SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

FOR ANNUAL AND TRANSITION REPORTS PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

(MARK ONE)
[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE FISCAL YEAR ENDED DECEMBER 31, 1998

[ ] TRANSITION 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 NORTH PERRYVILLE ROAD, CRIMSON BUILDING NO. 2, ROCKFORD, ILLINOIS 61107
(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES) (ZIP CODE)

REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE: (815) 399-2060

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:

TITLE OF EACH CLASS	NAME OF EACH EXCHANGE ON WHICH REGISTERED
COMMON STOCK, PAR VALUE $0.01	THE AMERICAN STOCK EXCHANGE

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT:
NONE

(TITLE OF CLASS)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No [ ]

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [ ]

As of March 15, 1999, the registrant had 14,260,711 shares of Common Stock, par value $0.01, outstanding. Based on the closing price of the Common Stock on March 15, 1999 ($1 3/16), the aggregate market value of the voting stock held by non-affiliates of the registrant was approximately $16,890,000.

DOCUMENTS INCORPORATED BY REFERENCE

PORTIONS OF THE REGISTRANT'S PROXY STATEMENT FOR THE 1999 ANNUAL MEETING OF SHAREHOLDERS ARE INCORPORATED BY REFERENCE INTO PART III. SUCH PROXY STATEMENT WILL BE FILED WITHIN 120 DAYS AFTER THE END OF THE FISCAL YEAR COVERED BY THIS ANNUAL REPORT ON FORM 10-K.

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain statements in this Report under the captions Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations," Item 1, "Business", Item 3, "Legal Proceedings" and elsewhere in this Report constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995 (the "Reform Act"). Such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of Halsey Drug Co., Inc. ("Halsey" or the "Company"), or industry results, to be materially different from any future results, performance, or achievements expressed or implied by such forward-looking statements. Such factors include, among others, the following: changes in general economic and business conditions; loss of market share through competition; introduction of competing products by other companies; the timing of regulatory approval and the introduction of new products by the Company; changes in industry capacity; pressure on prices from competition or from purchasers of the Company's products; regulatory changes in the generic pharmaceutical manufacturing industry; regulatory obstacles to the introduction of new products that are important to the Company's growth; availability of qualified personnel; the loss of any significant customers; and other factors both referenced and not referenced in this Report. When used in this Report, the words "estimate," "project," "anticipate," "expect," "intend," "believe," and similar expressions are intended to identify forward-looking statements.

PART I

ITEM 1. BUSINESS.

GENERAL

The Company, a New York corporation established in 1935, and its subsidiaries, are engaged in the manufacture, sale and distribution of generic drugs. A generic drug is the chemical and therapeutic equivalent of a brand-name drug for which patent protection has expired. A generic drug may only be manufactured and sold if patents (and any additional government-granted exclusivity periods) relating to the brand-name equivalent of the generic drug have expired. A generic drug is usually marketed under its generic chemical name or under a brand name developed by the generic manufacturer. The Company sells its generic drug products under its Halsey label and under private-label arrangements with drugstore chains and drug wholesalers. While subject to the same governmental standards for safety and efficacy as its brand-name equivalent, a generic drug is usually sold at a price substantially below that of its brand-name equivalent.

The Company manufactures its products at facilities in New York and Indiana. During the last several years, the Company has sought to diversify its businesses through strategic acquisitions and through the development, manufacture and sale of bulk chemical products used by others as raw materials in the manufacture of finished drug forms.

RECENT EVENTS

Regulatory Compliance

During the past several years, the Company's business has been adversely affected by the discovery of various manufacturing and record keeping problems identified with certain products manufactured at its Brooklyn, New York plant. In October 1991, the U.S. Food and Drug Administration (the "FDA") placed the Company on the FDA's Application Integrity Policy list and its restrictions (collectively, the "AIP"). Under the AIP, the FDA suspended all of the parent company's applications for new drug approvals, including Abbreviate New Drug Applications ("ANDAs") and Supplements to ANDAs. During the period that followed, the U.S. Department of Justice ("DOJ") conducted an investigation into the manufacturing and record keeping practices at the Company's Brooklyn plant. As a consequence, on June 21, 1993, the Company entered into a plea agreement (the "Plea Agreement") with the DOJ to resolve the DOJ's investigation. Under the terms of the Plea Agreement, the Company agreed to plead guilty to five counts of adulteration of a single drug product shipped in interstate commerce and related record keeping violations. The Plea Agreement also required the Company to pay a fine of $2,500,000 over five years in quarterly installments of $125,000 commencing in September 1993. As of February 28, 1998, the Company was in default of the payment terms of the Plea Agreement and had made payments aggregating $350,000. On March 27, 1998, the Company and the DOJ signed a Letter Agreement serving to amend the Plea Agreement relating to the terms of the Company's satisfaction of the fine assessed under the Plea Agreement. The Letter Agreement provides, among other things, that the Company will satisfy the remaining $2,150,000 of the fine through the payment of $25,000 on a monthly basis commencing June 1, 1998, plus interest on the outstanding balance. See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations -- Liquidity and Capital Resources" for a more detailed description of the Letter Amendment to the Plea Agreement between the DOJ and the Company.

On June 29, 1993, the Company entered into a consent decree (the "Consent Decree") with the U.S. Attorney for the Eastern District of New York on behalf of the FDA that resulted from the FDA's investigation into the Brooklyn plant's compliance with the FDA's Current Good Manufacturing Practices ("CGMP") regulations. Under the terms of the Consent Decree, the Company was enjoined from shipping any solid dosage drug products (i.e., excluding liquid drug formulations) manufactured at the Brooklyn plant until the Company established, to the satisfaction of the FDA, that the methods used in, and the facilities and controls used for, manufacturing, processing, packing, labeling and holding any drug, were established, operated, and administered in conformity with the Federal Food, Drug, and Cosmetic Act and all CGMP

Regulations. As part of satisfying these requirements, the Company was required to validate the manufacturing processes for each solid dosage drug product prior to manufacturing and shipping the drug product.

On October 23, 1996, the Company withdrew four of its ANDAs, including its ANDA (the "Capsules ANDA") for acetaminophen/oxycodone capsules (the "Capsules"), and halted sales of the affected products. Net sales derived from the withdrawn Capsule ANDA were approximately $3 million and $8 million for the years ended December 31, 1996 and December 31, 1995, respectively, and accounted for approximately 24% and 40% of the Company's total net sales during such twelve month periods. The Company instituted the withdrawal of the Capsule ANDA at the suggestion of the FDA and in anticipation of its release from the AIP. At the FDA's suggestion, the Company retained outside consultants to perform validity assessments of its drug applications. Thereafter, in October 1996, the FDA recommended that several applications, including the Capsule ANDA, be withdrawn. As a basis for its decision, the FDA cited questionable and incomplete data submitted in connection with the applications. The FDA indicated that the withdrawal of the four ANDAs was necessary for the release of the Company from the AIP. The FDA further required submission by the Company of a Corrective Action Plan, which was prepared and submitted by the Company and accepted by the FDA.

On December 19, 1996, the FDA released the Company from the AIP. As a consequence, for the first time since October 1991, the Company was permitted to submit ANDAs to the FDA for review. Since its release from the AIP in December 1996, through the fiscal year ended December 31, 1998, the Company submitted 13 ANDAs for review by the FDA, including a new ANDA with respect to the Capsules. During the period from the Company's release from the AIP to March 15, 1999, the Company received the following ANDA approvals, all of which relate to ANDA filings made with the FDA subsequent to the Company's release from the AIP:

PRODUCT NAME (DRUG CLASS)	STRENGTH	TRADE NAME	STATUS
Hydrocodone Bitartate and..... Acetaminophen Tablets (narcotic analgesic)	5mg/500mg	Vicodin(R)(1)	FDA approval of ANDA received September 26, 1997.
Hydrocodone Bitartate and..... Acetaminophen Tablets (narcotic analgesic)	7.5mg/750mg	VicodinES(R)(1)	FDA approval of ANDA received September 26, 1997.
Hydrocodone Bitartate and..... Acetaminophen Tablets, CIII (narcotic analgesic)	7.5mg/650mg	Lorcet Plus(R)(2)	FDA approval of ANDA received November 26, 1997.
Hydrocodone Bitartrate and.... Acetaminophen Tablets, CIII (narcotic analgesic)	10mg/650mg	Lorcet(R)(2)	FDA approval of ANDA received November 26, 1997.
Oxycodone HCI and..... Acetaminophen Capsules, CII (narcotic analgesic)	5mg/50mg	Tylox(R)(3)	FDA approval of ANDA received January 22, 1998.
Oxycodone HCI/Oxycodone..... Terephthalate Tablets, CII (narcotic analgesic)	4.5mg/325mm	Percodan(R)(4)	FDA approval of ANDA received July 24, 1998

(1) Registered trademark of Knoll Pharmaceutical Co.

(2) Registered trademark of Forest Laboratories, Inc.

(3) Registered trademark of McNeil Consumer Products Company

(4) Registered Trademark of DuPont Merck

As of March 15, 1999, the Company had submitted one ANDA for review by the FDA in fiscal 1999 and anticipates the submission of five additional ANDAs during the balance of fiscal 1999. Although the Company has been successful in receiving the ANDA approvals described above since its release from the AIP in December 1996, there can be no assurance that any of its newly submitted ANDAs, or those contemplated to

be submitted, will be approved by the FDA. The Company will not be permitted to market any new product unless and until the FDA approves the ANDA relating to such product. Failure to obtain FDA approval for the Company's pending ANDAs, or a significant delay in obtaining such approval, would adversely affect the Company's business operations and financial condition.

Private Offerings and Bridge Financing

On March 10, 1998, the Company completed a private offering of securities (the "Offering") to Galen Partners III, L.P., Galen Partners International III, L.P., Galen Employee Fund III, L.P., (collectively, "Galen") and each of the Purchasers listed on the signature page to a certain Debenture and Warrant Purchase Agreement dated March 10, 1998 between the Company and such Purchasers (inclusive of Galen, collectively the "Galen Investor Group"). The securities issued in the Offering consisted of 5% convertible senior secured debentures (the "Debentures") and common stock purchase warrants (the "Warrants") exercisable for an aggregate of 4,202,020 shares of the Company common stock. The net proceeds to the Company from the Offering, after the deduction of related Offering expenses, was approximately $19.6 million. In addition, in accordance with the terms of the Debenture and Warrant Purchase Agreement pursuant to which the Offering was completed, the Company granted the Galen Investor Group an option to invest an additional $5 million in the Company at any time within 18 months from the date of the closing of the Offering in exchange for Debentures and Warrants having terms identical to those issued in the Offering (the "Galen Option"). In June 1998, the Galen Investor Group exercised this option.

The net proceeds of the Offering have, in large part, been used to satisfy a substantial portion of the Company's liabilities and accounts payable. Additionally, pursuant to agreements reached with other large creditors in anticipation of the completion of the Offering, including the Company's landlord and the DOJ, the Company has been able to bring these creditors current and will be in compliance with installment payment agreements providing favorable terms to the Company. The net proceeds from the exercise of the Galen Option have been used, in large part, to fund working capital, including the purchase of raw materials, payroll expenses and other Company expenses.

In addition to the net proceeds from the Offering and the exercise of the Galen Option, the Company secured bridge financing from Galen and certain investors in the Offering in the aggregate amount of $9,504,111 funded through seven separate bridge loan transactions between the period from August through and including December, 1998, as well as an additional bridge loan in March, 1999 (collectively, the "Bridge Loans"). The Bridge Loans were consolidated on December 2, 1998 pursuant to an Amended, Restated and Consolidated Bridge Loan Agreement (the "Consolidated Bridge Loan"). The Consolidated Bridge Loan bears interest at 10% per annum, is secured by a first lien on all of the Company's assets and has a maturity date of May 30, 1999. Approximately $9,120,000 in the principal amount of the Consolidated Bridge Loan was advanced by Galen with the balance of approximately $384,000 advanced by certain investors in the Offering. The Consolidated Bridge Loan was secured by the Company in order to provide necessary working capital. See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" for a more detailed discussion of the Consolidated Bridge Loan transaction.

Lease of Congers, New York Facility

Effective March 22, 1999, the Company leased, as sole tenant, a pharmaceutical manufacturing facility located in Congers, New York (the "Congers Facility") from Par Pharmaceuticals, Inc. ("Par") pursuant to an Agreement to Lease (the "Lease"). The Congers Facility contains office, warehouse and manufacturing space and is approximately 35,000 square feet. The Lease provides for a term of three years, with a two year renewal option and provides for annual fixed rent of $500,000 per year during the primary term of the Lease and $600,000 per year during the option period. The Lease also covers certain manufacturing and related equipment previously used by Par in its operations at the Congers Facility (the "Leased Equipment"). In connection with the execution of the Lease, the Company and Par entered into a certain Option Agreement pursuant to which the Company may purchase the Congers Facility and the Lease Equipment at any time during the lease term for $5 million.

As part of the execution of the Lease, the Company and Par entered into a certain Manufacturing and Supply Agreement (the "M&S Agreement") having a minimum term of twenty seven months. The M&S Agreement provides for the Company's contract manufacture of certain designated products manufactured by Par at the Congers Facility prior to the effective date of the Lease. The M&S Agreement also provides that Par will purchase a minimum of $1,150,000 in product during the initial 18 months of the Agreement. The M&S Agreement further provides that the Company will not manufacture, supply, develop or distribute the designated products to be supplied by the Company to Par under the M&S Agreement to or for any other person for a period of three years.

Cessation of California Operations

On March 20, 1998, the Company discontinued the operations of H.R. Cenci Laboratories, a wholly-owned subsidiary. H.R. Cenci Laboratories had been a manufacturer of drug products in liquid preparations. Continuing operating losses and the Company's inability to leverage the manufacturing capacity of Cenci Laboratories were among factors considered by the Board and Management in its determination to cease such operations.

On March 30, 1998, the Company completed the sale of substantially all of the non-real property assets of Cenci Powder Products, a wholly-owned subsidiary, to Zuellig Botanical. The purchase price for the assets consisted of the forgiveness by Zuellig Botanical of approximately $262,000 in indebtedness owed by Cenci Powder to Zuellig Botanical related to the purchase of raw materials. The Agreement provided further that Zuellig Botanical would satisfy the manufacture and delivery requirements of Cenci Powder at its located facility in Fresno, California, under an existing third party supply contract. On December 4, 1998, the Company disposed of the real property owned by Cenci Powder in Fresno, California to an unrelated third party for a net sales price of approximately $73,000. Continuing operating losses and the Company's inability to leverage the manufacturing capacity of Cenci Powder were among the factors considered by the Board and Management in its determination to terminate the operations of Cenci Powder.

PRODUCTS AND PRODUCT DEVELOPMENT

Generic Drug Products

The Company historically has manufactured and sold a broad range of prescription and over-the-counter drug products. The Company's pharmaceutical product list currently includes a total of approximately 28 products, consisting of 18 dosage forms and strengths of prescription drugs and 10 dosage forms and strengths of over-the-counter drugs. Each dosage form and strength of a particular drug is considered in the industry to be a separate drug product. The Company's drug products are sold in various forms, including liquid and powder preparations, compressed tablets and two-piece, hard-shelled capsules.

Most of the generic drug products manufactured by the Company can be classified within one of the following categories:

1. Antibiotics,

2. Narcotic analgesics,

3. Anti-infective and anti-tubercular drugs,

4. Antihistamines and antihistaminic decongestants, or

5. Antitussives.

During fiscal 1998, sales of antitussives and narcotic analgesics accounted for approximately 75% of total net sales during such year. The Company anticipates that sales of antitussives and narcotic analgesics will continue to represent a significant portion of the Company's revenue.

The Company's development strategy for new drug products has been to focus on the development of a broad-range of generic form drugs, each of which (i) has developed a solid market acceptance with a wide base of customers, (ii) can be sold on a profitable basis notwithstanding intense competition from other drug manufacturers, and (iii) is no longer under patent protection. The Company has also diversified its current product line to include some less widely prescribed drugs as to which limited competition might be expected. In addition, the Company will continue to pursue the development of its existing pharmaceutical business as well as the development of the chemical products business of its Houba subsidiary.

Development activities for each new generic drug product begin several years in advance of the patent expiration date of the brand-name drug equivalent. This is because the profitability of a new generic drug usually depends on the ability of the Company to obtain FDA approval to market that drug product upon or immediately after the patent expiration date of the equivalent brand-name drug. Being among the first to market a new generic drug product is vital to the profitability of the product. As other off-patent drug manufacturers receive FDA approvals on competing generic products, prices and revenues typically decline. Accordingly, the Company's ability to attain profitable operations will, in large part, depend on its ability to develop and introduce new products, the timing of receipt of FDA approval of such products and the number and timing of FDA approvals for competing products.

Active Pharmaceutical Ingredients

In the last few years, the Company has increased its efforts to develop and manufacture active pharmaceutical ingredients also known as bulk chemical products. The development and sale of active pharmaceutical ingredients generally is not subject to the same level of regulation as is the development and sale of drug products; accordingly, active pharmaceutical ingredients may be brought to market substantially sooner than drug products. While the Company currently is focusing on the development and manufacture of active pharmaceutical ingredients for use in production of finished dosage products at the Company's Brooklyn and Congers, New York facilities, active pharmaceutical ingredients eventually may be marketed and sold to third parties.

RESEARCH AND DEVELOPMENT

The Company conducts research and development activities at each of its Brooklyn and Indiana facilities. The Company's research and development activities consist primarily of new generic drug product development efforts and manufacturing process improvements, as well as the development for sale of new chemical products. New drug product development activities are primarily directed at conducting research studies to develop generic drug formulations, reviewing and testing such formulations for therapeutic equivalence to brand name products and additional testing in areas such as bioavailability, bioequivalence and shelf-life. For fiscal years 1998, 1997 and 1996, total research and development expenditures were $651,000, $979,000 and $1,854,000, respectively. During 1999, the Company's research and development efforts will cover products in a variety of therapeutic applications.

As of March 15, 1999, the Company maintained a full-time staff of five in its Research and Development Departments.

MARKETING AND CUSTOMERS

The application of the AIP to the Company's operations until December 1996, combined with the Company's continuing operating losses and lack of adequate working capital during fiscal 1997 and the first quarter of 1998 resulted in the Company's inability to maintain sufficient raw materials and finish goods inventories to permit the Company to actively solicit customer orders, and when orders were received, to fill such orders promptly. Following the completion of the Offering, new Management adopted a marketing strategy focused on developing and maintaining sufficient raw materials and finish goods inventories so as to permit a targeted sales effort by the Company to a core customer group, with an emphasis on quality, prompt product delivery and excellent customer service. The Company's products are sold by Stephanie Heitmeyer, Vice President of Sales, and three salaried sales persons. Sales of the Company's drugs in dosage form are made primarily to drug wholesalers, drugstore chains, distributors and other manufacturers and are not concentrated in any specific region.

During 1998, the Company had net sales to one customer aggregating 11.5% of total sales. The sales to such customer were made pursuant to a certain contract manufacturing agreement entered into with the Company as part of the Company's sale of its ANDA for oxycodone HCI/325 mg acetaminophen tablets in March, 1995. The Company anticipates that net sales to this customer (which aggregated approximately 22.3% of total sales in 1997) will continue to decline during 1999 and thereafter. The Company does not believe that the continuing decline of net sales to this customer will have a material adverse effect on the Company.

Also during 1998, the Company had net sales to two customers aggregating approximately 19.1% of total sales. The Company believes that the loss of these customers would have a material adverse effect on the Company. During 1997 the Company had net sales to one customer in excess of 10% of total sales, aggregating 22.3% of total sales. During 1996, the Company had net sales to one customer in excess of 10% of total sales, aggregating 10% of total sales.

The estimated dollar amount of the backlog of orders for future delivery as of March 15, 1999 was approximately $500,000 as compared with approximately $800,000 as of March 15, 1998. Although these orders are subject to cancellation, management expects to fill substantially all orders by the second quarter of 1999. The decline in the Company's backlog as of March 15, 1999 compared to that in 1998 is largely a function of the Company's increased efficiency in the processing and filling of customer orders.

GOVERNMENT REGULATION

General

All pharmaceutical manufacturers, including the Company, are subject to extensive regulation by the Federal government, principally by the FDA, and, to a lesser extent, by state and local governments. Additionally, the Company is subject to extensive regulation by the DEA as a manufacturer of controlled substances. The Company cannot predict the extent to which it may be affected by legislative and other

regulatory developments concerning its products and the healthcare industry generally. The Federal Food, Drug, and Cosmetic Act, the Generic Drug Enforcement Act of 1992, the Controlled Substance Act and other Federal statutes and regulations govern or influence the testing, manufacture, safe labeling, storage, record keeping, approval, pricing, advertising, promotion, sale and distribution of pharmaceutical products. Noncompliance with applicable requirements can result in fines, recall or seizure of products, criminal proceedings, total or partial suspension of production, and refusal of the government to enter into supply contracts or to approve new drug applications. The FDA also has the authority to revoke approvals of new drug applications. The ANDA drug development and approval process now averages approximately eight months to two years. The approval procedures are generally costly and time consuming.

FDA approval is required before any "new drug," whether prescription or over-the-counter, can be marketed. A "new drug" is one not generally recognized by qualified experts as safe and effective for its intended use. Such general recognition must be based on published adequate and well controlled clinical investigations. No "new drug" may be introduced into commerce without FDA approval. A drug which is the "generic" equivalent of a previously approved prescription drug also will require FDA approval. Furthermore, each dosage form of a specific generic drug product requires separate approval by the FDA. In general, as discussed below, less costly and time consuming approval procedures may be used for generic equivalents as compared to the innovative products. Among the requirements for drug approval is that the prospective manufacturer's methods must conform to the CGMPs. CGMPs apply to the manufacture, receiving, holding and shipping of all drugs, whether or not approved by the FDA. CGMPs must be followed at all times during which the drug is manufactured. To ensure full compliance with standards, some of which are set forth in regulations, the Company must continue to expend time, money and effort in the areas of production and quality control. Failure to so comply risks delays in approval of drugs, disqualification from eligibility to sell to the government, and possible FDA enforcement actions, such as an injunction against shipment of the Company's products, the seizure of noncomplying drug products, and/or, in serious cases, criminal prosecution. The Company's manufacturing facilities are subject to periodic inspection by the FDA.

In addition to the regulatory approval process, the Company is subject to regulation under Federal, state and local laws, including requirements regarding occupational safety, laboratory practices, environmental protection and hazardous substance control, and may be subject to other present and future local, state, Federal and foreign regulations, including possible future regulations of the pharmaceutical industry.

Drug Approvals

There are currently three ways to obtain FDA approval of a new drug.

1. New Drug Applications ("NDA"). Unless one of the procedures discussed in paragraph 2 or 3 below is available, a prospective manufacturer must conduct and submit to the FDA complete clinical studies to prove a drug's safety and efficacy, in addition to the bioavailability and/or bioequivalence studies discussed below, and must also submit to the FDA information about manufacturing practices, the chemical make-up of the drug and labeling.

2. Abbreviated New Drug Applications ("ANDA"). The Drug Price Competition and Patent Term Restoration Act of 1984 (the "1984 Act") established the ANDA procedure for obtaining FDA approval for those drugs that are off-patent or whose exclusivity has expired and that are bioequivalent to brand-name drugs. An ANDA is similar to an NDA, except that the FDA waives the requirement of conducting complete clinical studies of safety and efficacy, although it may require expanded clinical bioavailability and/or bioequivalence studies. "Bioavailability" means the rate of absorption and levels of concentration of a drug in the blood stream needed to produce a therapeutic effect. "Bioequivalence" means equivalence in bioavailability between two drug products. In general, an ANDA will be approved only upon a showing that the generic drug covered by the ANDA is bioequivalent to the previously approved version of the drug, i.e., that the rate of absorption and the levels of concentration of a generic drug in the body are substantially equivalent to those of a previously approved equivalent drug. The principle advantage of this approval mechanism is that an ANDA applicant is not required to conduct the same preclinical and clinical studies to demonstrate that the product is safe and effective for its intended use.

The 1984 Act, in addition to establishing the ANDA procedure, created new statutory protections for approved brand-name drugs. In general, under the 1984 Act, approval of an ANDA for a generic drug may not be made effective until all product and use patents listed with the FDA for the equivalent brand name drug have expired or have been determined to be invalid or unenforceable. The only exceptions are situations in which the ANDA applicant successfully challenges the validity or absence of infringement of the patent and either the patent holder does not file suit or litigation extends more than 30 months after notice of the challenge was received by the patent holder. Prior to enactment of the 1984 Act, the FDA gave no consideration to the patent status of a previously approved drug. Additionally, under the 1984 Act, if specific criteria are met, the term of a product or use patent covering a drug may be extended up to five years to compensate the patent holder for the reduction of the effective market life of that patent due to federal regulatory review. With respect to certain drugs not covered by patents, the 1984 Act sets specified time periods of two to ten years during which approvals of ANDAs for generic drugs cannot become effective or, under certain circumstances, ANDAs cannot be filed if the equivalent brand-name drug was approved after December 31, 1981.

3. "Paper" NDA. An alternative NDA procedure is provided by the 1984 Act whereby the applicant may rely on published literature and more limited testing requirements. While that alternative sometimes provides advantages over the ANDA procedure, it is not frequently used.

Generic Drug Enforcement Act

As a result of hearings and investigations concerning the activities of the generic drug industry and the FDA's generic drug approval process, Congress enacted the Generic Drug Enforcement Act of 1992 (the "Generic Drug Act"). The Generic Drug Act confers significant new authority upon the FDA to impose debarment and civil penalties for individuals and companies who commit certain illegal acts relating to the generic drug approval process.

The Generic Drug Act requires the mandatory debarment of companies or individuals convicted of a federal felony for conduct relating to the development or approval of any ANDA, and gives the FDA discretion to debar corporations or individuals for similar conduct resulting in a federal misdemeanor or state felony conviction. The FDA may not accept or review during the period of debarment (one to ten years in the case of mandatory, or up to five years in the case of permissive, debarment of a corporation) any ANDA submitted by or with the assistance of the debarred corporation or individual. The Generic Drug Act also provides for temporary denial of approval of generic drug applications during the investigation of crimes that could lead to debarment. In addition, in more limited circumstances, the Generic Drug Act provides for suspension of the marketing of drugs under approved generic drug applications sponsored by affected companies. The Generic Drug Act also provides for fines and confers authority on the FDA to withdraw, under certain circumstances, approval of a previously granted ANDA if the FDA finds that the ANDA was obtained through false or misleading statements. The Company was not debarred as a result of the FDA investigation and settlement and the Consent Decree with the FDA makes no provision therefor.

Healthcare Reform

Several legislative proposals to address the rising costs of healthcare have been introduced in Congress and several state legislatures. Many of such proposals include various insurance market reforms, the requirement that businesses provide health insurance coverage for all their employees, significant reductions in the growth of future Medicare and Medicaid expenditures, and stringent government cost controls that would directly control insurance premiums and indirectly affect the fees of hospitals, physicians and other healthcare providers. Such proposals could adversely affect the Company's business by, among other things, reducing the demand, and the prices paid, for pharmaceutical products such as those produced and marketed by the Company. Additionally, other developments, such as (i) the adoption of a nationalized health insurance system or a single payor system, (ii) changes in needs-based medical assistance programs, or (iii) greater prevalence of capitated reimbursement of healthcare providers, could adversely affect the demand for the Company's products.

COMPETITION

The Company competes in varying degrees with numerous companies in the health care industry, including other manufacturers of generic drugs (among which are divisions of several major pharmaceutical companies) and manufacturers of brand-name drugs. Many of the Company's competitors have substantially greater financial and other resources and are able to expend more money and effort than the Company in areas such as marketing and product development. Although a company with greater resources will not necessarily receive FDA approval for a particular generic drug before its smaller competitors, relatively large research and development expenditures enable a company to support many FDA applications simultaneously, thereby improving the likelihood of being among the first to obtain approval of at least some generic drugs.

One of the principal competitive factors in the generic pharmaceutical market is the ability to introduce generic versions of brand-name drugs promptly after a patent expires. The Company believes that it was at a competitive disadvantage until its release from the AIP program and the FDA's resumption of review of ANDAs submitted by the Company's Brooklyn plant. See "Government Regulation -- Generic Drug Enforcement Act" above. Other competitive factors in the generic pharmaceutical market are price, quality and customer service (including maintenance of sufficient inventories for timely deliveries).

RAW MATERIALS

The raw materials essential to the Company's business are bulk pharmaceutical chemicals purchased from numerous sources. Raw materials are generally available from several sources. The Federal drug application process requires specification of raw material suppliers. If raw materials from a supplier specified in a drug application were to become unavailable on commercially acceptable terms, FDA supplemental approval of a new supplier would be required. During 1998, the Company purchased approximately $2,583,000 of its raw materials (constituting 29% of its aggregate purchases of raw materials) from Mallinckrodt. Although the Company is now able to submit Supplements to the FDA in order to allow the Company to purchase raw materials from alternate sources, there can be no assurance that if the Company were unable to continue to purchase raw materials from this supplier, that the Company would be successful in receiving FDA approval to such Supplement or that it would not face difficulties in obtaining raw materials on commercially acceptable terms. Failure to receive FDA approval for, and to locate, an acceptable alternative source of raw materials would have a material adverse effect on the Company.

The United States Drug Enforcement Administration (the "DEA") limits the quantity of the Company's inventories of certain raw materials used in the production of controlled substances based on historical sales data. In view of the Company's recently depressed sales volume, these DEA limitations could increase the likelihood of raw material shortages and of manufacturing delays in the event the Company experiences increased sales volume or is required to find new suppliers of these raw materials.

SUBSIDIARIES

The Company's Indiana manufacturing operations are conducted by Houba, Inc., an Indiana corporation and wholly-owned subsidiary of the Company. Halsey Pharmaceuticals, Inc., a Delaware corporation, is a wholly-owned subsidiary which is currently inactive. The Company also has the following additional subsidiaries, each of which is currently inactive and anticipated to be dissolved during the remainder of the 1999 fiscal year: Indiana Fine Chemicals Corporation, a Delaware corporation, H.R. Cenci Laboratories, Inc., a California corporation, Cenci Powder Products, Inc., a Delaware corporation, Blue Cross Products, Inc., a New York corporation, and The Medi-Gum Corporation, a Delaware corporation.

EMPLOYEES

As of March 15, 1999, the Company had approximately 160 full-time employees. Approximately 39 employees are administrative and professional personnel and the balance are in production and shipping. Among the professional personnel, 5 are engaged in research and product development. Approximately 45 employees at the Company's Brooklyn plant are represented by a local collective bargaining unit. The collective bargaining agreement between the Company and the union was extended on March 5, 1998

(retroactive to July 2, 1997) and expires June 30, 2000. Management believes that its relations with its employees and the union are satisfactory.

ITEM 2. PROPERTIES.

Halsey leases, as sole tenant, a pharmaceutical manufacturing facility of approximately 35,000 square feet located at 77 Brenner Drive, Congers, New York. The Agreement of Lease, with an unaffiliated third party, contains a three year term with a two year renewal option and provides for annual fixed rent of $500,000 per year during the primary term of the Lease and $600,000 per year during the renewal period. The primary term of the Lease expires on March 21, 2002. The Leased facility houses a portion of the Company's manufacturing operations and includes office and warehouse space. The Lease also contains an option pursuant to which the Company may purchase the leased premises and improvements (including certain production and related equipment) for a purchase price of $5 million, exercisable at any time during the Lease term.

Halsey leases, as sole tenant, a total of approximately 112,300 square feet in three buildings on Pacific Street and Dean Street in Brooklyn, New York. Each of these leases is between Halsey and unaffiliated lessors. The approximate aggregate minimum rental commitments under these operating leases are as follows: $1,023,000 for the year 1999, $1,075,000 for the year 2000 and $1,128,000 for the year 2001. These leases expire on December 31, 2005. The buildings leased by Halsey in Brooklyn house its research and development operations and a portion of its manufacturing operations.

Halsey leases approximately 4,700 square feet of office space located at 695 North Perryville Road, Building No. 2, Rockford, Illinois. The lease is between the Company and an unaffiliated lessor. The lease has a term of two years expiring March 30, 2000 and calls for annual rental, including maintenance and common area expense, of approximately $50,000 per year. This leased facility houses the Company's principal executive offices, including its sales, administration and finance operations.

Houba owns approximately 45,000 square feet of building space on approximately 30 acres of land in Culver, Indiana, which includes a 15,000 square foot manufacturing facility. This manufacturing facility houses separate plants for the production of Doxycycline raw materials, Doxycycline capsules and tablets. In 1996, in conjunction with a settlement with two former employees, the Company acquired real property, improved by a residential property, in Culver, Indiana adjacent to the manufacturing facility.

ITEM 3. LEGAL PROCEEDINGS.

GOVERNMENTAL PROCEEDINGS

By letter dated October 23, 1995, the Company was notified by the New York State Education Department (the "Department") that the Professional Conduct Officer of the Office of Professional Discipline had determined that there was sufficient evidence of professional misconduct on the Company's part to warrant a disciplinary proceeding under New York law. Upon contacting the Deputy Director of the Office of Professional Discipline, counsel for the Company was advised that the alleged misconduct related to the same activities that were the subject of the DOJ investigation. The Company submitted a written response to the Department on November 16, 1995. The Company and the Department entered into a consent order effective July 18, 1997, concluding any disciplinary proceedings. The consent order requires that the Company pay $175,000 in fines over a period of five years. The consent order also provides that the Company's registration as a manufacturer of drugs in New York State is revoked, but such revocation is stayed and the Company has been placed on probation for a maximum period of five years. The Company has the right to apply for removal from probation two years after the effective date of the consent order. At December 3, 1998, the Company is current in its payment obligations and the remaining balance is $140,000.

Immediately prior to the completion of the Offering, the Company was in default under the consent order with the Department for failure to satisfy two of the monthly installments of the fine as provided in the consent order. Prior to the completion of the Offering, the Company advised the Department as to the existence of the default and that such deficiencies would be corrected upon the completion of the Offering. The Company has

satisfied these outstanding amounts and is now current under the consent order with the Department. Based on discussions between representatives of the Department and the Company's outside counsel handling this matter, the Company has been advised that the revocation of the Company's registration as a manufacturer of drugs in the State of New York will remain stayed and that the Company continues to have the right to apply for removal from probation after two years from the effective date of the consent order.

Reference is also made to the discussion of the Company's Plea Agreement and Letter Agreement with the DOJ contained in "Item 1. Business -- Recent Events" and "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations."

OTHER LEGAL PROCEEDINGS

Beginning in 1992, actions were commenced against the Company and numerous other pharmaceutical manufacturers in the Pennsylvania Court of Common Pleas, Philadelphia Division, in connection with the alleged exposure to diethylstilbestrol ("DES"). The defense of all of such matters was assumed by the Company's insurance carrier, and a substantial number have been settled by the carrier. Currently, five actions remain pending with the Company as a defendant, and the insurance carrier is defending each action. Similar actions were brought in Ohio, and have been dismissed based on Ohio law. The Company does not believe any of such actions will have a material impact on the Company's financial condition.

The Company has been named as a defendant in four additional actions, each of which has been referred to the Company's insurance carrier and has been accepted for defense. The first action, Alonzo v. Halsey Drug Co., Inc. and K-Mart Corp., No. 64DOT-95111-CT-2736 (Indiana Superior Court, Porter County), was commenced on November 7, 1995 and involves a claim for unspecified damages relating to the alleged ingestion of "Doxycycline 100." At this early stage of the proceedings, the Company is unable to predict with any degree of certainty the likely outcome of these claims and whether they will have a material adverse effect on the Company's financial condition. The second action, Files v. Halsey Drug Co., Index No. 198787/93 (New York Supreme Court, Suffolk County), commenced on September 16, 1993, seeking $10,000,000 in damages for wrongful death allegedly caused by the ingestion of Isoniazid. Halsey has been dismissed from this action on motion for summary judgment. The third and fourth actions, entitled Hunt v. Halsey Drug Co., Inc., and McCray v. Halsey Drug Co., Inc. (New York State Supreme Court, Kings County), were commenced on October 21, 1993, seeking the recovery of $8,000,000 for alleged personal injuries suffered by two Well Fargo security guards who responded to an alarm and were shot, resulting in the death of one and the injury to the other. The Company is being defended by its insurance carrier. The Company has impleaded the former security service used by the Company as a third-party defendant. These actions were settled at a conference before the Court on December 21, 1998. The settlement documents have been executed, and the settlement is expected to be consummated shortly.

The Company has been named as a defendant in a complaint filed with the United States District Court, Eastern District of New York, on June 30, 1998 (the "Complaint") by Quality Products and Services, L.L.C. The Complaint alleges the existence of a Joint Venture Agreement between the Plaintiff and the Company concerning the development, manufacture and marketing of a single product. The Complaint also alleges that the Company has breached the Agreement by failing to satisfy its respective obligations defined in the Agreement. The Complaint seeks monetary damages of approximately $20 million. The Company believes that the allegations contained in the Complaint are without basis in fact, and that is has meritorious defenses to each of the allegations. The Company has retained counsel and intends to vigorously defend this action. This matter is currently in discovery. The Company has filed a third-party complaint against Rosendo Ferran, the Company's former President, in connection with the Complaint.

The Company has been named as a defendant in an action in Suffolk County, New York, by Designed Laboratories, Inc., for construction work allegedly performed at the Company's facilities in Brooklyn. Plaintiffs is seeking approximately $148,000. The Company has no records of work being performed by this entity, and is therefore defending the action.

The Company's former President, Rosendo Ferran, has instituted an arbitration against the Company, seeking sums allegedly due under his employment contract in the amount of $225,000.00, deferred salary in

the approximate amount of $100,000.00, and unspecified damages upon allegations of age, ethnic and religious discrimination. The Company believes it has meritorious defenses to the allegations claimed in the arbitration. The Company does not believe this claim will have a material adverse effect on the Company's financial condition.

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

No matters were submitted to a vote of security holders during the fourth quarter of 1998.

PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY AND RELATED SECURITY HOLDER MATTERS.

MARKET AND MARKET PRICES OF COMMON STOCK

The Company's Common Stock is listed on the American Stock Exchange (the "Exchange") under the symbol "HDG." Set forth below for the periods indicated are the high and low sales prices for the Common Stock as reported on the Exchange.

PERIOD	HIGH	LOW
1999 Fiscal Year		
First Quarter (through March 15, 1999)	1 9/16	1
1998 Fiscal Year		
First Quarter	3 5/8	1 1/4
Second Quarter	3 1/8	2 3/8
Third Quarter	2 3/4	1 1/2
Fourth Quarter	1 7/8	1
1997 Fiscal Year		
First Quarter	6	4 3/8
Second Quarter	5 1/8	2 9/16
Third Quarter	4 13/16	2 5/16
Fourth quarter	4 13/16	1 5/16

The Company does not meet certain of the Exchange's criteria for continued listing. Accordingly, there can be no assurance that the Company's common stock will remain listed on the American Stock Exchange or that the Exchange will not commence a review of the Company's continued listing eligibility. If the Common Stock should become delisted from the Exchange, trading, if any, in the Common Stock would continue on the OTC Bulletin Board, an NASD-sponsored inter-dealer quotation system, or in what is commonly referred to as the "Pink Sheets". In such event, a shareholder may find it more difficult to dispose of, or to obtain accurate quotations as to the market value of the Common Stock.

HOLDERS

There were 827 holders of record of the Company's common stock on March 15, 1999. This number, however, does not reflect the ultimate number of beneficial holders of the Company's common stock.

DIVIDEND POLICY

The payment of cash dividends from current earnings is subject to the discretion of the Board of Directors and is dependent upon many factors, including the Company's earnings, its capital needs and its general financial condition. The terms of the Company's 5% convertible senior secured debentures and the Consolidated Bridge Loan prohibit the Company from paying cash dividends. The Company does not intend to pay any cash dividends in the foreseeable future.

PRIVATE OFFERINGS

The Company secured bridge financing from Galen and certain investors in the Offering in the aggregate amount of $9,504,111, funded through seven separate bridge loan transactions between the period August through and including December, 1998, as well as an additional bridge loan completed in March, 1999 (collectively, the "Bridge Loans"). The Bridge Loans were consolidated on December 2, 1998 pursuant to an Amended, Restated and Consolidated Bridge Loan Agreement, as amended to permit the March, 1999 bridge loan (the "Consolidated Bridge Loan"). The Consolidated Bridge Loan is evidenced by ten (10%) percent convertible senior secured promissory notes which are convertible at any time prior to the maturity date of May 30, 1999 into shares of the Company's Common Stock at a conversion price of approximately $1.368 per share with respect to approximately $7,820,000 of such indebtedness, $1.331 per share with respect to approximately $284,000 of such indebtedness, and $1.197 per share with respect to approximately $1,400,000 of such indebtedness, for an aggregate of 7,099,338 shares of Common Stock (such conversion prices equal the fair market value of the Common Stock at the date of issuance of the convertible promissory notes). In addition, in consideration for the initial extension for the Bridge Loans and the extension of the maturity dates of the Bridge Loans pursuant to the consolidation of such loans on December 2, 1998, the Company issued common stock purchase warrants to the lenders in the Consolidated Bridge Loan to purchase an aggregate of approximately 1,009,909 shares of the Company's Common Stock. The Bridge Loan warrants are substantially identical to those issues in the debenture and warrant offering completed March 10, 1998.

Each of the lenders in the Consolidated Bridge Loan transaction are accredited investors as defined in Rule 501(a) of Regulation D promulgated under the Securities Act of 1933, as amended (the "Act"). The convertible notes and warrants issued in connection with the Consolidated Bridge Loan were issued without registration under the Act in reliance upon Section 4(2) of the Act and Regulation D promulgated thereunder.

ITEM 6. SELECTED FINANCIAL DATA.

The selected consolidated financial data presented on the following pages for the years ended December 31, 1998, 1997, 1996, 1995 and 1994 are derived from the Company's audited Consolidated Financial Statements. The Consolidated Financial Statements as of December 31, 1998 and December 31, 1997, and for each of the years in the three year period ended December 31, 1998, and the report thereon, are included elsewhere herein. The selected financial information as of and for the years ended December 31, 1995 and 1994 are derived from the audited Consolidated Financial Statements of the Company not presented herein.

The information set forth below is qualified by reference to, and should be read in conjunction with, the Consolidated Financial Statements and related notes thereto included elsewhere in this Report and "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations."

	YEARS ENDED DECEMBER 31,				
	1998	1997	1996	1995	1994
	(IN THOUSANDS, EXCEPT PER SHARE DATA)				
OPERATING DATA:					
Net sales	$ 8,841	$ 9,088	$ 12,379	$ 20,225	$ 24,182
Costs and expenses					
Cost of sales	12,712	15,407	16,826	18,097	21,584
Research and development	651	979	1,854	818	502
Selling, general and administrative	8,078	6,308	7,486	6,098	7,128
Interest expense	1,946	1,144	1,708	1,307	735
Loss (Gain) on sale of assets	(1,822)	264	(1,000)	(2,288)	--
Income (loss) before provision for income taxes	(12,724)	(15,014)	(14,495)	(3,807)	(5,767)
Provision (benefit) for income taxes	--	--	--	296	--
Net income (loss)	(12,724)	$ (15,014)	$ (14,495)	$ (4,103)	$ (5,767)
Net income (loss) per share	$ (.92)	$ (1.12)	$ (1.49)	$ (.52)	$ (.80)
Weighted average common shares outstanding	13,812,529	13,434,215	9,724,106	7,886,101	7,173,908

	DECEMBER 31,				
	1998	1997	1996	1995	1994
	(IN THOUSANDS, EXCEPT PER SHARE DATA)				
BALANCE SHEET DATA:					
Working capital (deficiency)	$ (6,665)	$(22,304)	$(12,201)	$ (7,393)	$(4,451)
Total assets	15,913	7,667	11,982	18,862	19,276
Total liabilities	44,866	27,524	19,063	20,402	19,924
Retained earnings (accumulated deficit)	(57,221)	(44,497)	(29,484)	(14,989)	(10,886)
Stockholders' equity (deficit)	(28,953)	(19,857)	(7,081)	(1,540)	(468)

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

Certain statements set forth under this caption constitute "forward-looking statements" within the meaning of the Reform Act. See "Special Note Regarding Forward-Looking Statements " on page 1 of this Report for additional factors relating to such Statements.

OVERVIEW

The Company reported a net loss of $12,724,000 or $.92 per share for the year ended December 31, 1998 as compared with the net loss of $15,015,000 or $1.12 per share for 1997. Sales for the year ended December 31, 1998 were approximately $8,841,000 as compared to sales of approximately $9,088,000 for 1997. Notwithstanding these results, the Company had the following achievements in 1998:

- Received infusion of capital enabling the Company to settle past obligations and provide for future opportunities.

- Reestablished itself in the marketplace as a dependable supplier of quality products, expanded its customer base and reduced reliance upon a single customer.

- Reestablished relationships with suppliers.

- Received approval from the FDA of two ANDA's, submitted five others for approval and continued development on additional products for submission in 1999.

- Discontinued certain non-core operations and reduced the workforce by approximately 25%.

RESULTS OF OPERATIONS

The following chart reflects expenses, earnings, income, losses and profits expressed as a percentage of net sales for the years 1998, 1997 and 1996.

	PERCENTAGE OF NET SALES YEAR ENDED DECEMBER			PERCENTAGE CHANGE YEAR-TO-YEAR INCREASE (DECREASE) YEARS ENDED DECEMBER 31,	
	1998	1997	1996	1997 TO 1998	1996 TO 1997
Net sales	100%	100%	100.0%	(2.7)	(26.6)
Cost of Goods	143.8	169.5	135.9	(17.5)	(8.47)
Gross Profit	(43.8)	(69.5)	(35.9)	(38.7)	42.1
Research & Development	7.4	10.8	15.0	(33.5)	47.2
Selling, general and administrative expense	91.4	69.4	60.5	29.5	(15.7)
(Loss) from operations	(142.5)	(149.7)	(111.4)	(6.7)	(1.3)
Interest expense	22.0	12.6	13.9	70.1	(33.0)
Other (income) expenses	(20.6)	2.9	(8.2)	--	(126.4)
(Loss) before income taxes	(143.9)	(165.2)	(117.1)	(14.6)	3.6
Net (loss)	(143.9)%	(165.2)%	(117.1)%	(14.6)%	3.6%

NET SALES

Net sales for 1998 of $8,841,000 represents a decrease of $247,000 as compared to net sales for 1997. The decrease is attributable in part to a reduction in toll manufacturing revenue from Mallinckrodt of approximately $878,000 from the prior year. Additionally, the Company was unable to market successfully to the retail pharmacy marketplace until the third quarter of 1998 because during fiscal 1996 and 1997, the Company had failed to pay required rebates to state Medicaid agencies. This caused those states to deny medicaid reimbursement to the retail pharmacies on their sales of the Company's products. Commensurate with the infusion of new capital and personnel in March, 1998, the Company began reestablishing itself in good standing with all states. This task was completed by July, 1998. Also during much of 1988, the Company experienced difficulty in obtaining certain raw materials which reduced sales. These shortages were remedied by December 31, 1998.

Net sales for 1997 of $9,088,000 represents a decreased of $3,291,000 as compared to net sales for 1996. This decrease is primarily attributable to a lack of sufficient working capital necessary to purchase raw materials. Without adequate inventory, the Company was unable to satisfy customer orders in a timely fashion and caused customers to procure products from competitors.

GROSS MARGINS

The Company's gross margin for 1998 of (43.8)% is a 38.7% improvement over gross margin for 1997. This improvement is due, in part, to the elimination of non-core manufacturing operations in California, tighter inventory controls and a general reduction in manufacturing labor. Additionally, the Company's revenues in 1998 from sales to Mallinckrodt under a toll manufacturing agreement decreased by approximately $878,000. The gross margins on these products were substantially less than on the Company's other products.

The Company's gross margin for 1997 of (69.5)% is a 42.1% reduction over gross margin for 1996. This deterioration occurred because the Company failed to react quickly enough to falling sales by decreasing manufacturing expenses. Additionally, the Company incurred approximately $1,572,000 of manufacturing costs in operating non-core facilities that generated sales of only $495,000.

RESEARCH & DEVELOPMENT EXPENSES

For 1998, research and development expenses amounted to $651,000 as compared to $979,000 for 1997. The decrease primarily reflects the costs of biostudies performed in 1997 that were not duplicated in 1998.

For 1997, research and development expenses amounted to $979,000 as compared to $1,854,000 for 1996. This decrease was a result of reductions in personnel necessitated by the Company's liquidity crisis.

The Company expects research and development expenses to increase significantly in 1999 consistent with its plans to increase the number of ANDA submissions as compared to 1998.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative costs were $8,078,000 (91.4% of net sales) for 1998 compared to $6,308,000 (69.4% of net sales) for 1997. This increase is primarily due to costs associated with capital financing, legal expenses and settlement costs of certain litigation, severance costs associated with personnel reductions, installation of a new information system and costs associated with expanded regulatory and compliance departments.

Selling, general and administrative costs were $6,308,000 (69.4% of net sales) for 1997 compared to $7,486,000 (60.5% of net sales) for 1996. This decrease is due primarily to a reduction in legal expenses and litigation settlements as compared to 1996.

INTEREST EXPENSE

Interest expense for 1998 increased by 62% over that of 1997 reflecting the substantial new debt in the form of $25,800,000 of convertible debentures that was added in 1998 [include bridge loan debt?]. Interest expense for 1997 decreased 33.0% as compared to 1996 due primarily to the conversion in the latter part of 1996 of $7,740,000 of convertible debentures bearing interest at 10% into common stock. Interest expense for 1996 increased 77.8% as compared to 1995 as a result of a higher level of borrowings due to the issuance of convertible subordinated debentures, as well as fees payable to the Company's banks.

OTHER INCOME

Included in other income for 1998 is $1,900,000 realized from the sale of certain assets to Mallinckrodt. This transaction was entered into in 1997 but the conditions for realization of the gain from the sale were not met until 1998.

PROVISION FOR INCOME TAXES

The Company had no tax (benefit) provision for 1998, 1997 and 1996 since the available loss carry back to prior years was completely utilized by the net operating loss for 1993 carry back to the prior three years. At December 31, 1998, the Company has a Federal tax refund claim of approximately $1,000,000 pending before the tax authorities. In the meantime, the IRS is holding up action to collect approximately $1,300,000 of past due payroll taxes. Additionally, the Company has negotiated payment plans for approximately $500,000 of past due state and local taxes. The Company has net operating loss carryforwards of approximately $45,600,000 which expire in the years 2011 through 2018.

LIQUIDITY AND CAPITAL RESOURCES

At December 31, 1998, the Company had cash and cash equivalents of $1,850,000 as compared to $26,000 at December 31, 1997. The Company had a working capital deficit at December 31, 1998 of $(6,665,000).

On March 10, 1998, the Company completed the Offering to Galen Partners III, L.P., Galen Partners International III, L.P., Galen Employee Fund III, L.P. (collectively, "Galen") and each of the Purchasers (along with Galen, collectively the "Galen Investor Group") listed on the signature page to a certain Debenture and Warrant Purchase Agreement dated March 10, 1998 (the "Purchase Agreement"). The net

proceeds to the Company from the Offering, after deduction of related Offering expenses, were approximately $19.6 million. The securities issued in the Offering consisted of 5% convertible senior secured debentures (the "Debentures") and common stock purchase warrants (the "Warrants") exercisable for an aggregate of 4,202,020 shares of the Company's common stock. In addition, in accordance with the terms of the Purchase Agreement, the Company granted the Galen Investor Group an option to invest an additional $5 million in the Company at any time within 18 months from the date of the closing of the Offering in exchange for Debentures and Warrants having terms identical to those issued in the Offering (the "Option"). In June 1998, the Galen Investor Group exercised the Option.

The net proceeds of the Offering were, in large part, used to satisfy a substantial portion of the Company's liabilities and accounts payable. Such liabilities include the full satisfaction of the Company's Bank indebtedness and related fees, payment of arrearages in rent to the landlord of the Brooklyn facility and satisfaction of outstanding judgments and liens. Additionally, pursuant to agreements reached with other large creditors in anticipation of the completion of the Offering, including the Department of Justice, the Company has been able to bring these creditors current and bring the Company into compliance with installment payment agreements providing more favorable terms to the Company. The Offering proceeds also allowed the Company to satisfy its outstanding state and Federal payroll tax obligations and meet current payroll tax obligations. The net proceeds from the exercise of the Option were used to fund working capital, including the purchase of raw materials, payroll expenses and other Company expenses.

Prior to the completion of the Offering, the Company was in negotiations with the DOJ to restructure the payment of the $2,500,000 fine that had been levied under the Plea Agreement in order to address the Company's failure to satisfy the $125,000 quarterly installments provided for under the Plea Agreement. On March 30, 1998, the Company and the DOJ signed a Letter Agreement serving to amend the Plea Agreement relating to the terms of the Company's satisfaction of the fine assessed under the Plea Agreement. Specifically, the Letter Agreement provides that the Company will satisfy the remaining $2,150,000 of the fine through the payment of $25,000 on a monthly basis commencing June 1, 1998, plus interest on such outstanding balance (at the rate calculated pursuant to 28 U.S.C. Section 1961)(currently 5.319%). Such payment schedule would result in the full satisfaction of the DOJ fine in January, 2006. The Letter Agreement also provides certain restrictions on the payment of salary or compensation to any individual in excess of $150,000 without the written consent of the United States District Court for the District of Maryland, subject to certain exceptions. In addition, the Letter Agreement requires the prepayment of the outstanding fine to the extent of 25% of the Company's after tax profit and 25% of the net proceeds received by the Company on any sale of a capital asset for a sum in excess of $10,000.

During the period from May 1997 through July 1997, the Company borrowed approximately $3 million from Mylan Laboratories, Inc. pursuant to five unsecured, demand promissory notes. The advances made by Mylan Laboratories, Inc. were part of a proposed investment by Mylan Laboratories, Inc. in the Company, including the proposed purchase of the Company's Houba Indiana facility as well as a partial tender offer for the Company's common stock. The Company used the proceeds of these borrowings for working capital. To date, $236,000 has been paid by the Company to Mylan against such indebtedness in the form of product deliveries to Mylan. Pursuant to an agreement reached between the parties, the Company is required to satisfy interest on the outstanding indebtedness on an annual basis while the indebtedness remains outstanding and to satisfy the principal amount of such indebtedness in the form of product deliveries to Mylan until such time as the indebtedness is satisfied in full.

The Company secured bridge financing from Galen and certain investors in the Offering in the aggregate amount of $9,504,111, funded through seven separate bridge loan transactions between the period from August through and including December, 1998, as well as an additional bridge loan in March, 1999 (collectively, the "Bridge Loans"). The Bridge Loans were consolidated on December 2, 1998 pursuant to an Amended, Restated and Consolidated Bridge Loan Agreement, as amended to permit the March, 1999 bridge loan (the "Consolidated Bridge Loan"). The Consolidated Bridge Loan bears interest at 10% per annum, is secured by a first lien on all of the Company's assets and has a maturity date of May 30, 1999. Approximately $9,120,000 in the principal amount of the Consolidated Bridge Loan was advanced by Galen with the balance of approximately $384,000 advanced by certain investors in the Offering. The Consolidated Bridge Loan is

evidenced by 10% convertible senior secured promissory notes which are convertible at any time prior to maturity into shares of the Company's Common Stock at a conversion price of approximately $1.368 per share with respect to approximately $7,820,000 of such indebtedness, $1.331 per share with respect to approximately $284,000 of such indebtedness, and $1.197 per share with respect to approximately $1,400,000 of such indebtedness, for an aggregate of 7,099,338 shares of common stock (such conversion prices equal the fair market value of the Common Stock at the date of issuance of the convertible promissory notes). In addition, in consideration for the initial extension of the Bridge Loans and the extension of the maturity dates of the Bridge Loans pursuant to the consolidation of such loans on December 2, 1998, as amended to permit the March, 1999 bridge loan, the Company issued common stock purchase warrants to Galen and the other investors in the Consolidated Bridge Loan, to purchase an aggregate of approximately 1,009,909 shares of the Company's common stock (representing warrants to purchase 50,000 shares of Common Stock for each $1,000,000 in principal amount of Bridge Loan having a term of 90 days from the date of the making of the Bridge Loan). The Bridge Loan warrants are substantially identical to those issued by the Company in its Debenture and Warrant Offering completed on March 10, 1998.

The Consolidated Bridge Loan was obtained by the Company in order to provide necessary working capital. In view of the Company's current cash reserves and projections for revenues through May 30, 1999, the Company will be unable to satisfy the Consolidated Bridge Loan in full at the stated maturity date of May 30, 1999. Galen, the holder of approximately 96% of such indebtedness, has indicated to the Company a willingness to cooperate in the restructuring of the indebtedness evidenced by the Consolidated Bridge Loan to extend the maturity date of such debt and/or convert the debt into common stock or longer-term convertible indebtedness. The terms of such restructuring will depend, to a large extent, on the terms and timing of any third-party investment, as described below. Accordingly, the terms of any such restructuring have yet to be agreed to by the parties and will be subject to the negotiation and preparation of definitive agreements.

The Company is in preliminary discussions with an unaffiliated third party concerning the terms of a proposed investment in the Company in an amount of up to $15 million, to be funded in three equal increments based on the achievement of certain milestones. The structure of the investment will likely take the form of convertible debentures and common stock purchase warrants, similar in many respects to the debentures and warrants issued by the Company in its March 10, 1998 offering. The discussions with this third party investor are in the preliminary stages and no assurance can be given that final terms acceptable to the Company will result and/or that if consummated, that the Company will be successful in achieving the milestones necessary to fund all or any portion of the proposed investment.

In the event the Company is successful in restructuring the Consolidated Bridge Loan and completing a third party investment of the type and size described above, the Company will have sufficient cash reserves to satisfy its working capital requirements for at least the next 12 months. The Company is also seeking to secure a senior revolving line of credit from a banking institution. There can be no assurance, however, that the Company will be able to obtain such third party investment or a bank facility. If the Company is unable to complete the third party investment described above or obtain other sources of working capital, including a bank line of credit or proceeds from the issuance of debt and/or equity securities, the Company's cash reserves will be sufficient to satisfy the Company's working capital requirements for approximately two to three months. Failure to obtain a third party investment of the type described above, a bank line of credit or alternative sources of financing of a comparable amount in the near term will materially adversely affect the Company's working capital position and financial condition and results of operations.

CAPITAL EXPENDITURES

The Company's capital expenditures during 1998, 1997 and 1996 were $1,545,000, $85,000 and $390,000. The increase in capital expenditures in 1998 as compared to prior years is attributable to the implementation of certain equipment and facility upgrades that had been delayed in prior years due to the Company's cash conservation measures in those years.

YEAR 2000 COMPLIANCE

The Company is aware of issues associated with the programming code in existing computer systems as the Year 2000 approaches and has undertaken a compliance program to assess the Company's potential exposure to business interruptions due to the possible Year 2000 computer software failures, including necessary remediation and testing. In 1999, the Company installed a new information system, including hardware and software, which the Company believes, based on its testing, is Year 2000 compliant.

At this time, the Company is not aware of any material Year 2000 issues with respect to dealings with third parties, however, the assessment phase of such risks of third parties is in the early stage of review.

In the event the Year 2000 issues were to disrupt the Company and its operations, such disruption may have a material impact on the Company and its results of operations. Given that no significant issues have arisen based on the assessments to date, the Company has identified a preliminary contingency plan and is prepared to make necessary corrections to its systems in the event a problem should occur. The Company will continue to assess the Year 2000 compliance issue on an on-going basis in an effort to resolve any Year 2000 issues in a timely manner.

IMPACT OF INFLATION

The Company believes that inflation did not have a material impact on its operations for the periods reported. Significant increases in labor, employee benefits and other expenses could have a material adverse effect on the Company's performance.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

The response to this item is submitted as a separate section of this Report commencing on page F-1.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

Not Applicable.

PART III

In accordance with General Instruction G(3) of Form 10-K, the information called by Item 10, Directors and Executive Officers of the Registrant, Item 11, Executive Compensation, Item 12, Security Ownership of Certain Beneficial Owners and Management, and Item 13, Certain Relationships and Related Transactions, of Part III of this Report is incorporated by reference to the Company's definitive Proxy Statement for its 1999 Annual Meeting of Shareholders.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K.

(a) Financial Statements -- See Index to Financial Statements.

(b) Reports on Form 8-K

No reports on Form 8 K were filed during the last quarter of the fiscal year covered by this Annual Report on Form 10-K.

(c) Exhibits

The following exhibits are included as a part of this Annual Report on Form 10-K or incorporated herein by reference.

EXHIBIT NUMBER	DOCUMENT
*3.1	Certificate of Incorporation and amendments.
3.2	Restated Bylaws (incorporated by reference to Exhibit 3.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 1993).
*3.3	Restated By-Laws
10.1	Credit Agreement, dated as of December 22, 1992, among the Registrant and The Chase Manhattan Bank, N.A. (incorporated by reference to Exhibit 10.1 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1992 (the "1992 Form 10-K")).
10.2	Amendment Two, dated as of January 12, 1994, to Credit Agreement among the Registrant and The Chase Manhattan Bank, N.A., together with forms of Stock Warrant and Registration Rights Agreement (incorporated by reference to Exhibit 10.1. to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1993 (the "1993 Form 10-K")).
10.3	Amendment Three, dated as of May 31, 1994, to Credit Agreement among the Registrant and The Chase Manhattan Bank, N.A. (incorporated by reference to Exhibit 6(a) to the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 1994).
10.4	Amendment Four, dated as of July 1994, to Credit Agreement among the Registrant and The Chase Manhattan Bank, N.A. (incorporated by reference to Exhibit 6(a) to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 1994).
10.5	Amendment Five, dated as of March 21, 1995, to Credit Agreement among the Registrant and The Chase Manhattan Bank, N.A. (incorporated by reference to Exhibit 10.7 to the Registrant's Current Report on Form 8-K dated March 21, 1995 (the "March 8-K")).
10.5(1)	Form of Warrants issued to The Bank of New York, The Chase Manhattan Bank, N.A. and the Israel Discount Bank (incorporated by reference to Exhibit 10.5(i) to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1995 (the "1995 Form 10-K")).
10.5(2)	Letter Agreement, dated July 10, 1995, among Halsey Drug Co., Inc., The Chase Manhattan Bank, N.A., The Bank of New York and Israel Discount Bank of New York (incorporated by reference to Exhibit 6(a) to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 1995 (the "June 10-Q")).
10.5(3)	Letter Agreement, dated November 16, 1995, among Halsey Drug Co., Inc., The Chase Manhattan Bank, N.A., The Bank of New York and Israel Discount Bank of New York (incorporated by reference to Exhibit 10.25(iv) to the 1995 10-K).
10.5(4)	Amendment 6, dated as of August 6, 1996, to Credit Agreement among Halsey Drug Co., Inc., The Chase Manhattan Bank, N.A., The Bank of New York and Israel Discount Bank of New York (incorporated by reference to Exhibit 10.1 to Amendment No. 1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 1996 (the "June 1996 10-Q").
10.5(5)	Letter Agreement, dated March 25, 1997 among Halsey Drug Co., Inc., The Chase Manhattan Bank, as successor in interest to The Chase Manhattan Bank (National Association), The Bank of New York and Israel Discount Bank.
10.6	Agreement Regarding Release of Security Interests dated as of March 21, 1995 by and among the Company, Mallinckrodt Chemical Acquisition, Inc. and The Chase Manhattan Bank, N.A. (incorporated by reference to Exhibit 10.9 of the March 8-K).
10.7	Consulting Agreement dated as of September, 1993 between the Registrant and Joseph F. Limongelli (incorporated by reference to Exhibit 10.6 to the 1993 Form 10-K).
10.8	Employment Agreement, dated as of January 1, 1993, between the Registrant and Rosendo Ferran (incorporated by reference to Exhibit 10.2 to the 1992 Form 10-K).
10.10(1)	Halsey Drug Co., Inc. 1984 Stock Option Plan, as amended (incorporated by reference to Exhibit 10.3 to the 1992 Form 10-K).
10.10(2)	Halsey Drug Co., Inc. 1995 Stock Option and Restricted Stock Purchase Plan (incorporated by reference to Exhibit 4.1 to the Registrant's Registration Statement on Form S-8, File No. 33-98396).
10.10(3)	Halsey Drug Co., Inc. Non-Employee Director Stock Option Plan.

EXHIBIT NUMBER	DOCUMENT
10.11	Leases, effective February 13, 1989 and January 1, 1990, respectively, among the Registrant and Milton J. Ackerman, Sue Ackerman, Lee Hinderstein, Thelma Hinderstein and Marilyn Weiss (incorporated by reference to Exhibits 10.6 and 10.7, respectively, to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1989).
10.12	Lease, effective as of April 15, 1988, among the Registrant and Milton J. Ackerman, Sue Ackerman, Lee Hinderstein, Thelma Hinderstein and Marilyn Weiss, and Rider thereto (incorporated by reference to Exhibit 10.12 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1987).
10.12(l)	Lease, as of October 31, 1994, among Registrant and Milton J. Ackerman, Sue Ackerman, Lee Hinderstein, Thelma Hinderstein and Marilyn Weiss, together with Modification, Consolidation and Extension Agreement (incorporated by reference to Exhibit 10. 12(i) to the 1995 Form 10-K).
10.13	Asset Purchase Agreement dated as of March 21, 1995 among Mallinckrodt Chemical Acquisition, Inc. ("Acquisition"), Mallinckrodt Chemical, Inc., as guarantor and the Registrant (incorporated by reference to Exhibit 10.1 to the March 8-K).
10.14	Toll Manufacturing Agreement for APAP/Oxycodone Tablets dated as of March 21, 1995 between Acquisition and the Registrant (incorporated by reference to Exhibit 10.2 to the March 8-K).
10.15	Capsule ANDA Option Agreement dated as of March 21, 1995 between Acquisition and the Registrant (incorporated by reference to Exhibit 10.3 to the March 8-K).
10.16	Tablet ANDA Noncompetition Agreement dated as of March 21, 1995 between the Registrant and Acquisition (incorporated by reference to Exhibit 10.4 to the March 8-K).
10.17	Subordinated Non-Negotiable Promissory Term Note in the amount of $1,200,00 dated March 21, 1995 issued by the Registrant to Acquisition (incorporated by reference to Exhibit 10.5 to the March 8-K).
10.18	Term Note Security Agreement dated as of March 21, 1995 among the Company, Houba, Inc. and Acquisition (incorporated by reference to Exhibit 10.6 to the March 8-K).
10.19	Amendment dated March 21, 1995 to Subordination Agreement dated as of July 21, 1994 between Mallinckrodt Chemical, Inc., Mallinckrodt Chemical Acquisition, Inc., the Registrant, The Chase Manhattan Bank (National Association), Israel Discount Bank of New York, The Bank of New York, and The Chase Manhattan Bank (National Association) (incorporated by reference to Exhibit 10.8 to the March 8-K).
10.20	Agreement dated as of March 30, 1995 between the Registrant and Zatpack, Inc. (incorporated by reference to Exhibit 10.10 to the March 8-K).
10.21	Waiver and Termination Agreement dated as of March 30, 1995 between Zuellig Group, W.A., Inc. and Indiana Fine Chemicals Corporation (incorporated by reference to Exhibit 10.11 to the March 8-K).
10.22	Convertible Subordinated Note of the Registrant dated December 1, 1994 issued to Zatpack, Inc. (incorporated by reference to Exhibit 10.12 to the March 8-K).
10.23	Agreement dated as of March 30, 1995 among the Registrant, Indiana Fine Chemicals Corporation, Zuellig Group, N.A., Inc., Houba Inc., Zetapharm, Inc. and Zuellig Botanical, Inc. (incorporated by reference to Exhibit 10.13 to the March 8-K).
10.24	Supply Agreement dated as of March 30, 1995 between Houba, Inc. and ZetaPharm, Inc. (incorporated by reference to Exhibit 10.14 to the March 8-K).
10.25	Form of 10% Convertible Subordinated Debenture (incorporated by reference to Exhibit 6(a) to the June 10-Q).
10.26	Form of Redeemable Common Stock Purchase Warrant (incorporated by reference to Exhibit 6(a) to the June 10-Q).
10.27	Form of 10% Convertible Subordinated Debenture (incorporated by reference to Exhibit 4.1 to the Registrant's Current Report on Form 8-K dated December 4, 1995 (the "December 8-K")).
10.28	Form of Redeemable Common Stock Purchase Warrant (incorporated by reference to Exhibit 4.2 to the December

8-K).

10.29 Form of 10% Convertible Subordinated Debenture (incorporated by reference to Exhibit 99 to the June 1996 10-Q).

EXHIBIT NUMBER	DOCUMENT
10.30	Form of Redeemable Common Stock Purchase Warrant (incorporated by reference to Exhibit 4.1 to Amendment No. 1 to the June 1996 10-Q).
10.31	Form of 5% Convertible Senior Secured Debenture (incorporated by reference to Exhibit 4.1 to the Registrant's Current Report on Form 8-K dated March 24, 1998 (the "March 1998 8-K")).
10.32	Form of Common Stock Purchase Warrant (incorporated by reference to Exhibit 4.2 to the March 1998 8-K).
10.33	Debenture and Warrant Purchase Agreement dated March 10, 1998, by and among the Registrant, Galen Partners III, L.P. and the other Purchasers listed on the Signature Page thereto (incorporated by reference to Exhibit 10.1 to the March 1998 8-K).
10.34	Form of General Security Agreement of Halsey Drug Co., Inc. dated March 10, 1998 (incorporated by reference to Exhibit 10.2 to the March 1998 8-K).
10.35	Form of Agreement of Guaranty of Subsidiaries of Halsey Drug Co., Inc. dated March 10, 1998 (incorporated by reference to Exhibit 10.3 to the March 1998 8-K).
10.36	Form of Guarantor General Security Agreement dated March 10, 1998 (incorporated by reference to Exhibit 10.4 to the March 1998 8-K).
10.37	Stock Pledge Agreement dated March 10, 1998 by and between the Registrant and Galen Partners III, L.P., as agent (incorporated by reference to Exhibit 10.5 to the March 1998 8-K).
10.38	Form of Irrevocable Proxy Agreement (incorporated by reference to Exhibit 10.6 to the March 1998 8-K).
10.39	Agency Letter Agreement dated March 10, 1998 by and among the Purchasers a party to the Debenture and Warrant Purchase Agreement, dated March 10, 1998 (incorporated by reference to Exhibit 10.7 to the March 1998 8-K).
10.40	Press Release of Registrant dated March 13, 1998 (incorporated by reference to Exhibit 99.1 to the March 1998 8-K).
10.41	Current Report on Form 8-K as filed by the Registrant with the Securities and Exchange Commission on March 24, 1998.
10.42	Letter Agreement between the Registrant and the U.S. Department of Justice dated March 27, 1998 relating to the restructuring of the fine assessed by the Department of Justice under the Plea Agreement dated June 21, 1993.
10.43	Employment Agreement dated as of March 10, 1998 between the Registrant and Michael K. Reicher.
10.44	Employment Agreement dated as of March 10, 1998 between the Registrant and Peter Clemens.
*10.45	Amended, Restated and Consolidated Bridge Loan Agreement dated as of December 2, 1998 between the Company, Galen Partners III, L.P., Galen Partners International III, L.P., Galen Employee Fund III, L.P. and the other signatures thereto.
*10.46	First Amendment to Amended, Restated and Consolidated Bridge Loan Agreement dated December 7, 1998 between the Company and the lenders listed on the signature page thereto.
*10.47	Second Amendment to Amended, Restated and Consolidated Bridge Loan Agreement dated March 8, 1999 between the Company and the lenders listed on the signature page thereto.
*10.48	Form of 10% Convertible Secured Note due May 30, 1999.
*10.49	Form of Common Stock Purchase Warrant issued pursuant to be Amended, Restated and Consolidated Bridge Loan Agreement.
*10.50	Amended and Restated General Security Agreement dated December 2, 1998 between the Company and Galen Partners III, L.P., as Agent.
*10.51	Subordination Agreement dated December 2, 1998 between the Registrant and Galen Partners III, L.P., as Agent.
*10.52	Agency Letter Agreement dated December 2, 1998 by and among the lenders a party to the Amended, Restated and Consolidated Bridge Loan Agreement, as amended.
*10.53	Lease Agreement dated March 17, 1999 between the Registrant and Par Pharmaceuticals, Inc.

EXHIBIT NUMBER	DOCUMENT
*10.54	Lease Agreement dated September 1, 1998 between the Registrant and Crimson Ridge Partners.
*10.55	Manufacturing and Supply Agreement dated March 17, 1999 between the Registrant and Par Pharmaceuticals, Inc.
*10.56	Halsey Drug Co., Inc. 1998 Stock Option Plan.
21	Subsidiaries of the Registrant (incorporated by reference to Exhibit 22 to the 1993 Form 10-K).
*23.1	Consent of Grant Thornton LLP, independent certified public accountants.
*27	Financial Data Schedule, which is submitted electronically to the Securities and Exchange Commission for informational purposes only and not filed.

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* Filed herewith.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

HALSEY DRUG CO., INC.

By: /s/ MICHAEL REICHER

Michael Reicher, President and Chief Executive Officer (Principal Executive Officer)

Date: March 31, 1999

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

/s/ WILLIAM G. SKELLY William G. Skelly	Chairman and Director	March 31, 1999
/s/ MICHAEL REICHER Michael Reicher	President, Chief Executive Officer and Director (Principal Executive Officer)	March 31, 1999
/s/ PETER CLEMENS Peter Clemens	Vice President, Chief Financial Officer (Principal Financial and accounting Officer) and Director	March 31, 1999
/s/ ALAN J. SMITH Alan J. Smith	Director	March 31, 1999
/s/ BRUCE F. WESSON Bruce F. Wesson	Director	March 31, 1999
/s/ WILLIAM SUMNER William Sumner	Director	March 31, 1999
/s/ SRINI CONJEEVARAM Srini Conjeevaram	Director	March 31, 1999
/s/ ZUBEEN SHROFF Zubeen Shroff	Director	March 31, 1999

INDEX TO FINANCIAL STATEMENTS

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Directors
Halsey Drug Co., Inc.

We have audited the accompanying consolidated balance sheets of Halsey Drug Co., Inc. and Subsidiaries as of December 31, 1998 and 1997, and the related consolidated statements of operations, stockholders' equity and cash flows for each of the three years in the period ended December 31, 1998. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Halsey Drug Co., Inc. and Subsidiaries as of December 31, 1998 and 1997, and the consolidated results of their operations and their consolidated cash flows for each of the three years in the period ended December 31, 1998, in conformity with generally accepted accounting principles.

GRANT THORNTON LLP

New York, New York
March 5, 1999

HALSEY DRUG CO., INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	DECEMBER 31,	
	1998	1997
	(IN THOUSANDS)	
CURRENT ASSETS		
Cash	$ 1,850	$ 26
Accounts receivable -- trade, net of allowances for doubtful accounts of $280 and $542 in 1998 and 1997, respectively	1,439	62
Inventories	6,354	2,456
Prepaid insurance and other current assets	148	274
Total current assets	9,791	2,818
PROPERTY, PLANT AND EQUIPMENT, NET	4,787	4,630
DEFERRED PRIVATE OFFERING COSTS	1,335	219
	$ 15,913	$ 7,667
CURRENT LIABILITIES		
Notes payable	$ 10,850	$ 4,825
Bank overdraft		159
Due to banks		2,476
Convertible subordinated debentures		2,244
Accounts payable	1,834	6,086
Accrued expenses	3,972	7,232
Deferred gain		1,900
Other current liabilities	300	200
Total current liabilities	16,956	25,122
LONG-TERM DEBT, NET	26,186	
OTHER LIABILITIES	2,224	2,402
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY (DEFICIT)		
Common stock -- $.01 par value; authorized, 40,000,000 shares; issued 14,443,212 shares and 14,029,718 shares in 1998 and 1997, respectively	144	140
Additional paid-in capital	29,113	25,489
Accumulated deficit	(57,221)	(44,497)
	(27,964)	(18,868)
Less treasury stock -- at cost (439,603 shares in 1998 and 1997, respectively)	(989)	(989)
	(28,953)	(19,857)
	$ 15,913	$ 7,667

The accompanying notes are an integral part of these statements.

HALSEY DRUG CO., INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

	YEAR ENDED DECEMBER 31,		
	1998	1997	1996
	(IN THOUSANDS, EXCEPT PER SHARE DATA)		
Net sales	$ 8,841	$ 9,088	$ 12,379
Cost of goods sold	12,712	15,406	16,826
Gross margin	(3,871)	(6,318)	(4,447)
Research and development	651	979	1,854
Selling, general and administrative expenses	8,078	6,308	7,486
Loss from operations	(12,600)	(13,605)	(13,787)
Interest expense	(1,946)	(1,144)	(1,708)
Other income (expense)	1,802	(264)	1,000
NET LOSS	$ 12,724	$(15,013)	$(14,495)
Basic loss per common share	$ (.92)	$ (1.12)	$ (1.49)
Weighted average number of outstanding shares	13,813	13,434	9,724

The accompanying notes are an integral part of these statements.

HALSEY DRUG CO., INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
YEARS ENDED DECEMBER 31, 1998, 1997 AND 1996

	COMMON STOCK, $.01 PAR VALUE		ADDITIONAL PAID-IN	ACCUMULATED	TREASURY STOCK, AT COST		
	SHARES	AMOUNT	CAPITAL	DEFICIT	SHARES	AMOUNT	TOTAL
				(IN THOUSANDS)			
Balance at January 1, 1995	8,974	$ 90	$14,459	$(14,989)	(500)	$(1,100)	$ (1,540)
Issuance of common stock conversion of debentures	3,504	35	6,724				6,759
Issuance of shares as settlement	60		262		25	56	318
Issuance of warrants with convertible subordinated debentures			355				355
Exercise of warrants of convertible debentures	589	6	1,363				1,369
Stock options exercised	49		153				153
Net loss for the year ended December 31, 1996				(14,495)			(14,495)
Balance at December 31, 1996	13,176	131	23,316	(29,484)	(475)	(1,044)	(7,081)
Issuance of common stock -- conversion of debentures	643	7	1,529				1,536
Issuance of shares as payment of interest	69	1	224				225
Sale of treasury stock	25		45		35	55	100
Exercise of warrants of convertible debentures	22		72				72
Stock options exercised	95	1	303				304
Net loss for the year ended December 31, 1997				(15,013)			(15,013)
Balance at December 31, 1997	14,030	140	25,489	(44,497)	(440)	(989)	(19,857)
Issuance of common stock -- conversion of notes payable	110	1	213				214
Issuance of shares as payment of interest	263	3	592				595
Issuance of common stock -- settlement of trade payables	40		55				55
Deferred debt discount on warrants issued with convertible debentures			2,264				2,264
Net loss for the year ended December 31, 1998				(12,724)			(12,724)
Balance at December 31, 1998	14,443	$144	$28,613	$(57,221)	(440)	$ (989)	$(29,453)

The accompanying notes are an integral part of this statement.

HALSEY DRUG CO., INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	YEAR ENDED DECEMBER 31,		
	1998	1997	1996
	(IN THOUSANDS)		
Cash flows from operating activities			
Net loss	$(12,724)	$(15,013)	$(14,495)
Adjustments to reconcile net loss to net cash used in operating activities			
Depreciation and amortization	1,774	1,733	1,906
Provision for losses on accounts receivable	(262)	118	144
Provision for loss on investment			500
(Gain) loss on disposal of assets	170	38	(1,000)
Changes in assets and liabilities			
Accounts receivable	(1,115)	45	1,319
Inventories	(3,898)	1,302	3,958
Prepaid insurance and other current assets	126	165	(96)
Accounts payable	(4,197)	1,851	1,029
Deferred gain	(1,900)		
Accrued expenses	(2,665)	4,553	2,913
Total adjustments	(11,967)	9,805	10,673
Net cash used in operating activities	(24,691)	(5,208)	(3,822)
Cash flows from investing activities			
Capital expenditures	(1,545)	(85)	(390)
Net proceeds from sale of assets	96		
Collection of notes receivable		1,000	
Net cash (used in) provided by investing activities	(1,449)	915	(390)
Cash flows from financing activities			
Proceeds from issuance of notes payable	$ 6,495	$ 3,881	$ 25
Proceeds from issuance of common stock			318
Reissuance of treasury stock		70	
Payments to Department of Justice	(178)		
Bank overdraft	(159)	(127)	73
Due to banks	(2,476)		
Payments to minority stockholders			(206)
Proceeds from issuance of convertible subordinated debentures	25,800		2,500
Proceeds from exercise of stock options and warrants		305	153
Proceeds from exercise of warrants		72	1,369
Deferred private offering costs	(1,518)		(255)
Net cash provided by financing activities	27,964	4,201	3,977
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	1,824	(92)	(235)
Cash and cash equivalents at beginning of year	26	118	353
Cash and cash equivalents at end of year	$ 1,850	$ 26	$ 118

HALSEY DRUG CO., INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS -- (CONTINUED)
YEAR ENDED DECEMBER 31,
(IN THOUSANDS)

Supplemental disclosures of noncash activities:

Year ended December 31, 1998

1. The Company issued 262,836 shares of common stock as payment for $593,313 in accrued interest.

2. The Company reissued 20,000 shares of common stock as payment for $25,000 in legal fees and 20,000 shares of common stock as payment for $30,000 in trade payables.

3. The Company issued 110,658 shares of common stock as payment of outstanding notes payable in amounts of $214,000 and $1,782 in accrued interest.

4. The Company issued approximately 4,202,020 warrants (Note A) and 1,009,909 warrants (Note A) valued and recorded in aggregate as $3,118,000 of unamortized debt discount and a reduction in the related amount of the obligation.

Year ended December 31, 1997

1. The Company issued 642,407 shares of common stock to Zatpack, Inc. as payment for an outstanding note payable in the amount of $1,536,000.

2. The Company reissued 25,000 shares of treasury stock as payment for $30,000 in consulting fees and the receipt of $70,000 in cash.

3. The Company issued 25,000 shares of common stock as payment for $225,452 in accrued interest.

4. The Company recorded the satisfaction of $1,400,000 of subordinated promissory notes, related accrued interest of $200,000 and accounts payable of $300,000 due to Mallinckrodt, in lieu of Mallinckrodt paying $1,900,000 owed to the Company as described in Note E.

Year ended December 31, 1996

1. The issuance of 3,504,000 shares of the Company's common stock upon conversion of $6,759,000 of convertible subordinated debentures is included in common stock and additional paid-in capital.

2. The valuation of the warrants issued in 1996 of $355,000 with convertible subordinated debentures is included in additional paid-in capital.

3. The issuance in 1996 of 59,550 shares of the Company's common stock is valued at $318,000 in connection with litigation settlements.

The accompanying notes are an integral part of these statements.

HALSEY DRUG CO., INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 1998, 1997 AND 1996

NOTE A -- SUMMARY OF ACCOUNTING POLICIES

Halsey Drug Co., Inc. (the "Company"), a New York-based corporation established in 1935, and its subsidiaries are engaged in the manufacture, sale and distribution of generic drugs. The Company sells its generic drug products under its Halsey label and under private-label arrangements with drug store chains and drug wholesalers throughout the United States.

A summary of the significant accounting policies consistently applied in the preparation of the accompanying consolidated financial statements follows.

1. Principles of Consolidation and Basis of Presentation

The consolidated financial statements include 100% of the accounts of the Company and its wholly-owned subsidiaries, Blue Cross Products Co., Inc., Houba, Inc., Halsey Pharmaceuticals, Inc., and Indiana Fine Chemicals Corporation, The Medi-Gum Corporation (100% owned). The Medi-Gum Corporation and Halsey Pharmaceuticals have not commenced operations. All material intercompany accounts and transactions have been eliminated.

2. Liquidity Matters

As of December 31, 1998, the Company has a working capital deficiency of approximately $6,665,000, has an accumulated deficit of approximately $57,221,000 and has incurred a loss of approximately $12,724,000 for the year then ended.

On March 10, 1998, the Company completed a private offering (the "Offering") of securities to an investor group ("Galen") consisting of 5% convertible senior secured debentures due March 15, 2003, and common stock purchase warrants (with a 5 year life) exercisable for 2,101,010 shares of the Company's common stock at an exercise price of $1.50 and 2,101,010 shares at an exercise price of $2.375. The unamortized discount resulting from the issuance of such warrants ($2,618,000) has Been recorded as a reduction of the related obligation. The net proceeds to the Company from the Offering, after the deduction of related offering expenses, was approximately $19.6 million. In addition, in accordance with the terms of the private offering, during June 1998, Galen invested an additional $5 million in the Company in exchange for debentures and warrants having terms identical to those issued in the Offering.

The net proceeds from the Offering and the additional investment have primarily been used to satisfy a substantial portion of the Company's liabilities and accounts payable. Such liabilities include the full satisfaction of the Company's bank indebtedness and related fees, payment to the landlord of the Brooklyn facility and satisfaction of outstanding judgments and liens. Further, pursuant to agreements reached with other large creditors in anticipation of the completion of the offering, including the Company's landlord and the Department of Justice ("DOJ"), the Company has been able to bring these creditors current and bring the Company in compliance with installment payment agreements providing more favorable terms to the Company. The offering proceeds also allowed the Company to satisfy its outstanding state and Federal payroll tax obligations and meet current payroll tax obligations. The net proceeds from the exercise of the option were used to fund working capital, including the purchase of raw materials, payroll expenses and other Company expenses.

The Company secured bridge financing from Galen and certain investors in the Offering in the aggregate amount of $9,504,111, funded through seven separate bridge loan transactions between the period from August through and including December 1998, as well as an additional bridge loan in March 1999 (collectively, the "Bridge Loans"). The Bridge Loans were consolidated on December 2, 1998 pursuant to an Amended, Restated and Consolidated Bridge Loan Agreement, as amended to permit the March 1999 bridge loan (the "Consolidated Bridge Loan"). The Consolidated Bridge Loan bears interest at 10% per annum, is

secured by a first lien on all of the Company's assets and has a maturity date of May 30, 1999. Approximately $9,120,000 in the principal amount of the Consolidated Bridge Loan was advanced by Galen with the balance of approximately $384,000 advanced by certain investors in the Offering. The Consolidated Bridge Loan is evidenced by 10% convertible senior secured promissory notes which are convertible at any time prior to maturity into shares of the Company's Common Stock at a conversion price of approximately $1.368 per share with respect to approximately $7,820,000 of such indebtedness, $1.331 per share with respect to approximately $284,000 of such indebtedness, and $1.197 per share with respect to approximately $1,400,000 of such indebtedness, for an aggregate of 7,099,338 shares of common stock (such conversion prices equal the fair market value of the Common Stock at the date of issuance of the convertible promissory notes). In addition, in consideration for the initial extension of the Bridge Loans and the extension of the maturity dates of the Bridge Loans pursuant to the consolidation of such loans on December 2, 1998, as amended to permit the March 1999 bridge loan, the Company issued common stock purchase warrants to Galen and the other investors in the Consolidated Bridge Loan, to purchase an aggregate of approximately 1,009,909 shares of the Company's common stock (representing warrants to purchase 50,000 shares of Common Stock for each $1,000,000 in principal amount of Bridge Loan having a term of 90 days from the date of the making of the Bridge Loan). The unamortized discount resulting form the issuance of such warrants ($500,000) has been recorded as a reduction of the related obligation. The Bridge Loan warrants are substantially identical to those issued by the Company in its Debenture and Warrant Offering completed on March 10, 1998.

The Consolidated Bridge Loan was obtained by the Company in order to provide necessary working capital. In view of the Company's current cash reserves and projections for revenues through May 30, 1999, the Company will be unable to satisfy the Consolidated Bridge Loan in full at the stated maturity date of May 30, 1999. Galen, the holder of approximately 96% of such indebtedness, has indicated to the Company a willingness to cooperate in the restructuring of the indebtedness evidenced by the Consolidated Bridge Loan to extend the maturity date of such debt and/or convert the debt into common stock or longer-term convertible indebtedness. The terms of such restructuring will depend, to a large extent, on the terms and timing of any third-party investment, as described below. Accordingly, the terms of any such restructuring have yet to be agreed to by the parties and will be subject to the negotiation and preparation of definitive agreements.

The Company is in preliminary discussions with an unaffiliated third party concerning the terms of a proposed investment in the Company in an amount of up to $15 million, to be funded in three equal increments based on the achievement of certain milestones. The structure of the investment will likely take the form of convertible debentures and common stock purchase warrants, similar in many respects to the debentures and warrants issued by the Company in its March 10, 1998 offering. The discussions with this third-party investor are in the preliminary stages and no assurance can be given that final terms acceptable to the Company will result and/or that if consummated, that the Company will be successful in achieving the milestones necessary to fund all or any portion of the proposed investment.

In the event the Company is successful in restructuring the Consolidated Bridge Loan and completing the third-party investment of the type and size described above, the Company will have sufficient cash reserves to satisfy its working capital requirements for at least the next twelve months. The Company is also seeking to secure a senior revolving line of credit from a banking institution. There can be no assurance, however, that the Company will be able to obtain such third-party investment or a bank facility. If the Company is unable to complete the third-party investment described above or obtain other sources of working capital, including a bank line of credit or proceeds from the issuance of debt and/or equity securities, the Company's cash reserves will be sufficient to satisfy the Company's working capital requirements for approximately two to three months. Failure to obtain a third-party investment of the type described above, a bank line of credit or alternative sources of financing of a comparable amount in the near term will materially adversely affect the Company's working capital position and financial condition and results of operations.

3. Inventories

Inventories are stated at the lower of cost or market; cost is determined using the first-in, first-out method.

4. Property, Plant and Equipment

Property, plant and equipment are stated at cost less accumulated depreciation and amortization. Depreciation and amortization are provided for in amounts sufficient to relate the cost of depreciable assets to operations over their estimated service lives, principally on a straight-line basis. The estimated lives used in determining depreciation and amortization are:

Buildings	25 years
Machinery and equipment	5-10 years
Leasehold improvements	5-10 years

Leasehold improvements are amortized over the lives of the respective leases or the service lives of the improvements, whichever is shorter.

5. Income Taxes

The Company accounts for income taxes utilizing an asset liability method for financial accounting and reporting for income taxes. Under this method, deferred tax assets and liabilities are determined based on differences between financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse.

6. Statements of Cash Flows

For purposes of the statements of cash flows, the Company considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents. The Company paid no substantial income taxes for the years ended December 31, 1998, 1997 and 1996. In addition, the Company paid interest of approximately $1,946,000, $1,113,000, $1,173,000, respectively, for the years ended December 31, 1998, 1997 and 1996.

7. Use of Estimates in Consolidated Financial Statements

In preparing consolidated financial statements in conformity with generally accepted accounting principles, management makes estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements, as well as the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

8. Research and Development Costs

All research and development costs, including payments related to licensing agreements on products under development and research consulting agreements are expensed when incurred.

9. Impairment of Long-Lived Assets

The Company reviews long-lived assets and certain identifiable intangibles held and used for possible impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable (Note I).

10. Stock-Based Compensation

The Company accounts for stock-based compensation under Statement of Financial Accounting Standards No. 123 ("SFAS No. 123"), "Accounting for Stock-Based Compensation," and continues to apply APB Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations in accounting for its plans and does not recognize compensation expense for its stock-based compensation plans other than for restricted stock (Note K).

Equity instruments issued to nonemployees in exchange for goods and/or services are accounted for under the fair value method of SFAS No. 123.

11. New Pronouncements

Earnings (Loss) Per Share

In 1997, the Company adopted Statement of Financial Accounting Standards No. 128 ("SFAS No. 128"), "Earnings Per Share," which requires public companies to present basic earnings (loss) per share and, if applicable, diluted earnings per share. All comparative periods have been restated in accordance with SFAS No. 128.

The computation of basic earnings (loss) per share of common stock is based upon the weighted average number of common shares outstanding during the period. Diluted earnings per share is equal to basic earnings per share for all years presented as the effect of other potentially dilutive securities would be antidilutive.

Reporting Comprehensive Income

In June 1997, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 130 ("SFAS No. 130"), "Reporting Comprehensive Income," which is effective for the Company's year ended December 31, 1998. The statement addresses the reporting and displaying of comprehensive income and its components. Earnings per share is only reported for net income and not for comprehensive income and its components. At December 31, 1998, 1997 and 1996, the Company had no items of other comprehensive income.

12. Reclassifications

Certain reclassifications have been made to the 1997 and 1996 presentations to conform to the 1998 presentation.

NOTE B -- FAIR VALUE OF FINANCIAL INSTRUMENTS

Long-term and Short-term Debt and Convertible Subordinated Debentures

The fair value of the Company's long-term and short-term debt and convertible subordinated debentures is estimated based upon the quoted market prices for the same or similar issues or on the current rates offered to the Company for debt of the same outstanding maturities. Accordingly, the carrying amount of these financial instruments approximates their fair value at December 31, 1998 and 1997.

NOTE C -- INVENTORIES

Inventories consist of the following:

	DECEMBER 31,	
	1998	1997
	(IN THOUSANDS)	
Finished goods	$2,675	$ 789
Work-in-process	1,166	263
Raw materials	2,513	1,404
	$6,354	$2,456

NOTE D -- PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are summarized as follows:

	DECEMBER 31,	
	1998	1997
	(IN THOUSANDS)	
Machinery and equipment	$12,278	$11,478
Leasehold improvements	6,103	5,967
Building	747	997
Land	44	265
	19,172	18,707
Less accumulated depreciation and amortization	14,385	14,077
	$ 4,787	$ 4,630

Depreciation expense for the years ended December 31, 1998, 1997 and 1996 was approximately $1,122,000, $1,640,000, and $1,562,000, respectively.

NOTE E -- DEBT

Due to Banks

At December 31, 1997 the Company had $2,476,000 under a line of credit agreement with three participating banks for which the average borrowing rate for the year then ended was 11.9 %. The agreement contained certain financial covenants, for which the Company was not in compliance at December 31, 1997. During March 1998, the Company completely satisfied its bank indebtedness and terminated the line of credit agreement with its banks.

Notes Payable

At December 31, 1998 and 1997, notes payable consisted of the following:

	DECEMBER 31,	
	1998	1997
	(IN THOUSANDS)	
Unsecured promissory demand notes	$ 2,817	
Subordinated promissory notes		$4,825
Bridge Loans (Note A)	7,533	
	$10,350	$4,825

During 1997, the Company borrowed from and issued to several debenture holders and shareholders unsecured, demand promissory notes in the amount of $1,125,000, bearing interest at 12% per annum, with interest payable quarterly. These notes were paid in full in 1998.

During the period from May 1997 through July 1997, the Company borrowed approximately $3 million from Mylan Laboratories, Inc. ("Mylan") pursuant to five unsecured, demand promissory notes. The advances made by Mylan Laboratories, Inc. were part of a proposed investment by Mylan in the Company, including the proposed purchase of the Company's Houba Indiana facility as well as a partial tender offer for the Company's common stock. The Company used the proceeds of these borrowings for working capital. To date, $236,000 has been paid by the Company to Mylan against such indebtedness in the form of product deliveries to Mylan. Pursuant to an agreement reached between the parties, the Company is required to satisfy interest on the outstanding indebtedness on an annual basis while the indebtedness remains outstanding and to satisfy the principal amount of such indebtedness in the form of product deliveries to Mylan until such time as the indebtedness is satisfied in full. In 1998, the Company, in exchange for extending the loan, agreed to grant a warrant to purchase 50,000 shares of the Company's common stock at a price of $1.94 per share. Additionally, the Company began reducing the loan by supplying product to Mylan. At December 31, 1998, the loan balance was $2,817,000.

During the fourth quarter of 1997, the Company received $500,000 from an investor of a proposed joint venture, a demand promissory note bearing interest at 10% per annum which was secured by the property of Houba. In addition, as part of a proposed financing agreement, the Company received $200,000 as a promissory note bearing interest at 8% per annum during the fourth quarter of 1997. Both of these promissory notes were paid in full in 1998.

NOTE F -- CONVERTIBLE SUBORDINATED DEBENTURES AND STOCK WARRANTS

In connection with certain 1995 amendments to the line of credit agreement described in Note E, the Company issued stock warrants to the bank, expiring July 17, 2000, to purchase up to 699,696 shares of the Company's common stock at exercise prices ranging from $1.98 to $2.07 per share. The fair value of the warrants, $200,000, as determined by the Company's Board of Directors, was recorded by the Company in 1994 as additional paid-in capital and a discount to bank debt which was fully amortized through the maturity date, August 31, 1995.

On July 18, 1995, the Company issued 408 units, at $10,000 per unit, in a private placement of its securities ("July Private Placement"). Each unit consisted of: (i) a 10% convertible subordinated debenture due July 18, 2000 in the principal amount of $10,000, interest payable quarterly, and convertible into shares of the Company's common stock at a conversion price of $2.00 per share, subject to antidilution provisions, and (ii) 750 redeemable common stock purchase warrants ("warrants"). Each warrant entitled the holder to purchase one share of common stock for $2.00, subject to adjustment during the five-year period commencing July 18, 1995. The warrants were redeemable by the Company at a price of $.01 per warrant at any time commencing July 18, 1996, provided that at July 18, 1996, the fair market value of the Company's common stock equals or exceeds $2.00 per share for the 20 consecutive trading days ending on the third day prior to the notice of redemption to the holders of the warrant. The debentures were converted into 2,040,000 shares of common stock in August 1996.

On November 29, 1995, the Company issued 366 units, at $10,000 per unit, in a private placement of its securities ("November Private Placement"). Each unit consisted of (i) a 10% convertible subordinated debenture due November 29, 2000 in the principal amount of $10,000, interest payable quarterly, and convertible into shares of the common stock, at a conversion price of $2.50 per share, subject to dilution, and (ii) 600 redeemable common stock purchase warrants. The terms and conditions of the warrants issued in connection with the November Private Placement are similar to those issued in the July Private Placement,

except that the exercise price of the warrant pursuant to the November Private Placement is $2.50 per share. These debentures were converted into 1,464,000 shares of common stock in December 1996.

On August 6, 1996, the Company issued 250 units, at $10,000 per unit, in a private placement of its securities ("August Private Placement"). Each unit consisted of: (i) a 10% convertible subordinated debenture due August 6, 2001 in the principal amount of $10,000, interest payable quarterly, and convertible into shares of the Company's common stock at a conversion price of $3.25 per share, subject to dilution, and (ii) 750 redeemable common stock purchase warrants ("warrants"). Each warrant entitled the holder to purchase one share of common stock for $3.25, subject to adjustment during the five-year period commencing August 6, 1996. Pursuant to the agreement, the Company was required to establish an escrow account to repay interest in the outstanding convertible debenture, which was fully paid during 1997.

NOTE G -- ACCRUED EXPENSES

Accrued expenses are summarized as follows:

	DECEMBER 31,	
	1998	1997
	(IN THOUSANDS)	
Payroll taxes payable (Note H)	$1,714	$3,290
Interest	619	1,018
Professional fees	539	537
Accrued pension and welfare	15	501
Medicaid rebates payable	169	481
Accrued payroll	92	420
Directors' fees	126	90
New York State Department of Education	140	134
Medical claims	149	
Commissions	30	42
Property taxes	94	
Accrued chargeback liability	40	
Accrued equipment purchase	56	
Other	189	719
	$3,972	$7,232

At December 31, 1998, payroll taxes payable include approximately $1,373,000 and $275,000 of delinquent payroll taxes (including penalties and interest) due to the Internal Revenue Service and the State of New York, respectively, all of which liability was incurred in 1997 and 1996. The Company expects that the Federal liability will be substantially offset by income tax refund claims which were filed and are pending before the IRS. Until such time as the IRS completes its review, the Company has not recorded any expected tax refund claims. The Company has negotiated a payment plan with the State of New York and the balance will be paid by the end of 1999.

NOTE H -- INCOME TAXES

The actual income tax expense varies from the Federal statutory rate applied to consolidated operations as follows:

	YEAR ENDED DECEMBER 31,					
	1998		1997		1996	
	AMOUNT	%	AMOUNT	%	AMOUNT	%
	(IN THOUSANDS)					
Federal statutory rate	$(4,326)	(34.0)%	$(5,105)	(34.0)%	$(4,928)	(34.0)%
Loss for which no tax benefit was provided	4,247	33.8	4,924	32.8	4,233	29.1
Losses of subsidiaries with no tax benefit					424	3.0
Amortization of Warrants			24	.2	32	.2
Goodwill amortization			12	.1	73	.5
Department of Justice settlement	42	.1			57	.4
Other	37	.1	145	.9	109	.8
Actual tax expense	$ --	--%	$ --	--%	$ --	--%

The Company has net operating loss carryforwards aggregating approximately $45,572,700, expiring during the years 2011 through 2018. In addition, certain of the Company's subsidiaries filed separate Federal income tax returns in prior years and have separate net operating loss carryforwards aggregating approximately $4,062,758 expiring during the years 1999 through 2018.

The tax loss carryforwards of the Company and its subsidiaries are subject to limitation by Section 382 of the Internal Revenue Code with respect to the amount utilizable each year. This limitation reduces the Company's ability to utilize net operating loss carryforwards included above each year. The amount of the limitation has not been quantified by the Company.

The components of the Company's deferred tax assets (liabilities), pursuant to SFAS No. 109, are summarized as follows:

	DECEMBER 31,	
	1998	1997
	(IN THOUSANDS)	
Deferred tax assets		
Net operating loss carryforwards	$ 21,831	$ 15,125
Allowance for doubtful accounts	75	304
Research and development tax credit	212	212
Reserve for inventory	169	886
Litigation settlement	73	195
Rent	231	172
Reserve for Medicaid	71	209
Capital loss carryforwards		210
Reserve for property, plant and equipment		111
Other	15	24
Gross deferred tax assets	22,677	17,448
Deferred tax liabilities		
Depreciation	(332)	(828)
Installment sale gain		(798)
Other	(42)	(42)
	(374)	(1,668)
Net deferred tax assets before valuation allowance	22,303	15,780
Valuation allowance	(22,303)	(15,780)
Net deferred tax assets	$ --	$ --

SFAS No. 109 requires a valuation allowance against deferred tax assets if, based on the weight of available evidence, it is more likely than not that some or all of the deferred tax assets may not be realized. The valuation allowance at December 31, 1998 primarily pertains to uncertainties with respect to future utilization of net operating loss carryforwards.

NOTE I -- OTHER INCOME (EXPENSE)

Cessation of California Operations

During 1997, management decided to shut down its California operations which comprised two of its subsidiaries, Cenci Powder Products, Inc. and H.R. Cenci Laboratories, Inc. The Company had not incurred any significant costs to exit these operations other than minimal vacation compensation and salary paid to a former plant employee to manage the exit process. Continuing operating losses and the inability to leverage the manufacturing capacity were among factors considered by the Board and Management in their determination to cease such operations.

At December 31, 1997, the net assets of H.R. Cenci Laboratories, Inc., consisted primarily of building, equipment and land with a net carrying value of $528,000 and inventory with a total net carrying value of $93,000. Accordingly, during 1997 the Company recorded a charge of $264,000 to reduce the fixed assets to their then estimated net realizable value, and a $93,000 charge to write off the remaining inventory. In 1998,

the Company disposed of the remaining assets and recorded a charge of $191,000. For the years ended December 31, 1998, 1997 and 1996, these subsidiaries, in aggregate, accounted for revenues of approximately $160,000, $495,000, and $290,000, respectively.

On March 30, 1998, the Company completed the sale of substantially all of the non-real property assets of Cenci Powder Products to Zuellig Botanical. The purchase price for the assets consisted of the forgiveness by Zuellig Botanical of approximately $262,000 in indebtedness owed by Cenci Powder to Zuellig Botanical related to the purchase of raw materials. The Agreement provided further that Zuellig Botanical would satisfy the manufacture and delivery requirements of Cenci Powder at its facility located at Fresno, California, under an existing third party supply contract.

Sale of Assets

On March 21, 1995, the Company sold its Abbreviated New Drug Application ("ANDA") for 5mg Oxycodone HCL/325mg Acetaminophen Tablets ("Tablets") and certain equipment used in the production of the Tablets for up to $5.4 million to Mallinckrodt. The Company received $500,000 of the proceeds in July 1994, which was recorded as deferred income on the Company's 1994 consolidated balance sheet. Mallinckrodt also paid the Company $2,000,000 on March 21, 1995 and the remainder was to be payable as follows: (i) $1,000,000 upon the Company receiving general clearance from the FDA for unrestricted operations at its Brooklyn facility and written notice from the FDA that it is in compliance with certain provisions of the consent degree dated June 29, 1993 and (ii) $1,900,000 at the earlier of (a) Mallinckrodt receiving certain authorizations from the FDA or (b) September 21, 1997. Mallinckrodt also agreed to defer $1,200,000 of the Company's trade debt due to an affiliate of Mallinckrodt (Note E). Pursuant to the release of the Company from the FDA's Application Integrity Policy list and its Restrictions (collectively, the "AIP") by the FDA on December 19, 1996, the Company recorded a gain of $1,000,000. On January 9, 1997, Mallinckrodt tendered this amount to the Bank Group. Pursuant to the agreement of September 21, 1997, the Company recorded $1,900,000 as a deferred gain which was recognized on March 21, 1998.

In connection with the agreement, the Company agreed to manufacture Tablets for Mallinckrodt for a period of three years and Mallinckrodt agreed to order a minimum number of Tablets from the Company for two years ending March 21, 1997. The Company and Mallinckrodt entered into a noncompetition agreement pursuant to which the Company agreed not to compete with Mallinckrodt and its affiliates with respect to the Tablets until March 21, 2000.

NOTE J -- PENSION EXPENSE

1. Management Pension Plan

The Company had maintained a defined benefit plan covering substantially all nonunion employees which was terminated in November 1996. Subsequently, all Plan assets were converted to cash and held in a money market fund (to continue the Trust) from which all vested participant interests were to be paid. Based on information provided by the Company's actuary, the total liability of the Plan as of the plan year ended November 30, 1997 was $398, 281. The actuary determined that this amount was sufficient to pay the vested interests of all of the participants who were in the Plan as of November 30, 1996, and for any participants who had terminated with previously vested interests that had not yet been paid. Included in the Plan's assets as of November 30, 1997, were receivables from the Company and the Insurer for $54,631 and $57,468, respectively, which were subsequently paid in March 1998. No additional contributions were required to be paid to the Trust for the period ended November 30, 1997.

In 1998 the Company received approval to terminate the Plan by the Pension Benefit Guarantee Corporation, all assets were distributed to the vested participants, the Trust was terminated and a final filing was made with the Internal Revenue Service.

2. Employees' Pension Plan

The Company contributed approximately $421,000, $407,000, and $492,000 in 1998, 1997 and 1996, respectively, to a multiemployer pension plan for employees covered by collective bargaining agreements. This plan is not administered by the Company and contributions are determined in accordance with provisions of negotiated labor contracts. Information with respect to the Company's proportionate share of the excess, if any, of the actuarially computed value of vested benefits over the total of the pension plan's net assets is not available from the plan's administrator.

The Multiemployer Pension Plan Amendments Act of 1980 (the "Act") significantly increased the pension responsibilities of participating employers. Under the provision of the Act, if the plans terminate or the Company withdraws, the Company could be subject to a "withdrawal liability."

NOTE K -- STOCK OPTION PLAN

In June 1998, the stockholders of the Company approved the adoption of a stock option and restricted stock purchase plan (the "1998 Option Plan"). The 1998 Option Plan replaces the 1995 Option Plan which was terminated in 1998. The 1998 Option Plan provides for the granting of (i) nonqualified options to purchase the Company's common stock at not less than the fair market value on the date of the option grant, (ii) incentive stock options to purchase the Company's common stock at not less than the fair market value on the date of the option grant and (iii) rights to purchase the Company's common stock on a "Restricted Stock" basis, as defined, at not less than the fair market value on the date the right is granted. As of December 31, 1998, there was no exercise of rights to purchase any common stock on a restricted stock basis. The total number of shares which may be sold pursuant to options and rights granted under the 1998 Option Plan is 2,600,000. No option can be granted under the 1998 Option Plan after April, 2008 and no option can be outstanding for more than ten years after its grant.

The Company has adopted the disclosure provisions of Statement of Financial Accounting Standards No. 123 ("SFAS No. 123"), "Accounting for Stock-Based Compensation." It applies APB Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations in accounting for its plans and does not recognize compensation expense for its stock-based compensation plans other than for restricted stock. If the Company had elected to recognize compensation expense based upon the fair value at the grant date for awards under these plans consistent with the methodology prescribed by SFAS No. 123, the Company's net income and earnings per share would be reduced to the pro forma amounts indicated below:

	YEAR ENDED DECEMBER 31,		
	1998	1997	1996
	(THOUSANDS, EXCEPT PER SHARE AMOUNTS)		
Net loss			
As reported	$(12,724)	$(15,013)	$(14,495)
Pro forma	(13,663)	(15,323)	(14,180)
Loss per share			
As reported	$ (.92)	$ (1.12)	$ (1.49)
Pro forma	(.98)	(1.14)	(1.46)

These pro forma amounts may not be representative of future disclosures because they do not take into effect pro forma compensation expenses related to grants made before 1995. The fair value of these options was estimated at the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions for the years ended December 31, 1998, 1997 and 1996, respectively: expected volatility of 67%, 65%, and 82% ; risk-free interest rates of 5.6%, 6.0%, and 6.6% ; and expected lives of 10 years, 4 years and 4.6 years. At the date of grant, all exercise prices equaled the market value of the stock.

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility. Because the Company's employee stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair market estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its employee stock options.

Transactions involving stock options are summarized as follows:

	STOCK OPTIONS OUTSTANDING	WEIGHTED AVERAGE EXERCISE PRICE	WEIGHTED AVERAGE FAIR VALUE
Balance at January 1, 1996	600,500	$3.49	
Granted	126,000	4.77	
Exercised	(49,159)	3.12	
Cancelled	(21,334)	4.39	
Balance at December 31, 1996	656,007	3.53	
Exercised	(89,300)	3.22	$3.39
Cancelled	(84,968)	5.16	3.39
Balance at December 31, 1997	481,739	3.60	
Granted	2,254,850	2.37	1.71
Cancelled	(511,303)	3.16	2.08
Balance at December 31, 1998	2,225,286	2.46	

The following table summarizes information concerning currently outstanding and exercisable stock options:

	OPTIONS OUTSTANDING			OPTIONS EXERCISABLE	
RANGES OF EXERCISE PRICES	NUMBER OUTSTANDING AT DECEMBER 31, 1998	WEIGHTED AVERAGE REMAINING CONTRACTUAL LIFE	WEIGHTED AVERAGE EXERCISE PRICE	NUMBER EXERCISABLE AT DECEMBER 31, 1998	WEIGHTED AVERAGE EXERCISE PRICE
$1.19 - $2.00	70,000	8.10	$1.55	20,000	$1.97
2.01 - 3.00	2,025,350	9.19	2.40	348,750	2.38
3.01 - 4.88	129,936	7.32	3.86	80,036	3.74
	2,225,286			448,786	

NOTE L -- COMMITMENTS

The Company occupies plant and office facilities under noncancellable operating leases which expire in December 2005. These operating leases provide for scheduled base rent increases over the term of the lease, however, the total amount of the base rent payments will be charged to operations using the straight-line method over the term of the lease. The leases provide for payment of real estate taxes based upon a percentage of the annual increase. In addition, the Company rents certain equipment under operating leases, generally for terms of four years. Total rent expense for the years ended December 31, 1998, 1997 and 1996 was approximately $1,243,000, $884,000 and $659,000, respectively.

As of December 31,1998, the approximate minimum rental commitments under these operating leases are as follows:

	(IN THOUSANDS)
Twelve months ending December 31,	
1999	$1,023
2000	1,075
2001	1,128
2002	1,186
2003 and thereafter	3,921
Total minimum payments required	$8,333

Employment Contracts

During March 1998, the Company entered into employment contracts with each of two new officers/employees of the Company which cover a five-year and a three-year period, respectively. The contracts provide for, among other things: (i) annual salaries of $170,000 and $140,000 to be paid over the five-year and three-year periods, respectively and (ii) an aggregate of 1,300,000 options (included in the 1998 grants -- Note K) to purchase the Company's stock at an exercise price of $2.38 per common share that vest evenly over a three-to-five-year service period and expire in ten years.

NOTE M -- CONTINGENCIES

The Company currently is a defendant in several lawsuits involving product liability and other claims. The Company's insurance carriers have assumed the defense for all product liability and other actions involving the Company. None of the lawsuits is brought as a class action. The ultimate outcome of these lawsuits cannot be determined at this time, and accordingly, no adjustment has been made to the consolidated financial statements.

On October 23, 1996, the Company withdrew four of its Abbreviated New Drug Applications ("ANDAs") including its ANDA for acetaminophen/oxycodone capsules (the "Capsule ANDA"), and halted sales of the affected products. The Company instituted the withdrawal at the suggestion of the FDA and in anticipation of its release from the FDA's Application Integrity Policy ("AIP"). The FDA has placed the Company on the AIP, in October 1991, in connection with its investigation of the Company's operations which culminated in the 1993 consent decree. Under the AIP, the FDA suspended all of the parent company's (i.e., Halsey Drug Co.'s) applications for new drug approvals, including ANDAs and supplements to ANDAs. At the FDA's suggestion, the Company retained outside consultants to perform validity assessments of its drug applications. Thereafter, in October 1996, the FDA recommended that several applications, including the Capsule ANDA, be withdrawn. As a basis of its decision, the FDA cited questionable and incomplete data submitted in connection with the applications. The FDA indicated that withdrawal of the four ANDAs was necessary for the release of the Company from the AIP. The FDA further required submission by the Company of a Corrective Action Plan. Said Plan was prepared and submitted by the Company and accepted by the FDA during 1997.

On December 19, 1996, the FDA released the Company from the AIP. As a consequence, for the first time since October 1991, the Company was permitted to submit ANDAs to the FDA for review. Since its release from the AIP in December 1996, through the fiscal year ended December 31, 1998, the Company submitted thirteen ANDAs for review by the FDA, including a new ANDA with respect to the Capsules. During the period from the Company's release from the AIP to March 15, 1999, the Company received six ANDA approvals, all of which relate to ANDA filings made with the FDA subsequent to the Company's release from the AIP.

As of March 15, 1999, the Company had submitted one additional ANDA for review by the FDA in fiscal 1999 and anticipates the submission of five additional ANDAs during the balance of fiscal 1999.

Although the Company has been successful in receiving the ANDA approvals described above since its release from the AIP in December 1996, there can be no assurance that any of its newly submitted ANDAs, or those contemplated to be submitted, will be approved by the FDA. The Company will not be permitted to market any new product unless and until the FDA approves the ANDA relating to such product. Failure to obtain FDA approval for the Company's pending ANDAs, or a significant delay in obtaining such approval, would adversely affect the Company's business operations and financial condition.

On June 21, 1993, the Company entered into a Plea Agreement with the DOJ to resolve the DOJ's investigation into the manufacturing and record keeping practices of the Company's Brooklyn plant. Under the terms of the Plea Agreement, the Company agreed to plead guilty to five counts of adulteration of drug products shipped in interstate commerce. Each count involved product adulteration, and record keeping deficiencies relating to a single drug product, Quinidine Gluconate (324mg tablets), manufactured at the Brooklyn plant. The Plea Agreement also required the Company to pay a fine of $2,500,000 over five years in quarterly installments of $125,000, commencing on or about September 15, 1993. The Company's plea was entered and the terms of the Plea Agreement were approved by the United States District Court for the District of Maryland on July 13, 1993. As of February 28, 1998, the Company was in default of the payment terms of the Plea Agreement and had made payments aggregating $350,000. On March 27, 1998, the Company and the DOJ signed the Letter Agreement serving to amend the Plea Agreement relating to the terms of the Company's satisfaction of the fine assessed under the Plea Agreement Specifically, the Letter Agreement provided that the Company will satisfy the remaining $2,150,000 of the fine through the payment of $25,000 on a monthly basis commencing June 1, 1998, plus interest on such outstanding balance (at the rate calculated pursuant to 28 U.S.C Section 1961)(currently 5.319%). Such payment schedule will result in the full satisfaction of the DOJ fine in December, 2005. The Letter Agreement also provides certain restrictions on the payment of salary or compensation to any individual in excess of $150,000 without the written consent of the United States District Court for the District of Maryland, subject to certain exceptions. In addition, the Letter Agreement requires the repayment of the outstanding fine to the extent of 25% of the Company's after-tax profit or the remaining balance owed and 25% of the net proceeds received by the Company on any sale of a capital asset for a sum in excess of $10,000. If, at any time, the Company does not make the payments required under the Letter Agreement in a timely fashion, the United States will be free to declare that the fine is delinquent and/or in default, and exercise all legal process to immediately collect the full amount of the fine, interest and applicable penalties.

By letter dated October 23, 1995, the Company was notified by the New York State Education Department (the "Department") that the Professional Conduct Officer of the Office of Professional Discipline had determined that there was sufficient evidence of professional misconduct on the Company's part to warrant a disciplinary proceeding pursuant to New York law. Upon contacting the Deputy Director of the Office of Professional Discipline, counsel for the Company was advised that the alleged misconduct related to the same activities that were the subject of the DOJ investigation, indictment and plea. The Company submitted a written response on November 16, 1995. The Company and the Department have agreed to the entry of a Consent Order concluding any disciplinary proceedings. The Company will pay $175,000 in fines over five years. In addition, the Company's registration as a manufacturer of drugs in New York State is revoked, but such revocation is stayed and the Company has been placed on probation for a maximum of five years. The Company has the right to apply for removal from probation after two years. At December 31, 1998, the Company is current in its payment obligations with a remaining obligation of $140,000.

The Company's Common Stock is listed on the American Stock Exchange (the "Exchange") under the symbol "HDG."

The Company does not meet certain of the Exchange's criteria for continued listing. Accordingly, there can be no assurance that the Company's common stock will remain listed on the Exchange or that the Exchange will not commence a review of the Company's continued listing eligibility. If the Common Stock should become delisted from the Exchange, trading, if any, in the Common Stock would continue on the OTC

Bulletin Board, an NASD-sponsored inter-dealer quotation system, or in what is commonly referred to as the "Pink Sheets." In such event, a shareholder may find it more difficult to dispose of, or to obtain accurate quotations as to the market value of the Common Stock.

Immediately prior to the completion of the Offering, the Company was in default under the consent order with the Department for failure to satisfy two of the monthly installments of the fine as provided in the consent order. Prior to the completion of the Offering, the Company advised the Department as to the existence of the default and that such deficiencies would be corrected upon the completion of the Offering. The Company has satisfied these outstanding amounts and is now current under the consent order with the Department. Based on discussions between representatives of the Department and the Company's outside counsel handling this matter, the Company has been advised that the revocation of the Company's registration as a manufacturer of drugs in the State of New York will remain stayed and that the Company continues to have the right to apply for removal from probation after two years from the effective date of the consent order.

Other Legal Proceedings

Beginning in 1992, actions were commenced against the Company and numerous other pharmaceutical manufacturers in the Pennsylvania Court of Common Pleas, Philadelphia Division, in connection with the alleged exposure to diethylstilbestrol ("DES"). The defense of all of such matters was assumed by the Company's insurance carrier, and a substantial number have been settled by the carrier. Currently, five actions remain pending with the Company as a defendant, and the insurance carrier is defending each action. Similar actions were brought in Ohio, and have been dismissed based on Ohio law. The Company and its legal counsel do not believe any of such actions will have a material impact on the Company's financial condition.

The Company has been named as a defendant in four additional actions, each of which has been referred to the Company's carrier and has been accepted for defense. The first action, Alonzo v. Halsey Drug Co., Inc. and K-Mart Corp., No. 64DOT-95111-CT-2736 (Indiana Superior Court, Porter County), was commenced on November 5, 1995 and involves a claim for unspecified damages relating to the alleged ingestion of "Doxycycline 100." At this early stage of the proceedings, the Company is unable to predict with any degree of certainty the likely outcome of these claims and whether they will have a material adverse effect on the Company's financial condition. The second action, Files v. Halsey Drug Co., Index No. 198787193 (New York Supreme Court, Suffolk County), commenced on September 16, 1993, seeking $10,000,000 in damages for wrongful death allegedly caused by the ingestion of Isoniazid. Halsey has been dismissed from this action on motion for summary judgment. The third and fourth actions, entitled Hunt v. Halsey Drug Co., Inc., and McCray v. Halsey Drug Co., Inc. (New York State Supreme Court, Kings County), were commenced on October 21, 1993, seeking the recovery of $8,000,000 for alleged personal injuries suffered by two Wells Fargo security guards who responded to an alarm and were shot, resulting in the death of one and the injury to the other. The Company's insurance carrier and the plaintiffs in these matters have agreed in principle to a settlement providing for the payment by the Company's insurance carrier of the sum of $600,000 to the estate of John McCray and the sum of $150,000 to Joseph Hunt in full and final settlement of all their respective claims against the Company.

The Company has been named as a defendant in a complaint filed with the United States District Court, Eastern District of New York, on June 30, 1998 (the "Complaint") by Quality Products and Services, L.L.C. The Complaint alleges the existence of a Joint Venture Agreement between the Plaintiff and the Company concerning the development, manufacture and marketing of a single product. The Complaint also alleges that the Company has breached the Agreement by failing to satisfy its respective obligations defined in the Agreement. The Complaint seeks monetary damages of approximately $20 million. The Company believes that the allegations contained in the Complaint are without basis in fact, and that it has meritorious defenses to each of the allegations. The Company has retained counsel and intends to vigorously defend this action. This matter is currently in discovery. The Company has filed a third-party complaint against Rosendo Ferran, the Company's former President, in connection with the Complaint.

The Company has been named as a defendant in an action in Suffolk County, New York, by Designed Laboratories, Inc., for construction work allegedly performed at the Company's facilities in Brooklyn. Plaintiff is seeking approximately $148,000. The Company has no records of work being performed by this entity, and is therefore defending the action.

The Company's former President, Rosendo Ferran, has instituted an arbitration against the Company, seeking sums alleged due under his employment contract in the amount of $225,000, deferred salary in the approximate amount of $100,000, and unspecified damages upon allegations of age, ethnic and religious discrimination. The Company believes it has meritorious defenses to the allegations claimed in the arbitration. The Company and its legal counsel do not believe this claim will have a material adverse effect on the Company's financial condition.

NOTE N -- SIGNIFICANT CUSTOMERS AND SUPPLIERS

The Company sells its products to a large number of customers who are primarily drug distributors, drugstore chains and wholesalers and are not concentrated in any specific region. The Company performs ongoing credit evaluations of its customers and generally does not require collateral. During 1998, the Company had net sales to one customer in excess of 10% of total sales, aggregating 11.5% of total sales. During 1997, the Company had net sales to two customers in excess of 10% of total sales. One customer (Mallinckrodt) accounted for 22.1% of total sales and another customer (Warner Chilcott) accounted for 10% of total sales. During 1996, the Company had net sales to one customer aggregating 10% of total sales.

During 1998 and 1997, the Company purchases approximated $2,583,000 and $1,187,000, respectively, representing approximately 29% and 25%, respectively, of total purchases for those years.

NOTE O -- SUBSEQUENT EVENTS

Lease of Congers, New York Facility

Effective March 22, 1999, the Company leased, as sole tenant, a pharmaceutical manufacturing facility located in Congers, New York (the "Congers Facility") from Par Pharmaecutical, Inc. ("Par") pursuant to an Agreement to Lease (the "Lease"). The Congers Facility contains office, warehouse and manufacturing space and is approximately 35,000 square feet. The Lease provides for a term of three years, with a two-year renewal option and provides for annual fixed rent of $500,000 per year during the primary term of the Lease and $600,000 per year during the option period. The Lease also covers certain manufacturing and related equipment previously used by Par in its operations at the Congers Facility (the "Leased Equipment"). In connection with the execution of the Lease, the Company and Par entered into a certain Option Agreement pursuant to which the Company may purchase the Congers Facility and the Lease Equipment at any time during the lease term for $5 million.

As part of the execution of the Lease, the Company and Par entered into a certain Manufacturing and Supply Agreement (the "M&S Agreement") having a term of two years. The M&S Agreement provides for the Company's contract manufacture of certain designated products manufactured by Par at the Congers Facility prior to the effective date of the Lease. The M&S Agreement also provides that Par will purchase a minimum of $1,150,000 in product during the initial 18 months of the Agreement. The M&S Agreement further provides that the Company will not manufacture, supply, develop or distribute the designated products to be supplied by the Company to Par under the M&S Agreement to or for any other person for a period of three years.

CONSENT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

We have issued our report dated March 5, 1999, accompanying the consolidated financial statements included in the Annual Report of Halsey Drug Co., Inc. on Form 10-K for the year ended December 31, 1998. We hereby consent to the incorporation by reference of said report in the Registration Statements of Halsey Drug Co., Inc. on Form S-8 (File No. 33-98396, effective October 19, 1995).

GRANT THORNTON LLP

New York, New York
March 5, 1999

EXHIBIT INDEX

Exhibit 3.1

Certificate of Incorporation and amendments

Exhibit 3.3

Restated By-Laws

Exhibit 10.45

[Amended, Restated and Consolidated Bridge Loan Agreement dated as of December 2, 1998 between the Company, Galen Partners III, L.P., Galen Partners International III, L.P., Galen Employee Fund III, L.P. and the other signatures thereto]

Exhibit 10.46

[First Amendment to Amended, Restated and Consolidated Bridge Loan Agreement dated December 7, 1998 between the Company and the lenders listed on the signature page thereto]

Exhibit 10.47

[Second Amendment to Amended, Restated, Consolidated Bridge Loan Agreement dated March 8, 1999 between the Company and the lenders listed on the signature pages thereto]

Exhibit 10.48

[Form of 10% Convertible Secured Note due May 30, 1999]

Exhibit 10.49

[Form of Common Stock Purchase Warrant issued pursuant to the Amended, Restated and Consolidated Bridge Loan Agreement]

Exhibit 10.50

[Amended and Restated General Security Agreement dated December 2, 1998 between the Company and Galen Partners III, L.P., as Agent]

Exhibit 10.51

[Subordination Agreement dated December 2, 1998 between the Registrant and Galen Partners III, L.P., as Agent]

Exhibit 10.52

[Agency Letter Agreement dated December 2, 1998 by and among the lenders a party to the Amended, Restated and Consolidated Bridge Loan Agreement, as amended]

Exhibit 10.53

[Lease Agreement dated March 17, 1998 between the Registrant and Par Pharmaceuticals Inc.]

Exhibit 10.54

[Lease Agreement dated September 1, 1998 between the Registrant and Crinson Ridge Partners]

Exhibit 10.55

[Manufacturing and Supply Agreement dated March 17, 1999 between the Company and Par Pharmaceuticals Inc.]

Exhibit 10.56

[Halsey Drug Co., Inc. 1998 Stock Option Plan]

Exhibit 23.1

[Consent of Grant Thornton LLP, independent certified public accountants]

Exhibit 27

[Financial Data Schedule, which is submitted electronically to the Securities and Exchange Commission for informational purposes only and not filed]

Exhibit 3.1

[Amendments to Certificate of Incorporation]

CERTIFICATE OF AMENDMENT

OF THE CERTIFICATE OF INCORPORATION

OF

HALSEY DRUG CO., INC.

UNDER SECTION 805 OF THE NEW YORK BUSINESS CORPORATION LAW

* * * * *

WE, THE UNDERSIGNED, Michael K. Reicher and Peter Clemens, being respectively the President and the Secretary of Halsey Drug Co., Inc., hereby certify:

1. The name of the corporation is Halsey Drug Co., Inc. The corporation was originally incorporated under the name of Halsey Drug Co. Inc.

2. The certificate of incorporation of said corporation was filed with the Department of State on the 10th day of April, 1935, amended on June 16, 1952, restated on February 23, 1962, amended on March 12, 1984, amended on February 7, 1986, amended on August 20, 1986, amended on May 24, 1989, and further amended on August 27, 1998.

3. (a) The certificate of incorporation is amended to increase the number of directors to not more than eight (8).

(b) To effect the foregoing, Article SIXTH relating to the number of directors is amended to read as follows:

SIXTH: The number of directors shall be not less than three (3) nor more than eight (8) none of whom need be stockholders of the Corporation.

4. The amendment was authorized in the following manner:

By a unanimous written consent of the Board of Directors followed by an affirmative vote of the holders of a majority of the outstanding shares of Common Stock of the corporation entitled to vote thereon.

IN WITNESS WHEREOF, we have signed this certificate on the 28 day of January, 1999 and we affirm the statements contained herein as true under penalties of perjury.

_/S/_____
Michael K. Reicher
President and Chief Executive Officer

_/S/_____
Peter Clemens
Secretary

CERTIFICATE OF AMENDMENT

OF THE CERTIFICATE OF INCORPORATION

OF

HALSEY DRUG CO., INC.

Please forward the filing receipt for this document to:

ST. JOHN & WAYNE, L.L.C.
Attn: John P. Reilly, Esq.
2 Penn Plaza East, 10th Floor
Newark, New Jersey 07105

CERTIFICATE OF AMENDMENT

OF THE CERTIFICATE OF INCORPORATION

OF

HALSEY DRUG CO., INC.

UNDER SECTION 805 OF THE NEW YORK BUSINESS CORPORATION LAW

* * * * *

WE, THE UNDERSIGNED, Michael K. Reicher and Peter Clemens, being respectively the President and the Secretary of Halsey Drug Co., Inc., hereby certify:

1. The name of the corporation is Halsey Drug Co., Inc. The corporation was originally incorporated under the name of Halsey Drug Co. Inc.

2. The certificate of incorporation of said corporation was filed with the Department of State on the 10th day of April, 1935, amended on June 16, 1952, restated on February 23, 1962, amended on March 12, 1984, amended on February 7, 1986, amended on August 20, 1986 and further amended on May 24, 1989.

3. (a) The certificate of incorporation is amended to increase the number of authorized shares of Common Stock available from 20,000,000 to 40,000,000 Shares.

(b) To effect the foregoing, Article THIRD relating to the amount of authorized capital stock of the Corporation is amended to read as follows:

THIRD: The amount of the authorized capital stock of the Corporation shall be Four Hundred Thousand ($400,000) Dollars consisting of 40,000,000 shares of Common Stock, each share having a par value of $.01 per share.

4. The amendment was authorized in the following manner:

By a unanimous written consent of the Board of Directors followed by an affirmative vote of the holders of a majority of the outstanding shares of Common Stock of the corporation entitled to vote thereon.

IN WITNESS WHEREOF, we have signed this certificate on the 21st day of July and we affirm the statements contained herein as true under penalties of perjury.

_/S/_____
Michael K. Reicher
President and Chief Executive Officer

_/S/_____
Peter Clemens
Secretary

CERTIFICATE OF AMENDMENT

OF THE CERTIFICATE OF INCORPORATION

OF

HALSEY DRUG CO., INC.

Please forward the filing receipt for this document to:

ST. JOHN & WAYNE, L.L.C.
Attn: B. Knochenmus
2 Penn Plaza East, 10th Floor
Newark, New Jersey 07105

Exhibit 3.3
[Amended and Restated Bylaws]

As Amended: April 24, 1998

RESTATED BY-LAWS of HALSEY DRUG CO., INC.

ARTICLE I.

STOCKHOLDERS.

SECTION 1. Annual Meeting. The annual meeting of the stockholders shall be held at such time and place in the City and State of New York as the Board of Directors may from time to time designate on a day not later than one hundred fifty (150) days from the end of the Corporation's last fiscal year, each year for the purpose of electing directors and of transacting such other business as may properly come before the meeting. The directors shall be chosen by a plurality of the votes at such election.

SECTION 2. Special Meetings. Special meetings of the stockholders may be called by a majority of the members of the Board of Directors or the President and shall be called at any time by the President, any Vice President or the Secretary upon the written request of stockholders owning a majority of the outstanding shares of the Corporation entitled to vote at the meeting, and shall be hold at such time and place in the City and State of New York as may be fixed in the call and stated in the notice.

SECTION 3. Notice of Meetings. Notice of each meeting of stockholders shall be in writing and signed by the President or a Vice President or the Secretary or an Assistant Secretary. Such notice shall state the purpose or purposes for which the meeting is called and the time when and the place where it is to be held, and copy thereof shall be served, either personally or by mail, upon each stockholder of record entitled to vote at such meeting, and upon each stockholder of record who, by reason of any action proposed at such meeting, would be entitled to have his stock appraised if such action were taken, not less than ten nor more than forty days before the meeting. If mailed, it shall be directed to a stockholder at his address as it appears on the stockbook unless he shall have filed with the Secretary of the Corporation a written request that notices intended for him be mailed to some other address, in which case it shall be mailed to the address designated in such request.

A meeting of stockholders may be held without notice, and any action proper to be taken by the stockholders may be taken thereat, if at any time before or after such action be completed the requirements for notice be waived in writing by all the stockholders of record entitled to notice of such meeting or by their attorneys thereunto authorized.

SECTION 4. Qualification of Voters. Unless otherwise provided in a certificate filed pursuant to law, every stockholder of record of the Corporation shall be entitled at every meeting of the stockholders to one vote for every share of stock standing in his name on the books of the Corporation.

Shares of its own stock belonging to the Corporation at the time of the meeting or at the time a voting record therefor, as hereafter provided, is taken, shares retired before the meeting and no longer deemed to be issued and outstanding at the time of the meeting although outstanding at the time a voting record therefor is taken, and shares issued before the meeting but after a voting record therefor is taken, shall not be voted, directly or indirectly, and shall not be counted in determining a quorum or the number of shares necessary to constitute a quorum or to take any action contemplated, unless otherwise provided by law.

The books and papers containing the list of stockholders shall be produced at any meeting of the stockholders upon the request of any stockholder. If the right to vote at any such meeting shall be challenged, the inspectors of election, or other person presiding thereat, shall require such books to be produced as evidence of the right of the person challenged to vote at such meetings and all persons who may appear from such books to be stockholders of the Corporation entitled to vote may vote at such meeting in person or by proxy, subject to the provisions of the law.

SECTION 5. Determination of Stockholders of Record for Certain Purposes. The Board of Directors may prescribe a period not exceeding forty days prior to any meeting of the stockholders or prior to the last day on which the consent or dissent of stockholders may be effectively expressed for any purpose without a meeting, or prior to the payment of any dividend, or the making of any distribution, or the delivery of evidence of rights or evidences of interests arising out of any change, conversion or exchange of capital stock, during which no transfer of stock on the books of the corporation may be made. In lieu of prohibiting the transfer of stock as aforesaid, the Board of Directors may fix a day and hour, not more than forty days prior to any such meeting, or to any such last day for the expression of consent or dissent, or to any such dividend payment, distribution or delivery, as the time as of which stockholders entitled to notice of and to vote at such meeting, or to express such consent or dissent or to the receipt of such dividend payment, distribution or delivery, as the case may be, shall be determined, and all persons who were stockholders of record at such time and no others shall be entitled to notice of and to vote at such meeting, to express such consent or dissent, or to the receipt of such dividend payment, distribution or delivery, as the case may be.

SECTION 6. Quorum. The amount of stock which must be represented at a meeting of the stockholders to constitute a quorum, unless otherwise provided by law, shall be a majority of the shares of the Corporation which are entitled to be voted at such meeting, represented by holders of record entitled to vote thereat, present in person or by proxy.

If at any meeting of the stockholders the amount of stock so represented shall not constitute a quorum or shall be less than the amount required by statute to take the action then contemplated, the holders of a majority of the shares of stock so represented may adjourn the meeting from time to time during the period of not more than forty days thereafter, without notice other than announcement at the meeting, until the required amount of stock shall be represented at the meeting, when such action may be taken as was contemplated by the notice of the meeting.

SECTION 7. Proxies. Every stockholder of the Corporation entitled to vote at any meeting thereof may vote by proxy. Every proxy must be executed in writing by the stockholder or by his duly authorized attorney. No proxy shall be valid after the expiration of eleven months from the date of execution unless the stockholder executing it shall have specified therein its duration.

SECTION 8. Inspectors of Election. Two inspectors of election to serve at each election of directors by stockholders or in any other case in which inspectors may act shall be appointed by the chairman at the meeting. The inspectors so appointed, before entering upon the discharge of their duties, shall be sworn faithfully to execute the duties of inspectors at such meeting with strict impartiality, and according to the best of their ability, and the oath so taken shall be subscribed by them. Thereupon the inspectors shall take charge of the polls and after the balloting shall make a certificate of the result of the vote taken. No director or candidate for the office of director shall be appointed such inspector.

SECTION 9. Form of Stock Certificates. The stock of the Corporation shall be represented by certificates, in such forms as the Board of Directors may from time to time prescribe, signed by the President or a Vice President and the Secretary or an Assistant Secretary or the Treasurer or an Assistant Treasurer, and sealed with the seal of the Corporation. Such seal may be a facsimile, engraved or printed. Where any such certificate in signed by a transfer agent or transfer clerk, the signatures of any such President, Vice-President, Secretary, Assistant Secretary, Treasurer and Assistant Treasurer upon such certificate may be facsimiles, engraved or printed. In case any such officer who has signed or whose facsimile signature has been placed upon such certificate shall have ceased to be such before such certificate is issued, it may be issued by the Corporation with the same effect as if such officer had not ceased to be such at the date of its issue.

Every certificate of stock issued by the Corporation shall plainly state upon the face thereof the number, kind and class of shares, including series, if any, which it represents.

SECTION 10. Transfers of Stock. Shares of the stock of the Corporation shall be transferable on the books of the Corporation, by the holder thereof in person or by his attorney, upon surrender or cancellation of certificates for the same number of shares, with a written assignment of

the certificate or a power of attorney to sell, assign or transfer the same or the shares represented thereby, signed by the person appearing by the certificate to be the owner of the shares represented thereby, either indorsed thereon or attached thereto, with such proof of the authenticity of the signature as the Corporation or its agents may reasonably require. Such assignment or power of attorney may be either in blank or to a specified person, and shall have affixed thereto all stock transfer stamps required by law.

No share shall be transferable until all previous calls thereon shall have been fully paid in.

SECTION 11. Lost, Stolen or Destroyed Stock Certificates. No certificate for shares of stock of the Corporation shall be issued in place of any certificate alleged to have been lost, stolen or destroyed, except upon production of such evidence of the loss, theft or destruction, and upon such indemnification of the Corporation and its agents to such extent and in such manner as the Board of Directors may from time to time prescribe.

ARTICLE II.

BOARD OF DIRECTORS.

SECTION 1. Power of Board and Qualification of Directors. The business of the Corporation shall be managed by its Board of Directors, all of whom shall be of full age and need not be stockholders. Directors shall be elected at the annual meetings of the stockholders and each director shall be elected to serve for one year and until his successors shall be elected and shall qualify.

SECTION 2. Number. The number of directors of the Corporation shall be not less than three nor more than eleven as fixed from time to time within said limits by the Board of Directors.

SECTION 3. Meetings or the Board. The annual meeting of the Board of Directors shall be held in each year after the adjournment of the annual stockholders' meeting and on the same day. If a quorum of the directors are not present on the day appointed for the annual meeting, the meeting shall be adjourned to some convenient day. No notice need be given of the annual meeting of the Board.

Meetings of the Board of Directors shall be held at such place as may from time to time be specified in the call of any meeting.

Regular meetings of the Board of Directors shall be held at such times as may from time to time be fixed by resolution of the Board, and no notice need be given of regular meetings.

Special meetings of the Board may be called at any time by the President and shall be called by the President, any Vice President or the Secretary upon the written request of any two members of the Board, to be held not more than five days after receipt of the said request. Notice of special

meetings say be oral, telegraphic or written and shall be served on or sent or mailed to each director not less than forty-eight hours before such meeting.

A special meeting of the Board of Directors may be held without notice, and any action proper to be taken by the Board of Directors may be taken thereat, if every member of the Board of Directors is present or if at any time before or after such action be completed the requirement for notice be waived in writing by every director entitled to notice of such meeting.

SECTION 4. Quorum and Power of a Majority. A majority of the Board of Directors at a meeting duly assembled shall be necessary to constitute a quorum for the transaction of business and the act of a majority of the directors present at such meeting shall be the act of the Board of Directors.

SECTION 5. Resignations. Any director of the Corporation may resign at any time by giving written notice to the Board of Directors or to the President or to the Secretary of the Corporation. Such resignation shall take effect at the time specified therein; and unless otherwise Specified therein the acceptance of such resignation shall not be necessary to make it effective.

SECTION 6. Vacancies. Vacancies in the Board of Directors, whether caused by death, resignation, increase in the number of directors, or otherwise, may be filled by a vote of a majority of the directors in office at the time. However, in case the number of directors be increased by action of the stockholders, the additional directors may be elected by vote of the stockholders at the meeting at which the increase is effected.

SECTION 7. Compensation. Directors, as such, shall not receive any stated salary for their services, but by resolution of the Board of Directors a fixed sum and expenses of attendance, if any may be allowed for attendance at each meeting of the Board. However, this by-law shall not be construed to preclude any director from serving the Corporation in any other capacity and receiving compensation therefor. Members of the Executive Committee and of other committees may be allowed like compensation for attending committee meetings.

SECTION 8. Executive Committee. The Board of Directors may, by vote of a majority of the Board, designate an Executive Committee, to consist of the President and such other member or members of the Board of Directors as may be designated by the Board of Directors. The Executive Committee shall have and may exercise, so far as may be permitted by law, all the powers of the Board of Directors in the management of the business, affairs and property of the Corporation during the intervals between meetings of the Board of Directors and shall have power to authorize the seal of the Corporation to be affixed to all papers which may require it; but the Executive Committee shall not have power to fill vacancies in the Board of Directors or to change the membership of, or to fill vacancies in, the Executive Committee, or to make or amend the by-laws of the Corporation. The Board of Directors shall have the power at any time to fill vacancies in, to change the membership of, or to dissolve the Executive Committee. The Executive Committee may hold meetings and make rules for the conduct of its business and appoint such committees and assistants

as it shall from time to time deem necessary. A majority of the members of the Executive Committee shall constitute a quorum determine its action. All action of the Executive Committee shall be reported at the meeting or the Board of Directors next succeeding such action.

SECTION 9. Other Committees. The Board of Directors may in its discretion appoint other committees which shall have such powers and perform such duties as from time to time may be prescribed by the Board of Directors. A majority of the members of any such committee may determine its action and fix the time and place of its meetings, unless the Board shall otherwise provide. The Board of Directors shall have power at any time to change the membership of any such committee, to fill vacancies, and to discharge any such committee.

SECTION 10. Telephonic Meetings. Unless otherwise restricted by the Certificate of Incorporation or these By-Laws, members of the Board of Directors or any committee thereof may participate in a meeting of such Board or committee by means of a conference telephone or similar communications equipment allowing all persons participating in the meeting to hear each other at the same time, and participation in a meeting pursuant to such means shall constitute presence in person at such meeting.

ARTICLE III.

OFFICERS.

SECTION 1. Officers. The Board of Directors, as soon as may be after the annual election of directors, shall elect a President, one or more Vice Presidents, a Secretary and a Treasurer, and from time to time may appoint such other officers (including among others, an Executive Vice President, one or more Assistant Secretaries and one or more Assistant Treasurers), agents and employees as it may deem proper. More than one office may be hold by the same person. The President shall be chosen from among the directors but no other officer need be a director.

SECTION 2. Salaries of Officers. The salaries of all officers of the Corporation shall be fixed by the Board of Directors.

SECTION 3. Term of Office. The term of office for all officers shall be for one year and until their respective successors are chosen and qualified.

SECTION 4. Powers and Duties.

(a) The President

The President shall preside at all meetings of the directors and shall generally oversee the management of the business of the Corporation. He shall be the chief executive officer of the Corporation and shall have the management of the business of the Corporation. He shall preside at all meetings of stockholders. Except as the Board of Directors may otherwise direct and except as

otherwise expressly provided in these by-laws or by law, the President shall execute any action on behalf of the Corporation as may from time to time be taken by the Board of Directors.

(b) Vice Presidents

The Vice Presidents, in the order designated by the Board of Directors, during the absence or disability of the President, shall perform the duties and exercise the powers of the President, and shall perform such other duties as the Board of Directors shall prescribe.

(c) Secretary

The Secretary shall attend all sessions of the Board and all meetings of the stockholders and record all votes and the minutes of all proceedings in a book to be kept for that purpose. He shall give or cause to be given notice of all meetings of stockholders and special meetings of the Board of Directors and shall Perform such other duties as may be prescribed by the Board of Directors. He shall keep in safe custody the seal of the Corporation and affix it to any instrument when authorized by the Board of Directors.

(d) Treasurer

The Treasurer shall have the custody of the corporate funds and securities and shall keep full and accurate accounts of receipts and disbursements in books belonging to the Corporation and shall deposit all moneys and other valuable effects in the name and to the credit of the Corporation in such depositories as may be designated by the Board of Directors. He shall disburse the funds of the Corporation as may be ordered by the Board of Directors, taking proper vouchers for such disbursements, and shall render to the President and directors at the regular meetings of the Boards or whenever they may require it, an account of all his transactions as Treasurer and of the financial condition of the Corporation.

The Treasurer shall, if required by the Board of Directors, give the Corporation a bond in such sum or sums and with such surety or sureties as shall be satisfactory to tho Board of Directors, conditioned upon the faithful performance of his duties and for the restoration to the Corporation in case of his death, resignation, retirement or removal from office of all books, papers, vouchers, money and other property of whatever kind in his possession or under his control belonging to the Corporation.

SECTION 5. Books to be Kept. The officers shall keep at the office of the Corporation correct books of account of all its business and transactions, and a book to be known as the stockbook, containing the names, alphabetically arranged, of all persons who are stockholders of the Corporation, showing their places of residence, the number of shares of stock held by them respectively, the time when they respectively became the owners thereof, and the amount paid thereon.

SECTION 6. Checks, Notes, etc. All checks and drafts on the Corporation's bank accounts and all bills of exchange and promissory notes and all acceptances, obligations and other instruments for the payment of money, shall be signed by such officer or officers or agent or agents as shall be thereunto authorized from time to time by the Board of Director.

ARTICLE IV.

OTHER MATTERS.

SECTION 1. Corporate Seal. The corporate seal shall have inscribed thereon the name of the Corporation and such other appropriate legend as the Board of Directors may from time to time determine. In lieu of the corporate seal, when so authorized by the Board of Directors or a duly empowered committee thereof, a facsimile thereof may be affixed or reproduced.

SECTION 2. Fiscal Year. The fiscal year of the Corporation shall be determined by the Board of Directors.

SECTION 3. Amendments. The by-laws of the Corporation may be amended, added to or repealed at any meeting of the stockholders by the vote of the holders of record of a majority of the outstanding shares of the Corporation entitled to vote at the meeting, provided that notice of the proposed change shall have been given in the notice of the meeting. The by-laws may also be, amended or Added to or repealed at any meeting of the Board of Directors by the vote of a majority of all members of the Board, provided that notice of the proposed change shall have been given in the notice of the meeting. However, any by-laws hereafter duly adopted at a meeting of the stockholders shall control action of the directors except as therein otherwise provided.

SECTION 4. Reliance Upon Reports. Each Director, each officer and each member of any committee designated by the Board of Directors shall in the performance of his duties be fully protected in relying in good faith upon the books of account or reports made to the Corporation by any of its officials, or by an independent certified public accountant, or by an appraiser selected with reasonable care by the Board of Directors, or by such officer or by such committee, or in relying in good faith upon other records of the Corporation.

SECTION 5. Removals.

(a) The stockholders may, at any meeting called for the purpose, by vote of a majority of the capital stock issued and outstanding and entitled to vote thereon, remove any director from office. The Board of Directors may, at any meeting called for the purpose, by an affirmative vote of two-thirds of their entire number holding office at the time, and for good cause shown, remove any director from office.

(b) The-Board of Directors may, at any meeting called for the purpose, by a vote of a majority of their entire number holding office at the time, remove from office any officer or agent

of the Corporation or any member of any committee appointed by the Board of Directors or by any committee appointed by the Board of Directors or by any officer or agent of the Corporation.

SECTION 6. Indemnification . It is expressly provided that any and every person made a party to any action, suit, or proceeding by or in the right of the corporation to procure a judgment in its favor by reason of the fact that he, his testator or intestate, is or was a director or officer of this corporation or of any corporation which be served as such at the request of this corporation, may be indemnified by the corporation to the full extent permitted by law, against any and all reasonable expenses, including attorneys' fees, actually and necessarily incurred by him in connection with the defense of such action or in connection with any appeal therein, except in relation to matters as to which it shall be adjudged in such action, suit or proceeding that such officer or director has breached his duty to the corporation.

It is further expressly provided that any and every person made a party to any action, suit, or proceeding other than one by or in the right of the corporation to procure a judgment in its favor, whether civil or criminal, including an action by or in the right of any other corporation of any type or kind, domestic or foreign, which any director or officer of the corporation served in any capacity at the request of the corporation, by reason of the fact that he, his testator or interstate, was a director or officer of the corporation, or served such other corporation in any capacity, may be indemnified by the corporation, to the full extent permitted by law, against judgments, fines, amounts paid in settlement, and reasonable expenses, including attorneys' fees; actually and necessarily incurred as a result of such action, suit or proceeding, or any appeal therein, if such person acted in good faith for a purpose which he reasonably believed to be in the best interests of the corporation and, in criminal actions or proceedings, in addition, had no reasonable cause to believe that his conduct was unlawful.

Exhibit 10.45

[Amended, Restated and Consolidated Bridge Loan Agreement dated as of December 2, 1998 between the Company, Galen Partners III, L.P., Galen Partners International III, L.P., Galen Employee Fund III, L.P. and the other signatures thereto]

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AMENDED, RESTATED AND CONSOLIDATED

BRIDGE LOAN AGREEMENT

for

$8,500,000

among

HALSEY DRUG CO., INC., as Borrower,

and

GALEN PARTNERS III, L.P.
GALEN PARTNERS INTERNATIONAL III, L.P.
GALEN EMPLOYEE FUND III, L.P.
and OTHERS, as Lenders,
and
GALEN PARTNERS III, L.P., as Agent for Lenders

Dated as of December 2, 1998

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Wolf, Block, Schorr and Solis-Cohen LLP
250 Park Avenue
New York, New York 10177

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Exhibits

AMENDED, RESTATED AND CONSOLIDATED BRIDGE LOAN AGREEMENT

THIS AMENDED, RESTATED AND CONSOLIDATED BRIDGE LOAN AGREEMENT is entered into as of December 2, 1998 among HALSEY DRUG CO., INC., a New York corporation ("Borrower"), GALEN PARTNERS III, L.P. ("Galen" or a "Lender"), GALEN PARTNERS INTERNATIONAL III, L.P. and GALEN EMPLOYEE FUND III, L.P., each a Delaware limited partnership (each a "Lender", and collectively, with Galen, the "Galen Entities"), THOSE PERSONS WHOSE NAMES ARE SET FORTH ON THE SIGNATURE PAGE HERETO (each a "Lender", and collectively, with the Galen Entities, the "Lenders") and GALEN, as agent for the Lenders (in such capacity, the "Agent").

WHEREAS, Borrower and the Galen Entities entered into a Bridge Loan Agreement dated as of August 12, 1998 (as amended through the date hereof, the "Original Bridge Loan Agreement"), pursuant to which the Galen Entities made a loan to Borrower in the amount of $1,000,000 (the "Initial Bridge Loan"), as evidenced by a promissory note ("Bridge Note 1") in such amount;

WHEREAS, Borrower and the Galen Entities entered into a First Amendment to Bridge Loan Agreement dated as of September 17, 1998 (the "First Amendment"), pursuant to which the Galen Entities made a loan to Borrower in the amount of $500,000 (the "First Amendment Loan"), as evidenced by a promissory note ("Bridge Note 2") in such amount;

WHEREAS, Borrower and the Galen Entities entered into a Second Amendment to Bridge Loan Agreement dated as of October 2, 1998 (the "Second Amendment"), pursuant to which the Galen Entities made a loan to Borrower in the amount of $500,000 (the "Second Amendment Loan"), as evidenced by a promissory note ("Bridge Note 3") in such amount;

WHEREAS, Borrower, the Galen Entities and Michael Weisbrot and Susan Weisbrot (each, a "Lender" and collectively, the "Weisbrots") entered into a Third Amendment to Bridge Loan Agreement dated as of October 19, 1998 (the "Third Amendment"), pursuant to which the Galen Entities made a loan to Borrower in the amount of $150,000 (the "Third Amendment Galen Loan"), as evidenced by a promissory note ("Bridge Note 4") in such amount, and, pursuant to which the Weisbrots made a loan to Borrower in the amount of $100,000 (the "Third Amendment Weisbrot Loan", as evidenced by a promissory note ("Bridge Note 5") in such amount (the Third Amendment Galen Loan and the Third Amendment Weisbrot Loan, collectively the "Third Amendment Loan");

WHEREAS, Borrower and the Galen Entities entered into a Fourth Amendment to Bridge Loan Agreement dated as of October 29, 1998 (the "Fourth Amendment"), pursuant to which the Galen Entities made a loan to Borrower in the amount of $750,000 (the "Fourth Amendment Loan"), as evidenced by a promissory note ("Bridge Note 6") in such amount;

WHEREAS, Borrower and the Galen Entities entered into a Fifth Amendment to Bridge Loan Agreement dated as of November 6, 1998, pursuant to which the Galen Entities made a loan to Borrower in the amount of $1,500,000 (the "Fifth Amendment Loan"), as evidenced by a promissory note ("Bridge Note 7") in such amount (the Initial Bridge Loan, the First Amendment Loan, the Second Amendment Loan, the Third Amendment Loan, the Fourth Amendment Loan and the Fifth Amendment Loan, collectively, the "Original Bridge Loan" and Bridge Note 1, Bridge Note 2, Bridge Note 3, Bridge Note 4, Bridge Note 5, Bridge Note 6 and Bridge Note 7, collectively, the "Original Notes");

WHEREAS, Borrower has requested that some or all Lenders consider making an additional $3,250,000 bridge loan to Borrower ("Additional Bridge Loan");

WHEREAS, to induce such Lenders to extend to Borrower the Additional Bridge Loan, Borrower has agreed to execute this Amended, Restated and Consolidated Bridge Loan Agreement (the "Agreement");

WHEREAS, some or all of the Lenders, as signatories to a certain Debenture and Warrant Purchase Agreement dated as of March 10, 1998 (the "Debenture and Warrant Purchase Agreement") and as holders of certain 10% convertible subordinated debentures issued and dated August 6, 1996 (the "1996 Debentures") desire to participate in this Agreement by exercising certain first refusal or preemptive rights granted under Section 16.1 of the Debenture and Warrant Purchase Agreement and under Article 8A of the 1996 Debentures;

WHEREAS, Borrower and Lenders desire to amend and restate the Original Bridge Loan Agreement and consolidate the Original Bridge Loan with the Additional Bridge Loan, such that the terms of such Original Bridge Loan as set forth in the Original Bridge Loan Agreement, as so amended and restated, the terms of such Additional Bridge Loan and the terms of such consolidation, are set forth in this Agreement;

NOW, THEREFORE, in consideration of the mutual promises contained herein, and for other good and valuable consideration, the recipient and sufficiency of which are hereby acknowledged, the parties hereto hereby agree as follows:

SECTION 1.
DEFINITIONS, TERMS AND HEADINGS

1.1. General Definitions.

Additional Bridge Loan has the meaning set forth in the Recitals to this Agreement.

Additional Bridge Loan Commitment means the commitment of each Lender to fund the dollar amount of its share of the Additional Bridge Loan in the amount set forth opposite such Lender's name on Exhibit A, copy of which is attached hereto and made a part hereof.

Affiliate of a Person means another Person who directly or indirectly controls, is controlled by, is under common control with or is a director or officer of, such Person. For purposes of this definition, "control" means the possession, directly or indirectly, of the power to vote five percent (5%) or more of the securities having ordinary voting power for the election of directors or the direct or indirect power to direct the management and policies of a business.

Agency Agreement means the Agency Agreement by and among the Agent and each Lender dated as of the date hereof and entered into simultaneously herewith, substantially in the form of Exhibit E attached hereto

Agreement means this Agreement, as the same may be amended, extended, modified, restated or supplemented from time to time.

Authorizations means all filings, recordings and registrations with, and all validations or exemptions, approvals, orders, authorizations, consents, licenses, certificates and permits from any Governmental Authority.

Bridge Loan Documents mean, collectively, this Agreement, the Notes, the Warrants, the Consent and Waiver, the Agency Agreement, each of the Collateral Documents and all other documents, agreements, instruments, opinions and certificates now or hereafter executed and delivered in connection herewith or therewith, as amended, extended, modified, restated or supplemented from time to time.

Business Day means any day other than a Saturday, Sunday or other day on which commercial banks in New York City are authorized or required by law to close.

Closing Date means the date upon which the last of the events, the fulfillment of each of which is condition precedent to the effectiveness of this Agreement, as set forth in Section 3 of this Agreement, shall have occurred.

Code has the meaning set forth in Section 1.3.

Collateral means all property of Borrower, of whatever kind or nature whether now owned or hereafter acquired or created, wherever located, including, without limitation, all property identified as security for the Obligations under the Collateral Documents.

Collateral Documents means the General Security Agreement, the Subordination Agreement and all other contracts, instruments and other documents pursuant to which Liens are now or hereafter granted to Agent, for the benefit of Lenders, or to Lenders, to secure the Obligations, as any of such documents may be amended, extended, modified, restated or supplemented from time to time.

Common Stock means the common stock of Borrower, par value $.01 per share.

Consent and Waiver means the Consent and Waiver executed by Majority Holders simultaneously herewith as of the date hereof, substantially in the form of Exhibit D attached hereto.

Consolidated Bridge Loan has the meaning set forth in Section 2.2.

Conversion Shares has the meaning set forth in Section 2.3(b) of this Agreement.

Debenture and Warrant Purchase Agreement means the Debenture and Warrant Purchase Agreement by and among Borrower, the Galen Entities, the Weisbrots and others, dated as of March 10, 1998.

Default means an event, condition or default which, with the giving of notice, the passage of time, or, both, would be an Event of Default.

Equipment means all present and future machinery, equipment, tenant improvements, furniture, fixtures, vehicles, tools, parts and attachments in which Borrower has any interest.

Event(s) of Default has the meaning set forth in Section 9.1.

Existing Credit Facility/ies means the 5% Convertible Senior Secured Debentures in the aggregate principal amount of $25,800,000 issued pursuant to the Debenture and Warrant Purchase Agreement.

Expenses means (i) all reasonable costs and expenses of Lenders, or Agent, on behalf of Lenders, incurred in connection with, arising under or relating to the Bridge Loan Documents and the transactions contemplated therein and (ii) all reasonable costs and expenses (including the reasonable fees and expenses of legal counsel and other professionals) paid or incurred by Lenders, or Agent, on behalf of Lenders, (a) during the continuance of an Event of Default, (b) in enforcing or defending its rights under or with respect to this Agreement, the other Bridge Loan Documents, the Collateral Documents or any other document or instrument now or hereafter

executed and delivered in connection herewith, (c) in collecting the Consolidated Bridge Loan, (d) in foreclosing or otherwise collecting upon the Collateral or any part thereof and (e) in obtaining any legal, accounting or other advice in connection with any of the foregoing.

Forfeiture Proceeding means the commencement of any action or proceeding affecting Borrower before any court, Governmental Authority, commission, board, bureau, agency or instrumentality, domestic or foreign which may result in the seizure or forfeiture of any of its property which would cause a Material Adverse Effect upon the operations, business, properties or financial condition of Borrower or on the ability of Borrower to perform its obligations hereunder.

GAAP means generally accepted accounting principles in the United States as in effect from time to time.

General Security Agreement means the Amended and Restated General Security Agreement by and between Borrower and Agent dated the date hereof and executed simultaneously herewith, substantially in the form of Exhibit F attached hereto.

Governing Documents means certificates or articles of incorporation, by-laws and other organizational or governing documents.

Governmental Authority means any nation or government, any state or other political subdivision thereof and any entity exercising executive, legislative, judicial, regulatory or administrative functions of or pertaining to government.

Indebtedness of a Person means (a) indebtedness for borrowed money or for the deferred purchase price of property or services (other than trade liabilities incurred in the ordinary course of business and payable in accordance with customary practices), whether on open account or evidenced by a note, bond, debenture or similar instrument, (b) obligations under capital leases, (c) reimbursement obligations for letters of credit, banker's acceptances or other credit accommodations, (d) any direct, indirect, contingent or non-contingent guaranty or obligation for the indebtedness of another Person, except endorsements in the ordinary course of business and (e) indebtedness secured by any Lien on that Person's property, even if that Person has not assumed such Indebtedness.

Investment means all expenditures made and all liabilities incurred (contingently or otherwise) for or in connection with the acquisition of stock or Indebtedness of, or for loans, advances, capital contributions or transfers of property to, or acquisition of substantially all the assets of, a Person. In determining the aggregate amount of Investments outstanding at any particular time, (i) the amount of any Investment represented by a guaranty shall be taken at not less than the principal amount of the obligations guaranteed and outstanding; (ii) there shall be deducted in respect of each such Investment any amount received as a return of capital (but only by repurchase, redemption, retirement, repayment, liquidating dividend or liquidating distribution); (iii) there shall not be deducted in respect of any Investment any amounts received as earnings on such Investment,

whether as dividends, interest or otherwise; and (iv) there shall not be deducted from the aggregate amount of Investments any decrease in the market value thereof.

Lien means any lien, claim, charge, pledge, security interest, assignment, hypothecation, deed of trust, mortgage, capitalized lease, conditional sale, retention of title, or other preferential arrangement having substantially the same economic effect as any of the foregoing, whether voluntary or imposed by law.

Majority Holders has the meaning set forth in Section 6.1(p).

Material Adverse Effect means a material adverse effect on (i) the business, prospects, operations, results of operations, assets, liabilities or condition (financial or otherwise) of Borrower, (ii) the ability of Borrower to perform its obligations under the Bridge Loan Documents, (iii) the ability of Agent or Lenders to enforce the Obligations or realize upon the Collateral, or (iv) the value of the Collateral or the amount which Lenders would be likely to receive (after giving consideration to delays in payment and costs of enforcement) in a liquidation of such Collateral.

Maturity Date means May 30, 1999.

1998 Debentures mean the 5% convertible senior secured debentures issued pursuant to the Debenture and Warrant Purchase Agreement.

1996 Debentures mean the 10% convertible subordinated debentures issued and dated August 6, 1996.

Notes has the meaning set forth in Section 2.3.

Obligations means the unpaid principal and interest hereunder, Expenses and all other obligations and liabilities of Borrower to Lenders under this Agreement, the Notes, or any other Bridge Loan Document and includes, but is not limited to, any and all indebtedness of Borrower to Lenders, whether now existing or hereafter incurred, of every kind and character, direct or indirect, and whether such indebtedness is from time to time reduced and thereafter increased, or entirely extinguished and thereafter reincurred, including, without limitation: (a) indebtedness not yet outstanding, but contracted for, or with respect to which any other commitment by Lenders exists; (b) all interest provided in any instrument, document, or agreement (including this Agreement) which accrues on any indebtedness until payment of such indebtedness in full; and (c) any moneys payable as hereinabove provided.

Permitted Investments mean (i) marketable direct obligations issued or unconditionally guaranteed by the United States of America or any agency or any State thereof maturing within one (1) year from the date of acquisition thereof, (ii) commercial paper maturing no more than one (1) year from the date of creation thereof and currently having the highest rating

obtainable from either Standard & Poor's Corporation or Moody's Investors Service, Inc., and (iii) certificates of deposit maturing no more than one (1) year from the date of investment therein issued by Bank.

Permitted Liens mean:

(a) Liens (i) upon or in any Equipment acquired or held by Borrower or any of its Subsidiaries to secure the purchase price of such Equipment or indebtedness incurred solely for the purpose of financing the acquisition of such Equipment, or (ii) existing on such Equipment at the time of its acquisition, provided that the Lien is confined solely to the property so acquired and improvements thereon, and the proceeds of such Equipment.

(b) Liens on Equipment leased by Borrower or any Subsidiary pursuant to an operating lease in the ordinary course of business (including proceeds thereof and accessions thereto) incurred solely for the purpose of financing the lease of such Equipment and Liens arising from UCC financing statements regarding leases permitted by this Agreement.

(c) Liens incurred in connection with the extension, renewal or refinancing of the indebtedness secured by Liens of the type described in clauses (a) through (b) above, provided that any extension, renewal or replacement Lien shall be limited to the property encumbered by the existing Lien and the principal amount of the indebtedness being extended, renewed or refinanced does not increase.

(d) Liens securing the obligation arising out of the Debenture and Warrant Purchase Agreement.

(e) Liens for taxes, assessments and other governmental charges, if payment thereof shall not at the time be required to be made, and provided such reserve as shall be required by GAAP consistently applied shall have been made therefor;

(f) Liens of workmen, materialmen, vendors, suppliers, mechanics, carriers, warehouseman and landlords or other like Liens, incurred in the ordinary course of business for sums not then due or being contested in good faith, if an adverse decision in which contest would not materially affect the business of Borrower;

(g) Liens securing indebtedness of Borrower or any Subsidiaries which (i) relates to a working capital line of credit in an amount not to exceed $10,000,000 or (ii) is in an aggregate principal amount not exceeding $500,000;

(h) Statutory Liens of landlords, statutory Liens of banks and rights of set-off, and other Liens imposed by law, in each case incurred in the ordinary course of business (i) for amounts not yet overdue or (ii) for amounts that are overdue and that are being contested in good

faith by appropriate proceedings, so long as such reserves or other appropriate provisions, if any, as shall be required by GAAP shall have been made for any such contested amounts;

(i) Liens incurred or deposits made in the ordinary course of business in connection with workers' compensation, unemployment insurance and other types of social security, or to secure the performance of tenders, statutory obligations, surety and appeal bonds, bids, leases, government contracts, trade contracts, performance and return-of-money bonds and other similar obligations (exclusive of obligations for the payment of borrowed money);

(j) Any attachment or judgment Lien not constituting an Event of Default;

(k) Easements, rights-of-way, restrictions, encroachments, and other minor defects or irregularities in title, in each case which do not and will not interfere in any material respect with the ordinary conduct of the business of Borrower or any of its Subsidiaries;

(l) Any (i) Interest or title of a lessor or sublessor under any lease, (ii) Restriction or encumbrance that the interest or title of such lessor or sublessor may be subject to, or (iii) Subordination of the interest of the lessee or sublessee under such lease to any restriction or encumbrance referred to in the preceding clause (ii), So long as the holder of such restriction or encumbrance agrees to recognize the rights of such lessee or sublessee under such lease;

(m) Liens in favor of customs and revenue authorities arising as a matter of law to secure payment of customs duties in connection with the importation of goods;

(n) Any zoning or similar law or right reserved to or vested in any governmental office or agency to control or regulate the use of any real property;

(o) Liens securing obligations (other than obligations representing debt for borrowed money) under operating, reciprocal easement or similar agreements entered into in the ordinary course of business of Borrower and its Subsidiaries;

(p) The liens listed in the Permitted Lien Schedule of the Schedule of Exceptions; and

(q) The replacement, extension or renewal of any Lien permitted by under Section 10.4 of the Debenture and Warrant Purchase Agreement upon or in the same property theretofore subject or the replacement, extension or renewal (without increase in the amount or change in any direct or contingent obligor) of the indebtedness secured thereby.

Person means any individual, sole proprietorship, partnership, joint venture, trust, unincorporated organization, association, corporation, institution, entity, party or government (including any division, agency or department thereof), and its successors, heirs and assigns.

Prime Rate means the rate of interest quoted in the "Money Rates" column of The Wall Street Journal as published in the City of New York from time to time as the then prevailing prime rate, provided, however, that if no such rate can be finally determined on any Business Day by reference to such column or newspaper then the Prime Rate in effect on such day shall mean the rate of interest then announced by Morgan Guaranty Trust Company as its "prime rate", "base rate" or "reference rate".

Requirement of Law means any law, treaty, rule or regulation or determination of an arbitrator, court or other Governmental Authority.

Solvent, when used with respect to any Person on a particular date, means that on such date: (a) the fair saleable value of its assets is in excess of the total amount of its liabilities, including, without limitation, the reasonably expected amount of such Person's obligations with respect to contingent liabilities, (b) the present fair saleable value of the assets of such Person is not less than the amount that will be required to pay the probable liability of such Person on its debts as they become absolute and matured, (c) such Person does not intend to, and does not believe that it will, incur debts or liabilities beyond such Person's ability to pay as such debts and liabilities mature and (d) such Person is not engaged in business or a transaction for which such Person's property would constitute an unreasonably small capital.

Subordination Agreement means the subordination agreement by and among the Borrower, the Agent and the agent acting on behalf of the purchasers under the Debenture and Warrant Purchase Agreement dated the date hereof and executed simultaneously herewith, substantially in the form of Exhibit G attached hereto.

Subsidiary means, with respect to any Person, any corporation, association or other business entity of which more than fifty percent (50%) of the total voting power of shares of stock (or equivalent ownership or controlling interest) entitled (without regard to the occurrence of any contingency) to vote in the election of directors, managers or trustees thereof is at the time owned or controlled, directly or indirectly, by that Person or one or more of the other Subsidiaries of that Person or a combination thereof.

Total Commitment means the commitment of each Lender to fund the aggregate dollar amount of its share of the Consolidated Bridge Loan, in the amount set forth opposite such Lender's name on Exhibit A. For purposes of calculating such Total Commitment, the Total Commitment of the Weisbrots shall be treated as a single joint and several commitment.

Warrant Shares has the meaning set forth in Section 2.4 of this Agreement.

Warrants mean the warrants to purchase 689,722 shares, in the aggregate, of the Common Stock, dated the date hereof, substantially in the form of Exhibit C hereto.

1.2. Accounting Terms and Determinations. Unless otherwise defined or specified herein, all accounting terms used in this Agreement shall be construed in accordance with GAAP, applied on a consistent basis. The Financial Statements required to be delivered hereunder from and after the Closing Date, and all financial records, shall be maintained in accordance with reasonable accounting standards and practices, consistently applied.

1.3. Other Terms; Headings. Terms used herein that are defined in the Uniform Commercial Code in effect in the State of New York (the "Code") shall have the meanings given in the Code. Each of the words "hereof," "herein," and "hereunder" refer to this Agreement as a whole. An Event of Default shall "continue" or be "continuing" until it shall have been cured or until Lenders shall have agreed in writing to waive such Event of Default. References to Sections, Articles, Annexes, Schedules, and Exhibits are internal references to this Agreement, and to its attachments, unless otherwise specified. The headings and the Table of Contents are for convenience only and shall not affect the meaning or construction of any provision of this Agreement.

SECTION 2.
TERMS OF THE CONSOLIDATED BRIDGE LOAN

2.1. Commitment. Subject to the terms and conditions of this Agreement: (i) each Lender hereby agrees to amend and restate the Original Notes and the Original Bridge Loan Agreement; (ii) each Lender hereby agrees to fund the amount of its Additional Bridge Loan Commitment and (iii) each Lender hereby agrees to consolidate the Original Bridge Loan, together with all interest accrued thereon, with the Additional Bridge Loan.

2.2. Consolidated Bridge Loan. Borrower warrants, represents and confirms that, as of the Closing Date, (i) the aggregate outstanding principal balance of the Original Bridge Loan equals $4,500,000, (ii) the aggregate accrued interest on such principal balance equals $71,111 and (iii) the aggregate outstanding principal balance of the Additional Bridge Loan equals $3,250,000. Borrower and Lenders agree that effective on the Closing Date, upon the consolidation of the outstanding principal balances of the Original Bridge Loan and the Additional Bridge Loan, and the addition to principal of the accrued interest on the Original Bridge Loan, Lenders shall be deemed to have made a single loan to Borrower in the aggregate principal amount of $7,721,111 (the "Consolidated Bridge Loan").

2.3 Amended, Restated and Consolidated Notes.

(a) The Amount. The Consolidated Bridge Loan is evidenced by Amended, Restated and Consolidated Notes payable by Borrower to the order of each Lender, each such Note in the form of Exhibit B attached hereto and each such Note in the original principal amount equal to such Lender's Total Commitment (each a "Note" and collectively, "Notes").

(b) General Terms. The Notes are 10% Convertible Senior Secured Notes due on May 30, 1999. Each Note is convertible, in whole or in part, from time to time, into a number of shares of Common Stock, initially at the rate of one share of Common Stock for each $1.3688 in principal amount of the Note to be converted. For purposes of this Agreement, the term "Conversion Shares" shall mean the shares of Common Stock which may be issued upon conversion of all or a portion of the principal amount of the Notes.

(c) Adjustment of Conversion Price. The price at which the Conversion Shares may be acquired upon conversion of the Notes is subject to adjustment as set forth in Section 3.7 of each Note.

(d) Payment. So long as a Lender shall be the holder of any Note, Borrower will make payments of principal and interest to such Lender no later than 11 a.m. Eastern Standard Time on the date when such payment is due. Payments shall be made by delivery to such Lender at such Lender's address, furnished to Borrower in accordance with this Agreement, of a certified or official bank check drawn upon or issued by a bank which is a member of the New York Clearinghouse for banks or by wire transfer to such Lender's (or such Lender's nominee's) account at any bank or trust company in the United States of America, or with respect to the payment of accrued interest on the Notes, shares of Common Stock, as provided in Section 2.3(e) below. Each Lender further agrees that, before a Note is assigned or transferred, such Lender will make or cause to be made a notation thereon of principal payments previously made thereof and of the date to which interest thereon has been paid and will notify Borrower of the name and address of the transferee of such Note.

(e) Interest.

(i) Payment of Interest. Borrower shall pay interest to Lenders on the aggregate unpaid principal amount of the Consolidated Bridge Loan at the fixed rate of ten percent (10%) per annum at Maturity Date, as further set forth in each Note. Interest shall be calculated on the basis of a year of 360 days for the actual number of days elapsed. Each Lender shall have the option of (i) having the accrued interest on the principal of such Lender's Note paid at the Maturity Date in immediately available funds, or, alternatively, having the accrued interest on the principal of such Lender's Note converted into shares of Common Stock, the conversion price to be based on the average closing price of the Common Stock for the twenty (20) days prior to the payment date of the interest payment or as reported by the American Stock Exchange. Interest on the Consolidated Bridge Loan shall be paid in arrears on the date of any prepayment (on the amount prepaid), and on the Maturity Date (whether by acceleration or otherwise).

(ii) Excessive Interest. Notwithstanding any provision contained in this Agreement or any other Bridge Loan Document to the contrary, Lenders shall not be entitled to receive, collect or apply, as interest on the Consolidated Bridge Loan under this Agreement, any amount in excess of the maximum rate of interest permitted to be charged by applicable law, and, if Lenders shall have received, collected or applied as interest any such excess, such amount which

would be excessive interest shall be applied first to the reduction of principal then outstanding, and second, if such principal amount is paid in full, any remaining excess shall forthwith be returned to Borrower.

(f) Prepayments of Notes. Borrower may not, without having received the prior written consent of the Majority Holders ("Majority Approval") prepay any Note, in whole or in part. Upon receipt of Majority Approval, Borrower may, upon at least three (3) Business Days' prior written notice to the Lenders, prepay the Notes, in whole or in part, with accrued interest to the date of such prepayment on the amount prepaid, provided that each such partial prepayment shall be in a principal amount of not less than $100,000. Prepayment of all or any portion of the Notes shall not entitle the Borrower to reborrow the amount so prepaid.

(g) Interest After Event of Default. From the date of occurrence of an Event of Default until the earlier to occur of the date upon which (i) all Obligations shall have been paid and satisfied in full or (ii) such Event of Default shall have been waived, interest on the Consolidated Bridge Loan shall be payable on demand at a rate per annum equal to the Prime Rate plus five and three-quarter percent (5-3/4%).

(h) Exchange or Replacement.

(i) Notice of Exchange or Replacement. Subject to Sections 2.3 (d); 2.3(g)(ii)and 10.13 below, at any time at the request of any holder of one or more of the Notes to Borrower at its office provided under Section 10.6 (the Notice Provision), Borrower, at its expense (except for any transfer tax or any other tax arising out of the exchange) will issue in exchange therefor new Notes, in such denomination or denominations ($100,000 or any larger multiple of $100,000, plus one Note in a lesser denomination, if required) as such holder may request, in the aggregate principal amount equal to the unpaid principal amount of the Note or Notes surrendered and substantially in the form thereof, dated as of the date to which interest has been paid on the Note or Notes surrendered (or, if no interest has yet been so paid thereon, then dated the date of the Note or Notes so surrendered) and payable to such person or persons or order as may be designated by such holder.

(ii) Actual Exchange or Replacement. Upon receipt of evidence satisfactory to Borrower of the loss, theft, destruction or mutilation of any Note and, in the case of any such loss, theft, or destruction, upon delivery of a bond of indemnity satisfactory to Borrower (provided that if the holder is a Lender or a financial institution, its own agreement will be satisfactory), or in the case of any such mutilation, upon surrender and cancellation of such Note, Borrower will issue a new Note of like tenor as if the lost, stolen, destroyed or mutilated Note were then surrendered for exchange in lieu of such lost, stolen, destroyed or mutilated Note.

(i) Transfer.

(i) Notification of Proposed Sale. Subject to Sections 2.3 (h)(ii) and 10.13 below, each holder of a Note, by acceptance thereof, agrees that it will give Borrower ten (10) days written notice prior to selling or otherwise disposing of such Note. No such sale or other disposition shall be made unless:

(a) the holder shall have supplied to Borrower an opinion of counsel to the holder, reasonably acceptable to Borrower, to the effect that no registration under the Securities Act of 1933, as amended (the "Securities Act") is required with respect to such sale or other disposition, or

(b) an appropriate registration statement with respect to such sale or other disposition shall have been filed by Borrower and declared effective by the Securities and Exchange Commission (the "Commission").

(ii) Transfer without Notification. If the holder of a Note has obtained an opinion of counsel reasonably acceptable to Borrower to the effect that the sale of its Note may be made without registration under the Securities Act pursuant to compliance with Rule 144 (or any successor rule under the Securities Act), the holder need not provide Borrower with the notice required in Section 2.3 (h)(i) above.

2.4 Warrants. Subject to the terms of this Agreement and the terms of the Warrants substantially in the form of Exhibit C, Borrower will issue Warrants to purchase in the aggregate, 689,722 shares of the Common Stock, initially, at a price per share equal to the average closing price of a share of the Common Stock for the twenty (20) trading days immediately preceding the Closing Date, as reported the price of each share is reported by the American Stock Exchange. The Warrants shall be issued to each of Lenders in the amounts set forth opposite their names on Exhibit A. For purposes of this Agreement, the term "Warrant Shares" shall mean the shares of Common Stock that may be issued from time to time pursuant to the exercise of the Warrants.

2.5 Security; Subordination of the Existing Credit Facility. All of the Obligations of Borrower under this Agreement will be secured by the General Security Agreement, substantially in the form of Exhibit F. The indebtedness and Liens granted by Borrower pursuant to the Debenture and Warrant Purchase Agreement are subordinate to the indebtedness and Liens granted by Borrower pursuant to this Agreement, in accordance with the terms of the Subordination Agreement, substantially in the form of Exhibit G.

2.6 Registration Rights. The Conversion Shares and the Warrant Shares are entitled to the registrations rights set forth in Section 8 of this Agreement.

2.7 Consent and Waiver. The lien, indebtedness and registration right restrictions and limitations have been waived by the holders of the 1998 Debentures pursuant to the Consent and Waiver, substantially in the form of Exhibit D.

2.8 Agency Agreement. In connection with the acts contemplated under this Agreement, the Bridge Loan Documents, the Collateral Documents or any other document relating hereto or thereto, the rights, powers, duties and obligations of Agent are set forth in the Agency Agreement, substantially in the form of Exhibit E.

2.9 Miscellaneous.

(a) Expenses. Borrower shall reimburse the Expenses of Lenders and Agent promptly upon demand. Payment of Expenses shall be made not later than 2:00 P.M. Eastern Standard Time on the day when due, in immediately available funds, to the offices of the Agent, at its offices located at the address set forth on Exhibit A, or as Agent may otherwise direct Borrower.

(b) Distribution and Application of Payments. Unless an Event of Default has occurred and is continuing, all payments received by Agent shall be applied against the Obligations in the following order: first, to the payment of any Expenses due and payable to Agent under any of the Bridge Loan Documents; second, to the ratable payment of any Expenses or Obligations due and payable to Lenders under any of the Bridge Loan Documents, other than those Obligations specifically referred to in the two clauses below; third, to the ratable payment of interest due on the Consolidated Bridge Loan; and, finally, to the ratable payment of principal due on the Consolidated Bridge Loan.

SECTION 3
CONDITIONS PRECEDENT

3.1. Conditions Precedent to Consolidated Bridge Loan. The obligation of each Lender to fund its ratable portion of the Additional Bridge Loan is subject to the satisfaction or waiver of the following conditions precedent:

(a) Each Lender shall have received duly executed originals of:

(i) this Agreement;
(ii) its Note;
(iii) its Warrant;
(iv) the General Security Agreement;
(v) the Subordination Agreement;
(vi) the Agency Agreement; and
(vii) the Waiver and Consent;

each conforming to the requirements hereof and executed as of the date of this Agreement by a duly authorized representative of Borrower, the Agent and each Lender, as the case may require.

3.2. No Liens. From the date of effectiveness of the Fifth Amendment to the Closing Date of this Agreement, no Liens shall have arisen or been recorded against the Collateral.

3.3. Representations and Warranties Correct. The representations and warranties in Section 4 hereof shall be true and correct in all material respects when made, and shall be true and correct in all material respects on the Closing Date with the same force and effect as if they had been made on and as of the Closing Date.

3.4. Legal Opinion of Counsel to Borrower. Agent and Lenders shall have received an opinion of St. John & Wayne, L.L.C., counsel to Borrower, which opinion shall be dated as of the Closing Date and shall be reasonably satisfactory to Agent and Lenders and their respective counsel.

3.5. Officer's Certificate. Agent shall have received an Officer's Certificate of Borrower dated as of the Closing Date, certifying as to the (i) Borrower's Certificate of Incorporation and all amendments thereto, (ii) accuracy and completeness of all By-Laws attached thereto, (iii) updated Certificates of Good Standing with respect to the Borrower from the Secretaries of State of New York and Illinois, (iv) resolutions of the Borrower's Board of Directors approving the transactions relating to this Agreement and (v) incumbency and signature of the Borrower's duly authorized officers signing this Agreement and each of the Bridge Loan Documents to which it or they are a party and any other certificate or other document to be delivered pursuant thereto, together with evidence of the incumbency of such officer signing the same.

3.6. Closing Fees. All Expenses outstanding as of the date of this Agreement, including legal fees, relating to this Agreement and any and all documents relating thereto shall have been paid on or prior to the Closing Date.

SECTION 4
REPRESENTATIONS AND WARRANTIES

4.1. Representations and Warranties of Borrower. To induce Lenders to enter into this Agreement and make the Additional Bridge Loan, Borrower hereby represents and warrants to Lenders that the representations and warranties contained in this Section 4 are true, correct and complete. Such representations and warranties, and all other representations and warranties made by Borrower in any other Bridge Loan Documents, shall survive the execution and delivery of this Agreement and such other Bridge Loan Documents.

(a) Organization and Qualification. Borrower (i) is a corporation duly organized, validly existing and in good standing under the laws of the state of its incorporation,

(ii) has the power and authority to own its properties and assets and to transact the businesses in which it presently is, or proposes to be, engaged and (iii) is duly qualified and is authorized to do business and is in good standing in each jurisdiction where it presently is, or proposes to be, engaged in business, except where the failure to so qualify would not have a Material Adverse Effect.

(b) Authority; Consents and Filings. Borrower has the requisite corporate power and authority to execute and deliver each of the Bridge Loan Documents. Subject to: (a) compliance with the terms of the right of first refusal provided (i) in Section 16.1 of the Debenture and Warrant Purchase Agreement and (ii) in Article 8A of the 10% convertible subordinated debentures issued and dated August 6, 1996 and (b) the receipt of shareholder approval (i) to amend Borrower's certificate of incorporation to increase its authorized shares of Common Stock and (ii) to the extent required under Section 713 of the American Company Stock Exchange Guide, to authorize the issuance of the Conversion Shares and the Warrant Shares in the event a dilution adjustment to the Warrants results in an issuances of the Conversion Shares or the Warrant Shares at less than fair market value, no consent, authorization, permit or filing is required in connection with the execution, delivery and performance of this Agreement or any Bridge Loan Document, or the continuing operations of Borrower, except (i) those that have been obtained or made and (ii) filings necessary to create, perfect or retain the perfection of Liens against the Collateral. Except as otherwise set forth in this Section, all corporate action necessary for the execution, delivery and performance of any of the Bridge Loan Documents has been taken, provided however, that the listing of the Conversion Shares and the Warrant Shares on the American Stock Exchange is subject to the consent of the American Stock Exchange.

(c) Enforceability. This Agreement and each Bridge Loan Document is the legal, valid and binding obligation of Borrower, enforceable in accordance with its terms, except as such enforceability may be limited by (i) bankruptcy, insolvency or similar laws affecting creditors' rights generally, and (ii) general principles of equity.

(d) No Conflict. The execution, delivery and performance of each Bridge Loan Document by Borrower is not in contravention of (i) the Governing Documents of Borrower, or (ii) any Requirement of Law, or (iii) any franchise, license, permit, indenture, contract, lease, agreement (other than the loan agreements or security agreements executed in connection with the Existing Credit Facilities), instrument or other commitment to which it is a party or by which it or any of its properties are bound and will not, except as contemplated herein, result in the such imposition of any Liens upon any of its properties. No order, consent, approval, license, authorization, or validation of, or filing, recording or registration with, or completion by, any Governmental Authority, or any subdivision thereof, is required to authorize, or is required in connection with the execution, delivery and performance of, or the legality, validity, binding effect or enforceability of, this Agreement or any of the other Bridge Loan Documents.

(e) Government Regulation. Borrower is not subject to regulation under the Public Utility Holding Company Act of 1935, the Federal Power Act, the Interstate Commerce Act, the Investment Company Act of 1940, or any other Requirement of Law, other than the

Bankruptcy Code, that limits its ability to incur indebtedness or its ability to consummate the transactions contemplated in this Agreement and the other Bridge Loan Documents.

(f) Indebtedness; Rights in Collateral. Borrower is not obligated or liable with respect to any Indebtedness, other than Indebtedness described on Borrower's Form 10-Q for the quarter ended September 30, 1998. All Collateral is owned or leased by Borrower, free and clear of any and all Liens in favor of third parties, other than the Permitted Liens, those Liens permitted in the Existing Credit Facilities and the Lien in favor of Lenders. Upon the proper filing of the UCC financing statements executed by Borrower in favor of the Agent, the security interests granted pursuant to the Bridge Loan Documents constitute valid and enforceable and perfected Liens on the Collateral, to the extent such Liens can be perfected by the filing of such financing statements.

(g) Locations of Offices, Records and Inventory. The address of the principal place of business and chief executive office of Borrower is set forth on Borrower's Form 10-Q for the quarter ended September 30, 1998. The books and records of Borrower, and all its chattel paper and records of Accounts, are maintained exclusively at such locations. There is no jurisdiction in which Borrower has any Collateral (except for vehicles and Inventory in transit for processing) other than those jurisdictions identified on Borrower's Form 10-Q for the quarter ended September 30, 1998.

(h) Inventory. All inventory of Borrower consists of a quality and quantity usable and salable in the ordinary course of business, except for obsolete items and items of below-standard quality, all of which have been or will be written off or written down to net realizable value on the unaudited consolidated balance sheet of Borrower and its Subsidiaries as of September 30, 1998. The quantities of each type of inventory (whether raw materials, work-in-process, or finished goods) are not excessive, but are reasonable and warranted in the present circumstances of Borrower.

(i) No Judgments or Litigation. No judgments, orders, writs or decrees are outstanding against Borrower nor is there now pending or, to the best of Borrower's knowledge after diligent inquiry, threatened, any litigation, contested claim, investigation, arbitration, or governmental proceeding by or against Borrower, other than those which, either singly or in the aggregate, would not have a Material Adverse Effect other than those identified on Borrower's Form 10-Q for the quarter ended September 30, 1998 and at its Brooklyn facility located at 1827 Pacific Street, Brooklyn, New York 11233.

(j) No Defaults. Borrower is not in default in any material respect under any term of any indenture, contract, lease, agreement, instrument or other commitment to which it is a party or by which it is bound. Except as otherwise described on Borrower's Form 10-Q for the quarter ended September 30, 1998, Borrower knows of no dispute regarding any such indenture, contract, lease, agreement, instrument or other commitment.

(k) Financial Information, SEC Documents. None of the documents filed by Borrower with the Commission since December 31, 1995 contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary in order to make the statements contained therein not false or misleading in light of the circumstances in which they were made. There is no fact known to Borrower which Borrower has not disclosed to Lenders prior to or as of the date of this Agreement which materially and adversely affects, or in the future is likely to materially and adversely affect, the business, properties, condition (financial or otherwise) or business prospects of Borrower and its Subsidiaries, taken as a whole.

(l) Compliance with Law. Borrower has not violated or failed to comply in any material respect with any Requirement of Law, including without limitation (a) applicable rules and regulations of any Governmental Authority having jurisdiction over its activities, (b) environmental laws, the consequence of which violation or failure has or is reasonably likely to have a Material Adverse Effect.

(m) Intellectual Property. Borrower possesses such assets, licenses, patents, patent applications, copyrights, service marks, trademarks, trade names, New Drug Applications, Investigatory New Drug Applications, Abbreviated New Drug Applications, Alternative New Drug Applications, registrations and quotas as issued by the Drug Enforcement Agency or the Attorney General of the United States pursuant to the Controlled Substances Act, as are necessary or advisable to continue to conduct its present and proposed business activities.

(n) Licenses and Permits

(i) Generally. Borrower and its Subsidiaries possesses such franchises, licenses, permits and other authority as are necessary for the conduct of its business as now being conducted and proposed to be conducted (except where the failure to possess such franchises, licenses, permits or other authority would not have a Material Adverse Effect on Borrower and its Subsidiaries taken as a whole) and Borrower and its Subsidiaries are not in default under any of such franchises, licenses, permits or other authority. Other than the approval required under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended (the "HSR Act"); other than as set forth in Schedule 4.10 of the Schedule of Exceptions or [Selected Reports] to the Debenture and Warrant Purchase Agreement; and other than those consents that have been obtained; no approval, consent, authorization or other order of, and no designation, filing, registration, qualification or recording with, any governmental authority or any other person or entity is required in connection with Borrower's valid execution, delivery and performance of this Agreement or the offer, issuance and sale of the Notes, Warrants, the Conversion Shares or the Warrant Shares by Borrower to Lenders or the consummation of any other transaction contemplated on the part of Borrower hereby.

(ii) The FDC, FDA, DEA and Controlled Substances Act, etc. Without limiting the generality of the representations and warranties made in Section 4.1(n)(i) above, Borrower represents and warrants that (1) it and its Subsidiaries are in compliance in all material

respects with all applicable provisions of the Federal Food, Drug, and Cosmetic Act (the "FDC Act"), (2) its products and those of its Subsidiaries are not adulterated or misbranded and are in lawful distribution, and (3) it and its Subsidiaries are in compliance with the following specific requirements: Borrower and its Subsidiaries have registered all facilities with the United States Food and Drug Administration (the "FDA"); Borrower and its Subsidiaries have listed all drug products with the FDA; each drug product marketed by Borrower or any Subsidiary is the subject of an application approved by the FDA; all marketed drug products comply with any conditions of approval and the terms of the application submitted to the FDA; all drug products are manufactured in compliance with the FDA's good manufacturing practice regulations; all products are labeled and promoted in accordance with the terms of the marketing application and the provisions of the FDC Act; all adverse events that were required to be reported to the FDA have been reported to the FDA in a timely manner; each of Borrower and its Subsidiaries is in compliance in all material respects with the terms of the consent agreement entered into by Borrower with the United States Attorney for the Eastern District of New York on behalf of the FDA on June 29, 1993, as modified by the Joint Motion for Modification of Sentence dated May 8, 1998; to Borrower's knowledge, neither Borrower nor any Subsidiary is employing or utilizing the services of any individual who has been debarred under the FDC Act; all stability studies required to be performed for products distributed by Borrower or a Subsidiary have been completed or are ongoing in accordance with the applicable FDA requirements; any products exported by Borrower or a Subsidiary have been exported in compliance with the FDC Act; and each of Borrower and its Subsidiaries is in compliance in all material respects with the provisions of the Prescription Drug Marketing Act, to the extent applicable. Without limiting the generality of the representations and warranties made in Section 4(q)(i), Borrower also represents and warrants that it and its Subsidiaries are in compliance in all material respects with all applicable provisions of the Controlled Substances Act (the "CSA") and that Borrower and its Subsidiaries are in compliance with the following specific requirements: Borrower and its Subsidiaries are registered with the Drug Enforcement Administration (the "DEA") at each facility where controlled substances are exported, imported, manufactured or distributed; all controlled substances are stored and handled pursuant to DEA security requirements; all records and inventories of receipt and distributions of controlled substances are maintained in the manner and form as required by DEA regulations; all reports, including, but not limited to, ARCOS, manufacturing quotas, production quotas, and disposals, have been submitted to DEA in a timely manner; all adverse events, including thefts or significant losses of controlled substances, have been reported to DEA in a timely manner; to Borrower's knowledge, neither Borrower nor any Subsidiary is employing any individual, with access to controlled substances, who has previously been convicted of a felony involving controlled substances; and any imports or exports of controlled substances have been conducted in compliance with the CSA and DEA regulations.

(o) Taxes. Except as set forth on Schedule A to the General Security Agreement, Borrower has filed all tax returns (federal, state and local) required to be filed by it and Borrower has paid all taxes, assessments and governmental charges and levies thereon that are due, including interest and penalties, other than taxes, assessments and governmental charges and levies being contested in good faith by appropriate proceedings and with respect to which adequate

reserves, in conformity with GAAP, consistently applied, shall have been provided on the books of Borrower.

(p) Labor Disputes and Acts of God. Neither the business nor the properties of Borrower are affected by any fire, explosion, accident, strike, lockout or other labor dispute, drought, storm, hail, earthquake, embargo, act of God or of the public enemy or other casualty (whether or not covered by insurance), materially and adversely affecting such business or properties or the operations of Borrower or the ability of Borrower to perform its obligations.

(q) Partnerships. Borrower is not a partner in any partnership.

(r) Solvency. Borrower is solvent.

(s) Forfeiture Proceeding. Borrower is not engaged in or does not propose to be engaged in the conduct of any business or activity which could result in a Forfeiture Proceeding and no Forfeiture Proceeding against Borrower is pending, or to the best knowledge of Borrower, threatened.

(t) Offering. Subject in part to the truth and accuracy of Lenders' representations and the compliance by Lenders with its covenants set forth in this Agreement and any subscription agreement executed and delivered by Lenders, the issuance of the Notes, the Warrants, the Conversion Shares and the Warrant Shares as contemplated by this Agreement are not subject to the registration requirements of the Securities Act, and, Borrower, or anyone acting on its behalf, will not take any action hereafter that would cause such registration requirements to be applicable.

(u) No Discrimination. Borrower does not in any manner or form discriminate, foster discrimination or permit discrimination against any person on the grounds of age, color, handicap, mental status, national origin, race, religion or sex.

(v) ERISA. Borrower has not received any notice indicating that it is not in compliance with any of the requirements of the Employee Retirement Income Security Act, as amended ("ERISA") and the regulations promulgated thereunder. With respect to the Borrower, there exists no event described in Section 4043 of ERISA.

(w) Registration Rights. Except as provided for in this Agreement, the Debenture and Warrant Purchase Agreement, and as set forth in Schedule 4.14 of the Debenture and Warrant Purchase Agreement, the Borrower is not under any binding obligation to register any of its currently outstanding securities or any of its securities which may hereafter be issued.

(x) Accuracy and Completeness of Information. All factual information furnished by or on behalf of Borrower in writing to Lenders for purposes of or in connection with this Agreement or any Bridge Loan Documents, or any transaction contemplated hereby or thereby

is or will be true and accurate in all material respects on the date as of which such information is dated or certified and not incomplete by omitting to state any material fact necessary to make such information not misleading at such time.

4.2. Representations and Warranties of Lenders. Each Lender represents and warrants that:

(a) Investment Intent. The Warrants and the Notes being acquired hereunder and the Conversion Shares and Warrant Shares that may be acquired upon conversion or of any of the Notes or Warrants, as the case may be, would be acquired for its own account and not with the view to, or the resale in connection with, any distribution or public offering thereof within the meaning of the Securities Act by reason of their issuance in a transaction exemption from the registration and prospectus delivery requirements of the Securities Act pursuant to Section 4(2) thereof, that they must be held indefinitely unless they are registered under the Securities Act or are exempt from registration and that the reliance of Borrower and others upon this exemption is predicated in part upon this representation and warranty.

(b) Acts and Proceedings. This Agreement has been duly authorized by all necessary action on the part of each Lender, has been executed and delivered by it and is a valid and binding agreement upon its part, enforceable in accordance with its terms, except as such enforceability may be limited by (i) bankruptcy, insolvency or similar laws affecting creditors' rights generally, and (ii) general principles of equity.

SECTION 5.
CHANGE OF CONTROL
PURCHASE OFFER; CONVERSION RIGHTS

5.1. Change of Control.

(a) Upon the occurrence of a Change of Control (as hereinafter defined), Borrower shall make an offer to all holders of Notes to purchase (a "Change of Control Offer") all outstanding Notes and will purchase, on a day not more than thirty (30) days after the occurrence of the Change of Control (such purchase date being the "Change of Control Purchase Date"), all Notes properly tendered pursuant to such offer to purchase for a cash price (the "Change of Control Purchase Price") equal to 150% of the outstanding principal amount of the Notes, plus accrued and unpaid interest, if any, to the Change of Control Purchase Date.

(b) In order to effect a Change of Control Offer, Borrower shall, within ten (10) days after the occurrence of a Change of Control, in accordance with Section 10.6 (the Notice Provision), provide a Change of Control Offer to each Note holder. The Change of Control Offer shall remain open from the time of receipt thereof for at least fifteen (15) calendar days. The notice,

which shall govern the terms of the Change of Control Offer, shall include such disclosures as are required by law and shall state:

(i) the date of such Change of Control and, briefly, the events causing such Change of Control;

(ii) that the Change of Control Offer is being made pursuant to this Section 5.1 and that all Notes properly tendered pursuant to the Change of Control Offer will be accepted for payment;

(iii) the Change of Control Purchase Price for each Note, the Change of Control Purchase Date, the date on which the Change of Control Offer expires, that if the holder desires to accept the Change of Control Offer, the Note held by such holder must be surrendered to Borrower or any designated paying agent of Borrower prior to 5:00 p.m. Eastern Standard Time on the Change of Control Purchase Date, and the name and address of any such paying agent, if any;

(iv) that any Note not tendered for payment will continue to accrue interest in accordance with the terms thereof;

(v) that, unless Borrower shall default in the payment of the Change of Control Purchase Price, any Note accepted for payment pursuant to the Change of Control Offer shall cease to accrue interest after the Change of Control Purchase Date;

(vi) that holders will be entitled to withdraw their acceptance of the Change of Control Offer election if Borrower or paying agent of Borrower receives, not later than 5:00 p.m. Eastern Standard Time on the day preceding the Change of Control Purchase Date a telex or facsimile transmission (confirmed by overnight delivery of the original thereof) or letter setting forth the name of the holder, the principal amount of Notes the holder delivered for purchase, and a statement that such holder is withdrawing its election to have such Notes purchased;

(vii) that holders whose Notes are purchased only in part will be issued Notes equal in principal amount to the unpurchased portion of the Notes surrendered; and

(viii) any other instructions that holders must follow in order to tender their Notes and the procedures for withdrawing an election to accept a Change of Control Offer.

(c) On the Change of Control Purchase Date, Borrower shall accept for payment Notes or portions thereof tendered pursuant to the Change of Control Offer and deposit with the paying agent, if any, money in United States dollars, in immediately available funds, sufficient to pay the Change of Control Purchase Price of all Notes or portions thereof so tendered and accepted. Borrower shall, or cause any paying agent to, promptly disburse or deliver to the holders of Notes so accepted payment in an amount equal to such Change of Control Purchase Price,

and mail or deliver to such holders a new Note equal in principal amount to any unpurchased portion of each Note surrendered.

(d) Borrower shall comply, to the extent applicable, with the requirements of Section 14(e) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and any other securities laws or regulations, in connection with the repurchase of Notes pursuant to a Change of Control Offer. To the extent that the provision of any securities laws or regulations conflict with the provisions of this Section 5.1, Borrower shall comply with the applicable securities laws and regulations and shall not be deemed to have breached its obligations under this Section 5.1 by virtue thereof.

(e) For purposes of this Section:

(i) the term "Change of Control" means the occurrence of any of the following: the consummation of any transaction the result of which is that any person or group (as such term is used in Section 13(d)(3) of the Exchange Act), other than any of the Galen Entities, the Lenders or any Affiliate thereof or any group comprised of any of the foregoing, owns, directly or indirectly, 51% of the Common Equity (as hereinafter defined) of Borrower, Borrower consolidates with, or merges with or into, another person (other than a direct or indirect wholly-owned Subsidiary) or sells, assigns, conveys, transfers, leases or otherwise disposes of all or substantially all of Borrower's assets or the assets of Borrower and its Subsidiaries taken as a whole to any person, or any person consolidates with, or merges with or into, Borrower, in any such event pursuant to a transaction in which the outstanding Voting Stock (as hereinafter defined) of the Borrower, as the case may be, is converted into or changed for cash, securities or other property, other than any such transaction where the outstanding Voting Stock of Borrower, as the case may be, is converted into or exchanged for Voting Stock of the surviving or transferee corporation and the beneficial owners of the Voting Stock of Borrower immediately prior to such transaction own, directly or indirectly, not less than a majority of the Voting Stock of the surviving or transferee corporation immediately after such transaction, Borrower, either individually or in conjunction with one or more Subsidiaries sells, assigns, conveys, transfers, leases or otherwise disposes of, or the Subsidiaries sell, assign, convey, transfer, lease or otherwise dispose of, all or substantially all of the properties and assets of Borrower and its Subsidiaries, taken as a whole (either in one transaction or a series of related transactions), including capital stock of the Subsidiaries, to any person (other than Borrower or a wholly owned Subsidiary of Borrower), or during any two (2) year period commencing subsequent to the date of this Agreement, individuals who at the beginning of such period constituted the Board of Directors of Borrower (together with any new directors whose election by such Board of Directors or whose nomination for election by the stockholders of Borrower was approved by a vote of two-thirds of the directors then still in office) who were either directors at the beginning of such period or whose election or nomination for election was previously so approved cease for any reason to constitute a majority of the Board of Directors then in office; provided, however, that a person shall not be deemed to have ceased being a director for such purpose if such person shall have resigned or died or if the involuntary removal of such person was made at the direction the Galen Entities or of persons holding a majority in principal amount of the outstanding Notes;

(ii) the term "Common Equity" of Borrower means all capital stock of Borrower that is generally entitled to vote on the election of members of the board of directors and (iii) the term "Voting Stock" of Borrower means securities of any class of capital stock of Borrower entitling the holders thereof to vote in the election of members of the board of directors of Borrower.

SECTION 6.
AFFIRMATIVE COVENANTS

6.1. Until termination of this Agreement and payment and satisfaction of all Obligations due hereunder, Borrower agrees as follows:

(a) Financial Reporting and Projections. Borrower shall keep adequate records and books of account with respect to its business activities in which true, proper and accurate entries are made in accordance with reasonable accounting standards and practices, reflecting all its financial transactions. In addition, Borrower shall cause to be prepared and furnished to Lenders the financial information required to be delivered by it pursuant to the Debenture and Warrant Purchase Agreement and the documents ancillary thereto, at the times and in the manner set forth therein, provided, however, that in the event Borrower is no longer obligated to comply with such financial reporting requirements, then Borrower shall cause to be prepared and furnished to Lenders (a) not later than (i) thirty (30) days after the end of each month after the Closing Date, (ii) forty-five (45) days after the end of each fiscal quarter after the Closing Date and (iii) 120 days after the end of each fiscal year after the Closing Date, unaudited Financial Statements as of the end of such month, quarter and year and of the portion of Borrower's fiscal year then elapsed, each certified by the chief financial officer of Borrower as prepared in accordance with GAAP, consistently applied and fairly presenting the financial position, results of operations and statement of cash flows of Borrower for such month, quarter and year, and (b) such other data and information (financial and otherwise) as Lenders, from time to time, may reasonably request, bearing upon or related to Borrower's financial condition or results of operations.

(b) Discharge Taxes and Indebtedness. The Borrower will pay and discharge, as they become due, all taxes, assessments, debts, claims and other governmental or non-governmental charges lawfully imposed upon or incurred by it or the properties and assets of the Borrower, except taxes, assessments, debts, claims and charges contested in good faith in appropriate proceedings for which the Borrower shall have set aside adequate reserves for the payment of such tax, assessment, debt, claim or charge. The Borrower shall provide each Lender, upon Lender's request, evidence of payment of such taxes, assessments, debts, claims and charges satisfactory to Lender.

(c) Notification Requirements. Borrower shall timely give Lenders the following notices:

(d) Notice of Defaults. Promptly, and in any event within two (2) Business Days after becoming aware of the occurrence of a Default or Event of Default, a certificate of the chief

executive officer or chief financial officer of Borrower specifying the nature thereof and Borrower's proposed response thereto, each in reasonable detail.

(e) Proceedings or Adverse Changes. Promptly, and in any event within five (5) Business Days after Borrower becomes aware of (i) any proceeding being instituted or threatened to be instituted by or against Borrower in any federal, state, local or foreign court or before any commission or other regulatory body (federal, state, local or foreign) which, if adversely determined, could result in the entry of an order, judgment or decree against Borrower; (ii) any order, judgment or decree being entered against Borrower or any of its properties or assets or (iii) any actual or prospective change, development or event which has had or could reasonably be expected to have a Material Adverse Effect, a written statement describing such proceeding, order, judgment, decree, change, development or event and any action being taken with respect thereto by Borrower.

(f) Corporate Existence, Charter and By-Laws; Corporate Name. Borrower shall (i) maintain its corporate existence, (ii) maintain in full force and effect all licenses, bonds, franchises, leases, trademarks and qualifications to do business, and, all patents, New Drug Applications, Investigatory Drug Applications, Abbreviated New Drug Applications, Alter New Drug Applications, registrations and quotas as issued by the Drug Enforcement Agency or the Attorney General of the United States, pursuant to the Controlled Substances Act, contracts and other rights necessary or advisable to the profitable conduct of its business, and (iii) continue in, and limit its operations to, the same general lines of business as presently conducted by it.

(g) Books and Records; Inspections. Borrower agrees to maintain books and records pertaining to the Collateral in such detail, form and scope as is consistent with good business practice. Borrower agrees that Lenders or its agents may enter upon the premises of Borrower at any time and from time to time, during normal business hours and upon reasonable notice under the circumstances, and at any time at all on and after the occurrence of a Default which continues beyond the expiration of any grace or cure period applicable thereto, and which has not otherwise been waived by Lenders, for the purposes of (i) inspecting and verifying the Collateral, (ii) inspecting and/or copying (at Borrower's expense) any and all records pertaining thereto, and (iii) discussing the affairs, finances and business of Borrower with any officers, managerial employees and directors of Borrower.

(h) Compliance with Laws; Compliance with Agreements. Borrower agrees to comply in all material respects with all Requirements of Law applicable to the Collateral or any part thereof, or to the operation of its business or its assets generally, unless Borrower contests any such Requirements of Law in a reasonable manner and in good faith. Borrower agrees to maintain in full force and effect its licenses and permits granted by any Governmental Authority as may be necessary or advisable for Borrower to conduct its business in all material respects. Borrower shall comply with the terms and conditions of all material agreements, commitments, or instruments to which Borrower is a party or by which it may be bound, including, without limitation, this Agreement and the Debenture and Warrant Purchase Agreement.

(i) Use of Proceeds. Proceeds of the Consolidated Bridge Loan made hereunder shall be used by Borrower solely for its ongoing working capital requirements and other general corporate purposes. Borrower shall not use any portion of the proceeds of the Consolidated Bridge Loan for the purpose of purchasing or carrying any "margin stock" (as defined in Regulation U of the Board of Governors of the Federal Reserve System) in any manner which violates the provisions of Regulation T or X of said Board of Governors or for any other purpose in violation of any applicable statute or regulation, or of the terms and conditions of this Agreement.

(j) Maintenance of Insurance. Borrower shall maintain insurance with financially sound and reputable insurance companies or associations in such amounts and covering such risks as are usually carried by companies engaged in the same or a similar business and similarly situated. Borrower shall (i) deliver to Agent, upon its request, a detailed list of insurance then in effect, stating (A) the names of the insurance companies, (B) the amounts and rates of the insurance, (C) dates of expiration thereof and the properties and risks covered thereby; (ii) within fifteen (15) days after notice from Agent, obtain such additional insurance as Agent may reasonably request; and (iii) upon request, provide to Agent copies of all insurance policies. All such policies shall name Agent for Lenders as an additional insured and shall be part of the Collateral securing the Notes.

(k) Further Assurances. Borrower shall take all such further actions and execute all such further documents and instruments as Lenders may at any time reasonably determine in their sole discretion to be necessary or desirable to further carry out and consummate the transactions contemplated by the Consolidated Bridge Loan Documents and any documentation relating thereto, to cause the execution, delivery and performance of the Bridge Loan Documents to be duly authorized and to perfect or protect the Liens (and the priority status thereof) of Lenders on the Collateral.

(l) Payment of Notes. Borrower shall pay the principal of and interest on the Notes in the time, the manner and the form provided therein.

(m) Reporting Requirements. Borrower shall comply with its reporting and filing obligations pursuant to Section 13 or 15(d) of the Exchange Act. Borrower shall provide copies of such reports, including, without limitation, reports on Form 10-K, 10-Q, 8-K and Schedule 14A promulgated under the Exchange Act, or substantially the same information required to be contained in any successor form, to each Lender promptly upon filing with the Commission.

(n) Authorization of Shares of Common Stock for Issuance Upon Conversion of Note and Exercise of Warrants and Voting Rights for Note Holders. Borrower will present to its shareholders for consideration at the next annual meeting of Borrower's shareholders, to occur on or prior to May 30, 1999, a proposal to amend Borrower's Certificate of Incorporation to increase the number of authorized shares of Borrower's common stock available for issuance from 40,000,000 to 75,000,000 shares in order to provide for a sufficient number of authorized shares to be available and reserved for issuance upon conversion of the Notes and exercise of the Warrants. Upon receipt of approval from Borrower's shareholders to increase Borrower's authorized shares from 40,000,000 to 75,000,000 shares, Borrower will at all times cause there to be reserved for

issuance a sufficient number of Conversion Shares and Warrant Shares upon conversion of the Notes and exercise of the Warrants.

(o) Listing of Common Stock. As promptly as practicable after the filing of a Certificate of Amendment to Borrower's Certificate of Incorporation to increase its Shares of Common Stock in accordance with Section 6.1(o) above, Borrower shall file the appropriate applications for listing with the American Stock Exchange the Conversion Shares and Warrant Shares. Borrower shall use its best efforts and work diligently to accomplish such listings as promptly as practicable after the annual meeting of the stockholders of the Company to take place on or prior to May 30, 1999.

(p) HSR Act Filing. Borrower hereby agrees to file all the Pre-Merger Notifications and reports, if any, required to be filed by it under the HSR Act with forty-five (45) days after its receipt of a written request to do so by the holder or holders of at least a majority of the aggregate principal amount of the Notes, then outstanding ("Majority Holders"). Such request shall be made in accordance with Section 10.6 below.

(q) Year 2000 Computer Capability. Borrower shall take all action necessary to assure that at all times the computer-based systems utilized by Borrower and each of its Subsidiaries are able to effectively interpret, process and manipulate data, including dates before, on and after December 31, 1999. At Agent's request, Borrower shall provide to Agent assurance that is reasonably satisfactory to Agent that the computer-based systems utilized by Borrower and each of its Subsidiaries are able to recognize and perform without error functions involving dates before, on and after December 31, 1999.

SECTION 7.
NEGATIVE COVENANTS

7.1. Until the termination of this Agreement and the payment and satisfaction in full of all Obligations due hereunder, neither the Borrower, nor any of its Subsidiaries, will, either directly or indirectly, do or permit to be done, absent the prior written consent of the Majority Holders, the following:

(a) Additional Indebtedness. Borrower shall not directly or indirectly incur, create, assume or suffer to exist any Indebtedness other than (a) Indebtedness under the Bridge Loan Documents, (b) Indebtedness permitted under the Existing Credit Facility, but not any increase in the outstanding principal amount thereof and (c) Indebtedness relating to a working capital line of credit in an amount not to exceed $10,000,000.

(b) No Guarantees. Except for obligations owing to Lenders under this Agreement and owing under the Existing Credit Facilities, Borrower will not assume, endorse or become liable for or guarantee the obligations of any corporation, partnership, individual or other

entity excluding the endorsement of negotiable instruments for deposit or collection in the ordinary course of business.

(c) Liens. Except for Permitted Liens, Borrower shall not directly or indirectly create, incur, assume, or suffer to exist any Lien on any of its property now owned or hereafter acquired except Liens granted to Lenders under the Bridge Loan Documents and Liens described or permitted under the Existing Credit Facility.

(d) No Transfer of Assets. Borrower will not (a) enter into any acquisition, merger, consolidation, reorganization, or recapitalization, or reclassify its capital stock, or liquidate, wind up, or dissolve itself (or suffer any liquidation or dissolution), (b) convey, sell, assign, lease, transfer, or otherwise dispose of, in one transaction or a series of transactions, all or any substantial part of the business, property, or assets, whether now owned or hereafter acquired, of Borrower, or (c) acquire by purchase or otherwise all or substantially all of the property, assets, stock, or other evidence of beneficial ownership of any person or entity, except where the purchase price for such acquisition is less than $10,000 and the aggregate purchase price for all acquisitions made within any period of twelve months is less than $25,000.

(e) Extraordinary Transactions and Disposal of Assets. Borrower will not enter into any transaction not in the ordinary and usual course of Borrower's business, including the sale, lease, or other disposition of, moving, relocation, or transfer, whether by sale or otherwise, of any of Borrower's properties or assets (other than sales of inventory to buyers in the ordinary course of Borrower's business as currently conducted).

(f) Restricted Payments. Borrower shall not directly or indirectly (a) declare or pay any dividend (other than dividends payable solely in Common Stock) on, or make any payment on account of, or set apart assets for a sinking or other analogous fund for, the purchase, redemption, defeasance, retirement or other acquisition of, any shares of any class of capital stock of Borrower or any warrants, options or rights to purchase any such capital stock, whether now or hereafter outstanding, or make any other distribution in respect thereof, either directly or indirectly, whether in cash or property or in obligations of Borrower; or (b) make any optional payment or prepayment on or redemption (including, without limitation, by making payments to a sinking or analogous fund) or repurchase of any Indebtedness (other than Indebtedness pursuant to this Agreement and in accordance with this Agreement).

(g) Investments. Except for Permitted Investments, Borrower shall not directly or indirectly make any Investment in any Person, whether in cash, securities, or other property of any kind.

(h) Affiliate Transactions; Intercompany Transfers; Diversion of Corporate Assets. Borrower shall not directly or indirectly (a) Enter into any transaction with, including, without limitation, the purchase, sale or exchange of property or the rendering of any service to, any Subsidiary or Affiliate of Borrower, unless any such transaction is at arm's length, on fair and reasonable terms to Borrower, and on terms which are no more onerous to Borrower as

could be obtained from a Person unrelated to Borrower; (b) Make any intercompany transfers of monies or other assets in any single transaction or series of transactions, except as otherwise permitted in this Agreement; or (c) Divert (or permit anyone to divert) any business or opportunity of Borrower to any other corporate or business entity.

(i) Mergers. Borrower shall not merge or consolidate with any Person or sell, assign, lease or otherwise dispose of (whether in one transaction or in a series of transactions) all or substantially all of its assets (whether now owned or hereafter acquired) or acquire all or substantially all of the assets or the business of any Person (or enter into any agreement to do any of the foregoing).

(j) No Activities Leading to Forfeiture. Borrower shall not engage in the conduct of any business or activity which could result in a Forfeiture Proceeding.

(k) Corporate Documents; Fiscal Year. Borrower shall not amend, modify or supplement its certificate or articles of incorporation or by-laws in any way which would adversely affect the ability of Borrower to perform its obligations hereunder. Borrower shall not change its fiscal year.

(l) Capital Expenditures. Other than for a capital expenditure contained in any budget approved by the Board of Directors, including a majority of the directors designated by the purchasers pursuant to the terms and conditions of Debenture and Warrant Purchase Agreement, or capital expenditures not contained in any such budget, but which do not exceed $100,000 in the aggregate during any fiscal year of Borrower, make or commit to make any capital expenditures.

SECTION 8.
REGISTRATION RIGHTS

8.1. Restrictive Legend. Each certificate representing

(a) any Note, the Warrants or any Conversion Shares, any Warrant Shares or other securities issued with respect to the Notes, Warrants, Conversion Shares or Warrant Shares, upon any stock split, stock dividend, recapitalization, merger, consolidation or similar event or upon the exercise of the Warrants or conversion of the Notes, shall be stamped or otherwise imprinted with a legend in the following form (in addition to any legend required under applicable state securities laws):

"THIS [NAME OF SECURITY] [AND THE COMMON STOCK ISSUABLE UPON [CONVERSION] [EXERCISE] HEREOF HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, NOR ANY STATE SECURITIES LAW AND MAY NOT BE PLEDGED, SOLD, ASSIGNED, HYPOTHECATED OR OTHERWISE TRANSFERRED UNTIL (1)

A REGISTRATION STATEMENT WITH RESPECT THERETO IS EFFECTIVE UNDER THE ACT AND ANY APPLICABLE STATE SECURITIES LAW OR (2) BORROWER RECEIVES AN OPINION OF COUNSEL TO BORROWER OR OTHER COUNSEL TO THE HOLDER OF SUCH [NAME OF SECURITY] REASONABLY SATISFACTORY TO BORROWER THAT SUCH [NAME OF SECURITY] [AND/OR COMMON STOCK] MAY BE PLEDGED, SOLD, ASSIGNED, HYPOTHECATED OR TRANSFERRED WITHOUT AN EFFECTIVE REGISTRATION STATEMENT UNDER THE ACT OR APPLICABLE STATE SECURITIES LAWS."

8.2. Certain Definitions As used in this Section 8, the following terms shall have the following respective meanings:

"Holders" shall mean Lenders or any person to whom a Lender or transferee of a Lender has assigned any Note, Warrants, Conversion Shares or Warrant Shares.

"Initiating Holders" shall mean any persons who in the aggregate are Holders of at least a majority of the Conversion Shares and the Warrant Shares.

"Registrable Securities" shall mean any Conversions Shares and Warrant Shares issued upon exercise of the Warrants, conversion of any Note or in respect of the Conversion Shares and Warrant Shares issued upon exercise of the Warrants or conversion of any Note upon any stock split, stock dividend, recapitalization or similar event.

"Requesting Stockholders'" shall mean holders of securities of Borrower entitled to have securities included in any registration pursuant to Section 8.3 and who shall request such inclusion.

The terms "register," "registered" and "registration" shall refer to a registration effected by preparing and filing a registration statement in compliance with the Securities Act and applicable rules and regulations thereunder, and the declaration or ordering of the effectiveness of such registration statement.

"Registration Expenses" shall mean all expenses incurred by Borrower in compliance with Sections 8.3 and 8.4 hereof, including, without limitation, all registration and filing fees, printing expenses, fees and disbursements of counsel for Borrower, blue sky fees and expenses, reasonable fees and disbursements of one counsel for all the selling Holders for a "due diligence" examination of Borrower, and the expense of any special audits incident to or required by any such registration (but excluding the compensation of regular employees of Borrower, which shall be paid in any event by Borrower), exclusive of Selling Expenses.

"Restricted Securities" shall mean the securities of Borrower required to bear or bearing the legend set forth in Section 8.1 hereof.

"Selling Expenses" shall mean all underwriting discounts and selling commissions applicable to the sale of Registrable Securities and all fees and disbursements of counsel for any Holder, except as otherwise provided herein.

8.3. Requested Registration.

(a) Requests for Registration. The Initiating Holders may request registration under the Securities Act of all or part of their Registrable Securities. Within ten (10) days after receipt of any such request, Borrower will give written notice of such requested registration to all other Holders of Registrable Securities and any other stockholder having registration rights which entitle it to participate in such registration. Borrower will include in such registration all Registrable Securities with respect to which it has received written requests for inclusion therein within fifteen (15) days after receipt of Borrower's notice. Borrower shall cause its management to cooperate fully and to use its best efforts to support the registration of the Registrable Securities and the sale of the Registrable Securities pursuant to such registration as promptly as is practicable. Such cooperation shall include, but not be limited to, management's attendance and reasonable presentations in respect of Borrower at road shows with respect to the offering of Registrable Securities. The registration requested under this Section 8.3(a) is referred to herein as a "Demand Registration."

(b) Number of Registrations. The Holders of Registrable Securities will be entitled to request one (1) Demand Registration for which Borrower will pay all Registration Expenses. A registration will not count as a Demand Registration until it has become effective; provided, however, that whether or not it becomes effective, Borrower will pay all Registration Expenses in connection with any registration so initiated.

(c) Priority on Demand Registrations. If a Demand Registration is an underwritten offering, and the managing underwriters advise Borrower in writing that in their opinion the number of Registrable Securities requested to be included exceeds the number which can be sold in such offering, Borrower will include in such registration such number of Conversion Shares and Warrant Shares, which in the opinion of such underwriters, may be sold, allocated among the Holders electing to participate pro rata in accordance with the amounts of securities requested to be so included by the respective Holders. Borrower will not include in any Demand Registration any securities which are not Registrable Securities without the written consent of the Holders of a majority of the Registrable Securities requesting such registration. Any persons other than Holders of Registrable Securities who participate in a Demand Registration which is not at Borrower's expense must pay their share of the Registration Expenses. A registration shall not count as a Demand Registration if some or all of the Conversion Shares and Warrant Shares which any Holder desires to include therein are not included due to the determination of the managing underwriters referred to in the first sentence of this Section 8.3(c).

(d) Restrictions on Demand Registrations. Borrower will not be obligated to effect any Demand Registration within six (6) months after the effective date of a previous registration in which the Holders of Registrable Securities were given piggyback rights pursuant to Section 8.4 other than a registration of Registrable Securities intended to be offered on a continuous

or delayed basis under Rule 415 or any successor rule under the Securities Act (a "Shelf Registration").

8.4. Piggyback Registrations.

(a) Right to Piggyback. Whenever Borrower proposes to register any of its securities under the Securities Act (other than pursuant to a Demand Registration or pursuant to a registration on Forms S-4 or S-8 or any successors to such forms) and the registration form to be used may be used for the registration and contemplated disposition of Registrable Securities (a "Piggyback Registration"), Borrower will give prompt written notice to all Holders of Registrable Securities of its intention to effect such a registration. Borrower will include in such registration all Registrable Securities with respect to which Borrower has received written requests for inclusion therein within thirty (30) days after the receipt of Borrower's notice.

(b) Piggyback Expenses. The Registration Expenses of the Holders of Registrable Securities will be paid by Borrower.

(c) Priority on Primary Registrations. If a Piggyback Registration is an underwritten primary registration on behalf of Borrower, and the managing underwriters advise Borrower in writing that in their opinion the number of securities requested to be included in such registration exceeds the number which can be sold in such offering, Borrower will include in such registration first, the securities Borrower proposes to sell, second, the Registrable Securities and securities of Borrower with respect to which similar registration rights have been granted and requested to be included in such registration, pro rata in accordance with the amounts of Registrable Securities and such securities requested to be so included by the respective Holders and holders of such securities of Borrower; and third, any other securities requested to be included in such registration.

(d) Priority on Secondary Registrations. If a Piggyback Registration is an underwritten secondary registration on behalf of holders of Borrower's securities, and the managing underwriters advise Borrower in writing that in their opinion the number of securities requested to be included in such registration exceeds the number which can be sold in such offering, Borrower will include in such registration first, the securities requested to be included therein by the holders requesting such registration, second, the Registrable Securities and securities of Borrower with respect to which similar registration rights have heretofore been granted and requested to be included in such registration, pro rata in accordance with the amounts of Registrable Securities and such securities requested to be so included by the respective Holders and holders of such securities of Borrower, and third, other securities requested to be included in such registration.

(e) Other Restrictions. Borrower hereby agrees that if it has previously filed a registration statement with respect to Registrable Securities pursuant to Section 8.3 or pursuant to this Section 8.4, and if such previous registration has not been withdrawn or abandoned, Borrower will not file or cause to be effected any other registration of any of its equity securities or securities

convertible or exchangeable into or exercisable for its equity securities under the Securities Act (except on Form S-8 or any other similar form for employee benefit plans), whether on its own behalf or at the request of any holder or holders of such securities, until a period of at least six (6) months has elapsed from the effective date of such previous registration or, if sooner, until all Registrable Securities included in such previous registration have been sold.

8.5. Holdback Agreements.

(a) Each Holder of Registrable Securities which is a party to this Agreement agrees not to effect any public sale or distribution of equity securities of Borrower, or any securities convertible into or exchangeable or exercisable for such securities, during the seven (7) days prior to and the 90-day period beginning on the effective date of any underwritten Demand Registration or any underwritten Piggyback Registration (except as part of such underwritten registration) or, if sooner, until all Registrable Securities included within such registration have been sold.

(b) Borrower agrees (i) not to effect any public sale or distribution of its equity securities, or any securities convertible into or exchangeable or exercisable for such securities, during the seven (7) days prior to and the 90-day period beginning on the effective date of any underwritten Demand Registration or any underwritten Piggyback Registration (except as part of such underwritten registration or pursuant to registrations on Form S-8 or any other similar form for employee benefit plans) or, if sooner, until all Registrable Securities included within such registration have been sold, and (ii) to use its reasonable best efforts to cause each holder of its equity securities, or any securities convertible into or exchangeable or exercisable for such securities, purchased from Borrower at any time after the date of this Agreement (other than in a registered public offering) to agree not to effect any public sale or distribution of any such securities during such period (except as part of such underwritten registration, if otherwise permitted) or, if sooner, until all Registrable Securities included within such registration have been sold.

8.6. Registration Procedures. Whenever the Holders of Registrable Securities have requested that any Registrable Securities be registered pursuant to this Section 8, Borrower will use its reasonable best efforts to effect the registration and the sale of such Registrable Securities in accordance with the intended method of disposition thereof, and pursuant thereto Borrower will as expeditiously as possible:

(a) prepare and file with the Commission a registration statement with respect to such Registrable Securities, which registration statement will state that the Holders of Registrable Securities covered thereby may sell such Registrable Securities either under such registration statement or, at any Holder's proper request, pursuant to Rule 144 (or any similar rule then in effect), and use its best efforts to cause such registration statement to become effective (provided that before filing a registration statement or prospectus or any amendments or supplements thereto, Borrower will furnish to the counsel selected by the Holders of a majority of the Registrable Securities covered

by such registration statement copies of all such documents proposed to be filed, which documents will be subject to the review of such counsel);

(b) prepare and file with the Commission such amendments and supplements to such registration statement and the prospectus used in connection therewith as may be necessary to keep such registration statement effective for the period set forth in Section 8.6(j) hereof and comply with the provisions of the Securities Act with respect to the disposition of all securities covered by such registration statement during such period in accordance with the intended methods of disposition by the sellers thereof set forth in such registration statement;

(c) furnish to each seller of Registrable Securities such number of copies of such registration statement, each amendment and supplement thereto, the prospectus included in such registration statement (including each preliminary prospectus) and such other documents as such seller may reasonably request in order to facilitate the disposition of the Registrable Securities owned by such seller;

(d) use its best efforts to register or qualify such Registrable Securities under such other securities or blue sky laws of such jurisdictions as any seller reasonably requests and do any and all other acts and things which may be reasonably necessary or advisable to enable such seller to consummate the disposition in such jurisdictions of the Registrable Securities owned by such seller (provided that Borrower will not be required to qualify generally to do business in any jurisdiction where it would not otherwise be required to qualify but for this subsection, subject itself to taxation in any such jurisdiction, or consent to general service of process in any such jurisdiction);

(e) notify each seller of such Registrable Securities, at any time when a prospectus relating thereto is required to be delivered under the Securities Act, of the happening of any event as a result of which the prospectus included in such registration statement contains an untrue statement of a material fact or omits to state any fact necessary to make the statements therein not misleading, and, at the request of any such seller, Borrower will prepare a supplement or amendment to such prospectus so that, as thereafter delivered to the Lenders of such Registrable Securities, such prospectus will not contain an untrue statement of a material fact or omit to state any fact necessary to make the statements therein not misleading;

(f) cause all such Registrable Securities to be listed on each securities exchange on which similar securities issued by Borrower are then listed;

(g) provide a transfer agent and registrar for all such Registrable Securities not later than the effective date of such registration statement;

(h) enter into such customary agreements (including an underwriting agreement in customary form) and take all such other actions as the Holders of a majority of the Registrable Securities being sold or the underwriters, if any, reasonably request in order to expedite or facilitate

the disposition of such Registrable Securities (including, without limitation, using its best efforts to effect a stock split or a combination of shares);

(i) make available for inspection by any seller of Registrable Securities, any underwriter participating in any disposition pursuant to such registration statement, and any attorney, accountant or other agent retained by any such seller or underwriter, all financial and other records, pertinent corporate documents and properties of Borrower, and cause Borrower's officers, directors and employees to supply all information reasonably requested by any such seller, underwriter, attorney, accountant or agent in connection with such registration statement; and

(j) keep each registration statement effective until the earlier to occur of (i) the Holder or Holders have completed the distribution described in the registration statement relating thereto (including a Shelf Registration) and (ii) two (2) years.

8.7. Expenses of Registration. All Registration Expenses incurred in connection with a registration, qualification or compliance pursuant to this Section 8 shall be borne by Borrower, and all Selling Expenses shall be borne by the Holders and the Requesting Stockholders of the securities so registered pro rata on the basis of the number of their shares so registered; provided, however, that Borrower shall not be required to pay any Registration Expenses if, as a result of the withdrawal of a request for registration by Initiating Holders, the registration statement does not become effective, in which case the Holders and Requesting Stockholders requesting registration shall bear such Registration Expenses pro rata on the basis of the number of their shares so included in the registration request, and, further, that such registration shall not be counted as a Demand Registration pursuant to Section 8.3.

8.8. Indemnification.

(a) Borrower will indemnify each Holder, each Holder's officers, directors and partners, and each person controlling such Holder, with respect to which registration, qualification or compliance of such Holder's securities has been effected pursuant to this Section 8, and each underwriter, if any, and each person who controls any underwriter, against all claims, losses, damages and liabilities (or actions in respect thereof) arising out of or based on any untrue statement (or alleged untrue statement) of a material fact contained in any registration statement, prospectus, offering circular or other document (including any related registration statement notification or the like) incident to any such registration, qualification or compliance, or based on any omission (or alleged omission) to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, or any violation by Borrower of the Securities Act or any rule or regulation thereunder applicable to Borrower and relating to action or inaction required of Borrower in connection with any such registration, qualification or compliance, and will reimburse each such Holder, each Holder's officers, directors and partners, and each person controlling such Holder, each such underwriter and each person who controls any such underwriter, for any legal and any other expenses reasonably incurred in connection with investigating or defending any such claim, loss, damage, liability or action, provided, that Borrower will not be liable in any such case

to the extent that any such claim, loss, damage, liability or action arises out of or is based on any untrue statement or omission of material fact based upon written information furnished to Borrower by such Holder or underwriter and stated to be specifically for use therein.

(b) Each Holder and Requesting Stockholder will, if Registrable Securities held by it are included in the securities as to which such registration, qualification or compliance is being effected, indemnify Borrower, each of Borrower's directors and officers and each underwriter, if any, of Borrower's securities covered by such registration statement, each person who controls Borrower or such underwriter within the meaning of the Securities Act and the rules and regulations thereunder, each other Holder and Requesting Stockholder and each of their officers, directors and partners, and each person controlling such Holder or Requesting Stockholder, against all claims, losses, damages and liabilities (or actions in respect thereof) arising out of or based on any untrue statement (or alleged untrue statement) of a material fact contained in any such registration statement, prospectus, offering circular or other document incident to any such registration, qualification or compliance, or based on any omission (or alleged omission) to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, and will reimburse Borrower, its officers and directors, each underwriter, each person controlling Borrower or such underwriter, each other Holder and Requesting Stockholders, their officers, directors, partners and control persons for any legal or any other expenses reasonably incurred in connection with investigating or defending any such claim, loss, damage, liability or action, in each case to the extent, but only to the extent, that such untrue statement (or alleged untrue statement) or omission (or alleged omission) is made in such registration statement, prospectus, offering circular or other document in reliance upon and in conformity with written information furnished to Borrower by such Holder or Requesting Stockholder and stated to be specifically for use therein; provided, however, that the obligations of each Holder and Requesting Stockholders hereunder shall be limited to an amount equal to the proceeds to each such Holder or Requesting Stockholder of securities sold as contemplated herein.

(c) Each party entitled to indemnification under this Section 8.8 (the "Indemnified Party") shall give notice to the party required to provide indemnification (the "Indemnifying Party") promptly after such Indemnified Party has actual knowledge of any claim as to which indemnity may be sought, and shall permit the Indemnifying Party to assume the defense of any such claim or any litigation resulting therefrom, provided, that counsel for the Indemnifying Party, who shall conduct the defense of such claim or any litigation resulting therefrom, shall be approved by the Indemnified Party (whose approval shall not be unreasonably withheld and for such purpose approval is hereby given for Wolf, Block, Schorr and Solis-Cohen LLP ("Wolf, Block") to be such counsel), and the Indemnified Party may participate in such defense at such party's expense, and provided, further, that the failure of any Indemnified Party to give notice as provided herein shall not relieve the Indemnifying Party of its obligations under this Section 8 unless such failure has had a Material Adverse Effect on such claim. The parties to this Agreement reserve any rights to claim under this Agreement for damages actually incurred by reason of any failure of the Indemnified Party to give prompt notice of a claim. To the extent counsel for the Indemnifying Party shall in such counsel's reasonable judgment, have a conflict in representing an Indemnified Party in conjunction with the

Indemnifying Party or other Indemnified Parties, such Indemnified Party shall be entitled to separate counsel at the expense of the Indemnifying Party subject to the approval of such counsel by the Indemnified Party (whose approval shall not be unreasonably withheld and for such purpose approval is hereby given for Wolf, Block to be such counsel). No Indemnifying Party, in the defense of any such claim or litigation, shall, except with the consent of each Indemnified Party, consent to entry of any judgment or enter into any settlement which does not include as an unconditional term thereof the giving by the claimant or plaintiff to such Indemnified Party of a release from all liability with respect to such claim or litigation. Each Indemnified Party shall furnish such information regarding itself or the claim in question as an Indemnifying Party may reasonably request in writing and as shall be reasonably required in connection with the defense of such claim and any litigation resulting therefrom.

8.9. Information by Holders. Each Holder of Registrable Securities, and each Requesting Stockholder holding securities included in any registration, shall furnish to Borrower such information regarding such Holder or Requesting Stockholder and the distribution proposed by such Holder or Requesting Stockholder as Borrower may reasonably request in writing and as shall be reasonably required in connection with any registration, qualification or compliance referred to in this Section 8.

8.10. Limitations on Registration of Issues of Securities. From and after the date of this Agreement, Borrower shall not enter into any agreement with any holder or prospective holder of any securities of Borrower giving such holder or prospective holder the right to require Borrower to register any securities of Borrower equal to or more favorable than the rights granted under this Section 8. Any right given by Borrower to any holder or prospective holder of Borrower's securities in connection with the registration of securities shall be conditioned such that it shall be consistent with the provisions of this Section 8 and with the rights of the Holders provided in this Agreement and such holder or prospective holder agrees to be bound by the terms of this Section 8.

8.11. Rule 144 Reporting. With a view to making available the benefits of certain rules and regulations of the Commission which may permit the sale of the Restricted Securities to the public without registration, Borrower agrees to:

(a) make and keep public information available, as those terms are understood, defined and interpreted in and under Rule 144 under the Securities Act, at all times from and after ninety (90) days following the effective date of the first registration under the Securities Act filed by Borrower for an offering of its securities to anyone other than its employees;

(b) use its best efforts to file with the Commission in a timely manner all reports and other documents required of Borrower under the Securities Act and the Exchange Act at any time after it has become subject to such reporting requirements; and

(c) so long as Lender owns any Restricted Securities, furnish to Lender forthwith, upon request, a written statement by Borrower as to its compliance with the reporting requirements of Rule 144 (at any time from and after ninety (90) days following the effective date of the first

registration statement filed by Borrower for an offering of its securities to anyone other than its employees), and of the Securities Act and the Exchange Act (at any time after it has become subject to such reporting requirements), a copy of the most recent annual or quarterly report of Borrower, and such other reports and documents so filed as Lender may reasonably request in availing itself of any rule or regulation of the Commission allowing Lender to sell any such securities without registration.

8.12. Participation in Underwritten Registrations. No person may participate in any underwritten registration hereunder unless such person agrees to sell such person's securities on the basis provided in any underwriting arrangements approved by the persons entitled hereunder to approve such arrangements and completes and executes all reasonable questionnaires, powers of attorney, indemnities, underwriting agreements and other documents required under the terms of such underwriting arrangements.

8.13. Selection of Underwriters. If any Demand Registration is an underwritten offering, the Holders of a majority of the Registrable Securities included in such registration have the right to select the investment banker(s) and manager(s) to administer the offering, subject to the approval of Borrower (which approval will not be unreasonably withheld). If any registration other than a Demand Registration is an underwritten offering, Borrower will have the right to select the investment banker(s) and manager(s) to administer the offering, subject to the approval of the Holders of a majority of the Registrable Securities included in such registration (which approval will not be unreasonably withheld).

8.14. Termination of Registration Rights. The rights of Holders to request a Demand Registration or participate in a Piggyback Registration shall expire on May 30, 2003.

SECTION 9.
EVENTS OF DEFAULT AND REMEDIES

9.1. Events of Default. The occurrence of any of the following events shall constitute an Event of Default hereunder:

(a) Failure to Pay. Borrower shall fail to pay any of its Obligations when the same shall become due and payable.

(b) Breach of Certain Covenants. Borrower shall fail to comply with any covenant contained in Sections 6 or 7 hereof ("Affirmative Covenants" and "Negative Covenants"), which, in the case of Borrower's failure to comply with the covenants contained in Sections 6.1 and 6.13 above, continues for a period of ten (10) days following Borrower's receipt of written notice thereof from the Agent.

(c) Breach of Representation or Warranty. Any representation or warranty made or deemed to be made by Borrower in this Agreement or in any other Bridge Loan Document (and

in any statement or certificate given under this Agreement or any other Bridge Loan Document), shall be false or misleading in any material respect when made or deemed to be made.

(d) Breach of Other Covenants. Borrower shall fail to comply with any covenant contained in this Agreement or any other Bridge Loan Document, other than as set forth in Section 10.1(b), and such failure shall continue for ten (10) Business Days after its occurrence.

(e) Cross Default. There shall occur any default or event of default on the part of any Borrower under (i) any agreement, document or instrument to which Borrower is a party or by which Borrower or any of its property is bound, creating or relating to any indebtedness (other than the Obligations), the unpaid principal balance of which is in excess of $100,000, if the payment or maturity of such indebtedness is accelerated in consequence of such event of default or demand for payment of such indebtedness is made or (ii) the Debenture and Warrant Purchase Agreement.

(f) Dissolution, etc. Borrower shall cease to do business, take steps to wind-up or dissolve or shall suffer the appointment of a receiver, trustee, examiner, custodian or similar fiduciary, or shall make an assignment for the benefit of creditors.

(g) Bankruptcy, etc.. Borrower (i) shall generally not, or be unable to, or shall admit in writing its inability to, pay its debts as such debts become due; (ii) shall make an assignment for the benefit of creditors, petition or apply to any tribunal for the appointment of a custodian, receiver or trustee for it or a substantial part of its assets; (iii) shall commence any proceeding under any bankruptcy, reorganization, arrangement, readjustment of debt, dissolution or liquidation law or statute of any jurisdiction, whether now or hereafter in effect; (iv) shall have had any such petition or application filed or any such proceeding shall have been commenced, against it, in which an adjudication or appointment is made or order for relief is entered, or which petition, application or proceeding remains undismissed for a period of 30 days or more; or shall be the subject of any proceeding under which its assets may be subject to seizure, forfeiture or divestiture; (v) by any act or omission shall indicate its consent to, approval of or acquiescence in any such petition, application or proceeding or order for relief or the appointment of a custodian, receiver or trustee for all or any substantial part of its property; (vi) shall suffer any such custodianship, receivership or trusteeship to continue discharged for a period of 30 days or more; or (vii) shall cease to be Solvent.

(h) Judgments. One or more judgments, decrees or orders for the payment of money in excess of $100,000 in the aggregate shall be rendered against Borrower, and such judgments, decrees, or orders shall continue unsatisfied and in effect for a period of 30 consecutive days without being vacated, discharged, satisfied or stayed or bonded pending appeal.

(i) Forfeiture Proceeding. Any Forfeiture Proceeding shall have been commenced against Borrower.

9.2. Acceleration. Upon the occurrence and during the continuance of any Event of Default, without prejudice to the rights of any Lender to enforce its claims against Borrower and by

delivery of written notice to Borrower from Agent on behalf of Lenders, all Obligations shall be immediately due and payable (except with respect to any Event of Default set forth in Section 9.1(f) or (g) hereof, in which case all Obligations shall automatically become immediately due and payable without the necessity of any notice or other demand to Borrower) without presentment, demand, protest or any other action or obligation of Lenders.

9.3. Remedies.

(a) Upon the occurrence of an Event of Default, Majority Holders may at any time (unless all defaults shall theretofore have been remedied) at its or their option, by written notice or notices to the Company (i) declare all the Notes to be due and payable, whereupon the same shall forthwith mature and become due and payable, together with interest accrued thereon, without presentment, demand, protest or notice, all of which are hereby waived; and (ii) declare any other amounts payable to the Lenders under this Agreement or as contemplated hereby due and payable.

(b) Notwithstanding anything contained in Section 9.3(a), if, at any time after the principal of the Notes shall so become due and payable and prior to the date of maturity stated in the Notes all arrears of principal of and interest on the Notes (with interest at the rate specified in the Notes on any overdue principal and, to the extent legally enforceable, on any interest overdue) shall be paid by or for the account of the Company, then Majority Holders, by written notice(s) to the Company, may (but shall not be obligated to) waive such Event of Default and its consequences and rescind or annul such declaration; but no such waiver shall extend to or affect any subsequent Event of Default or impair any right resulting therefrom. If any holder of a Note shall give any notice or take any other action with respect to a claimed Default, the Company, forthwith upon receipt of such notice or obtaining knowledge of such other action will give written notice thereof to all other holders of the Notes then outstanding, describing such notice or other action and, the nature of the claimed Default.

9.4. Application of Proceeds; Surplus; Deficiencies. The net cash proceeds resulting from Agent's exercise of any of the foregoing rights against any Collateral (after deducting all of Lenders' Expenses related thereto) shall be applied by Agent to the payment of the Obligations, whether due or to become due, in the order set forth in Section 2.9. Borrower shall remain liable to Lenders for any deficiencies, and Lenders in turn agree to remit to Borrower or its successors or assigns, any surplus resulting therefrom.

SECTION 10.
GENERAL PROVISIONS

10.1. GOVERNING LAW. THE VALIDITY, INTERPRETATION AND ENFORCEMENT OF THIS AGREEMENT AND THE OTHER BRIDGE LOAN DOCUMENTS AND ANY DISPUTE ARISING OUT OF OR IN CONNECTION WITH THIS AGREEMENT OR ANY OF THE BRIDGE LOAN DOCUMENTS, WHETHER SOUNDING IN CONTRACT, TORT, EQUITY OR OTHERWISE, SHALL BE GOVERNED BY THE INTERNAL LAWS (AS

OPPOSED TO THE CONFLICTS OF LAWS PROVISIONS) AND DECISIONS OF THE STATE OF NEW YORK.

10.2. SUBMISSION TO JURISDICTION. ALL DISPUTES AMONG BORROWER AND LENDERS, WHETHER SOUNDING IN CONTRACT, TORT, EQUITY OR OTHERWISE, SHALL BE RESOLVED ONLY BY STATE AND FEDERAL COURTS LOCATED IN NEW YORK, NEW YORK, AND THE COURTS TO WHICH AN APPEAL THEREFROM MAY BE TAKEN; PROVIDED, HOWEVER, THAT LENDERS SHALL HAVE THE RIGHT, TO THE EXTENT PERMITTED BY APPLICABLE LAW, TO PROCEED AGAINST BORROWER OR ITS PROPERTY IN ANY LOCATION REASONABLY SELECTED BY LENDERS IN GOOD FAITH TO ENABLE LENDERS TO REALIZE ON SUCH PROPERTY, OR TO ENFORCE A JUDGMENT OR OTHER COURT ORDER IN FAVOR OF LENDERS. BORROWER AGREES THAT IT WILL NOT ASSERT ANY PERMISSIVE COUNTERCLAIMS, SETOFFS OR CROSS-CLAIMS IN ANY PROCEEDING BROUGHT BY LENDERS. BORROWER WAIVES ANY OBJECTION THAT THEY MAY HAVE TO THE LOCATION OF THE COURT IN WHICH LENDERS HAS COMMENCED A PROCEEDING, INCLUDING, WITHOUT LIMITATION, ANY OBJECTION TO THE LAYING OF VENUE OR BASED ON FORUM NON CONVENIENS.

10.3. SERVICE OF PROCESS. BORROWER HEREBY IRREVOCABLY AGREES THAT SERVICE OF PROCESS IN ANY LEGAL ACTION OR PROCEEDING WITH RESPECT TO THIS AGREEMENT OR ANY OTHER BRIDGE LOAN DOCUMENT MAY BE AFFECTED BY MAILING A COPY THEREOF BY REGISTERED OR CERTIFIED MAIL, POSTAGE PREPAID, TO BORROWER AT ITS RESPECTIVE ADDRESS SET FORTH IN SECTION 10.6.

10.4. JURY TRIAL. BORROWER, AGENT AND LENDERS EACH HEREBY WAIVE ANY RIGHT TO A TRIAL BY JURY.

10.5. LIMITATION OF LIABILITY. NEITHER AGENT NOR ANY OF THE LENDERS SHALL HAVE ANY LIABILITY TO BORROWER (WHETHER SOUNDING IN TORT, CONTRACT, OR OTHERWISE) FOR LOSSES SUFFERED BY BORROWER IN CONNECTION WITH, ARISING OUT OF, OR IN ANY WAY RELATED TO THE TRANSACTIONS OR RELATIONSHIPS CONTEMPLATED BY THIS AGREEMENT, OR ANY ACT, OMISSION OR EVENT OCCURRING IN CONNECTION THEREWITH, UNLESS IT IS DETERMINED BY A FINAL AND NONAPPEALABLE JUDGMENT OR COURT ORDER BINDING ON LENDERS, THAT THE LOSSES WERE THE RESULT OF ACTS OR OMISSIONS CONSTITUTING GROSS NEGLIGENCE OR WILLFUL MISCONDUCT.

10.6. Notices. Except as otherwise provided herein, all notices and correspondences hereunder shall be in writing and sent by certified or registered mail, return receipt requested, or by overnight delivery service, with all charges prepaid, or by facsimile transmission, promptly confirmed in writing sent by first class mail:

If to any Lender then to Agent, as follows:

Mr. Srini Conjeevaram
Galen Partners III, L.P.
Rockefeller Center
610 Fifth Avenue, 5th Floor
New York, New York 10020

With copies to:

Wolf, Block, Schorr and Solis-Cohen LLP
250 Park Avenue
New York, New York 10177
Attention: George N. Abrahams, Esq.
Fax no. (212) 986-0604

If to Borrower:

Halsey Drug Co., Inc.
695 N. Perryville Road
Rockford, Illinois 61107
Attention: Mr. Michael Reicher
Fax no. (815) 399-9710

With copies to:

St. John & Wayne LLC
Two Penn Plaza East
Newark, New Jersey 07105-2249
Attention: John P. Reilly, Esq.
Fax no. (973) 491-3555

All such notices and correspondence shall be deemed given (i) if sent by certified or registered mail, three Business Days after being postmarked, (ii) if sent by overnight delivery service, when received at the above stated addresses or when delivery is refused and (iii) if sent by telex or facsimile transmission, when receipt of such transmission is acknowledged.

10.7. Indemnification. Borrower hereby indemnifies and agrees to defend and hold harmless Agent, each of the Lenders and their respective partners, directors, officers, agents, employees and counsel from and against any and all losses, claims, damages, liabilities, deficiencies, judgments or expenses incurred by any of them (except to the extent that it is finally judicially determined to have resulted from their own gross negligence or willful misconduct) arising out of or by reason of (a) any litigations, investigations, claims or proceedings which arise out of or are in any way related to (i) this Agreement or the transactions contemplated hereby, (ii) any actual or

proposed use by Borrower of the proceeds of the Consolidated Bridge Loan or Lenders entering into this Agreement, the other Bridge Loan Documents or any other agreements and documents relating hereto, including, without limitation, amounts paid in settlement, court costs and the fees and disbursements of counsel incurred in connection with any such litigation, investigation, claim or proceeding or any advice rendered in connection with any of the foregoing and (b) any remedial or other action taken by Borrower or Lenders in connection with compliance by Borrower, or any of its property, with any federal, state or local environmental laws, acts, rules, regulations, orders, directions, ordinances, criteria or guidelines.

10.8. Amendments and Waivers. This Agreement may not be amended, discharged or terminated (or any provision hereof waived) without the written consent of Borrower and the Lenders as set forth below:

(a) Holders of at least fifty one percent (51%) in aggregate principal amount of the Notes then outstanding may by written instrument amend or waive any term or condition of this Agreement, except that no such amendment or waiver shall (i) except as otherwise permitted in Section 2.3(f) hereof with respect to voluntary prepayments of the Notes by the Borrower, extend the fixed maturity of any Notes, the rate or the time of payment or mandatory prepayment of principal thereof or payment of interest thereon, or the principal amount thereof, without the consent of the holders of the Notes so affected, (ii) change the aforesaid percentage of Notes, the holders of which are required to consent to any such amendment or waiver, without the consent of the holders of all the Notes then outstanding or (iii) change the percentage of the amount of the Notes, the holders of which may declare the Notes to be due and payable under Section 9.1.

Borrower and each holder of a Note then or thereafter outstanding shall be bound by any amendment or waiver effected in accordance with the provisions of this Section 10.8, whether or not such Note shall have been marked to indicate such modification, but any Note issued thereafter shall bear a notation as to any such modification. Promptly after obtaining the written consent of the holders herein provided, Borrower shall transmit a copy of such modification to all of the holders of the Notes then outstanding.

(b) Holders of at least a majority of the Conversion Shares and the Warrant Shares in the aggregate then outstanding may by written instrument amend or waive any term or condition of this Agreement relating to the rights or obligations of holders of Conversion Shares and Warrant Shares, which amendment or waiver operates for the benefit of such holders but in no event shall the obligation of any holder of Conversion Shares and Warrant Shares hereunder be increased, except upon the written consent of such holder of Conversion Shares and Warrant Shares.

Borrower and each holder of a Conversion Share or a Warrant Share then or thereafter outstanding shall be bound by any amendment or waiver effected in accordance with the provisions of this Section 10.8, whether or not such Conversion Share or Warrant Share shall have been marked to indicate such modification, but any Conversion Share and Warrant Share issued thereafter shall bear a notation as to any such modification. Promptly after obtaining the written consent of the

holders herein provided, Borrower shall transmit a copy of such modification to all of the holders of the Conversion Shares and the Warrant Shares then outstanding.

10.9. Construction. Unless the context of this Agreement clearly requires otherwise, references to the plural include the singular, references to the singular include the plural, the term "including" is not limiting, and the term "or" has, except where otherwise indicated, the inclusive meaning represented by the phrase "and/or." The words "hereof," "herein," "hereby," "hereunder," and similar terms in this Agreement refer to this Agreement as a whole and not to any particular provision of this Agreement. Article, Section, subsection, paragraph, clause, schedule, and exhibit references are to this Agreement unless otherwise specified. Any reference in this Agreement shall include all alterations, amendments, changes, extensions, modifications, renewals, replacements, substitutions, and supplements, thereto and thereof, as applicable.

10.10. Counterparts and Effectiveness. This Agreement and any waiver or amendment hereto may be executed in any number of counterparts and by the different parties hereto in separate counterparts, each of which when so executed and delivered shall be an original, but all of which shall together constitute one and the same instrument. This Agreement shall become effective on the date on which all of the parties hereto shall have signed a copy hereof (whether the same or different copies) and shall have delivered the same to Lenders pursuant to Section 10.6 or shall have given to Lenders written, telecopied or telex notice (actually received) at such office that the same has been signed and mailed to it.

10.11. Severability. In case any provision in or obligation under this Agreement or any Note or the other Bridge Loan Documents shall be invalid, illegal or unenforceable in any jurisdiction, the validity, legality and enforceability of the remaining provisions or obligations, or of such provision or obligation in any other jurisdiction, shall not in any way be affected or impaired thereby.

10.12. Entire Agreement; Successors and Assigns. This Agreement and the other Bridge Loan Documents constitute the entire agreement among Borrower and Lenders, supersedes any prior agreements among them, and shall bind and benefit Borrower and Lenders and their respective successors and assigns.

10.13 Assignments and Participations.

(a) Each Lender may assign its rights and delegate its obligations under this Agreement and further may assign, or sell participations in, all or any part of the Consolidated Bridge Loan, such Lender's Total Commitment or any other interest herein to an Affiliate or to another Person. In the case of an assignment authorized under this Section 10.13, the assignee shall have, to the extent of such assignment, the same rights, benefits and obligations as it would if it were a Lender hereunder, shall be deemed to be a Lender for all purposes, and such assigning Lender shall be relieved of its obligations hereunder with respect to such Lender's Total Commitment or assigned portion thereof. Borrower hereby acknowledges and agrees that any assignment will give rise to a direct obligation of Borrower to the assignee and that the assignee shall be considered to be a

"Lender". Any such Lender may furnish any information concerning Borrower and its Subsidiaries in its possession from time to time to assignees and participants (including prospective assignees and participants).

(b) The Borrower and the Lenders hereby authorize the Agent to modify this Agreement by unilaterally amending or supplementing Exhibit A to reflect the assignment by a Lender of all or any part of its Total Commitment to any other Lender hereunder or to any Person whatsoever, and to reflect the Total Commitment of any Person that elects to become a Lender after the date hereof by extending a new loan to Borrower.

10.14 No Brokers. Each Lender and Borrower represents and warrants to each other that it has not employed or dealt with any broker in connection with any transactions contemplated by this Agreement and each of Lender and the Borrower shall indemnify and hold harmless the other from and against any and all claims at any time heretofore or hereafter made for broker's or finder's fees or commissions, which claim or claims arise from, out of, or in connection with any of the transactions contemplated by this Agreement.

10.15 No Novation. This Agreement amends and restates in its entirety the Original Bridge Loan Agreement and consolidates the Original Bridge Loan with the Additional Bridge Loan. Neither this Agreement nor any of the Notes creates a novation of or in any manner diminishes or extinguishes the unpaid principal balance of, or the accrued interest on, Borrower's indebtedness to Lenders originally evidenced by the Original Notes. Such unpaid principal balance of, and such accrued interest on, such indebtedness continues to be due and owing by Borrower to Lenders, as of the date hereof, and Borrower hereby reaffirms and confirms same.

[SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed in the state of New York, and delivered by their proper and duly authorized officers and representatives as of the date set forth above.

Borrower: HALSEY DRUG CO., INC.

By: /s/

Name: Michael Reicher
Title: Chief Executive Officer

Lenders: GALEN PARTNERS III, L.P.
By: Claudius, L.L.C., General Partner

By: /s/

Name: Bruce F. Wesson
Title: Managing Member

GALEN PARTNERS INTERNATIONAL III, L.P.
By: Claudius, L.L.C., General Partner

By: /s/

Name: Bruce F. Wesson
Title: Managing Member

GALEN EMPLOYEE FUND III, L.P.
By: Wesson Enterprises, Inc., General Partner

By: /s/

Name: Bruce F. Wesson
Title: President

/s/

Michael Weisbrot

/s/

Susan Weisbrot

Exhibit 10.46

[First Amendment to Amended, Restated and Consolidated Bridge Loan Agreement dated December 7, 1998 between the Company and the lenders listed on the signature page thereto]

Execution Copy

FIRST AMENDMENT
TO
AMENDED, RESTATED AND CONSOLIDATED
BRIDGE LOAN AGREEMENT

THIS FIRST AMENDMENT TO AMENDED, RESTATED AND CONSOLIDATED BRIDGE LOAN AGREEMENT (the "First Amendment") dated as of December 7, 1998 by and among HALSEY DRUG CO., INC., a New York corporation ("Borrower"), GALEN PARTNERS III, L.P. ("Galen", an "Initial Lender" or a "Lender") a Delaware limited partnership, GALEN PARTNERS INTERNATIONAL III, L.P. and GALEN EMPLOYEE FUND III, L.P., each a Delaware limited partnership (each an "Initial Lender", a "Lender", and collectively, with Galen, the "Galen Entities"), PATRICK COYNE ("Coyne", a "First Amendment Lender" or a "Lender"), an individual residing at 477 Margo Lane, Berwyn, Pennsylvania 19312, ALAN SMITH ("Smith", a "First Amendment Lender" or a "Lender"), an individual residing at 21 Bedlow Avenue, Newport, Rhode Island 02840, MICHAEL WEISBROT AND SUSAN WEISBROT (collectively, the "Weisbrots" or jointly and severally, with respect to the Initial Commitment, an "Initial Lender", with respect to the First Amendment Commitment, a "First Amendment Lender" or a "Lender"), individuals residing at 1136 Rock Creek Road, Gladwyne, Pennsylvania 19035, GREG WOOD ("Wood", a "First Amendment Lender" or a "Lender"), an individual residing at c/o D.R. International, 7474 Figueron Street, Los Angeles, California 90041, (Coyne, Smith, the Weisbrots and Wood, each a "First Amendment Lender" and collectively, the "First Amendment Lenders" and the First Amendment Lenders, together with the Galen Entities and the Weisbrots, each a "Lender", and collectively, the "Lenders"), and GALEN, as agent for the Lenders (in such capacity, the "Agent") to the Amended, Restated and Consolidated Bridge Loan Agreement dated as of December 2, 1998 by and among Borrower, the Galen Entities and the Weisbrots
(the Weisbrots and the Galen Entities, each an "Initial Lender", a "Lender" and collectively, the "Initial Lenders", as amended through the date hereof, the "Consolidated Bridge Loan Agreement"). Terms that are capitalized in this First Amendment and not otherwise defined shall have the meaning ascribed to such terms in the Consolidated Bridge Loan Agreement.

WITNESSETH:

WHEREAS, the Borrower and the Initial Lenders have entered into the Consolidated Bridge Loan Agreement;

WHEREAS, Borrower has requested that certain Lenders consider making an additional $283,000 bridge loan ("First Amendment Bridge Loan") available to Borrower, the proceeds of which will be used by Borrower solely for Borrower's working capital purposes and other general

business purposes, in each case pursuant to the Consolidated Bridge Loan Agreement and in accordance with the terms thereof and hereof.

WHEREAS, Borrower and the Lenders have agreed to add Smith, Wood and Coyne as a party to the Consolidated Bridge Loan Agreement effective from the First Amendment Closing Date;

NOW, THEREFORE, in consideration of the mutual promises contained herein, and for other good and valuable consideration, the recipient and sufficiency of which are hereby acknowledged, the parties hereto hereby agree as follows:

SECTION 1.
AMENDMENTS

A. Amendment of Section 1. Definitions.

1. Paragraph 1.1 is amended by:

(i) adding thereto, in the appropriate alphabetical order, each of the terms "Agency Agreements", "Agent", "Consents and Waivers", "Consolidated Bridge Loan", "First Amendment", "First Amendment Agency Agreement", "First Amendment Bridge Loan", "First Amendment Closing Date", "First Amendment Closing Fees", "First Amendment Commitment", "First Amendment Consent and Waiver", "First Amendment Conversion Price", "First Amendment Lenders", "First Amendment Loan", "First Amendment Notes", "First Amendment Warrants", "Initial Agency Agreement", "Initial Closing Date", "Initial Commitment", "Initial Consent and Waiver", "Initial Consolidated Bridge Loan", "Initial Consolidated Bridge Loan Agreement", "Initial Conversion Price", "Initial Lenders", "Initial Notes", "Initial Warrants", "Note 1", "Note 2", "Note 3", "Note 4", "Note 5", "Note 6", "Note 7", "Note 8" and the definitions thereof, as hereinafter provided, and

(ii) deleting the definitions of the terms "Agreement", "Bridge Loan Documents", "Lenders", "Notes", "Obligations", "Warrants" and substituting the definitions set forth below in lieu thereof:

"Agency Agreements" mean the Initial Agency Agreement and the First Amendment Agency Agreement.

"Agent" means Galen acting as agent to the Lenders pursuant to the Initial Agency Agreement and the First Amendment Agency Agreement.

"Agreement" means the Initial Consolidated Bridge Loan Agreement, as amended by the First Amendment, as the same may hereafter be further amended, extended, modified, restated or supplemented from time to time.

"Bridge Loan Documents" means, collectively, this Agreement, the Notes, the Warrants, the Agency Agreements, the Consents and Waivers, each of the Collateral Documents and all other documents, agreements, instruments, opinions and certificates now or hereafter executed and delivered in connection herewith or therewith, as modified, amended, extended, restated or supplemented from time to time.

"Consents and Waivers" mean the Initial Consent and Waiver and the First Amendment Consent and Waiver.

"Consolidated Bridge Loan" has the meaning set forth in Section I(B)(1) hereto.

"First Amendment" means the First Amendment to the Initial Consolidated Bridge Loan Agreement dated as of December 7, 1998 by and among Borrower, the Lenders and Agent, as the same may hereafter be further amended, extended, modified, restated or supplemented from time to time.

"First Amendment Agency Agreement" means the Agency Agreement by and among the First Amendment Lenders dated the date hereof and entered into simultaneously herewith, substantially in the Form of Exhibit E attached hereto.

"First Amendment Bridge Loan" has the meaning set forth in the Recitals to this Agreement.

"First Amendment Closing Date" means the date upon which the last of the events, the fulfillment of each of which is condition precedent to the effectiveness of this First Amendment, as set forth in Section II of this First Amendment, shall have occurred.

"First Amendment Closing Fees" means the expenses as set forth in Section II(4) of this First Amendment.

"First Amendment Commitment" means the commitment of each First Amendment Lender to fund the dollar amount of its share of the First Amendment Loan in the amount set forth opposite such Lender's name on Exhibit A, a copy of which is attached hereto and made a part hereof.

"First Amendment Consent and Waiver" means a consent and waiver of lien, indebtedness and registration rights restrictions executed by the Majority Holders in connection with this First Amendment dated the date hereof and executed simultaneously herewith, substantially in the form of Exhibit D attached hereto.

"First Amendment Conversion Price" means $1.3133.

"First Amendment Lenders" has the meaning set forth in the Section entitled "Pari Passu and Pro Rata Relationship of the Initial Lenders to the First Amendment Lenders" (Section I(B)(4) hereof).

"First Amendment Notes" mean Note 5, Note 6, Note 7 and Note 8.

"First Amendment Warrants" means the warrants to purchase 28,300 shares, in the aggregate, of the Common Stock, dated the date hereof and issued by Borrower to each of the First Amendment Lenders, substantially in the form of Exhibit C attached hereto.

"Initial Agency Agreement" means a certain Agency Agreement by and among the Agent and each of the Initial Lenders dated as of December 2, 1998 entered into in connection with the Initial Consolidated Bridge Loan Agreement.

"Initial Closing Date" means the Closing Date.

"Initial Commitment" means the Total Commitment of each Initial Lender.

"Initial Consent and Waiver" means a certain consent and waiver of lien, indebtedness and registration rights restrictions executed by the Majority Holders in connection with the Initial Consolidated Bridge Loan Agreement dated as of December 2, 1998.

"Initial Consolidated Bridge Loan" has the meaning set forth in Section I(B)1 hereof.

"Initial Consolidated Bridge Loan Agreement" means the agreement dated as of December 2, 1998 by and among Borrower, the Initial Lenders and the Agent.

"Initial Conversion Price" means $1.3688.

"Initial Lenders" has the meaning set forth in the Section entitled "Pari Passu and Pro Rata Relationship of the Initial Lenders to the First Amendment Lenders" (Section I(B)(4) hereof).

"Initial Notes" means Note 1, Note 2, Note 3 and Note 4.

"Initial Warrants" mean the warrants dated December 2, 1998 and issued to the Initial Lenders to purchase 689,722 shares, in the aggregate, of the Common Stock.

"Lenders" mean the Initial Lenders and the First Amendment Lenders.

"Note 1" means a certain promissory note dated as of December 2, 1998 payable by Borrower to the order of Galen Partners III, L.P. in the amount of $7,052,621.

"Note 2" means a certain promissory note dated as of December 2, 1998 payable by Borrower to the order of Galen Partners International III, L.P. in the amount of $638,389.

"Note 3" means a certain promissory note dated as of December 2, 1998 payable by Borrower to the order of Galen Employee Fund III, L.P. in the amount of $28,880.

"Note 4" means a certain promissory note dated as of December 2, 1998 payable by Borrower to the order of Michael Weisbrot and Susan Weisbrot in the amount of $101,222.

"Note 5" means a promissory note dated the date hereof payable by Borrower to the order of Alan Smith in the amount of $8,000, substantially in the form of Exhibit B attached hereto.

"Note 6" means a promissory note dated the date hereof payable by Borrower to the order of Michael Weisbrot and Susan Weisbrot in the amount of $150,000, substantially in the form of Exhibit B.

"Note 7" means a promissory note dated the date hereof payable by Borrower to the order of Greg Wood in the amount of $100,000, substantially in the form of Exhibit B.

"Note 8" means a promissory note dated the date hereof payable by Borrower to the order of Patrick Coyne in the amount of $25,000, substantially in the form of Exhibit B.

"Notes" means Note 1, Note 2, Note 3, Note 4, Note 5, Note 6, Note 7, and Note 8, or any one of the Notes ("Note").

"Obligations" means the unpaid principal and interest hereunder, expenses and all other obligations and liabilities of Borrower to the Lenders under this Agreement, the Notes or any other Bridge Loan Document, and includes, but is not limited to, any and all indebtedness of Borrower to the Lenders, whether now existing or hereafter incurred, of every kind and character, direct or indirect, and whether such indebtedness is from time to time reduced and thereafter increased, or entirely extinguished and thereafter reincurred, including, without limitation: (a) indebtedness not yet outstanding, but contracted for, or with respect to which any other commitment by the Lenders exists; (b) all interest provided in any instrument, document, or agreement (including this Agreement) which accrues on any indebtedness until payment of such indebtedness in full; and (c) any moneys payable as hereinafter provided.

"Warrants" mean the Initial Warrants and the First Amendment Warrants.

B. Amendment of Section 2. Terms of the Consolidated Bridge Loan.

1. Section 2.2 of the Agreement is amended in its entirety to read as follows:

"2.2 Initial Consolidated Bridge Loan; Consolidated Bridge Loan.

(a) Initial Consolidated Bridge Loan. Borrower warrants, represents and confirms that, as of the Initial Closing Date, (i) the aggregate outstanding principal balance of the Original Bridge Loan equals $4,500,000, (ii) the aggregate accrued interest on such principal balance equals $71,111 and (iii) the aggregate outstanding principal balance of the Additional Bridge Loan equals $3,250,000. Borrower and Lenders agree that effective on the Initial Closing Date, upon the consolidation of the outstanding principal balances of the Original Bridge Loan and the Additional Bridge Loan, and the addition to principal of the accrued interest on the Original Bridge Loan, Lenders shall be deemed to have made a single loan to Borrower in the aggregate principal amount of $7,821,111 (the "Initial Consolidated Bridge Loan").

(b) Consolidated Bridge Loan. Borrower warrants, represents and confirms that, as of the First Amendment Closing Date (i) the aggregate outstanding principal balance of the Original Bridge Loan equals $4,500,000, (ii) the aggregate accrued interest on such principal balance equals $71,111, (iii) the aggregate outstanding principal balance of the Additional Bridge Loan equals $3,250,000 and (iv) the aggregate outstanding principal balance of the First Amendment Loan equals $283,000. Borrower and the Lenders agree that effective on the First Amendment Closing Date, the total amount of funds advanced by the Lenders equals, in the aggregate principal amount $8,104,111 (the "Consolidated Bridge Loan")."

2. Section 2.3(a) of the Agreement is amended in its entirety to read as follows:

"2.3 Amended, Restated and Consolidated Notes.

(a) The Amount. The Initial Consolidated Bridge Loan is evidenced by the Initial Notes and the First Amendment Loan is evidenced by the First Amendment Notes (each of the Initial Notes and the First Amendment Notes, a " Note" and collectively, the "Notes")."

3. Section 2.4 of the Agreement is amended in its entirety to read as follows:

"2.4 Warrants. Subject to the terms of Initial Consolidated Bridge Loan Agreement and the terms of the Initial Warrants, Borrower has issued Initial Warrants to purchase in the aggregate, 689,722 shares of the Common Stock, initially, at a price per share equal to Initial Conversion Price, in the amounts set

forth opposite each Initial Lender's name on Exhibit A. Subject to the terms of this First Amendment and the terms of the First Amendment Warrants substantially in the form of Exhibit C, Borrower will issue Warrants to purchase in the aggregate, 28,300 shares of the Common Stock, initially, at a price per share equal to the First Amendment Conversion Price. The First Amendment Warrants shall be issued to each of the First Amendment Lenders in the amounts set forth opposite each First Amendment Lender's name on Exhibit A. For purposes of this Agreement, the term "Warrant Shares", shall mean the shares of Common Stock that may be issued from time to time pursuant to the exercise of the Warrants."

4. The following Section 2.10 is to be added after Section 2.9 of Agreement:

"2.10.Pari Passu and Pro Rata Relationship of the Initial Lenders to the First Amendment Lenders. Until such time as the unpaid principal balance of the Initial Notes, in the original aggregate principal amount of $7,821,111 and the First Amendment Notes, in the original aggregate principal amount of $283,000, shall have been paid in full, or in a manner otherwise satisfactory to the Agent, (i) the Initial Lenders' Lien on the Borrower's Collateral with respect to the Obligations of Borrower to the Initial Lenders under this Agreement, any other Bridge Loan Documents and the Initial Notes, on the one hand, and the Obligations of Borrower to the First Amendment Lenders under this Agreement, any other Bridge Loan Documents and the First Amendment Notes, on the other hand, shall rank pari passu with one another, and (ii) each of the Initial Lenders and the First Amendment Lenders shall share pro rata in the proceeds of the Borrower's Collateral in accordance with a fraction, the denominator of which shall equal the unpaid principal balance of the Consolidated Bridge Loan, and the numerator of which shall equal, in the case of the Initial Lenders, the unpaid principal balance of the Initial Notes, and in the case of the First Amendment Lenders, the unpaid principal balance of the First Amendment Notes, all such amounts to be calculated as of (A) the Maturity Date, or (B) the date each Note becomes due and payable, whether by acceleration or otherwise, whichever date is sooner to occur."

SECTION II.
CONDITIONS PRECEDENT.

This First Amendment shall become effective on the date when all of the following conditions, the fulfillment of each of which is a condition precedent to the effectiveness of this First Amendment, shall have occurred or shall have been waived in writing by Borrower and the Agent:

1. First Amendment Closing Documents. Each Lender shall have received a duly executed original of, as is appropriate:

(i) this First Amendment;
(ii) its Note, if applicable;
(iii) its Warrant, if applicable;
(iv) the First Amendment Agency Agreement; and
(v) the First Amendment Waiver and Consent;

each conforming to the requirements hereof and executed as of the date of this First Amendment by a duly authorized representative of Borrower, the Lenders and the Agent, as the case may be.

2. Legal Opinion of Counsel to Borrower. The Agent shall have received an opinion, dated as of the First Amendment Closing Date, of St. John & Wayne, L.L.C., counsel to Borrower, which opinion shall be reasonably satisfactory to the Agent and its counsel.

3. Officer's Certificate. Borrower shall have received an Officer's Certificate from Borrower dated as of the First Amendment Closing Date, certifying as to the (i) Certificate of Incorporation of Borrower and all amendments thereto, (ii) accuracy and completeness of all By-Laws attached thereto, (iii) validity of the updated Certificates of Good Standing from the Secretaries of State of New York and Illinois with respect to Borrower, (iv) validity of the resolutions of the Board of Directors of Borrower approving the transactions relating to this First Amendment and each of the Bridge Loan Document to which it or they are a party and any other certificate or other document to be delivered pursuant thereto, together with evidence of the incumbency of such officer signing the same.

4. First Amendment Closing Fees. All expenses outstanding as of the date of this Agreement, including legal fees, relating to the Initial Consolidated Bridge Loan Agreement and the First Amendment and any and all documents relating thereto shall have been paid on or prior to the First Amendment Closing Date.

5. Updated Certificates of Good Standing. The Agent shall have received updated Certificates of Good Standing with respect to Borrower from the Secretaries of the State of New York and of Illinois.

6. Representations and Warranties. Upon the effectiveness of this First Amendment, all representations and warranties set forth in the Initial Consolidated Bridge Loan Agreement (except for such inducing representations and warranties that were only required to be true and correct as of a prior date), shall be true and correct in all material respects on and as of the effective date hereof, and no Default or Event of Default shall have occurred and be continuing and Agent shall have received a certificate of the President of Borrower to the same effect.

7. Material Adverse Effect. No event or development shall have occurred since the date of delivery to the Agent of Borrower's most recent Form 10-Q and most recent financial statements which event or development has had or is reasonably likely to have a Material Adverse Effect.

8. President's Certificate. The Agent shall have received a certificate from the President of Borrower, as to the satisfaction of paragraphs 6, 7 and 10 of this Section II.

9. Additional Documents. All corporate and legal proceedings and all documents and instruments executed or delivered in connection with this First Amendment shall be satisfactory in form and substance to the Lenders, the Agent and their respective counsel, and the Lenders, the Agent and their respective counsel shall have received all information and copies of all documents which the Lenders, the Agent and their respective counsel may have requested in connection herewith and the matters contemplated hereunder, such documents, when requested by them, to be certified by the appropriate authorities.

10. Litigation. There shall be no action, suit or proceeding pending or threatened against Borrower before any court (including bankruptcy court), arbitrator or governmental or administrative body or agency that challenges or relates to the performance of this First Amendment or any other transactions contemplated herein.

11. Consents and Filings. Subject to (i) the receipt of shareholder approval to amend Borrower's Certificate of Incorporation to increase the authorized shares of Common Stock and the filing of such amendment with the Office of the Secretary of State of the State of New York, (ii) the receipt of the approval of the American Stock Exchange to the extent required under Section 713 of the American Company Stock Exchange Guide, to authorize the issuance of the Conversion Shares and the Warrant Shares in the event of a dilution adjustment to the Notes or the Warrants results in issuances of the Conversion Shares or the Warrant Shares at less than fair market value and (iii) the approval required under the Hart-Scott-Rodin Antitrust Improvements Act of 1976, as amended (the "HSR Act"); and except as otherwise obtained, no consent of any Person (including, without limitation, shareholders or creditors of such Borrower, as the case may be) other than the Majority Holders, the Agent shall have received such further agreements, consents, certificates, instruments and documents as may be necessary or proper in the reasonable opinion of the Agent and its counsel to carry out the provisions and purposes of this First Amendment.

12. No Liens. From the date of effectiveness of the Fourth Amendment to the date of effectiveness of this First Amendment, no Liens shall have arisen or been recorded against the Collateral.

SECTION III.
REPRESENTATIONS AND WARRANTIES

Borrower hereby represents and warrants (which representations and warranties shall survive the execution and delivery hereof) to each Lender and the Agent that:

1. Authority. Borrower has the corporate power, authority and legal right to execute, deliver and perform this First Amendment, and the instruments, agreements, documents and transactions contemplated hereby, and has taken all actions necessary to authorize the execution, delivery and performance of this First Amendment, and the instruments, agreements, documents and transactions contemplated hereby.

2. Consents and Filings. Subject to (i) the receipt of shareholder approval to amend Borrower's Certificate of Incorporation to increase the authorized shares of Common Stock and the filing of such amendment with the Office of the Secretary of State of the State of New York, (ii) the receipt of the approval of the American Stock Exchange to the extent required under Section 713 of the American Company Stock Exchange Guide, to authorize the issuance of the Conversion Shares and the Warrant Shares in the event of a dilution adjustment to the Notes or the Warrants results in issuances of the Conversion Shares or the Warrant Shares at less than fair market value and (iii) the approval required under the Hart-Scott-Rodin Antitrust Improvements Act of 1976, as amended (the "HSR Act"); and except as otherwise obtained, no consent of any Person (including, without limitation, shareholders or creditors of such Borrower, as the case may be) other than the Majority Holders, no consent, permit, approval or authorization of, exemption by, notice or report to, or registration, filing or declaration with, any governmental authority is required in connection with the execution, delivery, performance, validity or enforceability of this First Amendment, and the instruments, agreements, documents and transactions contemplated hereby.

3. Due Execution. This First Amendment has been duly executed and delivered on behalf of Borrower, and constitutes the legal, valid and binding obligation of Borrower, enforceable in accordance with its terms.

4. No Default. Borrower is not in default in any material respect under any indenture, mortgage, deed of trust, agreement or other instrument to which it is a party or by which it may be bound. Except as otherwise described on Borrower's Form 10-Q for the quarter ended September 30, 1998, Borrower knows of no dispute regarding any such indenture, contract, lease, agreement, instrument or other commitment. Neither the execution and delivery of this First Amendment nor any Bridge Loan Document, nor the performance of the transactions herein or therein contemplated, nor compliance with the provisions hereof or thereof will (i) violate any law or regulation, or (ii) result in or cause a violation by such Borrower of any order or decree of any court or government instrumentality, or (iii) conflict with, or result in the breach of, or constitute a default under, any indenture, mortgage, deed of trust, agreement or other instrument to which such Borrower is a party or by which it may be bound, or (iv) result in the creation or imposition of any lien, charge, or encumbrance upon any of the property of such Borrower, except in favor of the Agent, on behalf of

the Lenders, to secure the Obligations, or (v) violate any provision of the Certificate of Incorporation, By-Laws, or any capital stock provisions of such Borrower, except as otherwise provided in Section III(2) above.

5. No Event of Default. No Event of Default has occurred and is continuing.

6. Recitals. The recitals contained in this First Amendment are true and correct in all respects.

SECTION IV.
GENERAL PROVISIONS

1. Except as herein expressly amended, the Consolidated Bridge Loan Agreement and all other agreements, documents, instruments and certificates executed in connection therewith, are ratified and confirmed in all respects and shall remain in full force and effect in accordance with their respective terms.

2. All references in the Bridge Loan Documents to the Consolidated Bridge Loan Agreement shall mean the Consolidated Bridge Loan Agreement as amended as of the effective date hereof, and as amended hereby and as hereafter amended, extended, modified, restated or supplemented from time to time. From and after the date hereof, all references in the Consolidated Bridge Loan Agreement to "this Agreement," "hereof," "herein," or similar terms, shall mean and refer to the Consolidated Bridge Loan Agreement as amended by this First Amendment.

3. The headings preceding the text of the sections and subsections of this First Amendment are used solely for convenience of reference and shall not affect the meaning, construction, or effect of the Agreement.

4. The validity and effect of this First Amendment shall be determined by reference to the substantive laws of the State of New York without regard to that State's principles of conflicts of laws, except to the extent that such other laws may govern the grant and perfection of a security interest in the Collateral.

5. This Amendment may be executed in any number of counterparts, each of which shall be an original and all of which together shall constitute but one and the same First Amendment.

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IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed in the state of New York, and delivered by their proper and duly authorized officers or managers as of the date set forth above.

Borrower: HALSEY DRUG CO., INC.

By:/s/

Name: Michael Reicher
Title: Chief Executive Officer

The Lenders: GALEN PARTNERS III, L.P.
By: Claudius, L.L.C., General Partner

By:/s/

Name: Bruce F. Wesson
Title: Managing Member

GALEN PARTNERS INTERNATIONAL III, L.P.
By: Claudius, L.L.C., General Partner

By:/s/

Name: Bruce F. Wesson
Title: Managing Member

GALEN EMPLOYEE FUND III, L.P.
By: Wesson Enterprises, Inc.

By:/s/

Name: Bruce F. Wesson
Title: President

/s/

Alan Smith

/s/

Michael Weisbrot

/s/

Susan Weisbrot

/s/

Greg Wood

/s/

Patrick Coyne

Exhibit 10.47

SECOND AMENDMENT
TO
AMENDED, RESTATED AND CONSOLIDATED
BRIDGE LOAN AGREEMENT

THIS SECOND AMENDMENT dated as of March 8, 1999 to Amended Restated and Consolidated Bridge Loan Agreement dated as of December 2, 1998 (as amended through the date hereof, the "Consolidated Bridge Loan Agreement") by and among HALSEY DRUG CO., INC., a New York corporation ("Borrower"), GALEN PARTNERS III, L.P. ("Galen", an "Initial Lender", a "Second Amendment Lender" or a "Lender") a Delaware limited partnership, GALEN PARTNERS INTERNATIONAL III, L.P. and GALEN EMPLOYEE FUND III, L.P., each a Delaware limited partnership (each an "Initial Lender", a "Second Amendment Lender", a "Lender", and collectively, with Galen, the "Galen Entities"), THOSE PERSONS WHOSE NAMES ARE SET FORTH ON THE SIGNATURE PAGE HERETO (each a "Second Amendment Lender", a "Lender", and collectively, with the Galen Entities, the "Lenders") and GALEN, as agent for the Lenders (in such capacity, the "Agent") to the Amended, Restated and Consolidated Bridge Loan Agreement dated as of December 2, 1998 by and among Borrower, the Galen Entities and Michael Weisbrot and Susan Weisbrot (collectively, the "Weisbrots" or jointly and severally, an "Initial Lender", a "First Amendment Lender" or a "Lender" (the Weisbrots and the Galen Entities, each an "Initial Lender", a "Lender" and collectively, the "Initial Lenders"; as amended through the date hereof, the "Consolidated Bridge Loan Agreement"). Terms that are capitalized in this Second Amendment and not otherwise defined shall have the meaning ascribed to such terms in the Consolidated Bridge Loan Agreement.

WITNESSETH:

WHEREAS, the Borrower and the Initial Lenders have entered into the Consolidated Bridge Loan Agreement;

WHEREAS, the Borrower, the Initial Lenders and the First Amendment Lenders amended the Consolidated Bridge Loan Agreement pursuant to a certain First Amendment to Amended, Restated and Consolidated Bridge Loan Agreement dated as of December 7, 1998 (the "First Amendment") pursuant to which the First Amendment Lenders made an additional bridge loan of $283,000 (the "First Amendment Loan") available to the Borrower pursuant to the terms of the Consolidated Bridge Loan Agreement;

WHEREAS, Borrower has requested that the Galen Entities consider making an additional One Million Four Hundred Thousand Dollars ($1,400,000) bridge loan ("Second Amendment Bridge Loan") available to Borrower, the proceeds of which will be used by Borrower solely for Borrower's working capital purposes and other general business purposes, in each case pursuant to the Consolidated Bridge Loan Agreement and in accordance with the terms thereof and hereof.

NOW, THEREFORE, in consideration of the mutual promises contained herein, and for other good and valuable consideration, the recipient and sufficiency of which are hereby acknowledged, the parties hereto hereby agree as follows:

SECTION 1.
AMENDMENTS

A. Amendment of Section 1. Definitions.

1. Section 1.1 of the Consolidated Bridge Loan Agreement entitled "General Definitions", is amended by the First Amendment:

(i) adding thereto, in the appropriate alphabetical order, each of the terms "Second Amendment", "Second Amendment Agency Agreement", "Second Amendment Bridge Loan", "Second Amendment Closing Date", "Second Amendment Closing Fees", "Second Amendment Commitment", "Second Amendment Consent and Waiver", "Second Amendment Conversion Price", "Second Amendment Lenders", "Second Amendment Loan", "Second Amendment Notes", "Second Amendment Warrants", "Note 9", "Note 10", "Note 11", and the definitions thereof, as hereinafter provided, and

(ii) deleting the definitions of the terms "Agency Agreements", "Agent", "Agreement", "Bridge Loan Documents", "Consents and Waivers", "Consolidated Bridge Loan", "Lenders", "Notes", "Obligations", "Warrants" and substituting the definitions set forth below in lieu thereof:

"Agency Agreements" mean the Initial Agency Agreement, the First Amendment Agency Agreement and the Second Amendment Agency Agreement.

"Agent" means Galen acting as agent to the Lenders pursuant to the Initial Agency Agreement, the First Amendment Agency Agreement and the Second Amendment Agency Agreement.

"Agreement" means the Initial Consolidated Bridge Loan Agreement, as amended by the First Amendment, as further amended by the Second Amendment, and as the same may hereafter be further amended, extended, modified, restated or supplemented from time to time.

"Bridge Loan Documents" means, collectively, the Consolidated Bridge Loan Agreement, the First Amendment, the Second Amendment, the Notes, the Warrants, the Agency Agreements, the Consents and Waivers, each of the Collateral Documents and all other documents, agreements, instruments, opinions and certificates now or hereafter executed and delivered in connection herewith or therewith, as modified, amended, extended, restated or supplemented from time to time.

"Consents and Waivers" mean the Initial Consent and Waiver, the First Amendment Consent and Waiver and the Second Amendment Consent and Waiver.

"Consolidated Bridge Loan" has the meaning set forth in Section I(B)(2) hereto.

"Lenders" mean the Initial Lenders, the First Amendment Lenders and the Second Amendment Lenders.

"Note 9" means a certain promissory note dated as of March 8, 1999 payable by Borrower to the order of Galen in the amount of $1,278,992.

"Note 10" means a certain promissory note dated as of March 8, 1999 payable by Borrower to the order of Galen Partners International III, L.P. in the amount of $115,771.

"Note 11" means a certain promissory note dated as of March 8, 1999 payable by Borrower to the order of Galen Employee Fund III, L.P. in the amount of $5,237.

"Notes" means Note 1, Note 2, Note 3, Note 4, Note 5, Note 6, Note 7, Note 8, Note 9, Note 10 and Note 11 or any one of the Notes (individually a "Note").

"Obligations" means the unpaid principal and interest hereunder, expenses and all other obligations and liabilities of Borrower to the Lenders under this Agreement, the Notes or any other Bridge Loan Document, and includes, but is not limited to, any and all indebtedness of Borrower to the Lenders, whether now existing or hereafter incurred, of every kind and character, direct or indirect, and whether such indebtedness is from time to time reduced and thereafter increased, or entirely extinguished and thereafter reincurred, including, without limitation: (a) indebtedness not yet outstanding, but contracted for, or with respect to which any other commitment by the Lenders exists; (b) all interest provided in any instrument, document, or agreement (including this Agreement) which accrues on any indebtedness until payment of such indebtedness in full; and (c) any moneys payable as hereinafter provided.

"Second Amendment" means the Second Amendment to the Initial Consolidated Bridge Loan Agreement dated as of March 8, 1999 by and among Borrower, the Lenders and Agent, as the same may hereafter be further amended, extended, modified, restated or supplemented from time to time.

"Second Amendment Agency Agreement" means the Agency Agreement by and among the Second Amendment Lenders dated the date hereof and entered into simultaneously herewith, substantially in the Form of Exhibit E attached hereto.

"Second Amendment Bridge Loan" has the meaning set forth in the Recitals to this Agreement.

"Second Amendment Closing Date" means the date upon which the last of the events, the fulfillment of each of which is condition precedent to the effectiveness of this Second Amendment, as set forth in Section II of this Second Amendment, shall have occurred.

"Second Amendment Closing Fees" means the expenses as set forth in Section II(4) of this Second Amendment.

"Second Amendment Commitment" means the commitment of each Second Amendment Lender to fund the dollar amount of its share of the Second Amendment Loan in the amount set forth opposite such Lender's name on Exhibit A, a copy of which is attached hereto and made a part hereof.

"Second Amendment Consent and Waiver" means a consent and waiver of lien, indebtedness and registration rights restrictions executed by the Majority Holders in connection with this Second Amendment dated the date hereof and executed simultaneously herewith, substantially in the form of Exhibit D attached hereto.

"Second Amendment Conversion Price" means $1.1969.

"Second Amendment Lenders" has the meaning set forth in the Section entitled "Pari Passu and Pro Rata Relationship of the Initial Lenders to the First Amendment Lenders and to the Second Amendment Lenders" (Section I(B)(4) hereof).

"Second Amendment Notes" mean Note 9, Note 10, and Note 11.

"Second Amendment Warrants" means the warrants to purchase 66,887 shares, in the aggregate, of the Common Stock, dated the date hereof and issued by Borrower to each of the Second Amendment Lenders, substantially in the form of Exhibit C attached hereto.

"Warrants" mean the Initial Warrants, and the First Amendment Warrants and the Second Amendment Warrants.

B. Amendment of Section 2. Terms of the Consolidated Bridge Loan.

1. Section 2.1 of the Agreement is amended in its entirety to read as follows:

"2.1 Commitment. Subject to the terms and conditions of this Agreement, (i) each Lender hereby agrees to amend and restate the original Notes and the original Bridge Loan Agreement; (ii) each of the Galen entities hereby agrees to fund the amount of its Additional Bridge Loan Commitment; (iii) each Initial Lender hereby agrees to consolidate the Original Bridge Loan, together with all interest accrued thereon, with the Additional Bridge Loan; (iv) each First Amendment Lender hereby agrees to fund the amount of its First Amendment Commitment; and (v)

each First Amendment Lender hereby agrees to fund the amount of its Second Amendment Commitment."

2. Section 2.2 of the Agreement is amended in its entirety to read as follows:

"2.2 Initial Consolidated Bridge Loan; Consolidated Bridge Loan.

(a) Initial Consolidated Bridge Loan. Borrower warrants, represents and confirms that, as of the Initial Closing Date, (i) the aggregate outstanding principal balance of the Original Bridge Loan equals $4,500,000, (ii) the aggregate accrued interest on such principal balance equals $71,111 and (iii) the aggregate outstanding principal balance of the Additional Bridge Loan equals $3,250,000. Borrower and Lenders agree that effective on the Initial Closing Date, upon the consolidation of the outstanding principal balances of the Original Bridge Loan and the Additional Bridge Loan, and the addition to principal of the accrued interest on the Original Bridge Loan, Lenders shall be deemed to have made a single loan to Borrower in the aggregate principal amount of $7,821,111 (the "Initial Consolidated Bridge Loan").

(b) Consolidated Bridge Loan. Borrower warrants, represents and confirms that, as of the First Amendment Closing Date (i) the aggregate outstanding principal balance of the Original Bridge Loan equals $4,500,000, (ii) the aggregate accrued interest on such principal balance equals $71,111, (iii) the aggregate outstanding principal balance of the Additional Bridge Loan equals $3,250,000 and (iv) the aggregate outstanding principal balance of the First Amendment Loan equals $283,000. Borrower further warrants, represents and confirms that, as of the Second Amendment Closing Date, the aggregate outstanding principal balance of the Second Amendment Loan equals $1,400,000. Borrower and the Lenders agree that effective on the Second Amendment Closing Date, the total amount of funds advanced by the Lenders equals, in the aggregate principal amount $9,504,111 (the "Consolidated Bridge Loan")."

3. Section 2.3(a) and (b) of the Agreement is amended in its entirety to read as follows:

"2.3 Amended, Restated and Consolidated Notes.

(a) The Amount. The Initial Consolidated Bridge Loan is evidenced by the Initial Notes, the First Amendment Loan is evidenced by the First Amendment Notes and the Second Amendment Loan is evidenced by the Second Amendment Notes.

(b) General Terms. The Notes are 10% Convertible Senior Secured Notes due on May 30, 1999. Each Note is convertible, in whole or

in part, from time to time, into a number of shares of Common Stock, initially at the rate set forth in the Notes. For purposes of this Agreement, the term "Conversion Shares" shall mean the shares of Common Stock which may be issued upon conversion of all or a portion of the principal amounts of the Notes."

4. Section 2.4 of the Agreement is amended in its entirety to read as follows:

"2.4 Warrants. Subject to the terms of Initial Consolidated Bridge Loan Agreement and the terms of the Initial Warrants, Borrower has issued Initial Warrants to purchase in the aggregate, 689,722 shares of the Common Stock, initially, at a price per share equal to Initial Conversion Price, in the amounts set forth opposite each Initial Lender's name on Exhibit A. Subject to the terms of the First Amendment and the terms of the First Amendment Warrants, Borrower has issued Warrants to purchase in the aggregate, 28,300 shares of the Common Stock, initially, at a price per share equal to the First Amendment Conversion Price. Subject to the terms of this Second Amendment and the terms of the Second Amendment Warrants substantially in the form of Exhibit C, Borrower will issue warrants to purchase in the aggregate, 66,887 shares of the Common Stock, initially, at a price per share equal to the Second Amendment Conversion Price. The Second Amendment Warrants shall be issued to each of the Second Amendment Lenders in the amounts set forth opposite each Second Amendment Lender's name on Exhibit A. For purposes of this Agreement, the term "Warrant Shares", shall mean the shares of Common Stock that may be issued from time to time pursuant to the exercise of the Warrants."

5. Section 2.10 of the Agreement is amended in its entirety to read as follows:

"2.10.Pari Passu and Pro Rata Relationship of the Initial Lenders to the First Amendment Lenders and to the Second Amendment Lenders. Until such time as the unpaid principal balance of the Initial Notes, in the original aggregate principal amount of $7,821,111, the First Amendment Notes, in the original aggregate principal amount of $283,000, and the Second Amendment Notes, in the original principal amount of $1,400,000 shall have been paid in full, or in a manner otherwise satisfactory to the Agent, (i) the Initial Lenders' Lien on the Borrower's Collateral with respect to the Obligations of Borrower to the Initial Lenders under this Agreement, any other Bridge Loan Documents and the Initial Notes, the Obligations of Borrower to the First Amendment Lenders under this Agreement, any other Bridge Loan Documents and the First Amendment Notes, and the Obligations of Borrower to the Second Amendment Lenders under this Agreement, any other Bridge Loan

Documents and the Second Amendment Notes, shall rank pari passu with one another, and (ii) each of the Initial Lenders, the First Amendment Lenders and the Second Amendment Lenders shall share pro rata in the proceeds of the Borrower's Collateral in accordance with a fraction, the denominator of which shall equal the unpaid principal balance of the Consolidated Bridge Loan, and the numerator of which shall equal, in the case of the Initial Lenders, the unpaid principal balance of the Initial Notes, in the case of the First Amendment Lenders, the unpaid principal balance of the First Amendment Notes, and in the case of the Second Amendment Lenders, the unpaid principal amount of the Second Amendment Notes, all such amounts to be calculated as of (A) the Maturity Date, or (B) the date each Note becomes due and payable, whether by acceleration or otherwise, whichever date is sooner to occur."

SECTION II.
CONDITIONS PRECEDENT.

This Second Amendment shall become effective on the date when all of the following conditions, the fulfillment of each of which is a condition precedent to the effectiveness of this Second Amendment, shall have occurred or shall have been waived in writing by Borrower and the Agent:

1. Second Amendment Closing Documents. Each Lender shall have received a duly executed original of, as is appropriate:

(i) this Second Amendment;
(ii) its Note, if applicable;
(iii) its Warrant, if applicable;
(iv) the Second Amendment Agency Agreement; and
(v) the Second Amendment Waiver and Consent;

each conforming to the requirements hereof and executed as of the date of this Second Amendment by a duly authorized representative of Borrower, the Lenders and the Agent, as the case may be.

2. Legal Opinion of Counsel to Borrower. The Agent shall have received an opinion, dated as of the Second Amendment Closing Date, of St. John & Wayne, L.L.C., counsel to Borrower, which opinion shall be reasonably satisfactory to the Agent and its counsel.

3. Officer's Certificate. Borrower shall have received an Officer's Certificate from Borrower dated as of the Second Amendment Closing Date, certifying as to the (i) Certificate of Incorporation of Borrower and all amendments thereto, (ii) accuracy and completeness of all By-Laws attached thereto, (iii) validity of the updated Certificates of Good Standing from the Secretaries of State of

New York and Illinois with respect to Borrower, (iv) validity of the resolutions of the Board of Directors of Borrower approving the transactions relating to this Second Amendment and each of the Bridge Loan Document to which it or they are a party and any other certificate or other document to be delivered pursuant thereto, together with evidence of the incumbency of such officer signing the same.

4. Second Amendment Closing Fees. All expenses outstanding as of the date of this Agreement, including legal fees, relating to the Initial Consolidated Bridge Loan Agreement, and the Second Amendment and any and all documents relating thereto shall have been paid on or prior to the Second Amendment Closing Date.

5. Updated Certificates of Good Standing. The Agent shall have received updated Certificates of Good Standing with respect to Borrower from the Secretaries of the State of New York and of Illinois.

6. Representations and Warranties. Upon the effectiveness of this Second Amendment, all representations and warranties set forth in the First Amendment (except for such inducing representations and warranties that were only required to be true and correct as of a prior date), shall be true and correct in all material respects on and as of the effective date hereof, and no Default or Event of Default shall have occurred and be continuing and Agent shall have received a certificate of the President of Borrower to the same effect.

7. Material Adverse Effect. No event or development shall have occurred since the date of delivery to the Agent of Borrower's most recent Form 10-Q and most recent financial statements which event or development has had or is reasonably likely to have a Material Adverse Effect.

8. President's Certificate. The Agent shall have received a certificate from the President of Borrower, as to the satisfaction of paragraphs 6, 7 and 10 of this Section II.

9. Additional Documents. All corporate and legal proceedings and all documents and instruments executed or delivered in connection with this Second Amendment shall be satisfactory in form and substance to the Lenders, the Agent and their respective counsel, and the Lenders, the Agent and their respective counsel shall have received all information and copies of all documents which the Lenders, the Agent and their respective counsel may have requested in connection herewith and the matters contemplated hereunder, such documents, when requested by them, to be certified by the appropriate authorities.

10. Litigation. There shall be no action, suit or proceeding pending or threatened against Borrower before any court (including bankruptcy court), arbitrator or governmental or administrative body or agency that challenges or relates to the performance of this Second Amendment or any other transactions contemplated herein.

11. Consents and Filings. Subject to (i) the receipt of shareholder approval to amend Borrower's Certificate of Incorporation to increase the authorized shares of Common Stock and the filing of such amendment with the Office of the Secretary of State of the State of New York, (ii) the receipt of the approval of the American Stock Exchange to the extent required under Section 713 of the American Company Stock Exchange Guide, to authorize the issuance of the Conversion Shares and the Warrant Shares in the event of a dilution adjustment to the Notes or the Warrants results in issuances of the Conversion Shares or the Warrant Shares at less than fair market value and (iii) the approval required under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended (the "HSR Act"); and except as otherwise obtained, no consent of any Person (including, without limitation, shareholders or creditors of such Borrower, as the case may be) other than the Majority Holders, the Agent shall have received such further agreements, consents, certificates, instruments and documents as may be necessary or proper in the reasonable opinion of the Agent and its counsel to carry out the provisions and purposes of this Second Amendment.

12. No Liens. From the date of effectiveness of the First Amendment to the date of effectiveness of this Second Amendment, no Liens shall have arisen or been recorded against the Collateral.

SECTION III.
REPRESENTATIONS AND WARRANTIES

Borrower hereby represents and warrants (which representations and warranties shall survive the execution and delivery hereof) to each Lender and the Agent that:

1. Authority. Borrower has the corporate power, authority and legal right to execute, deliver and perform this Second Amendment, and the instruments, agreements, documents and transactions contemplated hereby, and has taken all actions necessary to authorize the execution, delivery and performance of this Second Amendment, and the instruments, agreements, documents and transactions contemplated hereby.

2. Consents and Filings. Subject to (i) the receipt of shareholder approval to amend Borrower's Certificate of Incorporation to increase the authorized shares of Common Stock and the filing of such amendment with the Office of the Secretary of State of the State of New York, (ii) the receipt of the approval of the American Stock Exchange to the extent required under Section 713 of the American Company Stock Exchange Guide, to authorize the issuance of the Conversion Shares and the Warrant Shares in the event of a dilution adjustment to the Notes or the Warrants results in issuances of the Conversion Shares or the Warrant Shares at less than fair market value and (iii) the approval required under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended (the "HSR Act"); and except as otherwise obtained, no consent of any Person (including, without limitation, shareholders or creditors of such Borrower, as the case may be) other than the Majority Holders, no consent, permit, approval or authorization of, exemption by, notice or report to, or registration, filing or declaration with, any governmental authority is required in connection with the

execution, delivery, performance, validity or enforceability of this First Amendment, and the instruments, agreements, documents and transactions contemplated hereby.

3. Due Execution. This Second Amendment has been duly executed and delivered on behalf of Borrower, and constitutes the legal, valid and binding obligation of Borrower, enforceable in accordance with its terms.

4. No Default. Borrower is not in default in any material respect under any indenture, mortgage, deed of trust, agreement or other instrument to which it is a party or by which it may be bound. Except as otherwise described on Borrower's Form 10-Q for the quarter ended September 30, 1998, Borrower knows of no dispute regarding any such indenture, contract, lease, agreement, instrument or other commitment. Neither the execution and delivery of this Second Amendment nor any Bridge Loan Document, nor the performance of the transactions herein or therein contemplated, nor compliance with the provisions hereof or thereof will (i) violate any law or regulation, or (ii) result in or cause a violation by such Borrower of any order or decree of any court or government instrumentality, or (iii) conflict with, or result in the breach of, or constitute a default under, any indenture, mortgage, deed of trust, agreement or other instrument to which such Borrower is a party or by which it may be bound, or (iv) result in the creation or imposition of any lien, charge, or encumbrance upon any of the property of such Borrower, except in favor of the Agent, on behalf of the Lenders, to secure the Obligations, or (v) violate any provision of the Certificate of Incorporation, By-Laws, or any capital stock provisions of such Borrower, except as otherwise provided in Section III(2) above.

5. No Event of Default. No Event of Default has occurred and is continuing.

6. Recitals. The recitals contained in this Second Amendment are true and correct in all respects.

SECTION IV.
GENERAL PROVISIONS

1. Except as herein expressly amended, the Consolidated Bridge Loan Agreement and all other agreements, documents, instruments and certificates executed in connection therewith, are ratified and confirmed in all respects and shall remain in full force and effect in accordance with their respective terms.

2. All references in the Bridge Loan Documents to the Consolidated Bridge Loan Agreement shall mean the Consolidated Bridge Loan Agreement as amended as of the effective date hereof, and as amended hereby and as hereafter amended, extended, modified, restated or supplemented from time to time. From and after the date hereof, all references in the Consolidated Bridge Loan Agreement to "this Agreement," "hereof," "herein," or similar terms, shall mean and refer to the Consolidated Bridge Loan Agreement as amended by the First Amendment and as further amended by this Second Amendment.

3. The headings preceding the text of the sections and subsections of this Second Amendment are used solely for convenience of reference and shall not affect the meaning, construction, or effect of the Agreement.

4. The validity and effect of this Second Amendment shall be determined by reference to the substantive laws of the State of New York without regard to that State's principles of conflicts of laws, except to the extent that such other laws may govern the grant and perfection of a security interest in the Collateral.

5. This Amendment may be executed in any number of counterparts, each of which shall be an original and all of which together shall constitute but one and the same Second Amendment.

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IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed in the state of New York, and delivered by their proper and duly authorized officers or managers as of the date set forth above.

Borrower: HALSEY DRUG CO., INC.

By:/s/

Name: Michael Reicher
Title: Chief Executive Officer

The Lenders: GALEN PARTNERS III, L.P.
By: Claudius, L.L.C., General Partner

By:/s/

Name: Bruce F. Wesson
Title: Managing Member

GALEN PARTNERS INTERNATIONAL III, L.P.
By: Claudius, L.L.C., General Partner

By:/s/

Name: Bruce F. Wesson
Title: Managing Member

GALEN EMPLOYEE FUND III, L.P.
By: Wesson Enterprises, Inc.

By:/s/

Name: Bruce F. Wesson
Title: President

/s/

Alan Smith

/s/

Michael Weisbrot

/s/

Susan Weisbrot

/s/

Greg Wood

/s/

Patrick Coyne

Exhibit 10.48

[Form of 10% Convertible Secured Note due May 30, 1999]

THIS CONVERTIBLE SENIOR SECURED NOTE AND THE COMMON STOCK ISSUABLE UPON CONVERSION HEREOF HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "ACT") NOR UNDER ANY STATE SECURITIES LAW AND MAY NOT BE PLEDGED, SOLD, ASSIGNED, HYPOTHECATED OR OTHERWISE TRANSFERRED UNTIL (1) A REGISTRATION STATEMENT WITH RESPECT THERETO IS EFFECTIVE UNDER THE ACT AND ANY APPLICABLE STATE SECURITIES LAW OR (2) THE COMPANY RECEIVES AN OPINION OF COUNSEL TO THE COMPANY OR OTHER COUNSEL TO THE HOLDER OF SUCH NOTE REASONABLY SATISFACTORY TO THE COMPANY THAT SUCH NOTE AND/OR COMMON STOCK MAY BE PLEDGED, SOLD, ASSIGNED, HYPOTHECATED OR TRANSFERRED WITHOUT AN EFFECTIVE REGISTRATION STATEMENT UNDER THE ACT OR APPLICABLE STATE SECURITIES LAWS.

HALSEY DRUG CO., INC.
Amended, Restated and Consolidated
10% Convertible Senior Secured Note
Due May 30, 1999

$[_____] No. [____]
December 2, 1998

HALSEY DRUG CO., INC., a corporation organized under the laws of the State of New York (the "Company"), for value received, hereby promises to pay to the order of [_____] ("_____"), a Delaware limited partnership, with its principal place of business at 610 Fifth Avenue, 5th Floor, New York, New York 10020 or registered assigns (the "Payee" or "Holder") upon due presentation and surrender of this Note, on May 30, 1999 (the "Maturity Date"), the principal amount of [_____] ($_____) and accrued interest thereon as hereinafter provided.

This Note was issued by the Company pursuant a certain Amended, Restated and Consolidated Bridge Loan Agreement dated the date hereof among the Company and certain persons, including the Payee, (together with the Schedules and Exhibits thereto, the "Agreement") relating to the issuance of 10% Convertible Senior Secured Notes maturing May 30, 1999 (the "Notes") in the original aggregate principal amount of $8,571,111. The holders of such Notes are referred to hereinafter as the "Holders". The Payee is entitled to the benefits of the Agreement.

Reference is made to the Agreement with respect to certain additional rights of the Payee and obligations of the Company not set forth herein. Terms that are capitalized in this Note, but not otherwise defined, shall have the meanings ascribed to them in the Agreement.

This Note evidences the amendment and restatement, in its entirety, of Galen's share of the Original Bridge Loan, and, the consolidation of Galen's Share of the Original Bridge Loan with Galen's share of the Additional Bridge Loan. This Note does not create a novation of, nor does this Note, in any manner, diminish or extinguish the unpaid principal balance of, or the accrued interest on, the Company's indebtedness to Galen, as originally set forth in the Original Bridge Loan Agreement, and, as evidenced by the Original Notes. Such unpaid balance of, and such accrued interest on such indebtedness continues to be due and owing by the Company to Galen, as described herein, and the Company hereby reaffirms and confirms same.

ARTICLE I

PAYMENT OF PRINCIPAL AND INTEREST; METHOD OF PAYMENT

1.1 Payment of Principal and Interest. Payment of the principal and accrued interest on the principal of this Note shall be made in such coin or currency of the United States of America as at the time of payment shall be legal tender for the payment of public and private debts. Interest (computed on the basis of a 360-day year of twelve 30-day months) on the unpaid portion of said principal amount from time to time outstanding shall be paid by the Company at the rate of ten percent (10%) per annum (the "Stated Interest Rate") payable to the Payee on the Maturity Date.

1.2 Method of Payment. Both principal hereof and interest thereon are payable to the Holder at the address of the Holder above, or such other name or address as the Holder shall designate from time to time by written notice to the Company. The Company will pay or cause to be paid all sums becoming due hereon for principal and interest by check sent to the Holder's above address or to such other address as the Holder may designate for such purpose from time to time by written notice to the Company, without any requirement for the presentation of this Note or making any notation thereon, except that the Holder hereof agrees that payment of the final amount due shall be made only upon surrender of this Note to the Company for cancellation. Prior to any sale or other disposition of this instrument, the Holder hereof agrees to endorse hereon the amount of principal paid hereon and the last date to which interest has been paid hereon and to notify the Company of the name and address of the transferee.

1.3 Late Payments. In the event any payment of principal or interest or both shall remain unpaid for a period of ten (10) days or more, a late charge equivalent to five (5%) percent of each installment shall be charged. Interest on the indebtedness evidenced by this Note after default, or maturity accelerated or otherwise, shall be due and payable at the rate of twelve (12%) percent per annum, subject to the limitations of applicable law.

1.4 Miscellaneous. If this Note or any installment hereof becomes due and payable on a Saturday, Sunday or public holiday under the laws of the State of New York, the due date hereof shall be extended to the next succeeding full business day and interest shall be payable at the rate of

ten (10%) percent per annum during such extension. All payments received by the Holder shall be applied first to the payment of all accrued interest payable hereunder.

ARTICLE II

SECURITY

2.1 The payment and performance of the Obligations of the Company under this Note are secured by liens on and security interests in and to the Collateral granted by the Company to the Lenders pursuant to a certain Amended and Restated Security Agreement dated the date hereof, and executed simultaneously herewith.

ARTICLE III

CONVERSION

3.1 Conversion at Option of Holder. At any time and from time to time, until the payment in full of the outstanding principal and the accrued interest on the principal of this Note, this Note and the accrued interest thereon is convertible, in whole or in part, at the Holder's option into shares of Common Stock upon surrender of this Note, at the office of the Company, accompanied by a written notice of conversion in form reasonably satisfactory to the Company duly executed by the registered Holder or its duly authorized attorney. The outstanding principal balance of this Note is convertible into shares of Common Stock initially at a price per share of Common Stock equal to $1.3688 per share. Interest shall accrue to and include the day prior to the date of conversion, and, if any accrued interest on the principal of this Note is not converted into Common Stock , the such accrued interest shall be paid on the last day of the month during which any conversion rights are exercised. If the Holder elects to convert such accrued interest, then the conversion price is to be based on the average closing price of the Common Stock for the twenty (20) days immediately preceding the payment date of the interest as reported by the American Stock Exchange. Instead of issuing fractional shares, or a scrip representing fractional shares, an adjustment in cash will be made for any fraction of a share that would otherwise have been issuable upon the conversion of any portion of this Note. The Conversion Price is subject to adjustment as provided in Sections 3.5 and 3.7 hereof. As soon as practicable after conversion and upon the Holder's compliance with the conversion procedure described in Section 3.3 below, the Company shall deliver a certificate for the number of full shares of Common Stock issuable upon conversion and a check for any fractional share and, if the Note is converted in part, a new Note in the principal amount equal to the principal balance remaining under this Note after giving effect to such partial conversion.

3.2 [INTENTIONALLY LEFT BLANK]

3.3 Registration of Transfer; Conversion Procedure. The Company shall maintain books for the transfer and registration of the Notes. Upon the transfer of any Note in accordance with the provisions of the Agreement, the Company shall issue and register the Note in the names of the new holders. The Notes shall be signed manually by the Chairman, Chief Executive Officer, President or any Vice President and the Secretary or Assistant Secretary of the Company. The Company shall convert, from time to time, any outstanding Notes upon the books to be maintained by the Company for such purpose upon surrender thereof for conversion properly endorsed and, in the case of a

conversion pursuant to Section 3.1 hereof, accompanied by a properly completed and executed Conversion Notice attached hereto as Attachment II. Subject to the terms of this Note, upon surrender of this Note the Company shall issue and deliver with all reasonable dispatch to or upon the written order of the Holder of such Note and in such name or names as such Holder may designate, a certificate or certificates for the number of full shares of Common Stock due to such Holder upon the conversion of this Note. Such certificate or certificates shall be deemed to have been issued and any person so designated to be named therein shall be deemed to have become the Holder of record of such Shares as of the date of the surrender of this Note; provided, however, that if, at the date of surrender the transfer books of the Common Stock shall be closed, the certificates for the shares shall be issuable as of the date on which such books shall be opened and until such date the Company shall be under no duty to deliver any certificate for such shares; provided, further, however, that such transfer books, unless otherwise required by law or by applicable rule of any national securities exchange, shall not be closed at any one time for a period longer than twenty (20) days.

3.4 Company to Provide Common Stock. In accordance with the provisions of Section 6(1)(m) of the Agreement, the Company covenants to seek the approval of its shareholders to amend its Certificate of Incorporation to increase its authorized shares from 40,000,000 to 75,000,000 shares of Common Stock. Promptly upon receipt of shareholder approval to amend its certificate of incorporation to increase its authorized shares, the Company shall reserve out of its authorized but unissued common stock a sufficient number of shares to permit the conversion of the Notes in full. The shares of Common Stock which may be issued upon the conversion of the Notes shall be fully paid and non-assessable and free of preemptive rights. The Company will endeavor to comply with all securities laws regulating the offer and delivery of the Shares upon conversion of the Notes and will endeavor to list such shares on each national securities exchange upon which the Common Stock is listed.

3.5 Dividends; Reclassifications, etc. At any time before the earlier of (i) the exercise of conversion rights hereunder or (ii) the Maturity Date, if the Company: (i) declares or pays to the holders of the Common Stock a dividend payable in any kind of shares of capital stock of the Company; or (ii) changes or divides or otherwise reclassifies its Common Stock into the same or a different number of shares with or without par value, or in shares of any class or classes; or (iii) transfers its property as an entirety or substantially as an entirety to any other company or entity; or (iv) makes any distribution of its assets to holders of its Common Stock as a liquidation or partial liquidation dividend or by way of return of capital; then, upon exercising its conversion rights, the Holder thereof shall receive, in addition to or in substitution for the shares of Common Stock to which it would have otherwise been entitled upon such exercise: (i) such additional shares of stock or scrip of the Company; (ii) such reclassified shares of stock of the Company, or (iii) such shares of the securities or property of the Company resulting from transfer, or (iv) such assets of the Company, which it would have been entitled to receive had it exercised these conversion rights prior to the happening of any of the foregoing events.

3.6 Notice to Holder. If, at any time while this Note is outstanding, the Company shall pay any dividend payable in cash or in shares of Common Stock, shall offer to the holders of its Common Stock for subscription or purchase by them any shares of stock of any class or any other rights, shall enter into an agreement to merge or consolidate with another corporation, shall propose any capital reorganization or reclassification of the capital stock of the Company, including any

subdivision or combination of its outstanding shares of Common Stock or there shall be contemplated a voluntary or involuntary dissolution, liquidation or winding up of the Company, the Company shall cause notice thereof to be mailed to the registered Holder of this Note at its address appearing on the registration books of the Company, at least thirty (30) days before the record date as of which holders of Common Stock shall participate in such dividend, distribution or subscription or other rights or at least thirty (30) days prior to the effective date of the merger, consolidation, reorganization, reclassification or dissolution.

3.7 Adjustments to Conversion Price. In order to prevent dilution of the conversion rights granted hereunder, the Conversion Price shall be subject to adjustment from time to time in accordance with this Section 3.7. The Conversion Price in effect at the time of the exercise of conversion rights hereunder, shall be subject to adjustment, or further adjustment, from time to time as follows:

(a) If at any time after the date of issuance hereof and prior to the payment in full of the principal and the accrued interest on the principal of this Note, the Company shall grant or issue any shares of Common Stock, or grant or issue any rights or options for the purchase of, or stock or other securities convertible into, Common Stock (such convertible stock or securities being herein collectively referred to as "Convertible Securities") or any combination whatsoever of Common Stock or Convertible Securities, other than:

(i) shares issued in a transaction described in subsection (b) of this Section 3.7; or

(ii) shares issued, subdivided or combined in transactions described in Section 3.5 if and to the extent that the number of shares of Common Stock received upon conversion of this Note shall have been previously adjusted pursuant to Section 3.5 as a result of such issuance, subdivision or combination of such securities;

for a consideration per share which is less than the Conversion Price in effect immediately prior to such issuance or sale, then the Conversion Price, and thereafter upon each issuance or sale for a consideration per share which is less than the Conversion Price in effect immediately prior to such issuance or sale, the Conversion Price shall, simultaneously with such issuance or sale, be adjusted, so that the Conversion Price immediately prior to such issuance or sale, shall be reduced to the consideration received by the Company for each share of Common Stock in such issuance.

Upon each adjustment of the Conversion Price pursuant to this subsection (a), the total number of shares of Common Stock into which this Note shall be convertible shall be such number of shares (calculated to the nearest tenth) purchasable at the Applicable Conversion Price multiplied by a fraction, the numerator of which shall be the Applicable Conversion Price in effect immediately prior to such adjustment and the denominator of which shall be the conversion price in effect immediately after such adjustment.

(b) Anything in this Section 3.7 to the contrary notwithstanding, no adjustment in the Conversion Price shall be made in connection with:

(i) the grant, issuance or exercise of any Convertible Securities pursuant to the Company's qualified or non-qualified Employee Stock Option Plans or any other bona fide employee benefit plan or incentive arrangement, adopted or approved by the Company's Board of Directors and approved by the Company's shareholders, as may be amended from time to time, or under any other bona fide employee benefit plan hereafter adopted by the Company's Board of Directors; or

(ii) the grant, issuance or exercise of any Convertible Securities in connection with the hire or retention of any officer, director or key employee of the Company, provided such grant is approved by the Company's Board of Directors; or

(iii) the issuance of any shares of Common Stock pursuant to the grant or exercise of Convertible Securities outstanding as of December 2, 1998 (exclusive of any subsequent amendments thereto).

(c) For the purpose of subsection 3.7(a), the following provisions shall also be applied:

(i) In case of the issuance or sale of additional shares of Common Stock for cash, the consideration received by the Company therefor shall be deemed to be the amount of cash received by the Company for such shares, before deducting therefrom any commissions, compensation or other expenses paid or incurred by the Company for any underwriting of, or otherwise in connection with, the issuance or sale of such shares.

(ii) In the case of the issuance of Convertible Securities, the consideration received by the Company therefor shall be deemed to be the amount of cash, if any, received by the Company for the issuance of such rights or options, plus the minimum amounts of cash and fair value of other consideration, if any, payable to the Company upon the exercise of such rights or options or payable to the Company upon conversion of such Convertible Securities.

(iii) In the case of the issuance of shares of Common Stock or Convertible Securities for a consideration in whole or in part, other than cash, the consideration other than cash shall be deemed to be the fair market value thereof as reasonably determined in good faith by the Board of Directors of the Company (irrespective of accounting treatment thereof); provided, however, that if such consideration consists of the cancellation of debt issued by the Company, the consideration shall be deemed to be the amount the Company received upon issuance of such debt (gross proceeds) plus accrued interest and, in the case of original issue discount or zero coupon indebtedness, accrued value to the date of such cancellation, but not including any premium or discount at which the debt may then be trading or which might otherwise be appropriate for such class of debt.

(iv) In case of the issuance of additional shares of Common Stock upon the conversion or exchange of any obligations (other than Convertible Securities), the amount of the consideration received by the Company for such Common Stock shall be deemed to be the consideration received by the Company for such obligations or shares so converted or exchanged, before deducting from such consideration so received by the Company any expenses or commissions

or compensation incurred or paid by the Company for any underwriting of, or otherwise in connection with, the issuance or sale of such obligations or shares, plus any consideration received by the Company in connection with such conversion or exchange other than a payment in adjustment of interest and dividends. If obligations or shares of the same class or series of a class as the obligations or shares so converted or exchanged have been originally issued for different amounts of consideration, then the amount of consideration received by the Company upon the original issuance of each of the obligations or shares so converted or exchange shall be deemed to be the average amount of the consideration received by the Company upon the original issuance of all such obligations or shares. The amount of consideration received by the Company upon the original issuance of the obligations or shares so converted or exchanged and the amount of the consideration, if any, other than such obligations or shares, received by the Company upon such conversion or exchange shall be determined in the same manner as provided in paragraphs (i) and (ii) above with respect to the consideration received by the Company in case of the issuance of additional shares of Common Stock or Convertible Securities.

(d) Upon any adjustment of any Conversion Price, then and in each such case the Company shall promptly deliver a notice to the registered Holder of this Note, which notice shall state the Conversion Price resulting from such adjustment, setting forth in reasonable detail the method of calculation and the facts upon which such calculation is based.

3.8 Reorganization of the Company. If the Company is a party to a merger or other transaction which reclassifies or changes its outstanding Common Stock, upon consummation of such transaction this Note shall automatically become convertible into the kind and amount of securities, cash or other assets which the Holder of this Note would have owned immediately after such transaction if the Holder had converted this Note at the Conversion Price in effect immediately before the effective date of the transaction. Concurrently with the consummation of such transaction, the person obligated to issue securities or deliver cash or other assets upon conversion of this Note shall execute and deliver to the Holder a supplemental Note so providing and further providing for adjustments which shall be as nearly equivalent as may be practical to the adjustments provided in this Article 3. The successor Company shall mail to the Holder a notice describing the supplemental Note.

If securities deliverable upon conversion of this Note, as provided above, are themselves convertible into the securities of an affiliate of a corporation formed, surviving or otherwise affected by the merger or other transaction, that issuer shall join in the supplemental Note which shall so provide. If this section applies, Section 3.5 does not apply.

ARTICLE IV

MISCELLANEOUS

4.1 Default. Upon the occurrence of any one or more of the Events of Default specified or referred to in the Agreement or in the other documents or instruments executed in connection therewith, all amounts then remaining unpaid on this Note may be declared to be immediately due and payable as provided in the Agreement.

4.2 Collection Costs. In the event that this Note shall be placed in the hands of an attorney for collection by reason of any Event of Default hereunder, the undersigned agrees to pay reasonable attorney's fees and disbursements and other reasonable expenses incurred by the Holder in connection with the collection of this Note.

4.3 Rights Cumulative. The rights, powers and remedies given to the Payee under this Note shall be in addition to all rights, powers and remedies given to it by virtue of the Agreement, any document or instrument executed in connection therewith, or any statute or rule of law.

4.4 No Waivers. Any forbearance, failure or delay by the Payee in exercising any right, power or remedy under this Note, the Agreement, any documents or instruments executed in connection therewith or otherwise available to the Payee shall not be deemed to be a waiver of such right, power or remedy, nor shall any single or partial exercise of any right, power or remedy preclude the further exercise thereof.

4.5 Amendments in Writing. No modification or waiver of any provision of this Note, the Agreement or any documents or instruments executed in connection therewith shall be effective unless it shall be in writing and signed by the Payee, and any such modification or waiver shall apply only in the specific instance for which given.

4.6 Governing Law. This Note and the rights and obligations of the parties hereto, shall be governed, construed and interpreted according to the laws of the State of New York, without reference to its choice of law principles, wherein it was negotiated and executed, and the undersigned consents and agrees that the State and Federal Courts which sit in the State of New York, County of New York shall have exclusive jurisdiction of all controversies and disputes arising hereunder.

4.7 No Counterclaims. The undersigned waives the right to interpose counterclaims or set-offs of any kind and description in any litigation arising hereunder and waives the right in any litigation with the Payee (whether or not arising out of or relating to this Note) to trial by jury.

4.8 Successors. The term "Payee" and "Holder" as used herein shall be deemed to include the Payee and its successors, endorsees and assigns.

4.9 Certain Waivers. The Company hereby waives presentment, demand for payment, protest, notice of protest and notice of non-payment hereof.

4.10 Stamp Tax. The Company will pay any documentary stamp taxes attributable to the initial issuance of the Common Stock issuable upon the conversion of this Note; provided, however, that the Company shall not be required to pay any tax or taxes which may be payable for of any transfer involved in the issuance or delivery of any certificates for the Common Stock in a name other than that of the Holder for which such Common Stock is issued, and in such case the Company shall not be required to issue or deliver any certificate for the Common Stock until the person requesting the same has paid to the Company the amount of such tax or has established, to the Company's satisfaction, that such tax has been paid.

4.11 Mutilated, Lost, Stolen or Destroyed Notes. In case this Note shall be mutilated, lost, stolen or destroyed, the Company shall issue and deliver in exchange and substitution for and upon cancellation of the mutilated Note, or in lieu of and substitution for the Note, mutilated, lost, stolen or destroyed, a new Note of like tenor and representing an equivalent right or interest, but only upon receipt of evidence satisfactory to the Company of such loss, theft or destruction and an indemnity, if requested, also satisfactory to it.

4.12 Maintenance of Office. The Company covenants and agrees that so long as this Note shall be outstanding, it will maintain an office or agency in New York (or such other place as the Company may designate in writing to the holder of this Note) where notices, presentations and demands to or upon the Company regarding of this Note may be given or made.

IN WITNESS WHEREOF, Halsey Drug Co., Inc. has caused this Note to be signed by its President and to be dated the day and year first above written.

ATTEST [SEAL] HALSEY DRUG CO., INC.

_____ By:_____
Michael Reicher
Chief Executive Officer

ATTACHMENT I

Assignment

For value received, the undersigned hereby assigns to _____, subject to the provisions of Section 11.13 of the Agreement, $_____ principal amount of the Amended, Restated and Consolidated 10% Convertible Senior Secured Note due May 30, 1999 evidenced hereby and hereby irrevocably appoint _____ attorney to transfer the Note on the books of the within named corporation with full power of substitution in the premises.

Dated:

In the presence of:

_____

ATTACHMENT II

CONVERSION NOTICE

TO: HALSEY DRUG CO., INC.

The undersigned holder of this Note hereby irrevocably exercises the option to convert $_____ principal amount of such Note and/or $_____ amount of accrued interest on the principal of such Note (which may be less than the stated amount of principal thereof or accrued interest thereon) into shares of Common Stock of Halsey Drug Co., Inc., in accordance with the terms of such Note, and directs that the shares of Common Stock issuable and deliverable upon such conversion, together with a check (if applicable) in payment for any fractional shares as provided in such Note, be issued and delivered to the undersigned unless a different name has been indicated below. If shares of Common Stock are to be issued in the name of a person other than the undersigned holder of such Note, the undersigned will pay all transfer taxes payable with respect thereto.

Name and Address of Holder

Signature of Holder

Principal amount of Note to be converted $

Amount of accrued interest on the principal of the Note to be converted $

If shares are to be issued otherwise then to the Holder:

_____
Name of Transferee

Address of Transferee

Social Security Number of Transferee

Exhibit 10.49

[Form of Common Stock Purchase Warrant issued pursuant to the Amended, Restated and Consolidated Bridge Loan Agreement]

WARRANT TO PURCHASE
COMMON STOCK, PAR VALUE $.01 PER SHARE

OF

HALSEY DRUG CO., INC.

THIS WARRANT AND THE COMMON STOCK ISSUABLE UPON EXERCISE HEREOF HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "ACT") NOR UNDER ANY STATE SECURITIES LAW AND MAY NOT BE PLEDGED, SOLD, ASSIGNED, HYPOTHECATED OR OTHERWISE TRANSFERRED UNTIL (1) A REGISTRATION STATEMENT WITH RESPECT THERETO IS EFFECTIVE UNDER THE ACT AND ANY APPLICABLE STATE SECURITIES LAW OR (2) THE COMPANY RECEIVES AN OPINION OF COUNSEL TO THE COMPANY OR OTHER COUNSEL TO THE HOLDER OF SUCH WARRANT REASONABLY SATISFACTORY TO THE COMPANY THAT SUCH WARRANT AND/OR COMMON STOCK MAY BE PLEDGED, SOLD, ASSIGNED, HYPOTHECATED OR TRANSFERRED WITHOUT AN EFFECTIVE REGISTRATION STATEMENT UNDER THE ACT OR APPLICABLE STATE SECURITIES LAWS.

This certifies that, for value received, [ ]or registered assigns ("Warrantholder"), is entitled to purchase from HALSEY DRUG CO., INC. (the "Company"), subject to the provisions of this Warrant, at any time during the Exercise Period (as hereinafter defined) [ ] shares of the Company's Common Stock, par value $.01 per share ("Warrant Shares"). The purchase price payable upon the exercise of this Warrant shall be $1.3313 per Warrant Share. The purchase price and the number of Warrant Shares which the Warrantholder is entitled to purchase are subject to adjustment upon the occurrence of the contingencies set forth in this Warrant, and as adjusted from time to time, such purchase price is hereinafter referred to as the "Warrant Price."

For purposes of this Warrant, the term "Exercise Period" means the period commencing on the date of issuance of this Warrant and ending on the seventh anniversary of such date.

This Warrant is subject to the following terms and conditions:

1. Exercise of Warrant.

(a) This Warrant may be exercised in whole or in part but not for a fractional share. Upon delivery of this Warrant at the offices of the Company or at such other address as the Company may designate by notice in writing to the registered holder hereof with the Subscription Form annexed hereto duly executed, accompanied by payment of the Warrant Price for the number of Warrant Shares purchased (in cash, by certified, cashier's or other check acceptable to the Company, by Common Stock or other securities of the Company having a Market Value (as hereinafter defined) equal to the aggregate Warrant Price for the Warrant Shares to be purchased, or any combination of the foregoing), the registered holder of this Warrant shall be entitled to receive a certificate or certificates for the Warrant Shares so purchased. Such certificate or certificates shall be promptly delivered to the Warrantholder. Upon any partial exercise of this Warrant, the Company shall execute and deliver a new Warrant of like tenor for the balance of the Warrant Shares purchasable hereunder.

(b) In lieu of exercising this Warrant pursuant to Section 1(a), the holder may elect to receive shares of Common Stock equal to the value of this Warrant determined in the manner described below (or any portion thereof remaining unexercised) upon delivery of this Warrant at the offices of the Company or at such other address as the Company may designate by notice in writing to the registered holder hereof with the Notice of Cashless Exercise Form annexed hereto duly executed. In such event the Company shall issue to the holder a number of shares of the Company's Common Stock computed using the following formula:

$$X = \frac{Y(A-B)}{A}$$

Where X = the number of shares of Common Stock to be issued to the holder.

Y = the number of shares of Common Stock purchasable under this Warrant (at the date of such calculation).

A = the Market Value of the Company's Common Stock on the business day immediately preceding the day on which the Notice of Cashless Exercise is received by the Company.

B = Warrant Price (as adjusted to the date of such calculation).

(c) The Warrant Shares deliverable hereunder shall, upon issuance, be fully paid and non-assessable and the Company agrees that at all times during the term of this Warrant it shall cause to be reserved for issuance such number of shares of its Common Stock as shall be required for issuance and delivery upon exercise of this Warrant.

(d) For purposes of Section 1(b) of this Warrant, the Market Value of a share of Common Stock on any date shall be equal to (A) the closing sale price per share as published by a national securities exchange on which shares of Common Stock are traded (an

"Exchange") on such date or, if there is no sale of Common Stock on such date, the average of the bid and asked prices on such Exchange at the close of trading on such date or, (B) if shares of Common Stock are not listed on an Exchange on such date, the closing price per share as published on the National Association of Securities Dealers Automatic Quotation System ("NASDAQ") National Market System if the shares are quoted on such system on such date, or (C) the average of the bid and asked prices in the over-the-counter market at the close of trading on such date if the shares are not traded on an Exchange or listed on the NASDAQ National Market System, or (D) if the security is not traded on an Exchange or in the over-the-counter market, the fair market value of a share of Common Stock on such date as determined in good faith by the Board of Directors. If the holder disagrees with the determination of the Market Value of any securities of the Common Stock determined by the Board of Directors under Section 1(d)(i)(D) the Market Value shall be determined by an independent appraiser acceptable to the Company and the holder. If they cannot agree on such an appraiser, then each of the Company and the holder shall select an independent appraiser, such two appraisers shall select a third independent appraiser and Market Value shall be the median of the appraisals made by such appraisers). If there is one appraiser, the cost of the appraisal shall be shared equally between the Company and the holder. If there are three appraisers, each of the Company and the holder shall pay for its own appraiser and shall share equally the cost of the third appraiser.

2. Transfer or Assignment of Warrant.

(a) Any assignment or transfer of this Warrant shall be made by surrender of this Warrant at the offices of the Company or at such other address as the Company may designate in writing to the registered holder hereof with the Assignment Form annexed hereto duly executed and accompanied by payment of any requisite transfer taxes, and the Company shall, without charge, execute and deliver a new Warrant of like tenor in the name of the assignee for the portion so assigned in case of only a partial assignment, with a new Warrant of like tenor to the assignor for the balance of the Warrant Shares purchasable.

(b) Prior to any assignment or transfer of this Warrant, the holder thereof shall deliver an opinion of counsel to the Company to the effect that the proposed transfer may be effected without registration under the Securities Act of 1933, as amended (the "Securities Act"). Each Warrant issued upon or in connection with such transfer shall bear the restrictive legend set forth on the front of this Warrant unless, in the opinion of the Company's counsel, such legend is no longer required to insure compliance with the Securities Act.

3. Adjustments to Warrant Price and Warrant Shares -- Anti-Dilution Provisions. In order to prevent dilution of the exercise right granted hereunder, the Warrant Price shall be subject to adjustment from time to time in accordance with this Section 3. Upon each adjustment of the Warrant Price pursuant to this Section 3, the holder shall thereafter be entitled to acquire upon exercise of this Warrant, at the Applicable Warrant Price (as hereinafter defined), the number of shares of Common Stock obtainable by multiplying the Warrant Price in effect immediately prior to such adjustment by the number of shares of Common Stock acquirable immediately prior to such adjustment and dividing the product thereof by the Applicable Warrant Price resulting from such adjustment.

The Warrant Price in effect at the time of the exercise of this Warrant shall be subject to adjustment from time to time as follows:

(a) In the event that the Company shall at any time: (i) declare or pay to the holders of the Common Stock a dividend payable in any kind of shares of capital stock of the Company; or (ii) change or divide or otherwise reclassify its Common Stock into the same or a different number of shares with or without par value, or in shares of any class or classes; or (iii) transfer its property as an entirety or substantially as an entirety to any other company or entity; or (iv) make any distribution of its assets to holders of its Common Stock as a liquidation or partial liquidation dividend or by way of return of capital; then, upon the subsequent exercise of this Warrant, the holder thereof shall receive, in addition to or in substitution for the shares of Common Stock to which it would otherwise be entitled upon such exercise, such additional shares of stock or scrip of the Company, or such reclassified shares of stock of the Company, or such shares of the securities or property of the company resulting from transfer, or such assets of the Company, which it would have been entitled to receive had it exercised these rights prior to the happening of any of the foregoing events.

(b) If at any time after the date of issuance hereof the Company shall grant or issue any shares of Common Stock, or grant or issue any rights or options for the purchase of, or stock or other securities convertible into, Common Stock (such convertible stock or securities being herein collectively referred to as "Convertible Securities") other than:

(i) shares issued in a transaction described in subsection 3(c); or

(ii) shares issued, subdivided or combined in transactions described in subsection 3(a) if and to the extent that the number of shares of Common Stock receivable upon exercise of this Warrant shall have been previously adjusted pursuant to subsection 3(a) as a result of such issuance, subdivision or combination of such securities;

for a consideration per share which is less than the Fair Market Value (as hereinafter defined) of the Common Stock, then the Warrant Price in effect immediately prior to such issuance or sale (the "Applicable Warrant Price") shall, and thereafter upon each issuance or sale for a consideration per share which is less than the Fair Market Value of the Common Stock, the Applicable Warrant Price shall, simultaneously with such issuance or sale, be adjusted, so that such Applicable Warrant Price shall equal a price determined by multiplying the Applicable Warrant Price by a fraction, the numerator of which shall be:

(A) the sum of (x) the total number of shares of Common Stock outstanding when the Applicable Warrant Price became effective, plus (y) the number of shares of Common Stock which the aggregate consideration received, as determined in accordance with subsection 3(d) for the issuance or sale of such additional Common Stock or Convertible Securities deemed to be an issuance of Common Stock as provided in subsection 3(e), would purchase (including any consideration received by the Company upon the issuance of any shares of Common Stock since the date the Applicable Warrant Price became effective not previously included in any

computation resulting in an adjustment pursuant to this subsection 3(b)) at the Fair Market Value of the Common Stock; and the denominator of which shall be

(B) the total number of shares of Common Stock outstanding (or deemed to be outstanding as provided in subsection 3(e) hereof) immediately after the issuance or sale of such additional shares.

For purposes of this Section 3, "Fair Market Value" shall mean the average of the closing price of the Common Stock for each of the twenty (20) consecutive trading days prior to such issuance or sale on an Exchange or if shares of Common Stock are not listed on an Exchange during such period, the closing price per share as reported by NASDAQ National Market System if the shares are quoted on such system during such period, or the average of the bid and asked prices of the Common Stock in the over-the-counter market at the close of trading during such period if the shares are not traded on an Exchange or listed on the NASDAQ National Market System, or if the Common Stock is not traded on an Exchange or in the over-the-counter market, the fair market value of a share of Common Stock during such period as determined in good faith by the Board of Directors.

If, however, the Applicable Warrant Price thus obtained would result in the issuance of a lesser number of shares upon conversion than would be issued at the initial Warrant Price, the Applicable Warrant Price shall be such initial Warrant Price.

Upon each adjustment of the Warrant Price pursuant to this subsection 3(b), the total number of shares of Common Stock for which this Warrant shall be exercisable shall be such number of shares (calculated to the nearest tenth) purchasable at the Applicable Warrant Price multiplied by a fraction, the numerator of which shall be the Warrant Price in effect immediately prior to such adjustment and the denominator of which shall be the exercise price in effect immediately after such adjustment.

(c) Anything in this Section 3 to the contrary notwithstanding, no adjustment in the Warrant Price shall be made in connection with:

(i) the grant, issuance or exercise of any Convertible Securities pursuant to the Company's qualified or non-qualified Employee Stock Option Plans or any other bona fide employee benefit plan or incentive arrangement, adopted or approved by the Company's Board of Directors and approved by the Company's shareholders, as may be amended from time to time, or under any other bona fide employee benefit plan hereafter adopted by the Company's Board of Directors; or

(ii) the grant, issuance or exercise of any Convertible Securities in connection with the hire or retention of any officer, director or key employee of the Company, provided such grant is approved by the Company's Board of Directors; or

(iii) the issuance of any shares of Common Stock pursuant to the grant or exercise of Convertible Securities outstanding as of March 10, 1998 (exclusive of any subsequent amendments thereto).

(d) For the purpose of subsection 3(b), the following provisions shall also be applied:

(i) In case of the issuance or sale of additional shares of Common Stock for cash, the consideration received by the Company therefor shall be deemed to be the amount of cash received by the Company for such shares, before deducting therefrom any commissions, compensation or other expenses paid or incurred by the Company for any underwriting of, or otherwise in connection with, the issuance or sale of such shares.

(ii) In the case of the issuance of Convertible Securities, the consideration received by the Company therefor shall be deemed to be the amount of cash, if any, received by the Company for the issuance of such rights or options, plus the minimum amounts of cash and fair value of other consideration, if any, payable to the Company upon the exercise of such rights or options or payable to the Company upon conversion of such Convertible Securities.

(iii) In the case of the issuance of shares of Common Stock or Convertible Securities for a consideration in whole or in part, other than cash, the consideration other than cash shall be deemed to be the fair market value thereof as reasonably determined in good faith by the Board of Directors of the Company (irrespective of accounting treatment thereof); provided, however, that if such consideration consists of the cancellation of debt issued by the Company, the consideration shall be deemed to be the amount the Company received upon issuance of such debt (gross proceeds) plus accrued interest and, in the case of original issue discount or zero coupon indebtedness, accrued value to the date of such cancellation, but not including any premium or discount at which the debt may then be trading or which might otherwise be appropriate for such class of debt.

(iv) In case of the issuance of additional shares of Common Stock upon the conversion or exchange of any obligations (other than Convertible Securities), the amount of the consideration received by the Company for such Common Stock shall be deemed to be the consideration received by the Company for such obligations or shares so converted or exchanged, before deducting from such consideration so received by the Company any expenses or commissions or compensation incurred or paid by the Company for any underwriting of, or otherwise in connection with, the issuance or sale of such obligations or shares, plus any consideration received by the Company in connection with such conversion or exchange other than a payment in adjustment of interest and dividends. If obligations or shares of the same class or series of a class as the obligations or shares so converted or exchanged have been originally issued for different amounts of consideration, then the amount of consideration received by the Company upon the original issuance of each of the obligations or shares so converted or exchange shall be deemed to be the average amount of the consideration received by the Company upon the original issuance of all such obligations or shares. The amount of consideration received by the Company upon the original issuance of the obligations or shares so converted or

exchanged and the amount of the consideration, if any, other than such obligations or shares, received by the Company upon such conversion or exchange shall be determined in the same manner as provided in paragraphs (i) and (ii) above with respect to the consideration received by the Company in case of the issuance of additional shares of Common Stock or Convertible Securities.

(v) In the case of the issuance of additional shares of Common Stock as a dividend, the aggregate number of shares of Common Stock issued in payment of such dividend shall be deemed to have been issued at the close of business on the record date fixed for the determination of stockholders entitled to such dividend and shall be deemed to have been issued without consideration; provided, however, that if the Company, after fixing such record date, shall legally abandon its plan to so issue Common Stock as a dividend, no adjustment of the Applicable Conversion Price shall be required by reason of the fixing of such record date.

(e) For purposes of the adjustment provided for in subsection 3(b) above, if at any time the Company shall issue any Convertible Securities, the Company shall be deemed to have issued at the time of the issuance of such Convertible Securities the maximum number of shares of Common Stock issuable upon conversion of the total amount of such Convertible Securities.

(f) On the expiration, cancellation or redemption of any Convertible Securities, the Warrant Price then in effect hereunder shall forthwith be readjusted to such Warrant Price as would have been obtained (a) had the adjustments made upon the issuance or sale of such expired, canceled or redeemed Convertible Securities been made upon the basis of the issuance of only the number of shares of Common Stock theretofore actually delivered upon the exercise or conversion of such Convertible Securities (and the total consideration received therefor) and (b) had all subsequent adjustments been made on only the basis of the Warrant Price as readjusted under this subsection 3(f) for all transactions (which would have affected such adjusted Warrant Price) made after the issuance or sale of such Convertible Securities.

(g) Anything in this Section 3 to the contrary notwithstanding, no adjustment in the Warrant Price shall be required unless such adjustment would require an increase or decrease of at least 1% in such Warrant Price; provided, however, that any adjustments which by reason of this subsection 3(g) are not required to be made shall be carried forward and taken into account in making subsequent adjustments. All calculations under this Section 3 shall be made to the nearest cent.

(h) If, at any time while this Warrant is outstanding, the Company shall pay any dividend payable in cash or in Common Stock, shall offer to the holders of its Common Stock for subscription or purchase by them any shares of stock of any class or any other rights, shall enter into an agreement to merge or consolidate with another corporation, shall propose any capital reorganization or reclassification of the capital stock of the Company, including any subdivision or combination of its outstanding shares of Common Stock or there shall be contemplated a voluntary or involuntary dissolution, liquidation or winding up of the Company, the Company shall cause notice thereof to be mailed to the registered holder of this Warrant at its address appearing on the registration books of the Company, at least thirty (30) days prior to the record date as of which

holders of Common Stock shall participate in such dividend, distribution or subscription or other rights or at least thirty (30) days prior to the effective date of the merger, consolidation, reorganization, reclassification or dissolution. Upon any adjustment of any Warrant Price, then and in each such case the Company shall promptly deliver a notice to the registered holder of this Warrant, which notice shall state the Warrant Price resulting from such adjustment, setting forth in reasonable detail the method of calculation and the facts upon which such calculation is based.

(i) If the Company is a party to a merger or other transaction which reclassifies or changes its outstanding Common Stock, upon consummation of such transaction this Warrant shall automatically become exercisable for the kind and amount of securities, cash or other assets which the holder of this Warrant would have owned immediately after such transaction if the holder had converted this Warrant at the Warrant Price in effect immediately before the effective date of the transaction. Concurrently with the consummation of such transaction, the person obligated to issue securities or deliver cash or other assets upon exercise of this Warrant shall execute and deliver to the holder a supplemental Warrant so providing and further providing for adjustments which shall be as nearly equivalent as may be practical to the adjustments provided in this Section 3. The successor company shall mail to the holder a notice describing the supplemental Warrant.

If securities deliverable upon exercise of this Warrant, as provided above, are themselves convertible into or exercisable for the securities of an affiliate of a corporation formed, surviving or otherwise affected by the merger or other transaction, that issuer shall join in the supplemental Warrant which shall so provide. If this subsection 3(i) applies, subsection 3(a) does not apply.

4. Charges, Taxes and Expenses. The issuance of certificates for Warrant Shares upon any exercise of this Warrant shall be made without charge to the holder of this Warrant for any tax or other expense in respect to the issuance of such certificates, all of which taxes and expenses shall be paid by the Company, and such certificates shall be issued only in the name of the holder of this Warrant.

5. Miscellaneous.

(a) The terms of this Warrant shall be binding upon and shall inure to the benefit of any successors or assigns of the Company and of the holder or holders hereof and of the shares of Common Stock issued or issuable upon the exercise hereof.

(b) No holder of this Warrant, as such, shall be entitled to vote or receive dividends or be deemed to be a stockholder of the Company for any purpose, nor shall anything contained in this Warrant be construed to confer upon the holder of this Warrant, as such, any rights of a stockholder of the Company or any right to vote, give or withhold consent to any corporate action, receive notice of meetings, receive dividends or subscription rights, or otherwise.

(c) Receipt of this Warrant by the holder hereof shall constitute acceptance of an agreement to the foregoing terms and conditions.

(d) The Warrant and the performance of the parties hereunder shall be construed and interpreted in accordance with the laws of the State of New York wherein it was negotiated and executed and the parties hereunder consent and agree that the State and Federal Courts which sit in the State of New York and the County of New York shall have exclusive jurisdiction with respect to all controversies and disputes arising hereunder.

(e) The shares issuable upon exercise of this Warrant are entitled to the benefits of the registration rights provisions of Section 8 of the Amended, Restated and Consolidated Bridge Loan Agreement dated December 2, 1998 as amended by the First Amendment to the Amended, Restated and Consolidated Bridge Loan Agreement dated the date hereof and executed simultaneously herewith (as amended, modified, restated or supplemented from time to time the "Consolidated Bridge Loan Agreement").

(f) This Warrant is subject to certain other provisions contained in:(i) the Consolidated Bridge Loan Agreement, and (ii) the Debenture and Warrant Purchase Agreement dated March 10, 1998 among the Company and various other parties, copies of which are on file with the Secretary of the Company. Shares issued upon exercise of this Warrant shall contain a legend substantially to the same effect as the legend set forth on the first page of this Warrant.

IN WITNESS WHEREOF, the Company has caused this Warrant to be signed by its duly authorized officer and its corporate seal to be affixed hereto.

Dated as of December 7, 1998

HALSEY DRUG CO., INC.

BY:_____
Name: Michael Reicher
Title: President

SUBSCRIPTION FORM

(TO BE EXECUTED BY THE REGISTERED HOLDER
IF HE DESIRES TO EXERCISE THE WARRANT)

To: HALSEY DRUG CO., INC.

The undersigned hereby exercises the right to purchase _____ shares of Common Stock, par value $.01 per share, covered by the attached Warrant in accordance with the terms and conditions thereof, and herewith makes payment of the Warrant Price for such shares in full.

SIGNATURE

ADDRESS

DATED:_____

NOTICE OF EXERCISE OF COMMON STOCK WARRANT
PURSUANT TO NET ISSUE ("CASHLESS") EXERCISE PROVISIONS

[Date]

Halsey Drug Co., Inc.
a New York corporation
1827 Pacific Street
Brooklyn, New York 11233
Attention:_____

Aggregate Price of Warrant $
Aggregate Price Being Exercised: $
Warrant Price (per share): $
Market Value (per share): $
Number of Shares of Common Stock under this Warrant:
Number of Shares of Common Stock to be Issued Under this Notice:

CASHLESS EXERCISE

Gentlemen:

The undersigned, the registered holder of the Warrant to Purchase Common Stock delivered herewith ("Warrant"), hereby irrevocably exercises such Warrant for, and purchases thereunder, shares of the Common Stock of HALSEY DRUG CO., INC., a New York corporation, as provided below. Capitalized terms used herein, unless otherwise defined herein, shall have the meanings given in the Warrant. The portion of the Aggregate Price (as hereinafter defined) to be applied toward the purchase of Common Stock pursuant to this Notice of Exercise is $_____, thereby leaving a remainder Aggregate Price (if any) equal to $_____. Such exercise shall be pursuant to the net issue exercise provisions of Section 1(b) of the Warrant; therefore, the holder makes no payment with this Notice of Exercise. The number of shares to be issued pursuant to this exercise shall be determined by reference to the formula in Section 1(b) of the Warrant which requires the use of the Market Value (as defined in Section 1(d) of the Warrant) of the Company's Common Stock on the business day immediately preceding the day on which this Notice is received by the Company. To the extent the foregoing exercise is for less than the full Aggregate Price of the Warrant, the remainder of the Warrant representing a number of Shares equal to the quotient

obtained by dividing the remainder of the Aggregate Price by the Warrant Price (and otherwise of like form, tenor and effect) may be exercised under Section 1(a) of the Warrant. For purposes of this Notice the term "Aggregate Price" means the product obtained by multiplying the number of shares of Common Stock for which the Warrant is exercisable times the Warrant Price.

SIGNATURE

DATE:_____

ADDRESS

ASSIGNMENT

(To be Executed by the Registered Holder
if he Desires to Transfer the Warrant)

FOR VALUE RECEIVED, the undersigned hereby sells, assigns and transfers unto _____ the right to purchase shares of Common Stock of HALSEY DRUG CO., INC., evidenced by the within Warrant, and does hereby irrevocably constitute and appoint _____ Attorney to transfer the said Warrant on the books of the Company, with full power of substitution.

SIGNATURE

ADDRESS

DATED:_____

IN THE PRESENCE OF:

_____

Exhibit 10.50

[Amended and Restated General Security Agreement dated December 2, 1998 between the Company and Galen Partners III, L.P., as Agent]

Execution Copy

AMENDED AND RESTATED GENERAL SECURITY AGREEMENT

THIS AMENDED AND RESTATED GENERAL SECURITY AGREEMENT (together with the Schedules and Exhibits hereto, and, as amended, extended, modified, restated or supplemented, from time to time, the "Agreement") is made and entered into as of December 2, 1998, by and between HALSEY DRUG CO., INC., a New York corporation (the "Debtor"), with its principal place of business at 695 N. Perryville Road, Rockford, Illinois 61107, and GALEN PARTNERS III, L.P. (the "Galen"), a Delaware limited partnership, with its principal place of business at 610 Fifth Avenue, 5th Floor, New York, New York 10020, acting in its capacity as agent on behalf of certain lenders (in such capacity, the "Agent"), including Galen (each a "Lender" or a "Secured Party", collectively, the "Lenders" or the "Secured Parties") pursuant to and in connection with a certain Amended, Restated and Consolidated Bridge Loan Agreement (the "Consolidated Bridge Loan Agreement") dated the date hereof and executed simultaneously herewith. Terms that are capitalized herein and not otherwise defined, shall have the meanings ascribed to them in the Consolidated Bridge Loan Agreement.

W I T N E S S E T H

WHEREAS, the Debtor and certain Lenders have entered into a Bridge Loan Agreement and a General Security Agreement dated as of August 12, 1998 (each as amended through the date hereof, the "Original Bridge Loan Agreement" and the "Original Security Agreement", and, together with all documents, agreements, instruments and certificates relating thereto, the "Original Bridge Loan Documents").

WHEREAS, concurrently with the execution of this Agreement, the Debtor, the Secured Parties and the Agent are entering into the Consolidated Bridge Loan Agreement pursuant to which the Debtor and each Secured Party have agreed to amend and restate the Original Bridge Loan Agreement and, each secured party has agreed to (i) fund its Additional Bridge Loan Commitment and (ii) consolidate its Additional Bridge Loan into the Original Bridge Loan pursuant to the terms and conditions of the Consolidated Bridge Loan Agreement.

WHEREAS, as a condition precedent to the effectiveness of the Consolidated Bridge Loan Agreement, the Secured Parties have required that the Debtor enter into this Agreement in order to: (i) reaffirm the lien on and security interest in and to the "Collateral" (as defined in the Original Security Agreement, the "Original Collateral") in order to secure the payment and performance by the Debtor of all of the "Obligations" (as defined in the Original Bridge Loan Agreement, the

"Original Obligations") arising under the Original Bridge Loan Agreement and (ii) grant to the Agent, on behalf of the Secured Parties, a lien on and a security interest in and to all of the Collateral (as defined in Section II below), in order to secure the Obligations (as defined in Section 1.1 of the Consolidated Bridge Loan Agreement), to the extent that such Obligations have been amended and restated, and, to the extent that such Obligations reflect the consolidation of the Additional Bridge Loan into the Original Bridge Loan, as more fully set forth herein and therein; and

NOW, THEREFORE, in consideration of the premises and to induce the Secured Parties to enter into and perform the Consolidated Bridge Loan Agreement, the Debtor and the Agent hereby agree as follows:

SECTION 1. CONFIRMATION OF EXISTING SECURITY INTEREST AND CREATION OF SECURITY INTEREST.

The Debtor hereby confirms and reaffirms that the liens and security interests granted by the Debtor pursuant to the Original Security Agreement continue to be perfected liens of record and in full force and effect, and, that the date of perfection of such liens and security interests continues to relate back to the date of recordation of the financing statements as executed by the Debtor on form UCC-1 in connection with the Original Security Agreement. Without in any way modifying the foregoing confirmation by the Debtor, or, in any way altering the priority of the lien in favor of the Secured Parties in and to the Original Collateral, the Debtor hereby pledges, assigns and grants to the Agent, for the ratable benefit of the Secured Parties, a continuing perfected lien on and security interest in all of the Debtor's right, title, and interest in and to the Collateral (as defined in Section II below) to secure the payment and performance of all Obligations (as defined in Section 1.1 of the Consolidated Bridge Loan Agreement) owing by the Debtor.

SECTION 2. COLLATERAL.

For purposes of this Agreement, the term "Collateral" shall mean all of the kinds and types of property described in subsections A. through E. hereof, whether now owned or hereafter at any time arising, acquired or created by the Debtor and wherever located, and includes all replacements, additions, accessions, substitutions, repairs, proceeds and products relating thereto or therefrom, and all documents, ledger sheets and files of the Debtor relating thereto. "Proceeds" hereunder include (i) whatever is now or hereafter received by the Debtor upon the sale, exchange, collection or other disposition of any item of Collateral, whether such proceeds constitute inventory, accounts, accounts receivable, general intangibles, instruments, securities (including, without limitation, United States of America Treasury Bills), credits, claims, demands, documents, letters of credit and letter of credit proceeds, chattel paper, documents of title, certificates of title, certificates of deposit, warehouse receipts, bills of lading, leases, deposit ac counts, money, tax refund claims, contract rights, goods or equipment and (ii) any such items which are now or hereafter acquired by the Debtor with any proceeds of Collateral hereunder:

a. Accounts. All of the Debtor's accounts, whether now existing or existing in the future, including without limitation (i) all accounts receivable (whether or not specifically listed on schedules furnished to Agent or the Secured Parties), including, without limitation, all accounts created by or arising from all of the Debtor's sales of goods or rendition of services made under any of Debtor's trade names, or through any of its divisions, (ii) all unpaid seller's rights (including rescission, replevin, reclamation and stoppage in transit) relating to the foregoing or arising therefrom, (iii) all rights to any goods represented by any of the foregoing, including returned or repossessed goods, (iv) all reserves and credit balances held by the Debtor with respect to any such accounts receivable or account debtors and (v) all guarantees or collateral for any of the foregoing (all of the foregoing property and similar property being hereinafter referred to as "Accounts");

b. Inventory. All of the Debtor's inventory, including without limitation (i) all raw materials, work in process, parts, components, assemblies, supplies and materials used or consumed in the Debtor's businesses, wherever located and whether in the possession of the Debtor or any other Person (for the purposes of this Agreement, the term "Person" means any individual, sole proprietorship, partnership, joint venture, trust, unincorporated organization, association, corporation, institution, entity, party or government (including any division, agency or department thereof), and its successors, heirs and assigns); (ii) all goods, wares and merchandise, finished or unfinished, held for sale or lease or leased or furnished or to be furnished under contracts of service, wherever located and whether in the possession of the Debtor or any other Person or entity; and (iii) all goods returned to or repossessed by the Debtor (all of the foregoing property being hereinafter referred to as "Inventory");

c. Equipment. All of the equipment owned or leased by the Debtor, including, without limitation, machinery, equipment, office equipment and supplies, computers and related equipment, furniture, furnishings, tools, tooling, jigs, dies, fixtures, manufacturing implements, fork lifts, trucks, trailers, motor vehicles, and other equipment (all of the foregoing property being hereinafter referred to as "Equipment");

d. Intangibles. All of the Debtor's general intangibles, instruments, securities (including, without limitation, United States of America Treasury Bills), credits, claims, demands, documents, letters of credit and letter of credit proceeds, chattel paper, documents of title, certificates of title, certificates of deposit, warehouse receipts, bills of lading, leases which are permitted to be assigned or pledged, deposit accounts, money, tax refund claims, contract rights which are permitted to be assigned or pledged (all of the foregoing property being hereinafter referred to as "Intangibles"); and

e. Intellectual Property. All of the Debtor's intellectual property, including, without limitation, New Drug Applications, Investigatory New Drug Applications, Abbreviated New Drug Applications, Alternative New Drug Applications, registrations and quotas as issued by the Drug Enforcement Administration and/or the Attorney General of the United States pursuant to the Controlled Substances Act, certifications, permits and approvals of federal and state governmental agencies, patents, patent applications, trademarks, trademark applications, service marks, service mark applications, trade names, technical knowledge and processes, formal or informal licensing arrangements which are permitted to be assigned or pledged, blueprints, technical specifications, computer software, copyrights, copyright applications and other trade secrets, and all embodiments thereof, and rights thereto, including, without limitation, all of the Debtor' rights to use the patents, trademarks, copyrights, service marks, or other property of the aforesaid nature of other Persons now or hereafter licensed to the Debtor, together with the goodwill of the business symbolized by or connected with the Debtor's trademarks, copyrights, service marks, licenses and the other rights included in this section II(E).

SECTION 3. THE DEBTOR'S REPRESENTATIONS AND WARRANTIES.

a. Places of Business. The Debtor has no other place of business, or warehouses in which it leases space, other than those set forth on Section IIIA of Schedule A, a copy of which is attached hereto and made a part hereof ("Schedule A").

b. Location of Collateral. Except for the movement of Collateral from time to time from one place of business or warehouse listed on Section IIIA of Schedule A, to another place of business or warehouse listed on Section IIIA of such Schedule A, the Collateral is located at the Debtor's chief executive office or other places of business or warehouses listed on such Section IIIA of Schedule A, and not at any other location.

c. Restrictions on Collateral Disposition. Except as may otherwise be provided in the Debenture and Warrant Purchase Agreement dated March 10, 1998 between the Debtor and the Signatories thereto (the"Existing Credit Facility") none of the Collateral is subject to contractual obligations that may restrict or inhibit the Agent's right or ability to sell or dispose of the Collateral or any part thereof after the occurrence of an Event of Default.

d. Status of Accounts. Each Account is based on an actual and bona fide rendition of services to customers, made by the Debtor in the ordinary course of its business; the Accounts created are its exclusive property and are not and shall not be subject to any lien, consignment arrangement, encumbrance, security interest or financing statement whatsoever, except as otherwise provided in Section

IIID of Schedule A, and to the best knowledge of the Debtor, the Debtor's customers have accepted the services, and owe and are obligated to pay the full amounts stated in the invoices according to their terms, without any dispute, offset, defense or counterclaim.

SECTION 4. COVENANTS OF THE DEBTOR.

a. Defend Against Claims. The Debtor will defend the Collateral against all claims and demands of all persons at any time claiming the same or any interest therein unless the Agent determines that the claim or demand is not material and that, consequently, such defense would not be consistent with good business judgment. The Debtor will not permit any lien notices with respect to the Collateral or any portion thereof to exist or be on file in any public office except for those in favor of Agent and those permitted under the terms of the Consolidated Bridge Loan Agreement.

b. Change in Collateral Location. The Debtor will not (i) change its corporate name, (ii) change the location of its chief executive office or establish any place of business other than those specified in Section IIIA of Schedule A, or (iii) move or permit movement of the Collateral from the locations specified therein except from one such location to another such location, unless in each case the Debtor shall have given the Agent at least thirty (30) days prior written notice thereof, and shall have, in advance, executed and caused to be filed and/or delivered to Agent any financing statements or other documents required by Agent to perfect the security interest of the Secured Parties in the Collateral in accordance with Section IVC hereof, all in form and substance satisfactory to the Agent.

c. Additional Financing Statements. Promptly upon the reasonable request of Agent, the Debtor will execute and deliver or use its reasonable efforts to procure any document, give any notices, execute and file any financing statements, mortgages or other documents, all in form and substance satisfactory to Agent, mark any chattel paper, deliver any chattel paper or instruments to Agent and take any other actions that are necessary or, in the opinion of Agent, desirable to perfect or continue the perfection and the first priority of the Secured Parties' security interest in the Collateral, to protect the Collateral against the rights, claims, or interests of third persons, or to effect the purposes of this Agreement. The Debtor will pay the costs incurred in connection with any of the foregoing.

d. Additional Liens; Transfers. Without the prior written consent of the Agent, the Debtor will not, in any way, hypothecate or create or permit to exist any lien, security interest, charge or encumbrance on or other interest in the Collateral, other than those permitted under the terms of the Consolidated Bridge Loan Agreement, and the Debtor will not sell, transfer, assign, pledge, collaterally assign, exchange or otherwise dispose of the Collateral, other than the sale of Inventory in the ordinary course of business and the sale of obsolete or worn out

Equipment. Notwithstanding the foregoing, if the proceeds of any such sale consist of notes, instruments, documents of title, letters of credit or chattel paper, such proceeds shall be promptly delivered to Agent to be held as Collateral hereunder. If the Collateral, or any part thereof, is sold, transferred, assigned, exchanged, or otherwise disposed of in violation of these provisions, the security interest of the Agent shall continue in such Collateral or part thereof notwithstanding such sale, transfer, assignment, exchange or other disposition, and the Debtor will hold the proceeds thereof for the ratable benefit of the Secured Parties, and promptly transfer such proceeds to the Secured Parties in kind.

e. Contractual Obligations. The Debtor will not enter into any contractual obligations which may restrict or inhibit the Agent's rights or ability to sell or otherwise dispose of the Collateral or any part thereof after the occurrence or during the continuance of an Event of Default.

f. Agent's Right to Protect Collateral. Upon the occurrence or continuance of an Event of Default, Agent shall have the right at any time to make any payments and do any other acts Agent may deem necessary to protect the security interests of the Secured Parties in the Collateral, including, without limitation, the right to pay, purchase, contest or compromise any encumbrance, charge or lien which, in the reasonable judgment of Agent, appears to be prior to or superior to the security interests granted hereunder, and appear in and defend any action or proceeding purporting to affect its security interests in, and/or the value of, the Collateral. The Debtor hereby agrees to reimburse Agent for all payments made and expenses incurred under this Agreement including reasonable fees, expenses and disbursements of attorneys and paralegals acting for Agent, including any of the foregoing payments under, or acts taken to protect its security interests in the Collateral, which amounts shall be secured under this Agreement, and agrees it shall be bound by any payment made or act taken by Agent hereunder absent Agent's gross negligence or willful misconduct. Agent shall have no obligation to make any of the foregoing payments or perform any of the foregoing acts.

g. Further Obligations With Respect to Accounts. In furtherance of the continuing assignment and security interest in the Accounts of the Debtor granted pursuant to this Agreement, upon the creation of Accounts, upon the Agent's request, the Debtor will execute and deliver to Agent in such form and manner as the Agent may require, solely for its convenience in maintaining records of Collateral, such confirmatory schedules of Accounts, and other appropriate reports designating, identifying and describing the Accounts as the Agent may reasonably require. In addition, upon the Agent's request, the Debtor shall provide the Agent with copies of agreements with, or purchase orders from the customers of the Debtor and copies of invoices to customers, proof of shipment or delivery and such other documentation and information relating to said Accounts and other Collateral as the Agent may reasonably require. Furthermore, upon the Agent's request, the Debtor shall deliver to the Agent any documents or certificates of title issued with

respect to any property included in the Collateral, and any promissory notes, letters of credit or instruments related to or otherwise in connection with any property included in the Collateral, which in any such case came into the possession of the Debtor, or shall cause the issuer thereof to deliver any of the same directly to the Agent, in each case with any necessary endorsements in favor of Agent. Failure to provide the Agent with any of the foregoing shall in no way affect, diminish, modify or otherwise limit the security interests granted herein. The Debtor hereby authorizes Agent to regard the Debtor's printed name or rubber stamp signature on assignment schedules or invoices as the equivalent of a manual signature by the Debtor's authorized officers or agents.

h. Insurance. The Debtor agrees to maintain public liability insurance, third party property damage insurance and replacement value insurance on the Collateral under such policies of insurance, with such insurance companies, in such amounts and covering such risks as are at all times satisfactory to the Agent in its commercially reasonable judgment. All policies covering the Collateral are to name Agent as an additional insured and the loss payee in case of loss, and are to contain such other provisions as the Agent may reasonably require to fully protect the Secured Parties' interest in the Collateral and to any payments to be made under such policies.

i. Taxes. The Debtor agrees to pay, when due, all taxes lawfully levied or assessed against the Debtor or any of the Collateral before any penalty or interest accrues thereon; provided, however, that, unless such taxes have become a Federal tax or Employment Retirement Security Income Act lien on any of the assets of the Debtor, no such tax need be paid if the same is being contested, in good faith, by appropriate proceedings promptly instituted and diligently conducted and if an adequate reserve or other appropriate provision shall have been made therefor as required in order to be in conformity with generally accepted accounting principles and procedures in effect in the United States of America.

j. Compliance with Laws. The Debtor agrees to comply in all material respects with all requirements of law applicable to the Collateral or any part thereof, or to the operation of its business or its assets generally, unless the Debtor contests any such requirements of law in a reasonable manner and in good faith. The Debtor agrees to maintain in full force and effect, its respective licenses and permits granted by any governmental authority as may be necessary or advisable for the Debtor to conduct its business in all material respects.

k. Maintenance of Property. The Debtor agrees to keep all property useful and necessary to its business in good working order and condition (ordinary wear and tear excepted) and not to commit or suffer any waste with respect to any of its properties.

l. Environmental and Other Matters. The Debtor will conduct its business so as to comply in all material respects with all environmental, land use, occupational, safety or health laws, regulations, directions, ordinances, criteria and guidelines in all jurisdictions in which it is or may at any time be doing business, except to the extent that the Debtor is contesting, in good faith by appropriate legal, administrative or other proceedings, any such law, regulation, direction, ordinance, criteria, guideline, or interpretation thereof or application thereof; provided, further, that the Debtor shall comply with the order of any court or other governmental authority relating to such laws unless the Debtor shall currently be prosecuting an appeal, proceedings for review or administrative proceedings and shall have secured a stay of enforcement or execution or other arrangement postponing enforcement or execution pending such appeal, proceedings for review or administrative proceedings.

m. Further Assurances. The Debtor shall take all such further actions and execute all such further documents and instruments (including, but not limited to, collateral assignments of Intellectual Property and Intangibles or any portion thereof) as the Agent may at any time reasonably determine in its sole discretion to be necessary or desirable to further carry out and consummate the transactions contemplated by the Consolidated Bridge Loan Agreement and the documentation relating thereto, including this Agreement, and to perfect or protect the liens (and the priority status thereof) of the Secured Parties in the Collateral.

SECTION 5. REMEDIES.

a. Obtaining the Collateral Upon Default. If any Event of Default shall have occurred and be continuing, then and in every such case, subject to any mandatory requirements of applicable law then in effect, the Agent, in addition to any rights now or hereafter existing under applicable law, shall have all rights as a secured creditor under the Uniform Commercial Code in all relevant jurisdictions and may, without limitation:

(i) personally, or by agents or attorneys, immediately retake possession of the Collateral or any part thereof, from the Debtor or any other Person who then has possession of any part thereof, with or without notice or process of law, and for that purpose may enter upon the Debtor's premises where any of the Collateral is located and remove the same, and, use in connection with such removal, any and all services, supplies, aids or other facilities of the Debtor;

(ii) instruct the obligor or obligors on any agreement, instrument or other obligation (including,

without limitation, the Accounts) constituting the Collateral to make any payment required by the terms of such instrument or agreement directly to the Agent;

(iii) withdraw all monies, securities and instruments held pursuant to any pledge arrangement for application to the Obligations;

(iv) sell, assign or otherwise liquidate, or direct the Debtor to sell, assign or otherwise liquidate, any or all of the Collateral or any part thereof, and take possession of the proceeds of any such sale or liquidation;

(v) take possession of the Collateral or any part thereof, by directing the Debtor in writing to deliver the same to the Agent at any place or places designated by Agent, in which event the Debtor shall at its own expense:

(1) forthwith cause the same to be moved to the place or places so designated by the Agent and there delivered to the Agent,

(2) store and keep any Collateral so delivered to the Agent at such place or places pending further action by the Agent as provided in Section VB, and

(3) while the Collateral shall be so stored and kept, provide such guards and maintenance services as shall be necessary to protect the same and to preserve and maintain the Collateral in good condition;

it being understood that the Debtor's obligation to so deliver the Collateral is of the essence of this Agreement and that, accordingly, upon application to a court of equity having jurisdiction, the Agent shall be entitled to a decree requiring specific performance by the Debtor of said obligation.

b. Disposition of the Collateral. Any collateral repossessed by the Agent under or pursuant to Section VA and any other Collateral whether or not so repossessed by the Agent, may be sold, assigned, leased or otherwise disposed of under one or more contracts or as an entirety, and without the necessity of gathering at the place of sale the property to be sold, and in general, in such manner, at such time or times, at such place or places and on such terms as the Agent may, in compliance with any mandatory requirements of applicable law, determine to be commercially reasonable. Any of the Collateral may be sold,

leased or otherwise disposed of, in the condition in which the same existed when taken by Agent or after any overhaul or repair which the Agent shall determine to be commercially reasonable. Any such disposition which shall be a private sale or other private proceedings permitted by such requirements, shall be made upon not less than ten (10) days' written notice to the Debtor specifying the time at which such disposition is to be made and the intended sale price or other consideration therefor, and shall be subject, for the ten (10) days after the giving of such notice, to the right of the Debtor or any nominee of the Debtor to acquire the Collateral involved at a price or for such other consideration at least equal to the intended sale price or other consideration so specified. Any such disposition which shall be a public sale permitted by such requirements, shall be made upon not less than ten (10) days' written notice to the Debtor specifying the time and place of such sale and, in the absence of applicable requirements of law, shall be by public auction (which may, at the option of the Secured Parties, after publication of notice of such auction not less than ten (10) days prior thereto in two (2) newspapers in general circulation in the City of New York, as the Agent may determine. To the extent permitted by any such requirement of law, Agent may bid for and become the purchaser of the Collateral or any item thereof, offered for sale in accordance with this Section without accountability to the Debtor (except to the extent of surplus money received). If, under mandatory requirements of applicable law, Agent shall be required to make disposition of the Collateral within a period of time which does not permit the giving of notice to the Debtor as hereinabove specified, Agent need give the Debtor only such notice of disposition as shall be reasonably practicable in view of such mandatory requirements of applicable law.

c. Power of Attorney. The Debtor hereby irrevocably authorizes and appoints Agent, or any Person or agent that the Secured Parties may designate, as the Debtor's attorney-in-fact, at the Debtor's cost and expense, to exercise all of the following powers upon and at any time after the occurrence and during the continuance of an Event of Default, which powers, being coupled with an interest, shall be irrevocable until all of the Obligations owing by the Debtor shall have been paid and satisfied in full:

(i) accelerate or extend the time of payment, compromise, issue credits, bring suit or administer and otherwise collect Accounts or proceeds of any Collateral;

(ii) receive, open and dispose of all mail addressed to the Debtor and notify postal authorities to change the address for delivery thereof to such address as Agent may designate;

(iii) give customers indebted on Accounts notice of Secured Parties' interest therein, and/or to instruct such customers to make payment directly to Agent for the Debtor's account;

(iv) convey any item of Collateral to any purchaser thereof;

(v) give any notices or record any liens under Section IVC hereof; and

(vi) make any payments or take any acts under Section IVF hereof.

Agent's authority under this section VC shall include, without limitation, the authority to execute and give a receipt for any certificate of ownership or any document, transfer title to any item of Collateral, sign the Debtor's name on all financing statements or any other documents deemed necessary or appropriate to preserve, protect or perfect the security interest in the Collateral and to file the same, prepare, file and sign the Debtor's name on any notice of lien, assignment or satisfaction of lien or similar document in connection with any Account and prepare, file and sign Debtor's name on a proof of claim in bankruptcy or similar document against any customer of the Debtor, and to take any other actions arising from or incident to the rights, powers and remedies granted to the Agent in this Agreement. This power of attorney is coupled with an interest and is irrevocable by the Debtor.

d. Waiver of Claims. Except as otherwise provided in this Agreement, the DEBTOR HEREBY WAIVES, TO THE EXTENT PERMITTED BY APPLICABLE LAW, NOTICE AND JUDICIAL HEARING IN CONNECTION WITH AGENT'S TAKING POSSESSION OF OR DISPOSING OF ANY OF THE COLLATERAL, INCLUDING, WITHOUT LIMITATION, ANY AND ALL PRIOR NOTICE AND HEARING FOR ANY PREJUDGMENT REMEDY OR REMEDIES AND ANY SUCH RIGHT WHICH THE DEBTOR WOULD OTHERWISE HAVE UNDER THE CONSTITUTION OR ANY STATUTE OF THE UNITED STATES OR OF ANY STATE, and the Debtor hereby further waives, to the extent permitted by law:

(i) all damages occasioned by such taking of possession except any damages which are the direct result of Agent's gross negligence or willful misconduct;

(ii) all other requirements as to the time, place and terms of sale or other requirements with respect to the enforcement of the Agent's rights hereunder, except as expressly provided herein; and

(iii) all rights of redemption, appraisement, valuation, stay, extension or moratorium now or hereafter in force under any applicable law in order to prevent or delay the enforcement of this Agreement or the absolute sale of the Collateral or any portion thereof, and the Debtor, for itself and all who may claim under it, insofar as it or they now or hereafter lawfully may, hereby waives the benefit of all such laws.

Any sale of, or the grant of options to purchase, or any other realization upon any Collateral shall operate to divest all right, title, interest, claim and demand, either at law or in equity, of the Debtor therein and thereto, and shall be a perpetual bar both at law and in equity against the Debtor and against any and all persons claiming or attempting to claim the Collateral so sold, optioned or realized upon, or any part thereof, from, through and under the Debtor.

e. Remedies Cumulative. Each and every right, power and remedy hereby specifically given to Agent shall be in addition to every other right, power and remedy specifically given under this Agreement, under the Consolidated Bridge Loan Agreement or under other documentation relating thereto or now or hereafter existing at law or in equity, or by statute, and each and every right, power and remedy whether specifically herein given or otherwise existing may be exercised from time to time or simultaneously and as often and in such order as may be deemed expedient by Agent. All such rights, powers and remedies shall be cumulative and the exercise or the beginning of exercise of one shall not be deemed a waiver of the right to exercise of any other or others. No delay or omission of Agent in the exercise of any such right, power or remedy and no renewal or extension of any of the Obligations shall impair any such right, power or remedy or shall be construed to be a waiver of any default or Event of Default or any acquiescence therein.

SECTION 6. MISCELLANEOUS PROVISIONS.

a. Notices. All notices, approvals, consents or other communications required or desired to be given hereunder shall be delivered in person, by facsimile transmission followed promptly by first class mail or by overnight mail, and delivered if to the Debtor, then to the attention of Mr. Michael Reicher, c/o Halsey Drug Co., Inc., 695 N. Perryville Road, Rockford, Illinois 61107. fax no. (815) 399-9710, with a copy to John P. Reilly, Esq., c/o St. John & Wayne, 2 Penn Plaza East, Newark, New Jersey 07105, fax no. (973) 491-3407, and if to the Agent, then to the attention of Mr. Srini Conjeevaram c/o Galen Partners III, L.P., Rockefeller Center, 610 Fifth Avenue, 5th Floor, New York, New York 10020, fax no. (212) 218-4999, with a copy to George N. Abrahams, Esq. c/o Wolf,

Block, Schorr and Solis-Cohen LLP, 250 Park Avenue, New York, New York 10177, fax no. (212) 986-0604.

b. Headings. The headings in this Agreement are for purposes of reference only and shall not affect the meaning or construction of any provision of this Agreement.

c. Severability. The provisions of this Agreement are severable, and if any clause or provision shall be held invalid or unenforceable in whole or in part in any jurisdiction, then such invalidity or unenforceability shall affect, in that jurisdiction only, such clause or provision, or part thereof, and shall not in any manner affect such clause or provision in any other jurisdiction or any other clause or provision of this Agreement in any jurisdiction.

d. Amendments, Waivers and Consents. Any amendment or waiver of any provision of this Agreement and any consent to any departure by the Debtor from any provision of this Agreement shall be effective only if made or given in writing signed by the Agent.

e. Interpretation of Agreement. Time is of the essence in each provision of this Agreement of which time is an element. All terms not defined herein shall have the meaning set forth in the applicable Uniform Commercial Code. Acceptance of or acquiescence in a course of performance rendered under this Agreement shall not be relevant in determining the meaning of this Agreement even though the accepting or acquiescing party had knowledge of the nature of the performance and opportunity for objection.

f. Continuing Security Interest. This Agreement shall create a continuing security interest in the Collateral, and shall (i) remain in full force and effect until indefeasible payment in full of the Obligations owing by the Debtor, (ii) be binding upon the Debtor, and its successors and assigns and (iii) inure to the benefit of the Secured Parties and their successors and assigns.

g. Reinstatement. To the extent permitted by law, this Agreement shall continue to be effective or be reinstated if at any time any amount received by Agent or the Secured Parties in respect of the Obligations owing by the Debtor is rescinded or must otherwise be restored or returned by Agent or the Secured Parties upon the occurrence or during the pendency of any Event of Default, all as though such payments had not been made.

h. Survival of Provisions. All representations, warranties and covenants of the Debtor contained herein shall survive the execution and delivery of this Agreement, and shall terminate only upon the full and final indefeasible payment and performance by the Debtor of the Obligations secured hereby.

i. Setoff. The Secured Parties shall have all rights of setoff available at law or in equity.

j. Power of Attorney. In addition to the powers granted to the Secured Parties under Section VC, the Debtor hereby irrevocably authorizes and appoints Agent, or any Person or agent that the Secured Parties may designate, as the Debtor's attorney-in-fact, at the Debtor's cost and expense, to exercise all of the following powers, which being coupled with an interest, shall be irrevocable until all of the Obligations shall have been indefeasibly paid and satisfied in full:

(i) after the occurrence of an Event of Default, to receive, take, endorse, sign, assign and deliver, all in the name of Agent or the Debtor, any and all checks, notes, drafts, and other documents or instruments relating to the Collateral; and

(ii) to request, at any time from customers indebted on Accounts, verification of information concerning the Accounts and the amounts owing thereon.

k. Indemnification; Authority of Agent. Neither Agent or the Secured Parties nor any partner, director, officer, employee, attorney or agent of Agent or the Secured Parties shall be liable to the Debtor for any action taken or omitted to be taken by it or them hereunder, except for its or their own gross negligence or willful misconduct, nor shall Agent or the Secured Parties be responsible for the validity, effectiveness or sufficiency of this Agreement or of any document or security furnished pursuant hereto. Agent or the Secured Parties and its partners, directors, officers, employees, attorneys and agents shall be entitled to rely on any communication, instrument or document reasonably believed by it or them to be genuine and correct and to have been signed or sent by the proper person or persons. The Debtor agrees to indemnify and hold Agent or the Secured Parties and any other person harmless from and against any and all costs, expenses (including reasonable fees, expenses and disbursements of attorneys and paralegals (including, without duplication, reasonable charges of inside counsel)), claims or liability incurred by Agent or the Secured Parties or such person hereunder, unless such claim or liability shall be due to willful misconduct or gross negligence on the part of Agent or the Secured Parties or such person.

l. Release; Termination of Agreement. Subject to the provisions of Section VIG hereof, this Agreement shall terminate upon full and final indefeasible payment and performance of all the Obligations owing by the Debtor. At such time, Agent shall, at the request of the Debtor, reassign and redeliver to the Debtor all of the Collateral hereunder which has not been sold, disposed of, retained or applied by Agent in accordance with the terms hereof. Such reassignment and

redelivery shall be without warranty by or recourse to Agent or the Secured Parties, except as to the absence of any prior assignments by Agent of its interest in the Collateral, and shall be at the expense of the Debtor.

m. Counterparts. This Agreement may be executed in one or more counterparts, each of which shall be deemed an original but all of which shall together constitute one and the same agreement.

n. GOVERNING LAW. THE VALIDITY, INTERPRETATION AND ENFORCEMENT OF THIS AGREEMENT AND ANY DISPUTE ARISING OUT OF OR IN CONNECTION WITH THIS AGREEMENT, WHETHER SOUNDING IN CONTRACT, TORT, EQUITY OR OTHERWISE, SHALL BE GOVERNED BY THE INTERNAL LAWS (AS OPPOSED TO THE CONFLICTS OF LAWS PROVISIONS) AND DECISIONS OF THE STATE OF NEW YORK.

o. SUBMISSION TO JURISDICTION. ALL DISPUTES BETWEEN THE DEBTOR AND AGENT OR THE SECURED PARTIES, WHETHER SOUNDING IN CONTRACT, TORT, EQUITY OR OTHERWISE, SHALL BE RESOLVED ONLY BY STATE AND FEDERAL COURTS LOCATED IN NEW YORK, NEW YORK, AND THE COURTS TO WHICH AN APPEAL THEREFROM MAY BE TAKEN; PROVIDED, HOWEVER, THAT AGENT OR THE SECURED PARTIES SHALL HAVE THE RIGHT, TO THE EXTENT PERMITTED BY APPLICABLE LAW, TO PROCEED AGAINST THE DEBTOR OR ITS PROPERTY IN ANY LOCATION REASONABLY SELECTED BY AGENT OR THE SECURED PARTIES IN GOOD FAITH TO ENABLE AGENT OR THE SECURED PARTIES TO REALIZE ON SUCH PROPERTY, OR TO ENFORCE A JUDGMENT OR OTHER COURT ORDER IN FAVOR OF AGENT OR THE SECURED PARTIES. THE DEBTOR AGREES THAT IT WILL NOT ASSERT ANY PERMISSIVE COUNTERCLAIMS, SETOFFS OR CROSS-CLAIMS IN ANY PROCEEDING BROUGHT BY AGENT OR THE SECURED PARTIES. THE DEBTOR WAIVES ANY OBJECTION THAT IT MAY HAVE TO THE LOCATION OF THE COURT IN WHICH AGENT HAS COMMENCED A PROCEEDING, INCLUDING, WITHOUT LIMITATION, ANY OBJECTION TO THE LAYING OF VENUE OR BASED ON FORUM NON CONVENIENS.

p. SERVICE OF PROCESS. THE DEBTOR HEREBY IRREVOCABLY AGREES THAT SERVICE OF PROCESS IN ANY LEGAL ACTION OR PROCEEDING WITH RESPECT TO THIS AGREEMENT MAY BE EFFECTED BY MAILING A COPY THEREOF BY REGISTERED OR CERTIFIED MAIL, POSTAGE PREPAID, TO THE DEBTOR AT ITS ADDRESS SET FORTH IN SECTION VIA HEREOF.

q. JURY TRIAL. THE DEBTOR, AGENT AND EACH OF THE SECURED PARTIES EACH HEREBY WAIVE ANY RIGHT TO A TRIAL BY JURY.

r. LIMITATION OF LIABILITY. NEITHER AGENT NOR THE SECURED PARTIES SHALL HAVE ANY LIABILITY TO THE DEBTOR (WHETHER SOUNDING IN TORT, CONTRACT, OR OTHERWISE) FOR LOSSES SUFFERED BY THE DEBTOR IN CONNECTION WITH, ARISING OUT OF, OR IN ANY WAY RELATED TO THE TRANSACTIONS OR RELATIONSHIPS CONTEMPLATED BY THIS AGREEMENT, OR ANY ACT, OMISSION OR EVENT OCCURRING IN CONNECTION THEREWITH, UNLESS IT IS DETERMINED BY A FINAL AND NON APPEALABLE JUDGMENT OR COURT ORDER BINDING ON AGENT OR THE SECURED PARTIES, THAT THE LOSSES WERE THE RESULT OF ACTS OR OMISSIONS CONSTITUTING GROSS NEGLIGENCE OR WILLFUL MISCONDUCT.

s. Delays; Partial Exercise of Remedies. No delay or omission of Agent or the Secured Parties to exercise any right or remedy hereunder, whether before or after the happening of any Event of Default, shall impair any such right or shall operate as a waiver thereof or as a waiver of any such Event of Default. No single or partial exercise by Agent or the Secured Parties of any right or remedy shall preclude any other or further exercise thereof, or preclude any other right or remedy.

T. No Novation. This Agreement amends and restates in its entirety the Original Security Agreement, and similarly, the Consolidated Bridge Loan Agreement amends and restates in its entirety the Original Bridge Loan Agreement. However, no novation of the Original Obligations has occurred, and such Original Obligations continue to be owing by the Debtor in accordance with the terms of the Consolidated Bridge Loan Agreement. Similarly, the liens and security interests granted by the Debtor pursuant to the Original Security Agreement continue to be perfected liens of record and in full force and effect, the Debtor hereby confirms and reaffirms the same, and the date of perfection of such liens and security interests continues to relate back to the date of recordation of the financing statements on form UCC-1 executed by the Debtor in connection therewith.

[SIGNATURE PAGES FOLLOW]

IN WITNESS WHEREOF, the Debtor has caused this Agreement to be duly executed and delivered as of the day and year first above written.

HALSEY DRUG CO., INC.

By:/s/

Name: Michael Reicher
Title: Chief Executive Officer

By its acceptance hereof, as of the day and year first above written, Agent, on behalf of the Secured Parties, agrees to be bound by the provisions hereof applicable to it.

GALEN PARTNERS III, L.P., as Agent on behalf of the Secured Parties
By: Claudius, L.L.C., General Partner

By:/s/

Name: Bruce F. Wesson
Title: Managing Member

SCHEDULE A

IIIA. Locations of Collateral

1. 1827 Pacific Street, Brooklyn, New York
2. 695 N. Perryville Road, Rockford, Illinois

IIID. Liens

1. Liens permitted under the Existing Credit Facility.

2. Liens described on Schedule 10.4 to the Existing Credit Facility.

Exhibit 10.51

[Subordination Agreement dated December 2, 1998 between the Registrant and Galen Partners III, L.P., as Agent]

Execution Copy

SUBORDINATION AGREEMENT

THIS SUBORDINATION AGREEMENT (this "Agreement") is made as of the 2nd day of December, 1998, by and among GALEN PARTNERS III, L.P., a Delaware limited partnership ("Galen"), acting in its capacity as agent on behalf of certain lenders (in such capacity, the "Lenders' Agent"), including Galen (each, a "Lender", collectively, the "Lenders") in connection with and pursuant to a certain Amended, Restated and Consolidated Bridge Loan Agreement dated as of the date hereof and executed simultaneously herewith, (together with Schedules and Exhibits thereto, as the same may be amended, extended, modified, restated or supplemented, the "Consolidated Bridge Loan Agreement"); GALEN, acting in its capacity as agent on behalf of certain purchasers (in such capacity, the "Purchasers' Agent"), including Galen (each a "Purchaser", collectively, the "Purchasers") in connection with and pursuant to a certain Debenture and Warrant Purchase Agreement dated March 10, 1998 (together with Schedules and Exhibits thereto, as the same may be amended, extended, modified, restated and supplemented, from time to time, the "Purchase Agreement") and HALSEY DRUG CO., INC., a New York corporation (the "Borrower"). Terms that are capitalized herein and not otherwise defined shall have the meaning ascribed to them in Consolidated Bridge Loan Agreement.

WHEREAS, pursuant to the Purchase Agreement, the Borrower granted to the Purchasers' Agent, for the ratable benefit of the Purchasers, a security interest (the "Purchase Agreement Security Interest") in and to any and all of the property of the Borrower (the "Property") in accordance with the terms of the General Security Agreement dated March 10, 1998 by and between the Borrower and the Purchasers' Agent;

WHEREAS, the Borrower and certain Lenders funded the Original Bridge Loan in accordance with the terms of the Original Bridge Loan Agreement, pursuant to which the Borrower granted to the Galen Entities and to Galen, as agent to the Weisbrots (in such capacity, the "Weisbrot Agent"), for the ratable benefit of the Galen Entities and the Weisbrot Agent, a security interest in and to the Property (the "Original Bridge Loan Security Interest") in accordance with the terms of a certain General Security Agreement dated as of August 12, 1998 (together with all Schedules and Exhibits thereto, as amended through the date hereof, the "Original Bridge Loan Security Agreement"), and, the Purchasers' Agent subordinated the Purchase Agreement Security Interest to the Original Bridge Loan Security Interest in accordance with the terms of a certain Subordination Agreement dated as of August 12, 1998 (as amended through the date hereof, the "Original Subordination Agreement")

WHEREAS, the Borrower has requested that some or all of the Lenders consider making an additional bridge loan to Borrower on the terms and conditions contained in the Consolidated Bridge Loan Agreement, the proceeds of which will be used by the Borrower to finance its working capital needs;

WHEREAS, each Lender, the Borrower and the Agent have agreed to enter into the Consolidated Bridge Loan Agreement pursuant to which each Lender, the Borrower and the Agent has agreed (i) to amend and restate the Original Bridge Loan Agreement; (ii) to fund its Additional Bridge Loan Commitment and (iii) to consolidate its Additional Bridge Loan into the Original Bridge Loan pursuant to the terms and conditions of the Consolidated Bridge Loan Agreement.

WHEREAS, as a condition precedent to entering into the Consolidated Bridge Loan Agreement, the Lenders require that, among other things, (x) the Borrower enter into a certain Amended and Restated Security Agreement dated the date hereof and executed simultaneously herewith in order to grant the Lenders' Agent, for the ratable benefit of the Lenders, a security interest in and to the Collateral (the "Amended and Restated Security Interest") in order to secure the payment and performance of the Obligations arising under the Consolidated Bridge Loan Agreement, and, (y) the Purchasers' Agent enter into this Subordination Agreement dated the date hereof and executed simultaneously herewith in order to (1) subordinate the Purchase Agreement Security Interest to the Amended and Restated Security Interest in accordance with the terms set forth below and (2) subordinate the Subordinated Debt (as defined below) to the Senior Debt (as defined below) in accordance with the terms set forth below.

NOW, THEREFORE, in consideration of the above recitals and the provisions set forth herein, the Lenders' Agent on behalf of each Lender, the Purchasers' Agent on behalf of each Purchaser, and Borrower agree as follows:

1. Definitions. The following terms in this Agreement shall have the following meanings:

"Senior Debt" means (a) all indebtedness, liabilities and obligations of every kind or nature, absolute or contingent, now or existing or hereafter arising, of Borrower owed to the Lenders under the Senior Loan Documents, including without limitation the principal of, and interest on (including any interest accruing after the commencement of any bankruptcy, insolvency or similar proceeding with respect to Borrower whether or not allowed as a claim in such proceeding), and all premiums, fees, charges, expenses and indemnities arising under or in connection with the Consolidated Bridge Loan Agreement; and (b) any modifications, amendments, refunds, refinancings, renewals or extensions of any indebtedness or obligation described in clause (a) above.

"Senior Loan Documents" means the Consolidated Bridge Loan Agreement, the Bridge Loan Documents and the Collateral Documents, as defined in Section 1.1 of the Consolidated Bridge Loan Agreement, and, any other agreements, including any amendments, restatements, supplements or modifications thereto, relating to the Senior Debt.

"Subordinated Debt" means all present or future indebtedness loans, advances, debit balances, liabilities, covenants, duties or obligations of Borrower to the Purchasers under the Purchase Agreement, howsoever evidenced, whether evidenced by the 1998 Debentures or otherwise, whether direct or indirect, absolute or contingent, secured or unsecured, due or to become due, now existing or hereafter arising, and whether created directly or acquired indirectly by assignment, pledge, purchase or otherwise, together with all interest, fees, charges, expenses and attorneys' fees for which Borrower is now or hereafter becomes liable to pay to the Purchasers or Purchasers' Agent under any agreement or by law.

2. Subordination of Amended and Restated Security Interest and Subordination of Subordinated Debt to Senior Debt. The Purchasers' Agent hereby: (i) subordinates the Purchase Agreement Security Interest to the Amended and Restated Security Interest to the extent and in the manner hereinafter set forth and (ii) subordinates all Subordinated Debt such that all Subordinated Debt is and shall be subordinate and junior in right of payment, to the extent and in the manner hereinafter set forth, to the prior indefeasible payment in full of all Senior Debt. Except as and to the extent provided hereinafter, the Purchasers or Purchasers' Agent, will not ask, demand, sue for, take or receive from Borrower, by set-off or in any other manner, direct or indirect payment (whether in cash or property), of the whole or any part of the Subordinated Debt, or any transfer of any property in payment of or as security therefor, unless and until all of the Senior Debt has been fully and indefeasibly paid in full and until any obligations owed by the Borrower to the Lenders under the Senior Loan Agreements have been terminated.

3. Distributions in Liquidation and Bankruptcy. Notwithstanding anything to the contrary in this Agreement or in the 1998 Debentures in the event of any distribution, division or application partial or complete, voluntary or involuntary, by operation of law or otherwise, of all or any part of the assets of Borrower or the proceeds thereof (including any assets now or hereafter securing any Subordinated Debt) to creditors of Borrower or upon any indebtedness of Borrower, as a result of the liquidation, dissolution or other winding up, partial or complete, of Borrower, or as a result of any receivership, insolvency or bankruptcy proceeding, or assignment for the benefit of creditors or marshalling of assets, or as a result of any proceeding by or against Borrower for any relief under any bankruptcy or insolvency law or laws relating to the relief of debtors, readjustment of indebtedness, arrangements, reorganizations, compositions or extensions, or as a result of the sale of all or substantially all of the assets of Borrower, then and in any such event:

(a) Lenders' Agent shall be entitled to receive payment in full of all Senior Debt before Purchasers' Agent shall be entitled to receive any payment or other distributions on, or with respect to, the Subordinated Debt;

(b) Any payment or distribution of any kind or character, whether in cash, securities or other property, which but for these provisions would be payable or deliverable upon or with respect to the Subordinated Debt shall instead be paid or delivered directly to Lenders' Agent for the benefit of the holders of the Senior Debt for application on the Senior Debt, whether then due or not due, until the Senior Debt shall have first been fully and indefeasibly paid in full;

(c) The Purchasers and Purchasers' Agent shall duly and promptly take such action as may reasonably be requested by Lenders' Agent to assist in the collection of the Subordinated Debt for the account of any holder of the Senior Debt, including the filing of appropriate proofs of claim with respect to the Subordinated Debt and the voting of such claims;

(d) In the event that the Purchasers or Purchasers' Agent shall not have filed a claim in any bankruptcy, insolvency or similar proceeding with respect to Borrower at least sixty (60) days prior to the expiration of the time to file such claims, then Lenders' Agent, on behalf of the Purchasers, shall be authorized to file a claim with respect to the Subordinated Debt; and

(e) Should any direct or indirect payment be made to the Purchasers or Purchasers' Agent upon or with respect to the Subordinated Debt prior to the payment in full of the Senior Debt in accordance with these provisions, Purchasers' Agent will forthwith deliver the same to Lenders' Agent in precisely the form received (except for the endorsement or assignment by the Purchasers or Purchasers' Agent, where necessary) for application on the Senior Debt, whether then due or not due. Until so delivered, the payment or distribution shall be held in trust by the Purchasers and Purchasers' Agent as property of the holders of the Senior Debt. In the event of the failure of the Purchasers or Purchasers' Agent to make any such endorsement or assignment, Lenders' Agent, or any of its officers or employees, are hereby irrevocably authorized to make the same.

4. No Payments on Subordinated Debt. Until such time as the Senior Debt is indefeasibly paid in full, Borrower may not make and neither the Purchasers, nor the Purchasers' Agent, may accept, any payments on the Subordinated Debt, including without limitation any payments of interest on or principal of the Subordinated Debt; provided, however, that except as otherwise provided in paragraph 3 above, unless and until an Event of Default has occurred and is continuing under the Consolidated Bridge Loan Agreement, the Borrower may make and the Purchasers' Agent may accept scheduled payments of interest on the principal outstanding under the 1998 Debentures, strictly in accordance with the terms of the 1998 Debentures as in effect on the date of execution thereof. Without limiting the generality of the foregoing, Borrower shall not pay and neither the Purchasers nor Purchasers' Agent shall not accept any prepayments of the Subordinated Debt, whether voluntary or mandatory, or any payment of any accelerated amounts due under the Subordinated Debt.

5. Turnover of Payments. If, notwithstanding the prohibition on payments contained in paragraph 4 hereof, the Purchasers or Purchasers' Agent shall receive any payment or distribution of any kind (whether from any collateral securing the Subordinated Debt or otherwise), with the exception of the scheduled payments of interest that are made in accordance the terms of paragraph 4 above, such payment or distribution shall be received in trust for, and shall be delivered to Lenders' Agent promptly in precisely the form received (except for the endorsement or assignment by the Purchasers or Purchasers' Agent, where necessary) for application on the Senior Debt, whether then due or not due. Until so delivered, the payment or distribution shall be held in trust by the Purchasers, or Purchasers' Agent, as property of the holders of Senior Debt.

6. No Acceleration or Exercise of Remedies. So long as any Senior Debt remains unpaid, Purchasers' Agent will not (a) accelerate, or cause to be accelerated, the Subordinated Debt

or otherwise cause the Subordinated Debt to become due prior to its original stated maturity; or (b) accept any payment, prepayment or defeasance of any portion of the Subordinated Debt, as provided herein; or (c) modify or alter in any way the terms of the Subordinated Debt if the effect of such is to accelerate the payments due thereon; or (d) exercise any remedies with respect to the Subordinated Debt or any collateral at any time securing payment or performance thereof unless and until, in each such case, all of the Senior Debt shall have been indefeasibly paid in full, or the Lenders shall have otherwise consented in writing.

7. Bankruptcy. Until the Senior Debt shall have been indefeasibly paid in full, the Purchasers, or Purchasers' Agent, will not without the prior written consent of each of the Lenders commence, or join with any other person in commencing, any proceeding against any person with respect to the Subordinated Debt under any bankruptcy reorganization, readjustment of debt, dissolution, receivership, liquidation or insolvency law or statute now or hereafter in effect in any jurisdiction.

8. Continuing Subordination. The subordination effected by these provisions is a continuing subordination and may not be modified or terminated by the Purchasers, or Purchasers' Agent, or any other holder of any Subordinated Debt until all of the Senior Debt shall have been indefeasibly paid in full. At any time and from time to time, without consent of or notice to the Purchasers, or Purchasers' Agent, or any other holder of Subordinated Debt, and without impairing or affecting the obligations of any of them hereunder:

(a) The time for Borrower's performance of, or compliance with, any of its agreements contained in the Senior Loan Agreements, or any other agreement, instrument or document relating to the Senior Debt, may be modified or extended or such performance or compliance may be waived;

(b) The Lenders, or Lenders' Agent, may exercise or refrain from exercising any rights under the Senior Loan Agreements, or any other agreement, instrument or document relating to the Senior Debt;

(c) The Senior Loan Agreements, or any other agreement, instrument or document relating to the Senior Debt, may be revised, amended or otherwise modified for the purpose of adding or changing any provisions thereof (including, without limitation, increases in the principal amount or increases in the interest charges or fees), or changing in any manner the rights of the Lenders, Borrower, or any guarantor of the Senior Debt;

(d) Payment of the Senior Debt or any portion thereof may be extended, refunded or refinanced or any notes evidencing such Senior Debt may be renewed in whole or in part;

(e) The maturity of the Senior Debt may be accelerated, and any collateral security therefor or any other rights of Lender may be exchanged, sold, surrendered, released or otherwise dealt with, in accordance with the terms of any present or future agreement with Borrower or any guarantor and any other agreement of subordination (and the debt covered thereby) may be

surrendered, released or discharged, or the terms thereof modified or otherwise dealt with in any manner;

(f) Any person liable in any manner for payment of the Senior Debt may be released by holders of Senior Debt; and

(g) Notwithstanding the occurrence of any of the foregoing, these subordination provisions shall remain in full force and effect with respect to the Senior Debt, as the same shall have been extended, renewed, modified, refunded or refinanced.

9. Waivers. Purchasers' Agent hereby waives, and agrees not to assert: (a) any right, now or hereafter existing, to require the Lenders or Lenders' Agent to proceed against or exhaust any collateral at any time securing the Senior Debt, or to marshal any assets in favor of the Purchasers, or Purchasers' Agent, or any other holder of Subordinated Debt; and (b) any notice of the incurrence of Senior Debt, it being understood that Lender may, in reliance upon these subordination provisions, make advances under the Loan Documents, or any other agreement, document or instrument now or hereafter relating to the Senior Debt, without notice to or authorization of Creditor.

10. Lien Subordination and Standby. Any lien, security interest, encumbrance, charge or claim of the Purchasers, or Purchasers' Agent, on any assets or property of Borrower or any proceeds or revenues therefrom which Purchasers' Agent, may have at any time as security for any Subordinated Debt shall be, and hereby is, subordinated to all liens, security interests, or encumbrances now or hereafter granted to the Lenders' Agent by Borrower or by law, notwithstanding the date or order of attachment or perfection of any such lien, security interest, encumbrance or claim or charge or the provision of any applicable law. Until each of the Lenders have received indefeasible payment in full of the Senior Debt, the Purchasers, and Purchasers' Agent, agree that the Purchasers, or Purchasers' Agent, will not assert or seek to enforce against Borrower any interest of any of the Purchaser in any and all collateral for the Subordinated Debt and that Lenders' Agent may dispose of any or all of the collateral for the Senior Debt free of any and all liens, including but not limited to liens created in favor of Purchasers' Agent through judicial or nonjudicial proceedings, in accordance with applicable law including taking title, after notice to Purchasers' Agent. The Purchasers agree that any such sale or other disposition by Lenders' Agent of so much of the collateral for the Senior Debt as is necessary to satisfy in full, all of the principal of, interest on and reasonable costs of collection of the Senior Debt shall be made free and clear of any security interest granted to holder provided the entire proceeds (after deducting reasonable expenses of sale) are applied in reduction of the Senior Debt. Upon Lenders' Agent's request, the Purchasers, and Purchasers' Agent, shall execute and deliver any releases or other documents and agreements that Lenders' Agent in its reasonable discretion deems necessary to dispose of the collateral for the Senior Debt free of the Purchasers interest in same. The Purchasers retain all of its rights as junior secured creditors with respect to the surplus, if any, arising from any such disposition of the collateral for the Senior Debt.

11. Subrogation. Until the Senior Debt shall have been indefeasibly paid in full, the Purchasers, and Purchasers' Agent, hereby waive all rights of subrogation with respect to the rights

of the Lenders to receive payments or distributions and with respect to any rights to any collateral for the Senior Debt. Upon payment in full of the Senior Debt, Creditor shall be subrogated, to the extent permitted by law, to all rights of the holders of Senior Debt.

12. Subordination Not Impaired by Borrower. No right of any holder of Senior Debt to enforce the subordination of the Subordinated Debt shall be impaired by any act or failure to act by Borrower or by its failure to comply with these provisions.

13. No Third Party Beneficiaries. This Agreement is not intended to give or confer any rights to any person other than the holders of the Senior Debt. No other party, including Borrower, is intended to be a third party beneficiary of this Agreement.

14. Legend on Note or Other Instrument. If any portion of the Subordinated Debt is evidenced by a promissory note, debenture, stock certificate or other instrument, the Purchasers' Agent and Borrower agree to promptly add a conspicuous legend or other reference to such instrument stating that the rights of any holder and Borrower thereof are subject to this Agreement.

15. Representations and Warranties. Each of the Purchasers hereby represent and warrant that: (a) the execution and delivery of this Agreement and the performance by the Purchasers and Purchasers' Agent of its obligations hereunder have received all necessary approvals, corporate or otherwise, and do not and will not contravene or conflict with any provision of law or any provision of any indenture, instrument or other agreement to which the Purchasers or Purchasers' Agent is a party or by which it or its property may be bound or affected; (b) the Purchasers, and Purchasers' Agent, has full power, authority and legal right to make and perform this Agreement; (c) neither the Purchasers, or Purchasers' Agent, have assigned or transferred any indebtedness owing by Borrower or any of the collateral for the Subordinated Debt and Creditor will not assign or transfer same without at least ten (10) days prior written notice to each of the Lenders and Lenders' Agent; and (d) this Agreement is the legal, valid and binding obligation of each of the Purchasers and Purchasers' Agent, enforceable against the Purchasers and Purchasers' Agent in accordance with its terms.

16. No Waiver. No failure on the part of the Lenders or Lenders' Agent to exercise, no delay in exercising, and no course of dealing with respect to, any right or remedy hereunder will operate as a waiver thereof; nor will any single or partial exercise of any right or remedy hereunder preclude any other or further exercise thereof or the exercise of any other right or remedy. This Agreement may not be amended or modified except by written agreement of the Lenders' Agent, the Purchasers' Agent, and the Borrower, and no consent or waiver hereunder shall be valid unless in writing and signed by the Lenders' Agent.

17. Successor and Assigns. This Agreement, and the terms, covenants and conditions hereof, shall be binding upon and inure to the benefit of the parties hereto, and their respective successors and assigns.

18. Governing Law. This Agreement will be construed in accordance with and governed by the laws of the State of New York, without reference to its conflict of laws.

19. Provisions Applicable to Borrower. Borrower has signed this Agreement to indicate its acknowledgment thereof and its agreement to be bound by the provisions applicable to it.

20. Original Subordination Agreement. This Agreement supercedes and replaces, in its entirety, the Original Subordination Agreement, and, upon the effectiveness of this Agreement, the Original Subordination Agreement is of no further force and effect.

IN WITNESS WHEREOF, this Agreement has been duly executed as of the day and year first above written.

Borrower: Halsey Drug Co., Inc.

By: /S/

Name: Michael Reicher
Title: President

Purchasers: GALEN PARTNERS III, L.P., as Agent on behalf of the Purchasers
By: Claudius, L.L.C., General Partner

By: /S/

Name: Bruce F. Wesson
Title: Managing Member

Lenders: GALEN PARTNERS III, L.P., as Agent on behalf of the Lenders
By: Claudius, L.L.C., General Partner

By: /S/

Name: Bruce F. Wesson
Title: Managing Member

Notice Addresses:

Borrower:
Halsey Drug Co., Inc.
Attn: Michael Reicher, President
695 N. Perryville Road
Rockford, Illinois 61107
Fax No. (815) 399-9710

Purchasers' Agent and Lenders' Agent:
Galen Partners III, L.P.
Rockefeller Center
610 Fifth Avenue, 5th Floor
New York, New York 10020
(212) 218-4999

Exhibit 10.52

[Agency Letter Agreement dated December 2, 1998 by and among the lenders a party to the Amended, Restated and Consolidated Bridge Loan Agreement, as amended]

December 2, 1998

Galen Partners III, L.P., as Agent
610 Fifth Avenue, 5th Floor
New York, New York 10020

Gentlemen:

Reference is made to the Amended, Restated and Consolidated Bridge Loan Agreement (the "Consolidated Bridge Loan Agreement") dated as of December 2, 1998, by and among Halsey Drug Co., Inc., a New York corporation (the "Company"), Galen Partners III, L.P., a Delaware limited partnership ("Galen" or a "Lender") and certain other parties (each, a "Lender", collectively, the "Lenders"), and Galen, as agent for the Lenders (in such capacity, the "Agent") and each of the agreements, documents and instruments executed and delivered pursuant thereto or in connection therewith (collectively, with the Consolidated Bridge Loan Agreement, the "Transaction Documents"). Capitalized terms used herein which are not defined herein have the meanings ascribed to them in the Consolidate Bridge Loan Agreement.

This will confirm that, notwithstanding anything to the contrary contained in the Transaction Documents:

1. Appointment of Agent

(a) Each Lender hereby designates Galen as its Agent and irrevocably authorizes the Agent to take action on its behalf under the Transaction Documents, to exercise the powers and perform the duties described therein, and to exercise such other powers reasonably incidental thereto; provided, however, that each Lender shall retain the sole power and discretion to convert the Note and exercise the Warrants held by it into Conversion Shares and for Warrant Shares, as the case may be, and to exercise any registration rights under the Transaction Documents. The Agent may perform any of its duties through its agents or employees.

(b) This Section 1 is for the benefit of the Agent and the Lenders only. The Agent acts only for the Lenders and assumes no obligation to or agency or trust relationship with the Company or any of its affiliates or subsidiaries, except for the ratable disbursement to the Lenders of payments received by the Agent for the account of the Lenders.

2. Nature of Duties of Agent. The Agent has no duties or responsibilities, except those expressly set forth in this Agreement and the Transaction Documents. Neither the Agent nor any of its officers, directors, employees or agents shall be liable for any action taken or omitted hereunder or in connection herewith. The duties of the Agent shall be mechanical and administrative in nature. The Agent shall not have a fiduciary relationship to the Lenders or any participant of the Lenders.

3. Lack of Reliance on Agent. Independently and without reliance upon the Agent, each Lender has made and shall continue to make its own independent investigation and analysis of the content and validity of this Agreement and the Transaction Documents or of the performance and creditworthiness of the Company thereunder. The Agent assumes no responsibility and undertakes no obligation to make inquiry with respect to such matters.

4. Certain Rights of the Agent. The Agent may request instructions from the Lenders at any time. If the Agent requests instructions from the Lenders with respect to any action or inaction, the Agent shall be entitled to await instructions from the Lenders before such action or inaction. The Lenders shall have no right of action based upon the Agent's action or inaction in response to instructions from the Lenders.

5. Reliance by Agent. The Agent may rely upon written or telephonic communication it believes to be genuine and to have been signed, sent or made by the proper person. The Agent may obtain the advice of legal counsel (including, for matters concerning the Company, counsel for the Company), independent public accountants and other experts selected by it and shall have no liability for action or inaction taken or not taken, in good faith, based upon such advice.

6. Indemnification of Agent. Each Lender agrees to reimburse and indemnify the Agent for any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses (including attorneys fees and disbursements) or disbursements of any kind or nature whatsoever which may be imposed on, incurred by or asserted against the Agent in performing its duties hereunder or otherwise relating to this Agreement and the Transaction Documents, unless resulting from the Agent's gross negligence or willful misconduct.

7. The Agent in its Individual Capacity. In its individual capacity, the Agent shall have the same rights and powers hereunder as a Lender and may exercise them as though it was not performing the duties specified herein.

8. Successor Agent.

(a) The Agent may, upon fifteen (15) business days' notice to each Lender and the Company, resign by giving written notice thereof to each Lender and the Company. The Agent's resignation shall be effective upon the appointment of a successor Agent.

(b) Upon receipt of the Agent's resignation, the Lenders may appoint a successor Agent. If a successor Agent has not accepted its appointment within fifteen (15) business days, then the retiring Agent may, on behalf of the Lenders, appoint a successor Agent.

(c) Upon its acceptance of the agency hereunder, a successor Agent shall succeed to and become vested with all the rights, powers, privileges and duties of the retiring Agent, and the retiring Agent shall be discharged from its duties and obligations under this Agreement. The retiring Agent shall continue to have the benefit of this Agreement for any action or inaction while it was Agent.

9. Collateral Matters.

(a) The Lenders authorize and direct the Agent to enter into the other agreements for the benefit of each Lender. Except as otherwise set forth herein, any action or exercise of powers by the holder or holders of a majority, in the aggregate, of the Notes then outstanding (the "Majority Holders") shall be authorized and binding on all Lenders. At any time, without notice to or consent from the Lenders, the Agent may take any action necessary or advisable to perfect and maintain the perfection of the Liens on the Collateral.

(b) The Agent is authorized to subordinate or release any Lien granted to or held by the Agent upon any Collateral. The Agent may request, and the Lenders will provide, confirmation of the Agent's authority to release particular types or items of Collateral.

(c) The Agent shall have no obligation to assure that the Collateral exists or is owned by the Company or any of its Affiliates or Subsidiaries, or that such Collateral is cared for, protected or insured, or that the Liens on the Collateral have been created, perfected, or have any particular priority. With respect to the Collateral, the Agent may act in any manner it may deem appropriate, in its sole discretion, given Agent's own interest in the Collateral as a Lender, and it shall have no duty or liability whatsoever to any of the Lenders, except for its gross negligence or willful misconduct.

10. Actions with Respect to Defaults. In addition to the Agent's right to take actions on its own accord as permitted under this Agreement, the Agent shall take such action with respect to a Default or Event of Default as shall be directed by the Majority Holders. Until the Agent shall have received such directions, the Agent may act (or not act) as it deems advisable and in the best interests of the Lenders.

11. Waiver. No failure on the part of the Agent to exercise, and no delay in exercising, any right, power, or remedy hereunder shall operate as a waiver thereof.

12. Governing Law. This Agreement is entered into in accordance with and shall be governed by the laws of the State of New York, without regard to any principles of conflicts of laws.

13. Severability. If any provision or portion of any provision of this Agreement is held to be unenforceable or invalid by any court of competent jurisdiction, the remaining portions of any such provision and the remaining provisions hereof shall remain in effect.

14. Further Assurances. The Lenders and the Agent shall execute, in a proper and timely manner, at or after the date hereof, such additional documents and instruments as may be reasonably requested by the other parties in connection with the consummation or confirmation of the transactions contemplated by this Agreement.

15. Counterparts. This Agreement may be executed simultaneously in one or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

16. Entire Agreement; Amendment. This Agreement supercedes and replaces, in its entirety, any previous agreements between the parties relating to the subject matter hereof, and no modification or amendment may be made except by a written instrument signed by all parties.

17. Notices. All notices, approvals, consents or other communications required or desired to be given hereunder shall be delivered in person, by facsimile transmission followed promptly by first class mail or by overnight mail, and delivered, if to the Lenders, then to the address set forth opposite the name of each of the Lenders on the signature page hereof and if to Agent, then to the attention of Mr. Srini Conjeevaram c/o Galen Partners III, L.P., Rockefeller Center, 610 Fifth Avenue, 5th Floor, New York, New York 10020, fax no. (212) 218-4999, with a copy to George N. Abrahams, Esq. c/o Wolf, Block, Schorr and Solis-Cohen LLP, 250 Park Avenue, New York, New York 10177, fax no. (212) 986-0604.

18. Arbitration. Any controversy or claim arising out of or relating to this Agreement, or any breach or termination thereof, shall be settled by arbitration in the County of New York in accordance with the laws of the State of New York, without regard to any of that State's conflict of laws principles and rules, then obtaining, of the American Arbitration Association or any successor thereto. Within ten (10) days after a request for arbitration by one party to the other, an arbitrator shall then be chosen in accordance with the rules of the American Arbitration Association locate in New York City then obtaining. The American Arbitration Association shall name the arbitrator. The arbitration shall be held in New York County, New York. The arbitrator may grant injunctions or other relief in such dispute or controversy. The decision of

the arbitrator shall be final, conclusive and binding on the parties to the arbitration. In connection with such arbitration and the enforcement of any award rendered as a result thereof, the parties hereto irrevocably consent to the personal jurisdiction of the Courts of the State of New York, and further consent that any process or notice of motion or other application to the said Court or Judge thereof may beserved inside or outside the State of New York by registered mail or personal service, provided a time period of at least twenty (20) days for appearance is allowed.

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Galen Partners III, L.P
December 2, 1998

Very truly yours,

Address of Michael Weisbrot:
1136 Rock Creek Road
Gladwyne, Pennsylvania 19036

/s/

Michael Weisbrot

Address of Susan Weisbrot:
1136 Rock Creek Road
Gladwyne, Pennsylvania 19036

/s/

Susan Weisbrot

Address of Galen Partners III, L.P.
610 Fifth Avenue, 5th Floor
New York, NY 10020

GALEN PARTNERS III, L.P.
By: Claudius, L.L.C., General Partner

By:/s/

Name: Bruce F. Wesson
Title: Managing Member

Address of Galen Partners
International III, L.P.
610 Fifth Avenue, 5th Floor
New York, NY 10020

GALEN PARTNERS INTERNATIONAL
INTERNATIONAL III, L.P.
By: Claudius, L.L.C., General Partner

By:/s/

Name: Bruce F. Wesson
Title: Managing Member

Address of Galen Employee
Fund III, L.P.
610 Fifth Avenue, 5th Floor
New York, NY 10020

GALEN EMPLOYEE FUND III, L.P.
By: Wesson Enterprises, Inc.

By:/s/

Name: Bruce F. Wesson
Title: Managing Member

Exhibit 10.53

[Lease Agreement dated March 17, 1999 between the Registrant and Par Pharmaceuticals, Inc.]

AGREEMENT OF LEASE

between

PAR PHARMACEUTICAL, INC.

and

HALSEY DRUG CO., INC.

TABLE OF CONTENTS

EXHIBITS

AGREEMENT OF LEASE

THIS AGREEMENT OF LEASE, dated as of the 17 day of March, 1999, is by and between Par Pharmaceutical, Inc., a New Jersey corporation having an office at One Ram Ridge Road, Spring Valley, New York 10977 (hereinafter referred to as "Landlord") and Halsey Drug Co., Inc., a New York corporation having an office at 695 No. Perryville Road, Rockford, Illinois 61107 (hereinafter referred to as "Tenant").

STATEMENT OF FACTS

Landlord desires to lease to Tenant, and Tenant desires to hire from Landlord, those certain plots, pieces and parcels of land described on Exhibit A annexed hereto, and by this reference, made a part hereof (hereinafter referred to as the "Land"), together with the buildings and other structures, if any, now or hereafter located thereon (hereinafter collectively referred to as the "Improvements" and individually referred to as an "Improvement") located at 77 Brenner Drive, Congers, New York in the County of Rockland and State of New York, together with the equipment listed on Exhibit B hereto (hereinafter referred to as the "Production Equipment" and together with all strips and gores adjacent to or abutting the Land and all appurtenances and easements appurtenant to the Land and Improvements and, in addition to (and not in limitation of) the foregoing, all of the following items, properties and rights, if any: (i) all appliances; all electrical, plumbing, mechanical, heating, lighting, ventilating, refrigeration, air conditioning, incinerating, life-safety and sprinkler installations, systems and equipment and other equipment necessary for the use and operation of the Premises as presently used and operated, (ii) all parking lots, driveways, pavings, access cuts, parking lot striping, bumpers, drainage systems, site improvements and landscaping situate upon the Land (the "Site Improvements"), (iii) all rights, privileges, benefits and appurtenances thereunto belonging or in anywise appertaining, or otherwise benefiting the Land or the Building, and all easements and rights benefiting the Land, the Building, or the use thereof, including without limitation all easements and rights over any property or premises adjacent to the Land, (iv) all of the right, title and interest, if any, of Landlord in and to land lying in the bed of any street, road or avenue, open or proposed, in front of or adjoining the Land and in and to any strips and gores adjoining the Land or any part thereof, and (the Land and the Improvements thereon and other items described in this paragraph are hereinafter collectively referred to as the "Premises").

NOW, THEREFORE, in consideration of Ten ($10.00) Dollars, each to the other in hand paid, and for other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties hereby covenant and agree as follows:

ARTICLE 1.
DEMISE; TERM.

1.1. Landlord hereby leases the Premises to Tenant, and Tenant hereby hires the Premises from Landlord, upon, and subject to, the terms, covenants and conditions contained in this lease. The letting of the Premises to Tenant hereunder is made expressly subject to the

encumbrances set forth on Exhibit C annexed hereto and, by this reference, made a part hereof (hereinafter referred to as the "Permitted Encumbrances"). Landlord represents and warrants to Tenant that Landlord has a good and marketable title to the fee estate in the Land, Improvements and Site Improvements subject to no lien, claim, charge or encumbrance except for the Permitted Encumbrances; that it owns the Production Equipment free and clear of all liens, claims and encumbrances and all other fixtures, equipment, machinery and personal property included in this lease. Landlord shall not (a) sell or transfer title to the Premises to any party other than companies owned or controlled by it, or under common control with it, at any time prior to the expiration of the Purchaser Option set forth in Article 34 hereof, (b) grant any mortgage, lien, encumbrance or other security interest in the Premises other than with respect to Superior Mortgages referred to in Article 4 hereof and Permitted Encumbrances, (c) commence, initiate or seek any change in any zoning ordinance, building regulation, or other law, rule, order or regulation respecting the Premises, its use, maintenance, operation, or occupancy or (d) grant or agree to any easement, covenant or restriction binding upon Tenant or the Premises which is reasonably likely to adversely affect Tenant's ability to use and operate the Premises as it may currently be used and operated. Landlord will deliver the Premises free of occupants and tenants, and broom clean.

1.2. The term of Tenant's leasehold estate in and to the Premises shall be for a period of three (3) years commencing on March 22, 1999 or on such earlier date as Tenant shall have received written evidence as to Landlord's title to the Premises as represented in Section 1.1 above and as to the accuracy of the Landlord's representations in Section 6A.1(a) hereof (hereinafter referred to as the "Commencement Date") and expiring at midnight on a date immediately preceding the third anniversary after the Commencement Date (hereinafter referred to as the "Expiration Date") unless this lease shall sooner terminate or expire as hereinafter provided. The period from the Commencement Date to the Expiration Date or sooner termination or expiration hereof, as the case may be, is hereinafter referred to as the "Initial Term". "Lease Year" shall mean each twelve month period during the Term, beginning with the twelve (12) month period commencing on the Commencement Date and ending on the day immediately preceding the next anniversary of such date; provided, however, that if the Expiration Date is any day other than the last day of a Lease Year, the last Lease Year during the Term shall be the period from the end of the preceding Lease Year to and including the Expiration Date. Landlord shall provide Tenant reasonable access to the Premises prior to the Commencement Date to prepare for its full use and operation by Tenant on the Commencement Date; provided that Tenant, its agents and employees shall not unreasonably interfere with the operation of the Premises. Any entry by Tenant, or its employees or agents, prior to the Commencement Date shall be at Tenant's sole risk; and such right of entry may be conditioned upon Tenant providing insurance certificates to Landlord prior to obtaining access to the Premises evidencing reasonably liability insurance coverage. Landlord shall not be liable in any way for any injury, loss, or damage which may occur to any of Tenant's property or installations made in the Premises or to properties placed therein prior to the term commencement date, the same being at Tenant's sole risk, but nothing in this sentence shall amend, waive, release, or otherwise affect any of the obligations, representations and/or warranties of Landlord under this lease.

1.3. Notwithstanding the three (3) year Term of this lease, Tenant shall have the right to extend the time of this lease prior to the Expiration Date upon at least six (6) months prior irrevocable and unconditional notice to Landlord in which event the term of this lease shall be

extended upon the terms and conditions as described in this lease for an additional two (2) year period (hereinafter referred to as the "Renewal Term") which shall commence on the third anniversary of the Commencement Date and expire on the date immediately preceding the fifth anniversary of the Commencement Date; provided, however, that Tenant may not renew the lease if there shall have occurred and be continuing any Event of Default under Sections 16.1 or 17.1 hereof. In the event that Tenant duly elects to exercise this right to extend the term of this lease, the Expiration Date shall be deemed to refer to the date of expiration of the Renewal Term. Whenever "Term" is used in this lease it shall mean, collectively, the Initial Term and, if applicable, the Renewal Term.

ARTICLE 2.
FIXED RENT; ADDITIONAL RENT.

2.1. Tenant covenants and agrees to pay annual fixed rent to Landlord in the following amounts: (a) during the Initial Term, Five Hundred Thousand Dollars ($500,000) per annum and (b) during the Renewal Term, if any, Six Hundred Thousand Dollars ($600,000) per annum (such rentals are hereinafter referred to as the "Fixed Rent") as more fully set forth in Section 2.2 below.

2.2. (a) The provisions of Section 2.1 (including, without limitation, the stipulated amounts of Fixed Rent) shall be subject to the provisions of this Section 2.2.

(b) (i) During the first Lease Year, Fixed Rent shall be payable (1) $150,000 upon date hereof, (2) $175,000 on December 22, 1999 and (3) on March 22, 2000, the entire unpaid balance (if any) of the Fixed Rent for such Lease Year (the "First Year Balance"). Anything in this lease to the contrary notwithstanding, if the aggregate of the M&S Payments (hereafter defined) actually paid to and received by Tenant during the first Lease Year (the "Aggregate First Year M&S Payments") shall not equal Six Hundred Fifty Thousand Dollars ($650,000.00), for any reason other than Tenant's failure to perform, then the amount by which the Aggregate First Year M&S Payments shall be less than Six Hundred Fifty Thousand Dollars ($650,000.00) (the "First Year M&S Deficiency"), shall be credited against the First Year Balance, if any, and if the aggregate First Year M&S Deficiency shall exceed the First Year Balance, such excess shall be credited against Fixed Rent and additional rent in subsequent Lease Years, as such amounts come due under this lease; provided, however, that in the event that this lease shall terminate, any portion of the First Year M&S Deficiency which shall be in excess of amounts then due and to become due to Landlord hereunder, shall be promptly paid to Tenant.

(ii) During the second Lease Year, Fixed Rent shall be payable as follows: (1) commencing on April 22, 2000, and continuing on the same day of each month thereafter until the earlier of payment in full of fifty (50%) percent of the Fixed Rent for such Lease Year or September 22, 2000, an amount equal to the Monthly Installment Amount (as defined below) and (2) on September 22, 2000, the entire unpaid balance (if any) of fifty (50%) percent of the Fixed Rent for such Lease Year (the "Second Year Balance"). Anything in this lease to the contrary notwithstanding, if the aggregate of the M&S Payments actually paid to and received by Tenant during the six month period immediately prior to September 22, 2000 (the "Aggregate

Second Year M&S Payments") shall not equal Five Hundred Thousand Dollars ($500,000.00), for any reason other than Tenant's failure to perform, then the amount by which the Aggregate Second Year M&S Payments shall be less than Five Hundred Thousand Dollars ($500,000.00) (the "Second Year M&S Deficiency"), shall be credited against the Second Year Balance, if any, and if the Second Year M&S Deficiency shall exceed the Second Year Balance, such excess shall be credited against Fixed Rent and additional rent for the balance of such Lease Year and in subsequent Lease Years, as such amounts come due under this lease; provided, however, that in the event that this lease shall terminate, any portion of the Second Year M&S Deficiency which shall be in excess of amounts then due and to become due to Landlord hereunder, shall be promptly paid to Tenant.

2.3. (a) For the balance of the second Lease Year and all Lease Years thereafter, Fixed Rent shall be payable in equal monthly installments, in advance, commencing on September 22, 2000 and on the same date in each month thereafter.

(b) All payments of Fixed Rent shall be payable at Landlord's office or at such other place and to such agent as Landlord may designate by notice to Tenant, in lawful money of the United States of America.

(c) For purposes hereof, "Monthly Installment Amount" shall mean, with respect to any month, (i) in the event that Tenant shall have received payments ("M&S Payments") the immediately preceding calendar month pursuant to that certain Manufacturing and Supply Agreement, dated the date hereof, between Landlord and Tenant (hereinafter referred to as the "M&S Agreement"), of $100,000 or more, an amount equal to twenty five (25%) percent of such M&S Payments but not to exceed $50,000, (ii) in the event that Tenant shall have received M&S Payments during the immediately preceding month of less than $100,000 but equal to or more than $75,000, an amount equal to $10,000, and (iii) in the event that Tenant shall have received M&S Payments during the immediately preceding calendar month of less than $75,000, an amount equal to zero.

(d) In the event that (i) Tenant shall purchase the Premises pursuant to the Purchase Option during any period in which the M&S Agreement is in effect, and (ii) at the time of the closing Landlord shall not have credited M&S Payments as set forth herein or actually paid to Tenant M&S Payments due thereunder, then at the closing of such purchase amounts due to Tenant thereunder shall be credited against the purchase price under the Contract of Sale entered into pursuant to the Purchase Option.

2.4. All such sums, charges, costs, expenses and sums of money other than the Fixed Rent as Tenant shall assume, agree or be obligated to pay under, or pursuant to, this lease shall be deemed to be "additional rent" hereunder, for default in the payment of which Landlord shall have the same rights and remedies as for a default in the payment of the Fixed Rent.

2.5. All payments or amounts due to Landlord hereunder shall be made by wire transfer of immediately available funds to such account or accounts as Landlord may, from time to time, designate in writing.

2.6. Any Fixed Rent, additional rent, fees, charges or expenses hereunder shall be paid by Tenant pursuant to the terms of this lease. However, in the event that Tenant is in default beyond the applicable notice and remedy period in the payment of any Fixed Rent or additional rent, Landlord shall have the right to apply any payment thereafter received from Tenant hereunder, regardless of any annotation or demand for specific application on the part of Tenant, to any Fixed Rent or additional rent which is then due and payable. The application of the payment shall be made in the sole discretion of Landlord so long as the payment is applied to the payment of Fixed Rent or additional rent due and owing by Tenant to Landlord hereunder.

2.7. All checks tendered to Landlord as and for the Fixed Rent shall be deemed payments for the account of the Tenant. Acceptance by the Landlord of rent from anyone other than the Tenant shall not be deemed to operate as an attornment to the Landlord by the payor of such rent or as a consent by the Landlord to an assignment or subletting by the Tenant of the Premises to such payor, or as a modification of the provisions of this lease.

2.8. No payment by Tenant of a lesser amount than may be required to be paid hereunder shall be deemed to be other than on account of such payment, nor shall any endorsement or statement on any check or document accompanying the same be deemed an accord and satisfaction and Landlord may accept such check or payment without prejudice to Landlord's right to recover the balance of such payment or to pursue any other remedy provided in this lease.

ARTICLE 3
REAL ESTATE TAXES AND OTHER CHARGES.

3.1. (a) For the purpose of this Article:

(i) The term "Taxes" shall mean the total of the real estate taxes, assessments and special assessments imposed upon the Premises by any governmental bodies or authorities. If at any time during the Term, the methods of taxation prevailing on the date hereof shall be altered so that in lieu of, or as a substitute for, or in addition to, the whole or any part of such Taxes now imposed on the Premises, there shall be levied, assessed and imposed (x) a tax, assessment, levy, imposition, license, fee or charge wholly or partially as a capital levy or otherwise on the rents or income received therefrom, or (y) any other substitute tax, assessment, levy, imposition, fee or charge, then all such taxes, assessments, levies, impositions, fees or charges shall be deemed to be included within the term "Taxes" for the purpose hereof.

(ii) The term "TAX YEAR" shall mean each of the fiscal periods occurring during the Term duly adopted by a taxing authority as its fiscal year for real estate tax purposes.

(b) Tenant shall pay to Landlord, as additional rent hereunder, on April 1, 1999 an amount equal to one-eighth (1/8th), and on the first day of each month thereafter, an amount equal to one-twelfth (1/12th) of the Taxes (hereinafter referred to as the "Tax Payment"). Landlord shall pay to the applicable governmental authorities all Taxes prior to the time such Taxes become a lien on the Premises.

3.2 Tenant shall, as additional rent, also pay and discharge in full all other costs, expenses and obligations of every kind, nature and description relating to the Premises, whether or not extraordinary and whether or not now within the contemplation of the parties, which may arise or become due during the Term, provided, however, that Tenant shall not pay or be obligated to pay (i) any lien or encumbrance created by act of the Landlord, including without limitation, the debt service on any mortgage on the Premises obtained by Landlord, (ii) the costs or expense of any structural repair, structural replacement or structural improvement to the Premises unless such structural repair, replacement or improvement is required by reason of the act of Tenant or any failure by Tenant to take any action required to be taken by it (and not Landlord) hereunder, by law or otherwise, or any such act or failure by Tenant's agents or employees ("Tenant's Acts") during the Term, (iii) any cost or expense required to be incurred as a result of a breach of the representations and warranties of Landlord contained in Section 6A.1 hereof, or (iv) any expense which, by the express terms of this lease, Landlord has agreed to pay.

3.3 Nothing herein contained shall require Tenant to pay municipal, state or federal income taxes assessed against Landlord, or municipal, state or federal capital levy, gift, estate, succession, inheritance or transfer taxes of Landlord, or corporation excess profits or franchise taxes imposed upon any corporate owner of the fee of the Premises, or any income, profits, or revenue tax, assessment or charge imposed upon the Fixed Rent or additional rent as such, payable by Tenant under this lease unless such tax shall be imposed or levied upon, or with respect to, the Fixed Rent or additional rent payable to Landlord in lieu of the Taxes described in Section 3.1(a) above, in which event Tenant covenants and agrees to pay such tax as if the Premises were the only property owned by Landlord.

3.4 From and after the Commencement Date, only Landlord shall be eligible to institute appropriate proceedings to reduce or contest the Taxes, or the assessed valuation of the Premises, for any Tax Year. Landlord's commencement of a Tax Contest shall not be deemed or construed in any way to relieve, modify, delay or extend Tenant's obligation to make the Tax Payment referred to in Section 3.1 Tenant shall join in any Tax Contest where such joinder is required by law.

If Landlord shall receive a refund of the Taxes for any Tax Year during which Tenant shall have made a Tax Payment, Landlord shall pay Tenant's proportionate share of said refund to Tenant after deducting therefrom a proportionate share of any reasonable cost or expense incurred by Landlord in obtaining such refund, provided, however, that in no event shall the refund exceed Tenant's Tax Payment actually paid for such Tax Year.

3.5 The provisions of this Article 3 shall survive the expiration or termination of this lease, but shall apply only in respect of matters which occurred during the Term.

ARTICLE 4
SUBORDINATION OF LEASE; MODIFICATION FOR FEE MORTGAGE.

4.1. This lease, and all rights of Tenant hereunder, are and shall be subject and subordinate to all mortgages and building loan agreements, which may now or hereafter affect the

Premises (hereinafter collectively referred to as "Superior Mortgages"), and to each and every advance made or hereafter to be made under Superior Mortgages and to all renewals, modifications, replacements and extensions of Superior Mortgages. This Article shall be self-operative and no further instrument of subordination shall be required. Tenant, at its own cost and expense, shall promptly execute and deliver in recordable form any reasonable instrument that Landlord or the holder of any Superior Mortgage may request to evidence such subordination; provided that, notwithstanding any such subordination, Tenant's rights hereunder should not be otherwise modified or altered in any material respect and provided further that the holder of any Superior Mortgage shall enter into a customary non-disturbance agreement with Tenant.

4.2. If, in connection with the procurement, continuation or renewal of any financing for which the Premises represents collateral in whole or in part, any mortgagee shall request reasonable modifications of this lease as a condition of such financing, Tenant agrees that it will not withhold, delay or condition its consent thereto provided that such modifications do not (i) increase the obligations of Tenant under this lease or decrease Landlord's obligations hereunder, or (ii) affect the Tenant's right to use and occupy the Premises for the purposes set forth in Section 5.1 hereof, or (iii) affect the duration of the Term, or (iv) affect the amount of the Fixed Rent or additional rent payable by Tenant. To the extent any requested modification may require Tenant to give notice to any mortgagee of any default by Landlord, or grant such mortgagee a reasonable opportunity to cure any default by Landlord hereunder, or require such mortgagee's consent to any modification or termination of this lease, such modification shall not be deemed to increase Tenant's obligations.

4.3. Notwithstanding the foregoing, Landlord shall not encumber the Premises by any Superior Mortgages securing an amount in excess of $3,000,000 in the aggregate amount outstanding at any time. In the event that Landlord shall encumber the Premises by any Superior Mortgage, Landlord shall provide to Tenant a guaranty of Landlord's obligations hereunder from Landlord's sole stockholder, Pharmaceutical Resources, Inc., which guaranty shall be limited in amount to the aggregate amount of Superior Mortgages from the time to time outstanding.

ARTICLE 5.
USE OF THE PREMISES.

5.1. Tenant shall use and occupy the Premises only for the development, research, production, manufacture, storage, sale, distribution, marketing, warehousing, testing and supply of pharmaceutical and nutraceutical and similar products in compliance with all applicable law and/or requirements of public authorities and for offices and other functions ancillary thereto and for no other purpose; provided that in all events such use and occupation shall not interfere with Tenants ability to perform its obligations under the M&S Agreement or limit, restrict or interfere with the use and operation of the Premises for the production of the products covered thereby.

5.2. Tenant covenants and agrees that it will not use or occupy the Premises, or permit the Premises to be used or occupied for any purpose, or in any manner, which is likely to cause structural injury or damage to any Improvement, or in a manner that shall violate any certificate of occupancy in force relating to the Premises or any governmental approval, permit or

authorization necessary for the manufacture and supply of products under the M&S Agreement or in any manner that shall constitute a nuisance.

5.3. Tenant shall not keep within the Premises or dispose of any article of dangerous, inflammable, explosive or toxic character except in the manner permitted by law, provided, however, that such articles shall not be kept within the Premises if same will void or make voidable any insurance then in force with respect to the Premises unless Tenant promptly replaces such void or voidable insurance at its sole cost and expense. In the event Tenant shall keep within the Premises any pollutant or toxic or hazardous material or substance permitted by law, the same shall be encapsulated or otherwise contained in the manner required by such environmental, fire safety and other laws, regulations and guidelines as affect the Premises. Tenant shall be solely responsible for any and all expense and damage resulting from the presence, leakage, seepage, spillage, filtration or other discharge of pollutants, toxic or hazardous substances or materials and any products proscribed by environmental laws ("Clean-up Expense") which are installed by Tenant upon the Premises, agreed by Tenant to remain upon the Premises or disposed of by Tenant. Notwithstanding the foregoing provisions of this paragraph, and/or any other provision of this lease, Landlord (at Landlord's expense), and not Tenant, shall be solely responsible for any and all Clean-up Expense, in connection with any and all pollutants, toxic or hazardous substances or materials and any products proscribed by environmental laws, and all conditions relating thereto, to the extent (i) same exist on, at, under, or about the Premises prior to the Commencement Date, and/or (ii) same arise out of or relate to any condition or state of facts extant prior to the Commencement Date, and/or (iii) same result from any act of Landlord or any failure by Landlord to take any action required to be taken by it (and not by Tenant) hereunder, at law or otherwise or any such act or failure by Landlord's agents or employees ("Landlord's Acts") and/or (iv) the existence or presence of same is a breach of any representation or warranty by Landlord under this lease. In the event that, pursuant to the foregoing provisions of this Section 5.3, neither Tenant nor Landlord are made responsible for any Clean-up Expense due to an environmental condition or event, Tenant shall nonetheless promptly upon its becoming aware of such condition or event, notify Landlord of the existence thereof and take any and all actions reasonably necessary to remediate such condition or event, the cost, however, of which shall be borne equally by the parties. The provisions of this Section 5.3 shall survive the termination of this lease.

5.4. Without intending to limit the indemnity provisions set forth in Article 19 hereof, Tenant shall defend, indemnify and hold Landlord and the holder of any Superior Mortgage harmless, and Landlord shall defend, indemnify and hold Tenant harmless, from and against any and all liabilities, fines, penalties, suits, claims, demands, actions, costs and expenses of each and every kind or nature whatsoever (including, without limitation, reasonable attorneys' fees, disbursements and court costs) due to, or arising out of the presence of, disposal of, or any leakage, seepage, filtration, spillage, or other discharge of pollutants, toxic or hazardous waste, substances and materials and other products proscribed by environmental laws the Clean-up Expense with respect to which is required to be borne by such indemnifying party. The foregoing indemnity shall survive the termination or expiration of this lease. Promptly upon an indemnified party receiving notice, or becoming aware of any condition, event or state of facts which gives rise to a claim hereunder, such indemnified party shall notify the indemnifying party of the existence thereof, provided, however,

that failure to promptly provide such notice shall not affect the rights of such indemnified party hereunder except to the extent that the indemnifying party shall be prejudiced thereby.

5.5. Tenant shall not permit the Premises to be used in a manner by the public or by any adjoining property owner without restriction which might reasonably tend to impair or adversely affect Landlord's title to the Premises or might reasonably make possible a claim of adverse possession or adverse usage.

5.6. Tenant shall not permit the undue accumulation of waste or refuse matter on or in the Premises.

5.7. Tenant shall not obstruct, or permit the obstruction of, any street, road, parking area, walk, or sidewalk or yard located on or adjoining the Premises except as may be permitted by all governmental authorities having jurisdiction thereof, and shall keep any sidewalks adjoining, as well as all streets, roads, walks, sidewalks and parking areas on or abutting the Premises clean and free of snow, ice, waste material and debris.

5.8. Tenant shall maintain the Production Equipment in good repair and operating condition and in accordance with manufacturers recommended maintenance practices and to the extent necessary to enable Tenant to perform its obligations hereunder and under the M&S Agreement and shall promptly replace all such Production Equipment which for any reason shall become incapable of use as intended with such other equipment as may be necessary for Tenant to perform its obligations hereunder and under the M&S Agreement. Tenant shall conspicuously display on each item of Production Equipment a plaque or sign, or post other signage adequate to provide conspicuous notice, that all such Production Equipment is the sole property of Landlord. Notwithstanding the foregoing, to the extent that any such repair or replacement results from a breach of Landlord's representations with respect to the Production Equipment contained herein and/or in the M&S Agreement, the reasonable cost thereof shall be borne by Landlord.

ARTICLE 6A.
REPRESENTATIONS BY LANDLORD; DISCLAIMER.

6A.1. Landlord makes the following representations and warranties to Tenant, which shall be deemed repeated by Landlord on the Commencement Date (and, as made on the Commencement Date, shall survive the Commencement Date, the exercise by Tenant of the Purchase Option and the closing under the Purchase Option for the periods indicated):

(a) Landlord has not caused, and to its knowledge there has not been, any leakage, seepage, spillage or other discharge of any pollutants or toxic or hazardous substances or materials which has resulted in, or could be reasonably expected to result in, a material violation of any law, rule or regulation and, except as set forth in environmental reports, copies of which has been delivered to Tenant under cover letter dated January 6, 1999 from Kenneth Sawyer and the Phase I Environmental Site Assessment Report, dated March 11, 1959, by Dan Raviv Associates, Inc., Landlord has received no written notice from any governmental agency that the Premises contain or may contain concentrations of any such substances or materials which exceed permitted levels.

The Premises contain no underground storage tanks or receptacles. The foregoing representations shall survive for a period of five (5) years from the date hereof.

(b) The Premises are free from any latent structural defect, the roof of the Premises is free from leaks and the heating, ventilation, air conditioning, plumbing and other internal systems incorporated therein are in good operating condition. Should any event or condition arise (i) during the first 45 days of the Initial Term as a result of which the representations contained herein could not then be made, the presumption (which shall be rebuttable) shall be that such representations were inaccurate on the date hereof and (ii) after the first Lease Year, the presumption (which shall be rebuttable) shall be that such representations were true on the date hereof. No presumption shall apply with respect to the period in between. The foregoing representations shall survive for a period of three (3) years from the date hereof.

(c) Landlord is operating the Premises, and the Premises (including, without limitation, the Production Equipment) are, in compliance, in all material respects, with applicable law and in accordance with current Good Manufacturing Practices, as established from time to time by the United States Food and Drug Administration (hereinafter referred to as the "AFDA") and implemented consistent with the specifications and processes currently used at the Facility to produce the products contemplated by the M&S Agreement. Landlord has received no written notice from any governmental agency, and has no actual knowledge, that the Premises, its use or its operation fail to substantially comply with applicable law or current Good Manufacturing Practices. The foregoing representations shall survive for a period of two (2) years from the date hereof.

(d) There are no material agreements which will be binding upon or an obligation of Tenant or the Premises after the Commencement Date. The foregoing representations, insofar as they relate to material agreements affecting the title, use or operation of the Premises, shall survive for a period of five (5) years from the date hereof, and, insofar as they relate to any other material agreements, shall survive for a period of eighteen (18) months from the date hereof.

(e) All electric, sewer, water, telephone, and other appropriate utilities for the use and occupancy of the Premises are available to the Premises. The foregoing representations shall survive for a period of one (1) year from the date hereof.

(f) No party, other then Tenant, has any right to lease or purchase the Premises (or any part thereof or interest therein), or any right of first refusal to lease or purchase the Premises (or any part thereof or interest therein). The foregoing representations shall survive for a period of six (6) years from the date hereof.

(g) Landlord has all requisite corporate power and authority to execute and deliver this lease and to perform its obligations hereunder, has obtained all necessary corporate authorizations therefor and has duly executed and delivered this lease. The foregoing representations shall survive for a period of one (1) year from the date hereof.

(h) The execution and delivery by Landlord of this lease, including, without limitation, the provisions of Article 34 hereof, and the performance by it hereunder does not violate

any contract, agreement or instrument binding upon Landlord or the Premises. The foregoing representations shall survive for a period of one (1) year from the date hereof.

(i) The Premises, and their use as a pharmaceutical manufacturing facility, are, except as noted on Exhibit B hereto, covered by valid certificates of occupancy and Landlord has received no written notice, and has no actual knowledge, that the Premises or such use violate any covenants, easements or restrictions of record and binding thereon. The foregoing representations shall survive for a period of one(1) year from the date hereof.

(j) Landlord has not received any written notice, and has no actual knowledge, of any proposed special assessment, condemnation order or decree or material change in any zoning ordinances and Landlord has not commenced any proceeding with respect to Taxes. The foregoing representations shall survive for a period of one (1) year from the date hereof.

(k) Landlord has obtained all permits, licenses and other governmental approvals and authorizations ("Permits") necessary for the use and operation of the Premises for the production of Products under the M&S Agreement including without limitation, all certificates of occupancy for the Premises as currently constructed and all Permits required by the U.S. Food and Drug Administration and will maintain all such Permits in effect or, to the extent required by law to be maintained by Tenant and to the extent transferable to Tenant, Landlord shall transfer such Permits to Tenant. The foregoing representations shall survive for a period of two (2) years from the date hereof.

6A.2. Tenant acknowledges that it is fully familiar with the condition of the Premises and, subject to Section 6A.1 above and the other agreements and obligations of Landlord specifically provided in this lease, hereby accepts the Premises "as is" as of the date hereof without any representation or warranty by Landlord of any kind or nature, including, without limitation, any representation or warranty as to its condition or as to the use or occupancy which may be made thereof or as to the expense of operating the Premises. Unless expressly provided to the contrary in this lease, Tenant assumes the sole responsibility for the condition, operation, maintenance and management of the Premises, including without limitation, the Production Equipment, and Landlord shall not be required to furnish any facilities or services or make any repairs or alterations thereto.

6A.3. Tenant acknowledges that, except as specifically set forth in Section 6A.1 above, neither Landlord nor anyone authorized to act on Landlord's behalf has made any representation, statement or suggestion, express or implied, that Tenant's intended use of the Premises is permitted under the existing zoning laws or any other law, order or regulation affecting the Premises. If Tenant is prevented by any law or requirement of public authorities from using the Premises for its intended purpose, then, unless the prohibition results from Landlord's Acts committed after the date hereof, or if Landlord shall have breached a representation or warranty under Section 6A.1 hereof, or results from a failure of Landlord to perform its obligations under this lease (in any of which cases, Tenant shall, among other rights and remedies, have the right to terminate this lease), this lease shall remain in full force and effect (subject to Landlord's rights hereunder) and Tenant shall remain obligated to perform and observe all of the terms, conditions and

covenants hereof. Landlord agrees to cooperate with Tenant in the execution of such documents (consistent with the provisions of this lease) as Tenant may reasonably require to enable Tenant to use the Premises for its intended purpose but Landlord shall not be obliged to incur any cost or expense in so doing.

ARTICLE 6B.
REPRESENTATIONS BY TENANT

6B.1 Tenant makes the following representations and warranties to Landlord, which shall be deemed repeated by Tenant on the Commencement Date (and, as made on the Commencement Date, shall survive the Commencement Date, the exercise by Tenant of the Purchase Options and the closing under the Purchase Option for the period indicated:

(a) Tenant has all requisite corporate power and authority to execute and deliver this lease and to perform its obligations hereunder, has obtained all necessary corporate authorizations therefor and has duly executed and delivered this lease. The foregoing representations shall survive for a period of one (1) year from the date hereof.

(b) The execution and delivery by Tenant of this lease and the performance by it hereunder does not violate any contract, agreement or instrument binding upon Tenant or its assets. The foregoing representations shall survive for a period of one (1) year from the date hereof.

(c) Tenant has delivered to Landlord a copy of its financial statements on Form 10Q for the nine-month period ended September 30, 1999 ("Financial Statements"). Such Financial Statements have been prepared in accordance with generally accepted accounting principles, consistently applied and fairly present the financial condition of Tenant as of the dates indicated. The foregoing representations shall survive for a period of two (2) years from the date hereof.

ARTICLE 7.
LANDLORD NOT LIABLE FOR FAILURE OF WATER SUPPLY ETC.

7.1. Except to the extent that any of the following shall result from a breach of any representation, warranty, covenant or agreement by Landlord under this lease, or from any of Landlord's Acts, Landlord shall not be liable in damages or otherwise for personal injury, death, property damage or any economic loss caused by or resulting from:

(a) any interruption of, or failure of water supply, gas, electric current, sewer or other services to the Premises or for any injury or damage to person or property for any reason whatsoever, including, without limitation, that caused by or resulting from:

(i) hurricane, tornado, flood, wind, or similar storms, earthquakes and other disasters and disturbances; or

(ii) the leakage, seepage or flow of gasoline, oil, gas, electricity, steam, water, rain, or snow from the street, sewer, gas mains, tanks, wires, lines, any subsurface area, any part of the Improvements, pipes, appliances, plumbing works, or any other place; or

(b) any interference with light or other incorporeal hereditaments by anybody, or caused by operations by, or of, any public or quasi-public work, except as shall result from the act or omission of Landlord after the Commencement Date of this lease.

7.2. It is the intention of the parties that Tenant shall be in exclusive control of the Premises during the Term and the Renewal Term if any. Accordingly, Landlord shall not in any event be liable for any injury or damage to any property or to any person occurring in, on or about the Premises unless the same are caused by Landlord's Acts or to the extent the same results from any breach of any representation or warranty by Landlord contained in Section 6A.1 hereof. Article 36 (relating to Landlord's inspections) shall not be deemed to give Landlord any control over the Premises and is included solely for the purpose of enabling Landlord to ascertain whether Tenant is in compliance with the provisions hereof.

7.3. Landlord shall not be required to furnish any electricity, water, gas, heat, air conditioning or any other utility or other service to the Premises of any kind whatsoever and Tenant, at its own cost and expense shall arrange for all such services. In the event any utility company or any governmental agency or board shall require the installation of electric, water or other meters to measure Tenant's consumption of electricity, water, gas or any other utility, Tenant shall be solely responsible for the installation of such meters and for the cost and expense of maintaining the same. Any electric, water or other meters presently installed in the Premises shall be repaired and maintained by Tenant at its sole cost and expense. If such meters cannot be repaired and are required to be replaced other than for reasons attributable to Tenant's negligent or wrongful acts or omissions, such meters shall be replaced when necessary by Landlord at its sole cost and expense.

ARTICLE 8.
OBLIGATION TO REPAIR.

8.1. Tenant shall take good care of the Premises, both inside and outside, and including all facilities, fixtures, furnishings and equipment therein, and keep the same and all parts thereof in good order and condition, suffering no waste or injury. Except as provided in Section 8.2 hereof, Tenant shall, at Tenant's sole cost and expense, promptly make all needed repairs and replacements to the Premises including, but not limited to, the Production Equipment, the windows, other plate glass, if any, and all fixtures, machinery and equipment now or hereafter belonging to or used in connection with the Premises, it being intended that Tenant hereby assumes the sole responsibility for the condition, operation, maintenance and management of the Premises during the Term. All such repairs and replacements shall be of good quality, sufficient for the proper maintenance and operation of the Premises, and shall be constructed and installed in compliance with all requirements of all governmental authorities having jurisdiction thereof, and of the Board of Fire Underwriters or any comparable or similar body.

8.2. Landlord, at Landlord's expense, shall be responsible for, and promptly shall make, all repairs, replacements, and improvements (including without limitation capital improvements) to the Premises (including without limitation the Improvements, the Production Equipment, and the other fixtures, equipment and installations at the Improvements), which are required (i) to comply with, satisfy or fulfill, or remedy a breach of, any representation, warranty, covenant or agreement by Landlord under this lease, (ii) as a result of Landlord's Acts or (iii) to repair any structural damage to the Improvements to the extent not caused by fire or casualty covered by Article 14 hereof and to the extent necessary to enable Tenant to use and operate the Premises as they are currently capable of being used and operated. All such repairs and replacements shall be of good quality, sufficient for the use and operation of the Premises as currently capable of being used and operated and shall be constructed and installed in compliance with all requirements of all governmental authorities having jurisdiction thereof and of the Board of Fire Underwriters or any comparable or similar body. If any repair, replacement or improvement is required by reason of Tenant's Acts, Tenant shall be responsible for and bear the expense thereof. Tenant shall give Landlord prompt notice of the need for any repairs, improvements or replacements which are Landlord's responsibility under this Section 8.2.

8.3 Anything in this lease to the contrary notwithstanding, if and to the extent that Tenant, under this lease, shall be required to make any structural, exterior or capital repairs, alterations or improvements, the aggregate obligation and liability of Tenant in connection with making such repairs, alterations and/or improvements ("Tenant's Maximum Improvement Obligation") shall not exceed $250,000.00 (exclusive of insurance proceeds available therefor and unless and to the extent that the requirement for such work shall arise from Tenant's Acts). Anything in this lease to the contrary notwithstanding, the aggregate of Tenant's Maximum Improvement Obligation and Tenant's Maximum Requirements Obligation (hereafter defined) shall not exceed $250,000.00 (exclusive of insurance proceeds available therefor and unless and to the extent that the requirement for such work shall arise from Tenant's Acts). In the event that Tenant shall become unable to perform its obligations under the M&S Agreement without exceeding such maximum obligations, such inability shall not affect Landlord's obligations to make payments of any minimum amounts required thereunder.

ARTICLE 9.
TENANT TO COMPLY WITH LAWS AND PERMITS.

9.1. Except as otherwise provided in this lease, including, without limitation, Article 8 and this Article 9, Tenant shall, at Tenant's sole cost and expense, promptly comply with the following (hereinafter sometimes referred to as the "Requirements"):

(a) the Requirements of every applicable statute, law, ordinance, regulation, or order now or hereafter made by any Federal, State, County, municipal, or other public body, department, bureau, officer or authority including, without limitation, the FDA, with respect to:

(i) the Premises and appurtenances thereto; and

(ii) the use or occupation of the Premises, structure upon, connected with, or appurtenant to, the Premises including, without limitation, the Production Equipment; and

(iii) the removal of any encroachment arising after the Commencement Date caused by act of the Tenant, or knowingly permitted by Tenant;

(b) the Requirements of all easements, restrictions and other agreements existing of record as of the date of this lease and/or hereafter granted by Landlord at the prior written request of Tenant; and

(c) any applicable regulation or order of the Board of Fire Underwriters, Fire Insurance Rating Organization, or other body having similar functions.

9.2. Except as otherwise provided in this lease, including, without limitation, Article 8 and this Article 9, Tenant shall comply with the requirements of all of the Permits described on Exhibit D so as not to invalidate any such Permits. Tenant agrees to indemnify Landlord and hold Landlord harmless from and against any liability, damage or expense arising from the violation or cancellation of any of the Permits as a result of Tenant's Acts occurring during the Term or during Tenant's occupancy of the Premises.

Notwithstanding the foregoing provisions of this Article, Tenant's obligation to make structural repairs or changes to the Premises in order to comply with Requirements shall be subject to the limitations set forth in Section 8.3 hereof. Subject to the foregoing limitations, Tenant shall comply with Requirements whether or not the statute, laws, ordinances, regulations or orders imposing same are of a kind now within the contemplation of the parties hereto.

ARTICLE 10.
OPERATION OF PREMISES.

10.1. Tenant shall not suffer or permit the Premises or any part thereof to be used in any manner, or anything to be done therein, or suffer or permit anything to be brought into or kept therein, which would in any way (a) violate any provision of any Superior Mortgage now or hereafter a lien on the Premises to which Tenant is required to subordinate in accordance with Section 4.1 hereof, a copy of which has been delivered to Tenant, or the requirements of public authorities, (b) make void or voidable or invalidate any fire insurance policy then in force with respect to the Premises or any insurance required pursuant to Article 13 hereof, (c) make unobtainable from reputable insurance companies authorized to do business in New York State, any fire insurance with extended coverage, or liability, or other insurance, (d) cause, or in Landlord's reasonable opinion be likely to cause, physical damage to the Premises or any part thereof or render the Premises unfit for the production of pharmaceutical products as contemplated by the M&S Agreement, (e) constitute a public or private nuisance, or (f) impair, in a manner which, in the reasonable opinion of Landlord is material, the appearance, character or reputation of the Premises. Nothing in this provision shall constitute a waiver, release or amendment of any of the representations or warranties, covenants or agreements by Landlord set forth in this lease.

10.2. Tenant shall have the right to maintain signs on the Premises of the size and type existing as of the date hereof, provided that such signs, at all times, comply with all Requirements. Except for such signs, Tenant shall not display or erect any permanent lettering, signs, or awnings on the outside or roof of the Premises (collectively "Signs") without obtaining Landlord's prior written approval thereof which approval Landlord shall not unreasonably withhold or delay. Tenant shall submit to Landlord a detailed sketch of any proposed Sign and if approved, the same shall not be altered in any manner whatsoever without first obtaining Landlord's prior written consent for such proposed change. All such Signs shall first be approved by the municipal authorities having jurisdiction over the Premises, and shall be maintained by Tenant at its sole cost and expense in good order and condition, and in accordance with all of the terms and provisions of this lease. All Signs shall be removed by Tenant at the end of the Term or sooner expiration of this lease and Tenant shall repair, at Tenant's sole cost and expense, any damage to the Premises or its exterior caused by the installation, maintenance or removal of such Signs. Tenant shall indemnify and hold Landlord harmless against and from any and all loss, liability, claims, expenses or damages arising from the installation, maintenance or removal of such Signs, which obligation shall survive termination of this lease. The foregoing notwithstanding, (i) Tenant, from time to time, at Tenant's expense, shall have the right to install, erect, construct, alter, maintain and remove Signs on or at the exterior or roof of the Premises, without the consent of Landlord, provided (as to the installation, erection, construction, and maintenance of such Signs) such Signs comply with all Requirements, and (ii) Tenant shall be required to obtain approval by municipal authorities to Signs only if such approval is required by applicable law.

ARTICLE 11.
ALTERATIONS; IMPROVEMENTS.

11.1. Except as permitted by Section 12.2 hereof, Tenant covenants and agrees that during the Term, it will not make any changes or alterations or improvements to, or installed or incorporate any items of equipment in the Premises of any kind whatsoever, without the prior written consent of Landlord, which consent shall not be unreasonably withheld. Notwithstanding the foregoing, Tenant may, upon prior notice to Landlord but without requiring Landlord's consent thereto, make such changes, alterations or improvements as shall be non-structural in nature, do not materially affect the heating, ventilation, plumbing, electrical and other building systems and benefit the use and operation of the Premises as a pharmaceutical manufacturing facility. Any changes, alterations or improvements made by Tenant to the Premises shall become the property of Landlord; provided, however, that Landlord may require Tenant to remove the same and restore the Premises by the Expiration Date.

ARTICLE 12.
NO SET-OFFS.

12.1. All Fixed Rent, additional rent and all other sums payable hereunder to, or on behalf of, Landlord shall be paid without notice or demand and without set off, counterclaim, abatement, suspension, deduction, or defense; provided, however, that Monthly Installment Amounts may be deducted by Landlord from amounts due to Tenant under the M&S Agreement.

12.2 Anything in this lease to the contrary notwithstanding, including, without limitation, the provisions of Section 12.1, the following shall apply. If (i) Landlord shall fail to remedy any breach of any of its representations or warranties under this lease, or otherwise shall fail to perform any of its obligations under this lease and (ii) such failure shall continue for thirty (30) days after Landlord's receipt of notice from Tenant specifying such failure and Landlord shall not be then diligently attempting to correct such failure:

(a) Tenant (without having any obligation to commence or continue any such effort) may remedy or attempt to remedy such failure and/or commence, prosecute or complete performance of Landlord's obligations, and may (without having any obligation to do so), for the account of Landlord, make any payment or expend any sum or take such action as is reasonably necessary to perform and fulfill each, every, and/or any representation, warranty, covenant, agreement and obligation of Landlord under this lease. No such payment, expenditure or action by Tenant shall be deemed a waiver of Landlord's default, nor shall the same affect any other remedy of Tenant by reason of such default.

(b) Landlord, within thirty (30) days of Tenant's demands therefor from time to time (accompanied by evidence reasonably substantiating such reasonable out-of-pocket costs and expenses actually have been incurred and paid), shall reimburse Tenant for all reasonable out-of-pocket costs and expenses incurred by Tenant in connection with such remedy, attempt to remedy, commencement, prosecution and/or completion including, without limitation, reasonable attorneys fees, disbursements and court costs).

(c) If Landlord shall fail to make such reimbursement within the time provided in subsection (b) above, the amount thereof shall bear interest at the Default Rate (as defined in Section 15.2(b) hereof and Tenant shall have the right, among any of its other rights, to offset any such amount due to it against any amount due from it to Landlord.

ARTICLE 13.
INSURANCE REQUIREMENTS; WAIVER OF SUBROGATION.

13.1. (a) Throughout the Term, Tenant shall, at its sole cost and expense, obtain and keep in full force and effect a policy, blanket or otherwise, of comprehensive public liability and property damage insurance, with a broad form contractual liability endorsement, having combined coverage of not less than Ten Million ($10,000,000) Dollars with respect to each occurrence of, or claim for, personal injury, death and/or damage to property, naming Landlord, Tenant and the holder of any Superior Mortgage as insureds against any and all claims, actions, loss, damage or expense arising out of, or resulting from, personal injury, death or property damage occurring in, upon, adjacent to, or connected with the Premises or any part thereof (including any adjoining sidewalk, parking area, curb or vault).

(b) Such insurance shall be written by good and solvent insurance companies of recognized standing, licensed to do business in the State of New York. Such policies shall be in form and content reasonably satisfactory to Landlord and the holder of any Superior Mortgage and shall contain a provision that no act or omission of Tenant will affect or limit the obligation of the

insurance company to pay the amount of any loss sustained and shall be non-cancelable except upon reasonable advance written notice to Landlord and the holder of any Superior Mortgage.

13.2. Each party hereby releases the other party with respect to any claim (including a claim for negligence) which it might otherwise have against the other party for loss, damage or destruction with respect to its property (including rental value or business interruption) occurring during the Term to the extent to which such party is paid under a policy containing a waiver of subrogation or naming the other party as an additional assured. If notwithstanding the recovery of insurance proceeds by either party for loss, damage or destruction of its property the other party is liable to the first party with respect thereto or is obligated under this lease to make replacement, repair or restoration thereof, then, provided the first party's right of full recovery under its insurance policies is not thereby prejudiced or otherwise adversely affected, the amount of the net proceeds of the first party's insurance against such loss, damage or destruction shall be offset against the second party's liability to the first party therefor, or shall be made available to the second party to pay for replacement, repair or restoration, as the case may be.

13.3. Tenant shall procure one or more policies for the insurance required to be carried pursuant to Section 13.1 and, on or before the Commencement Date, shall deliver to Landlord the original or certified copies of all such policies, if obtainable, or, if original or certified copies are not obtainable, certificates thereof with evidence, by stamping or otherwise, of the payment of the premiums due thereon.

13.4. All premiums and charges for Tenant's insurance policies shall be paid by Tenant. If Tenant shall fail to make any such payment when due, or shall fail to carry any such policy, the provisions of Article 15, among others, shall apply.

13.5. (a) Tenant shall, at its sole cost and expense keep the Premises, including, without limitation, the Production Equipment, insured against loss or damage by fire, and other casualty with all standard extended coverage, including coverage against vandalism, malicious mischief and such other additional perils as now are or hereafter may be included in a standard extended coverage endorsement from time to time in general use. Such coverage shall be in an amount that will comply with the coinsurance applicable to the location and character of the Improvements and equal to the full replacement value thereof, and which shall:

(i) be written on a replacement cost basis, (subject to deductibles not to exceed $25,000 per occurrence and $200,000 in the aggregate);

(ii) be issued by insurance companies authorized, qualified or licensed to do business in the State of New York;

(iii) be in form and content reasonably satisfactory to Landlord and satisfactory to the holder of any Superior Mortgage;

(iv) comply with any changes in co-insurance requirements applicable to the Premises by the Fire Insurance Rating Organization, or any similar body, or by statute;

(v) effectively provide that the respective interests of Landlord and the holder of any Superior Mortgage shall not be subject to cancellation by reason of any act or omission of Tenant and, be non-cancelable except upon reasonable advance written notice to Landlord and the holder of any Superior Mortgage named as loss payee therein;

(vi) be carried in the name, and in favor, of Landlord, Tenant and the holder of any Superior Mortgage under a standard mortgagee clause, as their respective interests may appear; and

(vii) provide that, subject to the rights of the holder of any Superior Mortgage, the loss, if any, under any such policies shall be adjusted by Landlord (upon consultation with Tenant) and paid by the insurance company or companies to the holder of any Superior Mortgage (and Landlord and Tenant agree to cooperate with each other and with the holder of any Superior Mortgage to obtain the largest possible recovery and to execute any and all reasonable consents and other instruments and to take all other reasonable actions reasonably necessary or desirable in order to effectuate and expedite such adjustment and the payment of the proceeds as herein provided).

(b) Notwithstanding the provisions of Section 13.5(a), if the holder of any Superior Mortgage shall, in its commitment for such mortgage or otherwise, require that the insurance referred to in Section 13.5(a) be carried and maintained by Landlord then: (i) Landlord shall obtain, pay for and maintain such insurance and (ii) Tenant shall reimburse Landlord, as additional rent, the amount of such insurance on a monthly basis, provided, however, that Tenant shall not be obligated to reimburse Landlord's amounts in excess of amounts Tenant would have incurred in providing such insurance.

(c) If Tenant shall provide the insurance required by Section 13.5(a), then Tenant shall, on or before the Commencement Date, deliver to Landlord the original or certified copies of all policies containing such insurance coverage or, if original or certified copies are not reasonably obtainable, Tenant shall provide certificates thereof with evidence, by stamping or otherwise of the payment of the premiums due thereon.

(d) Notwithstanding the foregoing, Tenant may, in its discretion, maintain additional policies of insurance insuring it against such risks and in such amounts as it may, in its discretion, deem appropriate and to collect any proceeds which may become due thereunder; provided that no such policies shall operate as a limitation or restriction on the rights of Landlord.

ARTICLE 14.
FIRE OR CASUALTY.

14.1. If the Improvements shall be damaged or destroyed by fire or other casualty to the extent that they may not be used, physically or legally, for the general manufacture of pharmaceutical products or for the manufacture of pharmaceutical products (a "Substantial Casualty") and such Substantial Casualty cannot be repaired to substantially restore such Improvements for such use within four (4) months from the occurrence of such casualty, each party

shall have the right to terminate this lease by notice to the other given within thirty (30) days from such occurrence. If a party shall give such notice of termination, this lease shall expire on the ninetieth (90th) day following such occurrence as if such date was the Expiration Date and Tenant shall quit, surrender and vacate the Premises on such date without prejudice to Landlord's rights and remedies under the lease provisions in effect prior to such termination. Any Fixed Rent or additional rent owing to the date of termination shall be paid up to such date by Tenant and any Fixed Rent or additional rent paid by Tenant for a period subsequent to such date shall be returned to Tenant, together with, in the event Landlord shall terminate, any Option Payment received by Landlord pursuant to Article 34 hereof. If this lease shall not terminate as a result of such casualty, the Fixed Rent shall be apportioned according to the floor area of the Improvements reasonably usable by Tenant from the day following the fire or other casualty to the Expiration Date.

14.2. Landlord shall not have any obligation to repair or restore the Improvements in the event the same are damaged or destroyed by fire or other casualty (a) except to the extent it has received proceeds from insurance maintained by Tenant hereunder (or by Landlord, in lieu of Tenant, pursuant to Section 13.5(b) hereof and for which Landlord has been reimbursed by Tenant) or (b) unless (i) it constitutes a Substantial Casualty which can be repaired to substantially restore such Improvements within such four (4) months or (ii) neither Landlord nor Tenant elects to terminate this lease pursuant to Section 14.1 above. In such event Landlord shall, as promptly and as expeditiously as practicable, restore the Improvements to their former utility.

14.3. Landlord shall not be liable to Tenant or responsible for any inconvenience, loss of business, loss of income, loss of property or any other damage or loss sustained by Tenant as a result of fire or other casualty.

14.4. Tenant hereby waives the provisions of Section 227 of the Real Property Law and agrees that the provisions of this Article shall govern and control in lieu thereof.

14.5. Notwithstanding any termination hereof pursuant to this Article 14, Tenant may elect to exercise the Purchase Option set forth in Article 34 hereof, by giving Landlord the notice of exercise referred to therein within forty-five (45) days of the occurrence of the casualty, in which event the Premises shall be sold to Tenant on an "as-is/where-is" basis, but otherwise pursuant to the Contract of Sale and Tenant shall be entitled to receive all proceeds of insurance maintained by it hereunder (or by Landlord, in lieu of Tenant, pursuant to Section 13.5(b) hereof and for which Landlord has been reimbursed by Tenant) in respect of such casualty.

ARTICLE 15.
LANDLORD MAY CURE DEFAULTS.

15.1. If Tenant shall default in timely performing any other term, covenant, or condition of this lease on the part of Tenant to be performed, beyond the applicable notice and remedy period then, upon the occurrence of any such default, Landlord may, at its option (but Landlord shall not be obligated to do so) and for the account of Tenant, make such payment or expend such sum or take such other action as is necessary to perform and fulfill such term, covenant, or condition, upon ten (10) days' prior written notice to Tenant (except that no such notice shall be

required in the event of emergency). However, no such payment or expenditure by Landlord shall be deemed a waiver of Tenant's default, nor shall the same affect any other remedy of Landlord by reason of such default.

15.2. Any and all sums paid or expended by Landlord pursuant to Section 15.1, as well as any other reasonable cost or expense (including, without limitation, reasonable attorneys fees, disbursements and court costs) incurred by Landlord in instituting, prosecuting, or defending any action or proceeding instituted by reason of, or relating to, any default by Tenant under this lease, shall:

(a) be repaid by Tenant to Landlord as additional rent under this lease within ten (10) days after Landlord's written demand therefor; and

(b) bear interest from the date of Landlord's payment or expenditure thereof to the date of Tenant's repayment of the same to Landlord, both dates inclusive, at a rate which is eighteen (18%) percent per annum (herein referred to as the "Default Rate") (but in no event in excess of any then lawful maximum interest rate then applicable to Tenant).

ARTICLE 16.
BANKRUPTCY, INSOLVENCY, REORGANIZATION, LIQUIDATION OR DISSOLUTION OF TENANT OR GUARANTOR.

16.1. The occurrence of any of the following (hereinafter referred to as "Events of Default") at any time during the Term shall constitute and be deemed a material breach of this lease and a default by Tenant, entitling Landlord, at its option and to the extent permitted by applicable law, to cancel and terminate this lease upon giving Tenant a sixty (60) day notice in writing of Landlord's intention so to do, whereupon this lease shall terminate and come to an end at the expiration of said sixty (60) days as if said expiration date were the time originally fixed for the termination of this lease, and Tenant shall quit and surrender the Premises to Landlord:

(a) the filing of a petition by or against Tenant for:

(i) adjudication as a bankrupt under the Bankruptcy Act, as now or hereafter amended or supplemented; or

(ii) reorganization within the meaning of Chapter X of said Bankruptcy Act; or

(iii) an arrangement within the meaning of Chapter XI of said Bankruptcy Act; or

(iv) an arrangement within the meaning of Chapter XII of said Bankruptcy Act,

or the filing of any petition, by or against Tenant then in possession under any future bankruptcy act for the same or similar relief; or

(b) the dissolution or liquidation of Tenant or the commencement of any action or proceeding by or against Tenant for its dissolution or liquidation, that shall be other than a voluntary dissolution, liquidation, spin-off, or other similar proceeding pursuant to the United States Internal Revenue Code whereby the stock or assets of the Tenant are distributed to its stockholders or to a partnership or corporation or other entity controlled by any such stockholders which assumes in writing the obligations of the Tenant under this lease; or

(c) the appointment of a permanent receiver or a permanent trustee of all or substantially all of the property of the Tenant or the commencement of any action or proceeding by or against the Tenant for such appointment; or

(d) the seizure of a material portion of property of Tenant by any governmental officer or agency pursuant to statutory authority for the dissolution, rehabilitation, reorganization or liquidation of the Tenant; or

(e) the assignment by the Tenant of its property for the benefit of creditors.

However, if any event described in subsections (a), (b), (c) or (d) occurs and is not voluntarily initiated or commenced by the Tenant, or on behalf of the Tenant, the event in question shall not constitute or be deemed a default hereunder and Landlord shall have no option to terminate this lease in connection therewith provided the same is removed or remedied by appropriate discharge or dismissal of the action or proceeding concerned, and the discharge of any receiver, trustee, or other judicial custodian appointed for Tenant's property, within thirty (30) days from the commencement date of such action, proceeding, or appointment and no other Event of Default shall then be continuing.

16.2. Notwithstanding anything to the contrary hereinabove contained in this Article 16, this lease shall not be terminated as a result of any event described in Section 16.1(a), (b), (c) and (d) hereof if, and for so long as no other Event of Default shall have occurred, or shall, in the good faith estimate of Landlord, be reasonably likely to occur, hereunder and Tenant or any other party on behalf of Tenant, including any receiver, assignee, trustee, or other judicial custodian, shall fully and punctually (subject to applicable grace periods and notice and opportunity to cure):

(a) pay any and all installments of Fixed Rent, additional rent and other charges required by this lease to be paid; and

(b) comply with all of the other terms, covenants and conditions of this lease on the part of Tenant to be performed.

ARTICLE 17.
DEFAULT CLAUSES.

17.1. Upon the occurrence of any of the following events (also hereinafter referred to as "Events of Default"), Landlord shall have the right, at Landlord's option, to terminate this lease and the Term, as well as all of the right, title and interest of Tenant in and to the Premises hereunder, by giving Tenant ten (10) days' notice in writing of such termination, whereupon this lease and the Term, as well as all of the right, title and interest of Tenant in and to the Premises, shall wholly cease and expire in the same manner, and with the same force and effect (except as to Tenant's liability), as if the date fixed by such notice were the Expiration Date of the Term:

(a) if Tenant shall fail to pay any installment of Fixed Rent when the same shall become due and payable or if Tenant shall fail to pay, any additional rent, or any other payment or any part thereof required to be paid by Tenant pursuant to this lease as and when the same shall become due and payable and in either case such failure shall continue for ten (10) days after notice by Landlord to Tenant of such failure to pay such amount when due; or

(b) if Tenant shall violate, fail to comply with, or fail to timely perform any other covenant, term, or condition of this lease and such violation or failure shall continue for thirty (30) days after notice by Landlord to Tenant of such violation or failure; provided that if such violation or failure cannot reasonably be remedied within such 30-day period, Tenant shall have such longer period as is reasonable to remedy such violation or failure provided Tenant commences such remedy within such 30-day period and thereafter diligently proceeds with such remedy; or

(c) if any execution or attachment shall be issued against Tenant or any material portion of Tenant's property, whereby the Premises or any part thereof shall be taken or occupied, or by someone other than Tenant; or

(d) if Tenant's right, title and interest in this lease, or the estate of Tenant hereunder, shall be transferred or passed to, or devolve upon, any other person, firm, corporation, or other entity (except as may be otherwise permitted under this lease); or

(e) if Tenant shall abandon the Premises or leave same unoccupied or unattended; or

(f) if Landlord shall terminate the M&S Agreement pursuant to Section 7.2 of the M&S Agreement.

On or before the expiration of the ten (10) days' notice referred to in Section 17.1, Tenant shall immediately quit and surrender the Premises and each and every part thereof to Landlord, and Landlord may, upon the expiration of the ten (10) day notice period, enter into or repossess the Premises by summary or other suitable proceedings.

17.2. No default shall be deemed waived unless in writing and signed by Landlord.

17.3. In the event that Tenant shall fail to remedy and cure any monetary default set forth in subsection (a) of Section 17.1 after notice and the expiration of the ten (10) day period set forth therein, the amount due from Tenant to Landlord shall accrue interest from the date the payment was due to Landlord or made by Landlord on Tenant's behalf, as the case may be, until Tenant's payment thereof, at the Default Rate (but in no event in excess of any then lawful maximum interest rate then applicable to Tenant).

ARTICLE 18.
LANDLORD'S REMEDIES

18.1. In the event this lease shall be terminated by reason of Tenant's default beyond the applicable notice and remedy period, whether as provided in Article 16, Article 17, by summary proceedings, or otherwise then:

(a) (i) Landlord or its agents or representatives may re-enter and resume possession of the Premises either by summary proceedings or by a suitable action or proceeding at law or otherwise, without such action or proceeding, without being liable for any damages therefor, and no such re-entry by Landlord shall be deemed an acceptance of a surrender of this lease; and

(ii) the Fixed Rent and additional rent shall become due thereupon and be paid up to the time of such re-entry, dispossess and/or termination, together with such reasonable counsel fees and expenses as Landlord may incur in connection therewith.

(b) Landlord may relet the whole or any part or parts of the Premises from time to time, either in the name of Landlord or otherwise, to such tenant or tenants, for such term or terms ending before, on or after the Expiration Date, at such rent or rents and upon such other conditions, which may include concessions and free rent periods, as Landlord, in its sole discretion, may determine. Landlord shall have no obligation to relet the Premises or any part thereof, or in the event of any such reletting, Landlord shall not be liable for refusal or failure to collect any rent due upon such reletting, and no such refusal or failure shall operate to relieve Tenant of any liability under lease or to otherwise affect any such liability. Landlord may make such repairs, replacements, alterations, additions, improvements, decorations and other physical changes in and to the Premises as Landlord, in its sole reasonable discretion, considers beneficial or necessary in connection with any such reletting or proposed reletting, without relieving Tenant of any liability under this lease or otherwise affecting any such liability.

(c) If this lease shall expire and come to an end as provided herein, or by or under any summary proceeding or any other action or proceeding, or if Landlord shall re-enter the Premises as provided herein, or by or under any summary proceeding or any other action or proceeding, then, in any of said events: (a) Tenant shall pay to Landlord all Fixed Rent and other charges payable under this lease by Tenant to Landlord to the date upon which this lease shall have expired and come to an end or to the date of re-entry upon the Premises by Landlord, as the case may be; (b) Tenant also shall be liable for and shall pay to Landlord, as damages, any deficiency (hereinafter referred to as a "Deficiency") between (i) the Fixed Rent and additional rent reserved in this lease for the period which otherwise would have constituted the unexpired portion of the

Term and (ii) the net amount, if any, of the rents collected under any reletting effected for any part of such period, less all of Landlord's reasonable expenses in connection with the termination of this lease, Landlord's re-entry upon the Premises and such reletting including, but not limited to, all reasonable repossession costs, brokerage commissions, legal expenses, reasonable attorneys fees and disbursements, alteration costs and other expenses of preparing the Premises for such reletting; such Deficiency shall be paid in monthly installments by Tenant on the days specified in this lease for payment of installments of Fixed Rent; Landlord shall be entitled to recover from Tenant each monthly Deficiency as the same shall arise, and no suit to collect the Deficiency for any month shall prejudice Landlord's right to collect the Deficiency for any subsequent month by a similar proceeding; and (c) whether or not Landlord shall have collected any monthly Deficiencies as aforesaid, Landlord shall be entitled to recover from Tenant, and Tenant shall pay to Landlord, on demand, in lieu of any further Deficiencies as and for liquidated and agreed final damages, a sum equal to the amount by which the Fixed Rent and additional rent reserved in this lease for the period which otherwise would have constituted the unexpired portion of the Term exceeds the then fair and reasonable rental value of the Premises for the same period, if, before presentation of proof of such liquidated damages to any court, commission or tribunal, the Premises, or any part thereof, shall have been relet by Landlord for the period which otherwise would have constituted the unexpired portion of the Term, or any part thereof, the amount of rent reserved upon such reletting shall be deemed, prima facie, to be the fair and reasonable rental value for the part of the whole of the Premises so relet during the term of the reletting. Landlord shall use good faith efforts to relet the Premises to another pharmaceuticals manufacturer capable of manufacturing the products covered by the M&S Agreement at the Premises. Any amounts to be paid to Landlord pursuant to this Section 18.1 in respect of Fixed Rent and additional rent shall be calculated at the net present value thereof using a discount rate equal to the prime lending rate as published in The Wall Street Journal on the business day immediately preceding the date of such payment.

(d) If Tenant shall fail to pay any installment of Fixed Rent or any payment of additional rent within five (5) days after the date when due, Tenant shall pay to Landlord, in addition to such installment or payment, a late charge of $100 and interest on such unpaid amount at the Default Rate on the amount unpaid computed from the date such payment was due to an including the date of payment, which late charge and interest shall be deemed additional rent.

(e) Upon an Event of Default, whether or not this lease is terminated as a result thereof, and whether or not any action or proceeding by reason thereof is commenced by Landlord, the Tenant shall pay to Landlord, upon demand, the reasonable attorney's fees and disbursements and all other costs, damages and expenses incurred by Landlord as a result of such event of default.

18.2. In the event of a breach by Tenant of any of the terms, covenants or provisions of this lease beyond the applicable notice and remedy period, Landlord shall have the right of injunction, as well as to invoke any remedy allowed at law or in equity, as if re-entry, summary proceedings and other remedies were not herein provided for.

18.3. Mention in this lease of any particular remedy shall not preclude Landlord from any other remedy, in law or in equity. Nothing contained in this Article 18 shall be construed

to limit or preclude recovery by Landlord against Tenant of any sums or damages to which, in addition to the damages particularly provided above, Landlord may lawfully be entitled by reason of any default hereunder on the part of Tenant, other than consequential or special damages.

ARTICLE 19.
TENANT'S AND LANDLORD'S INDEMNITIES.

19.1. Tenant shall defend, indemnify and hold Landlord harmless against and from any and all liability, fines, suits, claims, demands, actions, costs and expenses of each and every kind or nature whatsoever (including, without limitation, reasonable attorneys' fees, disbursements and court costs but subject to any limitations on liability expressly set forth in this lease) due to or arising out of any:

(a) breach, violation, or non-performance of any term, covenant, or condition of this lease on the part of Tenant to be fulfilled, kept, observed, or performed; and/or

(b) injury to, or death of, any person or persons or damage to, or destruction of, any property occurring in, on or about the Premises, at any time during the Term, whether or not such injury or damage is occasioned by Tenant's use and occupancy of the Premises, or any part thereof, or, by any use or occupancy that Tenant may permit or suffer to be made thereof, or which is occasioned by smoke, fire, explosion, other disaster, falling plaster, steam, gas, electricity, or water or rain which may leak or seep from or into any part of the Premises from pipes, drains, plumbing lines, plumbing fixtures or from the street or any subsurface area or any other place or from dampness or any other cause, but nothing herein shall be deemed to relieve Landlord from any liability resulting from the affirmative negligence or willful or wrongful acts of Landlord, its agents or employees. If Tenant is required to defend any action or proceeding pursuant to this Article 19 to which Landlord is made a party, Landlord shall be entitled to appear, defend, or otherwise take part in the matter involved, at its election, by counsel of its own choosing, provided that such action by Landlord does not limit or render void any liability of any insurer of Landlord or Tenant hereunder in respect to the claim or matter in question. Tenant's liability under this Article 19 shall be reduced by the net proceeds actually collected of any insurance effected by Tenant on the risks in question for Landlord's benefit.

19.2. Tenant hereby agrees to defend, indemnify and save Landlord harmless from and against all claims, damage, liabilities, costs, loss or expense including, without limitation, reasonable attorneys' and experts' fees and court costs resulting from injury to any person or property, while in or on the Premises and which arises from, is related to, or is connected with the conduct or operation of Tenant's business in the Premises or any work or thing done or any condition created by Tenant, or its employees or agents, or which is otherwise caused by any act or omission of Tenant, its agents or employees.

19.3. [Intentionally Omitted]

19.4. Anything in this lease to the contrary notwithstanding, including without limitation the provisions of Sections 19.1 and 19.2 :

Tenant shall not be required to indemnify, defend or hold Landlord harmless in connection with (i) any matter, state of facts, injury, damage, claim, action, cause of action, obligation or event, the occurrence or existence of which is or arises from a breach by Landlord of any of Landlord's representations, warranties, obligations or agreements under this lease, or (ii) any matter, state of facts, injury, damage, claim, action, cause of action, obligation or event which results from Landlord's Act, or (iii) any matter, state of facts, injury, damage, claim, action, cause of action, obligation or event respecting which, under the express terms of this lease, Landlord is obligated to indemnify Tenant;

(b) Landlord shall defend, indemnify and hold Tenant harmless against and from any and all liability, fines, losses, damages, suits, claims, demands, actions, costs and expenses of each and every kind or nature whatsoever (including, without limitation, reasonable attorneys' fees, disbursements and court costs) due to or arising out of any of the following:

(i) a breach by Landlord of any of Landlord's representations or warranties contained in Section 6A.1 of this lease;

(ii) any breach, violation, or non-performance of any term, covenant, or condition of this lease on the part of Landlord to be fulfilled, kept, observed, or performed (including, without limitation, the representations and warranties by Landlord that at the Commencement Date the Premises will satisfy and comply with current Good Manufacturing Practices); and/or

(iii) Landlord's Acts.

19.5. The provisions of this Article 19 shall survive the termination of this lease.

(a) ARTICLE 20.
MECHANICS' LIENS.

20.1. Tenant covenants that, whenever and as often as any mechanic's lien shall have been filed against the Premises other than any mechanic's lien that shall have been filed based upon any act or omission of Landlord or anyone acting on behalf of Landlord, Tenant shall, within twenty (20) days after Landlord shall give notice in writing to Tenant of the filing thereof, at Tenant's sole cost and expense, take such action by bonding, deposit, or payment, as will remove or satisfy the lien. In default thereof for thirty (30) days after notice to Tenant, the provisions of Article 14 shall apply.

(a) ARTICLE 21
CONDEMNATION.

21.1. If at any time during the Term any person or corporation, municipal, public, private or otherwise, shall lawfully condemn and acquire title to all or any part of the Premises in

or by condemnation proceedings in pursuance of any law, general or special or otherwise (hereinafter referred to as a "Total Taking"), this lease and the Term hereof shall terminate and expire on the date of such taking and the Fixed Rent, additional rent and any other sum or sums of money and other charges herein reserved and required to be paid by Tenant shall be apportioned and paid by Tenant to the date of such taking.

21.2. In the event of a Total Taking which results in the termination of this lease, the entire award or awards paid by the condemning authority shall be paid to Landlord. Landlord shall pay to Tenant fifty (50%) percent of the excess of such amount over the amount payable by Tenant as and for the purchase price of the Premises pursuant to the Contract of Sale referred to in Section 34.1 hereof. Tenant shall also have the right to make a separate claim for the value of its property and moving expenses provided that Tenant's claim shall not impair the ability of Landlord to make its claim or reduce the amount of Landlord's award.

(a) ARTICLE 22.
OWNERSHIP OF PERSONAL PROPERTY.

22.1. Movable personal property including, without limitation, business equipment, shelving, furniture and furnishings, other than improvements and fixtures, put in the Premises at the expense of the Tenant shall be and remain the property of the Tenant. Tenant may remove such property in whole or in part at any time and from time to time during the term of this lease. The cost of repairing any damage arising from such removal shall be paid by the Tenant. All such property not so removed at the termination of this lease and on the Expiration Date hereof, shall, at Landlord's option (i) be deemed abandoned and shall become the property of the Landlord without any payment or offset and free of any claim of Tenant or any person claiming through Tenant, or (ii) be removed and disposed of by Landlord at Tenant's cost and expense, without further notice to or demand upon Tenant.

22.2. Tenant's obligations under this Article shall survive the termination and/or expiration of this lease.

(a) ARTICLE 23.
SHORING.

23.1 To the extent required by law, Tenant shall allow an adjoining owner desiring to excavate on its premises, or a municipality desiring to excavate a nearby street, to enter onto the Premises and shore up a perimeter wall during such excavation. Tenant shall, at Tenant's own expense, repair, or cause to be repaired, any damage caused to any part of the Premises because of any excavation, construction work, or other work of a similar nature that may be done on any property adjoining or adjacent to the Premises, and Landlord hereby assigns to Tenant any and all rights to sue for and/or recover against such adjoining owners, or the parties causing such damages, the amounts expended or injuries sustained by Tenant because of the provisions of this Article requiring Tenant to repair any damages sustained by such excavations, construction work, or other work. No entry onto the Premises pursuant to this Article shall result in any abatement or diminution of the Fixed Rent or in any claim by Tenant against Landlord.

(a) ARTICLE 24.
WAIVER OF REDEMPTION.

24.1 Tenant, for itself and for all persons claiming through or under it, hereby expressly waives any and all rights which are or may be conferred upon Tenant by any present or future law to redeem the Premises, or to any new trial in any action of ejectment under any provision of law, after re-entry thereupon, or upon any part thereof, by Landlord, or after any warrant to dispossess or judgment in ejectment. If Landlord shall have acquired possession of the Premises by summary proceedings, or in any other lawful manner without judicial proceedings, it shall be deemed are-entry within the meaning of that word as used in this lease.

(a) ARTICLE 25.
BROKER.

25.1 Landlord and Tenant covenant, warrant and represent that no broker or finder was instrumental in consummating this lease. Tenant agrees to indemnify and hold Landlord harmless from and against any claims for brokerage commissions or other fees made by any broker claiming to have dealt with Tenant, whether in connection of this lease or the Purchase Option provided in Article 34 below. Landlord agrees to indemnify and hold Tenant harmless from and against any claims for brokerage commissions or other fees made by any broker claiming to have dealt with Landlord with respect to this lease or the Purchase Option provided in Article 34 below. The provisions of this Article shall survive the termination of this lease.

(a) ARTICLE 26.
COVENANT OF QUIET ENJOYMENT.

26.1 If, and for so long as, (a) Tenant shall pay the Fixed Rent and additional rent reserved by or payable pursuant to this lease, and shall perform and observe all of the other terms, covenants and conditions contained herein on the part of Tenant to be performed and observed, and (b) Landlord shall not have terminated the M&S Agreement pursuant to Section 7.2 thereof, Tenant shall quietly enjoy the Premises subject, however, to the terms and conditions of this lease.

(a) ARTICLE 27.
TENANT'S COVENANTS.

27.1. Tenant covenants and agrees that during the Term of this lease and until Tenant vacates and surrenders the Premises to Landlord as required by this lease, Tenant:

(a) will not remove any realty fixtures or Production Equipment from the Premises nor remove from the Premises any other property required to be conveyed to Landlord pursuant to Article 22 hereof except for repair thereof and, upon reasonable prior notice thereof to Landlord, replacement of obsolete equipment with items of equivalent value and function;

(b) will not enter into any service or maintenance contracts which will bind the Landlord or the Premises;

(c) will not commit any act in violation of the Permits described on Exhibit D; and

(d) will, at its sole cost and expense, obtain and maintain in full force and effect all other licenses and permits required for the lawful use, maintenance and occupation of the Premises, other than those required by law to be obtained and maintained by Landlord.

27.2 Landlord and Tenant acknowledge and agree that Tenant is only leasing (and, in the event Tenant exercises the Purchase Option, purchasing) certain assets of Landlord, and (except as may be otherwise expressly provided in this lease) in no event shall Tenant be deemed to have assumed or accepted any liabilities or obligations of Landlord, nor to be a successor to the business of Landlord. In no event shall Tenant be or be deemed a continuation of Landlord, nor shall the business of Tenant at, with or from the Premises be or be deemed a continuation of the business of Landlord. Landlord shall indemnify, defend and hold Tenant harmless from and against any and all liabilities, obligations, costs, expenses (including without limitation reasonable attorneys' fees and expenses), losses and claims in connection with any claim that Tenant is a successor to or continuation of the business of Landlord, and/or that Tenant has successor liability. The provisions hereof shall survive termination of this lease.

27.3 Anything in this lease to the contrary notwithstanding, the relationship between Landlord and Tenant under this lease is one of lessor and lessee (and the relationship of the parties under the M&S Agreement is one of two contracting parties); and nothing in this lease shall be interpreted or construed to render Landlord and Tenant partners, co-venturers, or joint venturers.

27.4 Landlord and Tenant acknowledge and agree that, notwithstanding any other provision hereof to the contrary, (a) Tenant shall be entitled to enter into service and similar contracts with respect to the Premises and any of the Improvements, provided that such contracts are terminable on not less than thirty (30) days notice or termination of this lease, (b) Tenant may record this lease or a memorandum hereof in form and substance mutually satisfactory to the parties, (c) Tenant may terminate this lease upon any termination by Tenant of the M&S Agreement pursuant to Section 7.2 thereof, (d) Tenant shall be entitled to a refund of Fixed Rent and additional rent paid by Tenant in respect of periods after the termination of this lease upon any termination hereof other than as a result of an Event of Default and (e) Landlord shall cooperate with Tenant with respect to any reviews and/or audits of the Premises or its operations by the United States Food and Drug Administration.

(a) ARTICLE 28.

(a) [Intentionally Omitted]

ARTICLE 29.
ASSIGNMENT AND SUBLETTING.

29.1. Tenant covenants and agrees that it will not mortgage or encumber this lease. Tenant further acknowledges and agrees that the development, formulation and manufacture of

human, non-contaminating pharmaceutical products, generally, and the products covered by the M&S Agreement, in particular, is highly regulated by governmental authorities, requires the unique expertise and experience of Tenant and requires the disclosure of sensitive and proprietary confidential information. Accordingly, Tenant covenants and agrees that it will not assign this lease (or any rights hereunder, including, without limitation rights under Article 34 hereof) nor sublet the Premises or any part thereof or otherwise permit the Premises or any part thereof to be used or occupied by any other person, firm or entity for any purpose whatsoever (a) during the term of the M&S Agreement, without the consent or approval by Landlord (which consent may be withheld, delayed or conditioned in the sole discretion of Landlord), except to any entity controlled by Tenant, and/or to an entity under common control with Tenant on the date hereof, and (b) after the term of the M&S Agreement, without the consent or approval by Landlord (which consent shall not be unreasonably withheld, delayed or conditioned) and provided that, in each instance any such assignee or subtenant agrees in writing to be bound by all the terms and provisions of this lease. Tenant shall give Landlord prior written notice of the proposed assignment or subletting and provide Landlord the name and address of the assignee or subtenant.

29.2. The term "assign" and all derivatives thereof, shall be deemed to include any transaction as a result of which any person or entity not currently a holder of securities of Tenant shall have the power to elect (by contract, share ownership or otherwise) a majority of the directors on the Board of Directors of Tenant.

29.3 Nothing in this lease shall limit Tenant from or prevent Tenant from leasing any equipment or fixtures or other personal property from any third party, or granting any third party a security interest, mortgage, or other lien or claim in or to any equipment or fixtures or other personal property owned by Tenant in connection with the financing of such any equipment or fixtures or other personal property.

ARTICLE 30.
WAIVERS AND SURRENDERS TO BE IN WRITING.

30.1 The receipt of Fixed Rent, additional rent or any other sums due hereunder by Landlord, with knowledge of any breach of this lease by Tenant or of any default on the part of Tenant in the observance or performance of any of the conditions or covenants of this lease, shall not be deemed to be a waiver of any provision of this lease. No failure on the part of Landlord or Tenant to enforce any covenant or provision herein contained, nor any waiver of any right hereunder by Landlord or Tenant (unless such waiver is in a writing signed by the party to be charged), shall discharge or invalidate such covenant or provision, or affect the right of Landlord or Tenant to enforce the same in the event of any subsequent breach or default. The receipt by Landlord of any Fixed Rent, additional rent, any other sum of money, or any other consideration paid by Tenant after the expiration or termination, in any manner, of the Term shall not reinstate, continue or extend the Term, unless so agreed to in writing and signed by Landlord. Neither acceptance of the keys to any Improvement on the Premises, nor any other act or thing done by Landlord or any agent or employee during the Term, shall be deemed to be an acceptance of a surrender of the Premises, excepting only an agreement in writing signed by Landlord accepting or agreeing to accept such a surrender.

ARTICLE 31.
LANDLORD'S RIGHTS AND REMEDIES CUMULATIVE.

31.1 The rights given to Landlord herein are in addition to any rights that may be given to Landlord by any statute or otherwise. All of the rights and remedies of Landlord under this lease or pursuant to present or future law shall be deemed separate, distinct and cumulative, and no one or more of them, whether exercised or not, nor any mention of, or reference to, any one or more of them in this lease shall be deemed to be in exclusion of, or a waiver of, any of the others, or of any of the other rights or remedies that Landlord may have, whether by present or future law or pursuant to this lease. Landlord shall have, to the fullest extent permitted by law, the right to enforce any rights or remedies separately, and to take any lawful action or proceedings to exercise or enforce any right or remedy, without thereby waiving, or being barred or estopped from exercising and enforcing, any other rights and remedies by appropriate action or proceedings.

ARTICLE 32.
TIMELY SURRENDER OF PREMISES;
REMOVAL OF PERSONAL PROPERTY.

32.1. Tenant shall, on or before the Expiration Date, or on the sooner termination of this lease, peaceably and quietly leave, surrender and yield up unto Landlord all and singular, the Premises free of all sub tenancies and (except in the event of a termination of this lease by reason of condemnation or the destruction of the Improvements as provided in this lease), vacant, broom-clean, in good order and repair and in the same condition as existed on the Commencement Date, normal wear and tear excepted. Landlord may require Tenant to remove alterations to the Improvements permitted pursuant to Section 11.1 hereof, unless such removal has been waived in writing by Landlord prior to commencement thereof.

32.2. Tenant acknowledges that possession of the Premises must be surrendered to Landlord on the Expiration Date or sooner termination of this lease free and clear of all tenancies and occupants. The parties recognize and agree that the damage to Landlord resulting from any failure by Tenant to timely surrender possession of the Premises as aforesaid will be extremely substantial, will exceed the amount of monthly rent theretofore payable hereunder, and will be impossible of accurate measurement. Tenant therefor agrees that if possession of the Premises is not surrendered to Landlord on the Expiration Date or sooner termination of this lease, then Tenant agrees to pay Landlord as liquidated damages for each month and for each portion of any month during which Tenant holds over in the Premises after such Expiration Date or earlier termination date, as the case may be, (x) a sum equal to two (2) times the average Fixed Rent and (y) an amount equal to two (2) times the additional rent which was payable under this lease during the month immediately preceding the Expiration Date or earlier termination date. Should Tenant hold over in possession of the Premises after the expiration of the Term, as extended, such holding over shall not be deemed to extend the Term or renew this lease, but this lease shall continue as a tenancy from month to month upon the terms and conditions herein contained and at the rents provided in this Section.

32.3. Should Landlord incur any expense in removing any subtenant, or any other person holding by, through, or under Tenant, who has failed to so surrender the Premises, or any part thereof, Tenant, without notice or demand therefor, shall reimburse Landlord for the reasonable cost and expense (including, without limitation, reasonable attorneys' fees, disbursements and court costs) of removing such subtenant or such person.

ARTICLE 33.
SALE OR CONVEYANCE OF PREMISES; LIMITS OF LIABILITY OF LANDLORD.

33.1 Landlord's liability shall be limited to such amount which is the Landlord's equity in the Premises at the time of and in the event of a breach by Landlord of any of the terms, covenants and conditions of this lease to be performed by Landlord and in no event shall Tenant be entitled to recover damages from Landlord in excess of the applicable sum.

ARTICLE 34
TENANT'S PURCHASE OPTION.

34.1. For, and in consideration of the payment to Landlord on the date hereof of the sum of One Hundred Thousand dollars ($100,000) (this amount, together with the $150,000 referred to in Section 33.1(d) the "Option Payment") Tenant shall have the right to purchase fee title to the Premises from Landlord (the "Purchase Option") upon the terms and conditions set forth in that certain written agreement annexed to this lease as Exhibit F (the "Contract of Sale" and subject to the following:

(a) Tenant must exercise the Purchase Option by duly signing the Contract of Sale, without modification, and delivering the same to Landlord at least forty-five (45) days prior to the Expiration Date, together with a check payable to Landlord's counsel, as escrow agent, representing the Deposit required pursuant to the terms of the Contract of Sale.

(b) The closing date under the Contract of Sale shall be the earlier of the following: (i) the date which is ninety (90) days after Tenant exercises the Purchase Option or (ii) the Expiration Date.

(c) The Purchase Option shall terminate upon the expiration or termination of this lease or in the event that Tenant is in default hereunder.

(d) In the event that either Tenant shall not have exercised the Purchase Option or, if exercised, closing of the Contract of Sale shall not have occurred prior to the Expiration Date of the Initial Term for any reason other than Landlord's Acts, the Purchase Option and the Contract of Sale shall be void and of no further force or effect and shall be deemed canceled without further liability of either party thereto to the other for any matter whatsoever thereunder, unless Tenant shall have paid to Landlord, as additional consideration for the Purchase Option, the sum of One Hundred Fifty Thousand Dollars ($150,000.00) (in addition to all other amounts paid by Tenant to Landlord prior to such Expiration Date of the Initial Term).

(e) Tenant shall pay any and all transfer tax liability arising from the grant of the Purchase Option and Landlord shall pay any and all transfer tax liability arising upon transfer of the Premises pursuant to the Contract of Sale.

(f) No portion of the Fixed Rent, additional rent or consideration for the Purchase Option paid by Tenant shall be applied against the Purchase Price payable pursuant to the Contract of Sale; provided, however, that if the Purchase Option shall be exercised and the closing of the Contract of Sale shall occur in the first Lease Year or the first six (6) months of the second Lease Year, Tenant shall be entitled to a credit against the purchase price thereunder the an amount equal the excess, if any, of (a) the aggregate amount of Fixed Rent paid by Tenant to the date of such closing over (b) the amount of Fixed Rent which would have been paid had Fixed Rent been payable during such Lease Year in equal monthly installments, in advance.

ARTICLE 35.
TENANT TO FURNISH STATEMENTS.

35.1. Tenant shall, within fifteen (15) days after the written request of Landlord, or of any holder or potential holder of a fee mortgage on the Premises, furnish a written statement, duly acknowledged, setting forth the following items:

(a) the amount of Fixed Rent and additional rent due, if any, under this lease as of the date of such statement; and

(b) whether this lease is unmodified and in full force and effect (or, if there have been modifications, that the lease is in full force and effect as modified and stating the modifications); and

(c) whether, to the best knowledge and belief of Tenant, Landlord is in default and if so, specifying the nature of the default: and

(d) whether, to the best knowledge and belief of Tenant, there are any offsets against any sum of money payable by Tenant hereunder or defenses against the enforcement of any of the terms, covenants and conditions of this lease on the part of the Tenant to be performed or observed and if so, specifying the nature of the offset or defense; and

(e) whether Tenant has given Landlord any notice of default under this lease, and if given, whether the default set forth therein remains uncured; and

(f) such other information concerning the status of this lease as Landlord, or the holder or potential holder of a fee mortgage on the Premises, may reasonably request.

Any such statement shall be for the sole benefit of Landlord or its assigns or such holder or potential holder of a fee mortgage requesting the same or its assigns, and shall have no effect, as an estoppel or otherwise, with respect to any third party.

35.2. Upon the failure of Tenant to furnish such statement within the said fifteen (15) day period, it shall be conclusively presumed that this lease is in full force and effect and that there are no defaults on the part of Landlord hereunder and no offsets against, or defenses to, the Tenant's obligations hereunder.

35.3. Should Tenant demonstrate reasonable need therefor, Landlord shall promptly provide Tenant with similar, reciprocal statements.

ARTICLE 36.
INSPECTIONS BY LANDLORD.

Tenant shall permit an inspection of the Premises and all books and records pertaining thereto and the operation thereof to the extent, and only to the extent, necessary to verify Tenant's compliance herewith during business hours, on reasonable prior notice to Tenant, by Landlord, by Landlord's agents or representatives, and by, or on behalf of, prospective purchasers and/or mortgagees of the fee interest in the Premises. If, at any time by reason of an emergency condition an entry shall be deemed necessary for the protection of the Premises, whether for the benefit of Tenant or not, Landlord, or Landlord's agents or representatives, may enter the Premises without prior notice to Tenant and accomplish such purposes. Landlord shall make all inspections in a manner which will not unreasonably interfere with Tenant's business operations pursuant to the terms of Section 8 of the M&S Agreement, whether or not the M&S Agreement shall be in effect as though the provisions thereof were fully incorporated herein. Any such inspection shall be at Landlord's sole risk and Tenant shall not be liable for any injuries to persons or for property damage occurring during any inspection unless the same is caused by the act or omission of Tenant, its agents or employees.

ARTICLE 37.
COVENANTS BINDING ON SUCCESSORS AND ASSIGNS.

The covenants, agreements, terms, provisions and conditions contained in this lease shall apply to, inure to the benefit of and be binding upon Landlord, Tenant and their respective executors, administrators, legal representatives, heirs, successors and permitted assigns, except as expressly otherwise hereinabove provided.

ARTICLE 38.
ENTIRE AGREEMENT

This lease contains the entire agreement between the parties, and shall not be modified in any manner except by an instrument in writing executed by the parties or their respective successors in interest. All prior discussions, negotiations and agreements, whether oral or written between the parties with respect to this lease and the letting of the Premises, are merged herein.

ARTICLE 39.
NOTICES

Any notice, demand, election, or other communication (hereinafter referred to as a "Notice") that, under the terms of this lease or under any statute, must or may be given by the parties hereto shall be in writing and shall be given by mailing the same by registered or certified mail, return receipt requested, in a prepaid wrapper, or by courier if a signed receipt is obtained upon delivery, addressed:

If to Landlord:

Par Pharmaceutical, Inc.
One Ram Ridge Road
Spring Valley, New York 10977
Attn:

With a Copy To:

Kirkpatrick & Lockhart LLP
1251 Avenue of the Americas
New York, New York 10020
Attn: Stephen A. Ollendorff, Esq.

If to Tenant:

Halsey Drug Co., Inc.
695 No. Perryville Road
Rockford, Illinois 61107
Attn:

With a Copy To:

St. John & Wayne, L.L.C.
Two Penn Plaza East
Newark, New Jersey 07105
Attn: Mark B. Rosenman, Esq.

39.1. Either Landlord or Tenant may designate by Notice a new or other address or other persons, not exceeding an aggregate of three (3) Notices for each party, to which and to whom Notices and copies of Notices shall thereafter be given and any addressee entitled to receive copies of Notices as set forth in Section 38.1 may designate by Notice a new or other address to which such copies shall thereafter be given. Any Notice given by mail hereunder shall be deemed given three (3) days after the same is deposited in a United States general or branch post office, or in an official United States mail depository, located in the State of New York, enclosed in a registered or certified mail prepaid wrapper, return receipt requested, addressed as hereinabove

provided and any notice given by courier wherein a delivery receipt is obtained shall be deemed given one (1) day after delivery is made.

ARTICLE 40.
MISCELLANEOUS.

40.1. This lease shall be governed by, and construed and interpreted in accordance with, the laws of the State of New York.

40.2. The captions of this lease and the index preceding this lease are for convenience and reference only and in no way define, limit or describe the scope or intent of this lease, nor in any way affect this lease.

40.3. All the provisions of this lease shall be deemed and construed to be "conditions" as well as "covenants", and "covenants" as well as "conditions" as though the words specifically expressing or importing covenants and conditions were used in each separate provision hereof.

40.4. Words of any gender in this lease shall be held to include any other gender and words in the singular number shall be held to include the plural when the sense requires.

40.5. If and to the extent that a provision of this lease shall be unlawful or country to public policy, the same shall not be deemed to invalidate the other provisions of this lease.

ARTICLE 41.
MEANINGS OF CERTAIN LEASE TERMS.

As the same are used in this lease, the following terms shall have the following meanings:

(a) The term "additional rent" shall mean all sums of money, other than the Fixed Rent, as shall become due from Tenant to Landlord hereunder, and Landlord shall have the same remedies therefor as for a default in payment of Fixed Rent.

(b) The term "rents" shall mean Fixed Rent and additional rent hereunder.

(c) The term "mortgage" shall include an indenture of mortgage and deed of trust to a trustee to secure an issue of bonds, and the term "mortgagee" shall include such a trustee.

(d) The term "obligations of this lease" and words of like import, shall mean the covenants to pay the Fixed Rent and additional rent under this lease and to perform and observe all of the other covenants and conditions contained in this lease. Any provision in this lease that one party or the other or both shall do or not do or shall cause or permit or not cause or permit

a particular act, condition or circumstance shall be deemed to mean that such party so covenants or both parties so covenant, as the case may be.

(e) The term "Tenant's obligations" hereunder, and words of like import, and the term "Landlord's obligations" hereunder, and words of like import shall mean the obligations of this lease which are to be performed or observed by Tenant, or by Landlord, as the case may be. Reference to "performance" of either party's obligations under this lease shall be construed as "performance and observance". Tenant's obligations hereunder shall be construed in every instance as conditions as well as covenants.

(f) Reference to Tenant being or not being "in default hereunder", or words of like import, shall mean that Tenant is in default in the performance of one or more of Tenant's obligations on its part to be performed or observed hereunder or that Tenant is not in default in the performance of any of Tenant's obligations on its part to be performed or observed hereunder or that a condition of the character described in Articles 16 or 17 has occurred and continues or has not occurred or does not continue, as the case may be.

(g) The term "repair" shall be deemed to include restoration, rebuilding and replacement of parts as may be necessary to achieve and/or maintain good working order and condition.

(h) The words "include", "including" and "such as" shall each be construed as if followed by the phrase "without being limited to".

(i) The words "herein", "hereof", "hereby", "hereunder" and words of similar import shall be construed to refer to this lease as a whole and not to any particular Article or subdivision thereof unless expressly so stated.

(j) [intentionally omitted]

(k) The term "laws and/or requirements of public authorities" and words of like import shall mean laws and ordinances of any or all of the Federal, state, city, county and borough governments and rules, regulations, orders and/or directives of any or all departments, subdivisions, bureaus, agencies or offices thereof, or of any other governmental, public or quasi-public authorities, having jurisdiction in the premises, and/or the direction of any public officer pursuant to law.

(l) The term "requirements of insurance bodies" and words of like import shall mean rules, regulations, orders and other requirements of the New York Board of Fire Underwriters and/or the New York Fire Insurance Rating Organization and/or any other similar body performing the same or similar functions and having jurisdiction or cognizance of the building and/or the Premises.

(m) Reference to "termination of this lease" includes expiration or earlier termination of the term of this lease or cancellation of this lease pursuant to any of the provisions

of this lease or by law or by exercise of the Purchase Option and the purchase of the Premises pursuant to the Contract of Sale. Upon a termination of this lease, the term and estate granted by this lease shall end at noon of the date of termination as if such date were the Expiration Date of this lease and neither party shall have any further obligation or liability to the other after such termination except (i) as shall be expressly provided for in this lease, or (ii) for such obligation as by its nature or under the circumstances can only be, or by the provisions of this lease, may be, performed after such termination, and, in any event, unless expressly otherwise provided in this lease, any liability for a payment which shall have accrued to or with respect to any period ending at the time of termination shall survive the termination of this lease.

(n) The term "in full force and effect" when herein used in reference to this lease as a condition to the existence or exercise of a right on the part of Tenant shall be construed in each instance as meaning that at the time in question this lease has not expired or otherwise been terminated.

(o) All references in this lease to numbered Articles and lettered exhibits are references to Articles of this lease and Exhibits annexed to (and thereby made part of) this lease, as the case may be, unless expressly otherwise designated in the context.

(p) Wherever in this lease the term "assignee" or "other successor in interest" is set forth, the same shall be construed to mean only if the assignment or instrument creating the successor in interest is permitted under the terms of this lease and shall not be construed to grant Tenant any rights not herein specifically set forth.

(q) Wherever in this lease the terms "agents or employees" are used, or any combination or addition thereto, the same shall be deemed to include "agents, employees, servants, licensees, representatives, contractors, subcontractors, visitors and invitees".

(r) The term "FORCE MAJEURE" as used herein shall mean any period of delay which arises through acts of God, strikes, lockouts or labor difficulty, embargoes, explosion, sabotage, riot or civil commotion, acts of war, fire or other casualty not caused by the party claiming force majeure and other causes which are unavoidable and beyond the reasonable control of the party claiming force majeure.

ARTICLE 42.

[Intentionally Omitted]

ARTICLE 43.
LEASE NOT BINDING UNLESS EXECUTED

Landlord's submission of this lease for execution by Tenant shall confer no rights nor impose any obligations on either party unless and until both Landlord and Tenant shall have executed this lease and duplicate originals thereof shall have been delivered to the respective parties. Without limiting the foregoing, it is agreed that Landlord's submission of this lease to Tenant shall

not be construed as an offer by Landlord to lease the Premises to Tenant on the terms herein contained.

ARTICLE 44.
APPOINTMENT OF LANDLORD AS AGENT.

(a) Tenant acknowledges and agrees that it has irrevocably appointed Landlord as its agent and attorney-in-fact solely for certain purposes specified in the M&S Agreement. Tenant further acknowledges and agrees that any actions taken by Landlord thereunder shall not constitute repossession or control by Landlord of the Premises hereunder, shall not modify or affect, in any way, the terms of this lease and shall not relieve Tenant of any responsibility or obligation hereunder.

(b) Tenant acknowledges and agrees that Landlord's actions as agent for Tenant will not constitute any act that is stayed under Section 362 of the United States Bankruptcy Code. Notwithstanding this acknowledgment, if a court of competent jurisdiction determines that such actions are stayed by Section 362 of the Bankruptcy Code, then Landlord hereby waives the protection of Section 362 of the Bankruptcy Code, but only to the extent necessary to allow Landlord to engage in such actions and for no other purpose. Further, if it is necessary for Landlord to obtain, from a court of competent jurisdiction, relief from such stay in order to take such actions, then Tenant hereby consents to such relief and will consent to Landlord's request for such relief when made to the appropriate court.

(c) In the event that an order for relief is issued in respect of Tenant under the Bankruptcy Code, tenant shall made a decision to assume or reject this lease under Section 365 of the Bankruptcy Code within thirty (30) days of the issuance of such order for relief.

ARTICLE 45.
ARBITRATION OF CERTAIN DISPUTES.

Should any dispute arise out of or in connection with this lease, Landlord and Tenant shall attempt in good faith to resolve such dispute. If, notwithstanding such efforts, such dispute is not resolved within thirty (30) days from the date written notice thereof is delivered by one party to the other, such dispute shall be settled by arbitration by, and in accordance with, the then existing Commercial Arbitration Rules--Expedited Procedures of the American Arbitration Association ("AAA"). Hearings with regard to such dispute shall be held at the offices of the AAA in the City of New York and judgment upon any award rendered pursuant to this Article 45 may be entered in any court of competent jurisdiction. Any award rendered pursuant to the terms and conditions set forth herein shall be final and binding. Any such arbitration shall be had before a single arbitrator designated in accordance with the rules of the AAA. Each party to the arbitration shall pay one-half the cost and expense thereof, including, without limitation, arbitration fees and the expenses of a court reporter, and each shall separately pay for its own attorneys' fees and expenses therein.

IN WITNESS WHEREOF, the parties hereto have duly executed this Agreement of lease as of the day and year first-above written.

PAR PHARMACEUTICAL, INC.

By: /S/ Kenneth Sawyer

Title: President

HALSEY DRUG CO., INC.

By: /S/ Peter Clemens

Title: Chief Financial Officer

ACKNOWLEDGMENT

STATE OF NEW YORK)
) ss.:
COUNTY OF)

On the _____ day of _____, 1999, before me personally came _____, to me known, who being by me duly sworn, did depose and say that he resides at _____ New York, that he is the _____ of _____, the corporation described in and which executed the foregoing instrument; and that he signed his name thereto by order of the Board of Directors of said corporation.

_____
NOTARY PUBLIC

STATE OF NEW YORK)
)ss.:
COUNTY OF)

On the _____ day of _____, 1999, before me personally came _____, to me known, who being by me duly sworn, did depose and say that he resides at _____; that he is the _____ of _____, the corporation described in and which executed the foregoing instrument; and that he signed his name thereto by order of the Board of Directors of said corporation.

_____
NOTARY PUBLIC

Exhibit 10.54

[Lease Agreement dated September 1, 1998 between the Registrant and Crimson Ridge Partners]

LEASE

THIS LEASE, made and entered into this 1 day of September, 1998, by and between CRIMSON RIDGE PARTNERS, (hereinafter referred to as "Lessor") and HALSEY DRUGS COMPANY, 1827 Pacific Street, Brooklyn, New York 11233 (hereinafter referred as "Lessee").

WITNESSETH

That in consideration of the covenants, agreements, mutual promises and other provisions herein contained, the parties hereto agree as follows:

I.

LEASED PREMISES

Lessor hereby leases to Lessee and Lessee leases from Lessor, for the term and upon the terms and conditions hereinafter set forth, approximately 4,620 square feet located in Suite No. 4 at Crimson Ridge Building No. 2, located at 695 North Perryville Road, Rockford, Illinois.

II.

TERM

The term of this Lease shall commence on the date which the Lessor completes its build-out requirements as set forth in Article VI hereof, and shall terminate two (2) years thereafter. Lessee shall be allowed immediate access to the premises for necessary construction in preparing the premises for occupancy.

III.

RENT

As consideration for the lease of the above-described premises, Lessee shall pay the Lessor the sum of Three Thousand Eight Hundred Fifty and no/100 Dollars ($3,850.00) per month commencing the 1st day of the term of this Lease. Said rental payments shall continue each and every month thereafter during the term of this Lease. Each monthly rental payment shall be paid by Lessee to Lessor in advance on or before the 1st day of each and every succeeding month of the lease term hereof, without notice or demand at such place and to such agent, if any, of the Lessor, as the Lessor may from time to time designate in writing. The first month's rent shall be paid by the Lessee at the time of execution of this lease; the actual amount of the first month's rent shall be subsequently adjusted if necessary to allow for the possibility that the first month of the Lease is actually a partial month. Any credit due from such adjustment will be credited against the second month's rent. In addition to said rent, the Lessor's cost of the buildouts provided in Article VI.A shall be reimbursed to Lessor by Lessee in equal monthly payments amortized over the initial term of this Lease.

IV.

DEPOSIT

Lessee shall pay to Lessor at the execution of this Lease the sum of Three Thousand Eight Hundred Fifty and no/100 Dollars ($3,850.00) as a security deposit.

V.

UTILITIES

The Lessee agrees to pay all utility services rendered or furnished to the premises being leased during the term hereof, including heat, air conditioning, water, gas, electric, telephone, sewer, garbage removal, levies, fees or other charges of such utilities. The utilities servicing the leased

premises shall be metered separately from utilities provided to other tenants occupying the same building; Lessor shall pay the cost of having the utility meters installed on these premises.

VI.

ALTERATIONS

A. Lessor shall build two (2) mens' toilet rooms and two (2) womens' toilet rooms in the premises, and shall construct four (4) separate office rooms in the leased premises. The construction shall conform to the requirements of the Americans' with Disability Act and applicable building codes.

B. Lessee may make alterations, changes, additions or improvements to the premises provided that the same shall not lessen or materially and disadvantageously affect the value of the building, after first obtaining Lessor's written consent therefore, which consent Lessor agrees shall not be unreasonably withheld or delayed. An alterations, additions or improvements of premises by Lessee or any sublessee or other occupant of the within demised premises during the term of this Lease, shall become the property of the Lessor upon the expiration of the term of this Lease with the exception of the telephone and security systems, which shall remain property of the Lessee.

C. Lessee shall indemnify and save Lessor harmless from any and all liabilities, damages or penalties, and any costs, expenses or claims, including reasonable attorneys' fees, of any kind or nature, arising out of said construction, alteration or additions or improvements made by Lessee; such indemnification shall apply to any damages or injury to person or property. Lessee further agrees to pay and discharge any mechanic's, materialmen's or other liens against the leased premises or Lessor's interest therein claimed in respect to any labor, services, materials, supplies or equipment furnished or alleged to have been furnished to or upon request of the Lessee. Provided, however,

the provisions of this paragraph shall not prohibit the Lessee from disputing in good faith any such mechanic's lien, materialmen's or other lien so long as such dispute is without cost to the Lessor.

D. Lessor shall deliver the premises to the Lessee in its present condition. Lessee shall build-out the premises at its sole expense, except for the improvements to be provided by Lessor as provided in subparagraph A hereof, and, except the Lessor agrees to provide the Lessee with an allowance for a lighting expense not to exceed One and no/100 Dollar ($1.00) per square foot and an allowance for flooring expense not to exceed One and 351100 Dollars ($1.35) per square foot. Lessor shall reimburse Lessee within ten (10) days after presentation of invoices by Lessee for its actual expenses incurred up to the amount of said allowances. At commencement of the Lease, the Lessor shall certify that the premises complies with Americans' with Disability Act, all applicable building codes, and that the premises is going to be occupied.

VII.

USE OF DEMISES PREMISES

Lessee shall use the premises for its operation of an office for pharmaceuticals and drugs in the ordinary course of its business, and for such other purpose as Lessor may from time to time consent in writing. The premises may not be used for any extra hazardous use nor in violation of any ordinance, statute, government regulation or law. After written notice to Lessor, Lessee may, at its sole cost and expense, contest in good faith the validity of any law, ordinance, regulation or rule adversely affecting its use of the demised premises; provided, however, that in any event, the Lessee shall indemnify and hold Lessor harmless from any expenses or consequences of such litigation.

Lessor shall not be liable to Lessee for any damage occasioned by plumbing, electrical, gas, water, steam or other utility pipes, systems and facilities unless caused by failure of Lessor to

perform its obligations under this lease, the negligence or wilful misconduct of Lessor or Lessor's agents or any damage arising from any acts or neglect of the Lessee. Lessee shall not perform any acts or carry on any practices which may injure the building and shall keep the leased premises under its control, clean from rubbish and dirt at all times.

VIII.

INSURANCE

Lessee, during the entire term of this Lease agreement, shall maintain (and the Lessor shall be so named as an insured in any such policies), general public liability and property damage insurance against claims for bodily injury or death and property damage occurring upon the premises or areas adjacent thereto, to the extent of not less than $1,000,000.00 for bodily injury or death to any person, and to the extent of not less than $1,000,000.00 for bodily injury or death to any number of persons arising out of the same accident or disaster, and to the extent of $500,000.00 for property damage. Lessor shall obtain and maintain replacement insurance on the building in which the]eased premises are located against casualty, fire, vandalism and malicious mischief and such other risks as may be included in extended coverage insurance from time to time available, which policy v,d) contain a cause pursuant to which the insurance carrier waives all rights of subrogation against lessee with respect to the losses payable under such policy. Lessee shall maintain its own insurance on the contents of the demised premises to the full value thereof, insuring the parties of interest as they may appear. Lessee shall pay its pro rata share of the cost of casualty insurance on the leased premises. Lessee's pro rata share shall be computed on the ratio that the total area of the leased premises bears to the total leasable square feet of the building in which the leased premises is located.

IX.

TOTAL OR PARTIAL DESTRUCTION

In the event the building constituting the leased premises shall be partially or totally destroyed by fire or other casualty so as to become partially or totally untenable, the same shall be repaired as speedily as possible without expense to the Lessee (unless Lessor shall elect not to rebuild as hereinafter provided), and a just and proportionate part of the rent shall be abated until so repaired. In any event, the Lessor shall only rebuild and replace that part of the leased premises which it was obligated to provide Lessee; provided, however, the replacement premises shall be of a comparable quality building to the building in which the leased premises is located. Should the Lessor elect not to rebuild, which election may be made only if more than forty percent (40%) of the demised premises is destroyed, the Lease shall be terminated as of the date of the casualty. Notice of such election not to rebuild shall be given to the Lessee not more than forty-five (45) days from the date of the casualty. Provided, however, (a) if more than forty percent (40%) of the demised premises is destroyed, or (b) Lessor does not complete all required repairs within ninety (90) days of the casualty, Lessor shall not have completed all necessary repairs. Lessee may elect to terminate this Lease by giving written notice within thirty (30) days of the destruction of the premises to the Lessor.

If such damage or destruction occurs and this Lease is not so terminated, this Lease shall remain in full force and effect and the parties waive the provisions of any law to the contrary. Lessor shall have no interest in the proceeds of any insurance carried by Lessee on Lessee's interest in this Lease, and Lessee shall have no interest in the proceeds of any insurance carried by Lessor.

X.

ASSIGNMENT AND SUBLETTING

Lessee shall not assign nor sublet the leased premises or any part or parts thereof, nor sublet the leased premises or any part or parts thereof, nor permit occupancy by Anyone with, through or under it, without previous written consent of the Lessor, which consent Lessor agrees not to unreasonably withhold or delay; provided, however, that the Lessee has the right to assign its interest in this Lease to a successor by merger or acquisition without the Lessor's consent. Consent by Lessor to one or more assignments of this Lease or to one or more sublettings of the leased premises shall not operate as a waiver of Lessor's right under this article to any subsequent assignment or subletting nor release Lessee or any guarantor of Lessee of any of its obligations under this Lease or be construed or taken as a waiver of Lessor's rights or remedies hereunder. Lessee shall not mortgage or otherwise encumber this Lease, except to provide a collateral assignment of the Lease to a commercial lender, the terms of which assignment shall provide that the lender will assume the rent premises and other obligations of the Lessee as set forth herein, and shall not subsequently assign or sublet the Lease without the prior written consent of the Lessor, which consent shall not be unreasonably withheld.

Neither this Lease nor any interest therein, nor any estate therein created, shall pass to any trustee or receiver in bankruptcy or any assignee for the benefit of creditors, or by operation of law.

XI.

EMINENT DOMAIN

If all or any part of the leased premises shall be taken by any public authority under the power of eminent domain, then the term of this Lease shall cease on the part so taken from the date of possession of that part, and the rent shall be paid up to that day. If such portion of the leased premises is so taken as to destroy or materially impair the usefulness of the premises for the purpose for which the premises were leased, then from that day, both Lessor and Lessee shall have the right to terminate this Lease within thirty (30) days thereafter. If this Lease is not terminated by either, the lessee shall continue in possession of the remainder of the leased premises under the terms herein provided, in which event, the rent shall be equitably reduced in proportion to the area of the premises taken. Lessor reserves to itself and Lessee assigns to Lessor all rights to damages accruing on account of any taking or condemnation, or by reason of any act of any public or quasi public authority for which damages are payable. All damages awarded for such taking shall belong to and be the property of the Lessor whether such damages shall be awarded as compensation for diminution in value to this leasehold or to Lessor underlying leasehold or fee of the premises herein leased. Lessee agrees to execute such instruments of assignment as may be required by Lessor to join with Lessor in any petition for recovery of damages if requested by Lessor, and to turn over to Lessor any such damages that may be received in any such proceedings. Not withstanding the foregoing, Lessor does not reserve to itself nor shall it be entitled to any damages payable for trade fixtures owned by Lessee, or alterations made by Lessee at its own expense, or for any award as may be attributable to the moving expenses of the Lessee.

XII.

QUIET ENJOYMENT

Lessee, upon paying the rent and performing the covenants and agreements of this Lease, shall quietly have, hold and enjoy the demised premises and all rights granted Lessee in this Lease during the term hereof and extension hereto, if any.

Lessor and Lessor's authorized representative shall have the right to enter upon the leased premises at all reasonable hours, upon reasonable notice to Lessee, for the purpose of inspecting the same or of making repairs, additions or alterations thereof, or to the building in which the same are located, or for the purpose of exhibiting the same to prospective lessees, purchasers or others. Lessor shall not be liable to Lessee in any manner for any such action nor shall the exercise of such right be deemed an eviction or disturbance of Lessee's use or possession.

XIII.

SUBORDINATION

Lessee hereby agrees that its leasehold interest hereunder is, and shall be, subordinate to any mortgages now on, or hereafter to be placed on, the premises leased hereunder; provided that so long as the Lessee is not in default under said Lease agreement, the Lessee's quiet possession of the demised premises shall remain undisturbed, and this Lease shall remain in full force and effect on the terms and conditions stated herein, whether or not the mortgage is in default and notwithstanding any foreclosure or other action brought by the holder of the mortgage.

This subordination agreement shall be self-operative and no further instrument or certificate of subordination shall be required from Lessee. Lessor shall use its good faith effort to obtain a non-disturbance agreement from each of its mortgagees, which would allow the Lessee to continue occupancy of the premises uninterrupted pursuant to the terms of this Lease.

XIV

WAIVER

No waiver of any breach of any one of the conditions or covenants of the within Lease agreement by Lessor or Lessee shall be deemed to imply or constitute a waiver of any other condition or covenant of the within Lease agreement. The failure of either party to insist on strict performance of any condition or covenant herein set forth, shall not constitute or be construed as a waiver of the rights of either or the other thereafter to enforce any other default of such condition or covenant; neither shall such failure to insist upon strict performance be deemed sufficient grounds to enable either party hereto to forego or subvert or otherwise disregard any other term, provision, condition or covenant of the within Lease agreement.

XV.

NOTICE

Any notices required or permitted hereunder shall be in writing and delivered to the other party or the other party's authorized agent, either in person or by United States Certified Mail, Return Receipt Requested, postage fully prepaid, to the address set forth hereinafter, or to such other addresses as either party may designate in writing and deliver as herein provided:

LESSOR: Jim Dixon
Crimson Ridge Partners
3926 Broadway
Rockford, Illinois 61108

LESSEE: Halsey Drugs Company
1827 Pacific Street
Brooklyn, NY 11233

Notice mailed pursuant to the terms of this paragraph shall be deemed served seven (7) days after the date of mailing.

XVI.

SURRENDER OF PREMISES BY LESSEE

The Lessee covenants and agrees to deliver up and surrender to the Lessor the possession of the demised premises upon the expiration of the Lease or its termination, as herein provided, in good condition and repair, ordinary wear and tear excepted, and except for damages caused by casualty, loss and any other loss for which the Lessee is not responsible.

If Lessee shall remain in possession of the demised premises after the expiration of the term of this Lease, then the Lessee shall be deemed Lessee of the demised premises from month to month at a rental rate equal to twice the most recent monthly rental rate due during the term of this Lease, and subject to all the terms and conditions hereto, except only as to the term of this Lease.

XVII.

DEFAULT AND REMEDIES OF LESSOR

Lessee shall be deemed to be in default in the terms of this Lease if any one or more of the following events, each of such is herein sometimes called "Event of Default," shall happen:

A. If default shall be made in the due and punctual payment of any rent, or other sums required to be paid by Lessee under this Lease when and as the same shall become due and payable, and such default shall continue for a period of five (5) business days after written notice thereof is served from Lessor to Lessee. Provided, however, that Lessor shall not be obligated to furnish Lessee with more than two written notices of default as required in this paragraph A in any calendar year during the term of this lease.

B. If default shall be made by Lessee in the performance of or compliance with any of the covenants, agreements, terms, or conditions contained in this Lease and such default shall continue for a period of thirty (30) days after written notice thereof from Lessor to Lessee, provided

that Lessee's time to cure such default shall be extended for such additional time as shall be reasonably required for the purpose if Lessee shall proceed with due diligence during such thirty (30) day period to cure such default and is unable by reason of the nature of the work involved to cure the same within said thirty (30) days, and if such extension of time shall not subject Lessor-Lessee to any liability, civil or criminal, and the interest of the Lessor in this Lease shall not be jeopardized by reason thereof.

Upon the occurrence of an Event of Default, the Lessor shall have the option, without further notice to Lessee or further demand for performance, to proceed as follows:

(i) To institute suit against Lessee to collect each installment of rent or other sum as it becomes due or to enforce any other obligation under this Lease; or

(ii) To re-enter and take possession of the leased premises and all personal property therein and to remove Lessee and Lessee's agents and employees therefrom, upon obtaining a court order pursuant to the Illinois Forcible Entry & Detainer Act or otherwise, and either:

(a) Terminate this Lease and sue Lessee for damages for breach of the obligations of Lessee to Lessor under this Lease; or

(b) Without terminating this Lease, relet, assign or sublet the premises, as the agent and for the account of Lessee in the name of Lessor or otherwise, upon the best terms and conditions Lessor may make with the new lessee for such term or terms (which may be greater or less than the period which would otherwise have constituted the balance of the term of this Lease) and on such conditions as Lessor, in its reasonable discretion, may determine and may collect and receive the rent therefor, provided Lessor shall in no way be responsible or liable for any failure to relet the demised premises or any part thereof, or for any failure to collect any rent due upon any such reletting. In this event, the rents received on such reletting shall be first applied to the costs of

collection, including without limitation, all repossession costs, reasonable attorneys' fees, and any real estate commission paid, reasonable costs of alterations and expenses of preparing said premises for reletting, and thereafter towards the payment of the rental and of any other amounts payable by Lessee to Lessor. If the sum realized shall not be sufficient to pay such rent and other charges within five (5) days after written demand, Lessee will pay to Lessor any such deficiency as it accrues. Lessor may sue therefor as each deficiency shall arise if Lessee shall fail to pay such deficiency within the time limited. Lessee may tender a proposed tenant to the Lessor in mitigation of its damages for the remainder term of this Lease, which tender shall not be unreasonably rejected by Lessor, after considering the financial condition of the proposed tenant, nature of the proposed tenant's business, and other factors which a reasonably prudent lessor would consider in leasing the premises.

In the event Lessor elects to re-enter or take possession of the demised premises, Lessee shall quit and peaceably surrender the demised premises to Lessor, and Lessor may enter upon and re-enter the demised premises and possess and repossess itself thereof, by force, summary proceedings, ejectment or otherwise, and may dispossess Lessee and remove Lessee and may have, hold and enjoy the demised premises and the right to receive all rental income of and from the same.

C. No such re-entry or taking of possession by Lessor shall be construed as an election on Lessor's part to terminate or surrender this Lease unless a written notice of such intention is served on Lessee.

D. The enumeration of the foregoing remedies does not exclude any other remedy, but all remedies are cumulative and shall be in addition to every other remedy now or hereafter existing at law or in equity.

E. No failure of either party to insist upon the strict performance of any covenant, agreement, term or condition of this Lease or to exercise any right or remedy consequent upon a breach thereof, and no acceptance of fun or partial rent during the continuance of any such breach, shall constitute a waiver of any such breach, or of such covenant, agreement, term or condition. No covenant, agreement, term or condition of this Lease to be performed or complied with by either party, and no breach thereof, shall be waived, altered, modified or terminated except by a written instrument executed by either party. No waiver of any breach shall affect or alter this Lease, but each and every covenant, agreement, term and condition of this Lease shall continue in fun force and effect with respect to any other then existing or subsequent breach thereof.

F. In the event of default by the Lessee, the Lessee shall pay a reasonable costs incurred by the Lessor by reason thereof, including but not limited to reasonable attorneys' fees.

G. In addition to the other remedies provided herein, in the event the Lessee fails to pay the Lessor when due any installment of rental or other sum to be paid by the Lessee when such payment becomes due hereunder, Lessor will incur additional expenses in an amount not readily ascertainable and which has not been elsewhere provided for between Lessee and Lessor. If Lessee should fail to pay Lessor within rive (5) days after the due date named any installment of rental or other sum to be paid hereunder, Lessee shall pay Lessor upon demand a late charge of five percent (5%) of such installment or other sum overdue in any month and five percent (5%) each month thereafter until paid in full. Failure to pay such late charge upon demand therefor shall be an event of default hereunder. This provision for such late charge shall be in addition to all other rights and remedies available to Lessor hereunder or at law or in equity and shall not be construed as liquidated damages or limiting Lessor's remedies in any manner.

XVIII.

SUCCESSORS

All of the terms, conditions, covenants and provisions set forth in this Lease agreement shall inure to the benefit of and be binding upon the heirs, legal representatives, successors, executors and assigns of the parties.

XIX.

ENTIRE AGREEMENT

The within Lease agreement constitutes the entire agreement of the parties hereto. No representations, promises, terms, conditions, obligations or warranties whatsoever referring to the subject matters hereof other than those expressly set forth herein, shall be of any binding legal force or effect whatsoever. No modification, change or alteration of the within Lease agreement shall be of any legal force or effect whatsoever unless in writing, signed by all the parties hereto or their respective successors or assigns.

XX.

OPTION TO EXTEND LEASE-FIVE ONE YEAR OPTIONS

Lessee may at Lessee's option, extend this Lease for an additional twelve (12) months by giving the Lessor ninety (90) days notice in advance written notice prior to the termination date, exercising such option to extend. The lessee shall have five (5) such one (1) year options. Each one (1) year option may be exercised at one time, for a total of five (5) years. In the event Lessee exercises such option, the monthly rent set forth in Article III above (the "Initial Monthly Rent") shall be adjusted to reflect any increase in the Consumer Price Index - All Urban Consumers - All Cities published by the Bureau of Labor Statistics of the United States Department of Labor (the "Index") during the term of this Lease. Accordingly, the Initial Monthly Rent shall be multiplied

by a fraction the numerator of which shall be the Index published for the first day of the first month of such extension and the denominator of which shall be the Index published for the commencement date of this Lease, and the monthly rent as so adjusted shall be the base monthly rent for such extension; provided, however, that in no event shall the base monthly rent for such extension be less than the Initial Monthly Rent. In the event the United States Department of Labor, or its successor, ceases to publish a monthly Consumer Price Index For All Urban Consumers prior to the commencement of the extended lease term, Lessor shall choose a similar Index for computation of the increased rent. All other terms of this Lease shall apply to the extended term.

XXI.

PARKING

Lessor shall reasonably repair and maintain the parking lot and shall obtain and maintain comprehensive public liability insurance respecting such parking lot in such amounts and insuring such risks as commercially reasonable for the type of property being insured. Lessee shall reimburse Lessor for its pro rata share of such repair in the manner described in Article XXIII.C hereof.

XXII.

SIGNS, AWNINGS AND CANOPIES

Lessee shall not place or suffer to be placed or maintained on any exterior door, wall or window of the leased premises any sign, awning or canopy, or advertising matter or other thing of any kind, and will not place or maintenance any decoration, lettering or advertising matter on a glass of any window of the door of the leased premises without first obtaining the Lessor's written approval and consent. Such consent shall not be unreasonably withheld by the Lessor, after taking into consideration the conformity to the design of the building and affect of such signs on other tenants in the building. Lessee further agrees to maintain such sign, awning or canopy, decoration,

lettering or advertising matter or other thing as may be approved in good condition and repair at all times.

Subject to size and design approval by Lessor, Lessee shall be allowed to have a sign on the south side of the building on which the leased premises is located and on the pylon sign on Perryville Road.

All costs of maintaining, repairing or removing said signs shall be borne by the Lessee.

XXIII.

MAINTENANCE, REPAIR AND REPLACEMENT

The following covenants and conditions are to apply with respect to the maintenance, repair and replacements of the leased premises:

A. Except as otherwise set forth below, Lessee shall at all times keep the leased premises and all partitions, doors, mixtures, equipment and appurtenances thereof (including but not limited to lighting and plumbing equipment and fixtures located solely within and servicing only the leased premises), and including interior walls, and windows, and all other components of the leased premises in a clean condition, good order, condition and maintenance (including reasonable periodic painting with the written approval of Lessor), all at Lessee's expense. Provided, however, in the event such repairs are reimbursed by any insurance proceeds, Lessee shall be entitled to such insurance proceeds as reimbursement for costs of such repairs actually made by Lessee. Lessor shall pay the costs of all repairs to the HVAC System.

B. If Lessee refuses or neglects to repair the property as required hereunder to the reasonable satisfaction of the Lessor as soon as it is reasonably possible after written demand, Lessor may make such repairs without liability to Lessee for any loss or damage that may occur to the

Lessee's business by reason thereof, and within thirty (30) days after completion thereof, Lessee shall pay to Lessor the Lessor's costs for such repairs, including a reasonable charge for Lessor's overhead and administration (which costs of overhead and administration shall not exceed ten percent (10%) of the costs of repairs), Lessor shall have no liability for any damages or personal injury arising out of any condition or occurrence causing a need for such repairs, unless caused by negligence or willful misconduct of the lessor or failure of the Lessor to perform its obligations under this Lease. In making repairs, Lessor will not unnecessarily or unreasonably disrupt the business of the Lessee.

C. Lessor shall initially pay the costs of maintaining the Common Area of the premises, including the exterior of the leased premises, parking lot, exterior of the building, roofs and Common Area utilities. The Lessee shall reimburse Lessor for its pro rata share of such expenses, which share shall be computed on a ratio that the total area of the leased premises total to the total square feet of the leasable space of the building in which the leased premises is located. Lessee shall pay for its pro rata share of such expenses within ten (10) of being billed.

XXIV.

REAL ESTATE TAXES

Lessee shall pay monthly its pro rata share of all real estate taxes accruing on the leased premises and real estate parcel upon which the building of the leased premises is located during the term of this Lease. Said payment shall be made on the same date as payment of rent. The calculation of the Lessee's pro rata share of such real estate taxes shall be computed on the ratio that the total area of the leased premises bears to the total square feet of the leasable space of the building in which the leased premises is located. The monthly payment by lessee to Lessor shall be an estimate based on the latest available information from the Winnebago County Assessor, County Treasurer and County Clerk. Any necessary adjustments shall be made within thirty (30) days of

receipt of the actual tax bill. In the event of overpayment of the Lessee's pro rata share, the Lessor shall reimburse Lessee such overpayment within thirty (30) days of receipt of the actual tax bill. In the event of underpayment by the Lessee, the Lessee shall pay to the Lessor such additional amount as may be necessary to pay the Lessee's full pro rata share of such taxes within twenty-one (21) days of the request of the Lessor.

XXV.

LIMITATION ON PAYMENT ON COMMON AREA MAINTENANCE, TAXES AND INSURANCE

Notwithstanding any other provisions in this Lease Agreement, the parties agree that in no event shall the cost of the Lessee during the term of this Lease exceed annually an amount equal to Three and no/100 Dollars ($3.00) per square foot of leased space of the premises for the Lessee's share of Common Area Maintenance, Common Area Taxes and Common Area Insurance.

XXVI.

JURISDICTION AND OTHER APPLICABLE LAWS

The laws of the State of Illinois shall govern the interpretation, validity, performance and enforcement of this Lease. If any provision of this Lease shall be held to be invalid or unenforceable, the validity and enforceability of the remaining provisions of this Lease shall not be affected thereby. In the event of a dispute between the parties, such dispute shall be resolved by a court in the State of Illinois provided, however, Lessor or Lessee may elect to have a dispute resolved by arbitration through, and in accordance with the rules of the American Arbitration Association. Any arbitration or judicial proceeding shall occur in Winnebago County, Illinois.

XXVII.

FORCE MAJUER

The Lessor and the Lessee each shall be excused for the period of any delay and shall not be deemed in default with respect to the performance of any of the terms, covenants and conditions of this Lease when prevented from doing so by cause or causes beyond the Lessor's control, which shall include, without limitation, all labor disputes, governmental regulations or controls, fire or other casualty, inability to obtain any materials and/or services, acts of God, or any other cause, whether similar or dissimilar to the foregoing, not within the reasonable control of the Lessor.

IN WITNESS WHEREOF, the parties have signed their names the day, month and year set forth opposite their respective signatures.

LESSOR:

CRIMSON RIDGE PARTNERS,

By:/s/ Jim Dixon Dated: March 26, 1998

Its:Managing Partner

LESSEE:

HALSEY DRUGS COMPANY,

By:/s/ Carol Whitney Dated: March 26, 1998

Its:Vice-President, Administration

PREPARED BY:

STEPHEN G. BALSLEY
BARRICK, SWITZER, LONG,
BALSLEY & VAN EVERA
One Madison Street
P.O. Box 17109
Rockford, IL 61110-7109
(815) 962-6611

[LETTERHEAD OF DIXON REALTORS]

March 16, 1999

Halsey Drug Company
695 North Perryville Road, Suite 4
Rockford, Illinois 61107

Attention: Carol Whitney

Reference: Build-out Charges

Dear Carol:

As we agreed verbally, your build-out charges total $85,482.69. We agreed to divide this amount in half, with 50% coming up front, and the balance divided over the remainder of the lease, payable monthly, plus interest adjustable at the prime rate of interest.

These figures are likely to fluctuate, so why don't we bill the interest quarterly? Also, why don't we round off the second portion of $42,500 by your paying $42,982.69 for the first payment?

Our lease agreement calls for two years. Why don't we start this lease as of September 1, 1998? You have paid September and October, which leaves twenty-two months. This would make the monthly payment amount for rent and build-out charges $5,781.82 over the 22 month period.

If this arrangement is acceptable, let's officially make this letter an addendum to the lease dated 3/26/98. If this is satisfactory, let me know. We'll continue on from there.

Carol, I want you to know that you've been very patient throughout this project. You are a very thorough person and it has been a pleasure to work with you.

Regards,
Crimson Ridge Partners, LLC

/S/
Jim Dixon, Managing Partner

[LETTERHEAD OF HALSEY DRUG CO., INC.]

March 16, 1999

Jim Dixon
Crimson Ridge Partners
3926 Broadway
Rockford, IL 61108

Dear Jim

Enclosed is a check for $42,982.69 for partial payment of the build-out costs for the office space we are leasing at 695 N. Perryville Road in Rockford along with the rent payment for the month of November.

We accept the terms of your letter of October 26, 1998 and will consider the letter as an addendum to the lease agreement for Halsey Drug Company, Inc. We also agree to pay a monthly payment of $5,781.82 over the next 22 months for rent and the remaining portion of the build-out charges. It is understood that interest will be billed quarterly.

I greatly appreciate your efforts in working with us regarding the build out costs. We are looking forward to a long and comfortable relationship with Crimson Ridge Partners.

Sincerely

/S/

Carol Whitney
Vice President, Administration

Enclosures

Exhibit 10.55

[Manufacturing and Supply Agreement dated March 17, 1999 between the Registrant and Par Pharmaceuticals, Inc.]

MANUFACTURING AND SUPPLY AGREEMENT

THIS MANUFACTURING AND SUPPLY AGREEMENT (the "Agreement"), dated as of March 17, 1999, is by and between Halsey Drug Co., Inc., having offices at 695 No. Perryville Road, Rockford, Illinois 61107 ("HD"), and Par Pharmaceutical, Inc., having offices at One Ram Ridge Road, Spring Valley, New York 10977 ("PAR").

WHEREAS, PAR directly or through its Affiliates (collectively and individually "PAR") is currently manufacturing and/or marketing the pharmaceutical products listed on Schedule 1 hereto ("Products") and maintains a facility in Congers, New York (the "Facility") capable of manufacturing the Products; and

WHEREAS, PAR and HD are parties to a certain lease agreement dated of even date herewith (the "Lease Agreement") pursuant to which PAR has agreed to lease the Facility and the Production Equipment (as defined in the Lease Agreement) to HD in accordance with the terms and conditions contained in the Lease Agreement; and

WHEREAS, the parties desire to provide for the manufacture of all such Products by HD at such Facility subject to the terms and conditions set forth herein.

NOW, THEREFORE, the parties agree as follows:

1. DEFINITIONS. For purposes hereof, the following terms shall have the meanings set forth:

"Affiliates" shall mean, with respect to any Person, any other Person controlled by, controlling or under common control with such Person, where control means more than 50% ownership or voting rights or the power to direct management or policy.

"ANDA" shall mean the abbreviated new drug application for each Product as approved by the FDA.

"Commencement Date" shall mean March 22, 1999 or such earlier date on which the term of the Lease Agreement shall commence.

"cGMPs" shall mean current Good Manufacturing Practices, as defined in 21 CFR Section 210 et seq., as amended and in effect from time to time.

"Confidential Information" shall mean any information which in any way shall relate to either of the parties hereto including, without limitation, its products, product formulations and specifications, manufacturing processes, intellectual property (whether or not registered) business, know-how, methods, trade secrets and technology, or to any Affiliate thereof, that shall be furnished or otherwise made available in connection with this Agreement.

"FDA" shall mean the United States Food and Drug Administration.

"Lease Agreement" shall have the meaning set forth in the WHEREAS clauses hereto.

"Losses" shall mean any liabilities, damages, costs or expenses, including reasonable attorney's fees, incurred by either party which arise from any claim, lawsuit or other action by a third party.

"Manufacturing Costs" shall mean the cost to PAR of manufacturing any Product permitted to be manufactured by it hereunder, calculated in accordance with Schedule 2.5 hereto.

"Manufacturing Records" shall mean all Specifications, formulations, processes and controls, including all supporting and historical data, product samples, technology transfer, laboratory data, development documentation equipment and other historical validation data and all related regulatory and compliance documents and information and such further information and documentation as HD shall reasonably request to enable it to manufacture and supply Products in accordance with the terms and conditions set forth herein.

"Person" shall mean an individual, corporation, partnership or other entity.

"Products" shall mean the pharmaceutical products listed on Schedule 1 hereto and such other pharmaceutical products as the parties may, from time to time mutually designate in writing.

"Raw Materials" shall mean all bulk pharmaceutical ingredients, coatings, and other related items necessary or required for the manufacture and supply by HD of each of the Products in accordance herewith.

"Specifications" shall mean the terms and conditions applicable to the Product and described in the ANDA for such Product, as the same may be supplemented from time to time.

2. MANUFACTURE AND SUPPLY.

2.1 Supply and Purchase Obligations. (a) Subject to the terms and conditions of this Section 2 and as otherwise provided herein, HD shall manufacture and supply to PAR all PAR's requirements for each Product. HD shall not, and shall cause its Affiliates not to, manufacture or supply any of the Products to any Person other than PAR and its Affiliates or develop, acquire rights to manufacture or distribute the Restricted Product identified on Schedule 1 hereto ("Restricted Product"); provided, however, that such restrictions on manufacture, supply, development and distribution shall terminate on the third anniversary of the Commencement Date; and provided further that the foregoing limitation with respect to the Restricted Product shall not apply to an Affiliate of HD which becomes an Affiliate after the Commencement Date by virtue of its acquisition of control of HD and which produces a Restricted Product prior thereto, so long as such Affiliate does not utilize the Facility for the development, manufacture or distribution of the Restricted Product. The provisions of the immediately preceding sentence shall survive the termination hereof unless, and only unless, this agreement shall be terminated by HD pursuant to Section 7.2, or the second sentence of Section 7.3, as a result of defaults by PAR hereunder or under the Lease Agreement.

(b) PAR shall purchase exclusively from HD all of its requirements of the Products (subject to the minimum purchase requirements contained herein) to the extent that HD is able to, and does, supply them in accordance herewith.

2.2 Forecasts; Excess Orders; Capacity (a) Simultaneous with the execution of this Agreement, PAR shall deliver to HD a non-binding forecast of estimated production requirements of each of the Products for the twelve month period commencing on the Commencement Date and ending on March 30, 2000. PAR shall prepare and deliver to HD similar non-binding forecasts for the twelve month periods commencing April 1, 2000 and March 30, 2001 not later than 60 days prior thereto.

(b) Not later than 45 days prior to each calendar quarter during the term hereof, PAR shall provide HD with a written rolling forecast of the quantities of each Product that PAR expects to order for delivery during the next succeeding four (4) calendar quarters. Each forecast shall indicate the amounts of each Product expected for delivery in the relevant quarter. The first such forecast for each Product shall be provided on or before the Commencement Date. In the event that PAR shall, in any calendar quarter, submit purchase orders ("Excess Orders") for a Product in excess of one hundred twenty (120%) percent of the forecast for such Product in such quarter, HD shall use commercially reasonable efforts to fill such Excess Orders as promptly as practicable, but shall not be in breach hereof if, notwithstanding such efforts, it shall be unable to fill such Excess Orders. Notwithstanding anything to the contrary contained herein, HD shall not be required to supply quantities of Products which exceed the quantities which the Facility currently is capable of manufacturing in accordance with cGMP without HD incurring more than $10,000, in the aggregate, in additional capital expenditures.

2.3 Supply of Records and Raw Materials. PAR shall make the Manufacturing Records available to HD, promptly after execution hereof and prior to the Commencement Date. Par shall supply to HD all raw materials necessary for HD to manufacture and supply Product in accordance herewith. HD's manufacturing and supply obligations for each Product shall be subject to PAR having supplied Raw Materials in advance of the related purchase orders in sufficient quantities to permit HD to satisfy PAR's production requirements for each of the Products plus an amount equal to ten (10%) percent of such inventory amount for waste and production scrap. PAR's provision of Raw Materials shall be consistent with the types and amounts of Products specified in the quarterly rolling forecasts provided pursuant to Section 2.2 hereof. HD shall provide PAR with free access to the rear gate and loading docks of the Facility for purposes of PAR's delivery of such Raw Materials. All such raw materials shall be stored by HD, in compliance with applicable law and the Specifications, at the Facility in an area segregated from HD's other property and clearly marked as "Property of Par Pharmaceutical, Inc." Within ten (10) days after each calendar month, HD shall deliver to PAR a written reconciliation, in reasonable detail, of inventory usage and availability for such month.

2.4 Employees. Set forth on Schedule 2.4 hereto is a list of PAR's employees at the Facility, together with a brief description of the titles and compensation of each (the "Employees"). PAR agrees to make available each of the Employees to HD for interview and hire as HD shall determine in its sole and absolute discretion. Each of the parties acknowledge and agree that HD shall be under no obligation to employ any or all of the Employees, provided, however, that as of the Commencement Date, HD shall have employees of sufficient quantity and experience to fulfill its obligations hereunder. Prior to the Commencement Date, HD shall provide to PAR a list of all such employees. HD will promptly notify PAR if it intends to employ or use the services of any person whom it knows was a former employee of PAR whom PAR terminated (exclusive of the Employees) and, if requested by PAR, will not allow any such person, if employed by HD, any access to or contact with any Confidential Information of PAR or to any Production Equipment, Raw Materials or Products. PAR shall be responsible for, and shall indemnify HD against, any claim, cause of action, expense, liability, damage or obligation relating to the payment or non-payment of any compensation, severance, vacation or pension benefits or other amounts due or otherwise payable or to become payable, to the Employees related to

employment or services prior to such Employee's employment by HD. The provisions of the immediately preceding sentence shall survive termination hereof for a period of five (5) years.

2.5 Failure or Inability to Supply. (a) Subject to the limitations of Sections 2.2 and 2.3 hereof, in the event that HD shall (i) fail to supply PAR's requirements for any Product for a period exceeding thirty (30) days, (ii) default under Article 16 of the Lease Agreement, (iii) become subject to any governmental proceeding, order or decree which restricts, or which, in the good faith opinion of PAR after five days from the occurrence of such event, after discussion of its implications with HD, is reasonably likely to restrict, in any material respect its ability to perform its obligations hereunder, (iv) have entered against it a judgment, order or decree which shall remain unsatisfied for a period of forty five (45) days without being vacated, discharged, satisfied or stayed or bonded pending appeal, and which restricts or, in the good faith opinion of PAR after five days from the occurrence of such event, after discussion of its implications with HD, is likely to restrict, its ability to perform its obligations hereunder, or (v) experience any work stoppage or other material labor action which restricts, or which, in the good faith opinion of PAR after five days from the occurrence of such event after discussion of its implications with HD, is reasonably likely to restrict, its ability to perform its obligations hereunder, except, in each case. where such failure is as a result of (A) PAR's failure to comply with the terms and provisions of this Agreement, including, without limitation, Section 2.3 hereof, (B) PAR's default under the terms of the Lease Agreement, or (C) any force majeure event as provided in Section 11.1 hereof, PAR may, in its discretion, elect to manufacture, or cause to be manufactured for the account of HD, such Product at the Facility using HD's property and employees until such time as HD shall again be able to fully supply PAR's requirements therefor as provided hereunder. HD hereby irrevocably appoints PAR as its agent and attorney-in-fact, with power of substitution, to act in its name and stead for all such purposes. In the event that such failure or inability shall continue for three (3) months or more, such failure shall constitute a default hereunder and PAR shall have a right to terminate this Agreement pursuant to Section 7.2 and Section 7.4 hereof with respect to such Product.

(b) In the event that PAR shall elect to act on HD's behalf, as its agent and attorney-in-fact, to manufacture and supply the Product hereunder, PAR shall designate one or more of its experienced management employees to oversee the manufacture of the Products by HD's employees at the Facility. In such event, such Products shall be manufactured and supplied to PAR for the account of HD, and paid for by PAR in accordance with the terms hereof as though such manufacture and supply were fully performed by HD; provided, however, that if it shall become necessary for PAR to expend any amounts to pay any Manufacturing Costs of such performance, such amounts shall reduce the amounts otherwise payable by PAR to HD and provided further that, in the event that such Manufacturing Costs were paid by PAR at any time where Section 362 of the United States Bankruptcy Code (the "Bankruptcy Code") shall apply in respect of HD, then such Manufacturing Costs shall reduce only amounts due from PAR to HD in respect of the Products for which Manufacturing Costs were expended.

(c) HD acknowledges and agrees that an interruption of the manufacturing and supply of Products to PAR hereunder will cause PAR immediate and irreparable injury, including, without limitation, immediate and irreparable harm to PAR's reputation, in respect of which monetary damages will be inadequate. Accordingly, PAR shall be entitled to specific enforcement of the provisions of this Section 2.5 and all objections and defenses of HD with respect thereto are hereby waived.

(d) HD further acknowledges and agrees that PAR's actions as agent for HD hereunder (including, without limitation, any reduction in amounts due to HD pursuant to Section 2.5(b) above) will not constitute any act that is stayed under Section 362 of the Bankruptcy Code. Notwithstanding this acknowledgment, if a court of competent jurisdiction determines that such actions are stayed by

Section 362 of the Bankruptcy Code, then HD hereby waives the protection of Section 362 of the Bankruptcy Code, but only to the extent necessary to allow PAR to engage in such actions and for no other purpose. Further, if it is necessary for PAR to obtain, from a court of competent jurisdiction, relief from such stay in order to take such actions, then HD hereby consents to such relief and will consent to PAR's request for such relief when made to the appropriate court.

(e) In the event that an order for relief is issued in respect of HD under the Bankruptcy Code, HD shall make a decision to assume or reject this Agreement under Section 365 of the Bankruptcy Code within 30 days of the issuance of such order.

2.6 Facility and Records Maintenance; Audit. HD shall, at all times, maintain and operate the Facility, and implement such quality control procedures, so as to be able to perform its obligations hereunder in compliance with all applicable law, including without limitation cGMP, subject to the terms and limitations of the Lease. Each party shall promptly notify the other upon receipt by it of any adverse notice from any governmental agency relating to the Products, employees, environmental conditions or the operation of the Facility. HD shall maintain true and complete books and records (including, without limitation, all Manufacturing Records) of all data relating to the manufacture, supply and sale of Products. HD shall permit quality assurance representatives of PAR, representatives of the FDA and PAR's accountants to inspect the Facility and all books and records of HD relating to the production of the Products (including, without limitation, all Manufacturing Records) at all times upon three days' prior written notice (except in the case of emergency), during normal business hours and on a confidential basis; provided, however, that such inspections shall be limited to twice annually in the absence of a breach of this Agreement by HD (except in the case of emergency).

3. PURCHASING; DELIVERY; PAYMENT TERMS.

3.1 Purchase Orders. From time to time, and subject to the other provisions of this Agreement, PAR may place orders for Products and identify the requested delivery dates for each such order. The delivery dates specified in any such orders shall not be less than thirty (30) days or more than sixty (60) days from the dates of such orders. The minimum quantity per shipment of each Product and shipping logistics shall be as set forth on Schedule 3.1 hereto. Each order placed pursuant to this Section 3.1 which is not modified or canceled by PAR within ten (10) working days of the requested delivery date thereof shall constitute a firm obligation to purchase the ordered quantities of Products. Firm orders may be modified or canceled by PAR upon written notice to HD; provided, however, that PAR shall pay HD, within ten (10) days after invoice therefor, the out-of-pocket costs incurred by HD as a result of such modification or cancellation to the extent they would not otherwise be recovered by HD hereunder. The terms and conditions of this Agreement shall be controlling over any conflicting terms and conditions used by PAR in ordering Products or by HD in accepting or confirming orders and any term or condition of such purchase order, acceptance or other document which shall conflict with or be in addition to the terms and conditions of this Agreement is hereby expressly rejected.

3.2 Minimum Purchase Requirements. PAR agrees to satisfy the minimum purchase requirements set forth in Schedule 3.2 hereto.

3.3 Delivery. HD shall use its best efforts to ensure that Products ordered by PAR in accordance with this Agreement are shipped in accordance with the delivery dates specified in PAR's purchase orders, and HD shall notify PAR promptly of any anticipated delay. All Products shall be delivered, in bulk, F.O.B., Facility. PAR shall arrange for shipping and transporting Products from the Facility and shall be responsible for the payment of shipping, insurance and related costs from delivery to PAR's carrier. Title and risk of loss shall pass to PAR upon delivery to PAR's carrier. HD shall give

PAR reasonable prior written notice of the date on which Products subject to each purchase order shall first become available for delivery. Commencing on the first anniversary hereof, HD shall include in each shipment of Products hereunder a certificate of analysis which shall certify that the Products contained in such shipment comply with the provisions of Section 4.1 hereof.

3.4 Acceptance and Rejection. PAR shall give written notice to HD of any claims that Products manufactured by HD do not comply with the requirements of Section 4.1 hereof promptly upon its becoming aware of such noncompliance. In the event that PAR shall fail to notify HD of any such claim within thirty (30) working days of PAR's receipt thereof at its facility, such Products shall be deemed accepted by PAR. Any notice by PAR pursuant to this Section 3.4 that any Products shall not comply with the terms and conditions hereof shall be accompanied by a true and correct copy of the results of any tests conducted by PAR thereon. The parties shall cooperate in good faith to resolve any disputes arising therefrom and in the event that the parties shall be unable to resolve such dispute within thirty (30) days from the date of PAR's notice pursuant to this Section 3.4, the parties shall submit such dispute to a mutually agreed to independent laboratory. The determination by such laboratory shall be final and binding and the costs therefor shall be borne by the nonprevailing party. PAR shall not dispose of any Product claimed by it not to comply with the terms and conditions hereof until resolution of any dispute with respect thereto. HD shall promptly replace any Product which does not comply with the terms and conditions thereof, at its sole cost and expense, by delivery thereof to PAR's facility.

3.5 Product Recall. (a) In the event of any recall or seizure of any Product arising out of, relating to, or occurring as a result of, any act or omission by HD, HD shall, at the election of PAR, either:

(i) replace the amount of Product recalled or seized; or

(ii) give credit to PAR against outstanding receivables due from PAR in an amount equal to the amount paid by PAR for the Product so recalled or seized or otherwise owing by PAR hereunder;

plus reimburse (or, at the election of PAR, credit) PAR for all transportation costs, if any, taxes, insurance, handling and out-of-pocket costs incurred by PAR in respect of such recalled or seized Product.

(b) In the event of any recall or seizure of any Product arising out of, relating to or occurring as a result of any act or omission of PAR, PAR shall remain responsible to HD for the purchase price of such recalled Products, shall be solely responsible for any transportation costs, import duties, if any, taxes, insurance, handling and other costs incurred by PAR in respect of such recalled or seized product, and shall promptly reimburse HD for all costs and expenses incurred by HD in connection with such recall.

(c) For purposes of this Section 3.5, "recall" shall mean (i) any action by HD, PAR or any Affiliate of either to recover title to or possession of any Product sold or shipped and/or (ii) any decision by PAR not to sell or ship Product to third parties which would have been subject to recall if it had been sold or shipped, in each case taken in the good faith belief that such action was appropriate under the circumstances. For purposes of this Section 3.5, "seizure" shall mean any action by any government agency to detain or destroy Product.

(d) Each party shall keep the other fully informed of any notification or other information, whether received directly or indirectly, which might affect the marketability, safety or effectiveness of

any Product, or which might result in liability issues or otherwise necessitate action on the party of either party, or which might result in recall or seizure of any Product.

(e) Prior to any reimbursement pursuant to this Section 3.5, the party claiming reimbursement shall provide the other with reasonably acceptable documentation of all reimbursable costs and expenses.

4. QUALITY ASSURANCE; TESTING.

4.1 Product Compliance. HD shall produce all Products in accordance with the Specifications therefor and cGMP. All Products shall be stored and packaged in bulk in accordance with the requirements of the Food, Drug and Cosmetic Act ("FD&C Act") and the rules and regulations of the FDA promulgated thereunder. Each Product shall, at the time of shipment, not be adulterated or misbranded within the meaning of the FD&C Act. Id.

4.2 Product Testing. HD shall conduct, or cause to be conducted all physical parameters, in processing testing with respect to each batch of Products to be supplied pursuant hereto prior to delivery thereof to PAR. HD shall retain a sample of each batch tested for at least the shelf life of such batch plus one year, or such longer period as may be required by cGMPs.

4.3 Insurance. During the term of this Agreement, each party shall obtain and maintain, at its sole expense, product liability insurance with a minimum limit of liability of $10,000,000 per occurrence and in the aggregate naming the other party as an additional insured Evidence of coverage, in the form of certificates of insurance, shall be provided promptly upon execution of this Agreement and as reasonably requested thereafter. Such certificates shall endeavor to provide for written notice to the additional named insured to fifteen (15) days prior to any material change, cancellation or non-renewal of the policy. All policies should have a "Best" Rating of no less than "AX".

4.4 Indemnification

(a) PAR agrees to indemnify, defend and hold HD harmless from and against any Losses resulting from or arising out of Raw Materials provided by or on behalf of PAR that fail to meet the Specifications or are otherwise defective, or arising out of or resulting from PAR's (including its servants, agents, marketing or sales partners or other persons for whom it is in law responsible) formulation, storage, packaging, handling, labeling, marketing, promotion, distribution, sale and/or delivery of any of the Products, including, without limitation, failure to maintain the Products in accordance with FDA regulations from and after the time the Products are delivered to PAR; the execution by PAR of this Agreement, the performance or breach by PAR of its representations, warranties or obligations under this Agreement, or any act of Par or failure by PAR to take any action required to be taken by it (and not by HD) hereunder, at law or otherwise or any such act or failure by its employees or agents (collectively, the "PAR Activities"), except to the extent such Losses are the result of HD Activities (as defined in Section 4.4(b) hereof).

(b) HD agrees to indemnify, defend and hold PAR harmless from and against any Losses resulting from or arising out of HD's (including its servants, agent or other persons for whom it is in law responsible) manufacture, testing, packaging in bulk or storage of any of the Products or any Raw Materials, the execution of HD of this Agreement, the performance or breach by HD of its representations, warranties or obligations under this Agreement or any act of HD or failure by HD to take any action required to be taken by it (and not by PAR) hereunder, at law or otherwise or any such act or

failure by its employees or agents (collectively, the "HD Activities"), except to the extent such Losses result from PAR Activities (as defined in Section 4.4(a) hereof).

(c) A party seeking indemnification ("Indemnified Party") shall notify, in writing, the other party ("Indemnifying Party") within fifteen (15) days from the assertion of any claim or discovery of any fact upon which the Indemnified Party intends to base a claim for indemnification. An Indemnified Party's failure to so notify the Indemnifying Party shall not, however, relieve such Indemnifying Party from any liability under this Agreement to the Indemnified Party with respect to such claim except to the extent that such Indemnifying Party is actually denied, during the period of delay in notice, the opportunity to remedy or otherwise mitigate the event or activity(ies) giving rise to the claim for indemnification and thereby suffers or otherwise incurs additional liquidated or other readily quantifiable damages as a result of such failure. The Indemnifying Party, while reserving the right to contest its obligations to indemnify hereunder, shall be responsible for the defense of any claim, demand, lawsuit or other proceeding in connection with which the Indemnified Party claims indemnification hereunder. The Indemnified Party shall have the right at its own expense to participate jointly with the Indemnifying party in the defense of any such claim, demand, lawsuit or other proceeding, but with respect to any issue involved in such claim, demand, lawsuit or other proceeding with respect to which the Indemnifying Party has acknowledged its obligation to indemnify the Indemnified party hereunder, the Indemnifying Party shall have the right to select counsel, settle, try or otherwise dispose of or handle such claim, demand, lawsuit or other proceeding on such terms as the Indemnifying Party shall deem appropriate, subject to any reasonable objection of the Indemnified Party.

(d) Neither party shall be liable to the other for any consequential, indirect or contingent damages or expenses, including damages for loss of opportunity or use of any kind, suffered by the other party, whether in contract, tort or otherwise, or arising out of, connected with or resulting from the performance of their respective obligations under this Agreement or out of the use or sale of the Products.

5. PRICE AND PAYMENT TERMS.

5.1 Price; Adjustments. The prices for each Product to be paid to HD by PAR hereunder are set forth on Schedule 5.1 hereto. Such prices shall be adjusted from time to time hereafter as set forth in Schedule 5.1 hereto.

5.2 Payment. The purchase price for each Product delivered by HD pursuant hereto shall be paid within ten (10) days after the end of each month in which such Product is delivered.

6. REPRESENTATIONS; WARRANTIES.

6.1 By HD. HD hereby represents and warrants to PAR as follows:

(a) HD is a corporation duly organized and validly existing under the laws of the State of New York;

(b) HD has the requisite corporate authority to execute and deliver this Agreement and to perform its obligations hereunder;

(c) Any Products delivered by HD to PAR shall, at time of shipment have been manufactured, packaged and stored by HD in conformity with cGMPs and the Specifications and shall not be adultered or otherwise violative of the FD&C Act;

(d) The execution and performance of HD's obligations hereunder are not and will not be in violation of or in conflict with any material obligation it may have to any third party;

(e) HD is not debarred and HD is not and will not use in any capacity the services of any person debarred under Subsection 306(a) or (b) of the Generic Drug Enforcement Act of 1992;

(f) HD will maintain throughout the term of this Agreement, all permits, licenses, registrations and other forms of governmental authorizations and approvals ("Permits") required to be obtained and maintained by HD in order for HD to execute and deliver this Agreement and to perform its obligations hereunder in accordance with all applicable law and shall otherwise perform its obligations hereunder in a manner which complies in all material respects, with Permits required to be maintained by PAR pursuant to Section 6.2(e); and

(g) To the best of HD's knowledge and belief, there are no investigations, adverse third party allegations or actions, or claims against HD, including any pending or threatened action against HD in any court or by or before any governmental body or agency, with respect to its obligations set forth herein which may materially adversely affect HD's ability to perform its obligations under this Agreement.

6.2 By PAR. PAR represents and warrants to HD as follows:

(a) PAR is a corporation duly organized and in good standing under the laws of the State of New Jersey;

(b) PAR has the requisite corporate authority to execute and deliver this Agreement and to perform its obligations hereunder;

(c) The execution and performance of PAR's obligations hereunder are not and will not be in violation of or in conflict with any material obligations it may have to any third party;

(d) PAR is not debarred and PAR has not and will not use in any capacity the services of any person debarred under Subsections 306(a) or (b) of the Generic Drug Enforcement Act of 1992;

(e) PAR has and will maintain throughout the term of this Agreement, all Permits (including, without limitation, all ANDA's covering the Products), in order for PAR to execute and deliver this Agreement and perform its obligations hereunder in accordance with all applicable law and shall otherwise perform its obligations hereunder in a manner which complies, in all material respects, with the Permits required to be maintained by HD pursuant to Section 6.1(f) hereof;

(f) Any Raw Materials delivered by PAR to HD shall comply and be in conformity with cGMPs and the Specifications and shall not be adulterated, misbranded or otherwise violative of the Federal Food, Drug and Cosmetic Act, as amended or other applicable laws;

(g) To the best of PAR's knowledge and belief, there are no investigations, adverse third party allegations or actions, or claims against PAR, including any pending or threatened action against PAR in any court or by or before any governmental body or agency, with respect to the Products or the Facility or its obligations set forth herein which may adversely affect PAR's ability to perform its obligations under this Agreement;

(h) PAR is not a party to any labor agreement with respect to the Employees. PAR is not experiencing any overt attempt by organized labor or its representatives to make PAR conform to a demand for organized labor relating to the Employees. PAR has not experienced any overt attempt by organized labor or its representatives to make PAR conform to a demand for organized labor relating to the Employees or to enter into a binding agreement with organized labor that would cover the Employees. PAR is in material compliance with all applicable laws with respect to employment practices, terms and conditions of employment and wages and hours at the Facility. There is no unfair labor practice, charge or complaint against PAR pending before the National Labor Relations Board or any other governmental agency arising out of PAR's activities at the Facility; there is no labor strike or labor disturbance pending or, to PAR's knowledge, threatened against PAR at the Facility nor is any material grievance currently being asserted; and PAR has not, within the last ten (10) years experienced any work stoppage or other material labor difficulty with Employees at the Facility;

(i) HD will have the right to use the Production Equipment to satisfy its obligations under this Agreement. The Production Equipment constitutes all of the equipment reasonably necessary for the production of the Products as contemplated to be manufactured and supplied by HD pursuant to this Agreement. All the Production Equipment has been maintained in accordance with normal industry practice, and is in good operating condition and repair; and

(j) PAR will use its best efforts to obtain, on or before the second anniversary hereof, all requisite governmental approvals (collectively, "SUPAC") for the production of each Product at a facility other than the Facility, and shall promptly notify HD upon each receipt thereof.

7. TERM AND TERMINATION.

7.1 Term. This Agreement shall commence on the Commencement Date and continue until the third anniversary thereof, unless sooner terminated pursuant to Section 7.2, 7.3, 7.4, 7.5 or 7.6 hereof (each of which shall be an independent right of termination).

7.2 Termination for Breach. If either party breaches or defaults in the performance or observance of any of its material obligations under this Agreement and, exclusive of PAR's payment obligations set forth in Section 3.2 and 5.2 hereof, such breach or default is not cured within forty-five (45) days after receipt by such party of the written notice from the non-breaching party specifying the breach or default, then the non-breaching or non-defaulting party shall have the right to terminate this Agreement with immediate effect by giving written notice to the breaching or defaulting party. In the event that any such breach or default hereunder relates exclusively to the obligations of a party with respect to a Product, the right of termination provided in this Section 7.2 shall be limited to termination hereof in respect of such Product only.

7.3 Termination under Lease Agreement. This Agreement may be terminated by PAR on any termination of the Lease Agreement by PAR pursuant thereto. HD may terminate this Agreement on any termination of the Lease Agreement by HD pursuant thereto.

7.4 Termination for Supply Interruption. This Agreement may be terminated by PAR with respect to a particular Product, upon delivery of written notice, if HD shall fail or be unable to supply PAR's requirements for such Product for a period exceeding three (3) months.

7.5 Termination on Obtaining SUPAC. This Agreement may be terminated by HD with respect to any Product with respect to which a SUPAC has been obtained, upon thirty (30) days prior written notice to PAR.

7.6 Termination for Convenience. This Agreement may be terminated by HD with respect to any Product at any time after the second anniversary of the Commencement Date upon ninety (90) days prior written notice.

7.7 Post-Termination. (a) At termination of this Agreement for any of the above reasons, the parties shall be permitted to continue in their respective businesses as if the Agreement had not be entered into in the first place, subject to the restrictions set forth in the penultimate sentence of Section 2.1 hereof and Section 8 hereof which, in each case, shall survive any termination hereof as set forth herein.

(b) Termination of this Agreement shall not affect any payment obligations or other liabilities which have accrued as of the date of such termination.

(c) At termination, HD shall hold all PAR property in its possession, including, without limitation, all Raw Materials and equipment (except as otherwise provided in the Lease), in trust for the benefit of PAR and shall return such property to PAR as PAR may direct, at PAR's cost and expense.

8. CONFIDENTIALITY.

8.1 Confidential Information. During the term of this Agreement and any renewal hereof, and for a period of five (5) years thereafter, each party shall hold in confidence, and shall not use (except solely for purposes of its performance hereunder) but may not disclose to any third party, any and all Confidential Information, provided that such party shall not be prevented from disclosing information which:

(a) is independently known to such party without obligation of secrecy or non-use to a third party;

(b) becomes part of the public knowledge through no breach hereof by such party;

(c) is the subject of another agreement between the parties hereto which explicitly permits use or disclosure; or

(d) is required by law or judicial process to be disclosed.

Specific information received by such party hereunder shall not be deemed to fall within any of the foregoing exceptions merely because it is embraced by general information within any such exceptions. In addition, any combination of features received as Confidential Information by such party hereunder shall not be deemed to fall within any of the foregoing exceptions merely because individual features are separately within any such exception, but only if the combination itself, and its principles of operation, are within such exception.

8.2 Limitation on Disclosure. Without limiting the generality of the foregoing, such party shall limit disclosure of the Confidential Information to its employees who need to receive the Confidential Information in order to further the activities contemplated in this Agreement. Each party shall take sufficient precautions to safeguard the Confidential Information, including obtaining appropriate commitments and enforceable confidentiality agreements. Each party understands and agrees that the wrongful disclosure of Confidential Information will result in serious and irreparable damage to the other party hereto that the remedy at law or any breach of this covenant may be

inadequate, and that such non-disclosing party shall be entitled to injunctive relief, without prejudice to any other rights and remedies to which it may be entitled. It is acknowledged that Confidential Information may be disclosed not only in writing or other tangible form, but also through discussions between each party's respective representatives, demonstrations, observations and other intangible methods. The above notwithstanding, each party shall have the right, with the exercise of discretion, to make disclosures of such portions of Confidential Information to governmental agencies where, in the recipient's judgment, such disclosure is essential to manufacture or sale of a Product pursuant to this Agreement.

8.3 Return. Except as otherwise set forth in this Agreement, upon termination of this Agreement and at the written request of a party hereto, the other party shall return all the Confidential Information (including all copies, excerpts and summaries thereof contain on any media) or destroy such Confidential Information at the option of such requesting party.

8.4 Exclusive Property. All Confidential Information is the sole and exclusive property of the party providing such information and the permitted use thereof by the other party for purposes of its performance hereunder shall not be deemed a license or other right of the other party to use any such Confidential Information, for any other purpose.

9. BREACH AND DISPUTE RESOLUTION.

9.1 Arbitration. Should either party reasonably believe that the other has committed a breach of this Agreement, such party shall notify the other in writing stating its belief that a breach has been committed and setting forth the specifics of such breach. If the party in receipt of such notice does not respond within five (5) days of its receipt of same, or if it does respond and the party receiving such response is not satisfied with the response or the proposed remedy, such party may thereafter demand arbitration. Should the parties to this Agreement fail to resolve any controversy or claim arising out of or relating to the interpretation or application of any term or provision set forth herein, or the alleged breach thereof, such controversy or claim shall be resolved by arbitration in accordance with the Commercial Arbitration Rules-Expedited Procedures of the American Arbitration Association. Judgment upon any award rendered pursuant to this Section 9.1 may be entered into any court having jurisdiction of the party against whom the award is rendered. Any award rendered pursuant to the terms and conditions set forth herein shall be final and binding. Any arbitration pursuant to this Agreement shall be held in New York, New York. Each party shall bear its own expense and shall share equally the administrative expenses of the hearing, including, without limitation, arbitration fees and the expenses of a court reporter.

10. Independent Contractor. This Agreement shall not constitute or give rise to any employer-employee, agency, partnership or joint venture relationship among or between the parties, and each party's performance hereunder is that of a separate, independent entity. Except as specifically provided in Section 2.2(a) hereof, nothing herein shall limit or otherwise restrict HD's use of the Facility to formulate, develop, test, manufacture, package, supply or otherwise distribute and sell any pharmaceutical or nutriceutical product or raw material for or to any third party, subject to compliance with the terms and provisions of the Lease Agreement.

11. MISCELLANEOUS.

11.1 Force Majeure. Neither party to this Agreement shall be liable for failure or delay in the performance of any of its obligations hereunder (with the exception of payment obligations), if such failure or delay is due to causes beyond its reasonable control, including, without limitation, acts

of God, earthquakes, fires, strikes, acts of war, or intervention (other than as a result of acts or omissions of such party) of any governmental authority, whether affecting such party or any of its Affiliates.

11.2 Assignment. The parties acknowledge and agree that the production of pharmaceutical products generally and or the Products, in particular, are highly regulated by governmental authorities, are highly technical in nature, require the unique expertise and experience of HD and involve the disclosure of sensitive or proprietary Confidential Information. Accordingly, this Agreement and any rights hereunder shall not be assigned by HD without the prior written consent of PAR.

11.3 Governing Law. This contract shall be governed by, and construed in accordance with, the laws of the State of New York, applicable to contracts entered into and to be performed wholly within said State.

11.4 Notice. All notices required to be given hereunder shall be in writing and shall be given by personal delivery, via facsimile transmission, by a nationally recognized overnight carrier or by registered or certified mail, postage prepaid with return receipt requested. Notices shall be addressed to the parties as follows:

If to HD: Halsey Drug Co., Inc.
695 No. Perryville Road
Rockford, Illinois 61107
Attn: Mr. Michael Reicher
Facsimile No.: (815) 399-9710

If to PAR: Pharmaceutical Resources, Inc.
One Ram Ridge Road
Spring Valley, New York 10977
Attn: President
Facsimile No.: (914) 425-7922

Notices delivered personally shall be deemed communicated as of actual receipt; notices sent via facsimile transmission shall be deemed communicated as of receipt by the sender of written confirmation of transmission thereof; notices sent via overnight courier shall be deemed received as of one business day following sending; and notices mailed shall be deemed communicated as of three business days after proper mailing. A party may change his or its address by written notice in accordance with this Section 11.4.

11.5 Amendments. Any amendment or modification of this Agreement shall only be valid if made in writing and signed by or on behalf of the parties hereto.

11.6 Counterparts. This Agreement may be executed in counterparts, each of which shall be deemed an original and all of which shall constitute a single document.

11.7 Entire Agreement. This Agreement (including the Schedules hereto) represents the entire agreement of the parties with respect to the subject matter hereof, superseding all prior agreements and understandings, written or oral.

11.8 Benefit; Binding Effect. This Agreement shall be binding upon and shall inure to the benefit of the parties hereto and their respective successors and permitted assigns.

11.9 Survival. Notwithstanding anything to the contrary contained in this Agreement, the provisions of Sections 2.7, 4.1, 4.4, 6, 7.7 and 8 shall survive any termination of this Agreement.

11.10 Further Assurances. The parties hereto agree that they shall take all appropriate actions, including, without limitation, the execution or filing of any documents or instruments, which may be reasonably necessary or advisable to carry out the intent and accomplish the purposes of any of the provisions hereof.

11.11 Severability. In the event that any provision of this Agreement shall be held invalid or unenforceable for any reason by a court of competent jurisdiction, such provision or part thereof shall be considered separate from the remaining provisions of this Agreement, which shall remain in full force and effect. Such invalid or unenforceable provision shall be deemed revised to effect, to the fullest extent permitted by law, the intent of the parties as set forth therein.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed as of the effective date by their duly authorized representatives.

HALSEY DRUG CO., INC.

By:/S/

Name: Peter Clemens
Title: Chief Financial Officer

PAR PHARMACEUTICAL , INC.

By:/S/

Name: Kenneth Sawyer
Title: President

Schedule 1
Products

Products Manufactured and Coated

Naproxen Sodium
Ibuprofen

Products Coated

Imipramine
Flupenazine
Ranitidine

Restricted Products

Ibuprofen

Schedule 2.4
Employees

See attached

Schedule 2.6
Manufacturing Cost

Manufacturing and Coating Cost

Naproxen Sodium	$5 per thousand tablets
Ibuprofen	$5 per thousand tablets

Coating Cost

Imipramine	$2 per thousand tablets
Fluphenazine	$2 per thousand tablets
Ranitidine	$2 per thousand tablets

Schedule 3.1
Shipping

Shipping costs are F.O.B. manufacturing site.

Schedule 3.2
Minimum Purchase Requirements

PAR shall purchase from HD such quantities of Products such that (i) during the months of April, 1999 and May, 1999, HD shall be entitled to receive an aggregate of $108,334 in respect of purchase price for Products delivered hereunder, (ii) during the ten months commencing June 1, 1999 through March 31, 2000, HD shall be entitled to receive, during each such calendar month $54,167.00 in respect of purchase price for Products delivered hereunder, and (iii) during the six months commencing April 1, 2000 through October 31, 2000, HD shall be entitled to receive, during each such calendar month $83,333.33 in respect of purchase price for Products delivered hereunder; provided that to the extent that the aggregate amount of all such payments made through any given month shall exceed the aggregate minimum amount of such payments required to be made through such month pursuant to the foregoing, PAR shall be entitled to a credit in the ensuing calendar months to the extent of such excess payment and may reduce, to such extent, the payments otherwise required to be made in such months. In addition, PAR may make any payments required hereby by way of credit against any amounts then due and payable from Tenant under the Lease Agreement.

Schedule 5.1
Pricing

Manufacturing and Coating

Naproxen Sodium	$4 per thousand tablets
Ibuprofen	$3 per thousand tablets

Coating Cost

Imipramine	$1 per thousand tablets
Fluphenazine	$1 per thousand tablets
Ranitidine	$1 per thousand tablets

Exhibit 10.56

[Halsey Drug Co., Inc. 1998 Stock Option Plan]

HALSEY DRUG CO., INC.
1998 STOCK OPTION PLAN

1. PURPOSES. The Plan described herein, as amended and restated, shall be known as the "Halsey Drug Co., Inc. 1998 Stock Option Plan" (the "Plan"). The purposes of the Plan are to attract and retain the best available personnel for positions of substantial responsibility, to provide additional incentive to Employees, Directors and Consultants of the Company or its Subsidiaries (as defined in Section 2 below) to whom Option's may be granted under this Plan, and to promote the success of the Company's business.

Options granted hereunder may be either "incentive stock options," as defined in Section 422 of the Internal Revenue Code of 1986, as amended, or "Non-ISO's," at the discretion of the Board and as reflected in the terms of the written option agreement.

The Plan is not intended as an agreement or promise of employment. Neither the Plan, nor any Option granted pursuant to the Plan, shall confer on any person any right to continue in the employ of the Company. The right of the Company to terminate an Employee is not limited by the Plan, nor by any Option granted pursuant to the Plan, unless such right is specifically described by the terms of any such Option.

2. DEFINITIONS. As used herein, the following definitions shall apply:

(a) "Board" shall mean the Committee, if one has been appointed, or the Board of Directors of the Company, if no Committee is appointed.

(b) "Code" shall mean the Internal Revenue Code of 1986, as amended.

(c) "Committee" shall mean the Committee appointed under Section 4(a) hereof.

(d) "Common Stock" shall mean the Common Stock, $.01 par value, of the Company.

(e) "Company" shall mean Halsey Drug Co. Inc., a New York corporation.

(f) "Continuous Service or Continuous Status as an Employee" shall mean the absence of any interruption or termination of service as an Employee. Continuous Status as an Employee shall not be considered interrupted in the case of sick leave, military leave, or any other leave of absence approved by the Board.

(g) "Director" shall mean any person serving on the Board of Directors.

(h) "Employee" shall mean any person, including officers, employed by the Company or any Parent or Subsidiary of the Company. The payment of a Director's fee by the Company shall not be sufficient to constitute "employment" by the Company.

(i) "Exchange Act" shall mean the Securities Exchange Act of 1934, as amended.

(j) "Fair Market Value" shall mean (i) the closing price for a share of the Common Stock on the exchange or quotation system which reports or quotes the closing prices for a share of the Common Stock, as accurately reported for any date (or, if no shares of Common Stock are traded on such date, for the immediately preceding date on which shares of Common Stock were traded) in The Wall Street Journal (or if The Wall Street Journal no longer reports such price, in a newspaper or trade journal selected by the Committee) or (ii) if no such price quotation is available, the price which the Committee acting in good faith determines through any reasonable valuation method that a share of Common Stock might change hands between a willing buyer and a willing seller, neither being under any compulsion to buy or to sell and both having reasonable knowledge of the relevant facts.

(k) "Incentive Stock Option" shall mean an Option intended to qualify as an incentive stock option within the meaning of Section 422 of the Code.

(l) "Non-ISO" shall mean an Option to purchase stock which is not intended by the Committee to satisfy the requirements of Section 422 of the Code.

(m) "Option" shall mean a stock option granted pursuant to the Plan.

(n) "Optioned Stock" shall mean the Common Stock subject to an Option.

(o) "Optionee" shall mean an Employee, Director or Consultant who receives an Option.

(p) "Parent" shall mean a "parent corporation," whether now or hereafter existing, as defined in Section 424(e) of the Code.

(q) "Plan" shall mean this Halsey Drug Co. Inc. 1998 Stock Option Plan, as amended from time to time.

(r) "Rule 16b-3" shall mean Rule 16b-3 of the General Rules and Regulations under the Exchange Act.

(s) "Share" shall mean a share of the Common Stock, as adjusted in accordance with Section 11 of the Plan.

(t) "Subsidiary" shall mean a "subsidiary corporation," whether now or hereafter existing, as defined in Section 424(f) of the Code.

(u) "Ten Percent Shareholder" shall mean a person who owns (after taking into account the attribution rules of Section 424(d) of the Code) more than ten percent (10%) of the total combined voting power of all classes of stock of the Company, or a Subsidiary.

3. STOCK AUTHORIZED.

Subject to the provisions of Section 11 of the Plan, the maximum aggregate number of shares which may be Optioned and sold under the Plan is Two Million Six Hundred Thousand (2,600,000) shares of authorized, but unissued, or reacquired Common Stock.

If an Option should expire or become unexercisable for any reason without having been exercised in full, the unpurchased Shares which were subject thereto shall, unless the Plan shall have been terminated, become available for further grant under the Plan.

4. ADMINISTRATION.

(a) Procedure. The Company's Board of Directors may appoint a Committee to administer the Plan which shall be constituted so as to permit the Plan to continue to comply with Rule 16b-3, as currently in effect or as hereafter modified or amended. The Committee appointed by the Board of Directors shall consist of not less than two members of the Board of Directors, to administer the Plan on behalf of the Board of Directors, subject to such terms and conditions as the Board of Directors may prescribe. Once appointed, the Committee shall continue to serve until otherwise directed by the Board of Directors. From time to time, the Board of Directors may increase the size of the Committee and appoint additional members thereof, remove members (with or without cause), and appoint new members in substitution therefor, fill vacancies however caused, or remove all members of the Committee and thereafter directly administer the Plan; provided, however, that at no time shall a Committee of less than two members administer the Plan. Subject to the provisions of the Plan, the Committee shall be authorized to interpret the Plan, to establish, amend and rescind any rules and regulations relating to the Plan and to make all other determinations necessary or advisable for the administration of the Plan. Notwithstanding anything to the contrary contained herein, no member of the Committee shall serve as such under this Plan unless such person is a "Non-Employee Director" within the meaning of Rule 16b-3(b)(3)(i) of the Exchange Act. A majority vote of the members of the Committee shall be required for all of its actions.

A majority of the entire Committee shall constitute a quorum, and the action of the majority of the Committee members present at any meeting at which a quorum is present shall be the action of the Committee. All decisions, determinations, and interpretations of the Committee shall be final and conclusive on all persons affected thereby and shall, as to Incentive Stock Options, be consistent with Section 422 of the Code. The Committee shall have all of the powers and duties set forth herein, as well as such additional powers and duties as the Board of Directors may delegate to it; provided, however, that the Board of Directors expressly retains the right in its sole discretion (i) to elect and to replace the members of the Committee, and (ii) to terminate or amend this Plan in any manner consistent with applicable law.

(b) Powers of the Committee. Subject to the provisions of the Plan, the Committee shall have the authority, in its discretion: (i) to grant Incentive Stock Options, in accordance with Section 422 of the Code, or to grant Non-ISO's; (ii) to determine the Fair Market Value of the Common Stock; (iii) to determine the exercise price per share of Options to be granted which exercise price shall be determined in accordance with Section 8 of the Plan; (iv) to determine the persons to whom (including, without limitation, members of the Committee) and the time or times at which, Options shall be granted and the number of Shares to be represented by each Option; (v) to interpret the Plan; (vi) to prescribe, amend and rescind rules and regulations relating to the Plan; (vii) to determine the terms and provisions of each Option granted (which need not be identical) and, with the consent of the holder thereof, modify or amend each Option; (viii) to accelerate or defer (with the consent of the Optionee) the exercise date of any Option; (ix) to authorize any person to execute on behalf of the Company any instrument required to effectuate the grant of an Option previously granted by the Board; and (x) to make all other determinations deemed necessary or advisable for the administration of the Plan.

(c) Subject to the provisions of this Plan and compliance with Rule 16b-3 of the Exchange Act, the Committee may grant options under this Plan to members of the Company's Board of Directors, including members of the Committee, and in such regard may determine:

(i) the time at which any such Option shall be granted;

(ii) the number of Shares covered by any such Option;

(iii) the time or times at which, or the period during which, any such Option may be exercised or whether it may be exercised in whole or in installments;

(iv) the provisions of the agreement relating to any such Option; and

(v) the Option Price of Shares subject to an Option granted such Board member.

(d) Effect of the Committee's Decision. All decisions, determinations and interpretations of the Committee shall be final and binding on all Optionees and any other holders of any Options granted under the Plan.

5. ELIGIBILITY. Incentive Stock Options may be granted only to Employees. Non-ISO's may be granted to Employees as well as non-employee Directors and Consultants of the Company as determined by the Board or any Committee. Any person who has been granted an Option may, if he is otherwise eligible, be granted an additional Option or Options.

Each grant of an Option shall be evidenced by an Option Agreement, and each Option Agreement shall (1) specify whether the Option is an Incentive Stock Option or a Non-ISO and (2) incorporate such other terms and conditions as the Committee acting in its absolute discretion deems

consistent with the terms of this Plan, including, without limitation, a restriction on the number of shares of stock subject to the Option which first become exercisable during any calendar year.

To the extent that the aggregate Fair Market Value of the stock of the Company subject to Incentive Stock Options granted (determined as of the date such an Incentive Stock Option is granted) which first become exercisable in any calendar year exceeds $100,000, such Options shall be treated as Non-ISO's. This $100,000 limitation shall be administered in accordance with the rules under Section 422(d) of the Code.

6. EFFECTIVE DATE AND TERM OF PLAN. The effective date of this Plan ("Effective Date") shall be the date it is adopted by the Board, provided the shareholders of the Company (acting at a duly called meeting of such shareholders or by the written consent of shareholders) approve this Plan within twelve (12) months after such Effective Date. The effectiveness of Options granted under this Plan prior to the date such shareholder approval is obtained shall be contingent on such shareholder approval.

Subject to the provisions of Section 13 hereof, no Option shall be granted under this Plan on or after the earlier of

(1) the tenth anniversary of the Effective Date of this Plan in which event the Plan otherwise thereafter shall continue in effect until all outstanding Options shall have been surrendered or exercised in full or no longer are exercisable, or

(2) the date on which all of the Common Stock reserved for issuance under Section 3 of this Plan has (as a result of the exercise or expiration of Options granted under this Plan) been issued or no longer is available for use under this Plan, in which event the Plan also shall terminate on such date.

7. TERM OF OPTION. An Option shall expire on the date specified in such Option, which date shall not be later than the tenth anniversary of the date on which the Option was granted, except that, if any Employee, at any time an Incentive Stock Option is granted to him or her, owns stock representing more than ten percent (10%) of the total combined voting power of all classes of Common Stock (or, under Section 424(d) of the Code is deemed to own stock representing more than ten percent (10%) of the total combined voting power of all such classes of Common Stock, by reason of the ownership of such classes of stock, directly or indirectly, by or for any brother, sister, spouse, ancestor or lineal descendant of such Employee, or by or for any corporation, partnership, state or trust of which such Employee is a shareholder, partner or beneficiary), the Incentive Stock Option granted him or her shall not be exercisable after the expiration of five years from the date of grant or such earlier expiration as provided in the particular Option agreement.

8. EXERCISE PRICE AND CONSIDERATION.

(a) The per Share exercise price for the Shares to be issued pursuant to exercise of an Option shall be such price as is determined by the Board, but shall be subject to the following:

(i) In the case of an Incentive Stock Option

(A) granted to an Employee who, immediately before the grant of such Incentive Stock Option, owns stock representing more than ten percent (10%) of the voting power of all classes of stock of the Company or any Parent or Subsidiary, the per Share exercise price shall be no less than 110% of the Fair Market Value per Share on the date of grant.

(B) granted to any Employee, the per share exercise price shall be no less than 100% of the Fair Market Value per Share on the date of grant.

(ii) In the case of a Non-ISO, the per Share exercise price shall be determined by the Board on the date of grant.

(iii) In the case of an Option granted on or after the effective date of registration of any class of equity security of the Company pursuant to Section 12 of the Exchange Act and prior to six months after the termination of such registration, the per Share exercise price shall be no less than one hundred percent (100%) of the fair market value per Share on the date of grant.

(b) The consideration to be paid for the Shares to be issued upon exercise of an Option, including the method of payment, shall be determined by the Board and may consist entirely of cash, check, promissory note, other Shares of Common Stock having a Fair Market Value on the date of surrender equal to the aggregate exercise price of the Shares as to which said Option shall be exercised, or any combination of such methods of payment, or such other consideration and method of payment for the issuance of Shares to the extent permitted under New York law.

If the optionee desires to pay for the optioned shares, in whole or in part, by conversion of Shares, Optionee shall be entitled upon exercise of the Option to receive that number of Shares equal to the quotient obtained by dividing [(A-B)(X)] by (A) where:

(A) = the Fair Market Value of one Share of Common Stock on the date of conversion.

(B) = the Option Price for one Share of Common Stock subject to an Option.

(X) = the Number of Shares of Common Stock issuable upon exercise of the Option if exercised for cash;

provided, if the above calculation results in a negative number, then no Shares shall be issued or issuable upon conversion of the Option. Any payment made in Shares of the Company's Common Stock shall be treated as equal to the Fair Market Value of such Common Stock on the date the properly endorsed certificate for such Common Stock is delivered to the Committee (or its delegate).

9. EXERCISE OF OPTION.

(a) Procedure for Exercise; Rights as a Shareholder. Any Option granted hereunder shall be exercisable at such times and under such conditions as determined by the Committee, including performance criteria with respect to the Company and/or the Optionee, and as shall be permissible under the terms of the Plan.

An Option may not be exercised for a fraction of a Share.

An Option shall be deemed to be exercised when written notice of such exercise has been given to the Company in accordance with the terms of the Option by the person entitled to exercise the Option and full payment for the Shares with respect to which the Option is exercised has been received by the Company. Full payment may, as authorized by the Board, consist of any consideration and method of payment allowable under Section 8(b) of the Plan. Until the issuance, which in no event will be delayed more than thirty (30) days from the date of the exercise of the Option, (as evidenced by the appropriate entry on the books of the Company or of a duly authorized transfer agent of the Company) of the stock certificate evidencing such Shares, no right to vote or receive dividends or any other rights as a shareholder shall exist with respect to the Optioned Stock, notwithstanding the exercise of the Option. No adjustment will be made for a dividend or other right for which the record date is prior to the date the stock certificate is issued, except as provided in the Plan.

Exercise of an Option in any manner shall result in a decrease in the number of Shares which thereafter may be available, both for purposes of the Plan and for sale under the Option, by the number of Shares as to which the Option is exercised.

(b) Termination of Status as an Employee, or Director or Consultant with Respect to Non-ISO's. Non-ISO's granted pursuant to the Plan may be exercised notwithstanding the termination of the Optionee's status as an employee, a non-employee Director or a Consultant, except as provided in the Plan or as provided by the terms of the Stock Option Agreement.

(c) Termination of Service as an Employee with Respect to Incentive Stock Options. If the Continuous Service of any Employee terminates, he or she may, but only within thirty (30) days (or such other period of time not exceeding three (3) months as is determined by the Committee) after the date he or she ceases to be an Employee of the Company, exercise his or her Option to the extent that he or she was entitled to exercise it as of the date of such termination. To the extent that he or she was not entitled to exercise the Option at the date of such termination, or if he or she does not

exercise such Option (which he or she was entitled to exercise) within the time specified herein, the Option shall terminate.

(d) Disability of Optionee. Notwithstanding the provisions of Section 9(c) above, in the event an Employee is unable to continue his or her Continued Service with the Company as a result of his or her total and permanent disability (within the meaning of Section 22(e)(3) of the Code), he or she may, but only within three (3) months (or such other period of time not exceeding twelve (12) months as is determined by the Committee) from the date of disability, exercise his or her Option to the extent he or she was entitled to exercise it at the date of such disability. To the extent that he or she was not entitled to exercise the Option at the date of disability, or if he or she does not exercise such Option (which he or she was entitled to exercise) within the time specified herein, the Option shall terminate.

(e) Death of Optionee. In the event of the death of an Optionee:

(i) during the term of the Option who is at the time of his or her death an Employee of the Company and who shall have been in Continuous Status as an Employee, a Director or Consultant since the date of grant of the Option, the 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 the Option by bequest or inheritance, but only to the extent of the right to exercise that would have accrued had the Optionee continued living one (1) month after the date of death; or

(ii) within thirty (30) days (or such other period of time not exceeding three (3) months as is determined by the Committee) after the termination of Continuous Status as an Employee, a Director or Consultant, the 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 the Option by bequest or inheritance, but only to the extent of the right to exercise that had accrued at the date of termination.

10. TRANSFERABILITY OF OPTIONS.

(a) Incentive Stock Options may not be sold, pledged, assigned, hypothecated, transferred, or disposed of in any manner other than by will or by the laws of descent or distribution and may be exercised, during the life time of the Optionee only by the Optionee.

(b) The Committee may, in its discretion, authorize all or a portion of the Non-ISOs to be granted to an Optionee to be on terms which permit transfer by such Optionee to (i) the spouse, children or grandchildren of the Optionee (the "Immediate Family Members"), (ii) a trust or trusts for the exclusive benefit of such Immediate Family Members, or (iii) a partnership in which such Immediate Family Members are the only partners, provided that (x) there may be no consideration for any such transfer, (y) the Non-ISO Stock Option Agreement pursuant to which such options are granted must be approved by the Committee, and must expressly provide for transferability in a

manner consistent with this section, (z) subsequent transfers of transferred Options shall be prohibited except those made by will or by the laws of descent or distribution, and (zz) such transfer is approved in advance by the Committee. Following transfer, any such Options shall continue to be subject to the same terms and conditions as were applicable immediately prior to transfer, provided that for purposes of determining the rights of exercise under the Option, the term "Optionee" shall be deemed to refer to the transferee. The termination of service as an employee, non-employee director or consultant shall continue to be applied with respect to the original Optionee, following which the options shall be exercisable by the transferee only to the extent, and for the periods specified in Section 9 of the Plan and in the Stock Option Agreement.

11. ADJUSTMENTS UPON CHANGES IN CAPITALIZATION OR MERGER. Subject to any required action by the shareholders of the Company, the number of shares of Common Stock covered by each outstanding Option, and the number of shares of Common Stock which have been authorized for issuance under the Plan but as to which no Options have yet been granted or which have been returned to the Plan upon cancellation or expiration of an Option, as well as the price per share of Common Stock covered by each such outstanding Option, shall be proportionately adjusted for any increase or decrease in the number of issued shares of Common Stock resulting from a stock split or the payment of a stock dividend with respect to the Common Stock or any other increase or decrease in the number of issued shares of Common Stock effected without receipt of consideration by the Company; provided, however, that conversion of any convertible securities of the Company shall not be deemed to have been "effected without receipt of consideration." Such adjustment shall be made by the Board, whose determination in that respect shall be final, binding and conclusive. Except as expressly provided herein, no issuance by the Company of shares of stock of any class, or securities convertible into shares of stock of any class, shall affect, and no adjustment by reason thereof shall be made with respect to, the number or exercise price of shares of Common Stock subject to an Option.

In the event of the proposed dissolution or liquidation of the Company, or in the event of a proposed sale of all or substantially all of the assets of the Company, or the merger of the Company with or into another corporation, the Option will terminate immediately prior to the consummation of such proposed action, unless otherwise provided by the Board. The Board may, in the exercise of its sole discretion in such instances, declare that any Option shall terminate as of a date fixed by the Board and give each Optionee the right to exercise his Option as to all or any part of the Optioned Stock, including Shares as to which the Option would not otherwise be exercisable.

12. TIME FOR GRANTING OPTIONS. The date of grant of an Option shall, for all purposes, be the date on which the Board makes the determination granting such Option. Notice of the determination shall be given to each Employee, non-employee Director and Consultant to whom an Option is so granted within a reasonable time after the date of such grant.

13. AMENDMENT AND TERMINATION OF THE PLAN. (a) The Board may amend or terminate the Plan from time to time in such respects as the Board may deem advisable; provided that,

the following revisions or amendments shall require approval of the holders of a majority of the outstanding shares of the Company entitled to vote:

(i) any increase in the number of Shares subject to the Plan, other than in connection with an adjustment under Section 11 of the Plan;

(ii) any change in the class of Employees which are eligible participants for Options under the Plan; or

(iii) if shareholder approval of such amendment is required for continued compliance with Rule 16b-3.

(b) Shareholder Approval. Any amendment requiring shareholder approval under Section 13(a) of the Plan shall be solicited as described in Section 17 of the Plan.

(c) Effect of Amendment or Termination. Any such amendment or termination of the Plan shall not affect Options already granted and such Options shall remain in full force and effect as if this Plan had not been amended or terminated, unless mutually agreed otherwise between the Optionee and the Board, which agreement must be in writing and signed by the Optionee and the Company.

14. CONDITIONS UPON ISSUANCE OF SHARES. Shares shall not be issued pursuant to the exercise of an Option unless the exercise of such Option and the issuance and delivery of such Shares pursuant thereto shall comply with all relevant provisions of law, including, without limitation, the Securities Act of 1933, as amended, the Exchange Act, the rules and regulations promulgated thereunder, and the requirements of any stock exchange upon which the Shares may then be listed, and shall be further subject to the approval of counsel for the Company with respect to such compliance.

As a condition to the exercise of an Option, the Company may require the person exercising such Option to represent and warrant at the time of any such exercise that the Shares are being purchased only for investment and without any present intention to sell or distribute such Shares if, in the opinion of counsel for the Company, such a representation is required by any of the aforementioned relevant provisions of law.

15. RESERVATION OF SHARES. The Company, during the term of this Plan, will at all times reserve and keep available such number of Shares as shall be sufficient to satisfy the requirements of the Plan.

Inability of the Company to obtain authority from any regulatory body having jurisdiction, which authority is deemed by the Company's counsel to be necessary to the lawful issuance and sale of any Shares hereunder, shall relieve the Company of any liability in respect of the failure to issue or sell such Shares as to which such requisite authority shall not have been obtained.

16. OPTION AGREEMENT. Options shall be evidenced by written Option agreements in such form as the Committee shall approve.

17. SHAREHOLDER APPROVAL. Continuance of the Plan shall be subject to approval by the shareholders of the Company within twelve months before or after the date the Plan is adopted. If such shareholder approval is obtained at a duly held shareholders' meeting, it may be obtained by the affirmative vote of the holders of a majority of the outstanding shares of the Company present or represented and entitled to vote thereon. The approval of such shareholders of the Company shall be (1) solicited substantially in accordance with Section 14(a) of the Exchange Act and the rules and regulations promulgated thereunder, or (2) solicited after the Company has furnished in writing to the holders entitled to vote substantially the same information concerning the Plan as that which would be required by the rules and regulations in effect under Section 14(a) of the Exchange Act at the time such information is furnished.

18. MISCELLANEOUS PROVISIONS. An Optionee shall have no rights as a shareholder with respect to any Shares covered by his Option until the date of the issuance of a stock certificate to him for such shares.

19. OTHER PROVISIONS. The stock option agreement authorized under the Plan shall contain such other provisions, including, without limitation, restrictions upon the exercise of the Option, as the Committee shall deem advisable. Any such stock option agreement shall contain such limitations and restrictions upon the exercise of the Option as shall be necessary in order that such option will be an Incentive Stock Option as defined in Section 422 of the Code if an Incentive Stock Option is intended to be granted.

20. INDEMNIFICATION OF COMMITTEE. In addition to such other rights of indemnification as they may have as Directors or as members of the Committee, the members of the Committee shall be indemnified by the Company against the reasonable expenses, including attorneys' fees actually and necessarily incurred in connection with the defense of any action, suit or proceeding, or in connection with any appeal therein, to which they or any of them may be a party by reason of any action taken or failure to act under or in connection with the Plan or any Option granted thereunder, and against all amounts paid by them in settlement thereof (provided such settlement is approved by independent legal counsel selected by the Company) or paid by them in satisfaction of a judgment in any such action, suit or proceeding, except in relation to matters as to which it shall be adjudged in such action, suit or proceeding that such Board member is liable for negligence or misconduct in the performance of his duties; provided that within 60 days after institution of any such action, suit or proceeding a Board member shall in writing offer the Company the opportunity, at its own expense, to handle and defend the same.

21. APPLICATION OF FUNDS. The proceeds received by the Company from the sale of Common Stock pursuant to Options will be used for general corporate purposes.

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

23. OTHER COMPENSATION PLANS. The adoption of the Plan shall not affect any other stock option or incentive or other compensation plans in effect for the Company or any Subsidiary, nor shall the Plan preclude the Company from establishing any other forms of incentive or other compensation for employees and Directors of the Company or any Subsidiary.

24. SINGULAR, PLURAL; GENDER. Whenever used herein, nouns in the singular shall include the plural, and the masculine pronoun shall include the feminine gender.

25. HEADINGS, ETC., NO PART OF PLAN. Headings of Articles and Sections hereof are inserted for convenience and reference; they constitute no part of the Plan.

26. GOVERNING LAW. The Plan shall be governed by and construed in accordance with the laws of the State of New York, except to the extent preempted by Federal law. The Plan is intended to comply with Rule 16b-3. Any provisions inconsistent with Rule 16b-3 shall be inoperative and shall not affect the validity of the Plan, unless the Board of Directors shall expressly resolve that the Plan is no longer intended to comply with Rule 16b-3.

Dated: April 16, 1998

Exhibit 23.1

[Consent of Grant Thornton LLP, Independent Certified Public Accountants]

CONSENT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

We have issued our report dated March 5, 1999, accompanying the consolidated financial statements included in the Annual Report of Halsey Drug Co., Inc. on Form 10-K for the year ended December 31, 1998. We hereby consent to the incorporation by reference of said report in the Registration Statements of Halsey Drug Co., Inc. on Form S-8 (File No. 33-98396, effective October 19, 1995).

GRANT THORNTON LLP

/s/

New York, New York
March 5, 1999

12-MOS	
DEC-31-1998	
JAN-01-1998	
DEC-31-1998	
	1,850
	0
	1,719
	280
	6,254
	9,791
	19,172
	14,395
	15,913
	16,956
	0
	0
	0
	144
	(29,453)
	17,478
	8,841
	8,841
	12,712
	12,712
	8,729
	0
	1,946
	(12,724)
	0
	(12,724)
	0
	0
	0
	(12,724)
	(.92)
	(.92)