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, 1998

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)

1827 Pacific Street, Brooklyn, New York 11233

(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 13,1998 the registrant had 13,777,448 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) 1998 MARCH 31	1997 DECEMBER 31
CURRENT ASSETS		
Cash and cash equivalents	$ 8,054	$ 26
Accounts Receivable - trade, net of allowances for doubtful accounts of $478 at March 31, 1998 and $542 at December 31, 1997, respectively	95	62
Other receivable	150	--
Inventories	2,526	2,456
Prepaid insurance and other current assets	187	274
Total current assets	11,012	2,818
PROPERTY PLANT & EQUIPMENT, NET	4,594	4,630
OTHER ASSETS	3,925	219
TOTAL ASSETS	$19,531	$ 7,667

The accompanying notes are an integral part of these statements

HALSEY DRUG CO., INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(Amounts in thousands)	(UNAUDITED) 1998 MARCH 31	1997 DECEMBER 31
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)		
CURRENT LIABILITIES		
Bank overdraft	$ --	$ 159
Due to Banks	--	2,476
Notes payable	3,800	4,825
Convertible Subordinated Debentures	--	2,244
Department of Justice settlement	250	200
Accounts payable	3,032	6,086
Accrued expenses	6,222	7,644
Deferred gain	--	1,900
Total current liabilities	13,304	25,534
LONG-TERM DEBT	25,240	1,990
CONTINGENCIES	--	--
STOCKHOLDERS' EQUITY (DEFICIT)		
Common stock - $.01 par value; authorized 20,000,000, shares; issued and outstanding 14,199,743 shares at March 31,1998 and 13,590,115 shares at December 31, 1997	142	140
Additional paid-in capital	28,112	25,489
Accumulated deficit	(46,278)	(44,497)
	(18,024)	(18,868)
Less: Treasury stock - at cost - (439,603 shares at March 31, 1998 and December 31, 1997)	(989)	(989)
Total stockholders' equity (deficit)	(19,013)	(19,857)
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 19,531	$ 7,667

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 1998	For the Three months ended March 31 1997
Net Sales	$ 1,895	$ 2,843
Cost of goods sold	3,332	4,105
Gross profit (loss)	(1,437)	(1,262)
Research & Development	221	165
Selling, general and administrative expenses	1,587	1,460
Loss from Operations	(3,245)	(2,887)
Other (Income)	(1,902)	--
Interest expense, net	438	260
Loss before income taxes	(1,781)	(3,147)
Provision for income taxes	--	--
Net loss	$ (1,781)	$ (3,147)
Net loss per common share, basic and diluted	$ (0.13)	$ (0.24)
Average number of outstanding shares	13,686,379	12,959,342

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 1998	1997
Cash flows from operating activities		
Net loss	$ (1,781)	$ (3,147)
Adjustments to reconcile net loss to net cash used in operating activities		
Depreciation and amortization	290	457
Provision for loss on accounts receivable	(64)	--
Changes in assets and liabilities		
Accounts receivable	31	(195)
Other receivable	(150)	1,000
Inventories	(70)	59
Prepaid insurance and other current assets	87	57
Accounts payable	(3,004)	(359)
Deferred gain	(1,900)	--
Accrued expenses	(854)	1,305
Total adjustments	(5,634)	2,324
Net cash used in operating activities	(7,415)	(823)
Cash flows from investing activities		
Capital expenditures	(254)	--
(Decrease) increase in other assets	(1,443)	(1)
Net cash used in investing activities	(1,697)	(1)
Cash flows from financing activities		
Increase in notes payable (decrease)	(1,025)	900
Decrease in amount due to banks	(2,476)	(719)
Issuance of common stock for payment of interest ..	--	112
Exercise of warrants of convertible debentures	--	72
Exercise of stock options	--	254
Issuance of convertible subordinated debentures ...	20,800	--
Proceeds from issuance of treasury stock	--	100
Bank overdraft	(159)	8
Net cash provided by financing activities	17,140	727
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	8,028	(97)
Cash and cash equivalents at beginning of period	26	118
Cash and cash equivalents at end of period	$ 8,054	$ 21

Supplemental disclosure of noncash activities:

Quarter ended March 31, 1998

The Company issued 110,658 shares of common stock as payment for an outstanding note payable in the amount of $214,000 and accrued interest of $1,782.

The Company issued 59,094 shares of common stock as payment for $145,636 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, 1998

Amounts in thousands except per share data

(UNAUDITED)

	Common Stock, $.01 par value				Treasury stock, at cost		
	Shares	Amount	Additional Paid-in Capital	Accumulated Deficit	Shares	Amount	Total
Balance January 1, 1998	14,029,718	$ 140	$ 25,489	$ (44,497)	(439,603)	$ (989)	$ (19,857)
Net Loss for the three months ended March 31, 1998				(1,781)			(1,781)
Conversion of notes payable	110,658	2	215				217
Issuance of shares as payment of interest	59,372	--	145				145
Deferred debt discount on warrants issued with convertible debentures			2,263				2,263
Balance at March 31, 1998	14,199,743	$ 142	$ 28,112	$ (46,278)	(439,603)	$ (989)	$ (19,013)

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, 1998 have been made. The results of operations for the three months period ended March 31, 1998 are not necessarily indicative of the results that may be expected for the full year ended December 31, 1998. 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, 1997 included in the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission.

As of March 31, 1998, the Company had a working capital deficiency of approximately $2,292,000 and an accumulated deficit of approximately $46,278,000. The Company has incurred a loss of approximately $1,781,000 during the three months ended March 31, 1998.

Note 2 - Inventories

(Amounts in thousands)

Inventories consists of the following:

	March 31, 1998	December 31, 1997
Finished Goods	$ 832	$ 789
Work in Process	186	263
Raw Materials	1,508	1,404
	$ 2,526	$ 2,456

NOTE 3 - Debt

Borrowings under long-term debt consist of the following at March 31, 1998 and December 31, 1997.

	(Amounts in thousands) 1998	1997
Convertible debentures	$23,300	$2,500
Subordinated promissory notes	325	1,125
Other	5,665	5,890
	29,290	9,515
Less current maturities	(4,050)	(7,525)
	$25,240	$1,990

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, 1998 or 1997.

HALSEY DRUG CO., INC. AND SUBSIDIARIES
ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

	Three months ended March 31		
	Percentage of Net Sales		Percentage Change Year-to-Year Increase (decrease)
			1998 as compared to
	1998	1997	1997
	%	%	%
Net Sales	100.0	100.0	(33.3)
Cost of goods sold	175.8	144.4	(18.8)
Gross profit (loss)	(75.8)	(44.4)	(13.9)
Research & Development	11.7	5.8	3.4
Selling, general and administrative expenses	83.7	51.4	8.7
Loss from operations	(171.2)	(101.6)	(12.4)
Other (income)	(100.4)	--	--
Interest expense	23.1	9.1	68.5
Loss before income taxes	(93.9)	(110.7)	(43.4)
Provision for income taxes	--	--	--
Net loss	(93.9)	(110.7)	(43.4)

- --
Three months ended March 31, 1998 vs three months ended March 31, 1997
- --

Net Sales

The Company's net sales for the three months ended March 31, 1998 of $1,895,000 represents a decrease of $948,000 (33.3%) as compared to net sales for the three months ended March 31, 1997 of $2,843,000. This decrease is as a result of a lack of sufficient working capital necessary to purchase raw materials. Without adequate inventory, the Company was unable to effectively market its products.

Cost of Goods Sold

For the three months ended March 31, 1998, cost of goods sold decreased by approximately $773,000 as compared to the three months ended March 31, 1997, due primarily to reduced sales versus the same period in the prior year. Gross margin as a percentage of sales for the three months ended March 31, 1998 was (75.8%) as compared to (44.4%) for the three months ended March 31, 1997.

Selling, General and Administrative Expenses

Selling, general and administrative expenses as a percentage of sales for the three months ended March 31, 1998 and 1997 were 83.7% and 51.4%, respectively.

Research and Development Expenses

Research and development expenses as a percentage of sales for the three months ended March 31, 1998 and 1997 was 11.7% and 5.8%, respectively. The Company's research and development program continues to concentrate its efforts toward the submission of new products to the FDA.

Net Earnings (Loss)

For the three months ended March 31, 1998, the Company had a net loss of $1,781,000 as compared to a net loss of $3,147,000 for the three months ended March 31, 1997. 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 Chemical Products, Inc. ("Mallinckrodt"). This transaction contained certain future requirements that were met in the first quarter of 1998.

Liquidity and Capital Resources

At March 31, 1998, the Company had cash and cash equivalents of $8,054,000 as compared to $26,000 at December 31, 1997. The Company had a working capital deficiency at March 31, 1998 of $2,292,000 and $22,716,000 at December 31, 1997.

On March 10, 1998, the Company completed a private offering of securities. The securities issued in the Offering consisted of 5% convertible senior secured debentures and common stock purchase warrants exercisable for an aggregate of 4,202,020 shares of the Company common stock. The net proceeds to the Company from the Offering, after the deduction of related Offering expenses, was approximately $19.6 million.

The net proceeds of the Offering have, in large part, been used to satisfy a substantial portion of the Company's liabilities and accounts payable. Such liabilities include the full satisfaction of the Company's Bank indebtedness and related fees, payment to the landlord of the Brooklyn facility and satisfaction of outstanding judgements and liens. Such repayments have allowed the Company to avoid the threatened foreclosure sale by its Banks of the Indiana facility securing such indebtedness. Additionally, pursuant to agreements reached with other large creditors in anticipation of the completion of the Offering, including the Company's landlord and the Department of Justice, the Company has been able to bring these creditors current and is in compliance with installment payment agreements providing favorable terms to the Company. Satisfaction of the Company's current obligations to its landlord of the Brooklyn facility for accrued and unpaid rent, penalties and expenses has allowed the Company to renegotiate its lease and avoid eviction. The Offering proceeds has also allowed the Company to satisfy its outstanding state and Federal payroll tax obligations and meet current payroll tax obligations.

Based upon Management's belief as to the Company's ability to defer a portion of the Company's remaining notes and accounts payable and certain other assumptions, the Company believes that it has approximately $3 million in cash available for working capital derived from the net proceeds of the Offering. The Company estimates that such working capital will permit the Company to purchase needed raw materials and fund near term operating losses for approximately three months. In order to supplement such working capital, the Company is in the process of negotiating with a banking institution to secure a $5 million line of credit. In addition, in accordance with the terms of the Debenture and Warrant Purchase Agreement pursuant to which the Offering was completed, the Company has granted the Galen Investor Group an option to invest an additional $5 million in the Company at any time within eighteen months from the date of the closing of the Offering in exchange for Debentures and Warrants having terms identical to those issued in the Offering (the "Galen Option"). Galen has expressed an indication of interest to exercise the Galen Option in the event the Company is in need of additional capital. No assurance can be given, however, that the Company will be successful in securing the $5 million line of credit or that the Galen Option will be exercised. In the event the Company is successful in securing the line of credit or in the event the Galen Option is exercised, the Company believes that it will have sufficient working capital to fund operations for at least the next twelve months.

PART II

Item 2. Changes in Securities and Use of Proceeds

On March 10, 1998, the Company consummated a private offering of securities for an aggregate purchase price of $20.8 million (the "Offering"). The securities issued in the Offering consisted of 5% convertible senior secured debentures (the "Debentures") and common stock purchase warrants (the "Warrants") exercisable for an aggregate of 4,202,020 shares of the Company's common stock, $.01 par value per share (the "Common Stock"). The Debentures and Warrants were issued by the Company pursuant to a certain Debenture and Warrant Purchase Agreement dated March 10, 1998 (the "Purchase Agreement") by and among the Company, Galen Partners III, L.P., Galen Partners International III, L.P. Galen Employee Fund III, L.P. (collectively "Galen") and each of the Purchasers listed on the signature page thereto (inclusive of Galen, collectively, the "Galen Investor Group").

Each of the Purchasers comprising the Galen Investor Group were accredited investors as defined in Rule 501(a) of Regulation D promulgated under the Securities Act of 1933, as amended (the "Act"). The Debentures and Warrants issued in the Offering were issued without registration under the Act in reliance upon Section 4(2) of the Act and Regulation D promulgated thereunder.

HKS & Company, Inc., a registered broker-dealer, acted as placement agent in connection with the Offering. In consideration for the services of HKS & Company, Inc., the Company paid $990,000, representing 5% of the gross proceeds of the Offering. Mr. Hemant K. Shah, the sole shareholder of HKS & Company, Inc., invested the entire amount of such fee for the purchase of Debentures and Warrants in the Offering.

Reference is made to the Company's Current Report on Form 8-K as filed with the Securities Exchange Commission on March 24, 1998 for a description of the terms and provisions of the Debentures, the Warrants and the Purchase Agreement.

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) The Company filed a Current Report on form 8-K with the Securities and Exchange Commission on March 24, 1998 (the "Form 8-K"). The Form 8-K disclosed under Item 1 of such Form the change of control in the registrant which occurred on March 10, 1998 in connection with the completion of the Offering of the Debentures and the Warrants described in Part II, Item 2 above.

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, 1998 BY: s/s Michael K. Reicher

Michael K. Reicher
President and Chief
Executive Officer

Date: May 14, 1998 BY: s/s Peter A. Clemens

Peter A. Clemens
VP & Chief Financial Officer

EXHIBIT INDEX

Exhibit No.	Description	Page No.
27.1	Financial Data Schedule (submitted electronically to the Securities and Exchange Commision for information only and not filed).	--
99.1	Current Report on Form 8-K as filed with the Securities and Exchange Commission on March 24, 1998.(1)	--

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(1) Previously filed with the Commission via EDGAR on March 24, 1998.

This schedule contains summary financial information extracted from the Condensed Consolidated Statement of Financial Condition At March 31, 1997(Unaudited) and the Condensed Consolidated Statement of Income for the Three Months Ended March 31, 1998(Unaudited) and is qualified in its entirety by reference to such financial statements.

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MAR-31-1998
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