

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

SCHEDULE 13D

(Amendment No. 1)

Under the Securities Exchange Act of 1934

Halsey Drug Co., Inc.

(Name of Issuer)

Common Stock, \$.01 par value

(Title of Class of Securities)

4063691087

(CUSIP Number of Class of Securities)

Larry N. Feinberg
c/o Oracle Strategic Partners, L.P.
200 Greenwich Avenue, 3rd Floor
Greenwich, CT 06830
(203) 862-7900

(Name, Address and Telephone Number of Person
Authorized to Receive Notices and Communications)

Copies to:

Daniel Schloendorn, Esq.
Willkie Farr & Gallagher
787 Seventh Avenue
New York, NY 10019-6099
(212) 728-8000

December 20, 2002

(Date of Event which Requires
Filing of this Schedule)

If the filing person has previously filed a statement on Schedule 13G to report the acquisition which is the subject of this Schedule 13D, and is filing this schedule because of ss.ss. 240.13d-1(e), 240.13d-1(f) or 240.13d-1(g), check the following box: []

NOTE: Schedules filed in paper format shall include a signed original and five copies of the schedule, including all exhibits. See Rule 240.13d-7 for other parties to whom copies are to be sent.

SCHEDULE 13D

CUSIP No. 4063691087

Page 2 of 13 Pages

1 NAME OF REPORTING PERSON
I.R.S. IDENTIFICATION NOS. OF ABOVE PERSONS (ENTITIES ONLY)

Larry N. Feinberg

2 CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP

(a) ☒

(b) ☐

3 SEC USE ONLY

4 SOURCE OF FUNDS*

AF

5		CHECK BOX IF DISCLOSURE OF LEGAL PROCEEDING IS REQUIRED PURSUANT TO ITEMS 2(d) or 2(e)	[]
6		CITIZENSHIP OR PLACE OF ORGANIZATION	
		United States	
7		SOLE VOTING POWER	
		0	
NUMBER OF SHARES BENEFICIALLY OWNED BY EACH REPORTING PERSON WITH	8	SHARED VOTING POWER	
		22,605,245	
	9	SOLE DISPOSITIVE POWER	
		0	
	10	SHARED DISPOSITIVE POWER	
		22,605,245	
11		AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH PERSON	
		22,605,245	
12		CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (11) EXCLUDES CERTAIN SHARES*	
		[]	
13		PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (11)	
		56.5%	
14		TYPE OF REPORTING PERSON*	
		IN	

SCHEDULE 13D

CUSIP No. 4063691087

Page 3 of 13 Pages

1 NAME OF REPORTING PERSON
I.R.S. IDENTIFICATION NOS. OF ABOVE PERSONS (ENTITIES ONLY)

Oracle Strategic Capital, L.L.C.

2 CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP

(a) ☒(b) ☐

3 SEC USE ONLY

4 SOURCE OF FUNDS*

AF

5 CHECK BOX IF DISCLOSURE OF LEGAL PROCEEDING IS REQUIRED PURSUANT TO
ITEMS 2(d) or 2(e) ☐

6 CITIZENSHIP OR PLACE OF ORGANIZATION

Delaware

7 SOLE VOTING POWER

0

NUMBER OF
SHARES
BENEFICIALLY
OWNED BY
EACH
REPORTING
PERSON WITH

8 SHARED VOTING POWER

22,605,245

9 SOLE DISPOSITIVE POWER

0

10 SHARED DISPOSITIVE POWER

22,605,245

11 AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH PERSON

22,605,245

12 CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (11) EXCLUDES CERTAIN SHARES*
☐

13 PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (11)

56.5%

14 TYPE OF REPORTING PERSON*

00

SCHEDULE 13D

CUSIP No. 4063691087

Page 4 of 13 Pages

1 NAME OF REPORTING PERSON
I.R.S. IDENTIFICATION NOS. OF ABOVE PERSONS (ENTITIES ONLY)

Oracle Strategic Partners, L.P.

2 CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP

(a) ☒(b) ☐

3 SEC USE ONLY

4 SOURCE OF FUNDS*

WC

5 CHECK BOX IF DISCLOSURE OF LEGAL PROCEEDING IS REQUIRED PURSUANT TO
ITEMS 2(d) or 2(e) ☐

6 CITIZENSHIP OR PLACE OF ORGANIZATION

Cayman Islands

7 SOLE VOTING POWER

0

NUMBER OF
SHARES
BENEFICIALLY
OWNED BY
EACH
REPORTING
PERSON WITH

8 SHARED VOTING POWER

22,605,245

9 SOLE DISPOSITIVE POWER

0

10 SHARED DISPOSITIVE POWER

22,605,245

11 AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH PERSON

22,605,245

12 CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (11) EXCLUDES CERTAIN SHARES*
☐

13 PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (11)

56.5%

14 TYPE OF REPORTING PERSON*

PN

This Amendment No. 1 to Schedule 13D (this "Amendment No. 1") is being filed with respect to the shares of common stock, \$0.01 par value ("Common Stock"), of Halsey Drug Co., Inc., a New York corporation (the "Company"), to amend and restate the Schedule 13D filed with respect to the Common Stock on August 10, 2001 (the "Schedule 13D").

Item 1. Security and Issuer.

This Amendment No. 1 to the Schedule 13D is being filed with respect to the Common Stock of the Company. The Company's principal executive office is located at 695 N. Perryville Road, Rockford, Illinois 61107.

Item 2. Identity and Background.

(a) This statement is filed by:

(i) Oracle Strategic Partners, L.P., a Cayman Islands limited partnership ("Strategic Partners"), with respect to shares of Common Stock directly owned by it;

(ii) Oracle Strategic Capital, L.L.C., a Delaware limited liability company ("Strategic Capital"), which serves as general partner to Strategic Partners and has investment discretion over the shares of Common Stock directly owned by it; and

(iii) Mr. Larry N. Feinberg ("Mr. Feinberg"), who serves as managing member of Strategic Capital with control over its business activities.

The foregoing persons are hereinafter sometimes collectively referred to as the "Reporting Persons." Any disclosures herein with respect to persons other than the Reporting Persons are made on information and belief after making inquiry to the appropriate party.

(b) The address of the principal business and principal office of Strategic Partners and Strategic Capital is 200 Greenwich Avenue, Greenwich, Connecticut 06830. The business address of Mr. Feinberg is 200 Greenwich Avenue, Greenwich, Connecticut, 06830.

(c) The principal business of Strategic Partners is to invest in securities. The principal business of Strategic Capital is to serve as general partner to and exercise

investment discretion over securities held by Strategic Partners. Mr. Feinberg is the managing member of Strategic Capital.

(d) None of the Reporting Persons nor, to the best of their knowledge, any of their directors, executive officers, general partners or members has, during the last five years, been convicted in a criminal proceeding (excluding traffic violations or similar misdemeanors).

(e) None of the Reporting Persons nor, to the best of their knowledge, any of their directors, executive officers, general partners or members has, during the last five years, been a party to a civil proceeding of a judicial or administrative body of competent jurisdiction and as a result of such proceeding was or is subject to a judgment, decree or final order enjoining future violations of, or prohibiting or mandating activities subject to, federal or state securities laws or finding any violation with respect to such laws.

(f) Strategic Partners is organized under the laws of the Cayman Islands. Strategic Capital is organized under the laws of the State of Delaware. Mr. Feinberg is a citizen of the United States of America.

Item 3. Source and Amount of Funds or Other
Consideration.

A series of transactions involving the Company were described in the Company's Current Report on Form 8-K, filed on December 27, 2002 (the "Form 8-K"). In connection with these transactions, Strategic Partners received additional securities of the Company by operation of certain anti-dilution adjustments with respect to warrants to purchase Common Stock ("Warrants") that it directly owned. Specifically, Warrants theretofore entitling Strategic Partners to purchase 1,010,100 shares of Common Stock, at an exercise price of \$1.404, were adjusted to represent Warrants for 2,393,478 shares of Common Stock with an exercise price of \$0.59. In addition, Warrants theretofore entitling Strategic Partners to purchase 1,010,100 shares of Common Stock, at an exercise price of \$2.285, were adjusted to represent Warrants for 2,393,478 shares of Common Stock with an exercise price of \$0.96. These two sets of Warrants were then exchanged, in a cashless exercise (as valued pursuant to a Black-Scholes model), for 1,895,824 and 1,753,637 shares of

Common Stock, respectively, or 3,649,461 shares in the aggregate.

In connection with the transactions described in the Form 8-K, existing 5% convertible senior secured debentures ("Debentures") held by Strategic Partners were amended to extend their maturity date to March 31, 2006 and their applicable conversion prices for conversion into Common Stock were revised in accordance with their anti-dilution provisions. Strategic Partners holds Debentures in the principal amounts of: \$10,000,000; \$125,000; \$126,562; \$128,144; \$129,746; \$131,368; \$133,010; \$134,672; \$136,356; \$138,060; \$139,786; \$141,534; and \$143,302. The conversion prices for such Debentures per share of Common Stock are, respectively, \$0.6135, \$0.7525, \$0.4862, \$0.3964, \$0.2735, \$0.4501; \$0.9701, \$0.9701; \$0.8128; \$0.8827; \$0.7516; \$0.7667; and \$1.0200. The Debentures are therefore convertible, respectively, into the following amounts of Common Stock: 16,298,644; 166,110, 260,238; 323,268; 474,436; 291,858; 137,104; 138,818; 167,756; 156,400; 185,974; 184,598; and 140,492. The foregoing Debentures, except for the \$10,000,000 initial Debenture, were received by Strategic Partners as interest payments. Interest on all the Debentures held by Strategic Partners is paid quarterly on each January 1, April 1, July 1 and October 1. The Debentures are convertible at any time, at the option of their holder, into Common Stock.

Strategic Partners also has acquired options exercisable for 30,000 shares of Common Stock (the "Options") at no additional cost as compensation for the services of Mr. Joel Liffmann ("Mr. Liffmann") as a member of the board of directors of the Company. Mr. Liffmann is a general partner of an affiliate of Strategic Partners.

Strategic Partners, Strategic Capital and Mr. Feinberg may be deemed to beneficially own the Common Stock received in exchange for the Warrants previously held by Strategic Partners, and also the underlying Common Stock which may be acquired upon conversion or exercise of the foregoing Debentures and Options owned by Strategic Partners. The source of the initial amounts paid for these securities, all of which were acquired in privately negotiated transactions, was the working capital of Strategic Partners. Strategic Partners contributed no additional funds to the Company in connection with the events described in the Form 8-K, but did surrender certain documents which reflect the previously held

Debentures for new documents representing the revised conversion prices and maturity dates, as set forth above. Strategic Partners initially paid to the Company \$10,000,000 to acquire the Debentures and Warrants it held.

Item 4. Purpose of Transaction.

The shares of Common Stock deemed to be beneficially owned by Strategic Partners, Strategic Capital and Mr. Feinberg were acquired for, and are being held for, investment purposes. The securities which are convertible into or exchangeable for shares of Common Stock were acquired in the ordinary course of business and not for the purpose of acquiring control of the Company.

The Reporting Persons may in the future directly acquire shares of Common Stock in open market or private transactions, block purchases or otherwise. The Reporting Persons may continue to hold or dispose of all or some of the securities reported herein from time to time, in each case in open market or private transactions, block sales or purchases or otherwise, subject to compliance with applicable law. In that regard, pursuant to that certain Registration Rights Agreement incorporated herein by reference as Exhibit 8, the Reporting Persons are entitled to certain registration rights with respect to the Common Stock to permit the public sale thereof in accordance with the Securities Act of 1933, as amended, and applicable state securities laws. Other than as set forth herein, none of the Reporting Persons has any plans or proposals which relate to, or could result in, any of the matters referred to in paragraphs (b) through (j), inclusive, of Item 4 of Schedule 13D. Each of the Reporting Persons may, at any time and from time to time, review or reconsider his or its position and formulate plans or proposals with respect thereto, but has no present intention of doing so.

Item 5. Interest in Securities of the Issuer.

(a) As of the close of business on February 25, 2003, the Reporting Persons were the beneficial owners, within the meaning of Rule 13d-3 under the Exchange Act, of 22,605,245 shares of Common Stock. As of that date, these shares represented 56.5% of the sum of (i) the 21,035,323 total shares of Common Stock outstanding as reported to Strategic Partners by the Company's chief financial officer and (ii) the 18,955,784 shares of Common Stock which would

be received by Strategic Partners upon conversion or exercise of the Debentures and Options which it holds.

(b) The sole or shared power to vote or dispose of, or to direct the vote or disposition of the Common Stock with respect to each Reporting Person noted in paragraph (a) of this Item 5 is as set forth on the cover sheets of this Amendment No. 1.

Strategic Capital does not directly own any Common Stock. Strategic Capital may be deemed to beneficially own 22,605,245 shares of Common Stock by virtue of the investment discretion it exercises over Strategic Partners as general partner.

Mr. Feinberg does not directly own any Common Stock. Mr. Feinberg may be deemed to beneficially own 22,605,245 shares of Common Stock by virtue of his control over the business activities of Strategic Capital as managing member.

(c) The holdings of the Reporting Persons with respect to securities of the Company consist solely of the shares of Common Stock, Debentures and Options described above. Except as disclosed above, there have been no transactions involving the shares of Common Stock of the Company engaged in during the period beginning 60 days prior to December 20, 2002 and ending on the date hereof.

(d) No other person is known to have the right to receive or the power to direct the receipt of dividends from, or proceeds from the sale of, the securities reported herein, other than the partners of Strategic Partners, none of whom individually has such right or power with respect to in excess of 5% of the total outstanding Common Stock.

Item 6. Contracts, Arrangements, Understandings or
Relationships with Respect to Securities of the
Issuer.

Strategic Partners is a party to that certain Debenture and Warrant Purchase Agreement dated May 26, 1999 (the "Oracle Purchase Agreement") by and among the Company, Strategic Partners and the other investors listed therein, and is also a party to the amendment of the Oracle Purchase Agreement, dated December 20, 2002. The Oracle Purchase

Agreement and its amendment are incorporated herein by reference as Exhibits 2 and 3.

The Debentures held by Strategic Partners are also governed by the terms and provisions set forth in the documents or instruments constituting such debentures. A Form of Debenture is incorporated herein by reference as Exhibit 4. The Debentures provide that Interest thereon shall be paid in the form of additional Debentures, to be paid quarterly on each January 1, April 1, July 1 and October 1.

The Options are governed by the terms of the Halsey Drug Co., Inc. 1998 Stock Option Plan, incorporated herein by reference as Exhibit 5, and are evidenced by option agreements substantially similar to the Form of Option Agreement attached hereto as Exhibit 6.

The Warrants held by Strategic Partners were exchanged for Common Stock, as described herein, in accordance with the Warrant Recapitalization Agreement, dated December 20, 2002, incorporated herein by reference as Exhibit 7.

Associated with the Debentures held by Strategic Partners are certain registration rights, as set forth in the Registration Rights Agreement, dated December 20, 2002, incorporated herein by reference as Exhibit 8. This Registration Rights Agreement sets forth registration rights which supercede rights that Strategic Partners held through prior agreements with the Company. Under the Registration Rights Agreement, holders of 20% of the registrable securities may request two demand registrations on Form S-1 and unlimited demand registrations on Form S-3. In addition to other customary provisions, the Registration Rights Agreement provides holders of registrable securities "piggyback" rights on Company registrations.

Strategic Partners had previously entered into a Voting Agreement, dated December 20, 2002, in order to effectuate certain of the contemplated transactions set forth in the Form 8-K. Under this agreement, Strategic Partners agreed to vote in favor of an amendment to the Company's certificate of incorporation to, among other things, increase the Company's authorized common stock. This Voting Agreement is incorporated herein by reference as Exhibit 9.

In addition, the Reporting Persons have entered into a Joint Acquisition Statement, as required by Rule 13d-1(k) under the Exchange Act, and incorporated herein by reference as an Exhibit 1.

Other than as set forth herein, there are no contracts, arrangements, understandings or relationships (legal or otherwise) among the Reporting Persons named in Item 2 of this statement or between such Reporting Persons and any person with respect to any securities of the Company, including but not limited to transfer or voting of any of the securities, finder's fees, joint ventures, loan or option arrangements, puts or calls, guarantees of profits, division of profits or loss, or the giving or withholding of proxies.

Item 7. Material to be Filed as Exhibits.

1. Joint Filing Agreement, dated as of August 10, 2001, by and among the Reporting Persons --- incorporated herein by reference to Exhibit 1 of the Schedule 13D.

2. Oracle Purchase Agreement --- incorporated herein by reference to Exhibit 10.72 to the Company's Annual Report on Form 10-K for the year ended December 31, 1999.

3. Amendment to Oracle Purchase Agreement, dated as of December 20, 2002 - --- incorporated herein by reference to Exhibit 10.9 of the Form 8-K.

4. Form of Amended and Restated 5% Convertible Senior Secured Debenture --- incorporated herein by reference to Exhibit 10.10 of the Form 8-K.

5. Halsey Drug Co., Inc. 1998 Stock Option Plan, as amended --- incorporated herein by reference to Exhibit 5 of the Schedule 13D.

6. Form of Option Agreement.

7. Warrant Recapitalization Agreement, dated December 20, 2002 --- incorporated herein by reference to Exhibit 10.17 of the Form 8-K.

8. Registration Rights Agreement, dated December 20, 2002 --- incorporated herein by reference to Exhibit 10.16 of the Form 8-K.

9. Voting Agreement, dated December 20, 2002 --- incorporated herein by reference to Exhibit 10.6 of the Form 8-K.

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SIGNATURES

After reasonable inquiry and to the best of our knowledge and belief, the undersigned certify that the information set forth in this statement is true, complete and correct.

Dated: March 10, 2003 /s/ Larry N. Feinberg

Larry N. Feinberg

Dated: March 10, 2003 ORACLE STRATEGIC CAPIAL, L.L.C.

By: /s/ Larry N. Feinberg

Name: Larry N. Feinberg
Title: Managing Member

Dated: March 10, 2003 ORACLE STRATEGIC PARTNERS, L.P.

By: ORACLE STRATEGIC CAPIAL,
L.L.C., General Partner

By: /s/ Larry N. Feinberg

Name: Larry N. Feinberg
Title: Managing Member

FORM OF OPTION AGREEMENT

HALSEY DRUG CO., INC.

NON-QUALIFIED STOCK OPTION AGREEMENT

HALSEY DRUG CO., INC., a New York corporation (the "Company"), hereby grants Oracle Strategic Partners (the "Optionee"), an Option to purchase _____ shares (the "Shares") of the Company's common stock, \$.01 par value per share ("Common Stock"), at the price set forth in Paragraph 2 hereof, and in all respects subject to the terms, definitions and provisions of the Company's 1998 Stock Option Plan (the "Plan"), a copy of which is enclosed and incorporated herein by reference. Terms not defined shall have the meanings set forth in the Plan. In the event of any conflict between the terms of this Agreement and the Plan the terms of the Plan shall control.

1. NATURE OF OPTION. This Option is not intended to qualify as an Incentive Stock Option as defined in Section 422 of the Internal Revenue Code of 1986, as amended (the "Code").

2. EXERCISE PRICE. The exercise price of the Shares shall be equal to \$_____ Dollars and _____ Cents per share of Common Stock subject to this Option.

3. EXERCISE OF OPTION. This Option shall be exercisable during its term as follows:

(a) Condition Precedent to Exercise. This Option shall not be exercisable unless and until Optionee has entered into the Stockholders Agreement with the Company.

(b) Vesting Period.

(i) This Option shall vest quarterly and only be exercisable in the amounts and dates indicated below:

a. _____ of the Shares shall vest and be exercisable on _____, and

b. an additional _____ of the Shares shall vest and be exercisable on _____, and

c. an additional _____ of the Shares shall vest and be exercisable on _____, and

d. an additional _____ of the Shares shall vest and be exercisable on _____.

(ii) This Option may not be exercised for a fraction of a share.

(iii) In the event of the Optionee's termination of employment due to disability, death or as otherwise provided for in Section 9 of the Plan, the exercisability of this Option is governed by Section 9 of the Plan.

(c) Method of Exercise. This Option shall be exercisable by written notice which shall state the election to exercise this Option, the number of Shares in respect of which the Option is being exercised, and such other representations and agreements as to the holder's investment intent with respect to such Shares of Common Stock as may be required by the Company pursuant to the provisions of the Plan. Such representations and agreements shall be substantially similar to the form of Investment Representation Statement attached hereto as Schedule A. Such written notice shall be signed by the Optionee and shall be delivered in person or by certified mail to the President/Treasurer of the Company. The written notice shall be accompanied by payment of the Exercise Price pursuant to the provisions of Section 2.

No Shares will be issued pursuant to the exercise of an Option unless such issuance and such exercise shall comply with all relevant provisions of law and the requirements of any stock exchange upon which the Shares may then be listed.

(d) Method of Payment. Payment of the Exercise Price shall be by cash, check, promissory note (if approved by the Company as an accepted method of payment) or Shares of the Company's Common Stock (if approved by the Company as

an accepted method of payment) having a Fair Market Value on the date of surrender equal to the aggregate exercise price of the Shares as to which the Option shall be exercised, or any combination of such payment methods.

4. RESTRICTIONS ON EXERCISE. This Option may not be exercised if the issuance of such Shares upon such exercise or the method of payment of consideration for such Shares would constitute a violation of any applicable federal or state securities or other law or regulation, including any rule under Part 207 of Title 12 of the Code of Federal Regulations ("Regulation G") as promulgated by the Federal Reserve Board. As a condition to the exercise of this Option, the Company may require the Optionee to make any representation and warranty to the Company as may be required by any applicable law or regulation.

5. TERMINATION OF STATUS AS AN EMPLOYEE. If the Optionee ceases to serve as an Employee, he may, but only within ninety (90) days after the date he ceased to be an Employee of the Company, exercise this Option to the extent that he was entitled to exercise it at the date of such termination. To the extent that he was not entitled to exercise this Option at the date of such termination, or if he does not exercise this Option within the time specified herein, this Option shall terminate.

6. DISABILITY OF OPTIONEE. Notwithstanding the provisions of Section 5 above, if the Optionee is unable to continue his employment with the Company as a result of his total and permanent disability (within the meaning of Section 22(e)(3) of the Code), he may, but only within twelve (12) months from the date of termination of employment due to such disability, exercise this Option to the extent he was entitled to exercise it at the date of such termination. If he does not exercise this Option (which he was entitled to exercise) within the time specified herein, this Option shall terminate.

7. DEATH OF OPTIONEE. In the event of the death of the Optionee:

(a) during the term of this Option and while an Employee of the Company and having been in Continuous Status as an Employee since the date of grant of this Option, this Option may be exercised, at any time within twelve (12) months following the date of death, by the Optionee's estate or by a person who acquired the right to exercise this Option by bequest or inheritance, but only to the extent of the right to exercise that would have accrued had the Optionee continued living until one (1) month after the date of death; or

(b) within thirty (30) days after the termination of the Optionee's Continuous Status as an Employee, this Option may be exercised, at any time within three (3) months following the date of death, by the Optionee's estate or by a person who acquired the right to exercise this Option by bequest or inheritance, but only to the extent of the right to exercise that had accrued at the date of termination.

8. RESTRICTIONS ON TRANSFER. This Option may not be sold, pledged, assigned, hypothecated, or otherwise transferred in any manner otherwise than by will or by the laws of descent or distribution and may be exercised during the lifetime of the Optionee only by the Optionee. The terms of this Option shall be binding upon the executors, administrators, heirs, successors and assigns of the Optionee.

9. TERM OF OPTION. This Option may not be exercised more than ten (10) years from the date of grant of this Option, and may be exercised during such term only in accordance with the Plan and the terms of this Option.

10. NO RIGHTS AS SHAREHOLDER. The Optionee shall have no rights as a shareholder with respect to any Shares covered by this Option until the date of the issuance of a stock certificate to him for such Shares.

11. ANTI-DILUTION PROVISIONS. If prior to expiration of this Option there shall occur any change in the outstanding Common Stock of the Company by reason of any stock dividend, stock split, combination or exchange of shares, merger, consolidation, recapitalization, reorganization, liquidation, subscription rights offering, or the like, and as often as the same shall occur, then the kind and number of shares subject to the Option, or the purchase price per share of Common Stock, or both, shall be adjusted by the Board of Directors in such manner as it may deem equitable, the determination of which shall be binding and conclusive. Failure of the Board of Directors to provide for any such adjustment shall be conclusive evidence that no adjustment is required. The Company shall have the right to engage a firm of independent auditors, to make any computation provided for in this Section, and a certificate of that firm showing the required adjustment shall be conclusive and binding

12. NO OBLIGATION TO EXERCISE OPTION. The granting of this Option shall impose no obligation upon the Optionee to exercise such Option.

13. SECURITIES LAW RESTRICTIONS. It is understood and agreed that the Company is under no obligation to file a registration statement under the Securities Act of 1933, as amended (the "Act") with respect to the shares to be received upon exercise of the Option. If, however, a registration statement under the Act has been filed and remains effective with respect to the shares, the Company shall require that the offer and sale of such shares be exempt from the registration provisions of the Act. As a condition of such exemption, the Company shall require a representation and undertaking, in form and substance satisfactory to counsel for the Company, that Optionee is acquiring the shares for Optionee's own account for investment and not with a view to the distribution or resale thereof and shall otherwise require such representations and impose such conditions as shall establish to the Company's satisfaction that the offer and sale of the shares issuable upon the exercise of the option will not constitute a violation of the Act or any similar state act affecting the offer and sale. If the shares are issued in an exempt transaction, the shares will bear the following restrictive legend:

THESE SHARES HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (the "ACT"). NO TRANSFER OF THE SHARES MAY BE AFFECTED WITHOUT AN OPINION OF COUNSEL TO THE COMPANY STATING THAT THE TRANSFER IS EXEMPT FROM REGISTRATION UNDER THE ACT AND ANY APPLICABLE STATE SECURITIES LAWS OR THAT THE TRANSFER OF THE SHARES IS COVERED BY AN EFFECTIVE REGISTRATION STATEMENT WITH RESPECT TO THE SHARES.

14. ACCEPTANCE OF PROVISIONS. The execution of this Option Agreement by Optionee shall constitute Optionee's acceptance of and agreement to all of the terms and conditions of the Plan and this Option Agreement.

15. NOTICES. (a) All notices and other communications required or permitted under the Plan and this Agreement shall be in writing and shall be given either by (i) personal delivery or regular mail, in each case against receipt, or (ii) first class registered or certified mail, return receipt requested. All such notices or communications to the Company shall be addressed to the attention of its President, at its then principal office, and to Optionee at his last address appearing on the records of the Company or, in each case, to such other person or address as may be designated by like notice hereunder.

(b) Any notice of exercise, in whole or in part, of an Option granted hereby must be received by the Corporation at its principal office at 695 North Perryville Road, Rockford, Illinois 61107 by 5:00 p.m. on the day on which an Option or portion thereof expires.

16. GOVERNING LAW. This Option shall be governed by and construed in accordance with the laws of the State of New York, except to the extent pre-empted by federal law.

17. MISCELLANEOUS. (a) Merger. This Agreement and the Plan contain a complete statement of all the arrangements between the parties with respect to their subject matter, and this Agreement cannot be changed except by a writing executed by both parties.

(b) Variations in Pronouns. All pronouns and any variations thereof used herein refer to the masculine, feminine or neuter, singular or plural, as the identity of the person or persons may require.

(c) Headings. The headings in this Agreement are for reference purposes only and shall not in any way affect the meaning or interpretation of this Agreement.

DATE OF GRANT: _____ HALSEY DRUG CO., INC.

By:

Name: Michael K. Reicher
Title: President and Chief
Executive Officer

Acknowledgment and Acceptance of Optionee

The Optionee acknowledges receipt of a copy of the Plan, a copy of which is annexed hereto, and represents that he is familiar with the terms and provisions thereof, and hereby accepts this Option subject to all of the terms and provisions thereof. The Optionee hereby agrees to accept as binding, conclusive and final all decisions or interpretations of the Board upon any questions or disputes arising under the Plan.

- -----

Name:

Dated:

SCHEDULE A

INVESTMENT REPRESENTATION STATEMENT

PURCHASER:

COMPANY: HALSEY DRUG CO., INC.

SECURITY: COMMON STOCK

DATE:

In connection with the purchase of the above-listed Securities, I, the Purchaser, represent to the Company the following:

(a) I am aware of the Company's business affairs and financial condition, and have acquired sufficient information about the Company to reach an informed and knowledgeable decision to acquire the securities. I am purchasing these Securities for my own account for investment purposes only and not with a view to, or for the resale in connection with, any "distribution" thereof for purposes of the Securities Act of 1933, as amended ("Securities Act").

(b) I understand that the Securities have not been registered under the Securities Act in reliance upon a specific exemption therefrom, which exemption depends upon, among other things, the bona fide nature of my investment intent as expressed herein. In this connection, I understand that, in the view of the Securities and Exchange Commission ("SEC"), the statutory basis for such exemption may be unavailable if my representation was predicated solely upon a present intention to hold these Securities for the minimum capital gains period specified under tax statutes, for a deferred sale, for or until an increase or decrease in the market price of the Securities, or for a period of one year or any other fixed period in the future.

(c) I further understand that the Securities must be held indefinitely unless subsequently registered under the Securities Act or unless an exemption from registration is otherwise available. In addition, I understand that the certificate evidencing the Securities will be imprinted with a legend which prohibits the transfer of the Securities unless they are registered or such registration is not required in the opinion of counsel for the Company.

(d) I am familiar with the provisions of Rule 144, promulgated under the Securities Act, which, in substance, permits limited public resale of "restricted securities" acquired, directly or indirectly, from the issuer thereof (or from an affiliate of such issuer), in a non-public offering subject to the satisfaction of certain conditions, including, among other things: (1) the availability of certain public information about the Company; (2) the resale occurring not less than one (1) year after the party has purchased, and made full payment within the meaning of Rule 144, for the securities to be sold; and, in the case of an affiliate, or of a non-affiliate who has held the securities less than two (2) years, the sale being made through a broker in an unsolicited "broker's transaction" or in transactions directly with a market maker (as said term is defined under the Securities Exchange Act of 1934) and the amount of securities being sold during any three (3) month period not exceeding the specified limitations stated in Rule 144, if applicable.

(e) I further understand that at the time I wish to sell the Securities there may be no public market upon which to make such a sale, and that, even if such a public market then exists, the Company may not be satisfying the current public information requirements of Rule 144, and that, in such event, I would be precluded from selling the Securities under Rule 144 even if the one (1) year minimum holding period is satisfied.

(f) I further understand that in the event all of the applicable requirements of Rule 144 are not satisfied, registration under the Securities Act, compliance with Regulation A, or some other registration exemption will be required; and that, notwithstanding the fact that Rule 144 is not exclusive, the Staff of the SEC has expressed its opinion that persons proposing to sell private placement securities other than in a registered offering and otherwise than pursuant to Rule 144 will have a substantial burden of proof in establishing that an exemption from registration is available for such offers or sales, and that such persons and their respective brokers who participate in such transactions do so at their own risk.

(g) I understand that the certificate evidencing the Securities will be imprinted with a legend noting the above restrictions on sale.

Purchaser:

Date: _____, 19__