
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

QUARTERLY REPORT UNDER SECTION 13 OR 15(D)
OF THE SECURITIES EXCHANGE ACT OF 1934

For Quarter Ended September 30, 1998
Commission File Number 1-12584

SHEFFIELD PHARMACEUTICALS, INC.
(EXACT NAME OF REGISTRANT IN ITS CHARTER)

DELAWARE
(State of Incorporation)

13-3808303
(IRS Employer Identification No.)

425 SOUTH WOODSMILL ROAD, SUITE 270
ST. LOUIS, MISSOURI
(Address of Principal Executive Offices)

63017-3441
(Zip Code)

Registrant's telephone number, including area code: (314) 579-9899

Indicate by check 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 No
---- ----

The number of shares outstanding of the issuer's Common Stock is 27,058,419 shares of Common Stock as of September 30, 1998.

SHEFFIELD PHARMACEUTICALS, INC. AND SUBSIDIARIES
(A DEVELOPMENT STAGE ENTERPRISE)

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SHEFFIELD PHARMACEUTICALS, INC. AND SUBSIDIARIES
(A DEVELOPMENT STAGE ENTERPRISE)
CONSOLIDATED BALANCE SHEETS

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	September 30, 1998 (Unaudited)	December 31, 1997	
	-----	-----	
ASSETS			
<S>	<C>	<C>	
Current assets:			
Cash and cash equivalents	\$ 2,585,013	\$ 393,608	
Marketable securities	200,500	--	
Loan receivable - former officer	67,876	80,000	
Prepaid expenses and other current assets	39,094	47,378	
	-----	-----	
Total current assets	2,892,483	520,986	
	-----	-----	
Property and equipment:			
Laboratory equipment	264,273	185,852	
Office equipment	120,087	142,562	
	-----	-----	
	384,360	328,414	
Less accumulated depreciation and amortization		227,639	185,201
	-----	-----	
Net property and equipment	156,721	143,213	
	-----	-----	
Other assets			
	5,681	25,738	
	-----	-----	
Total assets	\$ 3,054,885	\$ 689,937	
	=====	=====	

LIABILITIES AND STOCKHOLDERS' EQUITY (NET CAPITAL DEFICIENCY)

Current liabilities:		
Accounts payable and accrued liabilities	\$ 526,654	\$ 887,782
Sponsored research payable	449,805	470,768
	-----	-----
Total current liabilities	976,459	1,358,550

Convertible promissory note	500,000	--	
6% convertible subordinated debenture	--	1,551,000	
Interest payable on debenture	--	28,875	
Preferred stock, \$.01 par value, authorized 3,000,000 shares:			
Series A cumulative convertible redeemable preferred stock, 0 and 10,000 shares issued and outstanding at September 30, 1998 and December 31, 1997, respectively	--	2,468,263	
Series B cumulative convertible redeemable preferred stock, 0 shares issued and outstanding at September 30, 1998 and December 31, 1997	--	--	
Commitments and contingencies			
Stockholders' equity (net capital deficiency):			
Series C convertible preferred stock, 11,500 and 0 shares issued and outstanding at September 30, 1998 and December 31, 1997, respectively	115	--	
Common stock, \$.01 par value. Authorized, 50,000,000 shares; issued and outstanding, 27,058,419 and 12,649,539 shares at September 30, 1998 and December 31, 1997, respectively		270,584	126,495
Notes receivable in connection with sale of stock	(12,500)	(72,600)	
Valuation allowance for unrealized loss on marketable securities		(149,500)	--
Additional paid-in capital	55,359,496	31,386,644	
Deficit accumulated during development stage	(53,889,769)	(36,157,290)	
	-----	-----	
	1,578,426	(4,716,751)	
	-----	-----	
		=====	
Total liabilities and stockholders' equity (net capital deficiency)		\$ 3,054,885	\$ 689,937
		=====	=====

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See accompanying notes to unaudited consolidated financial statements

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SHEFFIELD PHARMACEUTICALS, INC. AND SUBSIDIARIES
(A DEVELOPMENT STAGE ENTERPRISE)
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 1998 AND 1997 AND FOR THE PERIOD
FROM OCTOBER 17, 1986 (INCEPTION) TO SEPTEMBER 30, 1998
(UNAUDITED)

	Three months ended		October 17, 1986		
	September 30,	September 30,	Nine months ended	(inception) to	September 30,
	1998	1997	1998	1997	1998
	-----	-----	-----	-----	-----
<S>	<C>	<C>	<C>	<C>	<C>
Revenues:					
Sub-license revenue	\$ --	\$ --	\$ 350,000	\$ --	1,360,000
Interest income	32,450	9,391	35,965	49,363	489,792
	-----	-----	-----	-----	-----
Total revenue	32,450	9,391	385,965	49,363	1,849,792
Expenses:					
Acquisition of R & D in-process technology	741,745	--	13,241,745	1,650,000	14,891,745
Research and development	218,063		570,170	2,014,167	3,283,632
General and administrative	1,039,390		1,325,874	2,534,289	3,087,103
Interest	175,662	2,183	304,343	6,951	464,098
	-----	-----	-----	-----	-----
Total expenses	2,174,860	1,898,227	18,094,544	8,027,686	55,678,948
	-----	-----	-----	-----	-----
Loss before extraordinary item	(2,142,410)	(1,888,836)	(17,708,579)	(7,978,323)	(53,829,156)
Extraordinary item	--	--	--	--	42,787

Net loss	\$ (2,142,410)	\$ (1,888,836)	\$ (17,708,579)	\$ (7,978,323)	(53,786,369)
Accretion of mandatorily redeemable preferred stock	--	--	(23,900)	--	(103,400)
Net loss - attributable to common shares	\$ (2,142,410)	\$ (1,888,836)	\$ (17,732,479)	\$ (7,978,323)	\$(53,889,769)
Loss per share of common stock - basic and diluted:					
Loss before extraordinary item	\$ (0.08)	\$ (0.16)	\$ (0.88)	\$ (0.68)	\$ (9.13)
Extraordinary item	--	--	--	0.01	
Basic and diluted net loss per share	\$ (0.08)	\$ (0.16)	\$ (0.88)	\$ (0.68)	(9.12)
Weighted average common shares outstanding - basic and diluted:	26,858,366	12,077,667	20,203,133	11,765,653	5,900,036

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See accompanying notes to unaudited consolidated financial statements

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SHEFFIELD PHARMACEUTICALS, INC. AND SUBSIDIARIES
(A DEVELOPMENT STAGE ENTERPRISE)
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 1998 AND 1997 AND FOR THE PERIOD
FROM OCTOBER 17, 1986 (INCEPTION) TO SEPTEMBER 30, 1998
(UNAUDITED)

	Three months ended September 30,	
	1998	1997
	<C>	<C>
Cash outflows from development stage activities and extraordinary gain:		
Loss before extraordinary item	\$ (2,142,410)	\$ (1,888,836)
Extraordinary gain on extinguishment of debt	-	-
Net loss	(2,142,410)	(1,888,836)
Adjustments to reconcile net loss to net cash used by development stage activities:		
Issuance of common stock, stock options/warrants for fees/services	343,525	118,750
Non-cash interest income	(670)	-
Non-cash interest expense	-	-
Non-cash acquisition of R&D in process technology	-	-
Securities acquired under sub-license agreement	-	-
Issuance of common stock for intellectual property rights	-	-
Amortization of organizational and debt issuance costs	-	-
Depreciation and amortization	16,061	35,915
Increase in debt issuance and organizational costs	-	-
Loss realized on sale of marketable securities	-	300,259
Decrease (increase) in prepaid expenses and other current assets	(5,643)	(14,324)
Decrease (increase) in other assets	-	-
Increase (decrease) in accounts payable, accrued liabilities	(189,851)	292,130
Increase (decrease) in sponsored research payable	(20,375)	(196,598)
Net cash used by development stage activities	(1,999,363)	(1,352,704)

Cash flows from investing activities:		
Proceeds on sale of marketable securities	-	174,407
Decrease in segregated cash	-	25,000
Acquisition of laboratory and office equipment	(86,910)	(1,801)
Disposition of office equipment	-	-
Increase in notes receivable in connection with sale of stock	-	-
Decrease (increase) in loan receivable - former officer	(2,876)	-
Payments received on notes receivable	2,500	37,400
Purchase of Camelot Pharmacal L.L.C., net of cash acquired	-	-

Net cash provided (used) by investing activities	(87,286)	235,006

Cash flows from financing activities:		
Principal payments under capital lease	-	(6,097)
Proceeds from issuance of convertible notes	500,000	-
Conversion of convertible, subordinated notes	-	-
Proceeds from issuance of convertible debenture	-	1,589,614
Proceeds from issuance of common stock	-	-
Proceeds from issuance of preferred stock	-	-
Redemption of preferred stock	(1,250,000)	-
Proceeds from exercise of stock options	-	-
Proceeds from exercise of warrants	-	-

Net cash provided (used) by financing activities	(750,000)	1,583,517

Net increase (decrease) in cash and cash equivalents	(2,836,649)	465,819
Cash and cash equivalents at beginning of period	5,421,662	539,287
	=====	
Cash and cash equivalents at end of period	\$ 2,585,013	\$ 1,005,106
	=====	

Noncash investing and financing activities:		
Common stock, stock options and warrants issued for services	\$ 343,525	\$ 118,750
Common stock redeemed in payment of notes receivable	10,400	-
Acquisition of R&D in-process technology	-	-
Common stock issued for intellectual property rights	-	-
Common stock issued to retire debt	-	-
Common stock issued to redeem convertible securities	-	-
Securities acquired under sub-license agreement	-	-
Unrealized (realized) depreciation of investments	149,500	-
Equipment acquired under capital lease	-	-
Notes payable converted to common stock	-	-
Stock dividends	-	-
	=====	

Supplemental disclosure of cash flow information:		
Interest paid	\$ 175,662	\$ 2,183
	=====	

</TABLE>

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See accompanying notes to unaudited consolidated financial statements

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SHEFFIELD PHARMACEUTICALS, INC. AND SUBSIDIARIES
(A DEVELOPMENT STAGE ENTERPRISE)
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 1998 AND 1997 AND FOR THE PERIOD
FROM OCTOBER 17, 1986 (INCEPTION) TO SEPTEMBER 30, 1998
(UNAUDITED)

		October 17, 1986
	Nine months ended	(inception) to
	September 30,	September 30,

1998	1997	1998

<S>

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Cash outflows from development stage activities
and extraordinary gain:

Loss before extraordinary item	\$ (17,708,579)	\$ (7,978,323)	\$ (53,829,156)
Extraordinary gain on extinguishment of debt	-	-	42,787
Net loss	(17,708,579)	(7,978,323)	(53,786,369)
Adjustments to reconcile net loss to net cash used by development stage activities:			
Issuance of common stock, stock options/warrants for fees/services	359,914	143,750	2,281,973
Non-cash interest income	(670)	-	(670)
Non-cash interest expense	46,174	-	125,049
Non-cash acquisition of R&D in process technology	-	-	1,650,000
Securities acquired under sub-license agreement	(350,000)	-	(850,000)
Issuance of common stock for intellectual property rights	-	-	866,250
Amortization of organizational and debt issuance costs	-	-	77,834
Depreciation and amortization	42,438	71,930	289,029
Increase in debt issuance and organizational costs	-	-	(77,834)
Loss realized on sale of marketable securities	-	300,259	324,915
Decrease (increase) in prepaid expenses and other current assets	-	8,284	(74,769)
Decrease (increase) in other assets	20,057	600	53,360
Increase (decrease) in accounts payable, accrued liabilities	-	(361,128)	350,036
Increase (decrease) in sponsored research payable	-	(20,963)	(445,120)
Net cash used by development stage activities	(17,964,473)	(5,981,637)	(48,162,923)
Cash flows from investing activities:			
Proceeds on sale of marketable securities	-	174,407	175,085
Decrease in segregated cash	-	25,000	-
Acquisition of laboratory and office equipment	(89,506)	(3,888)	(406,858)
Disposition of office equipment	33,560	-	33,560
Increase in notes receivable in connection with sale of stock	-	-	(240,000)
Decrease (increase) in loan receivable - former officer	12,124	-	(67,876)
Payments received on notes receivable	49,700	37,400	217,100
Purchase of Camelot Pharmacal L.L.C., net of cash acquired	-	(8,259)	(46,687)
Net cash provided (used) by investing activities	5,878	224,660	(335,676)
Cash flows from financing activities:			
Principal payments under capital lease	-	(19,538)	(72,453)
Proceeds from issuance of convertible notes	500,000	-	500,000
Conversion of convertible, subordinated notes	-	-	749,976
Proceeds from issuance of convertible debenture	-	1,589,614	2,300,000
Proceeds from issuance of common stock	8,150,000	-	21,418,035
Proceeds from issuance of preferred stock	12,750,000	3,212,136	16,034,812
Redemption of preferred stock	(1,250,000)	-	(1,250,000)
Proceeds from exercise of stock options	-	-	1,337,677
Proceeds from exercise of warrants	-	-	10,064,481
Net cash provided (used) by financing activities	20,150,000	4,782,212	51,082,528
Net increase (decrease) in cash and cash equivalents	2,191,405	(974,765)	2,583,929
Cash and cash equivalents at beginning of period	393,608	1,979,871	1,084
Cash and cash equivalents at end of period	\$ 2,585,013	\$ 1,005,106	\$ 2,585,013
Noncash investing and financing activities:			
Common stock, stock options and warrants issued for services	\$ 359,914	\$ 143,750	\$ 2,281,173
Common stock redeemed in payment of notes receivable	10,400	-	10,400
Acquisition of R&D in-process technology	-	1,650,000	1,650,000
Common stock issued for intellectual property rights	-	-	866,250
Common stock issued to retire debt	-	-	600,000
Common stock issued to redeem convertible securities	4,019,263	-	5,353,368
Securities acquired under sub-license agreement	350,000	-	850,000
Unrealized (realized) depreciation of investments	149,500	-	149,500
Equipment acquired under capital lease	-	-	72,453
Notes payable converted to common stock	-	-	749,976
Stock dividends	182,195	-	364,547
Supplemental disclosure of cash flow information:			
Interest paid	\$ 183,081	\$ 6,951	\$ 307,631

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See accompanying notes to unaudited consolidated financial statements

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SHEFFIELD PHARMACEUTICALS, INC. AND SUBSIDIARIES
(A DEVELOPMENT STAGE ENTERPRISE)
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (NET CAPITAL DEFICIENCY)
FOR THE PERIOD
FROM OCTOBER 17, 1986 (INCEPTION) TO SEPTEMBER 30, 1998
(UNAUDITED)

	Common stock	Notes receivable in connection Preferred stock	with sale of stock	Additional paid-in capital	
<S>	<C>	<C>	<C>	<C>	
Balance at October 17, 1986		-	-	-	-
Common stock issued	\$ 11,288,329	-	-	-	\$ 254,864
Common stock options issued	-	-	-	-	75,000
Net loss	-	-	-	-	-
<hr/>					
Balance at December 31, 1994		11,288,329	-	-	329,864
Reincorporation in Delaware at \$.01 par value		(11,220,369)	-	-	11,220,369
Common stock issued	27,656	-	-	-	9,726,277
Net loss	-	-	-	-	-
<hr/>					
Balance at December 31, 1995		95,616	-	-	21,276,510
Common stock issued	18,267	-	-	-	7,043,328
Common stock subscribed	-	-	\$ (110,000)	-	-
Unrealized loss on marketable securities	-	-	-	-	-
Net loss	-	-	-	-	-
<hr/>					
Balance at December 31, 1996		113,883	-	(110,000)	28,319,838
Issuance of common stock in connection with acquisition of Camelot Pharmacal, L.L.C.		6,000	-	-	1,644,000
Common stock issued	6,612	-	-	37,400	1,041,750
Common stock options and warrants issued	-	-	-	-	165,868
Common stock options extended	-	-	-	-	215,188
Accretion of issuance costs for cumulative convertible redeemable preferred stock	-	-	-	-	-
Unrealized gain on marketable securities	-	-	-	-	-
Net loss	-	-	-	-	-
<hr/>					
Balance at December 31, 1997		126,495	-	(72,600)	31,386,644
Common stock issued	30,933	-	-	23,300	2,216,397
Accretion of issuance costs for cumulative convertible redeemable preferred stock	-	-	-	-	-
Net loss	-	-	-	-	-
<hr/>					
Balance at March 31, 1998		157,428	-	(49,300)	33,603,041
Common stock issued	111,106	-	-	23,900	9,926,164
Preferred stock issued	-	\$ 115	-	-	11,499,885
Net loss	-	-	-	-	-
<hr/>					
Balance at June 30, 1998		268,534	115	(25,400)	55,029,090
Common stock issued	2,050	-	-	12,900	330,406
Unrealized loss on marketable securities	-	-	-	-	-
Net loss	-	-	-	-	-
<hr/>					
Balance at September 30, 1998		\$ 270,584	\$ 115	\$ (12,500)	\$ 55,359,496

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See accompanying notes to unaudited consolidated financial statements

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SHEFFIELD PHARMACEUTICALS, INC. AND SUBSIDIARIES
(A DEVELOPMENT STAGE ENTERPRISE)
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (NET CAPITAL DEFICIENCY)
FOR THE PERIOD
FROM OCTOBER 17, 1986 (INCEPTION) TO SEPTEMBER 30, 1998
(UNAUDITED)

	Unrealized gain (loss) on marketable securities	Deficit accumulated during development stage	Total stockholders' equity (Net capital deficiency)	
<S>	<C>	<C>	<C>	
Balance at October 17, 1986	-	-	-	
Common stock issued	-	-	\$ 11,543,193	
Common stock options issued	-	-	75,000	
Net loss	-	\$ (12,192,046)	(12,192,046)	

Balance at December 31, 1994	-	(12,192,046)	(573,853)	
Reincorporation in Delaware at \$.01 par value	-	-	-	
Common stock issued	-	-	9,753,933	
Net loss	-	(7,387,717)	(7,387,717)	

Balance at December 31, 1995	-	(19,579,763)	1,792,363	
Common stock issued	-	-	7,061,595	
Common stock subscribed	-	-	(110,000)	
Unrealized loss on marketable securities	-	\$ (39,232)	(39,232)	
Net loss	-	(7,008,889)	(7,008,889)	

Balance at December 31, 1996	-	(39,232)	(26,588,652)	1,695,837
Issuance of common stock in connection with acquisition of Camelot Pharmacal, L.L.C.	-	-	-	1,650,000
Common stock issued	-	-	1,085,762	
Common stock options and warrants issued	-	-	-	165,868
Common stock options extended	-	-	-	215,188
Accretion of issuance costs for cumulative convertible redeemable preferred stock	-	-	(79,500)	(79,500)
Unrealized gain on marketable securities	-	39,232	-	39,232
Net loss	-	(9,489,138)	(9,489,138)	

Balance at December 31, 1997	-	(36,157,290)	(4,716,751)	
Common stock issued	-	-	2,270,630	
Accretion of issuance costs for cumulative convertible redeemable preferred stock	-	-	(23,900)	(23,900)
Net loss	-	(2,263,048)	(2,263,048)	

Balance at March 31, 1998	-	(38,444,238)	(4,733,069)	
Common stock issued	-	-	10,061,170	
Preferred stock issued	-	-	11,500,000	
Net loss	-	(13,303,121)	(13,303,121)	

Balance at June 30, 1998	-	(51,747,359)	3,524,980	
Common stock issued	-	-	345,356	
Unrealized loss on marketable securities	-	(149,500)	-	(149,500)
Net loss	-	(2,142,410)	(2,142,410)	
=====				
Balance at September 30, 1998	-	\$ (149,500)	\$ (53,889,769)	\$ 1,578,426
=====				

</TABLE>

See accompanying notes to unaudited consolidated financial statements

1. CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated balance sheets as of September 30, 1998 and December 31, 1997 and the accompanying consolidated statements of operations and cash flows for the three and nine months ended September 30, 1998 and 1997 and for the period from October 17, 1986 (inception) to September 30, 1998, have been prepared by Sheffield Pharmaceuticals, Inc. (the "Company") without audit. In the opinion of management, all adjustments (consisting only of normal recurring accruals) necessary to present fairly the financial position, results of operations, and cash flows at September 30, 1998 and for all periods presented have been made.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted. It is suggested that these consolidated financial statements be read in conjunction with the financial statements and notes thereto included in the Company's annual report on Form 10-K, as amended, for the year ended December 31, 1997. The results of operations for the three and nine months ended September 30, 1998 and 1997 are not necessarily indicative of the operating results for the full years.

Sheffield Medical Technologies Inc. ("Sheffield") was incorporated on October 17, 1986. The Company's wholly-owned subsidiary, U-Tech Medical Corporation ("U-Tech") was incorporated on January 13, 1992 and was liquidated on June 30, 1997. On January 26, 1995, the Company's shareholders approved the proposal to reincorporate Sheffield in Delaware, which was effected on June 13, 1995. On January 10, 1996, Ion Pharmaceuticals, Inc. ("Ion"), was formed as a wholly-owned subsidiary of the Company. At that time, Ion acquired the Company's rights to certain early-stage biomedical technologies. On April 17, 1997, CP Pharmaceuticals, Inc. ("CP") was formed for the purpose of acquiring Camelot Pharmacal, L.L.C., a privately held pharmaceutical development company, which acquisition was consummated on April 25, 1997. On June 26, 1997, the Company's shareholders approved the proposal to change Sheffield's name from Sheffield Medical Technologies Inc. to Sheffield Pharmaceuticals, Inc. As part of an agreement with Elan Corporation, plc, on June 30, 1998, Systemic Pulmonary Delivery, Ltd. ("SPD") was formed as a wholly-owned subsidiary of the Company. At that time, SPD acquired the Company's rights to the systemic applications of the Metered Solution Inhaler ("MSI") and acquired Elan's rights to certain pulmonary delivery technologies. Unless the context requires otherwise, Sheffield, U-Tech, Ion, CP and SPD are referred herein to as "the Company." All significant intercompany transactions are eliminated in consolidation.

The Company is in the development stage and to date has been principally engaged in research, development and licensing efforts. The Company has generated minimal operating revenue and requires additional capital that the Company intends to obtain through out-licensing as well as through equity and debt offerings to continue to operate its business. The Company's ability to meet its obligations as they become due and to continue as a going concern must be considered in light of the expenses, difficulties and delays frequently encountered in developing a new business, particularly since the Company will focus on product development that may require a lengthy period of time and substantial expenditures to complete. Even if the Company is able to successfully develop new products, there can be no assurance that the Company will generate sufficient revenues from the sale or licensing of such products to be profitable. Management believes that the Company has the ability to meet its obligations as they become due and to continue as a going concern through December 1998.

2. LOSS PER COMMON SHARE

In 1997, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 128, Earnings Per Share. SFAS No. 128 replaced the previously reported primary and fully diluted earnings per share with basic and diluted earnings per share. Unlike primary earnings per share, basic earnings per share excludes any dilutive effects of options, warrants and convertible securities. Diluted earnings per share is very similar to the previously reported fully diluted earnings per share. Basic net loss per share is based upon the weighted average Common Stock outstanding during each year. Options, warrants and convertible securities are not included as their effect is antidilutive. The effect of adoption of SFAS No. 128 had no financial impact, and accordingly, no restatement of loss per share for prior periods was necessary.

3. IMPACT OF RECENTLY ISSUED ACCOUNTING STANDARDS

On January 1, 1998 the Company adopted SFAS No. 130, "Reporting Comprehensive Income" ("SFAS No. 130"). SFAS No. 130 establishes standards for the reporting and display of comprehensive income and its components and is applied to all enterprises. The adoption of SFAS No. 130 had no impact on the Company's consolidated results of operations, financial position or cash flows.

In June 1997, the FASB issued SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information" ("SFAS No. 131"). SFAS No. 131 establishes standards for the way that public business enterprises report information about operating segments in annual financial statements and requires that those enterprises report selected information about operating segments in interim financial reports issued to stockholders. It also establishes standards for related disclosures about products and services, geographic areas, and major customers. SFAS No. 131 is effective for financial statements for fiscal years beginning after December 15, 1997. The Company will adopt the new requirements in conjunction with its 1998 Form 10-K. The adoption of SFAS No. 131 will have no significant impact on the Company's financial reporting.

4. SIGNIFICANT TRANSACTIONS

On April 15, 1998, the Company issued 1,250 shares of its Series B Cumulative Convertible Redeemable Preferred Stock in a private placement for an aggregate purchase price of \$1,250,000. On July 31, 1998, all of the Series B Preferred Stock was redeemed for cash by the Company.

On July 15, 1998, the Company acquired from Aeroquip Corporation a new generation metered dose inhaler (MDI) system called the Aerosol Drug Delivery System (ADDS) for \$825,000 cash. Part of the purchase price was made in the form of an option payment made during the quarter ended June 30, 1998. The remainder has been expensed during the quarter ended September 30, 1998 as acquired R&D in-process technology because the assets acquired, which consist solely of intellectual property related to ADDS, have not demonstrated technological feasibility and have no alternative future uses. SPD holds the rights to all systemic disease applications of the ADDS technology while Sheffield retains the rights to develop the respiratory disease applications of ADDS.

On September 29, 1998, the Company received \$500,000 from an affiliate of Elan Corporation, plc. Such funds were borrowed under the terms of a convertible promissory note that provides Sheffield with the right to borrow up to \$2 million, subject to satisfying certain conditions. No more than \$500,000 may be drawn under this note in any calendar quarter and at least one-half of the proceeds must be used to fund SPD's development activities. The principal outstanding under this note draws interest at the prime rate plus 1% and, if not previously converted, matures on June 30, 2005. Prior to

repayment, Elan has the right to convert all principal and accrued interest into shares of Sheffield common stock at a conversion price of \$1.75 per share.

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SHEFFIELD PHARMACEUTICALS, INC. AND SUBSIDIARIES
(A DEVELOPMENT STAGE ENTERPRISE)

ITEM 2:

MANAGEMENT'S DISCUSSION AND ANALYSIS
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

THIS REPORT CONTAINS CERTAIN FORWARD-LOOKING STATEMENTS WITHIN THE MEANING OF SECTION 27A OF THE SECURITIES ACT OF 1933, AS AMENDED, AND SECTION 21E OF THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED, WHICH ARE INTENDED TO BE COVERED BY THE SAFE HARBORS CREATED THEREBY. ALL FORWARD-LOOKING STATEMENTS INVOLVE RISKS AND UNCERTAINTY, INCLUDING WITHOUT LIMITATION, THE SUCCESSFUL DEVELOPMENT AND LICENSING OF THE COMPANY'S TECHNOLOGIES AND THE SUCCESSFUL COMPLETION OF PLANNED FINANCINGS. ALTHOUGH THE COMPANY BELIEVES THAT THE ASSUMPTIONS UNDERLYING THE FORWARD-LOOKING STATEMENTS CONTAINED HEREIN ARE REASONABLE, ANY OF THE ASSUMPTIONS COULD BE INACCURATE, AND THEREFORE, THERE CAN BE NO ASSURANCE THAT THE FORWARD-LOOKING STATEMENTS INCLUDED IN THIS REPORT WILL PROVE TO BE ACCURATE. IN LIGHT OF THE SIGNIFICANT UNCERTAINTIES INHERENT IN THE FORWARD-LOOKING STATEMENTS INCLUDED HEREIN, THE INCLUSION OF SUCH INFORMATION SHOULD NOT BE REGARDED AS A REPRESENTATION BY THE COMPANY OR ANY OTHER PERSON THAT THE OBJECTIVES AND PLANS OF THE COMPANY WILL BE ACHIEVED.

OVERVIEW

The Company is a specialty pharmaceutical company focused on the development and commercialization of later stage, lower risk pharmaceutical opportunities, particularly those utilizing unique pulmonary delivery technologies over a range of therapeutic areas. The Company is focusing its resources on the development and commercialization of pharmaceutical products whose utility and commercial potential can be exploited or enhanced by delivery in one of the Company's proprietary pulmonary delivery systems. The Company has established strategic alliances with Siemens AG, Zambon Group SpA, and Elan Corporation, plc for the development of these systems. The Company, through its wholly-owned subsidiary, Systemic Pulmonary Delivery, Ltd. ("SPD"), has expanded its portfolio of proprietary pulmonary delivery technologies with the recent acquisitions of the UPDAS(TM) and Enhancing Technology from Elan Corporation, plc and the ADDS system from Aeroquip Corporation. The Company will seek to acquire additional novel platform drug delivery systems and technologies.

LIQUIDITY AND CAPITAL RESOURCES

The Company's cash available for funding its operations as of September 30, 1998 was \$2,585,013. As of such date, the Company had trade payables of \$526,654 and current research obligations of \$449,805. At September 30, 1998, the Company had \$1.5 million available to be borrowed under the terms of a \$2.0 million convertible promissory note from an affiliate of Elan Corporation plc. No more than \$500,000 may be drawn under this note in any calendar quarter and at least one-half of the proceeds must be used to fund SPD's development activities. In addition, under the terms of its agreement with Zambon Group, SpA, the Company will be entitled to receive two separate \$1.0 million interest-free advances against future milestone payments upon the demonstration of certain technical capabilities related to the performance of the Metered Solution Inhaler (MSI) during the initial stage of the development program for respiratory drugs in the MSI.

As a result of its development and growth plans, the Company will need to obtain additional funds for its business through operations or equity or debt financings, collaborative arrangements with corporate partners or from other resources. No assurance can be given that these funds will be available for the Company to finance its development and growth on acceptable terms, if at all. If adequate funds are not available from operations or additional sources of funding, the Company's business will suffer a material adverse effect.

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(A DEVELOPMENT STAGE ENTERPRISE)

The Company's operations to date have consumed substantial and increasing amounts of cash. The negative cash flow from operations is expected to continue in the foreseeable future. The Company has not yet begun to generate revenues from the sale of products. The Company's products will require significant additional development, clinical testing and investment prior to commercialization. The Company does not expect regulatory approval for commercial sales of any of its products in the immediate future. There can be no assurance that such products will be successfully developed, proven to be safe and efficacious in clinical trials, able to meet applicable regulatory standards, able to obtain required regulatory approvals, or produced in commercial quantities at reasonable costs or be successfully commercialized and marketed.

The owners and licensors of the technology rights acquired by the Company are entitled to receive a certain percentage of all royalties and payments in lieu of royalties received by the Company from commercialization, if any, of products in respect of which the Company holds licenses. Accordingly, in addition to its substantial investment in product development, the Company will be required to make substantial payments to others in connection with revenues derived from commercialization of products, if any, developed under licenses the Company holds. Consequently, the Company will not receive the full amount of any revenues that may be derived from commercialization of products to fund ongoing operations.

Under the terms of existing agreements, the Company is obligated to make certain payments to its licensors. In the event that the Company defaults on the payment of an installment under the terms of an existing licensing agreement, its rights thereunder could be forfeited. As a consequence, the Company could lose all rights under a license agreement to the related licensed technology, notwithstanding the total investment made through the date of the default. There can be no assurance that unforeseen obligations or contingencies will not deplete the Company's financial resources and, accordingly, sufficient resources may not be available to fulfill the Company's commitments.

RESULTS OF OPERATIONS

The Company, a development stage enterprise, has incurred a net loss in each of the fiscal years since its inception and has had to rely on outside sources of funds to maintain its liquidity. Additional operating losses are expected to be incurred for the next few years as the Company expends its resources for product acquisition, research and development and preclinical and clinical testing.

As a development stage company without significant revenues, the Company has financed its development activities and operations primarily through public and private offerings of securities, from which it has raised an aggregate of approximately \$52.2 million through September 30, 1998.

Revenues:

From inception through the period ended September 30, 1998, the Company has earned sub-license revenue of \$1,360,000 relative to various early-stage technologies. The Company earned no sub-license revenue for the quarter ended September 30, 1998.

From inception through the period ended September 30, 1998, the Company has earned interest income of \$489,792 and had an extraordinary item from gain on early extinguishment of debt of \$42,787. The Company's ability to generate material revenues is contingent on the successful commercialization of its technologies and other technologies and products that it may acquire, followed by the successful marketing and commercialization of such technologies through licenses, joint ventures or other arrangements.

Interest income for the three months ended September 30, 1998 was \$32,450 compared to \$9,391 for the same period ended September 30, 1997. The increase in interest earned is attributable to an increase in cash available for investment during the period ended September 30, 1998. Except for the sub-license revenue mentioned above, interest income represented all of the Company's income in each of the prior periods.

(A DEVELOPMENT STAGE ENTERPRISE)

Operating Expenses:

From inception through the period ended September 30, 1998, the Company incurred \$55,678,948 of operating expenses. Of the total operating expenses for that period, \$21,266,557 were costs of research and development for the Company's technologies and \$14,891,745 for the acquisition of R & D in-process technology. The remainder of expenses for the same period were incurred principally as consulting costs, costs of management, legal and other professional fees and expenses relating to the Company's technologies, and for the cost of completing its financings. Research and development costs are expected to remain high as the Company develops its current technologies and acquires additional technologies. Such costs will continue to be expensed for financial reporting purposes.

Operating expenses for the three months ended September 30, 1998, were \$2,174,860 compared to \$1,898,226 for the same period ended September 30, 1997. Of the total operating expenses for the period ended September 30, 1998, \$218,063 were costs of research and development for the Company's technologies and \$741,745 for the acquisition of R & D in-process technology related to the ADDS system. General and administrative expenses for the three months ended September 30, 1998 were \$1,039,390 compared to \$1,325,874 for the same period ended September 30, 1997. The reduction in general and administrative expenses is primarily due to the relocation of the Company's headquarters to St. Louis, Missouri. Interest expense for the three months ended September 30, 1998 were \$175,662 compared to \$2,183 for the same period ended September 30, 1997. The increase in interest expense is attributable to the redemption of the Company's Series B cumulative convertible redeemable preferred stock.

The Company's direct research and development expenses were \$794,822 and \$32,002,860 for the three months ended September 30, 1998 and from the Company's inception to September 30, 1998, respectively. The Company's committed direct research and development funding after September 30, 1998 is currently \$2.0 million and relates primarily to the development of certain pulmonary delivery technologies by SPD (i.e., systemic applications of the MSI, UPDAS(TM), Enhancing Technology, and ADDS technologies). The Company anticipates funding the development costs associated with the respiratory applications of the UPDAS(TM) and ADDS technologies, the anticipated costs of which have not been determined at the time of this filing. The Company continues to out-license the early-stage technologies remaining in its portfolio, seeking organizations having the interest and resources to continue development accordingly.

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SHEFFIELD PHARMACEUTICALS, INC. AND SUBSIDIARIES
(A DEVELOPMENT STAGE ENTERPRISE)

PART II: OTHER INFORMATION

ITEM 2. CHANGES IN SECURITIES.

The following unregistered securities were issued by the Company during the quarter ended September 30, 1998:

<TABLE>
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Date of Sale/Issuance	Description of Securities Issued	Number of Shares Sold/Issued /Subject to Options or Warrants	Offering/Exercise Price Per Share (\$)	Purchaser Or Class
<S> June 1998	<C> Common Stock Warrants	<C> 150,000	<C> \$1.6875	----- Holders of Short-term Notes Originated and Repaid during the period
July 1998	Common Stock	187,500	\$1.025 - \$3.50	Advisors in lieu of cash

Warrants		consideration		
August 1998	Common Stock Options	620,000	\$1.2375 - \$3.125	Issuance to employees pursuant to 1993 Stock Option Plan
August 1998	Common Stock Options	325,000	\$1.75	Employees
September 1998	Common Stock Options	25,000	\$1.4375	Issuance to eligible Directors pursuant to the 1996 Directors Stock Option Plan
September 1998	Common Stock Warrants	100,000	\$1.125	Holder's of Short-term Notes Originated during the period
September 1998	Common Stock	35,000	\$1.375	Advisors in lieu of cash consideration
September 1998	Common Stock	175,000	\$1.688	Advisors in lieu of cash consideration

</TABLE>

The issuance of these securities is claimed to be exempt from registration pursuant to Section 4(2) of the Securities Act of 1933, as amended, as transactions by an issuer not involving a public offering. There were no underwriting discounts or commissions paid in connection with the issuance of any of these securities.

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ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY-HOLDERS

An annual Meeting of Stockholders was held on July 15, 1998. All management's nominees for director, as listed in the Proxy Statement for the Annual Meeting were elected. Listed below are the matters voted on by stockholders and the number of votes cast at the Annual Meeting:

(a) ELECTION OF MEMBERS OF THE BOARD OF DIRECTORS.

<TABLE>
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Name	Voted For	Voted Against	Broker Non-Votes Withheld	Non-Votes And Abstentions
<S>	<C>	<C>	<C>	<C>
Loren G. Peterson	15,386,075	0	92,985	0
Thomas M. Fitzgerald	15,379,375	0	99,685	0
John M. Bailey	15,382,975	0	96,085	0
Digby W. Barrios	15,382,975	0	96,085	0

</TABLE>

(B) AMENDMENT TO THE COMPANY'S 1993 STOCK OPTION PLAN TO INCREASE THE NUMBER OF SHARES OF THE COMPANY'S COMMON STOCK AVAILABLE FOR ISSUANCE THEREUNDER FROM 3,000,000 TO 4,000,000 SHARES.

Voted For: 15,105,464
Voted Against: 334,110
Voted Abstained: 39,486
Broker Non-Votes: 0

(C) RATIFICATION OF ERNST & YOUNG LLP AS INDEPENDENT PUBLIC ACCOUNTANT FOR FISCAL YEAR ENDING DECEMBER 31, 1998.

Voted For: 14,428,770
Voted Against: 446,343
Voted Abstained: 603,947
Broker Non-Votes: 0

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

(a) EXHIBITS

NO.	DESCRIPTION
27	Financial Data Schedule.

(b) REPORTS ON FORM 8-K

The Company filed a current Report on Form 8-K with the Securities and Exchange Commission on July 16, 1998 relating to the Company's consummation of a license and financing transaction with Elan International Services, Ltd. (an affiliate of Elan Corporation plc) in accordance with the terms of the binding letter of intent dated June 3, 1998.

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SHEFFIELD PHARMACEUTICALS, INC. AND SUBSIDIARIES
(A DEVELOPMENT STAGE ENTERPRISE)

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

SHEFFIELD PHARMACEUTICALS, INC.

Dated: November 13, 1998 /S/ LOREN G. PETERSON

Loren G. Peterson
President & Chief Executive Officer

Dated: November 13, 1998 /S/ JUDY ROESKE BULLOCK

Judy Roeske Bullock
Vice President & Chief Financial Officer
(Principal Financial and Accounting Officer)

<TABLE> <S> <C>

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THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE CONDENSED FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED SEPTEMBER 30, 1998 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH STATEMENTS.

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