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, 2000

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 12, 2000 the registrant had 14,498,066 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) 2000 MARCH 31	1999 DECEMBER 31
CURRENT ASSETS		
Cash and cash equivalents	$ 5,839	$ 786
Accounts Receivable - trade, net of allowances for doubtful accounts of $146 at March 31, 2000 and $425 at December 31, 1999, respectively	2,393	2,716
Other receivable	10	
Inventories	3,026	3,502
Prepaid insurance and other current assets	346	213
Total current assets	11,614	7,217
PROPERTY PLANT & EQUIPMENT, NET	2,899	3,013
DEFERRED PRIVATE OFFERING COSTS	1,476	1,623
OTHER ASSETS AND DEPOSITS	646	642
	$16,635	$12,495

The accompanying notes are an integral part of these statements

HALSEY DRUG CO., INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(Amounts in thousands)	(UNAUDITED) 2000 MARCH 31	1999 DECEMBER 31
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)		
CURRENT LIABILITIES		
Notes payable	11,305	4,038
Accounts payable	2,611	2,283
Accrued expenses	5,577	5,777
Department of Justice Settlement	300	300
Total current liabilities	19,793	12,398
CONVERTIBLE SUBORDINATED DEBENTURES, NET	41,915	41,096
DEPARTMENT OF JUSTICE SETTLEMENT	1,300	1,375
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY (DEFICIT)		
Common stock - $.01 par value; authorized 80,000,000, shares; issued 14,867,222 shares at March 31,2000 and 14,829,508 shares at December 31, 1999, respectively	149	148
Additional paid-in capital	35,833	35,751
Accumulated deficit	(81,366)	(77,284)
	(45,384)	(41,385)
Less treasury stock - at cost (439,603 shares)	(989)	(989)
	(46,373)	(42,374)
	$ 16,635	$ 12,495

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 2000	1999
Net Sales	$ 3,151	$ 3,224
Cost of goods sold	3,715	3,648
Gross margin	(564)	(424)
Research and development	393	176
Selling, general and administrative expenses	1,628	1,821
Loss from operations	(2,585)	(2,421)
Other income (expense)		
Amortization of deferred debt discount and private offering costs	(606)	(207)
Interest expense	(901)	(651)
Other	10	(3)
Loss before income taxes	(4,082)	(3,282)
Provision for income taxes	--	--
Net loss	$ (4,082)	$ (3,282)
Basic and diluted loss per common share	$ (0.28)	$ (0.23)
Weighted average number of outstanding shares	14,639,372	14,257,159

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	
	2000	1999
Cash flows from operating activities		
Net loss	$ (4,082)	$ (3,282)
Adjustments to reconcile net loss to net cash used in operating activities		
Depreciation and amortization	191	329
Amortization of deferred debt discount and private offering costs	606	207
Provision for losses on accounts receivable	279	(179)
Changes in assets and liabilities		
Accounts receivable	44	(354)
Other receivable	(10)	(28)
Inventories	476	1,698
Prepaid insurance and other current assets	(133)	57
Other assets and deposits	(4)	(247)
Accounts payable	328	(619)
Accrued expenses	(210)	242
Total adjustments	1,567	1,106
Net cash used in operating activities	(2,515)	(2,176)
Cash flows from investing activities		
Capital expenditures	(77)	(57)
Net cash used in investing activities	(77)	(57)

Cash flows from financing activities

Proceeds from issuance of notes payable	10,800	1,271
Payments to Department of Justice	(75)	--
Payments on notes payable	(3,523)	--
Issuance of common stock for payment of interest	83	--
Issuance of convertible subordinated debentures	360	--
Net cash provided by financing activities	7,645	1,271
NET (DECREASE) INCREASE IN CASH	5,053	(962)
Cash at beginning of period	786	1,850
Cash at end of period	$ 5,839	$ 888

Supplemental disclosure of noncash activities:

Quarter ended March 31, 2000

The Company issued 37,714 shares of common stock as payment for $83,363 in accrued interest.

The Company issued $359,842 debentures as payment for like amount of accrued debenture 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, 2000

Amounts in thousands except per share data

(UNAUDITED)

	Common Stock $.01 par value		Additional Paid-in	Accumulated	Treasury Stock, at cost		
	Shares	Amount	Capital	Deficit	Shares	Amount	Total
Balance January 1, 2000	14,829,508	$ 148	$ 35,750	$ (77,284)	439,603	$ (989)	$ (42,375)
Net Loss for the three months ended March 31, 2000				(4,082)			(4,082)
Issuance of shares as payment of interest	37,714	1	83				84
Balance at March 31, 2000	14,867,222	$ 149	$ 35,833	$(81,366)	439,603	$ (989)	$ (46,373)

The accompanying notes are an integral part of this statement

HALSEY DRUG CO., INC. AND SUBSIDIARIES

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, 2000 have been made. The results of operations for the three months period ended March 31, 2000 are not necessarily indicative of the results that may be expected for the full year ended December 31, 2000. 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, 1999 included in the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission.

Note 2 - Inventories

(Amounts in thousands)

Inventories consists of the following:

	March 31, 2000	December 31, 1999
Finished Goods	$ 232	$ 725
Work in Process	1,164	720
Raw Materials	1,630	2,057
	$ 3,026	$ 3,502

Note 3 - Convertible Subordinated Debentures

Convertible Subordinated Debentures consist of the following:

	March 31, 2000	December 31, 1999
Debentures - 5.0%	$ 44,962	$ 44,601
Debentures - 10.0%	2,500	2,500
	47,462	47,101
Less unamortized debt discount	(5,547)	(6,005)
	$ 41,915	$ 41,096

Note 4 - Notes Payable

Notes payable consist of the following:

	March 31, 2000	December 31, 1999
Unsecured promissory demand notes	$ 2,305	$ 2,529
Secured promissory note (a)	9,000	
Bridge loans		1,509
	$ 11,305	$ 4,038

(a) As of March 31, 2000, Watson had advanced $9,000,000 to the Company under a term loan. The loan is secured by a first lien on all of the Company's assets, senior to the lien securing all other Company indebtedness, carries a floating rate of interest equal to prime plus two percent and matures on March 31, 2003.

Note 5 - 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.

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 2000 %	1999 %	Percentage Change Year-to-Year Increase (decrease) 2000 as Compared to 1999 %
Net Sales	100.0	100.0	(2.3)
Cost of goods sold	117.9	113.2	1.8
Gross profit(loss)	(17.9)	(13.2)	(33.0)
Research and development	12.5	5.5	123.3
Selling, general and administrative expenses	51.7	56.5	(10.6)
Loss from operations	(82.0)	(75.1)	6.8
Amortization of deferred debt discount and private offering costs	19.2	6.4	193.2
Interest expense	28.6	20.2	38.4
Other (income)	0.3	(0.1)	--
Loss before income taxes	(129.5)	(101.8)	24.4
Provision for income taxes	--	--	--
Net loss	(129.5)	(101.8)	24.4

- --
Three months ended March 31, 2000 vs. three months ended March 31, 1999
- --

Net Sales
- ---------

The Company's net sales for the three months ended March 31, 2000 of $3,151,000 represents a decrease of $73,000 (2.3%) as compared to net sales for the three months ended March 31, 1999 of $3,224,000. This decrease occurred because the Company lacked working capital in the first quarter of 2000 to maintain sufficient inventories for sale.

Cost of Goods Sold
- ------------------

For the three months ended March 31, 2000, cost of goods sold increased by approximately $67,000 as compared to the three months ended March 31, 1999. The increase for 2000 is attributable to greater manufacturing overhead associated with the addition of the leased facility at Congers, NY. The Company leased this facility on March 22, 1999. Gross margin as a percentage of sales for the three months ended March 31, 2000 was (17.9%) as compared to (13.2%) for the three months ended March 31, 1999. The decrease in gross margin is mainly attributable to the additional manufacturing overhead described above.

Selling, General and Administrative Expenses
- --

Selling, general and administrative expenses as a percentage of sales for the three months ended March 31, 2000 and 1999 were 51.7% and 56.5%, respectively. Overall these expenses in the first three months of 2000 decreased $193,000 over the same period in 1999. The decrease in 2000 is primarily attributable to reduced personnel and reduced costs of litigation and professional services as compared to 1999.

Research and Development Expenses
- ---------------------------------

Research and development expenses as a percentage of sales for the three months ended March 31, 2000 and 1999 was 12.5% and 5.5%, respectively. The Company's research and development program continues to concentrate its efforts toward the submission of new products to the FDA and the development of active pharmaceutical ingredients.

Net Earnings (Loss)

For the three months ended March 31, 2000, the Company had net loss of $4,082,000 as compared to a net loss of $3,282,000 for the three months ended March 31, 1999. Included in the net loss for the three months ended March 31, 2000 was interest expense of $901,000 and amortization of deferred debt discount and private offering costs of $606,000 as compared to $651,000 and $207,000, respectively for the year earlier period.

Liquidity and Capital Resources

At March 31, 2000, the Company had cash of $5,839,000 as compared to $786,000 at December 31, 1999. The Company had a working capital deficiency at March 31, 2000 of $8,179,000 and $5,181,000 at December 31, 1999.

On March 29, 2000, the Company completed various strategic alliance transactions with Watson Pharmaceuticals, Inc. ("Watson"). The transactions with Watson provided for Watson's purchase of a certain pending ANDA from the Company, for Watson's rights to negotiate for Halsey to manufacture and supply certain identified future products to be developed by Halsey, for Watson's marketing and sale of the Company's core products and for Watson's extension of a $17,500,000 term loan to the Company.

The product acquisition portion of the transactions with Watson provided for Halsey's sale of a pending ANDA and related rights (the "Product") to Watson for aggregate consideration of $13,500,000 (the "Product Acquisition Agreement"). As part of the execution of the Product Acquisition Agreement, the Company and Watson executed ten year supply agreements covering the active pharmaceutical ingredient ("API") and finished dosage form of the Product pursuant to which Halsey, at Watson's discretion, will manufacture and supply Watson's requirements for the Product API and, where the Product API is sourced from the Company, finish dosage forms of the Product. The purchase price for the Product is payable in three approximately equal installments as certain milestones are achieved. The first of those milestones is the receipt of FDA approval to manufacture the Product. On April 28, 2000 the Company received this approval and accordingly, Watson is to pay the first milestone payment of $5,000,000 to the Company within thirty days.

The Company and Watson also executed a right of first negotiation agreement providing Watson with a first right to negotiate the terms under which the Company would manufacture and supply certain specified APIs and finished dosage products to be developed by the Company. The right of first negotiation agreement provides that upon Watson's exercise of its right to negotiate for the supply of a particular product, the parties will negotiate the specific terms of the manufacturing and supply arrangement, including price, minimum purchase requirements, if any, territory and term. In the event Watson does not exercise its right of first negotiation upon receipt of written notice from the Company as to its receipt of applicable governmental approval relating to a covered product, or in the event the parties are unable to reach agreement on the material terms of a supply arrangement relating to such product within sixty (60) days of Watson's exercise of its right to negotiate for such product, the Company may negotiate with third parties for the supply, marketing and sale of the applicable product. The right of first negotiation agreement has a term of ten years, subject to extension in the absence of written notice from either party for two additional periods of five years each. The right of first negotiation agreement applies only to API and finished dosage products identified in the agreement and does not otherwise prohibit the Company from developing APIs or finished dosage products for itself or third parties.

The Company and Watson also completed a manufacturing and supply agreement providing for Watson's marketing and sale of the Company's existing core products portfolio (the "Core Products Supply Agreement"). The Core Products Supply Agreement obligates Watson to purchase a minimum amount of approximately $18,363,000 (the "Minimum Purchase Agreement") in core products from the Company, in equal quarterly installments over a period of 18 months (the "Minimum Purchase Period"). At the expiration of the Minimum Purchase Period if Watson does not continue to satisfy the Minimum Purchase Amount, the Company may market and sell the core products on its own or through a third party. Pending the Company's development and receipt of regulatory approval for its APIs and finished dosage products currently under development, including, without limitation, the Product sold to Watson, and the marketing and sale of same, of which there can be no assurance, substantially all the Company's revenues will be derived from the Core Products Supply Agreement with Watson.

The final component of the Company's strategic alliance with Watson provided for Watson's extension of a $17,500,000 term loan to the Company. The loan will be funded in installments upon the Company's request for advances and the provision to Watson of a supporting use of proceeds relating to each such advance. As of March 31, 2000, Watson had advanced $9,000,000 to the Company under the Watson term loan. The loan is secured by a first lien on all of the Company's assets, senior to the lien securing all other Company indebtedness, carries a floating rate of interest equal to prime plus two percent and matures on March 31, 2003. At March 31, 2000, a portion of the net proceeds of the Watson term loan were used to satisfy in full the approximately $3,300,000 in bridge financing provided by Galen Partners, to satisfy payment obligations under the Settlement Agreement with the landlord of its Brooklyn, New York facility and for working capital. The remaining net proceeds from the term loan will, in large part, be used to upgrade and equip the API manufacturing facility of Houba, Inc., the Company's wholly-owned subsidiary, to upgrade and equip the Company's Congers, New York leased facility and for working capital to fund continued operations.

The net proceeds from the Watson term loan has permitted the Company to satisfy its current liabilities and accounts payable. In addition, the remaining net proceeds from the Watson term loan combined with the payments to be received by the Company from Watson under each of the Product Acquisition Agreement and the Core Products Supply Agreement will provide the Company with 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 each of January 20, 2000 and February 4, 2000, the Company issued securities to Galen Partners III, L.P. and certain related entities pursuant to a Bridge Loan Agreement. The securities issued consisted of common stock purchase warrants (the "Warrants"). The Warrants are exercisable for an aggregate of 50,000 shares of the Company's common stock, $.01 par value per share (the "Common Stock").

During the quarter ended March 31, 2000, the Company issued an aggregate of 20,406 shares of Common Stock and 5% convertible senior secured debentures in the principal amount of $359,843 in satisfaction of accrued interest on the Company's outstanding 5 % convertible senior secured debentures issued in March and June 1998, and May 1999 (the "Convertible Debentures").

Each of the holders of the Convertible Debentures for which interest payments were made in Common Stock, warrants and 5% convertible senior secured debentures are accredited investors as defined in Rule 501(a) of Regulation D promulgated under the Securities Act of 1933, as amended (the "Act"). The 20,406 shares of Common Stock and 5% convertible senior secured convertible debentures issued in the principal amount of $359,843 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.

(i) A Form 8-K was filed on March 14, 2000, which stated on March 10, 2000 the Company was informed by the American Stock Exchange ("Amex") that Amex had determined to delist the Company and that the Company had exercised its right to appeal Amex's decision and had requested a formal hearing in order to further consider the decision.

(ii) A Form 8-K was filed on March 24, 2000, which stated that on March 22, 2000 the Company announced that it had successfully negotiated a lease termination agreement with its landlord for the Company's Brooklyn, New York manufacturing facility.

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 12, 2000 BY:s/s MICHAEL K. REICHER

Michael K. Reicher
President and Chief
Executive Officer

Date: May 12, 2000 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, 1999(Unaudited) and the Condensed Consolidated Statement of Income for the Three Months Ended March 31, 2000(Unaudited) and is qualified in its entirety by reference to such financial statements.

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