

FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

(MARK ONE)

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

For the quarterly period ended March 31, 1996

OR

____ TRANSACTION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE
SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

COMMISSION FILE NUMBER 1-10113

HALSEY DRUG CO., INC.

(Exact name of registrant as specified in its charter)

New York

11-0853640

(State or other Jurisdiction of (I.R.S. Employer Identification No.)
incorporation or organization)

1827 Pacific Street
Brooklyn, New York

11233

(Address of Principal executive officer) (Zip Code)

(718) 467-7500

(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 50 days.

YES X NO
----- -----

As of May 9, 1996 the registrant had 9,058,858 Shares of Common Stock,
\$.01 par value, outstanding.

HALSEY DRUG CO., & SUBSIDIARIES

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

HALSEY DRUG CO., INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(UNAUDITED)

(Amounts in thousands)	1996	1995
	MARCH 31	DECEMBER 31
CURRENT ASSETS		
Cash	\$ 250	\$ 353
Accounts Receivable - trade, net of allowances for doubtful accounts of \$221 and \$ 280 in 1996 and 1995, respectively	1,531	1,689
Inventories	7,907	7,716
Prepaid insurance and other current assets	609	656
Total current assets	10,297	10,414
PROPERTY PLANT & EQUIPMENT, NET	7,157	7,394
LONG-TERM RECEIVABLE	1,900	1,900
OTHER ASSETS	959	1,054

\$20,313 \$20,762
 ===== =====

The accompanying notes are an integral part of these statements

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HALSEY DRUG CO., INC. AND SUBSIDIARIES
 CONDENSED CONSOLIDATED BALANCE SHEETS

(Amounts in thousands)	(UNAUDITED)	
	1996	1995
	MARCH 31	DECEMBER 31
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Bank overdraft	\$ 693	\$ 213
Due to Banks	3,395	3,395
Current maturities of long-term debt	200	200
Convertible Subordinated Debentures	7,367	7,347
Department of Justice settlement	2,059	2,000
Accounts payable	2,960	2,546
Accrued expenses	2,034	1,867
Advances from minority stockholders	206	206
Income taxes payable	13	33
Total current liabilities	18,927	17,807
LONG-TERM DEBT	2,621	2,595
CONTINGENCIES		
STOCKHOLDERS' EQUITY (DEFICIT)		
Common stock - \$.01 par value; authorized 20,000,000, shares; issued and outstanding 8,540,192 shares at March 31, 1996 and 8,973,459 shares at December 31, 1995	91	90
Additional paid-in capital	14,616	14,459
Accumulated deficit	(14,842)	(13,089)
	(135)	1,460
Less: Treasury stock - at cost (500,000 shares)	1,100	(1,100)
	(1,335)	360
Total stockholders' equity	(1,335)	360
	\$ 20,313	\$ 20,762
	=====	=====

The accompanying notes are an integral part of these statements

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CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)

Amounts in thousands except per share data	For the Three months ended	
	March 31	
	1996	1995
Net Sales	\$ 4,166	\$ 6,873
Cost of goods sold	3,749	5,114
Gross profit	417	1,759
Research & Development	358	156
Selling, general and administrative expenses	1,377	1,538
(Loss) earnings from operations	(1,318)	1,765
Interest expense	(435)	(226)
Gain on the sale of assets	--	4,188
(Loss) earnings before income taxes	(1,753)	4,027
Provision for income taxes	--	296
Net (loss) earnings	\$ (1,753)	\$ 3,731
Net (loss) earnings per common share	(\$ 0.22)	\$.48
Average number of outstanding shares	7,886,101	7,859,537

The accompanying notes are an integral part of these statements

HALSEY DRUG CO., AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

Amounts in thousands	THREE MONTHS ENDED	
	MARCH 31	
	1996	1995
Cash flows from operating activities		
Net (loss) earnings	\$ (1,753)	\$ 3,731
Adjustments to reconcile net (loss) earnings to net cash used in operating activities		
Depreciation and amortization	533	419

Provision for losses on accounts receivable	--	6
Gain on sale of assets	--	(4,188)
Accrued Department of Justice interest	59	30
Deferred income taxes	--	296
Changes in assets and liabilities		
Accounts receivable	158	58
Inventories	(191)	(389)
Prepaid insurance and other current assets	47	213
Accounts payable	414	(1,817)
Accrued expenses	167	(21)
Income taxes payable	(20)	(18)
	-----	-----
Total adjustments	1,167	(5,411)
	-----	-----
Net cash used in operating activities	(586)	(1,680)
	-----	-----
Cash flows from investing activities		
Capital expenditures	(188)	(50)
(Decrease)increase in other assets	33	20
Proceeds from sale of assets		2,000
	-----	-----
Net cash provided by investing activities	(155)	1,970
	-----	-----
Cash flows from financing activities		
Payment of long term debt	--	(1,064)
Proceeds from issuance of common stock	158	982
Bank overdraft.....	480	148
Advances from former minority stockholder	--	(212)
	-----	-----
Net cash (used in) provided by financing activities ...	638	(146)
	-----	-----
NET INCREASE IN CASH AND CASH EQUIVALENTS	103	144
Cash and cash equivalents at beginning of period	353	28
	-----	-----
Cash and cash equivalents at end of period	250	172
	=====	=====

The accompanying notes are an integral part of these statements

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HALSEY DRUG CO., INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
Three months ended March 31, 1996

Amounts in thousands except per share data

(UNAUDITED)

	Common Stock \$.01 par Value Shares	Amount	Additional Paid-In Capital	Accumulated Deficit	Treasury stock, at cost Shares	Amount	Total
	-----	-----	-----	-----	-----	-----	-----
Balance at December 31, 1995	8,973,459	\$ 90	\$14,459	(\$13,089)	500,000	\$1,100	\$ 360
Net earnings for the three months ended March 31, 1996				(1,753)			(1,753)
Exercise of stock options	13,393		39				39
Exercise of warrants	53,400	1	118				119
	-----	-----	-----	-----	-----	-----	-----
Balance at March 31, 1996	9,040,192	\$ 91	\$14,616	(\$14,842)	500,000	\$1,100	(\$1,235)

The accompanying notes are an integral part of these statements

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HALSEY DRUG CO., INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

NOTE 1 - Basis of Presentation

The accompanying unaudited condensed consolidated financial statements of Halsey Drug Co., Inc. and subsidiaries (the "Company") have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments considered necessary for the three months ended March 31, 1996 have been made, but the financial results for the three months period ended March 31, 1996 are not necessarily indicative of the results that may be expected for the full year ended December 31, 1996. The unaudited condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and footnotes thereto for the year ended December 31, 1995 included in the Company's Annual Report on Form 10-K.

Note 2 - Inventories

(Amounts in thousands)

Inventories consists of the following:

	March 31, 1996	December 31, 1995
	-----	-----
Finished Goods	\$2,585	\$2,491
Work in Process	1,451	1,398
Raw Materials	3,871	3,827
	-----	-----
	\$7,907	\$7,716
	=====	=====

NOTE 3 - Debt

The Company's Credit Agreement with its banks expired on March 31, 1996, at which time the Company was required to repay all outstanding principal plus any accrued interest, or approximately \$ 3,395,000 and \$31,000 oof accrued interest. The Company has not repaid such amount and interest continues to accrue.

Borrowings under long-term debt consist of the following at March 31, 1996 and December 31, 1995.

	(Amounts in thousands)	
	1996	1995
Convertible subordinated promissory note	\$1,422	\$1,395
Subordinated promissory note	1,400	1,400
	-----	-----
	2,822	2,795
Less current maturities	(200)	(200)
	-----	-----
	\$2,621	\$2,595
	=====	=====

NOTE 4 - Contingencies

The Company currently is a defendant in several lawsuits involving product liability claims. The Company's insurance carriers have assumed the defense for all product liability and other actions involving the Company. The final outcome of these lawsuits cannot be determined at this time, and accordingly, no adjustment has been made to the consolidated financial statements.

A lawsuit has been filed by the minority shareholders of H. R. Cenci Laboratories, Inc. ("Cenci") and Cenci Powder Products, Inc. ("Cenci Powder") against the Company and several of the officers of the Company. The lawsuit alleges that the Company has breached several representations made during the course of negotiations leading to the Company's purchase of 51% of the stock of Cenci. This action seeks unspecified compensatory damages, as well as punitive damages, rescission, specific performance, reformation and a declaration as to what amount, if any, is owed to plaintiff. The Company has retained California counsel to represent its interests. The parties have recently concluded conducting document and deposition discovery. Counsel for the Company moved for a summary judgment on April 30, 1996. At this preliminary stage the Company is unable at this time to predict with reasonable certainty the ultimate outcome of this matter with reasonable certainty and, accordingly, no provision has been made for any potential costs relating to this matter.

The Company was named a defendant in a complaint by the Company's labor union funds which seeks sums, approximately \$272,000, allegedly owed to these funds under the Company's collective bargaining agreement. In April 1996, the Company and the labor union funds agreed to settle the action which obligates the Company to remain current on its obligations and to pay portions of the alleged arrears in installments.

In April 1996, the Company received two complaints, seeking unspecified damages, captioned Golovatskaya v. Halsey Drug Co., 96 Civ. 0662 and Petrakova v. Halsey Drug, 96 Civ. 0660, both filed in the United States District Court for the Eastern District of New York, alleging employment discrimination and harassment against the Company. The Company has answered each of the complaints and denied the material allegations asserted against it. No discovery has taken place and the Company is unable to predict with reasonable certainty the outcome of these actions.

HALSEY DRUG CO., INC. AND SUBSIDIARIES

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

 Three months ended
 March 31

	Percentage Change Year-to-Year Increase (decrease)
Percentage of Net Sales	-----

			1996 as compared to
	1996	1995	1995
	----	----	----
	%	%	%
	-	-	-
Net Sales	100.0	100.0	(39.4)
Cost of goods sold	90.0	74.4	(26.7)
	----	----	
Gross profit	10.0	25.6	(76.3)
Research & Development	8.6	2.3	129.5
Selling, general and administrative expenses	33.0	22.4	(10.5)
	----	----	
(Loss)earnings from operations	(31.6)	.9	(100.0)
Interest expense	10.4	3.3	(100.00)
Gain on the sale of assets	--	60.9	92.5
	----	----	
(Loss) earnings before income taxes	(42.1)	58.6	(143.5)
Provision for income taxes	--	4.3	(100.0)
	----	----	
Net (loss) earnings	(42.1)	54.3	(147.8)
	=====	=====	

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Three months ended March 31, 1996 vs three months ended March 31, 1995

Net Sales

The Company's net sales for the three months ended March 31, 1996 of \$4,166,000 represents a decrease of \$2,707,000 (39.4%) as compared to net sales for the three months ended March 31, 1995 of \$6,873,000. First quarter sales for 1995 included sales of Oxycodone HCL and Acetaminophen Tablets of approximately \$1,100,000 sold prior to the sale of the Abbreviated New Drug application ("ANDA") to Mallinckrodt Chemical, Inc. ("Mallinckrodt"). Also, included in this first quarter of 1995 are sales of inventory of approximately \$800,000 to Mallinckrodt. In addition the decrease is attributable to price reductions effected during the quarter in an effort to meet increased competition.

Cost of Goods Sold

For the three months ended March 31, 1996, cost of goods sold decreased by approximately \$1,365,000 as compared to the three months ended March 31, 1996. The decrease for 1996 is attributable to the reduction in shipments of tablet products due to the sale at the end of the first quarter of 1995 by the Company of the tablets ANDA. In addition price reductions were effected during the quarter as a result of increased market competition. In an effort to reduce manufacturing costs, the Company has decreased operating costs through significant reductions in personnel and other expenses. The Company's gross margin as a percentage of sales for the three months ended March 31, 1996 was 10.0% as compared to 25.6% for the three months ended March 31, 1996.

Selling, General and Administrative Expenses

Selling, general and administrative expenses as a percentage of sales for the three months ended March 31, 1996 and 1995 were 33.1% and 22.4%, respectively. These expenses decreased by \$161,000 or 10.5% as compared to the prior year as a result of the Company's effort to reduce expenses through

implementing cost saving measures combined with a reduction in freight cost associated with a reduced sales volume at the subsidiary locations.

Research and Development Expenses

Research and development expenses increased by 129.5% as compared to the first quarter of 1995. The Company is continuing its effort to obtain FDA clearance for the Brooklyn facility. At the same time it has engaged in a research and development program which include submissions to the FDA of several new products as soon as permitted.

Net Earnings (Loss)

For the three months ended March 31, 1996, the Company had net loss of \$1,753,000 as compared to net earnings of \$3,731,000 for the three months ended March 31, 1995. This increase in loss is attributable to the reduction in shipments of tablet products due to the sale at the end of the first quarter of 1995 by the Company of the tablets ANDA combined with price reductions to compete with increase market competition.

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Liquidity and Capital Resources

At March 31, 1996, the Company had cash and cash equivalents of \$250,000 as compared to \$353,000 at December 31, 1995. The Company had a working capital deficiency at March 31, 1996 of \$8,630,000 and \$7,393,000 at December 31, 1995.

As a result of the decline in shipments of solid dosage products from the Company's Brooklyn plant following the entry of a consent decree in the proceeding between the Company and the U.S. Department of Justice, and as a result of the lack of available borrowing under the Company's credit agreement, the Company's liquidity position has been materially adversely affected since June 30, 1993 and the Company's capital resources have been severely limited. The Company has actively sought to reduce its operating costs at the Brooklyn plant, where it has made significant reductions in personnel. In addition, the Company's liquidity position has been affected during the second half of 1995 by the discontinuance of shipments of liquid products from its Cenci subsidiary as a result of review completed by the Company of this liquid operation. In an effort to reduce the loss from lower revenues at this subsidiary, the Company has reduced its operating costs at Cenci through significant reductions of personnel and other expenses.

The Company's Credit Agreement with its banks expired on March 31, 1996, at which time the Company was required to repay all outstanding principal plus any accrued interest, or approximately \$ 3,395,000 and \$31,000 of accrued interest. The Company has not repaid such amount and interest continues to accrue.

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PART II OTHER INFORMATION

Item 1. Legal Proceedings.

A lawsuit has been filed by the minority shareholders of Cenci and Cenci Powder against the Company and several officers of the Company. The lawsuit alleges that the Company has breached several representations made during the course of negotiations leading to the Company's purchase of 51% of the stock of Cenci. The Complaint, which includes several causes of action, seeks unspecified compensatory damages, as well as punitive damages, rescission, specific performance,

reformation and a declaration as to what amount, if any, is owed to plaintiff. The Company has retained California counsel to represent its interests. The parties have recently concluded conducting document and deposition discovery. Counsel for the Company moved for summary judgment on April 30, 1996. At this stage, the Company is unable to determine the outcome of this motion or litigation with any reasonable certainty.

In April 1996, the Company received two complaints, seeking unspecified damages, captioned Golovatskaya v. Halsey Drug Co., 96 Civ. 0662 and Petrakova v. Halsey Drug, 96 Civ. 0660, both filed in the United States District Court for the Eastern District of New York, alleging employment discrimination and harassment against the Company. The Company has answered each of the complaints and denied the material allegations asserted against it. No discovery has taken place and we are unable to predict with reasonable certainty the outcome of these actions.

Item 2. Changes in Securities.
None

Item 3. Defaults Upon Senior Securities

The Company was not in compliance with certain of the provisions of its Credit Agreement with its banks prior to its expiration, including but not limited to covenants relating to the maintenance of certain financial ratios. Such non-compliance constituted a technical default under each of the Company's other loan instruments. As of the date of this Report, no creditor of the Company has declared the Company to be in default under its various debt instruments.

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 - See Exhibit Index.
(b) Reports on Form 8-K - none.

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SIGNATURES

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

HALSEY DRUG CO., INC.

Date: May 14, 1996

BY:s/s Rosendo Ferran

Rosendo Ferran
President and Chief
Executive Officer

Date: May 14, 1996

BY:s/s Robert J. Mellage

Robert J. Mellage
Corporate Controller

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EXHIBIT INDEX

Exhibit No.	Description
27	Financial Data Schedule, which is submitted electronically to the Securities and Exchange Commission for informatin only and not filed.

<ARTICLE> 5

<LEGEND>

This schedule contains summary financial information extracted from the Condensed Consolidated Statement of Financial Condition At March 31, 1996(Unaudited) and the Condensed Consolidated Statement of Income for the Three Months Ended March 31, 1996(Unaudited) and is qualified in its entirety by reference to such financial statements.

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