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

(MARK ONE)

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

For the quarterly period ended March 31, 1999

OR

|_| TRANSACTION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from ______________________ to_______________________

COMMISSION FILE NUMBER 1-10113

HALSEY DRUG CO., INC.
(Exact name of registrant as specified in its charter)

New York	11-0853640
(State or other Jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

695 N. Perryville Road Rockford, Illinois	61107
(Address of Principal executive offices)	(Zip Code)

(815) 399-2060
(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 |_|

As of May 13,1999 the registrant had 14,286,444 shares of Common Stock, $.01 par value, outstanding.

HALSEY DRUG CO., Inc. & SUBSIDIARIES

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PART I. FINANCIAL INFORMATION

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

HALSEY DRUG CO., INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(Amounts in thousands)	(UNAUDITED) 1999 MARCH 31	1998 DECEMBER 31
CURRENT ASSETS		
Cash and cash equivalents	$ 888	$ 1,850
Accounts Receivable - trade, net of allowances for doubtful accounts of $101 at March 31, 1999 and $280 at December 31, 1998, respectively	1,971	1,439
Other receivable	34	
Inventories	4,657	6,354
Prepaid insurance and other current assets	84	148
Total current assets	7,634	9,791
PROPERTY PLANT & EQUIPMENT, NET	4,516	4,787
OTHER ASSETS	1,375	1,335
TOTAL ASSETS	$13,525	$15,913

The accompanying notes are an integral part of these statements

HALSEY DRUG CO., INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(Amounts in thousands)	(UNAUDITED) 1999 MARCH 31	1998 DECEMBER 31
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)		
CURRENT LIABILITIES		
Notes payable	11,696	10,350
Department of Justice settlement	300	300
Accounts payable	1,215	1,834
Accrued expenses	3,879	3,972
Total current liabilities	17,090	16,456
CONVERTIBLE DEBENTURES	26,187	26,187
OTHER LONG-TERM DEBT	2,148	2,223
CONTINGENCIES	--	--
STOCKHOLDERS' EQUITY (DEFICIT)		
Common stock - $.01 par value; authorized 40,000,000, shares; issued and outstanding 14,260,715 shares at March 31,1999 and 14,003,609 shares at December 31, 1998	147	144
Additional paid-in capital	29,445	29,113
Accumulated deficit	(60,503)	(57,221)
	(30,911)	(27,964)
Less: Treasury stock - at cost - (439,603 shares at March 31, 1999 and December 31, 1998)	(989)	(989)
Total stockholders' equity (deficit)	(31,900)	(28,953)
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 13,525	$ 15,913

The accompanying notes are an integral part of these statements

HALSEY DRUG CO., INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)

Amounts in thousands except per share data	For the Three months ended March 31 1999	For the Three months ended March 31 1998
Net Sales	$ 3,224	$ 1,895
Cost of goods sold	3,648	3,332
Gross profit (loss)	(424)	(1,437)
Research & Development	176	221
Selling, general and administrative expenses	1,821	1,587
Loss from Operations	(2,421)	(3,245)
Other (Income)	3	(1,902)
Interest expense, net	858	438
Loss before income taxes	(3,282)	(1,781)
Provision for income taxes	--	--
Net loss	$ (3,282)	$ (1,781)
Net loss per common share, basic and diluted	$ (0.23)	$ (0. 13)
Average number of outstanding shares	14,257,159	13,686,379

The accompanying notes are an integral part of these statements

HALSEY DRUG CO., AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

Amounts in thousands	THREE MONTHS ENDED MARCH 31 1999	1998
Cash flows from operating activities		
Net loss	$ (3,282)	$ (1,781)
Adjustments to reconcile net loss to net cash used in operating activities		
Depreciation and amortization	329	290
Provision for loss on accounts receivable	--	(64)
Changes in assets and liabilities		
Accounts receivable	(530)	31
Other receivable	(28)	(150)
Inventories	1,698	(70)
Prepaid insurance and other current assets	57	87
Accounts payable	(619)	(3,004)
Deferred gain	--	(1,900)
Accrued expenses	242	(854)
Total adjustments	1,147	(5,634)
Net cash used in operating activities	(2,135)	(7,415)
Cash flows from investing activities		
Capital expenditures	(57)	(254)
(Decrease) increase in other assets	(40)	(1,443)
Net cash used in investing activities	(97)	(1,697)

Cash flows from financing activities

Increase in notes payable (decrease)	1,271	(1,025)
Decrease in amount due to banks	--	(2,476)
Issuance of common stock for payment of interest ..	--	--
Exercise of warrants of convertible debentures	--	--
Exercise of stock options	--	--
Issuance of convertible subordinated debentures ...	--	20,800
Proceeds from issuance of treasury stock	--	--
Bank overdraft	--	(159)
Net cash provided by financing activities	1,271	17,140
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(962)	8,028
Cash and cash equivalents at beginning of period	1,850	26
Cash and cash equivalents at end of period	$ 888	$ 8,054

Supplemental disclosure of noncash activities:

Quarter ended March 31, 1999

The Company issued 257,106 shares of common stock as payment for $335,022 of accrued interest.

The accompanying notes are an integral part of these statements

HALSEY DRUG CO., INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT)
Three months ended March 31, 1999

Amounts in thousands except per share data

(UNAUDITED)

	Common Stock $.01 par value Shares	Common Stock $.01 par value Amount	Additional Paid-in Capital	Accumulated Deficit	Treasury Stock, at cost Shares	Treasury Stock, at cost Amount	Total
Balance January 1, 1999	14,443,208	$144	$29,113	$(57,221)	439,603	$(989)	$(28,953)
Net Loss for the three months ended March 31, 1999				(3,282)			(3,282)
Issuance of shares as payment of interest	257,106	3	332				335
Balance at March 31, 1999	14,700,314	$147	$29,445	$(60,503)	439,603	$(989)	$(31,900)

The accompanying notes are an integral part of this statement

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

NOTE 1 - Basis of Presentation

The accompanying unaudited condensed consolidated financial statements of Halsey Drug Co., Inc. and subsidiaries (the "Company") have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments considered necessary to present fairly the financial position, results of operations and changes in cash flows for the three months ended March 31, 1999 have been made. The results of operations for the three months period ended March 31, 1999 are not necessarily indicative of the results that may be expected for the full year ended December 31, 1999. The unaudited condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and footnotes thereto for the year ended December 31, 1998 included in the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission.

As of March 31, 1999, the Company had a working capital deficiency of approximately $9,456,000 and an accumulated deficit of approximately $60,503,000. The Company has incurred a loss of approximately $3,282,000 during the three months ended March 31, 1999.

Note 2 - Inventories

(Amounts in thousands)

Inventories consists of the following:

	March 31, 1999	December 31, 1998
Finished Goods	$ 1,263	$ 2,675
Work in Process	960	1,166
Raw Materials	2,434	2,513
	$ 4,657	$ 6,354

NOTE 3 - Debt

Borrowings under long-term debt consist of the following at March 31, 1999 and December 31, 1998.

	(Amounts in thousands) 1999	1998
Department of Justice Settlement	$1,900	$1,975
Other	548	548
	2,448	2,523
Less current maturities	(300)	(300)
	$2,148	$2,223

NOTE 4 - Contingencies

The Company currently is a defendant in several lawsuits involving product liability claims. The Company's insurance carriers have assumed the defense for all product liability and other actions involving the Company. The final outcome of these lawsuits cannot be determined at this time, and accordingly, no adjustment has been made to the consolidated financial statements.

Note 5 - Comprehensive Income

The Company adopted the provisions of Statement of Financial Accounting Standards No. 130 (SFAS 130), Reporting Comprehensive Income, in the first quarter of 1998, which requires companies to disclose comprehensive income separately of net income from operations. Comprehensive income is defined as the change in equity during the period from transactions and other events and circumstances from non-ownership sources. It includes all changes in equity during a period, except those resulting from investments by owners and distributions to owners. The adoption of this statement had no effect on the Company for the quarters ended March 31, 1999 or 1998.

HALSEY DRUG CO.,INC. AND SUBSIDIARIES

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

	Three months ended March 31		
			Percentage Change Year-to-Year Increase (decrease)
	Percentage of Net Sales		1999 as Compared to
	1999	1998	1998
	%	%	%
Net Sales	100.0	100.0	70.1
Cost of goods sold	113.2	175.8	9.5
Gross profit(loss)	(13.2)	(75.8)	(70.5)
Research & Development	5.5	11.7	(20.4)
Selling, general and administrative expenses	56.5	83.7	14.7
Loss from operations	(75.2)	(171.2)	(25.4)
Other (income)	.1	(100.4)	--
Interest expense	26.6	23.1	95.9
Loss before income taxes	(101.7)	(93.9)	84.3
Provision for income taxes	--	--	--
Net loss	(101.7)	(93.9)	84.3

Three months ended March 31, 1999 vs three months ended March 31, 1998

Net Sales

The Company's net sales for the three months ended March 31, 1999 of $3,224,000 represents an increase of $1,329,000 (70.1%) as compared to net sales for the three months ended March 31, 1998 of $1,895,000. This increase is a result of recapturing market share that had been lost in the prior year because the Company lacked working capital in the first quarter of 1998 to maintain sufficient inventories for sale. Further, the sales increase reflects aggressive selling efforts by the Company's sales force.

Cost of Goods Sold

For the three months ended March 31, 1999, cost of goods sold increased by approximately $316,000 as compared to the three months ended March 31, 1998. The increase for 1999 is attributable to greater manufacturing activity associated with the sales increase. Gross margin as a percentage of sales for the three months ended March 31, 1999 was (13.2%) as compared to (75.8%) for the three months ended March 31, 1998. The improvement in gross margin is mainly attributable to improvements in manufacturing efficiencies and the elimination of certain non core manufacturing activities in California.

Selling, General and Administrative Expenses

Selling, general and administrative expenses as a percentage of sales for the three months ended March 31, 1999 and 1998 were 56.5% and 83.7%, respectively. Overall these expenses in the first three months of 1999 increased $234,000 over the same period in 1998. The increase is primarily attributable to the cost of additional personnel, increased costs of litigation and professional services.

Research and Development Expenses

Research and development expenses as a percentage of sales for the three months ended March 31, 1999 and 1998 was 5.5% and 11.7%, respectively. The Company's research and development program continues to concentrate its efforts toward the submission of new products to the FDA.

Net Earnings (Loss)
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For the three months ended March 31, 1999, the Company had net loss of $3,282,000 as compared to a net loss of $1,781,000 for the three months ended March 31, 1998. Included in results for the three months ended March 31, 1998 is other income of $1,900,000 that had been recorded in September, 1997 as a deferred gain on the sale of certain assets to Mallinckrodt. This transaction contained certain future requirements that were met in the first quarter of 1998.

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

At March 31, 1999, the Company had cash and cash equivalents of $888,000 as compared to $1,850,000 at December 31, 1998. The Company had a working capital deficiency at March 31, 1999 of $9,456,000 and $6,665,000 at December 31, 1998.

The Company secured bridge financing from Galen Partners III, L.P., Galen Partners International III, L.P., Galen Employee Fund III, L.P. (collectively, "Galen") and certain other investors in the aggregate amount of $9,504,111, funded through eight separate bridge loan transactions between the period from August through and including March, 1999 (collectively, the "Bridge Loans"). These bridge loans bear interest at 10% per annum, are secured by a first lien on all of the Company's assets and have a maturity date of May 30, 1999. Approximately $9,120,000 in the principal amount of the bridge loans were advanced by Galen. These bridge loans are evidence by 10% convertible senior secured promissory notes which are convertible at any time prior to maturity into shares of the Company's Common Stock at a conversion price of approximately $1.368 per share with respect to approximately $7,820,000 of such indebtedness, $1,331 per share with respect to approximately $284,000 of such indebtedness, and $1.197 per share with respect to approximately $1,400,000 of such indebtedness, for an aggregate of 7,099,338 shares of common stock (such conversion prices equal the fair market value of the Common Stock at the date of issuance of the convertible promissory notes). In addition, in consideration for the extension of the Bridge Loans, the Company issued common stock purchase warrants to Galen and the other investors in the Bridge Loans, to purchase an aggregate of approximately 1,009,909 shares of the Company's common stock (representing warrants to purchase 50,000 shares of Common Stock for each $1,000,000 in principal amount of the Bridge Loans). The Bridge Loan warrants are substantially identical to those issued by the Company in its Debenture and Warrant Offering completed on March 10, 1998.

The Bridge Loans were obtained by the Company in order to provide necessary working capital. In view of the Company's current cash reserves and projections for revenues through May 30, 1999, the Company will be unable to satisfy the Bridge Loans in full at the stated maturity date of May 30, 1999. Galen, the holder of approximately 96% of such indebtedness, has indicated to the Company a willingness to cooperate in the restructuring of the indebtedness evidenced by the Bridge Loans to extend the maturity date of such debt and/or convert the debt into common stock or longer-term convertible indebtedness. The terms of such restructuring will depend, to a large extent, on the terms and timing of any third-party investment, as described below. Accordingly, the terms of any such restructuring have yet to be agreed to by the parties and will be subject to the negotiation and reparation of definitive agreements.

The Company is in negotiations with an unaffiliated third party concerning the terms of a proposed investment on the Company in an amount of up to $15 million, to be funded in three equal increments based on the achievement of certain milestones. The structure of the investment will likely take the form of convertible debentures and common stock warrants, similar in many respects to the debentures and warrants issued by the Company in its March 10, 1998 offering. There can be no assurance given that these negotiations will result in terms acceptable to the Company and/or that if consummated, that the Company will be successful in achieving the milestones necessary to fund all or any portion of the proposed investment.

In the event the Company is successful in restructuring the Bridge Loans and completing a third party investment of the type and size described above, the Company will have sufficient cash reserves to satisfy its working capital requirements for at least the next 12 months. The Company is also seeking to secure a senior revolving line of credit from a banking institution. There can be no assurance, however, that the Company will be able to obtain such third party investment or a bank facility. If the Company is unable to complete the third party investment described above or obtain other sources of working capital, including a bank line of credit or proceeds from the issuance of debt and/or equity securities, the Company's cash reserves will be sufficient to satisfy the Company's working capital requirements for approximately two to three months. Failure to obtain a third party investment of the described above, a bank line of credit or alternative sources of financing of a comparable amount in the near term will materially adversely affect the Company's working capital position and financial condition and results of operations.

PART II

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

On March 8, 1999, the Company secured a bridge loan from Galen Partners III,L.P., Galen Partners International III,L.P. and Galen Employee Fund III, L.P. (collectively, the "Galen Group")in the principal amount of $1,400,000 (the "Bridge Loan"). The Bridge Loan bears interest at 10% per annum, is secured by a first lien on all the Company's assets and has a maturity date of May 30, 1999. The Bridge Loan is evidenced by 10% convertible senior secured promissory notes which are convertible at any time prior to maturity into shares of the Company's common stock at a conversion price of approximately $1.197 per share (such conversion price equal to the fair market value of the Company's common stock at the date of issuance of the convertible promissory notes). In addition, in consideration for the extension of the Bridge Loan, the Company issued common stock purchase warrants to the Galen Group to purchase an aggregate of approximately 66,887 shares of the Company's common stock having an exercise price of approximately $1.197 per share. The warrants issued in connection with the Bridge Loan are substantially identical to those issued in the Company's March 1998 Debenture and Warrant Offering.

During the quarter ended March 31, 1999, the Company issued an aggregate of 257,106 shares of the Company's common stock in satisfaction of $355,022 of accrued interest on the Company's outstanding 5% convertible senior secured debentures due March 15, 2003 (the "Convertible Debentures").

Each of the persons comprising the Galen Group and the holders of the Convertible Debentures for which interest payments were made in Common Stock are accredited investors as defined in Rule 501(a) of Regulation D promulgated under the Securities Act of 1933, as amended (the "Act"). The convertible notes and warrants issued in connection with the Bridge Loan and the Common Stock issued in satisfaction of interest payments under the Convertible Debentures were issued without registration under the Act in reliance upon Section 4(2) of the Act and Regulation D promulgated thereunder.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K.

(a) The exhibits required to be filed as part of this Report on form 10-Q are listed in the attached Exhibit Index.

(b) Reports on Form 8-K. None.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

HALSEY DRUG CO., INC.

Date: May 14, 1999 BY:s/s Michael K. Reicher

Michael K. Reicher
President and Chief
Executive Officer

Date: May 14, 1999 BY:s/s Peter A. Clemens

Peter A. Clemens
VP & Chief Financial
Officer

EXHIBIT INDEX

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

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This schedule contains summary financial information extracted from the Condensed Consolidated Statement of Financial Condition At March 31, 1998 (Unaudited) and the Condensed Consolidated Statement of Income for the Three Months Ended March 31, 1999 (Unaudited) and is qualified in its entirety by reference to such financial statements.

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MAR-31-1999
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