

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC 20549

FORM 10-QSB

(Mark One)

QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934  
FOR THE QUARTERLY PERIOD ENDED: MARCH 31, 2001

OR

TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE  
EXCHANGE ACT  
FOR THE TRANSITION PERIOD FROM \_\_\_\_\_ TO \_\_\_\_\_

COMMISSION FILE NUMBER: 0-26520

NEOPROBE CORPORATION

(Exact name of small business issuer as specified in its charter)

DELAWARE 31-1080091  
(State or other jurisdiction of (I.R.S. employer identification no.)  
incorporation or organization)

425 METRO PLACE NORTH, SUITE 300, DUBLIN, OHIO 43017  
(Address of principal executive offices)

614.793.7500  
(Issuer's telephone number)

26,266,770 SHARES OF COMMON STOCK, PAR VALUE \$.001 PER SHARE  
(Number of shares of issuer's common equity outstanding as of  
the close of business on April 30, 2001)

Transitional Small Business Disclosure Format (check one) Yes  No

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

NEOPROBE CORPORATION  
BALANCE SHEETS

<TABLE>  
<CAPTION>

ASSETS	MARCH 31, 2001 (UNAUDITED)	DECEMBER 31, 2000 (UNAUDITED)
<S>	<C>	<C>
Current assets:		
Cash and cash equivalents	\$3,760,004	\$4,643,347

Accounts receivable, net	488,617	365,061
Inventory	1,302,815	941,120
Prepaid expenses and other	129,494	234,232
	-----	-----
Total current assets	5,680,930	6,183,760
	-----	-----
Property and equipment	2,077,022	2,039,187
Less accumulated depreciation and amortization	1,250,103	1,174,167
	-----	-----
	826,919	865,020
	-----	-----
Intangible assets, net	527,204	524,035
	-----	-----
Total assets	<u>\$7,035,053</u>	<u>\$7,572,815</u>

</TABLE>

CONTINUED

2

NEOPROBE CORPORATION  
BALANCE SHEETS, CONTINUED

<TABLE>

<CAPTION>

LIABILITIES AND STOCKHOLDERS' EQUITY	2001 (UNAUDITED)	2000	MARCH 31,	DECEMBER 31,
	-----	-----		
	<C>	<C>		
Current liabilities:				
Notes payable to finance company		\$ 60,764	\$	105,332
Capital lease obligations, current		11,729		11,359
Accrued liabilities		735,238		725,674
Accounts payable		350,010		731,985
Deferred license revenue, current		800,000		800,000
	-----	-----		
Total current liabilities		1,957,741		2,374,350
	-----	-----		
Capital lease obligations		29,851		32,926
Deferred license revenue		2,000,000		2,200,000
	-----	-----		
Total liabilities		3,987,592		4,607,276
	-----	-----		
Commitments and contingencies		--		--

Stockholders' equity:

Preferred stock; \$.001 par value; 5,000,000 shares  
authorized at March 31, 2001 and December 31, 2000;  
none issued and outstanding (500,000 shares  
designated as Series A, \$.001 par value, at March 31, 2001 and

and December 31, 2000; none outstanding)	--	--
Common stock; \$.001 par value; 50,000,000 shares authorized; 26,265,770 shares issued and outstanding at March 31, 2001; 26,264,103 shares issued and outstanding at December 31, 2000	26,266	26,264
Additional paid-in capital	120,669,471	120,668,639
Accumulated deficit	(117,648,276)	(117,729,364)
	-----	-----
Total stockholders' equity	3,047,461	2,965,539
	-----	-----
Total liabilities and stockholders' equity	\$ 7,035,053	\$ 7,572,815
	=====	=====

</TABLE>

See accompanying notes to the financial statements

3

NEOPROBE CORPORATION  
STATEMENTS OF OPERATIONS  
(UNAUDITED)

<TABLE>  
<CAPTION>

	THREE MONTHS ENDED MARCH 31,	
	2001	2000
	-----	-----
<S>	<C>	<C>
Revenues:		
Net sales	\$ 1,394,469	\$ 1,605,811
License revenue	225,000	250,000
	-----	-----
Total revenues	1,619,469	1,855,811
	-----	-----
Cost of goods sold	948,247	837,614
	-----	-----
Gross profit	671,222	1,018,197
	-----	-----
Operating expenses:		
Research and development	74,174	294,045
Marketing and selling	--	110,882
General and administrative	570,308	668,342
	-----	-----
Total operating expenses	644,482	1,073,269
	-----	-----
Income (loss) from operations	26,740	(55,072)
	-----	-----
Other income (expense):		
Interest income	50,155	45,361
Interest expense	(3,134)	(10,056)
Other	7,327	(7,095)
	-----	-----
Total other income	54,348	28,210
	-----	-----
Net income (loss)	81,088	(26,862)
	-----	-----
Loss on retirement of preferred stock	--	764,668
	-----	-----

Income (loss) attributable to common stockholders	\$ 81,088	\$ (791,530)
---	-----------	--------------

Income (loss) per common share:

Basic	\$ --	\$ (0.03)
Diluted	\$ --	\$ (0.03)

Weighted average shares outstanding:

Basic	25,894,955	25,394,727
Diluted	26,086,569	25,394,727

</TABLE>

See accompanying notes to the financial statements

4

NEOPROBE CORPORATION  
STATEMENTS OF CASH FLOWS  
(UNAUDITED)

<TABLE>

<CAPTION>

THREE MONTHS ENDED  
MARCH 31,

	2001	2000
	<C>	<C>
Cash flows from operating activities:		
Net income (loss)	\$ 81,088	\$ (26,862)
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation and amortization	103,131	83,131
Change in operating assets and liabilities:		
Accounts receivable	(123,556)	(778,805)
Inventory	(409,228)	645,763
Accounts payable	(381,975)	(308,677)
Deferred license revenue	(200,000)	(200,000)
Other assets and liabilities	114,103	(127,090)
Net cash used in operating activities	(816,437)	(712,540)
Cash flows from investing activities:		
Proceeds from sale of investment in affiliate	--	1,500,000
Purchases of property and equipment	(12,551)	(12,055)
Proceeds from sales of property and equipment	925	820
Patent costs	(8,842)	(6,790)
Net cash (used in) provided by investing activities	(20,468)	1,481,975
Cash flows from financing activities:		
Settlement of obligation to preferred stockholder	--	(2,500,000)
Proceeds from issuance of common stock, net	834	33,909
Payments under line of credit	--	(380,000)
Payment of notes payable	(44,568)	(65,565)
Payments under capital leases	(2,704)	(25,347)
Net cash used in financing activities	(46,438)	(2,937,003)
Net decrease in cash and cash equivalents	(883,343)	(2,167,568)
Cash and cash equivalents, beginning of period	4,643,347	4,882,537
Cash and cash equivalents, end of period	\$ 3,760,004	\$ 2,714,969

</TABLE>

See accompanying notes to the financial statements

5

## NOTES TO THE FINANCIAL STATEMENTS

### 1. BASIS OF PRESENTATION:

The information presented for March 31, 2001 and 2000, and for the periods then ended is unaudited, but includes all adjustments (which consist only of normal recurring adjustments) which the management of Neoprobe Corporation (Neoprobe or the Company) believes to be necessary for the fair presentation of results for the periods presented. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to the rules and regulations of the U.S. Securities and Exchange Commission. The results for the interim period are not necessarily indicative of results to be expected for the year. The financial statements should be read in conjunction with the Company's audited financial statements for the year ended December 31, 2000, which were included as part of the Company's Annual Report on Form 10-KSB.

### 2. COMPREHENSIVE INCOME (LOSS):

The Company had no accumulated other comprehensive income (loss) activity during the three-month periods ended March 31, 2001 and 2000.

### 3. EARNINGS PER SHARE:

Basic earnings per share is calculated using the weighted average number of common shares outstanding during the periods. Diluted earnings per share is calculated using the weighted average number of common shares outstanding during the periods, adjusted for the effects of convertible securities, options and warrants, if dilutive.

THREE MONTHS ENDED MARCH 31, 2001		
	BASIC EARNINGS PER SHARE	DILUTED EARNINGS PER SHARE
Outstanding shares	26,265,770	26,265,770
Effect of weighting changes in outstanding shares	(815)	(815)
Contingently issuable shares	(370,000)	(370,000)
Stock options	--	191,614
Adjusted shares	<u>25,894,955</u>	<u>26,086,569</u>

The following table summarizes options to purchase common stock of the Company which were outstanding during the three-month period ended March 31, 2001, but which were not included in the computation of diluted income per share because their effect was anti-dilutive.

THREE MONTHS ENDED MARCH 31, 2001	
EXERCISE PRICE	OPTIONS OUTSTANDING
\$0.41 - \$1.25	405,972
\$1.50 - \$2.50	227,520
\$3.25 - \$6.00	269,700
\$13.38 - \$15.75	92,500

There is no difference in basic and diluted earnings per share for the Company related to the three months ended March 31, 2000. The net loss per common share for this period excludes the number

6

of common shares issuable upon exercise of outstanding stock options and warrants into the Company's common stock since such inclusion would be anti-dilutive.

#### 4. INVENTORY:

The components of inventory are as follows:

	MARCH 31, 2001	DECEMBER 31, 2000
Materials and component parts	\$ 779,331	\$ 418,087
Finished goods	702,644	696,432
Less obsolescence reserve	(179,160)	(173,399)
	<u>\$1,302,815</u>	<u>\$ 941,120</u>

#### 5. LINE OF CREDIT:

On January 26, 2001, the Company entered into a revolving credit facility with a bank. The facility provides for a maximum line of credit of \$1.5 million. Availability under the facility is based on an advance formula of eligible accounts receivable and eligible inventory. Borrowings under the facility bear interest based on the bank's prime rate and are collateralized by accounts receivable, inventory and property and equipment of the Company. The facility contains financial covenants including, but not limited to, current ratio and fixed charge coverage ratio. The Company is required to maintain a compensating balance of \$250,000 and to pay a commitment fee of 0.25% per annum on the unused portion of the maximum potential balance. The facility matures on January 26, 2002. There were no borrowings outstanding under the facility as of March 31, 2001.

#### 6. INCOME TAXES:

For the quarter ended March 31, 2001, the reversal of certain temporary differences related to accrued expenses and deferred revenue resulted in the generation of a loss for income tax purposes. As a result, no income tax expense is reflected in the statement of operations for the quarter ended March 31, 2001.

#### 7. STOCK OPTIONS:

During the first quarter of 2001, the Board of Directors granted options to employees and certain directors of the Company for 700,000 shares of common stock, exercisable at an average price of \$0.42 per share, vesting over three years. As of March 31, 2001, the Company has 2.3 million options outstanding under two stock option plans. Of the outstanding options, 874,000 options have vested as of March 31, 2001, at an average exercise price of \$3.85 per share.

#### 8. SEGMENT INFORMATION:

The Company owns or has rights to intellectual property involving three primary areas of cancer diagnosis and treatment including: hand-held gamma detection instruments currently used primarily in the application of intraoperative lymphatic mapping (ILM), diagnostic radiopharmaceutical products to be used in the Company's proprietary RIGS(R) process, and activated cellular therapy (ACT). During 1998, the Company's business plan suspended ongoing research activities related to RIGS and ACT to allow the

Company to focus primarily on the hand-held gamma detection instruments while efforts are carried out to find partners or licensing parties to fund future RIGS and ACT research and development. The Company generated \$25,000 and \$50,000 in revenue during the first quarters of 2001 and 2000, respectively, under an option agreement to license its RIGS technology, but incurred no RIGS-related expenses during those periods. The Company had no revenue or expenses in either

7

the first quarter of 2001 or 2000 related to its ACT initiative. All other revenue and costs included in the Company's financial statements for the quarters ended March 31, 2001 and March 31, 2000 relate primarily to the Company's ILM initiative.

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

### RESULTS OF OPERATIONS

Revenue for the first quarter of 2001 decreased \$236,000 to \$1.6 million from \$1.9 million for the same period in 2000. Research and development expenses during the first quarter of 2001 were \$74,000 or 12% of operating expenses for the quarter. General and administrative expenses were \$570,000 or 88% of operating expenses for the quarter. Overall, operating expenses for the first quarter of 2001 decreased \$429,000 or 40% over the same quarter in 2000. The Company anticipates that total operating expenses for the remaining quarters of 2001 will be consistent with first quarter 2001 levels, except for research and development expenses that are expected to increase as a result of efforts to increase the product pipeline.

#### Three months ended March 31, 2001 and 2000

**Revenues and Margins.** Net product sales decreased \$211,000 or 13% to \$1.4 million during the first quarter of 2001 from \$1.6 million during the same period in 2000. Gross margins on product sales decreased to 32% of net sales for the first quarter of 2001 from 48% of net sales for the same period in 2000. The declines in net product sales and gross margin were the combined result of lower sales volumes in the first quarter of 2001 and decreases in product transfer prices as compared to the first quarter of 2000. The lower sales volumes in the first quarter of 2001 are primarily attributable to delays in contract manufacturer component deliveries that have since been corrected. The decline in gross margin on net product sales is primarily attributable to decreases in the transfer prices at which the Company sells its products to Ethicon.

The Company's transfer prices to Ethicon are determined based on a percentage of the end customer average sales prices (ASP) on products sold by Ethicon, subject to certain floor pricing terms. The Company's distribution agreement with Ethicon provided for a lower percentage of ASP to be shared with the Company following the first full commercial year of the distribution agreement that ended December 31, 2000. The Company does not expect the percentage of ASP that it receives to decline further; however, the ASP on which the percentage is based may decline depending on end customer price erosion, if any, that may be experienced by Ethicon. A decline in the ASP could negatively impact revenue and gross margins on net product sales. In addition, the cost to manufacture the Company's products also increased slightly from 2000 to 2001 due largely to higher electronic and crystal component costs.

Revenues in the first quarters of 2001 and 2000 included \$200,000 from the pro-rata recognition of license fees related to the distribution agreement with Ethicon and \$25,000 and \$50,000, respectively, from the recognition of milestone fees related to an option agreement to license certain of the Company's RIGS technology.

**Research and Development Expenses.** Research and development expenses decreased \$220,000 or 75% to \$74,000 during the first quarter of 2001 from \$294,000 during the same period in 2000. The decrease is primarily due to the inclusion of \$40,000 in non-recurring severance costs and \$150,000 in unreimbursed costs for development of products in 2000.

**Marketing and Selling Expenses.** Marketing and selling expenses decreased 100% during the first quarter of 2001 from \$111,000 during the same period in 2000

due to entering into the distribution agreement with Ethicon. The first quarter of 2000 also included approximately \$40,000 in non-recurring severance charges related to the separation of marketing personnel.

**General and Administrative Expenses.** General and administrative expenses decreased \$98,000 or 15% to \$570,000 during the first quarter of 2001 from \$668,000 during the same period in 2000. The decrease was primarily a result of reductions in overhead costs such as space costs, taxes and insurance.

**Other Income.** Other income increased \$26,000 or 93% to \$54,000 during the first quarter of 2001 from \$28,000 during the same period in 2000. Other income during the first quarters of 2001 and 2000 consisted primarily of interest income. The Company's interest income increased due to increased overall average levels of cash and investments during the first quarter of 2001 as compared to the same period in 2000.

#### LIQUIDITY AND CAPITAL RESOURCES

**Operating Activities.** Cash used in operations increased \$104,000 to \$816,000 during the first quarter of 2001 from \$713,000 during the same period in 2000. Working capital decreased to \$3.7 million at March 31, 2001 as compared to \$3.8 million at December 31, 2000. The current ratio increased to 2.9 at March 31, 2001 from 2.6 at December 31, 2000. The decrease in working capital was primarily related to lower earnings in the first quarter of 2001 coupled with higher overall working capital requirements.

Accounts receivable increased to \$489,000 at March 31, 2001 from \$365,000 at December 31, 2000. Inventory levels increased to \$1.3 million at March 31, 2001 as compared to \$941,000 at December 31, 2000. Inventory at March 31, 2001 and December 31, 2000 included safety stock of finished goods as well as critical component and long lead-time raw materials to ensure uninterrupted product supply to Ethicon. The Company expects receivables levels to fluctuate in 2001 depending on the timing of purchases by Ethicon. Inventory may increase slightly as the Company continues to evaluate appropriate component and finished good safety stock levels and endeavors to optimize production activities.

**Investing Activities.** Cash used in investing activities in the first quarter of 2001 totaled \$20,000 versus \$1.5 million provided by investing activities during the same period in 2000. During January 2000, the Company sold an investment in an Israeli biotechnology company for \$1.5 million. Capital expenditures in the first quarters of 2001 and 2000 were split between purchases of production tools and equipment and technology infrastructure but were offset by the sale of excess furniture and fixtures accumulated from prior year headcount reductions. Capital needs for 2001 are expected to be consistent with those in 2000.

**Financing Activities.** Financing activities used \$46,000 in cash in the first quarter of 2001 versus \$2.9 million during the same period in 2000. During the first quarter of 2000, the Company paid holders of Series B preferred stock \$2.5 million in cash and issued them 3 million each of common shares and warrants to purchase common shares in exchange for retiring the outstanding preferred shares.

During January 2001, the Company executed a revolving line of credit with a bank that will provide the Company with access to up to \$1.5 million to finance general working capital needs, subject to certain terms and covenants. The Company does not anticipate significant draws on the line of credit during 2001.

**New Accounting Pronouncements.** In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards (SFAS) No. 133, Accounting For Derivative Instruments and Hedging Activities. SFAS No. 133 was originally required to be adopted in years beginning after June 15, 1999; however, SFAS No. 137 deferred the effective date to fiscal quarters of fiscal years beginning after June 15, 2000. The Company adopted SFAS No. 133 and a second related amendment, SFAS No. 138 effective January 1, 2001. The Statement requires companies to recognize all derivatives on the balance sheet at fair value. Derivatives that are not hedges must be adjusted to fair value through income. If a derivative is a hedge, depending on the nature of the hedge, changes in the fair value of the derivative will either be offset against the change in fair value of the hedge asset, liability or firm commitment through earnings, or recognized in other comprehensive income until the hedge item is



recognized in earnings. The ineffective portion of a derivative's change in fair value will be immediately recognized in earnings. The adoption of this Statement has had no significant impact on the Company's results of operations or financial position.

## FORWARD-LOOKING STATEMENTS

The Private Securities Litigation Reform Act of 1995 (the Act) provides a safe harbor for forward-looking statements made by or on behalf of our Company. Our Company and its representatives may from time to time make written or verbal forward-looking statements, including statements contained in this report and other Company filings with the Securities and Exchange Commission and in our reports to shareholders. Statements which relate to other than strictly historical facts, such as statements about the Company's plans and strategies, expectations for future financial performance, new and existing products and technologies, and markets for the Company's products are forward-looking statements within the meaning of the Act. Generally, the words "believe," "expect," "intend," "estimate," "anticipate," "will" and other similar expressions identify forward-looking statements. The forward-looking statements are and will be based on management's then current views and assumptions regarding future events and operating performance, and speak only as of their dates. The Company undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

The following are some of the factors that could affect our financial performance or could cause actual results to differ materially from estimates contained in or underlying our Company's forward-looking statements:

- o Neoprobe has suffered significant operating losses for several years in its history and it may not be able to continue to achieve profitability.
- o Neoprobe products may not achieve the broad market acceptance they need in order to be a commercial success.
- o Neoprobe relies on a third party for its worldwide marketing and distribution, who may not be successful in selling Neoprobe's products.
- o Neoprobe relies on third parties to manufacture its products and Neoprobe will suffer if they do not perform.
- o Neoprobe may have difficulty raising additional capital, which could deprive it of necessary resources.
- o Neoprobe may lose out to larger and better-established competitors.
- o Neoprobe's products may be displaced by newer technology.
- o Neoprobe is in a highly regulated business and it could face severe problems if does not comply with all regulatory requirements in the global markets in which Neoprobe's products are sold.
- o Neoprobe's intellectual property may not have or provide sufficient legal protections against infringement or loss of trade secrets.

## PART II - OTHER INFORMATION

### ITEM 1. Legal Proceedings.

None.

### ITEM 2. Changes in Securities

None.

ITEM 3. Defaults Upon Senior Securities

None.

ITEM 4. Submission of Matters to a Vote of Security Holders

None.

ITEM 5. Other Information.

None.

ITEM 6. Exhibits and Reports on Form 8-K

(a) LIST OF EXHIBITS

10. MATERIAL CONTRACTS

Exhibit 10.4.46

Revolving Credit Loan Agreement between the Company and Firststar Bank, N.A. dated January 26, 2001.

Page 13 in the manually signed original.

Exhibit 10.4.47

Revolving Credit Loan Note between the Company and Firststar Bank, N.A. dated January 26, 2001.

Page 51 in the manually signed original.

Exhibit 10.4.48

Continuing Security Agreement between the Company and Firststar Bank, N.A. dated January 26, 2001.

Page 53 in the manually signed original.

11. STATEMENT REGARDING COMPUTATION OF PER SHARE EARNINGS

Exhibit 11.1

Computation of Income (Loss) Per Share.

Page 70 in the manually signed original.

11

(b) REPORTS ON FORM 8-K

No current report on Form 8-K was filed by the Company during the first quarter of fiscal 2001.

SIGNATURES

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

NEOPROBE CORPORATION  
(the Company)  
Dated: May 11, 2001

By: /s/ DAVID C. BUPP

-----  
David C. Bupp  
President and Chief Executive Officer  
(duly authorized officer;

principal executive officer)

By: /s/ BRENT L. LARSON

-----  
Brent L. Larson  
Vice President, Finance and Chief  
Financial Officer  
(principal financial and accounting officer)

REVOLVING CREDIT LOAN AGREEMENT

THIS REVOLVING CREDIT LOAN AGREEMENT (the "Agreement"), dated as of January 26, 2001, is made and entered into by and between Neoprobe Corporation, a Delaware corporation, and Firststar Bank, N.A., a national banking association. Capitalized terms used herein are defined in Article I hereof.

BACKGROUND INFORMATION

-----

The Borrower has requested that the Bank provide revolving credit loans to the Borrower, and the Bank has agreed to provide such revolving credit loans upon and subject to the terms and conditions as hereinafter set forth.

PROVISIONS

-----

NOW, THEREFORE, in consideration of the provision of such revolving credit loans, the agreements and covenants hereinafter contained, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Bank and the Borrower do hereby agree as follows:

ARTICLE I

DEFINITIONS

-----

SECTION 1.1 DEFINITIONS. As used herein, in any certificate, document or report delivered pursuant to this Agreement (except as otherwise defined herein or in such certificate, document or report), the following terms shall have the following meanings:

"ACCOUNTS RECEIVABLE" shall mean, at any date, the total of all accounts which would be properly classified in accordance with GAAP as accounts receivable on the balance sheet of the Borrower, at such date.

"AFFILIATE" shall mean any Person which, directly or indirectly, is in Control of, is Controlled by, or is under common Control with, another Person.

"AGREEMENT" shall mean this Revolving Credit Loan Agreement, as the same may be amended, modified, supplemented, extended, restated or replaced from time to time.

"ASSIGNEE" shall mean any Person, now or at any time hereafter, to which the Bank has assigned any part of its interest in Loans to the Borrower or the Commitment.

"AVAILABLE COMMITMENT" shall mean, at any particular time, an amount equal to the excess, if any, of (i) the Commitment over (ii) the aggregate unpaid principal amount at such time of all Loans made by the Bank to the Borrower pursuant to the terms hereof.

"AUTHORIZED OFFICER" shall mean the chief executive officer or vice president of finance of the Borrower.

"BANK" shall mean Firststar Bank, N.A. and its successors and assigns.

"BASE RATE" shall mean, for any Base Rate Loan for any day, the rate per annum equal to the "prime rate" established by the Bank from time to time based on its consideration of economic, money market, business and competitive factors, and it is not necessarily the Bank's most favored rate. In the event the Bank shall abolish or abandon the practice of establishing its prime rate or should the same be unascertainable, the Bank shall designate a

comparable reference rate which shall be deemed to be the Base Rate under this Agreement and the other Loan Documents. For purposes of determining the Base Rate for any day, the Base Rate shall change automatically without notice to the Borrower immediately on each Business Day with each change in the Base Rate, with any change thereto effective as of the opening of business on the day of the change.

"BORROWER" shall mean Neoprobe Corporation, a Delaware corporation, and its permitted successors and assigns.

"BORROWING BASE" shall mean the sum of (i) 80% of the amount of Eligible Accounts Receivable, plus (ii) 25% of the amount of Eligible Inventory, provided that the portion of the Borrowing Base allocable to Eligible Inventory shall not exceed the lesser of (x) the amount equal to fifty percent (50%) of outstanding Loans at any time, and (ii) \$500,000.

"BORROWING BASE CERTIFICATE" shall have the meaning set forth in Section 5.2(c), and be substantially in the form of Exhibit C attached hereto.

"BORROWING DATE" shall have the meaning set forth in Section 2.3(a).

"BUSINESS DAY" shall mean (i) for all purposes other than as covered by clause (ii) below, any day excluding Saturday, Sunday or any day that shall be in the City of Columbus, Ohio or New York, New York a legal holiday or a day on which banking institutions are authorized by law or a Governmental Authority to close, and (ii) with respect to all determinations and notices in connection with, and payments of principal and interest on, LIBOR Rate Loans, any day that is a Business Day described in clause (i) above and that is also a day for trading by and between banks in Dollar deposits in the London interbank market.

"CAPITAL EXPENDITURES" shall mean, without duplication, any expenditures for any purchase or other acquisition of any asset which would be classified as a fixed or capital asset on a consolidated balance sheet of the Borrower and its Subsidiaries prepared in accordance with GAAP excluding (i) the cost of assets acquired with Capitalized Lease Obligations, (ii) expenditures of insurance proceeds to rebuild or replace any asset after a casualty loss, and (iii) leasehold

2

improvement expenditures for which the Borrower or a Subsidiary is reimbursed promptly by the lessor.

"CAPITALIZED LEASE" of a Person shall mean any lease of Property by such Person as lessee which would be capitalized on a balance sheet of such Person prepared in accordance with GAAP.

"CAPITALIZED LEASE OBLIGATIONS" of a Person shall mean the amount of the obligations of such Person under Capitalized Leases which would be shown as a liability on a balance sheet of such Person prepared in accordance with GAAP.

"CHANGE IN CONTROL" means the acquisition by any Person, or two or more Persons acting in concert, of beneficial ownership (within the meaning of Rule 13d-3 of the Securities and Exchange Commission under the Securities Exchange Act of 1934) of 15% or more of the outstanding shares of voting stock of the Borrower.

"CLOSING DATE" shall mean the date on or after the Effective Date on which the Bank shall have received the documents specified in or pursuant to Section 3.1.

"CODE" shall mean the Internal Revenue Code of 1986, as amended from time to time.

"COLLATERAL" shall have the meaning set forth in the Security Agreement.

"COMMITMENT" shall mean the commitment of the Bank to make

Loans to the Borrower up to the maximum aggregate amount of \$1.5 million, subject to the terms and conditions of this Agreement.

"COMMITMENT PERIOD" shall mean the period of time commencing on the Effective Date ending on January 25, 2002.

"COMPLIANCE CERTIFICATE" shall have the meaning set forth in Section 5.2(a), and be substantially in the form of Exhibit B attached hereto.

"CONSOLIDATED CAPITAL EXPENDITURES" shall mean, with reference to any period, the Capital Expenditures of the Borrower and its Subsidiaries calculated on a consolidated basis for such period.

"CONSOLIDATED CURRENT ASSETS" shall mean, at any time, the Current Assets of the Borrower and its Subsidiaries calculated on a consolidated basis at such time.

"CONSOLIDATED CURRENT LIABILITIES" shall mean, at any time, the Current Liabilities of the Borrower and its Subsidiaries calculated on a consolidated basis at such time.

"CONSOLIDATED EBIDA" shall mean Consolidated Net Income plus, to the extent deducted from revenues in determining Consolidated Net Income, (i) Consolidated Interest Expense,

3

(ii) depreciation, (iii) amortization, and (iv) extraordinary losses incurred other than in the ordinary course of business, minus, to the extent included in Consolidated Net Income, extraordinary gains realized other than in the ordinary course of business, all calculated for the Borrower and its Subsidiaries on a consolidated basis.

"CONSOLIDATED INTEREST EXPENSE" shall mean, with reference to any period, the interest expense of the Borrower and its Subsidiaries calculated on a consolidated basis for such period.

"CONSOLIDATED NET INCOME" shall mean, with reference to any period, the net income (or loss) of the Borrower and its Subsidiaries calculated on a consolidated basis for such period.

"CONSOLIDATED RENTALS" shall mean, with reference to any period, the Rentals of the Borrower and its Subsidiaries calculated on a consolidated basis for such period.

"CONTINGENT OBLIGATION" of any Person shall mean any reimbursement obligations of such Person in respect of drafts that may be drawn under letters of credit and any obligation of such Person guaranteeing or in effect guaranteeing any Debt, leases, dividends or other obligations primarily to pay money ("PRIMARY OBLIGATIONS") of any other Person (the "PRIMARY OBLIGOR") in any manner, whether directly or indirectly, including without limitation any obligation of such Person, whether or not contingent, (a) to purchase or to provide funds for the payment or discharge of any such primary obligation or any Property constituting direct or indirect security therefor, (b) to advance or supply funds (i) for the purchase or payment of any such primary obligation, or (ii) to maintain working capital or equity capital of the primary obligor or otherwise to maintain the net worth or solvency of the primary obligor, (c) to purchase Property, securities or services primarily for the purpose of assuring the obligee under any such primary obligation of the ability of the primary obligor to make payment of such primary obligation, (d) to make payment for any products, materials or supplies or for any transportation or service regardless of the nondelivery or nonfurnishing thereof, in any such case if the purpose or intent of such agreement is to provide assurance that any such primary obligation will be paid or discharged, or that any agreement relating thereto will be complied with, or that the holders of any such primary obligations will be protected against loss in respect thereof, (e) with respect to any such primary obligation, whether or not for borrowed money, which is secured by any mortgage, pledge, security interest, lien or conditional sale or other title retention agreement existing on any Property owned or held by such Person subject thereto, and for which such Person has any personal liability, and (f) otherwise to assure or hold harmless the obligee under such primary obligation against loss in respect thereof; provided, however, that the term "CONTINGENT

OBLIGATION" shall not include endorsements of instruments for deposit or collection in the ordinary course of business.

"CONTRACTUAL OBLIGATION" shall mean, as to any Person, any provision of any security issued by such Person or of any agreement, instrument or undertaking to which such Person is a party or by which it or any of its Property is bound.

"CONTROL" (including the terms "controlling", "in control of", "controlled by" or "under common control with") shall mean the possession, directly or indirectly, of the power to

4

direct or cause the direction of management or policies of a Person, whether through ownership of voting securities, by contract or otherwise.

"CURRENT ASSETS" of any Person shall mean the amount of assets of such Person which would be shown as current assets on a balance sheet of such Person prepared in accordance with GAAP.

"CURRENT LIABILITIES" of any Person shall mean the amount of liabilities of such Person which would be shown as current liabilities on a balance sheet of such Person prepared in accordance with GAAP.

"DEBT" of any Person shall mean at any date, without duplication (a) any indebtedness for borrowed money (including without limitation capital leases (in accordance with GAAP)) which such Person directly or indirectly created, incurred, assumed, endorsed (other than for collection in the ordinary course of business), discounted with recourse or in respect of which such Person is otherwise directly liable; (b) any indebtedness, whether or not for borrowed money, which any Person has incurred, assumed or with respect to which such Person has become directly liable and which represents or has been incurred to finance the purchase price of any Property or business, whether by purchase, consolidation, merger or otherwise; and (c) any indebtedness, whether or not for borrowed money, which is secured by any mortgage, pledge, security interest, lien or conditional sale or other title retention agreement existing on any Property owned or held by any Person subject thereto, for which such Person has personal liability for any such indebtedness.

"DEFAULT" shall mean an event or condition which would constitute an Event of Default with the giving of notice or lapse of time, or otherwise.

"DEFAULT RATE" shall mean, with respect to any Loan at any time, the highest Interest Rate for any Loan at such time PLUS 300 basis points.

"DOLLAR" and the sign "\$" shall mean lawful money of the United States.

"EFFECTIVE DATE" shall mean the date this Agreement becomes effective in accordance with Section 9.5.

"ELIGIBLE ACCOUNTS RECEIVABLE" shall mean, at any date, the total of all Accounts Receivable of the Borrower at such date in which the Bank has a perfected first priority security interest and which are not encumbered by any other Liens, but excluding Accounts Receivable which (i) are unpaid more than 90 days past the date of the applicable invoice, and (ii) are otherwise unacceptable to the Bank in the exercise of its reasonable discretion.

"ELIGIBLE INVENTORY" shall mean, at any date, the total of all Inventory of the Borrower consisting of finished goods, at such date in which the Bank has a perfected first priority security interest and which are not encumbered by any other Liens, but excluding Inventory which (i) the Bank, in its reasonable discretion, deems to be obsolete, unsalable, damaged, defective or unfit, (ii) has been returned or rejected, (iii) is held by Persons on consignment, sale on approval or

5

otherwise not in the Borrower's physical possession, except upon the written

consent of the Bank, (iv) is located outside of the United States, or (v) is otherwise unacceptable to the Bank in the exercise of its reasonable discretion.

"ENVIRONMENTAL LAWS" shall mean the Comprehensive Environmental Response, Compensation and Liability Act, as amended, 42 U.S.C. ss.9601, et seq., the Toxic Substances Control Act, 15 U.S.C. ss.2601, et seq., the Resource Conservation and Recovery Act, 42 U.S.C. ss.6901, et seq., the Water Quality Act of 1987, 33 U.S.C. ss.1251, et seq., the Clean Air Act, 42 U.S.C. ss.7401, et seq., and any other federal, state or local statute, ordinance, law, code, rule, regulation or order regulating or imposing liability (including strict liability) or standards of conduct regarding Hazardous Substances.

"ERISA" shall mean the Employee Retirement Income Security Act of 1974, as the same may from time to time be supplemented or amended and any successor statute.

"ERISA EVENT" shall mean, with respect to any Person, (a) a Reportable Event (other than a Reportable Event not subject to the provision for 30-day notice to the PBGC under regulations issued under Section 4043 of ERISA), (b) the withdrawal of any member of the ERISA Group from a Plan during a plan year in which it was a "substantial employer" as defined in Section 4001(a)(2) of ERISA if such withdrawal would have a adverse effect on such Person, (c) the filing by such Person of a notice of intent to terminate a Plan under a distress termination or the treatment of a Plan amendment as a distress termination under Section 4041(c) of ERISA, (d) the institution of proceedings against such Person to terminate a Plan by the PBGC under Section 4042 of ERISA, (e) the failure to make required contributions that would result in the imposition of a lien under Section 412 of the Code or Section 302 of ERISA, (f) any Prohibited Transaction involving any Plan, and (g) any other event or condition which might reasonably be expected to constitute grounds under Section 4042 of ERISA for the termination of, or the appointment of a trustee to administer, any Plan.

"ERISA GROUP" of any Person shall mean such Person, any Subsidiary and all members of a controlled group of corporations and all trades or business (whether or not incorporated) under common Control which, together with the Borrower, are treated as a single employer under Section 414 of the Code.

"ETHICON AGREEMENT" shall mean the Distribution Agreement between the Borrower and Ethicon Endo-Surgery, Inc., dated effective September 28, 1999, together with all other agreements in connection therewith, including without limitation the Patent, Computer Software, and Mask Work License Agreement attached thereto as Appendix A.

"EVENT OF DEFAULT" shall have the meaning set forth in Section 7.1.

"FINANCING STATEMENTS" shall mean financing statements under the Uniform Commercial Code and all other filings necessary to perfect the security interests granted pursuant to the Security Agreement.

6

"FISCAL MONTH" shall mean, as to the Borrower or any Subsidiary, any monthly period ending on the appropriate day based upon the Fiscal Year of the Borrower or each Subsidiary, as applicable.

"FISCAL QUARTER" shall mean, as to the Borrower or any Subsidiary, any period of three consecutive Fiscal Months ending on the last day of each of the Borrower's or any Subsidiary's March, June, September and December Fiscal Month.

"FISCAL YEAR" shall mean, as to the Borrower or any Subsidiary, any period of twelve consecutive Fiscal Months ending on December 31.

"GAAP" shall mean generally accepted accounting principles in the United States in effect at the time any determination is made or financial statement is required hereunder as promulgated by the American Institute of Certified Public Accountants, the Accounting Principles Board, the Financial Accounting Standards Board or other body existing from time to time which is



authorized to establish or interpret such principles.

"GOVERNMENTAL AUTHORITY" shall mean the United States government, any state, province or other political subdivision thereof and any entity exercising executive, legislative, judicial, regulatory or administrative functions of or pertaining to government.

"HAZARDOUS SUBSTANCES" shall mean and include all hazardous and toxic substances, wastes, materials, compounds, pollutants and contaminants (including, without limitation, asbestos, polychlorinated biphenyls, and petroleum products) which are included under or regulated by Environmental Laws.

"INTEREST PAYMENT DATE" shall mean, with respect to each Loan, the fifth day of each calendar month, beginning with March 5, 2001 and continuing on the fifth day of each calendar month thereafter, and on the Termination Date.

"INTEREST RATE" shall mean the rate of interest in effect at any time with respect to a Loan.

"INVENTORY" shall mean at any date the total of all accounts which would be properly classified in accordance with GAAP as inventory on the balance sheet of the Borrower at such date.

"INVESTMENT" shall mean any investment in any Person, whether by means of share purchase, capital contribution, loan, time deposit or otherwise (but not including any demand deposit).

"LIEN" shall mean any mortgage, pledge, hypothecation, assignment, deposit arrangement, encumbrance, lien (statutory or other), security interest, preference, priority or other security agreement, including without limitation, any conditional sale or other title retention agreement, and the filing of any financing statement under the Uniform Commercial Code or comparable law of any jurisdiction in respect of any of the foregoing.

7

"LOAN DOCUMENTS" shall mean this Agreement, the Note, the Security Agreement, the Financing Statements and any and all other documents evidencing, securing or relating to the Loans, as such documents may be amended, modified, supplemented, extended, restated or replaced from time to time.

"LOANS" shall mean revolving credit loans made by the Bank in Dollars to the Borrower pursuant to this Agreement, and "LOAN" shall mean any one of such loans.

"MATERIAL ADVERSE EFFECT" shall mean, relative to any occurrence of whatever nature (including any determination in litigation, arbitration or governmental proceeding or investigation), which the Bank determines, in its reasonable judgment, will have a materially adverse effect on:

(a) the assets, business, profits, properties, condition (financial or otherwise), operations or foreseeable financial prospects of the Borrower; or

(b) the ability of the Borrower to perform any of its payment or other obligations under this Agreement, the Note and any other Loan Documents or the transactions contemplated hereby and thereby.

"NOTE" shall mean the Revolving Credit Loan Note of the Borrower in the form of Exhibit A attached hereto, evidencing the obligation of the Borrower to repay the Loans, as the same may be amended, modified, supplemented, extended, restated or replaced from time to time.

"NOTICE OF BORROWING" shall have the meaning set forth in Section 2.3(a).

"OPERATING LEASE" of a Person shall mean any lease of Property (other than a Capitalized Lease) by such Person as lessee which has an original term (including any required renewals and any renewals effective at the option of the lessor) of one year or more.

"PARTICIPANT" shall mean any Person, now or at any time hereafter, participating with the Bank in Loans to the Borrower.

"PBGC" shall mean the Pension Benefit Guaranty Corporation established pursuant to Subtitle A of Title IV of ERISA, or any entity succeeding to any or all of its functions under ERISA.

"PERSON" shall mean an individual, partnership, corporation, limited liability company, business trust, joint stock company, trust, unincorporated association, joint venture, Governmental Authority or other entity of whatever nature.

"PLAN" shall mean any employee benefit plan or other plan maintained for employees covered by Title 10 of ERISA.

8

"PROHIBITED TRANSACTION" shall mean a transaction described in Section 406 of ERISA which is not the subject of an exemption pursuant to Section 408 of ERISA.

"PROPERTY" of a Person shall mean any and all property, whether real, personal, tangible, intangible, or mixed, of such Person, or other assets owned, leased or operated by such Person.

"REAL PROPERTY" shall have the meaning set forth in Section 4.16(a).

"RENTALS" of a Person shall mean the aggregate fixed amounts payable by such Person under any Operating Lease.

"REPORTABLE EVENT" shall have the meaning given such term in Section 4043(b) of ERISA.

"REQUIRED PROPERTY INSURANCE COVERAGE" shall mean at any time business interruption insurance, workers' compensation insurance and insurance insuring all Property of the Borrower against loss or damage by fire, lightening, vandalism and malicious mischief and all other perils covered by standard "extended coverage" or "all-risk" insurance in amounts, and deductibles from the loss payable for any casualty, satisfactory to the Bank at any time and from time to time. If any insurance policies with respect to Required Property Insurance Coverage is written on a co-insurance basis, such policy must contain an agreed amount endorsement as evidence that the coverage is in an amount sufficient to insure the full amount of such Property.

"REQUIRED PUBLIC LIABILITY INSURANCE COVERAGE" shall mean comprehensive general accident and public liability insurance (including coverage for elevators and escalators, if any, on Property owned or leased by the Borrower) against injury, loss and/or damage to Persons and Property in amounts satisfactory to the Bank at any time and from time to time.

"REQUIREMENTS OF LAW" shall mean as to any Person, the articles (certificate) of incorporation or formation, code of regulations (by-laws), operating agreement or other organizational agreements or other governing documents of such Person, and any law, statute, treaty, rule or regulation or determination of an arbitrator or a court or other Governmental Authority, in each case applicable to or binding upon such Person or any of its Property or to which such Person or any of its Property is subject.

"RESTRICTED PAYMENT" shall mean (i) any dividend or other distribution on any shares of a Person's capital stock (except dividends payable solely in shares of its capital stock) or (ii) any payment on account of the purchase, redemption, retirement or acquisition of (x) any shares of a Person's capital stock, or (y) any option, warrant or other right to acquire shares of a Person's capital stock (but not including payments of principal, premium (if any) or interest made pursuant to the terms of convertible debt securities prior to conversion).

"SECURITY AGREEMENT" shall mean the Continuing Security Agreement between the Bank and the Borrower of even date herewith, securing the obligations of the Borrower under this

Agreement, the Note and the other Loan Documents, as the same may be amended, modified, supplemented, extended, restated or replaced from time to time.

"SETOFF OBLIGATION" shall mean and include all Debt of the Borrower to the Bank, including, but not limited to, the Debt of the Borrower arising under the Note or any other document, instrument or agreement referred to herein.

"SUBSIDIARY" of a Person shall mean (i) any corporation more than 50% of the outstanding securities having ordinary voting power of which shall at the time be owned or controlled, directly or indirectly, by such Person or by one or more of its Subsidiaries or by such Person and one or more of its Subsidiaries, or (ii) any partnership, limited liability company, association, joint venture or similar business organization more than 50% of the ownership interests having ordinary voting power of which shall at the time be so owned or controlled. Unless otherwise expressly provided, all references herein to a "Subsidiary" shall mean a Subsidiary of the Borrower.

"TERMINATION DATE" shall mean the date upon which the Commitment Period ends.

"UNIFORM COMMERCIAL CODE" shall mean Chapters 1301 through 1310, inclusive, Ohio Revised Code, as from time to time amended.

"UNITED STATES" shall mean the United States of America, including the States and the District of Columbia, but excluding its territories and possessions.

SECTION 1.2 USE OF TERMS. Unless otherwise defined or the context otherwise requires, terms for which meanings are provided in this Agreement shall have such meanings when used in the exhibits and schedules hereto, the other Loan Documents and any other communications delivered from time to time in connection with this Agreement. Terms defined in the singular shall have a comparable meaning when used in the plural, and vice versa, unless otherwise defined in the plural.

SECTION 1.3 CROSS REFERENCES; HEADINGS. The words "hereof", "herein" and "hereunder" and words of similar import when used in this Agreement or in any of the other Loan Documents shall refer to this Agreement or such Loan Documents as a whole and not to any particular provision of this Agreement or such Loan Documents. Section, article, schedule and exhibit references contained in this Agreement are references to sections, articles, schedules and exhibits in or to this Agreement unless otherwise specified. Any reference in any section or definition to any clause is, unless otherwise specified, to such clause of such section or definition. The various headings in this Agreement and the other Loan Documents are inserted for convenience of reference only and shall not affect the meaning or interpretation of this Agreement or the other Loan Documents or any provision hereof or thereof.

SECTION 1.4 ACCOUNTING TERMS. Any accounting term used in this Agreement and in the other Loan Documents and any certificate or other document made or delivered pursuant hereto or thereto that is not specifically defined shall have the meaning customarily given in accordance with GAAP; provided, however, that in the event that changes in GAAP shall be mandated by the

Financial Accounting Standards Board, or any similar accounting body of comparable standing, and to the extent that such changes would modify or could modify such accounting terms or the interpretation or computation thereof, such changes shall be followed in defining such accounting terms only from and after the date the Borrower and the Bank shall have amended this Agreement to the extent necessary to reflect any such changes in the financial covenants and other terms and conditions of this Agreement. All calculations and determinations made with respect to financial covenants set forth herein shall be calculated and determined in Dollars.

## ARTICLE II

### AMOUNT AND TERMS OF COMMITMENT AND REVOLVING CREDIT LOANS

#### SECTION 2.1 COMMITMENT.

(a) Subject to the terms and conditions of this Agreement, the Bank agrees to make Loans to the Borrower from time to time during the Commitment Period up to a maximum amount of the Commitment; provided, however, the total amount of outstanding Loans shall at no time exceed the lesser of (x) the Commitment and (y) the Borrowing Base. Each borrowing for a Loan must be in a Dollar amount of at least \$25,000.00.

(b) During the Commitment Period, within the limits of the Commitment and subject to the terms and conditions of this Agreement and the other Loan Documents, the Borrower may use its Commitment by borrowing, repaying the Loans, in whole or in part, and reborrowing.

#### SECTION 2.2 NOTE.

(a) The Loans made by the Bank to the Borrower pursuant hereto shall be evidenced by the Note payable to the order of the Bank in an aggregate amount equal to the Commitment.

(b) The Note shall (i) be dated as of the date hereof, (ii) be in a principal amount corresponding to the aggregate amount of the Commitment, (iii) bear interest as determined pursuant to this Agreement, (iv) mature on the Termination Date, and (v) require accrued interest to be paid on the applicable Interest Payment Date and at maturity in accordance with the terms of this Agreement.

(c) The Bank is hereby authorized to record electronically or otherwise (i) the date and amount of each Loan disbursement made by the Bank, (ii) the date and amount of each payment or repayment of principal thereof, and (iii) such other information as it deems necessary or appropriate, and may, if the Bank so elects in connection with any transfer or enforcement of the Note, endorse on a schedule forming a part thereof appropriate notation to evidence the foregoing information with respect to each such Loan then outstanding. Such recordation or endorsement shall constitute PRIMA FACIE evidence of the accuracy of the information so recorded or endorsed; provided, however, the failure of the Bank to make any such recordation(s) or endorsement(s) shall not affect

11

the obligation of the Borrower to repay outstanding principal, interest or any other amount due hereunder or under such Note in accordance with the terms hereof and thereof.

#### SECTION 2.3 NOTICE OF LOAN BORROWING; FUNDING OF LOANS.

(a) When the Borrower desires to borrow hereunder, the Borrower shall give to the Bank a notice (a "Notice of Borrowing"), which (i) shall be irrevocable, and (ii) must be received by the Bank prior to 2:00 p.m., Columbus time, on the proposed date of the borrowing, which date shall be a Business Day (a "Borrowing Date"). Each such Notice of Borrowing shall specify (i) the amount to be borrowed, and (ii) the requested Borrowing Date.

(c) Unless the Bank determines that any applicable condition specified in Article III has not been satisfied prior to 2:00 p.m., Columbus time, on the applicable Borrowing Date, the Bank shall make funds in the amount of the Loan available to the Borrower.

SECTION 2.4 TERMINATION OF COMMITMENT. The Commitment shall terminate on the Termination Date and any Loans then outstanding, together with all accrued interest thereon and all other outstanding fees, charges and expenses payable hereunder and under the other Loan Documents shall be due and payable immediately.

SECTION 2.5 INTEREST ON LOANS. Each Loan shall bear interest on the outstanding principal amount thereof, for each day from the date such Loan is made and continuing while outstanding and unpaid, at a rate equal to the Base Rate. Accrued interest shall be payable on each Interest Payment Date. The Base

Rate shall be adjusted automatically and as of the effective date of any change in the Base Rate. Interest on Loans shall be calculated on the basis of a year of 360 days for the actual number of days elapsed. Any overdue principal of, and to the extent permitted by applicable law, overdue interest on, any Base Rate Loan shall bear interest, payable on demand, for each day until paid at a rate equal to the Default Rate for such day. The Bank shall determine each Interest Rate applicable to the Loans hereunder and its determination shall be conclusive in the absence of manifest error.

SECTION 2.6 FEES. During the Commitment Period, the Borrower shall pay to the Bank a commitment fee at a rate of 1/4% per annum of the daily average Available Commitment (calculated on the basis of a 360-day year for the actual number of days elapsed). Such commitment fee shall accrue on the Available Commitment beginning on the Effective Date and shall continue to accrue thereafter through the Termination Date. Such accrued commitment fees shall be payable (i) quarterly in arrears on the last day of each calendar quarter (beginning with the calendar quarter ending on March 31, 2001, and (ii) on the Termination Date.

#### SECTION 2.7 PREPAYMENTS.

(a) The Borrower may prepay any Loan at any time without premium or penalty.

(b) Upon notice to the Borrower by the Bank, the Borrower shall prepay its Loans on each such date as and to the extent the outstanding balance of all Loans to the Borrower

12

exceeds the Borrowing Base. Each such mandatory prepayment shall be applied to prepay such Loans.

#### SECTION 2.8 GENERAL PROVISIONS AS TO THE LOANS AND PAYMENTS AND FUNDING OF LOANS.

(a) The Borrower shall make each payment of principal of, and interest on, the Loans and the Bank's fees hereunder not later than 11:00 a.m. Columbus time, on the date when due, in federal or other funds immediately available at the place where payment is due, to the Bank at the Bank's address set forth in Section 9.4. The Borrower authorizes the Bank to electronically debit all such payments and fees from the account(s) of the Borrower maintained with the Bank.

(b) Except as otherwise provided herein, whenever any payment of principal of, or interest on, any Loan or of such fees shall be due on a day which is not a Business Day, the day for payment thereof shall be extended to the next succeeding Business Day. If the date for any payment of principal is so extended or is extended by operation of law or otherwise, interest thereon shall be payable for such extended time period.

(c) For the purpose of computing the Available Commitment, the Bank shall have the right, in its sole discretion, to treat as outstanding Loans under this Agreement the unpaid amount of any interest, fees, costs or expenses otherwise then due and payable hereunder and under the Note and the other Loan Documents; provided, however, that such interest, fees, costs or expenses shall not be deemed to be outstanding Loans for purposes of Section 2.6.

(d) All payments under the Loan Documents by the Borrower with respect to principal of, interest on, and any other amount relating to the Loans (including the commitment fee set forth in Section 2.6 in connection with the Available Commitment with respect to the Commitment), shall be made in Dollars.

SECTION 2.9 USE OF PROCEEDS. The Borrower represents, warrants and agrees that the proceeds of the Loans made hereunder shall be used by the Borrower only for working capital and general corporate purposes.

SECTION 2.10 LOAN ADMINISTRATION. The Bank shall have no obligation to advance or re-advance any sums or make any Loan pursuant to terms of this Agreement at any time when a Default or an Event of Default exists.

CONDITIONS OF LENDING  
-----

SECTION 3.1 CONDITIONS TO INITIAL LOAN. The agreement of the Bank to make the initial Loan hereunder on any Borrowing Date is subject to the satisfaction of the following conditions precedent as of such Borrowing Date:

13

(a) LOAN DOCUMENTS. The Bank shall have received (i) this Agreement, executed and delivered by a duly authorized officer of the Borrower, (ii) the Note, conforming to the requirements hereof and executed and delivered by a duly authorized officer of the Borrower, and (iii) each of the other Loan Documents, conforming to the requirements hereof and executed and delivered by a duly authorized officer or representative of each party thereto.

(b) CONSENTS. The Bank shall have received true copies (in each case certified as to authenticity on such date by such Person as may be appropriate or may be reasonably required by the Bank) of all documents and instruments, including all consents, authorizations and filings, required or advisable under any Requirements of Law or by any Contractual Obligation in connection with the execution, delivery, performance, validity and enforceability of this Agreement, the Note and the other Loan Documents, and such consents, authorizations and filings shall be reasonably satisfactory in form and substance to the Bank and its counsel and be in full force and effect.

(c) CORPORATE/ENTITY DOCUMENTS. The Bank shall have received true and complete certified copies of the Borrower's articles (certificate) of incorporation (formation), code of regulations (by-laws), operating agreement or other governing documents, and a copy of the resolutions (in form and substance satisfactory to the Bank) of the Board of Directors (or other governing Person) of the Borrower authorizing (i) the execution, delivery and performance of this Agreement, the Note and the other Loan Documents, as applicable, (ii) the consummation of the transactions contemplated hereby and thereby, (iii) the borrowing and other financial transactions provided for herein, and (iv) the documents provided for in this Agreement, certified by the secretary or an assistant secretary (or other appropriate officer) of the Borrower. Such certificate shall state that the resolutions set forth therein have not been amended, modified, revoked or rescinded as of the date hereof.

(d) GOOD STANDING CERTIFICATES. The Bank shall have received copies of certificates dated as of a recent date from the Secretary of State, or other appropriate authority of such jurisdiction, evidencing the good standing (or comparable status) of the Borrower in the jurisdiction of its incorporation (formation) and the jurisdiction of where its chief executive office is located.

(e) INCUMBENCY CERTIFICATES. The Bank shall have received a certificate of the secretary or an assistant secretary (or other appropriate officer) of the Borrower as to the incumbency and signature of the officer(s) of the Borrower executing this Agreement, the Note, the other Loan Documents and any certificate or other documents to be delivered pursuant hereto or thereto.

(f) SEARCHES; RELEASE OF EXISTING LIENS. The Bank shall have received (i) appropriate security interest and lien searches and tax and judgement lien searches undertaken at all appropriate offices of Governmental Authorities which name the Borrower (and any predecessor name of the Borrower within the previous 5 years), as a "debtor"; and (ii) all filing receipts, acknowledgments or other evidence satisfactory to it evidencing any recordation or filing necessary to release all Liens (except Liens permitted hereby).

14

(g) FINANCIAL INFORMATION. The Bank shall have received a copy of each of the financial statements referred to in Section 4.7.

(h) NO LITIGATION. No suit, action, investigation, inquiry or other proceeding (including, without limitation, the enactment or promulgation of a statute or rule) by or before any arbitrator or any Governmental Authority shall be pending and no preliminary or permanent injunction or order by a state or federal court shall have been entered (i) in connection with this Agreement,

the Note, the other Loan Documents or any of the transactions contemplated hereby or thereby, or (ii) which, in the reasonable judgment of the Bank, would have a Material Adverse Effect.

(i) NO VIOLATION. The consummation of the transactions contemplated hereby and by the Note and the other Loan Documents shall not contravene, violate or conflict with, nor involve the Bank in a violation of, any Requirement of Law.

(j) LEGAL OPINION. If requested by the Bank, the Bank shall have received the executed legal opinion of legal counsel to the Borrower, in form and substance satisfactory to the Bank with respect to the Borrower, the transactions contemplated hereby and such other matters as the Bank may reasonably request.

(k) INSURANCE CERTIFICATES. The Bank shall have received the certificates of insurance referred to in Section 5.8.

### SECTION 3.2 CONDITIONS TO EACH LOAN.

(a) The agreement of the Bank to make any Loan (including the initial Loan) hereunder on any Borrowing Date is subject to the satisfaction of the following conditions precedent as of such Borrowing Date:

(i) REPRESENTATIONS AND WARRANTIES. Each of the representations and warranties made by the Borrower in or pursuant to this Agreement, the Note or any other Loan Document delivered in connection herewith or therewith shall be true and correct in all material respects on and as of such date as if made on and as of such date.

(ii) NO DEFAULT. No Event of Default nor Default shall have occurred and be continuing on such date or after giving effect to the Loan requested by the Borrower to be made on such date.

(iii) NO LITIGATION. No litigation, investigation or proceeding before or by any arbitrator or Governmental Authority shall be continuing or threatened against the Borrower questioning the enforceability of or the Borrower's authority to enter into this Agreement, the Note or the other Loan Documents.

(iv) ADDITIONAL DOCUMENTS. The Bank shall have received each additional document, instrument or item of information reasonably requested by the Bank.

15

(v) ADDITIONAL MATTERS. All corporate and other proceedings, and all documents, instruments and other legal matters in connection with the transactions contemplated by this Agreement, the Note and the other Loan Documents shall be reasonably satisfactory in form and substance to the Bank.

(b) Each Notice of Borrowing submitted by the Borrower hereunder shall constitute a representation and warranty by the Borrower to the Bank as of the date of such transaction that the conditions contained in this Section 3.2 have been satisfied.

## ARTICLE IV

### REPRESENTATIONS AND WARRANTIES

The Borrower represents and warrants to the Bank that:

SECTION 4.1 GOOD STANDING AND QUALIFICATION. The Borrower (i) is duly organized, validly existing and in good standing (or comparable status) under the laws of the jurisdiction of its incorporation or formation, (ii) has all requisite power and authority to own and operate its properties and to carry on its business as presently conducted, (iii) is duly qualified as a foreign corporation (or other entity) to do business in and is in good standing (or comparable status) under the laws of each jurisdiction where, by the nature of

its business or because of the character of the properties owned or leased by it or the transaction of its business, failure to be so qualified would have a Material Adverse Effect or where failure to qualify would affect the ability of the Borrower to enforce any of its material rights, and (iv) is in compliance with all Requirements of Law except to the extent that the failure to comply therewith would not, in the aggregate, have a Material Adverse Effect.

SECTION 4.2 AUTHORITY. The Borrower has full power and authority (i) to enter into this Agreement and all other Loan Documents to which each is a party, (ii) to make the borrowings contemplated by this Agreement, (iii) to execute, deliver and perform this Agreement, the Note and the other Loan Documents and to incur the obligations provided for herein and therein, all of which have been duly authorized by all necessary and proper corporate action. No consent, waiver or authorization of, or filing with, any Person (including without limitation any Governmental Authority), is required to be made or obtained by the Borrower in connection with the borrowings hereunder or the execution, delivery, performance, validity or enforceability of this Agreement and all other Loan Documents, other than the filing of Financing Statements.

SECTION 4.3 BINDING AGREEMENTS. This Agreement and all other Loan Documents constitute, and the Note, when executed and delivered pursuant hereto for value received, shall constitute, the valid and legally binding obligations of the Borrower, enforceable in accordance with their respective terms, except as enforcement of such terms may be limited by (i) bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance, or similar laws affecting creditors' rights generally, provided, however, that the Borrower represents and warrants that no such limitations currently exist as of the date of this Agreement, or (ii) equitable principles which may limit the availability of the remedy of specific performance or other equitable remedies.

16

SECTION 4.4 LITIGATION. There are no actions, suits, investigations or administrative proceedings of or before any court, arbitrator or Governmental Authority, pending or, to the knowledge of the Borrower, threatened against the Borrower or any of its properties or assets which: (i) either in any case or in the aggregate, if adversely determined, would have a Material Adverse Effect; or (ii) question the validity of this Agreement or any other Loan Documents or any action to be taken in connection with the transactions contemplated hereby and thereby.

SECTION 4.5 NO CONFLICTING LAW OR AGREEMENTS. The execution, delivery and performance by and of the Borrower of this Agreement and all other Loan Documents to which it is a party: (i) do not and will not violate any Requirement of Law; (ii) do not and will not violate any order, decree or judgment by which the Borrower is bound; (iii) do not and will not violate or conflict with, result in a breach of or constitute (with notice, lapse of time, or otherwise) a default under any material agreement, mortgage, indenture or contract to which the Borrower is a party, or by which the Borrower's properties are bound; or (iv) do not and will not result in the creation or imposition of any lien, security interest, charge or encumbrance of any nature whatsoever upon any Property of the Borrower, other than in favor of the Bank.

SECTION 4.6 TAXES. With respect to all taxable periods, the Borrower has filed all tax returns which are required to be filed and all federal, state, provincial, municipal, franchise and other taxes shown to be due and payable on such filed returns have been paid or have been reserved against, as required by GAAP, and the Borrower knows of no unpaid assessment against the Borrower.

SECTION 4.7 FINANCIAL STATEMENTS. The Borrower has heretofore delivered to the Bank (i) the audited annual consolidated balance sheet of the Borrower and its Subsidiaries as of December 31, 1999, and the related consolidated statements of income, shareholders' equity and cash flows for the Fiscal Year then ended; and (ii) the unaudited consolidated balance sheet of the Borrower and its Subsidiaries as of September 30, 2000, and the related unaudited consolidated statements of income and cash flows for the nine (9) Fiscal Months then ended. Such financial statements, with accompanying footnotes (if any), fairly present the financial condition, results of operations and cash flows of the Borrower and its Subsidiaries, as of the dates and for the periods referred to and have been prepared in accordance with GAAP consistently applied by the Borrower and its Subsidiaries throughout the periods involved. The financial statements referred to in this Section 4.7 do not, nor does this Agreement or



any written statement furnished by the Borrower to the Bank in connection herewith, contain any untrue statement of a material fact or omit a material fact necessary to make the statements contained therein or herein not misleading.

SECTION 4.8 ADVERSE DEVELOPMENTS. Since the date of the financial statements most recently furnished to the Bank, there has been no change in the business, prospects, operations or condition, financial or otherwise, of the Borrower or its properties or assets which would have a Material Adverse Effect.

SECTION 4.9 EXISTENCE OF ASSETS AND TITLE THERETO. The Borrower has good and marketable title to its properties and assets, including the properties and assets reflected in the

17

financial statements referred to herein. Such properties and assets are not subject to any Lien except as expressly permitted under the terms of this Agreement.

SECTION 4.10 REGULATIONS S,T,U OR X. The Borrower is not engaged, nor will the Borrower engage, principally or as one of its important activities, in the business of extending credit for the purpose of "purchasing" or "carrying" any "margin stock" under Regulation U of the Board of Governors of the Federal Reserve System as now or from time to time in effect. No part of the proceeds of the borrowings hereunder will be used, directly or indirectly, for the purpose of "purchasing" or "carrying" any "margin stock". The terms "purchasing," "carrying" and "margin stock" shall be as defined in Regulation U promulgated by the Board of Governors of the Federal Reserve System. No part of the proceeds of the borrowings hereunder will be used, directly or indirectly, for any purpose which violates, or which is inconsistent with, the provisions of Regulations S, T, U or X of said Board of Governors. If requested by the Bank, the Borrower shall furnish to the Bank a statement in conformity with the requirements of Federal Reserve Form U-1 referred to in said Regulation U to the foregoing effect.

SECTION 4.11 COMPLIANCE. No Default or Event of Default has occurred or is existing. The Borrower is not in default with respect to any order, writ, injunction or decree of any court or of any federal, state, municipal or other Governmental Authority or in violation of any Requirement of Law to which it or its properties are subject, which default or violation might have a Material Adverse Effect. The Borrower is not in default in the payment or performance of any of its obligations or in the performance of any Contractual Obligation to which it is a party or by which it or any of its assets or properties may be bound, which default might have a Material Adverse Effect. The Borrower has not failed to obtain any licenses, permits, franchises or other governmental or environmental authorizations necessary to the ownership of its properties or to the conduct of its businesses, which violation or failure might have a Material Adverse Effect.

SECTION 4.12 LEASES. The Borrower enjoys quiet and undisturbed possession under all leases under which it is operating, and all such leases are valid and subsisting, and not in default.

SECTION 4.13 PENSION PLANS. No ERISA Event has occurred with respect to any Plan of the Borrower or any member of its ERISA Group. The PBGC has not made a determination that, with respect to any Plan of the Borrower or any member of its ERISA Group, an event or condition has occurred which constitutes grounds under Section 4042 of ERISA for the termination of, or for the appointment of a trustee to administer, any such Plan. Neither the Borrower nor any member of its ERISA Group is in violation of any laws, ordinances, governmental rules or regulations to which it is subject, including without limitation any laws, rulings or regulations relating to ERISA or Section 4975 of the Code, which violation might have a Material Adverse Effect.

SECTION 4.14 INVESTMENT COMPANY; HOLDING COMPANY. The Borrower is not (i) an "investment company" or a company "controlled" by an "investment company" within the meaning of the Investment Company Act of 1940, as amended, (ii) a "holding company" within the meaning of the Public Utility Holding Company Act of 1935, as amended, or (iii) subject to any regulatory scheme which restricts its ability to incur Debt.

## SECTION 4.15 NO INSOLVENCY.

(a) Immediately after the consummation of the transactions to occur on the date hereof and immediately following the making of each Loan, if any, made on the date hereof and after giving effect to the application of the proceeds of such Loans, (i) the fair value of the assets of the Borrower and its Subsidiaries on a consolidated basis, at a fair valuation, will exceed the debts and liabilities, subordinated, contingent or otherwise, of the Borrower and its Subsidiaries on a consolidated basis; (ii) the present fair saleable value of the Property of the Borrower and its Subsidiaries on a consolidated basis will be greater than the amount that will be required to pay the probable liability of the Borrower and its Subsidiaries on a consolidated basis on their debts and other liabilities, subordinated, contingent or otherwise, as such debts and other liabilities become absolute and matured; (iii) the Borrower and its Subsidiaries on a consolidated basis will be able to pay their debts and liabilities, subordinated, contingent or otherwise, as such debts and liabilities become absolute and matured; and (iv) the Borrower and its Subsidiaries on a consolidated basis will not have unreasonably small capital with which to conduct the businesses in which they are engaged as such businesses are now conducted and are proposed to be conducted after the date hereof.

(b) The Borrower does not intend to, or to permit any of its Subsidiaries to, and does not believe that it or any of its Subsidiaries will, incur debts beyond its ability to pay such debts as they mature, taking into account the timing of and amounts of cash to be received by it or any such Subsidiary and the timing of the amounts of cash to be payable on or in respect of its Indebtedness or the Indebtedness of any such Subsidiary.

## SECTION 4.16 ENVIRONMENTAL MATTERS.

(a) The Borrower has not used Hazardous Materials on, from or affecting any real property owned, leased or used by the Borrower (the "Real Property") in any manner which violates any Environmental Laws governing the use, storage, treatment, transportation, manufacture, refinement, handling, production or disposal of Hazardous Materials, which violation would have a Material Adverse Effect, and, to the best knowledge of the Borrower, no present or prior owner of the Real Property or any tenant, subtenant, occupant, prior tenant, prior subtenant or prior occupant has used Hazardous Materials on, from or affecting the Real Property in any manner which violates any Environmental Laws governing the use, storage, treatment, transportation, manufacture, refinement, handling, production or disposal of Hazardous Materials.

(b) The Borrower has not received any notice of any violation of any Environmental Laws governing the use, storage, treatment, transportation, manufacture, refinement, handling, production or disposal of Hazardous Materials, and there have been no actions commenced or, to the best knowledge of the Borrower, threatened by any party for noncompliance therewith.

SECTION 4.17 ACCURACY OF INFORMATION. All information, reports and other papers and data (including without limitation, copies of all filings made with all Governmental Authorities) furnished heretofore or contemporaneously herewith by or on behalf of the Borrower to the Bank or any Person furnishing an opinion required to be delivered hereunder for purposes of or in connection with this Agreement and the other Loan Documents and the transactions contemplated hereby and thereby,

is, and all other such information hereafter furnished by or on behalf of the Borrower to the Bank or any Person furnishing an opinion required to be delivered hereunder will be, true and accurate in every material respect on the date as of which such information is dated or certified and not incomplete by omitting to state any material fact necessary to make such information not misleading and the Borrower has notified the Bank of all events that have occurred since such date that would render such information incomplete or misleading.

SECTION 4.18 ASSETS FOR CONDUCT OF BUSINESS. The Borrower possesses

adequate assets, patents, patent applications, copyrights, trademarks, servicemarks and trade names, or licenses thereto, to continue to conduct its business as heretofore conducted, without any material conflict with the rights of others, except that the failure to possess such asset or assets, in the aggregate, would not have a Material Adverse Effect.

SECTION 4.19 TRADE RELATIONS. There exists no actual or threatened termination, cancellation or limitation of, or any modification or change in, the business relationship of the Borrower with any customer or any group of customers whose purchases individually or in the aggregate are material to the business of the Borrower which would have a Material Adverse Effect, and there exists no present condition or state of facts or circumstances known to the Borrower that would have a Material Adverse Effect or prevent the Borrower from conducting its business after the consummation of the transactions contemplated by this Agreement in substantially the same manner in which such business has heretofore been conducted.

SECTION 4.20 CONTINGENT OBLIGATIONS. The Borrower does not have any Contingent Obligations other than those set forth on Schedule 4.20.

SECTION 4.21 SUBSIDIARIES. Schedule 4.21 contains an accurate list of all Subsidiaries of the Borrower as of the date of this Agreement, setting forth their respective jurisdictions of organization and the percentage of their respective capital stock or other ownership interests owned by the Borrower or other Subsidiaries. All of the issued and outstanding shares of capital stock or other ownership interests of such Subsidiaries have been (to the extent such concepts are relevant with respect to such ownership interests) duly authorized and issued and are fully paid and non-assessable.

## ARTICLE V

### AFFIRMATIVE COVENANTS

-----

So long as the Borrower may borrow under this Agreement and until payment in full of the Note and all other amounts and obligations owing to the Bank hereunder and under the other Loan Documents, the Borrower shall, unless the Bank otherwise consents in writing:

SECTION 5.1 FINANCIAL STATEMENTS. Furnish to the Bank:

(a) as soon as available, but in any event within 90 days after the end of each Fiscal Year of the Borrower, a copy of the audited consolidated balance sheet of the Borrower and

20

its Subsidiaries as at the end of such Fiscal Year and the related audited consolidated statements of income, shareholders' equity and cash flows for such Fiscal Year, setting forth in each case in comparative form the figures for the previous year, together with the opinion of independent certified public accountants of nationally recognized standing, which opinion shall not contain a "going concern" or like qualification or exception, or qualification arising out of the scope of the audit or qualification which would affect the computation of financial covenants contained herein other than a qualification for consistency due to a change in the application of GAAP with which the Borrower's and its Subsidiaries' independent certified public accountants concur; and

(b) as soon as available, but in any event within 30 days after the end of each Fiscal Month of the Borrower, a copy of the unaudited consolidated internally prepared balance sheet of the Borrower and its Subsidiaries as at the end of such Fiscal Month and the related unaudited consolidated internally prepared statements of income, shareholders' equity and cash flows for such Fiscal Month and for the portion of the Borrower's and its Subsidiaries' Fiscal Year ended at the end of such Fiscal Month, setting forth in each case in comparative form the figures for the corresponding Fiscal Month and corresponding portion of the Borrower's and its Subsidiaries' previous Fiscal Year, all certified (subject to normal year-end adjustments) as to fairness of presentation, GAAP and consistency by an Authorized Officer.

SECTION 5.2 CERTIFICATES; OTHER INFORMATION. Furnish to the Bank:

(a) concurrently with the delivery of each annual financial statement of the Borrower and its Subsidiaries referred to in Section 5.1(a) and each monthly financial statement of the Borrower and its Subsidiaries referred to in Section 5.1(b), a certificate in form and substance satisfactory to the Bank (a "Compliance Certificate"), certified by an Authorized Officer of the Borrower as true and correct and stated to have been made after due examination by such Authorized Officer (i) stating whether any Default or Event of Default exists on the date of such certificate and, if any Default or Event of Default then exists, setting forth the details thereof and the action which the Borrower is taking or proposes to take with respect thereto, (ii) setting forth in detail the calculations required to establish whether the Borrower was in compliance with the financial covenants set forth in Section 6.19 on the date of such financial statements, and (iii) stating that the representations and warranties expressed in Article IV are true, correct and complete in all material respects on and as of the date of such certificate and, if any such representation or warranty is not so true, correct and complete, setting forth the details thereof;

(b) promptly after the same are prepared, a copy of each annual business plan, budget and financial forecast prepared by management of the Borrower for each Fiscal Year;

(c) as soon as available, but in any event within 30 days after the last day of each Fiscal Month of the Borrower, or such other time, and from time to time, as may be requested by the Bank, a certificate in form and substance satisfactory to the Bank (a "Borrowing Base Certificate"), certified by an Authorized Officer of the Borrower as true and correct, setting forth all information required to calculate the Borrowing Base for the Borrower, including the amount of Eligible Accounts Receivable and Eligible Inventory, in each case as of the last Business Day of said Fiscal Month;

21

(d) as soon as available, but in any event within 30 days after the end of each Fiscal Month, accounts payable aging reports and accounts receivable aging reports; and

(e) promptly, on reasonable notice to the Borrower, such additional financial and other information concerning the Borrower as the Bank may from time to time reasonably request.

SECTION 5.3 PAYMENT OF OBLIGATIONS. Pay, discharge or otherwise satisfy, at or before maturity or before they become delinquent, as the case may be, all its Debt, including without limitation all amounts due under the Note and hereunder, and other material obligations of whatever nature, except for any Debt or other obligations (including any obligations for taxes), when the amount or validity thereof is currently being contested in good faith by appropriate proceedings and reserves in conformity with GAAP with respect thereto have been provided on the books of the Borrower.

SECTION 5.4 COMPLIANCE WITH LAW; MAINTENANCE OF RIGHTS, PERMITS, ETC. Comply with all Requirements of Law; and (x) preserve, renew and keep in full force and effect all, (y) take all reasonable action to maintain all, and (z) not sell, transfer or otherwise dispose of any, rights, privileges, contracts, licenses, permits, copyrights, patents, trademarks, trade names and franchises necessary or desirable in the normal conduct of its business.

SECTION 5.5 INSPECTION OF PROPERTY; BOOKS AND RECORDS; DISCUSSIONS. Keep proper books of record and account in which full, true and correct entries in conformity with GAAP and all Requirements of Law shall be made of all dealings and transactions in relation to its business and activities, subject in the case of interim statements to year-end audit adjustments; and permit representatives of the Bank (at the Borrower's expense) to (i) visit and inspect any of its properties, undertake audits of the Collateral and examine and make abstracts from any of the books and records at any reasonable time and as often as may reasonably be requested in writing, and (ii) discuss the business, operations, properties and financial and other condition of the Borrower and, if notice thereof is given to the Borrower prior to the date of such discussions and provided the Borrower shall be entitled to participate in such discussions, with its independent certified public accountants.

SECTION 5.6 NOTICES. Promptly give notice to the Bank:

(a) of the occurrence of any Default or Event of Default;

(b) of any (i) default under any loan, letter of credit agreement or acceptance agreement, (ii) default under any other Contractual Obligations that would enable the obligee of such obligations to compel the Borrower to immediately pay all amounts owing thereunder or otherwise accelerate payments thereunder and which would have a Material Adverse Effect, or (iii) litigation, investigation or proceeding which may exist at any time between the Borrower and any Governmental Authority, which, if adversely determined, would have a Material Adverse Effect;

22

(c) of any litigation or proceeding affecting or threatened against the Borrower (i) in which the amount involved is \$100,000 or more, or (ii) in which injunctive or similar relief is sought;

(d) of the following events, as soon as possible and in any event within 30 days after the occurrence thereof: (i) the occurrence of any Reportable Event with respect to any Plan of the Borrower or any member of its ERISA Group with respect to which the PBGC has not waived the 30 day reporting requirement, or (ii) the institution of proceedings or the taking or expected taking of any other action by PBGC or the Borrower or any member of its ERISA Group to terminate or withdraw or partially withdraw from any Plan under circumstances which could lead to material liability to the PBGC or, with respect to a Multiemployer Plan, the Reorganization or Insolvency (as each such term is defined in ERISA) of the Plan and in addition to such notice, deliver to the Bank whichever of the following may be applicable: (A) a certificate of an appropriate officer of the Borrower setting forth details as to such Reportable Event and the action the Borrower proposes to take with respect thereto, together with a copy of any notice of such Reportable Event that may be required to be filed with PBGC, or (B) any notice delivered by PBGC evidencing its intent to institute such proceedings or any notice to PBGC that such Plan is to be terminated, as the case may be;

(e) of any change relating to the business, operations, Property or financial or other condition of the Borrower which would have a Material Adverse Effect;

(f) of any proposed sale, disposal or issuance of any security, debt or equity, or options for any of the foregoing, of the Borrower (excluding stock options and restricted stock awards under the Borrower's compensation plans) to any Person prior to any such sale, disposal or issuance; and

(g) of any notice of default with respect to the Ethicon Agreement.

Each notice pursuant to this Section 5.6 shall be accompanied by a statement of an Authorized Officer setting forth details of the occurrence referred to therein and stating what action the Borrower proposes to take with respect thereto.

**SECTION 5.7 TAXES.** Pay and discharge all taxes, assessments, governmental charges and levies upon, or collected by, the Borrower as and when they become due and payable, unless, and only to the extent that, such taxes, assessments, governmental charges and levies shall be contested in good faith by appropriate proceedings and shall have been reserved against as required by GAAP, by the Borrower.

**SECTION 5.8 MAINTENANCE OF PROPERTY; INSURANCE.**

(a) Keep all of its Property useful in and necessary to its business in good working order and condition;

23

(b) Maintain and keep in full force and effect Required Property Insurance Coverage and Required Public Liability Insurance Coverage. All such insurance shall be obtained and maintained either by means of policies

with generally recognized, responsible insurance companies qualified to do business in the jurisdiction where such Property is located or pursuant to other arrangements satisfactory to the Bank. The insurance to be provided may be by blanket policy. Each policy of insurance shall be written so as not to be subject to cancellation or substantial modification upon less than 30 days advance written notice to the Borrower, and the Borrower shall so inform the Bank of the receipt, and contents, of any such notice. The Borrower shall deposit with the Bank certificates or other evidence satisfactory to it that (i) the insurance required hereby has been obtained and is in full force and effect, and (ii) all premiums thereon have been paid in full. Prior to the expiration of any such insurance, the Borrower shall furnish the Bank with evidence satisfactory to it that such insurance has been renewed or replaced and that all premiums thereon have been paid in full. In the event the Borrower fails to provide, maintain and keep in force the policies of insurance required by this Section 5.8, the Bank may procure such insurance or single-interest insurance for such risk covering the Bank's interest and the Borrower shall pay all premiums thereon promptly upon demand by the Bank, together with interest thereon at the highest rate then in effect under the Note. Any proceeds of policies providing Required Property Insurance Coverage shall be applied as set forth in the Security Agreement; any proceeds of policies providing Required Public Liability Insurance Coverage shall be applied toward the extinguishment or satisfaction of the liability with respect to which such insurance proceeds have been paid.

(c) Maintain such other insurance, including any necessary flood insurance, in such amounts and pursuant to policies in form and substance satisfactory to the Bank, as the Bank may require at any time and from time to time.

SECTION 5.9 ERISA FUNDING REQUIREMENTS. Comply, and cause each member of its ERISA Group to comply, with all funding requirements of ERISA with respect to any Plan of each and/or any member of its ERISA Group.

SECTION 5.10 INDEMNIFICATION. Defend, indemnify and hold the Bank and any of its officers, directors, agents and employees harmless against any and all loss, cost, expense (including the reasonable fees and expenses of counsel), claims or actions relating to or arising out of this Agreement, the Note and the other Loan Documents, or any actual or proposed use of proceeds of the Loans, regardless of whether or not the disbursement of any Loans shall actually occur, unless any such loss, cost, expense, claim or action are due to the gross negligence or willful misconduct of the Bank. The provisions of this Section 5.10 shall survive the termination of this Agreement.

If any claim, action or proceeding is made or brought against the Bank or any such officers, directors, agents and employees in respect of which indemnity may be sought hereunder, the Bank shall give notice to the Borrower of the claim, action or proceeding and upon such notice, at the option of the Bank, (i) the Borrower shall assume, at the Borrower's expense, the defense of the action or proceeding with legal counsel reasonably satisfactory to the Bank, (ii) the Borrower shall so assume the defense of the action or proceeding with the participation of the Bank, at the Borrower's expense, in such defense, or (iii) the Bank shall assume the defense of the claim, action or proceeding, at the Borrower's expense; provided that the failure of the Bank to give such notice

24

shall not relieve the Borrower from any of its obligations under this Section 5.10 unless the failure prejudices the defense by the Borrower of the claim, action or proceeding.

SECTION 5.11 PERFORMANCE UNDER LOAN DOCUMENTS. Perform all obligations required to be performed by it under the terms of this Agreement and the other Loan Documents and any other agreements now or hereafter existing or entered into between the Borrower and the Bank.

SECTION 5.12 CORPORATE EXISTENCE; FOREIGN QUALIFICATION. Do or cause to be done at all times all things necessary to: (i) maintain and preserve its corporate existence; (ii) be duly qualified to do business and be in good standing as a foreign corporation in each jurisdiction where failure to do so will have a Material Adverse Effect; and (iii) comply with all Contractual Obligations where failure to do so will have a Material Adverse Effect.

SECTION 5.13 MAINTENANCE OF BUSINESS. Maintain the general character of the business of the Borrower as presently conducted.

SECTION 5.14 ENVIRONMENTAL MATTERS.

(a) Keep or cause the Real Property to be free of Hazardous Materials except to the extent that such Hazardous Materials are stored and/or used in material compliance with all applicable Environmental Laws; and, without limiting the foregoing, the Borrower shall not cause or permit the Real Property to be used to generate, manufacture, refine, transport, treat, store, handle, dispose of, transfer, produce or process Hazardous Materials, except in material compliance with all applicable Environmental Laws, nor shall the Borrower knowingly cause or permit, as a result of any intentional or negligent act or omission on the part of the Borrower, or any tenant, subtenant or occupant, a material release of Hazardous Materials onto the Real Property; and

(b) (x) Conduct and complete all investigations, studies, sampling and testing, and all remedial, removal and other actions necessary to clean up and remove any Hazardous Materials on, under, from or affecting the Real Property in accordance with all applicable Environmental Laws, to the satisfaction of the Bank and in accordance with the orders and directives of all Governmental Authorities and (y) defend, indemnify and hold harmless the Bank and its employees, agents, officers and directors, from and against any claims, demands, penalties, fines, liabilities, settlements, damages, costs or expenses of whatsoever kind or nature, known or unknown, contingent or otherwise, arising out of, or in any way relating to (A) the presence, disposal, release or threatened release of any Hazardous Materials on, over and under, from or affecting the Real Property or the soil, water, vegetation, buildings, personal Property, persons or animals thereon; and (B) any personal injury (including wrongful death) or property damage (real or personal) arising out of or relating to such Hazardous Materials including, without limitation, attorneys' and consultants' fees, investigation and laboratory fees, court costs and litigation expenses.

(c) The provisions of this Section 5.14 shall be in addition to any and all other obligations and liabilities the Borrower may have to the Bank at common law and shall survive (i) the repayment of all sums due under the Note and any other Loan Document and (ii) the satisfaction of all other obligations of the Borrower hereunder and under the other Loan Documents.

25

SECTION 5.15 PRIMARY DEPOSITORY. Maintain its primary banking and depository accounts with the Bank or its Affiliates, with a minimum compensating balance of \$250,000 at all times.

ARTICLE VI

NEGATIVE COVENANTS

-----

So long as the Borrower may borrow under this Agreement and until payment in full of the Note and all other amounts and obligations owing to the Bank hereunder and under the other Loan Documents, the Borrower shall not, unless the Bank shall otherwise consent in writing (which consent shall not be unreasonably withheld):

SECTION 6.1 MORTGAGES AND PLEDGES. Create, incur, assume or suffer to exist (x) any Lien upon or in any of its Property, whether now owned or hereafter acquired, or (y) an agreement with any Person (other than the Bank) which prohibits or restricts the granting of any such Lien in favor of the Bank, except:

(a) Liens securing taxes, assessments, fees or other governmental charges or levies, or the claims of materialmen, mechanics, carriers, warehousemen, landlords and other similar Persons;

(b) Liens incurred or deposits made in the ordinary course of business (i) in connection with worker's compensation, unemployment insurance, social security and other similar laws, (ii) to secure the performance of bids, tenders, sales, contracts, public or statutory obligations, customs, appeal and

performance bonds, or (iii) other similar obligations not incurred in connection with the borrowing of money, the obtaining of advances or the payment of the deferred purchase price of Property;

(c) reservations, exceptions, encroachments, easements, rights of way, covenants, conditions, restrictions, leases and other similar title exceptions or encumbrances affecting Real Property, provided they do not in the aggregate materially detract from the value of such properties or materially interfere with their use in the ordinary conduct of the Borrower's business;

(d) Liens in favor of the Bank;

(e) Liens in respect of judgements or awards with respect to which the Borrower is, in good faith, prosecuting an appeal or proceeding for review and with respect to which a stay of execution upon such appeal or proceeding for review has been granted;

(f) notice filing by any creditor/lessor in respect of any operating leases;

(g) Liens on intangibles in favor of Ethicon Endo-Surgery, Inc. pursuant to the Ethicon Agreement; and

26

(h) Liens securing purchase money Debt which does not exceed, when aggregated with Capitalized Lease Obligations permitted by Section 6.15, \$50,000.

#### SECTION 6.2 MERGER, CONSOLIDATION, SALE AND ACQUISITION OF ASSETS.

(a) Enter into any transaction of merger or consolidation;

(b) Suffer or permit any liquidation or dissolution;

(c) Sell, lease or otherwise transfer all or any material part of its business or assets, whether now owned or hereafter acquired (with materiality being determined by Bank in its reasonable discretion);

(d) Make any material change in the method by which it conducts business; or

(e) Acquire all or any material part of the business assets of any Person.

SECTION 6.3 CONTINGENT OBLIGATIONS. Except for Contingent Obligations set forth on Schedule 4.20, assume, guarantee, endorse, sell with recourse, contingently agree to purchase, discount, or otherwise become or remain liable with respect to any Contingent Obligations or enter into any agreement for the purchase or other acquisition of any product, materials or supplies, or for transportation or for the payment for services, if in any such case payment therefor is to be made regardless of the non-delivery of the product, materials or supplies or the non-furnishing of the transportation or services.

#### SECTION 6.4 TRANSACTIONS WITH AFFILIATES AND SUBSIDIARIES.

(a) Enter into any transactions, including without limitation, the purchase, sale or exchange of Property or the rendering of any service, with any Affiliate, except (i) in the ordinary course of, and pursuant to the reasonable requirements of, its business and upon fair and reasonable terms no less favorable to the Borrower as would be obtained in an arm's length transaction with a Person not an Affiliate, and (ii) sales of goods to an Affiliate for an amount equal to the sum of (x) the cost of such goods, PLUS (y) 2% of the cost of such goods.

(b) Make any loans or advances to its Affiliates or Subsidiaries.

(c) Transfer any funds, monies or any other Property to its Subsidiaries.

#### SECTION 6.5 COMPLIANCE WITH ERISA.



(a) Allow or suffer to exist any Prohibited Transaction involving any Plan of the Borrower or any member of its ERISA Group;

(b) incur or suffer to exist any accumulated funding deficiency, whether or not waived, involving any such Plan; or

27

(c) allow any occurrence of or suffer to exist any ERISA Event, or any other event or condition, that presents a material risk of termination of any such Plan by the PBGC, if such Prohibited Transaction, accumulated funding deficiency or ERISA Event would result in a liability of the Borrower or any member of its ERISA Group to the PBGC which would have a Material Adverse Effect.

SECTION 6.6 DEBT RESTRICTION. Incur, assume, guarantee or otherwise create any Debt other than (i) the Loans provided for pursuant to this Agreement and (ii) purchase money Debt which does not exceed, when aggregated with Capitalized Lease Obligations permitted by Section 6.15, \$50,000.

SECTION 6.7 INVESTMENTS. Hold, make or acquire any Investment in any Person other than (i) Investments existing as of the Effective Date, and (ii) those Investments set forth on Schedule 4.21.

SECTION 6.8 SALE OF SECURITIES. Sell, dispose or issue, or agree to sell, dispose or issue, any security, debt or equity, or options for any of the foregoing, of the Borrower to any Person if any such sale, disposal or issuance would result in a Change of Control.

SECTION 6.9 LIMITATION ON SUBSIDIARIES. Create any Subsidiaries after the Effective Date.

SECTION 6.10 CHANGE IN FISCAL YEAR. Change its Fiscal Year.

SECTION 6.11 CHANGE IN GOVERNING DOCUMENTS. Restate, replace or otherwise change, amend or modify, nor permit any restatement, replacement, change, amendment or modification of, any organizational and governing documents of the Borrower.

SECTION 6.12 CHANGE IN ACCOUNTING PRACTICES. Permit any changes in its accounting practices in effect as of the Effective Date.

SECTION 6.13 SALE AND LEASEBACK. Enter into any arrangements whereby the Borrower shall sell or transfer any of its Property and then or within one year thereafter, as lessee, rent or lease such Property which require, in the aggregate, rent and lease payments in excess of \$100,000 in any Fiscal Year.

SECTION 6.14 DISPOSING OF NOTES/ACCOUNTS RECEIVABLE. Discount, sell or otherwise dispose of its notes or accounts receivable.

SECTION 6.15 OBLIGATIONS AS LESSEE. Enter into any arrangements as lessee under Capitalized Leases which require lease payments in any Fiscal Year which, when aggregated with outstanding purchase money Debt permitted by Section 6.6, exceed \$50,000.

SECTION 6.16 RESTRICTED PAYMENTS. Declare or make any Restricted Payment.

28

SECTION 6.17 ETHICON AGREEMENT. Amend, modify, supplement, revise, waive any provision of, or otherwise change any provision of the Ethicon Agreement.

SECTION 6.18 MANAGEMENT. Permit any material change in the key management of the Borrower.

SECTION 6.19 FINANCIAL COVENANTS.

(a) FIXED CHARGE COVERAGE RATIO. Permit the ratio, determined as of the end of each Fiscal Quarter for the then most-recently ended two Fiscal Quarters, of (i) Consolidated EBIDA plus Consolidated Rentals minus Consolidated Capital Expenditures (including any capitalized research and development expenditures) and plus or minus, as applicable, changes in deferred revenue, to (ii) Consolidated Interest Expense, plus Consolidated Rentals, plus required principal payments of non-revolving Debt, all calculated for the Borrower and its Subsidiaries on a consolidated basis, to be less than 1.2 to 1.0.

(b) MINIMUM CURRENT RATIO. Permit the ratio of Consolidated Current Assets to Consolidated Current Liabilities, all calculated for the Borrower and its Subsidiaries on a consolidated basis, to be less than 1.7 to 1.0 at any time.

## ARTICLE VII

### EVENTS OF DEFAULT; REMEDIES

-----

#### SECTION 7.1 EVENTS OF DEFAULT; REMEDIES.

(a) The occurrence of any of the following shall constitute an "Event of Default" hereunder:

(i) the Borrower fails to pay any principal, interest, fees or any other amount payable under the Note, under this Agreement or under any other Loan Document in accordance with the terms thereof and hereof when due;

(ii) the Borrower (A) fails to observe or perform any other term of the Note, this Agreement or any other Loan Document and such failure shall not have been cured within 30 days; provided, however, that such 30 day cure period shall not apply to (x) any failure which in the good faith opinion of the Bank is incapable of cure, (y) any failure which has previously occurred, or (z) any failure to maintain and keep in effect any insurance required by the Loan Documents; (B) makes any materially incorrect or misleading representation, warranty, or certificate to the Bank; or (C) makes any materially incorrect or misleading representation in any financial statement or other information delivered to the Bank;

(iii) any event or condition occurs which results in the acceleration of the maturity of any Debt of the Borrower or enables (or, with the giving of notice, lapse of time

29

or otherwise, would enable) the holder of such Debt or any Person acting on such holder's behalf to accelerate the maturity thereof;

(iv) a Reportable Event occurs that would permit the PBGC to terminate any employee benefit plan of the Borrower or any member of its ERISA Group, or the occurrence of an ERISA Event which shall not have been cured within 60 days;

(v) the Borrower becomes insolvent or unable to pay its debts as they become due;

(vi) the Borrower (A) makes an assignment for the benefit of creditors; (B) consents to the appointment of a custodian, receiver, or trustee for itself or for a substantial part of its assets; or (C) commences or consents to any proceeding under any bankruptcy, reorganization, liquidation, insolvency or similar laws of any jurisdiction,, whether now or hereafter in effect;

(vii) a custodian, receiver or trustee is appointed for the Borrower or for a substantial part of its assets without the Borrower's consent and is not removed within 90 days after such appointment;

(viii) proceedings are commenced against the Borrower under any bankruptcy, reorganization, liquidation, or similar laws of

any jurisdiction, and such proceedings remain undismissed for 90 days after commencement;

(ix) Any judgment is entered against the Borrower, or any attachment, levy or garnishment is issued against any Property of the Borrower, in excess of \$100,000, and which judgment, attachment, levy or garnishment has not been discharged or stayed within 30 days after issuance;

(x) there is a substantial change in the existing or prospective financial condition of the Borrower which the Bank in good faith determines to have a Material Adverse Effect;

(xi) the Ethicon Agreement is terminated or cancelled;

(xii) the Borrower defaults under any of its obligations under the Ethicon Agreement; or

(xiii) a Change in Control occurs.

(b) Upon the happening of any Event of Default, (i) the Commitment shall terminate and all obligations of the Bank to make further Loans hereunder shall terminate, (ii) all amounts owing under the Note, this Agreement and all other Loan Documents shall become immediately due and payable without presentment, demand, protest, or other notice of any kind, all of which are hereby waived by the Borrower, and (iii) the Bank shall have all of the rights and remedies provided by any

30

law or agreement. The Borrower, shall be liable to the Bank for all reasonable costs and expenses of every kind incurred in the making or collection of amounts due hereunder and under the Note and the other Loan Documents, including, without limitation, reasonable attorneys' fees and court costs. These costs and expenses shall include, without limitation, any costs or expenses incurred by the Bank in any bankruptcy, reorganization, insolvency or other similar proceeding. The Borrower shall be liable for any deficiency remaining after disposition of the Collateral securing the Note and all other obligations under the Loan Documents.

SECTION 7.2 APPLICATION OF PROCEEDS. Any moneys received by the Bank pursuant to the exercise of any remedies provided herein or in the other Loan Documents or by law shall be applied in the following order of priority:

First: the payment of the Bank for all moneys reasonably advanced by it for taxes, assessments, insurance, costs incurred for the protection of any Property of the Borrower and costs incurred in the collection thereof (including, without limitation, reasonable attorneys' fees and expenses);

Second: the payment to the Bank of all unpaid interest, fees and other sums and/or charges (other than the principal of the Loans) owing to the Bank hereunder and the other Loan Documents;

Third: the payment to the Bank of all unpaid principal of Loans; and

Fourth: to, or at the direction of, the Borrower, or as a court of competent jurisdiction otherwise directs.

## ARTICLE VIII

### CHANGE IN CIRCUMSTANCES

-----

#### SECTION 8.1 INCREASED COST AND REDUCED RETURN.

(a) In the event that any applicable law, treaty, rule or regulation (whether domestic or foreign) now or hereafter in effect and whether or not presently applicable to the Bank, or any interpretation or administration thereof by any Governmental Authority charged with the interpretation or administration thereof, or compliance by the Bank with any guideline, request or directive of any such authority (whether or not having the force of law), shall

(i) affect the basis of taxation of payments to the Bank of any amounts payable by the Borrower under this Agreement or any other Loan Document (other than taxes imposed on the overall net income of the Bank by the jurisdiction, or by any political subdivision or taxing authority of such jurisdiction, in which the Bank has its principal office), or (ii) impose, modify or deem applicable any reserve, special deposit, insurance assessment or similar requirement against assets of, deposits with or for the account of, or credit extended by, the Bank, or (iii) impose on the Bank any other condition affecting the Loans, the Note or the Bank's obligation to make Loans and the result of any of the foregoing is to increase the cost to the Bank of making, funding or maintaining any Loan, or to reduce the amount of any

31

sum received or receivable by the Bank under this Agreement or under the Note with respect thereto, by any amount deemed by the Bank in good faith to be material, then, within 15 days after submission by the Bank to the Borrower of a written demand therefor, the Borrower shall pay to the Bank such additional amount or amounts as will compensate the Bank for such increased cost or reduction. The Bank's written demand to the Borrower for compensation shall set forth in reasonable detail the computation of any additional amounts payable to the Bank by the Borrower, and such demand and computation shall be conclusive in the absence of manifest error.

(b) In the event that any applicable law, treaty, rule or regulation (whether domestic or foreign) now or hereafter in effect and whether or not presently applicable to the Bank or any interpretation or administration thereof by any Governmental Authority charged with the interpretation or administration thereof, or compliance by the Bank with any guideline, request or directive of any such authority (whether or not having the force of law), including any risk-based capital guidelines, affects or would affect the amount of capital required or expected to be maintained by the Bank (or any corporation controlling the Bank) and the Bank determines that the amount of such capital is increased by or based upon the existence of the Bank's obligations hereunder and such increase has the effect of reducing the rate of return on the Bank's (or such controlling corporation's) capital as a consequence of such obligations hereunder to a level below that which the Bank (or such controlling corporation) could have achieved but for such circumstances (taking into consideration its policies with respect to capital adequacy) by an amount deemed by the Bank to be material, then, within 15 days after submission by the Bank to the Borrower of a written demand therefor, the Borrower shall pay to the Bank such additional amount or amounts as will compensate the Bank for such reduction. The Bank's written demand to the Borrower for compensation shall set forth in reasonable detail the computation of any additional amounts payable to the Bank by the Borrower, and such demand and computation shall be conclusive in the absence of manifest error.

(c) The Bank shall promptly notify the Borrower of any event of which it has knowledge, occurring after the date hereof, which will entitle the Bank to compensation pursuant to this Section 8.1. A certificate of the Bank claiming compensation under this Section 8.1 and setting forth the additional amount or amounts to be paid to it hereunder shall be conclusive and binding for all purposes, absent manifest error. In determining such amount, the Bank may use any reasonable averaging and attribution methods.

(d) Notwithstanding the foregoing provisions of this Section 8.1, the Borrower shall not be under any obligation to compensate the Bank under this Section 8.1 with respect to increased costs or reductions to the extent that the Bank is compensated therefor in the computation of the Interest Rates applicable to the Loans; nor shall the Borrower shall be under any obligation to so compensate the Bank to the extent that such increased costs or reductions arise from any period prior to a date that is three months prior to the date of any demand for compensation by Bank, if the Bank knew or could reasonably have been expected to be aware of the circumstances giving rise to such increased costs or reductions and of the fact that such circumstances would in fact result in a claim for increased compensation by reason of such increased costs or reductions. The Bank represents to the Borrower that, as of the date hereof, it is not aware of any fact or circumstance that would give rise to a claim for compensation under this Section 8.1.

32

SECTION 8.2 TAXES.

(a) For the purposes of this Section 8.2, the following terms have the following meanings:

"TAXES" shall mean any and all present or future taxes, duties, levies, imposts, deductions, charges or withholdings with respect to any payment by the Borrower pursuant to this Agreement or under the Note, and all liabilities with respect thereto, excluding, in the case of the Bank, taxes imposed on its income, and franchise or similar taxes imposed on it, by a jurisdiction under the laws of which the Bank is organized or in which its principal executive office is located.

"OTHER TAXES" shall mean any present or future stamp or documentary taxes and any other excise or property taxes, or similar charges or levies, which arise from any payment made pursuant to this Agreement or under the Note or from the execution or delivery of, or otherwise with respect to, this Agreement or, the Note or any other Loan Document.

(b) Any and all payments by the Borrower to or for the account of the Bank hereunder or under the Note or other Loan Document shall be made without deduction for any Taxes or Other Taxes; provided that, if the Borrower shall be required by law to deduct any Taxes or Other Taxes from any such payments, (i) the sum payable shall be increased as necessary so that after making all required deductions (including deductions applicable to additional sums payable under this Section 8.2) the Bank receives an amount equal to the sum it would have received had no such deductions been made, (ii) the Borrower shall make such deductions, (iii) the Borrower shall pay the full amount deducted to the relevant taxation authority or other Governmental Authority in accordance with applicable law, and (iv) the Borrower shall furnish to the Bank the original or a certified copy of a receipt evidencing payment thereof.

(c) The Borrower agrees to indemnify the Bank for the full amount of Taxes or Other Taxes (including, without limitation, any Taxes or Other Taxes imposed or asserted by any jurisdiction on amounts payable under this Section 8.2) paid by the Bank and any liability (including penalties, interest and expenses) arising therefrom or with respect thereto. This indemnification provided for in this subsection (c) shall be paid within 15 days after the Bank makes demand therefor.

ARTICLE IX

MISCELLANEOUS

-----

SECTION 9.1 EXPENSES. Whether or not the transactions herein contemplated shall be consummated, the Borrower agrees to pay all out-of-pocket expenses (including reasonable fees and expenses of counsel) of the Bank incurred in connection with the preparation of this Agreement, the Note and the other Loan Documents and any amendments, modifications or supplements hereto or thereto or restatements or replacements hereof or thereof, any audit, appraisal or other such service deemed necessary or desirable by the Bank for the preparation of the Agreement, underwriting

documents or enforcing the Bank's rights hereunder, and all out-of-pocket expenses (including reasonable fees and expenses of its counsel) incidental to the enforcement of the rights of the Bank under any provisions of this Agreement, the Note and any other Loan Document.

SECTION 9.2 COVENANTS TO SURVIVE, BINDING AGREEMENT. This Agreement shall be binding upon and inure to the benefit of the Bank, the Borrower and their respective successors or assigns; provided, however, that the Borrower may not assign or otherwise dispose of any of its rights or obligations hereunder. All covenants, agreements, warranties and representations made herein, and in all certificates and documents delivered in connection with this Agreement by or on behalf of the Borrower shall survive the execution and delivery hereof and thereof, and all such covenants, agreements, representations and warranties shall inure to the respective successors and assigns of the Bank whether or not so expressed.

SECTION 9.3 WAIVERS. No failure on the part of the Bank to exercise and no delay in exercising any right or remedy hereunder or under the Note or any other Loan Documents shall operate as a waiver thereof, nor shall any single or partial exercise by the Bank of any right, remedy or power hereunder thereunder preclude any other right, remedy or power. The rights, remedies and powers provided herein, in the Note and the other Loan Documents are cumulative and not exclusive of any other rights, remedies or powers which Bank, or any holder of the Note, would otherwise have. Notice to or demand on the Borrower in any circumstance in which the terms of this Agreement, the Note or the other Loan Documents do not require notice or demand to be given shall not entitle the Borrower to any other or further notice or demand in similar or other circumstances or constitute a waiver of the rights of the Bank, or the holder of the Note, to take any other further action in any circumstances without notice or demand.

#### SECTION 9.4 NOTICES.

(a) Except as provided below in subsection (b) of this Section 9.4, notice from one party to another relating to this Agreement shall be deemed effective if made in writing and delivered to the recipient's address set forth below (or to such other address as such party shall give notice) by any of the following means: (i) hand delivery, (ii) registered or certified mail, postage prepaid, with return receipt requested, or (iii) Federal Express, Airborne Express or like overnight courier service. Notice made in accordance with this Section 9.4 shall be deemed delivered on receipt if delivered by hand, on the third business day after mailing if mailed by registered or certified mail, or the next Business Day after mailing or deposit with an overnight courier service if delivered by overnight courier for next day delivery.

If to the Bank: Firststar Bank, N.A.  
Commercial Banking  
175 South Third Street  
Columbus, OH 43215  
Attention: J. Todd Price, Vice President  
Telecopier number: (614) 232-8098

34

If to the Borrower: Neoprobe Corporation  
425 Metro Place North, Suite 300  
Dublin, OH 43017  
Attention: Brent Larson, Chief Financial Officer  
Telecopier number: (614) 793-7522

(b) In addition to the procedures for notice set forth above in subsection (a) of this Section 9.4, a Notice of Borrowing may be given and shall be deemed effective if made in writing via telecopy with request for assurance of receipt in a manner typical with respect to telecommunications of that type and delivered to the recipient's telecopy number set forth above in such subsection (a) (or to such other number as such party shall give notice). Notice made in accordance with this subsection (b) shall be deemed delivered on receipt of any such telecopy transmission.

SECTION 9.5 SEVERABILITY, ENTIRE AGREEMENT, EFFECTIVENESS. Every provision of this Agreement, the Note and the other Loan Documents is intended to be severable; if any term or provision of this Agreement, the Note or other Loan Document shall be invalid, illegal or unenforceable for any reason whatsoever, the validity, legality and enforceability of the remaining provisions hereof or thereof shall not in any way be affected or impaired thereby. All exhibits and schedules to this Agreement shall be annexed hereto and shall be deemed to be part of this Agreement. This Agreement and the exhibits and schedules attached hereto and the other Loan Documents embody the entire agreement and understanding between the Borrower and the Bank and supersede all prior agreements and understandings relating to the subject matter hereof. This Agreement shall become effective upon receipt by the Bank of counterparts hereof signed by the Borrower and shall remain in effect until (i) all obligations, financial and otherwise, of the Borrower hereunder and under all other Loan Documents shall have been fully performed, and (ii) the Bank

shall no obligation to make any additional Loans hereunder.

**SECTION 9.6 GOVERNING LAW; VENUE.** This Agreement, the Note and all other Loan Documents shall be governed by and construed in accordance with the law of the State of Ohio. The Borrower hereby submits to the nonexclusive jurisdiction of the United States District Court for the Southern District of Ohio and of any Ohio state court sitting in Franklin County, Ohio for purposes of all legal proceedings arising out of or relating to this Agreement, the Note and all other Loan Documents or the transactions contemplated hereby and thereby. The Borrower irrevocably waives, to the fullest extent permitted by law, any objection which it may now or hereafter have to the laying of the venue of any such proceeding brought in such a court and any claim that any such proceeding brought in such a court has been brought in an inconvenient forum.

**SECTION 9.7 SECURITY AND RIGHT OF SETOFF.** The Borrower hereby grants to the Bank a right of setoff for all Setoff Obligations of the Borrower to the Bank hereunder in and to any and all moneys of the Borrower and the proceeds thereof now or hereafter held or received by or in transit to the Bank from or for the account of the Borrower, whether for safekeeping, pledge, transmission, collection or otherwise, and also upon any and all deposits (general and special), account balances and credits of the Borrower with the Bank at any time existing. The Bank is hereby expressly and irrevocably authorized by the Borrower at any time and from time to time upon or after the

35

occurrence of an Event of Default, without notifying the Borrower, to setoff, appropriate and apply any and all items hereinbefore referred to in this Section 9.7 against all Setoff Obligations of the Borrower to the Bank and the Borrower shall continue to be liable to the Bank for any deficiency with interest at the applicable rates. The Borrower hereby irrevocably consents that the Bank shall have the right of possessing, setting-off, appropriating and applying such items for the benefit of the Bank and paying or delivering over to the Bank any of such items for application in accordance with the provisions hereof.

**SECTION 9.8 AMENDMENTS AND WAIVERS.** Any provision of this Agreement, the Note or any other Loan Document may be amended or waived if, but only if, such amendment or waiver is in writing and is signed by the Borrower and the Bank.

**SECTION 9.9 TAXES AND FEES.** Should any tax (other than a tax based upon the net income of the Bank) or any recording or filing fees become payable in respect of this Agreement, the Note or any other Loan Document or any amendment, modification or supplement hereof or thereof, the Borrower agrees to pay the same together with any interest or penalties thereon and agree to hold the Bank harmless with respect thereof.

**SECTION 9.10 COUNTERPARTS.** This Agreement may be executed in any number of counterparts, each of which shall be an original and all of which shall constitute one agreement. It shall not be necessary in making proof of this Agreement or of any document required to be executed and delivered in connection herewith to produce or account for more than one counterpart.

**SECTION 9.11 EFFECTIVE DATE.** This Agreement shall be effective at such time as executed counterparts of this Agreement have been delivered by the Borrower to the Bank.

**SECTION 9.12 WAIVER OF JURY TRIAL.** THE BANK AND THE BORROWER, AFTER CONSULTING OR HAVING HAD THE OPPORTUNITY TO CONSULT WITH COUNSEL, KNOWINGLY, VOLUNTARILY AND INTENTIONALLY WAIVE ANY RIGHT EITHER OF THEM MAY HAVE TO A TRIAL BY JURY IN ANY LITIGATION BASED UPON OR ARISING OUT OF THIS AGREEMENT, THE NOTE, THE OTHER LOAN DOCUMENTS, OR ANY RELATED INSTRUMENT OR AGREEMENT, OR ANY OF THE TRANSACTIONS CONTEMPLATED THEREBY, OR ANY COURSE OF CONDUCT, DEALING, STATEMENTS (WHETHER ORAL OR WRITTEN), OR ACTIONS OF EITHER OF THEM. NEITHER THE BANK NOR THE BORROWER SHALL SEEK TO CONSOLIDATE, BY COUNTERCLAIM OR OTHERWISE, ANY ACTION IN WHICH A JURY TRIAL HAS BEEN WAIVED WITH ANY OTHER ACTION IN WHICH A JURY TRIAL CANNOT BE OR HAS NOT BEEN WAIVED. THESE PROVISIONS SHALL NOT BE DEEMED TO HAVE BEEN MODIFIED IN ANY RESPECT OR RELINQUISHED BY THE BANK OR THE BORROWER EXCEPT BY A WRITTEN INSTRUMENT EXECUTED BY BOTH OF THEM.

**SECTION 9.13 ASSIGNMENTS AND PARTICIPATIONS.** The Bank may at any time assign to one or more Assignees all, or a proportionate part of all, of its

rights and obligations under this Agreement and the Note, and such Assignee shall assume such rights and obligations. The Bank may sell participations to one or more Participants in or to all or a portion of its rights and obligations under

36

this Agreement, including all or a portion of its Commitment and Loans. The Bank is hereby authorized to disclose any financial and other information about the Borrower to any such prospective Assignee or Participant.

SECTION 9.14 WARRANT OF ATTORNEY. The Borrower hereby irrevocably authorizes any attorney-at-law, including any attorney-at-law employed or retained by the Bank, to appear for it in any action on the Note or with respect to payment of commitment fees under this Agreement payable pursuant to Section 2.6 at any time after the same becomes due as provided herein or therein, in any court of record situated in Franklin County, Ohio (which the Borrower acknowledges to be the place where this Agreement and the Note were executed), in the county where the Borrower then resides or can be found, to waive the issuing and service of process, and confess a judgment in favor of Bank or any other holder hereof or thereof against the Borrower, for the amount that may then be due, with interest at the rate provided for herein and therein, together with the costs of suit, and to waive and release all errors in said proceedings and the right to appeal from the judgment rendered. The Borrower consents to the jurisdiction and venue of such court. The Borrower waives any conflict of interest that any attorney-at-law employed or retained by the Bank may have in confessing judgment hereunder and consents to the payment of a legal fee to any attorney-at-law confessing judgment hereunder.

[Balance of Page Intentionally Left Blank]

37

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed by their duly authorized officers as of the date first written above.

BANK:

Firststar Bank, N.A.,  
a national banking association

By: /s/ J. Todd Price

-----  
J. Todd Price, Vice President

BORROWER:

Neoprobe Corporation,  
a Delaware corporation

By: /s/ David Bupp

-----  
Name: David Bupp

-----  
Title: President, CEO

WARNING -- BY SIGNING THIS PAPER YOU GIVE UP YOUR RIGHT TO NOTICE AND COURT TRIAL. IF YOU DO NOT PAY ON TIME A COURT JUDGMENT MAY BE TAKEN AGAINST YOU WITHOUT YOUR PRIOR KNOWLEDGE AND THE POWERS OF A COURT CAN BE USED TO COLLECT FROM YOU REGARDLESS OF ANY CLAIMS YOU MAY HAVE AGAINST THE CREDITOR WHETHER FOR RETURNED GOODS, FAULTY GOODS, FAILURE ON HIS PART TO COMPLY WITH THE AGREEMENT, OR ANY OTHER CAUSE.





EXHIBIT 10.4.47

REVOLVING CREDIT LOAN NOTE

\$1,500,000.00

January 26, 2001  
Columbus, Ohio

PROMISE TO PAY. Not later than January 25, 2002, for value received, the undersigned, Neoprobe Corporation, a Delaware corporation (the "Borrower"), hereby promises to pay to the order of Firststar Bank, N.A. (the "Bank") or its assigns, as further provided herein, the principal amount of One Million Five Hundred Thousand Dollars (\$1,500,000) or, if such principal is less, the aggregate unpaid principal amount of all Loans made by the Bank to the Borrower pursuant to the Revolving Credit Loan Agreement referred to below, together with interest on the unpaid principal balance from time to time outstanding hereunder until paid in full at the rate(s) of interest determined in accordance with such Revolving Credit Loan Agreement. Such interest and principal hereof shall be due and payable on the dates set forth in such Revolving Credit Loan Agreement. Both principal and interest are payable in federal funds or other immediately available money of the United States of America at the main office of the Bank located at 175 South Third Street, Columbus, Ohio 43215, or such other address as the Bank may hereafter designate by notice to the Borrower.

LOAN AGREEMENT. This Revolving Credit Loan Note is the Note referred to in the Revolving Credit Loan Agreement between the Borrower and the Bank, dated as of January 26, 2001, as the same may be amended, modified, supplemented, extended, restated or replaced from time to time (the "Agreement"), which Agreement is incorporated by reference herein. All capitalized terms used herein shall have the same meanings as are assigned to such terms in the Agreement. This Revolving Credit Loan Note is entitled to the benefits of and is subject to the terms, conditions and provisions of the Agreement. The Agreement, among other things, contains provisions for acceleration of the maturity hereof upon the happening of certain stated events, and also for repayments and reborrowings on account of the principal hereof prior to maturity upon the terms, conditions and provisions specified therein. The Borrower and each endorser and any other party liable on this Revolving Credit Loan Note severally waive demand, presentment, notice of dishonor and protest, and consent to any extension or postponement of time of its payment without limit as to the number or period, to any substitution, exchange or release of all or part of any collateral securing this Revolving Credit Loan Note, to the addition of any party, and to the release or discharge of, or suspension of any rights and remedies against, any Person who may be liable for the payment of this Revolving Credit Loan Note.

The Bank is hereby authorized to record electronically or otherwise (i) the date and amount of each Loan disbursement made by the Bank, (ii) the date and amount of each payment or repayment of principal thereof, and (iii) such other information as it deems necessary or appropriate, and may, if the Bank so elects in connection with any transfer or enforcement of the Note, endorse on a schedule forming a part thereof appropriate notation to evidence the foregoing information with respect to each such Loans then outstanding. Such recordation or endorsement shall constitute PRIMA FACIE evidence of the accuracy of the information so recorded or endorsed; provided, however, the failure of the Bank to make any such recordation(s) or endorsement(s) shall not affect the obligation of the Borrower to repay outstanding principal, interest or any other amount due hereunder or under the Note in accordance with the terms hereof and the Agreement.

WARRANT OF ATTORNEY. The Borrower hereby irrevocably authorizes any attorney-at-law, including any attorney-at-law employed or retained by the Bank, to appear for it in any action on this Revolving Credit Loan Note at any time after the same becomes due as provided herein, in any court of record situated in Franklin County, Ohio (which the Borrower acknowledges to be the place where this Revolving Credit Loan Note was executed), in the county where the Borrower then resides or can be found, to waive the issuing and service of process, and confess a judgment in favor of the Bank or any other holder hereof against the Borrower, for the amount that may then be due, with interest at the rate

provided for herein, together with the costs of suit, and to waive and release all errors in said proceedings and the right to appeal from the judgment rendered. The Borrower consents to the jurisdiction and venue of such court. The Borrower waives any conflict of interest that any attorney-at-law employed or retained by the Bank may have in confessing judgment hereunder and consents to the payment of a legal fee to any attorney-at-law confessing judgment hereunder.

WARNING -- BY SIGNING THIS PAPER YOU GIVE UP YOUR RIGHT TO NOTICE AND COURT TRIAL. IF YOU DO NOT PAY ON TIME A COURT JUDGMENT MAY BE TAKEN AGAINST YOU WITHOUT YOUR PRIOR KNOWLEDGE AND THE POWERS OF A COURT CAN BE USED TO COLLECT FROM YOU REGARDLESS OF ANY CLAIMS YOU MAY HAVE AGAINST THE CREDITOR WHETHER FOR RETURNED GOODS, FAULTY GOODS, FAILURE ON HIS PART TO COMPLY WITH THE AGREEMENT, OR ANY OTHER CAUSE.

Neoprobe Corporation,  
a Delaware corporation

By: /s/ David Bupp

-----  
Name: David Bupp

-----  
Title: President, CEO

CONTINUING SECURITY AGREEMENT

THIS CONTINUING SECURITY AGREEMENT is entered into as of January 26, 2001 by and between Neoprobe Corporation, a Delaware corporation having its principal office at 425 Metro Place North, Suite 300, Dublin, Ohio 43017 (the "Borrower"), and Firststar Bank, N.A., a national banking association having its principal office at 175 South Third Street, Columbus, Ohio 43215 (the "Bank").

BACKGROUND INFORMATION

-----

The Borrower and the Bank are entering into a Revolving Credit Loan Agreement of even date herewith (as it may be amended, modified, supplemented, extended, restated or replaced from time to time, the "Credit Agreement"). The Borrower is entering into this Continuing Security Agreement (as it may be amended, modified, supplemented, extended, restated or replaced from time to time, the "Security Agreement") in order to induce the Bank to enter into and extend credit from time to time to the Borrower, including without limitation under the Credit Agreement.

PROVISIONS

-----

NOW, THEREFORE, as an inducement to and in consideration of the Bank providing such credit facilities, the mutual obligations contained herein, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Borrower and the Bank do hereby agree as follows:

ARTICLE I

DEFINITIONS

-----

SECTION 1.1 TERMS DEFINED IN CREDIT AGREEMENT. All capitalized terms used herein and not otherwise defined shall have the meanings assigned to such terms in the Credit Agreement.

SECTION 1.2 TERMS DEFINED IN OHIO UNIFORM COMMERCIAL CODE. Terms defined in the Ohio Uniform Commercial Code which are not otherwise defined in this Security Agreement are used herein as defined in the Ohio Uniform Commercial Code as in effect from time to time (the "UCC").

SECTION 1.3 DEFINITIONS OF CERTAIN TERMS USED HEREIN. As used in this Security Agreement, in addition to the terms defined in the Background Information section above, the following terms shall have the following meanings:

"ACCOUNTS" means "accounts" as defined in the UCC and shall also include a right to payment of a monetary obligation, whether or not earned by performance, (i) for property that has been or is to be sold, leased, licensed, assigned, or otherwise disposed of, (ii) for services

rendered or to be rendered, (iii) for a policy of insurance issued or to be issued, (iv) for a secondary obligation incurred or to be incurred, (v) for energy provided or to be provided, (vi) for the use or hire of a vessel under a charter or other contract, (vii) arising out of the use of a credit or charge card or information contained on or for use with the card, or (viii) as winnings in a lottery or other game of chance operated or sponsored by a state, governmental unit of a state, or Person licensed or authorized to operate the game by a state or governmental unit of a state.

"ARTICLE" means a numbered article of this Security Agreement, unless another document is specifically referenced.

"CHATTEL PAPER" means "chattel paper" as defined in the UCC

and shall also include a record or records that evidence both a monetary obligation and a security interest in or a lease of specific goods or of specific goods and software used in the goods.

"COLLATERAL" means all Accounts, Chattel Paper, Deposit Accounts, Documents, Equipment, Fixtures, General Intangibles, Investment Property, Instruments, Inventory, Payment Intangibles, Pledged Deposits, Stock Rights and Other Collateral, wherever located, in which the Borrower now has or hereafter acquires any right or interest, and the proceeds, insurance proceeds and products thereof, together with all books and records, customer lists, credit files, software, computer files, programs, printouts and other computer materials and records related thereto.

"CONTROL" shall have the meaning set forth in the UCC.

"DEPOSIT ACCOUNT" means "deposit account" as defined in the UCC and shall also include a demand, time, savings, passbook, or similar account maintained with a bank.

"DOCUMENTS" means "documents" as defined in the UCC and shall also include all documents of title and goods evidenced thereby, including without limitation all bills of lading, dock warrants, dock receipts, warehouse receipts and orders for the delivery of goods, and also any other document which in the regular course of business or financing is treated as adequately evidencing that the Person in possession of it is entitled to receive, hold and dispose of the document and the goods it covers.

"EQUIPMENT" means "equipment" as defined in the UCC and shall also include all equipment, machinery, furniture and goods used or usable by the Borrower in its business and all other tangible personal property (other than Inventory), and all accessions and additions thereto.

"EVENT OF DEFAULT" means an event described in Section 5.1.

"EXHIBIT" refers to a specific exhibit to this Security Agreement, unless another document is specifically referenced.

"FIXTURES" means "fixtures" as defined in the UCC and shall also include all goods which become so related to particular real estate that an interest in such goods arises under any real estate law applicable thereto, including, without limitation, all trade fixtures.

2

"GENERAL INTANGIBLES" means "general intangibles" as defined in the UCC and shall also include all intangible personal property (other than Accounts) including, without limitation, Payment Intangibles, all contract rights, rights to receive payments of money, choses in action, causes of action, judgments, tax refunds and tax refund claims, patents, trademarks, trade names, copyrights, licenses, franchises, computer programs, software, goodwill, customer and supplier contracts, interests in general or limited partnerships, joint ventures or limited liability companies, reversionary interests in pension and profit sharing plans and reversionary, beneficial and residual interests in trusts, leasehold interests in real or personal property, rights to receive rentals of real or personal property and guarantee and indemnity claims.

"INVESTMENT PROPERTY" means a security, whether certificated or uncertificated; a security entitlement; a securities account; a commodity contract; or a commodity account (all as defined in the UCC).

"INSTRUMENTS" means "instruments" as defined in the UCC and shall also include all negotiable instruments (as defined in ss.3-104 of the UCC), certificated and uncertificated securities and any replacements therefor and Stock Rights related thereto, and other writings which evidence a right to the payment of money and which are not themselves security agreements or leases and are of a type which in the ordinary course of business are transferred by delivery with any necessary endorsement or assignment, including, without limitation, all checks, drafts, notes, bonds, debentures, government securities, certificates of deposit, letters of credit, preferred and common stocks, options and warrants.

"INVENTORY" means "inventory" as defined in the UCC and shall also include all goods, other than farm products, which: (A) are leased by a Person as lessor; (B) are held by a Person for sale or lease or to be furnished under contracts of service; (C) are furnished by a Person under a contract of service; or (D) consist of raw materials, work in process, or materials used or consumed in a business. Without limiting the generality of the foregoing description of Inventory, Inventory shall include all the following described property owned by the Debtor which may now or hereafter be physically stored at premises occupied by Electronic Assembly Corporation at 2121 Harrison Street, Neenah, Wisconsin 54957: (i) all "neo2000" gamma detection system units, each of which consists of a 14mm probe and a control box; (ii) all "neoprobe 1500" portable radioisotope detectors; and (iii) all probe tip accessories which are "ad-on" products to the items described in the foregoing subparts (i) and (ii), which accessories are referred to as models 2001, 2002 and 2003, and the model 2050, which is a storage tray for the tips.

"OBLIGATIONS" means any and all existing and future indebtedness, obligation and liability of every kind, nature and character, direct or indirect, absolute or contingent (including all renewals, extensions and modifications thereof and all fees, costs and expenses incurred by the Bank in connection with the preparation, administration, collection or enforcement thereof), of the Borrower to the Bank or any branch, subsidiary or affiliate thereof, including without limitation all obligations arising under or pursuant to this Security Agreement, the Credit Agreement and the other Loan Documents and any promissory note or notes now or hereafter issued under the Credit Agreement.

3

"OTHER COLLATERAL" means any property of the Borrower, other than real estate, not included within the defined terms Accounts, Chattel Paper, Documents, Equipment, Fixtures, General Intangibles, Instruments, Inventory, Investment Property, Payment Intangibles, Pledged Deposits and Stock Rights, including, without limitation, all cash on hand and all deposit accounts or other deposits (general or special, time or demand, provisional or final) with any bank or other financial institution, it being intended that the Collateral include all property of the Borrower other than real estate.

"PAYMENT INTANGIBLES" means a general intangible under which the account debtor's principal obligation is a monetary obligation.

"PLEDGED DEPOSITS" means all time deposits of money, whether or not evidenced by certificates, of the Borrower, and all rights to receive interest on said deposits.

"RECEIVABLES" means the Accounts, Chattel Paper, Documents, Investment Property, Instruments or Pledged Deposits, and any other rights or claims to receive money which are General Intangibles or which are otherwise included as Collateral.

"SECTION" means a numbered section of this Security Agreement, unless another document is specifically referenced.

"SECURITY" has the meaning set forth in the UCC.

"STOCK RIGHTS" means any securities, dividends or other distributions and any other right or property which the Borrower shall receive or shall become entitled to receive for any reason whatsoever with respect to, in substitution for or in exchange for any securities or other ownership interests in a corporation, partnership, joint venture or limited liability company constituting Collateral and any securities, any right to receive securities and any right to receive earnings, in which the Borrower now has or hereafter acquires any right, issued by an issuer of such securities.

"UCC" has the meaning set forth in Section 1.2

The foregoing definitions shall be equally applicable to both the singular and plural forms of the defined terms.

GRANT OF SECURITY INTEREST

-----

The Borrower hereby pledges, assigns and grants to the Bank and (to the extent specifically provided herein) its affiliates, a security interest in all of the Borrower's right, title and interest in and to the Collateral to secure the prompt and complete payment and performance of the Obligations.

4

ARTICLE III

REPRESENTATIONS AND WARRANTIES

-----

The Borrower represents and warrants to the Bank that:

SECTION 3.1 TITLE, AUTHORIZATION, VALIDITY AND ENFORCEABILITY. The Borrower has good and valid rights in and title to the Collateral with respect to which it has purported to grant a security interest hereunder, free and clear of all Liens except for Liens permitted under Section 4.1(f), and has full power and authority to grant to the Bank the security interest in such Collateral pursuant hereto. The execution and delivery by the Borrower of this Security Agreement has been duly authorized by proper corporate proceedings, and this Security Agreement constitutes a legal, valid and binding obligation of the Borrower and creates a security interest which is enforceable against the Borrower in all now owned and hereafter acquired Collateral. When financing statements have been filed in the appropriate offices against the Borrower in the locations listed on Exhibit "E", the Bank will have a fully perfected first priority security interest in that Collateral in which a security interest may be perfected by filing, subject only to Liens permitted under Section 4.1(f).

SECTION 3.2 CONFLICTING LAWS AND CONTRACTS. Neither the execution and delivery by the Borrower of this Security Agreement, the creation and perfection of the security interest in the Collateral granted hereunder, nor compliance with the terms and provisions hereof will violate any law, rule, regulation, order, writ, judgment, injunction, decree or award binding on the Borrower or the Borrower's articles or certificate of incorporation or by-laws, the provisions of any indenture, instrument or agreement to which the Borrower is a party or is subject, or by which it, or its property, is bound, or conflict with or constitute a default thereunder, or result in the creation or imposition of any Lien pursuant to the terms of any such indenture, instrument or agreement (other than any Lien of the Bank).

SECTION 3.3 PRINCIPAL LOCATION. The Borrower's mailing address, and the location of its chief executive office and of the books and records relating to the Receivables, is disclosed in Exhibit "A"; the Borrower has no other places of business except those set forth in Exhibit "A".

SECTION 3.4 PROPERTY LOCATIONS. The Inventory, Equipment and Fixtures are located solely at the locations described in Exhibit "A". All of said locations are owned by the Borrower except for locations (i) which are leased by the Borrower as lessee and designated in Part B of Exhibit "A" and (ii) at which Inventory is held in a public warehouse or is otherwise held by a bailee or on consignment as designated in Part C of Exhibit "A", with respect to which Inventory the Borrower has delivered bailment agreements, warehouse receipts, financing statements or other documents satisfactory to the Bank to protect the Bank's security interest in such Inventory.

SECTION 3.5 NO OTHER NAMES. The Borrower has not conducted business under any name except the name in which it has executed this Security Agreement.

SECTION 3.6 NO DEFAULT. No Event of Default or Default exists.

5

SECTION 3.7 ACCOUNTS AND CHATTEL PAPER. The names of the obligors, amounts owing, due dates and other information with respect to the Accounts and Chattel Paper are and will be correctly stated in all records of the Borrower

relating thereto and in all invoices and reports with respect thereto furnished to the Bank by the Borrower from time to time. As of the time when each Account or each item of Chattel Paper arises, the Borrower shall be deemed to have represented and warranted that such Account or Chattel Paper, as the case may be, and all records relating thereto, are genuine and in all respects what they purport to be.

SECTION 3.8 FILING REQUIREMENTS. None of the Equipment is covered by any certificate of title, except for the vehicles described in Part A of Exhibit "B". None of the Collateral is of a type for which security interests or liens may be perfected by filing under any federal statute except for (i) the vehicles described in Part B of Exhibit "B" and (ii) patents, trademarks and copyrights held by the Borrower and described in Part C of Exhibit "B". The legal description, county and street address of the property on which any Fixtures are located is set forth in Exhibit "C" together with the name and address of the record owner of each such property.

SECTION 3.9 NO FINANCING STATEMENTS. No financing statement describing all or any portion of the Collateral which has not lapsed or been terminated naming the Borrower as debtor has been filed in any jurisdiction except (i) financing statements naming the Bank as the secured party, (ii) as described in Exhibit "D" and (iii) as permitted by Section 4.1(f).

SECTION 3.10 FEDERAL EMPLOYER IDENTIFICATION NUMBER. The Borrower's Federal employer identification number is 31-1080091.

#### ARTICLE IV

#### COVENANTS

-----

From the date of this Security Agreement, and thereafter until this Security Agreement is terminated:

#### SECTION 4.1 GENERAL.

(a) INSPECTION. The Borrower shall permit the Bank, by its representatives and agents (i) to inspect the Collateral, (ii) to examine and make copies of the records of the Borrower relating to the Collateral and (iii) to discuss the Collateral and the related records of the Borrower with, and to be advised as to the same by, the Borrower's officers and employees (and, in the case of any Receivable, with any Person which is or may be obligated thereon), all at such reasonable times and intervals as the Bank may determine, and all at the Borrower's expense.

(b) TAXES. The Borrower shall pay when due all taxes, assessments and governmental charges and levies upon the Collateral, except those which are being contested in good faith by appropriate proceedings and with respect to which no Lien exists.

6

(c) RECORDS AND REPORTS; NOTIFICATION OF DEFAULT. The Borrower shall maintain complete and accurate books and records with respect to the Collateral, and furnish to the Bank, such reports relating to the Collateral as the Bank shall from time to time request. The Borrower shall give prompt notice in writing to the Bank of the occurrence of any Event of Default or Default and of any other development, financial or otherwise, which might materially and adversely affect the Collateral.

(d) FINANCING STATEMENTS AND OTHER ACTIONS; DEFENSE OF TITLE. The Borrower shall execute and deliver to the Bank all financing statements and other documents and take such other actions as may from time to time be requested by the Bank in order to maintain a first perfected security interest in and, in the case of Investment Property, Control of, the Collateral. The Borrower shall take any and all actions necessary to defend title to the Collateral against all Persons and to defend the security interest of the Bank in the Collateral and the



priority thereof against any Lien not expressly permitted hereunder.

(e) DISPOSITION OF COLLATERAL. The Borrower shall not sell, lease or otherwise dispose of the Collateral except (i) prior to the occurrence of an Event of Default or a Default, dispositions specifically permitted pursuant to the Credit Agreement, (ii) until such time following the occurrence of a Default or an Event of Default as the Borrower receives a notice from the Bank instructing the Borrower to cease such transactions, sales or leases of Inventory in the ordinary course of business, and (iii) until such time as the Borrower receives a notice from the Bank pursuant to Article VII, proceeds of Inventory and Accounts collected in the ordinary course of business.

(f) LIENS. The Borrower shall not create, incur, or suffer to exist any Lien on the Collateral except (i) the security interest created by this Security Agreement, (ii) existing Liens described in Exhibit "D" and (iii) other Liens permitted pursuant to Section 6.1 of the Credit Agreement.

(g) CHANGE IN LOCATION OR NAME. The Borrower shall not (i) have any Inventory, Equipment or Fixtures or proceeds or products thereof (other than Inventory and proceeds thereof disposed of as permitted by Section 4.1(e)) at a location other than a location specified in Exhibit "A", (ii) maintain records relating to the Receivables at a location other than at the location specified on Exhibit "A", (iii) maintain a place of business at a location other than a location specified on Exhibit "A", (iv) change its name or taxpayer identification number, (v) change its mailing address, or (vi) change the jurisdiction of its incorporation, whether by "reincorporation" in another state or otherwise, unless the Borrower shall have given the Bank not less than 30 days' prior written notice thereof, and the Bank shall have determined that such change will not adversely affect the validity, perfection or priority of the Bank's security interest in the Collateral.

7

(h) OTHER FINANCING STATEMENTS. The Borrower shall not sign or authorize the signing on its behalf of any financing statement naming it as debtor covering all or any portion of the Collateral, except as permitted by Section 4.1(f).

#### SECTION 4.2 RECEIVABLES.

(a) CERTAIN AGREEMENTS ON RECEIVABLES. The Borrower shall not make or agree to make any discount, credit, rebate or other reduction in the original amount owing on a Receivable or accept in satisfaction of a Receivable less than the original amount thereof, except that, prior to the occurrence of a Default or an Event of Default, the Borrower may reduce the amount of Accounts arising from the sale of Inventory in accordance with its present policies and in the ordinary course of business.

(b) COLLECTION OF RECEIVABLES. Except as otherwise provided in this Security Agreement, the Borrower shall collect and enforce, at the Borrower's sole expense, all amounts due or hereafter due to the Borrower under the Receivables.

(c) DELIVERY OF INVOICES. The Borrower shall deliver to the Bank immediately upon its request after the occurrence of a Default or an Event of Default duplicate invoices with respect to each Account bearing such language of assignment as the Bank shall specify.

(d) DISCLOSURE OF COUNTERCLAIMS ON RECEIVABLES. If (i) any discount, credit or agreement to make a rebate or to otherwise reduce the amount owing on a Receivable exists or (ii) if, to the knowledge of the Borrower, any dispute, setoff, claim, counterclaim or defense exists or has been asserted or threatened with respect to a Receivable, the Borrower shall disclose such fact to the Bank in writing in connection with the inspection by the Bank of any record of the Borrower relating to such Receivable and in connection with any invoice

or report furnished by the Borrower to the Bank relating to such Receivable.

#### SECTION 4.3 INVENTORY AND EQUIPMENT.

(a) MAINTENANCE OF GOODS. The Borrower shall do all things necessary to maintain, preserve, protect and keep the Equipment (ordinary wear and tear excepted) and the Inventory in good repair and working and saleable condition.

(b) INSURANCE.

(i) The Borrower shall (A) maintain fire and extended coverage insurance on the Inventory and Equipment containing a lender's loss payable clause in favor of the Bank, and providing that said insurance will not be terminated except after at least 30 days' written notice from the insurance company to the Bank, (B) maintain such other insurance on the Collateral for the benefit of the Bank as the Bank shall from time to time request, (C) furnish to the Bank upon the request of the Bank from time to time the originals of all policies of insurance on the Collateral and certificates with respect to

8

such insurance, and (D) maintain general liability insurance naming the Bank as an additional insured.

(ii) In the event of any loss or damage to any Collateral occasioned by fire or other hazard, the Borrower shall give immediate written notice to the insurance carrier and to the Bank. The Bank shall have the right, on behalf of the Borrower, to make proof of loss, to adjust and compromise any claim under insurance policies, to appear in and prosecute any action arising from such insurance policies, to collect and receive insurance proceeds, and to deduct therefrom the Bank's reasonable expenses incurred in the collection of such proceeds; provided however, that nothing contained in this Section 4.3 shall require Bank to incur any expense or take any action hereunder. In the event of any such loss or damage, provided that no Default or Event of Default shall have then occurred and be continuing and the aggregate amount of such insurance proceeds received and/or equity funds which may be provided by the Borrower will be sufficient, in the Bank's reasonable judgment, to pay all projected costs of the restoration, repair or replacement of the Collateral, the Borrower, at its option, shall have the right to (x) have the balance of such insurance proceeds used for the purpose of reimbursing the Borrower for the cost of such restoration, repair or replacement of the Collateral, or (y) apply the balance of such proceeds to the payment of the Obligations, whether or not then due, in such order of application as determined by the Bank; provided further, that if a Default or an Event of Default shall have occurred and be continuing or the aggregate amount of such insurance proceeds and/or equity funds will not be sufficient, in the Bank's reasonable judgment, to pay all projected costs of the restoration, repair or replacement of the Collateral, the Bank, at its option, shall have the right to (x) have the balance of such insurance proceeds used for the purpose of reimbursing the Borrower for the cost of such restoration, repair and replacement of the Collateral, or (b) apply the balance of such proceeds to the payment of the Obligations, whether or not then due, in such order of application as determined by the Bank. In either case, all such insurance proceeds shall be paid to and held by the Bank for disbursement and use in accordance with the terms of this Security Agreement and the Borrower hereby assigns to the Bank all rights of Borrower in and to any insurance proceeds paid as a result of any such loss or damage.

(iii) If the insurance proceeds held by the Bank are to be used to reimburse Borrower for the cost of restoration, repair or replacement of the Collateral, the Borrower shall, notwithstanding the adequacy of the insurance proceeds, promptly restore, repair and/or replace the Collateral, such that the Collateral shall be at least equal in value and general use as it was prior to the damage or destruction.

(c) TITLED VEHICLES. The Borrower shall give the Bank notice of its acquisition of any vehicle covered by a certificate of title and deliver to the Bank, upon request, the original of any vehicle title certificate and do all things necessary to have the Lien of the Bank noted on any such certificate.

SECTION 4.4 INSTRUMENTS, SECURITIES, CHATTEL PAPER, DOCUMENTS AND PLEDGED DEPOSITS. Upon the request of the Bank at any time and from time to time, the Borrower shall (i) deliver to

9

the Bank the originals of all Chattel Paper, Securities and Instruments, (ii) deliver to the Bank such Pledged Deposits which are evidenced by certificates included in the Collateral endorsed in blank, marked with such legends and assigned as the Bank shall specify, and (iii) deliver to the Bank (and thereafter hold in trust for the Bank upon receipt and immediately deliver to the Bank) any Document evidencing or constituting Collateral.

SECTION 4.5 PLEDGED DEPOSITS. The Borrower shall not withdraw all or any portion of any Pledged Deposit or fail to rollover said Pledged Deposit without the prior written consent of the Bank.

SECTION 4.6 DEPOSIT ACCOUNTS. The Borrower shall (i) upon the Bank's request, notify each bank or other financial institution in which it maintains a deposit account or other deposit (general or special, time or demand, provisional or final) of the security interest granted to the Bank hereunder and cause each such bank or other financial institution to acknowledge such notification in writing and (ii) upon the Bank's request after the occurrence and during the continuance of a Default or an Event of Default, deliver to each such bank or other financial institution a letter, in form and substance acceptable to the Bank, transferring dominion and control over each such account to the Bank until such time as no Default or Event of Default exists.

SECTION 4.7 FEDERAL, STATE OR MUNICIPAL CLAIMS. The Borrower shall notify the Bank of any Collateral which constitutes a claim against the United States government or any state or local government or any instrumentality or agency thereof, the assignment of which claim is restricted by federal, state or municipal law.

## ARTICLE V

### EVENTS OF DEFAULT

-----

SECTION 5.1 The occurrence of any one or more of the following events shall constitute an Event of Default:

(a) Any representation or warranty made by or on behalf of the Borrower under or in connection with this Security Agreement shall be materially false as of the date on which made.

(b) The breach by the Borrower of any of the terms or provisions of Article IV or Article VII.

(c) The breach by the Borrower (other than a breach which constitutes an Event of Default under Section 5.1(a) or 5.1(b)) of any of the terms or provisions of this Security Agreement.

10

(d) Any material portion of the Collateral shall be transferred or otherwise disposed of, either voluntarily or involuntarily, in any manner not permitted by Section 4.1(e) or 8.7 or shall be lost, stolen, damaged or destroyed.

(e) Any Obligation shall not be paid when due, whether at stated maturity, upon acceleration, or otherwise.

(f) The occurrence of any "Event of Default" under, and as defined in, the Credit Agreement.

SECTION 5.2 ACCELERATION AND REMEDIES. Upon the acceleration of the Obligations under the Credit Agreement pursuant to terms thereof, the Obligations shall immediately become due and payable without presentment, demand, protest or notice of any kind, all of which are hereby expressly waived, and the Bank may exercise any or all of the following rights and remedies:

(a) Those rights and remedies provided in this Security Agreement, the Credit Agreement, or any other Loan Document, PROVIDED that this Section 5.2(a) shall not be understood to limit any rights or remedies available to the Bank prior to an Event of Default.

(b) Those rights and remedies available to a secured party under the UCC (whether or not the UCC applies to the affected Collateral) or under any other applicable law (including, without limitation, any law governing the exercise of a bank's right of setoff or bankers' lien) when a debtor is in default under a security agreement.

(c) Without notice except as specifically provided in Section 8.1 or elsewhere herein, sell, lease, assign, grant an option or options to purchase or otherwise dispose of the Collateral or any part thereof in one or more parcels at public or private sale, for cash, on credit or for future delivery, and upon such other terms as the Bank in good faith may deem commercially reasonable.

SECTION 5.3 BORROWER'S OBLIGATIONS UPON AN EVENT OF DEFAULT. Upon the request of the Bank after the occurrence of an Event of Default, the Borrower shall:

(a) ASSEMBLY OF COLLATERAL. Assemble and make available to the Bank the Collateral and all records relating thereto at any place or places specified by the Bank.

(b) SECURED PARTY ACCESS. Permit the Bank, by the Bank's representatives and agents, to enter any premises where all or any part of the Collateral, or the books and records relating thereto, or both, are located, to take possession of all or any part of the Collateral and to remove all or any part of the Collateral.

SECTION 5.4 LICENSE. The Bank is hereby granted a license or other right to use, following the occurrence and during the continuance of an Event of Default, without charge, the Borrower's labels, patents, copyrights, rights of use of any name, trade secrets, trade names,

trademarks, service marks, customer lists and advertising matter, or any property of a similar nature, as it pertains to the Collateral, for the limited purpose in completing production of, advertising for sale, and selling any Collateral, and, following the occurrence and during the continuance of an Event of Default, the Borrower's rights under all licenses and all franchise agreements shall inure to the Bank's benefit. In addition, the Borrower hereby irrevocably agrees that the Bank may, following the occurrence and during the continuance of an Event of Default, sell any of the Borrower's Inventory directly to any Person, including without limitation Persons who have previously purchased the Borrower's Inventory from the Borrower and in connection with any such sale or other enforcement of the Bank's rights under this Agreement, may sell Inventory which bears any trademark owned by or licensed to the Borrower and any Inventory that is covered by any copyright owned by or licensed to the Borrower and the Bank may finish any work in process and affix any trademark owned by or licensed to the Borrower and sell such Inventory as provided herein.

## ARTICLE VI

### WAIVERS, AMENDMENTS AND REMEDIES

-----

No delay or omission of the Bank to exercise any right or remedy

granted under this Security Agreement shall impair such right or remedy or be construed to be a waiver of any Event of Default or an acquiescence therein, and any single or partial exercise of any such right or remedy shall not preclude any other or further exercise thereof or the exercise of any other right or remedy. No waiver, amendment or other variation of the terms, conditions or provisions of this Security Agreement whatsoever shall be valid unless in writing signed by the Bank and then only to the extent in such writing specifically set forth. All rights and remedies contained in this Security Agreement or by law afforded shall be cumulative and all shall be available to the Bank until the Obligations have been paid in full.

## ARTICLE VII

### PROCEEDS; COLLECTION OF RECEIVABLES -----

SECTION 7.1 LOCKBOXES. Upon request of the Bank after the occurrence of a Default or an Event of Default, the Borrower shall execute and deliver to the Bank irrevocable lockbox agreements in the form provided by or otherwise acceptable to the Bank, which agreements shall be accompanied by an acknowledgment by the bank where the lockbox is located of the Lien of the Bank granted hereunder and of irrevocable instructions to wire all amounts collected therein to a special collateral account at the Bank.

SECTION 7.2 COLLECTION OF RECEIVABLES. The Bank may at any time after the occurrence of a Default or an Event of Default, by giving the Borrower written notice, elect to require that the Receivables be paid directly to the Bank. In such event, the Borrower shall, and shall permit the Bank to, promptly notify the account debtors or obligors under the Receivables of the Bank'

12

interest therein and direct such account debtors or obligors to make payment of all amounts then or thereafter due under the Receivables directly to the Bank. Upon receipt of any such notice from the Bank, the Borrower shall thereafter hold in trust for the Bank, all amounts and proceeds received by it with respect to the Receivables and Other Collateral and immediately and at all times thereafter deliver to the Bank all such amounts and proceeds in the same form as so received, whether by cash, check, draft or otherwise, with any necessary endorsements. The Bank shall hold and apply funds so received as provided by the terms of Sections 7.3 and 7.4.

SECTION 7.3 SPECIAL COLLATERAL ACCOUNT. The Bank may at any time after the occurrence of a Default or an Event of Default, by giving the Borrower written notice, elect to require that all cash proceeds of the Collateral to be deposited in a special non-interest bearing cash collateral account with the Bank and held there as security for the Obligations. The Borrower shall have no control whatsoever over said cash collateral account. At the option of the Bank, the Bank may from time to time (x) deposit the collected balances in said cash collateral account into the Borrower's general operating account with the Bank, and/or (y) apply the collected balances in said cash collateral account to the payment of the Obligations whether or not the Obligations shall then be due.

SECTION 7.4 APPLICATION OF PROCEEDS. The proceeds of the Collateral shall be applied by the Bank to payment of the Obligations in the following order unless a court of competent jurisdiction shall otherwise direct:

- (a) FIRST, to payment of all costs and expenses of the Bank incurred in connection with the collection and enforcement of the Obligations or of the security interest granted to the Bank pursuant to this Security Agreement;
- (b) SECOND, to payment of that portion of the Obligations constituting accrued and unpaid interest and fees owing to the Bank;
- (c) THIRD, to payment of the principal of the Obligations then due and unpaid from the Borrower to the Bank or its affiliates, owing to each of them;
- (d) FOURTH, to payment of any Obligations (other than those

listed above) pro rata among those parties to whom such Obligations are due in accordance with the amounts owing to each of them; and

(e) FIFTH, the balance, if any, after all of the Obligations have been satisfied, shall be deposited by the Bank into the Borrower's general operating account with the Bank.

## ARTICLE VIII

### GENERAL PROVISIONS

-----

SECTION 8.1 NOTICE OF DISPOSITION OF COLLATERAL. The Borrower hereby waives notice of the time and place of any public sale or the time after which any private sale or other disposition of all or any part of the Collateral may be made. To the extent such notice may not be waived under applicable law, any notice made shall be deemed reasonable if sent to the Borrower, addressed as set forth in Article IX, at least seven days prior to (i) the date of any such public sale or (ii) the time after which any such private sale or other disposition may be made.

SECTION 8.2 COMPROMISES AND COLLECTION OF COLLATERAL. The Borrower and the Bank recognize that setoffs, counterclaims, defenses and other claims may be asserted by obligors with respect to certain of the Receivables, that certain of the Receivables may be or become uncollectible in whole or in part and that the expense and probability of success in litigating a disputed Receivable may exceed the amount that reasonably may be expected to be recovered with respect to a Receivable. In view of the foregoing, the Borrower agrees that the Bank may at any time and from time to time, if an Event of Default has occurred and is continuing, compromise with the obligor on any Receivable, accept in full payment of any Receivable such amount as the Bank in its sole discretion shall determine or abandon any Receivable, and any such action by the Bank shall be commercially reasonable so long as the Bank acts in good faith based on information known to it at the time it takes any such action.

SECTION 8.3 SECURED PARTY PERFORMANCE OF BORROWER OBLIGATIONS. Without having any obligation to do so, the Bank may perform or pay any obligation which the Borrower has agreed to perform or pay in this Security Agreement and the Borrower shall reimburse the Bank for any amounts paid by the Bank pursuant to this Section 8.3. The Borrower's obligation to reimburse the Bank pursuant to the preceding sentence shall be a Obligation payable on demand.

SECTION 8.4 AUTHORIZATION FOR SECURED PARTY TO TAKE CERTAIN ACTION. The Borrower irrevocably authorizes the Bank at any time and from time to time in the sole discretion of the Bank and appoints the Bank as its attorney in fact (i) to execute on behalf of the Borrower as debtor and to file financing statements necessary or desirable in the Bank's sole discretion to perfect and to maintain the perfection and priority of the Bank's security interest in the Collateral, (ii) to indorse and collect any cash proceeds of the Collateral, (iii) to file a carbon, photographic or other reproduction of this Security Agreement or any financing statement with respect to the Collateral as a financing statement in such offices as the Bank in its sole discretion deems necessary or desirable to perfect and to maintain the perfection and priority of the Bank's security interest in the Collateral, (iv) to contact and enter into one or more agreements with the issuers of uncertificated securities which are Collateral and which are Securities or with financial intermediaries holding other Investment Property as may be necessary or advisable to give the Bank Control over such Securities or other Investment Property, (v) subject to the terms of Section 4.1(e), to enforce payment of the Receivables in the name of the Bank or the Borrower, (vi) to apply the proceeds of any Collateral received by the Bank to the Obligations as provided in Article VII and (vii) to discharge past due taxes, assessments, charges, fees or Liens on the Collateral (except for such Liens as are specifically permitted hereunder), and the Borrower

agrees to reimburse the Bank on demand for any payment made or any expense incurred by the Bank in connection therewith, PROVIDED that this authorization shall not relieve the Borrower of any of its obligations under this Security Agreement or under the Credit Agreement.

SECTION 8.5 SPECIFIC PERFORMANCE OF CERTAIN COVENANTS. The Borrower acknowledges and agrees that a breach of any of the covenants contained in Sections 4.1(e), 4.1(f), 4.4, 5.3, or 8.7 or in Article VII will cause irreparable injury to the Bank, that the Bank has no adequate remedy at law in respect of such breaches and therefore agrees, without limiting the right of the Bank to seek and obtain specific performance of other obligations of the Borrower contained in this Security Agreement, that the covenants of the Borrower contained in the Sections referred to in this Section 8.5 shall be specifically enforceable against the Borrower.

SECTION 8.6 USE AND POSSESSION OF CERTAIN PREMISES. Upon the occurrence of an Event of Default, the Bank shall be entitled to occupy and use any premises owned or leased by the Borrower where any of the Collateral or any records relating to the Collateral are located until the Obligations are paid or the Collateral is removed therefrom, whichever first occurs, without any obligation to pay the Borrower for such use and occupancy.

SECTION 8.7 DISPOSITIONS NOT AUTHORIZED. The Borrower is not authorized to sell or otherwise dispose of the Collateral except as set forth in Section 4.1(e) and notwithstanding any course of dealing between the Borrower and the Bank or other conduct of the Bank, no authorization to sell or otherwise dispose of the Collateral (except as set forth in Section 4.1(e)) shall be binding upon the Bank unless such authorization is in writing signed by the Bank.

SECTION 8.8 BENEFIT OF AGREEMENT. The terms and provisions of this Security Agreement shall be binding upon and inure to the benefit of the Borrower and the Bank and their respective successors and assigns, except that the Borrower shall not have the right to assign its rights or delegate its obligations under this Security Agreement or any interest herein, without the prior written consent of the Bank.

SECTION 8.9 SURVIVAL OF REPRESENTATIONS. All representations and warranties of the Borrower contained in this Security Agreement shall survive the execution and delivery of this Security Agreement.

SECTION 8.10 TAXES AND EXPENSES. Any taxes (including income taxes) payable or ruled payable by Federal or State authority in respect of this Security Agreement shall be paid by the Borrower, together with interest and penalties, if any. The Borrower shall reimburse the Bank for any and all out-of-pocket expenses and internal charges (including reasonable attorneys', auditors' and accountants' fees and reasonable time charges of attorneys, paralegals, auditors and accountants who may be employees of the Bank) paid or incurred by the Bank in connection with the preparation, execution, delivery, administration, collection and enforcement of this Security Agreement and in the audit, analysis, administration, collection, preservation or sale of the Collateral (including the expenses and charges associated with any periodic or special audit of the Collateral). Any and all costs and expenses incurred by the Borrower in the performance of actions required pursuant to the terms hereof shall be borne solely by the Borrower.

15

SECTION 8.11 HEADINGS. The title of and section headings in this Security Agreement are for convenience of reference only, and shall not govern the interpretation of any of the terms and provisions of this Security Agreement.

SECTION 8.12 TERMINATION. This Security Agreement shall continue in effect (notwithstanding the fact that from time to time there may be no Obligations outstanding) until (i) the Credit Agreement has terminated pursuant to its express terms and (ii) all of the Obligations have been indefeasibly paid and performed in full and no commitments of the Bank which would give rise to any Obligations are outstanding.

SECTION 8.13 ENTIRE AGREEMENT. This Security Agreement embodies the

entire agreement and understanding between the Borrower and the Bank relating to the Collateral and supersedes all prior agreements and understandings between the Borrower and the Bank relating to the Collateral.

SECTION 8.14 CHOICE OF LAW. This Security Agreement shall be governed by and construed in accordance with the law of the State of Ohio.

SECTION 8.15 INDEMNITY. The Borrower hereby agrees to indemnify the Bank, and its successors, assigns, agents and employees, from and against any and all liabilities, damages, penalties, suits, costs, and expenses of any kind and nature (including, without limitation, all expenses of litigation or preparation therefor whether or not the Bank is a party thereto) imposed on, incurred by or asserted against the Bank, or its successors, assigns, agents and employees, in any way relating to or arising out of this Security Agreement, or the manufacture, purchase, acceptance, rejection, ownership, delivery, lease, possession, use, operation, condition, sale, return or other disposition of any Collateral (including, without limitation, latent and other defects, whether or not discoverable by the Bank or the Borrower, and any claim for patent, trademark or copyright infringement).

## ARTICLE IX

### NOTICES

-----

SECTION 9.1 SENDING NOTICES. Any notice required or permitted to be given under this Security Agreement shall be sent (and deemed received) in the manner and to the addresses set forth in Section 9.4 of the Credit Agreement.

SECTION 9.2 CHANGE IN ADDRESS FOR NOTICES. Each of the Borrower and the Bank may change the address for service of notice upon it by a notice in writing to the other party.

16

IN WITNESS WHEREOF, the Borrower and the Bank have executed this Security Agreement as of the date first above written.

Neoprobe Corporation,  
a Delaware corporation

By: /s/ David Bupp

-----  
Name: David Bupp

-----  
Title: President, CEO

-----  
Firststar Bank, N.A.,  
a national banking association

By: /s/ J. Todd Price

-----  
J. Todd Price, Vice President

17





Exhibit 11.1

NEOPROBE CORPORATION AND SUBSIDIARIES  
COMPUTATION OF INCOME (LOSS) PER SHARE

<TABLE>  
<CAPTION>

	Three Months Ended March 31,	
	2001	2000
	-----	-----
<S>	<C>	<C>
Weighted average number of common shares outstanding used in computing basic income (loss) per share		25,894,955
		25,394,727
Add net shares issuable pursuant to stock option plans, less shares assumed repurchased at the average market price		191,614
		--
	-----	-----
Weighted average number of common shares outstanding used in computing diluted income (loss) per share		26,086,569
		25,394,727
	=====	=====
Income (loss) attributable to common stockholders	\$ 81,088	\$ (791,530)
Basic income (loss) per share attributable to common stockholders	\$ 0.00	\$ (0.03)
	=====	=====
Diluted income (loss) per share attributable to common stockholders	\$ 0.00	\$ (0.03)
	=====	=====

</TABLE>