SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D. C. 20549

FORM 8-K

CURRENT REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

DATE OF REPORT (DATE OF EARLIEST EVENT REPORTED): MARCH 10, 1998

HALSEY DRUG CO., INC.

1827 PACIFIC STREET, BROOKLYN, NEW YORK

(718-467-7500)

Incorporated under the laws of	Commission File Number	I.R.S. Employer Identification Number
State of New York	1-10113	11-0853640

ITEM 1. CHANGES IN CONTROL OF REGISTRANT

On March 10, 1998, Halsey Drug Co., Inc. (the "Company") consummated a private offering of securities for an aggregate purchase price of $20.8 million (the "Offering"). 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, $.01 par value per share (the "Common Stock"). The Debentures and Warrants were issued by the Company pursuant to a certain Debenture and Warrant Purchase Agreement dated March 10, 1998 (the "Purchase Agreement") by and among the Company, 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 thereto (inclusive of Galen, collectively, the "Galen Investor Group").

The Debentures, issued at par, will become due and payable as to principal five years from the date of issuance. Interest on the principal amount of the Debentures, at the rate of 5% per annum, is payable on a quarterly basis. The Debentures are convertible at any time after issuance into shares of Common Stock at a price of $1.50 per share.

The Warrants are exercisable at any time following issuance for shares of Common Stock at an exercise price of $1.50, with respect to Warrants to purchase 2,101,010 shares, and $2.375, with respect to the remaining Warrants to purchase 2,101,010 shares of Common Stock.

The Purchase Agreement provides that the holders of the Debentures shall have the right to vote as part of a single class with all holders of the Company's Common Stock on all matters to be voted on by such stockholders. Each Debenture holder shall have such number of votes as shall equal the number of votes he would have had if such holder converted the entire outstanding principal amount of his Debenture into shares of Common Stock immediately prior to the record date relating to such vote. In order to provide for such "as-converted" voting rights, the Company is obligated under the Purchase Agreement to solicit shareholder approval to amend its Certificate of Incorporation to provide for such voting rights for the Debentures. In addition, the Purchase Agreement obligates the Company to solicit shareholder approval to amend its Certificate of Incorporation to increase its authorized shares from 20,000,000 to 40,000,000 shares in order to provide sufficient authorized shares to permit the conversion of the Debentures and exercise of the Warrants. The Company anticipates soliciting shareholder approval to amend its Certificate of Incorporation at its upcoming Annual Meeting of Shareholders to be held on or before June 30, 1998. In this regard, certain existing shareholders of the Company, including most of the investors in the Galen Investor Group, owing an aggregate of approximately 25% of the Company's outstanding Common Stock, have granted to a designee of Galen an irrevocable proxy to vote their shares in favor of such amendments to the Company's Certificate of Incorporation. These irrevocable proxies also provide Galen with the right to vote the covered shares in favor of the Galen nominees to the Company's Board of Directors, as described below.

The Purchase Agreement also provides the Galen Investor Group with an option expiring September 10, 2000 to purchase (on a pro-rata basis) additional Debentures and Warrants on the same terms as provided in the Offering for a purchase price of $5,000,000 (the "Investor Option"). Assuming the receipt of shareholder approval to amend the Company's Certificate of Incorporation to provide the holders of the Debentures with "as-converted" voting rights, Galen and the Galen Investor Group would control 45.6% and 50.5%, respectively, of the Company's Common Stock (51% and 55.8%, respectively, upon issuance of additional Debentures in the event the Investor Option were exercised, of which there can be no assurance). Assuming further the exercise of the Warrants issued in the Offering, Galen and the Galen Investor Group would control 52.5% and 57%, respectively, of the Company's Common Stock (57.6% and 62.2%, respectively, in the event the Warrants issuable under the Investor Option were exercised).

The Purchase Agreement provides that the Galen Investor Group has the right to designate for nomination two persons to be members of the Company's Board of Directors as of the closing date of the Offering. In addition, the Purchase Agreement provides further that the Galen Investor Group has the right to designate an additional person to be a member of the Board of Directors commencing with the first Annual Meeting of Shareholders of the Company to be held after the Offering, for a total of three of the Company's seven Board positions. The Board of Directors appointed each of Bruce F. Wesson and Srini Conjeevaram, each a designee of the Galen Investor Group, to the Company's Board of Directors effective at the closing of the Offering. In accordance with the terms of the Purchase Agreement, an additional designee of the Galen Investor Group will be nominated to become a member of the Board of Directors at the Company's 1998 Annual Meeting of Shareholders. The Company has agreed to nominate and appoint to the Board of Directors, subject to shareholder approval, three designees of the Galen Investor Group for so long as the Debentures and Warrants remain outstanding.

ADDITIONAL TERMS OF THE PURCHASE AGREEMENT, DEBENTURES AND WARRANTS

Right of First Refusal

The Purchase Agreement provides the holders of the Debentures and the holders of shares of Common Stock issued upon conversion of the Debentures (provided the Debentures remain outstanding and the shares received upon conversion have not been sold, transferred or otherwise disposed of) as well as the holders of the Company's debentures issued in August 1996 (the "Old Holders"), with a right of first refusal relating to any subsequent issuance, sale or exchange of any shares of the Company's Common Stock or any security or other instrument to acquire securities in the Company, exclusive of certain excluded securities and offerings less than $200,000.

Secured Debt

The Debentures are secured by a lien on all assets of the Company, tangible and intangible. In addition, each of Houba, Inc., Halsey Pharmaceuticals, Inc., Indiana Fine Chemicals Corporation, H.R. Cenci Laboratories, Inc. and Cenci Powder Products, Inc., each a wholly-owned subsidiary of the Company, has executed in favor of the Galen Investor Group an Unconditional Agreement of Guaranty of the Company's obligations under the Purchase Agreement. Each Guaranty is secured by all assets of such subsidiary, and, in the case of each of Houba, Inc., H.R. Cenci Laboratories and Cenci Powder Products, Inc., by a mortgage lien on its respective real estate. In addition, the Company has pledged the stock of each such subsidiary to the Galen Investor Group to further secure its obligations under the Purchase Agreement.

Adjustment to Conversion Price of Debentures and Exercise Price of Warrants

The conversion price of the Debentures and exercise price of the Warrants are subject to adjustment based upon a comparison of a schedule of the Company's total liabilities as of February 28, 1998, as prepared by its independent auditors, to a schedule of the Company's total liabilities as of the same date prepared by the Galen Investor Group. To the extent the Company's total liabilities as of February 28, 1998, as determined by its independent auditors exceed the total liabilities determined by the Galen Investor Group by an amount in excess of $500,000, the conversion price of the Debentures and exercise price of the Warrants will be reduced by an amount equal to the quotient of (i) the amount by which the Company's total liabilities determined by its independent auditors exceeds the total liabilities determined by the Galen Investor Group, divided by (ii) the Company's issued and outstanding Common Stock as of February 28, 1998. In addition, the conversion price of the Debentures and exercise price of the Warrants are subject to customary anti-dilution provisions.

Conversion of Debentures at Company's Option

Provided that no Event of Default relating to a failure to pay principal and interest under the Debentures shall exist and then be continuing, in the event that either (a) following the second anniversary of the closing of the Offering, the closing price per share of the Company's Common Stock on the American Stock Exchange or the NASDAQ National Market exceeds $4.75 per share for each of twenty (20) consecutive trading days or (b) following the third anniversary of the closing of the Offering, the closing price per share of the Company's Common Stock on the American Stock Exchange or the NASDAQ National Market exceeds $7.125 per share for each of twenty (20) consecutive trading days, then at any time thereafter until the earlier of (i) the maturity date of the Debentures or (ii) the date a Change of Control (as defined in the Purchase Agreement) occurs, the Company may upon written notice to the holders of the Debentures require that all, but not less than all, of the outstanding principal amount of the Debentures be converted into shares of the Company's Common Stock at a price per share equal to the conversion price of the Debentures (as such conversion price may be adjusted pursuant to the terms of the Purchase Agreement).

Change of Control Premium

Upon the occurrence of a Change of Control (as defined in the Purchase Agreement), the Company is required to make an offer to all holders of the Debentures to purchase all outstanding Debentures in an amount equal to the principal amount of the Debentures, plus accrued and unpaid interest, if any, to the Change of Control purchase date, plus an additional percentage of the outstanding principal amount of the Debentures to be purchased (the "Change of Control Premium"). The Change of Control Premium equals 50% if the Change of Control occurs prior the first year anniversary of the Closing Date and declines 10% each year thereafter until the maturity date of the Debentures.

A "Change of Control," as defined in the Purchase Agreement, includes (i) the consummation of a transaction the result of which is that any person or group, other than Galen or any affiliate thereof, owns directly or indirectly, 51% of the capital stock of the Company, (ii) the Company consolidates with, or merges into, another person (exclusive of a wholly-owned subsidiary) or sells, assigns, conveys or otherwise transfers all or substantially all of its assets or the assets of the Company and its subsidiaries taken as a whole or (iii) during any two year period commencing subsequent to the closing of the Offering, individuals who at the beginning of such period constituted the Board of Directors of the Company (together with any new directors whose election by such Board of Directors or whose nomination for election by the stockholders of the Company 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 for nomination for election was previously so approved, cease for any reason to constitute a majority of the Board of Directors then in office.

Registration Rights

The Purchase Agreement grants the holders of the shares issued upon conversion of the Debentures and exercise of the Warrants registration rights to register such shares under the Securities Act of 1933, as amended. A majority in the principal amount of the Debentures may make one (1) demand of the Company to register such shares under the Securities Act. The Purchase Agreement also provides such holders with unlimited piggyback registration rights.

Other Terms

The Purchase Agreement contains other customary terms and provisions, including, without limitation, customary representations and warranties, affirmative covenants, negative covenants and requirements for the provision of certain financial information during the term that the Debentures and Warrants remain outstanding, all of which are customary for the securities issued in the Offering.

The following table sets forth information, as of March 10, 1998, regarding the Common Stock beneficially owned by those investors in the Offering beneficially owning more than five percent (5%) of the Company's Common Stock. Each of the persons named in the table below is believed by the Company to have sole voting and investment power with respect to such shares. Beneficial ownership has been determined in accordance with Rule 13d-3 under the Securities Exchange Act of 1934, as amended. The share data is based on information provided to the Company by the Galen Investor Group in connection with the Offering.

NAME OF BENEFICIAL OWNER	NO. OF SHARES BENEFICIALLY OWNED	PERCENT OF CLASS
Galen Partners III, L.P. 610 Fifth Avenue, 5th Floor New York, New York 10020	16,618,580(1)	55.0%
Galen Partners International III, L.P. 610 Fifth Avenue, 5th Floor New York, New York 10020	1,841,637(2)	11.9%
Dennis Adams c/o Delaware Investment Advisors One Commerce Square Philadelphia, Pennsylvania 19103	1,260,682(3)	8.5%
Hemant K. Shah and Varsha H. Shah 29 Christy Drive Warren, New Jersey 07059	1,462,692(4)	9,9%

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(1) Includes (i) 10,282,130 shares issuable upon conversion of the Debentures, (ii) 3,115,796 shares issuable upon exercise of the Warrants, and (iii) 3,220,654 shares issuable upon the conversion of the Debentures and exercise of the Warrants allocable to such security holder under the Investor Option.

(2) Includes (i) 1,139,445 shares issuable upon conversion of the Debentures, (ii) 345,286 shares issuable upon exercise of the Warrants, and (iii) 356, 906 shares issuable upon the conversion of the Debentures and exercise of the Warrants allocable to such security holder under the Investor Option.

(3) Includes (i) 780,000 shares issuable upon conversion of the Debentures, (ii) 236,364 shares issuable upon exercise of the Warrants, and (iii) 244,318 shares issuable upon the conversion of the Debentures and exercise of the Warrants allocable to such security holder under the Investor Option.

(4) Includes (i) 660,000 shares issuable upon conversion of the Debentures, (ii) 200,000 shares issuable upon exercise of the Warrants, (iii) 61,539 shares issuable upon conversion of debentures issued by the Company in August, 1996, and (iv) 206, 730 shares issuable upon the conversion of the Debentures and exercise of the Warrants allocable to such security holder under the Investor Option.

Reference is made to the Company's Press Release dated March 13, 1998 which describes, among other things, the terms of the Offering and the Company's use of the net proceeds from the Offering. The Press Release is hereby incorporated by this reference and is included as Exhibit 99.1 hereto.

ITEM 7. FINANCIAL STATEMENTS AND EXHIBITS.

(b) EXHIBITS

EXHIBIT NUMBER	DESCRIPTION
4.1	Form of 5% Convertible Senior Secured Debenture
4.2	Form of Common Stock Purchase Warrant
10.1	Debenture and Warrant Purchase Agreement dated March 10, 1998, by and among Halsey Drug Co., Inc., Galen Partners III, L.P. and the other Purchasers listed on the signature page thereto.
10.2	Form of General Security Agreement of Halsey Drug Co., Inc.
10.3	Form of Agreement of Guaranty of Subsidiaries of Halsey Drug Co., Inc.
10.4	Form of Guarantor General Security Agreement
10.5	Stock Pledge Agreement by and between Halsey Drug Co., Inc. and Galen Partners III, L.P., as agent, dated March 10, 1998.
10.6	Form of Irrevocable Proxy Agreement
10.7	Agency Letter Agreement by and among the Purchasers a party to the Debenture and Warrant Purchase Agreement, dated March 10, 1998.
99.1	Press Release of Halsey Drug Co., Inc. dated March 13, 1998.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

HALSEY DRUG CO., INC.

By:/s/ Michael Reicher
Michael Reicher
President and Chief Executive Officer

Date: March 24, 1998

EXHIBIT INDEX

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99.1	Press Release of Halsey Drug Co., Inc. dated March 13, 1998.

Exhibit 4.1

EXHIBIT B

THIS CONVERTIBLE SENIOR SECURED DEBENTURE 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 DEBENTURE REASONABLY SATISFACTORY TO THE COMPANY THAT SUCH DEBENTURE 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.
5% CONVERTIBLE SENIOR SECURED DEBENTURE
DUE MARCH 15, 2003

$_____ No. N-__
March 10, 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 _____ registered assigns (the "Payee" or "Holder") upon due presentation and surrender of this Debenture, on March 15, 2003 (the "Maturity Date"), the principal amount of _____ ($_____) and accrued interest thereon as hereinafter provided.

This Debenture was issued by the Company pursuant to a certain Debenture and Warrant Purchase Agreement dated the date hereof among the Company and certain persons, including the Payee (together with the Schedules and Exhibits thereto, the "Purchase Agreement") relating to the purchase and sale of 5% Convertible Senior Secured Debentures maturing March 15, 2003 (the "Debentures") in the aggregate principal amount of $20,800,000.00. The holders of such Debentures are referred to hereinafter as the "Holders." The Payee is entitled to the benefits of the Purchase Agreement. Reference is made to the Purchase Agreement with respect to certain additional rights of the Holder and obligations of the Company not set forth herein.

ARTICLE I

PAYMENT OF PRINCIPAL AND INTEREST; METHOD OF PAYMENT

1.1 Payment of the principal and accrued interest on this Debenture 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 five percent (5%) per annum (the "Stated Interest Rate"), in like coin and currency, payable to the Payee in three (3) month intervals on each January 1, April 1, July 1 and October 1 during the term of this Debenture (commencing April 1, 1998) (an "Interest Payment Date") and on the Maturity Date. Both principal hereof and interest thereon are payable at the Holder's address above or such other 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 Debenture 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 Debenture 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.

1.2 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 Debenture after default or maturity accelerated or otherwise shall be due and payable at the rate of seven (7%) percent per annum, subject to the limitations of applicable law.

1.3 If this Debenture 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 five (5%) 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 obligations of the Company under this Debenture are secured pursuant to security interests on and collateral assignments of, assets, tangible and intangible, of the Company granted by the Company to the Payee pursuant to a security agreement of even date herewith and collateral assignments referred to in the Purchase Agreement. In addition, each

of Houba, Inc. ("Houba"), Halsey Pharmaceuticals, Inc., Indiana Fine Chemicals Corporation and Cenci Powder Products, Inc. ("CPP"), each a wholly-owned subsidiary of the Company, and H.R. Cenci Laboratories, Inc. ("HR Cenci"), a 97% owned subsidiary of the Company (collectively, the Guarantors"), has executed in favor of the Holder a certain Continuing Unconditional Guaranty, dated of even date, guaranteeing the full and unconditional payment when due of the amounts payable by the Company to the Holder pursuant to the terms of this Debenture (each the "Guaranty"). The obligations of each Guarantor under its Guaranty are secured pursuant to security interests on and collateral assignments of, assets, tangible and intangible, of such Guarantor granted by the Guarantor to the Payee pursuant to a security agreement of even date herewith and collateral assignments referred to in the Purchase Agreement. The obligations of Houba under its Guaranty are also secured pursuant to a Mortgage on real property located at 16235 State Road 17, Culver, Indiana. The obligations of each of CPP and HR Cenci under their Guaranties are also secured pursuant to a Mortgage on real property located at 152 North Broadway, Fresno, California.

ARTICLE III

CONVERSION

3.1 Conversion at Option of Holder. At any time and from time to time on and after the date hereof (the "Initial Conversion Date") until the earlier of (i) the Maturity Date or (ii) the conversion of the Debenture in accordance with Section 3.2 hereof, this Debenture is convertible in whole or in part at the Holder's option into shares of Common Stock of the Company upon surrender of this Debenture, 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. "Common Stock" of the Company means common stock of the Company as it exists on the date this Debenture is originally signed. This Debenture is convertible on or after the Initial Conversion Date into shares of Common Stock at a price per share of Common Stock equal to $1.50 per share (the "Conversion Price"). Interest shall accrue to and including the day prior to the date of conversion and shall be paid on the last day of the month in which conversion rights hereunder are exercised. No fractional shares or scrip representing fractional shares will be issued upon any conversion, but an adjustment in cash will be made, in respect of any fraction of a share which would otherwise be issuable upon the surrender of this Debenture for conversion. The Conversion Price is subject to adjustment as provided in Section 3.5 and Section 3.7 hereof. As soon as practicable following conversion and upon the Holder's compliance with the conversion procedure described in Section 3.3 hereof, 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, in the event the Debenture is converted in part, a new Debenture in the principal amount equal to the remaining principal balance of this Debenture after giving effect to such partial conversion.

3.2 Conversion at Option of the Company. Provided that an Event of Default as provided in Section 12.1(a) of the Purchase Agreement (relating to the failure to pay principal and interest under the Debentures) shall not have occurred and then be continuing, in the event that either (a) following the second anniversary of the date hereof, the closing price per share

of the Company's Common Stock on the American Stock Exchange ("AMEX") or the NASDAQ National Market ("NNM") exceeds $4.75 per share for each of twenty (20) consecutive trading days or (b) following the third anniversary of the date hereof, the closing price per share of the Company's Common Stock on the AMEX or NNM exceeds $7.125 per share for each of twenty (20) consecutive trading days, then at any time thereafter until the earlier of (i) the Maturity Date or (ii) the date a Change of Control (as defined in the Purchase Agreement) occurs, the Company may upon written notice to the Holders of all Debentures (the "Mandatory Conversion Notice") require that all, but not less than all, of the outstanding principal amount of the Debentures be converted into shares of Common Stock at a price per share equal to the Conversion Price (as such Conversion Price may be adjusted as provided in Sections 3.5 and 3.7 hereof). The Mandatory Conversion Notice shall state (1) the date fixed for conversion (the "Conversion Date") (which date shall not be prior to the date the Mandatory Conversion Notice is given), (2) any disclosures required by law, (3) the trading dates and closing prices of the Common Stock giving rise to the Company's option to require conversion of the Debenture, (4) that the Debentures shall cease to accrue interest after the day immediately preceding the Conversion Date, (5) the place where the Debentures shall be delivered and (6) any other instructions that Holders must follow in order to tender their Debentures in exchange for certificates for Common Stock. No failure to mail such notice nor any defect therein or in the mailing thereof shall affect the validity of the proceedings for such conversion, except as to a Holder (x) to whom notice was not mailed or (y) whose notice was defective. An affidavit of the Secretary or an Assistant Secretary of the Company or an agent employed by the Company that notice of conversion has been mailed postage prepaid to the last address of the Holder appearing on the Debenture registry books kept by the Company shall, in the absence of fraud, be prima facie evidence of the facts stated therein. On and after the Conversion Date, except as provided in the next two sentences, Holders of the Debentures shall have no further rights except to receive, upon surrender of the Debentures, a certificate or certificates for the number of shares of Common Stock as to which the Debenture shall have been converted. Interest shall accrue to and including the day prior to the Conversion Date and shall be paid on the last day of the month in which Conversion Date occurs. No fractional shares or scrip representing fractional shares will be issued upon any conversion, but an adjustment in cash will be made, in respect of any fraction of a share which would otherwise be issuable upon the surrender of this Debenture for conversion.

3.3 Registration of Transfer; Conversion Procedure. The Company shall maintain books for the transfer and registration of the Debentures. Upon the transfer of any Debenture in accordance with the provisions of the Purchase Agreement, the Company shall issue and register the Debenture in the names of the new holders. The Debentures 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 Debentures 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 Debenture, upon surrender of this Debenture the Company shall issue and deliver with all reasonable dispatch to or upon the written order of the Holder of such Debenture 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 Debenture. 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 Debenture; 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. The Company has reserved the remaining balance of its authorized but unissued and unreserved shares of Common Stock and its Common Stock held in treasury to permit the conversion of the Debentures to the extent of its current unissued and unreserved authorized Common Stock. In accordance with the provisions of Section 9.14 of the Purchase Agreement, the Company covenants to seek the approval of its shareholders to amend its Certificate of Incorporation to increase its authorized shares from 20,000,000 to 40,000,000 shares of Common Stock and to provide voting rights to the Holders on an as converted basis. 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 Debentures in full. The shares of Common Stock which may be issued upon the conversion of the Debentures 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 Debentures and will endeavor to list such shares on each national securities exchange upon which the Common Stock is listed.

3.5 Dividends; Reclassifications, etc.. In the event that the Company shall, at any time prior to the earlier to occur of (i) exercise of conversion rights hereunder and (ii) the Maturity Date: (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 conversion rights, 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 conversion rights prior to the happening of any of the foregoing events.

3.6 Notice to Holder. If, at any time while this Debenture 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 Debenture 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.

3.7 Adjustments to Conversion Price. In order to prevent dilution of the conversion right granted hereunder, the Conversion Price shall be subject to adjustment from time to time in accordance with this Section 3.7. Upon each adjustment of the Conversion Price pursuant to this Section 3.7, the Holder of this Debenture shall thereafter be entitled to acquire upon conversion under Section 3.1 or Section 3.2, at the Applicable Conversion Price (as hereinafter defined), the number of shares of Common Stock obtainable by multiplying the Conversion 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 Conversion Price resulting from such adjustment.

The Conversion Price in effect at the time of the exercise of conversion rights hereunder set forth in Section 3.1 shall be subject to adjustment from time to time as follows:

(a) 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 (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 Debenture 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 Fair Market Value (as hereinafter defined) of the Common Stock, then the Conversion Price in effect immediately prior to such issuance or sale (the "Applicable Conversion 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 Conversion Price shall, simultaneously with such issuance or sale, be adjusted, so that such Applicable Conversion Price shall equal a price determined by multiplying the Applicable Conversion 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 Conversion Price became effective, plus (y) the number of shares of Common Stock which the aggregate consideration received, as determined in accordance with subsection 3.7(c) 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 3.7(d), would purchase (including any consideration received by the Company upon the issuance of any shares of Common Stock since the date the Applicable Conversion Price became effective not previously included in any computation resulting in an adjustment pursuant to this Section 3.7(a)) 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 3.7(d) hereof) immediately after the issuance or sale of such additional shares.

For purposes of this Section 3.7, "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 the principal national securities exchange on which the Common Stock is traded, or if shares of Common Stock are not listed on a national securities exchange during such period, the closing price per share as reported by the National Association of Securities Dealers Automatic Quotation System ("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 a national securities 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 Conversion Price thus obtained would result in the issuance of a lesser number of shares upon conversion than would be issued at the initial Conversion Price specified in Section 3.1, as appropriate, the Applicable Conversion Price shall be such initial Conversion Price.

Upon each adjustment of the Conversion Price pursuant to this subsection (a), the total number of shares of Common Stock into which this Debenture 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 Conversion Price in effect immediately prior to such adjustment and the denominator of which shall be the exercise 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 the date hereof (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.

(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.

(d) For purposes of the adjustment provided for in subsection 3.7(a) 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.

(e) On the expiration, cancellation or redemption of any Convertible Securities, the Conversion Price then in effect hereunder shall forthwith be readjusted to such

Conversion 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 Conversion Price as readjusted under this subsection 3.7(e) for all transactions (which would have affected such adjusted Conversion Price) made after the issuance or sale of such Convertible Securities.

(f) Anything in this Section 3.7 to the contrary notwithstanding, no adjustment in the Conversion Price shall be required unless such adjustment would require an increase or decrease of at least 1% in such Conversion Price; provided, however, that any adjustments which by reason of this subsection 3.7(f) are not required to be made shall be carried forward and taken into account in making subsequent adjustments. All calculations under this Section 3.7 shall be made to the nearest cent.

(g) 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 Debenture, 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 Debenture shall automatically become convertible into the kind and amount of securities, cash or other assets which the Holder of this Debenture would have owned immediately after such transaction if the Holder had converted this Debenture 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 Debenture shall execute and deliver to the Holder a supplemental Debenture 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 Debenture.

If securities deliverable upon conversion of this Debenture, 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 Debenture 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 Purchase Agreement or in the other documents or instruments executed in connection therewith, all amounts then remaining unpaid on this Debenture may be declared to be immediately due and payable as provided in the Purchase Agreement.

4.2 Collection Costs. In the event that this Debenture 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 Debenture.

4.3 Rights Cumulative. The rights, powers and remedies given to the Payee under this Debenture shall be in addition to all rights, powers and remedies given to it by virtue of the Purchase 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 Debenture, the Purchase 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 Debenture, the Purchase 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 Debenture 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, 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 Debenture) 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 Debenture; provided, however, that the Company shall not be required to pay any tax or taxes which may be payable in respect 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 in respect of 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 Debentures. In case this Debenture shall be mutilated, lost, stolen or destroyed, the Company shall issue and deliver in exchange and substitution for and upon cancellation of the mutilated Debenture, or in lieu of and substitution for the Debenture, mutilated, lost, stolen or destroyed, a new Debenture 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 Debenture 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 Debenture) where notices, presentations and demands to or upon the Company in respect of this Debenture may be given or made.

IN WITNESS WHEREOF, Halsey Drug Co., Inc. has caused this Debenture to be signed by its President and to be dated the day and year first above written.

ATTEST [SEAL]	HALSEY DRUG CO., INC.
/s/ Rosento Ferran	By: /s/ Michael Reicher
- ----------	----------
Rosento Ferran,	Michael Reicher
Assistant Secretary	Chief Executive Officer

ATTACHMENT I

Assignment

For value received, the undersigned hereby assigns subject to the provisions of Section of the Purchase Agreement, to _____ $_____ principal amount of the 5% Convertible Senior Secured Debenture due March 15, 2003 evidenced hereby and hereby irrevocably appoint _____ attorney to transfer the Debenture 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 Debenture hereby irrevocably exercises the option to convert $_____ principal amount of such Debenture (which may be less than the stated principal amount thereof) into shares of Common Stock of Halsey Drug Co., Inc., in accordance with the terms of such Debenture, 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 Debenture, 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 Debenture, the undersigned will pay all transfer taxes payable with respect thereto.

_____
Name and address of Holder

_____
Signature of Holder

Principal amount of Debenture
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 4.2

EXHIBIT D

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 $____ 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 the date hereof (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 the Debenture and Warrant Purchase Agreement dated the date hereof among the Company and various other parties (the "Purchase Agreement").

(f) This Warrant is subject to certain other agreements contained in the Purchase Agreement, a copy of which is 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 March 10, 1998

HALSEY DRUG CO., INC.

BY: /s/ Michael K. Reicher

Name: Michael K. Reicher
Title: President & CEO

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 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 10.1

HALSEY DRUG CO., INC.
$20,800,000
5% CONVERTIBLE SENIOR SECURED DEBENTURE
DUE MARCH 15, 2003
WARRANTS TO PURCHASE
SHARES OF COMMON STOCK, PAR VALUE $.01 PER SHARE

HALSEY DRUG CO., INC.
DEBENTURE AND WARRANT PURCHASE AGREEMENT

DATED AS OF MARCH 10, 1998

March 10, 1998

To the Purchaser(s) Set Forth on Exhibit A hereto:

HALSEY DRUG CO., INC., a New York corporation (the "Company"), agrees with you as follows:

ARTICLE I

AUTHORIZATION OF THE SECURITIES; ADJUSTMENT OF CONVERSION PRICE AND WARRANT PRICES

1.1. Authorization of Securities. The Company represents that it has taken all corporate action necessary to authorize the issuance and sale of (a) its 5% Convertible Senior Secured Debentures due March 15, 2003 in the aggregate principal amount of $20,800,000 (the "Debentures"), (b) warrants to purchase an aggregate of 2,101,010 shares of Common Stock, par value $.01 per share ("Common Stock"), of the Company initially at a price of $2.375 per share (the "$2.375 Warrants") and (c) warrants to purchase an aggregate of 2,101,010 shares of Common Stock initially at a price of $1.50 per share (the "$1.50 Warrants" and together with the $2.375 Warrants, the "Warrants"). The Debentures and the Warrants (collectively, the "Securities") are to be sold pursuant to this Agreement to you (each of you is sometimes referred to herein as a "Purchaser"). Interest on the Debentures is payable at the rate of 5% per annum, as more particularly specified in the form of Debenture attached hereto as Exhibit B. Each Debenture 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 $1.50 in principal amount of the Debenture to be converted. For purposes of this Agreement, the term "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 Debentures and the shares of Common Stock that may be issued from time to time pursuant to the exercise of the Warrants. The term "Shares" does not include any other shares of Common Stock or other capital stock of the Company.

1.2. Adjustment of Conversion Price and Warrant Prices.

(a) The prices at which Shares may be acquired upon conversion of the Debentures and exercise of the Warrants (the "Conversion Price" and the "Warrant Prices", respectively) are subject to adjustment as set forth therein. In addition, the initial Conversion Price and Warrant Prices shall each be subject to a downward adjustment as provided in Section 1.2(b).

(b) The Company shall prepare and cause Grant Thornton LLP to review a schedule of liabilities of the Company and its subsidiaries as of February 28, 1998. The Company shall deliver to the Purchasers such schedule accompanied by the report of Grant Thornton LLP on its review thereof not later than March 10, 1998 (the "Reviewed Liability

Schedule"). If the total liabilities set forth in the Reviewed Liability Schedule exceeds $27,640,000, then, to the extent the total liabilities set forth on the Reviewed Liability Schedule exceeds $27,140,000 (which is the total estimated liabilities of the Company and its subsidiaries as of February 28, 1998 as set forth on a schedule of estimated liabilities delivered to the Purchasers by the Company prior to the date hereof), each of the initial Conversion Price and the initial Warrant Prices shall be reduced by an amount equal to the quotient obtained by dividing such excess by 13,597,423 (which is the number of shares of Common Stock of the Company outstanding as of February 28, 1998). For example, if the total liabilities of the Company and its subsidiaries as set forth in the Reviewed Liability Schedule is $29,140,000, then the initial Conversion Price and initial Warrant Prices shall each be reduced by $.147 ($2,000,000 divided by 13,597,423) and after such reductions will be $1.353, $1.353 and $2.228, respectively.

ARTICLE II

SALE AND PURCHASE OF THE SECURITIES; SECURITY DOCUMENTS

2.1. Sale and Purchase of the Securities. Subject to the terms and conditions hereof and in reliance on the representations and warranties contained herein, or made pursuant hereto, the Company will issue and sell to each Purchaser and/or such Purchaser's designees, and each Purchaser will purchase from the Company, on the Closing Date specified in Article 3, the Securities for the purchase prices set forth opposite such Purchaser's name on Exhibit A.

2.2. Company Security Documents. All of the obligations of the Company under the Debentures shall be secured by the following:

(a) A lien on all the personal property and assets of the Company now existing or hereinafter acquired granted pursuant to a Company General Security Agreement dated of even date herewith between the Company and Galen Partners III, L.P. ("Galen"), as agent for the Purchasers (the "Company General Security Agreement"), which, except for Permitted Liens (as hereinafter defined), shall be a first lien.

(b) Collateral assignments of all leases, contracts, patents, copyrights, trademarks and service marks of the Company (collectively, the "Company Collateral Assignments").

2.3. Guaranties. All of the obligations of the Company under the Debentures shall be guaranteed pursuant to Continuing Unconditional Secured Guaranties (each, a "Guaranty" and collectively, the "Guaranties") by each of the following subsidiaries of the Company (each, a "Guarantor"):

(a) Houba, Inc. ("Houba");

(b) Halsey Pharmaceuticals, Inc.;

(c) Indiana Fine Chemicals Corporation;

(d) Cenci Powder Products, Inc. ("CPP"); and

(e) H.R. Cenci Laboratories, Inc. ("HR Cenci")

2.4. Guarantor Security Documents. All of the obligations of the Guarantors under the Guaranties shall be secured by the following:

(a) A lien on all of the personal property and assets of the respective Guarantors now existing or hereinafter acquired, granted pursuant to a Guarantors General Security Agreement dated of even date herewith between the Guarantors and Galen, as agent for the Purchasers (the "Guarantors Security Agreement"), which, except for Permitted Liens, shall be a first lien.

(b) Collateral assignments of all leases, contracts, patents, copyrights, trademarks and service marks of the Guarantors (collectively, "Guarantor Collateral Assignments").

(c) A first mortgage granted by Houba on real property owned by Houba located at 16235 State Road 17, Culver, Indiana (the "Culver Mortgage").

(d) A first mortgage granted by CPP and HR Cenci on real property owned by HR Cenci located at 152 North Broadway, Fresno, California (the "Fresno Mortgage" and together with the Culver Mortgage, the "Mortgages").

ARTICLE III

CLOSING

The closing of the purchase and sale of the Securities (the "Closing") will take place at the offices of Wolf, Block, Schorr and Solis-Cohen LLP, 250 Park Avenue, New York, New York 10177 simultaneously with the execution of this Agreement, or such other place, time and date as shall be mutually agreed to by the Company and the Purchaser. Such time and date is herein called the "Closing Date."

On the Closing Date there will be delivered to each Purchaser (a) a Debenture dated the Closing Date, in the principal amount set forth opposite the name of such Purchaser in Exhibit A, (b) a warrant certificate or certificates substantially in the form of Exhibit C registered in such Purchaser's name representing the right to purchase for $2.375 per Share the number of Shares set forth opposite the name of such Purchaser on Exhibit A and (c) a warrant certificate or certificates substantially in the form of Exhibit D representing the right to purchase for $1.50 per Share the number of Shares set forth opposite the name of such Purchaser on Exhibit A. The number of Shares which may be purchased upon exercise of the Warrants is subject to adjustment as provided therein. The foregoing Securities shall be delivered by the Company, against delivery by each Purchaser to the Company of an unendorsed certified or official bank check payable to the order of the Company drawn upon or issued by a bank which is a member of the New York Clearinghouse for banks (or wire transfer) for the amount set forth opposite the name of such Purchaser on Exhibit A.

ARTICLE IV

REPRESENTATIONS AND WARRANTIES OF THE COMPANY

The Company represents and warrants to you as follows:

4.1. Organization and Existence, etc. Except as set forth in Section 4.1 of the Schedule of Exceptions attached hereto as Exhibit E (the "Schedule of Exceptions") or in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1996, as amended, or the Company's Quarterly Report in Form 10-Q for the quarter ended September 30, 1997 (collectively, the "Selected Reports"), the Company is a corporation duly organized and validly existing and in good standing under the laws of its jurisdiction of incorporation, and has all requisite corporate power and authority to carry on its business as now conducted and proposed to be conducted; the Company has all requisite corporate power and authority to enter into this Agreement, to issue the Securities as contemplated herein and to carry out and perform its obligations under the terms and conditions of this Agreement. Except as set forth in Section 4.1 of the Schedule of Exceptions, the Company does not own or lease any property or engage in any activity in any jurisdiction which might require qualification to do business as a foreign corporation in such jurisdiction and where the failure to so qualify would have a material adverse effect on the financial condition of the Company and its Subsidiaries, taken as a whole, or subject the Company to a material liability. To the extent the Company has not qualified to do business in such jurisdictions, it will prepare and file such necessary applications or documents to be filed with the appropriate authorities in such jurisdictions to obtain such qualifications within 60 days. The Company has furnished you with true, correct and complete copies of its Certificate of Incorporation, By-Laws and all amendments thereto to date.

4.2. Subsidiaries and Affiliates. Section 4.2 of the Schedule of Exceptions sets forth the name, jurisdiction of incorporation and authorized and outstanding capitalization of each entity in which the Company owns securities having a majority of the voting power in the election of directors or persons serving equivalent functions (each, a "Subsidiary"). Except as set forth in Section 4.2 of the Schedule of Exceptions, the Company has, and upon the Closing will have, no Subsidiaries and does not, and upon the Closing will not, own of record or beneficially any capital stock or equity interest or investment in any corporation, association or business entity. Except as set forth in Section 4.2 of the Schedule of Exceptions or in the Selected Reports, each Subsidiary is a corporation duly organized and validly existing and in good standing under the laws of its jurisdiction of incorporation and has all requisite corporate power and authority to carry on its business as now conducted and proposed to be conducted. Except as set forth in Section 4.2 of the Schedule of Exceptions, no Subsidiary owns or leases

any property or engages in any activity in any jurisdiction which might require such Subsidiary to qualify to do business as a foreign corporation in such jurisdiction and where the failure to so qualify would have a material adverse effect on the financial condition of the Company and its Subsidiaries, taken as a whole, or subject such Subsidiary to a material liability. To the extent any Subsidiary has not qualified to do business in such jurisdictions, it will prepare and file such necessary applications or documents to be filed with the appropriate authorities in such jurisdictions to obtain such qualifications within 60 days.

4.3. Capitalization.

(a) As of the date hereof, the Company's authorized capital stock consists of 20,000,000 shares of Common Stock, par value $.01 per share, of which 13,597,423 shares are outstanding and 4,672,868 of which are reserved for issuance for the purposes set forth in Section 4.3 of the Schedule of Exceptions, 2,179,312 of which have been reserved for issuance upon conversion of the Debentures and none of which have been reserved for issuance upon exercise of the Warrants. As of the date hereof, the Company holds 449,603 shares of Common Stock in its treasury which shares may be reissued.

(b) All the issued and outstanding shares of capital stock of the Company shall, as of the Closing, (i) have been duly authorized and validly issued, (ii) be fully paid and nonassessable and (iii) have been offered, issued, sold and delivered by the Company in compliance with applicable Federal and state securities laws. Other than as set forth in Section 4.3(a), Section 4.3 of the Schedule of Exceptions or the Selected Reports, there are no outstanding preemptive, conversion or other rights, options, warrants, calls, agreements or commitments granted or issued by or binding upon the Company, for the purchase or acquisition of any shares of its capital stock or securities convertible into or exercisable or exchangeable for capital stock.

4.4. Authorization. All corporate action on the part of the Company and the directors and stockholders of the Company necessary for the authorization, execution, delivery and performance by the Company of this Agreement and the transactions contemplated herein, and for the authorization, issuance and delivery of the Securities, has been taken or will have been taken prior to the Closing.

4.5. Binding Obligations; No Material Adverse Contracts, etc. This Agreement is a valid and binding obligation of the Company enforceable in accordance with its terms. Except as set forth in Section 4.5 of the Schedule of Exceptions, the execution, delivery and performance by the Company of this Agreement and compliance herewith will not result in any violation of and will not conflict with, or result in a breach of any of the terms of, or constitute a default under, any provision of state or Federal law to which the Company is subject, the Certificate of Incorporation, as amended, or the By-Laws, as amended, of the Company, or any mortgage, indenture, agreement, instrument, judgment, decree, order, rule or regulation or other restriction to which the Company is a party or by which it is bound, or except for liens on the assets of the Company created in favor of the Purchasers, result in the creation of any mortgage, pledge, lien, encumbrance or charge upon any of the properties or assets of the Company

pursuant to any such term. Except as set forth in Section 4.5 of the Schedule of Exceptions or the Selected Reports, no stockholder of the Company has or will have any preemptive rights or rights of first refusal by reason of the issuance of the Securities or Shares issuable upon conversion or exercise of the Securities.

4.6. Compliance with Instruments, etc. Except as set forth in Section 4.6 of the Schedule of Exceptions or the Selected Reports, neither the Company nor any Subsidiary is (a) in default past any grace, notice or cure period under any indenture, agreement or instrument to which it is a party or by which it is bound, (b) in violation of its Certificate of Incorporation, By-Laws or of any applicable law, (c) in default with respect to any order, writ, injunction or decree of any court, administrative agency or arbitrator, or (d) in default under any order, license, regulation or demand of any government agency, which default or violation would materially and adversely affect the business, properties or condition (financial or otherwise) of the Company and its Subsidiaries taken as a whole.

4.7. Litigation. Except as set forth in Section 4.7 of the Schedule of Exceptions or the Selected Reports, there is no action, suit or proceeding pending, or, to the knowledge of the Company, threatened, against the Company or any Subsidiary before any court, administrative agency or arbitrator or any action, suit or proceeding pending, or, to the knowledge of the Company, threatened, which challenges the validity of any action taken or to be taken pursuant to or in connection with this Agreement or the issuance of the Securities.

4.8. Financial Information; SEC Documents.

(a) The Company has furnished to the Purchasers the consolidated financial statements of the Company and its Subsidiaries, including consolidated balance sheets as of December 31, 1995 and 1996 and consolidated statements of operations, changes in cash flows and stockholders' equity, covering the three years ended December 31, 1996, all of which statements have been certified by Grant Thornton LLP, certified public accountants, and all of which statements are included or incorporated by reference in the Company's Annual Report on Form 10-K for the year ended December 31, 1996 filed with the Securities and Exchange Commission (the "Commission") under the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Such financial statements fairly present the condition of the Company and its Subsidiaries as of the dates thereof and the results of the operations of the Company and its Subsidiaries for such periods.

(b) The Company has also furnished to the Purchasers the unaudited consolidated balance sheet of the Company and its subsidiaries as of September 30, 1997, and the related unaudited consolidated statements of operations, consolidated statements of cash flow and consolidated statements of stockholders' equity for the three months and nine months ended September 30, 1996 and September 30, 1997, set forth in the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended September 30, 1997, as filed with the Commission. Such financial statements fairly present, in conformity with generally accepted accounting principles ("GAAP") applied on a basis consistent with the financial statements referred to in paragraph (a) of this Section, the consolidated financial position of the Company and its

Subsidiaries as of such date and their consolidated results of operations for such periods (subject to normal year-end adjustments). Since September 30, 1997, the Company has not had net losses (as calculated in conformity with GAAP applied on a basis consistent with the financial statements referred to in paragraph (a) of this Section) of more than $5,000,000.

(c) None of the documents filed by the Company 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 the Company which the Company has not disclosed to the Purchasers 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 the Company and its Subsidiaries, taken as a whole.

4.9. Offering. Subject in part to the truth and accuracy of the Purchasers' representations and the compliance by each Purchaser with its covenants set forth in this Agreement and any subscription agreement executed and delivered by the Purchasers, the offer, sale and issuance of the Securities as contemplated by this Agreement are not subject to the registration requirements of the Securities Act of 1933, as amended (the "Securities Act"), and the Company, or anyone acting on its behalf, will not take any action hereafter that would cause such registration requirements to be applicable.

4.10. Permits; Governmental and Other Approvals.

(a) Other than as set forth in Section 4.10 of the Schedule of Exceptions or the Selected Reports, each of the Company 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 materially and adversely affect the business, properties or condition (financial or otherwise) of the Company and its Subsidiaries taken as a whole) and the Company and its Subsidiaries are not in default under any of such franchises, licenses, permits or other authority. Other than as set forth in Section 4.10 of the Schedule of Exceptions or the Selected Reports, 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 the Company's valid execution, delivery and performance of this Agreement or the offer, issuance and sale of the Securities by the Company to the Purchasers or the consummation of any other transaction contemplated on the part of the Company hereby.

(b) Without limiting the generality of the representations and warranties made in Section 4.10(a), the Company represents and warrants that (i) 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"), (ii) its products and those of its Subsidiaries are not adulterated or misbranded and are in lawful distribution, and (iii) it and its Subsidiaries are in compliance with the following specific requirements: the Company and its Subsidiaries have

registered all facilities with the United States Food and Drug Administration (the "FDA"); the Company and its Subsidiaries have listed all drug products with the FDA; each drug product marketed by the Company 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 the Company and its Subsidiaries is in compliance in all material respects with the terms of the consent agreement entered into by the Company with the United States Attorney for the Eastern District of New York on behalf of the FDA on June 29, 1993; to the Company's knowledge, neither the Company 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 the Company or a Subsidiary have been completed or are ongoing in accordance with the applicable FDA requirements; any products exported by the Company or a Subsidiary have been exported in compliance with the FDC Act; and each of the Company and its Subsidiaries is in compliance in all material respects with the provisions of the Prescription Drug Marketing Act, to the extent applicable.

(c) Without limiting the generability of the representations and warranties made in Section 4.10(a), the Company 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 the Company and its Subsidiaries are in compliance with the following specific requirements: the Company 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 the Company's knowledge, neither the Company 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.

4.11. Sales Representatives, Customers and Key Employees. Other than as set forth in Section 4.11 of the Schedule of Exceptions or the Selected Reports, to the knowledge of the Company, no independent sales representatives, customers or key employees or group of key employees of the Company or its Subsidiaries has any intention to terminate his, her or its relationship with the Company or such Subsidiary on or after the Closing or in the case of employees, leave, as of the Closing, the employ of the Company on and after the Closing. Other than as set forth in Section 4.11 of the Schedule of Exceptions or the Selected Reports or as contemplated by this Agreement, all personnel are employed on an "at will" basis and may be terminated upon notice of not more than 30 days.

4.12. Copyrights, Trademarks and Patents. (a) Section 4.12 of the Schedule of Exceptions sets forth a list of all of the Company's and any Subsidiary's patents, patent applications, trademarks, copyrights, trademark registrations and applications therefor, patent, trademark or trade name licenses, contracts with employees or others relating in whole or in part to disclosure, assignment or patenting of any inventions, discoveries, improvements, processes, formulae or other know-how, and all patent, trademark or trade names or copyright licenses which are in force (referred to collectively as "Intellectual Property Rights"). The Intellectual Property Rights are, to the best of the Company's knowledge and belief, fully valid and are in full force and effect.

(b) The Company or a Subsidiary owns outright all of the Intellectual Property Rights listed on Section 4.12 of the Schedule of Exceptions attached hereto free and clear of all liens and encumbrances and pays no royalty to anyone under or with respect to any of them.

(c) Neither the Company nor any Subsidiary has licensed anyone to use any of such Intellectual Property Rights and has no knowledge of the infringing use by the Company or any Subsidiary of any intellectual property rights.

(d) The Company has no knowledge, nor has it received any notice (i) of any conflict with the asserted rights of others with respect to any Intellectual Property Rights used in, or useful to, the operation of the business conducted by the Company and its Subsidiaries or with respect to any license under which the Company or a Subsidiary is licensor or licensee; or (ii) that the Intellectual Property Rights infringe upon the rights of any third party.

4.13. Inventory. All inventory of the Company 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 the Company and its Subsidiaries as of September 30, 1997. 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 the Company.

4.14. Registration Rights. Except as provided for in this Agreement or as set forth in Section 4.14 of the Schedule of Exceptions or in the Selected Reports, neither the Company nor any Subsidiary is under any obligation to register any of its currently outstanding securities or any of its securities which may hereafter be issued.

4.15. No Discrimination. Neither the Company nor any Subsidiary in any manner or form discriminates, fosters discrimination or permits discrimination against any person belonging to any minority race or believing in any minority creed or religion.

4.16. Environmental Matters.

(a) Each of the Company and its Subsidiaries has obtained all environmental, health and safety permits necessary or required for the operation of its business (except where the failure to possess such franchises, licenses, permits or other authority would not materially and adversely affect the business, properties or condition (financial or otherwise) of the Company and its Subsidiaries taken as a whole), and all such permits are in full force and effect and each of the Company and its Subsidiaries is in compliance in all material respects with all terms and conditions of such permits.

(b) Except as set forth in Section 4.16 of the Schedule of Exceptions or the Selected Reports, there is no proceeding pending or, to the best knowledge of the Company, threatened, which may result in the denial, rescission, termination, modification or suspension of any environmental or heath or safety permits necessary for the operation of the business of the Company and its Subsidiaries.

(c) Except as set forth in Section 4.16 of the Schedule of Exceptions or the Selected Reports, during the occupancy by the Company or any Subsidiary of any real property leased by the Company or such Subsidiary, and to the best knowledge of the Company, no other person or entity, has caused or permitted materials to be generated, released, stored, treated, recycled, disposed of on, under or at such parcels, which materials, if known to be present, would require clean up, removal or other remedial or responsive action under any environmental laws. To the best knowledge of the Company, there are no underground storage tanks and no polychlorinated biphenyls ("PCB's"), PCB contaminated oil or asbestos on any property leased by the Company or any Subsidiary.

(d) Except as set forth in Section 4.16 of the Schedule of Exceptions or the Selected Reports, neither the Company nor any Subsidiary is subject to any judgment, decree, order or citation related to or arising out of environmental laws, or has received notice that it has been named or listed as a potentially responsible party by any person or governmental body or agency in any matter arising under environmental laws.

(e) To the best of knowledge of the Company, each of the Company and its Subsidiaries has disposed of all waste in full compliance with all environmental laws.

4.17. Taxes. Except as set forth in Section 4.17 of the Schedule of Exceptions or the Selected Reports, the Company and each of its Subsidiaries have filed all necessary income, franchise and other material tax returns, domestic and foreign and have paid all taxes shown as due thereunder, and the Company has no knowledge of any tax deficiency which might be assessed against the Company or any of the Subsidiaries which, if so assessed, would have a material adverse effect on the business, properties, assets, net worth, condition (financial or other), or results of operations of the Company and its Subsidiaries taken as a whole.

4.18. Employee Benefit Plans and Similar Arrangements.

(a) Section 4.18 of the Schedule of Exceptions lists all employee benefit plans and collective bargaining, labor and employment agreements or other similar arrangements in effect to which the Company, its Subsidiaries, and any of its ERISA Affiliates are a party or by which the Company, its Subsidiaries, and any of its ERISA Affiliates are bound, legally or otherwise, including, without limitation, any profit-sharing, deferred compensation, bonus, stock option, stock purchase, pension, retainer, consulting, retirement, severance, welfare or incentive plan, agreement or arrangement; any plan, agreement or arrangement providing for fringe benefits or perquisites to employees, officers, directors or agents, including but not limited to benefits relating to employer-supplied automobiles, clubs, medical, dental, hospitalization, life insurance and other types of insurance, retiree medical, retiree life insurance and any other type of benefits for retired and terminated employees; any employment agreement; or any other "employee benefit plan" (within the meaning of Section 3(3) of the Employee Retirement Income Security Act of 1974, as amended through the date of this Agreement ("ERISA")) (herein referred to individually as "Plan" and collectively as "Plans"). For purposes of this Agreement, "ERISA Affiliate" means (i) any corporation which at any time on or before the Closing Date is or was a member of the same controlled group of corporations (within the meaning of Section 414(b) of the Internal Revenue Code of 1986, as amended (the "Code")) as the Company, its Subsidiaries, or any ERISA Affiliate; (ii) any partnership, trade or business (whether or not incorporated) which at any time on or before the Closing Date is or was under common control (within meaning of Section 414(c) of the Code) with the Company, its Subsidiaries, or any ERISA Affiliate; and (iii) any entity which at any time on or before the Closing Date is or was a member of the same affiliated service group (within the meaning of Section 414(m) of the Code) as the Company, its Subsidiaries or any ERISA Affiliate, or any corporation described in clause (i) or any partnership, trade or business described in clause (ii) of this paragraph.

(b) True and complete copies of the following documents with respect to any Plan of the Company, its Subsidiaries, and each ERISA Affiliate, as applicable, have been delivered to the Purchaser: (i) the most recent Plan document and trust agreement (including any amendments thereto and prior plan documents, if amended with the last two years), (ii) the last two Form 5500 filings and schedules thereto, (iii) the most recent Internal Revenue Service ("IRS") determination letter, (iv) all summary plan descriptions, (v) a written description of each material non-written Plan, (vi) each written communication to employees intended to describe a Plan or any benefit provided by such Plan, (vii) the most recent actuarial report, and (viii) all correspondence with the IRS, the Department of Labor and the Pension Benefit Guaranty Corporation concerning any controversy. Each report described in clause (vii) accurately reflects the funding status of the Plan to which it relates and subsequent to the date of such report there has been no adverse change in the funding status or financial condition of such Plan.

(c) Each Plan is and has been maintained in compliance in all material respects with applicable law, including but not limited to ERISA, and the Code and with any applicable collective bargaining agreements or other contractual obligations.

(d) Except as shown on Section 4.18 of the Schedule of Exceptions, with respect to any Plan that is subject to Section 412 of the Code ("412 Plan"), there has been no failure to make any contribution or pay any amount due as required by Section 412 of the Code, Section 302 of ERISA or the terms of any such Plan, and no funding waiver has been requested or received from the IRS. The assets of the Company, its Subsidiaries, or and ERISA Affiliates are not now, nor will they after the passage of time be, subject to any lien imposed under Code Section 412(n) by reason of a failure of the Company, any Subsidiary, or any ERISA Affiliate to make timely installments or other payments required under Code Section 412.

(e) Except as shown on Section 4.18 of the Schedule of Exceptions or in the Selected Reports, no Plan subject to Title IV of ERISA has any "Unfunded Pension Liability." For purpose of this Agreement, Unfunded Pension Liability means, as of any determination date, the amount, if any, by which the present value of all benefit liabilities (as that term is defined in Section 4001(a)(16) of ERISA) of a plan subject to Title IV of ERISA exceeds the fair market value of all assets of such plan, all determined using the actuarial assumptions that would be used by the PBGC in the event of a termination of the plan on such determination date.

(f) Except as shown on Section 4.18 of the Schedule of Exceptions, to the best knowledge of the Company, its Subsidiaries, and ERISA Affiliates, there are no pending or threatened claims, actions or lawsuits, other than routine claims for benefits in the ordinary course, asserted or instituted against (i) any Plan or its assets, (ii) any ERISA Affiliate with respect to any 412 Plan, or (iii) any fiduciary with respect to any Plan for which the Company, its Subsidiaries, or any ERISA Affiliate may be directly or indirectly liable, through indemnification obligations or otherwise.

(g) Neither the Company, any Subsidiary, nor any ERISA Affiliate has incurred and or reasonably expects to incur (i) any withdrawal liabilities as defined in Section 4201 of ERISA ("Withdrawal Liability") and no event has occurred which, with the giving of notice under Section 4219 of ERISA, would result in Withdrawal Liabilities, or any liability under Section 4063, 4064, or 4243, or (ii) any outstanding liability under Title IV of ERISA with respect to any 412 Plan.

(h) Except as shown on Section 4.18 of the Schedule of Exceptions, within the last five years, neither the Company, any Subsidiary, nor any ERISA Affiliate has transferred any assets or liabilities of a 412 Plan subject to Title IV of ERISA which had, at the date of such transfer, an Unfunded Pension Liability or has engaged in a transaction which may reasonably be subject to Section 4212(c) or Section 4069 of ERISA.

(i) Neither the Company, any Subsidiary, nor any ERISA Affiliate has engaged, directly or indirectly, in a non-exempt prohibited transaction (as defined in Section 4975 of the Code or Section 406 of ERISA) in connection with any Plan.

(j) Except as shown on Section 4.18 of the Schedule of Exceptions, neither the Company, any Subsidiary, nor any ERISA Affiliate has any unfunded liability with respect to any non-tax qualified deferred compensation plan.

(k) Neither the Purchaser nor its affiliates will have (i) an obligation to make contribution(s) to any multiemployer plan (as defined in Section 3(37) of ERISA), or (ii) any Withdrawal Liability (whether imposed and not yet paid or calculated assuming a complete or partial withdrawal of the Company, any Subsidiary, or any ERISA Affiliate as of such date not yet imposed) which it would not have had it not entered into the transactions described in this Agreement.

(l) Except as shown on Section 4.18 of the Schedule of Exceptions, during the last two years there have been no amendments to any Plan, no written interpretation or announcement (whether or not written) by the Company, any Subsidiary, or any ERISA Affiliate relating to any Plan, there have been and are no negotiations, demands, or proposals which are pending that concern any Plan, nor has any Plan been established, which resulted in or could result in a material increase in (i) the accrued or promised benefits of any employees of the Company, or any Subsidiary, or any ERISA Affiliate and (ii) any material increase in the level of expense incurred in respect thereof.

(m) There has been no "Reportable Event" with respect to any 412 Plan subject to Title IV of ERISA within the last five years.

(n) Neither the Company, any Subsidiary, nor any ERISA Affiliate sponsors, maintains or has obligations, direct, contingent or otherwise, with respect to any Plan that is subject to the laws of any country other than the United States.

(o) No ERISA Affiliate maintains an employee stock ownership plan or other plan holding securities of the Company, any Subsidiary, or any ERISA Affiliate.

(p) Each Plan that provides welfare benefits has been operated in compliance with all requirements of Sections 601 through 608 of ERISA and either (i) Section 162(i)(2) and (k) of the Code and regulations thereunder (prior to 1989) or (ii) Section 4980B of the Code and regulations thereunder after 1988, relating to the continuation of coverage under certain circumstances in which coverage would otherwise cease. Neither the Company, any Subsidiary, nor any ERISA Affiliate has contributed to a nonconforming group health plan (as defined under Code Section 5000(c) and no ERISA Affiliate has incurred a tax under Section 5000(a) of the Code which could become a liability of the Company, any Subsidiary, or any ERISA Affiliate. Except as shown on Section 4.18 of the Schedule of Exceptions or in the Selected Reports, the Company, any Subsidiary, or any ERISA Affiliate does not and has not maintained, sponsored or provided post-retirement medical benefits, post-retirement death benefits or other post-retirement welfare benefits to its current employees or former employees except as required by Section 4980B of the Code and at the sole expense of the participant or the beneficiary of the participant. The Company has complied in all respects with all requirements of the Health Insurance Portability and Accountability Act of 1996 with respect to each Plan that provides welfare benefits.

(q) Except as shown on Section 4.18 of the Schedule of Exceptions, the Company, its Subsidiaries, and its ERISA Affiliates has funded or will fund each Plan in

accordance with the terms of such Plan through the Closing Date, including the payment of applicable premiums on any insurance contract funding a Plan, for coverage provided through the Closing Date.

(r) No Plan has been amended since the date of its most recent IRS determination letter which would materially increase its cost and no Plan has been amended in a manner that would require security to be provided in accordance with Section 401(a)(29) of the Code.

(s) Each Plan that is intended to be a tax qualified Plan under Section 401(a) of the Code ("Tax Qualified Plan") has been determined by the IRS to qualify under Section 401 of the Code, and the trusts created thereunder have been determined to be exempt from tax under the provisions of Section 501 of the Code, and to the best knowledge of the Company, its Subsidiaries, and its ERISA Affiliates nothing has occurred, including the adoption of or failure to adopt any Plan amendment, which would adversely affect its qualification or tax-exempt status.

(t) Except as disclosed on Section 4.18 of the Schedule of Exceptions, no employee or former employee of the Company, any Subsidiary, or any ERISA Affiliate will become entitled to any bonus, retirement, severance, job security or similar benefit, or any enhancement to any such benefit (including acceleration of vesting or exercise of an incentive award) as a result of the transactions contemplated under this Agreement and no agreement (whether oral or written) of the employer, with respect to a current or former employee, provides for the payment of any amounts which would fail to be deductible for federal income tax purposes by reason of Section 280G of the Code.

4.19. Disclosure. The information heretofore provided and to be provided pursuant to this Agreement, including the Schedules of Exceptions and the Exhibits hereto, and each of the agreements, documents, certificates and writings previously delivered to the Purchasers or their representatives, do not and will not contain any untrue statement of a material fact and do not and will not omit to state a material fact required to be stated herein or therein or necessary in order to make the statements and writings contained herein and therein not false or misleading in the light of the circumstances under which they were made. To the knowledge of the Company, there is no fact which materially adversely affects the business, prospects or condition (financial or otherwise) of the Company which has not been set forth herein.

ARTICLE V

REPRESENTATIONS AND WARRANTIES OF THE PURCHASERS

Each of the Purchasers severally represents and warrants to the Company that it is acquiring the Securities for investment for its own account and is not acquiring any of the Securities with the view to, or for resale in connection with, any distribution thereof. Each Purchaser understands that none of the Securities have been registered under the Securities Act.

If the Purchaser should in the future decide to dispose of any Securities it is understood that the Purchaser may do so only in compliance with the Securities Act.

ARTICLE VI

CONDITIONS TO CLOSING OF THE PURCHASERS

The obligation of each Purchaser to purchase the Securities at the Closing is subject to the fulfillment to such Purchaser's satisfaction on or prior to the Closing Date of each of the following conditions, any of which may be waived by such Purchaser:

6.1. Representations and Warranties Correct. The representations and warranties in Article 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.

6.2. Performance. All covenants, agreements and conditions contained in this Agreement to be performed or complied with by the Company on or prior to the Closing Date shall have been performed or complied with by the Company in all material respects.

6.3. Compliance Certificate. The Company shall have delivered to the Purchaser a certificate of the Company's President, dated the Closing Date, certifying to the fulfillment of the conditions specified in Sections 6.1 and 6.2 of this Agreement and other matters as the Purchaser shall reasonably request.

6.4. No Impediments. Neither the Company nor any Purchaser shall be subject to any order, decree or injunction of a court or administrative agency of competent jurisdiction which would impose any material limitation on the ability of such Purchaser to exercise full rights of ownership of the Securities.

6.5. Waivers and Amendments of Rights of First Refusal. The Company shall have obtained from each person other than a Purchaser who has any currently effective right of first refusal with respect to the Securities, a written waiver of such right in form and substance satisfactory to the Purchasers. In addition, (a) each person (other than a holder of the Company's 10% Convertible Subordinated Debentures due August 6, 2001 (the "Prior Debentures")) who holds any other right of first refusal or preemptive right, shall have irrevocably waived and released such rights and (b) each holder of a Prior Debenture ("Old Holder") shall have agreed to amend such Old Holder's right so that such rights shall be governed by Section 16.1(b) of this Agreement.

6.6. Other Agreements and Documents. The Company shall have issued to such Purchaser all of the Securities (including the Debenture, the $2.375 Warrants and the $1.50 Warrants) and the Company or each of its Subsidiaries (other than any Subsidiary which has no material assets and is inactive) shall have executed and delivered the following agreements and documents:

(a) The Company Security Agreement in the form of Exhibit F attached hereto;

(b) The Guaranties in the form of Exhibit G attached hereto;

(c) The Guarantors Security Agreement in the form of Exhibit H attached hereto;

(d) Financing Statements on Form UCC-1 with respect to all personal property and assets of the Company and each Guarantor;

(e) A certified copy of the Certificate of Incorporation of the Company and each Guarantor and all amendments thereto;

(f) A copy of the By-Laws of the Company and each Guarantor as amended to date, certified as being true by a principal officer of the Company;

(g) A Certificate of Good Standing and Tax Status from the state of incorporation of the Company and each Guarantor and from every state in which any of them is qualified to do business; and

(h) The Mortgages.

6.7. Consents. The Company shall have obtained all necessary consents or waivers, if any, from all parties to any other material agreements to which the Company is a party or by which it is bound immediately prior to the Closing in order that the transactions contemplated hereby may be consummated and the business of the Company may be conducted by the Company after the Closing without adversely affecting the Company.

6.8. Legal Investment. At the time of the Closing, the purchase of the Securities to be purchased by each Purchaser hereunder shall be legally permitted by all laws and regulations to which the Purchasers and the Company are subject.

6.9. Due Diligence Investigation. No fact shall have been discovered, whether or not reflected in the Schedule of Exceptions, which in a Purchaser's determination would make the consummation of the transactions contemplated by this Agreement not in such Purchaser's best interests.

6.10. Proceedings and Other Documents. All corporate and other proceedings in connection with the transactions contemplated by this Agreement shall have been taken and the Purchasers shall have received such other documents, in form and substance reasonably satisfactory to the Purchasers and their counsel, as to such other matters incident to the transaction contemplated hereby as the Purchasers may reasonably request.

6.11. Opinion of Counsel. The Purchasers shall have received the opinion of St. John & Wayne, L.L.C., counsel to the Company, dated the Closing Date, substantially in the form of Exhibit I attached hereto.

6.12. Election of Directors. Two designees of the Purchasers shall have been elected as directors of the Company and shall have taken office.

6.13. Employment Agreements. Michael Reicher and Peter Clemens shall have entered into Employment Agreements with the Company substantially in the form of Exhibits J and K, respectively.

6.14. Proxies. The persons set forth on Exhibit L-1 shall have delivered to a person designated by Galen an irrevocable proxy in the form of Exhibit L-2.

6.15. Deferred Conditions. To the extent set forth on Exhibit M, the Purchasers waive compliance by the Company on or prior to the Closing Date of those, but only those, conditions of the Purchase Agreement set forth on Exhibit M (the "Deferred Conditions"); provided, however, that if the Company does not comply with all Deferred Conditions prior to April 10, 1998, then an Event of Default (as hereinafter defined) shall be deemed to occur as of 5:00 p.m. on April 10, 1998 and the occurrence of such Event of Default shall not be subject to the giving of any notice to the Company or an opportunity to cure.

ARTICLE VII

CONDITIONS TO CLOSING OF THE COMPANY

The Company's obligation to sell the Securities at the Closing is subject to the fulfillment to its satisfaction on or prior to the Closing Date of each of the following conditions:

7.1. Representations. The representations made by each Purchaser pursuant to Article 5 hereof shall be true and correct when made and shall be true and correct on the Closing Date.

7.2. Legal Investment. At the time of the Closing, the purchase of the Securities shall be legally permitted by all laws and regulations to which the Purchasers and the Company are subject.

7.3. Payment of Purchase Price. The Company shall have received payment in full of the purchase price for the Securities.

ARTICLE VIII

PREPAYMENT; CHANGE OF CONTROL
PURCHASE OFFER; CONVERSION RIGHTS

8.1. No Optional Prepayments. The Company may not at any time, without the prior written consent of the holders of all outstanding Debentures, prepay any Debenture, in whole or in part.

8.2. Change of Control.

(a) Upon the occurrence of a Change of Control (as hereinafter defined), the Company shall make an offer to all holders of Debentures to purchase (a "Change of Control Offer") all outstanding Debentures 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 Debentures properly tendered pursuant to such offer to purchase for a cash price (the "Change of Control Purchase Price") equal to the applicable percentage of the outstanding principal amount of the Debentures in the table set forth below, plus accrued and unpaid interest, if any, to the Change of Control Purchase Date. The applicable percentages are as follows:

If Change of Control Occurs During the Twelve Month Period Commencing on	Purchase Price as a Percentage of Outstanding Principal of Debenture to be Purchased
Closing Date	150%
First Anniversary of Closing Date	140%
Second Anniversary of Closing Date	130%
Third Anniversary of Closing Date	120%
Fourth Anniversary of Closing Date	110%

(b) In order to effect a Change of Control Offer, the Company shall within ten (10) days after the occurrence of the Change of Control mail to each holder of a Debenture a copy of the Change of Control Offer. The Change of Control Offer shall remain open from the time of mailing 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 8.2 and that all Debentures tendered in the Change of Control Offer will be accepted for payment;

(iii) the Change of Control Purchase Price for each Debenture, 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 Debenture held by such holder must be surrendered to the Company or any designated paying agent prior to 5:00 p.m. on the Change of Control Purchase Date, and the name and address of any such paying agent, if any;

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

(v) that, unless the Company shall default in the payment of the Change of Control Purchase Price, any Debenture 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 election if the Company or paying agent receives, not later than 5:00 p.m. 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 Debentures the holder delivered for purchase, and a statement that such holder is withdrawing its election to have such Debentures purchased;

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

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

(c) On the Change of Control Purchase Date, the Company shall (i) accept for payment Debentures or portions thereof tendered pursuant to the Change of Control Offer and (ii) 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 Debentures or portions thereof so tendered and accepted. The Company shall, or cause any paying agent to, promptly disburse or deliver to the holders of Debentures so accepted payment in an amount equal to such Change of Control Purchase Price, and mail or deliver to such holders a new Debenture equal in principal amount to any unpurchased portion of each Debenture surrendered.

(d) The Company shall comply, to the extent applicable, with the requirements of Section 14(e) of the Exchange Act, and any other securities laws or regulations, in connection with the repurchase of Debentures 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 8.2, the Company shall comply with the applicable securities laws and regulations and shall not be deemed to have breached its obligations under this Section 8.2 by virtue thereof.

(e) For purposes of this Agreement, the term "Change of Control" means the occurrence of any of the following: (i) 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 Galen 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 the Company, (ii) the Company 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 the Company's assets or the assets of the Company and its Subsidiaries taken as a whole to any person, or any person consolidates with, or merges with or into, the Company, in any such event pursuant to a transaction in which the outstanding Voting Stock (as hereinafter defined) of the Company, 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 the Company, 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 the Company 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, (iii) the Company, 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 the Company 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 the Company or a wholly owned Subsidiary of the Company), or (iv) 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 the Company (together with any new directors whose election by such Board of Directors or whose nomination for election by the stockholders of the Company 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 of persons holding a majority in principal amount of the outstanding Debentures. For purposes of this Section 8.2(e), (i) the term "Common Equity" of the Company means all capital stock of the Company that is generally entitled to vote on the election of Directors and (ii) the term "Voting Stock" of the Company mean securities of any class of capital stock of the Company entitling the holders thereof to vote in the election of members of the board of directors of the Company.

ARTICLE IX

AFFIRMATIVE COVENANTS

The Company hereby covenants and agrees, so long as any Securities remain outstanding, as follows:

9.1. Maintenance of Corporate Existence, Properties and Leases; Taxes; Insurance.

(a) The Company shall and shall cause each of its Subsidiaries to, maintain in full force and effect its corporate existence, rights and franchises and all material terms of licenses and other rights to use licenses, trademarks, trade names, service marks, copyrights, patents or processes owned or possessed by it and necessary to the conduct of its business.

(b) The Company shall and shall cause its Subsidiaries to, keep each of its properties necessary to the conduct of its business in good repair, working order and condition, reasonable wear and tear excepted, and from time to time make all needful and proper repairs, renewals, replacements, additions and improvements thereto; and the Company shall and shall cause its Subsidiaries to at all times comply with each material provision of all leases to which it is a party or under which it occupies property.

(c) The Company shall and shall cause each of its Subsidiaries to, promptly pay and discharge, or cause to be paid and discharged when due and payable, all lawful taxes, assessments and governmental charges or levies imposed upon the income, profits, assets, property or business of the Company and its Subsidiaries, and all claims or indebtedness (including, without limitation, claims or demands of workmen, materialmen, vendors, suppliers, mechanics, carriers, warehousemen and landlords) which, if unpaid might become a lien upon the assets or property of the Company or Subsidiary; provided, however, that any such tax, assessment, charge or levy need not be paid if the validity thereof shall be contested timely and in good faith by appropriate proceedings, if the Company or Subsidiary shall have set aside on its books adequate reserves with respect thereto, and the failure to pay shall not be prejudicial in any material respect to the holders of the Securities, and provided, further, that the Company or Subsidiary will pay or cause to be paid any such tax, assessment, charge or levy forthwith upon the commencement of proceedings to foreclose any lien which may have attached as security therefor. The Company shall and shall cause its Subsidiaries to pay or cause to be paid all other indebtedness incident to the operations of the Company or its Subsidiaries.

(d) The Company shall and shall cause each of its Subsidiaries to, keep its assets which are of an insurable character insured by financially sound and reputable insurers against loss or damage by theft, fire, explosion and other risks customarily insured against by companies in the line of business of the Company or its Subsidiaries, in amounts sufficient to prevent the Company or its Subsidiaries from becoming a co-insurer of the property insured; and the Company shall and shall cause its Subsidiaries to maintain, with financially sound and reputable insurers, insurance against other hazards and risks and liability to persons and property to the extent and in the manner customary for companies in similar businesses similarly situated or as may be required by law, including, without limitation, general liability, fire and business interruption insurance, and product liability insurance as may be required pursuant to any license agreement to which the Company or its Subsidiaries is a party or by which it is bound.

9.2. Basic Financial Information. The Company shall furnish the following reports to each Purchaser (or any transferee of any Securities), so long as the Purchaser is a holder of any Securities:

(a) within sixty (60) days (for each of March and April 1998), forty-five (45) days (for each of the next 12 months thereafter) and thirty (30) days (for each month thereafter)

after the end of each of the twelve (12) monthly accounting periods in each fiscal year (or when furnished to the Company's Board of Directors, if earlier), unaudited consolidated statements of income and retained earnings and cash flows of the Company and its Subsidiaries for each monthly period and for the period from the beginning of such fiscal year to the end of such monthly period, together with consolidated balance sheets of the Company and its Subsidiaries as at the end of each monthly period, setting forth in each case comparisons to budget (with respect to the provision of the financial information to be provided herein commencing January 1999 and thereafter) and to corresponding periods in the preceding fiscal year, which statements will be prepared in accordance with generally accepted accounting principles, consistently applied;

(b) within ninety (90) days after the end of each fiscal year, consolidated statements of income and retained earnings and cash flows of the Company and its Subsidiaries for the period from the beginning of each fiscal year to the end of such fiscal year, and consolidated balance sheets as at the end of such fiscal year, setting forth in each case in comparative form corresponding figures for the preceding fiscal year, which statements will be prepared in accordance with generally accepted accounting principles, consistently applied (except as approved by the accounting firm examining such statements and disclosed by the Company), and will be accompanied by:

(i) an unqualified report of the Company's independent certified public accounting firm; for purposes of this Section, a report on the consolidated financial statements of the Company and its Subsidiaries as of December 31, 1997 and for the year then ended disclosing a "going concern" qualification, but no other qualification, shall be considered "unqualified, but a report covering any period ending subsequent to December 31, 1997 disclosing a "going concern" paragraph shall not be considered "unqualified";

(ii) a report from such accounting firm, addressed to the Purchasers, stating that in making the audit necessary to express their opinion on such financial statements, nothing has come to their attention which would lead them to believe that the Company is not in compliance with all the financial covenants contained in, or an event of default has occurred with respect to, any material agreements to which the Company or its Subsidiaries is a party or by which it is bound, including, without limitation, this Agreement (an "Event of Noncompliance") or, if such accountants have reason to believe that any Event of Noncompliance has occurred, a letter specifying the nature thereof; and

(iii) the management letter of such accounting firm;

(c) within forty-five (45) days after the end of each quarterly accounting period in each fiscal year, a certificate of the Chief Financial Officer of the Company stating that the Company is in compliance with the terms of this Agreement and any other material contract or commitment to which the Company or any of its Subsidiaries is a party or by which any of them is bound, or if the Company or any of its Subsidiaries is not in compliance, specifying the nature and period of noncompliance, and what actions the Company or such Subsidiary has taken and/or proposes to take with respect thereto. Notwithstanding the foregoing, the certificate delivered at the end of each fiscal year of the Company shall be signed by both the Chief Executive Officer

and the Chief Financial Officer of the Company and shall be delivered within ninety (90) days after the end of the fiscal year;

(d) promptly upon receipt thereof, any additional reports or other detailed information concerning significant aspects of the operations and condition, financial or otherwise, of the Company and its Subsidiaries, given to the Company by its independent accountants;

(e) at least thirty (30) days prior to the end of each fiscal year (commencing with November 30, 1998 for the fiscal year commencing on January 1, 1999), a detailed annual operating budget and business plan for the Company and its Subsidiaries for the succeeding twelve-month period. Such budgets shall be prepared on a monthly basis, displaying consolidated statements of anticipated income and retained earnings, consolidated statements of anticipated cash flow and projected consolidated balance sheets, setting forth in each case the assumptions (which assumptions and projections shall represent and be based upon the good faith judgment in respect thereof of the chief executive officer of the Company) behind the projections contained in such financial statements, and which budgets shall have been approved by the Board of Directors of the Company (including a majority of the directors designated by the Purchasers in accordance with Section 9.8(a) of this Agreement) prior to the beginning of each twelve-month period for which such budget shall have been prepared and, promptly upon preparation thereof, any other budgets that the Company may prepare and any revisions of such annual or other budgets;

(f) within ten (10) days after transmission or receipt thereof, copies of all financial statements, proxy statements and reports which the Company sends to its stockholders or directors, and copies of all registration statements and all regular, special or periodic reports which it or any of its officers or directors files with the Commission, the American Stock Exchange (the "AMEX") or with any other securities exchange on which any of the securities of the Company are then listed or proposed to be listed, copies of all press releases and other statements made generally available by the Company to the public concerning material developments in the business of the Company and its Subsidiaries and copies of material communications sent to or received from stockholders, directors or committees of the Board of Directors of the Company or any of its Subsidiaries and copies of all material communications sent to and received from any lender to the Company; and

(g) with reasonable promptness such other information and financial data concerning the Company as any person entitled to receive materials under this Section 9.2 may reasonably request.

9.3. Notice of Adverse Change. The Company shall promptly give notice to all holders of any Securities (but in any event within seven (7) days) after becoming aware of the existence of any condition or event which constitutes, or the occurrence of, any of the following:

(a) any Event of Noncompliance;

(b) any other Event of Default;

(c) the institution or threatening of institution of an action, suit or proceeding against the Company or any Subsidiary before any court, administrative agency or arbitrator, including, without limitation, any action of a foreign government or instrumentality, which, if adversely decided, could materially adversely affect the business, prospects, properties, financial condition or results of operations of the Company and its Subsidiaries, taken as a whole whether or not arising in the ordinary course of business; or

(d) any information relating to the Company or any Subsidiary which could reasonably be expected to materially and adversely affect the assets, property, business or condition (financial or otherwise) of the Company or its ability to perform the terms of this Agreement. Any notice given under this Section 9 shall specify the nature and period of existence of the condition, event, information, development or circumstance, the anticipated effect thereof and what actions the Company has taken and/or proposes to take with respect thereto.

9.4. Compliance With Agreements; Compliance With Laws. The Company shall comply and cause its Subsidiaries to comply, with the terms and conditions of all material agreements, commitments or instruments to which the Company or any of its Subsidiaries is a party or by which it or they may be bound. The Company shall and shall cause each of its Subsidiaries to duly comply in all material respects with any material laws, ordinances, rules and regulations of any foreign, Federal, state or local government or any agency thereof, or any writ, order or decree, and conform to all valid requirements of governmental authorities relating to the conduct of their respective businesses, properties or assets, including, but not limited to, the requirements of the FDA Act, the Prescription Drug Marketing Act, the CSA, the Employee Retirement Income Security Act of 1978, the Environmental Protection Act, the Occupational Safety and Health Act, the Foreign Corrupt Practices Act and the rules and regulations of each of the agencies administering such acts.

9.5. Protection of Licenses, etc. The Company shall and shall cause its Subsidiaries to, maintain, defend and protect to the best of their ability licenses and sublicenses (and to the extent the Company or a Subsidiary is a licensee or sublicensee under any license or sublicense, as permitted by the license or sublicense agreement), trademarks, trade names, service marks, patents and applications therefor and other proprietary information owned or used by it or them and shall keep duplicate copies of any licenses, trademarks, service marks or patents owned or used by it, if any, at a secure place selected by the Company.

9.6. Accounts and Records; Inspections.

(a) The Company shall keep true records and books of account in which full, true and correct entries will be made of all dealings or transactions in relation to the business and affairs of the Company and its Subsidiaries in accordance with generally accepted accounting principles applied on a consistent basis.

(b) The Company shall permit each holder of any Securities or any of such holder's officers, employees or representatives during regular business hours of the Company, upon reasonable notice and as often as such holder may reasonably request, to visit and inspect the offices and properties of the Company and its Subsidiaries and (i) to make extracts or copies

of the books, accounts and records of the Company or its Subsidiaries, and (ii) to discuss the affairs, finances and accounts of the Company and its Subsidiaries, with the Company's (or Subsidiary's) directors and officers, its independent public accountants, consultants and attorneys.

(c) Nothing contained in this Section 9.6 shall be construed to limit any rights which a holder of any Securities (a "Holder") may have with respect to the books and records of the Company and its Subsidiaries, to inspect its properties or to discuss its affairs, finances and accounts.

9.7. Independent Accountants. The Company will retain a firm of independent certified public accountants approved by a majority of the directors designated by the Purchasers pursuant to Section 9.8 of this Agreement (an "Approved Accounting Firm") to audit the Company's financial statements at the end of each fiscal year. In the event the services of the Approved Accounting Firm or any firm of independent public accountants hereafter employed by the Company are terminated, the Company will promptly thereafter request the firm of independent public accountants whose services are terminated to deliver to any Holders a letter of such firm setting forth its understanding as to the reasons for the termination of their services and whether there were, during the two most recent fiscal years or such shorter period during which said firm had been retained by the Company any disagreements between them and the Company on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure. In its notice, the Company shall state whether the change of accountants was recommended or approved by the Board of Directors or any committee thereof. In the event of such termination, the Company will promptly thereafter engage another Approved Accounting Firm.

9.8. Board Members and Meetings.

(a) The Company agrees to hold meetings of its Board of Directors at least four (4) times a year, at no more than three-month intervals. So long as the Purchasers own any Securities, the Purchasers shall have the right to designate for nomination two persons to be members of the Company's Board of Directors and the Company shall cause such designees to be elected on the Closing Date. The Purchasers shall have the right to designate an additional person to be a member of the Board of Directors commencing with the first Annual Meeting of Stockholders of the Company to be held after the Closing Date and, so long as the Purchasers own any Securities, at each annual meeting of Stockholders held thereafter, the Purchaser shall have the right to nominate three designees to be members of the Board of Directors. The Purchasers shall also have the right at all times so long as the Purchasers own any Securities to designate one additional person to attend all meetings of the Board of Directors or committees thereof as an observer.

(b) If at any time the Board of Directors designates a committee or committees to act on behalf of the Board, at least one of the directors designated by the Purchasers shall be a member of such committee or committees.

(c) The following matters require the approval of a majority of the directors designated by the Purchasers: (i) approval of budgets; (ii) the issuance by the Company of any

capital stock at a price below the current market price of such stock; (iii) any amendment of the Certificate of Incorporation or By-Laws of the Company; (iv) any action to be taken by the Company which would result in a Change of Control; and (v) the selection of an Approved Accounting Firm;

9.9. Maintenance of Office. The Company will maintain its principal office at the address of the Company set forth in Section 17.5 of this Agreement where notices, presentments and demands in respect of this Agreement and any of the Securities may be made upon the Company, until such time as the Company shall notify the holders of the Securities in writing, at least thirty (30) days prior thereto, of any change of location of such office.

9.10. Use of Proceeds. The Company shall use all the proceeds received from the sale of the Securities pursuant to this Agreement for the purposes set forth in Section 9.10 of the Schedule of Exceptions.

9.11. Key Man Life Insurance. Within 90 days after the Closing Date, the Company shall obtain a five year (or longer) "key man" insurance policy on the life of Michael Reicher, naming the Company as beneficiary. Such policy shall be issued by an insurance company licensed to do business in New York and having a rating from Best's not less than "A". The policy shall provide that duplicate copies of premium notices shall be delivered to each Purchaser simultaneously with delivery to the Company. The Company covenants that it will not cancel any key man life insurance policy referred to herein without the prior written consent of the holders of a majority of the outstanding principal amount of the Debentures. The Company will pay the premiums on the insurance policy referred to in this Section 9.11 at least ten (10) days prior to the due date thereof and, simultaneously with such payment, will deliver proof of payment to the Purchasers.

9.12. Payment of Debentures. The Company shall pay the principal of and interest on the Debentures in the time, the manner and the form provided therein.

9.13. Reporting Requirements. The Company shall comply with its reporting and filing obligations pursuant to Section 13 or 15(d) of the Exchange Act. The Company 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 holder of Securities promptly upon filing with the Commission.

9.14. Authorization of Shares of Common Stock for Issuance Upon Conversion of Debentures and Exercise of Warrants and Voting Rights for Debenture Holders. The Company will present to its shareholders for consideration at the next annual meeting of the Company's shareholders, to occur on or prior to June 30, 1998, a proposal to amend the Company's Certificate of Incorporation to (a) increase the number of authorized shares of the Company's common stock available for issuance from 20,000,000 to 40,000,000 shares in order to provide for a sufficient number of authorized shares to be available and reserved for issuance upon conversion of the Debentures and exercise of the Warrants and (b) provide that holders of Debentures shall have the right to vote as part of a single class with all holders of Common Stock

of the Company on all matters to be voted on by such stockholders with such Holder having such number of votes as shall equal the number of votes they would have had such Holders converted the entire outstanding principal amount of the Debentures into Shares immediately prior to the record date relating to such vote. Upon receipt of approval from the Company's shareholders to increase the Company's authorized shares from 20,000,000 to 40,000,000 shares, the Company will at all times cause there to be reserved for issuance a sufficient number of Shares upon conversion of the Debentures and exercise of the Warrants.

9.15. Listing of Common Stock. As promptly as practicable after the Closing Date, the Company shall file the appropriate applications for listing on the AMEX of the maximum number of Shares available under the Company's authorized shares which are not otherwise reserved for issuance pursuant to outstanding options, warrants and other convertible securities. As promptly as practicable following receipt of shareholder approval of the amendment to the Company's Certificate of Incorporation contemplated in Section 9.14 hereof, the Company shall file the appropriate applications for listing with the AMEX the Shares not covered by the listing application filed by the Company in accordance with the preceding sentence. The Company shall use its best efforts and work diligently to accomplish such listings as promptly as practicable after the Closing Date.

9.16. HSR Act Filing. The Purchasers acknowledge and agree that until the filing, if required, of all Pre-Merger Notifications and reports ("Notifications") pursuant to the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended (the "HSR Act"), with respect to the issuance of the Securities and the expiration or termination of all applicable waiting periods thereunder, a Certificate of Amendment to the Certificate of Incorporation of the Company providing for voting rights for the Holders will not be filed. The Company agrees to file all Notifications, if any, required to be filed by it under the HSR within sixty (60) days after the date hereof.

9.17. Further Assurances. From time to time the Company shall execute and deliver to the Purchasers and the Purchasers shall execute and deliver to the Company such other instruments, certificates, agreements and documents and take such other action and do all other things as may be reasonably requested by the other party in order to implement or effectuate the terms and provisions of this Agreement and any of the Securities.

ARTICLE X

NEGATIVE COVENANTS

The Company hereby covenants and agrees, so long as any Purchaser owns any Debentures, it will not (and not allow any of its Subsidiaries to), directly or indirectly, without the prior written consent of the holders of at least a majority in aggregate principal amount of the Debentures then outstanding, as follows:

10.1. Payment of Dividends; Stock Purchase. Declare or pay any cash dividends on, or make any distribution to the holders of, any shares of capital stock of the Company, other than dividends or distributions payable in such capital stock, or purchase, redeem or otherwise

acquire or retire for value any shares of capital stock of the Company or warrants or rights to acquire such capital stock.

10.2. Stay, Extension and Usury Laws. At any time insist upon, plead, or in any manner whatsoever claim or take the benefit or advantage of, any stay, extension or usury law wherever enacted, now or at any time hereinafter in force, which may affect the covenants or the performance of the Debentures, the Company hereby expressly waiving all benefit or advantage of any such law, or by resort to any such law, hinder, delay or impede the execution of any power herein granted to the Holders but will suffer and permit the execution of every such power as though no such law had been enacted.

10.3. Reclassification. Effect any reclassification, combination or reverse stock split of the common stock of the Company.

10.4. Liens. Except as otherwise provided in this Agreement, create, incur, assume or permit to exist any mortgage, pledge, lien, security interest or encumbrance on any part of its properties or assets, or on any interest it may have therein, now owned or hereafter acquired, nor acquire or agree to acquire property or assets under any conditional sale agreement or title retention contract, except that the foregoing restrictions shall not apply to:

(a) 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 generally accepted accounting principles consistently applied shall have been made therefor;

(b) 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 the Company;

(c) liens securing indebtedness of the Company or any Subsidiaries which (i) is permitted under Section 10.5(h) or (ii) is in an aggregate principal amount not exceeding $500,000 and which liens are subordinate to liens on the same assets held by the Holders;

(d) 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 generally accepted accounting principles shall have been made for any such contested amounts;

(e) 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);

(f) any attachment or judgment lien not constituting an Event of Default;

(g) 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 the Company or any of its Subsidiaries;

(h) 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;

(i) 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;

(j) 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;

(k) 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 the Company and its Subsidiaries;

(l) the liens listed in Section 10.4 of the Schedule of Exceptions ("Permitted Liens"); and

(m) the replacement, extension or renewal of any lien permitted by this Section 10.4 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.

10.5. Indebtedness. Create, incur, assume, suffer, permit to exist, or guarantee, directly or indirectly, any indebtedness, excluding, however, from the operation of the covenant:

(a) any indebtedness or the incurring, creating or assumption of any indebtedness secured by liens permitted by the provisions of Section 10.4 (c) above;

(b) the endorsement of instruments for the purpose of deposit or collection in the ordinary course of business;

(c) indebtedness which may, from time to time be incurred or guaranteed by the Company which in the aggregate principal amount does not exceed $500,000 and is subordinate to the indebtedness under this Agreement;

(d) indebtedness existing on the date hereof and described in Section 10.5 of the Schedule of Exceptions;

(e) indebtedness relating to contingent obligations of the Company and its Subsidiaries under guaranties in the ordinary course of business of the obligations of suppliers, customers, and licensees of the Company and its Subsidiaries;

(f) indebtedness relating to loans from the Company to its Subsidiaries;

(g) indebtedness relating to capital leases in an amount not to exceed $500,000;

(h) indebtedness relating to a working capital line of credit in an amount not to exceed $5,000,000;

(i) accounts or notes payable arising out of the purchase of merchandise or services in the ordinary course of business; or

(j) indebtedness (if any) expressly permitted by, and in accordance with, the terms and conditions of this Agreement.

For purposes hereof, the term "indebtedness" shall mean and include (A) all items which would be included on the liability side of a balance sheet of the Company (or a Subsidiary) as of the date on which indebtedness is to be determined, excluding capital stock, surplus, capital and earned surplus reserves, which, in effect, were appropriations of surplus or offsets to asset values (other than reserves in respect of obligations, the amount, applicability or validity of which is, at such date, being contested by such corporation), deferred credits of amounts representing capitalization of leases; (B) the full amount of all indebtedness of others guaranteed or endorsed (otherwise than for the purpose of collection) by the Company (or Subsidiary) for which the Company (or Subsidiary) is obligated, contingently or otherwise, to purchase or otherwise acquire, or for the payment or purchase of which the Company (or Subsidiary) has agreed, contingently or otherwise, to advance or supply funds, or with respect to which the Company (or Subsidiary) is contingently liable, including, without limitation, indebtedness for borrowed money and indebtedness guaranteed or supported indirectly by the Company (or Subsidiary) through an agreement, contingent or otherwise (1) to purchase the indebtedness, or (2) to purchase, sell, transport or lease (as lessee or lessor) property, or to purchase or sell services at prices or in amounts designed to enable the debtor to make payment of the indebtedness or to assure the owner of the indebtedness against loss, or (3) to supply funds to or in any other manner invest in the debtor; and (C) indebtedness secured by any mortgage, pledge, security interest or lien whether or not the indebtedness secured thereby shall have been assumed; provided, however, that such term shall not mean and include any indebtedness (x) in respect to which monies sufficient to pay and discharge the same in full shall have been deposited with a depositary, agency or trustee in trust for the payment thereof, or (y) as to which the Company (or Subsidiary) is in good faith contesting, provided that an adequate reserve therefor has been set up on the books of the Company (or Subsidiary).

10.6. Merger, Consolidation, etc. Merge or consolidate with any person (except that the Company may merge with any wholly-owned Subsidiary so long as the Company is the

surviving corporation in such merger), or sell, transfer, lease or otherwise dispose of 10% or more of its consolidated assets (as shown on the most recent financial statements of the Company or the Subsidiary, as the case may be) in any single transaction or series of related transactions (other than the sale of inventory in the ordinary course of business), or liquidate, dissolve, recapitalize or reorganize in any form of transaction, or acquire all or substantially all of the capital stock or assets of another business or entity.

10.7. Amendment of Charter Documents. Except as contemplated by this Agreement, make any amendment to the Certificate of Incorporation as heretofore amended, or By-Laws, as heretofore amended, of the Company or the Certificate of Incorporation or By-Laws of any of its Subsidiaries.

10.8. Loans and Advances. Except for loans and advances outstanding as of the Closing Date and set forth in Section 10.8 of the Schedule of Exceptions, directly or indirectly, make any advance or loan to, or guarantee any obligation of, any person, firm or entity, except for (i) loans to employees of the Company not in excess of $25,000 to any one employee or $100,000 in the aggregate where such loan(s) are necessary under exigent circumstances of such employee(s) as determined by the Board of Directors, or (ii) intercompany loans or advances and those provided for in this Agreement.

10.9. Intercompany Transfers; Transactions With Affiliates; Diversion of Corporate Opportunities.

(a) Make any intercompany transfers of monies or other assets in any single transaction or series of transactions, except as otherwise permitted in this Agreement.

(b) Engage in any transaction with any of the officers, directors, employees or affiliates of the Company or of its Subsidiaries, except on terms no less favorable to the Company or the Subsidiary as could be obtained at Arm's Length (as hereinafter defined).

(c) Divert (or permit anyone to divert) any business or opportunity of the Company or Subsidiary to any other corporate or business entity.

10.10. Personal Expenses. Except as set forth in Section 10.10 of the Schedule of Exceptions, permit any person to charge to the Company (or any of its Subsidiaries) any expense not directly related to the business of the Company (or Subsidiary), including, without limitation, expenses for country and health club membership fees and expenses, and personal travel and entertainment expenses, or reimburse such person for any such expense.

10.11. Other Business. Enter into or engage, directly or indirectly, in any business other than the business currently conducted or proposed to be conducted as contemplated by this Agreement by the Company or any Subsidiary.

10.12. Investments. Make any investments in, or purchase any stock, option, warrant, or other security or evidence of indebtedness of, any person or entity (exclusive of any Subsidiary), other than obligations of the United States Government or certificates of deposit or

other instruments maturing within one year from the date of purchase from financial institutions with capital in excess of $100 million.

10.13. Benefit Plans. Except as contemplated by this Agreement: (a) enter into any agreement to provide for or otherwise establish any written or unwritten employee benefit plan, program or other arrangement of any kind, covering current or former employees of the Company or its Subsidiaries except for (i) any such plan, program or arrangement expressly permitted under an agreement listed in Section 10.13 of the Schedule of Exceptions, and (ii) any such plan, program or arrangement which a company similar to the Company in size and financial condition, and which is engaged in a business substantially similar to the business of the Company and its Subsidiaries, would establish or implement for the benefit of its employees in the ordinary course of business; provided, however, that no such plan, program or arrangement may be established or implemented if such action would have a material affect on the terms of employment of the employees of the Company or its Subsidiaries, or (b) provide for or agree to any material increase in any benefit provided to current or former employees of the Company or its Subsidiaries over that which is provided to such individuals pursuant to a plan or arrangement disclosed in Section 4.18 of the Schedule of Exceptions to this Agreement as of the Closing Date. For purpose of this Section, a "material increase" shall not include any cost of living increase or similar regular increase agreed to pursuant to the Collective Bargaining Agreement between Halsey Drug Co., Inc. and the Drug, Chemical, Cosmetic, Plastics and Affiliated Industries Warehouse Employees Local 815, International Brotherhood of Teamsters.

10.14. 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, or capital expenditures not contained in any such budget, but which do not exceed $100,000 in the aggregate during any fiscal year of the Company, make or commit to make any capital expenditures.

10.15. Arm's Length Transactions. Enter into any transaction, contract or commitment or take any action other than at Arm's Length. For purposes hereof the term "Arm's Length" means a transaction or negotiation in which each party is completely independent of the other, seeks to obtain terms which are most favorable to it and has no economic or other interest in making concessions to the other party.

ARTICLE XI

REGISTRATION RIGHTS

11.1. Restrictive Legend. Each certificate representing (i) any Debenture, (ii) the Warrants or (iii) any Shares or other securities issued in respect of the Debentures, Warrants or Shares, upon any stock split, stock dividend, recapitalization, merger, consolidation or similar event or upon the exercise of the Warrants or conversion of the Debentures, 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) THE COMPANY RECEIVES AN OPINION OF COUNSEL TO THE COMPANY OR OTHER COUNSEL TO THE HOLDER OF SUCH [NAME OF SECURITY] REASONABLY SATISFACTORY TO THE COMPANY 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.

11.2. Certain Definitions. As used in this Article 11, the following terms shall have the following respective meanings:

"Holders" shall mean the Purchasers or any person to whom a Purchaser or transferee of a Purchaser has assigned any Debenture, Warrants or Shares.

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

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

"Requesting Stockholders' shall mean holders of securities of the Company entitled to have securities included in any registration pursuant to Section 11.3 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 the Company in compliance with Sections 11.3 and 11.4 hereof, including, without limitation, all registration and filing fees, printing expenses, fees and disbursements of counsel for the Company, blue sky fees and expenses, reasonable fees and disbursements of one counsel for all the selling Holders for a "due diligence" examination of the Company, and the expense of any special audits incident to or required by any such registration (but excluding the compensation of regular employees of the Company, which shall be paid in any event by the Company), exclusive of Selling Expenses.

"Restricted Securities" shall mean the securities of the Company required to bear or bearing the legend set forth in Section 11.1 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.

11.3. 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, the Company 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. The Company 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 the Company's notice. The Company 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 the Company at road shows with respect to the offering of Registrable Securities. The registration requested under this Section 11.3(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 the Company 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 the Company 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 the Company 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, the Company will include in such registration such number of 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. The Company 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 the Company'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 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 11.3(c).

(d) Restrictions on Demand Registrations. The Company 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 11.4 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").

11.4. Piggyback Registrations.

(a) Right to Piggyback. Whenever the Company 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"), the Company will give prompt written notice to all Holders of Registrable Securities of its intention to effect such a registration. The Company will include in such registration all Registrable Securities with respect to which the Company has received written requests for inclusion therein within thirty (30) days after the receipt of the Company's notice.

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

(c) Priority on Primary Registrations. If a Piggyback Registration is an underwritten primary registration on behalf of the Company, and the managing underwriters advise the Company 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, the Company will include in such registration (i) first, the securities the Company proposes to sell, (ii) second, the Registrable Securities and securities of the Company 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 the Company; and (iii) 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 the Company's securities, and the managing underwriters advise the Company 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, the Company will include in such registration (i) first, the securities requested to be included therein by the holders requesting such registration, (ii) second, the Registrable Securities and securities of the Company 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 the Company, and (iii) third, other securities requested to be included in such registration.

(e) Other Restrictions. The Company hereby agrees that if it has previously filed a registration statement with respect to Registrable Securities pursuant to Section 11.3 or pursuant

to this Section 11.4, and if such previous registration has not been withdrawn or abandoned, the Company 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.

11.5. 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 the Company, 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) The Company 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 the Company 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.

11.6. Registration Procedures. Whenever the Holders of Registrable Securities have requested that any Registrable Securities be registered pursuant to this Article 11, the Company 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 the Company 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, the Company 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 11.6(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 the Company will not be required to (i) qualify generally to do business in any jurisdiction where it would not otherwise be required to qualify but for this subsection, (ii) subject itself to taxation in any such jurisdiction, or (iii) 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, the Company will prepare a supplement or amendment to such prospectus so that, as thereafter delivered to the purchasers 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 the Company 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 the Company, and cause the Company'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 years.

11.7. Expenses of Registration. All Registration Expenses incurred in connection with a registration, qualification or compliance pursuant to this Article 11 shall be borne by the Company, 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 the Company 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 11.3.

11.8. Indemnification.

(a) The Company 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 Article 11, 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 the Company of the Securities Act or any rule or regulation thereunder applicable to the Company and relating to action or inaction required of the Company 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 the Company 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 the Company 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 the Company, each of the Company's directors and officers and each underwriter, if any, of the Company's securities covered by such registration statement, each person who controls the Company 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 the Company, its officers and directors, each underwriter, each person controlling the Company 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 the Company 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 11.8 (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 Article 11 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 in respect of 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.

11.9. Information by Holders. Each Holder of Registrable Securities, and each Requesting Stockholder holding securities included in any registration, shall furnish to the Company such information regarding such Holder or Requesting Stockholder and the distribution proposed by such Holder or Requesting Stockholder as the Company may reasonably request in writing and as shall be reasonably required in connection with any registration, qualification or compliance referred to in this Article 11.

11.10. Limitations on Registration of Issues of Securities. From and after the date of this Agreement, the Company shall not enter into any agreement with any holder or prospective holder of any securities of the Company giving such holder or prospective holder the right to require the Company to register any securities of the Company equal to or more favorable than the rights granted under this Article 11. Any right given by the Company to any holder or prospective holder of the Company's securities in connection with the registration of securities shall be conditioned such that it shall be consistent with the provisions of this Article 11 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 Article 11.

11.11. 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, the Company agrees to:

(a) make and keep public information available as those terms are understood and 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 the Company 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 the Company under the Securities Act and the Securities Exchange Act at any time after it has become subject to such reporting requirements; and

(c) so long as the Purchaser owns any Restricted Securities, furnish to the Purchaser forthwith upon request a written statement by the Company 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 the Company 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 the Company, and such other reports and documents so filed as the Purchaser may reasonably request in availing itself of any rule or regulation of the Commission allowing the Purchaser to sell any such securities without registration.

11.12. Participation in Underwritten Registrations. No person may participate in any underwritten registration hereunder unless such person (i) 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 (ii) completes and executes all reasonable questionnaires, powers of attorney, indemnities, underwriting agreements and other documents required under the terms of such underwriting arrangements.

11.13. 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 the Company (which approval will not be unreasonably withheld). If any registration other than a Demand Registration is an underwritten offering, the Company 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).

11.14. Termination of Registration Rights. The rights of Holders to request a Demand Registration or participate in a Piggyback Registration shall expire on March 10, 2007.

ARTICLE XII

EVENTS OF DEFAULTS

12.1. Events of Default. If any of the following events (herein called an "Event of Default") shall occur and be continuing:

(a) if the Company shall default in the payment of (i) any part of the principal of any Debenture, when the same shall become due and payable, whether at maturity or at a date fixed for prepayment or by acceleration or otherwise; or (ii) the interest on any Debenture; when the same shall become due and payable; and in each case such default shall have continued without cure for ten (10) days after written notice (a "Default Notice") is given to the Company of such default;

(b) If the Company shall default in the performance of any of the covenants contained in Articles 9 or 10 and such default shall have continued without cure for fifteen (15) days after a Default Notice is given to the Company with respect to such covenant by any Holder or Holders of the Debentures (the Company to give forthwith to all other Holders of the Debentures at the time outstanding written notice of the receipt of such Default Notice, specifying the default referred to therein);

(c) If the Company shall default in the performance of any other material agreement or covenant contained in this Agreement and such default shall not have been remedied to the satisfaction of the Holder or Holders of at least a majority in aggregate principal amount of the Debentures then outstanding, within thirty-five (35) days after a Default Notice shall have been given to the Company (the Company to give forthwith to all other Holders of Debentures at the time outstanding written notice of the receipt of such Default Notice, specifying the default referred to therein);

(d) If any representation or warranty made in this Agreement or in or any certificate delivered pursuant hereto shall prove to have been incorrect in any material respect when made;

(e) If any default shall occur under any indenture, mortgage, agreement, instrument or commitment evidencing or under which there is at the time outstanding any indebtedness of the Company or a Subsidiary, in excess of $100,000, or which results in such indebtedness, in an aggregate amount (with other defaulted indebtedness) in excess of $250,000 becoming due and payable prior to its due date and if such indenture or instrument so requires, the holder or holders thereof (or a trustee on their behalf) shall have declared such indebtedness due and payable;

(f) If any of the Company or its Subsidiaries shall default in the observance or performance of any term or provision of an agreement to which it is a party or by which it is bound which default will have a material adverse effect on the Company and its Subsidiaries, taken as a whole, and such default is not waived or cured within the applicable grace period;

(g) If a final judgment which, either alone or together with other outstanding final judgments against the Company and its Subsidiaries, exceeds an aggregate of $250,000 shall be rendered against the Company or any Subsidiary and such judgment shall have continued undischarged or unstayed for thirty-five (35) days after entry thereof;

(h) If the Company or any Subsidiary shall make an assignment for the benefit of creditors, or shall admit in writing its inability to pay its debts; or if the Company or any Subsidiary shall suffer a receiver or trustee for it or substantially all of its assets to be appointed, and, if appointed without its consent, not to be discharged or stayed within ninety (90) days; or if the Company or any Subsidiary shall suffer proceedings under any law relating to bankruptcy, insolvency or the reorganization or relief of debtors to be instituted by or against it, and, if contested by it, not to be dismissed or stayed within ninety (90) days; or if the Company or any Subsidiary shall suffer any writ of attachment or execution or any similar process to be issued or levied against it or any significant part of its property which is not released, stayed, bonded or vacated within ninety (90) days after its issue or levy; or if the Company or any Subsidiary takes corporate action in furtherance of any of the aforesaid purposes or conditions;

(i) Prior to July 1, 1998, the directors or the shareholders of the Company do not approve an amendment to the Certificate of Incorporation of the Company to (a) increase the number of authorized shares of Common Stock from 20,000,000 to [40,000,000] and (b) give the holders of Debentures voting rights as set forth in Section 9.14 of this Agreement; or

(j) If three designees of the Purchasers are not elected as directors of the Company prior to July 1, 1998.

12.2. Remedies.

(a) Upon the occurrence of an Event of Default, any Holder or Holders of a majority in aggregate principal amount of the Debentures at the time outstanding 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 Debentures 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 Purchasers under this Agreement or as contemplated hereby due and payable.

(b) Notwithstanding anything contained in Section 12.2(a), in the event that at any time after the principal of the Debentures shall so become due and payable and prior to the date of maturity stated in the Debentures all arrears of principal of and interest on the Debentures (with interest at the rate specified in the Debentures 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 the holder or holders of at least a majority in aggregate principal amount of the Debentures then outstanding, by written notice or notices 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 Debentures 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 Debentures then outstanding, describing such notice or other action and the nature of the claimed default.

12.3. Enforcement. In case any one or more Events of Default shall occur and be continuing, the Holder of a Debenture then outstanding may proceed to protect and enforce the rights of such Holder by an action at law, suit in equity or other appropriate proceeding, whether for the specific performance of any agreement contained herein or in such Debenture or for an injunction against a violation of any of the terms hereof or thereof, or in aid of the exercise of any power granted hereby or thereby or by law. Each Holder agrees that it will give written notice to the other Holders prior to instituting any such action. In case of a default in the payment of any principal of or interest on any Debenture, the Company will pay to the Holder thereof such further amount as shall be sufficient to cover the cost and the expenses of collection, including, without limitation, reasonable attorney's fees, expenses and disbursements. No course of dealing and no delay on the part of any Holder of any Debenture in exercising any rights shall operate as a waiver thereof or otherwise prejudice such Holder's rights. No right conferred hereby or by any Debenture upon any Holder thereof shall be exclusive of any other right referred to herein or therein or now available at law in equity, by statute or otherwise.

ARTICLE XIII

AMENDMENT AND WAIVER

This Agreement may not be amended, discharged or terminated (or any provision hereof waived) without the written consent of the Company and the Purchasers. Provided that such written consent of the Company and the Purchasers is given:

(a) Holders of at least a majority in aggregate principal amount of the Debentures 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 Debentures, which amendment or waiver operates for the benefit of such Holders, except that no such amendment or waiver shall (i) change the fixed maturity of any Debentures, the rate or the time of mandatory prepayment of principal thereof or payment of interest thereon, the principal amount thereof, without the consent of the holder of the Debentures so affected, (ii) change the aforesaid percentage of Debentures, the Holders of which are required to consent to any such amendment or waiver, without the consent of the holders of all the Debentures then outstanding or (iii) change the percentage of the amount of the Debentures, the Holders of which may declare the Debentures to be due and payable under Article 12.

The Company and each Holder of a Debenture then or thereafter outstanding shall be bound by any amendment or waiver effected in accordance with the provisions of this Article 13, whether or not such Debenture shall have been marked to indicate such modification, but any Debenture issued thereafter shall bear a notation as to any such modification. Promptly after obtaining the written consent of the holders herein provided, the Company shall transmit a copy of such modification to all of the holders of the Debentures then outstanding.

(b) Holders of at least a majority of the Shares 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 Shares, which amendment or waiver operates for the benefit of such holders but in no event shall the obligation of any holder of Shares hereunder be increased, except upon the written consent of such holder of Shares.

The Company and each holder of a Share then or thereafter outstanding shall be bound by any amendment or waiver effected in accordance with the provisions of this Article 13, whether or not such Share shall have been marked to indicate such modification, but any Share issued thereafter shall bear a notation as to any such modification. Promptly after obtaining the written consent of the holders herein provided, the Company shall transmit a copy of such modification to all of the holders of the Shares then outstanding.

ARTICLE XIV

EXCHANGE AND REPLACEMENT OF DEBENTURES

14.1. Subject to Section 15.2, at any time at the request of any Holder of one or more of the Debentures to the Company at its office provided under Section 9.9, the Company at its expense (except for any transfer tax or any other tax arising out of the exchange) will issue in exchange therefor new Debentures, in such denomination or denominations ($100,000 or any larger multiple of $100,000, plus one Debenture in a lesser denomination, if required) as such Holder may request, in aggregate principal amount equal to the unpaid principal amount of the Debenture or Debentures surrendered and substantially in the form thereof, dated as of the date to which interest has been paid on the Debenture or Debentures surrendered (or, if no interest has yet been so paid thereon, then dated the date of the Debenture or Debentures so surrendered) and payable to such person or persons or order as may be designated by such Holder.

14.2. Upon receipt of evidence satisfactory to the Company of the loss, theft, destruction or mutilation of any Debenture and, in the case of any such loss, theft, or destruction,

upon delivery of a bond of indemnity satisfactory to the Company (provided that if the holder is a Purchaser or a financial institution, its own agreement will be satisfactory), or in the case of any such mutilation, upon surrender and cancellation of such Debenture, the Company will issue a new Debenture of like tenor as if the lost, stolen, destroyed or mutilated Debenture were then surrendered for exchange in lieu of such lost, stolen, destroyed or mutilated Debenture.

ARTICLE XV

TRANSFER OF AND PAYMENT OF DEBENTURES

15.1. Notification of Proposed Sale.

(a) Subject to Section 15.1(b), each holder of a Debenture by acceptance thereof agrees that it will give the Company ten (10) days written notice prior to selling or otherwise disposing of such Debenture. No such sale or other disposition shall be made unless (i) the holder shall have supplied to the Company an opinion of counsel for the holder reasonably acceptable to the Company to the effect that no registration under the Securities Act is required with respect to such sale or other disposition, or (ii) an appropriate registration statement with respect to such sale or other disposition shall have been filed by the Company and declared effective by the Commission.

(b) If the Holder of a Debenture has obtained an opinion of counsel reasonably acceptable to the Company to the effect that the sale of its Debenture 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 the Company with the notice required in Section 15.1(a).

15.2. Payment. So long as a Purchaser shall be the holder of any Debenture, the Company will make payments of principal and interest to such Purchaser no later than 11 a.m. Eastern Time on the date when such payment is due. Payments shall be made by delivery to such Purchaser at such Purchaser's address furnished to the Company 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 Purchaser's (or such Purchaser's nominee's) account at any bank or trust company in the United States of America. Each Purchaser further agrees that, before a Debenture is assigned or transferred, such Purchaser 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 the Company of the name and address of the transferee of such Debenture if such name and address are known to the Purchaser.

ARTICLE XVI

RIGHT OF FIRST REFUSAL; ADDITIONAL INVESTMENT

16.1 Right of First Refusal. Each Holder of the Debentures, Holder of Shares (provided any Debentures remain outstanding and the Shares received upon conversion have not been sold, transferred or otherwise disposed of)(the "Common Holder") and Old Holders shall be entitled to the following right of first refusal:

(a) Except in the case of Excluded Securities (as hereinafter defined), the Company shall not issue, sell or exchange, agree to issue, sell or exchange, or reserve or set aside for issuance, sale or exchange (i) any shares of Common Stock, (ii) any other equity security of the Company, (iii) any debt security of the Company which by its terms is convertible into or exchangeable for, with or without consideration, any equity security of the Company, (iv) any security of the Company that is a combination of debt and equity or (v) any option, warrant or other right to subscribe for, purchase or otherwise acquire any equity security or any such debt security of the Company (collectively, the "Equity Securities"), unless in each case, the Company shall have first offered to sell to the Holders of Debentures, the Common Holders and the Old Holders, the Equity Securities, at a price and on such other terms as shall have been specified by the Company in writing delivered to each of the Holders of Debentures, the Common Holders and the Old Holders (the "Offer"), which Offer by its terms shall remain open and irrevocable for a period of thirty (30) days from the date it is delivered by the Company to the Holders of Debentures, the Common Holders and the Old Holders; provided, however, that such issuance, sale or exchange of equity securities shall result in gross proceeds to the Company (whether at the time of issuance or upon conversion, exercise, or exchange thereof) of an amount in excess of $200,000 (the "Minimum Offering Threshold"). For purposes of computing the Minimum Offering Threshold, any offering, issuance, sale or exchange of Equity Securities during any rolling 12-month period shall be aggregated.

(b) Each of the Holders of Debentures, the Common Holders (provided the Debentures remain outstanding and the Shares received upon conversion has not been sold, transferred or otherwise disposed of) and the Old Holders shall have the right to purchase up to its pro rata share of the Equity Securities. The "pro rata share" of each Holder of Debentures, Common Holder and Old Holder shall be that amount of the Equity Securities multiplied by a fraction, the numerator of which is the sum of (i) of Shares underlying the Debenture held by such person if such person is the Holder of a Debenture, (ii) the number of Shares of Common Stock issued to such Common Holder upon conversion of a Debenture if such person is a Common Holder and (iii) the number of shares of Common Stock underlying the Prior Debenture held by such person if such person is an Old Holder, and the denominator of which is the sum of (x) the total number of shares of Common Stock underlying the Debentures issued pursuant to this Agreement and (y) the total number of shares of Common Stock into which the Prior Debentures are convertible on the date of this Agreement.

(c) Notice of the intention of each Holder of a Debenture, Common Holder or Old Holder to accept, in whole or in part, an offer shall be evidenced by a writing signed by such person, as the case may be, and delivered to the Company prior to the end of the 30-day period commencing with the date of such Offer (or, if later, within 10 days after the

giving of any written notice of a material change in such Offer), setting forth such portion (specifying number of shares, principal amount or the like) of the Equity Securities as such person elects to purchase (the "Notice of Acceptance").

(d) In the event that all of the Holders of Debentures, Common Holders and Old Holders do not elect to purchase all of the Equity Securities, the persons which have provided notice of their intention to exercise the refusal rights as provided in subparagraph (c) above shall have the right to purchase, on a pro rata basis, any unsubscribed portion of the Equity Securities during a period of 10 days following the 30-day period provided in subparagraph (c) above. Following such additional 10-day period, in the event the Holders of the Debentures, the Common Holders and the Old Holders have not elected to purchase all of the Equity Securities, the Company shall have 90 days from the expiration of the foregoing 40-day period to sell all or any part of such Equity Securities as to which a Notice of Acceptance has not been given by any of such persons (the "Refused Securities") to any other person or persons, but only upon terms and conditions in all material respects, including without limitation, unit price and interest rates (but excluding payment of legal fees of counsel of the purchaser), which are no more favorable, in the aggregate, to such other person or persons or less favorable to the Company than those set forth in the Offer. Upon the closing of the sale to such other person or persons of all the Refused Securities, which shall include payment of the purchase price to the Company in accordance with the terms of the Offer, if the Holders of Debentures, the Common Holders and/or Old Holders have timely submitted a Notice of Acceptance, it and/or they shall purchase from the Company, and the Company shall sell to such persons, as the case may be, the Equity Securities in respect of which a Notice of Acceptance was delivered to the Company, at the terms specified in the Offer. The purchase by the Holders, Common Holders and/or Old Holders of any Equity Securities is subject in all cases to the preparation, execution and delivery by the Company such persons of a purchase agreement and other customary documentation relating to such Equity Securities as is satisfactory in form and substance to such persons and each of their respective counsel.

(e) In each case, any Equity Securities not purchased by the Holders of Debentures, the Common Holders, the Old Holders or by a person or persons in accordance with Section 16.1(d) hereof may not be sold or otherwise disposed of until they are again offered to such persons under the procedures specified in Section 16.1(a), (c) and (d) hereof.

(f) The rights of the Holders of Debentures, the Common Holders and the Old Holders under this Section 16.1 shall not apply to the following securities (the "Excluded Securities"):

(i) Common Stock or options to purchase such Common Sock, issued to officers, employees or directors of, or consultants to, the Company, pursuant to any agreement, plan or arrangement approved by the Board of Directors of the Company;

(ii) Common Stock issued as a stock dividend or upon any stock split or other subdivision or combination of shares of Common Stock;

(iii) Common Stock issued upon conversion of the Debentures or exercise of the Warrants; and

(iv) any securities issued for consideration other than cash pursuant to a merger, consolidation, acquisition or similar business combination.

(g) Notwithstanding anything to the contrary contained herein, a Holder of a Debenture or a Common Holder (other than an initial Purchaser) shall not be considered as such for purposes of this Section 16.1 only, unless such person then holds Debentures with an outstanding principal amount of at least $200,000 or Shares issued upon conversion of at least $200,000 in principal of Debentures or a combination of Debentures and Shares such that the outstanding principal of the Debentures held by such person plus the amount of principal of Debentures converted into Shares held by such person equals or exceeds $200,000.

16.2 Additional Investment. Notwithstanding anything to the contrary contained in Section 16.1, prior to the expiration of 18 months after the date of this Agreement, the Purchasers (on a pro rata basis) only shall have the right to purchase additional Securities on the same terms and conditions as set forth herein for an aggregate purchase price of $5,000,000. Purchasers holding a majority in principal amount of the outstanding Debentures may elect to make such purchase by giving written notice of such election to the Company. The Old Holders shall not have any right to participate in such purchase of additional Securities unless (and then only to the extent that) they are Purchasers.

ARTICLE XVII

MISCELLANEOUS

17.1. Governing Law. This Agreement and the rights of the parties hereunder shall be governed in all respects by the laws of the State of New York wherein the terms of this Agreement were negotiated.

17.2. Survival. Except as specifically provided herein, the representations, warranties, covenants and agreements made herein shall survive (a) any investigation made by the Purchasers and (b) the Closing.

17.3. Successors and Assigns. Except as otherwise expressly provided herein, the provisions hereof shall inure to the benefit of, and be binding upon and enforceable by and against, the successors, assigns, heirs, executors and administrators of the parties hereto; provided, however, that the Company may not assign its rights hereunder.

17.4. Entire Agreement. This Agreement (including the Exhibits hereto) and the other documents delivered pursuant hereto and simultaneously herewith constitute the full and entire understanding and agreement between the parties with regard to the subject matter hereof and thereof.

17.5. Notices, etc. All notices, demands or other communications given hereunder shall be in writing and shall be sufficiently given if delivered either personally or by a nationally recognized courier service marked for next business day delivery or sent in a sealed envelope by first class mail, postage prepaid and either registered or certified, addressed as follows:

(a) if to the Company:

Halsey Drug Co., Inc.
1827 Pacific Street
Brooklyn, New York 11233
Attention: Mr. Michael Reicher
Chief Executive Officer

(b) if to a Purchaser, to the address set forth on Exhibit A attached hereto:

or to such other address with respect to any party hereto as such party may from time to time notify (as provided above) the other parties hereto. Any such notice, demand or communication shall be deemed to have been given (i) on the date of delivery, if delivered personally, (ii) on the date of facsimile transmission, receipt confirmed, (iii) one business day after delivery to a nationally recognized overnight courier service, if marked for next day delivery or (iv) five business days after the date of mailing, if mailed. Copies of any notice, demand or communication given to (x) the Company, shall be delivered to St. John & Wayne, L.L.C., Two Penn Plaza East, Newark, New Jersey 07105-2249 Attn.: John P. Reilly, Esq., or such other address as may be directed and (y) any Purchaser, shall be delivered to Wolf, Block, Schorr and Solis-Cohen LLP, 250 Park Avenue, New York, New York, 10177, Attn.: George Abrahams, Esq., or such other address as may be directed.

17.6. Delays or Omissions. No delay or omission to exercise any right, power or remedy accruing to any holder of any Securities upon any breach or default of the Company under this Agreement shall impair any such right, power or remedy of such holder nor shall it be construed to be a waiver of any such breach or default, or an acquiescence,therein, or of or in any similar breach or default thereafter occurring; nor shall any waiver of any single breach or default be deemed a waiver of any other breach or default theretofore or thereafter occurring. Any waiver, permit, consent or approval of any kind or character on the part of any holder of any breach or default under this Agreement, or any waiver on the part of any holder of any provisions or conditions of this Agreement must be, made in writing and shall be effective only to the extent specifically set forth in such writing. All remedies, either under this Agreement or by law or otherwise afforded to any holder, shall be cumulative and not alternative.

17.7. Rights; Severability. Unless otherwise expressly provided herein, each Purchaser's rights hereunder are several rights, not rights jointly held with any other person. In case any provision of this Agreement shall be invalid, illegal or unenforceable, the validity, legality and enforceability of the remaining provisions shall not in any way be affected or impaired thereby.

17.8. Agent's Fees.

(a) The Company hereby (i) represents and warrants that except for HKS Company, Inc. which is being compensated in full by the issuance of Securities as set forth in Exhibit A, the Company has not retained a finder or broker in connection with the transactions contemplated by this Agreement and (ii) agrees to indemnify and to hold the Purchasers harmless of and from any liability for commission or compensation in the nature of an agent's fee to any broker, person or firm, and the costs and expenses of defending against such liability or asserted liability, including, without limitation, reasonable attorney's fees, arising from any act by the Company or any of the Company's employees or representatives; provided, however, that the Company will have the right to defend against such liability by representative(s) of its own choosing, which representative(s) shall be approved by the Holders of a majority in aggregate principal amount of the Debentures and the Holders of a majority of the Shares (which approval shall not be unreasonably withheld or delayed), and provided, further, that the Company will not settle or compromise any claim or lawsuit without prior written notice to the Purchasers of the terms and provisions thereof. In the event that the Company shall fail to undertake the defense within ten (10) days of any notice of such claim, the Purchasers shall have the right to undertake the defense, compromise or settlement of such claim upon written notice to the Company by holders of a majority in principal amount of the Debentures and the holders of a majority of the Shares and the Company will be responsible for and shall pay all costs and expenses of defending such liability or asserted liability and any amounts paid in settlement.

(b) Each Purchaser (i) severally represents and warrants that it has retained no finder or broker in connection with the transactions contemplated by this Agreement and (ii) hereby severally agrees to indemnify and to hold the Company harmless from any liability for any commission or compensation in the nature of an agent's or finder's fee to any broker or other person or firm (and the costs, including reasonable legal fees, and expenses of defending against such liability or asserted liability) for which such Purchaser, or any of its employees or representatives, are responsible.

17.9. Expenses. The Company shall bear its own expenses and legal fees incurred on its behalf with respect to the negotiation, execution and consummation of the transactions contemplated by this Agreement, and the Company will reimburse the Purchasers for all of the reasonable expenses incurred by the Purchasers and their affiliates with respect to the negotiation, execution and consummation of the transactions contemplated by this Agreement and the transactions contemplated hereby and due diligence conducted in connection therewith, including the fees and disbursements of counsel and auditors for the Purchasers; provided, however, that the amount of such reimbursement shall not exceed $100,000. Such reimbursement shall be paid on the Closing Date.

17.10. Litigation. The parties each hereby waive trial by jury in any action or proceeding of any kind or nature in any court in which an action may be commenced arising out of this Agreement or by reason of any other cause or dispute whatsoever between them. The parties hereto 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 to hear and determine any claims or disputes between the Company and such holders, pertaining directly or indirectly to this Agreement or to any matter arising therefrom. The parties each expressly submit and consent in

advance to such jurisdiction in any action or proceeding commenced in such courts provided that such consent shall not be deemed to be a waiver of personal service of the summons and complaint, or other process or papers issued therein. The choice of forum set forth in this Section 17.10 shall not be deemed to preclude the enforcement of any judgment obtained in such forum or the taking of any action under this Agreement to enforce same in any appropriate jurisdiction. The parties each waive any objection based upon forum non conveniens and any objection to venue of any action instituted hereunder.

17.11. Titles and Subtitles. The titles of the articles, sections and subsections of this Agreement are for convenience of reference only and are not to be considered in construing this Agreement.

17.12. Counterparts. This Agreement may be executed in any number of counterparts, each of which shall be an original, but all of which together shall constitute one instrument.

If the Purchaser is in agreement with the foregoing the Purchaser shall sign where indicated below and thereupon this letter shall become a binding agreement between such Purchaser and the Company.

Very truly yours,

HALSEY DRUG CO., INC.

By: /s/ Michael Reicher

Michael Reicher
Chief Executive Officer

AGREED:

GALEN PARTNERS III, L.P.

By: Claudius, L.L.C., General Partner

By: /s/ Bruce F. Wesson

Name: Bruce F. Wesson
Title: Managing Member

GALEN PARTNERS INTERNATIONAL III, L.P.

By: Claudius, L.L.C., General Partner

By: /s/ Bruce F. Wesson

Name: Bruce F. Wesson
Title: Managing Member

GALEN EMPLOYEE FUND III, L.P.

By: Wesson Enterprises, Inc.

By: /s/ Bruce F. Wesson

Name: Bruce F. Wesson
Title: Managing Member

[ADDITIONAL PURCHASERS]

EXHIBIT A

Name and Address of Purchaser	Principal Amount of Debenture Purchased	$1.50 Warrants	$2.375 Warrants	Purchase Price
Galen Partners III, L.P. 610 Fifth Avenue, 5th Floor New York, New York 10020	$15,423,195	1,557,789	1,557,789	$15,423,195
Galen Partners International III, L.P. 611 Fifth Avenue, 5th Floor New York, New York 10020	$ 1,709,167	172,643	172,643	$ 1,709,167
Galen Employee Fund III, L.P. 610 Fifth Avenue, 5th Floor New York, New York 10020	$ 67,638	6,832	6,832	$ 67,638
Michael Reicher c/o Halsey Drug Co., Inc. 1827 Pacific Street Brooklyn, New York 11233	$ 300,000	30,303	30,303	$ 300,000
Peter Clemens c/o Halsey Drug Co., Inc. 1827 Pacific Street Brooklyn, New York 11233	$ 100,000	10,101	10,101	$ 100,000
Stefanie Heitmeyer c/o Halsey Drug Co., Inc. 1827 Pacific Street Brooklyn, New York 11233	$ 20,000	2,020	2,020	$ 20,000
Dan Hill c/o Halsey Drug Co., Inc. 1827 Pacific Street Brooklyn, New York 11233	$ 10,000	1,010	1,010	$ 10,000
Alan Smith c/o Halsey Drug Co., Inc. 1827 Pacific Street Brooklyn, New York 11233	$ 10,000	1,010	1,010	$ 10,000
Dennis Adams 120 Kynlyn Road Radnor, Pennsylvania 19087	$ 1,170,000	118,182	118,182	$ 1,170,000
Patrick Coyne 477 Margo Lane Berwyn, Pennsylvania 19312	$ 50,000	5,051	5,051	$ 50,000
Michael Weisbrot and Susan Weisbrot 1136 Rock Creek Road Gladwyne, Pennsylvania 19035	$ 300,000	30,303	30,303	$ 300,000
Greg Wood 1263 East Calaveras Street Altadena, California 91001	$ 100,000	10,101	10,101	$ 100,000

Name and Address of Purchaser	Principal Amount of Debenture Purchased	$1.50 Warrants	$2.375 Warrants	Purchase Price
Hement K. Shah and Varsha H. Shah 29 Christy Drive Warren, New Jersey 07059	$ 950,000	95,960	95,960	$ 950,000
Varsha H. Shah as Custodian for Suneet H. Shah 29 Christy Drive Warren, New Jersey 07059	$ 20,000	2,020	2,020	$ 20,000
Varsha H. Shah as Custodian for Sachin H. Shah 29 Christy Drive Warren, New Jersey 07059	$ 20,000	2,020	2,020	$ 20,000
Bernard Selz 121 East 73rd Street New York, New York 10021	$ 400,000	40,404	40,404	$ 400,000
Ilene Rainisch 315 Devon Place Morganville, New Jersey 07751	$ 25,000	2,525	2,525	$ 25,000
Michael Rainisch 48 Radford Street Staten Island, New York 10314	$ 25,000	2,525	2,525	$ 25,000
Ken Gimbel 876 Kimball Road Highland Park, Illinois 60035	$ 100,000	10,101	10,101	$ 100,000

COUNTERPART SIGNATURE PAGE TO DEBENTURE AND WARRANT PURCHASE AGREEMENT

Additional Purchasers	Mailing Address
/s/ Bernard Seiz - ---------- Bernard Seiz	c/o Furman Selz 230 Park Avenue New York, New York 10069
Pershing - Division of DLJ for Benefit of Kenneth Gimbel IRA Account	
By: /s/ Kenneth Gimbel ---------- Name: Kenneth Gimbel Title:	Pershing - Division of DLJ 14 Floor One Pershing Plaza Jersey City, New Jersey 07399

/s/ Hemant K. Shah
- ----------
Hemant K. Shah

/s/ Varsha H. Shah
- ----------
Varsha H. Shah, as
Custodian for Sachin Shah

/s/ Varsha H. Shah
- ----------
Varsha H. Shah, as
Custodian for Sumeet H. Shah

c/o HKS & Company, Inc.
29 Christy Drive
Warren, New Jersey 07059

/s/ Ilene Rainisch
- ----------
Ilene Rainisch

/s/ Michael Rainisch
- ----------
Michael Rainisch
c/o Al Rainisch
Weiss, Peck & Greer
One New York Plaza
New York, New York 10004

/s/ Dennis Adams
- ----------
Dennis Adams
c/o Delaware Investment Advisors
One Commerce Square
Philadelphia, Pennsylvania 19103

/s/ Patrick Coyne
- ----------
Patrick Coyne
c/o Dennis Adams
Delaware Investment Advisors
One Commerce Square
Philadelphia, Pennsylvania 19103

/s/ Michael Weisbrot
- ----------
Michael Weisbrot
c/o Dennis Adams
Delaware Investment Advisors
One Commerce Square
Philadelphia, Pennsylvania 19103

/s/ Susan Weisbrot
- ----------
Susan Weisbrot
c/o Dennis Adams
Delaware Investment Advisors
One Commerce Square
Philadelphia, Pennsylvania 19103

/s/ Greg Wood
- ----------
Greg Wood
c/o DR International
7474 North Figueron Street
Los Angeles, California 90041

- ----------
Ilene Rainisch

- ----------
Michael Rainisch

c/o Al Rainisch
Weiss, Peck & Greer
One New York Plaza
New York, New York 10004

- ----------
Dennis Adams

c/o Delaware Investment Advisors
One Commerce Square
Philadelphia, Pennsylvania 19103

- ----------
Patrick Coyne

c/o Dennis Adams
Delaware Investment Advisors
One Commerce Square
Philadelphia, Pennsylvania 19103

- ----------
Sarah Cerato

c/o Dennis Adams
Delaware Investment Advisors
One Commerce Square
Philadelphia, Pennsylvania 19103

- ----------
Michael Weisbrot

c/o Dennis Adams
Delaware Investment Advisors
One Commerce Square
Philadelphia, Pennsylvania 19103

- ----------
Susan Weisbrot

c/o Dennis Adams
Delaware Investment Advisors
One Commerce Square
Philadelphia, Pennsylvania 19103

- ----------
Greg Wood

c/o DR International
7474 North Figueron Street
Los Angeles, California 90041

/s/ Alan Jerrard Smith
- ----------
Alan Jerrard Smith

21 Bedlow Avenue
Newport, RI 02840

- ----------
Ilene Rainisch

- ----------
Michael Rainisch

c/o Al Rainisch
Weiss, Peck & Greer
One New York Plaza
New York, New York 10004

- ----------
Dennis Adams

c/o Delaware Investment Advisors
One Commerce Square
Philadelphia, Pennsylvania 19103

- ----------
Patrick Coyne

c/o Dennis Adams
Delaware Investment Advisors
One Commerce Square
Philadelphia, Pennsylvania 19103

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Michael Weisbrot

c/o Dennis Adams
Delaware Investment Advisors
One Commerce Square
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- ----------
Susan Weisbrot

c/o Dennis Adams
Delaware Investment Advisors
One Commerce Square
Philadelphia, Pennsylvania 19103

- ----------
Greg Wood

c/o DR International
7474 North Figueron Street
Los Angeles, California 90041

/s/ Michael R. Reicher
- ----------
Michael R. Reicher

c/o Halsey Daug Co., Inc.
1827 Pacific Shore
Brooklyn, NY 11233

COUNTERPART SIGNATURE PAGE TO DEBENTURE AND WARRANT PURCHASE AGREEMENT

Additional Purchasers	Mailing Address
- ---------- Bernard Selz	c/o Furman Selz 230 Park Avenue New York, New York 10069
- ---------- Katherine M. Bristor	2 East 70th Street New York, New York 10021
Pershing - Division of DLJ for Benefit of Kenneth Gimbel IRA Account By: ---------- Name: Title:	Pershing - Division of DLJ 14 Floor One Pershing Plaza Jersey City, New Jersey 07399 Attn: Sean Hester
- ---------- John B. Hurford	c/o Bea Associates One Citicorp Center 153 East 53rd Street New York, New York 10022
Harbour Investments Limited By: ---------- Name: Title:	c/o Strong Capital Management 100 Heritage Reserve Menomonee Falls, Wisconsin 53051
/s/ Daniel W. Hill - ---------- Daniel W. Hill	6725 Lynch Ave Riverbank, CA 95367

- ---------------------------
Ilene Rainisch

- ---------------------------
Michael Rainisch

c/o Al Rainisch
Weiss, Peck & Greer
One New York Plaza
New York, New York 10004

- ---------------------------
Dennis Adams

c/o Delaware Investment Advisors
One Commerce Square
Philadelphia, Pennsylvania 19103

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Patrick Coyne

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Delaware Investment Advisors
One Commerce Square
Philadelphia, Pennsylvania 19103

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Michael Weisbrot

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One Commerce Square
Philadelphia, Pennsylvania 19103

- ---------------------------
Susan Weisbrot

c/o Dennis Adams
Delaware Investment Advisors
One Commerce Square
Philadelphia, Pennsylvania 19103

- ---------------------------
Greg Wood

c/o DR International
7474 North Figueron Street
Los Angeles, California 90041

/s/ Peter A. Clemens
- ---------------------------
Peter A. Clemens

c/o Halsey Drug Co., Inc.
1827 Pacific Street
Brooklyn, NY 01233

COUNTERPART SIGNATURE PAGE TO DEBENTURE AND WARRANT PURCHASE AGREEMENT

Additional Purchasers	Mailing Address
- ---------- Bernard Selz	c/o Furman Selz 230 Park Avenue New York, New York 10069
- ---------- Katherine M. Bristor	2 East 70th Street New York, New York 10021
Pershing - Division of DLJ for Benefit of Kenneth Gimbel IRA Account By: ---------- Name: Title:	Pershing - Division of DLJ 14 Floor One Pershing Plaza Jersey City, New Jersey 07399 Attn: Sean Hester
- ---------- John B. Hurford	c/o Bea Associates One Citicorp Center 153 East 53rd Street New York, New York 10022
Harbour Investments Limited By: ---------- Name: Title:	c/o Strong Capital Management 100 Heritage Reserve Menomonee Falls, Wisconsin 53051
By: /s/ Stephanie K. Heitmeyer ---------- Stephanie K. Heitmeyer	17759 St. Rt. 66 Ft. Jennings, OH 45844

Exhibit 10.2

FORM OF
COMPANY GENERAL SECURITY AGREEMENT

THIS COMPANY GENERAL SECURITY AGREEMENT ("Company Security Agreement") is made and entered into as of March 10, 1998, by and between HALSEY DRUG CO., INC., a New York corporation (the "Debtor"), with its principal place of business at 1827 Pacific Street, Brooklyn, New York 11233, and GALEN PARTNERS III, L.P., a Delaware limited partnership (" Galen"), with its principal place of business at 610 Fifth Avenue, 5th Floor, New York, New York 10020, acting in its capacity as agent for the Purchasers (in such capacity, the "Agent").

W I T N E S S E T H

WHEREAS, Galen, certain other purchasers (together with Galen, the "Purchasers") and the Debtor have entered into a Debenture and Warrant Purchase Agreement dated as of the date hereof (as the same may be amended, modified, supplemented or restated from time to time, the "Purchase Agreement"; terms which are capitalized herein and not otherwise defined shall have the meanings ascribed to them in the Purchase Agreement); and

WHEREAS, the Purchasers have required, as a condition precedent to the effectiveness of the Purchase Agreement, that the Debtor (i) grant to the Agent, for the ratable benefit of the Purchasers, a security interest in and to the Collateral (as defined in Section II below) and (ii) execute and deliver this Company Security Agreement in order to secure the payment and performance by the Debtor of the obligations owing by the Debtor to the Purchasers under the Purchase Agreement and the agreements, documents and instruments delivered by the Debtor pursuant thereto or in connection therewith (collectively, the "Obligations").

NOW, THEREFORE, in consideration of the premises and in order to induce the Purchasers to enter into and perform the Purchase Agreement, the Debtor hereby agrees as follows:

SECTION I. CREATION OF SECURITY INTEREST.

The Debtor hereby pledges, assigns and grants to the Agent 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) in order to secure the payment and performance of all Obligations owing by the Debtor.

SECTION II. COLLATERAL.

For purposes of this Company Security 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 accounts, 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 the Agent), 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 Company Security 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 III. 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. None of the Collateral is subject to contractual obligations that may restrict or inhibit the Agent's rights 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 IV. 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 both the Agent and the Debtor determine 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 the Agent and those permitted under the terms of the Purchase 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 the Agent any financing statements or other documents required by the Agent to perfect the security interest of the Agent 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 the 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 the Agent, mark any chattel paper, deliver any chattel paper or instruments to the Agent and take any other actions that are necessary or, in the opinion of the Agent, desirable to perfect or continue the perfection and the first priority of the Agent's 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 Company Security 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 Purchase Agreement, and 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 the 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 benefit of the Agent, and promptly transfer such proceeds to the Agent 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, the Agent shall have the right at any time to make any payments and do any other acts the Agent may deem necessary to protect the security interests of the Purchasers in the Collateral, including, without limitation, the rights to pay, purchase, contest or compromise any encumbrance, charge or lien which, in the reasonable judgment of the 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 the Agent for all payments made and expenses incurred under this Company Security Agreement including reasonable fees, expenses and disbursements of attorneys and paralegals acting for the 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 Company Security Agreement, and agrees it shall be bound by any payment made or act taken by the Agent hereunder absent the Agent's gross negligence or willful misconduct. The 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 Company Security Agreement, upon the creation of Accounts, upon the Agent's request, the Debtor will execute and deliver to the 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 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 the 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 the 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 the 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 Agent's 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 their 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 Purchase Agreement and the

documentation relating thereto, including this Company Security Agreement, and to perfect or protect the liens (and the priority status thereof) of the Agent in the Collateral.

SECTION V. 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:

(a) 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 and other facilities of the Debtor;

(b) 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;

(c) withdraw all monies, securities and instruments held pursuant to any pledge arrangement for application to the Obligations;

(d) 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;

(e) 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 the Agent, in which event the Debtor shall at its own expense:

a. forthwith cause the same to be moved to the place or places so designated by the Agent and there delivered to the Agent,

b. 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

c. 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 Company Security 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 the 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 Agent, be subject to reserve), 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, the 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, the 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, the 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 the Agent, or any Person or agent the Agent 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:

(a) accelerate or extend the time of payment, compromise, issue credits, bring suit or administer and otherwise collect Accounts or proceeds of any Collateral;

(b) 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 the Agent may designate;

(c) give customers indebted on Accounts notice of the Agent's interest therein, and/or to instruct such customers to make payment directly to the Agent for the Debtor's account;

(d) convey any item of Collateral to any purchaser thereof;

(e) give any notices or record any liens under Section IVC hereof; and

(f) make any payments or take any acts under Section IVF hereof.

The Agent's authority under this section VC shall include, without limitation, the authority to execute and give 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 Company Security 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 Company Security Agreement, the Debtor HEREBY WAIVES, TO THE EXTENT PERMITTED BY APPLICABLE LAW, NOTICE AND JUDICIAL HEARING IN CONNECTION WITH THE 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:

(a) all damages occasioned by such taking of possession except any damages which are the direct result of the Agent's gross negligence or willful misconduct;

(b) 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

(c) 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 Company Security 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 the Agent shall be in addition to every other right, power and remedy specifically given under this Company Security Agreement, under the Purchase 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 the 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 the 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 VI. 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., 1827 Pacific Street, Brooklyn, New York 11233, fax no. (718) 467-4261, 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 Associates, 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 Company Security Agreement are for purposes of reference only and shall not affect the meaning or construction of any provision of this Company Security Agreement.

C. Severability. The provisions of this Company Security 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 Company Security Agreement in any jurisdiction.

D. Amendments, Waivers and Consents. Any amendment or waiver of any provision of this Company Security Agreement and any consent to any departure by the Debtor from any provision of this Company Security 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 Company Security 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 Company Security Agreement shall not be relevant in determining the meaning of this Company Security 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 Company Security 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 Agent and its successors and assigns.

G. Reinstatement. To the extent permitted by law, this Company Security Agreement shall continue to be effective or be reinstated if at any time any amount received by the Agent in respect of the Obligations owing by the Debtor is rescinded or must otherwise be restored or returned by the Agent 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 Company Security 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 Agent shall have all rights of setoff available at law or in equity.

J. Power of Attorney. In addition to the powers granted to the Agent under Section VC, the Debtor hereby irrevocably authorizes and appoints the Agent, or any Person or agent the Agent 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:

(a) after the occurrence of an Event of Default, to receive, take, endorse, sign, assign and deliver, all in the name of the Agent or the Debtor, any and all checks, notes, drafts, and other documents or instruments relating to the Collateral; and

(b) 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 the Agent. Neither the Agent nor any director, officer, employee, attorney or agent of the Agent 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 the Agent be responsible for the validity, effectiveness or sufficiency of this Company Security Agreement or of any document or security furnished pursuant hereto. The Agent and its 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 harmless the Agent and any other person 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 the Agent or such person hereunder, unless such claim or liability shall be due to willful misconduct or gross negligence on the part of the Agent or such person.

L. Release; Termination of Agreement. Subject to the provisions of Section VIG hereof, this Company Security Agreement shall terminate upon full and final indefeasible payment and performance of all the Obligations owing by the Debtor. At such time, the 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 the Agent in accordance with the terms hereof. Such reassignment and redelivery shall be without warranty by or recourse to the Agent, except as to the absence of any prior assignments by the Agent of its interest in the Collateral, and shall be at the expense of the Debtor.

M. Counterparts. This Company Security 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 COMPANY SECURITY AGREEMENT AND ANY DISPUTE ARISING OUT OF OR IN CONNECTION WITH THIS COMPANY SECURITY 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 THE AGENT, 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 THE AGENT 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 THE AGENT IN GOOD FAITH TO ENABLE THE AGENT TO REALIZE ON SUCH PROPERTY, OR TO ENFORCE A JUDGMENT OR OTHER COURT ORDER IN FAVOR OF THE AGENT. THE DEBTOR AGREES THAT IT WILL NOT ASSERT ANY PERMISSIVE COUNTERCLAIMS, SETOFFS OR CROSS-CLAIMS IN ANY PROCEEDING BROUGHT BY THE AGENT. THE DEBTOR WAIVES ANY OBJECTION THAT IT MAY HAVE TO THE LOCATION OF THE COURT IN WHICH THE 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 COMPANY SECURITY 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 AND THE AGENT EACH HEREBY WAIVE ANY RIGHT TO A TRIAL BY JURY.

R. LIMITATION OF LIABILITY. THE AGENT SHALL NOT 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 COMPANY SECURITY 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 THE AGENT, 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 the Agent 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 the Agent of any right or remedy shall preclude any other or further exercise thereof, or preclude any other right or remedy.

IN WITNESS WHEREOF, the Debtor has caused this Company Security Agreement to be duly executed and delivered as of the day and year first above written.

HALSEY DRUG CO., INC.

By: Michael Reicher

Name: Michael Reicher
Title: Chief Executive Officer

By its acceptance hereof, as of the day and year first above written, the Agent agrees to be bound by the provisions hereof applicable to it.

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

By: Bruce F. Wesson

Name: Bruce F. Wesson
Title: Managing Member

SCHEDULE A

IIIA. Locations of Collateral

1. 1827 Pacific Street, Brooklyn, New York

IIID. Liens

1. Lien in favor of The Chase Manhattan Bank, as agent for The Chase Manhattan Bank, The Bank of New York and Israel Discount Bank pursuant to the existing Credit Agreement with such banks dated December 1, 1992, as amended.

2. Schedule 10.4 of the Schedule of Exceptions to the Purchase Agreement is incorporated herein by reference.

CONTINUING UNCONDITIONAL SECURED GUARANTY
BY
CENCI POWDER PRODUCTS, INC.

WHEREAS, HALSEY DRUG CO., INC., a New York corporation (the "Borrower"), entered into a Debenture and Warrant Purchase Agreement dated as of March 10, 1998 (as amended through the date hereof, the "Purchase Agreement"; terms used herein and not otherwise defined shall have the meanings given to them in the Purchase Agreement) with the Purchasers listed on Exhibit A thereto (each a "Lender" and collectively, the "Lenders");

WHEREAS, pursuant to the Purchase Agreement, the Lenders have made financial accommodations to the Borrower in accordance with the terms of the Purchase Agreement;

WHEREAS, Cenci Powder Products, Inc. (the "Guarantor") will continue to receive certain benefits from the accommodations hereinabove described and is therefore willing to guaranty the prompt payment and performance of the obligations of the Borrower, on the terms set forth in this Continuing Unconditional Secured Guaranty ("Guaranty");

WHEREAS, pursuant to the Purchase Agreement, the Lenders have required that the Guarantor execute and deliver this Guaranty to the Lenders as a condition to the effectiveness of the Purchase Agreement; and

WHEREAS, the extension of credit by the Lenders to the Borrower is necessary and desirable to the conduct and operation of the business of the Borrower and will inure to the financial benefit of the Guarantor.

NOW, THEREFORE, for value received and in consideration of any loan, advance, or financial accommodation of any kind whatsoever heretofore, now or hereafter made, given or granted to the Borrower by the Lenders (including, without limitation, the loans evidenced by the Debenture as made by the Lenders to the Borrower pursuant to, the Purchase Agreement), the Guarantor unconditionally guarantees (i) the full and prompt payment and performance when due, whether at maturity or earlier, by reason of acceleration or otherwise, and at all times thereafter, of all liabilities of the Borrower to the Lenders and (ii) the prompt, full and faithful discharge by the Borrower of each and every term, condition, agreement, representation and warranty now or hereafter made by the Borrower to the Lenders under the Purchase Agreement or any document or instrument delivered by the Borrower to the Purchasers in connection therewith or pursuant thereto (which, together with the liabilities described in clause (i) hereof, are collectively referred to herein as the "Borrower's Liabilities"). The Guarantor further agrees to pay all reasonable out-of-pocket costs and expenses, including, without limitation, all court costs and reasonable attorneys' and paralegals' fees paid or incurred by the Lenders, in endeavoring to collect all or any part of the Borrower's Liabilities from, or in prosecuting any action against the Guarantor or any other guarantor of all or any part of the Borrower's Liabilities. All amounts payable by the Guarantor under this Guaranty shall be payable pursuant to the terms of the Purchase Agreement upon demand by the Lenders holding a majority in outstanding principal amount of the Debentures.

Notwithstanding any provision of this Guaranty to the contrary, it is intended that this Guaranty, and any liens and security interests granted by the Guarantor to secure this Guaranty, not constitute a Fraudulent Conveyance (as defined below). Consequently, the Guarantor agrees that if this Guaranty, or any liens or security interests securing this Guaranty, would, but for the application of this sentence, constitute a Fraudulent Conveyance, this Guaranty and each such lien and security interest shall be valid and enforceable only to the maximum extent that would not cause this Guaranty or such lien or security interest to constitute a Fraudulent Conveyance, and this Guaranty shall automatically be deemed to have been amended accordingly at all relevant times. For purposes hereof, "Fraudulent Conveyance" means a fraudulent conveyance under Section 548 of the "Bankruptcy Code" (as hereinafter defined) or a fraudulent conveyance or fraudulent transfer under the provisions of any applicable fraudulent conveyance or fraudulent transfer law or similar law of any state, nation or other governmental unit, as in effect from time to time.

The Guarantor hereby agrees that, except as hereinafter provided, and to the extent permitted by applicable law, its obligations under this Guaranty shall be unconditional, irrespective of (i) the validity or enforceability of the Borrower's Liabilities or any part thereof, or of any promissory note or other document evidencing all or any part of the Borrower's Liabilities, (ii) the absence of any attempt to collect the Borrower's Liabilities from the Borrower or any other guarantor or other action to enforce the same, (iii) the waiver or consent by any Lender or Lenders with respect to any provision of any instrument evidencing the Borrower's Liabilities, or any part thereof, or any other agreement heretofore, now or hereafter executed by the Borrower and delivered to the Lender or Lenders, (iv) failure by any Lender to take any steps to perfect and maintain its security interest in, or to preserve its rights to, any security or collateral for the Borrower's Liabilities, (v) the institution of any proceeding under Chapter 11 of Title 11 of the United States Code (11 U.S.C. Section 101 et seq.), as amended (the "Bankruptcy Code"), or any similar proceeding, by or against the Borrower, or any Lender's election in any such proceeding of the application of Section 1111(b)(2) of the Bankruptcy Code, (vi) any borrowing or grant of a security interest by the Borrower as debtor-in-possession, under Section 364 of the Bankruptcy Code, (vii) the disallowance, under Section 502 of the Bankruptcy Code, of all or any portion of the Lenders' claim(s) for repayment of the Borrower's Liabilities, or (viii) any other circumstance which might otherwise constitute a legal or equitable discharge or defense of a guarantor.

The Guarantor hereby waives diligence, presentment, demand of payment, filing of claims with a court in the event of receivership or bankruptcy of the Borrower, protest or notice with respect to the Borrower's Liabilities and all demands whatsoever, and covenants that this Guaranty will not be discharged, except by complete performance of the obligations and liabilities contained herein. Upon the occurrence and during the continuance of an Event of Default under the Purchase Agreement, Lenders holding a majority in outstanding principal amount of the Debentures may, at their sole election, proceed directly and at once, without notice, against the Guarantor to collect and recover the full amount or any portion of the Borrower's Liabilities, without first proceeding against any other person, firm, or corporation, or against any security or collateral for the Borrower's Liabilities.

The Lenders are hereby authorized, without notice or demand and without affecting the liability of the Guarantor hereunder, at any time and from time to time to (i) renew, extend, accelerate or otherwise change the time for payment of, or other terms relating to the Borrower's Liabilities or otherwise modify, amend or change the terms of any debenture, note or other agreement, document or instrument now or hereafter executed by the Borrower and delivered to the Lenders; (ii) accept partial payments on the Borrower's Liabilities; (iii) take and hold security or collateral for the payment of the Borrower's Liabilities guaranteed hereby, or for the payment of this Guaranty, or for the payment of any other guaranties of the Borrower's Liabilities or other liabilities of the Borrower, and exchange, enforce, waive and release any such security or collateral; (iv) apply such security or collateral and direct the order or manner of sale thereof as in their sole discretion they may determine; and (v) settle, release, compromise, collect or otherwise liquidate the Borrower's Liabilities and any security or collateral therefor in any manner, without affecting or impairing the obligations of the Guarantor hereunder. The holders of the majority of the outstanding principal of the Debentures shall have the exclusive right to determine the time and manner of application of any payments or credits, whether received from the Borrower or any other source, and such determination shall be binding on the Guarantor. All such payments and credits may be applied, reversed and reapplied, in whole or in part, to any of the Borrower's Liabilities as the Lenders shall determine in their sole discretion without affecting the validity or enforceability of this Guaranty (unless otherwise required pursuant to the Purchase Agreement).

The Guarantor hereby confirms and reaffirms the granting by the Guarantor to Galen Partners III, L.P., as agent for the Lenders (the "Agent"), of a perfected lien on and security interest in all of the Collateral described in Section II of the Guarantors General Security Agreement dated as of the date hereof between the Guarantor, certain other persons and the Agent as collateral security for all liabilities of the Guarantor, including without limitation all liabilities, obligations and indebtedness owing by the Guarantor to the Lenders arising under or relating to this Guaranty. In addition, at any time after maturity of the Borrower's Liabilities by reason of acceleration or otherwise, any Lender may, in its sole discretion, without notice to the Guarantor and regardless of the acceptance of any security or collateral for the payment hereof, appropriate and apply toward the payment of the Borrower's Liabilities (i) any indebtedness due or to become due from such Lender to the Guarantor, and (ii) any moneys, credits or other property belonging to the Guarantor, at any time held by or coming into the possession of such Lender whether for deposit or otherwise.

The Guarantor hereby assumes responsibility for keeping itself informed of the financial condition of the Borrower, and any and all endorsers and/or other guarantors of any instrument or document evidencing all or any part of the Borrower's Liabilities and of all other circumstances bearing upon the risk of nonpayment of the Borrower's Liabilities or any part thereof that diligent inquiry would reveal and the Guarantor hereby agrees that the Lenders shall not have any duty to advise the Guarantor of information known to any of them regarding such condition or any such circumstances or to undertake any investigation not a part of their respective regular business routines. If any Lender, in its sole discretion, undertakes at any time or from time to time to provide any such information to any the Guarantor, such Lender shall not be under any obligation to update any such information or to provide any such information to the Guarantor on any subsequent occasion.

The Guarantor consents and agrees that the Lenders shall not be under any obligation to marshall any assets in favor of the Guarantor or against or in payment of any or all of the Borrower's Liabilities. The Guarantor further agrees that, to the extent that the Borrower makes a payment or payments to the Lenders or the Lenders receive any proceeds of collateral, which payment or payments or any part thereof are subsequently invalidated, declared to be fraudulent or preferential, set aside and/or required to be repaid to the Borrower, its estate, trustee, receiver or any other party, including, without limitation, the Guarantor, under any bankruptcy law or state or federal statutory or common law, then to the extent of such payment or repayment,the Borrower's Liabilities or the part thereof which has been paid, reduced or satisfied by such amount, and the Guarantor's obligations hereunder with respect to such portion of the Borrower's Liabilities, shall be reinstated and continued in full force and effect as of the date such initial payment, reduction or satisfaction occurred.

Until payment in full of all of the Borrower's Liabilities, the Guarantor hereby waives any and all claims (including without limitation any claim for reimbursement, contribution or subrogation) of the Guarantor against the Borrower, any endorser or any other guarantor of all or any part of the Borrower's Liabilities, or against any of the Borrower's properties, arising by reason of any payment by the Guarantor to the Lenders pursuant to the provisions hereof.

Each Lender may, to the extent and in the manner set forth in the Purchase Agreement, sell or assign the Borrower's Liabilities or any part thereof, or grant participations therein, and in any such event each and every permitted assignee or holder of, or participant in, all or any of the Borrower's Liabilities shall have the right to enforce this Guaranty, by suit or otherwise for the benefit of such assignee, holder, or participant, as fully as if herein by name specifically given such right.

The Guarantor hereby represents and warrants that: (a) it is a corporation duly organized, validly existing and in good standing under the laws of the state of its incorporation; (b) it is duly authorized and empowered to execute and deliver this Continuing Unconditional Secured Guaranty; (c) all corporate action on the part of the Guarantor requisite for the due execution and delivery of this Continuing Unconditional Secured Guaranty and the due granting and creation of the security interests referred to herein has been duly and effectively taken and (d) the Guarantor's chief executive office is located at 1420 "E" Street, Fresno, California 93706.

This Guaranty shall be binding upon the Guarantor and upon the successors (including without limitation, any receiver, trustee or debtor in possession of or for the Guarantor) of the Guarantor and shall inure to the benefit of the Lenders and their respective successors and permitted assigns.

This Guaranty shall continue in full force and effect, and the Lenders shall be entitled to make loans and advances and extend financial accommodations to the Borrower on the faith hereof, until such time as all of the Borrower's Liabilities have been paid in full and discharged and the Purchase Agreement has been terminated and the Debentures cancelled.

Wherever possible each provision of this Guaranty shall be interpreted in such manner as to be effective and valid under applicable law, but if any provision of this Guaranty

shall be prohibited by or invalid under such law, such provision shall be ineffective to the extent of such prohibition or invalidity without invalidating the remainder of such provision or the remaining provisions of this Guaranty.

THIS GUARANTY SHALL BE GOVERNED AND CONTROLLED BY THE INTERNAL LAWS OF THE STATE OF NEW YORK.

The Guarantor irrevocably agrees that, subject to the sole and absolute election of the Lenders, ALL ACTIONS OR PROCEEDINGS IN ANY WAY, MANNER OR RESPECT, ARISING OUT OF OR FROM OR RELATED TO THIS GUARANTY SHALL BE LITIGATED IN COURTS HAVING SITUS WITHIN THE CITY OF NEW YORK, STATE OF NEW YORK. THE GUARANTOR HEREBY CONSENTS AND SUBMITS TO THE JURISDICTION OF ANY LOCAL, STATE OR FEDERAL COURTS LOCATED WITHIN SAID CITY AND STATE and waives the defense of "forum non conveniens." The Guarantor waives personal service of any and all process, and consents that all such service of process may be made by certified mail, return receipt requested, directed to the Guarantor at the address indicated in the Agent's records; and service so made shall be complete five (5) days after the same has been deposited in the U.S. mails as aforesaid. THE GUARANTOR HEREBY WAIVES ANY RIGHT IT MAY HAVE TO TRANSFER OR CHANGE THE VENUE OF ANY LITIGATION BROUGHT AGAINST THE GUARANTOR BY THE LENDER IN ACCORDANCE WITH THIS PARAGRAPH.

THE GUARANTOR HEREBY WAIVES ALL RIGHTS TO TRIAL BY JURY IN ANY ACTION OR PROCEEDING WHICH PERTAINS DIRECTLY OR INDIRECTLY TO THIS GUARANTY.

IN WITNESS WHEREOF, this Guaranty has been duly executed by the undersigned as of this 10th day of March, 1998.

CENCI POWDER PRODUCTS, INC.

By: /s/ Michael Reicher

Name: Michael Reicher
Title: Chief Executive Officer

Exhibit 10.4

GUARANTORS GENERAL SECURITY AGREEMENT

THIS GUARANTORS GENERAL SECURITY AGREEMENT ("Guarantors Security Agreement") is made and entered into as of March 10, 1998, among CENCI POWDER PRODUCTS, INC., a Delaware corporation, with its principal place of business at 1420 E. Street, Fresno, California, HALSEY PHARMACEUTICAL, INC., a Delaware corporation, with its principal place of business at 245 Old Hook Road, Westwood, New Jersey, HOUBA INC., an Indiana corporation, with its principal place of business at 16235 State Road 17, Culver, Indiana, H.R. CENCI LABORATORIES, INC., a California corporation, with its principal place of business at 152 No. Broadway, Fresno, California and INDIANA FINE CHEMICALS, INC., a Delaware corporation, with its principal place of business at 16235 State Road 17, Culver, Indiana (each of which is hereinafter referred to as a "Guarantor" and all of which are collectively referred to as the "Guarantors"), and GALEN PARTNERS III, L.P., a Delaware limited partnership, with its principal place of business at 610 Fifth Avenue, Suite 5th Floor, New York, New York 10020, acting in its capacity as agent for the Purchasers (in such capacity, the "Agent").

W I T N E S S E T H

WHEREAS, Galen, certain other purchasers (together with Galen, the "Purchasers") and Halsey Drug Co., Inc. (the "Company") have entered into a Debenture and Warrant Purchase Agreement dated as of the date hereof (as the same may be amended, modified, supplemented or restated from time to time, the "Purchase Agreement"; terms which are capitalized herein and not otherwise defined shall have the meanings ascribed to them in the Purchase Agreement);

WHEREAS, each of the Guarantors has executed and delivered to the Purchasers a Continuing Unconditional Secured Guaranty dated the date hereof (each a "Guaranty") of the Company's obligations under the Purchase Agreement (collectively, the "Obligations"); and

WHEREAS, the Purchasers have required, as a condition precedent to the effectiveness of the Purchase Agreement, that each Guarantor (i) grant to the Agent, for the ratable benefit of the Purchasers, a security interest in and to the Collateral (as defined in Section II below) and (ii) execute and deliver this Guarantors Security Agreement in order to secure the payment and performance by such Guarantor of the Guaranty.

NOW, THEREFORE, in consideration of the premises and in order to induce the Purchasers to enter into and perform the Purchase Agreement, each Guarantor hereby agrees as follows:

SECTION I. CREATION OF SECURITY INTEREST.

Each Guarantor hereby pledges, assigns and grants to the Agent a continuing perfected lien on and security interest in all of such Guarantor's right, title and interest in and

to the Collateral (as defined in Section II below) in order to secure the payment and performance of all Obligations owing by such Guarantor.

SECTION II. COLLATERAL.

For purposes of this Guarantors Security Agreement, the term "Collateral" shall mean, with respect to each Guarantor, 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 such Guarantor 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 such Guarantor relating thereto. "Proceeds" hereunder include (i) whatever is now or hereafter received by such Guarantor 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 accounts, money, tax refund claims, contract rights, goods or equipment and (ii) any such items which are now or hereafter acquired by such Guarantor with any proceeds of Collateral hereunder:

A. Accounts. All of such Guarantor'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 the Agent), including, without limitation, all accounts created by or arising from all of such Guarantor's sales of goods or rendition of services made under any of such Guarantor'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 such Guarantor 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 such Guarantor's inventory, including without limitation (i) all raw materials, work in process, parts, components, assemblies, supplies and materials used or consumed in such Guarantor's businesses, wherever located and whether in the possession of such Guarantor or any other Person (for the purposes of this Company Security 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); (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 such Guarantor or any other person or entity; and (iii) all goods returned to or repossessed by such Guarantor (all of the foregoing property being hereinafter referred to as "Inventory");

C. Equipment. All of the equipment owned or leased by such Guarantor, 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 such Guarantor'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 each Guarantor'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 such Guarantor' rights to use the patents, trademarks, copyrights, service marks, or other property of the aforesaid nature of other Persons now or hereafter licensed to such Guarantor, together with the goodwill of the business symbolized by or connected with such Guarantor's trademarks, copyrights, service marks, licenses and the other rights included in this section II(E).

SECTION III. THE GUARANTORS' REPRESENTATIONS AND WARRANTIES.

Each Guarantor severally represents and warrants as follows:

A. Places of Business. Such Guarantor has no places 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 such Guarantor's chief executive offices 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. None of the Collateral is subject to contractual obligations that may restrict or inhibit the Agent's rights 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 such Guarantor 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 such Guarantor, such Guarantor'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 IV. COVENANTS OF THE GUARANTORS.

Each Guarantor agrees (which agreements shall be several as to each Guarantor except as otherwise provided) as follows:

A. Defend Against Claims. Such Guarantor will defend the Collateral against all claims and demands of all persons at any time claiming the same or any interest therein unless both the Agent and such Guarantor determine that the claim or demand is not material and that, consequently, such defense would not be consistent with good business judgment. Such Guarantor will 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 the Agent and those permitted under the terms of the Purchase Agreement.

B. Change in Collateral Location. Such Guarantor 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 thereon except from one such location to another such location, unless in each case such Guarantor 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 the Agent any financing statements or other documents required by the Agent to perfect the security interest of the Agent 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 the Agent, such Guarantor 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 the Agent, mark any chattel paper, deliver any chattel paper or instruments to the Agent and take any other actions that are necessary or, in the opinion of the Agent, desirable to perfect or continue the perfection and the first priority of the Agent's 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 Guarantors Security Agreement. Such Guarantor will pay the costs incurred in connection with any of the foregoing.

D. Additional Liens; Transfers. Without the prior written consent of the Agent, such Guarantor 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 Purchase Agreement, and such Guarantor 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 the 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 such Guarantor will hold the proceeds thereof for the benefit of the Agent, and promptly transfer such proceeds to the Agent in kind.

E. Contractual Obligations. Such Guarantor 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, the Agent shall have the right at any time to make any payments and do any other acts the Agent may deem necessary to protect the security interests of the Purchasers in the Collateral, including, without limitation, the rights to pay, purchase, contest or compromise any encumbrance, charge or lien which, in the reasonable judgment of the 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 Guarantors hereby jointly and severally agree to reimburse the Agent for all payments made and expenses incurred under this Guarantors Security Agreement including reasonable fees, expenses and disbursements of attorneys and paralegals acting for the 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 Guarantors Security Agreement, and agree they shall be bound by any payment made or act taken by the Agent hereunder absent the Agent's gross negligence or willful misconduct. The 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 such Guarantor granted pursuant to this Guarantors Security Agreement, upon the creation of Accounts, upon the Agent's request, such Guarantor will execute and deliver to the 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, such Guarantor shall provide the Agent with copies of agreements with, or purchase orders from, the customers of such Guarantor 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, such Guarantor 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 such Guarantor, 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 the 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. Each Guarantor hereby authorizes the Agent to regard such Guarantor's printed name or rubber stamp signature on assignment schedules or invoices as the equivalent of a manual signature by such Guarantor's authorized officers or agents.

H. Insurance. Such Guarantor 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 the 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 Agent's interest in the Collateral and to any payments to be made under such policies.

I. Taxes. Such Guarantor agrees to pay, when due, all taxes lawfully levied or assessed against such Guarantor 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 such Guarantor, 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. Such Guarantor 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 such Guarantor contests any such requirements of law in a reasonable manner and in good faith. Such Guarantor 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 such Guarantor to conduct its business in all material respects.

K. Maintenance of Property. Such Guarantor 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 their properties.

L. Environmental and Other Matters. Such Guarantor 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 such Guarantor 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 such Guarantor shall comply with the order of any court or other governmental authority relating to such laws unless such Guarantor 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. Such Guarantor 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 Purchase Agreement and the documentation relating thereto, including this Guarantors Security Agreement, and to perfect or protect the liens (and the priority status thereof) of the Agent in the Collateral.

SECTION V. 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:

(a) personally, or by agents or attorneys, immediately retake possession of the Collateral or any part thereof, from any Guarantor 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 such Guarantor'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 and other facilities of such Guarantor;

(b) 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;

(c) withdraw all monies, securities and instruments held pursuant to any pledge arrangement for application to the Obligations;

(d) sell, assign or otherwise liquidate, or direct any Guarantor 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;

(e) take possession of the Collateral or any part thereof, by directing any Guarantor in writing to deliver the same to the Agent at any place or places designated by the Agent, in which event such Guarantor shall at its own expense:

a. forthwith cause the same to be moved to the place or places so designated by the Agent and there delivered to the Agent,

b. 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

c. 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 any Guarantor's obligation to so deliver the Collateral is of the essence of this Guarantors Security 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 such Guarantor 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 the 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 such Guarantor 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 such Guarantor or any nominee of such Guarantor 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 such Guarantor 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 Agent, be subject to reserve), 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, the 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 such Guarantor (except to the extent of surplus money received). If, under mandatory requirements of applicable law, the Agent shall be required to make disposition of the Collateral within a period of time which does not permit the giving of notice to such Guarantor as hereinabove specified, the Agent need give such Guarantor only such notice of disposition as shall be reasonably practicable in view of such mandatory requirements of applicable law.

C. Power of Attorney. Each Guarantor hereby irrevocably authorizes and appoints the Agent, or any Person or agent the Agent may designate, as such Guarantor's attorney-in-fact, at such Guarantor'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 such Guarantor shall have been paid and satisfied in full:

(a) accelerate or extend the time of payment, compromise, issue credits, bring suit or administer and otherwise collect Accounts or proceeds of any Collateral;

(b) receive, open and dispose of all mail addressed to such Guarantor and notify postal authorities to change the address for delivery thereof to such address as the Agent may designate;

(c) give customers indebted on Accounts notice of the Agent's interest therein, and/or to instruct such customers to make payment directly to the Agent for such Guarantor's account;

(d) convey any item of Collateral to any purchaser thereof;

(e) give any notices or record any liens under Section IVC hereof; and

(f) make any payments or take any acts under Section IVF hereof.

The Agent's authority under this Section VC shall include, without limitation, the authority to execute and give receipt for any certificate of ownership or any document, transfer title to any item of Collateral, sign such Guarantor'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 such Guarantor'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 such Guarantor's name on a proof of claim in bankruptcy or similar document against any customer of such Guarantor, and to take any other actions arising from or incident to the rights, powers and remedies granted to the Agent in this Guarantors Security Agreement. This power of attorney is coupled with an interest and is irrevocable by such Guarantor.

D. Waiver of Claims. Except as otherwise provided in this Guarantors Security Agreement, EACH GUARANTOR HEREBY WAIVES, TO THE EXTENT PERMITTED BY APPLICABLE LAW, NOTICE AND JUDICIAL HEARING IN CONNECTION WITH THE 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 ANY GUARANTOR WOULD OTHERWISE HAVE UNDER THE CONSTITUTION OR ANY STATUTE OF THE UNITED STATES OR OF ANY STATE, and each Guarantor hereby further waives, to the extent permitted by law:

(a) all damages occasioned by such taking of possession except any damages which are the direct result of the Agent's gross negligence or willful misconduct;

(b) 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

(c) 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 Guarantors Security Agreement or the absolute sale of the Collateral or any portion thereof, and such Guarantor, 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 such Guarantor therein and thereto, and shall be a perpetual bar both at law and in equity against such Guarantor 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 such Guarantor.

E. Remedies Cumulative. Each and every right, power and remedy hereby specifically given to the Agent shall be in addition to every other right, power and remedy specifically given under this Guarantors Security Agreement, under the Purchase 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 the 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 the 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 VI. 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 any Guarantor, then to the attention of Mr. Michael Reicher, c/o Halsey Drug. Co., Inc., 1827 Pacific Street, Brooklyn, New York 11233, fax no. (718) 467-4261, 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 Associates, 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 Guarantors Security Agreement are for purposes of reference only and shall not affect the meaning or construction of any provision of this Guarantors Security Agreement.

C. Severability. The provisions of this Guarantors Security 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 Guarantors Security Agreement in any jurisdiction.

D. Amendments, Waivers and Consents. Any amendment or waiver of any provision of this Guarantors Security Agreement and any consent to any departure by any Guarantor from any provision of this Guarantors Security 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 Guarantors Security 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 Guarantors Security Agreement shall not be relevant in determining the meaning of this Guarantors Security 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 Company Security 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 Guarantors, (ii) be binding upon each Guarantor, and its successors and assigns and (iii) inure to the benefit of the Agent and its successors and assigns.

G. Reinstatement. To the extent permitted by law, this Guarantors Security Agreement shall continue to be effective or be reinstated if at any time any amount received by the Agent in respect of the Obligations owing by the Guarantors is rescinded or must otherwise be restored or returned by the Agent 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 Guarantors contained herein shall survive the execution and delivery of this Guarantors Security Agreement, and shall terminate only upon the full and final indefeasible payment and performance by the Guarantors of the Obligations secured hereby.

I. Setoff. The Agent shall have all rights of setoff available at law or in equity.

J. Power of Attorney. In addition to the powers granted to the Agent under Section VC, each Guarantor hereby irrevocably authorizes and appoints the Agent, or any Person or agent the Agent may designate, as such Guarantor's attorney-in-fact, at such Guarantor'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:

(a) after the occurrence of an Event of Default, to receive, take, endorse, sign, assign and deliver, all in the name of the Agent or such Guarantor, any and all checks, notes, drafts, and other documents or instruments relating to the Collateral; and

(b) 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 the Agent. Neither the Agent nor any director, officer, employee, attorney or agent of the Agent shall be liable to any Guarantor 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 the Agent be responsible for the validity, effectiveness or sufficiency of this Guarantors Security Agreement or of any document or security furnished pursuant hereto. The Agent and its 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. Each Guarantor agrees to indemnify and hold harmless the Agent and any other person 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 the Agent or such person hereunder, unless such claim or liability shall be due to willful misconduct or gross negligence on the part of the Agent or such person.

L. Release; Termination of Agreement. Subject to the provisions of Section VIG hereof, this Guarantors Security Agreement shall terminate upon full and final indefeasible payment and performance of all the Obligations owing by each Guarantor. At such time, the Agent shall, at the request of any Guarantor, reassign and redeliver to such Guarantor all of the Collateral hereunder which has not been sold, disposed of, retained or applied by the Agent in accordance with the terms hereof. Such reassignment and redelivery shall be without warranty by or recourse to the Agent, except as to the absence of any prior assignments by the Agent of its interest in the Collateral, and shall be at the expense of such Guarantor.

M. Counterparts. This Guarantors Security 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 GUARANTORS SECURITY AGREEMENT AND ANY DISPUTE ARISING OUT OF OR IN CONNECTION WITH THIS GUARANTORS SECURITY 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 ANY GUARANTOR AND THE AGENT, 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 THE AGENT SHALL HAVE THE RIGHT, TO THE EXTENT PERMITTED BY APPLICABLE LAW, TO PROCEED AGAINST ANY GUARANTOR OR ITS PROPERTY IN ANY LOCATION REASONABLY SELECTED BY THE AGENT IN GOOD FAITH TO ENABLE THE AGENT TO REALIZE ON SUCH PROPERTY, OR TO ENFORCE A JUDGMENT OR OTHER COURT ORDER IN FAVOR OF THE AGENT. EACH GUARANTOR AGREES THAT IT WILL NOT ASSERT ANY PERMISSIVE COUNTERCLAIMS, SETOFFS OR CROSS-CLAIMS IN ANY PROCEEDING BROUGHT BY THE AGENT. EACH GUARANTOR WAIVES ANY OBJECTION THAT IT MAY HAVE TO THE LOCATION OF THE COURT IN WHICH THE 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. EACH GUARANTOR HEREBY IRREVOCABLY AGREES THAT SERVICE OF PROCESS IN ANY LEGAL ACTION OR PROCEEDING WITH RESPECT TO THIS GUARANTORS SECURITY AGREEMENT MAY BE EFFECTED BY MAILING A COPY THEREOF BY REGISTERED OR CERTIFIED MAIL, POSTAGE PREPAID, TO SUCH GUARANTOR AT ITS ADDRESS SET FORTH IN SECTION VIA HEREOF.

Q. JURY TRIAL. EACH GUARANTOR AND THE AGENT EACH HEREBY WAIVE ANY RIGHT TO A TRIAL BY JURY.

R. LIMITATION OF LIABILITY. THE AGENT SHALL NOT HAVE ANY LIABILITY TO ANY GUARANTOR (WHETHER SOUNDING IN TORT, CONTRACT, OR OTHERWISE) FOR LOSSES SUFFERED BY ANY GUARANTOR IN CONNECTION WITH, ARISING OUT OF, OR IN ANY WAY RELATED TO THE TRANSACTIONS OR RELATIONSHIPS CONTEMPLATED BY THIS GUARANTORS SECURITY 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 THE AGENT, 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 the Agent 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 the Agent of any right or remedy shall preclude any other or further exercise thereof, or preclude any other right or remedy.

IN WITNESS WHEREOF, each Guarantor has caused this Guarantors Security Agreement to be duly executed and delivered as of the day and year first above written.

CENCI POWDER PRODUCTS, INC.

By: /s/ Michael Reicher

Name: Michael Reicher
Title: Chief Executive Officer

HALSEY PHARMACEUTICAL, INC.

By: /s/ Michael Reicher

Name: Michael Reicher
Title: Chief Executive Officer

HOUBA, INC.

By: /s/ Michael Reicher

Name: Michael Reicher
Title: Chief Executive Officer

H.R. CENCI LABORATORIES, INC.

By: /s/ Michael Reicher

Name: Michael Reicher
Title: Chief Executive Officer

INDIANA FINE CHEMICALS, INC.

By: /s/ Michael Reicher

Name: Michael Reicher
Title: Chief Executive Officer

By its acceptance hereof, as of the day and year first above written, the Agent agrees to be bound by the provisions hereof applicable to it.

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

By: /s/ Bruce F. Wesson

Name: Bruce F. Wesson
Title: Managing Member

SCHEDULE A

IIIA. Locations of Collateral

1. Cenci Powder Products, Inc. - 1420 E. Street, Fresno, CA
2. Halsey Pharmaceutical, Inc. - 245 Old Hook Road, Westwood, NJ
3. Houba, Inc. - 16235 State Road 17, Culver, IN
4. H.R. Cenci Laboratories Inc. - 152 No. Broadway, Fresno, CA
5. Indiana Fine Chemicals, Inc. - 16235 State Road 17, Culver, IN

IIID. Liens

All Guarantors

1. Lien in favor of The Chase Manhattan Bank as agent for The Chase Manhattan Bank, The Bank of New York and Israel Discount Bank pursuant to the Credit Agreement with such banks dated December 1, 1992, as amended.

2. Schedule 10.4 to the Schedule of Exceptions to the Purchase Agreement is incorporated herein by reference.

3. Houba, Inc. - Mortgage lien and security interest in favor of Par Pharmaceutical, Inc. covering property in Culver, Indiana.

Exhibit 10.5

STOCK PLEDGE AGREEMENT

THIS STOCK PLEDGE AGREEMENT (this "Agreement") dated as of March 10, 1998 from HALSEY DRUG CO., INC., a New York corporation (the "Pledgor"), to GALEN PARTNERS III, L.P., a Delaware limited partnership, as Agent for the Purchasers, as hereinafter defined (the "Pledgee").

WHEREAS, the Pledgor is entering into a Debenture and Warrant Purchase Agreement dated of even date herewith (the "Purchase Agreement") with various purchasers, including the Agent (collectively, the "Purchasers");

WHEREAS, it is a condition precedent to the effectiveness of the Purchase Agreement that the Pledgor shall have executed this Agreement and made the pledges referred to herein in favor of the Pledgee, for the ratable benefit of the Purchasers, as contemplated hereby.

NOW, THEREFORE, in consideration of the premises and to induce the Purchasers and the Pledgee to enter into the Purchase Agreement, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Pledgor hereby agrees with the Pledgee as follows:

1. Definitions. Unless the context otherwise requires, all terms used but not expressly defined herein shall have the meanings given to them in the Purchase Agreement, or, if they are not defined in the Purchase Agreement, but are defined in the New York Uniform Commercial Code (the "Code"), they shall have the same meaning herein as in the Code.

2. Pledge of the Pledged Stock; Power of Attorney.

(a) As security for the prompt payment and performance when due of the obligations owing by the Pledgor to the Purchasers under the Purchase Agreement and the agreements, documents and instruments delivered by the Pledgor pursuant thereto or in connection therewith (collectively, the "Obligations"), the Pledgor hereby pledges to the Pledgee, for the ratable benefit of the Purchasers, and grants to the Pledgee, for the ratable benefit of the Purchasers, a lien on and security interest in the following (collectively the "Pledged Collateral"): (i) all of the issued and outstanding shares of common stock of each of Cenci Powder Products, Inc. ("Cenci" or a "Subsidiary"), Halsey Pharmaceuticals, Inc. ("HP, Inc." or a "Subsidiary"), Houba, Inc. ("Houba" or a "Subsidiary"), HR Cenci Laboratories, Inc. ("HR Cenci" or a "Subsidiary") and Indiana Fine Chemicals, Inc. ("Indiana" or a "Subsidiary" and together with Cenci, HP, Inc., Houba and HR Cenci, the "Subsidiaries") which shares are more particularly described on Schedule A hereto (the "Pledged Stock"), (ii) all additional shares of common stock at any time issued to the Pledgee by any of Cenci, HP, Inc., Houba, HR Cenci and Indiana, (iii) the certificates evidencing all such shares and securities, (iv) subject to Section 6 hereof, all dividends, cash, instruments and other property from time to time received,

receivable or otherwise distributed in respect of or in exchange for any or all of the Pledged Stock and such shares and securities and (v) all proceeds of any of the foregoing (including, without limitation, proceeds constituting any property of the types described above). The Pledgor shall deliver to the Pledgee original stock certificates for all of the Pledged Stock, each accompanied by an undated stock power executed in blank by the Pledgor.

(b) The Pledgee shall have no obligation with respect to the Pledged Collateral or any other property held or received by it hereunder except to use reasonable care in the custody thereof to the extent required by law. The Pledgee may hold the Pledged Collateral in the form in which it is received by it.

(c) The Pledgor, to the full extent permitted by law, hereby constitutes and irrevocably appoints the Pledgee (and any officer or agent of the Pledgee, with full power of substitution and revocation) as the Pledgor's true and lawful attorney-in-fact, in the Pledgor's stead and in the name of the Pledgor or in the name of the Pledgee, to transfer, upon the occurrence and during the continuance of an Event of Default (as hereinafter defined) or at any time the Pledgee, based on all the facts and circumstances then existing, and in the exercise of its commercially reasonable credit judgment, reasonably believes in good faith, and has so notified the Pledgor in writing, that, in connection with the Purchase Agreement and the agreements, documents and instruments delivered by the Pledgor pursuant thereto or in connection therewith, fraud has occurred with respect to the Pledgor 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), controlling, controlled by, or under common control with the Pledgor which has a material adverse effect on the operations or condition (financial or otherwise) of the Pledgor and its subsidiaries, taken as a whole (a "Fraud"), the Pledged Collateral on the books of Cenci, HP, Inc., Houba, HR Cenci and Indiana, as applicable, in whole or in part, to the name of the Pledgee or such other Person or Persons as the Pledgee may designate and, upon the occurrence and during the continuance of an Event of Default or at any time the Pledgee, based on all the facts and circumstances then existing, and in the exercise of its commercially reasonable credit judgment, reasonably believes in good faith, and has so notified the Pledgor in writing, that Fraud has occurred, to take all such other and further actions as the Pledgor could have taken with respect to the Pledged Collateral which the Pledgee in its reasonable judgment determines to be necessary or appropriate to accomplish the purposes of this Agreement.

(d) The powers of attorney granted pursuant to this Agreement and all authority hereby conferred are granted and conferred solely to protect the Pledgee's interests in the Pledged Collateral and shall not impose any duty upon the attorney-in-fact to exercise such powers. Such powers of attorney shall be irrevocable prior to the payment in full of the Obligations, and, shall not be terminated prior thereto or affected by any act of the Pledgor or other Persons or by operation of law.

(e) Except to the extent that the Pledgee releases its pledge of any of the Pledged Collateral, each Person who shall be a transferee of the beneficial ownership of any of the Pledged Collateral shall be deemed to have irrevocably appointed the Pledgee, with full power of substitution and revocation, as such Person's true and lawful attorney-in-fact in such

Person's name and otherwise to do any and all acts herein permitted and to exercise any and all powers herein conferred; provided, however, no Person shall exercise any such power of attorney unless an Event of Default shall have occurred and be continuing.

3. Rights of the Pledgor; Voting.

(a) During the term of this Agreement, and so long as no Voting Notice (as defined below) is received from the Pledgee following the occurrence and during the continuance of an Event of Default as hereinafter provided in this Section 3, the Pledgor shall have the right to vote any of the Pledged Collateral in all corporate matters except those which would contravene this Agreement, the Purchase Agreement or the agreements, documents and instruments delivered by the Pledgor and each Subsidiary pursuant thereto unless the Pledgee consents thereto.

(b) Upon the occurrence and during the continuance of an Event of Default or from and after such time as the Pledgee has notified the Pledgor in writing that based on all the facts and circumstances than existing, and in the exercise of its commercially reasonable judgment, Pledgee reasonably believes in good faith that Fraud has occurred, the Pledgor shall give the Pledgee at least five (5) days' prior notice of (i) any meeting of stockholders of any of the Subsidiaries or any meeting of directors convened for any purpose and (ii) any written consent which the Pledgor proposes to execute as the stockholder of any of the Subsidiaries or which any of the representatives of the Pledgor proposes to execute as a director of any of the Subsidiaries. During the continuance of an Event of Default, the Pledgor hereby authorizes the Pledgee to send its agents and representatives to any such meeting of shareholders or directors of any of one of the Subsidiaries that the Pledgee wishes to attend, and agrees to take such steps as may be necessary to confirm and effectuate such authority, including, without limitation, causing such Subsidiary to give reasonable prior written notice to the Pledgee of the time and place of any such meeting and the principal actions to be taken thereat.

(c) Notwithstanding the occurrence of an Event of Default, the Pledgor may continue to exercise the voting rights of the Pledgor as herein described (and subject to the limitations herein) except to the extent that the Pledgee may elect to exercise voting power (as determined by it in its sole discretion) by a written notice given to the Pledgor at any time during the continuance of an Event of Default (a "Voting Notice"), whereupon the Pledgee shall have the exclusive right during the continuance of an Event of Default to exercise such rights to the extent specified in such Voting Notice, and the Pledgor shall take all such steps as may be necessary to effectuate such rights until the Pledgee notifies the Pledgor of the release of such rights. Once any such Event of Default has been cured or waived, any relevant Voting Notice shall be deemed to be rescinded.

4. No Restrictions on Transfer. The Pledgor warrants and represents that there are no restrictions on the transfer of the Pledged Stock except for such restrictions imposed by operation of law, that there are no options, warrants or rights pertaining thereto, and that the Pledgor has the right to transfer the Pledged Stock free of any encumbrances and without the consent of the creditors of the Pledgor or the consent of any of the Subsidiaries or any other Person or any governmental agency whatsoever.

5. No Transfer or Liens; Additional Securities. The Pledgor agrees that it will not sell, transfer or convey any interest in, or suffer or permit any lien or encumbrance to be created upon or with respect to, any of the Pledged Collateral during the term of this Agreement, except to or in favor of the Pledgee, or as agreed to in advance by the Pledgee in accordance with the terms of the Purchase Agreement. The Pledgor shall not cause, suffer or permit any Subsidiary to issue any common or preferred stock, or any other equity security, to any Person, unless the Pledgee otherwise consents in writing (which consent may be withheld in the Pledgee's reasonable credit judgment).

6. Adjustments of Capital Stock; Payment and Application of Dividends. In the event that during the term of this Agreement any stock dividend, reclassification, readjustment or other change is declared or made in the capital structure of any Subsidiary or if any other or additional shares of stock of any Subsidiary are issued to the Pledgor, all new, substituted and additional shares or other securities issued by reason of any such change or acquisition shall immediately be delivered by the Pledgor to the Pledgee and shall be deemed to be part of the "Pledged Collateral" under the terms of this Agreement in the same manner as the shares of stock originally pledged hereunder. Upon the occurrence and during the continuance of an Event of Default, all cash dividends received by or payable to the Pledgor in respect of the Pledged Collateral, including any additional shares of stock received by the Pledgor as a result of the Pledgor's record ownership of the Pledged Stock, shall immediately be delivered by the Pledgor to the Pledgee, to be held by the Pledgee as Pledged Collateral hereunder or to be applied by the Pledgee against the Obligations. Upon the occurrence and during the continuance of an Event of Default, the Pledgor will not demand and will not be entitled to receive, any cash dividends or other income, interest or property in or with respect to the Pledged Collateral, and if the Pledgor receives any of the same, the Pledgor shall immediately deliver it to the Pledgee to be held by it and applied as provided in the preceding sentence.

7. Warrants and Options. In the event that during the term of this Agreement subscription warrants or other rights or options shall be issued to the Pledgor in connection with the Pledged Collateral, all such stock warrants, rights and options shall forthwith be assigned to the Pledgee by the Pledgor, and said stock warrants, rights and options shall be, and, if exercised by the Pledgor, all new stock issued pursuant thereto shall be, pledged by the Pledgor to the Pledgee to be held as, and shall be deemed to be part of, the Pledged Collateral under the terms of this Agreement in the same manner as the shares of capital stock originally pledged hereunder.

8. Return of Pledged Collateral Upon Termination. Upon the release, satisfaction, discharge or termination of all of the Obligations and the termination of the Purchase Agreement, the Pledgee shall cause to be transferred or returned to the Pledgor all of the stock pledged by the Pledgor herein and any money, property and rights received by the Pledgee pursuant hereto, to the extent the Pledgee has not taken, sold or otherwise realized upon the same as permitted hereunder, together with all other documents reasonably required by the Pledgor to evidence termination of the pledge contemplated hereby.

9. Events of Default; Remedies. (a) Upon the occurrence and during the continuance of any Event of Default (as defined below), the Pledgee shall have and at any time

may exercise with respect to the Pledged Collateral, the proceeds thereof, and any other property or money held by the Pledgee hereunder, all rights and remedies available to it under law, including, without limitation, those given, allowed or permitted to a secured party by or under the Code, and all rights and remedies provided for herein. "Event of Default" shall mean the occurrence of an Event of Default as defined in the Purchase Agreement.

(b) Without limiting the foregoing, in the event that the Pledgee elects to sell the Pledged Stock (such term including, for purposes of this Section 9, the Pledged Stock and all other shares of stock or securities at any time forming part of the Pledged Collateral), the Pledgee shall have the power and right in connection with any such sale, exercisable at its option and in its absolute discretion, to sell, assign, and deliver the whole or any part of the Pledged Stock or any additions thereto at a private or public sale for cash, on credit or for future delivery and at such price as the Pledgee deems to be satisfactory. Notice of any public sale shall be sufficient if it describes the Pledged Collateral to be sold in general terms, and is published at least once in the New York Times not less than ten (10) days prior to the date of sale. If the New York Times is not then being published, publication may be made in lieu thereof in any newspaper then being circulated in the City of New York, New York, as the Pledgee may elect. All requirements of reasonable notice under this Section 9 shall be met if such notice is mailed, postage prepaid at least ten (10) days before the time of such sale or disposition, to the Pledgor at its address set forth in Section 16 hereto or such other address as the Pledgor may have, in writing, provided to the Pledgee. The Pledgee may, if it deems it reasonable, postpone or adjourn any sale of any collateral from time to time by an announcement at the time and place of the sale to be so postponed or adjourned without being required to give a new notice of sale.

(c) Because federal and state securities laws may restrict the methods of disposition of the Pledged Stock which are readily available to the Pledgee, and specifically because a public sale thereof may be impossible or impracticable by reason of certain restrictions under the Securities Act of 1933, as amended, or under applicable Blue Sky or other state securities laws as now or hereafter in effect, the Pledgor agrees that the Pledgee may from time to time attempt to sell the Pledged Stock by means of a private placement restricting the offering or sale to a limited number of prospective purchasers who meet suitability standards the Pledgee deems appropriate and who agree that they are purchasing for their own accounts for investment and not with a view to distribution, and the Pledgee's acceptance of the highest offer obtained therefrom shall be deemed to be a commercially reasonable disposition of the Pledged Stock. To the extent permitted by law, the Pledgee or its assigns may purchase all or any part of the Pledged Stock and any purchaser thereof shall thereafter hold the same absolutely free from any right or claim of any kind. To the fullest extent permitted by law, the Pledgee shall not be obligated to make any such sale pursuant to notice and may, without notice or publication, adjourn any public or private sale by announcement at the time and place fixed for the sale, and such sale may be held at any time or place to which the same may be adjourned. If any of the Pledged Stock is sold by the Pledgee upon credit or for future delivery, the Pledgee shall not be liable for the failure of the purchaser to pay for same and, in such event, the Pledgee may resell such Pledged Stock and the Pledgor shall continue to be liable to the Pledgee for the full amount of the Obligations to the extent the Pledgee does not receive full and final payment in cash therefor.

(d) Except as otherwise provided in the Purchase Agreement or by applicable law, the Pledgee shall have the sole right to determine the order in which Obligations shall be deemed discharged by the application of the proceeds of Pledged Stock or any other property or money held hereunder or any amount realized thereon.

10. Certain Representations and Warranties. The Pledgor represents and warrants to the Pledgee that: (a) All shares of Pledged Stock are fully paid, duly and properly issued, nonassessable and owned by the Pledgor free and clear of any lien or encumbrance of any kind whatsoever, excepting those herein granted to the Pledgee, and the Pledged Stock constitutes all of the outstanding securities of any class or kind of all of the Subsidiaries.

(b) No effective financing statement or other instrument similar in effect covering all or any part of the Pledged Collateral is on file in any recording office.

(c) The pledge of the Pledged Collateral pursuant to this Agreement creates a valid and perfected first priority security interest in the Pledged Collateral, securing the payment of the Obligations, and all filing and other actions necessary or desirable to perfect and protect such security interest having been duly made or taken.

(d) No authorization, approval or other action by, and no notice to or filing with, any governmental authority or regulatory body is required for (i) the pledge by the Pledgor of the Pledged Collateral pursuant to this Agreement, the grant by the Pledgor of the assignment or security interest granted hereby or the execution, delivery or performance of this Agreement by the Pledgor, (ii) the perfection of or exercise by the Pledgee of its rights and remedies provided for in this Agreement, or (iii) the exercise by the Pledgee of the voting or other rights provided for in this Agreement or the remedies in respect of the Pledged Collateral pursuant to this Agreement (except as may be required in connection with a judicial foreclosure, if applicable, or the disposition of the Pledged Stock by laws affecting the offering and sale of securities generally).

(e) The Pledgor has full right, power and authority to enter into this Agreement and to grant the security interest in the Pledged Collateral made hereby, and this Agreement constitutes the legal, valid and binding obligation of the Pledgor enforceable against the Pledgor in accordance with its terms, except as the enforceability thereof may be (i) limited by bankruptcy, insolvency, reorganization, moratorium or similar laws affecting the enforceability of creditors' rights generally, and (ii) subject to general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law).

11. Indemnity and Expenses. (a) The Pledgor agrees to and hereby indemnifies the Pledgee from and against any and all claims, damages, losses, liabilities and expenses arising out of, or in connection with, or resulting from this Agreement (including, without limitation, enforcement of this Agreement) unless resulting from or arising out of the negligence, willful misconduct or bad faith of the Pledgee.

(b) The Pledgor agrees promptly upon the Pledgee's demand to pay or reimburse the Pledgee for all reasonable expenses (including, without limitation, reasonable fees and disbursements of counsel) incurred by the Pledgee in connection with (i) any modification

or amendment to or waiver of any provision of this Agreement requested by the Pledgor, (ii) the custody or preservation of the Pledged Collateral, (iii) any actual or attempted sale or exchange of, or any enforcement, collection, compromise or settlement respecting, the Pledged Collateral or any other property or money held hereunder or any other action taken by the Pledgee hereunder reasonably necessary to enforce its rights, whether directly or as attorney-in-fact pursuant to the power of attorney herein conferred, or (iv) the failure by the Pledgor to perform or observe any of the provisions hereof. All such expenses shall be deemed a part of the Obligations for all purposes of this Agreement and the Pledgee may apply the Pledged Collateral or any other property or money held hereunder to payment of or reimbursement for such expenses after notice and demand to the Pledgor.

12. Pledgee May Perform. If the Pledgor fails to perform any agreement contained herein, the Pledgee may, but shall not be obligated to, perform, or cause performance of, such agreement, and the reasonable, out-of-pocket expenses of the Pledgee incurred in connection therewith shall be payable by the Pledgor.

13. Waivers and Amendment. The rights and remedies given hereby are in addition to all others however arising, but it is not intended that any right or remedy be exercised in any jurisdiction in which such exercise would be prohibited by law. No action, failure to act or knowledge of the Pledgee shall be deemed to constitute a waiver of any power, right or remedy hereunder, nor shall any single or partial exercise thereof preclude any further exercise thereof or the exercise of any other power, right or remedy. Any right or power of the Pledgee hereunder in respect of the Pledged Collateral and any other property or money held hereunder may at the option of the Pledgee be exercised as to all or any part of the same and the term the "Pledged Collateral" wherever used herein, unless the context clearly requires otherwise, shall be deemed to mean (and shall be read as) "the Pledged Collateral and any other property or money held hereunder or any part thereof." This Agreement shall not be amended nor shall any right hereunder be deemed waived except by a written agreement expressly setting forth the amendment or waiver and signed by the Pledgor.

14. Continuing Security Interest; Assignments of Secured Debt. This Agreement shall create a continuing security interest in the Pledged Collateral and shall (i) remain in full force and effect until released in accordance herewith, (ii) be binding upon the Pledgor, and the Pledgor's successors and assigns, and upon each of the Subsidiaries, and its successors and assigns, and (iii) inure, together with the rights and remedies of the Pledgee hereunder, to the benefit of the Pledgee, its successors and permitted assigns. Without limiting the generality of the foregoing clause (iii), the Pledgee may assign or otherwise transfer all or any portion of its rights and obligations under this Agreement to any other person or entity, to the extent and in the manner provided in the Purchase Agreement and such other person or entity shall thereupon become vested with all the benefits in respect hereof granted to the Pledgee herein; the Pledgee shall, however, retain all of its rights and powers with respect to any part of the Pledged Collateral not transferred. Any agent or nominee of the Pledgee shall have the benefit of this Agreement as if named herein and may exercise all the rights and powers given to the Pledgee hereunder.

15. GOVERNING LAW; SUITS. THIS AGREEMENT AND THE RIGHTS AND OBLIGATIONS OF THE PLEDGOR AND THE PLEDGEE HEREUNDER SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK, NOTWITHSTANDING ITS CONFLICTS OF LAW PRINCIPLES. THE PLEDGOR HEREBY IRREVOCABLY (I) CONSENTS THAT ANY SUIT, ACTION OR LEGAL PROCEEDING ARISING OUT OF OR RELATED IN ANY WAY TO THIS AGREEMENT SHALL, IF THE PLEDGEE SO ELECTS, BE BROUGHT AND ENFORCED IN STATE OR FEDERAL COURTS HAVING SITUS WITHIN THE CITY OF NEW YORK, STATE OF NEW YORK AND (II) WAIVES ANY OBJECTION TO JURISDICTION OR VENUE IN ANY SUCH SUIT, ACTION OR PROCEEDING COMMENCED IN ANY SUCH COURT AND ANY CLAIM THAT SUCH SUIT, ACTION OR PROCEEDING HAS BEEN BROUGHT IN AN INCONVENIENT FORUM. THE PLEDGOR AGREES THAT SERVICE OF PROCESS IN ANY ACTION OR PROCEEDING WITH RESPECT TO THIS AGREEMENT MAY BE EFFECTED BY MAILING A COPY THEREOF BY REGISTERED OR CERTIFIED MAIL (OR ANY SUBSTANTIALLY SIMILAR FORM OF MAIL) POSTAGE PREPAID, TO THE PLEDGOR AT ITS ADDRESS SET FORTH IN SECTION 16 HEREOF.

16. Notices. All notices hereunder shall be in writing (except only as otherwise provided in Section 13) and shall be conclusively deemed to have been received and shall be effective (a) on the day on which delivered if delivered personally (including delivery by courier providing evidence of delivery), or transmitted by telex or telegram or telecopier with transmission confirmed, or (b) five (5) days after the date on which the same is deposited in the United States mail (certified or registered if required under Section 15), with postage prepaid and properly addressed, and any notice mailed shall be addressed:

(a) in the case of the Pledgor, to:

Halsey Drug Co., Inc.
1827 Pacific Street
Brooklyn, New York 11233

with copies to:

St. John & Wayne
2 Penn Plaza East
Newark, New Jersey 07105
Attention: John P. Reilly, Esq.
Telecopier No. (973) 491-3555

(b) in the case of the Pledgee, to:

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

with a copy to:

Wolf, Block, Schorr and Solis-Cohen LLP
250 Park Avenue, 10th Floor
New York, New York 10177
Attention: George N. Abrahams, Esq.
Telecopier No. (212) 986-0604

or at such other address as the party giving such notice shall have been advised of in writing for such purpose by the party to whom or to which the same is directed.

17. WAIVERS OF JURY TRIAL AND CONSEQUENTIAL DAMAGES. THE PLEDGOR AND, BY ITS ACCEPTANCE HEREOF, THE PLEDGEE HEREBY WAIVE TRIAL BY JURY IN ANY LITIGATION IN ANY COURT WITH RESPECT TO, IN CONNECTION WITH, OR ARISING OUT OF THIS AGREEMENT, THE PLEDGED COLLATERAL, OR ANY INSTRUMENT OR DOCUMENT DELIVERED PURSUANT HERETO.

NEITHER THE PLEDGOR OR THE PLEDGEE, NOR ANY EMPLOYEE, AGENT OR ATTORNEY OF EITHER OF THEM, SHALL BE LIABLE TO THE OTHER FOR CONSEQUENTIAL DAMAGES ARISING FROM ANY BREACH OF CONTRACT, TORT OR OTHER WRONG RELATING TO THIS AGREEMENT OR THE ESTABLISHMENT, ADMINISTRATION OR COLLECTION OF THE OBLIGATIONS, EXCEPT FOR BAD FAITH.

18. Severability: Entire Agreement. (a) If any provision of this Agreement shall be invalid, illegal, or unenforceable in any jurisdiction, the validity, legality or enforceability of any such provision in any other jurisdiction shall not be affected or impaired, and to the extent any provision is held invalid, illegal or unenforceable, then such provision shall be deemed severable from, and shall in no way affect the validity or enforceability of the remaining provisions of this Agreement.

(b) This Agreement constitutes the entire agreement of the Pledgor and replaces any other or prior agreements or undertakings, with respect to the subject matter hereof, and there are no other agreements or undertakings, oral or written, respecting such subject matter which are intended to have any force or effect after the execution hereof.

19. Miscellaneous. This Agreement shall be binding upon and shall inure to the benefit of the Pledgor and the Pledgee and their respective successors and permitted assigns. Section headings used herein are for convenience only and shall not affect the meaning or construction of any of the provisions hereof.

IN WITNESS WHEREOF, the Pledgor has caused this Agreement to be executed by its duly authorized officer as of the day and year first above written.

HALSEY DRUG CO., INC.

By: /s/ Micheal Reicher

Name: Michael Reicher
Title: Chief Executive Officer

ACCEPTED AND AGREED TO
AS OF MARCH 10, 1998

GALEN PARTNERS III, L.P.,
INDIVIDUALLY AND AS AGENT

By: Claudius, L.L.C., General Partner

By: /s/ Bruce F. Wesson

Name: Bruce F. Wesson
Title: General Partner

Each of the undersigned hereby agrees to recognize all of the rights granted to the Pledgee under the foregoing Agreement and to take all actions necessary to effectuate said rights and the purposes of the Agreement including, without limitation, performance of any acts requested by the Pledgee pursuant to the terms thereof.

Date: as of March 10, 1998

CENCI POWDER PRODUCTS, INC.

By: /s/ Micheal K. Reicher

Name: Michael K. Reicher
Title: Chief Executive Officer

HALSEY PHARMACEUTICAL, INC.

By: /s/ Micheal K. Reicher

Name: Michael K. Reicher
Title: Chief Executive Officer

HOUBA, INC.

By: /s/ Micheal K. Reicher

Name: Michael K. Reicher
Title: Chief Executive Officer

H.R. CENCI LABORATORIES, INC.

By: /s/ Micheal K. Reicher

Name: Michael K. Reicher
Title: Chief Executive Officer

INDIANA FINE CHEMICALS, INC.

By: /s/ Micheal K. Reicher

Name: Michael K. Reicher
Title: Chief Executive Officer

SCHEDULE A

Designation and Number of
shares of capital stock owned by Pledgor

Issuer	Certificate No.	Designation	Number of Shares
Cenci Powder Products, Inc.	_	Common Stock, $.01 par value	___
Halsey Pharmaceutical, Inc.	_	Common Stock, $.01 par value	___
Houba, Inc.	_	Common Stock, $.01 par value	___
H.R. Cenci Laboratories, Inc.	_	Common Stock, $.01 par value	___
Indiana Fine Chemicals, Inc.	_	Common Stock, $.01 par value	___

Exhibit 10.6

EXHIBIT L-2

HALSEY DRUG CO., INC.

PROXY FOR SHAREHOLDERS' MEETING

IRREVOCABLE PROXY

KNOW ALL MEN BY THESE PRESENTS, that I, _____, residing at _____ being the holder of _____ shares of Common Stock of HALSEY DRUG CO., INC. (the "Company"), do hereby constitute and appoint Bruce F. Wesson, as my proxy to attend the first Annual Meeting of the Stockholders of the Company to be held after the date hereof or any continuation or adjournment thereof, will full power to vote and act for me and in my name, place and stead, on each of the below listed matters in the same manner, to the same extent and with the same effect that I might were I personally present thereat, giving to said Bruce F. Wesson, full power of substitution and revocation, and I hereby revoke any other proxy heretofore given by me:

(i) to vote in favor of a proposed amendment to the Company's Certificate of Incorporation

(a) increasing the number of shares of the Company's Common Stock authorized for issuance from 20,000,000 to 40,000,000 shares; and

(b) providing that the holder of Debentures issued by the Company to those Purchasers a party to that certain Debenture and Warrant Purchaser Agreement, dated on or about March 10, 1998 (the "Purchase Agreement"), shall have the right to vote as part of a single class with all holders of the Company's Common Stock on an as-converted basis;

each as provided in Section 9.14 of the Purchase Agreement; and

(ii) to ratify the appointment of three (3) persons nominated to the Company's Board of Directors at the request of the Purchasers pursuant to Section 9.8 of the Purchase Agreement.

A copy of the Purchase Agreement is attached hereto and made a part hereof.

Dated: March ____, 1998

_____
Shareholder

_____
Print Name

Exhibit 10.7

March 10, 1998

Galen Partners III, L.P.
610 Fifth Avenue, 5th Floor
New York, New York 10020

Gentlemen:

Reference is made to the Debenture and Warrant Purchase Agreement dated the date hereof among Halsey Drug Co., Inc. (the "Company"), Galen Partners III, L.P. ("Galen") and each of the undersigned (the "Purchase Agreement") and each of the agreements, documents and instruments executed and delivered pursuant thereto or in connection therewith (collectively with the Purchase Agreement, the "Transaction Documents"). Capitalized terms used herein which are not defined herein have the meanings ascribed to them in the Purchase Agreement.

This will confirm that, notwithstanding anything to the contrary contained in the Transaction Documents:

1. Appointment of Agent

(a) Each Purchaser hereby designates Galen as its agent (the "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 Purchaser shall retain the sole power and discretion to convert outstanding principal of the Debentures held by it into Shares and the exercise the Warrants held by it for Shares 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 Purchasers only. The Agent shall act only for the Purchasers and assumes no obligation to or agency or trust relationship with the Company or any of its Subsidiaries, except for the disbursement to the Purchasers of payments received by the Agent for the account of the Purchasers.

2. Nature of Duties of Agent. With respect to the other Purchasers, 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 any Purchaser or any participant of any Purchaser.

3. Lack of Reliance on Agent. Independently and without reliance upon the Agent, each Purchaser 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 Purchasers at any time. If the Agent requests instructions from the Purchasers with respect to any action or inaction, the Agent shall be entitled to await instructions from such Purchasers before such action or inaction. No Purchaser shall have any right of action based upon the Agent's action or inaction in response to instructions from such Purchasers.

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 in good faith based upon such advice.

6. Indemnification of Agent. Each Purchaser agrees to reimburse and indemnify the Agent for any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses (including counsel 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 any other Purchaser 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 the Purchasers and the Company, resign by giving written notice thereof to the Purchasers 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 Purchasers may appoint a successor Agent. If a successor Agent has not accepted its appointment within fifteen business days, then the retiring Agent may, on behalf of the Purchasers, 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) Each Purchaser authorizes and directs the Agent to enter into the other agreements for the benefit of the Purchasers. At any time, without notice to or consent from any Purchaser, the Agent may take any action necessary or advisable to perfect and maintain the perfection of the liens upon the Collateral.

(b) The Agent is authorized to release any lien granted to or held by the Agent upon any Collateral.

(c) The Agent shall have no obligation to assure that the Collateral exists or is owned by the Company or any of its Subsidiaries, or that such Collateral is cared for, protected or insured, or that the liens in 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 the Agent's own interest in the Collateral as one of the Purchasers, and it shall have no duty or liability whatsoever to the Purchasers, except for its gross negligence or willful misconduct.

10. 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.

11. 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.

12. 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.

13. Further Assurances. The Purchasers 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.

14. 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.

15. Entire Agreement; Amendment. This Agreement constitutes the entire agreement 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.

16. 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 any Purchaser, then to the address set forth opposite the name of the Purchaser on the signature page hereof, and if to the Agent, then to the attention of Mr. Srini Conjeevaram c/o Galen Associates, 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.

17. 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 and rules then obtaining of the American Arbitration Association or any successor thereto. Within ten days after a request for arbitration by one party to the other, each party shall each select one arbitrator (provided that if more than one Purchaser is a party to an arbitration with the Agent then the Purchasers shall jointly select one arbitrator). Within ten days after the second of such arbitrators has been selected, the two arbitrators thereby selected shall choose a third arbitrator who shall be the Chairman of the panel. If the first two arbitrators selected cannot agree upon a third arbitrator, the American Arbitration Association shall name the third arbitrator. The arbitration shall be held in New York County, New York. The arbitrators may grant injunctions or other relief in such dispute or controversy. In the arbitration, the parties shall be entitled to pre-hearing discovery. The decision of the arbitrators 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 be served inside or outside the State of New York by registered mail or personal service, provided a time period of at least twenty days for appearance is allowed.

Very truly yours,

Name and Signature of Purchaser:	Address of Purchaser:
Galen Employee Fund III, L.P. By: Wesson Enterprises, Inc.	610 Fifth Avenue, 5th Floor NY, NY 10020

By: /s/ Bruce F. Wesson

President

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 be served inside or outside the State of New York by registered mail or personal service, provided a time period of at least twenty days for appearance is allowed.

Very truly yours,

Name and Signature of Purchaser:

Galen Partners III, L.P.
Claudius, L.L.C.
- ----------

By: /s/ Bruce F. Wesson

Managing Member

Address of Purchaser:

610 Fifth Avenue, Suite 5

New York, NY 10020

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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 be served inside or outside the State of New York by registered mail or personal service, provided a time period of at least twenty days for appearance is allowed.

Very truly yours,

Name and Signature of Purchaser:

Galen Partners International III, L.P.
By: Claudius, L.L.C.

By: /s/ Bruce F. Wesson
Managing Member

Address of Purchaser:

610 Fifth Avenue, 5th Floor
New York, NY 10020

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 be served inside or outside the State of New York by registered mail or personal service, provided a time period of at least twenty days for appearance is allowed.

Very truly yours,

Name and Signature of Purchaser:

/s/ Bernard Seiz
- ----------

By: Bernard Seiz

Address of Purchaser:

121 East 73rd St.

New York, NY 10021

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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 be served inside or outside the State of New York by registered mail or personal service, provided a time period of at least twenty days for appearance is allowed.

Very truly yours,

Name and Signature of Purchaser:

Kenneth J. Gimbel

By: /s/ Kenneth J. Gimbel

Address of Purchaser:

876 Kimball Rd

Highland Park, IL 60035

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 be served inside or outside the State of New York by registered mail or personal service, provided a time period of at least twenty days for appearance is allowed.

Very truly yours,

Name and Signature of Purchaser:
/s/ Hemant K. Shah
- ---------- -----
/s/ Varsha H. Shah
- ---------- -----
By: Hemant K. Shah &
Varsha H. Shah

Address of Purchaser:
29 Christy Drive
---------- -----
Warren, N.J. 07059
---------- -----

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 be served inside or outside the State of New York by registered mail or personal service, provided a time period of at least twenty days for appearance is allowed.

Very truly yours,

Name and Signature of Purchaser:	Address of Purchaser:
/s/ Varsha H. Shah By: Varsha H. Shah as Custodian for Sachin H. Shah	---------- ---------- ----------

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 be served inside or outside the State of New York by registered mail or personal service, provided a time period of at least twenty days for appearance is allowed.

Very truly yours,

Name and Signature of Purchaser:

/s/ Varsha H. Shah
- ---------------------------------
By: Varsha H. Shah as Custodian
for Sumzet H. Shah

Address of Purchaser:

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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 be served inside or outside the State of New York by registered mail or personal service, provided a time period of at least twenty days for appearance is allowed.

Very truly yours,

Name and Signature of Purchaser:

/s/ Ilene Rainisch
- ----------
By: Ilene Rainisch

Address of Purchaser:

315 Devon Pl.

Morganville, NJ 07751
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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 be served inside or outside the State of New York by registered mail or personal service, provided a time period of at least twenty days for appearance is allowed.

Very truly yours,

Name and Signature of Purchaser:

/s/ Michael Rainish
- ----------

By: Michael Rainish

Address of Purchaser:

48 Madford St

Staten Island, NY 10314

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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 be served inside or outside the State of New York by registered mail or personal service, provided a time period of at least twenty days for appearance is allowed.

Very truly yours,

Name and Signature of Purchaser:

/s/ Dennis L. Adams
- ----------

By: Dennis L. Adams

Address of Purchaser:

120 Kynlyn Road

Radnor, PA 19087

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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 be served inside or outside the State of New York by registered mail or personal service, provided a time period of at least twenty days for appearance is allowed.

Very truly yours,

Name and Signature of Purchaser:

Patrick P. Coyne II

By: /s/ Patrick P. Coyne II

Address of Purchaser:

477 Margo Lane

Berwyn, PA 19312

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 be served inside or outside the State of New York by registered mail or personal service, provided a time period of at least twenty days for appearance is allowed.

Very truly yours,

Name and Signature of Purchaser:

x Michael M. Weisbrot
x Susan R. Weisbrot

By: /s/ Michael M. Weisbrot

/s/ Susan R. Weisbrot

Address of Purchaser:

1136 Rock Creek Rd

Gladwyne, PA 19035-1440

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 be served inside or outside the State of New York by registered mail or personal service, provided a time period of at least twenty days for appearance is allowed.

Very truly yours,

Name and Signature of Purchaser:	Address of Purchaser:
GREG WOOD	1263 E. Calaveras St.
By: /s/ Greg Wood	Altadena, CA 91001

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 be served inside or outside the State of New York by registered mail or personal service, provided a time period of at least twenty days for appearance is allowed.

Very truly yours,

Name and Signature of Purchaser:

ALAN JERRARD SMITH

By: /s/ Alan Jerrard Smith

Address of Purchaser:

21 BEDLOW AVE

NEWPORT

RI 02540

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 be served inside or outside the State of New York by registered mail or personal service, provided a time period of at least twenty days for appearance is allowed.

Very truly yours,

Name and Signature of Purchaser:

Michael K. Reicher

By: /s/ Michael K. Reicher

Address of Purchaser:

2214 Churchview Dr. #10

Rockford, IL 61107

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 be served inside or outside the State of New York by registered mail or personal service, provided a time period of at least twenty days for appearance is allowed.

Very truly yours,

Name and Signature of Purchaser	Address of Purchaser:
/s/ Daniel W. Hill	6725 Lynch Ave.
By: Daniel W. Hill	Riverbank, California
	95367

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 be served inside or outside the State of New York by registered mail or personal service, provided a time period of at least twenty days for appearance is allowed.

Very truly yours,

Name and Signature of Purchaser

/s/ Peter R. Clemens
- ----------

By:

Address of Purchaser:

20860 Valley Road

Kildeer, Illinois 60047

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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 be served inside or outside the State of New York by registered mail or personal service, provided a time period of at least twenty days for appearance is allowed.

Very truly yours,

Name and Signature of Purchaser:	Address of Purchaser:
Stephanie Heitmeyer	17759 St. Rt. 66
- ----------	----------
By: /s/ Stephanie Heitmeyer	Ft. Jennings, OH 45844
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Exhibit 99.1

CONTACT: Michael Reicher
President and Chief Executive Officer
(718) 467-7500

FOR IMMEDIATE RELEASE

HALSEY DRUG CO., INC. ANNOUNCES COMPLETION OF $20.8 MILLION IN FINANCING

BROOKLYN, NEW YORK, MARCH 13, 1998 - Halsey Drug Co., (AMEX:HDG) Inc. today announced the completion of a private offering to Galen Partners III, L.P. ("Galen") and certain other existing security holders of the Company (collectively, the "Galen Investor Group") in an aggregate principal amount of $20.8 million. The net proceeds to the Company from the Offering, after deduction of related offering expenses, was approximately $19.6 million. Halsey Drug Co., Inc., together with its subsidiaries, is a manufacturer of generic drugs in solid dosage, liquid and powder forms and bulk pharmaceutical chemicals sold to distributors, wholesalers, drugstores chains, institutions, government agencies and other pharmaceutical manufacturers nationwide.

The terms of the securities issued in the Offering changed materially from those terms described in the Company's press release dated February 20, 1998 and as originally contemplated in the Commitment Letter and Term Sheet between the Company and Galen (the "Commitment Letter") dated February 19, 1998. The Commitment Letter contemplated an offering of 5% Convertible Senior Secured Debentures (the "Debentures"), to be convertible at any time following issuance at a conversion price of $2.375 per share of the Company's common stock. The Warrant

component of the Offering was to consist of 2 million Warrants exercisable at $2.375 per share and 2 million Warrants exercisable at $3.25 per share.

Extensive due diligence by Galen revealed, among other matters, looming enforcement actions by Federal, State and County authorities; that the Company's banks had given notice of a forced sale of certain of their security which would have resulted in the loss of the Company's Indiana facility; the landlord of the Company's Brooklyn facility had served the Company with a 72 hour notice of eviction which would have had the effect of closing down the Company's business; various creditors had obtained judgments against the Company and filed restraining notices against its bank accounts; raw materials could not be purchased in any meaningful quantities because of lack of funds and, accordingly, inventories were severely depleted and sales dramatically reduced. Additionally, the Company's R&D program needs to be expanded and the Brooklyn and Indiana facilities require capital improvements. These changes to previous assumptions have reduced the long term operating margins and lead to Galen's revision of its valuation.

Accordingly, negotiations took place between Galen, prior Investors, and the Company's management and Board of Directors, and it was agreed that the conversion and exercise prices of the Debentures and Warrants, respectively, would be reduced from that discussed in the Commitment Letter and as disclosed in the Company's press release dated February 20, 1998, given the reduced valuation of the Company.

The definitive terms of the Debentures and Warrants issued in the Offering, provide that the entire principal amount of the Debentures are convertible at any time following issuance at a price of $1.50 per share. Similarly, the Warrants issued in the Offering are exercisable at $1.50 per share

with respect to 2 million Warrants and $2.375 per share with respect to the remaining 2 million Warrants. The exercise prices are subject to adjustment after audit.

Based on the foregoing, the Board of Directors determined that the conversion and exercise prices for the Debentures and Warrants as described represent fair value and that the completion of the Offering would permit the Company to satisfy a substantial portion of its current liabilities and to continue its operations in an effort to enhance the shareholder value. The Board of Directors, including its independent directors, unanimously approved the terms of the Offering, including the conversion and exercise prices of the Debentures and Warrants.

As part of the completion of the Offering, and in accordance with the terms of the Debenture and Warrant Purchase Agreement between the Company and the Galen Investor Group, (which includes earlier Investors) (the "Purchase Agreement"), pursuant to which the Debentures and Warrants were issued, Galen nominated, and the Board of Directors elected, two members to the Company's Board of Directors effective as of the closing of the Offering. As now constituted, the Board consist of Michael Reicher, the Company's newly appointed President and Chief Executive Officer, William Skelly, the Company's Chairman, Alan Smith, Rosendo Ferran, William Sumner, Bruce F. Wesson, a Galen designee, and Srini Conjeevaram, a Galen designee. The Purchase Agreement also provides that the Board of Directors will nominate one additional person, selected by Galen, to the Board and solicit Shareholder approval for such candidate and the current Galen designees at the Company's 1998 meeting of shareholders which will be held no later than June 30, 1998. The Purchase Agreement also provides that a majority of the Galen designees on the Board must approve certain material transactions, including the approval of annual operating budgets, charter amendments, transactions resulting in a change of control and the issuance of stock below

market price. Certain existing shareholders owning an aggregate of approximately 25% of the Company's outstanding shares have agreed to vote for approval of actions to be taken at the next annual meeting of shareholders of the Company as required by the Purchase Agreement.

The Debentures rank senior to all indebtedness of the Company and are secured by a first lien on all Company assets. The Company can force the conversion of the Debentures into the Company's common stock provided the stock trades at or above certain levels for a specified period following the two (2) year anniversary of the closing of the Offering.

The Purchase Agreement also grants the Galen Investor Group an option to invest an additional $5 million in the Company at any time within eighteen months from the date of the Closing in exchange for Debentures and Warrants having terms identical to those issued in the Offering (the "Galen Option"). Galen has expressed an indication of interest to exercise the Galen Option in the event the Company is in need of additional capital. No assurance can be given, however, that the Galen Option will be exercised.

Assuming the conversion of the Debentures and the exercise of the Warrants issued in the Offering, as well as the Debentures and Warrants that would be issued upon the exercise of the Galen Option, of which there can be no assurance, the Galen Investor Group would own approximately 55% of the Company's common stock on a fully-diluted basis.

The Debentures also contain other customary terms and provisions, including a premium to par in the event of a change of control of the Company, preemptive rights for future equity issuances by the Company in order to maintain the percentage interest of the Galen Investor Group in the Company, and registration rights.

The Offering net proceeds of approximately $19.6 million have been allocated to satisfy a substantial portion of the Company's current liabilities and accounts payable. Such liabilities include the full satisfaction of the Company's Bank indebtedness and related fees of approximately $3 million, payment to the landlord and satisfaction of judgments and liens. Such repayments have allowed the Company to avoid the threatened foreclosure sale by the Banks of the Indiana facility which secured such indebtedness.

In addition, pursuant to agreements reached with other large creditors in anticipation of completing the Offering, including the Company's Landlord and the Department of Justice, 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. Satisfaction of the Company's current obligations to its Landlord for accrued and unpaid rent, penalties and expenses has allowed the Company to renegotiate its lease and avoid eviction. The Offering proceeds will also allow the Company to satisfy its outstanding state and Federal payroll tax obligations and meet current payroll tax obligations. Finally, the Offering proceeds will allow the Company to satisfy a substantial portion of its extensive arrear accounts payable and to secure discounts relating to such payments.

After giving effect to the application of the net proceeds of the Offering, and based on Management's belief as to the Company's ability to defer a portion of the Company's remaining notes and accounts payable and certain other assumptions, the Company believes that it will have working capital of approximately $3 million. The Company is currently in discussions with a financial institution to secure a $5 million line of credit to supplement its working capital position. Galen has also expressed an indication of interest in exercising the Galen Option in the event the Company is

in need of additional capital. No assurance can be given, however, that such financing will be secured on acceptable terms, if at all, or that the Galen Option will be exercised.

As a Company listed on the American Stock Exchange (the "AMEX"), the Company is subject to a variety of additional requirements not otherwise imposed on a company whose shares are not traded on a National Securities Exchange. Such requirements include, among others, the requirement that the Company seek shareholder approval in order to issue shares of its common stock, or instruments convertible or exercisable for its common stock, at a price less than the market value for its shares, where the issuance would equal 20% or more of the Company's presently outstanding common stock. As previously discussed, the Debentures and Warrants issued in the Offering, as well as those underlying the Galen Option, are convertible and exercisable for approximately 55% of the Company's outstanding common stock on a fully-diluted basis. Recognizing that shareholder approval would be required under the AMEX rules, the Company requested a waiver from the AMEX relating to compliance with Section 713 of the AMEX Company Guide in order to complete the Offering without the necessity of obtaining shareholder approval. In requesting the waiver, the Company provided detailed information, including a written submission, to the AMEX and met with representatives of the AMEX to discuss the proposed terms of the Offering, the experience of new Senior Management, Galen's background and the urgent need to complete the Offering on or before March 11, 1998 in order to allow for payment of the liabilities previously described and to avoid cessation of the Company's operations.

The AMEX granted the Company's request for the waiver from the shareholder approval requirements of Section 713 of the AMEX Company Guide in order permit the timely completion

of the Offering. In view of the foregoing, the AMEX has advised that trading is expected to resume on Monday, March 16, 1998.

In order to provide sufficient shares to allow the conversion of the Debentures and exercise of the Warrants issued in the Offering, the Company will solicit shareholder approval at its 1998 Annual Meeting of Shareholders to effect an amendment to the Company's Certificate Incorporation to increase its authorize shares and to authorize as-converted voting rights for the Debentures. Ratification of Board of Director appointments, ratification of the Company's independent auditors and such other agenda items as the Board shall determine will also be presented to the Shareholders at the meeting.

Commenting on the completion of the Offering, Mr. Michael Reicher, the Company's President and Chief Executive Officer stated, "The completion of the Offering gives Halsey a fresh start. With a clean balance sheet, the Company will be in a position to move forward and capitalize on many of its unique resources. The new management team is very optimistic about rebuilding the new Halsey. A good R&D pipeline is in place and several ANDA applications are at the FDA awaiting approval. These new products, combined with the existing products, give the Company a strong foundation for future growth."

The statements in this press release are forward looking and are made pursuant to the safe harbor provisions of the Securities Litigation Reform Act of 1995. Investors are cautioned that forward-looking statements involve risks and uncertainties which may affect Halsey's business prospects, including economic, competitive, governmental, technological and other factors discussed in filings with the Securities and Exchange Commission.