SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q

(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, 1997

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 offices)	(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 ----- NO X

As of May 13,1997 the registrant had 13,988,434 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

(Amounts in thousands)	(UNAUDITED) 1997 MARCH 31	1996 DECEMBER 31
CURRENT ASSETS		
Cash and cash equivalents	$ 21	$ 118
Accounts Receivable - trade, net of allowances for doubtful accounts of $454 at March 31, 1997 and $424 at December 31, 1996, respectively	421	226
Other receivable	--	1,000
Inventories	3,699	3,758
Prepaid insurance and other current assets	195	252
Total current assets	4,336	5,354
PROPERTY PLANT & EQUIPMENT, NET	5,798	6,222
OTHER ASSETS	392	406
	$10,526	$11,982

The accompanying notes are an integral part of these statements

HALSEY DRUG CO., INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(Amounts in thousands)	(UNAUDITED) 1997 MARCH 31	1996 DECEMBER 31
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)		
CURRENT LIABILITIES		
Bank overdraft	$ 294	$ 286
Due to Banks	2,476	3,195
Notes payable	2,525	1,625
Convertible Subordinated Debentures	2,191	2,173
Department of Justice settlement	2,190	2,168
Accounts payable	4,124	4,533
Accrued expenses	4,880	3,575
Total current liabilities	18,680	17,555
LONG-TERM DEBT	--	1,508
CONTINGENCIES		
STOCKHOLDERS' EQUITY (DEFICIT)		
Common stock - $.01 par value; authorized 20,000,000, shares; issued and outstanding 13,979,767 shares at March 31,1997 and 13,175,708 shares at December 31, 1996	139	131
Additional paid-in capital	25,327	23,316
Accumulated deficit	(32,631)	(29,484)
	(7,165)	(6,037)
Less: Treasury stock - at cost -(449,603 shares at March 31, 1997 and 474,603 shares at December 31, 1996)	(989)	(1,044)
Total stockholders' equity (deficit)	(8,154)	(7,081)
	$ 10,526	$ 11,982

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 Three months ended March 31	
	1997	1996
Net Sales	$ 2,843	$ 4,166
Cost of goods sold	4,105	3,749
Gross profit(loss)	(1,262)	417
Research & Development	165	358
Selling, general and administrative expenses	1,460	1,377
Loss from operations	(2,887)	(1,318)
Interest expense	260	435
Loss before income taxes	(3,147)	(1,753)
Provision for income taxes	--	--
Net loss	($ 3,147)	($ 1,753)
Net loss per common share	($ 0.24)	($ 0.22)
Average number of outstanding shares	12,959,342	7,886,101

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 1997	1996
Cash flows from operating activities		
Net loss	($3,147)	($1,753)
Adjustments to reconcile net loss to net cash used in operating activities		
Depreciation and amortization	457	533
Accrued Department of Justice interest	50	59
Changes in assets and liabilities		
Accounts receivable	(195)	158
Other receivable	1,000	--
Inventories	59	(191)
Prepaid insurance and other current assets	57	47
Accounts payable	(409)	414
Accrued expenses	1,305	147
Total adjustments	2,324	1,167
Net cash used in operating activities	(823)	(586)
Cash flows from investing activities		
Capital expenditures	--	(188)
(Decrease)increase in other assets	(1)	33
Net cash used in investing activities	(1)	(155)
Cash flows from financing activities		
Increase in notes payable	900	--
Decrease in due to banks	(719)	--
Issuance of common stock for payment of interest	112	--
Exercise of warrants of convertible debentures	72	--
Exercise of stock options	254	--
Proceeds from issuance of treasury stock	100	158
Bank overdraft	8	480
Net cash provided by financing activities	727	638
NET (DECREASE)INCREASE IN CASH AND CASH EQUIVALENTS	(97)	103
Cash and cash equivalents at beginning of period	118	353
Cash and cash equivalents at end of period	$ 21	$ 250

The accompanying notes are an integral part of these statements

HALSEY DRUG CO., INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY(DEFICIT)

Three months ended March 31, 1997

Amounts in thousands except per share data

(UNAUDITED)

	Common Stock, $.01 par value		Additional paid-in capital	Accumulated deficit	Treasury stock, at cost		Total
	Shares	Amount			Shares	Amount	
Balance January 1, 1997	13,175,708	$ 131	$ 23,316	($ 29,484)	(474,603)	($ 1,044)	($ 7,081)
Net Loss for the three months ended March 31, 1997				(3,147)			(3,147)
Conversion of convertible subordinated promissory note	642,407	7	1,529				1,536
Issuance of shares as payment of interest	34,754		112				112
Sale of treasury stock	25,000		45		25,000	55	100
Exercise of warrants of convertible debentures	22,267		72				72
Stock options exercised	79,631	1	253				254
Balance at March 31, 1997	13,979,767	$ 139	$ 25,327	($ 32,631)	(449,603)	($ 989)	($ 8,154)

The accompanying notes are an integral part of this statement

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, 1997 have been made, but the financial results for the three months period ended March 31, 1997 are not necessarily indicative of the results that may be expected for the full year ended December 31, 1997. 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, 1996 included in the Company's Annual Report on Form 10-K.

As of March 31, 1997, the Company has a working capital deficiency of approximately $14,344,000, has an accumulated deficit of approximately $32,631,000, has incurred a loss of approximately $3,147,000 during the three months ended March 31, 1997, and is not in compliance with its financial covenants pursuant to its banking agreement and its convertible subordinated debenture agreement. In addition, the Company is delinquent in the payment of its payroll taxes and the Company's credit agreement with its banks expires June 30, 1997. These factors and other matters as discussed in Annual Report on Form 10-K at December 31, 1996, raise substantial doubt about the Company's ability to continue as a going concern. The financial statements do not include any adjustments relative to the recoverability and classification of recorded asset amounts or amounts and classification of liabilities that might be necessary should the Company be unable to continue in existence. Management's plans with respect to those conditions include seeking alternative sources of financing. In this regard, the Company (a) is reviewing several unsolicited expressions of interest from prospective joint venture partners and investors, (b) plans to refinance or extend the maturity date of the Company's bank debt, (c) has sold the rights to one of its products to a major vendor and has received a commitment for future production of such product and submitted Abbreviated New Drug Applications ("ANDA") for approval by the Food and Drug Administration ("FDA"). There can be no assurance that management can obtain alternative sources of financing or obtain approvals for the ANDA's.

Note 2 - Inventories

(Amounts in thousands)

Inventories consists of the following:

	March 31, 1997	December 31, 1996
Finished Goods	$2,087	$2,121
Work in Process	1,002	1,018
Raw Materials	610	619
	$3,699	$3,758

NOTE 3 - Debt

As per the agreement with Mallinckrodt Acquisition, Inc. (Mallinckrodt), on January 9,1997, the Bank Group received payment of $1,000,000, towards principal reduction, interest payments and legal expenses which reduced the principal balance outstanding to approximately $2,476,000. In addition, during the first quarter of 1997, the Company borrowed from and issued to several debenture holders and shareholders, unsecured, demand promissory notes in the amount of $900,000, bearing interest at 12% per annum, with interest payable quarterly.

During March 1997, pursuant to the agreement with Zatpack, Inc., the convertible subordinated promissory note in the amount of $ 1,292,000 and accrued interest of approximately $ 243,000 were converted to common stock.

Borrowings under long-term debt consist of the following at March 31, 1997 and December 31, 1996.

	(Amounts in thousands)	
	1997	1996
Convertible subordinated promissory note	$ --	$ 1,508
Subordinated promissory note	1,400	1,400
Other	1,125	225
	2,525	3,133
Less current maturities	(2,525)	(1,625)
	$ --	$ 1,508

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.

NOTE 5 - New Accounting Pronouncement

In February 1997, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 128, Earnings Per Share, which is effective for financial statements for both interim and annual periods ending after December 31, 1997. Early adoption of the new standard is not permitted. The new standard eliminates primary and fully diluted earnings per share and requires presentation of basic and diluted earnings per share together with disclosure of how the per share amounts were computed. The adoption of this new standard is not expected to have material impact on the disclosure of earnings per share in the financial statements.

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		Percentage Change Year-to-Year Increase (decrease)
	1997	1996	1997 as compared to 1996
	%	%	%
Net Sales	100.0	100.0	(31.8)
Cost of goods sold	144.4	90.0	(9.5)
Gross profit(loss)	(44.4)	10.0	(402.6)
Research & Development	5.8	8.6	(53.9)
Selling, general and administrative expenses	51.4	33.0	(6.0)
Loss from operations	(101.6)	(31.6)	(119.0)
Interest expense	9.1	10.4	(40.2)
Loss before income taxes	(110.7)	(42.1)	(79.5)
Provision for income taxes	--	--	
Net loss	(110.7)	(42.1)	79.5

Three months ended March 31, 1997 vs three months ended March 31, 1996

Net Sales

The Company's net sales for the three months ended March 31, 1997 of $2,843,0000 represents a decrease of $1,323,000 (31.8%) as compared to net sales for the three months ended March 31, 1996 of $4,166,000. This decrease is as a result of the removal from the marketplace of four products and the withdrawal of four ANDA's by the Company, pursuant to a requirement by the FDA, as a pre-condition to release of the Company from the FDA's Application Integrity Policy ("AIP").

Cost of Goods Sold

For the three months ended March 31, 1997, cost of goods sold increased by approximately $356,000 as compared to the three months ended March 31, 1996. The increase for 1997 is attributable to the reduction in shipments and unabsorbed manufacturing costs which directly impact upon the Company's cost of sales and gross margin. Gross margin as a percentage of sales for the three months ended March 31, 1997 was (44.4%) as compared to 10.0% 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, 1997 and 1996 were 51.4% and 33.0%, respectively.

Research and Development Expenses

Research and development expenses as a percentage of sales for the three months ended March 31, 1997 and 1996 was 54.9% and 33.1%, respectively. The Company's research and development program continues to concentrate its efforts toward the submission of new products to the FDA.

Net Earnings (Loss)

For the three months ended March 31, 1997, the Company had net loss of $3,147,000 as compared to a net loss of $1,753,000 for the three months ended March 31, 1996. This decrease is as a result of unabsorbed manufacturing costs and the removal from the marketplace of four products and the withdrawal of four ANDA's by the Company, pursuant to a requirement by the FDA, as a pre-condition to release of the Company from the AIP.

Liquidity and Capital Resources

At March 31, 1997, the Company had cash and cash equivalents of $21,000 as compared to $118,000 at December 31, 1996. The Company had a working capital deficiency at March 31, 1997 of $14,344,000 and $12,201,000 at December 31, 1996.

The removal from the marketplace of four products and the withdrawal of our ANDA's pursuant to a requirement by the FDA, as a pre-condition to the release of the Company from the AIP on December 19, 1996 combined with the lack of available borrowing under the Company's credit agreement, materially, and adversely affected the Company cash position and has severely limited the Company's capital resources.

The Company's Credit Agreement with its banks which expired on December 31, 1996, was extended to June 30, 1997. As per the agreement with Mallinckrodt, on January 9, 1997, the Bank Group received payment of $1,000,000, towards principal reduction, interest payments and legal expenses which reduced the principal balance outstanding to approximately $2,476,000.

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 20, 1996

BY:s/s Rosendo Ferran

Rosendo Ferran
President and Chief
Executive Officer

Date: May 20, 1996

BY:s/s Robert J. Mellage

Robert J. Mellage
Corporate Controller

EXHIBIT INDEX

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

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.

1,000

3-MOS
DEC-31-1997
MAR-31-1997
21
0
875
454
3,699
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18,902
13,104
10,526
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(3,147)
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(3,147)
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