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 September 30, 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 Rd.<br>Rockford, IL | 61107 |
|---|---|
| (Address of Principal executive offices) | (Zip Code) |

(815) 399 - 2060

(Registrant's telephone number, including area code)

Not Applicable

(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 50 days.

YES X NO

As of October 31, 2000 the registrant had 14,961,316 Shares of Common Stock, $.01 par value, outstanding.

HALSEY DRUG CO., & SUBSIDIARIES

INDEX

# PART I. FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

## HALSEY DRUG CO., INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED BALANCE SHEETS

(UNAUDITED)

| (Amounts in thousands) | 2000 SEPTEMBER 30 | 1999 DECEMBER 31 |
|---|---|---|
| CURRENT ASSETS | | |
| Cash and cash equivalents | $ 3,333 | $ 786 |
| Accounts Receivable - trade, net of Allowances for doubtful accounts of $171 and $425 at September 30, 2000 and December 31, 1999, respectively | 5,467 | 2,710 |
| Other receivables | 63 | 6 |
| Inventories | 3,112 | 3,502 |
| Prepaid insurance and other current assets | 635 | 213 |
| Total current assets | 12,610 | 7,217 |
| PROPERTY PLANT & EQUIPMENT, NET | 4,009 | 3,013 |
| DEFERRED PRIVATE OFFERING COSTS | 1,291 | 1,623 |
| OTHER ASSETS AND DEPOSITS | 622 | 642 |
| | $18,532 | $ 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 SEPTEMBER 30 | 1999 DECEMBER 31 |
|---|---|---|
| LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT) | | |
| CURRENT LIABILITIES | | |
| Notes payable | 2,004 | 4,038 |
| Accounts payable | 2,371 | 2,283 |
| Accrued expenses | 6,157 | 5,777 |
| Department of Justice Settlement | 300 | 300 |
| Total current liabilities | 10,832 | 12,398 |
| CONVERTIBLE DEBENTURES, NET | 43,814 | 41,096 |
| DEPARTMENT OF JUSTICE SETTLEMENT | 1,150 | 1,375 |
| NOTES PAYABLE, LONG TERM | 12,000 | -- |
| STOCKHOLDERS' EQUITY (DEFICIT) | | |
| Common stock - $.01 par value; authorized 80,000,000 shares; issued 14,944,008 shares at September 30,2000 and 14,829,511 shares at December 31, 1999 | 149 | 148 |
| Additional paid-in capital | 36,121 | 35,751 |
| Accumulated deficit | (84,545) | (77,284) |
| | (48,275) | (41,385) |
| Less: Treasury stock - at cost -(439,603 shares at September 30, 2000 and December 31, 1999) | (989) | (989) |
| Total stockholders' equity (deficit) | (49,264) | (42,374) |
| | $ 18,532 | $ 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

| | September 30 | | | |
|---|---|---|---|---|
| | For the nine months ended | | For the three months ended | |
| | 2000 | 1999 | 2000 | 1999 |
| Product sales | $ 11,903 | $ 8,259 | $ 4,686 | $ 2,468 |
| Product development revenues | 5,000 | -- | -- | -- |
| Net product revenues | 16,903 | 8,259 | 4,686 | 2,468 |
| Cost of manufacturing | 13,965 | 11,210 | 5,173 | 3,786 |
| Research & development | 1,243 | 685 | 573 | 330 |
| Selling, general and administrative expenses | 4,614 | 5,545 | 1,414 | 2,021 |
| Income (Loss) from operations | (2,919) | (9,181) | (2,474) | (3,669) |
| Amortization of deferred debt discount and Private offering costs | 1,834 | 1,144 | 612 | 479 |
| Interest expense, net | 2,860 | 1,699 | 966 | 536 |
| Other income (expense) | 56 | 66 | (72) | 12 |
| Income (Loss) before income taxes | (7,557) | (11,958) | (4,124) | (4,672) |
| Income tax benefit | 296 | -- | -- | -- |
| Net Income (Loss) | ($ 7,261) | ($ 11,958) | ($ 4,124) | ($ 4,672) |
| Net Income (Loss) per share (basic and diluted) | (0.50) | (0.84) | (0.28) | (0.33) |
| Average number of outstanding shares | 14,469,121 | 14,304,301 | 14,503,985 | 14,359,855 |

The accompanying notes are an integral part of these statements

HALSEY DRUG CO., AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

| Amounts in thousands | NINE MONTHS ENDED SEPTEMBER 30 2000 | 1999 |
|---|---|---|
| Cash flows from operating activities | | |
| Net loss | ($ 7,261) | ($11,958) |
| Adjustments to reconcile net loss to net cash used in operating activities | | |
| Depreciation and amortization | 558 | 970 |
| Provision for loss on accounts receivable | (255) | (201) |
| Amortization of deferred debt discount and private offering costs | 1,835 | 1,143 |
| Gain on sale of equipment | (93) | (31) |
| Issuance of Common Stock for payment of interest | 196 | 565 |
| Issuance of Convertible Subordinated debentures for payment of Interest | 1,340 | 548 |
| (Increase) decrease in operating assets and liabilities | | |
| Accounts receivable | (2,502) | (199) |
| Other receivable | (57) | (23) |
| Inventories | 390 | 2,361 |
| Prepaid insurance and other current assets | (421) | (35) |
| Deferred private offering costs | (124) | -- |
| Other assets | 20 | (100) |
| Accounts payable | 88 | (619) |
| Accrued expenses | 750 | (536) |
| Total adjustments | 1,725 | 3,843 |
| Net cash used in operating activities | (5,536) | (8,115) |
| Cash flows from investing activities | | |
| Capital expenditures | (1,554) | (482) |
| Proceeds from the sale of equipment | 93 | 31 |
| (Decrease) in other assets | -- | 100 |
| Net cash used in investing activities | (1,461) | (351) |
| Cash flows from financing activities | | |
| Increase (decrease) in notes payable | 9,769 | (7,533) |
| Payments to Department of Justice | (225) | (250) |
| Issuance of convertible subordinated debentures, net | -- | 16,790 |
| Net cash provided by financing activities | 9,544 | 9,007 |
| Net increase in cash and cash equivalents | 2,547 | 541 |
| Cash and cash equivalents at beginning of period | 786 | 1,850 |
| Cash and cash equivalents at end of period | $ 3,333 | $ 2,391 |

Supplemental disclosure of noncash activities

For the 9 months ended September 30, 2000:

The Company issued 72,330 shares of common stock as payment for $195,863 in accrued interest.

The Company issued 33,333 shares of common stock as payment for $39,000 in accounts payable.

The Company issued $1,340,000 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)

Nine months ended September 30, 2000

Amounts in thousands except per share data

(UNAUDITED)

| | Common Stock, $.01 par value | | Additional Paid-in Capital | Accumulated Deficit | Treasury stock, at cost | | |
|---|---|---|---|---|---|---|---|
| | Shares | Amount | | | Shares | Amount | Total |
| Balance at January 1, 2000 | 14,829,511 | $ 148 | $35,751 | ($ 77,284) | 439,603 | ($ 989) | ($ 42,374) |
| Net Loss for the nine months ended September 30, 2000 | | | | (7,261) | | | (7,261) |
| Issuance of common stock - | | | | | | | |
| Conversion of debentures | 8,834 | -- | 12 | | | | 12 |
| Payment of interest | 72,330 | 1 | 195 | | | | 196 |
| Payment of trade payables | 33,333 | -- | 38 | | | | 38 |
| Deferred debt discount on warrants and private issuance costs | | | 125 | | | | 125 |
| Balance at September 30, 2000 | 14,944,008 | $ 149 | $36,121 | ($ 84,545) | 439,603 | ($ 989) | ($ 49,264) |

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 nine months ended September 30, 2000 have been made. The results of operations for the nine months period ended September 30, 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.

As of September 30, 2000, the Company had working capital of approximately $1,778,000 and an accumulated deficit of approximately $84,545,000. The Company incurred a loss of approximately $7,261,000 during the nine months ended September 30, 2000.

Note 2 - Inventories

(Amounts in thousands)

Inventories consists of the following:

| | September 30, 2000 | December 31, 1999 |
|---|---|---|
| Finished Goods | $ 246 | $ 725 |
| Work in Process | 1,104 | 720 |
| Raw Materials | 1,762 | 2,057 |
| | $ 3,112 | $ 3,502 |

Note 3 - Convertible Subordinated Debentures

Convertible Subordinated Debentures consist of the following:

| | September 30, 2000 | December 31, 1999 |
|---|---|---|
| Debentures - 5.0% | $ 45,942 | $ 44,601 |
| Debentures - 10.0% | 2,500 | 2,500 |
| | 48,442 | 47,101 |
| Less unamortized debt discount | (4,628) | (6,005) |
| | $ 43,814 | $ 41,096 |

Note 4 - Notes Payable

Notes payable consist of the following:

| | September 30, 2000 | December 31, 1999 |
|---|---|---|
| Unsecured promissory demand notes | $ 2,004 | $ 2,529 |
| Bridge loans | -- | 1,509 |
| | $ 2,004 | $ 4,038 |

As of September 30, 2000, Watson Pharmaceuticals, Inc. had advanced $12,000,000 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.

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

| | Nine months ended September 30 | | | Three months ended September 30 | | |
|---|---|---|---|---|---|---|
| | Percentage of Net Sales | | Percentage Change Year-to-Year Increase (decrease) 2000 as compared to 1999 | Percentage of Net Sales | | Percentage Change Year-to-Year Increase (decrease) 2000 as compared to 1999 |
| | 2000 | 1999 | | 2000 | 1999 | |
| Product Sales | 70.4 | 100.0 | 44.1 | 100.0 | 100.0 | 89.9 |
| Product Development Revenues | 29.6 | -- | N/A | -- | -- | N/A |
| Net Product Revenues | 100.0 | 100.0 | 104.7 | 100.0 | 100.0 | 89.9 |
| Cost of Manufacturing | 82.6 | 135.7 | 24.6 | 110.4 | 153.4 | 36.6 |
| Research & development | 7.4 | 8.3 | 81.5 | 12.2 | 13.4 | 73.6 |
| Selling, general and administrative expenses | 27.3 | 67.1 | (16.8) | 30.2 | 81.9 | (30.0) |
| Income (Loss) from operations | (17.3) | (111.2) | (68.2) | (52.8) | (148.7) | (32.6) |
| Amortization of deferred debt discount and private offering costs | 10.9 | 13.9 | 60.3 | 13.1 | 19.4 | 27.8 |
| Interest expense, net | 16.9 | 20.6 | 68.3 | 20.6 | 21.7 | 80.2 |
| Other (income) | 0.3 | 0.8 | (15.2) | (1.5) | 0.5 | (700.0) |
| Income (Loss) before income taxes | (44.7) | (144.8) | (36.8) | (88.0) | (189.3) | (11.7) |
| Income tax benefit | 1.8 | -- | -- | -- | -- | -- |
| Net Income (Loss) | (43.0) | (144.8) | (39.3) | (88.0) | (189.3) | (11.7) |

Nine months ended September 30, 2000 vs nine months ended September 30, 1999

Net Product Revenues

The Company's net product revenues for the nine months ended September 30, 2000 of $16,903,000 represents an increase of $8,644,000 (104.7%) as compared to net product revenues for the nine months ended September 30, 1999 of $8,259,000. This increase is primarily a result of both the recognition of $5,000,000 of product development revenues associated with the sale of certain product rights to Watson Pharmaceuticals, Inc. and the revenues from the Core Products Supply Agreement with Watson Pharmaceuticals, Inc. On an ongoing basis, the Company expects to generate revenues from the development and manufacture of both finished dosage and active pharmaceutical ingredients ("API's"), and then partnering with others for the marketing and distribution of these products.

Cost of Manufacturing

For the nine months ended September 30, 2000, cost of manufacturing increased $2,755,000 to $13,965,000 as compared to the nine months ended September 30, 1999 of $11,210,000. This is primarily attributable to the addition of manufacturing overhead costs from the March, 1999 acquisition of the Congers manufacturing facility as well as the additional costs associated with increased sales.

Selling, General and Administrative Expenses

Selling, general and administrative expenses as a percentage of sales for the nine months ended September 30, 2000 and 1999 were 27.3% and 67.1%, respectively. Overall these expenses in the first nine months of 2000 decreased $931,000 over the same period in 1999. The decrease is primarily attributable to the decreased costs of litigation, professional services, and wages and benefits.

Research and Development Expenses

Research and development expenses as a percentage of sales for the nine months ended September 30, 2000 and 1999 were 7.4% and 8.3%, respectively. The Company's research and development program is concentrating its efforts in three areas.

First, the Company is continuing development efforts relating to certain API's. The Company currently manufactures two API's and has seven others under development.

Second, the Company is proceeding with the development of products, apart from those obtained from Barr Laboratories, for submission to the FDA. The Company expects to file an additional three ANDAs with the FDA within the next twelve months.

Third, the Company is performing the necessary regulatory steps to effect the transfer of the products obtained from Barr Laboratories in April, 1999 to the Company. The Company expects to have completed the process for one of these products by the end of 2000 with an additional six products expected to be submitted to the FDA for approval in 2001.

Net Income (Loss)

For the nine months ended September 30, 2000, the Company had net loss of $7,261,000 as compared to a net loss of $11,958,000 for the nine months ended September 30, 1999. Included in the results for the nine months ended September 30, 2000 was interest expense of $2,860,000 and amortization of deferred debt discount and private offering costs of $1,834,000 as compared to $1,699,000 and $1,143,000, respectively, for the year earlier period. Also, included in results for the nine months ended September 30, 2000 was a tax benefit of $296,000 from the settlement of a income tax refund claim originally submitted in 1996. Additionally, the Company recorded a gain on the sale of equipment of $93,000 in 2000 compared to a gain of $31,000 in 1999.

Three months ended September 30, 2000 vs Three months ended September 30, 1999

Net Product Revenues

The Company's net product revenues for the three months ended September 30, 2000 of $4,686,000 represents a increase of $2,218,000 (89.9%) as compared to net product revenues for the three months ended September 30, 1999 of $2,468,000. This increase is primarily a result of the recognition of revenues from the Core Products Supply Agreement with Watson Pharmaceuticals, Inc. On an ongoing basis, the Company expects to generate revenues from the development and manufacture of both finished dosage and active pharmaceutical ingredients ("API's"), and then partnering with others for the marketing and distribution of these products.

Cost of Manufacturing

For the three months ended September 30, 2000, cost of manufacturing increased by approximately $1,387,000 as compared to the three months ended September 30, 1999. The increase for 2000 is attributable to additional costs associated with increased sales.

Selling, General and Administrative Expenses

Selling, general and administrative expenses as a percentage of sales for the three months ended September 30, 2000 and 1999 were 30.2% and 81.9%, respectively. The decrease of $607,000 is due primarily to decreased costs of litigation and professional services, and wages and benefits.

Research and Development Expenses

Research and development expenses as a percentage of sales for the three months ended September 30, 2000 and 1999 was 12.2% and 13.4%, respectively. The Company's research and development program is concentrating its efforts in three areas.

First, the Company is continuing development efforts relating to certain API's. The Company currently manufactures two API's and has seven others under development.

Second, the Company is proceeding with the development of products, apart from those obtained from Barr Laboratories, for submission to the FDA. The Company expects to file an additional three ANDA with the FDA within the next twelve months.

Third, the Company is performing the necessary regulatory steps to effect the transfer of the products obtained from Barr Laboratories in April, 1999 to the Company. The Company expects to have completed the process for one of these products by the end of 2000 with an additional six products expected to be submitted to the FDA for approval in 2001.

Net Income (Loss)

For the three months ended September 30, 2000, the Company had a net loss of $4,124,000 as compared to a net loss of $4,672,000 for the three months ended September 30, 1999. Included in the results for the three months ended September 30, 2000 was interest expense of $966,000 and amortization of deferred debt discount and private offering costs of $612,000 as compared to $536,000 and $479,000, respectively, for the year earlier period.

## Liquidity and Capital Resources

At September 30, 2000, the Company had cash and cash equivalents of $3,333,000 as compared to $786,000 at December 31, 1999. The Company had working capital at September 30, 2000 of $1,778,000 as compared to a working capital deficiency of $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 Watson paid the first milestone payment of $5,000,000 to the Company.

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 and the purchase price installments relating to the Product purchased by Watson as described above.

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 September 30, 2000, Watson had advanced $12,000,000 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 September 30, 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, to begin upgrades and equip the Company's Congers, New York facility, to begin upgrades and equip the API manufacturing facility of Houba, Inc., the Company's wholly-owned subsidiary and for working capital. The remaining net proceeds from the term loan will, in large part, be used to continue the upgrades and equipment at both the API manufacturing facility of Houba, Inc. and the Company's Congers, New York facility, and for working capital to fund continued operations.

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 OTHER INFORMATION

### ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

During the quarter ended September 30, 2000, the Company issued an aggregate of 17,308 shares of Common Stock and 5% Convertible Senior Secured Debenture in the principal amount of $499,388 in satisfaction of accrued interest on the Company's outstanding 5% convertible senior secured debentures issued in March and June 1998, and May and July 1999 (the "Convertible Debentures"). The Company also issued 21,333 shares of Common Stock in satisfaction of $24,000 in trade payables.

Each of the holders of the Convertible Debentures for which interest payments were made in Common Stock 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 Common Stock and 5% Convertible Senior Secured Debentures issued in satisfaction of the 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 Index.

(b) Reports on Form 8-K. A Form 8-K was filed on August 30, 2000, which stated that on August 29, 2000 the Company was informed by the Adjudicatory Counsel American Stock Exchange ("Amex") that the Amex had determined to delist the Common Stock of the Company from trading on the Amex as it did not meet the Amex's criteria for continued listing. The last day of trading of the Company's Common Stock on the Amex was September 7, 2000. The Company's Common Stock is currently traded on the Over the Counter Bulletin Board under the symbol "HDGC".

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.

Date: November 10, 2000

HALSEY DRUG CO., INC.

By: /s/ Michael K. Reicher
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Michael K. Reicher
Chairman, President
and Chief Executive Officer

By: /s/ Peter A. Clemens
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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 SEPTEMBER 30, 2000 (UNAUDITED) AND THE CONDENSED CONSOLIDATED STATEMENT OF INCOME FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2000 (UNAUDITED) AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

1,000

9-MOS
DEC-31-2000
SEP-30-2000
3,333
0
5,467
63
3,112
12,610
14,296
11,345
18,532
10,832
0
0
0
149
(49,264)
18,532
16,903
16,903
13,965
13,965
5,857
0
4,694
(7,557)
296
(7,261)
0
0
0
(7,261)
(0.50)
(0.50)