ELITE PHARMACEUTICALS INC /DE/
Form 10-Q
February 14, 2008

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 December 31, 2007

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 February 13, 2008: 22,494,330 (exclusive of 100,000 shares held in treasury).

ELITE PHARMACEUTICALS, INC. AND SUBSIDIARIES

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ELITE PHARMACEUTICALS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

ASSETS

	December 31, 2007 (Unaudited)	March 31, 2007 (Audited)
CURRENT ASSETS:		
Cash and cash equivalents	$ 5,943,479	$ 811,545
Accounts receivable	---	215,837
Prepaid expenses and other current assets	1,157,908	1,119,364
Total current assets	7,101,387	2,146,746
PROPERTY AND EQUIPMENT, net of accumulated depreciation and amortization	5,003,414	4,861,601
INTANGIBLE ASSETS - net of accumulated amortization	37,139	42,809
OTHER ASSETS:		
Accrued interest receivable	3,795	949
Deposit on equipment	---	32,880
Investment in Novel Laboratories, Inc.	3,337,162	1,367,768
Security deposits	13,488	6,980
Restricted cash debt service for EDA Bonds	429,048	414,999
EDA Bond offering costs, net of accumulated amortization of $31,816 and $21,178, respectively	322,636	333,274
Total other assets	4,106,129	2,156,850
Total assets	$ 16,248,069	$ 9,208,006

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

ELITE PHARMACEUTICALS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

LIABILITIES AND STOCKHOLDERS EQUITY

	December 31, 2007 (Unaudited)	March 31, 2007 (Audited)
CURRENT LIABILITIES:		
Current portion of EDA Bonds	200,000	185,000
Current portion of long-term debt	9,646	---
Dividends payable	102,222	---
Accounts payable, accrued expenses and other current liabilities	798,207	1,717,458
Total current liabilities	1,110,075	1,902,458
LONG TERM LIABILITIES:		
EDA bonds net of current portion	3,595,000	3,795,000
Long-term debt, less current portion	44,937	---
Total long-term liabilities	3,639,937	3,795,000
Total liabilities	4,750,012	5,697,458
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 were retired) and 0 shares outstanding as of December 31, 2007 and March 31, 2007	---	---
Authorized 10,000 Series B Convertible Preferred Stock - issued and outstanding 8,410 and 9,695 shares, respectively	84	97
Authorized 20,000 Series C Convertible Preferred Stock issued and outstanding 19,155 and 0 shares, respectively	192	---
Common Stock - $.01 par value;		
Authorized 65,000,000 shares		
Issued and outstanding 22,594,330 shares and 20,799,102 shares respectively	225,943	207,991
Subscription receivable	(75,000)	(75,000)
Additional paid-in capital	90,919,330	66,495,618
Accumulated deficit	(79,265,651)	(62,811,317)
	11,804,898	3,817,389
Treasury stock, at cost (100,000 shares)	(306,841)	(306,841)
Total stockholders equity	11,498,057	3,510,548
Total liabilities and stockholders equity	$ 16,248,069	$ 9,208,006

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

ELITE PHARMACEUTICALS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

	THREE MONTHS ENDED DECEMBER 31,		NINE MONTHS ENDED DECEMBER 31,	
	2007	2006	2007	2006
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
REVENUES				
Manufacturing Fees	$ 116,366	$ 209,139	$ 671,239	$ 476,598
Royalties	59,805	22,295	167,728	66,939
Total Revenues	176,171	231,434	838,967	543,537
Costs of Revenues	140,937	---	671,174	---
Gross profit	35,234	231,434	167,793	543,537
COST OF OPERATIONS:				
Research and development	1,560,253	1,681,329	5,394,043	4,306,619
General and administrative	632,133	506,969	1,814,958	1,596,687
Depreciation and amortization	170,266	127,035	459,304	366,105
	2,362,652	2,315,333	7,668,305	6,269,411
LOSS FROM OPERATIONS	(2,327,418)	(2,083,899)	(7,500,512)	(5,725,874)
OTHER INCOME (EXPENSES):				
Interest income	83,201	63,250	310,031	250,515
Sale of New Jersey tax losses	---	377,259	---	377,259
Interest expense	(64,753)	(67,423)	(226,907)	(207,604)
Non-cash compensation through issuance of stock options and warrants	(549,133)	(1,848,876)	(2,125,626)	(2,438,188)
	(530,685)	(1,475,790)	(2,042,502)	(2,018,018)
LOSS BEFORE PROVISION FOR INCOME TAXES	(2,858,103)	(3,559,689)	(9,543,014)	(7,743,892)
Provision for Income Taxes	---	---	(3,120)	(1,000)
Minority Interest in Loss of Novel Laboratories, Inc.	---	5,498	---	5,498
	---	5,498	(3,120)	4,498
Loss before discontinued operations	(2,858,103)	(3,554,191)	(9,546,134)	(7,739,394)
Loss from discontinued operations	---	(10,780)	(2,979,600)	(10,780)
NET LOSS	$ (2,858,103)	$ (3,564,971)	$ (12,525,734)	$ (7,750,174)
Preferred Stock Dividends	(563,552)	(198,209)	(1,543,991)	(597,282)
NET LOSS ATTRIBUTABLE TO COMMON SHAREHOLDERS	$ (3,421,655)	$ (3,763,180)	$ (14,069,725)	$ (8,347,456)

BASIC AND DILUTED LOSS PER COMMON SHARE	$ (.15)	$ (.19)	$ (.65)	(.43)
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING	22,262,379	19,881,677	21,536,585	19,520,884

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

ELITE PHARMACEUTICALS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

	Series B Preferred Stock		Series C Preferred Stock					Additional			Ac
	Shares	Amount	Shares	Amount	Common Shares	Stock Amount	Subscription Receivable	Paid-In Capital	Treasury Shares	Stock Amount	
BALANCE AT MARCH 31, 2007 (AUDITED)	**9,695**	**97**	**---**	**---**	**20,799,102**	**207,991**	**(75,000)**	**66,495,618**	**(100,000)**	**(306,841)**	**(6**
Proceeds from Preferred Series C Offering	---	---	20,000	200	---	---	---	19,999,800	---	---	
Conversion of Preferred to Common	(1,285)	(13)	(845)	(8)	937,992	9,380	---	(9,359)	---	---	
Exercise of Stock Options and Warrants	---	---	---	---	280,424	2,804	---	371,701	---	---	
Non-cash compensation through issuance of stock options and warrants	---	---	---	---	---	---	---	2,125,625	---	---	
Beneficial Conversion Series C Warrants	---	---	---	---	---	---	---	2,384,609	---	---	
Costs associated with Raising Capital	---	---	---	---	---	---	---	(1,576,055)	---	---	
Net loss for the nine months ended December 31, 2007	---	---	---	---	---	---	---	---	---	---	(1
Dividends	---	---	---	---	576,812	5,768	---	---	---	---	
BALANCE AT DECEMBER 31, 2007	**8,410**	**84**	**19,155**	**192**	**22,594,330**	**225,943**	**(75,000)**	**90,919,330**	**(100,000)**	**(306,841)**	**(7**

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

ELITE PHARMACEUTICALS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	NINE MONTHS END DECEMBER 31, 2007 (Unaudited)	2006 (Unaudi
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$ (12,525,734)	$ (7,750,
Adjustments to reconcile net loss to cash used in operating activities:		
Depreciation and amortization	408,298	366,
Minority Interest in loss of subsidiary	---	4,
Equity in loss of variable interest entity	3,030,606	
Non-cash compensation satisfied by issuance of common stock, options and warrants	2,125,625	2,438,
Changes in assets and liabilities:		
Accounts and interest receivable	212,991	(120,
Prepaid expenses and other current assets	(38,544)	(318,
Security deposit	(6,508)	
Accounts payable, accrued expenses and other current liabilities	(919,251)	(230,
NET CASH USED IN OPERATING ACTIVITIES	(7,712,517)	(5,609,
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(533,803)	(678,
Deposit for manufacturing equipment	32,880	
Deposits to restricted cash	(14,049)	
Release of restricted cash	---	579,
Investment in Novel Laboratories, Inc.	(5,000,000)	
Increase in intangible assets due to patent costs	---	(5,
NET CASH USED IN INVESTING ACTIVITIES	(5,514,972)	(104,
CASH FLOWS FROM FINANCING ACTIVITIES:		
Dividends paid	(308,610)	(34,
Proceeds from issuance of Series C 8% Convertible Stock and Warrants	20,000,000	
Principal repayments NJEDA bonds	(185,000)	(175,
Proceeds - equipment note	58,004	
Principal equipment note payments	(3,421)	
Proceeds from exercise of stock options	61,500	88,
Proceeds from exercise of stock warrants	313,005	
Proceeds from sale of common stock	---	2,000,
Costs associated with raising capital	(1,576,055)	
NET CASH PROVIDED BY FINANCING ACTIVITIES	18,359,423	1,879,
NET CHANGE IN CASH AND CASH EQUIVALENTS	5,131,934	(3,834,
CASH AND CASH EQUIVALENTS beginning of period	811,545	8,919,
CASH AND CASH EQUIVALENTS end of period	$ 5,943,479	$ 5,085,
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		

Cash paid for interest	$ 163,990	$ 207,
Cash paid for income taxes	3,120	1,
SCHEDULE OF NON-CASH FINANCING ACTIVITIES:		
Beneficial Conversion Dividend	$ 2,384,609	$
Preferred stock dividends of $1,133,158 and $593,584 paid by issuance of 576,812 and 278,585 shares of common stock in 2007 and 2006, respectively.	---	
Conversion of 1,285 and 305 shares of Series B Preferred into 572,743 and 136,873 shares of common stock in 2007 and 2006, respectively.	---	
Conversion of 845 shares of Series C Preferred into 365,249 shares of common stock	---	
Cashless exercise of 100,633 warrants into 36,174 shares of common stock	---	

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

ELITE PHARMACEUTICALS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
NINE MONTHS ENDED DECEMBER 31, 2007 AND 2006
(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 nine months ended December 31, 2007 and 2006 and its variable interest entity, Novel Laboratories Inc. ("Novel"), for the six months ended September 30, 2007. In the quarter ended December 31, 2007, Novel ceased to be a variable interest entity of Elite. Accordingly, the information in this Form 10-Q has been prepared as if Elite divested of Novel as a wholly-owned subsidiary on October 1, 2007 and the operations are being reflected as a discontinued operation. As of December 31, 2007, the financial statements of all wholly owned entities are consolidated and all significant intercompany accounts are eliminated upon consolidation. The accompanying unaudited condensed consolidated financial statements have been prepared pursuant to rules and regulations of the Securities and Exchange Commission in accordance with accounting principles generally accepted for interim financial statement presentation. 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 condensed 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 unaudited condensed consolidated financial statements 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, 2007. There have been no changes in significant accounting policies since March 31, 2007.

The Company does not anticipate being profitable for fiscal year 2008; therefore a current provision for income tax was not established for the nine months ended December 31, 2007. Only the minimum corporation tax liability required for state purposes is reflected.

The condensed consolidated unaudited financial statements were prepared on the assumption that the Company will continue as a going concern. The Company's ability to continue is dependent upon its ability to obtain additional financing. There is no assurance that a financing can be completed in the amounts or at the times it is required.

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 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 Note proceeds. $1,274,311 of the proceeds had been deposited in a short-term restricted cash account to fund the future purchase of manufacturing equipment and development of the Company's facility. As of December 31, 2007, all of these funds have been expended to fund the above.

ELITE PHARMACEUTICALS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STAT EMENTS
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(UNAUDITED)

NOTE 3 - BANK LOAN PAYABLE

On June 7, 2007, the Company borrowed $3,000,000 at prime minus ½%, from a commercial bank to be used for working capital. Collateral was an assignment of a cash collateral account, in the amount of $3,000,000. The loan was repaid on July 24, 2007. Interest expense was $28,417.

On October 1, 2007, the Company borrowed $58,004 at a 9% interest rate from a commercial bank to be used to pay for transportation equipment, which was collateral for the loan. The loan is to be repaid in 60 installments of $1,180 per month through September 1, 2012. Interest expense through December 31, 2007 was $709.

NOTE 4 - STOCKHOLDERS EQUITY

Series B 8% Convertible Preferred Stock

On March 15, 2006, the Company sold in a private placement 10,000 shares of Series B 8% Convertible Preferred Stock (the Series B Preferred Stock), for gross proceeds of $10,000,000. The Series B Preferred Stock is convertible at $2.25 per share, into 4,444,444 shares of common stock, par value $0.01 per share (the Common Stock). In connection with the issuance of the Series B Preferred Stock, the Company also issued two classes of warrants which are exercisable for a period of five years and represent the right to purchase an aggregate of 1,111,111 shares of Common Stock at an exercise price of $2.75 per share and the second class of warrants are exercisable for a period of five years and represent the right to purchase an aggregate of 1,111,111 shares of Common Stock at an exercise price of $3.25 per share. Based on the relative fair values, the Company has attributed $2,033,029 of the total proceeds to the warrants and has recorded the warrants as additional paid-in capital. The remaining portion of the proceeds of $7,966,971 was used to determine the value of the 4,444,444 shares of the Company Common Stock underlying the Series B Preferred Stock, or $1.7925 per share. Since the value was $0.4774 lower than the fair market value of the Company s Common Stock on March 15, 2006, the $2,121,917 intrinsic value of the conversion option resulted in the recognition of a preferred stock dividend and an increase to additional paid-in capital.

Series C 8% Convertible Preferred Stock

On April 24, 2007, the Company sold 15,000 shares of its Series C 8% Convertible Preferred Stock, par value $0.01 (the Series C Preferred Stock), and 1,939,655 warrants for gross proceeds of $15,000,000. The 15,000 shares of Series C Preferred Stock are convertible into 6,465,517 shares of Common Stock. The warrants are exercisable at $3.00 per share and are exercisable through April 27, 2012. The Company paid $1,050,000 in commissions to the placement agent and others in connection with the sale of the Series C Preferred Stock. In addition, the Company granted the placement agent 193,965 warrants exercisable at $3.00 per share which were valued at $129,627. The gross proceeds of the private placement were $15,000,000 before payment of $1,050,000 in commissions to the placement agent and selected dealers. In addition, the Company agreed to reimburse the placement agent for all documented out-of-pocket expenses incurred by the placement agent in connection with the private placement, including reasonable fees and expenses of its counsel, which the Company and placement agent agreed to be limited to $25,000. Based on the relative fair values, the Company has attributed $1,182,101 of the total proceeds to the warrants and has recorded the warrants as additional paid-in capital. The remaining portion of the proceeds of $13,817,899 was used to determine the value of the 6,465,517 shares of the Company Common Stock underlying the Series C Preferred Stock, or $2.1372 per share. Since the value was $0.1628 lower than the fair market value of the Company s Common Stock on April 24, 2007, the $1,052,790 intrinsic value of the conversion option resulted in the recognition of a

preferred stock dividend and an increase to additional paid-in capital.

ELITE PHARMACEUTICALS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STAT EMENTS
NINE MONTHS ENDED DECEMBER 31, 2007 AND 2006
(UNAUDITED)

NOTE 4 - STOCKHOLDERS EQUITY

Series C 8% Convertible Preferred Stock (Continued)

On July 17, 2007, the Company sold the remaining 5,000 authorized shares of its Series C Preferred Stock. Each share of Series C Preferred Stock was sold at a price of $1,000 per share and is initially convertible at $2.32 into 431.0345 shares of the Company s Common Stock, or an aggregate of 2,155,172 shares of Common Stock. Each purchaser of Series C Preferred Stock also received a warrant to purchase shares of the Company s Common Stock in an amount equal to 30% of the aggregate number of shares of Common Stock into which the shares of Series C Preferred Stock purchased by such purchaser may be converted. The warrants are exercisable on or before July 17, 2012 and represent the right to purchase an aggregate of 646,554 shares of Common Stock, at an exercise price of $3.00 per share. The lead placement agent for the offering was Oppenheimer & Company, Inc. The gross proceeds of the private placement were $5,000,000 before payment of $350,000 in commissions to the placement agent and its selected dealers and $18,000 in expenses incurred by the placement agent and its selected dealers. Pursuant to the placement agent agreement, the Company issued to the placement agent and its designees warrants (the "Placement Warrants") to purchase 64,655 shares of Common Stock. Such Placement Warrants are at an exercise price of $3.00 per share, exercisable on or prior to July 17, 2012. The Company received net proceeds from the sale of the Series C 8% Preferred Stock of $4,631,500. Based on the relative fair values, the Company has attributed $534,407 of the total proceeds to the warrants and has recorded the warrants as additional paid-in capital. The remaining portion of the proceeds of $4,465,593 was used to determine the value of the 2,155,172 shares of the Company Common Stock underlying the Series C Preferred Stock, or $2.0720 per share. Since the value was $0.6180 lower than the fair market value of the Company s Common Stock on July 17, 2007, the $1,331,819 intrinsic value of the conversion option resulted in the recognition of a preferred stock dividend and an increase to additional paid-in capital.

The Company sought and obtained the consent of 70% of the holders of its Series B Preferred Stock (the *Series B Consent*), as a condition to the sale of the Series C Preferred Stock, to modify to the Series B Certificate and to the creation of the Series C Preferred Stock.

The holders of the Series B Preferred Stock consented to (i) the filing of the Amended Certificate of Designations of Preferences, Rights and Limitations of the Series B Preferred Stock (the Amended Series B Preferred Certificate) with the Secretary of State of the State of Delaware, which, inter alia, (a) provides for group voting by and among the holders of the Series B Preferred Stock and the holders of the Series C Preferred Stock, and (b) extends the date on which the cumulative dividend rate increases from 8% to 15% from March 16, 2008 to April 24, 2009; and (ii) the authorization, creation, offering and issuance of the Series C Preferred Stock. On April 24, 2007, pursuant to the authority of its Board of Directors, Company filed with the Secretary of State of Delaware the Amended Series B Preferred Certificate.

In consideration for the Series B Consent, (i) the Company agreed to extend the expiration date of certain warrants issued to each holder of Series B Preferred Stock at the time of the original issuance of the Series B Preferred Stock from March 16, 2011 to March 16, 2012; and (ii) each of Midsummer Investment, Ltd. and Bushido Capital Master Fund, LP (each, a Principal Holder), as the holders of the largest number of the currently outstanding shares of Series B Preferred Stock, were granted a covenant by the Company pursuant to which, so long as each Principal Holder continues to hold at least 20% of the then outstanding Series B Preferred Stock, the Company will not take any action which requires the consent of at least 70% of the holders of the Preferred Stock, unless each Principal Holder consents to such action.

ELITE PHARMACEUTICALS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STAT EMENTS
NINE MONTHS ENDED DECEMBER 31, 2007 AND 2006
(UNAUDITED)

NOTE 4 - **STOCKHOLDERS EQUITY** (Continued)

Common Stock

During the nine month period ended December 31, 2007, holders of 1,285 shares of Series B 8% Preferred Stock converted their shares and accrued dividends through the date of conversion into 572,743 shares of Common Stock.

During the nine month period ended December 31, 2007, holders of 845 shares of Series C 8% Preferred Stock converted their shares into 365,249 shares of Common Stock. Accrued cash dividends were paid through date of conversion.

During the nine month period ended December 31, 2007, holders of 203,250 warrants exercised their warrants into 203,250 shares of Common Stock by contributing $313,005 in cash.

During the nine month period ended December 31, 2007, there were cashless exercises of 100,633 warrants issued in our October 2004 Private Placement, which resulted in the issuance of 36,174 shares of Common Stock.

During the nine month period ended December 31, 2007, 50,000 warrants issued in 2004 expired.

On April 20, 2007, $61,500 was received from the exercise of stock options previously granted to purchase 41,000 shares of Common Stock at $1.50 per share.

During the nine month period ended December 31, 2007, 1,201,000 stock options were either forfeited or expired.

Dividends accrued on Series B Preferred Stock through December 31, 2007, amounting to $547,220, were satisfied by the issuance of 270,215 shares of Common Stock.

Dividends accrued on Series C Preferred Stock through December 31, 2007, amounting to $994,826, were satisfied by the issuance of 306,597 shares of Common Stock and payment of $408,889 in cash.

Options and Warrants

At December 31, 2007, the Company had outstanding 5,470,500 options with exercise prices ranging from $1.50 to $3.00 per share and 9,216,736 warrants with exercise prices ranging from $1.23 to $3.74 per share; each option and warrant representing the right to purchase one share of Common Stock.

NOTE 5 - **COMMITMENTS AND CONTINGENCIES**

Consulting Agreements

On July 27, 2007, the Company entered into a consulting agreement with Willstar Consultants, Inc. (Willstar) for advice pertaining to overall strategic planning, business opportunities, acquisition policy investment and banking relationships and stockholder matters. The term of the agreement is for 120 days at a fee of $50,000. In addition Willstar received 90,000 non-qualified stock options, which vest over a three year period from the time of grant. These options are

exercisable at $2.50 per option. Expenses incurred under this agreement amounted to $50,000 for the nine months ended December 31, 2007.

ELITE PHARMACEUTICALS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
NINE MONTHS ENDED DECEMBER 31, 2007 AND 2006
(UNAUDITED)

NOTE 5 - **COMMITMENTS AND CONTINGENCIES** (Continued)

Consulting Agreements (Continued)

On September 4, 2007, the Company entered into a consulting agreement with Bridge Ventures, Inc. (□BVI□), and Saggi Capital, Inc. (□SCI□) relating to the introduction of potential contacts and investors, the attraction of investment capital and providing investor relations services and to generate investor interest in the Company. The term of the agreement is for a period of 180 days for a fee of $10,000 per month. In addition, each of BVI and SCI received five-year warrants to purchase 75,000 shares of Common Stock at $3.25 exercise price. Expenses incurred under this agreement amounted to $80,000 for the nine months ended December 31, 2007.

Alliance Agreement

On December 6, 2006, the Company entered into a Strategic Alliance Agreement (the □*Alliance Agreement*□) with Dr. Veerappan S. Subramanian (□*VS*□) and VGS Pharma, LLC, a Delaware limited liability company (□*VGS*□), under which (i) VS was appointed to the Company□s Board of Directors, (ii) VGS made a $2,000,000 equity investment in the Company, (iii) VS was engaged to serve as strategic advisor on the research, development and commercialization of the Company□s existing pipeline, (iv) the Company and VGS formed Novel Laboratories Inc., a Delaware corporation (□*Novel*□), as a separate specialty pharmaceutical company for the research, development, manufacturing, licensing and acquisition of specialty generic pharmaceuticals, and (v) the Company contributed $2,000,000 to Novel and agreed to make additional contributions.

Pursuant to the Alliance Agreement, Novel entered into an employment agreement with VS and the Company entered into (i) an Advisory Agreement with VS, (ii) a Registration Rights Agreement with VGS and VS, and (iii) a Stockholders Agreement with VS, VGS and Novel.

The Company initially contributed $2,000,000 to Novel and made additional contributions of $5,000,000 through September 30, 2007. Subsequent to the entry into the Alliance Agreement, the Company and VGS agreed that the performance milestones relating to the funding of the Company□s remaining $20,000,000 of cash contributions would be as follows: (i) $10,000,000 upon the submission to the FDA of three abbreviated new drug applications (ANDAs) related to three different prospective products developed by Novel and (ii) $10,000,000 upon the submission to the FDA of three ANDAs related to at least three additional different prospective products developed by Novel. In October 2007, the Company was notified by Novel of the submission to the FDA of its third ANDA and, pursuant to the terms of the Alliance Agreement, the Company requested and received, in November 2007, written evidence verifying that such ANDA filings related to prospective products developed by Novel.

The Company elected not to fund its remaining contributions to Novel upon the terms set forth in the Alliance Agreement because (i) it recently reached agreement with the Food and Drug Administration under a Special Protocol Assessment on the Phase III clinical trial of ELI-216, the Company□s Abuse Deterrent Oxycodone product and determined that its funds would be better used to support the clinical trials for ELI-216 and (ii) the Company determined it would utilize its rights to participate in future equity investment in Novel instead of investing at the valuation set forth under the Alliance Agreement.

ELITE PHARMACEUTICALS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
NINE MONTHS ENDED DECEMBER 31, 2007 AND 2006
(UNAUDITED)

NOTE 5 - **COMMITMENTS AND CONTINGENCIES** (Continued)

Alliance Agreement (Continued)

The Company and VGS negotiated alternative structures that would permit investments by the Company at valuations which differed from those set forth in the Alliance Agreement, however VGS and the Company were unable to agree upon an alternative acceptable to both parties. Accordingly, upon the Company's determination not to fund its remaining contributions to Novel at the valuation set forth in the Alliance Agreement, VGS exercised its rights pursuant to the Stockholders Agreement to purchase from the Company, its shares of Class A Voting Common Stock of Novel proportionate to the amount of remaining contributions which were not funded by the Company. As a result, the Company's remaining ownership interest in Class A Voting Common Stock of Novel is approximately 10% of the outstanding shares of Class A Voting Common Stock of Novel. The Company intends to rely upon its subscription rights in order to maintain its ownership in Novel and to determine, on an offering by offering basis, whether the valuation ascribed to Novel is appropriate for additional investments by Registrant.

Advisory Agreement - VS

The Advisory Agreement obligates VS to provide advisory services to the Company, including but not limited, to assist in the implementation of current and new drug product development projects of the Company and assisting in the Company's recruitment of additional R&D staff members. As an inducement to enter into the agreement, the Company granted VS a non-qualified stock option to purchase up to 1,750,000 shares of Common Stock (the "Option Shares") at a price of $2.13 per share. The option vests in 250,000 share installments, the first immediately, the second on May 6, 2007, the third on December 6, 2007, the fourth upon the Company's acceptance of the Initial Business Plan of Novel, and the other installments vesting on the accomplishment of certain milestones with respect to the first or second drug product developed by the Company (excluding drug products of Novel) on or after February 4, 2007, under the advisory services provided to the Company. The option terminates on December 6, 2016, or 90 days following a termination of his advisory services to the Company or his employment by Novel other than a termination without Cause or by VS for Good Reason or 48 months after the termination of his advisory services under the Advisory Agreement or his employment under the employment agreement as a result of: (i) a termination by the Company of the Advisory Agreement or by Novel of the employment agreement without Cause or by VS without Good Reason or (ii) the post-December 6, 2007, termination of the term of the Advisory Agreement or of the Novel employment agreement.

All unvested options terminate upon the termination of the Advisory Agreement (other than a termination by the Company without Cause or by VS for Good Reason) or at such time as the Company and its permitted transferees own in the aggregate less than 20% of the outstanding capital stock of Novel, except to the extent the Company at its sole discretion has determined that VS has provided substantial contribution to the development of any drug product which would otherwise trigger the vesting of options notwithstanding the failure to satisfy the foregoing 20% threshold.

Effective July 10, 2007, the Acquired Company Shares, the Option Shares and Warrant Shares were registered for reoffering under the Securities Act of 1933, as amended (the "Act").

ELITE PHARMACEUTICALS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
NINE MONTHS ENDED DECEMBER 31, 2007 AND 2006
(UNAUDITED)

NOTE 5 - **COMMITMENTS AND CONTINGENCIES** (Continued)

Employment Agreements

On January 3, 2008, the Company entered into an employment agreement with Dr. Stuart Apfel (the "Employment Agreement") providing for Dr. Apfel to serve as the Company's Chief Medical Officer through January 3, 2009 and automatically renewable for one year periods thereafter unless terminated by Dr. Apfel or the Company upon at least 60 days notice prior to the end of the then scheduled expiration date.

Dr. Apfel has an annual base salary of $220,000 and will be entitled to a discretionary bonus following the end of each calendar year of up to 50% of Dr. Apfel's then annual base salary.

Additionally, the Company has granted to Dr. Apfel under the 2004 Plan fully vested options to purchase 120,000 shares of Common Stock at an exercise price of $1.75 per share.

The Company has granted to Dr. Apfel under the 2004 Plan options to purchase up to an additional 280,000 shares of Common Stock ("Milestone Options") at an exercise price of $1.75 per share. Such Milestone Options vest and become exercisable as follows: (A) 80,000 shares upon the successful completion, as determined by the Board, of a Company sponsored Phase III clinical trial of the Company's developmental drug product referred to as ELI-216; (B) 80,000 shares upon the successful completion, as determined by the Board, of a Company sponsored Phase III clinical trial of the Company's developmental drug product referred to as ELI-154; (C) 80,000 shares upon the successful completion, as determined by the Board, by the Company during the term of the Employment Agreement of a Company sponsored long-term safety study for the Company'sdevelopmental drug product referred to as ELI-216; and (D) 40,000 shares upon the closing of an exclusive product license for the United States national market, or product sale transaction of all of the Company's ownership rights, for either ELI-216 or ELI-154. Upon the earlier to occur of (x) January 3, 2017 and (y) the termination of Dr. Apfel's employment hereunder, all unvested Milestone Options granted shall automatically terminate and all vested but unexercised Milestone Options shall terminate to the extent unexercised within ninety (90) days of such date and in accordance with the terms of the stock option agreement by and between Dr. Apfel and the Company with respect to the Milestone Options and the 2004 Plan. The shares of Common Stock issuable upon exercise of the Milestone Options are subject to an effective registration statement filed with the Securities and Exchange Commission.

Leases

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 to be used for the storage of finished and raw material of pharmaceutical products and equipment. The lease had a renewal option, which was exercised to rent the property through July 1, 2008 at a rental of $3,071 per month.

On June 21, 2007, the Company entered into an additional lease for two years commencing on August 1, 2007 for additional storage space. Monthly rental expense is $2,709 payable in advance plus prorated common area maintenance costs. The lease has a 3 year renewal option.

ELITE PHARMACEUTICALS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
NINE MONTHS ENDED DECEMBER 31, 2007 AND 2006
(UNAUDITED)

NOTE 6 - SUBSEQUENT EVENTS

On January 3, 2008, the Company entered into an employment agreement with Dr. Stuart Apfel as its Chief Medical Officer (see Note 5).

On January 3, 2008, the Company announced that it did not fund its remaining contributions to Novel upon the terms set forth in the Alliance Agreement which resulted in the repurchase of a portion of its shares of Class A Voting Common Stock in Novel. (see Note 5).

On January 3, 2008, the Company issued 99,341 of its common shares as a dividend on its Series B Preferred Shares to holders of record on January 1, 2008.

On January 3, 2008, the Company issued 167,205 of its common shares and paid cash of $102,222 as a dividend on its Series C Preferred Shares to holders of record on January 1, 2008.

On January 24, 2008, the Company's Board of Directors granted an aggregate of 148,800 options to purchase Common Stock to its employees which vest over 3 years from the date of grant. The options are exercisable at $1.08 per option. The options are subject to the Company's stock option agreements and the Company's Stock Option Plan.

On January 24, 2008, the Board granted 90,000 options to each of its three non-executive independent Board members under the Company's option plan. The options vest in equal thirds on June 26, 2008, 2009 and 2010, assuming each Director continues to serve on the Company's Board; provided, however that, the options shall fully vest upon such Director's death, disability, retirement as a director on the Board or such Director's removal as a director, without cause, at the request of the Board. The options are exercisable at $1.08 per option. The options are subject to the Company's customary stock option agreements and the Company's Stock Option Plan.

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

THREE AND NINE MONTH PERIODS ENDED DECEMBER 31, 2007 COMPARED TO THE THREE AND NINE MONTH PERIODS ENDED DECEMBER 31, 2006 (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, 2007 (the "10-K") and the Unaudited Condensed Consolidated Financial Statements and related Notes to Condensed 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 "may depend", "believes", "estimates", "projects" and similar words and phrases are also intended to identify suc 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

We are a specialty pharmaceutical company principally engaged in the development and manufacture of oral, controlled release products. We develop oral, controlled release products using proprietary technology. Our strategy includes improving off-patent drug products for life cycle management and developing generic versions of controlled release drug products with high barriers to entry. Our technology is applicable to develop delayed, sustained or targeted release pellets, capsules, tablets, granules and powders.

We have two products, Lodrane 24(R) and Lodrane 24D(R), currently being sold commercially, and a pipeline of seven drug candidates under development in the therapeutic areas that include pain management, allergy and infection. Of the products under development, ELI-216, an abuse deterrent oxycodone product, and ELI-154, a once daily oxycodone product, are in clinical trials and we have completed pilot studies on two of our generic product candidates. The addressable market for the pipeline of products exceeds $6 billion. Our facility in Northvale, New Jersey also is a Good Manufacturing Practice ("GMP") and DEA registered facility for research, development and manufacturing.

In January 2006, the FDA accepted our IND for ELI-154, our once-a-day oxycodone painkiller. We completed a second pharmacokinetic study to evaluate ELI-154's sustained release formation in 2006. In December 2007, we submitted to the FDA a Special Protocol Assessment (SPA) for the Phase III protocol for ELI-154. We are currently scaling up the product and expect to wait until we reach agreement with the FDA on this SPA before beginning the Phase III. Currently there is no once-daily oxycodone available. we estimate that the U.S. market for sustained release, twice-daily oxycodone was about $1.6 billion as of September, 2006.

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In May 2005, the FDA accepted our IND for ELI-216, our once-a-day, abuse resistant oxycodone painkiller. After the acceptance of the IND, we completed two pharmacokinetic studies and a euphoria study in recreational drug users to assess the abuse deterrent properties of ELI-216. In November 2007, we reached agreement with the FDA on a Special Protocol Assessment for the Phase III protocol for ELI-216. We are currently scaling up the product and preparing for additional studies including a multi-dose study in opioid dependent patients, a food effect study and the Phase III study for ELI-216, Currently there is no abuse deterrent oxycodone product available.

At the end of 2006, we entered into a joint venture with VGS Pharma, LLC (□VGS□) and created Novel Laboratories, Inc. (□Novel□), a privately-held company specializing in pharmaceutical research, development, manufacturing, licensing, acquisition and marketing of specialty generic pharmaceuticals. Novel's business strategy is to focus on its core strength in identifying and timely executing niche business opportunities in the generic pharmaceutical area.

At the end of 2007, we elected not to fund our remaining contributions to Novel upon the terms set forth in the Alliance Agreement because (i) we recently reached agreement with the Food and Drug Administration under a Special Protocol Assessment on the Phase III clinical trial of ELI-216, our Abuse Deterrent Oxycodone product and determined that our funds would be better used to support the clinical trials for ELI-216 and (ii) we determined we would utilize our rights to participate in future equity investments in Novel rather than invest at the valuation set forth under the Alliance Agreement. We and VGS negotiated alternative structures that would permit investments by us at valuations which differed from those set forth in the Alliance Agreement, however VGS and us were unable to agree upon an alternative acceptable to both parties. Accordingly, upon our determination not to fund our remaining contributions to Novel at the valuation set forth in the Alliance Agreement, VGS exercised its rights to purchase from us our shares of Class A Voting Common Stock of Novel proportionate to the amount of remaining contributions which were not funded by us. As a result, our remaining ownership interest in Class A Voting Common Stock of Novel is approximately 10% of the outstanding shares of Class A Voting Common Stock of Novel.

As of October 1, 2007, Novel was no longer considered a variable interest entity of the Company. Accordingly, the information in the Form 10-Q report consolidates the results of operations of Novel for the six months ended September 30, 2007. As of October 1, 2007, Elite deconsolidated its financial statements from that of Novel. Our investment in Novel was decreased from $7,000,000 to $3,337,162 to recognize the cumulative losses of Novel from inception through September 30, 2007.

Strategy

We are focusing our efforts on the following areas: (i) development of our pain management products, (ii) manufacturing of Lodrane 24(R) and Lodrane 24D(R) products; (ii) the development of the other products in our pipeline; and (iii) commercial exploitation of our products either by license and the collection of royalties, or through the manufacture of our formulations, and (iv) development of new products and the expansion of our licensing agreements with other pharmaceutical companies, including co-development projects, joint ventures and other collaborations, including Novel.

We are focusing on the development of various types of drug products, including branded drug products (which require new drug applications (□NDA□) under Section 505(b)(1) or 505(b)(2) of the Drug Price Competition and Patent Term Restoration Act of 1984 as well as generic drug products (which require abbreviated new drug applications (□ANDA□)).

We intend to continue to collaborate in the development of additional products with our current partners. We also plan to seek additional collaborations to develop more drug products.

We believe that our business strategy enables us to reduce our risk by having a diverse product portfolio that includes both branded and generic products in various therapeutic categories and build collaborations and establish licensing agreements with companies with greater resources thereby allowing us to share costs of development and to improve cash-flow.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Management□s discussion addresses our condensed 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 bad debts, intangible assets, income taxes, workers 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 condensed consolidated financial statements. Our most critical accounting policies include the recognition of revenue upon completion of certain phases of projects under research and development contracts. We also assess a need for an allowance to reduce our deferred tax assets to the amount that we believe are more likely than not to be realized. We assess the recoverability of long-lived assets and intangible assets whenever events or changes in circumstances indicate that the carrying value of the asset may not be recoverable. We assess our exposure to current commitments and contingencies. It should be noted that actual results might differ from these estimates under different assumptions or conditions.

Results of Consolidated Operations

Three Months Ended December 31, 2007 Compared to Three Months Ended December 31, 2006

Our revenues for the three months ended December 31, 2007 were $176,171, a decrease of $55,263 or approximately 23.9%, under revenues for the comparable period of the prior year, and consisted of $116,366 in manufacturing fees and $59,805 in royalty fees. Revenues for the three months ended December 31, 2006, consisted of $209,139 in manufacturing fees and $22,295 in royalty fees. Manufacturing fees declined by 44% due to flucuatations in the number of batches shipped each quarter because of seasonality of sales and inventory adjustments. Royalties increased by 168 % due to the launch of our second product, Lodrane 24D® which was launched in December 2006 and due to growth of Lodrane 24 sales.

Research and development costs for the three months ended December 31, 2007, were $1,560,253, a decrease of $121,076 or approximately 7.2% from $1,681,329 of such costs for the comparable period of the prior year. Elite continues its spending on the development of the pain products, ELI-216 and ELI-154. We expect our research and development costs to increase in future periods primarily due to clinical costs for Phase III and other clinical trials for ELI-216 and ELI-154.

We are in the initial stages of breaking down the specific costs associated with the research and development of each product on which we devoted resources through the use of detailed time sheets and general ledger account classifications. In the past, we have not historically allocated these expenses to any particular product. 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 as described in this report.

General and administrative expenses (□G&A□) for the three months ended December 31, 2007, were $632,133, an increase of $125,164, or approximately 24.7% from $506,969 of general and administrative expenses for the comparable period of the prior year. The increase was primarily attributable to increases in legal fees, timing of director fee payments and in salaries and fringe benefits as a result of yearly increments.

Depreciation and amortization increased by $43,231 from $127,035 for the comparable period of the prior year to $170,266. The increase was due to the acquisition of new machinery and equipment and the upgrading of Elite□s corporate and warehouse facilities.

Other expenses for the three months ended December 31, 2007 were $530,685, a decrease of $945,105, or approximately 64.0% from $1,475,790 for the comparable period of the prior year due to a decrease of $1,299,743 in charges related to the issuances of stock options and warrants and decreases in interest expense of $2,670 due to lower outstanding balances. These decreases were also the effect of additional interest income of

$19,951, due to higher compensating balances as a result of the private placements of our Series C 8% Convertible Preferred Stock.

As a result of the foregoing, our net loss for the three months ended December 31, 2007 was $2,858,103 compared to $3,564,971 for the three months ended December 31, 2006.

Nine Months Ended December 31, 2007 Compared to Nine Months Ended December 31, 2006

Our revenues for the nine months ended December 31, 2007 were $838,967, an increase of $295,430 or approximately 54.3%, over revenues for the comparable period of the prior year, and consisted of $671,239 in

manufacturing fees and $167,728 in royalty fees. Revenues for the nine months ended December 31, 2006, consisted of $476,598 in manufacturing fees and $66,939 in royalty fees. The 41% increase in manufacturing fees and the 151% growth in royalties was primarily due to the launch of our second product, Lodrane 24D(R) and growth of the Lodrane 24® product.

Research and development costs for the nine months ended December 31, 2007, were $5,394,043, an increase of $1,087,424 or approximately 25.0% from $4,306,619 of such costs for the comparable period of the prior year, primarily due to the costs associated with increased spending on raw materials which are primarily for scale up of the pain products. We expect our research and development costs to continue to increase in future periods primarily due to the expenses associated with clinical costs for Phase III and other clinical trials for ELI-216 and ELI-154.

General and administrative expenses (G&A) for the nine months ended December 31, 2007, were $1,814,958, an increase of $218,271, or approximately 13.7% from $1,596,687 of G&A for the comparable period of the prior year. The increase was attributable to increases in salaries and fringe benefits as a result of increases in staff.

Depreciation and amortization increased by $93,199 from $366,105 for the comparable period of the prior year to $459,304. The increase was due to the acquisition of new machinery and equipment and the upgrading of Elites corporate and warehouse facilities.

Other expenses for the nine months ended December 31, 2007 were $2,042,502, an increase of $24,484, or approximately 1.2%, from $2,018,018 for the comparable period of the prior year due to increases in interest expense of $19,303 due to the borrowing of bank debt utilized to initially fund Novel and to finance purchased equipment and reductions of $377,259 in sale of New Jersey tax losses, offset somewhat by increases in interest income of $59,516 due to higher compensating balances as a result of the private placement of our Series C 8% Convertible Preferred Stock and reductions of $312,562 in charges related to the issuances of stock options and warrants.

As a result of the foregoing, our net loss for the nine months ended December 31, 2007 was $12,525,734 compared to $7,750,174 for the nine months ended December 31, 2006.

Material Changes in Financial Condition

Our working capital (total current assets less total current liabilities), increased to $5,991,312 as of December 31, 2007 from $244,288as of March 31, 2007, primarily due to net proceeds received as a result of our private placement of Series C 8% Convertible Preferred Stock, offset by net loss from operations, exclusive of non-cash charges.

We experienced negative cash flows from operations of $7,712,517 for the nine months ended December 31, 2007, primarily due to our net loss from operations of $12,525,734, an increase in prepaid expenses and security deposits of $47,267 and reductions of $919,251 in accounts payable, accrued expenses and other liabilities, offset by net reductions in accounts and interest receivable of $212,991 and by non-cash charges of $2,533,923, which included $2,125,625 in connection with the issuance of stock options and warrants, and $408,298 in depreciation and amortization expenses.

On November 15, 2004 and on December 18, 2006, Elites partner, ECR, launched Lodrane 24(R) and Lodrane 24D(R), respectively. Under its agreement with ECR, Elite is currently manufacturing commercial batches of Lodrane 24(R) and Lodrane 24D(R) in exchange for manufacturing margins and royalties on product revenues. Manufacturing revenues and royalty income earned for the nine months ended December 31, 2007 was $671,239 and $167,728, respectively. We expect future cash flows from manufacturing fees and royalties to provide additional cash to help fund our operations. However, no assurance can be given that we will generate any material revenues from the manufacturing fees and royalties of the Lodrane products.

LIQUIDITY AND CAPITAL RESOURCES

As of December 31, 2007, we had approximately six months of cash available based on our current operations. We are considering a number of different financing alternatives and we intend to seek additional capital in the first six months of 2008 through private financing or collaborative agreements. However, no assurance can be given that we will consummate a financing or that any material cash will be generated to us therefrom. If adequate funds are not available to us as we need them, we will be required to curtail significantly or delay or eliminate one or more product development programs. These matters raise substantial doubt over our ability to continue as a going concern. The accompanying financial statements do not provide for any adjustments should this occur.

For the nine months ended December 31, 2007, we expended $7,712,517 in operating activities which we funded through the $20,000,000 in gross proceeds raised through our private placement of Series C 8% Preferred Stock. Our working capital at December 31, 2007 was $6.0 million compared with working capital of $2.8 million at December

31, 2007 was $6.0 million compared with working capital of $2.8 million at December 31, 2006. Cash and cash equivalents at December 31, 2007 were $5.9 million, an increase of $2.3 million from the $3.6 million at December 31, 2006.

We spent approximately $534,000 on improvements and machinery and equipment during the nine months ended December 31, 2007.

On April 24, 2007, we sold in a private placement through Oppenheimer & Company, Inc., the placement agent (the "placement agent"), 15,000 shares of our Series C 8% Preferred Stock, at a price of $1,000 per share, each share convertible (at $2.32 per share) into 431.0345 shares of Common Stock, or an aggregate of 6,465,517 shares of Common Stock. The investors also acquired warrants to purchase shares of Common Stock, exercisable on or prior to April 24, 2012. The warrants represent the right to purchase an aggregate of 1,939,655 shares of Common Stock at an exercise price of $3.00 per share. The gross proceeds of the sale were $15,000,000 before payment of $1,050,000 in commissions to the Placement Agent and selected dealers. We also paid certain legal fees and expenses of counsel to the Placement Agent. We issued to the Placement Agent and its designees five year warrants to purchase 193,965 shares of Common Stock with similar terms to the warrants issued to the Investors with an exercise price of $3.00 per share.

On July 17, 2007 we sold, in a private placement, the remaining 5,000 authorized shares of its Series C 8% Preferred Stock at a price of $1,000 per share, each share convertible (at $2.32 per share) into 431.0345 shares of Common Stock, or an aggregate 2,155,172 shares of Common Stock. The investors also acquired warrants to purchase shares of Common Stock, exercisable on or prior to July 17, 2012. The warrants represent the right to purchase 646,554 shares of Common Stock, at an exercise price of $3.00 per share. The gross proceeds of the sale were $5,000,000 before payment of 350,000 in commissions to Placement Agent and selected dealers and $18,000 in expenses incurred by Placement Agent and selected dealers. We issued to the Placement Agent and its designees five year warrants to purchase 64,655 shares of Common Stock with similar terms to the warrants issued to the Investors with exercise price of $3.00 per share. The approximate $18,531,500 of net proceeds generated from these private placements will contribute materially to our efforts to advance our part of pain products through the clinic as well as accelerate the development of our other controlled release products, which utilize our proprietary oral drug delivery systems and abuse resistant technology.

From time to time we will consider potential strategic transactions including acquisitions, strategic alliances, joint ventures and licensing arrangements with other pharmaceutical companies. We retained an investment-banking firm to assist with our efforts. There can be no assurance that any such transaction will be available or consummated in the future.

As of December 31, 2007, after the closing of the sale of the additional Series C 8% Preferred Stock, our principal source of liquidity was approximately $5,943,000 of cash and cash equivalents. Additionally, we may have access to 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 the sale of tax losses or by the exercise of outstanding warrants or options will generate or provide sufficient cash.

The Company had outstanding, as of December 31, 2007, bonds in the aggregate principal amount of $3,795,000, consisting of $3,415,000 of 6.5% tax exempt Bonds with an outside maturity of September 1, 2030 and $380,000 of 9.0% 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 was expended within the year ended March 31, 2007. 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 December 31, 2007, the Company was in compliance with the bond covenants.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company had no investments in marketable securities as of December 31, 2007 or assets and liabilities, which are denominated in a currency other than U.S. dollars or involve commodity price risks.

ITEM 4T. 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 have been no changes in the Company's internal control over financial reporting during the quarter ended December 31, 2007 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.,

PART II. OTHER INFORMATION

ITEM 1A. RISK FACTORS

There have been no material changes in our risk factors from those disclosed in our Annual Report on Form 10-K for the period ended March 31, 2007 or Form 10-Q for the quarters ended June 30, 2007 and September 30, 2007, except for the following:

IF WE ARE UNABLE TO OBTAIN ADDITIONAL FINANCING NEEDED FOR THE EXPENDITURES FOR THE DEVELOPMENT AND COMMERCIALIZATION OF OUR DRUG PRODUCTS, IT WOULD IMPAIR OUR ABILITY TO CONTINUE TO MEET OUR BUSINESS OBJECTIVES.

We continue to require additional financing to ensure that we will be able to meet our expenditures to develop and commercialize our products. As of December 31, 2007, we had cash and cash equivalents $5.9 million. We believe that our existing cash and cash equivalents will be sufficient to fund our anticipated operating expenses and capital requirements until June 30, 2008. We will require additional funding to continue our research and development programs, including clinical testing of our product candidates, for operating expenses and to pursue regulatory approvals for our product candidates. We are considering a number of different financing alternatives and we intend to seek additional capital in the first six months of 2008 through private financing or collaborative agreements. However, no assurance can be given that we will consummate a financing or that any material cash will be generated to us therefrom. Other possible sources of the required financing are income from product sales or sales of market rights, income from co-development or partnering arrangements and the cash exercise of warrants and options that are currently outstanding. No representation can be made that we will be able to obtain such revenue or additional financing or if obtained it will be on favorable terms, or at all. No assurance can be given that any offering if undertaken will be successfully concluded or that if concluded the proceeds will be material. If adequate funds are not available to us as we need them, we will be required to curtail significantly or delay or eliminate one or more product development programs which would impair our ability to meet our business objectives.

THERE IS DOUBT AS TO OUR ABILITY TO CONTINUE AS A GOING CONCERN.

Our condensed consolidated unaudited financial statements were prepared on the assumption that we will continue as a going concern. We estimate that our cash reserves will be sufficient to permit us to continue at our anticipated level of operations for approximately six months from December 31, 2007. During 2008, we will require additional funding to continue our research and development programs, including clinical testing of our product candidates, for operating expenses and to pursue regulatory approvals for our product candidates. We intend to use our cash reserves, as well as other funds in the event that they shall be available on commercially reasonable terms, to finance these activities and other activities described herein, although we can provide no assurance that these additional funds will be available in the amounts or at the times we may require. If sufficient capital is not available, we would likely be required to scale back or terminate our research and development efforts. See *Risk Factors If we are unable to obtain additional financing needed for the expenditures for the development and commercialization of our drug products, it would impair our ability to continue to meet our business objectives.*

IF WE RAISE ADDITIONAL FUNDING THROUGH SALES OF OUR SECURITIES, OUR EXISTING STOCKHOLDERS WILL LIKELY EXPERIENCE SUBSTANTIAL DILUTION.

If any future financing involves the further sale of our securities, our then-existing stockholders' equity could be substantially diluted. On the other hand, if we incurred debt, we would be subject to risks associated with indebtedness, including the risk that interest rates might fluctuate and cash flow would be insufficient to pay principal and interest on such indebtedness.

IF NOVEL LABORATORIES ISSUES ADDITIONAL EQUITY IN THE FUTURE, OUR EQUITY INTEREST IN NOVEL MAY BE DILUTED, RESULTING IN A DECREASE IN OUR SHARE OF REVENUE AND CASH FLOW GENERATED BY NOVEL.

As a result of our determination not to fund our remaining contributions to Novel at the valuation set forth in the Alliance Agreement and the resulting purchase from us of a portion of our shares of Class A Voting Common Stock of Novel by VGS Pharma, LLC, our remaining ownership interest in the equity of Novel was reduced to approximately 10% of the outstanding shares of Novel. Novel may seek to raise additional operating capital in the future and may do so by the issuance of equity. In the case of such issuance, we may determine not to exercise our subscription rights to maintain our percentage interest in Novel or, by the time of such issuance, our subscription rights may have terminated under the terms of the Stockholders Agreement granting such rights. In either case, our future equity interest in Novel will decrease and we will be entitled to a decreased portion of any revenue and cash flow which Novel may generate in the future.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

On January 24, 2008, the Company's Board of Directors granted an aggregate of 148,800 options to purchase Common Stock to its employees which vest over 3 years from the date of grant. The options are exercisable at $1.08 per option. The options are subject to the Company's customary stock option agreements and the Company's Stock Option Plan. The issuance of the options are exempt from the registration provision of the Securities Act of 1933, as amended (the "Act") pursuant to Section 4(2) thereunder.

On January 24, 2008, the Board granted 90,000 options to each of its three non-executive independent Board members under the Company's stock option plan. The options vest over three years, on June 26, 2008, 2009 and 2010, assuming each Director continues to serve on the Company's Board; provided, however that, the options shall fully vest upon such Director's death, disability, retirement as a director on the Board or such Director's removal as a director, without cause, at the request of the Board. The options are exercisable at $1.08 per option. The options are subject to the Company's customary stock option agreements and the Company's Stock Option Plan. The issuance of the options are exempt from the registration provision of the Act pursuant to Section 4(2) thereunder.

ITEM 6. EXHIBITS

The exhibits listed in the accompanying below are filed as part of this report.

Exhibit Number	Description
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: February 14, 2008

By: /s/ Bernard Berk
Bernard Berk
Chief Executive Officer
(Principal Executive Officer)

Date: February 14, 2008

By: /s/ Mark I. Gittelman
Mark I. Gittelman
Chief Financial Officer and Treasurer
(Principal Financial and Accounting Officer)