)*
Accounts payable	*(6,250)*	*253,433*
Accrued expenses	*19,358*	*(86,693)*
Net cash used in operating activities	*(298,141)*	*(372,876)*
Cash flows from investing activities:		
Purchase of property, plant and equipment	*(34,175)*	*(154,777)*
Proceeds from sale of equipment	*15,000*	*--*
Investment in patents and trademarks	*(40,571)*	*(18,914)*
Net cash used in investing activities	*(59,746)*	*(173,691)*
Cash flows from financing activities:		
Issuance of common stock	*1,125*	*42,458*
Proceeds from notes payable	*--*	*83,595*
Net cash provided by financing activities	*1,125*	*126,053*
Net decrease in cash and cash equivalents	*(356,762)*	*(420,514)*
Cash and cash equivalents at beginning of period	*800,693*	*839,942*
Cash and cash equivalents at end of period	*$ 443,931*	*$ 419,428*

</TABLE>

See accompanying notes to the consolidated financial statements.

<TABLE>
<CAPTION>

LECTEC CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS

Disclosures in Financial Statements

	Three months Ended September 30, 1996	*Three months Ended September 30, 1995*
	(Unaudited)	*(Unaudited)*
Supplemental Disclosures of Cash Flow Information:		
<S>	*<C>*	*<C>*
Cash paid during the period for:		
Interest expense	*$ 5,924*	*$ --*
Income taxes	*6,000*	*8,000*
Supplemental Schedule Of Noncash Activities:		
Conversion of subsidiary's notes payable to equity	*$83,595*	*$ --*

</TABLE>

See accompanying notes to the consolidated financial statements.

LECTEC CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements

September 30, 1996

(1) General

The accompanying consolidated financial statements include the accounts of LecTec Corporation (the "Company"), LecTec International Corporation, a wholly-owned subsidiary, and Pharmadyne Corporation, a sixty-one percent owned subsidiary. All significant intercompany balances and transactions have been eliminated in consolidation. The interim financial statements are unaudited and in the opinion of management, reflect all adjustments (which consist only of adjustments of a normal recurring nature) 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) Increase in Ownership Interest in Pharmadyne Subsidiary

On September 5, 1996 the Company exercised a warrant received during fiscal 1996 to purchase 227,959 additional shares of Pharmadyne Corporation at $1 per share. This increased the Company's ownership interest in Pharmadyne Corporation from 51% to 61%.

(3) Recently Adopted Accounting Standards

The Company implemented Statement of Financial Accounting Standards (SFAS) 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of," effective July 1, 1996. SFAS 121 establishes guidance for when to recognize and how to measure impairment losses of long-lived assets and certain identifiable intangibles, and how to value long-lived assets to be disposed of. The adoption of this Standard did not have a material effect on the Company's financial position.

Additionally, the Company implemented SFAS 123 "Accounting for Stock-Based Compensation," which established financial accounting and reporting standards for stock-based employee compensation plans. This Statement defines and encourages the use of a fair value based method of accounting for an employee stock option or similar equity instrument. The Statement allows the use of the intrinsic value based method of accounting as prescribed by current existing accounting standards for options issued to employees. The Company adopted this Standard effective July 1, 1996, and management has elected to utilize the intrinsic value based method of accounting for stock-based compensation.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Results of Operations

Sales for the first quarter of fiscal 1997 were $2,973,483 as compared with $3,462,451 for the first quarter of fiscal 1996. Sales for the first quarter decreased overall by 14.1% from the prior year. The decrease was primarily the result of the absence of Pharmadyne Corporation direct marketing related sales due to the divestiture of the direct marketing related assets in the third quarter of fiscal 1996. Conductive sales, the Company's largest product group, increased by 12.9% from the prior year while medical tape sales decreased by 27.5% and therapeutic sales decreased 61.8%. Conductive sales increased for both diagnostic and hydrogel products as a result of volume increases. The medical tape sales decrease was primarily due to volume decreases which more than offset sales to several new customers. The therapeutic sales decrease was primarily the result of the absence of direct marketing related sales.

Gross profit for the first quarter of fiscal 1997 was $1,075,089 as compared to $1,339,204 for the first quarter of fiscal 1996. Gross profit as a percent of sales for the first quarter of fiscal 1997 was 36.2% as compared to 38.7% for the first quarter of fiscal 1996. The decrease in gross profit percent for the quarter was primarily the result of the absence of higher margin direct marketing related sales.

Selling, general and administrative expenses were $553,216 and $941,490 during the first quarters of fiscal 1997 and fiscal 1996, respectively. Selling, general and administrative expenses for the first quarters of fiscal 1997 and 1996, as a percentage of sales, were 18.6% and 27.2%, respectively. Selling, general and administrative expenses were reduced primarily due to the absence of expenses associated with the direct marketing operations of the Pharmadyne subsidiary.

Research and development expenses for the first quarters of fiscal 1997 and 1996 were $500,202 and $511,033, respectively. Research and development expenses for the first quarter, as a percentage of sales, were 16.8% and 14.8% for fiscal 1997 and 1996, respectively.

Other income (expense) increased in the first quarter of fiscal 1997 to $39,957 from $18,954 in the first quarter of fiscal 1996. The increase resulted primarily from a gain incurred on the sale of equipment.

The Company had earnings before income taxes and equity in losses of unconsolidated subsidiary of $39,957 in the first quarter of fiscal 1997 compared to a loss of $94,365 in the first quarter of fiscal 1996. The increase in earnings before income taxes for the quarter was primarily the result of the absence of the losses from the direct selling operations of the Pharmadyne subsidiary.

Income tax expense was $1,403 and $1,001 during the first quarters of fiscal 1997 and fiscal 1996 respectively. In the first quarter of fiscal 1997 there was minimal income tax expense because of the utilization of NOL carryforwards. In the first quarter of fiscal 1996, there was no income tax benefit because of subsidiary losses that could not be utilized.

On March 12, 1996, the Company contributed the direct marketing related assets of Pharmadyne Corporation to Natus L.L.C. (an Arizona limited liability company) in exchange for a 15% interest in Natus L.L.C. During the first quarter of fiscal 1997, the Company's pro-rata share of Natus L.L.C.'s net loss (based on a 15% equity ownership position) totaled $22,841.

Inflation has not had a significant impact on the Company as it has generally been able to adjust its selling prices as the costs of materials and other expenses have changed.

Liquidity and Capital Resources

Cash and cash equivalents decreased by $356,762 to $443,931 during the first quarter of fiscal 1997. Long-term investments increased by $1,308 to $576,114 during the first quarter of fiscal 1997. Capital spending for various equipment totaled $34,175 during the first quarter. There were no material commitments for capital expenditures at September 30, 1996.

Working capital, at the end of the first quarter of fiscal 1997, increased to $4,569,680 from $4,240,024 at the end of fiscal 1996. The Company has a current ratio at the end of the first quarter of fiscal 1997 of 5.01 as compared to 4.51 at the end of fiscal 1996.

The Company is free of long-term debt, and has a $1,000,000 annually renewable revolving line of credit for meeting current operating requirements. There were no outstanding amounts on this short-term facility at September 30, 1996. Shareholders' equity increased by $123,412 to $11,058,757 during the first quarter of fiscal 1997.

Management believes that internally-generated cash and the existing short-term credit line will be sufficient for supporting anticipated growth and capital spending requirements for the remainder of fiscal 1997.

Statements about the remaining fiscal 1997 outlook are forward-looking and, therefore, involve certain risks and uncertainties, including but not limited to: buying patterns of customers, competitive forces *and other factors detailed from time to time in filings with the Securities and Exchange Commission.*

PART II

OTHER INFORMATION

Item 1. Legal Proceedings

None

Item 2. Changes in Securities

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

Item 3. Defaults Upon Senior Securities

Not applicable.

Item 4. Submission of Matters to a Vote of Security Holders

None

Item 5. Other Information

The registrant is not aware of any other information of material importance to be included in this report.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

None

(b) Reports on Form 8-K

None

SIGNATURES

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

LECTEC CORPORATION

Date November 14, 1996 *———————————* *—/s/ Rodney A. Young*

Rodney A. Young, Pres. & CEO

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