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 September 30, 1995

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 incorporation or organization)	(I.R.S. Employer Identification No.)

1827 Pacific Street Brooklyn, New York	11233
(Address of Principal executive officer)	(Zip Code)

(718) 467-7500

(Registrants 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. (Form 10-K for the year ended December 31, 1994, and Forms 10-Q for quarters ended September 30, 1994 and March 31, 1995 were filed late).

YES__________ NO____X_____

As of November 10,1995, the registrant had 8,470,459 of Common Stock, $.01 par value, outstanding.

HALSEY DRUG CO., & SUBSIDIARIES

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PART I. FINANCIAL INFORMATION

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

HALSEY DRUG CO., INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(Amounts in thousands)	(UNAUDITED) SEPTEMBER 30, 1995	DECEMBER 31 1994
CURRENT ASSETS		
Cash	$ 69	$ 28
Accounts Receivable - trade, net of allowances for doubtful accounts of $193 and $755 1995 and 1994, respectively	1,763	2,326
Inventories	8,391	6,835
Prepaid insurance and other current assets	441	496
Deferred income tax		296
Total current assets	10,664	9,981
PROPERTY PLANT & EQUIPMENT, NET	7,678	8,561
OTHER ASSETS	716	734
	$19,058	$19,276

The accompanying notes are an integral part of these statements

HALSEY DRUG CO., INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(Amounts in thousands)	(UNAUDITED) September 30, 1995	December 31, 1994
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Bank overdraft	$ 307	$ 218
Current maturities of long-term debt	3,382	4,850
Department of Justice settlement	1,969	2,013
Accounts payable	3,309	4,414
Accrued expenses and other liabilities	2,132	1,823
Advances from minority stockholders	206	418
Income taxes payable	13	196
Deferred income		500
Total current liabilities	11,318	14,432
LONG-TERM DEBT	6,277	2,492
LITIGATION SETTLEMENT		3,000
CONTINGENCIES		
STOCKHOLDERS' EQUITY (DEFICIT)		
Common stock - $.01 par value; authorized 20,000,000, shares; issued and outstanding 8,434,279 shares at September 30, 1995 and 7,609,537 shares at December 31, 1994	89	76
Additional paid-in capital	13,963	10,162
Accumulated deficit	(11,489)	(10,886)
	2,563	(648)
Less: Treasury stock	(1,100)	0
Total Stockholders' equity(deficit)	1,463	(648)
	$19,058	$19,276

The accompanying notes are an integral part of these statements

HALSEY DRUG CO., INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)

Amounts in thousands except per share data	For the nine months ended September 30	For the three months ended September 30

	1995	1994	1995	1994
Net Sales	$16,104	$18,617	$4,347	$5,579
Cost of goods sold	12,868	15,301	4,049	4.578
Gross profit	3,236	3,316	298	1,001
Research & Development	489	339	182	181
Selling, general and administrative expenses	4,487	5,290	1,506	1,603
Loss from operations	(1,740)	(2,313)	(1,390)	(783)
Gain on the sale of assets	2,288			
Other income	7	150	1	38
Interest expense	862	617	422	226
Loss before income taxes	(307)	(2,780)	(1,811)	(971)
Provision for income taxes	296	0	0	0
Net loss	($603)	($2,780)	($1,811)	($971)
Net loss per common share	($0.08)	($0.39)	($0.23)	($0.14)
Weighted average number of outstanding shares	7,819,214	7,109,537	7,717,882	7,109,537

The accompanying notes are an integral part of these statements

HALSEY DRUG CO., AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

Amounts in thousands	NINE MONTHS ENDED SEPTEMBER 30 1995	1994
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Loss	($603)	($2,780)
Adjustments to reconcile net (loss) to net cash used in operating activities		
Depreciation and amortization	1,547	1,504
Gain on sale of assets	(2,288)	-------
Accrued Department of Justice interest	56	-------
Deferred income taxes	296	-------
Changes in assets and liabilities		
Accounts receivable	563	(196)
Inventories	(909)	1,672
Prepaid insurance and other current assets	55	59
Income tax receivable	-------	660
Accounts payable	(919)	(1,222)
Accrued expenses	328	254
Income taxes payable	(183)	(39)
Total adjustments	(1,454)	2,692
Net cash used in operating activities	(2,057)	(88)

Cash flows from investing activities		
Capital expenditures	(403)	(37)
(Decrease)increase in other assets	(320)	123
Proceeds from sale of assets	2,000	-------
Net cash provided by investing activities	1,277	86
Cash flows from financing activities		
Note payable	--------	500
Payment of long term debt	(1,563)	(489)
Proceeds from issuance of convertible debentures	3,707	-------
Acquisition of treasury stock	(1100)	-------
Payment to Department of Justice	(100)	(18)
` Bank overdraft	89	(322)
Advances from former minority stockholder	(212)	324
Net cash (used in) provided by financing activities	821	(5)
NET INCREASE IN CASH AND CASH EQUIVALENTS	41	(7)
Cash and cash equivalents at beginning of period	28	32
Cash and cash equivalents at end of period	$ 69	$ 25

The accompanying notes are an integral part of these statements.

HALSEY DRUG CO., INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

Nine Months Ended September 30,1995

Amounts in thousands except per share data

(UNAUDITED)

	Common Stock $.01 par value		Additional	Accumulated	Treasury	
	Shares	Amount	Paid-In Capital	Deficit	Stock	Total
Balance at December 31, 1994	7,609,537	$76	$10,162	($10,886)		($648)
Net loss for the nine months ended September 30, 1995				(603)		603
Issuance of common stock	500,000	5	828	0		833
Issuance of shares as settlement of shareholder litigation	824,742	8	2,973	0		2,981
Acquisition of treasury stock	(500,000)	0	0	0	(1,100)	(1,100)
Balance at September 30 , 1995	8,434,279	$89	$13,963	($11,489)	$(1,100)	$1,463

The accompanying notes are an integral part of these statements.

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 month and nine month periods ended September 30, 1995 have been made, but the financial results for the three month and nine month periods ended September 30, 1995 are not necessarily indicative of the results that may be expected for the full year ended December 31, 1995. 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, 1994 included in the Company's Annual Report on Form 10-K.

Note 2 - Inventories

(Amounts in thousands)

Inventories consists of the following:

	September 30,1995	December 31, 1994
Finished Goods	$2,764	$1,990
Work in Process	1,072	1,301
Raw Materials	4,555	3,544
	$8,391	$6,835

NOTE 3 - Lines of Credit and Long-Term Debt

Lines of Credit

In December 1992, the Company entered into a new credit agreement providing for borrowings of up to $7,000,000 at the prime rate plus an initial margin of 1/2%, originally maturing in December 1994. Upon certain conditions, as defined in the agreement, the margin rate increases by 2%. Borrowings under the line were available for working capital purposes based upon a percentage of the parent company's eligible accounts receivable and are collateralized by such accounts receivable. The agreement contains certain financial covenants, including minimum interest coverage and working capital ratios, tangible net worth, limitations on capital expenditures, and maximum debt-to-equity ratios.

The Company and its banks amended the credit agreement to include the stock of certain subsidiaries, the accounts receivable of the Company's Houba, Inc. subsidiary, and the parent company's inventory and equipment as additional collateral, to increase the initial margin rate to 2% (10.75% at September 30, 1995), to restrict certain payments made by the Company, to require payment to be made by the Company to the banks of any income tax refunds received by the Company, to extend the maturity date to August 31, 1995, and to agree in principal to modify the financial covenants at a later date. In addition, if the outstanding borrowings were not repaid by August 31, 1995, the Company has been required to pay an additional 3%($ 102,000) of the then outstanding principal due to the banks. Such amount has been accrued.

As consideration for the above amendments and the Company's continued borrowings in excess of the borrowing formula, the Company has issued to the banks stock warrants, expiring December 31, 1999, to purchase up to 635,653 shares of the Company's common stock at exercise prices ranging from $2.13 to $2.275 per share (subject to the anti-dilution provisions of the credit agreement, as amended). The fair value of the warrants, $200,000, as determined by the Company's Board of Directors, has been recorded by the Company as additional paid-in capital and a discount to bank debt which has been amortized through the maturity date, August 31, 1995.

In July 1995, the Company and its banks amended the credit agreement as a result of the Company having consummated a private offering on July 18, 1995. As consideration for waiving any breach or default under the Credit Agreement as a result of the private offering, the Bank group received $500,000 of the proceeds as payment for interest, fees and principal and an extension of the warrant exercise period to July 17, 2000. In addition, the exercise prices of all warrants for 635,653 shares of the Company's common stock have been adjusted for any anti-dilution to prices ranging from $2.13 to $ 2.275.

Although the credit agreement with the Bank Group has expired, the Company and the Bank Group are currently negotiating on an extension of the agreement.

Convertible Subordinated Promissory Note

Pursuant to the Zatpack, Inc. ("Zatpack") agreement , the Company issued a convertible subordinated promissory note dated December 31, 1994, to Zatpack, for the cancellation of trade payables and advances by Zuellig Group N.A. Inc. ("Zuellig") to the Company's subsidiaries, in the amount of $1,292,000, bearing interest at 8% per annum, compounded annually, due December 1, 1997. The outstanding principal, plus all accrued and unpaid interest, can be converted, at the option of Zatpack, into the Company's common stock at the rate of one share of common stock for every $2.41 of principal and interest being converted (the $2.41 is subject to the anti-dilution provisions of the promissory note). The note is subordinated to bank debt.

Subordinated Promissory Note

On March 21, 1995, the Company satisfied certain accounts payable by issuing a subordinated promissory note to Mallinckrodt Chemical Acquisition, Inc. ("Mallinckrodt") for $1,200,000, bearing interest at 8% per annum, with interest and principal payable at the earlier of: (i) receipt by Mallinckrodt of all necessary authorization from the U. S. Food and Drug Administration (the "FDA") or (ii) September 21,1997. The note is collateralized by substantially all of the assets of the Company and is subordinated to future bank indebtedness of up to $8,000,000. The $1,200,000 note represents the deferral of payment by the Company of a portion of its December 31, 1994 accounts payable due to an affiliate of Mallinckrodt.

10 % Convertible Subordinated Debentures

The Company consummated a private offering (the "Offering") of 408 units ("Units") of securities on July 18, 1995 for an aggregate purchase price of $4,080,000. Each Unit consisted of (i) a 10% convertible subordinated debenture in the principal amount of $ 10,000 (the "Debentures") issued at par and (ii) 750 redeemable common stock purchase warrants("Warrants").

The Debentures will become due and payable as to principal five years from the date of issuance. Interest, at the rate of 10% per annum, is payable on a quarterly basis. The Debentures are convertible at any time after issuance into shares (the "Conversion Shares") of common stock, $ .01 par value per share (the "Common Stock"), of the Company at a conversion price (the " Conversion Price") of $ 2.00 per share, subject to adjustment.

Each Warrant entitles the holder to purchase one share of Common Stock (the "Warrant Shares" and collectively with the conversion shares, the underlying shares) for $ 2.00 subject to adjustment, during the five year period commencing on the date of issuance. The Warrants are redeemable by the Company at a price of $.01 per Warrant at any time commencing one year after issuance, upon not less than 30 days prior written notice, if the last sale price of the Common Stock on the American Stock Exchange, Inc. (the "Exchange") following such one year anniversary equals or exceeds $ 2.00 per share (the " Threshold") for the 20 consecutive trading days ending on the third day prior to the notice of redemption to holders.

The Company will register the Underlying Shares under the Securities Act of 1933, as amended (the "Securities Act"). The Underlying Shares have been approved for listing on the Exchange.

The Units are convertible (in the case of the Debentures) and/or exercisable (in the case of the Warrants), as the case may be, into 2,346,000 Underlying Shares, or approximately 24% of the issued and outstanding Common Stock of the Company immediately after the Offering. The Company reserved 1,846,000 shares of authorized but unissued shares of Common Stock for issuance upon conversion of the Debentures and exercise of the Warrants; the 500,000 remaining Underlying Shares (the "RPI Shares") are represented by treasury shares which the Company has repurchased from Ranbaxy Pharmaceuticals, Inc.

("RPI") with $1,100,000 of the net proceeds of the offering.

The net proceeds of the Offering (after giving effect to the repurchase of the RPI Shares) was approximately $ 2,628,175. The Company was required to use $500,000 of such net proceeds to repay a portion of its bank debt. The Company has utilized the balance of the net proceeds of the Offering for the following purposes: for registration of the Underlying Shares under the Securities Act; for the purchase of equipment; for research and development expenses; and for working capital.

Borrowings under lines of credit and long-term debt consist of the following at September 30, 1995 and December 31, 1994.

	(Amounts in thousands) 1995	1994
Borrowing under lines of credit	$3,432	$4,850
Convertible subordinated promissory note	1,370	1,292
Subordinated promissory note	1,200	1,200
10% Convertible Subordinated Debentures	3,707	
	9,709	7,342
Less current maturities	3,432	4,850
	$6,277	$2,492

NOTE 4 - Gain on Sale of Assets

On March 21, 1995, the Company sold its abbreviated new drug application ("ANDA") for 5mg Oxycodone HCl/325mg and Acetaminophen Tablets ("Tablets") and certain equipment used in the production of the Tablets for up to $5,400,000 to Mallinckrodt. The Company received $500,000 of the proceeds in July 1994, which was recorded as deferred income on the Company's December 31, 1994 consolidated balance sheet. 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.

In connection with the agreement, the Company agreed to manufacture Tablets for Mallinckrodt for a period of three years and Mallinckrodt agreed to order a minimum number of Tablets from the Company for two years ending March 21, 1997. The Company and Mallinckrodt entered into a non competition agreement pursuant to which the Company agreed not to compete with Mallinckrodt and its affiliates with respect to the Tablets ANDA until March 21, 2000. If, prior to 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 Tablets 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. For the nine months ended September 30, 1995, the Company has recorded a gain of $2,288,000 for the sale of the ANDA and related equipment net of expenses related to the sale.

In addition, the Company issued to Mallinckrodt an option to purchase the ANDA for oxycodone/acetaminophen capsules at an exercise price equal to 3/4 of annual net capsule revenue, as defined. Upon exercise of the option, the Company and

Mallinckrodt would enter into agreements pursuant to which the Company would (i) manufacture oxycodone and acetaminophen capsules for Mallinckrodt for a period of time and (ii) be prohibited from competing with Mallinckrodt and its affiliates with respect to the production of capsules.

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 (i) Mallinckrodt receiving certain authorizations from the FDA or (ii) March 31, 1998. The effect of the adjustments on the accompanying financial statements is as follows (in thousands, except for per share amounts):

As of June 30, 1995:

	As Previously Reported	As Restated
Net Earnings(loss)	$1,297,000	($603,000)
Net earnings(loss) per common stock	$.16	($.08)
Long Term Receivable	1,900,000	0
Accumulated Deficit	(9,589,000)	(11,489,000)

NOTE 5 - Sale of Common Stock

On March 30, 1995, the Company entered into an Agreement with Zatpack for the purchase of 500,000 shares of common stock of the Company by Zatpack, with registration rights, in consideration of $1,000,000 ($983,000 net of expenses). The $1,000,000 consideration consists of the cancellation of indebtedness (incurred by the Company's subsidiaries for the purchase of raw materials delivered or being delivered from affiliates of Zuellig) and shares of the Company's Indiana Fine Chemicals Corporation subsidiary valued at $150,000. As a result of the above transaction, the Company owns 100% of Indiana Fine Chemical Corporation. In addition, as described in Note 3 previously, the Company issued a convertible promissory note to Zatpack, dated December 1, 1994. Zatpack has acquired the above assets from Zuellig and its subsidiaries.

NOTE 6 - 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 of these actions. Management is of the opinion that final disposition of these lawsuits will not result in a material adverse impact on the financial condition of the Company.

On June 29, 1993, the Company entered into a consent decree with the U. S. Attorney for the Eastern District of New York on behalf of the FDA that resulted from the FDA's investigation of the Company. Under the terms of the consent decree, the Company was enjoined from shipping any solid dosage drug products, (i.e., excluding liquid drug formulations) manufactured at the Company's facilities until the Company established, to the satisfaction of the FDA, that the methods used in, and the facilities and controls to be used for, manufacturing, processing, packing, labeling and holding any drug are established, operated and administered in conformity with the Federal Food, Drug and Cosmetic Act and the FDA's Current Good Manufacturing Practice regulations. As part of satisfying the foregoing requirements, the Company is required to validate the manufacturing process for each solid dosage drug product prior to manufacturing and shipping the drug product, except that the Company is permitted under the terms of the consent decree to manufacture and ship from its facilities six identified drug products at its own risk provided that (i) at least twice per month, the Company's independent expert certifies that each batch of drug product upon validation will have been manufactured in accordance with the FDA Regulations and the formulation described in the drug products approved NDA ("New Drug Application") or ANDA, until such time as validation is completed for these products; and (ii) for any batches of these products that have already been manufactured, such certification will include certification by a Company representative with personal knowledge of the records relating to such drug that they are accurate and complete and a certification signed by an independent expert that he has personally reviewed the records provided and that in his professional opinion, the foregoing requirement concerning validation has been met. The Company commenced shipments of five of the six solid dosage products under the foregoing certification process. After review by the Company and its consultants of one of the Company's six core products, hydrocodone bitartrate 5mg and acetaminophen 500mg tablet, discrepancies were discovered with some of the data in the Company's ANDA. This resulted in a voluntary recall of this product and the withdrawal of the ANDA.

On June 21, 1993, the Company entered into a plea agreement with the Department of Justice to resolve the government's investigation. Under the terms of the plea agreement, the Company agreed to plead guilty to five counts of adulteration of a single drug product shipped in interstate commerce and related recordkeeping violations. The plea agreement also requires the Company to pay a fine of $2,500,000 over five years in quarterly installments of $125,000 beginning September 15, 1993. As of September 30, 1995, the Company has paid two quarterly installments and several partial payments. The plea agreement stipulated that if the Company does not make timely payments, the entire fine becomes due and payable. As a result, the entire Department of Justice settlement has been reclassified as a current liability in the December 31,1994 consolidated balance sheets. At the present time, no action has been initiated by the Department of Justice to require payment of the entire amount.

On March 31, 1993 and April 1, 1993, five lawsuits were filed by shareholders against the Company and three or more of the Company's directors. In June 1994, the plaintiffs of the five lawsuits and the two shareholder-derivative lawsuits and the Company agreed to a settlement of these lawsuits. The Company agreed to pay to the plaintiffs $1,000,000 in cash, which has been paid by the Company's insurance carrier and, at the Company's option, either (i) the issuance of shares of the Company's common stock having a value, as of the date of distribution of $3,000,000 or (ii) the payment by the Company of $3,000,000 in cash or (iii) any combination of issuance of shares or payment of cash by the Company having a combined value as of the date of distribution of $3,000,000. The suit has been settled and payment has been made by the insurance carrier for the agreed amount of $1,000,000 , and the Company has issued 824,742 shares of stock at the per share price of $ 3.6375 amounting to a value of $ 3,000,000.

On November 12, 1993, the Securities and Exchange Commission ("SEC") requested that the Company provide to the SEC, on a voluntary basis, information and documents regarding the ingredients and fillings relating to the following drugs; quinidine gluconate, propylthiourical, acetaminophen and codeine phosphate, metronidazole, quinidine sulfate, and hydralazine hydrochloride. The SEC advised the Company that the inquiry relates to public information disseminated by the Company and trading in the Company's securities during the period August 1987 through July 1993. The Company is cooperating with the SEC and has made available various documents. These documents relate to the testing, formulations and sale of these drugs which were maintained by the Company at the offices of its counsel in Maryland. In April 1994, the SEC requested additional documentation regarding these matters. The Company has complied with the additional request. On July 5,1994, the Company made a formal submission to the SEC and outlined the parameters of a proposed settlement. An additional submission was made on January 31, 1995 to bring additional information to the SEC. In May 1995, a formal Order of Investigation was issued by the SEC covering the foregoing matters. In June 1995, additional documents were submitted. Officers and directors of the Company have also testified before the SEC. On October 24, 1995, the SEC staff informed the Company that it would recommend that the Commission authorize the institution of an administrative proceeding pursuant to Section 21C of the Securities and Exchange Act of 1934 (the "Exchange Act") against the Company. Specifically, the staff indicated it would seek an order requiring the Company to cease and desist from violating Section 17 (a) of the Securities act and Sections 10 (b) and 13 (a) of the Exchange Act and Rules 10b-5, 12B-20, 13a-1 and 13a-13 thereunder. The proposed action would allege that the Company's December 31, 1991 Annual Reports on Form 10-k and March 31, 1991, June 30, 1991, September 30, 1992 quarterly reports on Form 10-Q were materially false and misleading. The SEC staff proposal conforms in large part to the settlement proposal submitted by the Company. The Company is unable to predict the likelihood of the SEC adoption the staff proposal. An adverse determination in this regard could have material adverse effect on the Company's financial condition.

By letter dated October 23, 1995, the Company was notified by the New York State Education Department, that the Professional Conduct Officer of the office of Professional Discipline has determined that there is sufficient evidence of professional misconduct on Halsey's part to warrant a disciplinary proceeding pursuant to New York law. Upon contacting the Deputy Director of the office of Professional Discipline, counsel for the Company was advised that the alleged misconduct related to the same activities that were the subject of the Department of Justice investigation, indictment and plea. The Company is preparing a written response.

On November 9, 1995, the Company received two Notices of Charge of Discrimination from the United States Equal Employment Opportunity Commission relating to two claimed violations of Title VII of the Civil Rights Act of 1964. The first charge of employment discrimination was filed on October 31, 1995 by a female employee of the Company and alleges sexual discrimination and harassment. A second separate charge of discrimination was also filed on October 31, 1995, by another female employee alleging sexual harassment against the same individual.

The Company has investigated these charges and undertaken to remedy the situation. The Company is unable to predict with reasonable certainty the outcome of these claims and, accordingly, no provision has been made for any potential costs.

The Company has been named as a defendant in an action commenced on August 19, 1995 by the Company's former product liability insurer ("Lexington") captioned Lexington Insurance Company v. Halsey Drug Co., Inc., 95 Civ. 3403, pending in the United States District Court for the Eastern District of New York. The Complaint seeks the recovery of sums paid by Lexington to settle a lawsuit brought by Linda K. Walton relating to the ingestion of quinidine gluconate allegedly manufactured by the Company. The Complaint requests not less than $75,000 in damages, plus a declaration that the Walton claim, and other similar claims are not covered under their policy. The Company has served its Answer which denies that the exclusion relied on by the Lexington applies to the Walton claim. No discovery has been exchanged.

A lawsuit has been filed by the minority shareholders of H. R. Cenci Laboratories, Inc. ("Cenci") and Cenci Powder Products, Inc. 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. Because of the early stage of this action, it is not possible at this time to predict with reasonable certainty the ultimate outcome of this matter and, accordingly, no provision has been made for any potential costs relating to this matter. A counter claim has been filed by the Company.

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

	Nine months ended September 30	Three months ended September 30
	Percentage Change Year-to-Year	Percentage Change Year-to-Year

	Percentage of Net Sales		Increase (decrease)	Percentage of Net Sales		Increase (decrease)
			1995 as compared to			1995 as compared to
	1995 %	1994 %	1994 %	1995 %	1994 %	1994 %
Net Sales	100.0	100.0	(13.5)	100.0	100.0	(22.1)
Cost of Goods	79.9	82.2	(15.9)	93.1	82.1	(11.6)
Gross Profit	20.1	17.8	(2.4)	6.9	17.9	(70.2)
Research & Development	3.0	1.8	44.2	4.2	3.2	.7
Selling, General and administrative expenses	27.9	28.4	(15.2)	34.7	28.7	(6.1)
Loss from operations	(10.8)	(12.4)	24.8	(32.0)	(14.0)	(77.5)
Gain on the sale of assets	14.2	-----	100.0	-----	-----	100.0
Other income	.------	0.8	(95.3)	------	0.7	(96.5)
Interest expense	(5.3)	(3.3)	39.7	(9.7)	(4.1)	86.7
Loss before income taxes	(1.9)	(14.9)	88.9	(41.7)	(17.4)	(86.5)
Provision for income taxes	1.8	-----	100.0	-------	-----	100.0
Net Loss	(3.7)	(14.9)	78.3	(41.7)	(17.4)	(86.5)

Nine months ended September 30, 1995 vs. Nine months ended September 30, 1994

Net Sales

The Company's net sales for the nine months ended September 30, 1995 of $16,104,000 represents a decrease of $(2,513,000) or (13.5%) as compared to net sales for the nine months ended September 30, 1994 of $18,617,000. The decrease in 1995 is attributable to the reduction in shipments of tablet products due to the sale at the end of the first quarter by the Company of the tablets ANDA to Mallinckrodt which is partially offset by manufacturing revenue that the Company is receiving as part of its agreement with Mallinckrodt. In addition, the decrease is attributable to price reductions effected during the third quarter in order to meet increased competition in the market.

Cost of Goods Sold

For the nine months ended September 30, 1995, cost of goods sold of $12,868,000 represents a decrease of approximately $2,433,000 as compared to $15,301,000 for the nine months ended September 30, 1994. The decrease for 1995 is attributable to the reduction in shipments of tablet products due to the sale at the end of the first quarter by the Company of the tablets ANDA combined with significant reductions in manufacturing costs of personnel and other expenses. The Company's gross margin as a percentage of sales for the nine months ended September 30, 1995 was 20.1% as compared to 17.8% for the nine months ended September 30, 1994.

Selling, General and Administrative Expenses

Selling, general and administrative expenses as a percentage of sales for the nine months ended September 30, 1995 and 1994 were 27.9% and 28.4%, respectively. These expenses decreased by approximately $803,000 or 15.2% as compared to 1994. The decrease was attributable to cost saving measures effected by management during the year, a reduction in personnel and related costs combined with reductions in legal and consulting expenses.

Gain on Sale of Assets

On March 21, 1995, the Company sold its abbreviated new drug application ("ANDA") for 5mg Oxycodone HCl/325mg and Acetaminophen Tablets ("Tablets") and certain equipment used in the production of the Tablets for up to $5,400,000 to

Mallinckrodt. The Company received $500,000 of the proceeds in July 1994, which was recorded as deferred income on the Company's December 31, 1994 consolidated balance sheet. 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 nine months ended Spetember 30, 1995, the Company has recorded a gain of $2,288,000 for the sale of the ANDA and related equipment net of expenses related to the sale.

In connection with the agreement, the Company agreed to manufacture Tablets for Mallinckrodt for a period of three years and Mallinckrodt agreed to order a minimum number of Tablets from the Company for two years ending March 21, 1997. The Company and Mallinckrodt entered into a non competition agreement pursuant to which the Company agreed not to compete with Mallinckrodt and its affiliates with respect to the Tablets ANDA until March 21, 2000. If, prior to 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 Tablets 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.

Other Income

Other income decreased by $143,000 as compared to 1994. This decrease in other income is attributable to the sale by the Company of certain equipment which resulted in a gain during the second quarter of 1994.

Interest Expense

Interest expense for 1995 increased by $245,000 as compared to 1994 as a result of the fee($102,000) payable to the Bank Group at the end of August, an increase in the level of borrowings and an increase in the interest rate after the second quarter of 1994.

Provision for Income Taxes

The Company had a tax provision of $296,000 as a result of available net operating loss carryforward. In 1994, the Company had no tax benefit since the available loss carryback to prior years was utilized by the net operating loss for 1993 carryback to the prior three years.

Net (Loss)

For the nine months ended September 30, 1995, the Company had a net loss of $603,000 as compared to $2,780,000 for the nine months ended September 30, 1994. The increase is attributable to the gain on the sale of assets of $ 2,288,000 net of the tax provision of $296,000, or $ 1,992,000.

Three months ended September 30, 1995 Vs three months ended September 30, 1994

Net Sales
- ---------

The Company's net sales for the three months ended September 30, 1995 of $4,347,000 represents a decrease of $1,232,000 (22.1%) as compared to net sales for the three months ended September 30 , 1994 of $5,579,000. The decrease in 1995 is attributable to the reduction in shipments of tablet products due to the sale at the end of the first quarter by the Company of the tablets ANDA to Mallinckrodt. This decrease is partially offset by the manufacturing revenue that the Company is receiving as part of its agreement with Mallinckrodt. In addition, the decrease is attributable to price reductions effected during the third quarter in an effort to meet increased competition.

Cost of Goods Sold
- ------------------

For the three months ended September 30, 1995, cost of goods sold decreased by approximately $529,000 as compared to the three months ended September 30, 1994. The decrease for 1995 is attributable to the reduction in shipments of tablet products due to the sale at the end of the first quarter 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 September 30, 1995 was 6.9% as compared to 17.9% for the three months ended September 30, 1994.

Selling, General and Administrative Expenses
- --

Selling, general and administrative expenses as a percentage of sales for the three months ended September 30, 1995 and 1994 were 34.7% and 28.7%, respectively.

Interest Expense
- ----------------

Interest expense for the three months ended September 30, 1995 increased by $196,000 as compared to 1994 as a result of the fee($102,000) payable to the Bank Group at the end of August combined with an increase in the level of borrowings.

Net Loss
- --------

For the three months ended September 30, 1995, the Company had net loss of $1,811,000 as compared to a net loss of $971,000 for the three months ended September 30, 1994. 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 by the Company of the tablets ANDA combined with price reductions to compete with increase market competition.

Liquidity and Capital Resources
- -------------------------------

At September 30, 1995, the Company had cash and cash equivalents of $69,000 as compared to $28,000 at December 31, 1994. The Company had a working capital deficiency at September 30, 1995 of $654,000 and $4,451,000 at December 31, 1994.

As a result of the decline in shipments of solid dosage products from the Company's Brooklyn plant following the entry of the consent decree, 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 1994 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.

Under the terms of the plea agreement with the DOJ, the Company has agreed to pay a $2,500,000 fine, payable in quarterly installments of $125,000 over five years. Two installments plus additional partial payments have been paid to date. The agreement with the DOJ stipulates if any payments are not made in a timely fashion, the entire amount of the fine shall become due and payable immediately. As a result, the entire amount of the settlement has been classified as current as of December 31, 1994. As of the current date, no action has been initiated to require immediate payment of the entire amount.

In May 1994, the Company and its banks amended the credit agreement to (i) modify the terms of the warrants by adjusting the initial exercise price per share of the warrants to $2.875; (ii) require the payment of any income tax refunds of the Company and its subsidiaries to an escrow account maintained by a designated agent; (iii) require the maintenance of a consultant for designated duties specified in the agreement; (iv) restrict certain payments made by the Company or its subsidiaries; and (v) require the reimbursement of certain fees incurred by the banks in connection with the credit agreement.

In July 1994, the Company and its banks further amended the credit agreement to extend the due date to December 31, 1994, to modify certain financial covenants, to restrict the use of proceeds of loans and advances received by the Company including the receipts from the agreement with Mallinckrodt and to require the reimbursement of certain fees to the bank in connection with this agreement. As consideration, the Company issued 77,988 new warrants, at an exercise price of $3.4375 per share, and agreed to issue additional warrants, for each month the loan remains outstanding through the due date of December 31, 1994. The Company has issued warrants for the purchase of an aggregate of 203,939 shares at exercise prices varying from $2.875 to $2.25 per share. Such warrants were valued at $100,000 in 1993 and $100,000 in 1994. The fair value of the warrants, $200,000, as determined by the Company's Board of Directors, has been recorded by the Company as additional paid-in-capital and a discount to bank debt which is being amortized through the extended maturity date of the credit agreement, which is August 31, 1995.

In July 1994, the Company received an income tax refund of $470,000, net of penalties and interest, which the Company used to reduce the outstanding debt and to pay interest and fees outstanding to the banks.

In March 1995, the Company and its banks restructured the credit agreement to include an extension of the due date to August 31, 1995, modification of the financial covenants, reduction of the exercise prices of all warrants in excess of $2.375 per share to $2.375 per share and extension of the expiration date of the warrants to December 1999. As consideration for these modifications, the banks received $1,500,000 of the proceeds received from the transaction with Mallinckrodt. Funds have been applied to reduce outstanding principal by approximately $1,113,000 to approximately $3,777,000, to pay accrued interest (approximately $154,000) and fees (approximately $233,000). In addition, if the outstanding borrowings were not repaid by August 31, 1995, the Company has been required to pay an additional 3%($ 102,000) of the then outstanding principal due to the banks. Such amount has been accrued.

In July 1995, The Company and its banks amended the credit agreement as a result of the Company having consummated a private offering on July 18, 1995 as discussed previously in Note 6 to the financial statements. As consideration for waiving any breach or default under the Credit Agreement as a result of the private offering, the Bank group received $500,000 of the proceeds as payment for interest, fees and principal and an extension of the warrant exercise period to July 17, 2000. In addition, the exercise prices of all warrants for 635,653 shares of the Company's common stock have been adjusted for any anti-dilution to prices ranging from $2.13 to $ 2.275.

Although the credit agreement with the Bank Group has expired, the Company and the Bank Group are currently negotiating on an extension of the agreement.

See "Gain on Sale of Assets" for a description of the transaction with Mallinckrodt..

On March 30, 1995, the Company signed the Zatpack Agreement with Zatpack which provides for the purchase of 500,000 shares of common stock of the Company by Zatpack in consideration of $1,000,000 ($982,000 net of expenses).

As described in Note 3 to the financial statements, the Company consummated a private offering of 408 Units of securities on July 18, 1995 for an aggregate purchase price of $4,080,000(less related expenses of $343,000). Each Unit consisted of a 10% Debenture in the principal amount of $ 10,000 issued at par with 750 Redeemable Warrants.

The Company will register the Underlying Shares under the Securities Act. The Underlying Shares have been approved for listing on the Exchange.

The net proceeds of the Offering (after giving effect to the repurchase of the RPI Shares) was approximately $ 2,628,175. The Company was required to use $500,000 of such net proceeds to repay a portion of its bank debt. The Company intends to utilize the balance of the net proceeds of the Offering for the following purposes: for registration of the Underlying Shares under the Securities Act; for the purchase of equipment; for research and development expenses; and for working capital.

As previously indicated, the Company continues to actively pursue additional financing. At the current time, the Company is discussing with several parties to obtain such financing which will provide additional working capital. There can be no assurance that the Company will be able to obtain any such financing on commercially acceptable terms.

PART II OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

Financial Data Schedule

(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.

HALSEY DRUG CO., INC.

Date: October 3 , 1995

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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This schedule contains summary financial information extracted from the Condensed Consolidated Statement of Financial Condition At September 30, 1995(Unaudited) and the Condensed Consolidated Statement of Income for the Nine Months Ended September 30, 1995(Unaudited) and is qualified in its entirety by reference to such financial statements.
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