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 June 30, 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 August 13, 1997 the registrant had 14,012,410 Shares of Common Stock, $.01 par value, outstanding.

HALSEY DRUG CO., & SUBSIDIARIES

INDEX

PART I. FINANCIAL INFORMATION

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

HALSEY DRUG CO., INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(UNAUDITED)

(Amounts in thousands)	1997 JUNE 30	1996 DECEMBER 31
CURRENT ASSETS		
Cash and cash equivalents	$ 202	$ 118
Accounts Receivable - trade, net of Allowances for doubtful accounts of $502 and $ 424 at December 31, 1997 and December 31, 1996, respectively	630	226
Other receivable	--	1,000
Inventories	4,472	3,758
Prepaid insurance and other current assets	405	252
Total current assets	5,709	5,354
PROPERTY PLANT & EQUIPMENT, NET	5,404	6,222
OTHER ASSETS	409	406
	$11,522	$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 JUNE 30	1996 DECEMBER 31
LIABILITIES AND STOCKHOLDERS' EQUITY(DEFICIT)		
CURRENT LIABILITIES		
Bank overdraft	$ 296	$ 286
Due to Banks	2,476	3,195
Notes payable	5,525	1,625
Convertible Subordinated Debentures	2,209	2,173
Department of Justice settlement	2,190	2,168
Accounts payable	4,204	4,533
Accrued expenses and other liabilities	5,584	3,575
Total current liabilities	22,484	17,555
LONG-TERM DEBT	--	1,508
CONTINGENCIES		
STOCKHOLDERS' EQUITY (DEFICIT)		
Common stock - $.01 par value; authorized 20,000,000, shares; issued and outstanding 13,995,102 shares at June 30,1997 and 13,175,708 shares at December 31, 1996	139	131
Additional paid-in capital	25,378	23,316
Accumulated deficit	(35,490)	(29,484)
	(9,973)	(6,037)
Less: Treasury stock - at cost -(449,603 shares at June 30, 1997 and 474,603 shares at December 31, 1996)	(989)	(1,044)
Total stockholders' equity(deficit)	(10,962)	(7,081)
	$ 11,522	$ 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

	June 30			
	For the six months ended		For the three months ended	
	1997	1996	1997	1996
Net Sales	$ 5,052	$ 7,643	$ 2,209	$ 3,477
Cost of goods sold	7,355	7,740	3,250	3,991
Gross profit(loss)	(2,303)	(97)	(1,041)	(514)
Research & Development	483	629	318	271
Selling, general and administrative expenses	2,682	3,144	1,222	1,767
Loss from Operations	(5,468)	(3,807)	(2,581)	(2,552)
Interest expense	537	879	277	444
Loss before income taxes	(6,005)	(4,749)	(2,858)	(2,996)
Provision for income taxes	--	--	--	--
Net loss	($ 6,005)	($ 4,749)	($ 2,858)	($ 2,996)
Net loss per common share	(0.45)	($ 0.47)	(0.21)	($ 0.26)
Average number of outstanding shares	13,246,077	10,179.172	13,515,063	11,375,177

The accompanying notes are an integral part of these statements

HALSEY DRUG CO., AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

	For the six months ended	
	1997	1996
Cash flows from operating activities		
Net loss	(6,005)	($4,749)
Adjustments to reconcile net loss to net cash used in operating activities		
Depreciation and amortization	854	1,193
Changes in assets and liabilities		
Accounts receivable	(404)	17
Other receivable	1,000	
Inventories	(714)	602
Prepaid insurance and other current assets	(153)	3
Accounts payable	(329)	855
Accrued expenses and other liabilities	2022	871
Total adjustments	2,276	3,541
Net cash used in operating activities	(3,729)	(1,208)
Cash flows from investing activities		
Capital expenditures	36	(360)
(Decrease)increase in other assets	(3)	(574)
Net cash used in investing activities	33	(934)
Cash flows from financing activities		
Increase in notes payable	3,900	
Decrease in due to banks	(719)	
Issuance of common stock for payment of interest	112	1,556
Exercise of warrants of convertible debentures	72	
Exercise of stock options	305	
Payment to Department of Justice		(10)
Proceeds from issuance of treasury stock	100	
Bank overdraft	10	354
Net cash provided by financing activities	3,780	1,900
NET INCREASE(DECREASE) IN CASH AND CASH EQUIVALENTS	84	(242)
Cash and cash equivalents at beginning of period	118	353
Cash and cash equivalents at end of period	$ 202	$ 111

The accompanying notes are an integral part of these statements

HALSEY DRUG CO., INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY(DEFICIT)
Six months ended June 30, 1997

Amounts in thousands except per share data
(UNAUDITED)

	Common Stock, $.01 par value		Additional paid-in	Accumulated	Treasury stock, at cost		
	Shares	Amount	Capital	deficit	Shares	Amount	Total
Balance January 1, 1997	13,175,708	$ 131	$ 23,316	($ 29,484)	(474,603)	($ 1,044)	($ 7,081)
Net Loss for the six months ended June 30, 1997				(6,006)			(6,006)
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	94,966	1	304				305
Balance at June 30, 1997	13,995,102	$ 139	$ 25,378	($ 35,490)	(449,603)	($ 989)	($ 10,962)

The accompanying notes are an integral part of this statement

(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 six months ended June 30, 1997 have been made, but the financial results for the six month period ended June 30, 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 June 30, 1997, the Company has a working capital deficiency of approximately $16,775,000 has a stockholders' equity (deficit) of approximately $10,962,000 and has incurred a loss of approximately $6,005,000 during the six months ended June 30, 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 expired 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:

	June 30, 1997	December 31, 1996
Finished Goods	$ 1,859	$ 2,121
Work In Process	1,124	1,018
Raw Materials	1,489	619
	$ 4,472	$ 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. 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. In addition, during the second quarter of 1997, the Company received funds, in the amount of $3,000,000, from the proposed purchaser of the Company's Indiana facility. These funds were tendered during the due diligence period, as an unsecured advance against anticipated payment, by the proposed purchase, at the consummation of the transaction. In the event that the transaction is not realized, the funds convert to a non-collaterized, one year loan to the Company.

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:

(In thousands)	June 30, 1997	December 31, 1997
Convertible subordinated promissory note		$ 1,508
Subordinated promissory notes	$ 1,400	1,400
Other	4,125	225
	5,525	3,133
Less: current maturities of long-term debt	(5,525)	(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.

A lawsuit was filed against the Company seeking payment of $164,000 in past due invoices. On August 6, 1997, a Stipulation of Settlement was entered into by the parties, specifying a fifteen month pay-out.

The Company was named as Defendant in a lawsuit filed on June 5, 1997. The Complaint seeks payment, in the amount of $35,000, for past due invoices. A Settlement Agreement reached between the parties on June 18, 1997, allows for an incemental payment schedule of the amounts owed.

On August 5, 1997, a Stipulation of Dismissal was filed by the Plaintiff in the matter of Lexington Insuance Company vs. Halsey Drug Co., Inc. 95 CIV 3403.

On August 4, 1997, a General Dismissal and Release was filed by the Plaintiff, in the case involving claims of a former employee of the Company, involving allegedly owed back pay.

A Landlord-Tenant action was settled between the parties on April 18, 1997, whereby the Company agreed to pay back rent and penalties owed to the Plaintiff. To date, the majority of the arrearages have been satisfied.

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.

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

	Six months ended June 30		Percentage Change Year-to-Year Increase (decrase) 1997 as compared to	Three months ended June 30 Percentage of Net Sales		Percentage Change Year-to-Year Increase (decrease) 1997 as compared to
	1997	1996	1996	1997	1996	1996
Net Sales	100.0	100.0	(33.9)	100.0	100.0	(36.5)
Cost of goods sold	145.6	101.3	(5.0)	147.1	114.8	(18.6)
Gross profit(loss)	(45.6)	(1.3)	(2274.2)	(47.1)	(14.8)	102.5
Research & Development	9.6	8.2	(23.2)	14.4	7.8	17.3
Selling, general and administrative expenses	53.0	41.1	(14.7)	55.3	50.9	(30.8)
Loss from Operations	(108.2)	(50.6)	41.3	(116.8)	(73.5)	1.1
Interest expense	10.7	11.5	(38.9)	12.6	12.8	(37.4)
Loss before income taxes	(118.9)	(62.1)	26.4	(129.4)	(86.3)	(4.6)
Provision for income taxes	--	--	--	--	--	--
Net loss	(118.9)	(62.1)	26.4	(129.4)	(86.3)	(4.6)

- --
Six months ended June 30, 1997 vs six months ended June 30, 1996
- --

Net Sales

The Company's net sales for the six months ended June 30, 1997 of $ 5,052,000 represents a decrease of $2,591,000 (33.9%) as compared to net sales for the six months ended June 30, 1996 of $7,643,000. 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 in October 1996.

Cost of Goods Sold

For the six months ended June 30, 1997, cost of goods sold of $ 7,355,000 decreased as compared to the six months ended June 30, 1996 of $7,740,000. This is attributable a reduction in sales combined with 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 six months ended June 30, 1997 was (45.6%) as compared to 1.3% for the six months ended June 30, 1996. This is attributable to a reduction in sales combined with the unabsorbed manufacturing costs.

Selling, General and Administrative Expenses

Selling, general and administrative expenses as a percentage of sales for the six months ended June 30, 1997 and 1996 were 53.0% and 41.1%, respectively.

Research and Development Expenses

Research and development expenses as a percentage of sales for the six months ended June 30, 1997 and 1996 were 9.6% and 8.2%, respectively. The Company's research and development program continues to concentrate its efforts toward the submission of new products to the FDA. The Company has submitted four Abreviated New Drug Applications(ANDA's) for six new products as of this date. Currently, we are working on twenty-five additional products which include seven submissions scheduled for this year.

Net Earnings (Loss)

For the six months ended June 30, 1997, the Company had net loss of $6,005,000 as compared to a net loss of $4,749,000 for the six months ended June 30, 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.

- --
Three months ended June 30, 1997 vs Three months ended June 30, 1996
- --

Net Sales

The Company's net sales for the three months ended June 30, 1997 of $2,209,000 represents a decrease of $1,268,000 (36.5%) as compared to net sales for the three months ended June 30, 1996 of $3,477,000. 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 in October 1996.

Cost of Goods Sold

For the three months ended June 30, 1997, cost of goods sold decreased by approximately $741,000 as compared to the three months ended June 30, 1996. The decrease for 1997 is attributable to the reduction in shipments 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 June 30, 1997 was (47.1%) as compared to (14.8%) for the three months ended June 30, 1996.

Selling, General and Administrative Expenses

Selling, general and administrative expenses as a percentage of sales for the three months ended June 30, 1997 and 1996 were 55.3% and 50.9%, respectively.

Research and Development Expenses

Research and development expenses as a percentage of sales for the three months ended June 30, 1997 and 1996 was 14.4% and 7.8%, respectively. The Company's research and development program continues to concentrate its efforts toward the submission of new products to the FDA. The Company has submitted four Abbreviated New Drug Applications (ANDA's) for six new products as of this date. Currently, we are working on twenty-five additional products which include seven submissions scheduled for this year.

Net Earnings (Loss)

For the three months ended June 30, 1997, the Company had net loss of $2,858,000 as compared to a net loss of $2,996,000 for the three months ended June 30, 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.

Liquidity and Capital Resources

At June 30, 1997, the Company had cash and cash equivalents of $202,000 as compared to $118,000 at December 31, 1996. The Company had a working capital deficiency at June 30, 1997 of $16,775,000 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 has a working capital deficiency of approximately $16,775,000, has a stockholders' equity (deficit) of approximately $10,962,000, has incurred a loss of approximately $6,005,000 during the six months ended June 30, 1997 and $14,495,000 during the year ended December 31, 1996 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 expired June 30, 1997. The Company has insufficient resources to meet both its current and long-term obligations. 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. 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. Failure to obtain alternative sources of financing or infusion of capital in the near term will have a material adverse effect on the Company's operations and financial condition.

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.

During the second quarter of 1997, the Company received funds, in the amount of $3,000,000, from the proposed purchaser of the Company's Indiana facility. These funds were tendered during the due diligence period, as an unsecured advance against anticipated payment, by the proposed purchase, at the consummation of the transaction. In the event that the transaction is not realized, the funds convert to a non-collaterized, one year loan to the Company.

Receipt of these funds has permitted the Company to purchase raw materials and absorb the operational costs necessary to build its finished product inventory. Increasing inventory serves the two-fold purpose of allowing the Company to provide optimum level of service to its customers, as well as facilitating the growth of near-future receivables, which will partially offset operating costs. These proceeds have further been used to strengthen the Company's research and development program.

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: August 14, 1997

BY: /s/ Rosendo Ferran

Rosendo Ferran
President and Chief
Executive Officer

Date: August 14, 1997

BY: /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.

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This schedule contains summary financial information extracted from the Condensed Consolidated Statement of Financial Condition At June 30, 1996(Unaudited) and the Condensed Consolidated Statement of Income for the Three Months Ended June 30, 1996(Unaudited) and is qualified in its entirety by reference to such financial statements. MULTIPLIER 1,000

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