

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

FORM 8-K

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

Date of Report (Date of earliest event reported) December 13, 2004

NEOPROBE CORPORATION

(Exact name of registrant as specified in its charter)

Delaware 0-26520 31-1080091

(State or other jurisdiction (Commission (IRS Employer
of incorporation) File Number) Identification No.)

425 Metro Place North, Suite 300, Columbus, Ohio 43017

(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code (614) 793-7500

(Former name or former address, if changed since last report.)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

ITEM 1.01. ENTRY INTO A MATERIAL DEFINITIVE AGREEMENT.

On December 13, 2004, Neoprobe Corporation ("Neoprobe") completed a private placement of Convertible Promissory Notes in an aggregate principal amount of \$8.1 million dollars with Biomedical Value Fund, L.P., Biomedical Offshore Value Fund, Ltd. and David C. Bupp (Neoprobe's President and CEO). Biomedical Value Fund, L.P. and Biomedical Offshore Value Fund, Ltd. are funds managed by Great Point Partners, LLC. The notes will bear interest at 8% per annum and are freely convertible into shares of Neoprobe's common stock at a price of \$0.40 per share. The Company may force conversion of the notes prior to their stated maturity under certain circumstances. The conversion price represents the 10-day volume weighted average trading price of the company's common stock through December 10, 2004. As part of this transaction, Neoprobe issued five-year warrants to investors to purchase 10,125,000 shares of the Company's common stock at an exercise price of \$0.46. The transaction documents executed with each investor were substantially identical. In connection with this financing, Neoprobe will also issue warrants to purchase 1,600,000 shares of the Company's common stock to placement agents, containing substantially identical terms to

the warrants issued to the investors. Neoprobe has agreed to file a registration statement with the Securities and Exchange Commission registering shares underlying the notes and warrants no later than 30 days following the closing. Proceeds from the notes will be used primarily to fund late stage clinical development of Neoprobe's most advanced radiopharmaceutical agent, Lymphoseek(TM), for the assessment of the spread of breast cancer and melanoma to the lymphatic system and to complete the commercial launch of Neoprobe's blood flow measurement products, the Quantix/OR(TM) and the Quantix/ND(TM).

ITEM 3.02. UNREGISTERED SALE OF EQUITY SECURITIES.

The contents of Item 1.01 are incorporated by reference into this item.

ITEM 8.01. OTHER EVENTS.

On December 14, 2004, Neoprobe Corporation announced that it raised \$8.1 million through the issuance of \$8 million and \$100,000 in four year, convertible promissory notes to funds of Great Point Partners, LLC and David C. Bupp (Neoprobe's President and CEO), respectively. A copy of the press release announcing the private placement is filed with this Current Report on Form 8-K as Exhibit 99.1 and is incorporated herein by reference.

ITEM 9.01 FINANCIAL STATEMENTS AND EXHIBITS.

(c) Exhibits.

Exhibit Number	Exhibit Description
10.1	Securities Purchase Agreement, dated as of December 13, 2004, among Neoprobe Corporation, Biomedical Value Fund, L.P., Biomedical Offshore Value Fund, Ltd. and David C. Bupp.
10.2	Form of Neoprobe Corporation 8% Series A Convertible Promissory Note. This is the Form of three substantially identical agreements. A schedule identifying the other agreements omitted, and setting forth the material details in which such agreements differ from the one that is filed herewith, is attached hereto as Exhibit 10.4.
10.3	Form of Neoprobe Corporation Common Stock Purchase Warrant. This is the Form of three substantially identical agreements. A schedule identifying the other agreements omitted, and setting forth the material details in which such agreements differ from the one that is filed herewith, is attached hereto as Exhibit 10.4.
10.4	Schedule Identifying Omitted Documents.
10.5	Security Agreement, dated as of December 13, 2004, made by Neoprobe Corporation in favor of Biomedical Value Fund, L.P., Biomedical Offshore Value Fund, Ltd. and David C. Bupp.
99.1	Neoprobe Corporation press release dated December 14, 2004.

2

SIGNATURES

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

Neoprobe Corporation

Date: December 16, 2004 By: /s/ Brent L. Larson

Brent L. Larson, Vice President Finance
and Chief Financial Officer

3

EXHIBIT 10.1

SECURITIES PURCHASE AGREEMENT

BY AND AMONG

NEOPROBE CORPORATION

BIOMEDICAL VALUE FUND, L.P.

BIOMEDICAL OFFSHORE VALUE FUND, LTD.

AND

DAVID C. BUPP

DATED AS OF DECEMBER 13, 2004

TABLE OF CONTENTS

<TABLE>
<CAPTION>

PAGE NO.

<S>

<C>

ARTICLE 1 DEFINITIONS.....	1
1.1 DEFINITIONS.....	1
1.2 ACCOUNTING TERMS: FINANCIAL STATEMENTS.....	8
1.3 KNOWLEDGE OF THE COMPANY.....	8
ARTICLE 2 PURCHASE AND SALE OF THE SECURITIES.....	8
2.1 PURCHASE AND SALE OF THE NOTES.....	8
2.2 PURCHASE AND SALE OF THE WARRANTS.....	9
2.3 CLOSING.....	9
2.4 FINANCIAL ACCOUNTING POSITIONS; TAX REPORTING.....	9
ARTICLE 3 CONDITIONS TO THE RESPECTIVE OBLIGATIONS OF THE PURCHASERS TO PURCHASE THE SECURITIES.....	9
3.1 REPRESENTATIONS AND WARRANTIES.....	10
3.2 COMPLIANCE WITH THIS AGREEMENT.....	10
3.3 SECRETARY'S CERTIFICATES.....	10
3.4 DOCUMENTS.....	10
3.5 PURCHASE OF SECURITIES PERMITTED BY APPLICABLE LAWS.....	10
3.6 OPINION OF COUNSEL.....	10
3.7 APPROVAL OF COUNSEL TO THE PURCHASERS.....	10
3.8 CONSENTS AND APPROVALS.....	11
3.9 SECURITY AGREEMENT.....	11
3.10 NO MATERIAL JUDGMENT OR ORDER.....	11
3.11 PRO FORMA BALANCE SHEET.....	11
3.12 GOOD STANDING CERTIFICATES.....	11
3.13 NO LITIGATION.....	11
ARTICLE 4 CONDITIONS TO THE OBLIGATIONS OF THE COMPANY TO ISSUE AND SELL THE SECURITIES.....	12
4.1 REPRESENTATIONS AND WARRANTIES.....	12
4.2 COMPLIANCE WITH THIS AGREEMENT.....	12
ARTICLE 5 REPRESENTATIONS AND WARRANTIES OF THE COMPANY.....	12
5.1 CORPORATE EXISTENCE AND POWER.....	12

5.2	CORPORATE AUTHORIZATION; NO CONTRAVENTION.....	12
5.3	GOVERNMENTAL AUTHORIZATION; THIRD PARTY CONSENTS.....	13
5.4	BINDING EFFECT.....	13
5.5	NO LEGAL BAR.....	13
5.6	LITIGATION.....	13
5.7	COMPLIANCE WITH LAWS.....	13
5.8	NO DEFAULT OR BREACH.....	14
5.9	TITLE TO PROPERTIES AND ASSETS.....	14
5.10	TAXES.....	14
5.11	SEC REPORTS; FINANCIAL CONDITION.....	14

</TABLE>

<TABLE>
<CAPTION>
<S> <C>

5.12	OPERATING COMPANY.....	15
5.13	DISCLOSURE.....	15
5.14	ABSENCE OF CERTAIN CHANGES OR EVENTS.....	16
5.15	INVESTMENT COMPANY/GOVERNMENT REGULATIONS.....	16
5.16	SUBSIDIARIES.....	17
5.17	CAPITALIZATION.....	17
5.18	PRIVATE OFFERING.....	18
5.19	BROKER'S, FINDER'S OR SIMILAR FEES.....	18
5.20	LABOR RELATIONS.....	18
5.21	ERISA -- EMPLOYEE BENEFIT PLANS.....	18
5.22	INTELLECTUAL PROPERTY.....	20
5.23	INSURANCE.....	20
5.24	SOLVENCY.....	20
5.25	REGISTRATION RIGHTS.....	20
5.26	PRICE OF COMMON STOCK.....	21
5.27	INTERNAL ACCOUNTING CONTROLS.....	21
5.28	TRANSACTIONS WITH OFFICERS AND DIRECTORS.....	21
5.29	REGISTRATION STATEMENT MATTERS.....	21
5.30	EXCHANGE ACT REGISTRATION.....	22
ARTICLE 6 REPRESENTATIONS AND WARRANTIES OF THE PURCHASERS.....22		
6.1	AUTHORIZATION; NO CONTRAVENTION.....	22
6.2	BINDING EFFECT.....	22
6.3	NO LEGAL BAR.....	22
6.4	PURCHASE FOR OWN ACCOUNT.....	22
6.5	BROKER'S, FINDER'S OR SIMILAR FEES.....	23
6.6	GOVERNMENTAL AUTHORIZATION; THIRD PARTY CONSENT.....	23
6.7	PURCHASER STATUS.....	23
6.8	ACCESS TO INFORMATION.....	23
6.9	CERTAIN TRADING ACTIVITIES.....	23
6.10	INDEPENDENT INVESTMENT DECISION.....	23
ARTICLE 7 INDEMNIFICATION; EXERCISE OF REMEDIES.....24		
7.1	INDEMNIFICATION.....	24
7.2	PROCEDURE; NOTIFICATION.....	25
7.3	REGISTRATION RIGHTS.....	25
7.4	EXERCISE OF REMEDIES.....	25
ARTICLE 8 AFFIRMATIVE COVENANTS.....26		
8.1	INFORMATION.....	26
8.2	RESERVATION OF SHARES.....	26
8.3	INSPECTION.....	27
8.4	PAYMENT OF NOTE.....	27
8.5	BOOKS AND RECORDS.....	27
8.6	USE OF PROCEEDS.....	27
8.7	BOARD NOMINEES; MANAGEMENT RIGHTS.....	27
ARTICLE 9 NEGATIVE COVENANTS.....28		

</TABLE>

<TABLE>
<CAPTION>
<S> <C>

	<C>
9.1	FUNDAMENTAL CHANGES; CONSOLIDATIONS, MERGERS AND ACQUISITIONS...28
9.2	TRANSACTIONS WITH AFFILIATES.....28
9.3	NO INCONSISTENT AGREEMENTS.....28
9.4	LIMITATION ON INDEBTEDNESS.....28
9.5	LIMITATION ON LIENS.....29
9.6	DISPOSITIONS OF ASSETS.....30
9.7	LIMITATIONS ON RESTRICTED PAYMENTS.....31
9.8	FINANCIAL COVENANTS.....31
9.9	CONTINGENT OBLIGATIONS.....31
9.10	PRESS RELEASE; PUBLIC OFFERING MATERIALS.....32
9.11	NO NEGATIVE PLEDGES.....32
9.12	NO RESTRICTIONS ON SUBSIDIARY DISTRIBUTIONS TO THE COMPANY.....32
9.13	SALE LEASEBACKS.....32
9.14	TAX ELECTION.....32
9.15	INVESTMENTS.....32
ARTICLE 10	REGISTRATION COMPLIANCE WITH THE SECURITIES ACT.....33
10.1	REGISTRATION PROCEDURES AND EXPENSES.....33
10.2	TRANSFER OF REGISTRABLE SHARES AFTER REGISTRATION.....34
10.3	INDEMNIFICATION.....35
10.4	TERMINATION OF CONDITIONS AND OBLIGATIONS.....38
10.5	INFORMATION AVAILABLE.....38
10.6	ASSIGNMENT OF REGISTRATION RIGHTS.....39
10.7	DELAY IN FILING OR EFFECTIVENESS OF REGISTRATION STATEMENT.....39
10.8	SUSPENSION.....40
ARTICLE 11	MISCELLANEOUS.....41
11.1	SURVIVAL OF REPRESENTATIONS AND WARRANTIES.....41
11.2	NOTICES.....41
11.3	SUCCESSORS AND ASSIGNS.....42
11.4	AMENDMENT AND WAIVER.....42
11.5	SIGNATURES; COUNTERPARTS.....43
11.6	HEADINGS.....43
11.7	GOVERNING LAW.....43
11.8	JURISDICTION, JURY TRIAL WAIVER, ETC.....43
11.9	SEVERABILITY.....44
11.10	RULES OF CONSTRUCTION.....44
11.11	ENTIRE AGREEMENT.....44
11.12	CERTAIN EXPENSES.....44
11.13	8-K FILING AND PUBLICITY.....44
11.14	FURTHER ASSURANCES.....45
11.15	OBLIGATIONS OF THE PURCHASERS.....45
11.16	NO STRICT CONSTRUCTION.....45

</TABLE>

iii

SECURITIES PURCHASE AGREEMENT

AGREEMENT, dated as of December 13, 2004, by and among NEOPROBE CORPORATION (the "COMPANY"), a Delaware corporation, Biomedical Value Fund, L.P. ("BVF"), a Delaware limited partnership, Biomedical Offshore Value Fund, Ltd. ("BOVF" and together with "BVF," the "BV FUNDS"), an exempted company incorporated under the provisions of the Companies Law of the Cayman Islands, and DAVID C. BUPP ("BUPP" and together with the BV Funds, each a "PURCHASER" and collectively, the "PURCHASERS").

WITNESSETH:

WHEREAS, the Company wishes to sell to (a) BVF and BVF wishes to purchase from the Company (i) an 8% Series A Convertible Promissory Note (the "BVF NOTE"), due December 12, 2008, in the principal amount of \$4,400,000, and (ii) a warrant (the "BVF Warrant") to purchase 5,500,000 shares of common stock, \$.001 par value per share, of the Company (the "COMMON STOCK"), (b) BOVF and BOVF wishes to purchase from the Company (i) an 8% Series A Convertible Promissory Note (the "BOVF NOTE"), due December 12, 2008, in the principal amount of

\$3,600,000, and (ii) a warrant (the "BOVF WARRANT") to purchase 4,500,000 shares of Common Stock, and (c) Bupp and Bupp wishes to purchase from the Company (i) an 8% Series A Convertible Promissory Note (the "BUPP NOTE"), due December 12, 2008, in the principal amount of \$100,000, and (ii) a warrant (the "BUPP WARRANT") to purchase 125,000 shares of Common Stock, in each case upon the terms and subject to the conditions hereinafter set forth.

NOW, THEREFORE, in consideration of the mutual covenants and agreements set forth herein and for other good and valuable consideration, the receipt and adequacy of which is hereby acknowledged, the parties hereto agree as follows:

ARTICLE 1

DEFINITIONS

1.1 DEFINITIONS. As used in this Agreement, and unless the context requires a different meaning, the following terms have the meanings indicated:

"AFFILIATE" shall mean any Person directly or indirectly controlling, controlled by, or under common control with the Company. For purposes of this definition, "control" (including with correlative meanings, the terms "controlling", "controlled by" and under "common control with") means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of a Person, whether through the ownership of voting securities, by contract or otherwise.

"AGREEMENT" shall mean this Agreement, including the exhibits and schedules attached hereto, as the same may be amended, supplemented or modified in accordance with the terms hereof.

"ASSET DISPOSITION" shall mean the disposition, whether by sale, lease, transfer, loss, damage, destruction, condemnation or otherwise of any of the following: (a) any of the stock of or equity interests in the Company or any of its Subsidiaries or (b) any or all of the assets of the Company or any of its Subsidiaries other than sales of inventory in the ordinary course of business. "NET PROCEEDS" of any Asset Disposition means cash proceeds received by the Company or any of its Subsidiaries from any Asset Disposition (including, without limitation, insurance proceeds, awards of condemnation, and payments under notes or other debt securities received in connection with any Asset Disposition), net of (x) the costs of such sale, lease, transfer or other disposition (including, without limitation, Taxes attributable to such sale, lease or transfer), and (y) amounts applied to repayment of Indebtedness secured by a Lien on the asset or property disposed.

"BOARD" shall mean the Board of Directors of the Company.

"BV FUNDS" shall have the meaning set forth in the first paragraph of this Agreement.

"BOVF NOTE" shall mean the senior secured convertible promissory note in the principal amount of \$3,600,000 referred to in the Whereas clause hereof, which note is substantially in the form attached hereto as Exhibit A.

"BOVF WARRANT" shall mean the warrant referred to in the Whereas clause hereof, which warrant is substantially in the form attached hereto as Exhibit B.

"BUPP NOTE" shall mean the senior secured convertible promissory note in the principal amount of \$100,000 referred to in the Whereas clause hereof, which note is substantially in the form attached hereto as Exhibit A.

"BUPP WARRANT" shall mean the warrant referred to in the Whereas clause hereof, which warrant is substantially in the form attached hereto as Exhibit B.

"BUSINESS DAY" shall mean any day other than a Saturday, Sunday or other day on which commercial banks in the City of New York are authorized or required by law or executive order to close.

"BVF NOTE" shall mean the senior secured convertible promissory note in the principal amount of \$5,500,000 referred to in the Whereas clause hereof, which note is substantially in the form attached hereto as Exhibit A.

"BVF WARRANT" shall mean the warrant referred to in the Whereas clause

hereof, which warrant is substantially in the form attached hereto as Exhibit B.

"BY-LAWS" shall mean, unless the context in which such term is used otherwise requires, the By-laws of the Company or any of its Subsidiaries as in effect on the Closing Date.

"CAPITAL LEASE OBLIGATIONS" of any Person shall mean the obligations of such Person to pay rent or other amounts under any lease of (or other arrangement conveying the right to use) real or personal property, or a combination thereof, which obligations are required to be classified and accounted for as capital leases on a balance sheet of such Person under GAAP and,

2

for the purposes of this Agreement, the amount of such obligations at any time shall be the capitalized amount thereof at such time determined in accordance with GAAP. The determination of Capital Lease Obligations at the relevant time of determination with respect to the Company and its Subsidiaries shall be made on a consolidated basis in accordance with GAAP.

"CASH" shall mean the currency of the United States of America.

"CASH EQUIVALENTS" shall mean: (i) marketable direct obligations issued or unconditionally guaranteed by the United States Government or issued by any agency thereof and backed by the full faith and credit of the United States, in each case maturing within one (1) year from the date of acquisition thereof; (ii) commercial paper maturing no more than one (1) year from the date issued and, at the time of acquisition, having a rating of at least A-1 from Standard & Poor's rating service or a least P-1 from Moody's Investors Service, Inc., (iii) certificates of deposit or bankers' acceptances maturing within one (1) year from the date of issuance thereof issued by, or overnight reverse repurchase agreements from, any commercial bank organized under the laws of the United States of America or any state thereof or the District of Columbia having combined capital and surplus of not less than \$500,000,000; (iv) time deposits maturing no more than thirty (30) days from the date of creation thereof with commercial banks having membership in the Federal Deposit Insurance Corporation in amounts not exceeding the lesser of \$100,000 or the maximum amount of insurance applicable to the aggregate amount of the Company's and its Subsidiaries, deposits at such institution; and (v) deposits or investments in mutual or similar funds offered or sponsored by brokerage or other companies having membership in the Securities Investor Protection Corporation in amounts not exceeding the lesser of \$100,000 or the maximum amount of insurance applicable to the aggregate amount of the Company's and its Subsidiaries, deposits at such institution.

"CERTIFICATE OF INCORPORATION" shall mean, unless the context in which it is used shall otherwise require, the Certificate of Incorporation of the Company or any of its Subsidiaries as in effect on the Closing Date.

"CLOSING" shall have the meaning assigned to that term in Section 2.3.

"CLOSING DATE" shall have the meaning assigned to that term in Section 2.3.

"CODE" shall mean the Internal Revenue Code of 1986, as amended, or any successor statute thereto.

"COMMISSION" shall mean the Securities and Exchange Commission or any similar agency then having jurisdiction to enforce the Securities Act.

"COMMON STOCK" shall have the meaning assigned to that term in the Whereas clause hereof, or any other capital stock of the Company into which such stock is reclassified or reconstituted.

"CONTINGENT OBLIGATION" as applied to any Person, shall mean any direct or indirect liability, contingent or otherwise, of that Person: (i) with respect to any indebtedness, lease, dividend or other obligation of another Person if the primary purpose or intent of the Person

3

incurring such liability, or the primary effect thereof, is to provide assurance to the obligee of such liability that such liability will be paid or discharged, or that any agreements relating thereto will be complied with, or that the holders of such liability will be protected (in whole or in part) against loss with respect thereto; (ii) with respect to any letter of credit issued for the account of that Person or as to which that Person is otherwise liable for reimbursement of drawings; or (iii) under any foreign exchange contract, currency swap agreement, interest rate swap agreement or other similar agreement or arrangement designed to alter the risks of that Person arising from fluctuations in currency values or interest rates. Contingent Obligations shall include (a) the direct or indirect guaranty, endorsement (other than for collection or deposit in the ordinary course of business), co-making, discounting with recourse or sale with recourse by such Person of the obligation of another, (b) the obligation to make take-or-pay or similar payments if required regardless of nonperformance by any other party or parties to an agreement, and (c) any liability of such Person for the obligations of another through any agreement to purchase, repurchase or otherwise acquire such obligation or any property constituting security therefor, to provide funds for the payment or discharge of such obligation or to maintain the solvency, financial condition or any balance sheet item or level of income of another. The amount of any Contingent Obligation shall be equal to the amount of the obligation so guaranteed or otherwise supported or, if not a fixed and determined amount, the maximum amount so guaranteed.

"CONTRACTUAL OBLIGATIONS" shall mean as to any Person, any provision of any security issued by such Person or of any agreement, undertaking, contract, indenture, mortgage, deed of trust or other instrument or arrangement (whether in writing or otherwise) to which such Person is a party or by which it or any of such Person's property is bound.

"ERISA" shall mean the Employee Retirement Income Security Act of 1974, as amended and the rules and regulations promulgated thereunder.

"ERISA AFFILIATE" shall mean shall mean a corporation that is or was a member of a controlled group of corporations with the Company within the meaning of Section 4001(a) or (b) of ERISA or Section 414(b) of the Code, a trade or business (including, without limitation, a sole proprietorship, partnership, trust, estate or corporation) that is under common control with the Company within the meaning of Section 414(c) of the Code, or a trade or business which together with the Company is treated as a single employer under Section 414(m) or (o) of the Code.

"EVENT OF DEFAULT" shall have the meaning assigned to such term in the Notes.

"EXCHANGE ACT" shall mean the Securities Exchange Act of 1934, as amended, and the rules and regulations of the Commission thereunder.

"FINANCIAL STATEMENTS" shall have the meaning assigned to that term in Section 5.11.

"GAAP" shall mean generally accepted accounting principles in effect within the United States, consistently applied.

"GOVERNMENTAL AUTHORITY" shall mean the government of any nation, state, city, locality or other political subdivision of any thereof, any entity exercising executive, legislative, judicial, regulatory or administrative functions of or pertaining to government, regulation or compliance, and any corporation or other entity owned or controlled, through stock or capital ownership or otherwise, by any of the foregoing.

"INDEBTEDNESS" shall mean as to any Person (a) all obligations of such Person for borrowed money (including, without limitation, reimbursement and all other obligations with respect to surety bonds, unfunded credit commitments, letters of credit and bankers' acceptances, whether or not matured), (b) all indebtedness, obligations or liability of such Person (evidenced by notes, bonds, debentures or similar instruments) whether matured or unmatured, liquidated or unliquidated, direct or indirect, absolute or contingent, or joint or several, that should be classified as liabilities in accordance with GAAP,

including, without limitation, any items so classified on a balance sheet and any reimbursement obligations in respect of letters of credit or obligations in respect of bankers acceptances, (c) all obligations of such Person to pay the deferred purchase price of property or services, except trade accounts payable and accrued commercial or trade liabilities arising in the ordinary course of business, (d) all interest rate and currency swaps, caps, collars and similar agreements or hedging devices under which payments are obligated to be made by such Person, whether periodically or upon the happening of a contingency, (e) all indebtedness created or arising under any conditional sale or other title retention agreement with respect to property acquired by such Person (even though the rights and remedies of the seller or lender under such agreement in the event of default are limited to repossession or sale of such property), (f) all obligations of such Person under leases which have been or should be, in accordance with GAAP, recorded as capital leases, (g) all indebtedness secured by any Lien (other than Liens in favor of lessors under leases other than leases included in clause (f) above) on any property or asset owned or held by that Person regardless of whether the indebtedness secured thereby shall have been assumed by that Person or is non-recourse to the credit of that Person, and (h) any Contingent Obligation of such Person. The determination of the amount of the Indebtedness at the relevant time of determination with respect to the Company and its Subsidiaries shall be made on a consolidated basis in accordance with GAAP.

"INTELLECTUAL PROPERTY" shall have the meaning assigned to that term in Section 5.22.

"INVESTMENT" shall mean (i) any direct or indirect purchase or other acquisition by the Company or any of its Subsidiaries of any beneficial interest in, including, without limitation, stock, partnership interest, membership interest or other equity securities of, any other Person (other than a Person that prior to the relevant purchase or acquisition was a Subsidiary Guarantor) or (ii) any direct or indirect loan, advance or capital contribution by the Company or any of its Subsidiaries to any other Person (other than a Subsidiary Guarantor), including, without limitation, all Indebtedness and accounts receivable from that other Person that are not current assets or did not arise from sales to that other Person in the ordinary course of business. The amount of any Investment shall be the original cost of such Investment plus the cost of all additions thereto, without any adjustments for increases or decreases in value, or write-ups, write-downs or write-offs with respect to such Investment.

"LIEN" shall mean any mortgage, deed of trust, pledge, hypothecation, assignment, encumbrance, lien (statutory or other), charge, claim, restriction or preference, priority, right or other security interest or preferential arrangement of any kind or nature whatsoever (excluding preferred stock and equity related preferences) including, without limitation, those created by, arising under or evidenced by any conditional sale or other title retention agreement, the interest of a lessor under a Capital Lease Obligation, or any financing lease having substantially the same economic effect as any of the foregoing.

5

"MULTIEMPLOYER PLAN" shall mean a multiemployer plan within the meaning of Section 3(37) or 4001(a)(3) of ERISA or Section 414(f) of the Code.

"MATERIAL ADVERSE EFFECT" shall mean a material adverse effect on, or a material adverse change in, or a group of such effects on or changes in (i) the assets, business, properties, prospects, operations, or financial condition of the Company and its Subsidiaries, taken as a whole, or (ii) the ability of the Company to perform its obligations under this Agreement.

"NOTES" shall mean the BVF Note, the BOVF Note and the Bupp Note.

"ORIGINAL BUPP NOTE" shall mean the 8.5% Senior Note of the Company, dated April 2, 2003, in the original principal amount of \$250,000, payable to Bupp.

"PERMITTED ENCUMBRANCES" shall have the meaning assigned to such term in Section 9.5 of this Agreement.

"PERSON" shall mean any individual, firm, corporation, limited liability company, partnership, trust, incorporated or unincorporated association, joint venture, joint stock company, Governmental Authority or other entity of any

kind, and shall include any successor (by merger or otherwise) of such entity.

"PRO FORMA BALANCE SHEET" shall mean the pro forma consolidated balance sheet of the Company and its Subsidiaries delivered pursuant to Section 3.11.

"PURCHASER AFFILIATE" shall mean with respect to each Purchaser, any affiliate of such Purchaser (as defined in Rule 405 under the Securities Act) and any Person who controls the Purchaser or any affiliate of the Purchaser within the meaning of Section 15 of the Securities Act or Section 20 of the Exchange Act.

"PURCHASERS" shall have the meaning set forth in the first paragraph of this Agreement.

"REGISTRABLE SHARES" shall have the meaning assigned to that term in Section 10.1 of this Agreement.

"REQUIREMENTS OF LAW" shall mean as to any Person, provisions of the Certificate of Incorporation and By-laws or other organizational or governing documents of such Person, or any law, treaty, code, rule, regulation, right, privilege, qualification, license or franchise or determination of an arbitrator or a court or other Governmental Authority, in each case applicable or binding upon such Person or any of such Person's property or to which such Person or any of such Person's property is subject or pertaining to any or all of the transactions contemplated or referred to herein.

"RESTRICTED PAYMENT" shall mean: (i) any dividend or other distribution, direct or indirect, on account of any shares of any class of stock, limited liability company interest, or partnership interest of the Company or any of its Subsidiaries now or hereafter outstanding,

6

except a dividend payable solely in shares of that class of stock, limited liability company interest, or partnership interest to the holders of that class; (ii) any redemption, conversion, exchange, retirement, sinking fund or similar payment, purchase or other acquisition for value, direct or indirect, of any shares of any class of stock, limited liability company interest or partnership interest of the Company or any of its Subsidiaries now or hereafter outstanding; (iii) any payment or prepayment of interest on, principal of, premium, if any, redemption, conversion, exchange, purchase, retirement, defeasance, sinking fund or similar payment with respect to, any Indebtedness subordinated to the Indebtedness existing pursuant to the Notes, and this Agreement; (iv) any payment made to retire, or to obtain the surrender of, any outstanding warrants, options or other rights to acquire shares of any class of stock, limited liability company interest, or partnership interest of the Company or any of its Subsidiaries now or hereafter outstanding; and (v) any payment under any noncompete agreement.

"SEC REPORTS" shall mean all forms, reports, statements and other documents (including, without limitation, exhibits, annexes, supplements and amendments to such documents) filed or required to be filed by the Company, or sent or made available by the Company to its security holders, under the Exchange Act, the Securities Act, any national securities exchange or quotation system or comparable Governmental Authority.

"SECURITIES" shall mean, collectively, the Notes and the Warrants.

"SECURITIES ACT" shall mean the Securities Act of 1933, as amended, or any similar federal statute, and the rules and regulations thereunder as the same shall be in effect at the time.

"SECURITY AGREEMENT" shall mean the Security Agreement substantially in the form attached hereto as Exhibit C.

"SHORT SALES" shall mean, without limitation, all "short sales" as defined in Rule 3b-3 of the Exchange Act and all types of direct and indirect stock pledges, forward sale contracts, options, puts, calls, short sales, swaps and similar arrangements (including on a total return basis), and sales and other transactions through non-US broker dealers or foreign regulated brokers.

"SOLVENT" shall mean, with respect to the Company and its Subsidiaries

considered as a whole, based on the Pro Forma Balance Sheet, that (i) the assets and the property of the Company and its Subsidiaries, considered as a whole, exceed the aggregate liabilities (including, without limitation, contingent and unliquidated liabilities) of the Company and its Subsidiaries, considered as a whole, (ii) after giving effect to the transactions contemplated by this Agreement and the other Transaction Documents, the Company and its Subsidiaries, considered as a whole, will not be left with unreasonably small capital, and (iii) after giving effect to the transactions contemplated by this Agreement, the Company and its Subsidiaries, considered as a whole, are able to both service and pay their liabilities as they mature. In computing the amount of contingent or unliquidated liabilities at any time, such liabilities will be computed as the amount that, in light of all the facts and circumstances existing at such time, represents the amount that is likely to become an actual or matured liability.

7

"SUBSIDIARY" shall mean, with respect to any Person, a corporation or other entity of which 50% or more of the voting power of the voting equity securities or equity interest is owned, directly or indirectly, by such Person. Unless otherwise qualified, all references to a "Subsidiary" or to "Subsidiaries" in this Agreement shall refer to a Subsidiary or Subsidiaries of the Company.

"SUBSIDIARY GUARANTOR" shall mean any wholly-owned Subsidiary of the Company incorporated in any jurisdiction of the United States that guaranties the Company's obligations under the Notes and this Agreement pursuant to a guaranty in form and substance reasonably acceptable to the BV Funds.

"TAX" shall mean any federal, state, local, or foreign income, gross receipts, license, payroll, employment excise, severance, stamp, occupation, premium, windfall profits, environmental (including taxes under Code Sec. 59A), customs duties, capital stock, franchise, profits, withholding, social security (or similar), unemployment, disability, real property, personal property, sales, use, transfer, registration, value added, alternative or add-on minimum, estimated, or other tax of any kind whatsoever, including any interest, penalty, or addition thereto, and also includes an obligation to pay the taxes of another person under Treas. Reg. ss. 1.1502-6 (or any similar provision of state, local, or foreign law), as a transferee or successor, by contract, or otherwise.

"TAX RETURN" shall mean any return, declaration, report, claim for refund, or information return or statement relating to Taxes, including any schedule or attachment thereto, and including any amendment thereof.

"TRANSACTION DOCUMENTS" shall mean collectively, this Agreement, the Notes, the Warrants, and the Security Agreement.

"WARRANTS" shall mean the BVF Warrant, the BOVF Warrant and the Bupp Warrant.

1.2 ACCOUNTING TERMS: FINANCIAL STATEMENTS. All accounting terms used herein and not expressly defined in this Agreement shall have the respective meanings given to them in conformance with GAAP. Financial statements and other information furnished after the date hereof pursuant to the Agreement or the other Transaction Documents shall be prepared in accordance with GAAP as in effect at the time of such preparation.

1.3 KNOWLEDGE OF THE COMPANY. All references to the knowledge of the Company or to facts known by the Company shall mean actual knowledge or notice of the Chief Executive Officer or Chief Financial Officer or other executive officer of the Company.

ARTICLE 2

PURCHASE AND SALE OF THE SECURITIES

2.1 PURCHASE AND SALE OF THE NOTES. Subject to the terms and conditions herein set forth, the Company agrees that it will issue and sell to (a) BVF, and BVF agrees that it will acquire from the Company on the Closing Date, the BVF Note, (b) BOVF, and BOVF agrees that it will acquire from the Company on the Closing Date, the BOVF Note, and (c) Bupp, and Bupp agrees that he will acquire from the Company on the Closing Date, the Bupp Note, in each case appropriately

completed in conformity herewith. The purchase price of the BVF Note shall be \$3,341,250, the Purchase Price of the BOVF Note shall be \$2,733,750, and the Purchase Price of the Bupp Note shall be \$75,937.50.

8

2.2 PURCHASE AND SALE OF THE WARRANTS. Subject to the terms and conditions herein set forth, the Company agrees that it will issue and sell to (a) BVF, and BVF agrees that it will acquire from the Company on the Closing Date, the BVF Warrant, (b) BOVF, and BOVF agrees that it will acquire from the Company on the Closing Date, the BOVF Warrant, and (c) Bupp, and Bupp agrees that it will acquire from the Company on the Closing Date, the Bupp Warrant, in each case appropriately completed in conformity herewith. The purchase price for the Bupp Warrant shall be \$1,058,750, the purchase price for the BOVF Warrant shall be \$866,250, and the purchase price for the Bupp Warrant shall be \$24,062.50.

2.3 CLOSING. The purchase and issuance of the Securities shall take place at the closing (the "CLOSING") to be held at the offices of Morrison Cohen LLP, 909 Third Avenue, New York, New York 10022 at 10:00 a.m., Local Time, on Monday, December 13, 2004 or such other time and date as the parties may agree (the "CLOSING DATE"). At the Closing, the Company shall deliver: (a) the BVF Note and the BVF Warrant to BVF against delivery by BVF to the Company of the purchase price therefore, (b) the BOVF Note and the BOVF Warrant to BOVF against delivery by BOVF to the Company of the purchase price therefore, and (c) the Bupp Note and the Bupp Warrant to Bupp against delivery by Bupp to the Company of the purchase price therefor. In each case, payment of such purchase price shall be by wire transfer.

2.4 FINANCIAL ACCOUNTING POSITIONS; TAX REPORTING. Each of the parties hereto agrees to take reporting and other positions with respect to the Securities which are consistent with the purchase price of the Securities set forth herein for all financial accounting purposes, unless otherwise required by applicable GAAP or Commission rules (in which case the parties agree only to take positions inconsistent with the purchase price of the Securities set forth herein provided that the BV Funds have consented thereto, which consent shall not be unreasonably withheld). Each of the parties to this Agreement agrees to take reporting and other positions with respect to the Securities which are consistent with the purchase price of the Securities set forth herein for all other purposes, including without limitation, for all federal, state and local tax purposes.

ARTICLE 3

CONDITIONS TO THE RESPECTIVE OBLIGATIONS OF THE PURCHASERS TO PURCHASE THE SECURITIES

The obligation of the Purchasers to purchase the Notes and the Warrants, to pay the purchase prices therefor at the Closing and to perform any obligations hereunder shall be subject to the satisfaction as determined by, or waived by, the Purchasers of the following conditions on or before the Closing Date; provided, however, that any waiver of a condition shall not be deemed a waiver of any breach of any representation, warranty, agreement, term or covenant or of any misrepresentation by the Company. Except to the extent expressly so waived, no Purchaser shall be obligated to purchase any of the Securities to be purchased by such Purchaser hereunder unless the purchase and sale of all Securities contemplated by this Agreement shall occur concurrently.

9

3.1 REPRESENTATIONS AND WARRANTIES. The representations and warranties of the Company contained in Article 5 hereof shall be true and correct at and as of the date hereof and the Closing Date as if made at and as of such date.

3.2 COMPLIANCE WITH THIS AGREEMENT. The Company shall have performed and complied with all of its agreements and conditions set forth or contemplated herein that are required to be performed or complied with by the Company on or before the Closing Date, and the Purchasers shall have received at the Closing a certificate to the foregoing effect, dated the Closing Date, and executed by the Chief Executive Officer, President or a Vice President of the Company.

3.3 SECRETARY'S CERTIFICATES. The Purchasers shall have received certificates from the Company, dated the Closing Date and signed by the Secretary or an Assistant Secretary of the Company, certifying (a) that the attached copies of the Certificate of Incorporation and By-laws of the Company, and resolutions of the Board approving the Transaction Documents to which it is a party and the transactions contemplated hereby and thereby are all true, complete and correct and remain unamended and in full force and effect, and (b) the incumbency and specimen signature of each officer of the Company executing any Transaction Document to which it is a party or any other document delivered in connection herewith and therewith on behalf of the Company.

3.4 DOCUMENTS. The Purchasers shall have received true, complete and correct copies of such agreements, schedules, exhibits, certificates, documents, financial information and filings as they may request in connection with or relating to the transactions contemplated hereby, all in form and substance satisfactory to the Purchasers.

3.5 PURCHASE OF SECURITIES PERMITTED BY APPLICABLE LAWS. The acquisition of and payment for the Securities to be acquired by the Purchasers hereunder and the consummation of the transactions contemplated hereby and by the Transaction Documents (a) shall not be prohibited by any Requirement of Law, (b) shall not subject the Purchasers to any penalty or other onerous condition under or pursuant to any Requirement of Law, and (c) shall be permitted by all Requirements of Law to which either Purchaser or the transactions contemplated by or referred to herein or in the Transaction Documents are subject; and the Purchasers shall have received such certificates or other evidence as they may reasonably request to establish compliance with this condition.

3.6 OPINION OF COUNSEL. The Purchasers shall have received an opinion of outside counsel to the Company, dated as of the Closing Date, relating to the transactions contemplated by or referred to herein, in form and substance acceptable to the Purchasers.

3.7 APPROVAL OF COUNSEL TO THE PURCHASERS. All actions and proceedings hereunder and all agreements, schedules, exhibits, certificates, financial information, filings and other documents required to be delivered by the Company and each of its Subsidiaries hereunder or in connection with the consummation of the transactions contemplated hereby, and all other related matters, shall have been in form and substance acceptable to Morrison Cohen LLP, counsel to the Purchasers, in its reasonable judgment (including, without limitation, the opinion of counsel referred to in Section 3.6 hereof).

10

3.8 CONSENTS AND APPROVALS. All consents, exemptions, authorizations, or other actions by, or notices to, or filings with, Governmental Authorities and other Persons in respect of all Requirements of Law and with respect to those Contractual Obligations of the Company and each of its Subsidiaries necessary, desirable, or required in connection with the execution, delivery or performance (including, without limitation, the payment of interest on the Notes and the issuance of Common Stock upon the exercise of the Warrants) by the Company, or enforcement against the Company, of the Transaction Documents to which it is a party shall have been obtained and be in full force and effect, and the Purchasers shall have been furnished with appropriate evidence thereof, and all waiting periods shall have lapsed without extension or the imposition of any conditions or restrictions.

3.9 SECURITY AGREEMENT. The Company shall have duly executed and delivered the Security Agreement.

3.10 NO MATERIAL JUDGMENT OR ORDER. There shall not be on the Closing Date any judgment or order of a court of competent jurisdiction or any ruling of any Governmental Authority or any condition imposed under any Requirement of Law which, in the judgment of the Purchasers, would prohibit the purchase of the Securities hereunder or subject the Purchasers to any penalty or other onerous condition under or pursuant to any Requirement of Law if the Securities were to be purchased hereunder.

3.11 PRO FORMA BALANCE SHEET.

The Company shall have delivered to the Purchasers as of the Closing Date a pro forma consolidated balance sheet of the Company and its Subsidiaries as of

October 31, 2004, including pro forma adjustments reflecting the consummation of the transactions contemplated by the Transaction Documents, including, without limitation, all material fees and expenses in connection therewith, certified by the chief financial officer of the Company that it fairly presents the financial condition of the Company on such date a pro forma basis as described in this Section.

3.12 GOOD STANDING CERTIFICATES. The Company shall have delivered to the Purchasers as of the Closing Date, good standing certificates for the Company and each of its Subsidiaries for each of their respective jurisdictions of incorporation and all other jurisdictions where they do business.

3.13 NO LITIGATION. No action, suit or proceeding before any court or any Governmental Authority shall have been commenced or threatened, no investigation by any Governmental Authority shall have been commenced and no action, suit or proceeding by any Governmental Authority shall have been threatened against any Purchaser, the Company or Subsidiary (i) seeking to restrain, prevent or change the transactions contemplated hereby or questioning the validity or legality of any of such transactions, or (ii) which would, if resolved adversely to such Purchaser, Company or any Subsidiary, severally or in the aggregate, have a Material Adverse Effect.

11

ARTICLE 4

CONDITIONS TO THE OBLIGATIONS OF THE COMPANY TO ISSUE AND SELL THE SECURITIES

The obligations of the Company to issue and sell the Securities and to perform its other obligations hereunder relating thereto shall be subject to the satisfaction as determined by, or waived by, the Company of the following conditions on or before the Closing Date:

4.1 REPRESENTATIONS AND WARRANTIES. The representations and warranties of the Purchasers contained in Article 6 hereof shall be true and correct at and as of the date hereof and the Closing Date as if made at and as of such date.

4.2 COMPLIANCE WITH THIS AGREEMENT. The Purchasers shall have performed and complied with all of their respective agreements and conditions set forth or contemplated herein that are required to be performed or complied with by the Purchasers on or before the Closing Date.

ARTICLE 5

REPRESENTATIONS AND WARRANTIES OF THE COMPANY

The Company hereby represents and warrants to the Purchasers as follows:

5.1 CORPORATE EXISTENCE AND POWER. The Company and each of its Subsidiaries: (a) is a corporation duly organized, validly existing and in good standing under the laws of the jurisdiction of its incorporation; (b) has all requisite corporate power and authority to own and operate its property, to lease the property it operates as lessee and to conduct the business in which it is currently, or is currently proposed to be, engaged; (c) is, duly qualified as a foreign entity, licensed and in good standing under the laws of each jurisdiction where its ownership, lease or operation of property or the conduct of its business requires such qualification, except to the extent that the failure to so qualify would not have a Material Adverse Effect; and (d) has the corporate power and authority to execute, deliver and perform its obligations under each Transaction Document to which it is or will be a party and to borrow hereunder. Schedule 5.1 contains a true, complete and correct list of the Company and each Subsidiary and each jurisdiction where its ownership, lease or operation of property or the conduct of its business would require it to be qualified to do business as a foreign entity.

5.2 CORPORATE AUTHORIZATION; NO CONTRAVENTION. The execution, delivery and performance by the Company of this Agreement and each other Transaction Document to which it is or will be a party and the consummation of the transactions contemplated hereby and thereby, including, without limitation, the issuance of the Securities: (a) has been duly authorized by all necessary corporate, and if required, stockholder action; (b) do not and will not contravene the terms of

the Certificate of Incorporation or By-Laws of the Company or any Subsidiary, or any amendment thereof or any Requirement of Law applicable to such Person or such Person's

12

assets, business or properties; (c) do not and will not (i) conflict with, contravene, result in any material violation or breach of or material default under (with or without the giving of notice or the lapse of time or both), (ii) create in any other Person a right or claim of termination or amendment, or (iii) require any material modification or acceleration or cancellation of any Contractual Obligation of the Company or any of its Subsidiaries; and (d) do not and will not result in the creation of any Lien (or obligation to create a Lien) against any material property or asset of the Company or any of its Subsidiaries other than the Lien created by the Security Agreement.

5.3 GOVERNMENTAL AUTHORIZATION; THIRD PARTY CONSENTS. No approval, consent, compliance, exemption, authorization, or other action by, or notice to, or filing with, any Governmental Authority or any other Person in respect of any Requirement of Law or Contractual Obligation, and no lapse of a waiting period under a Requirement of Law or Contractual Obligation, is necessary or required in connection with the execution, delivery or performance by (including, without limitation, the payment of interest on the Notes and the issuance of shares of capital stock upon the exercise of the Warrants), or enforcement against, the Company to which it is a party or the consummation of the transactions contemplated hereby or thereby.

5.4 BINDING EFFECT. This Agreement has been, and each of the Transaction Documents to which the Company will be a party to will be, duly executed and delivered by the Company, and this Agreement constitutes, and such Transaction Documents will constitute, the legal, valid and binding obligation of the Company enforceable against the Company in accordance with their respective terms, except as enforceability may be limited by applicable bankruptcy, insolvency or other similar laws affecting the enforcement of creditors' rights generally and by general principles of equity relating to enforceability.

5.5 NO LEGAL BAR. Neither the execution, delivery and performance of the Transaction Documents nor the issuance of or performance of the terms of the Securities will violate in any material respect any Requirement of Law or any Contractual Obligation of the Company or any of its Subsidiaries. Neither the Company nor any of its Subsidiaries has previously entered into any agreement which is currently in effect or to which the Company or any of its Subsidiaries is currently bound, granting any rights to any Person which are inconsistent with the rights to be granted by the Company in the Transaction Documents.

5.6 LITIGATION. Except as set forth on Schedule 5.6, there are no legal actions, suits, proceedings, claims or disputes pending or, to the knowledge of the Company, threatened, at law, in equity, in arbitration or before any Governmental Authority against or affecting the Company or any of its Subsidiaries (or, as applicable, to the Company's knowledge, any of their respective shareholders, directors, officers, employees or agents). No injunction, writ, temporary restraining order, decree or any order of any nature has been issued by any court or other Governmental Authority purporting to enjoin or restrain the execution, delivery or performance of the Transaction Documents.

5.7 COMPLIANCE WITH LAWS. The Company and each of its Subsidiaries are in compliance in all material respects, with all Requirements of Law.

13

5.8 NO DEFAULT OR BREACH. No event has occurred and is continuing or would result from the incurring of obligations by the Company and its Subsidiaries under the Transaction Documents which constitutes or, with the giving of notice or lapse of time or both, would constitute an Event of Default. Neither the Company nor any of its Subsidiaries is in default under or with respect to any Contractual Obligation in any material respect.

5.9 TITLE TO PROPERTIES AND ASSETS. The properties and assets of the Company and the Subsidiaries are owned by the Company and the Subsidiaries free and clear of all Liens other than Permitted Encumbrances. With respect to the

property and assets it leases, each of the Company and its Subsidiaries is in compliance with such leases in all material respects.

5.10 TAXES. Each of the Company and its Subsidiaries has timely filed or has valid extensions of the time to file all Tax Returns due prior to the date hereof, such Tax Returns are complete and accurate in all material respects. The Company and the Subsidiaries have paid or accrued all Taxes due (whether or not shown as due on such Tax Returns), and neither the Company nor any Subsidiary has knowledge of any material Tax deficiency which has been or might be asserted or threatened against it. None of the Company or its Subsidiaries has waived any statute of limitations in respect of Taxes or agreed to any extension of time with respect to a Tax assessment deficiency. Except as set forth on Schedule 5.10, the Company has no material tax liability with respect to Taxes that accrued on or before September 30, 2004 in excess of the amounts accrued with respect thereto that are reflected in the Company's financial statements as of September 30, 2004. Neither the Company nor any of the Subsidiaries is the subject of any pending or, to the Company's knowledge, threatened inquiry, investigation or administrative or legal proceeding by the Internal Revenue Service or the taxing authority of any other jurisdiction.

5.11 SEC REPORTS; FINANCIAL CONDITION.

(a) SEC Reports. The Company has made available to the Purchasers through the Commission's website (www.sec.gov) prior to the date hereof all SEC Reports filed by the Company with the Commission since September 30, 2002. Since September 30, 2002, the Company has filed in a timely manner all SEC Reports required to be filed by it with the Commission pursuant to the reporting requirements of the Exchange Act. The Company is not aware of any event occurring on or prior to the Closing Date (other than the transactions contemplated by this Agreement) that would require the filing of a Form 8-K after the Closing. Each of the SEC Reports, as of the respective dates thereof (or, if amended or superseded by a filing prior to the Closing Date, then on the date of such filing), did not contain any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements made therein, in light of the circumstances under which they were made, not misleading. Each SEC Report, as it may have been subsequently amended by filings made by the Company with the Commission prior to the date hereof, complied in all material respects with the requirements of the Exchange Act applicable to such SEC Report. No Subsidiary of the Company is subject to the periodic reporting requirements of the Exchange Act or is otherwise required to file any documents with the Commission or any national securities exchange or quotation service or comparable Governmental Authority.

14

(b) Sarbanes-Oxley. The Chief Executive Officer and the Chief Financial Officer of the Company have signed, and the Company has furnished to the Commission, all certifications required by Sections 302 and 906 of the Sarbanes-Oxley Act of 2002. Such certifications contain no qualifications or exceptions to the matters certified therein and have not been modified or withdrawn; and neither the Company nor any of its officers has received notice from any governmental entity questioning or challenging the accuracy, completeness, form or manner of filing or submission of such certifications. The Company is otherwise in compliance in all material respects with all applicable effective provisions of the Sarbanes-Oxley Act of 2002 and the rules and regulations issued thereunder by the Commission.

(c) Financial Statements. Each of the consolidated balance sheets of the Company and its Subsidiaries and the related consolidated statements of income, stockholders' equity and cash flow, together with the notes thereto (collectively, the "FINANCIAL STATEMENTS"), which are included in or incorporated by reference into the SEC Reports of the Company filed since September 30, 2002 fairly present, in all material respects, the financial position of the Company and each of its Subsidiaries as of the respective dates thereof, and the results of operations and cash flows of the Company and each of its Subsidiaries as of the respective dates or for the respective periods set forth therein, all in conformity with GAAP consistently applied during the periods involved, except as otherwise set forth in the notes thereto and subject, in the case of unaudited quarterly financial statements, to normal year-end audit adjustments. Except as set forth in the financial statements in the above-referenced SEC Reports, neither the Company nor any Subsidiary has any liabilities (whether accrued, absolute, contingent or otherwise, known or

unknown, and whether due or to become due), other than liabilities incurred since September 30, 2004 in the ordinary course of business, which (individually or in the aggregate) are material to the Company and the Subsidiaries, taken as a whole.

(d) Pro Forma Balance Sheet. The Pro Forma Balance Sheet delivered to the Purchasers sets forth the assets and liabilities of the Company and each of its Subsidiaries on a pro forma consolidated basis after taking into account the consummation of the transactions contemplated in this Agreement as of the Closing Date. The Pro Forma Balance Sheet has been prepared by the Company in accordance with GAAP, consistently applied, and fairly presents in all material respects the assets and liabilities of the Company and its Subsidiaries on a consolidated basis as of October 31, 2004, reflecting the consummation of the transactions contemplated in this Agreement and based on the assumptions set forth therein as of the Closing Date.

5.12 OPERATING COMPANY. The Company is "an entity that is primarily engaged, directly or through a majority owned subsidiary or subsidiaries, in the production or sale of a product or service other than the investment of "capital" within the meaning of the U.S. Department of Labor plan asset regulations, 29 C.F. R. ss.2510.3-101.

5.13 DISCLOSURE.

(a) Agreement and Other Documents. This Agreement, together with all exhibits and schedules hereto, and the agreements, certificates and other documents furnished to the Purchasers by the Company and its Subsidiaries at the Closing, do not contain any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements contained herein or therein, in the light of the circumstances under which they were made, not misleading.

15

(b) Material Adverse Effects. There is no fact known to the Company, which the Company has not disclosed in the SEC Reports or to the Purchasers in writing which has a Material Adverse Effect or, insofar as the Company can reasonably foresee, is likely to result in a Material Adverse Effect.

(c) Material Non-Public Information. The Company has not provided to the Purchasers any material non-public information other than information related to the transactions contemplated by this Agreement, all of which information related to the transactions contemplated hereby shall be disclosed by the Company pursuant to Section 11.13 hereof.

5.14 ABSENCE OF CERTAIN CHANGES OR EVENTS. Since September 30, 2004, the business and operations of the Company and each Subsidiary have been conducted in the ordinary course consistent with past practice, and there has not been:

(a) any declaration, setting aside or payment of any dividend or other distribution of the assets of the Company or any Subsidiary with respect to any shares of capital stock of the Company or any Subsidiary or any repurchase, redemption or other acquisition by the Company or any Subsidiary of any outstanding shares of the Company's or any Subsidiary's capital stock;

(b) any damage, destruction or loss, whether or not covered by insurance, except for such occurrences, individually and collectively, that have not had, and would not reasonably be expected to have, a Material Adverse Effect;

(c) any waiver by the Company or any Subsidiary of a valuable right or of a material debt owed to it;

(d) any material change or amendment to, or any waiver of any material right under any Contractual Obligation by which the Company or any Subsidiary or any of the Company's or any Subsidiary's assets or properties is bound or subject;

(e) any change by the Company in its accounting principles, methods or practices or in the manner in which it keeps its accounting books and records, except any such change required by a change in GAAP or by the Commission; or

(f) any other event or condition of any character, except for such events and conditions that have not resulted, and are not expected to result, either individually or collectively, in a Material Adverse Effect.

5.15 INVESTMENT COMPANY/GOVERNMENT REGULATIONS. The Company is not an "investment company" within the meaning of the Investment Company Act of 1940, as amended. Neither the Company nor its Subsidiaries is subject to regulation under the Public Utility Holding Company Act of 1935, as amended, the Federal Power Act, the Interstate Commerce Act, or any federal or state statute or regulation limiting its ability to incur Indebtedness.

16

5.16 SUBSIDIARIES.

(a) Schedule 5.16 sets forth a complete and accurate list of all of the Subsidiaries of the Company together with their respective jurisdictions of incorporation or organization. All of the outstanding shares of capital stock of, or other equity interests in, the Subsidiaries are validly issued, fully paid and nonassessable. Except as set forth on Schedule 5.16, as of the Closing Date, all of the outstanding shares of capital stock of, or other ownership interests in, each of the Subsidiaries are owned by the Company or by a wholly owned Subsidiary free and clear of any Liens. No Subsidiary has outstanding options, warrants, subscriptions, calls, rights, convertible securities or other agreements or commitments obligating the Subsidiary to issue, transfer or sell any securities of the Subsidiary.

(b) Except for the Subsidiaries of the Company, the Company does not own of record or beneficially, directly or indirectly, (i) any shares of outstanding capital stock or securities convertible into capital stock of any other corporation, or (ii) any equity, voting or participating interest in any limited liability company, partnership, joint venture or other non-corporate business enterprises.

5.17 CAPITALIZATION.

(a) As of the Closing Date, the authorized capital stock of the Company consists of 100,000,000 shares of Common Stock, of which 58,288,057 shares are issued and outstanding, and 5,000,000 shares of preferred stock, \$.001 par value, of which 500,000 shares have been designated as Series A Junior Participating Preferred Stock (collectively "Preferred Stock"). The Company has no shares of capital stock held in treasury. As of the Closing Date, after giving effect to the transactions contemplated hereby and in the other Transaction Documents, the authorized capital stock of the Company shall consist of 100,000,000 shares of Common Stock and 500,000 shares of Preferred Stock, and there will be: (i) 58,288,057 shares of Common Stock issued and outstanding; (ii) 20,250,000 shares of Common Stock reserved for issuance upon conversion of the Notes, (iii) 10,125,000 shares of Common Stock reserved for issuance upon exercise of the Warrants; (iv) 4,950,973 shares of Common Stock reserved for issuance pursuant to the exercise of stock options issuable in accordance with the terms of one or more stock option plans of the Company ("MANAGEMENT OPTIONS"), and (v) no shares of Preferred Stock issued and outstanding. All outstanding shares of capital stock of the Company have been duly authorized by all necessary corporate action. All outstanding shares of capital stock of the Company are, and the shares of Common Stock issuable upon conversion of the Notes and upon exercise of the Warrants in accordance with their respective terms, when issued, will be, validly issued, fully paid and nonassessable and shall be free and clear of all Liens and the issuance of foregoing has been or will be, as the case may be, in compliance with all applicable Requirements of Law has not been or will not be, as the case may be, subject to preemptive rights in favor of any Person and will not result in the issuance of any additional shares of capital stock of the Company or the triggering of any anti-dilution or similar rights contained in any options, warrants, debentures or other securities or agreements of the Company.

(b) On the Closing Date, except for the Notes, the Warrants and the Management Options, and except as set forth on Schedule 5.17(b), there will be no outstanding securities convertible into or exchangeable for capital stock of the Company or any of its Subsidiaries or options, warrants or other rights to purchase or subscribe to capital stock of the Company or any of its Subsidiaries or contracts, commitments, agreements, understandings or arrangements of any

kind to which the Company or any of its Subsidiaries is a party relating to the issuance of any capital stock of the Company or any of its Subsidiaries, any such convertible or exchangeable securities or any such options, warrants or rights.

17

5.18 PRIVATE OFFERING. No form of general solicitation or general advertising was used by the Company or any of its Subsidiaries, or their respective representatives in connection with the offer or sale of the Securities. No registration of the Securities or Common Stock issuable upon the conversion of the notes or the exercise of the Warrants pursuant to the provisions of the Securities Act or state securities or "blue sky" laws will be required for the offer, sale or issuance of the Securities pursuant to this Agreement or of the Common Stock issuable upon conversion of the Notes or the exercise of the Warrants. The Company agrees that neither it, nor anyone acting on its behalf, will offer or sell the Securities or any other security so as to require the registration of the Securities or Common Stock issuable upon conversion of the Notes or the exercise of the Warrants pursuant to the provisions of the Securities Act or any state securities or "blue sky" laws, unless such Securities or Common Stock issuable upon the conversion of the Notes or the exercise of the Warrants are so registered.

5.19 BROKER'S, FINDER'S OR SIMILAR FEES. Except as set forth in Schedule 5.19, there are no brokerage commissions, finder's fees or similar fees or commissions payable in connection with the transactions contemplated hereby based on any agreement, arrangement or understanding with the Company or any of its Subsidiaries, or any action taken by any of them.

5.20 LABOR RELATIONS. Neither the Company nor any of its Subsidiaries has committed or is engaged in any unfair labor practice. Except as set forth in Schedule 5.20, there is (a) no unfair labor practice complaint pending or, to the knowledge of the Company, threatened against the Company or any of its Subsidiaries before the National Labor Relations Board and no grievance or arbitration proceeding arising out of or under collective bargaining agreements is so pending or, to the knowledge of the Company, threatened, (b) no strike, labor dispute, slowdown or stoppage pending or, to the knowledge of the Company, threatened against the Company or any of its Subsidiaries, and (c) to the knowledge of the Company, no union representation question existing with respect to the employees of the Company or any of its Subsidiaries and no union organizing activities are taking place. Neither the Company, nor any of its Subsidiaries, is a party to any collective bargaining agreement.

5.21 ERISA -- EMPLOYEE BENEFIT PLANS.

(a) Employee Benefit Plans and Liabilities. Neither the Company nor any ERISA Affiliate has contributed to nor has any actual or contingent, direct or indirect, liability in respect of any employee benefit plan (as defined in Section 3(3) of ERISA) or other employee benefit arrangement, payment, policy or program of any kind whatsoever not subject to ERISA (collectively, the "PLANS"), within the five-consecutive-year period immediately preceding the first day of the year in which the Closing Date occurs other than those liabilities with respect to such Plans specifically described on Schedule 5.21. Schedule 5.21(a) sets forth all Plans. At no time during such five year period has the Company or any ERISA Affiliate participated in or contributed to any Multiemployer Plan or other plan subject to Title IV of ERISA, nor during

18

such period has the Company or any ERISA Affiliate had an obligation to participate in or contribute to any such Multiemployer Plan. No agreement subject to section 4204 of ERISA has been entered into in connection with the transactions contemplated in this Agreement. There are no outstanding liabilities of the Company or any ERISA Affiliate to any employee benefit plans previously maintained by the Company or any ERISA Affiliate, and the Company is not aware of any potential liabilities in connection therewith. There are no actions, suits or claims, other than for benefits in the ordinary course, pending or, to the knowledge of the Company, threatened against the Company, an ERISA Affiliate or the Plans which might subject the Company or any ERISA Affiliate to any material liability.

(b) Plan Compliance. The Company is in compliance in all material respects with all reporting, disclosure and registration requirements applicable to it under the Code, ERISA and all federal and state securities laws, and Department of Labor, Internal Revenue Service and Securities and Exchange Commission rules and regulations promulgated thereunder, with respect to all of the Plans, and is not subject to any liability, in any material respect, whether asserted or not, for any penalties to any Governmental Authority for late filing of any return, report or other governmental filing. No civil or criminal action brought pursuant to the provisions of Title I, Subtitle B, Part 5 of ERISA or any other federal or state law is pending or threatened against any fiduciary of the Plans. No Plan, or any fiduciary thereof, has been, or is currently, the direct or indirect subject of an audit, investigation or examination by any Governmental Authority. All of the Plans comply currently, and have complied at all times (and all former Plans have complied at all times in the past), both as to form and operation, in all material respects, with their terms and with all Laws. Each of the Plans maintained by the Company that is an "employee benefit pension plan" (within the meaning of Section 3(2)(A) of ERISA) has obtained a favorable determination (covering all changes or amendments applicable under Law from the Internal Revenue Service as to its qualification under Sections 401(a) and 501(a) of the Code or is within the remedial amendment period (as provided in Section 401(b) of the Code) for making any required changes or amendments, and nothing has occurred before or after the date of each such determination letter as would adversely affect such qualification. All amounts that are currently owing to Plan participants (including, without limitation, former Plan participants), or contributions required to be made to the Plans have been timely paid or contributed with respect to all periods prior to the Closing Date or provided for by adequate reserves on the Pro Forma Balance Sheet.

(c) Prohibited Transactions. No Plan, nor any related trust, nor the Company, nor any trustee, administrator or other "party in interest" or "disqualified person" (within the meaning of Section 3(14) of ERISA or Section 4975(e)(2) of the Code, respectively) with respect to the Plans, has engaged in any nonexempt "prohibited transaction" (within the meaning of Section 406 of ERISA or Section 4975(c) of the Code, respectively) which could subject any of the Plans or related trusts, or any trustee, administrator or other fiduciary of any such Plan, or any Purchaser, or any other party dealing with the Plans, to the penalties or excise tax imposed on prohibited transactions by Section 502 of ERISA or Section 4975 of the Code which could have a material adverse effect on the Condition of the Company.

(d) COBRA and Health Costs. Except as set forth in Schedule 5.21(d) of the Disclosure Schedule, the Company has complied with the continuation coverage requirements of group health plans provided in Section 4980B of the Code, Sections 601 et seq. of ERISA, the

19

Family and Medical Leave Act of 1994, and the regulations promulgated thereunder, and (ii) there are no individual claims by any employee of the Company for any illness or accident which is expected to exceed \$25,000 in health related costs to the Company within the twelve (12)-month period following the Closing Date.

(e) Miscellaneous. Neither the Company nor any Plan provides for or promises retiree, medical, disability or life insurance benefits to any current or former employee, officer or director of the Company, other than continuation coverage required by section 4980B of the Code. The Company is not a party to or obligated under any agreement, plan, contract or other arrangements that will result, separately or in the aggregate, in the payment of any "excess parachute payment" within the meaning of Code ss.280G.

5.22 INTELLECTUAL PROPERTY. Except as set forth in Schedule 5.22: (i) each of the Company and its Subsidiaries owns or has obtained valid and enforceable licenses or options for the inventions, patent applications, patents, trademarks (both registered and unregistered), trade names, trademark applications, copyrights, copyright applications, maskworks, maskwork applications, trade secrets, fictitious business names, service marks, service mark applications, know how, customer lists, franchise systems, computer software, computer program, designs, blueprints, engineering drawings, proprietary products, source code, technology, proprietary rights or other intellectual property rights or intangible assets and all licenses and other rights required to use or exploit any of the foregoing, currently used in the conduct of the Company's and its

Subsidiaries' business (collectively, the "INTELLECTUAL PROPERTY"); and (ii) (a) there are no third parties who have any ownership rights to any Intellectual Property that is owned by, or has been licensed to, the Company or any Subsidiary that would preclude the Company or any of its Subsidiaries from conducting its business as currently conducted and have a Material Adverse Effect, except for the ownership rights of the owners of the Intellectual Property licensed or optioned by the Company or its Subsidiaries; (b) to the knowledge of the Company, there are currently no sales of any products that would constitute an infringement by third parties of any Intellectual Property owned, licensed or optioned by the Company or any Subsidiary; (c) there is no pending or, to the Company's knowledge, threatened action, suit, proceeding or claim by others challenging the rights of the Company or any Subsidiary in or to any Intellectual Property owned, licensed or optioned by the Company or any Subsidiary; (d) there is no pending or, to the Company's knowledge, threatened action, suit, proceeding or claim by others challenging the validity or scope of any Intellectual Property owned, licensed or optioned by the Company or any Subsidiary; and (e) there is no pending or, to the Company's knowledge, threatened action, suit, proceeding or claim by others that the Company infringes or otherwise violates any patent, trademark, copyright, trade secret or other proprietary right of others, other than non-material actions, suits, proceedings and claims.

5.23 INSURANCE. Each of the Company and its Subsidiaries maintains insurance of the types and in the amounts that the Company reasonably believes is prudent and adequate for its business, all of which insurance is in full force and effect.

5.24 SOLVENCY. The Company and its Subsidiaries, taken as a whole, are Solvent.

5.25 REGISTRATION RIGHTS. Except as provided in Article 10 hereof, or as set forth in Schedule 5.25, effective upon the Closing, neither Company nor any Subsidiary is currently subject to any agreement providing any Person any rights (including piggyback registration rights) to have any securities of the Company or any Subsidiary registered with the Commission or registered or qualified with any other Governmental Authority.

20

5.26 PRICE OF COMMON STOCK. The Company has not taken any action intended to stabilize or manipulate the price of the Company's shares of the Common Stock to facilitate the sale or resale of the Registrable Shares. The Company has not repurchased any of its shares of Common Stock since September 30, 2004.

5.27 INTERNAL ACCOUNTING CONTROLS.

(a) The Company and the Subsidiaries maintain a system of internal accounting controls sufficient to provide reasonable assurance that (i) transactions are executed in accordance with management's general or specific authorizations, (ii) transactions are recorded as necessary to permit preparation of financial statements in conformity with GAAP, to maintain asset accountability and to provide reasonable assurance regarding the reliability of financial reporting, (iii) access to assets is permitted only in accordance with management's general or specific authorization, and (iv) the recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate actions are taken with respect to any differences. The Company has not been advised by its auditors that there are significant deficiencies or material weaknesses in the current design or operation of internal controls over financial reporting that are reasonably likely to adversely affect the Company's ability to record, process, summarize and report financial information.

(b) Since September 30, 2004, to the knowledge of the Company, neither the Company, any Subsidiary, nor any director, officer or employee, or (to the knowledge of the Company) any auditor, accountant, attorney or representative of the Company or any Subsidiary has received or otherwise had or obtained knowledge of (i) any written complaint, allegation, assertion or claim regarding the accounting or auditing practices, procedures, methodologies, or methods of the Company or any Subsidiary or their respective internal accounting controls, including any complaint, allegation, assertion or claim that any of the Company or any Subsidiary has engaged in questionable accounting or auditing practices, or (ii) any fraud, whether or not material, that involves management

or other employees of the Company or any Subsidiary who have a significant role in the Company's or any Subsidiary's internal controls.

5.28 TRANSACTIONS WITH OFFICERS AND DIRECTORS. Except as disclosed in the SEC Reports, none of the officers or directors of the Company has entered into any transaction with the Company or any Subsidiary that would be required to be disclosed pursuant to Item 404(a), (b) or (c) of Regulation S-K of the Commission.

5.29 REGISTRATION STATEMENT MATTERS. The Company is eligible to register the Registrable Shares for resale in a secondary offering by each Purchaser on a registration statement on Form SB-2. To the Company's knowledge, there exist no facts or circumstances (including without limitation any required approvals or waivers or any circumstances that may delay or prevent the obtaining of accountant's consents) that reasonably could be expected to prohibit or delay the preparation and filing of the registration statement on Form SB-2 for the resale of the Registrable Shares by the Purchasers contemplated by Article 10 of this Agreement.

21

5.30 EXCHANGE ACT REGISTRATION. The Common Stock is registered pursuant to Section 12(g) of the Exchange Act, and the Company has taken no action designed to, or which, to the knowledge of the Company, is likely to have the effect of, terminating the registration of the Common Stock under the Exchange Act.

ARTICLE 6

REPRESENTATIONS AND WARRANTIES OF THE PURCHASERS

Each Purchaser, severally but not jointly, hereby represents and warrants as to itself as follows:

6.1 AUTHORIZATION; NO CONTRAVENTION. The execution, delivery and performance by it of this Agreement: (a) is within its power and authority and has been duly authorized by all necessary action; (b) does not contravene the terms of its organizational documents or any amendment thereof; and (c) will not violate, conflict with or result in any breach or contravention of any of its Contractual Obligations, or any order or decree directly relating to it.

6.2 BINDING EFFECT. This Agreement has been duly executed and delivered by it and this Agreement constitutes its legal, valid and binding obligation, enforceable against it in accordance with its terms, except as enforceability may be limited by applicable bankruptcy, insolvency, or similar laws affecting the enforcement of creditors' rights generally or by equitable principles relating to enforceability.

6.3 NO LEGAL BAR. The execution, delivery and performance of this Agreement by it will not violate any Requirement of Law applicable to it.

6.4 PURCHASE FOR OWN ACCOUNT. The Securities to be acquired by it pursuant to this Agreement are being or will be acquired for its own account and with no intention of distributing or reselling such securities or any part thereof in any transaction that would be in violation of the securities laws of the United States of America, or any state, without prejudice, however, to its right at all times to sell or otherwise dispose of all or any part of the Notes or the Warrants, under an effective registration statement under the Securities Act, or under an exemption from such registration available under the Securities Act, and subject, nevertheless, to the disposition of its property being at all times within its control. If the Purchaser should in the future decide to dispose of any of the Securities, the Purchaser understands and agrees that it may do so only in compliance with the Securities Act and applicable state securities laws, as then in effect. It agrees to the imprinting of a legend on certificates representing all of the Securities to the following effect: "THE SECURITIES REPRESENTED HEREBY HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR THE SECURITIES LAWS OF ANY STATE AND MAY NOT BE SOLD OR OTHERWISE DISPOSED OF EXCEPT PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER SUCH ACT AND APPLICABLE STATE SECURITIES LAWS OR PURSUANT TO AN APPLICABLE EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF SUCH ACT AND SUCH LAWS."

6.5 BROKER'S, FINDER'S OR SIMILAR FEES. There are no brokerage commissions, finder's fees or similar fees or commissions payable in connection with the transactions contemplated hereby based on any agreement, arrangement or understanding with it or any action taken by it.

6.6 GOVERNMENTAL AUTHORIZATION; THIRD PARTY CONSENT. No approval, consent, compliance, exemption, authorization, or other action by, or notice to, or filing with, any Governmental Authority or any other Person in respect of any Requirement of Law, and no lapse of a waiting period under a Requirement of Law, is necessary or required in connection with the execution, delivery or performance by it or enforcement against it of this Agreement or the transactions contemplated hereby.

6.7 PURCHASER STATUS. At the time such Purchaser was offered the Securities, it was, and at the date hereof it is, and on each date on which it converts a Note or exercises a Warrant it will be, an "accredited investor" as defined in Rule 501(a) under the Securities Act. Such Purchaser is not a registered broker-dealer under Section 15 of the Exchange Act.

6.8 ACCESS TO INFORMATION.

Such Purchaser acknowledges that it has reviewed the SEC Reports, the Schedules to this Agreement and other information furnished by the Company, and has been afforded (i) the opportunity to ask such questions as it has deemed necessary of, and to receive answers from, representatives of the Company concerning the terms and conditions of the offering of the Securities and the merits and risks of investing in the Securities; (ii) access to information about the Company and Subsidiaries and their respective financial condition, results of operations, business, properties, management and prospects sufficient to enable it to evaluate its investment; and (iii) the opportunity to obtain such additional information that the Company possesses or can acquire without unreasonable effort or expense that is necessary to make an informed investment decision with respect to the investment.

6.9 CERTAIN TRADING ACTIVITIES.

Such Purchaser has not directly or indirectly, nor has any Person acting on behalf of or pursuant to any understanding with such Investor, engaged in any transactions in the securities of the Company (including, without limitations, any Short Sales involving the Company's securities) since the earlier to occur of (1) the time that such Purchaser was first contacted by or on behalf of the Company regarding an investment in the Company and (2) the 30th day prior to the date of this Agreement. Such Purchaser covenants that neither it nor any Person acting on its behalf or pursuant to any understanding with it will engage in any transactions in the securities of the Company (including Short Sales) prior to the time that the transactions contemplated by this Agreement are publicly disclosed.

6.10 INDEPENDENT INVESTMENT DECISION.

Such Purchaser has independently evaluated the merits of its decision to purchase Securities pursuant to the Transaction Documents. Such Purchaser has not relied on the business or legal advice of the Company or any of its agents, counsel or Affiliates in making its investment decision hereunder, and confirms that none of such Persons has made any representations or warranties to such Purchaser in connection with the transactions contemplated by the Transaction Documents other than as contained therein.

ARTICLE 7

INDEMNIFICATION; EXERCISE OF REMEDIES

7.1 INDEMNIFICATION. In addition to all other sums due hereunder or provided for in this Agreement, the Company agrees to indemnify and hold harmless the Purchasers and their respective Affiliates and each of their respective officers, directors, agents, employees, Subsidiaries, partners, members, attorneys, accountants and controlling persons (each, an "INDEMNIFIED PARTY") to the fullest extent permitted by law from and against any and all

losses, claims, damages, expenses (including, without limitation, reasonable fees, disbursements and other charges of counsel and costs of investigation incurred by an Indemnified Party in any action or proceeding between the Company (or any of its Subsidiaries) and such Indemnified Party (or Indemnified Parties) or between an Indemnified Party (or Indemnified Parties) and any third party or otherwise) or other liabilities, losses, or diminution in value (collectively, "LIABILITIES") resulting from or arising out of any breach of any representation or warranty, covenant or agreement of the Company or any of its Subsidiaries in this Agreement, the Notes, the Warrants, or the other Transaction Documents, including without limitation, the failure to make payment when due of amounts owing pursuant to this Agreement, the Notes, the Warrants, or the other Transaction Documents, on the due date thereof (whether at the scheduled maturity, by acceleration or otherwise) or any legal, administrative or other actions (including, without limitation, actions brought by any of the Purchasers, the Company, any of its Subsidiaries or any holders of equity or indebtedness of the Company or any of its Subsidiaries or derivative actions brought by any Person claiming through or in the Company's or any Subsidiary's name), proceedings or investigations (whether formal or informal), or written threats thereof, based upon, relating to or arising out of the Transaction Documents, the transactions contemplated thereby, or any Indemnified Party's role therein or in the transactions contemplated thereby; provided, however, that the Company shall not be liable under this Section 7.1 to an Indemnified Party: (a) for any amount paid by the Indemnified Party in settlement of claims by the Indemnified Party without the Company's consent (which consent shall not be unreasonably withheld), (b) to the extent that it is finally judicially determined that such Liabilities resulted primarily from the willful misconduct or gross negligence of such Indemnified Party or (c) to the extent that it is finally judicially determined that such Liabilities resulted primarily from the breach by any indemnified Party of any representation, warranty, covenant or other agreement of such Indemnified Party contained in this Agreement; provided, further, that if and to the extent that such indemnification is unenforceable for any reason, the Company shall make the maximum contribution to the payment and satisfaction of such Liabilities which shall be permissible under applicable laws. In connection with the obligation of the Company to indemnify for expenses as set forth above, the Company further agrees, upon presentation of appropriate invoices containing reasonable detail, to reimburse each Indemnified Party for all such expenses (including, without limitation, fees, disbursements and other charges of counsel and costs of investigation incurred by an Indemnified Party in any action or proceeding between the Company (or any of its Subsidiaries) and such Indemnified Party (or Indemnified Parties) or between an Indemnified Party (or Indemnified Parties) and any third party or otherwise) as they are incurred by such Indemnified Party; provided, however, that if an Indemnified Party is reimbursed hereunder for any expenses, such reimbursement of expenses shall be refunded to the extent it is finally judicially determined that the Liabilities in question resulted primarily from (i) the willful misconduct or gross negligence of such Indemnified Party or (ii) the breach by an Indemnified Party of any representation, warranty, covenant or other agreement of such Indemnified Party contained in this Agreement or any other Transaction Document.

7.2 PROCEDURE; NOTIFICATION. Each Indemnified Party under this Article 7 will, promptly after the receipt of notice of the commencement of any action, investigation, claim or other proceeding against such Indemnified Party in respect of which indemnity may be sought from the Company under this Article 7, notify the Company in writing of the commencement thereof. The omission of any Indemnified Party so to notify the Company of any such action shall not relieve the Company from any liability which it may have to such Indemnified Party unless, and only to the extent that, such omission materially and adversely affects the Company's substantive rights or defenses. In case any such action, claim or other proceeding shall be brought against any Indemnified Party and it shall notify the Company of the commencement thereof, the Company shall be entitled to assume the defense thereof at its own expense, with counsel satisfactory to such Indemnified Party in its reasonable judgment; provided, however, that any Indemnified Party may, at its own expense, retain separate counsel to participate in such defense. Notwithstanding the foregoing, in any action, claim or proceeding in which the Company, on the one hand, and an Indemnified Party, on the other hand, is, or is reasonably likely to become, a party, such Indemnified Party shall have the right to employ separate counsel at the Company's expense and to control its own defense of such action, claim or proceeding if, in the reasonable opinion of counsel to such Indemnified Party, a conflict or potential conflict exists between the Company, on the one hand, and

such Indemnified Party, on the other hand, that would make such separate representation advisable. The Company agrees that it will not, without the prior written consent of the BV Funds, settle, compromise or consent to the entry of any judgment in any pending or threatened claim, action or proceeding relating to the matters contemplated hereby (if any Indemnified Party is a party thereto or has been actually threatened to be made a party thereto) unless such settlement, compromise or consent includes an unconditional release of the Purchasers and each other Indemnified Party from all liability arising or that may arise out of such claim, action or proceeding. The Company shall not be liable for any settlement of any claim, action or proceeding effected against an Indemnified Party without its written consent, which consent shall not be unreasonably withheld. The rights accorded to Indemnified Parties hereunder shall be in addition to any rights that any Indemnified Party may have at common law, by separate agreement or otherwise.

7.3 REGISTRATION RIGHTS. Notwithstanding anything to the contrary in this Article 7, the indemnification and contribution provisions of Article 10 shall govern any claim made with respect to registration statements filed pursuant thereto or sales made thereunder.

7.4 EXERCISE OF REMEDIES. For so long as any obligations (the "OBLIGATIONS") under this Agreement, the Notes, the Security Agreement or any of the other Transaction Documents are outstanding, no Purchaser may, without the prior written consent of the BV Funds:

(a) declare, or join in the declaration by any person or entity other than either of the BV Funds, of any Obligations to be due and payable prior to the maturity thereof or otherwise accelerate the maturity of the principal of any Obligations, accrued interest thereon or other amounts due thereunder or with respect thereto; or

25

(b) take any other action against any the Company or any other obligor of the Obligations in connection with the Obligations, including, without limitation, commencing any administrative, legal or equitable action against the Company or any such obligor (including, without limitation, filing and joining in the filing of any insolvency petition against the Company or any such obligor).

ARTICLE 8

AFFIRMATIVE COVENANTS

Until the payment by the Company of all principal of and interest on the Notes and all other amounts due to Purchasers under this Agreement and the other Transaction Documents, including, without limitation, all fees, expenses and amounts due in respect of indemnity obligations under Article 7, the Company hereby covenants and agrees with each of the Purchasers as follows:

8.1 INFORMATION. The Company shall maintain, and cause each of its Subsidiaries to maintain, a system of accounting established and administered in accordance with sound business practices to permit preparation of financial statements in conformity with GAAP. The Company shall deliver to the Purchasers the information described below:

(a) Events of Default, Etc. Promptly upon the Company obtaining knowledge of any of the following events or conditions, the Company shall deliver copies of all notices given or received by the Company or any of its Subsidiaries with respect to any such event or condition and a certificate of the Company's Chief Executive Officer specifying the nature and period of existence of such event or condition and what action the Company has taken, is taking and proposes to take with respect thereto: (i) any condition or event that constitutes a breach of any provision of this Agreement or any other Transaction Document; (ii) any notice that any Person has given to the Company or any Subsidiary, or any other action, taken with respect to a claimed default in any agreement evidencing Indebtedness or any other material agreement to which the Company or any Subsidiary is a party; or (iii) any event or condition that could reasonably be expected to result in any Material Adverse Effect. The Company shall deliver to the Purchasers within thirty (30) days following the last day of each month, a certificate of the Company's Chief Financial Officer stating that to his or her knowledge no Event of Default shall have occurred

during the period covered thereby, except as specified in such certificate.

(b) Other Information. With reasonable promptness, the Company shall deliver such other information and data (including, without limitation, financial information and data) with respect to the Company or any of its Subsidiaries as from time to time may be reasonably requested by the BV Funds.

8.2 RESERVATION OF SHARES. The Company shall at all times reserve and keep available out of its authorized capital stock, solely for the purpose of issuance or delivery upon conversion of the Notes and exercise of the Warrants, the maximum number of shares of capital stock that may be issuable or deliverable upon such conversion or exercise, as the case may be. Such shares of capital stock shall, when issued or delivered in accordance with the Notes and the Warrants, as the case may be, be duly and validly issued and fully paid and non-assessable. The Company shall issue such capital stock in accordance with the provisions of the Notes and the Warrants, as the case may be, and shall otherwise comply, in each case, with the terms thereof.

26

8.3 INSPECTION. The Company will permit, and will cause each of its Subsidiaries to permit, representatives of the BV Funds to visit and inspect any of their properties, to examine their corporate, financial and operating records and make copies thereof or abstracts therefrom, and to discuss their affairs, finances and accounts with their respective directors, officers and independent public accountants, all at such reasonable times during normal business hours and as often as may be reasonably requested, upon reasonable advance notice; provided, however, that no such inspection, examination or inquiry, the failure to conduct same, nor any knowledge of any Purchaser, including, without limitation, any knowledge obtained by any BV Fund in connection with any such inspection, investigation or inquiry, shall constitute a waiver of any rights such Purchaser may have under any representation, warranty, covenant, term or agreement under any of the Transaction Documents. Except as provided in the next sentence, the Company shall bear all of its own costs in connection with the BV Funds' exercise of their rights under this Section 8.3. If the BV Funds' exercise their rights under this Section 8.3 more than once in any twelve-month period, the BV Funds shall, unless the Company is in default of any provision under this Agreement or any of the other Transaction Documents, bear any reasonable charges by the Company's independent public accountants resulting from the exercise of such rights except with respect to the first such exercise in each such twelve-month period.

8.4 PAYMENT OF NOTE. The Company shall pay the principal of, interest on and other amounts due in respect of, the Note on the dates and in the manner provided in the Notes.

8.5 BOOKS AND RECORDS. The Company shall, and shall cause each of its Subsidiaries to, keep proper books of record and account, in which full and correct entries shall be made of all financial transactions and the assets and business of the Company and each of its Subsidiaries in accordance with GAAP consistently applied to the Company and its Subsidiaries taken as a whole. The Company will continue to maintain the Internal Accounting Controls specified in Section 5.27(a).

8.6 USE OF PROCEEDS. The Company shall use the proceeds of the sale of Securities hereunder only as follows: (i) for the payment of fees and expenses in connection with the transactions contemplated hereunder and in the other Transaction Documents, (ii) for the development of Lymphoseek, (iii) repayment of up to \$250,000 in principal amount of the Original Bupp Note, and (iv) for general corporate purposes.

8.7 BOARD NOMINEES; MANAGEMENT RIGHTS.

The Board (or if it then exists, the nominating committee of the Board) shall nominate one independent director, reasonably acceptable to the BV Funds, for election to the Board at each meeting of the stockholders of the Company at which directors are to be elected and shall recommend to such stockholders that they vote in favor of such nominee's election to the Board.

27

ARTICLE 9

NEGATIVE COVENANTS

Until the payment by the Company of all principal of and interest on the Notes and all other amounts due at the time of payment of such principal and interest to the Purchasers under this Agreement and the other Transaction Documents, including, without limitation, all fees, expenses and amounts due at such time in respect of indemnity obligations under Article 7, the Company hereby covenants and agrees with the Purchasers as follows:

9.1 FUNDAMENTAL CHANGES; CONSOLIDATIONS, MERGERS AND ACQUISITIONS. The Company shall not, and shall not permit any of its Subsidiaries directly or indirectly to: (a) amend, modify or waive any term or provision of its Certificate of Incorporation, By-laws or other organizational or governing agreements and documents, unless required by law; (b) enter into any transaction of merger or consolidation; (c) liquidate, wind-up or dissolve itself (or suffer any liquidation or dissolution); or (d) acquire by purchase or otherwise all or any substantial part of the business or assets of any other Person.

9.2 TRANSACTIONS WITH AFFILIATES. Except in the ordinary course of business and consistent with past practices, the Company shall not, and shall not permit any of its Subsidiaries to, (a) enter into any transaction or agreement or other Contractual Obligation with, or make any payment (other than pursuant to agreements existing on the date hereof or subsequently approved by the BV Funds) to, any Affiliate, (b) amend or terminate any existing agreement with any Affiliate, (c) purchase from or provide to an Affiliate any selling, general, management or administrative services, (d) directly or indirectly make any sales to or purchases from an Affiliate or (e) increase the compensation being paid to an Affiliate.

9.3 NO INCONSISTENT AGREEMENTS. None of the Company nor any of its Subsidiaries shall enter into any Contractual Obligation or enter into any amendment or other modification to any currently existing Contractual Obligation of the Company, or any of their Subsidiaries, which by its terms restricts or prohibits the ability of the Company to pay the principal of or interest on the Notes or to fully satisfy all of the obligations under the Transaction Documents of the Company or any of its Subsidiaries.

9.4 LIMITATION ON INDEBTEDNESS. The Company shall not, and shall not cause, suffer or permit any of its Subsidiaries to, directly or indirectly, collectively and in the aggregate, issue, assume or otherwise incur any Indebtedness, other than:

(a) Indebtedness created under this Agreement;

(b) Non-current liabilities for post-employment healthcare and other insurance benefits;

(c) Trade payables and accrued expenses, in each case arising in the ordinary course of business;

(d) Indebtedness secured by a Lien permitted under Section 9.5; and

28

(e) Indebtedness between and/or among the Company and the Subsidiary Guarantors; and

(f) Loans by the Company to Cardiosonix Ltd. in the ordinary course of business consistent with past practices.

9.5 LIMITATION ON LIENS. The Company, will not, and will not permit any of its Subsidiaries, directly or indirectly, to create, incur, assume or permit to exist any Lien on or with respect to any property or asset (including, without limitation, any document or instrument with respect to goods or accounts receivable) of the Company or its Subsidiaries, whether now owned or hereafter acquired, or any income or profits therefrom, except Permitted Encumbrances. "PERMITTED ENCUMBRANCES" means the following:

(a) Liens for Taxes, assessments or other governmental charges which are not yet due and payable or which are being contested in good faith with a

reserve or other appropriate provision having been made therefor;

(b) Liens of landlords, carriers, warehousemen, mechanics, materialmen and other similar liens imposed by law, which are incurred in the ordinary course of business for sums not more than thirty (30) days delinquent or which are being contested in good faith; provided that a reserve or other appropriate provision shall have been made therefor and the aggregate amount of such Liens is less than \$100,000;

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

(d) Deposits in an aggregate amount not to exceed \$100,000, made in the ordinary course of business to secure liability to insurance carriers;

(e) Liens for purchase money obligations to acquire assets; provided that:

(i) each such Lien attaches to such asset concurrently with or within 10 days after acquisition thereof;

(ii) does not exceed the purchase price of such asset; and

(iii) the Indebtedness secured by all such Liens, shall not exceed \$1,000,000; and

(iv) each such Lien encumbers only the asset so purchased;

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

29

(g) Leases or subleases granted to others not interfering in any material respect with the business of the Company or any of its Subsidiaries;

(h) Easements, rights of way, restrictions and other similar charges or encumbrances not interfering in any material respect with the ordinary conduct of the business of the Company or any of its Subsidiaries; and

(i) Liens existing on the date hereof and renewals and extensions thereof, which Liens are set forth on Schedule 9.5 hereto.

9.6 DISPOSITIONS OF ASSETS. The Company will not, and will not permit any of its Subsidiaries, directly or indirectly, to convey, sell (pursuant to a sale/leaseback or otherwise), lease, sublease, transfer or otherwise dispose of, or grant any Person an option to acquire, in one transaction or a series of transactions, any material amount of its property, business or assets, or the capital stock of or other equity interests in any of its Subsidiaries, whether now owned or hereafter acquired, except for:

(a) Bona fide sales of inventory, including, without limitation, real estate acquired in the ordinary course of business, to customers for fair value in the ordinary course of business and dispositions of obsolete equipment not used or useful in the business;

(b) Asset Dispositions if all of the following conditions are met:

(i) the market value of assets sold or otherwise disposed of (by the Company and its Subsidiaries taken as a whole) in any fiscal year do not exceed \$500,000;

(ii) the Net Proceeds received is at least equal to the fair market value of such assets;

(iii) at least 75% of the consideration received is cash;

(iv) after giving effect to the sale or other disposition of the assets included within the Asset Disposition and the repayment of Indebtedness with the proceeds thereof, the Company would be in compliance on a pro forma basis with the covenants set forth in Section 9.8 hereof recomputed for the most recently ended month for which information is available and is in compliance with all other terms and conditions of this Agreement; and

(v) no Event of Default then exists or shall result from such sale or other disposition.

(c) Licenses, assignments or other transfers of Intellectual Property of the Company or Subsidiaries, or rights therein, in connection with cooperative research and development agreements, strategic alliances, or agreements providing for the manufacturing, distribution or sale of products or services of the Company or Subsidiaries.

9.7 LIMITATIONS ON RESTRICTED PAYMENTS. The Company shall not, and shall not permit any of its Subsidiaries to declare, or make any Restricted Payment.

9.8 FINANCIAL COVENANTS. The Company covenants and agrees that until payment in full of all Indebtedness hereunder and under the Notes, the Company shall comply with and shall cause each of its Subsidiaries to comply with all covenants in this Section 9.8 applicable to such Person. Compliance with the covenants in this Section 9.8 shall be determined on a consolidated basis in accordance with GAAP consistently applied, unless explicitly stated otherwise.

(a) Revenues. The Company shall not permit revenues for the Company and its Subsidiaries, on a consolidated basis, for each twelve (12) month period set forth below to be less than the amount set forth below for such period:

Period -----	Amount -----
1/1/05 to and including 12/31/05	\$5,400,000
1/1/06 to and including 12/31/06	\$6,500,000
Each twelve month period thereafter	\$9,000,000

The provisions of this Section 9.8(a) shall terminate upon the earlier to occur of the following: (i) the Company receives an approval letter from the U.S. Food and Drug Administration or the European Medicines Agency to market Lymphoseek or (ii) the Company enters into a partnership or other strategic alliance with another Person who has the resources (financial and otherwise) to actively develop the RIGScan CR technology and such Person agrees to actively develop the RIGScan CR technology and bear 50% of the costs of such development. In addition, compliance with the provisions of this Section 9.8(a) shall not be required with respect to any twelve (12) month period indicated in this Section 9.8(a), if at the end of such period, the Company and its Subsidiaries will have cash and Cash Equivalents greater than \$8,000,000.

(b) Cash and Cash Equivalents. As of the end of each six (6) month period set forth below, the Company and its Subsidiaries will have cash and Cash Equivalents equal to at least the amount set forth below with respect to such period:

Period -----	Amount -----
1/1/05 to and including 6/30/05	\$4,500,000
7/1/05 to and including 12/31/05	\$4,000,000
Each six month period thereafter	\$3,500,000

9.9 CONTINGENT OBLIGATIONS. The Company shall not, nor shall it permit any of their Subsidiaries directly or indirectly to create or become or be liable with respect to any Contingent Obligation except those; (a) resulting from endorsements of negotiable instruments for collection in the ordinary course of business; (b) arising under this Agreement; (c) existing on the Closing Date and

as described in Schedule 9.12 annexed hereto; (d) arising with respect to customary indemnification and purchase price adjustment obligations incurred in connection with any Asset Dispositions; (e) incurred in the ordinary course of business with respect to surety and appeal

31

bonds, performance and return-of-money bonds and similar obligations not exceeding any time outstanding \$50,000 in aggregate liability; (f) incurred with respect to any Indebtedness permitted pursuant to Section 9.4 hereof; (g) not otherwise permitted by clauses (a) through (f) above so long as any such Contingent Obligations, in the aggregate at any time outstanding do not exceed \$50,000.

9.10 PRESS RELEASE; PUBLIC OFFERING MATERIALS. Except as may be required by applicable law or as permitted under Section 11.13, neither the Company nor any of its Affiliates shall, nor shall the Company or any of its Affiliates permit any of their respective Subsidiaries to disclose the name of any BV Fund or any of its Affiliates in any press release or in any prospectus, proxy statement or other materials filed with the governmental entity relating to a public offering of the capital stock or other equity interest of the Company, any of its Affiliates or any of their respective Subsidiaries without such BV Fund's or such Affiliate's prior written consent which shall not be unreasonably withheld.

9.11 NO NEGATIVE PLEDGES. The Company will not, and will not permit any of its Subsidiaries, directly or indirectly to enter into or assume any agreement prohibiting the creation or assumption of any Lien upon its properties or assets, whether now owned or hereafter acquired.

9.12 NO RESTRICTIONS ON SUBSIDIARY DISTRIBUTIONS TO THE COMPANY. Except as otherwise provided herein, the Company will not, and will not permit any of its Subsidiaries, directly or indirectly to create or otherwise cause or suffer to exist or become effective any consensual encumbrance or restriction of any kind on the ability of the Company or any such Subsidiary to: (a) pay dividends or make any other distribution on any of such Subsidiary's capital stock (or equity interest) owned by the Company or any Subsidiary; (b) subject to subordination provisions for the benefit of Purchasers, pay any Indebtedness owed to the Company or any other Subsidiary; (c) make loans or advances to the Company or any other Subsidiary; or (d) transfer any of its property or assets to the Company or any other Subsidiary.

9.13 SALE LEASEBACKS. The Company shall not and shall not cause or permit any of its Subsidiaries to engage in any sale-leaseback, synthetic lease, "off-balance" sheet transaction or similar transaction or financing involving any of its assets.

9.14 TAX ELECTION. The Company will not make any elections to treat the Company as anything other than an association taxable as a corporation for U.S. federal income tax purposes.

9.15 INVESTMENTS. Except in the ordinary course of business and consistent with past practices, the Company shall not, and shall not permit any of its Subsidiaries, directly or indirectly, to make or own any Investment in any Person except: (a) Investments in Cash Equivalents; (b) intercompany loans to the extent permitted under Section 9.2; and (c) loans and advances to employees for moving, entertainment, travel and other similar expenses in the ordinary course of business not to exceed \$ 50,000 in the aggregate at any time outstanding.

32

ARTICLE 10

REGISTRATION COMPLIANCE WITH THE SECURITIES ACT

10.1 REGISTRATION PROCEDURES AND EXPENSES.

(a) The Company shall, as soon as reasonably practicable, but in no event later than thirty (30) days following the Closing Date (the "FILING

DATE"), prepare and file with the Commission a registration statement on Form SB-2 relating to the sale of the shares issuable upon the exercise of the Warrants and the conversion of the Notes (together with any shares of Common Stock issued as a dividend or other distribution with respect to, or in exchange for, or in replacement of, such shares, the "REGISTRABLE SHARES") by the Purchasers from time to time on Nasdaq or the facilities of any national securities exchange or inter-dealer quotation system on which the Common Stock is then traded or in privately negotiated transactions (such registration statement, the "REGISTRATION STATEMENT"). If Form SB-2 is not available at that time, the Company will file a registration statement or such form as is then available to effect a registration of the Registrable Shares, subject to the consent of a majority of the Registrable Shares, which consent shall not be unreasonably withheld.

(b) The Company shall use its best efforts to cause the Commission to declare the Registration Statement effective within ninety (90) calendar days after the Closing Date (the "REQUIRED EFFECTIVE DATE"). However, so long as the Company filed the Registration Statement by the Filing Date, if the Registration Statement receives Commission review, then the Required Effective Date will be the one hundred twentieth (120th) calendar day after the Closing Date. The Company's best efforts will include, but not be limited to, promptly responding to all comments received from the staff of the Commission. If the Company receives notification from the Commission that the Registration Statement will receive no action or review from the Commission, then the Company will, subject to its rights under this Agreement, use its best efforts to cause such Registration Statement to become effective within five (5) business days after such Commission notification.

(c) The Company shall use its best efforts to promptly prepare and file with the Commission such amendments and supplements to the Registration Statement and the prospectus used in connection therewith as may be necessary to keep the Registration Statement effective until the earlier of (i) three years after the Closing Date and (ii) such time as all Registrable Shares have been sold pursuant to the Registration Statement.

(d) The Company shall furnish (i) to each Purchaser with respect to the Registrable Shares by e-mail or other prompt means one copy of the prospectus promptly after effectiveness of the Registration Statement and in any case before the next opening of the principal market for the Registrable Shares and (ii) to each Purchaser with respect to the Registrable Shares (and to each underwriter, if any, of the Registrable Shares) such number of copies of prospectuses and such other documents as such Purchaser may reasonably request within a reasonable time, in order to facilitate the public sale or other disposition of all or any of the Registrable Shares held by the Purchaser.

33

(e) The Company shall file documents required of the Company for normal Blue Sky clearance in states specified in writing by any Purchaser and reasonably acceptable to the Company; provided, however, that the Company shall not be required to (i) qualify to do business in any jurisdiction where it would not otherwise be required to qualify but for this Section 10.1; (ii) subject itself to taxation in any such jurisdiction; (iii) provide any undertakings that cause material expense or burden to the Company; or (iv) make any change to its organizational documents, which in each case the Board determines to be contrary to the best interests of the Company and its stockholders.

(f) The Company shall use its best efforts to cause all Registrable Shares to be listed on each securities exchange or inter-dealer quotation system on which similar securities issued by the Company are then listed or traded, assuming such listing is required to permit transactions in the Registered Securities on such exchange or quotation system.

(g) The Company shall bear all expenses in connection with the procedures in paragraphs (a) through (f) of this Section 10.1 and the registration of the Registrable Shares pursuant to the Registration Statement, including the reasonable fees and expenses of one legal counsel to the Purchasers who shall be selected by the BV Funds ("PURCHASERS' COUNSEL"), but excluding underwriting discounts, brokerage fees and commissions incurred by the Purchasers.

(h) The Company shall promptly notify the Purchasers of the

effectiveness of the Registration Statement, and any post-effective amendments thereto, as well as of the receipt by the Company of any stop orders of the Commission with respect to the Registration Statement and the lifting of any such order.

(i) The Company shall permit Purchasers' Counsel to review the Registration Statement and all amendments and supplements thereto, and any comments made by the staff of the Commission concerning the transactions contemplated by the Registration Statement and the Company's responses thereto, within a reasonable period of time prior to the filing thereof with the Commission (or, in the case of comments made by the staff of the Commission, within a reasonable period of time following the receipt thereof by the Company).

(j) Notwithstanding the foregoing, it shall be a condition precedent to the obligations of the Company to take any action pursuant to paragraphs (a) through (f) of this Section 10.1 with respect to a Purchaser, that such Purchaser shall furnish to the Company such information regarding itself, the Registrable Shares to be sold by the Purchaser, and the intended method of disposition of such Registrable Shares as shall be required to effect the registration of the Registrable Shares, all of which information shall be furnished to the Company in writing specifically for use in the Registration Statement. For purposes of this Article 10, each Purchaser shall be deemed to hold the Registrable Securities held by such Purchaser and all Registrable Securities issuable upon the conversion of any Notes and the exercise of any Warrants held by such Purchaser. Notwithstanding any other provision of this Agreement, the Company may include in any Registration Statement shares issuable upon the exercise of any warrants issued as compensation to the brokers listed on Schedule 5.19.

10.2 TRANSFER OF REGISTRABLE SHARES AFTER REGISTRATION. While a Registration Statement is effective and available for resale, each Purchaser agrees that it will not effect any disposition of the Registrable Shares issued to such Purchaser upon the conversion of the Notes or the exercise of the Warrants that would constitute a sale within the meaning of the Securities Act, except as contemplated in the Registration Statements referred to in Section 10.1 hereof in the section titled "Plan of Distribution" or pursuant to an applicable exemption from registration, the availability of which is confirmed in writing by counsel to such Purchaser (the form, substance and scope of which opinion shall be reasonably acceptable to the Company) and delivered to the Company, and that it will promptly notify the Company of any changes in the information set forth in the Registration Statements regarding such Purchaser or its plan of distribution.

34

10.3 INDEMNIFICATION. For purpose of this Section 10.3, the term "REGISTRATION STATEMENT" shall include any final prospectus, exhibit, supplement or amendment included in or relating to, and any document incorporated by reference in, the Registration Statement referred to in Section 10.1 hereof.

(a) The Company agrees to indemnify and hold harmless each Purchaser and each of such Purchaser's Purchaser Affiliates against any losses, claims, damages, liabilities or expenses, joint or several, to which such Purchaser or Purchaser Affiliate may become subject, under the Securities Act, the Exchange Act, or any other federal or state statutory law or regulation, or at common law or otherwise (including in settlement of any litigation, if such settlement is effected with the written consent of the Company), insofar as such losses, claims, damages, liabilities or expenses (or actions in respect thereof as contemplated below) arise out of or are based upon any untrue statement or alleged untrue statement of any material fact contained in the Registration Statement, including the prospectus, financial statements and schedules, and all other documents filed as a part thereof, as amended at the time of effectiveness of the Registration Statement, including any information deemed to be a part thereof as of the time of effectiveness pursuant to paragraph (b) of Rule 430A, or pursuant to Rule 434, of the Rules and Regulations, or the prospectus, in the form first filed with the Commission pursuant to Rule 424(b) of the Rules and Regulations, or filed as part of the Registration Statement at the time of effectiveness if no Rule 424(b) filing is required, or any amendment or supplement thereto, (a "PROSPECTUS") or arise out of or are based upon the omission or alleged omission to state in any of them a material fact required to be stated therein or necessary to make the statements in the Registration

Statement or Prospectus not misleading in the light of the circumstances under which they were made, or arise out of or are based in whole or in part on any material breach of the representations and warranties of the Company contained in this Agreement, or any material breach by the Company of its obligations hereunder, and will reimburse such Purchaser or Purchaser Affiliate for any legal and other expenses as such expenses are reasonably incurred by such Purchaser or Purchaser Affiliate in connection with investigating, defending, settling, compromising or paying any such loss, claim, damage, liability, expense or action; provided, however, that the Company will not be liable in any such case to the extent, but only to the extent, that any such loss, claim, damage, liability or expense arises out of or is based upon (i) an untrue statement or alleged untrue statement or omission or alleged omission made in a Registration Statement or the Prospectus in reliance upon and in conformity with written information furnished to the Company by or on behalf of such Purchaser expressly for use therein, or (ii) the failure of such Purchaser to comply with the covenants and agreements contained in Section 10.2 or 10.8 hereof respecting the sale of the Registrable Shares, or (iii) the inaccuracy of any representations made by such Purchaser herein or (iv) any statement or omission in any Prospectus that is corrected in any subsequent Prospectus that was delivered to such Purchaser prior to the pertinent sale or sales by such Purchaser.

35

(b) Each Purchaser as to itself will severally, but not jointly, indemnify and hold harmless the Company, each of its directors, each of its officers who signed a Registration Statement and each person, if any, who controls the Company within the meaning of Section 15 of the Securities Act or Section 20 of the Exchange Act, against any losses, claims, damages, liabilities or expenses to which the Company, each of its directors, each of its officers who signed such Registration Statement or controlling person may become subject, under the Securities Act, the Exchange Act, or any other federal or state statutory law or regulation, or at common law or otherwise (including in settlement of any litigation, if such settlement is effected with the written consent of such Purchaser) insofar as such losses, claims, damages, liabilities or expenses (or actions in respect thereof as contemplated below) arise out of or are based upon (i) any failure of such Purchaser to comply with the covenants and agreements contained in Section 10.2 or 10.8 hereof respecting the sale of the Registrable Shares or (ii) any material breach of any representation made by such Purchaser herein or (iii) any untrue or alleged untrue statement of any material fact contained in such Registration Statement, the Prospectus related thereto, or arise out of or are based upon the omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements in such Registration Statement or Prospectus not misleading in the light of the circumstances under which they were made, in each case to the extent, but only to the extent, that such untrue statement or alleged untrue statement or omission or alleged omission was made in such Registration Statement or Prospectus, in reliance upon and in conformity with written information furnished to the Company by such Purchaser expressly for use therein, and such Purchaser will reimburse the Company, each of its directors, each of its officers who signed such Registration Statement or controlling person for any legal and other expense reasonably incurred by the Company, each of its directors, each of its officers who signed such Registration Statement or controlling person in connection with investigating, defending, settling, compromising or paying any such loss, claim, damage, liability, expense or action; provided, however, that the obligations of each Purchaser under this Section 10.3 shall not exceed the net proceeds to such Purchaser from the sale of Registrable Shares pursuant to such Registration Statement.

(c) Promptly after receipt by an indemnified party under this Section 10.3 of notice of the threat or commencement of any action, such indemnified party will, if a claim in respect thereof is to be made against an indemnifying party under this Section 10.3, promptly notify the indemnifying party in writing thereof; but the omission so to notify the indemnifying party will not relieve it from any liability which it may have to any indemnified party for contribution or otherwise under the indemnity agreement contained in this Section 10.3 (except to the extent that such omission materially and adversely affects the indemnifying person's ability to defend such action). Subject to provisions hereinafter stated, in case any such action is brought against any indemnified party and such indemnified party seeks or intends to seek indemnity from an indemnifying party, the indemnifying party will be entitled to participate in, and, to the extent that it may wish, jointly with

all other indemnifying parties similarly notified, to assume the defense thereof with counsel reasonably satisfactory to such indemnified party; provided, however, if the defendants in any such action include both the indemnified party and the indemnifying party, and the indemnifying party and the indemnified party, based upon the

36

advice of such indemnified party's counsel, shall have reasonably concluded that there may be a conflict of interest between the positions of the indemnifying party and the indemnified party in conducting the defense of any such action or that there may be legal defenses available to it and/or other indemnified parties which are different from or additional to those available to the indemnifying party, the indemnified party or parties shall have the right to select separate counsel to assume such legal defenses and to otherwise participate in the defense of such action on behalf of such indemnified party or parties. Upon receipt of notice from the indemnifying party to such indemnified party of its election so to assume the defense of such action and approval by the indemnified party of counsel, the indemnifying party will not be liable to such indemnified party under this Section 10.3 for any legal or other expenses subsequently incurred by such indemnified party in connection with the defense thereof unless (i) the indemnified party shall have employed such counsel in connection with the assumption of legal defenses in accordance with the proviso to the preceding sentence (it being understood, however, that the indemnifying party shall not be liable for the expenses of more than one separate counsel, approved by such indemnifying party, which such approval shall not be unreasonably withheld, in the case of paragraph (a), representing the indemnified parties who are parties to such action (plus local counsel, if appropriate) or (ii) the indemnifying party shall not have employed counsel reasonably satisfactory to the indemnified party to represent the indemnified party within a reasonable time after notice of commencement of action, in each of which cases the reasonable fees and expenses of counsel shall be at the expense of the indemnifying party. In no event shall any indemnifying person be liable in respect of any amounts paid in settlement of any action unless the indemnifying person shall have approved the terms of such settlement, which consent shall not be unreasonably withheld. No indemnifying person shall, without the prior written consent of the indemnified person, effect any settlement of any pending or threatened proceeding in respect of which any indemnified person is or could have been a party and indemnification could have been sought hereunder by such indemnified person, unless such settlement includes an unconditional release of such indemnified person from all liability on claims that are the subject matter of such proceeding.

(d) If the indemnification provided for in this Section 10.3 is required by its terms but is for any reason held to be unavailable to or otherwise insufficient to hold harmless an indemnified party under paragraphs (a), (b) or (c) of this Section 10.3 in respect to any losses, claims, damages, liabilities or expenses referred to herein, then each applicable indemnifying party shall contribute to the amount paid or payable by such indemnified party as a result of any losses, claims, damages, liabilities or expenses referred to herein (i) in such proportion as is appropriate to reflect the relative benefits received by the Company and the Purchasers from the placement of the Common Stock contemplated by this Agreement or (ii) if the allocation provided by clause (i) above is not permitted by applicable law, in such proportion as is appropriate to reflect not only the relative benefits referred to in clause (i) above but the relative fault of the Company and the Purchasers in connection with the statements or omissions or inaccuracies in the representations and warranties in this Agreement that resulted in such losses, claims, damages, liabilities or expenses, as well as any other relevant equitable considerations. The relative benefits received by the Company on the one hand and a Purchaser on the other shall be deemed to be in the same proportion as the total consideration paid by such Purchaser to the Company pursuant to this Agreement and the other Transaction Documents for the Registrable Shares acquired by such Purchaser that were sold pursuant to the relevant Registration Statement bears to the difference (the "DIFFERENCE") between the amount such

37

Purchaser paid for the Registrable Shares that were sold pursuant to such Registration Statement and the amount received by such Purchaser from such sale. The relative fault of the Company on the one hand and a Purchaser on the other

shall be determined by reference to, among other things, whether the untrue or alleged statement of a material fact or the omission or alleged omission to state a material fact or the inaccurate or the alleged inaccurate representation and/or warranty relates to information supplied by the Company or by such Purchaser and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such untrue statement or omission. The amount paid or payable by a party as a result of the losses, claims, damages, liabilities and expenses referred to above shall be deemed to include, subject to the limitations set forth in paragraph (c) of this Section 10.3, any legal or other fees or expenses reasonably incurred by such party in connection with investigating or defending any action or claim. The provisions set forth in paragraph (c) of this Section 10.3 with respect to the notice of the threat or commencement of any threat or action shall apply if a claim for contribution is to be made under this paragraph (d); provided, however, that no additional notice shall be required with respect to any threat or action for which notice has been given under paragraph (c) for purposes of indemnification. The Company and the Purchasers agree that it would not be just and equitable if contribution pursuant to this Section 10.3 were determined solely by pro rata allocation (even if the Purchasers were treated as one entity for such purpose) or by any other method of allocation which does not take account of the equitable considerations referred to in this paragraph. Notwithstanding the provisions of this Section 10.3, no Purchaser shall be required to contribute any amount in excess of the amount by which the Difference exceeds the amount of any damages which such Purchaser has otherwise been required to pay by reason of such untrue or alleged untrue statement or omission or alleged omission. No person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Securities Act) shall be entitled to contribution from any person who was not guilty of such fraudulent misrepresentation. The Purchasers' obligation to contribute pursuant to this Section 10.3 is several and not joint.

(e) Each Purchaser hereby acknowledges that it is a sophisticated business Person who was represented by counsel during the negotiations regarding the provisions hereof including, without limitation, the provisions of this Section 10.3, and is fully informed regarding said provisions. Each of the Company and the Purchasers are advised that federal or state public policy as interpreted by the courts in certain jurisdictions may be contrary to certain of the provisions of this Section 10.3, and each of the Company and the Purchasers hereby expressly waive and relinquish any right or ability to assert such public policy as a defense to a claim under this Section 10.3 and further agrees not to attempt to assert any such defense.

10.4 TERMINATION OF CONDITIONS AND OBLIGATIONS. The conditions precedent imposed by this Article 10 upon the transferability of the Registrable Shares held by a Purchaser shall cease and terminate as to any particular number of the Registrable Shares upon the earliest to occur of (i) the sale of such Registrable Shares pursuant to a Registration Statement, (ii) the sale of such Registrable Shares pursuant to Rule 144 under the Securities Act or (iii) at such time as an opinion of counsel reasonably satisfactory in form and substance to the Company and such Purchaser shall have been rendered to the effect that such conditions are not necessary in order to comply with the Securities Act.

10.5 INFORMATION AVAILABLE. As long as any Purchaser holds any Registrable Shares and the Company is subject to the filing requirements of the Exchange Act, the Company covenants to timely file (or obtain extensions in respect thereof and file within the applicable grace period) all reports required to be filed by the Company after the date hereof pursuant to the Exchange Act. So long as a Registration Statement is effective covering the resale of Registrable Shares held by any Purchaser, the Company will furnish to the Purchaser upon such Purchaser's request:

(a) as soon as practicable after available (but in the case of the Company's Annual Report to Stockholders, concurrently with delivery to its shareholders generally) one copy of (i) its Annual Report to Stockholders (which Annual Report shall contain financial statements audited in accordance with U.S. generally accepted accounting principles by a nationally recognized firm of certified public accountants), (ii) if not included in substance in the Annual Report to Stockholders, upon the request of any Purchaser, its Annual Report on Form 10-K or 10-KSB, (iii) upon the request of any Purchaser, its Quarterly Reports on Form 10-Q or 10-QSB, (iv) upon the request of any Purchaser, its Current Reports on Form 8-K, and (v) a full copy of the particular Registration

Statement covering the Registrable Shares (the foregoing, in each case, excluding exhibits);

(b) all exhibits excluded by the parenthetical to subparagraph (a)(v) of this Section 10.5; and

(c) upon the reasonable request of any Purchaser, a reasonable number of copies of the prospectuses and supplements thereto to supply to any other party requiring such prospectuses and supplements.

10.6 ASSIGNMENT OF REGISTRATION RIGHTS. The rights of each Purchaser hereunder, including the right to have the Company register the Registrable Shares pursuant to this Agreement, will be automatically assigned by such Purchaser to transferees or assignees of the Registrable Shares, but only if (a) such Purchaser agrees in writing with the transferee or assignee to assign such rights, and a copy of such agreement is furnished to the Company within a reasonable time after such assignment, (b) the Company is, within a reasonable time after such transfer or assignment, furnished with written notice of the name and address of such transferee or assignee and the Registrable Shares with respect to which such registration rights are being transferred or assigned, (c) after such transfer or assignment, the further disposition of such Registrable Shares by the transferee or assignee is restricted under the Securities Act and applicable state securities laws, (d) at or before the time the Company received the written notice contemplated by clause (b) of this sentence, the transferee or assignee agrees in writing with the Company to be bound by all of the provisions contained herein, (e) the transferee is an "accredited investor" as that term is defined in Rule 501 of Regulation D, and (f) the transfer of Registrable Shares is made in accordance with the provisions of Section 10.2 and Section 10.8 hereof.

10.7 DELAY IN FILING OR EFFECTIVENESS OF REGISTRATION STATEMENT. If a Registration Statement is not filed by the Company with the Commission on or prior to the Filing Date, then for each day following the Filing Date, until but excluding the date such Registration Statement is filed, or if such Registration Statement is not declared effective by the Commission by the Required Effective Date, then for each day following the relevant Required Effective Date, until but excluding the date the Commission declares such Registration Statement effective, the

39

Company shall, for each such day, pay each Purchaser with respect to any such failure, as liquidated damages and not as a penalty, an amount equal to 0.0667% of the total consideration paid by such Purchaser for its Registrable Shares covered by such Registration Statement pursuant to this Agreement; and for any such day, such payment shall be made no later than the first business day of the calendar month next succeeding the month in which such day occurs. If such Purchaser shall be prohibited from selling Registrable Shares under a Registration Statement as a result of a Suspension of more than thirty (30) days or Suspensions on more than two (2) occasions of not more than thirty (30) days each in any 12-month period, then for each day on which a Suspension is in effect that exceeds the maximum allowed period for a Suspension or Suspensions, but not including any day on which a Suspension is lifted, the Company shall pay such Purchaser, as liquidated damages and not as a penalty, an amount equal to 0.0667% of the total consideration paid by such Purchaser for its Registrable Shares covered by such Registration Statement pursuant to this Agreement for each such day, and such payment shall be made no later than the first business day of the calendar month next succeeding the month in which such day occurs. For purposes of this Section 10.7, a Suspension shall be deemed lifted on the date that notice that the Suspension has been lifted is delivered to the Purchasers pursuant to Section 11.2 of this Agreement. Any payments made pursuant to this Section 10.7 shall not constitute the Purchasers' exclusive remedy for such events. Notwithstanding the foregoing provisions, in no event shall the Company be obligated to pay such liquidated damages to more than one Purchaser in respect of the same Registrable Shares for the same period of time. The liquidated damage payments imposed hereunder shall be made to the Purchaser in cash.

10.8 SUSPENSION. Each Purchaser hereby covenants as to itself severally, but not jointly, with the Company not to make any sale of the Registrable Shares under the Registration Statement without effectively causing the prospectus delivery requirement under the Securities Act to be satisfied. Each Purchaser

acknowledges that there may occasionally be times when the Company must suspend the use of the prospectus forming a part of the Registration Statement (a "SUSPENSION") until such time as an amendment to the Registration Statement has been filed by the Company and declared effective by the Commission, or such time as such prospectus has been supplemented, or until such time as the Company has filed an appropriate report with the Commission pursuant to the Exchange Act. Each Purchaser hereby covenants as to itself severally, but not jointly, that it will not sell any Registrable Shares pursuant to such prospectus during the period commencing at the time at which it receives written notice of the Suspension of the use of such prospectus (without providing any other material information other than at the written request of such Purchaser) and ending at the time the Company gives such Purchaser written notice that such Purchaser may thereafter effect sales pursuant to such prospectus. The Company shall not, and shall use commercially reasonable efforts to cause each of its officers, directors, employees and agents not to, provide such Purchaser with any material nonpublic information regarding the Company other than the notice of the Suspension, with no other information, without the express written consent of such Purchaser. The Purchasers shall not be prohibited from selling Registrable Shares under the Registration Statement as a result of Suspensions on more than two (2) occasions of not more than thirty (30) days each in any 12-month period, unless, in the good faith judgment of the Board following the written advice of counsel, the sale of Registrable Shares under the Registration Statement in reliance on this paragraph would be reasonably likely to cause a violation of the Securities Act or the Exchange Act; provided that the Company shall remain liable for liquidated damages pursuant to Section 10.7 hereof with respect to any Suspensions exceeding the aforementioned two permitted 30-day Suspensions in any 12-month period.

40

ARTICLE 11

MISCELLANEOUS

11.1 SURVIVAL OF REPRESENTATIONS AND WARRANTIES. All of the representations and warranties made herein shall survive the execution and delivery of this Agreement, any investigation by or on behalf of any Purchaser, acceptance of the Securities and payment therefor, or termination of this Agreement.

11.2 NOTICES. All notices, demands and other communications provided for or permitted hereunder shall be made in writing and shall be by registered or certified first-class mail, return receipt requested, telecopier (with receipt confirmed), courier service or personal delivery:

(a) if to BVF or BOVF:

c/o Great Point Partners LLC
2 Pickwick Plaza, Suite 450
Greenwich, CT 06830
Telecopier No.: (203) 552-1724
Attention: David E. Kroin

with a copy to:

Morrison Cohen LLP
909 Third Avenue
New York, New York 10022
Telecopier No.: (212) 735-8708
Attention: David A. Scherl, Esq.

(b) if to Bupp:

c/o Neoprobe Corporation
425 Metro Place North, Suite 300
Dublin, Ohio 43017-1367
Telecopier No.: (614) 793-7520
Attention: David C. Bupp, Chief Executive
Officer and President

(c) if to the Company:

Neoprobe Corporation
425 Metro Place North, Suite 300
Dublin, Ohio 43017-1367
Telecopier No.: (614) 793-7520
Attention: Brent L. Larson, Vice President
- Finance and Chief Financial Officer

41

with a copy to:

Porter, Wright, Morris & Arthur, LLP
41 South High Street, Suite 2800
Columbus, Ohio 43215
Telecopier No.: (614) 227-2100
Attention: William J. Kelly, Jr., Esq.

All such notices and communications shall be deemed to have been duly given: when delivered by hand, if personally delivered; when delivered by courier, if delivered by commercial overnight courier service; if mailed, five Business Days after being deposited in the mail, postage prepaid; or if telecopied, when receipt is acknowledged.

11.3 SUCCESSORS AND ASSIGNS. This Agreement shall inure to the benefit of and be binding upon the successors and permitted assigns of the parties hereto. Subject to applicable securities laws and any restrictions contained herein, each Purchaser may assign any of its respective rights under any of the Transaction Documents to any Person and any holder of a Note, a Warrant or any Common Stock issuable upon conversion of any Note or the exercise of any Warrant may assign, in whole or in part, the Note, the Warrant or such Common Stock to any Person. The Company may not assign any of its rights, or delegate any of its obligations, under this Agreement without the prior written consent of the BV Funds, and any such purported assignment by the Company without the written consent of the BV Funds shall be void and of no effect. Except as provided in Article 7, no Person other than the parties hereto and their successors and permitted assigns is intended to be a beneficiary of any of the Transaction Documents.

11.4 AMENDMENT AND WAIVER.

(a) No failure or delay on the part of any of the parties hereto in exercising any right, power or remedy hereunder shall operate as a waiver thereof, nor shall any single or partial exercise of any such right, power or remedy preclude any other or further exercise thereof or the exercise of any other right, power or remedy. The remedies provided for in this Agreement are cumulative and are not exclusive of any remedies that may be available to the parties hereto at law, in equity or otherwise.

(b) Any amendment, supplement or modification of or to any provision of this Agreement, any waiver of any provision of this Agreement or any of the other Transaction Documents, and any consent to any departure by any party from the terms of any provision of this Agreement or any of the other Transaction Documents, shall be effective: (i) only if it is made or given in writing and signed by the Company and the BV Funds; provided, however, that any such proposed amendment, supplement, modification, or waiver that materially adversely

42

affects Bupp in a manner different from the BV Funds shall require the consent of Bupp; and (ii) only in the specific instance and for the specific purpose for which made or given. No amendment, supplement or modification of or to any provision of this Agreement or any of the other Transaction Documents, or any waiver of any such provision or consent to any departure by any party from the terms of any such provision may be made orally. Except where notice is specifically required by this Agreement, no notice to or demand on the Company in any case shall entitle the Company to any other or further notice or demand in similar or other circumstances.

11.5 SIGNATURES; COUNTERPARTS. Telefacsimile transmissions of any executed

original document and/or retransmission of any executed telefacsimile transmission shall be deemed to be the same as the delivery of an executed original. At the request of any party hereto, the other parties hereto shall confirm telefacsimile transmissions by executing duplicate original documents and delivering the same to the requesting party or parties. This Agreement may be executed in any number of counterparts and by the parties hereto in separate counterparts, each of which when so executed shall be deemed to be an original and all of which taken together shall constitute one and the same agreement.

11.6 HEADINGS. The headings in this Agreement are for convenience of reference only and shall not limit or otherwise affect the meaning hereof.

11.7 GOVERNING LAW. THIS AGREEMENT SHALL BE GOVERNED BY, CONSTRUED IN ACCORDANCE WITH, AND ENFORCED UNDER, THE LAW OF THE STATE OF NEW YORK APPLICABLE TO AGREEMENTS OR INSTRUMENTS ENTERED INTO AND PERFORMED ENTIRELY WITHIN SUCH STATE EXCEPT TO THE EXTENT THAT THE GENERAL CORPORATIONS LAW OF THE STATE OF DELAWARE SHALL APPLY.

11.8 JURISDICTION, JURY TRIAL WAIVER, ETC.

(a) EACH PARTY TO THIS AGREEMENT HEREBY IRREVOCABLY AGREES THAT THE ANY LEGAL ACTION OR PROCEEDING ARISING OUT OF OR RELATING TO THIS AGREEMENT, THE NOTES, THE WARRANTS OR ANY AGREEMENTS OR TRANSACTIONS CONTEMPLATED HEREBY OR THEREBY MAY BE BROUGHT IN THE COURTS OF THE STATE OF NEW YORK OR OF THE UNITED STATES OF AMERICA FOR THE SOUTHERN DISTRICT OF NEW YORK AND HEREBY EXPRESSLY SUBMITS TO THE PERSONAL JURISDICTION AND VENUE OF SUCH COURTS FOR THE PURPOSES THEREOF AND EXPRESSLY WAIVES ANY CLAIM OF IMPROPER VENUE AND ANY CLAIM THAT SUCH COURTS ARE AN INCONVENIENT FORUM. EACH PARTY HEREBY IRREVOCABLY CONSENTS TO THE SERVICE OF PROCESS OF ANY OF THE AFOREMENTIONED COURTS IN ANY SUCH SUIT, ACTION OR PROCEEDING BY THE MAILING OF COPIES THEREOF BY REGISTERED OR CERTIFIED MAIL, POSTAGE PREPAID, TO ITS ADDRESS SET FORTH IN SECTION 11.2, SUCH SERVICE TO BECOME EFFECTIVE 10 DAYS AFTER SUCH MAILING.

(b) EACH OF THE COMPANY AND ITS SUBSIDIARIES HEREBY WAIVES ITS RIGHT TO A JURY TRIAL WITH RESPECT TO ANY ACTION OR CLAIM

43

ARISING OUT OF ANY DISPUTE IN CONNECTION WITH THIS AGREEMENT, THE NOTES, THE WARRANTS OR ANY OF THE OTHER TRANSACTION DOCUMENTS, ANY RIGHTS OR OBLIGATIONS HEREUNDER OR THEREUNDER OR THE PERFORMANCE OF SUCH RIGHTS AND OBLIGATIONS. EACH OF THE COMPANY AND ITS SUBSIDIARIES (I) CERTIFIES THAT NO REPRESENTATIVE, AGENT OR ATTORNEY OF ANY PURCHASER HAS REPRESENTED, EXPRESSLY OR OTHERWISE, THAT SUCH PURCHASER WOULD NOT, IN THE EVENT OF LITIGATION, SEEK TO ENFORCE THE FOREGOING WAIVERS AND (II) ACKNOWLEDGES THAT EACH PURCHASER HAS BEEN INDUCED TO ENTER INTO THIS AGREEMENT, AND THE OTHER TRANSACTION DOCUMENTS TO WHICH IT IS A PARTY BY, AMONG OTHER THINGS, THE WAIVERS AND CERTIFICATIONS CONTAINED HEREIN.

11.9 SEVERABILITY. If any one or more of the provisions contained in this Agreement, or the application thereof in any circumstance, is held invalid, illegal or unenforceable in any respect for any reason, the validity, legality and enforceability of any such provision in every other respect and of the remaining provisions hereof shall not be in any way impaired, unless the provisions held invalid, illegal or unenforceable shall substantially impair the benefits of the remaining provisions of this Agreement. The parties hereto further agree to replace such invalid, illegal or unenforceable provision of this Agreement with a valid, legal and enforceable provision that will achieve, to the extent possible, the economic, business and other purposes of such invalid, illegal or unenforceable provision.

11.10 RULES OF CONSTRUCTION. Unless the context otherwise requires, "or" is not exclusive, and references to sections or subsections refer to sections or subsections of this Agreement.

11.11 ENTIRE AGREEMENT. This Agreement, together with the exhibits and schedules hereto and the other Transaction Documents, is intended by the parties as a final expression of their agreement and intended to be a complete and exclusive statement of the agreement and understanding of the parties hereto in respect of the subject matter contained herein and therein. There are no restrictions, promises, warranties or undertakings, other than those set forth or referred to herein or therein. This Agreement, together with the exhibits and schedules hereto, and the other Transaction Documents supersede all prior

agreements and understandings between the parties with respect to such subject matter.

11.12 CERTAIN EXPENSES. The Company will pay all expenses of the Purchasers (including, without limitation, fees, charges and disbursements of counsel) in connection with this Agreement and any amendment, supplement, modification or waiver of or to any provision of this Agreement or any of the other Transaction Documents or any documents relating thereto (including, without limitation, a response to a request by the Company for the Purchasers' consent to any action otherwise prohibited hereunder or thereunder), or consent to any departure from, the terms of any provision of this Agreement or such other documents.

11.13 8-K FILING AND PUBLICITY. As soon as practicable following the Closing but in no event later than 8:30 a.m. EST on the day following the Closing, the Company shall file a Current Report on Form 8-K with the Commission describing the terms of the transactions contemplated by this Agreement and attaching this Agreement and the press release referred to below as exhibits to such filing (the "8-K FILING"). Except as may be required by applicable law, neither the Company nor any Purchaser shall issue any press releases or any other public statements with respect to the transactions contemplated by this Agreement; provided, however, that the Company shall be entitled, without the prior approval of any Purchaser, to issue any press release or make any other public disclosure (including a press release (concerning the offering of the Securities) pursuant to Rule 135(c) under the Securities Act) with respect to such transactions (i) in substantial conformity with the 8-K Filing, and, provided further, that no such release may identify a Purchaser unless such Purchaser has consented thereto in writing, or as required by law.

44

11.14 FURTHER ASSURANCES. Each of the parties shall execute such documents and perform such further acts (including, without limitation, obtaining any consents, exemptions, authorizations, or other actions by, or giving any notices to, or making any filings with, any Governmental Authority or any other Person) as may be reasonably required or desirable to carry out or to perform the provisions of this Agreement, including, without limitation, any post-closing assignment(s) by any Purchaser of a portion of the Securities to a Person not currently a party hereto.

11.15 OBLIGATIONS OF THE PURCHASERS. Each Purchaser's obligations and the obligations of the Company hereunder are subject to the execution and delivery of this Agreement by the other Purchasers. The obligations of each Purchaser shall be several and not joint and no Purchaser shall be liable or responsible for the acts or omissions of any other Purchaser.

11.16 NO STRICT CONSTRUCTION. The parties hereto have participated jointly in the negotiation and drafting of this Agreement and the other Transaction Documents. In the event an ambiguity or question of intent or interpretation arises under any provision of this Agreement or any Transaction Document, this Agreement or such other Transaction Document shall be construed as if drafted jointly by the parties thereto, and no presumption or burden of proof shall arise favoring or disfavoring any party by virtue of the authorship of any of the provisions of this Agreement or any other Transaction Document. No knowledge of, or investigation, including without limitation, due diligence investigation, conducted by, or on behalf of, any Purchaser shall limit, modify or affect the representations set forth in Article 5 of this Agreement or the right of any Purchaser to rely thereon.

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45

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed and delivered by as of the date first above written.

NEOPROBE CORPORATION

By: /s/ Brent L. Larson

Name: Brent L. Larson
Title: VP Finance / CFO

BIOMEDICAL VALUE FUND, L.P.

By: GREAT POINT GP, LLC,
its general partner

By: /s/ David E. Kroin

Name: David E. Kroin
Title: Managing Director

BIOMEDICAL OFF SHORE VALUE
FUND, LTD.

By: GREAT POINT PARTNERS, LLC,
its investment manager

By: /s/ David E. Kroin

Name: David E. Kroin
Title: Managing Director

/s/ David C. Bupp

DAVID C. BUPP

[SIGNATURE PAGE TO SECURITIES PURCHASE AGREEMENT]

EXHIBIT A

FORM OF 8% SERIES A CONVERTIBLE NOTE

A-1

EXHIBIT B

FORM OF WARRANT

B-1

EXHIBIT C

FORM OF SECURITY AGREEMENT

C-1

EXHIBIT 10.2

[FORM OF NOTE]

THIS NOTE HAS NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR THE SECURITIES LAWS OF ANY STATE AND MAY NOT BE SOLD, TRANSFERRED, OR OTHERWISE DISPOSED OF EXCEPT PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER SUCH ACT AND APPLICABLE STATE SECURITIES LAWS OR PURSUANT TO AN APPLICABLE EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF SUCH ACT AND SUCH LAWS

NEOPROBE CORPORATION

8% SERIES A CONVERTIBLE PROMISSORY NOTE
DUE DECEMBER 12, 2008

\$

December 13, 2004

FOR VALUE RECEIVED, the undersigned, NEOPROBE CORPORATION, a Delaware corporation (the "BORROWER"), hereby promises to pay to the order of _____ ("_____"), a _____, or its registered assigns (the "HOLDER"), the principal sum of _____ DOLLARS (\$_____) on December 12, 2008 (the "MATURITY DATE"), with interest thereon from time to time as provided herein.

1. PURCHASE AGREEMENT. This Convertible Promissory Note (the "NOTE") is issued by the Borrower, on the date hereof, pursuant to the Securities Purchase Agreement (the "PURCHASE AGREEMENT"), dated as of December 13, 2004 by and among the Borrower, Biomedical Value Fund, L.P., Biomedical Offshore Value Fund, Ltd. and David C. Bupp, and is subject to the terms thereof. This Note, together with all other promissory notes issued under the Purchase Agreement, and all promissory notes issued pursuant to paragraph 12 hereof or thereof are hereinafter referred to as the "NOTES." The obligations of Borrower under this Note are secured pursuant to a Security Agreement dated December 13, 2004 by and among the Borrower, Biomedical Value Fund, L.P., Biomedical Offshore Value Fund, Ltd. and David C. Bupp. The Holder is entitled to the benefits of this Note and the Purchase Agreement, as it relates to the Note and the Security Agreement, and may enforce the agreements of the Borrower contained herein and therein and exercise the remedies provided for hereby and thereby or otherwise available in respect hereto and thereto. Capitalized terms used herein without definition are used herein with the meanings ascribed to such terms in the Purchase Agreement.

2. INTEREST.

(a) BASIC INTEREST.

(i) The Borrower promises to pay interest on the principal amount of this Note at the rate of 8% per annum. The Borrower shall pay accrued interest quarterly on each March 31, June 30, September 30 and December 31 of each year or, if any such date shall not be a Business Day, on the next succeeding Business Day to occur after such date (each date upon which interest shall be so payable, an "INTEREST PAYMENT DATE"), beginning on December 31, 2004. Interest on this Note shall be paid by wire transfer of immediately available funds to an account at a bank designated in writing by the Holder. In the absence of any such written designation, any such Interest payment shall be deemed made on the date a check in the applicable amount payable to the order of Holder is received by the Holder at its last address as reflected in Borrower's note register; if no such address appears, then to such Holder in care of the last address in such note register of any predecessor holder of this Note (or its predecessor). Interest on this Note shall accrue from and including the date of issuance through and until repayment of the principal and payment of all accrued interest in full. Interest shall accrue and be computed on the basis of a 360-day year of twelve 30-day months.

(ii) The foregoing to the contrary notwithstanding, interest

payable on any Interest Payment Date may, at Borrower's election, be accrued and not paid by the Borrower on such Interest Payment Date and the aggregate of such amount so accrued shall be added to the principal sum hereof on such Interest Payment Date as additional principal (the "ADDITIONAL PRINCIPAL") to be paid in accordance with the provisions of Section 3 hereinbelow. Interest shall accrue and be payable on the outstanding balance of the Additional Principal as set forth in the first sentence of this Section 2(a)(i).

(b) DEFAULT RATE OF INTEREST. Except with respect to interest accruing pursuant to Section 2(a)(ii), but subject to applicable law, any overdue principal of and overdue interest on this Note shall bear interest, payable on demand in immediately available funds, for each day from the date payment thereof was due to the date of actual payment, at a rate equal to the rate of interest otherwise in effect pursuant to the first sentence of this Section 2 plus 2% per annum, and, upon and during the occurrence of an Event of Default (as hereinafter defined), this Note shall bear interest, from the date of the occurrence of such Event of Default until such Event of Default is cured or waived, payable on demand in immediately available funds, at a rate equal to the rate of interest otherwise in effect pursuant to the first sentence of this Section 2 plus 2% per annum. Subject to applicable law, any interest that shall accrue on overdue interest on this Note as provided in the preceding sentence and shall not have been paid in full on or before the next Interest Payment Date to occur after the Interest Payment Date on which the overdue interest became due and payable shall itself be deemed to be overdue interest on this Note to which the preceding sentence shall apply.

2

(c) NO USURIOUS INTEREST. In the event that any interest rate provided for herein shall be determined to be unlawful, such interest rate shall be computed at the highest rate permitted by applicable law. Any payment by the Borrower of any interest amount in excess of that permitted by law shall be considered a mistake, with the excess being applied to the principal of this Note without prepayment premium or penalty; if no such principal amount is outstanding, such excess shall be returned to Borrower.

3. PRINCIPAL PAYMENT. The principal amount of this Note, including any Additional Principal (such total amount, the "TOTAL PRINCIPAL AMOUNT") shall be due and payable on the Maturity Date.

4. OPTIONAL PREPAYMENT. This Note may not be prepaid in whole or in part.

5. AMENDMENT. Any amendment, supplement or modification of or to any provision of this Note, any waiver of any provision of this Note, and any consent to any departure by any party from the terms of any provision of this Note, may be made only in the manner provided in Section 11.4 of the Purchase Agreement, and then such amendment, supplement, modification, waiver or consent shall be effective only in the specific instance and for the specific purpose for which given.

6. DEFAULTS AND REMEDIES.

(a) EVENTS OF DEFAULT. An "Event of Default" shall occur if:

(i) the Borrower shall default in the payment of the principal of this Note, when and as the same shall become due and payable, whether at maturity or at a date fixed for prepayment or by acceleration or otherwise; or

(ii) the Borrower shall default in the payment of any installment of interest on this Note according to its terms, when and as the same shall become due and payable and such default shall continue for a period of 5 business days; or

(iii) the Borrower shall default in the due observance or performance of any covenant to be observed or performed pursuant to Article 9 of the Purchase Agreement; or

(iv) the Borrower or any of its subsidiaries shall default in the due observance or performance of any other covenant, condition or agreement on the part of the Borrower or any of its subsidiaries

to be observed or performed pursuant to the terms hereof or pursuant to the terms of the Purchase Agreement or any of the Transaction Documents (other than those referred to in clauses (i), (ii) or (iii) of this Section 6(a)), and such default shall continue for 30 days after the earliest of (A) the date the Borrower is required pursuant to the Transaction Documents or otherwise to give notice thereof to the Holder (whether or not such notice is actually given) or (B) the date of written notice thereof, specifying such default and, if such default is capable of being remedied, requesting that the same be remedied, shall have been given to the Borrower by the Holder; or

3

(v) any representation, warranty or certification made by or on behalf of the Borrower or any of its subsidiaries in the Purchase Agreement, this Note, the Transaction Documents or in any certificate or other document delivered pursuant hereto or thereto shall have been incorrect in any material respect when made; or

(vi) any event or condition shall occur that results in (A) the acceleration of the maturity of any Indebtedness of the Borrower or any of its subsidiaries, or (B) a default of any Indebtedness of the Borrower or any of its subsidiaries, which continues beyond any applicable period of cure and which would permit the holder to accelerate (automatically or upon notice and declaration) such Indebtedness, in either case in a principal amount aggregating \$100,000 or more; or

(vii) any uninsured damage to or loss, theft or destruction of any assets of the Borrower or any of its subsidiaries shall occur that is in excess of \$150,000; or

(viii) an involuntary proceeding shall be commenced or an involuntary petition shall be filed in a court of competent jurisdiction seeking (a) relief in respect of the Borrower or any of its subsidiaries, or of a substantial part of its property or assets, under Title 11 of the United States Code, as now constituted or hereafter amended, or any other Federal or state bankruptcy, insolvency, receivership or similar law, (b) the appointment of a receiver, trustee, custodian, sequestrator, conservator or similar official for the Borrower or any of its subsidiaries, or for a substantial part of its property or assets, or (c) the winding up or liquidation of the Borrower or any of its subsidiaries; and such proceeding or petition shall continue undismissed for 60 days, or an order or decree approving or ordering any of the foregoing shall be entered; or

(ix) the Borrower or any of its subsidiaries shall (a) voluntarily commence any proceeding or file any petition seeking relief under Title 11 of the United States Code, as now constituted or hereafter amended, or any other Federal or state bankruptcy, insolvency, receivership or similar law, (b) consent to the institution of, or fail to contest in a timely and appropriate manner, any proceeding or the filing of any petition described in paragraph (viii) of this Section 6(a), (c) apply for or consent to the appointment of a receiver, trustee, custodian, sequestrator, conservator or similar official for the Borrower or any of its subsidiaries, or for a substantial part of their property or assets, (d) file an answer admitting the material allegations of a petition filed against it in any such proceeding, (e) make a general assignment for the benefit of creditors, (f) become unable, admit in writing its inability or fail generally to pay its debts as they become due or (g) take any action for the purpose of effecting any of the foregoing; or

(x) one or more judgments for the payment of money in an aggregate amount in excess of \$150,000 (to the extent not covered by insurance) shall be rendered against the Borrower or any of its subsidiaries and the same shall remain undischarged for a period of 30 consecutive days during which execution shall not be effectively stayed, or any action shall be legally taken by a judgment creditor

to levy upon assets or properties of the Borrower or any of its subsidiaries to enforce any such judgment.

4

(b) ACCELERATION. If an Event of Default occurs under Section 6(a)(viii) or (ix), then the outstanding principal of and all accrued interest on this Note shall automatically become immediately due and payable, without presentment, demand, protest or notice of any kind, all of which are hereby expressly waived. If any other Event of Default occurs and is continuing the Holder, by written notice to the Borrower, may declare the principal of and accrued interest on this Note to be immediately due and payable. Upon such declaration, such principal and interest shall become immediately due and payable. The Holder may rescind an acceleration and its consequences if all existing Events of Default, except nonpayment of principal or interest that has become due solely because of the acceleration, have been cured or waived and if the rescission would not conflict with any judgment or decree. Any notice or rescission shall be given in the manner specified in Section 15.

7. CONVERSION.

(a) HOLDER'S RIGHT TO CONVERT.

(i) The principal amount of this Note shall be convertible, at the option of the Holder, at any time, or from time to time, in whole or in part, into that number of shares of the Common Stock \$.001 par value per share (the "COMMON STOCK"), equal to a fraction, the numerator of which is the amount of the principal to be converted and the denominator of which is \$0.40 as adjusted as provided below (as so adjusted, the "CONVERSION PRICE").

(ii) The option to convert into shares of Common Stock shall be exercised by the Holder (A) giving written notice to the Borrower, at its principal corporate office, of the election to convert the same and shall state therein the name or names in which the certificate or certificates for shares of Common Stock issuable upon conversion are to be issued and (B) surrendering this Note for such purpose to the Borrower, at any place where the Corporation shall maintain a transfer agent for its Common Stock, duly endorsed in blank or accompanied by proper instruments of transfer. At the time of the surrender referred to in clause (B) above, the Person in whose name any certificate for shares of Common Stock shall be issuable upon such conversion shall be deemed to be the holder of record of such shares of Common Stock on such date, notwithstanding that the share register of the Borrower shall then be closed or that the certificates representing such Common Stock shall not then be actually delivered to such Person.

5

(b) CERTAIN EVENTS.

(i) In case at any time prior to the conversion or payment of all of the principal of this Note:

(A) the Borrower shall authorize the granting to all the holders of Common Stock of the Borrower of rights to subscribe for or purchase any shares of stock of any class or of any other rights; or

(B) there shall be any reclassification of the Common Stock of the Borrower (other than a subdivision or combination of its outstanding Common Stock); or

(C) there shall be any capital reorganization by the Borrower; or

(D) there shall be an Organic Transaction (as hereinafter defined); or

(E) there shall be voluntary or involuntary dissolution,

liquidation and winding up by the Borrower or dividend or distribution to holders of Common Stock;

then in any one or more of said cases, the Borrower shall cause to be delivered to the Holder, at the earliest practicable time (and, in any event, not less than 15 days before any record date or the date set for definitive action), written notice of the date on which the books of the Borrower shall close or a record shall be taken for such dividend, distribution or subscription rights or such reorganization, sale, consolidation, merger, dissolution, liquidation or winding up or other transaction shall take place, as the case may be. Such notice shall also set forth such facts as shall indicate the effect of such action (to the extent such effect may be known at the date of such notice) on the Conversion Price relating to the conversion of the Notes into Common Stock and the kind and amount of the shares of stock and other securities and property deliverable upon conversion of the Notes. Such notice shall also specify the date, if known, as of which the holders of record of the Common Stock shall participate in said dividend, distribution or subscription rights or shall be entitled to exchange their shares of the Common Stock for securities or other property (including cash) deliverable upon such reorganization, sale, consolidation, merger, dissolution, liquidation or winding up or other transaction, as the case may be. Anything herein to the contrary notwithstanding, the Holder may give a notice of conversion of all or a portion of the Note as contemplated in Section 7(a)(ii), which may be conditioned upon the actual occurrence of the event which is the subject of the notice, it being the intention of Borrower and Holder that Holder shall be entitled to obtain the benefits of such conversion if such event actually occurs, but shall be entitled to retain this Note in full at its option if such event does not occur for any reason, and the Borrower agrees to take all such action, including issuing a new Note in order to assure to the Holder the benefits contemplated by this Section 7(b).

6

(ii) For purposes hereof, the term "ORGANIC TRANSACTION" means (A) the sale, lease, exchange, transfer or other disposition (including, without limitation, by merger, consolidation or otherwise) of assets constituting all or substantially all of the assets of the Borrower and its subsidiaries, taken as a whole, to a Person or group of Persons, (B) any merger, consolidation or other business combination or refinancing or recapitalization that results in the holders of the issued and outstanding voting securities of the Borrower immediately prior to such transaction beneficially owning or controlling less than a majority of the voting securities of the continuing or surviving entity immediately following such transaction or (C) any Person or Persons acting together or which would constitute a "group" for the purposes of Section 13(d) of the Exchange Act, together or with any Affiliates thereof, other than any of the holders of the Common Stock, the holders of the Series A Preferred Stock, as of the date of this Note as originally issued, and their respective Affiliates, beneficially owning (as defined in Rule 13d-3 of the Exchange Act) or controlling, directly or indirectly, at least 50% of the total voting power of all classes of capital stock entitled to vote generally in the election of directors of the Borrower.

(c) COMPANY RIGHT TO CONVERT.

(i) The principal amount of this Note and all other Notes shall be convertible, at the option of the Company, by delivery of written notice (a "FORCED CONVERSION NOTICE") to the persons then registered as the Holder of this Note and Holders of all other Notes stating that the Borrower is exercising its right to convert all, and not less than all, of the Notes into shares of Common Stock, the number of shares of Common Stock issuable upon such conversion, and instructions for tendering this Note and receiving stock certificates representing the shares of Common Stock issuable upon such conversion, provided that the Forced Conversion Notice may only be given if and at such time as each of the following conditions

shall have been satisfied:

(A) The arithmetic weighted average trading prices for the ten consecutive trading days ending on the day immediately prior to the date the Forced Conversion Notice, as reported by Bloomberg, L.P. using the VAP function, is given is greater than \$1.00 per share.

(B) The average daily trading volume reported by Bloomberg, L.P. for the 30 consecutive trading days ending on the day immediately prior to the date the Forced Conversion Notice is given is greater than 500,000 shares.

7

(C) The shares of Common Stock of the Company shall have been admitted for trading on either the American Stock Exchange or Nasdaq Stock Market.

(D) Either (A) a corporate partnership satisfactory to the holders of the Notes shall have been reached with RIGScan CR or (B) Lymphoseek shall have been approved by the U.S. Food and Drug Administration.

(ii) Upon the giving of the Forced Conversion Notice in accordance herewith, the registered Holder shall be deemed to be the holder of record of the shares of Common Stock issuable upon conversion of this Note thereafter the Holder shall have no rights under this Note (including rights to receive payments of principal and interest hereunder) except the right to receive a certificate representing such shares upon surrender of this Note in accordance with the instructions set forth in the Forced Conversion Notice.

(d) ADJUSTMENT OF CONVERSION PRICE. The Conversion Price shall be adjusted from time to time in the following manner upon the occurrence of the following events:

(i) Dividend, Subdivision, Combination or Reclassification of Common Stock. If the Company shall, at any time or from time to time, (A) declare a dividend on the Common Stock payable in shares of its capital stock (including Common Stock), (B) subdivide the outstanding Common Stock into a larger number of shares of Common Stock, (C) combine the outstanding Common Stock into a smaller number of shares of its Common Stock, or (D) issue any shares of its capital stock in a reclassification of the Common Stock (including any such reclassification in connection with a consolidation or merger in which the Company is the continuing corporation), then in each such case, the Conversion Price in effect at the time of the record date for such dividend or of the effective date of such subdivision, combination or reclassification shall be adjusted so that the Holder of this Note upon conversion after such date shall be entitled to receive the aggregate number and kind of shares of capital stock which, if this Note had been converted immediately prior to such date, such holder would have owned upon such conversion and been entitled to receive by virtue of such dividend, subdivision, combination or reclassification. Any such adjustment shall become effective immediately after the record date of such dividend or the effective date of such subdivision, combination or reclassification. Such adjustment shall be made successively whenever any event listed above shall occur. If a dividend is declared and such dividend is not paid, the Conversion Price shall again be adjusted to be the Conversion Price, in effect immediately prior to such record date (giving effect to all adjustments that otherwise would be required to be made pursuant to this Section 7(d) from and after such record date).

8

(ii) Certain Distributions. If the Company shall, at any time or from time to time, fix a record date for the distribution to all

holders of Common Stock (including any such distribution made in connection with a consolidation or merger in which the Company is the continuing corporation) of evidences of indebtedness, assets or other property (other than regularly scheduled cash dividends or cash distributions payable out of consolidated earnings or earned surplus or dividends payable in capital stock for which adjustment is made under Subsection 7(d)(i)) or subscription rights, options or warrants, then the Conversion Price shall be reduced to the price determined by multiplying the Conversion Price in effect immediately prior to such record date by a fraction (which shall in no event be less than zero), the numerator of which shall be the Current Market Price per share of Common Stock on such record date (or, if an ex dividend date has been established for such record date, on the next day preceding such ex dividend date), less the fair market value (as determined in good faith by the Board of Directors of the Company) of the portion of the assets, evidences of indebtedness, other property, subscription rights or warrants so to be distributed applicable to one share of Common Stock and the denominator of which shall be such Current Market Price per share of Common Stock. Any such adjustment shall become effective immediately after the record date for such distribution. Such adjustments shall be made successively whenever such a record date is fixed. In the event that such distribution is not so made, the Conversion Price shall be adjusted to the Conversion Price in effect immediately prior to such record date (giving effect to all adjustments that otherwise would be required to be made pursuant to this Section 3 from and after such record date).

(iii) Issuance of Common Stock Below Current Market Price or Conversion Price.

(A) If the Company shall, at any time and from time to time, after the date hereof, directly or indirectly, sell or issue shares of Common Stock (regardless of whether originally issued or from the Company's treasury), or rights, options, warrants or convertible or exchangeable securities containing the right to subscribe for or purchase shares of Common Stock) at a price per share of Common Stock (determined, in the case of rights, options, warrants or convertible or exchangeable securities (collectively, "SECURITIES"), by dividing (x) the total consideration received or receivable by the Company in consideration of the sale or issuance of such Securities, plus the total consideration payable to the Company upon exercise or conversion or exchange thereof, by (y) the total number of shares of Common Stock covered by such Securities) which is lower than the Conversion Price in effect immediately

9

prior to such sale or issuance, then, subject to clause 7(d)(iii)(B), (A) if such sale or issuance occurs on or prior to December 13, 2006, the Conversion Price shall be reduced to the consideration received (in the case of Securities, determined as provided below) per share of Common Stock with respect to such sale or issuance, and (B) if such sale or issuance occurs after December 13, 2006, the Conversion Price shall be reduced to a price determined by multiplying the Conversion Price in effect immediately prior thereto by a fraction, the numerator of which shall be the sum of the number of shares of Common Stock outstanding immediately prior to such sale or issuance plus the number of shares of Common Stock which the aggregate consideration received (in the case of Securities, determined as provided below) for such sale or issuance would purchase at the Purchase Price in effect immediately prior to such sale or issuance and the denominator of which shall be the total number of shares of Common Stock outstanding immediately after such sale or issuance. Such adjustment shall be made successively whenever such sale or issuance is made. For the purposes of such adjustments, the shares of Common Stock which the holder of any such Securities shall be entitled to subscribe for or purchase shall be deemed to be issued and outstanding as of the date of such sale or

issuance of such Securities and the consideration "received" by the Company therefor shall be deemed to be the consideration actually received or receivable by the Company (plus any underwriting discounts or commissions in connection therewith) for such Securities, plus the consideration stated in such Securities to be payable to the Company for the shares of Common Stock covered thereby. If the Company shall sell or issue shares of Common Stock for a consideration consisting, in whole or in part, of property other than cash or its equivalent, then in determining the "price per share of Common Stock" and the "consideration" received or receivable by or payable to the Company for purposes of the first sentence and the immediately preceding sentence of this Subsection 7(d)(iii)(A), the fair value of such property shall be determined in good faith by the Board of Directors of the Company. Except as provided below, the determination of whether any adjustment is required under this Subsection 7(d)(iii)(A) by reason of the sale or issuance of Securities and the amount of such adjustment, if any, shall be made only at the time of such issuance or sale and not at the subsequent time of issuance of shares of Common Stock upon the exercise, conversion or exchange of such Securities.

(B) No adjustment shall be made to the Conversion Price pursuant to clause 7(d)(iii)(A) in connection with the (I) issuance of shares in any of the transactions described in Subsections 7(d)(i) and 7(d)(ii) hereof; (II) issuance of shares upon exercise of the Warrants; (III) issuance of shares upon conversion of the Notes; (IV) issuance of shares of Common Stock upon the exercise of Management Options (as defined in the Purchase Agreement) or the grant of Management Options provided that the aggregate number of shares of Common Stock issued and issuable pursuant to all Management Options does not exceed 5,242,106; (E) issuance of shares of Common Stock or rights, options, warrants or convertible or exchangeable securities containing the right to subscribe for or purchase shares of Common Stock as part of a unit in connection with an arm's length institutional debt financing, (F) issuance of shares of Common Stock upon the exercise or conversion or rights, options, warrants or convertible or exchangeable securities containing the right to subscribe for or purchase shares of Common Stock outstanding on December 13, 2004;

10

(G) issuance of shares of Common Stock or rights, options, warrants or convertible or exchangeable securities containing the right to subscribe for or purchase shares of Common Stock in connection with licenses, assignments or other transfers of Intellectual Property of the Company or Subsidiaries, or rights therein, in connection with cooperative research and development agreements, strategic alliances, or agreements providing for the manufacturing, distribution or sale of products or services of the Company or Subsidiaries; and (H) contributions of Common Stock to the Company's 401(k) Plan.

(C) In the event of any change in the number of shares of Common Stock deliverable or any change in the consideration payable to the Company upon exercise, conversion or exchange of any Securities (including, without limitation, by operation of the anti-dilution provisions of such Securities other than those anti-dilution provisions contained within the Securities that are substantially similar to the provisions of Section 7(d)(i) hereof), any adjustment to the Conversion Price which was made upon the issuance of such Securities, and any subsequent adjustments based thereon, shall be recomputed to reflect such change, except as provided below, no further adjustment shall be made for the actual issuance of Common Stock or any payment of such consideration upon the exercise, conversion or exchange of any such Securities. The Company shall make all necessary adjustments (including successive

adjustments if required) to the Conversion Price in accordance with Section 7(d). Upon the expiration or termination of the right to exercise, convert or exchange any Securities, any adjustment to the Conversion Price which was made upon the issuance of such Securities, and any subsequent adjustments based thereon, shall be recomputed to reflect the issuance of only the number of shares of Common Stock actually issued upon the exercise, conversion or exchange of such Securities and the actual consideration received therefor (as determined in this Section 7(d)).

(iv) Determination of Current Market Price. For the purpose of any computation under Subsections 7(d)(ii) or 7(d)(iii) or any other provision of this Note, (A) the Current Market Price per share of Common Stock on any date shall be deemed to be the average of the daily Closing Prices (as defined below) per share of Common Stock for the 10 consecutive trading days commencing 15 trading days before such date, and --- (B) "Closing Price" shall mean, with respect to each share of Common Stock for any day, (I) the last reported sale price regular way or, in case no such sale takes place on such day, the average of the closing bid and asked prices regular way, in either case as reported on the principal national securities exchange on which the Common Stock is listed or admitted for trading or (II) if the Common Stock is not listed or admitted for trading on any national securities exchange, the last reported sale price or, in case no such sale takes place on such day, the average of the highest reported bid and the lowest reported asked quotation for the Common Stock, in either case as reported on the Nasdaq Stock Market or OTCBB or a similar service if Nasdaq or OTCBB is no longer reporting such information. If on any such date the shares of Common Stock are not listed or

11

admitted for trading on any national securities exchange or quoted by the Nasdaq Stock Market, OTCBB or a similar service, then the Company, on the one hand, and [Great Point Partners, LLC] [David C. Bupp], on the other hand, shall each promptly appoint as an appraiser an individual who shall be a member of a nationally recognized investment banking firm. Each appraiser shall be instructed to, within 30 days of appointment, determine the Current Market Price per share of Common Stock which shall be deemed to be equal to the fair market value per share of Common Stock as of such date. If the two appraisers are unable to agree on the Current Market Price per share of Common Stock within such 30 day period, then the two appraisers, within 10 days after the end of such 30 day period shall jointly select a third appraiser. The third appraiser shall, within 30 days of its appointment, determine, in good faith, the Current Market Price per share of Common Stock and such determination shall be controlling. If any party fails to appoint an appraiser or if one of the two initial appraisers fails after appointment to submit its appraisal within the required period, the appraisal submitted by the remaining appraiser shall be controlling. The cost of the foregoing appraisals shall be shared one-half by the Company and one-half by [Great Point Partners, LLC] [David C. Bupp], provided, however, in the event a third appraiser is utilized and one of the two initial appraisals (but not the other initial appraisal) is greater than or less than the appraisal by such third appraiser by 10% or more, then the cost of all of the foregoing appraisals shall be borne by the party who appointed the appraiser who made such initial appraisal.

(v) De Minimis Adjustments. No adjustment shall be made under this Section 7(d) if the amount of such adjustment would result in a change in the Conversion Price of less than one percent (1%), but in such case any adjustment that would otherwise be required to be made shall be carried forward and shall be made at the time of and together with the next subsequent adjustment, which together with any adjustment so carried forward, would result in a change of at least one percent (1%). Notwithstanding the provisions of the first sentence of this Subsection 7(d)(v), any adjustment postponed pursuant to this Subsection 7(d)(v) shall be made no later than the

earlier of the Maturity Date or the date on which the Note is converted.

(vi) Reorganization, Reclassification, Merger and Sale of Assets. If there occurs any capital reorganization or any reclassification of the Common Stock of the Company, the consolidation or merger of the Company with or into another Person (other than a merger or consolidation of the Company in which the Company is the continuing corporation and which does not result in any reclassification or change of outstanding shares of its Common Stock) or the sale or conveyance of all or substantially all of the assets of the Company to another Person, then the Holder will thereafter be entitled to receive, upon the conversion of this Note in accordance with the terms hereof, the same kind and amounts of securities (including shares of stock) or other assets, or both, which were issuable or distributable to the holders of outstanding Common Stock of the Company upon such

12

reorganization, reclassification, consolidation, merger, sale or conveyance, in respect of that number of shares of Common Stock then deliverable upon the conversion of this Note if this Note had been exercised immediately prior to such reorganization, reclassification, consolidation, merger, sale or conveyance; and, in any such case, appropriate adjustments (as determined in good faith by the Board of Directors of the Company) shall be made to assure that the provisions hereof (including, without limitation, provisions with respect to changes in, and other adjustments of, the Conversion Price) shall thereafter be applicable, as nearly as reasonably may be practicable, in relation to any securities or other assets thereafter deliverable upon conversion of this Note.

(vii) Certificate as to Adjustments. Whenever the Conversion Price shall be adjusted pursuant to the provisions hereof, the Company shall promptly give written notice thereof to the Holder, in accordance with Section 15, in the form of a certificate signed by the Chairman of the Board, President or one of the Vice Presidents of the Company, and by the Chief Financial Officer, Treasurer or one of the Assistant Treasurers of the Company, stating the adjusted Conversion Price, and setting forth in reasonable detail the method of calculation and the facts requiring such adjustment and upon which such calculation is based. Each adjustment shall remain in effect until a subsequent adjustment is required.

(viii) Fractional Shares. Notwithstanding an adjustment pursuant to Section 7(d) in the Conversion Price, the Company shall not be required to issue fractions of shares upon conversion of this Note or to distribute certificates which evidence fractional shares. In lieu of fractional shares, the Company may make payment to the Holder, at the time of conversion of this Note as herein provided, of an amount in cash equal to such fraction multiplied by the greater of the Current Market Price of a share of Common Stock on the Conversion Date and the Conversion Price.

(e) NOTICE OF PROPOSED ACTIONS. In case the Company shall propose at any time or from time to time (i) to declare or pay any dividend payable in stock of any class to the holders of Common Stock or to make any other distribution to the holders of Common Stock (other than a regularly scheduled cash dividend), (ii) to offer to the holders of Common Stock rights or Notes to subscribe for or to purchase any additional shares of Common Stock or shares of stock of any class or any other securities, rights, Notes or options, (iii) to effect any reclassification of its Common Stock, (iv) to effect any consolidation, merger or sale, transfer or other disposition of all or substantially all of the property, assets or business of the Company which would, if consummated, adjust the Conversion Price or the securities issuable upon conversion of this Note, (v) to effect the liquidation, dissolution or winding up of the Company, or (vi) to take any other action that would require a vote of the Company's stockholders, then, in each such case, the Company shall give to the Holder, in accordance with Section 15, a written notice of such proposed action, which shall specify (A) the record date for the purposes of such stock dividend, distribution of rights or Notes or vote of the stockholders

of the Company, or if a record is not to be taken, the date as of which the holders of shares of Common Stock of record to be entitled to such dividend, distribution of rights or Notes, or vote is to be determined, or (B) the date on which such reclassification, consolidation, merger, sale, transfer, disposition, liquidation, dissolution or winding up is expected to become effective, and such notice shall be so given as promptly as possible but in any event at least ten (10) Business Days prior to the applicable record, determination or effective date specified in such notice.

13

8. USE OF PROCEEDS. The Borrower shall use the principal amount of this Note in accordance with the permitted uses described in the Purchase Agreement.

9. SUITS FOR ENFORCEMENT.

(a) Upon the occurrence of any one or more Events of Default, the Holder of this Note may proceed to protect and enforce its rights hereunder by suit in equity, action at law or by other appropriate proceeding, whether for the specific performance of any covenant or agreement contained in the Purchase Agreement or this Note or in aid of the exercise of any power granted in the Purchase Agreement or this Note, or may proceed to enforce the payment of this Note, or to enforce any other legal or equitable right of the Holders of this Note.

(b) In case of any default under this Note, the Borrower will pay to the Holder such amounts as shall be sufficient to cover the costs and expenses of such Holder due to such default, as provided in Article 7 of the Purchase Agreement.

10. REMEDIES CUMULATIVE. No remedy herein conferred upon the Holder is intended to be exclusive of any other remedy and each and every such remedy shall be cumulative and shall be in addition to every other remedy given hereunder or now or hereafter existing at law or in equity or by statute or otherwise.

11. REMEDIES NOT WAIVED. No course of dealing between the Borrower and the Holder or any delay on the part of the Holder in exercising any rights hereunder shall operate as a waiver of any right.

12. TRANSFER.

(a) The term "HOLDER" as used herein shall also include any transferee of this Note whose name has been recorded by the Borrower in the Note Register. Each transferee of this Note acknowledges that this Note has not been registered under the Securities Act, and may be transferred only pursuant to an effective registration under the Securities Act or pursuant to an applicable exemption from the registration requirements of the Securities Act.

(b) The Borrower shall maintain a register (the "NOTE REGISTER") in its principal offices for the purpose of registering the Note and any transfer or partial transfer thereof, which register shall reflect and identify, at all times, the ownership of record of any interest in the Note. Upon the issuance of this Note, the Borrower shall record the name and address of the initial purchaser of this Note in the Note Register as the first Holder. Upon surrender for registration of transfer or exchange of this Note at the principal offices of the Borrower, the Borrower shall, at its expense, execute and deliver one or more new Notes of like tenor registered in the name of the Holder or a transferee or transferees. Every Note surrendered for registration of transfer or exchange shall be duly endorsed, or be accompanied by written instrument of transfer duly executed by the Holder of such Note or such holder's attorney duly authorized in writing.

14

(c) This Note may be transferred or assigned, in whole or in part, by the Holder at any time.

13. REPLACEMENT OF NOTE. On receipt by the Borrower of an affidavit of an authorized representative of the Holder stating the circumstances of the loss, theft, destruction or mutilation of this Note (and in the case of any such

mutilation, on surrender and cancellation of such Note), the Borrower, at its expense, will promptly execute and deliver, in lieu thereof, a new Note of like tenor. If required by the Borrower, such Holder must provide indemnity sufficient in the reasonable judgment of the Borrower to protect the Borrower from any loss which they may suffer if a lost, stolen or destroyed Note is replaced.

14. COVENANTS BIND SUCCESSORS AND ASSIGNS. All the covenants, stipulations, promises and agreements in this Note contained by or on behalf of the Borrower shall bind its successors and assigns, whether so expressed or not.

15. NOTICES. All notices, demands and other communications provided for or permitted hereunder shall be made in writing and shall be by registered or certified first-class mail, return receipt requested, telecopier (with receipt confirmed), courier service or personal delivery at the addresses specified in Section 11.2 of the Purchase Agreement. All such notices and communications shall be deemed to have been duly given when: delivered by hand, if personally delivered; when delivered by courier, if delivered by commercial overnight courier service; if mailed, five Business Days after being deposited in the mail, postage prepaid; or if telecopied, when receipt is acknowledged.

16. GOVERNING LAW. THIS NOTE SHALL BE GOVERNED BY, CONSTRUED IN ACCORDANCE WITH, AND ENFORCED UNDER, THE LAWS OF THE STATE OF NEW YORK APPLICABLE TO AGREEMENTS OR INSTRUMENTS ENTERED INTO AND PERFORMED ENTIRELY WITHIN SUCH STATE. EXCEPT TO THE EXTENT THE GENERAL CORPORATIONS LAW OF THE STATE OF DELAWARE SHALL APPLY.

17. SEVERABILITY. If any one or more of the provisions contained herein, or the application thereof in any circumstance, is held invalid, illegal or unenforceable in any respect for any reason, the validity, legality and enforceability of any such provision in every other respect and of the remaining provisions hereof shall not be in any way impaired, unless the provisions held invalid, illegal or unenforceable shall substantially impair the benefits of the remaining provisions hereof.

15

18. HEADINGS. The headings in this Note are for convenience of reference only and shall not limit or otherwise affect the meaning hereof

NEOPROBE CORPORATION

By:

Name:

Title:

16

EXHIBIT 10.3

[FORM OF]

WARRANT

December 13, 2004

THE SECURITIES REPRESENTED HEREBY HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR THE SECURITIES LAWS OF ANY STATE AND MAY NOT BE SOLD, TRANSFERRED OR OTHERWISE DISPOSED OF EXCEPT PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER SUCH ACT AND APPLICABLE STATE SECURITIES LAWS OR PURSUANT TO AN APPLICABLE EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF SUCH ACT AND SUCH LAWS.

Warrant to Purchase
[-----]
Shares (subject to adjustment)
of Common Stock

NEOPROBE CORPORATION

COMMON STOCK PURCHASE WARRANT

Void after December 13, 2009

Neoprobe Corporation (the "Company"), a Delaware corporation, hereby certifies that for value received, [_____] ("_____"), a _____, or its successors or assigns (the "Holder"), is entitled to purchase, subject to the terms and conditions hereinafter set forth, an aggregate of [_____] fully paid and nonassessable shares of Common Stock (as hereinafter defined) of the Company, at an exercise price of \$0.46 per share, subject to adjustment as provided herein (the "Purchase Price"), at any time or from time to time beginning on the date hereof and prior to 5:00 P.M., New York City time, on December 13, 2009 (the "Expiration Date").

This Warrant is issued pursuant to the Securities Purchase Agreement (the "Purchase Agreement"), dated as of the date hereof, among Neoprobe Corporation, Biomedical Value Fund, L.P., Biomedical Offshore Value Fund, Ltd. and David C. Bupp, and is subject to the terms thereof. Capitalized terms used herein and not otherwise defined shall have the respective meanings assigned to such terms in the Purchase Agreement. The Holder is entitled to the rights and subject to the obligations contained in the Purchase Agreement relating to this Warrant and the shares of Common Stock issuable upon exercise of this Warrant.

1. Definitions. For the purposes of this Warrant, the following terms shall have the meanings indicated:

"Business Day" shall mean any day other than a Saturday, Sunday or other day on which commercial banks in the City of New York are authorized or required by law or executive order to close.

"Closing Price" shall mean, with respect to each share of Common Stock for any day, (a) the last reported sale price regular way or, in case no such sale takes place on such day, the average of the closing bid and asked prices regular way, in either case as reported on the principal national securities exchange on which the Common Stock is listed or admitted for trading or (b) if the Common Stock is not listed or admitted for trading on any national securities exchange, the last reported sale price or, in case no such sale takes place on such day, the average of the highest reported bid and the lowest reported asked quotation for the Common Stock, in either case as reported on the Nasdaq or a similar service if Nasdaq is no longer reporting such information.

"Co-Investor Warrants" shall mean all warrants, other than the Warrant, to purchase Common Stock issued pursuant to the Purchase Agreement and any

subsequent warrants issued pursuant to the terms of such warrants.

"Common Stock" means the common stock, par value \$.001 per share, of the Company, and any class of stock resulting from successive changes or reclassification of such Common Stock.

"Company" has the meaning ascribed to such term in the first paragraph of this Warrant.

"Current Market Price" shall be determined in accordance with Subsection 3(d).

"Exercise Date" has the meaning ascribed to such term in Subsection 2(d).

"Expiration Date" has the meaning ascribed to such term in the first paragraph of this Warrant.

"Holder" has the meaning ascribed to such term in the first paragraph and Section 9 of this Warrant.

"Issuable Warrant Shares" means the shares of Common Stock issuable at any time upon exercise of the Warrant.

"Issued Warrant Shares" means any shares of Common Stock issued upon exercise of the Warrant.

"Nasdaq" shall mean the Automated Quotation System of the National Association of Securities Dealers, Inc.

"Person" shall mean any individual, firm, corporation, limited liability company, partnership, trust, incorporated or unincorporated association, joint venture, joint stock company, government (or an agency or political subdivision thereof) or other entity of any kind, and shall include any successor (by merger or otherwise) of such entity.

"Purchase Agreement" has the meaning ascribed to such term in the second paragraph of this Warrant.

"Purchase Price" has the meaning ascribed to such term in the first paragraph of this Warrant.

"Warrant" shall mean this Warrant and any subsequent Warrant issued pursuant to the terms of this Warrant.

"Warrant Register" has the meaning ascribed to such term in Subsection 9(c).

2. Exercise of Warrant.

(a) Exercise. This Warrant may be exercised, in whole or in part, at any time or from time to time during the period beginning on the date hereof and ending on the Expiration Date, by surrendering to the Company at its principal office this Warrant, with the form of Election to Purchase Shares (the "Election to Purchase Shares") attached hereto as Exhibit A duly executed by the Holder and accompanied by payment of the Purchase Price for the number of shares of Common Stock specified in such form.

(b) Delivery of Shares; Payment of Purchase Price. As soon as practicable after surrender of this Warrant and receipt of payment, the Company shall promptly issue and deliver to the Holder a certificate or certificates for the number of shares of Common Stock set forth in the Election to Purchase Shares, in such name or names as may be designated by such Holder, along with a check for the amount of cash to be paid in lieu of issuance of fractional shares, if any. Payment of the Purchase Price may be made as follows (or by any combination of the following): (i)

in United States currency by cash or delivery of a certified check, bank draft or postal or express money order payable to the order of the Company, (ii) by assigning to the Company all or any part of the unpaid principal amount of the

Note held by the Holder in a principal amount equal to the Purchase Price, (iii) by surrender of a number of shares of Common Stock held by the Holder equal to the quotient obtained by dividing (A) the aggregate Purchase Price payable with respect to the portion of this Warrant then being exercised by (B) the Current Market Price per share of Common Stock on the Exercise Date, or (iv) by cancellation of any portion of this Warrant with respect to the number of shares of Common Stock equal to the quotient obtained by dividing (A) the aggregate Purchase Price payable with respect to the portion of this Warrant then being exercised by (B) the difference between (1) Current Market Price per share of Common Stock on the Exercise Date, and (2) the Purchase Price per share of Common Stock.

(c) Partial Exercise. If this Warrant is exercised for less than all of the shares of Common Stock purchasable under this Warrant, the Company shall cancel this Warrant upon surrender hereof and shall execute and deliver to the Holder a new Warrant of like tenor for the balance of the shares of Common Stock purchasable hereunder.

(d) When Exercise Effective. The exercise of this Warrant shall be deemed to have been effective immediately prior to the close of business on the Business Day on which this Warrant is surrendered to and the Purchase Price is received by the Company as provided in this Section 2 (the "Exercise Date") and the Person in whose name any certificate for shares of Common Stock shall be issuable upon such exercise, as provided in Subsection 2(b), shall be deemed to be the record holder of such shares of Common Stock for all purposes on the Exercise Date.

(e) Issued Warrant Shares Fully Paid, Nonassessable. The Company shall take all actions necessary to ensure that following exercise of this Warrant in accordance with the provisions of this Section 2, the Issued Warrant Shares issued hereunder shall, without further action by the Holder, be fully paid and nonassessable.

(f) Continued Validity. A Holder of shares of Common Stock issued upon the exercise of this Warrant, in whole or in part, shall continue to be entitled to all of the rights and subject to all of the obligations set forth in Section 9.

3. Adjustment of Purchase Price and Number of Shares. The Purchase Price and the number of shares of Common Stock issuable upon exercise of this Warrant shall be adjusted from time to time in the following manner upon the occurrence of the following events:

(a) Dividend, Subdivision, Combination or Reclassification of Common Stock. If the Company shall, at any time or from time to time, (i) declare a dividend on the Common Stock payable in shares of its capital stock (including Common Stock), (ii) subdivide the outstanding Common Stock into a larger number of shares of Common Stock, (iii) combine the outstanding Common Stock into a smaller number of shares of its Common Stock, or (iv) issue any shares of its capital stock in a reclassification of the Common Stock (including any such reclassification in connection with a consolidation or merger in which the Company is the continuing corporation), then in each such case, the Purchase Price in effect at the time of the record date for such dividend or of

the effective date of such subdivision, combination or reclassification, and the number and kind of shares of capital stock issuable on such date shall be proportionately adjusted so that the Holder of any Warrant exercised after such date shall be entitled to receive, upon payment of the same aggregate amount as would have been payable before such date, the aggregate number and kind of shares of capital stock which, if such Warrant had been exercised immediately prior to such date, such Holder would have owned upon such exercise and been entitled to receive by virtue of such dividend, subdivision, combination or reclassification. Any such adjustment shall become effective immediately after the record date of such dividend or the effective date of such subdivision, combination or reclassification. Such adjustment shall be made successively whenever any event listed above shall occur. If a dividend is declared and such dividend is not paid, the Purchase Price shall again be adjusted to be the Purchase Price, in effect immediately prior to such record date (giving effect to all adjustments that otherwise would be required to be made pursuant to this Section 3 from and after such record date).

(b) Certain Distributions. If the Company shall, at any time or from time to time, fix a record date for the distribution to all holders of Common Stock (including any such distribution made in connection with a consolidation or merger in which the Company is the continuing corporation) of evidences of indebtedness, assets or other property (other than regularly scheduled cash dividends or cash distributions payable out of consolidated earnings or earned surplus or dividends payable in capital stock for which adjustment is made under Subsection 3(a)) or subscription rights, options or warrants, then the Purchase Price shall be reduced to the price determined by multiplying the Purchase Price in effect immediately prior to such record date by a fraction (which shall in no event be less than zero), the numerator of which shall be the Current Market Price per share of Common Stock on such record date (or, if an ex-dividend date has been established for such record date, on the next day preceding such ex-dividend date), less the fair market value (as determined in good faith by the Board of Directors of the Company) of the portion of the assets, evidences of indebtedness, other property, subscription rights or warrants so to be distributed applicable to one share of Common Stock and the denominator of which shall be such Current Market Price per share of Common Stock. Any such adjustment shall become effective immediately after the record date for such distribution. Such adjustments shall be made successively whenever such a record date is fixed. In the event that such distribution is not so made, the Purchase Price shall be adjusted to the Purchase Price in effect immediately prior to such record date (giving effect to all adjustments that otherwise would be required to be made pursuant to this Section 3 from and after such record date).

(c) Issuance of Common Stock Below Current Market Price or Purchase Price.

(i) If the Company shall, at any time and from time to time, after the date hereof, directly or indirectly, sell or issue shares of Common Stock (regardless of whether originally issued or from the Company's treasury), or rights, options, warrants or convertible or exchangeable securities containing the right to subscribe for or purchase shares of Common Stock) at a price per share of Common Stock (determined, in the case of rights, options, warrants or convertible or exchangeable securities (collectively, "Securities"), by dividing (x) the total consideration received or receivable by the Company in consideration of the sale or issuance of such Securities, plus the total consideration payable to the Company upon exercise or conversion or exchange thereof, by (y)

5

the total number of shares of Common Stock covered by such Securities) which is lower than the Purchase Price in effect immediately prior to such sale or issuance, then, subject to clause 3(d)(ii), (A) if such sale or issuance occurs on or prior to December 13, 2006, the Purchase Price shall be reduced to the consideration received (in the case of Securities, determined as provided below) per share of Common Stock with respect to such sale or issuance, and (B) if such sale or issuance occurs after December 13, 2006, the Purchase Price shall be reduced to a price determined by multiplying the Purchase Price in effect immediately prior thereto by a fraction, the numerator of which shall be the sum of the number of shares of Common Stock outstanding immediately prior to such sale or issuance plus the number of shares of Common Stock which the aggregate consideration received (in the case of Securities, determined as provided below) for such sale or issuance would purchase at the Purchase Price in effect immediately prior to such sale or issuance and the denominator of which shall be the total number of shares of Common Stock outstanding immediately after such sale or issuance. Such adjustment shall be made successively whenever such sale or issuance is made. For the purposes of such adjustments, the shares of Common Stock which the holder of any such Securities shall be entitled to subscribe for or purchase shall be deemed to be issued and outstanding as of the date of such sale or issuance of such Securities and the consideration "received" by the Company therefor shall be deemed to be the consideration actually received or receivable by the Company (plus any underwriting discounts or commissions in connection therewith) for such Securities, plus the consideration stated in such Securities to be payable to the Company for the shares of Common Stock covered thereby. If the Company shall sell or issue shares of Common Stock for a consideration consisting, in whole or in part, of property other than cash or its equivalent, then in determining the "price per share of Common Stock" and the "consideration" received or receivable by or payable to the Company for purposes of the first sentence and the immediately preceding sentence of this

Subsection 3(c)(i), the fair value of such property shall be determined in good faith by the Board of Directors of the Company. Except as provided below, the determination of whether any adjustment is required under this Subsection 3(c)(i) by reason of the sale or issuance of Securities and the amount of such adjustment, if any, shall be made only at the time of such issuance or sale and not at the subsequent time of issuance of shares of Common Stock upon the exercise, conversion or exchange of such Securities.

(ii) No adjustment shall be made to the Purchase Price pursuant to clause 3(c)(i) in connection with the (A) issuance of shares in any of the transactions described in Subsections 3(a) and (b) hereof; (B) issuance of shares upon exercise of this Warrant or the Co-Investor Warrants; (C) issuance of shares upon conversion of the 8% Series A Convertible Notes (the "Convertible Notes"); (D) issuance of shares of Common Stock upon the exercise of Management Options (as defined in the Purchase Agreement) or the grant of Management Options provided that the aggregate number of shares of Common Stock issued and issuable pursuant to all Management Options does not exceed 5,242,106; (E) issuance of shares of Common Stock or rights, options, warrants or convertible or exchangeable securities containing the right to subscribe for or purchase shares of Common Stock as part of a unit in connection with an arm's length institutional debt financing; (F) issuance of shares of Common Stock upon the exercise or conversion or rights, options, warrants or convertible or exchangeable securities containing the right to subscribe for or purchase shares of Common Stock outstanding on the December 13, 2004; (G) issuance of shares of Common Stock or rights, options, warrants or convertible or exchangeable securities containing the right to subscribe for or purchase shares of Common Stock in connection with licenses, assignments or other transfers of Intellectual Property of the Company or Subsidiaries, or rights therein, in connection with cooperative research and development agreements, strategic alliances, or agreements providing for the manufacturing, distribution or sale of products or services of the Company or Subsidiaries; and (H) contributions of Common Stock to the Company's 401(k) Plan.

6

(iii) In the event of any change in the number of shares of Common Stock deliverable or any change in the consideration payable to the Company upon exercise, conversion or exchange of any Securities (including, without limitation, by operation of the anti-dilution provisions of such Securities other than those anti-dilution provisions contained within the Securities that are substantially similar to the provisions of Section 3(a) hereof), any adjustment to the Purchase Price which was made upon the issuance of such Securities, and any subsequent adjustments based thereon, shall be recomputed to reflect such change, except as provided below, no further adjustment shall be made for the actual issuance of Common Stock or any payment of such consideration upon the exercise, conversion or exchange of any such Securities. The Company shall make all necessary adjustments (including successive adjustments if required) to the Purchase Price in accordance with Section 3. Upon the expiration or termination of the right to exercise, convert or exchange any Securities, any adjustment to the Purchase Price which was made upon the issuance of such Securities, and any subsequent adjustments based thereon, shall be recomputed to reflect the issuance of only the number of shares of Common Stock actually issued upon the exercise, conversion or exchange of such Securities and the actual consideration received therefor (as determined in this Section 3).

(d) Determination of Current Market Price. For the purpose of any computation under Subsections (b) or (c) of this Section 3 or any other provision of this Warrant except as otherwise specifically provided, the Current Market Price per share of Common Stock on any date shall be deemed to be the average of the daily Closing Prices per share of Common Stock for the 10 consecutive trading days commencing 15 trading days before such date. If on any such date the shares of Common Stock are not listed or admitted for trading on any national securities exchange or quoted by Nasdaq or a similar service, then the Company, on the one hand, and [Great Point Partners, LLC] [David C. Bupp], on the other hand, shall each promptly appoint as an appraiser an individual who shall be a member of a nationally recognized investment banking firm. Each appraiser shall be instructed to, within 30 days of appointment, determine the Current Market Price per share of Common Stock which shall be deemed to be equal to the fair market value per share of Common Stock as of such date. If the two appraisers are unable to agree on the Current Market Price per share of Common Stock within such 30 day period, then the two appraisers, within 10 days after

the end of such 30 day period shall jointly select a third appraiser. The third appraiser shall, within 30 days of its appointment, determine, in good faith, the Current Market Price per share of Common Stock and such determination shall be controlling. If any party fails to appoint an appraiser or if one of the two initial appraisers fails after appointment to submit its appraisal within the required period, the appraisal submitted by the remaining appraiser shall be controlling. The cost of the foregoing appraisals shall be shared one-half by the Company and one-half by [Great Point Partners, LLC] [David C. Bupp], provided, however, in the event a third appraiser is utilized and one of the two initial appraisals (but not the other initial appraisal) is greater than or less than the appraisal by such third appraiser by 10% or more, then the cost of all of the foregoing appraisals shall be borne by the party who appointed the appraiser who made such initial appraisal.

7

(e) De Minimis Adjustments. No adjustment shall be made under this Section 3 if the amount of such adjustment would result in a change in the number of shares issuable under this Warrant of less than one percent (1%), but in such case any adjustment that would otherwise be required to be made shall be carried forward and shall be made at the time of and together with the next subsequent adjustment, which together with any adjustment so carried forward, would result in a change of at least one percent (1%). Notwithstanding the provisions of the first sentence of this Subsection 3(e), any adjustment postponed pursuant to this Subsection 3(e) shall be made no later than the earlier of (i) three years from the date of the transaction that would, but for the provisions of the first sentence of this Section 3(e), have required such adjustment, (ii) an Exercise Date or (iii) the Expiration Date.

(f) Adjustments to Other Shares. In the event that at any time, as a result of an adjustment made pursuant to Subsection 3(a), the Holder shall become entitled to receive, upon exercise of this Warrant, any shares of capital stock or other securities of the Company other than shares of Common Stock, the number of such other shares or other securities so receivable upon exercise of this Warrant shall be subject to adjustment from time to time in a manner and on terms as nearly equivalent as practicable to the provisions with respect to the shares of Common Stock contained in Subsections 3(a), (b) and (c), inclusive, and the provisions of Sections 2, 5, 6 and 7 with respect to the shares of Common Stock shall apply on like terms to any such other shares or other securities.

(g) Adjustment of Number of Shares Issuable Upon Exercise. Upon each adjustment of the Purchase Price as a result of the calculations made in Subsections 3(a), (b) or (c), this Warrant shall thereafter evidence the right to receive, at the adjusted Purchase Price, that number of shares of Common Stock (calculated to the nearest one-hundredth) obtained by dividing (x) the product of the aggregate number of shares of Common Stock covered by this Warrant immediately prior to such adjustment and the Purchase Price in effect immediately prior to such adjustment of the Purchase Price by (y) the Purchase Price in effect immediately after such adjustment of the Purchase Price.

(h) Reorganization, Reclassification, Merger and Sale of Assets. If there occurs any capital reorganization or any reclassification of the Common Stock of the Company, the consolidation or merger of the Company with or into another Person (other than a merger or consolidation of the Company in which the Company is the continuing corporation and which does not result in any reclassification or change of outstanding shares of its Common Stock) or the sale or conveyance of all or substantially all of the assets of the Company to another Person, then the Holder will thereafter be entitled to receive, upon the exercise of this Warrant in accordance with the terms hereof, the same kind and amounts of securities (including shares of stock) or other assets, or both, which were issuable or distributable to the holders of outstanding Common Stock of the Company upon such reorganization, reclassification, consolidation, merger, sale or conveyance, in respect of that number of shares of Common Stock then deliverable upon the exercise of this Warrant if this Warrant had been exercised immediately prior to such reorganization, reclassification, consolidation, merger, sale or conveyance; and, in any such case, appropriate adjustments (as determined in good faith by the Board of Directors of the Company) shall be made to assure that the provisions hereof (including, without limitation, provisions with respect to changes in, and other adjustments of, the Purchase Price) shall thereafter be applicable, as nearly as reasonably may be practicable, in relation to any securities or other assets thereafter

deliverable upon exercise of this Warrant.

8

4. Certificate as to Adjustments. Whenever the Purchase Price or the number of shares of Common Stock issuable, or the securities or other property deliverable, upon the exercise of this Warrant shall be adjusted pursuant to the provisions hereof, the Company shall promptly give written notice thereof to the Holder, in accordance with Section 13, in the form of a certificate signed by the Chairman of the Board, President or one of the Vice Presidents of the Company, and by the Chief Financial Officer, Treasurer or one of the Assistant Treasurers of the Company, stating the adjusted Purchase Price, the number of shares of Common Stock issuable, or the securities or other property deliverable, upon exercise of the Warrant and setting forth in reasonable detail the method of calculation and the facts requiring such adjustment and upon which such calculation is based. Each adjustment shall remain in effect until a subsequent adjustment is required.

5. Fractional Shares. Notwithstanding an adjustment pursuant to Section 3(h) in the number of shares of Common Stock covered by this Warrant or any other provision of this Warrant, the Company shall not be required to issue fractions of shares upon exercise of this Warrant or to distribute certificates which evidence fractional shares. In lieu of fractional shares, the Company may make payment to the Holder, at the time of exercise of this Warrant as herein provided, of an amount in cash equal to such fraction multiplied by the greater of the Current Market Price of a share of Common Stock on the Exercise Date and the Purchase Price.

6. Notice of Proposed Actions. In case the Company shall propose at any time or from time to time (a) to declare or pay any dividend payable in stock of any class to the holders of Common Stock or to make any other distribution to the holders of Common Stock (other than a regularly scheduled cash dividend), (b) to offer to the holders of Common Stock rights or warrants to subscribe for or to purchase any additional shares of Common Stock or shares of stock of any class or any other securities, rights, warrants or options, (c) to effect any reclassification of its Common Stock, (d) to effect any consolidation, merger or sale, transfer or other disposition of all or substantially all of the property, assets or business of the Company which would, if consummated, adjust the Purchase Price or the securities issuable upon exercise of the Warrants, (e) to effect the liquidation, dissolution or winding up of the Company, or (f) to take any other action that would require a vote of the Company's stockholders, then, in each such case, the Company shall give to the Holder, in accordance with Section 13, a written notice of such proposed action, which shall specify (i) the record date for the purposes of such stock dividend, distribution of rights or warrants or vote of the stockholders of the Company, or if a record is not to be taken, the date as of which the holders of shares of Common Stock of record to be entitled to such dividend, distribution of rights or warrants, or vote is to be determined, or (ii) the date on which such reclassification, consolidation, merger, sale, transfer, disposition, liquidation, dissolution or winding up is expected to become effective, and such notice shall be so given as promptly as possible but in any event at least ten (10) Business Days prior to the applicable record, determination or effective date specified in such notice.

9

7. Diminution or Impairment. The Company will not, by amendment of its Certificate of Incorporation or through any reorganization, transfer of assets, consolidation, merger, dissolution, issue or sale of securities or any other action, avoid or seek to avoid the observance or performance of any of the terms of this Warrant, but will at all times in good faith assist in the carrying out of all such terms and in the taking of all such action as may be necessary or appropriate in order to protect the rights of the Holder of this Warrant against diminution or other impairment. Without limiting the generality of the foregoing, the Company (a) will not increase the par value of any shares of stock receivable on the exercise of this Warrant above the amount payable therefor on such exercise, (b) will at all times reserve and keep available the maximum number of its authorized shares of Common Stock, free from all preemptive rights therein, which will be sufficient to permit the full exercise of this Warrant, and (c) will take all such action as may be necessary or appropriate in order that all shares of Common Stock as may be issued pursuant to the exercise of this Warrant will, upon issuance, be duly and validly issued,

fully paid and nonassessable, and free from all taxes, liens and charges with respect to the issue thereof.

8. Replacement of Warrants. On receipt by the Company of an affidavit of an authorized representative of the Holder stating the circumstances of the loss, theft, destruction or mutilation of this Warrant (and in the case of any such mutilation, on surrender and cancellation of such Warrant), the Company at its expense will promptly execute and deliver, in lieu thereof, a new Warrant of like tenor which shall be exercisable for a like number of shares of Common Stock. If required by the Company, such Holder must provide an indemnity bond or other indemnity sufficient in the judgment of the Company to protect the Company from any loss which it may suffer if a lost, stolen or destroyed Warrant is replaced.

9. Restrictions on Transfer.

(a) Subject to the provisions of this Section 9, this Warrant may be transferred or assigned, in whole or in part, by the Holder at any time, and from time to time. The term "Holder" as used herein shall also include any transferee of this Warrant whose name has been recorded by the Company in the Warrant Register (as hereinafter defined). Each transferee of the Warrant or the Common Stock issuable upon the exercise of the Warrant acknowledges that the Warrant or the Common Stock issuable upon the exercise of the Warrant has not been registered under the Securities Act and may be transferred only pursuant to an effective registration under the Securities Act or pursuant to an applicable exemption from the registration requirements of the Securities Act.

(b) With respect to a transfer that should occur prior to the time that the Warrant or the Common Stock issuable upon the exercise thereof is registered under the Securities Act, such Holder shall request an opinion of counsel (which shall be rendered by counsel reasonably acceptable to the Company) that the proposed transfer may be effected without registration or qualification under any Federal or state securities or blue sky law. Counsel shall, as promptly as practicable, notify the Company and the Holder of such opinion and of the terms and conditions, if any, to be observed in such transfer, whereupon the Holder shall be entitled to transfer this Warrant or such shares of Common Stock (or portion thereof), subject to any other provisions and limitations of this Warrant. In the event this Warrant shall be exercised as an incident to such transfer, such exercise shall relate back and for all purposes of this Warrant be deemed to have occurred as of the date of such notice regardless of delays incurred by reason of the provisions of this Section 9 which may result in the actual exercise on any later date.

10

(c) The Company shall maintain a register (the "Warrant Register") in its principal office for the purpose of registering the Warrant and any transfer thereof, which register shall reflect and identify, at all times, the ownership of any interest in the Warrant. Upon the issuance of this Warrant, the Company shall record the name of the initial purchaser of this Warrant in the Warrant Register as the first Holder. Upon surrender for registration of transfer or exchange of this Warrant together with a properly executed Form of Assignment attached hereto as Exhibit B at the principal office of the Company, the Company shall, at its expense, execute and deliver one or more new Warrants of like tenor which shall be exercisable for a like aggregate number of shares of Common Stock, registered in the name of the Holder or a transferee or transferees.

10. No Rights or Liability as a Stockholder. This Warrant does not entitle the Holder hereof to any voting rights or other rights as a stockholder of the Company. No provisions hereof, in the absence of affirmative action by the Holder hereof to purchase Common Stock, and no enumeration herein of the rights or privileges of the Holder shall give rise to any liability of such Holder as a stockholder of the Company.

11. Charges, Taxes and Expenses. Issuance of certificates for shares of Common Stock upon the exercise of this Warrant shall be made without charge to the Holder hereof for any issue or transfer tax, or other incidental expense, in respect of the issuance or delivery of such certificates or the securities represented thereby, all of which taxes and expenses shall be paid by the Company.

12. Amendment or Waiver. Any amendment, supplement or modification of or to any provision of this Warrant, any waiver of any provision of this Warrant, and any consent to any departure by any party from the terms of any provision of this Warrant, may be made only in the manner provided in Section 11.4 of the Purchase Agreement, and then such amendment, supplement, modification, waiver or consent shall be effective only in the specific instance and for the specific purpose for which given.

13. Notices. Any notice or other communication (or delivery) required or permitted hereunder shall be made in writing and shall be by registered mail, return receipt requested, telecopier, courier service or personal delivery to the Company at its principal office as specified in Section 11.2 of the Purchase Agreement and to the Holder at its address as it appears in the Warrant Register. All such notices and communications (and deliveries) shall be deemed to have been duly given: when delivered by hand, if personally delivered; when delivered by courier, if delivered by commercial overnight courier service; five Business Days after being deposited in the mail, postage prepaid, if mailed; and when receipt is acknowledged, if telecopied.

11

14. Company Call.

(a) The Company shall have the right exercisable at any time, and from time to time, to repurchase, subject to the terms and conditions hereof, from the Holder all, but not less than all, of this Warrant at the purchase price determined below, provided that the average Closing Prices per share of Common Stock for the 30 consecutive trading days ending 15 trading days before the date the Call Notice (as defined in the next sentence) is given, is at least \$1.50 per share (subject to adjustment as set forth in Section 14(c) below) (the "Target Price"). Such right shall be exercisable by the Company by delivery of written notice (a "Call Notice") to the Holder (and to all holders of the Co-Investor Warrants), specifying the date on which such repurchase shall occur, which date shall not be less than thirty (30) days nor more than sixty (60) days after the date of the Call Notice. The purchase price under this Section 14 shall be determined by multiplying (a) \$0.46 (subject to adjustment pursuant to Section 14(c) below) (the "Call Price") by (b) the number of Issuable Warrant Shares at the time issuable upon the exercise of this Warrant. The Call Notice shall (i) designate the date of repurchase in accordance with this Section 14 (the "Repurchase Date") and (ii) state that the right to exercise the Warrant shall terminate at 5:00 p.m. New York City time on the business day immediately preceding the Repurchase Date.

(b) Any right to exercise this Warrant shall terminate at 5:00 pm New York City time on the business day immediately preceding the Repurchase Date. On and after the Repurchase Date, the Holder shall have no further rights except to receive upon delivery of this Warrant, the amounts provided for in this Warrant.

(c) The Target Price and the Call Price shall be adjusted in the same manner as the Purchase Price pursuant to Section 3(a) above.

15. Certain Remedies. The Holder shall be entitled to an injunction or injunctions to prevent breaches of the provisions of this Warrant and to enforce specifically the terms and provisions of this Warrant in any court of the United States or any state thereof having jurisdiction, this being in addition to any other remedy to which such Holder may be entitled at law or in equity.

16. Governing Law. THIS AGREEMENT SHALL BE GOVERNED BY, CONSTRUED IN ACCORDANCE WITH, AND ENFORCED UNDER, THE LAWS OF THE STATE OF NEW YORK APPLICABLE TO AGREEMENTS OR INSTRUMENTS ENTERED INTO AND PERFORMED ENTIRELY WITHIN SUCH STATE EXCEPT TO THE EXTENT THE GENERAL CORPORATIONS LAW OF DELAWARE SHALL APPLY.

17. Headings. The headings in this Warrant are for convenience of reference only and shall not limit or otherwise affect the meaning hereof.

By:

Name:

Title:

12

Exhibit A to Common
Stock Purchase Warrant

[FORM OF]

ELECTION TO PURCHASE SHARES

The undersigned hereby irrevocably elects to exercise the Warrant to purchase _____ shares of Common Stock, par value \$0.001 per share ("Common Stock"), of Neoprobe Corporation (the "Company") and hereby [makes payment of \$_____ therefor] [or] [makes payment therefor by assignment to the Company pursuant to Section 2(b)(ii) of the Warrant of \$_____ aggregate principal amount of Convertible Note (as defined in the Warrant)] [or] [makes payment therefor by surrendering pursuant to Section 2(b)(iii) _____ shares of Common Stock of the Company] [or] [makes payment therefor by cancellation pursuant to Section 2(b)(iv) of a portion of the Warrant with respect to _____ shares of Common Stock]. The undersigned hereby requests that certificates for such shares be issued and delivered as follows:

ISSUE TO:

(NAME)

(ADDRESS, INCLUDING ZIP CODE)

(SOCIAL SECURITY OR OTHER IDENTIFYING NUMBER)

DELIVER TO:

(NAME)

(ADDRESS, INCLUDING ZIP CODE)

If the number of shares of Common Stock purchased hereby is less than the number of shares of Common Stock covered by the Warrant, the undersigned requests that a new Warrant representing the number of shares of Common Stock not purchased be issued and delivered as follows:

ISSUE TO:

(NAME OF HOLDER)

(ADDRESS, INCLUDING ZIP CODE)

DELIVER TO:

(NAME OF HOLDER)

(ADDRESS, INCLUDING ZIP CODE)

Dated: [NAME OF HOLDER]

By:

Name:
Title:

1 Name of Holder must conform in all respects to name of Holder as specified on the face of the Warrant.

Exhibit B to Common
Stock Purchase Warrant

[FORM OF] ASSIGNMENT

FOR VALUE RECEIVED, the undersigned hereby sells, assigns, and transfers unto the Assignee named below all of the rights of the undersigned to purchase Common Stock, par value \$.001 per share ("Common Stock"), of Neoprobe Corporation represented by the Warrant, with respect to the number of shares of Common Stock set forth below:

Name of Assignee	Address	No. of Shares
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and does hereby irrevocably constitute and appoint _____
Attorney to make such transfer on the books of Neoprobe Corporation maintained for that purpose, with full power of substitution in the premises.

Dated: [NAME OF HOLDER1]

By:

Name:
Title:

1 Name of Holder must conform in all respects to name of Holder as specified on the face of the Warrant.

EXHIBIT 10.4

SCHEDULE IDENTIFYING OMITTED DOCUMENTS

The only particulars in which the (a) Form of Neoprobe Corporation 8% Series A Convertible Promissory Note and (b) Form of Neoprobe Corporation Common Stock Purchase Warrant filed with the Current Report on Form 8-K dated December 13, 2004, and filed with the Securities and Exchange Commission on December 16, 2004, differ materially from the omitted instruments are the names of the holders of the warrants, the number of shares of common stock for which the warrants are exercisable, the names of the holders of the notes and the principal amounts of the notes, which information is included in the following tables:

(a) Neoprobe Corporation 8% Series A Convertible Promissory Notes

HOLDER	PRINCIPAL AMOUNT
Biomedical Value Fund, L.P.	\$4,400,000
Biomedical Offshore Value Fund, Ltd.	\$3,600,000
David C. Bupp	\$100,000

(b) Neoprobe Corporation Common Stock Purchase Warrants

HOLDER	WARRANT SHARES
Biomedical Value Fund, L.P.	5,500,000
Biomedical Offshore Value Fund, Ltd.	4,500,000
David C. Bupp	125,000

EXHIBIT 10.4

SECURITY AGREEMENT

THIS SECURITY AGREEMENT (as amended, supplemented, restated or otherwise modified from time to time, the "SECURITY AGREEMENT"), dated as of December 13, 2004, made by Neoprobe Corporation, a Delaware corporation ("GRANTOR"), in favor of Biomedical Value Fund, L.P. ("BVF"), a Delaware limited partnership, Biomedical Offshore Value Fund, Ltd. ("BOVF" and together with "BVF," the "BV FUNDS"), an exempted company incorporated under the provisions of the Companies Law of the Cayman Islands, and DAVID C. BUPP ("BUPP" and together with BV Funds, each a "LENDER" and collectively, the "LENDERS").

WITNESSETH:

WHEREAS, pursuant to a Securities Purchase Agreement, dated as of December 13, 2004 ("PURCHASE AGREEMENT") among Grantor and Lenders, Grantor has issued to (i) BVF an 8% Series A Convertible Promissory Note, due December 12, 2008, in the principal amount of \$4,400,000, (ii) BVOF an 8% Series A Convertible Promissory Note, due December 12, 2008, in the principal amount of \$3,600,000, and (iii) Bupp an 8% Series A Convertible Promissory Note, due December 12, 2008, in the principal amount of \$100,000, (collectively, the "NOTES") and agreed to secure Grantor's obligations thereunder.

NOW, THEREFORE, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Grantor agrees as follows:

ARTICLE I

DEFINITIONS

SECTION 1.1. Certain Terms. Capitalized terms not otherwise defined herein shall have the respective meanings defined in the Purchase Agreement. The following terms when used in this Security Agreement, including its preamble and recitals, shall have the following meanings (such definitions to be equally applicable to the singular and plural forms thereof):

"ADMINISTRATIVE AGENT" is defined in Section 7.1.

"BANKRUPTCY CASE" is defined in Section 7.6.

"BANKRUPTCY CODE" is defined in Section 7.6.

"BV FUNDS" is defined in the preamble.

"COLLATERAL" is defined in Section 2.1.

"COMPUTER HARDWARE AND SOFTWARE COLLATERAL" means:

(a) all computer and other electronic data processing hardware, integrated computer systems, central processing units, memory units, display terminals, printers, features, computer elements, card readers, tape drives, hard and soft disk drives, cables, electrical supply hardware, generators, power equalizers, accessories, all peripheral devices and other related computer hardware now owned or hereafter acquired by the Grantor;

(b) all software programs (including both source code, object code and all related applications and data files), whether now owned, licensed or leased or hereafter acquired by the Grantor, designed for use on the computers and electronic data processing hardware described in clause (a) above;

(c) all firmware associated therewith now owned or hereafter acquired by the Grantor;

(d) all documentation (including flow charts, logic diagrams, manuals, guides and specifications) with respect to such hardware, software and firmware described in the preceding clauses (a) through (c) above; and

(e) all rights of the Grantor with respect to all of the foregoing, including, without limitation, any and all copyrights, licenses, options,

warranties, service contracts, program services, test rights, maintenance rights, support rights, improvement rights, renewal rights and indemnifications and any substitutions, replacements, additions or model conversions of any of the foregoing.

"COPYRIGHT COLLATERAL" means all copyrights and all semi-conductor chip product mask works of the Grantor, whether statutory or common law, registered or unregistered, now or hereafter in force throughout the world including, without limitation, all of the Grantor's right, title and interest in and to all copyrights and mask works registered in the United States Copyright Office or anywhere else in the world and also including, without limitation, the copyrights and mask works referred to in Item A of Schedule III attached hereto, and all applications for registration thereof, whether pending or in preparation, all copyright and mask work licenses, including each copyright and mask work license referred to in Item B of Schedule III attached hereto, the right to sue for past, present and future infringements of any thereof, all rights corresponding thereto throughout the world, all extensions and renewals of any thereof and all proceeds of the foregoing, including, without limitation, licenses, royalties, income, payments, claims, damages and proceeds of suit.

"EQUIPMENT" is defined in clause (a) of Section 2.1.

"GRANTOR" is defined in the preamble.

"INTELLECTUAL PROPERTY COLLATERAL" means, collectively, the Computer Hardware and Software Collateral, the Copyright Collateral, the Patent Collateral, the Trademark Collateral and the Trade Secrets Collateral.

"INVENTORY" is defined in clause (b) of Section 2.1.

"LENDER" is defined in the preamble.

"LENDER REMEDIES" is defined in Section 7.6.

"LOAN DOCUMENTS" means the Purchase Agreement and the Notes and all other agreements, instruments and documents evidencing or relating to the Secured Obligations.

"OTHER LENDERS" is defined in Section 7.1.

"PATENT COLLATERAL" means:

(a) all letters patent and applications for letters patent throughout the world of the Grantor, including all patent applications of the Grantor in preparation for filing anywhere in the world and including each patent and patent application referred to in Item A of Schedule I attached hereto;

(b) all patent licenses in favor of the Grantor, including each patent license in favor of the Grantor referred to in Item B of Schedule I attached hereto;

(c) all reissues, divisions, continuations, continuations-in-part, extensions, renewals and reexaminations of any of the items described in clauses (a) and (b) above; and

(d) all proceeds of, and rights associated with, the foregoing (including license royalties and proceeds of infringement suits), the right of the Grantor to sue third parties for past, present or future infringements of any patent or patent application, including any patent or patent application referred to in Item A of Schedule I attached hereto, and for breach or enforcement of any patent license, including any patent license referred to in Item B of Schedule I attached hereto, and all rights corresponding thereto throughout the world.

"POSSESSORY COLLATERAL" is defined in Section 7.10.

"RECEIVABLES" is defined in clause (c) of Section 2.1.

"RELATED CONTRACTS" is defined in clause (c) of Section 2.1.

"SECURED OBLIGATIONS" is defined in Section 2.2.

"SECURITY AGREEMENT" is defined in the preamble.

"TRADEMARK COLLATERAL" means:

(a) all trademarks, trade names, corporate names, company names, business names, fictitious business names, trade styles, service marks, certification marks, collective marks, logos, other source of business identifiers, prints and labels on which any of the foregoing have appeared or appear, designs and general intangibles of a like nature of the Grantor (all of the foregoing items in this clause (a) being collectively called a "TRADEMARK"), now existing anywhere in the world or hereafter adopted or acquired, whether currently in use or not, all registrations and recordings thereof and all applications in connection therewith, whether pending or in preparation for filing, including registrations, recordings and applications of the Grantor in the United States Patent and Trademark Office or in any office or agency of the United States of America or any state thereof or any foreign country, including those referred to in Item A of Schedule II attached hereto;

(b) all Trademark licenses in favor of the Grantor, including each Trademark license referred to in Item B of Schedule II attached hereto;

(c) all reissues, extensions or renewals of any of the items described in clauses (a) and (b) above;

(d) all of the goodwill of the business of the Grantor connected with the use of, and symbolized by the items described in, clauses (a) and (b) above; and

(e) all proceeds of, and rights associated with, the foregoing, including any claim by the Grantor against third parties for past, present or future infringement or dilution of any Trademark, Trademark registration or Trademark license of the Grantor, including any Trademark, Trademark registration or Trademark license referred to in Item A or Item B of Schedule II attached hereto, or for any injury to the goodwill associated with the use of any such Trademark or for breach or enforcement of any Trademark license.

"TRADE SECRETS COLLATERAL" means common law and statutory trade secrets and all other confidential or proprietary or useful information of the Grantor and all know-how obtained by the Grantor or used by the Grantor in the business of the Grantor (all of the foregoing being collectively called a "TRADE SECRET"), whether or not such Trade Secret has been reduced to a writing or other tangible form, including all documents and things embodying, incorporating or referring in any way to such Trade Secret, all Trade Secret licenses, including each Trade Secret license referred to in Schedule IV attached hereto, and including the right of the Grantor to sue for and to enjoin and to collect damages for the actual or threatened misappropriation of any Trade Secret and for the breach or enforcement of any such Trade Secret license.

"U.C.C." means the Uniform Commercial Code, as in effect in the State of New York.

SECTION 1.2. U.C.C. Definitions. Unless otherwise defined herein or in the Credit Agreement or unless the context otherwise requires, terms for which meanings are provided in the U.C.C. are used in this Security Agreement, including its preamble and recitals, with such meanings.

ARTICLE II

SECURITY INTEREST

SECTION 2.1. Grant of Security. Grantor hereby assigns and pledges to the Lenders and hereby grants to the Lenders a security interest in, all of the Grantor's right, title and interest in, to and under the following property, whether now or hereafter existing or acquired, to the extent such property is primarily used in connection with Grantor's business of manufacturing, marketing and selling Grantor's Quantix devices, neo2000 devices and any successor or similar devices the ("COLLATERAL"). The Collateral shall not include any inventory, equipment, accounts, goods, contract rights or intellectual property relating exclusively to Grantor's Lymphoseek, Activated Cellular Therapy, or RIGScan CR technologies:

(a) all equipment in all of its forms of the Grantor, wherever located, and all parts thereof and all accessions, additions, attachments, improvements, substitutions and replacements thereto and therefor (any and all of the foregoing being the "EQUIPMENT");

(b) all inventory in all of its forms of the Grantor, wherever located, including

(i) all merchandise, goods and other personal property which are held for sale or lease, all raw materials and work in process therefor (including, without limitation, tobacco and tobacco related products), finished goods thereof, and materials used or consumed in the manufacture or production thereof,

(ii) all goods in which the Grantor has an interest in mass or a joint or other interest or right of any kind (including goods in which the Grantor has an interest or right as consignee), and

(iii) all goods which are returned to or repossessed by the Grantor,

and all accessions thereto, products thereof and documents therefor (any and all such inventory, materials, goods, accessions, products and documents being the "INVENTORY");

(c) all accounts, contracts, contract rights, chattel paper, documents, instruments, and general intangibles of the Grantor, including ownership rights of the inventory owned by the Grantor, whether or not arising out of or in connection with the sale or lease of goods or the rendering of services, and all rights of the Grantor now or hereafter existing in and to all security agreements, guaranties, leases and other contracts securing or otherwise relating to any such accounts, contracts, contract rights, chattel paper, documents, instruments, and general intangibles (any and all such accounts, contracts, contract rights, chattel paper, documents, instruments, and general intangibles being the "RECEIVABLES", and any and all such security agreements, guaranties, leases and other contracts being the "RELATED CONTRACTS");

(d) all Intellectual Property Collateral of the Grantor;

(e) all books, records, writings, data bases, information and other property of the Grantor relating to, used or useful in connection with, evidencing, embodying, incorporating or referring to any of the foregoing in this Section 2.1;

(f) all of the Grantor's other property and rights of every kind and description and interests therein; and

(g) all products, offspring, rents, issues, profits, returns, income and proceeds of and from any and all of the foregoing Collateral (including proceeds which constitute property of the types described in clauses (a), (b), (c), (d), (e) and (f) above, proceeds deposited from time to time in any collateral account and in any lock boxes of the Grantor, and, to the extent not otherwise included, all payments under insurance (whether or not the Lender is the loss payee thereof), or any indemnity, warranty or guaranty, payable by reason of loss or damage to or otherwise with respect to any of the foregoing Collateral).

SECTION 2.2. Security for Secured Obligations. This Security Agreement secures the prompt payment in full of all amounts payable by the Grantors under or in connection with the Notes and the Purchase Agreement whether for principal, interest, costs, fees, expenses, indemnities or otherwise and whether now or hereafter existing (all of such obligations being the "SECURED OBLIGATIONS").

SECTION 2.3. Continuing Security Interest; Transfer of Notes. This Security Agreement shall create a continuing security interest in the Collateral and shall

(a) remain in full force and effect until the indefeasible payment in full in cash of all Secured Obligations, and

(b) be binding upon each Grantor, its successors, transferees and assigns.

SECTION 2.4. Release and Termination. Upon the indefeasible payment in cash in full of all Secured Obligations, the security interest granted herein shall terminate and all rights to the Collateral shall revert to the Grantors. Upon any such termination, the Lenders will, at the Grantors' sole expense, deliver to the Grantors, without any representations, warranties or recourse of any kind whatsoever, such documents as the Grantors shall reasonably request to evidence such termination.

SECTION 2.5. Security Interest Absolute. All rights of the Lenders and the security interests granted to the Lenders hereunder, and all obligations of the Grantor hereunder, shall be absolute and unconditional, irrespective of

(a) any lack of validity or enforceability of the Notes;

(b) the failure of any Lender or any holder of a Note;

(i) to assert any claim or demand or to enforce any right or remedy against the Grantor, or

(ii) to exercise any right or remedy against any guarantor of, or collateral securing, any Secured Obligation;

(c) any change in the time, manner or place of payment of, or in any other term of, all or any of the Secured Obligations or any other extension, compromise or renewal of any Secured Obligation;

(d) any reduction, limitation, impairment or termination of any Secured Obligation for any reason (other than repayment in full of the Secured Obligations), including any claim of waiver, release, surrender, alteration or compromise, and shall not be subject to (and each Grantor hereby waives any right to or claim of) any defense or setoff, counterclaim, recoupment or termination whatsoever by reason of the invalidity, illegality, nongenuineness, irregularity, compromise or unenforceability of, or any other event or occurrence affecting, any Secured Obligation or otherwise;

(e) any amendment to, rescission, waiver, or other modification of, or any consent to departure from, any of the terms of any Note;

(f) any addition, exchange, release, surrender, impairment or non-perfection of any collateral (including the Collateral), or any amendment to or waiver or release of or addition to or consent to departure from any guaranty, for any of the Secured Obligations; or

(g) any other circumstances which might otherwise constitute a defense available to, or a legal or equitable discharge of, the Grantor, any other person or otherwise.

ARTICLE III

REPRESENTATIONS AND WARRANTIES

SECTION 3.1. Representations and Warranties. Grantor represents and warrants unto the Lenders as set forth in this Article.

(a) Ownership, No Liens, etc. The Grantor owns the Collateral owed by it free and clear of any Lien, security interest, charge or encumbrance except for the security interest created by this Security Agreement and Permitted Encumbrances. No effective financing statement or other similar instrument in effect covering all or any part of the Collateral is on file in any recording office, except such as may have been filed in favor of the Lenders relating to this Security Agreement and Permitted Encumbrances.

(b) Possession and Control. The Grantor has exclusive possession and control of the Equipment and Inventory.

(c) Validity, etc. The Liens intended to be created by this Security Agreement constitute valid first priority security interests in the Collateral securing the payment of the Secured Obligations, and all filings and other

actions necessary or desirable to perfect and protect such security interest have been duly taken.

(d) Authorization, Approval, etc. No authorization, approval or other action by, and no notice to or filing with, any governmental authority or regulatory body (other than U.C.C. filings) is required either

(i) for the grant by the Grantor of the security interest granted hereby or for the execution, delivery and performance of this Security Agreement by the Grantor, or

(ii) for the perfection of or the exercise by the Lenders of their rights and remedies hereunder.

(e) Compliance with Laws. The Grantor is in compliance in all material respects with the requirements of all applicable laws (including, without limitation, the provisions of the Fair Labor Standards Act), rules, regulations and orders of every governmental authority.

(f) Due Execution, Validity, Etc. The execution, delivery and performance by the Grantor of this Security Agreement does not contravene or result in a default under the Grantor's organic documents or contravene or result in a default under any material contractual restriction, lien or governmental regulation or court decree or order binding on the Grantor. This Security Agreement has been duly executed and delivered on behalf of the Grantor and constitutes the legal, valid and binding obligation of the Grantor enforceable in accordance with its terms, subject to the effect of any applicable bankruptcy, insolvency, reorganization, moratorium or similar law affecting creditor's right generally, and subject to the effect of general principles of equity (regardless of whether considered in a proceeding in equity or at law).

ARTICLE IV

FURTHER ASSURANCES

SECTION 4.1. Further Assurances, etc. Grantor agrees that, from time to time at its own expense, the Grantor will promptly execute and deliver all further instruments and documents, and take all further action, that may be necessary or desirable, or that the Lenders may request, in order to perfect, preserve and protect any security interest granted or purported to be granted hereby or to enable the Lenders to exercise and enforce their rights and remedies hereunder with respect to any Collateral. Without limiting the generality of the foregoing, the Grantor will:

(a) execute and file such financing or continuation statements, or amendments thereto, and such other instruments or notices as may be necessary or desirable, or as the Lenders may request, in order to perfect and preserve the security interests and other rights granted or purported to be granted to the Lender hereby; and

(b) furnish to the Lenders, from time to time at the Lenders' request, statements and schedules further identifying and describing the Collateral and such other reports in connection with the Collateral as the Lender may reasonably request, all in reasonable detail.

With respect to the foregoing and the grant of the security interest hereunder, the Grantor hereby authorizes the Lender to file one or more financing or continuation statements, and amendments thereto, relative to all or any part of the Collateral without the signature of the Grantor where permitted by law. A carbon, photographic or other reproduction of this Security Agreement or any financing statement covering the Collateral or any part thereof shall be sufficient as a financing statement where permitted by law.

ARTICLE V

THE LENDERS

SECTION 5.1. Administrative Agent Appointed Attorney-in-Fact. Grantor hereby irrevocably appoints the Administrative Agent, as the Grantor's attorney-in-fact, with full authority in the place and stead of the Grantor and in the name of the Grantor or otherwise, from time to time in the Administrative

Agent's discretion, to take any action and to execute any instrument which the Administrative Agent may deem necessary or advisable to accomplish the purposes of this Security Agreement, including, without limitation:

(a) to ask, demand, collect, sue for, recover, compromise, receive and give acquittance and receipts for moneys due and to become due under or in respect of any of the Collateral;

(b) to receive, endorse, and collect any drafts or other instruments, documents and chattel paper, in connection with clause (a) above;

(c) to file any claims or take any action or institute any proceedings which the Administrative Agent may deem necessary or desirable for the collection of any of the Collateral or otherwise to enforce the rights of the Lenders with respect to any of the Collateral; and

(d) to perform the affirmative obligations of the Grantor hereunder.

Grantor hereby acknowledges, consents and agrees that the power of attorney granted pursuant to this Section is irrevocable and coupled with an interest.

SECTION 5.2. Perform. If Grantor fails to perform any agreement contained herein, Administrative Agent may itself perform, or cause performance of, such agreement, and the expenses of the Administrative Agent incurred in connection therewith shall be payable by the Grantor.

SECTION 5.3. No Duty. The powers conferred on the Administrative Agent hereunder are solely to protect the Lenders' interest in the Collateral and shall not impose any duty on the Administrative Agent to exercise any such powers. Except for reasonable care of any Collateral in its possession and the accounting for moneys actually received by it hereunder, no Lender shall have any duty as to any Collateral or as to the taking of any necessary steps to preserve rights against prior parties or any other rights pertaining to any Collateral.

SECTION 5.4. Reasonable Care. The Administrative Agent is required to exercise reasonable care in the custody and preservation of any of the Collateral in its possession; provided, however, that the Administrative Agent shall be deemed to have exercised reasonable care in the custody and preservation of any of the Collateral, if it takes such action for that purpose as the Grantor reasonably requests in writing at times other than upon the occurrence and during the continuance of any Event of Default, but failure of the Administrative Agent to comply with any such request at any time shall not in itself be deemed a failure to exercise reasonable care.

ARTICLE VI

REMEDIES

SECTION 6.1. Certain Remedies. If any Event of Default (as defined in the Notes) shall have occurred and be continuing:

(a) The Administrative Agent, on behalf of the Lenders, may exercise in respect of the Collateral, in addition to other rights and remedies provided for herein or otherwise available to it, all the rights and remedies of a secured party on default under the U.C.C. (whether or not the U.C.C. applies to the affected Collateral) and also may:

(i) require Grantor to, and Grantor hereby agrees that it will, at its expense and upon request of the Administrative Agent forthwith, assemble all or part of the Collateral as directed by the Administrative Agent and make it available to the Administrative Agent at a place to be designated by the Administrative Agent which is reasonably convenient to the Administrative Agent and the Grantor; and

(ii) without notice except as specified below, sell the Collateral or any part thereof in one or more parcels at public or private sale, at any of the Administrative Agent's offices or elsewhere, for cash, on credit or for future delivery (without assumption of any credit risk), and upon such other terms as the Administrative Agent may deem commercially reasonable. Grantor agrees that, to the extent notice of sale shall be required by law, at

least ten days' prior notice to the Grantor of the time and place of any public sale or the time after which any private sale is to be made shall constitute reasonable notification. The Administrative Agent shall not be obligated to make any sale of Collateral regardless of notice of sale having been given. The Administrative Agent may adjourn any public or private sale from time to time by announcement at the time and place fixed therefor, and such sale may, without further notice, be made at the time and place to which it was so adjourned.

(b) All cash proceeds received by the Administrative Agent in respect of any sale of, collection from, or other realization upon all or any part of the Collateral may, in the discretion of the Administrative Agent, be held by the Administrative Agent as collateral for, and/or then or at any time thereafter applied (after payment of any amounts payable to the Lenders pursuant to Section 6.2) in whole or in part by the Administrative Agent for the ratable benefit of the Lenders against, all or any part of the Secured Obligations in the following order:

(i) first, to payment of the expenses of such sale or other realization including reasonable compensation to the Administrative Agent and its counsel, and all expenses, liabilities and advances incurred or made by the Administrative Agent in connection therewith or Section 6.2 hereof;

(ii) second, to the ratable payment of accrued but unpaid interest on the Notes;

(iii) third, to the ratable payment of unpaid principal of the Notes;

(iv) fourth, to the ratable payment of all other Secured Obligations, until all Secured Obligations shall have been paid in full.

The Administrative Agent may make distributions hereunder in cash or in kind or, on a ratable basis, in any combination thereof. Any surplus of such cash or cash proceeds held by the Administrative Agent and remaining after payment in full of all the Secured Obligations shall be paid over to the Grantor or to whomsoever may be lawfully entitled to receive such surplus.

SECTION 6.2. Indemnity and Expenses.

(a) The Grantor agrees to indemnify the Lenders, including the Administrative Agent, and the Indemnified Parties from and against any and all claims, losses and liabilities arising out of or resulting from this Security Agreement (including, without limitation, enforcement of this Security Agreement) in accordance with the provisions of Article 7 of the Purchase Agreement.

(b) The Grantor will upon demand pay to the Administrative Agent the amount of any and all reasonable expenses, including the reasonable fees and disbursements of counsel and of any experts, which the Lenders may incur in connection with

(i) the administration of this Security Agreement,

(ii) the custody, preservation, use or operation of, or the sale of, collection from, or other realization upon, any of the Collateral,

(iii) the exercise or enforcement of any of the rights of the Lenders hereunder, or

(iv) the failure by the Grantor to perform or observe any of the provisions hereof.

ARTICLE VII

INTERCREDITOR ARRANGEMENTS

SECTION 7.1. Administrative Agent. BVF as the "ADMINISTRATIVE AGENT" and the other Lenders (the "OTHER LENDERS") agree, (i) as to the certain rights and priorities of each with respect to the Secured Obligations and with respect to their respective liens upon and security interest in the Collateral and (ii) as to provide for the orderly sharing among the Lenders of the proceeds of such Collateral upon any foreclosure thereon or other disposition thereof, to the

intercreditor arrangements set forth in this Article 7.

SECTION 7.2. Payments Held in Trust/Turnover; Application of Payments.

(a) All payments of principal, interest, fees and expenses after the issuance of the Notes, and proceeds of the Collateral shall be apportioned ratably among the Lenders.

(b) In the event that any payment or distribution of assets of Grantor, whether in cash, property or securities, shall be received by a Lender in contravention of Section 7.2(a) such payment or distribution shall be held in trust for the benefit of and shall be paid over to or delivered to the other Lenders for application in accordance with the terms of Section 7.2(a).

SECTION 7.3. Permitted Liens and Relative Priorities. As among the Lenders, and notwithstanding the terms (including the description of Collateral), dating, execution, or delivery of any document, instrument, or agreement; the time, order, method, or manner of granting, attachment or perfection of any security interest or lien; the time of filing or recording of any financing statements, assignments, deeds of trust, mortgages, or any other documents, instruments, or agreements under the U.C.C. or any other applicable law, and any provision of the U.C.C. or any other applicable law to the contrary, the Lenders agree that the Administrative Agent not individually, but on behalf of all of the Lenders, shall have a first priority security interest in and lien upon the Collateral.

For purposes of the foregoing allocation of priorities, any claim of a right to a setoff shall be treated in all respects as a security interest and no claimed right of setoff shall be asserted to defeat or diminish the rights or priorities provided for herein.

SECTION 7.4. No Alteration of Priority. The lien and security interest priorities provided in Section 7.3 hereof shall not be altered or otherwise affected by any amendment, modification, supplement, extension, renewal, restatement or refinancing of any of the Secured Obligations nor by any action or inaction which any Lender may take or fail to take in respect of the Collateral. Each Lender consents to Grantor's granting to each other Lender the liens and security interests reflected in Section 7.3 hereof.

SECTION 7.5. Nonavoidability and Perfection. The provisions of this Article 7 are intended solely to govern the respective priorities as among the Lenders. Each Lender agrees that it will not directly or indirectly take any action to contest or challenge the validity, legality, perfection, priority, availability, or enforceability of the liens of the other Lenders upon the Collateral or seek to have the same avoided, disallowed, set aside, or otherwise invalidated in any judicial proceeding or otherwise. In the event that any Other Lender (either individually or together with others) breaches or causes to be breached the terms of the preceding sentence, resulting (directly or indirectly) in the avoidance or imperfection of the Administrative Agent's lien or security interest held on behalf of all of the Lenders in some or all of the Collateral, then the priority of the lien or security interest of the Lenders in any such affected Collateral shall continue to be governed by the terms of Section 7.3 hereof irrespective of the avoidance or imperfection of the Administrative Agent's lien or security interest held on behalf of all of the Lenders.

SECTION 7.6. Management of Collateral. Notwithstanding anything to the contrary contained in the Purchase Agreement or any of the Notes (with respect to provisions addressing management of Collateral only):

(a) Until the Secured Obligations have been paid in full and subject to the remaining provisions of this Article 7: (i) the Administrative Agent, on behalf of the Lenders, shall have the exclusive right to manage, perform, and enforce the terms of the Loan Documents with respect to the Collateral and to exercise and enforce all privileges and rights thereunder in its reasonable discretion and its exercise of its business judgment, including, without limitation, the exclusive right to enforce or settle insurance claims with respect to Collateral, take or retake control or possession of Collateral and to hold, prepare for sale, process, sell, lease, dispose of, or liquidate Collateral; provided, however, that nothing in this Article 7 shall be construed as granting Administrative Agent any rights under this Agreement or the Notes which do not specifically relate to management of the Collateral (e.g., declaring an "Event of Default", or amending or waiving any term or provision of

the Notes or this Agreement); (ii) none of the Other Lenders shall exercise or take any action in furtherance of the sale, foreclosure, realization upon, or the repossession or liquidation of any of the Collateral, including, without limitation: (A) the exercise of any remedies or rights of a "Secured Creditor" under Article 9 of the U.C.C., such as, without limitation, the notification of account debtors; (B) the exercise of any remedies or rights as a mortgagee or beneficiary (or by the trustee on behalf of the beneficiary), including, without limitation, the appointment of a receiver, or the commencement of any foreclosure proceedings or the exercise of any power of sale, including, without limitation, the placing of any advertisement for the sale of any Collateral; (C) the exercise of any remedies available to a judgment creditor; or (D) any other remedy available in respect of the Collateral available to such Secured Creditor under any of the Loan Documents (the "LENDER REMEDIES") with respect to Collateral; and (iii) any and all proceeds of Collateral which shall come into the possession, control, or custody of any Lender will be deemed to have been received for the account of the Administrative Agent, and shall be immediately paid over to the Administrative Agent for application in accordance with the provisions hereof. Each Other Lender waives any and all rights to affect the method or challenge the appropriateness of any action by the Administrative Agent with respect to the Collateral other than actions arising out of the gross negligence or willful misconduct of the Administrative Agent, and waives any claims or defenses they may have against the Administrative Agent, including any such claims or defenses based on any actions or omissions of the Administrative Agent in connection with the perfection, maintenance, enforcement, foreclosure, sale, liquidation or release of any lien or security interest therein, or any modification or waiver of the Loan Document other than those arising out of the gross negligence or willful misconduct of the Administrative Agent.

(b) The rights and priorities set forth in this Article 7 shall remain binding irrespective of the terms of any plan of reorganization in any proceeding commenced by or against Grantor under any provision of the United States Bankruptcy Code (11 U.S.C. ss. 101, et seq.), as amended, and any successor statute (the "BANKRUPTCY CODE") or under any other federal or state bankruptcy or insolvency law, including assignments for the benefit of creditors, formal or informal moratoria, compositions, extensions generally with its creditors, or proceedings seeking reorganization, arrangement, or other similar relief, and all converted or succeeding cases in respect thereof (the "BANKRUPTCY CASE") or other provisions of the Bankruptcy Code or any similar federal or state statute.

SECTION 7.7. Sale of Collateral. Until the Secured Obligations have been paid in full and subject to the consent of the BV Funds in accordance with the remaining provisions of this Section 7.7: (a) only the Administrative Agent on behalf of the Lenders shall have the right to restrict or permit, or approve or disapprove, the sale, transfer or other disposition of the Collateral; and (b) the Other Lenders will, immediately upon the request of the Administrative Agent, release or otherwise terminate their liens and security interests upon the Collateral, to the extent such Collateral is sold or otherwise disposed of by Grantor with the consent of the Administrative Agent, and the Other Lenders will immediately deliver such release documents as the Administrative Agent may require in connection therewith, provided, that the proceeds of any given sale shall be applied to the Secured Obligations of each Lender ratably and no such sale, transfer or other disposition shall be consented to by the Administrative Agent with respect to all or a substantial part of the Collateral without the consent of the BV Funds.

SECTION 7.8. Sections 9-504 and 9-505 Notice and Waiver of Marshalling. Each Lender hereby acknowledges that this Security Agreement shall constitute notice of the other Lenders' respective interests in the Collateral as provided by Sections 9-504 and 9-505 (provided that if the Administrative Agent seeks to exercise any rights under Section 9-505, it shall provide the other Lenders with the notices required thereunder) of the U.C.C. and each of the Lenders waives any right to compel the other Lenders to marshal any of the Collateral or to seek payment from any particular assets of Grantor or from any third party.

SECTION 7.9. Bankruptcy Issues.

(a) Except as provided in this Section 7.9, this Article 7 shall continue in full force and effect after the commencement of a Bankruptcy Case and shall apply with full force and effect with respect to all Collateral acquired by Grantor, and to all Lenders' Secured Obligations incurred by Grantor, subsequent to such commencement to the extent consented to by the BV

Funds.

(b) If Grantor shall become subject to a Bankruptcy Case, and if the Administrative Agent shall desire to permit the use of cash collateral or to provide post-petition financing to Grantor, the Administrative Agent shall obtain the prior written consent of the BV Funds for such use of cash collateral or post-petition financing. No objection will be raised by the Other Lenders to the Administrative Agent's motion for relief from the automatic stay in any proceeding under the Bankruptcy Code to foreclose on and sell the Collateral.

(c) In any Bankruptcy Case by or against Grantor,

(i) the Administrative Agent may, and is hereby irrevocably authorized and empowered (in its own name or in the name of the Lenders or otherwise), but shall have no obligation, to, (1) demand, sue for, collect and receive every payment or distribution in respect of the Secured Obligations and give acquittance therefor and (2) file claims and proofs of claim in respect of all of the Secured Obligations and take such other action (including, without limitation, voting all of the Secured Obligations or enforcing any security interest or other lien securing payment of all of the Secured Obligations) as the Administrative Agent may reasonably deem necessary or advisable for the exercise or enforcement of any of the rights or interests of the Administrative Agent and the Lenders; and

(ii) the Other Lenders will duly and promptly take such action as the Administrative Agent may reasonably request (1) to collect the Secured Obligations and to file appropriate claims or proofs of claim with respect thereto, (2) to execute and deliver to the Administrative Agent such powers of attorney, assignments or other instruments as the Administrative Agent may request in order to enable it to enforce any and all claims with respect to, and any security interests and other liens securing payment of, the Secured Obligations, and (3) to collect and receive any and all payments or distributions which may be payable or deliverable upon or with respect to the Secured Obligations for application to the Lenders in accordance with this Security Agreement.

SECTION 7.10. Bailment. With respect to any Collateral in which a security interest may be perfected under the U.C.C. or other relevant law only by possession ("POSSESSORY COLLATERAL"), the Administrative Agent will act as pledgeholder for the Lenders until the payment in full in cash of the Secured Obligations. Each Other Lender acknowledges and agrees that: (i) the Administrative Agent makes no representation or warranty whatsoever as to the nature, extent, description, validity or priority of any Possessory Collateral or the security interests in or liens upon any Possessory Collateral; (ii) while any Possessory Collateral is held by the Administrative Agent, the Administrative Agent shall not have any liability to, and shall be held harmless by, the Other Lenders, for any losses, damages, claim, or liability of any kind to the extent arising out of the holding of such Possessory Collateral, other than losses, damages, claims, or liabilities arising out of the Administrative Agent's gross negligence or willful misconduct; (iii) the Administrative Agent need not act as a pledgeholder for the Other Lenders with respect to any Collateral in which a security interest may be perfected by means other than possession; (iv) the Other Lenders shall immediately deliver to the Administrative Agent any Possessory Collateral that is now or in the future comes into their possession to be held by the Administrative Agent pursuant to the terms hereof; and (v) the priority of the Lenders' security interests in and liens upon the Possessory Collateral shall be governed by the terms of this Security Agreement.

SECTION 7.11. Authority of Agents/Trustees. Each of the Lenders agrees that any assignment or transfer of an interest in any of the Secured Obligations held by it shall be made expressly subject to the terms and conditions of this Security Agreement.

SECTION 7.12. Additional Covenants. So long as any of the Secured Obligations shall remain outstanding, none of the Lenders will, without the prior written consent of the BV Funds: (a) (i) except as otherwise expressly permitted in this Security Agreement, cancel or otherwise discharge any Secured Obligations (except upon payment in full thereof as contemplated hereby), or (ii) subordinate any Secured Obligations to any indebtedness of Grantor;

(b) sell, assign, pledge, encumber or otherwise dispose of any Secured Obligations unless such sale, assignment, pledge, encumbrance or disposition is made expressly subject to this Article 7, provided that (i) such Lender provides the other Lenders with not less than 10 days prior written notice of any such sale, assignment, pledge, encumbrance or disposition and the identity and address and other notice information of the purchaser, assignee, pledgee, transferee or other beneficiary, and (ii) such purchaser, assignee, pledgee, transferee or other beneficiary executes and delivers to the other Lenders an agreement in form and substance reasonably satisfactory to the BV Funds agreeing to be bound by this Security Agreement and Article 7 hereof.

(c) commence, or join with any creditor other than the other Lenders in commencing, any Bankruptcy Case.

SECTION 7.13. Successor Administrative Agent. The Administrative Agent may resign and be discharged from all further duties and obligations hereunder by giving each of the Lenders 30-days prior written notice or such shorter notice period as may be agreed between the Administrative Agent and the BV Funds. In addition, the Administrative Agent may be removed at any time by the BV Funds. Upon the resignation or removal of the Administrative Agent, a successor Administrative Agent shall be elected by the BV Funds.

ARTICLE VIII

MISCELLANEOUS PROVISIONS

SECTION 8.1. Purchase Agreement. This Security Agreement is executed pursuant to the Purchase Agreement and shall (unless otherwise expressly indicated herein) be construed, administered and applied in accordance with the terms and provisions thereof.

SECTION 8.2. Amendments; etc. Any amendment, supplement or modification of or to any provision of this Note, any waiver of any provision of this Note, and any consent to any departure by any party from the terms of any provision of this Note, may be made only in the manner provided in Section 11.4 of the Purchase Agreement, and then such waiver or consent shall be effective only in the specific instance and for the specific purpose for which given.

SECTION 8.3. Addresses for Notices. All notices and other communications provided for hereunder shall be in writing (including telecopier communication) and, if to the Grantor, mailed, telecopied or delivered to it, addressed to it at the address as set forth in the Purchase Agreement, if to any Lender, mailed, telecopied or delivered to it, addressed to it at the address of the Lender as specified in the Purchase Agreement, or as to any party at such other address as shall be designated by such party in a written notice to each other party complying as to delivery with the terms of this Section. Any notice, if mailed and properly addressed and sent return receipt requested with postage prepaid, shall be deemed given three business days after posting; any notice, if sent by prepaid overnight express shall be deemed delivered on the next business day; any notice, if transmitted by telecopier, shall be deemed given when sent, with confirmation of receipt; and any notice, if transmitted by hand, shall be deemed received when delivered.

SECTION 8.4. Obligations of the Lenders. The obligations of each Lender shall be several and not joint and no Lender shall be liable or responsible for the acts or omissions of any other Lender.

SECTION 8.5. Section Captions. Section captions used in this Security Agreement are for convenience of reference only, and shall not affect the construction of this Security Agreement.

SECTION 8.6. Severability. Wherever possible each provision of this Security Agreement shall be interpreted in such manner as to be effective and valid under applicable law, but if any provision of this Security Agreement shall be prohibited by or invalid under such law, such provision shall be ineffective to the extent of such prohibition or invalidity, without invalidating the remainder of such provision or the remaining provisions of this Security Agreement.

SECTION 8.7. Governing Law, Entire Agreement, etc. THIS SECURITY AGREEMENT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE INTERNAL LAWS OF THE STATE OF NEW YORK, EXCEPT TO THE EXTENT THAT THE VALIDITY OR PERFECTION OF THE

SECURITY INTERESTS HEREUNDER, OR REMEDIES HEREUNDER, IN RESPECT OF ANY PARTICULAR COLLATERAL ARE GOVERNED BY THE LAWS OF A JURISDICTION OTHER THAN THE STATE OF NEW YORK. THIS SECURITY AGREEMENT, THE PURCHASE AGREEMENT AND THE DOCUMENTS DELIVERED PURSUANT THERETO CONSTITUTE THE ENTIRE UNDERSTANDING AMONG THE PARTIES HERETO WITH RESPECT TO THE SUBJECT MATTER HEREOF AND SUPERSEDE ANY PRIOR AGREEMENTS, WRITTEN OR ORAL, WITH RESPECT THERETO.

SECTION 8.8. Forum Selection and Consent to Jurisdiction. ANY LITIGATION BASED HEREON, OR ARISING OUT OF, UNDER, OR IN CONNECTION WITH, THIS SECURITY AGREEMENT, OR ANY COURSE OF CONDUCT, COURSE OF DEALING, STATEMENTS (WHETHER ORAL OR WRITTEN) OR ACTIONS OF ANY LENDER OR THE GRANTOR MAY BE BROUGHT AND MAINTAINED IN ANY UNITED STATES FEDERAL OR NEW YORK STATE COURTS SITTING IN THE CITY OF NEW YORK; PROVIDED, HOWEVER, THAT ANY SUIT SEEKING ENFORCEMENT AGAINST ANY COLLATERAL OR OTHER PROPERTY MAY BE BROUGHT, AT THE ADMINISTRATIVE AGENT'S OPTION, IN THE COURTS OF ANY JURISDICTION WHERE SUCH COLLATERAL OR OTHER PROPERTY MAY BE FOUND. THE GRANTOR HEREBY EXPRESSLY AND IRREVOCABLY SUBMITS TO THE JURISDICTION OF ANY UNITED STATES FEDERAL OR NEW YORK STATE COURTS SITTING IN THE CITY OF NEW YORK FOR THE PURPOSE OF ANY SUCH LITIGATION AS SET FORTH ABOVE AND IRREVOCABLY AGREES TO BE BOUND BY ANY JUDGMENT RENDERED THEREBY IN CONNECTION WITH SUCH LITIGATION. THE GRANTOR FURTHER IRREVOCABLY CONSENTS TO SERVICE OF PROCESS BY REGISTERED MAIL, POSTAGE PREPAID, OR BY PERSONAL SERVICE WITHIN OR WITHOUT THE STATE OF NEW YORK. THE GRANTOR HEREBY EXPRESSLY AND IRREVOCABLY WAIVES, TO THE FULLEST EXTENT PERMITTED BY LAW, ANY OBJECTION WHICH IT MAY HAVE OR HEREAFTER MAY HAVE TO THE LAYING OF VENUE OF ANY SUCH LITIGATION BROUGHT IN ANY SUCH COURT REFERRED TO ABOVE AND ANY CLAIM THAT ANY SUCH LITIGATION HAS BEEN BROUGHT IN AN INCONVENIENT FORUM. TO THE EXTENT THAT THE GRANTOR HAS OR HEREAFTER MAY ACQUIRE ANY IMMUNITY FROM JURISDICTION OF ANY COURT OR FROM ANY LEGAL PROCESS (WHETHER THROUGH SERVICE OR NOTICE, ATTACHMENT PRIOR TO JUDGMENT, ATTACHMENT IN AID OF EXECUTION OR OTHERWISE) WITH RESPECT TO ITSELF OR ITS PROPERTY, THE GRANTOR HEREBY IRREVOCABLY WAIVES SUCH IMMUNITY IN RESPECT OF ITS OBLIGATIONS UNDER THIS SECURITY AGREEMENT.

SECTION 8.9. Waiver of Jury Trial. THE LENDERS AND THE GRANTOR HEREBY KNOWINGLY, VOLUNTARILY AND INTENTIONALLY WAIVE ANY RIGHTS THEY MAY HAVE TO A TRIAL BY JURY IN RESPECT OF ANY LITIGATION BASED HEREON, OR ARISING OUT OF, UNDER, OR IN CONNECTION WITH, THIS SECURITY AGREEMENT, OR ANY COURSE OF CONDUCT, COURSE OF DEALING, STATEMENTS (WHETHER ORAL OR WRITTEN) OR ACTIONS OF THE LENDERS OR THE GRANTOR. THE GRANTOR ACKNOWLEDGES AND AGREES THAT IT HAS RECEIVED FULL AND SUFFICIENT CONSIDERATION FOR THIS PROVISION (AND EACH OTHER PROVISION OF EACH OTHER LOAN DOCUMENT TO WHICH IT IS A PARTY) AND THAT THIS PROVISION IS A MATERIAL INDUCEMENT FOR THE LENDERS ENTERING INTO THE PURCHASE AGREEMENT AND EACH SUCH OTHER LOAN DOCUMENT. IN NO EVENT SHALL ANY LENDER BE LIABLE FOR ANY CONSEQUENTIAL DAMAGES WHICH MAY BE ALLEGED IN CONNECTION HERewith OR THE TRANSACTIONS CONTEMPLATED HEREBY.

IN WITNESS WHEREOF, the parties hereto have caused this Security Agreement to be executed and delivered by as of the date first above written.

NEOPROBE CORPORATION

By: /s/ Brent L. Larson

Name: Brent L. Larson
Title: VP Finance / CFO

BIOMEDICAL VALUE FUND, L.P.

By: GREAT POINT GP, LLC,
its general partner

By: /s/ David E. Kroin

Name: David E. Kroin
Title: Managing Director

BIOMEDICAL OFF SHORE VALUE
FUND, LTD.

By: GREAT POINT PARTNERS, LLC,
its investment manager

By: /s/ David E. Kroin

Name: David E. Kroin
Title: Managing Director

/s/ David C. Bupp

DAVID C. BUPP

[SIGNATURE PAGE TO SECURITY AGREEMENT]

EXHIBIT 99.1

IMMEDIATE RELEASE

DECEMBER 14, 2004

CONTACTS:

BRENT LARSON,
VICE PRESIDENT / CFO
614 793 7500

TIM RYAN,
THE TROUT GROUP
212 477 9007

NEOPROBE COMPLETES \$8.1 MILLION FINANCING
GREAT POINT PLACEMENT OF CONVERTIBLE NOTES PROVIDES CLINICAL RESEARCH FUNDING

DUBLIN, Ohio--(BUSINESS WIRE)--Dec. 14, 2004--Neoprobe Corporation (OTCBB: NEOP), a diversified developer of innovative oncology and cardiovascular surgical and diagnostic products, today announced that it raised \$8.1 million through the issuance of \$8 million and \$100,000 in four-year, convertible promissory notes to funds of Great Point Partners, LLC and David C. Bupp (Neoprobe's President and CEO), respectively. The notes will bear interest at 8% per annum and are freely convertible into shares of the company's common stock at a price of \$0.40 per share. The conversion price represents the 10-day volume weighted average trading price of the company's common stock through December 10, 2004. As part of this transaction, Neoprobe issued five-year warrants to the investors to purchase 10,125,000 shares of the Company's common stock at an exercise price of \$0.46. The Company may force conversion of the note prior to its stated maturity under certain circumstances. Specific details of this transaction may be found in the Company's Form 8-K to be filed with the Securities and Exchange Commission on or about December 16, 2004. Proceeds from the note will be used primarily to fund late-stage clinical development of the Company's most advanced radiopharmaceutical agent, Lymphoseek(TM), for the assessment of the spread of breast cancer and melanoma to the lymphatic system and to complete the commercial launch of the company's blood flow measurement products, the Quantix/OR(TM) and the Quantix/ND(TM).

David Kroin, Managing Director of Great Point Partners, LLC, stated, "We are excited to provide this growth financing for Neoprobe and believe the Company is a uniquely positioned, diversified biomedical company. The existing gamma device business has tremendous brand value as evidenced by its continuing profit stream and we expect that to be enhanced with the blood flow products launch in 2005. In addition, Lymphoseek and RIGScan(R) have the potential to unlock significant upside for shareholders. We look forward to working with and supporting the Neoprobe management team as they execute their business strategy."

David Bupp commented, "We are very pleased to have an investor of Great Point's stature become involved with Neoprobe Corporation. The completion of this financing will provide Neoprobe with the capital resources to move forward with the clinical development of Lymphoseek and to execute the commercial introduction of the Quantix products early next year. In addition, the financing will allow Neoprobe to devote other resources to prepare for the anticipated commencement of clinical evaluation activities for RIGScan CR in 2005."

ABOUT NEOPROBE

Neoprobe develops and provides innovative surgical and diagnostic products that enhance patient care by meeting the critical decision making needs of healthcare professionals. Neoprobe currently markets the neo2000(R) line of gamma detection systems that are widely used by cancer surgeons for intraoperative lymphatic mapping. Neoprobe is also in the process of commercializing the Quantix(R) line of blood flow measurement products developed by its subsidiary, Cardiosonix Ltd., that are designed to be used by cardiovascular surgeons, neurosurgeons and critical care physicians. In addition, Neoprobe holds significant interests in the development of related biomedical systems and agents including Lymphoseek(TM) and RIGScan(R) CR. Lymphoseek is an investigational drug being developed as a lymphatic tracing agent in conjunction with the University of California, San Diego. The RIGS(R) system is an

investigational technology that combines the Company's gamma detection device technology with a proprietary disease-specific radiolabeled cancer targeting agent, and a patented surgical method to get real-time information to locate tumor deposits that may not be detectable by conventional methods. Before surgery, a cancer patient is injected with one of the targeting agents, which circulates throughout the patient's body and binds specifically to cancer cell antigens or receptors. Concentrations of the targeting agent are then located during surgery by the company's gamma-detection instrument, which emits an audible tone to direct the surgeon to targeted tissue. The Company's strategy is to deliver superior growth and shareholder return by maximizing its strong position in gamma detection technologies and diversifying into new, synergistic biomedical markets through continued investment and selective acquisitions.

ABOUT GREAT POINT LLC

Great Point Partners LLC of Greenwich, Connecticut manages the Biomedical Value Fund, L.P., a bottoms-up, primary research oriented, investment fund formed to invest principally in undervalued publicly traded life sciences, medical technology and other healthcare companies by purchasing securities in the open market, financing growth companies through PIPE (Private Investment in Public Equity) financings, and in other directly negotiated transactions.

Statements in this news release, 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. The words "believe," "expect," "anticipate," "estimate," "project," and similar expressions identify forward-looking statements that speak only as of the date hereof. Investors are cautioned that such statements involve risks and uncertainties that could cause actual results to differ materially from historical or anticipated results due to many factors including, but not limited to, the Company's continuing operating losses, uncertainty of market acceptance of its product, reliance on third party manufacturers, accumulated deficit, future capital needs, uncertainty of capital funding, dependence on limited product line and distribution channels, competition, limited marketing and manufacturing experience, risks of development of new products, regulatory risks and other risks detailed in the Company's most recent Annual Report on Form 10-KSB and other Securities and Exchange Commission filings. The Company undertakes no obligation to publicly update or revise any forward-looking statements.