

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q/A
Amendment No. 1

(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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March 31, 1996

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

HALSEY DRUG CO., INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(Amounts in thousands)	(UNAUDITED)	
	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
OTHER ASSETS	959	1,054
	-----	-----

\$18,413 \$18,862
 =====

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	(16,742)	(14,989)
	-----	-----
	(2,035)	(440)
Less: Treasury stock - at cost (500,000 shares)	1,100	(1,100)
	-----	-----
Total stockholders' equity	(3,135)	(1,540)
	-----	-----
	\$ 18,413	\$ 18,862
	=====	=====

The accompanying notes are an integral part of these statements

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HALSEY DRUG CO., INC. AND SUBSIDIARIES
 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	--	2,288
	-----	-----
(Loss) earnings before income taxes	(1,753)	2,127
Provision for income taxes	--	296
	-----	-----
Net (loss) earnings	\$ (1,753)	\$ 1,831
	=====	=====
Net (loss) earnings per common share	(\$ 0.22)	\$.23
	=====	=====
Average number of outstanding shares	7,886,101	7,859,537
	=====	=====

The accompanying notes are an integral part of these statements

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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)	\$ 1,831
	-----	-----
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	--	(2,288)
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	(3,511)
	-----	-----
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	(\$14,989)	500,000	\$1,100	\$ (1,540)
Net loss 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	(\$16,742)	500,000	\$1,100	(\$3,135)
	=====	=====	=====	=====	=====	=====	=====

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 of 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 of Net Sales -----	1995	Percentage Change Year-to-Year Increase (decrease) -----
	1996	1995	1996 as compared to 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	(100.0)
Gain on the sale of assets	--	33.3	100.0
	-----	-----	
(Loss) earnings before income taxes	(42.1)	30.9	(182.4)

Provision for income taxes	--	4.3	(100.0)
	-----	-----	
Net (loss) earnings	(42.1)	26.6	(195.7)
	=====	=====	

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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, 1995. 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, 1995.

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.

GAIN ON SALE OF ASSETS

On March 21, 1995, the Company sold the tablets ANDA and certain equipment used in the production of the Tablets for up to \$5.4 million to Mallinckrodt. The Company received \$500,000 of the proceeds in July 1994. Mallinckrodt also paid the Company \$2,000,000 on March 21, 1995 and the remainder will be payable as follows: (i) \$1,000,000 upon the Company receiving general clearance from the FDA for unrestricted operations at its Brooklyn facility and written notice from the FDA that it is in compliance with certain provisions of the consent decree dated June 29, 1993 and (ii) \$1,900,000 at the earlier of (a) Mallinckrodt receiving certain authorizations from the FDA or (b) September 21, 1997. ("Deferred Payments") Mallinckrodt also agreed to defer \$1,200,000 of the Company's trade debt due to an affiliate of Mallinckrodt. For the six months ended June 30, 1995, the Company recorded a gain of \$2,288,000 for the sale of

the ANDA and related equipment net of expenses related to the sale.

If prior to a the time it is possible for Mallinckrodt to commence production under the Tablets ANDA or any new Tablets ANDA at its own facility, and the Company ceases or is forced to cease or substantially curtail production under the Tablet ANDA, as a consequence of (I) any action or communication by the FDA or any other regulatory or governmental authority or (ii) any financial or other business difficulty, then Mallinckrodt has the right to cancel payment of any yet unpaid portion of the Deferred Payment(\$1.9 million) and shall further have the right to a full refund of any portion of the Deferred Payment already made to the Company.

The Company has revised the gain recorded on the sale of assets to Mallinckrodt and will not recognize the Deferred Payment until the earlier of (a) Mallinckrodt receiving certain authorizations from the FDA or (b) March 31, 1998. The effect of the adjustments on the accompany financial statements is as follows(In thousands, except for per share amounts):

As of March 31, 1996:

In thousands except for per share amounts	1996		1995	
	As Previously reported	As restated	As Previously reported	As restated
Net earnings			3,731	1,831
Net earnings per common share			.48	.23
Long-term receivable	1,900	-----	1,900	-----
Accumulated deficit	(14,842)	(16,742)	(14,842)	(16,742)

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 \$1,831,000 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.

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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Item 6. Exhibits and Reports on Form 8-K.

(a) Exhibits - See Exhibit Index.

Financial Data Schedule

(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: October 3, 1996

BY: /s/ Rosendo Ferran

Rosendo Ferran
President and Chief
Executive Officer

Date: October 3, 1996

BY: /s/ Robert J. Mellage

Robert J. Mellage
Corporate Controller

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EXHIBIT INDEX

Exhibit No.	Description
----------------	-------------

Financial Data Schedule, which is submitted electronically to the Securities and Exchange Commission for information 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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