ELITE PHARMACEUTICALS INC /DE/
Form 10-Q
August 11, 2006

U.S. SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

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

For the quarterly period ended JUNE 30, 2006

or

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period ended to

COMMISSION FILE NUMBER: 333-45241

ELITE PHARMACEUTICALS, INC.

(Exact name of registrant as specified in its charter)

DELAWARE	22-3542636
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
165 LUDLOW AVENUE, NORTHVALE, NEW JERSEY	07647
(Address of principal executive offices)	(Zip Code)

(201) 750-2646

(Registrant's telephone number, including area code)

(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 90 days.

Yes [x] No [ ]

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer [ ] Accelerated filer [ ] Non-accelerated filer [x]

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes [ ] No [x]

APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE PRECEDING FIVE YEARS:

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15 (d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes [ ] No [ ]

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of the common stock, $.01 par value, as of August 10, 2006: 19,392,536 (exclusive of 100,000 shares held in treasury).

ELITE PHARMACEUTICALS, INC. AND SUBSIDIARIES

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ELITE PHARMACEUTICALS, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

ASSETS

	JUNE 30, 2006 (Unaudited)	MARCH 20
CURRENT ASSETS:		
Cash and cash equivalents	$ 6,700,373	$ 8,91
Accounts receivable, net of allowance for doubtful accounts of $ --- and $153,250, respectively	--	
Current portion of restricted cash - capital project fund	939,652	1,17
Prepaid expenses and other current assets	594,618	47
Total current assets	8,234,643	10,56
PROPERTY AND EQUIPMENT, net of accumulated depreciation and amortization	4,223,780	4,30
INTANGIBLE ASSETS - net of accumulated amortization	53,922	5
OTHER ASSETS:		
Deferred charges		
Security deposit	6,980	
Restricted cash - debt service	415,500	41
EDA bond offering costs, net of accumulated amortization of $10,000 and $7,000, respectively	344,452	34
Total other assets	766,932	76
Total assets	$13,279,277	15,70

The accompanying notes are an integral part of the consolidated financial statements.

ELITE PHARMACEUTICALS, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

LIABILITIES AND STOCKHOLDERS's EQUITY

	JUNE 30, 2006 (Unaudited)	MARCH 200
CURRENT LIABILITIES:		
Current portion of EDA bonds	$ 175,000	$ 17
Accounts payable and accrued expenses	1,151,586	1,74
Dividends payable	--	3
Total current liabilities	1,326,586	1,94
LONG TERM LIABILITIES:		
EDA bonds - net of current portion	3,980,000	3,98
Total long-term liabilities	3,980,000	3,98
Total liabilities	5,306,586	5,92
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY:		
Preferred Stock -- $.01 par value; Authorized 4,483,442 shares (originally 5,000,000 shares of which 516,558 shares of Series A Convertible Preferred Stock retired) and 0 shares outstanding as of June 30, 2006 and March 31, 2006 respectively Authorized 10,000 Series B Convertible Preferred Stock - issued and outstanding - 9,750 and 10,000 shares, respectively	98	
Common Stock - $.01 par value; Authorized - 65,000,000 shares Issued and outstanding - 19,392,536 shares and 19,190,159 shares respectively	193,925	19
Additional paid-in capital	60,603,142	57,98
Accumulated deficit	(52,517,633)	(48,09
	8,279,532	10,08
Treasury stock, at cost (100,000 shares)	(306,841)	(306
Total stockholders' equity	7,972,691	9,77

Total liabilities and stockholders' equity	$ 13,279,277	$ 15,70

The accompanying notes are an integral part of the consolidated financial statements.

ELITE PHARMACEUTICALS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

	THREE MONTHS ENDED JUNE 30,	
	2006	200
	(Unaudited)	(Unaud
REVENUES		
Manufacturing fees	$ 131,900	$ 11
Royalties	21,127	
Total Revenues	153,027	11
COST OF OPERATIONS:		
Research and development	1,316,408	73
General and administrative	546,913	42
Depreciation and amortization	119,535	9
	1,982,856	1,25
LOSS FROM OPERATIONS	(1,829,829)	(1,14
OTHER INCOME (EXPENSES):		
Interest income	100,506	1
Interest expense	(70,631)	(5
Non-cash compensation through issuance of stock options and stock warrants	(300,000)	(4
	(270,125)	(8
LOSS BEFORE PROVISION FOR INCOME TAXES	(2,099,954)	(1,22
PROVISION FOR INCOME TAXES	1,000	
NET LOSS	$(2,100,954)	$(1,22

Preferred stock dividends	(200,056)	
NET LOSS ATTRIBUTABLE TO COMMON SHAREHOLD	$(2,301,010)	$(1,22
BASIC AND DILUTED LOSS PER COMMON SHARE	$ (.12)	$
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING	19,239,331	18,05

The accompanying notes are an integral part of the consolidated financial statements.

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ELITE PHARMACEUTICALS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

	PREFERRED STOCK		COMMON STOCK		ADDITION PAID-IN
	SHARES	AMOUNT	SHARES	AMOUNT	CAPITAL
BALANCE AT MARCH 31, 2006 (AUDITED)	10,000	$ 100	19,190,159	$ 191,902	$60,105,1
Three Months ended June 30, 2006: (Unaudited)					
Conversion Preferred to Common	(250)	(2)	111,111	1,111	(1,1
Non-cash compensation through issuance of stock options and warrants	--	--	--	--	300,0
Net loss for three months ended June 30, 2006	--	--	--	--	
Dividends	--	--	91,266	912	199,1
BALANCE AT JUNE 30, 2006 (UNAUDITED)	9,750	$ (98)	19,392,536	$193,925	$60,603,1

	TREASURY STOCK		ACCUMULATED	STOCKHOLDERS'
	SHARES	AMOUNT	DEFICIT	EQUITY
BALANCE AT MARCH 31, 2006 (AUDITED)	(100,000)	$(306,841)	$(50,216,623)	$ 9,773,645
Three Months ended June 30, 2006: (Unaudited)				
Conversion Preferred to Common	--	--	--	--
Non-cash compensation through issuance of stock options and warrants	--	--	--	300,000
Net loss for three months ended June 30, 2006	--	--	(2,100,954)	(2,100,954)
Dividends	--	--	(200,056)	--
BALANCE AT JUNE 30, 2006 (UNAUDITED)	(100,000)	$(306,841)	$(52,517,633)	$ 7,972,691

The accompanying notes are an integral part of the consolidated financial statements.

ELITE PHARMACEUTICALS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	THREE MONTHS ENDED JUNE 30,	
	2006	200
	(UNAUDITED)	(UNAUD
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$ (2,100,954)	$ (1,22
Adjustments to reconcile net loss to cash used in operating activities:		
Depreciation and amortization	122,535	9
Non-cash compensation satisfied by issuance of common stock, options and warrants	300,000	4
Changes in assets and liabilities:		
Accounts receivable	--	14
Prepaid expenses and other current assets	(123,985)	3
Security deposit	--	(
Accounts payable, accrued expenses and other current liabilities	(588,677)	(33

NET CASH USED IN OPERATING ACTIVITIES	(2,391,081)	(1,24
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(28,811)	(4
(Increase) in restricted cash	--	(8
Release of restricted cash	234,244	
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	205,433	(13
CASH FLOWS FROM FINANCING ACTIVITIES:		
Dividends	(33,333)	
Principal equipment note payments	--	(3
Proceeds from exercise of stock options	--	4
Proceeds from exercise of stock warrants	--	15
NET CASH (USED IN) PROVIDED BY FINANCING ACTIVITIES	(33,333)	16
NET CHANGE IN CASH AND CASH EQUIVALENTS	(2,218,981)	(1,20
CASH AND CASH EQUIVALENTS - beginning of period	8,919,354	3,90
CASH AND CASH EQUIVALENTS - end of period	$ 6,700,373	$ 2,69
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid for interest	$ 18	$ 1
Cash paid for income taxes	1,000	

SCHEDULE OF NON-CASH FINANCING ACTIVITIES:
Preferred Stock dividends of $200,056 paid by issuance of 91,266 shares of Common Stock

The accompanying notes are an integral part of the consolidated financial statements.

ELITE PHARMACEUTICALS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
THREE MONTHS ENDED JUNE 30, 2006 AND 2005
(UNAUDITED)

NOTE 1 - BASIS OF PRESENTATION

The information in this Form 10-Q Report includes the results of operations of Elite Pharmaceuticals, Inc. and its consolidated subsidiaries (collectively the "Company") including its wholly-owned subsidiaries, Elite Laboratories, Inc. ("Elite Labs") and Elite Research, Inc. ("ERI"), for the three months ended June 30, 2006. As of June 30, 2006, the financial statements of all entities are consolidated and all significant intercompany accounts are eliminated upon consolidation. The accompanying unaudited consolidated financial statements have

been prepared pursuant to rules and regulations of the Securities and Exchange Commission. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation of the consolidated financial position, results of operations and cash flows of the Company for the periods presented have been included.

The financial results for the interim periods are not necessarily indicative of the results to be expected for the full year or future interim periods.

The accompanying consolidated financial statements of the Company have been prepared in accordance with accounting principles generally accepted for interim financial statement presentation and should be read in conjunction with the consolidated financial statements and notes included in the Company's Annual Report on Form 10-K for the year ended March 31, 2006. There have been no changes in significant accounting policies since March 31, 2006.

The Company does not anticipate being profitable for fiscal year 2006; therefore a current provision for income tax was not established for the three months ended June 30, 2006. Only the minimum corporation tax liability required for state purposes is reflected.

NOTE 2 - NJEDA REFINANCING

On August 31, 2005, the Company successfully completed a refinancing through the issuance of the tax-exempt bonds (the "Bonds") by the New Jersey Economic Development Authority (the "Authority"). The refinancing involved the borrowing of $4,155,000 evidenced by a 6.5% Series A Note in the principal amount of $3,660,000 maturing on September 1, 2030 and a 9% Series B Note in the principal amount of $495,000 maturing on September 1, 2012. The net proceeds, after payment of issuance costs, were or will be used (i) to redeem the outstanding tax-exempt Bonds originally issued by the Authority on September 2, 1999, (ii) refinance other former equipment financing and (iii) for the purchase of certain equipment to be used in the manufacture of pharmaceutical products.

Interest is payable semiannually on March 1 and September 1 of each year. The Bonds are collateralized by a first lien on the Company's facility and equipment acquired with the proceeds of the original and refinanced Bonds. The related Indenture requires the maintenance of a $415,500 Debt Service Reserve Fund consisting of $366,000 from the Series A Bonds proceeds and $49,500 from the Series B proceeds. $1,274,311 of the proceeds has been deposited in a short-term restricted cash account to fund the future purchase of manufacturing equipment and development of the Company's facility.

ELITE PHARMACEUTICALS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STAT EMENTS
THREE MONTHS ENDED JUNE 30, 2006 AND 2005
(UNAUDITED)

NOTE 3 - STOCKHOLDERS' EQUITY

WARRANTS AND OPTIONS

During the three months ended June 30, 2006, 250 shares of Series B Preferred Stock were converted into 111,111 shares of Common Stock.

Dividends accrued on Series B Preferred Stock through conversion date or June 30, 2006 were satisfied by the issuance of 1,318 and 89,948 shares of Common Stock, respectively.

During the three months ended June 30, 2006, 3,750 options expired and 65,500 were forfeited.

The following grants were made under the Company's 2004 Stock Option Plan in the current fiscal year.

On June 1, 2006, the Company entered into a one year consulting agreement with David Filer, whereby Dr. Filer is to provide financial advisory services to the Company. In consideration for his services, Dr. Filer received options to purchase 10,000 shares of Common Stock exercisable from June 1, 2006 to June 1, 2009, with an exercise price of $3.00 per share.

On May 3, 2006, the Company granted options to purchase 70,000 shares of Common Stock with an exercise price of $2.26 per share to its chief financial officer. One-third of the options vest on May 3, 2007, a second third vest on May 3, 2008 and the final third vest on May 3, 2009.

Additionally, in May, 2006, 54,000 ten (10) year options were granted to six (6) employees which vest three (3) years from grant date.

The per share weighted average of the above mentioned stock options ranged from $1.55 to $1.69 using the Black-Scholes options pricing model with the following weighted average assumptions: no dividend yield; expected volatility of 59.52%; risk free interest rate of 5.00% and expected lives of ten (10) years.

The Company, in May 2005, revoked 180,000 of outstanding unexercised options granted prior to the adoption of the 2004 Stock Option Plan originally earmarked to members of the abandoned Scientific Advisory Board.

The Company took a charge of $300,000 and $44,550 for the three months ended June 30, 2006 and 2005, respectively, which represents the fair value of the vested options, utilizing the Black-Scholes options pricing model on the grant date.

At June 30, 2006, Elite had outstanding 3,036,000 options with exercise prices ranging from $1.50 to $3.00 and 6,679,179 warrants with exercise prices ranging from $1.50 to $4.20; each option and warrant representing the right to purchase one share

of Common Stock.

ELITE PHARMACEUTICALS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
THREE MONTHS ENDED JUNE 30, 2006 AND 2005
(UNAUDITED)

NOTE 4 – COMMITMENTS AND CONTINGENCIES

COLLABORATIVE AGREEMENTS

On June 21, 2005, the Company and IntelliPharmaCeutics Corp. ("IPC"), entered into an agreement for the development and commercialization of a controlled released generic drug for certain gastric diseases by the parties. The Company is to share in the profits, if any, from the sales of the drug. This agreement was amended on December 12, 2005, whereby IPC and a Canadian company with marketing and distribution capabilities in Canada, have agreed to develop and commercialize the product for Canada. Elite and IPC will share their proceeds of commercialization in Canada on same terms as in the June 21, 2005 Agreement.

On June 22, 2005, the Company and Pliva, Inc. ("Pliva") entered into a Product Development and License Agreement, providing for the development and license of a controlled released generic anti-infective drug formulated by the Company. The Company is to manufacture and Pliva is to market and sell the product. The development costs are to be paid by Pliva and the Company and the profits are to be shared equally. Pliva is to make milestone payments to the Company.

The aforementioned agreements are in their infancy stages.

On March 30, 2005, the Company entered into a product, development, manufacturing and distribution agreement with Harris Pharmaceutical, Inc. ("Harris") and Tish Technologies LLC ("Tish") with respect to a controlled release generic anti-infective drug. The product is a generic equivalent to a branded drug. The agreement provides for (i) the drug development by Elite with costs of development to be shared by Elite and Harris, (ii) the manufacture of the product by Elite and its sale to Harris for distribution, and (iii) Tish to be responsible for any requisite submissions to the FDA relating to the product. Elite is to share in the profits, if any, generated from the sale of the product.

On June 19, 2006, the Company received written notice from Harris of Harris' intent to terminate the Product Development, Manufacturing and Distribution Agreement, dated as of March 30, 2005. As the date hereof, there have been no material revenues earned under the Agreement.

CONSULTING AGREEMENTS

On June 1, 2006, the Company entered into a one year consulting agreement with David Filer, whereby Dr. Filer is to provide financial advisory services to the Company. In consideration for his services, Dr. Filer received options to purchase 10,000 shares of Common Stock exercisable from June 1, 2006 to June 1, 2009, with an exercise price of $3.00 per share.

On May 23, 2006, the Company entered into a consulting agreement with Oppenheimer & Co., Inc. ("Oppenheimer") to render financial advisory services to the Company in connection with potential acquisitions by the Company, strategic alliances with other pharmaceutical companies, advice with respect to future financings to be undertaken by the Company and introductions to key parties in the capital markets. In consideration for its services, Oppenheimer received from the Company a cash fee of $60,000.

ELITE PHARMACEUTICALS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
THREE MONTHS ENDED JUNE 30, 2006 AND 2005
(UNAUDITED)

NOTE 4 - COMMITMENTS AND CONTINGENCIES (Continued)

CONSULTING AGREEMENTS (Continued)

On November 8, 2005, the Company entered into an agreement with an investor relations firm to provide investor relation services including, but not limited to, overall management of the Company's corporate communications program, securing group appointments, assistance with mass targeted mailings, compiling promotional materials, editing news releases and other corporate functions. The consultant is to receive $10,000 a month beginning November 1, 2005 and was granted non-qualified options to purchase 75,000 shares of the Company's Common Stock, vesting pro-rata over a six month period at a price of $2.26 per share, the fair market value of a share of Common Stock on the date of the grant. The per share weighted average fair value of the above mentioned options was $1.70 using the Black-Scholes option pricing model

For the three months ended June 30, 2006, consulting expenses under these agreements amounted to an aggregate of $90,000.

EMPLOYMENT AGREEMENT

On September 2, 2005, the Company entered into an amended and restated Employment Agreement with Bernard J. Berk, providing for Mr. Berk to continue to serve as the Company's Chief Executive Officer through August 31, 2009. The Employment Agreement also provides for an annual bonus as determined by the Compensation Committee of the Company's Board of Directors.

Pursuant to the agreement:

- Mr. Berk waived his rights to 75,000 of 300,000 options

granted to him on July 23, 2003. The Company determined that the remaining 225,000 options are fully vested.

- Mr. Berk's salary was increased to $330,140. Such increase became effective May 1, 2005 and will accrue but not be payable until November 1, 2005.

- Mr. Berk was granted under the Company's 2004 Stock Option Plan, ten-year options to purchase 600,000 shares of Common Stock at $2.69, the fair market value of Common Stock as of the time of grant. See Note 3 as to the vesting of these options.

- Mr. Berk will be entitled to receive severance in accordance with the employment agreement if he is terminated without cause or because of his death or permanent disability or if he terminates his employment for good reason or as a result of a "change of control" (as defined in the employment agreement). The severance will be payable in accordance with the terms of his employment agreement.

LEASE

On July 15, 2005, the Company entered into a lease for two years commencing on July 1, 2005 for part of a one-story warehouse for the storage of finished and raw material of pharmaceutical products and equipment. The lease has a renewal option for a five-year period.

Future minimum lease payments for the periods ending June 30, are:

2007	$27,923

ELITE PHARMACEUTICALS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
THREE MONTHS ENDED JUNE 30, 2006 AND 2005
(UNAUDITED)

NOTE 5 - SUBSEQUENT EVENTS

On July 12, 2006, the Company entered into a Financial Advisory Agreement (the "Agreement") with Indigo Ventures, L.L.C. ("Indigo"). The term of the Agreement is for three years effective as of July 1, 2006; provided, that either party can terminate the Agreement, for any reason, at any time upon 30 days written notice. Pursuant to the Agreement, Indigo, on a non-exclusive basis, agrees to advise, consult with, and assist the Company in various matters as requested (and only to the extent requested) by the Company which may include, without limitation (i) a review of the Company's business, operations and financial condition, including advising on capitalization structures; (ii) advice relating to general capital raising matters; (iii) recommendations relating to specific business operations, strategic transactions and joint ventures (iv) advice regarding future financings involving debt or equity securities of the Company or any affiliate of the Company and (v) assistance with interaction between the Company and its

current and future investors. The Company initially paid Indigo $45,000 and will pay Indigo $15,000 per month on an ongoing basis.

Additionally, Indigo acquired a warrant to purchase up to 600,000 shares of Common Stock, par value $0.01 per share, of the Company (the "Common Stock") for an aggregate purchase price of $150,000. The warrant (i) shall vest as follows: 50,000 shares shall vest quarterly beginning on the three (3) month anniversary of July 1, 2006, (ii) shall expire on July 1, 2011, and (iii) shall terminate, to the extent unvested, as of the date of termination of the Agreement, (iv) shall fully vest upon a change of control and (v) shall have an exercise price of $3.00 per shares of the Common Stock.

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

THREE MONTH PERIOD ENDED JUNE 30, 2006 COMPARED TO THE THREE MONTH PERIOD ENDED JUNE 30, 2005 (UNAUDITED)

The following discussion and analysis should be read in conjunction with the Consolidated Financial Statements, the related Notes to Consolidated Financial Statements and Management's Discussion and Analysis of Financial Condition and Results of Operations included in the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 2006 (the "10-K") and the Unaudited Consolidated Financial Statements and related Notes to Consolidated Financial Statements included in Item 1 of Part I of this Quarterly Report on Form 10-Q.

The Company has included in this Quarterly Report certain "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995 concerning the Company's business, operations and financial condition. "Forward-looking statements" consist of all non-historical information, and the analysis of historical information, including the references in this Quarterly Report to future revenue growth, future expense growth, future credit exposure, earnings before interest, taxes, depreciation and amortization, future profitability, anticipated cash resources, anticipated capital expenditures, capital requirements, and the Company's plans for future periods. In addition, the words "could", "expects", "anticipates", "objective", "plan", "may affect", "may depend", "believes", "estimates", "projects" and similar words and phrases are also intended to identify such forward-looking statements.

Actual results could differ materially from those projected in the Company's forward-looking statements due to numerous known and unknown risks and uncertainties, including, among other things, unanticipated technological difficulties, the volatile and competitive environment for drug delivery products, changes in domestic and foreign economic, market and regulatory conditions, the results of development agreements with pharmaceutical companies, the inherent uncertainty of financial estimates and projections, the uncertainties involved in certain legal proceedings, instabilities arising from terrorist actions and responses thereto, and other considerations described as "Risk Factors" in other filings by the Company with the SEC including its Annual Report on Form 10-K. Such factors may also cause substantial volatility in the market price of the Company's Common Stock. All such forward-looking statements

are current only as of the date on which such statements were made. The Company does not undertake any obligation to publicly update any forward-looking statement to reflect events or circumstances after the date on which any such statement is made or to reflect the occurrence of unanticipated events.

OVERVIEW

The Company is a specialty pharmaceutical company principally engaged in the development and manufacturing of oral controlled-release products. The Company's strategy includes developing generic versions of controlled release drug products with high barriers to entry and assisting partner companies in the life cycle management of products to improve off-patent drug products. Elite's technology is applicable to develop delayed, sustained or targeted release capsules or tablets. Elite has one product currently being sold commercially and a pipeline of eight drug products under development in the therapeutic areas that include pain management, cardiovascular, allergy and infection. The addressable market for the Elite's current products exceeds $6 billion in the aggregate. Elite also has a GMP and DEA registered facility for research, development, and manufacturing located in Northvale, New Jersey.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Management's discussion addresses the Company's consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date

of financial statements and the reported amounts of revenues and expenses during the reporting period. On an ongoing basis, management evaluates its estimates and judgment, including those related to long-lived assets, intangible assets, income taxes, equity-based compensation, and contingencies and litigation. Management bases its estimates and judgments on historical experience and on various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

Management believes the following critical accounting policies, among others, affect its more significant judgments and estimates used in the preparation of its consolidated financial statements.

The Company's most critical accounting policies include the recognition of revenue upon completion of certain phases of projects under research and development contracts. Revenues from these contracts are recognized when management determines the Company has completed its obligation under each phase. The Company also assesses a need for an allowance to reduce its deferred tax assets to the amount that it believes are more likely than not to be realized. Management estimates its net operating losses will probably not be utilized in the near future, and has not recognized a tax benefit from this deferred tax asset. If management anticipated being profitable, a deferred tax benefit would be recognized and such estimate would reduce net loss and net loss per share accordingly. The Company assesses the recoverability of long-lived assets and intangible assets whenever events or changes in circumstances indicate that the

carrying value of the assets may not be recoverable. Management estimates the Company's patents and property and equipment are not impaired. If these assets were considered impaired, the Company would recognize an impairment loss which would increase the Company's net loss and net loss per share accordingly. It should be noted that actual results may differ from these estimates under different assumptions or conditions.

RESULTS OF CONSOLIDATED OPERATIONS

THREE MONTHS ENDED JUNE 30, 2006 COMPARED TO THREE MONTHS ENDED JUNE 30, 2005

Revenues consisted of manufacturing fees and royalties of $131,900 and $21,127, respectively, for the three months ended June 30, 2006. Revenues of $114,781 consisted solely of manufacturing fees for the three months ended June 30, 2005.

General and administrative expenses (G&A) for the three months ended June 30, 2006 were $546,913, an increase of $120,383, or approximately 28.2%, from G&A for the comparable period of the prior year. The increase was substantially due to increases in consulting fees approximating $100,000, partially offset by a decrease in legal and accounting fees.

Research and development costs for the three months ended June 30, 2006 were $1,316,408, an increase of $577,421, or approximately 78.1% from $738,987 for the comparable period of the prior year, primarily the result of increases in wages, raw materials, laboratory and manufacturing supplies. The costs associated with the manufacturing of batches of Lodrane 24(R) and the work completed on newly signed development agreements have contributed to this increase.

We are unable to provide a break-down of the specific costs associated with the research and development of each product on which we devoted resources because a significant portion of the costs are generally associated with salaries, laboratory supplies, laboratory and manufacturing expenses, utilities and similar expenses. We have not historically allocated these expenses to any particular product. In addition, we cannot estimate the additional costs and expenses that may be incurred in order to potentially complete the development of any product, nor can we estimate the amount of time that might be involved in such development because of the uncertainties associated with the development of controlled release drug delivery products.

Depreciation and amortization for the three months ended June 30, 2006 increased by $25,785 to

$119,535 from $93,750 for the year earlier comparable period as a result of the increases in depreciation and amortization on acquired new machinery and equipment and upgrading of the corporate and warehouse facilities.

Other expenses, net for the three months ended June 30, 2006 were $270,125, an increase of $189,280, or approximately 189.3%, from the comparable period of the prior year. The increase was primarily due to an increase of $255,450 in charges related to issuance of stock options offset by additional interest income, due to higher compensating balances as a result of the private placement and EDA refinancing.

As a result of the foregoing, the Company's net loss for the three months ended June 30, 2006 increased to $2,100,954 from the net loss of

$1,226,331 for the comparable period of the prior year.

MATERIAL CHANGES IN FINANCIAL CONDITION

The Company's working capital (total current assets less total current liabilities), decreased to $6,908,057 as of June 30, 2006 from $8,615,287 as of March 31, 2006, primarily due to the use of cash in funding net loss of $1,829,829 from operations.

The Company experienced negative cash flow from operations of $2,391,081 for the three months ended June 30, 2006, primarily due to the Company's net loss from operations due to an increase in research and development activities as to the drug products in its pipeline

On November 15, 2004, Elite's partner, ECR, launched Lodrane 24(R), once a day allergy product, utilizing Elite's extended release technology to provide for once daily dosing. Under its agreement with ECR, Elite is currently manufacturing commercial batches of Lodrane 24(R) in exchange for manufacturing margin and royalties on product revenues. Royalty income earned for the three months ended June 30, 2006 was $21,127. The Company expects future cash flows from royalties to provide additional cash to help to fund its operations.

On June 21, 2005, the Company and IntelliPharmaCeutics Corp. ("IPC"), entered into an agreement for the development and commercialization of a controlled released generic drug for certain anti-infective diseases by the parties. The Company estimates that the product had an addressable market in the U.S. of approximately $4 billion in 2004. The Company is to share in the profits, if any, from the sales of the drug. On December 12, 2005, the agreement was amended with respect to the development and commercialization of the controlled release drug product in Canada. Since IPC intended to enter into an agreement with a Canadian company with respect to the development, distribution and sale of the drug product in Canada, the parties agreed to suspend their obligations under the agreement with respect to the development and commercialization of the controlled release drug product in Canada. IPC agreed to pay the Company a certain percentage of any payments received by IPC with respect the commercialization of the controlled release drug product by such Canadian company.

On June 22, 2005, the Company and Pliva, Inc. ("Pliva") entered into a Product Development and License Agreement providing for the development and license of a controlled released generic anti-infective drug formulated by the Company. The Company is to manufacture and Pliva will market and sell the product. Under the agreement, the partner is to make milestone payments to the Company. The development costs are to be paid both by Pliva and the Company, they have agreed to share the profits equally.

No assurance can be given that any of the above products will be successfully developed or that individually or in the aggregate they will generate any material revenues for the Company.

LIQUIDITY AND CAPITAL RESOURCES

For the three months ended June 30, 2006, the Company experienced negative cash flow and financed its operations primarily through utilization of its existing cash. As of June 30, 2006, the Company had

approximately $6.7 million of cash and cash equivalents, a decrease of

approximately $2.2 million from the $8.9 million at March 31, 2006 and had working capital of approximately $6.9 million.

Net cash used in operating activities was $2,391,081 during the three months ended June 30, 2006, compared to $1,244,242 for the three months ended June 30, 2005. Net cash used in operating activities during the three months ended June 30, 2006 included the Company's net loss of $2,100,954 and increases in prepaid expenses and other current assets, offset in part by non-cash charges of $300,000 in stock option charges and $122,535 in depreciation and amortization expense. Net cash used in operating activities during the three months ended June 30, 2006 included the Company's net loss of $1,244,242 offset in part by non-cash charges of $44,550 in stock option and warrant charges and $138,300 in depreciation and amortization expense.

Investing activities provided net cash of $205,433 during the three months ended June 30, 2006, which resulted primarily from the release of restricted cash offset by 28,811 in property and equipment purchases.

During the three months ended June 30, 2006, financing activities used net cash of $33,333 to pay dividends. During the three months ended June 30, 2005, financing activities provided net cash of $166,165 derived from the exercise of stock options and warrants totaling 196,502, offset by $30,337 in principal note payments.

As of June 30, 2006 the Company had cash and cash equivalents of approximately $6.7 million. The Company anticipates that such position is adequate to finance its operations through June 30, 2007 but thereafter additional financing may be required, particularly in view of the Company's expenditures required for the further development and commercialization of its products. The Company has no current arrangements with respect to additional financings. The Company intends to seek additional funds through the sale of additional debt or equity, however no assurance can be given that the Company will be able to obtain the required additional financing or if obtained it will be on favorable terms. The Company's inability to obtain additional financing when needed would impair its ability to continue to meet its business objectives. Other possible sources for such additional financings are the cash exercises of the Long Term Warrants issued in the October 2004 private placement, the Replacement Warrants issued in the December 2005 private placement and other warrants and options that are currently outstanding.

The Company had outstanding, as of June 30, 2006, bonds in the aggregate amount of $4,155,000, consisting of $3,660,000 of 6.5% tax exempt Bonds with an outside maturing of September 1, 2030 and $495,000 of 9% Bonds with an outside maturity of September 1, 2012. The bonds are secured by a first lien on the Company's facility in Northvale, New Jersey. Pursuant to the terms of the bonds, several restricted cash accounts have been established for the payment of bond principal and interest. Bond proceeds were utilized for the redemption of previously issued tax exempt bonds issued by the Authority in September 1999 and to refinance equipment financing, as well as provide approximately $1,000,000 of capital for the purchase of additional equipment for the manufacture and development at the Company's facility of pharmaceutical products and the maintenance of a $415,500 debt service reserve. All of the restricted cash, other than the debt service reserve, is expected to be expended within nine months ended December 31, 2006 and is therefore categorized as a current asset on the Company's consolidated balance sheet as of June 30, 2006. Pursuant to the terms of the related bond indenture agreement, the Company is required to observe certain covenants, including covenants relating to the incurrence of additional indebtedness, the granting of liens and the maintenance of certain financial covenants. As of June 30, 2006, the Company was in compliance with the bond covenants.

The Company from time to time will consider potential strategic

transactions including acquisitions, strategic alliances, joint ventures and licensing arrangements with other pharmaceutical companies. The Company retained an investment banking firm to assist with its efforts. There can be no assurance that any such transaction will be available or consummated.

As of June 30, 2006, the Company's principal source of liquidity was approximately $6,700,373 of

cash and cash equivalents. The Company also may receive funds through the exercise of outstanding stock options and warrants in addition to funds that may be generated from the potential sale of New Jersey tax losses. There can be no assurance that proceeds from the sale of tax losses and from the exercise, if any, of outstanding warrants or options will be material.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company had no investments in marketable securities as of June 30, 2006 or assets and liabilities which are denominated in a currency other than U.S. dollars or involve commodity price risks.

ITEM 4. CONTROLS AND PROCEDURES

As of the end of the period covered by this report, based on an evaluation of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934), the Chief Executive and Chief Financial Officer of the Company concluded that the Company's disclosure controls and procedures are effective to ensure that information required to be disclosed by the Company in its Exchange Act reports is recorded, processed, summarized and reported within the applicable time periods specified by the SEC's rules and forms.

There was no change in the Company's internal controls over financial reporting that occurred during the fiscal quarter ended June 30, 2006 that materially affected or is reasonably likely to materially affect the Company's internal controls over financial reporting.

PART II. OTHER INFORMATION

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

Stockholders at Registrant's Annual Meeting of Stockholders held on June 28, 2006 took the following actions:

1. Elected its four Directors.

	No. of Votes For	No. of Votes Against
Bernard Berk	16,172,793	40,042
Edward Neugeboren	15,176,393	1,036,442
Barry Dash	16,178,893	33,942
Melvin Van Woert	16,178,893	33,942

2. Approved the adoption of the amendment to the Company's 2004 Stock Option Plan to increase to 7,000,000 the shares subject to the Plan by a vote of 3,090,028 shares for, 207,793 shares against, and 15,940 shares abstaining.

3. Approved the proposal to ratify the Registrant's Series B Financing, which involved the sale of the Registrant's Series B Preferred Stock and common stock purchase warrants pursuant to a Securities Purchase Agreement, dated as of March 15, 2006 by a vote of 3,207,952 for, 79,969 shares against and 25,840 shares abstaining.

4. Approved the engagement of Miller, Ellin & Company LLP as the Company's independent auditors for the year ended March 31, 2006 by a vote of 16,183,799 shares for, 50,352 shares against and 12,626 shares abstaining.

ITEM 6. EXHIBITS

(a) Exhibits:

4.1 Form of Warrant to purchase 600,000 shares of Common Stock issued to Indigo Ventures LLC filed as Exhibit 4.1 to Registrant's Report on Form 8-K filed with the Securities and Exchange Commission on July 18, 2006 and incorporated herein by reference thereto.

10.1 Financial Advisory Agreement between the Registrant and Indigo Ventures LLC filed as Exhibit 10.1 to Registrant's Report on Form 8-K filed with the Securities and Exchange Commission on July 18, 2006 and incorporated herein by reference thereto.

31.1 Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.2 Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32.1 Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

32.2 Certification by Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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.

ELITE PHARMACEUTICALS, INC.

Date: August 11, 2006 By: /s/ Bernard Berk

Bernard Berk
Chief Executive Officer
(Principal Executive Officer)

Date: August 11, 2006 By: /s/ Mark I. Gittelman

Mark I. Gittelman
Chief Financial Officer and Treasurer
(Principal Financial and Accounting Officer)

EXHIBIT 31.1
CERTIFICATION

I, Bernard Berk, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the quarter ended June 30, 2006 of Elite Pharmaceuticals, Inc. (the "registrant");

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 11, 2006

/s/ Bernard Berk
_____
Bernard Berk
Chief Executive Officer

EXHIBIT 31.2
CERTIFICATION

I, Mark I. Gittelman, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the quarter ended June 30, 2006 of Elite Pharmaceuticals, Inc. (the "registrant");

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and

procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(c) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(d) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(e) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Mark I. Gittelman

Date: August 11, 2006

Mark I. Gittelman
Chief Financial Officer and Treasurer

EXHIBIT 32.1

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Elite Pharmaceuticals, Inc. (the "Company") on Form 10-Q for the quarter ended June 30, 2006 filed with the Securities and Exchange Commission (the "Report"), I, Bernard Berk, Chief Executive Officer of the Company, certify, pursuant to 18 U.S. C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the consolidated financial condition of the Company as of the dates presented and the consolidated result of operations of the Company for the periods presented.

Date: August 11, 2006

/s/ Bernard Berk

Bernard Berk
Chief Executive Officer of
Elite Pharmaceuticals, Inc.

This certification has been furnished solely pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

A signed original of this written statement required by Section 906 has been provided to Elite Pharmaceuticals, Inc. and will be retained by Elite Pharmaceuticals, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

EXHIBIT 32.2

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Elite Pharmaceuticals, Inc. (the "Company") on Form 10-Q for the quarter ended June 30, 2006 filed with the Securities and Exchange Commission (the "Report"), I, Mark I. Gittelman, Chief Financial Officer and Treasurer of the Company, certify, pursuant to 18 U.S. C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(3) The Report fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934; and

(4) The information contained in the Report fairly presents, in all material respects, the consolidated financial condition of the Company as of the dates presented and the consolidated result of operations of the Company for the periods presented.

Date: August 11, 2006

/s/ Mark I. Gittelman

Mark I. Gittelman
Chief Financial Officer and Treasurer of

Elite Pharmaceuticals, Inc.

This certification has been furnished solely pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

A signed original of this written statement required by Section 906 has been provided to Elite Pharmaceuticals, Inc. and will be retained by Elite Pharmaceuticals, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.