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

FORM 10-KSB

(Mark One)

☒ ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended: December 31, 2006

OR

☐ TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____.

Commission file number: 0-26520

NEOPROBE CORPORATION
(Name of Small Business Issuer in Its Charter)

Delaware	31-1080091
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
425 Metro Place North, Suite 300, Dublin, Ohio	43017-1367
(Address of Principal Executive Offices)	(Zip Code)

Issuer's telephone number, including area code: (614) 793-7500
Securities registered pursuant to Section 12(b) of the Act: None
Securities registered pursuant to Section 12(g) of the Act:

Common Stock, par value $.001 per share
(Title of Class)

Check whether the issuer is not required to file reports pursuant to Section 13 or 15(d) of the Exchange Act. ☐

Check whether the registrant: (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Check if there is no disclosure of delinquent filers pursuant to Item 405 of Regulation S-B contained in this form and no disclosure will be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act.
Yes ☐ No ☒

The issuer's revenues for the fiscal year ended December 31, 2006 were $6,051,071.

The aggregate market value of shares of common stock held by non-affiliates of the registrant on March 9, 2007 was $12,849,028.

The number of shares of common stock outstanding on March 9, 2007 was 59,864,910.

DOCUMENTS INCORPORATED BY REFERENCE

None.

Transitional Small Business Disclosure Format (check one): Yes ☐ No ☒

PART I

Item 1. Description of Business

Development of the Business

Neoprobe Corporation (Neoprobe, the company or we) is a biomedical company that develops and commercializes innovative products that enhance patient care and improve patient outcome by meeting the critical intraoperative diagnostic information needs of physicians and therapeutic treatment needs of patients. We were originally incorporated in Ohio in 1983 and reincorporated in Delaware in 1988. Our executive offices are located at 425 Metro Place North, Suite 300, Dublin, Ohio 43017. Our telephone number is (614) 793-7500.

From our inception through 1998, we devoted substantially all of our efforts and resources to the research and clinical development of radiopharmaceutical and medical device technologies related to the intraoperative diagnosis and treatment of cancers, including our proprietary radioimmunoguided surgery (**RIGS**®) technology. At that point, an evaluation of the status of the regulatory pathway for our **RIGS** products coupled with our limited financial resources caused us to suspend development activities related to our radiopharmaceutical business and to retrench our organization to focus on our medical device business. After achieving profitability in 2000 following this retrenchment, we set out on a strategy to expand our medical device portfolio outside the cancer field. In December 2001, we took a major step in executing this strategy with the acquisition of Biosonix Ltd., a private Israeli company limited by shares, which we subsequently renamed Cardiosonix Ltd. (Cardiosonix). Neoprobe through Cardiosonix has begun commercializing the **Quantix**® line of blood flow measurement devices for a variety of diagnostic and surgical applications in the cardiac and vascular management arena. The results of Cardiosonix's efforts to date have not met with our original expectations; however, we continue to believe that the **Quantix** products can positively impact our medical device business over the next few years.

In addition, although our strategic focus expanded in 2001 to include blood flow measurement, we continued to look for other avenues to reinvigorate our radiopharmaceutical development. During 2004, our efforts resulted in a number of positive events that caused us to take steps to re-activate development of our radiopharmaceutical and therapeutic initiatives. As a result, in 2007 we now have one of our radiopharmaceutical products, **Lymphoseek®**, involved in a variety of clinical evaluations including a Phase 2 multi-center clinical trial, and a second, **RIGScan®** CR, for which we are clarifying the regulatory pathway and identifying potential sources of funding. In early 2005, we also formed a new subsidiary, Cira Biosciences, Inc. (Cira Bio), to evaluate the current market opportunities for another technology platform, activated cellular therapy (ACT). Our unique virtual business model combines revenue generation from medical devices that contributes to covering our corporate overhead while we devote capital raised through financing efforts to incremental development such as **Lymphoseek** and look for development partners to assist us in the clinical and commercial development for **RIGScan** CR and ACT.

Our Technology

Gamma Detection Devices

Through 2006, substantially all of our revenue has been generated from the sale of a line of gamma radiation detection devices and related products used by surgeons in the diagnosis and treatment of cancer and related diseases. Our currently-marketed line of gamma detection devices has been cleared by the U.S. Food and Drug Administration (FDA) and other international regulatory agencies for marketing and commercial distribution throughout most major global markets.

Our patented gamma detection device systems consist of hand-held detector probes and a control unit. The critical detection component is a highly radiosensitive crystal contained in the tip of the probe that relays a signal through a preamplifier to the control unit to produce both a digital readout and an audible signal. The detector element fits into a housing approximately the size of a pocket flashlight. The **neo2000®** Gamma Detection System, originally released in 1998, is the third generation of our gamma detection systems. The **neo2000** is designed as a platform for future growth of our instrument business. The **neo2000** is software upgradeable and is designed to support future surgical targeting probes without the necessity of costly remanufacture. Since 1998, we have developed and released four major software upgrades for customer units designed to improve the utility of the system and/or offer the users additional features, including our most recent release that enables our entire installed base of **neo2000** users to use our recently released Bluetooth® wireless gamma detection probes. Generally, these software upgrades have been included in new units offered for sale but have also been offered for sale separately.

Surgeons are using our gamma detection devices in a surgical application referred to as sentinel lymph node biopsy (SLNB). SLNB helps trace the lymphatic patterns in a cancer patient to evaluate potential tumor drainage and cancer spread in lymphatic tissue. The technique does not detect cancer; rather it helps surgeons identify the lymph node(s) to which a tumor is likely to drain and spread. The lymph node(s), sometimes referred to as the "sentinel" node(s), may provide critical information about the stage of a patient's disease. SLNB begins when a patient is injected at the site of the main tumor with a commercially available radioactive tracing agent. The agent is intended to follow the same lymphatic flow as the cancer would if it had metastasized. The surgeon may then track the agent's path with a hand-held gamma radiation detection probe, thus following the potential avenues of metastases and identifying lymph nodes to be biopsied for evaluation and determination of cancer spread.

Numerous clinical studies, involving a total of nearly 2,000 patients and published in peer-reviewed medical journals such as *Oncology* (January 1999) and *The Journal of The American College of Surgeons* (December 2000), have indicated SLNB is approximately 97% accurate in predicting the presence or absence of disease spread in melanoma and breast cancers. Consequently, it is estimated that more than 80% of breast cancer patients who would otherwise have undergone full axillary lymph node dissections (ALND), involving the removal of as many as 20 - 30 lymph nodes, might be spared this radical surgical procedure if the sentinel node was found to be free of cancer. Surgeons practicing SLNB have found that our gamma detection probes are well-suited to the procedure.

Hundreds of articles have been published in recent years in peer-reviewed journals on the topic of SLNB. Furthermore, a number of thought leaders and cancer treatment institutions have recognized and embraced the technology as standard of care for melanoma and for breast cancer. Our marketing partner continues to see strong sales, especially for use in breast cancer treatment. SLNB in breast cancer has been the subject of national and international clinical trials, including one major study sponsored by the U.S. Department of Defense and the National Cancer Institute (NCI) and one sponsored by the American College of Surgeons. The first of these trials completed accrual approximately two years ago and preliminary results may be available in the next year to eighteen months. Accrual on the second trial was halted early, due, we believe, to the overwhelming desire of patients to be treated with SLNB rather than be randomized in a trial whereby they might receive a full axillary dissection. We believe that once data from these trials are published there may be an additional demand for our devices from those surgeons who have not yet adopted the SLNB procedure. We also believe, based on an estimate of the total number of operating rooms in medical centers that are capable of performing the types of procedures in which our gamma detection devices are used, that while we are potentially reaching saturation at the major cancer centers and teaching institutions, a significant portion of the global market for gamma detection devices such as ours remains untapped.

In addition to lymphatic mapping, surgeons are investigating the use of our devices for other gamma-guided surgery applications, such as evaluating the thyroid function, in determining the state of disease in patients with vulvar and penile cancers, and for SLNB in prostate, gastric, colon, head and neck, and non-small cell lung cancers. Expanding the application of SLNB beyond the current primary uses in the treatment of breast cancer and melanoma is the primary focus of our strategy regarding our gamma-guided surgery products. To support that expansion, we continue to work with our marketing and distribution partners to develop additional software-based enhancements to the **neo2000** platform as well as our new Bluetooth wireless probes introduced in October 2006. To that end, our goals for our gamma detection device business for 2007 center around introducing additional improvements to our **neo2000** system and working with our marketing partners to further penetrate the breast care market and identify ways to expand the application of SLNB to other indications beyond breast cancer and melanoma. We also believe that our development of **Lymphoseek** could be an integral step in helping expand the application of SLNB.

Blood Flow Measurement Devices

Accurate blood flow measurement is essential for a variety of clinical needs, including:

- real-time monitoring;
- intra-operative quantification;
- non-invasive diagnostics; and
- evaluation of cardiac function.

Blood flow velocity measurements are often confused with volume blood flow. These two variables, however, are normally different parameters that respond differently to pathological conditions and provide different data. Blood flow velocity is used primarily for determining the existence of a stenosis (narrowing or obstruction) in the vascular surgery setting, while the applications of blood flow volume have potential impact across a much broader range of medical disciplines.

Cardiosonix has developed and is commercializing the **Quantix** line of products that employ a unique and proprietary technology that allows for measurement of blood flow volume, velocity and several other hemodynamic parameters that permit the real-time assessment of conduit hemodynamic status.

The **Quantix** technology utilizes a special application of the Doppler method through simultaneous projection of a combination of narrow beams with a known angle between them. Thus, based on trigonometric and Doppler considerations, the angle of insonation can be obtained, resulting in accurate, angle-independent blood flow velocity measurements that do not require the use of complicated, expensive imaging systems. In order to obtain high-resolution velocity profiles, the **Quantix** devices use a multi-gated pulse wave Doppler beam. With this method, specific sample volumes along the ultrasound beam can be separately evaluated, and the application of a flow/no flow criterion can be made. The Cardiosonix technology applies a special use of digital Doppler technology, which with the digital signal processing power of the system allows hundreds of sample volumes to be sampled and processed simultaneously, thus providing high resolution velocity profiles for both angle and vascular diameter calculations, and subsequently volume blood flow measurements. At present, Cardiosonix has two products in the early stages of commercialization designed to provide blood flow measurement and cardiac output information to physicians in cardiac/vascular surgery and neurosurgery. The technology also has the potential to be applied in other healthcare settings where measurement of blood flow may be beneficial.

Quantix/OR™ is designed to permit cardiovascular surgeons to obtain intraoperative volume blood flow readings in various targeted blood vessels within seconds. The system consists of an insonation angle-independent ultrasound probe and digital numerical displays of blood flow rate. Thus, the surgeon obtains immediate, real-time and quantitative readings while focused on the target vessel. Quantifying blood flow can be very beneficial during anastomostic or other bypass graft procedures to determine adequate blood flow. While measurement is advisable whenever a blood vessel is exposed and manipulated intra-operatively, generally this is not the current practice.

Ultimately, in practice, the surgeon generally resorts to using his or her eyes and fingers in a process called finger palpation to qualitatively assess vessel flow. The **Quantix/OR** offers the surgeon immediate and simple quantitative assessment of blood flow in multiple blood vessels and grafts. The primary advantage of finger palpation is that it is fast, simple and low cost; the disadvantages are that it requires a good deal of experience, it is difficult to perform in vessels embedded in tissue, it can become difficult to interpret in large vessels, and it permits only a very qualitative and subjective assessment. A significant partial occlusion (or even a total occlusion) will result in significant vessel “distention” and strong pulse that may mislead the surgeon. Rather than rely on such a subjective clinical practice, which is highly experience-dependent, the **Quantix/OR** is designed to allow the surgeon to rely on more quantifiable and objective information. We believe that **Quantix/OR** represents a measurable improvement over existing technologies to directly measure blood flow intraoperatively. Other technologies that attempt to measure intraoperative blood flow directly are generally more invasive and are impractical when non-skeletonized vessel measurements are required. As a result, a majority of surgeons generally resort to finger palpation to qualitatively, rather than quantitatively, measure vessel perfusion.

The initial physician and distributor evaluation of the flagship product, the **Quantix/OR**, during 2004 indicated a number of design deficiencies that needed to be corrected before further commercial distribution of the product was advisable. The development activities for the **Quantix/OR** over the last year have therefore involved modification of the user interface software functions and a redesign of the **Quantix/OR** probe ergonomics to enhance system performance, improve ease of measurement and expand physician acceptance of the system. The **Quantix/OR** device has received CE mark regulatory clearance for marketing in the European Union (EU) as well as FDA 510(k) clearance for marketing in the United States.

Quantix/ND™ is intended to allow neurosurgeons and neurologists, as well as intensive care unit or emergency room physicians, to non-invasively measure the internal carotid artery blood flow in a simple, real-time manner. **Quantix/ND** consists of a control unit and an ultrasound probe that obtains signals directly from the carotid artery in a non-invasive manner. **Quantix/ND** is designed primarily for use in monitoring head trauma patients in neuro-intensive care units and emergency rooms. Periodic blood flow measurements may minimize the risk of brain impairment. To date, we have placed the **Quantix/ND** device with only a limited number of thought leaders. While we are unaware of any competitive measurement system on the market today that provides real-time, bedside, non-invasive, continuous, direct and accurate measurements of a complete suite of hemodynamic parameters including blood flow, we also believe that the current market for the **Quantix/ND** may be primarily as a research tool until additional feedback is received from those who are evaluating the device. The **Quantix/ND** device has received CE mark regulatory clearance for marketing in the EU as well as FDA 510(k) clearance for marketing in the United States.

Our strategy related to Cardiosonix products for 2007 is to close on a significant portion of the sales leads we began to generate during the latter part of 2006 and to continue to increase the number of competitive product evaluations to which we are invited. We cannot assure you, however, that any of Cardiosonix's products will achieve market acceptance. See Risk Factors.

Lymphoseek

Our gamma detection devices are primarily capital in nature; as such, they generate revenue only on the initial sale. To complement the one-time revenue stream related to capital products, we are working on developing recurring revenue or "procedural" products that would generate revenue based on each procedure in which they were used. The product we are working on with the greatest near-term potential in this area involves a proprietary drug compound under exclusive worldwide license from the University of California, San Diego (UCSD) that we refer to as **Lymphoseek**. The UCSD license grants Neoprobe the commercialization rights to **Lymphoseek** for diagnostic imaging and intraoperative detection applications. If proven effective and cleared for commercial sale, **Lymphoseek** would be the first radiopharmaceutical specifically designed and labeled for the targeting of lymphatic tissue.

Neoprobe and UCSD completed the initial pre-clinical evaluations of **Lymphoseek** in 2001. Since that time, UCSD has initiated five Phase I clinical trials involving **Lymphoseek**. The status of these trials is listed below:

Indication	Number of Patients	Status
Breast (peritumoral injection)	24	Completed
Melanoma	24	Completed
Breast (intradermal injection, next day surgery)	60	Completed
Prostate	20	Ongoing
Colon	20	Ongoing

These Phase I studies have been supported, including being substantially funded through research grants, by a number of organizations such as the Susan G. Komen Breast Cancer Research Foundation, the American Cancer Society (ACS) and the NCI. Research data from these clinical evaluations of **Lymphoseek** have been presented at recent meetings of the Society of Nuclear Medicine, the Society of Surgical Oncology and the World Sentinel Node Congress. The prostate and colon studies are being conducted under Neoprobe's investigational new drug (IND) application that has been cleared with FDA using drug product supplied by Neoprobe.

In November 2003, we met with the Interagency Council on Biomedical Imaging in Oncology (Interagency Council), an organization representing FDA, the NCI and the Centers for Medicare and Medicaid Services, to discuss the regulatory approval process and to determine the objectives for the next clinical trial involving **Lymphoseek**. During 2004, we prepared and submitted an IND application to FDA to support the marketing clearance of **Lymphoseek**.

In the first quarter of 2005, we announced that FDA had accepted our application to establish a corporate IND for **Lymphoseek**. With the transfer of the UCSD physician IND to Neoprobe, we assumed full clinical and commercial responsibility for the development of **Lymphoseek**. Following the establishment of the corporate IND, Neoprobe's clinical and regulatory personnel began discussions with FDA regarding the clinical development program for **Lymphoseek**.

As a "first in class" drug, Neoprobe was advised that additional non-clinical studies needed to be completed before additional clinical testing of the drug could occur in humans. The non-clinical testing was successfully completed in the fourth quarter of 2005 and the reports were filed with FDA in December. The seven studies included repeat administrations of **Lymphoseek** at dosages significantly in excess of the anticipated clinical dosage. None of the non-clinical studies revealed any toxicity issues associated with the drug.

In preparation for the commencement of the multi-center clinical study, Neoprobe engaged the services of a global clinical research organization (CRO) to oversee and monitor the conduct of the Phase 2 and Phase 3 clinical studies. Neoprobe and the CRO began working with some of the leading cancer treatment hospitals in the United States that Neoprobe had identified to participate in the clinical studies. We developed and reviewed with the clinical sites and regulatory agencies the Phase 2 protocol, investigator's brochure and case report forms to obtain regulatory clearance and institutional clearance from the clinical sites to commence patient enrollment in the Phase 2 study. An investigator's meeting was held with the Phase 2 clinical investigators at the Society of Surgical Oncology (SSO) meeting in March 2006 in preparation for the initiation of patient enrollment in the Phase 2 study. In addition, we used the SSO meeting as a venue to meet with and recruit potential investigators for the planned Phase 3 study of **Lymphoseek** to be initiated later in 2007.

Upon the submission of the IND and draft Phase 2 protocol, FDA advised Neoprobe that commercially produced **Lymphoseek** would need to be used in the Phase 2 clinical study, as opposed to using drug previously manufactured in laboratories at UCSD. Also, the regulatory agencies raised a number of Chemistry, Manufacturing and Control (CMC) questions regarding the drug compound and its complete characterization. Neoprobe began the transfer of bulk drug manufacturing to Reliable Biopharmaceutical early in 2005 and engaged Cardinal Health to develop and validate procedures and assays to establish commercial standards for the formulation, filling and lyophilization of the drug compound. We submitted an initial CMC response to FDA in April 2006.

We were notified by FDA in May 2006 that they completed their review of our submissions and that we were released from clinical hold to commence patient enrollment for a Phase 2 clinical study of **Lymphoseek**. The first of our Phase 2 clinical sites received clearance from its internal clinical review committee or Institutional Review Board (IRB) in July 2006. The IRB clearance permitted us to finalize arrangements to begin patient screening and enrollment activities for the Phase 2 trial, and we began patient enrollment in September. We had originally hoped to provide top-line results for the first 40 patients in our Phase 2 trial of **Lymphoseek** during the fourth quarter of 2006. Unfortunately, the time required to obtain the necessary IRB approvals and to then execute the research contracts at some of the participating clinical institutions has taken significantly longer than expected. We announced positive efficacy results from the Phase 2 trial (**Lymphoseek** identified lymphatic tissue in 39 of 40 (97.5%) treated patients) earlier in March 2007. Based upon the positive efficacy results of the drug from the first stage of the trial, Neoprobe has commenced enrollment in the second stage of the Phase 2 study and has submitted its proposed Phase 3 protocols to FDA. The second stage of the Phase 2 study will involve an additional 40 patients with either melanoma or breast cancer. Patients are now being enrolled at all five of the leading cancer centers in the United States who we have identified as participating in the Phase 2 study. The participating institutions are the John Wayne Cancer Center, University of California San Francisco, MD Anderson Cancer Center, University Hospital Cleveland and the University of Louisville. We currently expect enrollment in the Phase 2 trial to be completed during the second quarter of 2007.

The submission to FDA includes separate Phase 3 studies to be conducted in patients with either melanoma and breast cancer. We expect each Phase 3 study to involve approximately 200 evaluable patients. We currently expect the Phase 3 trials will likely now begin sometime during the second half of 2007. To facilitate enrollment, we currently plan to increase the number of participating institutions in the Phase 3 trials to approximately 25 centers in each trial. This should enable us to enroll patients at a more rapid rate than was experienced in the Phase 2. Our ability to commence the Phase 3 study in the third quarter will be dependent upon FDA approving the design and scope of the Phase 3 protocols prior to the completion of the Phase 2 study. The approval of the Phase 3 protocols and investigator's brochure will permit us to commence the review of the Phase 3 by the IRBs at the study sites. The IRB review process was one of the limiting factors in the commencement of the Phase 2 study and we are endeavoring to expedite the process for the Phase 3 study. To further facilitate these reviews, a preliminary investigators meeting is being held at the March 2007 meeting of the SSO.

Our goal is to file the NDA for **Lymphoseek** in 2008, which will be dependent upon the ability to commence the Phase 3 clinical studies in a timely fashion. Depending on the timing and outcome of the FDA regulatory review cycle, we believe that **Lymphoseek** can be commercialized in 2009. As a result of the delays we have experienced and modifications made to the number of patients we expect to enroll, as well as revisions in our regulatory pathway, our current estimate of total out-of-pocket development costs has increased to approximately $9 million. In addition, Neoprobe has discussed the drug approval and registration process through the centralized European drug evaluation procedures with the European Medicinal Evaluation Agency (EMEA) in London. We intend to use the results from the Phase 3 clinical evaluation of **Lymphoseek**, which we currently intend to include sites in the EU, to support the drug registration application process with the EMEA. We cannot assure you, however, that this product will achieve regulatory approval, or if approved, that it will achieve market acceptance. See Risk Factors.

RIGS

From inception until 1998, Neoprobe devoted significant efforts and resources to the development of its proprietary **RIGS** technology. The **RIGS** system combines a patented hand-held gamma radiation detection probe, proprietary radiolabeled cancer-specific targeting agents, and patented surgical methods to provide surgeons with real-time information to locate tumor deposits not detectable by conventional methods. The **RIGS** system is designed to assist the surgeon in the more thorough removal of the cancer, thereby leading to improved surgical treatment of the patient. The targeting agents used in the **RIGS** process are monoclonal antibodies, labeled with a radioactive isotope that emits low energy gamma rays. The device used is a very sensitive radiation detection instrument that is capable of detecting small amounts of radiation bound to the targeting agent. 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 Neoprobe's gamma detection device, which emits an audible tone to direct the surgeon to targeted tissue.

RIGScan CR is an intraoperative agent consisting of a radiolabeled murine monoclonal antibody (MAb CC49). The radiolabel used is ^{125}I, a 27 - 35 KeV emitting isotope. The MAb used in **RIGScan** CR is the CC49 MAb developed by the NCI and licensed to Neoprobe by the National Institutes of Health (NIH). The CC49 MAb is produced from a murine cell line generated by the fusion of splenic lymphocytes from mice immunized with tumor-associated glycoprotein-72 (TAG-72) with non-immunoglobulin secreting P3-NS-1-Ag4 myeloma cells. The CC49 MAb localizes or binds to TAG-72 and shows a strong reactivity with both LS-174T colon cancer extract and to a breast cancer extract.

RIGScan CR is the biologic component for the **RIGS** system to be used in patients with colon or rectal cancer. The **RIGS** system was conceived to be a diagnostic aid in the intraoperative detection of clinically occult disease. **RIGScan** CR is intended to be used in conjunction with other diagnostic methods, for the detection of the extent and location of tumor in patients with colorectal cancer. The detection of clinically occult tumor provides the surgeon with a more accurate assessment of the extent of disease, and therefore may impact the surgical and therapeutic management of the patient. Clinical trials suggest that **RIGScan** CR provides additional information outside that provided by standard diagnostic modalities (including surgical exploration) that may aid in patient management. Specifically, **RIGScan** CR used as a component of the **RIGS** system confirms the location of surgically suspicious metastases, evaluates the margins of surgical resection, and detects occult tumor in perihepatic (portal and celiac axis) lymph nodes.

Neoprobe conducted two Phase 3 studies, NEO2-13 and NEO2-14, of **RIGScan** CR in the mid-1990s in patients with primary and metastatic colorectal cancer, respectively. Both studies were multi-institutional involving cancer treatment institutions in the United States, Israel, and Europe. The primary endpoint of both studies was to demonstrate that **RIGScan** CR detected pathology-confirmed disease that had not been detected by traditional preoperative (*i.e.,* CT Scans) or intraoperative (*i.e.*, surgeon's visual observations and palpation) means. That is, the trials were intended to show that the use of **RIGScan** CR assisted the surgeon in the detection of occult tumor. In 1996, Neoprobe submitted applications to the EMEA and FDA for marketing approval of **RIGScan** CR for the detection of metastatic colorectal cancer.

Clinical study NEO2-14, which was submitted to FDA in the **RIGScan** CR Biologic License Application (BLA), enrolled 151 colorectal cancer patients with either suspected metastatic primary colorectal disease or recurrent colorectal disease. During FDA's review of the BLA, 109 of the enrolled patients were determined to be evaluable patients. Clinical study NEO2-13 was conducted in 287 enrolled patients with primary colorectal disease. The primary end-point for clinical study NEO2-13 was the identification of occult tumor.

NEO2-14 was the pivotal study submitted with Neoprobe's referenced BLA. Two additional studies evaluating patients with either primary or metastatic colorectal disease, NEO2-11 (a multi-center study) and NEO2-18 (a single institution study), were included in the BLA and provided supportive proof of concept (*i.e.*, localization and occult tumor detection) and safety data. A study summary report for NEO2-13 was submitted under the BLA; however, FDA undertook no formal review of the study.

Following review of our applications, we received requests for further information from FDA and from the European Committee for Proprietary Medicinal Products on behalf of the EMEA. Both FDA and the EMEA acknowledged that our studies met the diagnostic endpoint of the Phase 3 clinical study, which was to provide incremental information to the surgeon regarding the location of hidden tumor. However, both agencies wanted to know how the finding of additional tumor provided clinical benefit that altered patient management or outcome for patients with metastatic colorectal cancer. In a series of conversations with FDA, the product claims were narrowed to the intraoperative detection of hepatic and perihepatic disease in patients with advanced colorectal cancer and patients with recurrent colorectal cancer.

FDA determined during its review of the BLA that the clinical studies of **RIGScan** CR needed to demonstrate clinical utility in addition to identifying additional pathology-confirmed disease. In discussions between Neoprobe and the agency, an FDA-driven post hoc analysis plan was developed to limit the evaluation of **RIGScan** CR to patients with hepatic and perihepatic disease with known metastasis to the liver. Findings of occult disease and subsequent changes in patient management (*i.e*., abandoning otherwise risky hepatic resections) in this limited population would serve as a measure of patient benefit. FDA's analysis of the patients enrolled in NEO2-14 matching the limited criteria was evaluated with a determination to confirm the surgical resection abandonment outcome. The number of evaluable patients in this redefined patient population was deemed too small by the agency and the lack of pre-stated protocol guidance precluded consistent sets of management changes given similar occult findings. The number of evaluable patients for any measure of clinical utility, therefore, was too small to meet relevant licensing requirements and FDA ultimately issued a not approvable letter for the BLA on December 22, 1997, describing certain clinical and manufacturing deficiencies. Neoprobe withdrew its application to the EMEA in November 1997.

We developed a clinical response plan for both agencies during the first half of 1998. However, following our analysis of the regulatory pathways for approval that existed at that time, we determined that we did not have sufficient financial resources to conduct the additional studies requested and sought to identify others with an interest in continuing the development process.

In recent years, we have obtained access to survival analyses of patients treated with **RIGScan** CR which have been prepared by third parties, indicating that **RIGScan** CR may be predictive of, or actually contribute to, a positive outcome when measuring survival of the patients that participated in our original BLA studies. The data or its possible significance was unknown at the time of the BLA review given the limited maturity of the follow-up experience. The data includes publication by some of the primary investigators involved in the Phase 3 **RIGS** trials who have independently conducted survival follow-up analyses to their own institution’s **RIGS** trial patients with apparently favorable results relating to the long-term survival prognosis of patients who were treated with **RIGS**. In addition, we learned that FDA has held the BLA originally filed with FDA in 1996 open. Based primarily on these pieces of information, we requested a meeting with FDA to discuss the possible next steps for evaluating the survival related to our previous Phase 3 clinical trials as well as the possible submission of this data, if acceptable, as a prospective analysis in response to questions originally asked by FDA in response to our original BLA.

The April 2004 meeting with FDA was an important event in the re-activation of the **RIGS** program. The meeting was very helpful from a number of aspects: we confirmed that the **RIGS** BLA remains active and open. We believe this will improve both the cost effectiveness and timeliness of future regulatory submissions for **RIGScan** CR. Additionally, FDA preliminarily confirmed that the BLA may be applicable to the general colorectal population; and not just the recurrent colorectal market as applied for in 1996. Applicability to a general colorectal population could result in a greater market potential for the product than if applicable to just the recurrent population. During the meeting, FDA indicated that it would consider possible prognostic indications for **RIGScan** CR and that survival data from one of our earlier Phase 3 studies could be supportive of a prognostic indication. We provided FDA with a draft protocol for a Phase 3 prognostic/therapeutic trial.

Neoprobe received a response from FDA that the prognostic/therapeutic trial design appeared to meet their guidelines. FDA’s response to our clinical submission included an invitation for Neoprobe to seek a special protocol assessment (SPA) of its proposed Phase 3 study. Neoprobe intends to seek a SPA review of the complete Phase 3 package including the clinical protocol, training materials and data collection forms later this year. In concert with our meetings with FDA, we met with representatives of the European regulatory body, the EMEA, to seek guidance for the **RIGScan** CR program in Europe. The guidance from the EMEA was consistent with the input from FDA with the additional recommendation that any future clinical studies be conducted with the humanized version of the **RIGScan** CR antibody. It is possible that the regulatory pathway may continue to evolve as we seek to reach a consensus with the regulatory agencies on the reactivation of the BLA for **RIGScan** CR.

In addition, the **RIGScan** CR biologic drug has not been produced for several years and we believe it is likely we would have to perform some additional work related to ensuring the drug cell line is still viable and submit this data to FDA for their evaluation before approval could be considered. We have initiated discussions with established biologic manufacturing organizations to determine the costs and timelines associated with the production of commercial quantities of the CC49 antibody. In addition, we will need to establish radiolabeling capabilities for the CC49 antibody in order to meet the regulatory needs for the **RIGScan** CR product.

In parallel with our discussions with the regulatory authorities, we have discussed the clinical and regulatory strategy for **RIGScan** CR with reimbursement consultants who provided us with valuable input regarding the potential target pricing for a **RIGScan** product.

In November 2005, Neoprobe submitted a corporate IND application for the modified humanized version of **RIGScan** CR. With the establishment of the corporate IND, responsibility for the clinical and commercial development of the humanized version of **RIGScan** CR was officially transferred from a physician sponsored IND to Neoprobe. Prior to the evaluation of the modified antibody in a Phase I clinical trial, all clinical development of **RIGScan** CR had been conducted with a murine (i.e., mouse DNA-based) version of a monoclonal antibody. The Phase I trial was the first test in human patients using a modified version of the antibody from which the prominent parts of the mouse DNA chain had been removed. In early 2006, we filed an IND amendment that included a final report to FDA of the Phase I study.

Over the past few years, we devoted significant effort toward the identification of potential development partners for **RIGScan** CR. Our efforts to date have resulted in discussions with a number of parties, some of which have led to due diligence and potential partnership discussions. We continue to believe it will be necessary for Neoprobe to identify a development partner or an alternative funding source in order to prepare for and to fund the pivotal clinical testing that will be necessary to gain marketing clearance for **RIGScan** CR. However, while we have parties who have indicated an interest in the technology, none of the discussions to date have resulted in definitive agreements with any party or parties. In addition, we do not believe these efforts will result in a partnership until further clarity can be added to the **RIGScan** regulatory approval pathway, such as perhaps obtaining a positive SPA determination from FDA. However, even if we are able to make such arrangements on satisfactory terms, we believe that the time required for continued development, regulatory approval and commercialization of a **RIGS** product would likely be a minimum of five years before we receive any significant product-related royalties or revenues. We cannot assure you that we will be able to complete definitive agreements with a development partner for the **RIGS** technology and do not know if a partner will be obtained on a timely basis on terms acceptable to us, or at all. We also cannot assure you that FDA or the EMEA will clear our **RIGS** products for marketing or that any such products will be successfully introduced or achieve market acceptance. See Risk Factors.

Activated Cellular Therapy

Through various research collaborations, we performed early-stage research on another technology platform, ACT, based on work originally done in conjunction with the **RIGS** technology. ACT is intended to boost the patient's own immune system by removing lymph nodes identified during surgery and then, in a cell processing technique, activating and expanding "helper" T-cells found in the nodes. Within 10 to 14 days, the patient's own immune cells, activated and numbering more than 20 billion, are infused into the patient in an attempt to trigger a more effective immune response to the cancer.

In the course of our research into ACT performed with **RIGS**, we learned that these lymph node lymphocytes containing helper T-cells could be activated and expanded to treat patients afflicted with viral and autoimmune disease as well as oncology patients. We have seen promising efficacy of this technology demonstrated from six Phase I clinical trials covering the oncology, viral and autoimmune applications.

In 2005, we formed a new subsidiary, Cira Bio, to explore the development of ACT. Neoprobe owns approximately 90% of the outstanding shares of Cira Bio with the remaining shares being held by the principals of a private holding company, Cira LLC. In conjunction with the formation of Cira Bio, an amended technology license agreement also was executed with The Ohio State University, from whom both Neoprobe and Cira LLC had originally licensed or optioned the various cellular therapy technologies. As a result of the cross-license agreements, Cira Bio has the exclusive development and commercialization rights to three issued U.S. patents that cover the oncology and autoimmune applications of its technology. In addition, Cira Bio has exclusive licenses to several pending patent applications.

Cira Bio engaged the Battelle Memorial Institute to complete a technology and manufacturing process assessment of the cellular therapy approach. In addition, a scientific advisory group is being formed to develop a clinical and regulatory approach for the Cira Bio technology. Following the completion of these assessments and the formation of a commercialization strategy, Cira Bio intends to raise the necessary capital to move this technology platform forward. The means by which this funding is obtained will likely dilute Neoprobe's ownership interest in Cira Bio; however, we believe that moving forward such a promising technology will only yield positive results for the Neoprobe stockholders and the patients who could benefit from these treatments. However, we do not know if we will be successful in obtaining additional funding, on terms acceptable to us, or at all.

In addition, although the prospects for ACT may be improved depending on the outcome of a decision to renew development efforts for **RIGS**, we currently do not intend to fund any significant ACT-related research and development beyond the evaluation work already performed until a source of further funding is identified. We cannot assure you that we will be successful in obtaining additional funding, or if obtained, that any ACT products will be successfully developed, tested or licensed, or that any such products will gain market acceptance. See Risk Factors.

Market Overviews

The medical device marketplace is a fast growing market. *Medical Device & Diagnostic Industry* magazine reports an annual medical device and diagnostic market of $75 billion in the U.S. and $169 billion internationally.

Cancer Market Overview

Cancer is the second leading cause of death in the U.S. and Western Europe and is responsible for over 500,000 deaths annually in the U.S. alone. The NIH estimates the overall annual costs for cancer (the primary focus of our gamma detection and pharmaceutical products) for the U.S. in the year 2006 at $206.3 billion: $78.2 billion for direct medical costs, $17.9 billion for indirect morbidity, and $110.2 billion for indirect mortality. Our line of gamma detection systems is currently used primarily in the application of SLNB in breast cancer and melanoma which, according the ACS, are expected to account for 12% and 4%, respectively, of new cancer cases in the U.S. in 2006.

The NIH has estimated that breast cancer will annually affect approximately 500,000 women in North America, Western Europe, and other major economic markets. Breast cancer is the second leading cause of death from cancer among all women in the U.S. According to the ACS, nearly 181,000 new cases of invasive breast cancer were expected to be diagnosed and approximately 41,000 women were expected to die from the disease during 2007 in the U.S. alone. The incidence of breast cancer increases with age, rising from about 100 cases per 100,000 women at age 40 to about 400 cases per 100,000 women at age 65. Thus, we believe that the significant aging of the population, combined with improved education and awareness of breast cancer and diagnostic methods, will lead to an increased number of breast cancer surgical diagnostic procedures.

Approximately 80% of the patients diagnosed with breast cancer undergo a lymph node dissection (either ALND or SLNB) to determine if the disease has spread. While many breast cancer patients are treated in large cancer centers or university hospitals, regional and/or community hospitals currently treat the majority of breast cancer patients. Over 10,000 hospitals are located in the markets targeted for our gamma detection SLNB products. While we are aware of no published statistics on the number of institutions that are currently using gamma detection devices in SLNB, we believe that approximately 50% of the total potential global market for gamma detecting devices remains to be penetrated at this time. However, if the potential of **Lymphoseek** as a radioactive tracing agent is ultimately realized, it has the potential to address not only the current breast and melanoma markets on a procedural basis, but also to assist in the clinical evaluation and staging of solid tumor cancers and expanding SLNB to additional indications, such as gastric, non-small cell lung and other solid tumor cancers.

We estimate the total market potential for **Lymphoseek**, if ultimately approved for all of these indications, could exceed $200 million. However, we cannot assure you that **Lymphoseek** will be cleared to market, or if cleared to market, that it will achieve the prices or sales we have estimated.

The ACS estimates that over 147,000 new incidences of colon and rectal cancers will occur in the U.S. in 2006. Based on an assumed recurrence rate of 40%, this would translate into total potential surgical procedures of over 200,000 annually in the U.S. alone. We believe the number of procedures in other markets of the world to be approximately two times the estimated U.S. market. As a result, we believe the total potential global market for **RIGScan** CR could be in excess of $3 billion annually, depending on the level of reimbursement allowed. However, we cannot assure you that **RIGScan** CR will be cleared to market, or if cleared to market, that it will receive the reimbursement or achieve the level of sales we have currently estimated.

Blood Flow Measurement Market Overview

Cardiovascular disease is the number one killer of men and women in the U.S. and in a majority of countries in the rest of the world that track such statistics. The National Center for Healthcare Services (NCHS) registered over 6.3 million inpatient cardiovascular procedures in the U.S. during 2004 with a primary dignosis of cardiovascular disease. In the U.S. in 2004, the NCHS estimates that there were 427,000 coronary artery bypass surgeries performed on 249,000 patients. We, as well as our competitors and other industry analysts, generally estimate the rest of the world's incidence of such modalities at approximately equal to as much as two time U.S. estimates.

The American Heart Association (AHA) estimates the total cost of cardiovascular diseases and stroke in the United States will exceed $431 billion in 2007. A substantial portion of these expenditures is expected to be for non-invasive image and intravascular examination. We are focused on two distinct markets within the hospital setting for Cardiosonix' products:

- intraoperative blood flow assessment (**Quantix/OR**); and

- non-invasive diagnostic blood flow assessment (**Quantix/ND**).

Based on data obtained from the AHA, the Society of Thoracic Surgeons and the American Hospital Association, it is estimated that there are approximately 500,000 vascular and cardiovascular procedures performed in the U.S. that could benefit from qualitative blood flow measurement. Based on these estimates, information obtained from industry sources and data published by our competitors and other medical device companies, we estimate the worldwide total of target procedures to be approximately equal to as much as two times the U.S. totals.

Based on the above number of procedures, assuming we are able to achieve market prices that are comparable to what our competitors are achieving (estimated at averaging $20,000 per system or $130 per procedural use), we believe the worldwide market potential for blood flow measurement products in the niches which our products address to be more than $200 million. However, at the present state of market development and acceptance of blood flow measurement within the medical community, the penetrable market is likely significantly less. At present, we would estimate that only 15% of by-pass procedures involve blood flow measurement. We believe that gaining a modest share of the penetrable market could result in meaningful supplemental annual revenues for our company. We cannot assure you, however, that Cardiosonix products will achieve market acceptance and generate the level of sales or prices anticipated.

Marketing and Distribution

Gamma Detection Devices

We began marketing the current generation of our gamma detection systems, the **neo2000**, in October 1998. Since October of 1999, our gamma detection systems have been marketed and distributed throughout most of the world through Ethicon Endo-Surgery, Inc. (EES), a Johnson & Johnson company. In Japan, however, we market our products through a pre-existing relationship with Century Medical, Inc.

The heart of the **neo2000** system is a control unit that is software-upgradeable, permitting product enhancements without costly remanufacturing. Since the original launch of the **neo2000** system, we have introduced an enhanced version of our 14mm reusable probe optimized for lymphatic mapping procedures, a laparoscopic probe intended for certain minimally invasive procedures, and three Bluetooth probes for a variety of applications. We have also developed four major software version upgrades for the system that have been made available for sale to customers. We intend to continue developing additional SLNB-related probes and instrument products in cooperation with EES to maintain our leadership position in the SLNB field.

Physician training is critical to the use and adoption of SLNB products by surgeons and other medical professionals. Our company and our marketing partners have established relationships with leaders in the SLNB surgical community and have established and supported training courses internationally for lymphatic mapping. We intend to continue to work with our partners to expand the number of SLNB training courses available to surgeons.

We entered into our current distribution agreement with EES effective October 1, 1999 for an initial five-year term with options to extend for two successive two-year terms. In March 2004, EES exercised its first two-year extension option, and in March 2006 EES exercised its option for the second and final two-year term extension, thus extending the term of our current agreement through December 31, 2008. Under this agreement, we manufacture and sell our SLNB products almost exclusively to EES, who distributes the products globally (except for Japan). EES has no ongoing purchase or reimbursement commitments to us other than the rolling four-month binding purchase commitment for gamma detection devices as outlined in the distribution agreement. Our agreement with EES also contains certain termination provisions and licenses to our intellectual property that take effect only in the event we fail to supply product, or for other reasons such as a change of control. See Risk Factors.

Gamma Detection Radiopharmaceuticals

We have not established a marketing or distribution channel for either **RIGScan** CR or **Lymphoseek**. We have had initial discussions with parties who may be interested in marketing and distribution of these products; however, such discussions to date have been preliminary in nature and have not resulted in any definitive arrangements. We believe the most preferable and likely distribution partners for **Lymphoseek** would be entities with global radiopharmaceutical distribution channels although it is possible that other, more traditional oncology pharmaceutical portfolios may also have interest. With respect to **RIGScan** CR, we believe there are development milestones that can be achieved prior to the need for significant capital investment in **RIGScan** CR such as preparing the request for a SPA and completing a final protocol review. However, we continue to believe it will be necessary for us to identify a development partner or an alternative funding source in order to prepare for and to fund the pivotal clinical testing that will be necessary to gain marketing clearance for **RIGScan** CR. At the present time, while we have parties who have indicated an interest in entering into a development relationship, we do not believe these efforts will result in a definitive partnership at least until a positive SPA is obtained. We anticipate continuing discussions for both **Lymphoseek** and **RIGScan** CR as we move forward with the clinical development for each product; however, we cannot assure you that we will be able to secure marketing and distribution partners for either product, or if secured, that such arrangements will result in significant sales of either product.

Blood Flow Measurement Devices

Both of our blood flow measurement devices, the **Quantix/ND** and **Quantix/OR** have received marketing clearance in the U.S. and the EU and certain other foreign markets. Our goal is to ensure sales and distribution coverage through third parties of substantially all of the U.S., the EU, the Pacific Rim of Asia and selective markets in the rest of the world. Currently, we have in place or have executed or reached agreement in principle with distributors and/or master distributors for the **Quantix/OR** covering the United States, all major market countries in the EU, and substantially all countries that comprise the Pacific Rim of Asia. In addition, we have distribution arrangements in place covering major portions of Central and South America.

We anticipate spending a significant amount of time and effort in 2007 to close on leads generated regarding the **Quantix/OR** and to develop new sales leads. The sales cycle for medical devices such as our blood flow products is typically a four- to six-month cycle. This sales cycle, coupled with the timetable necessary to train the new distributors we engaged during 2006 has resulted in disappointing sales levels of our blood flow measurement equipment to date. We are also investigating alternative pricing strategies such as per-use fees or leasing that may affect the adoption rates for our blood flow measurement devices. As a result, we anticipate that the product development and market support costs we will incur in 2007 will be greater than the revenue we generate from the sales of blood flow devices. We are still evaluating our outlook for 2007 but believe the coming quarters are important to demonstrating the ultimate viability of this product line.

Manufacturing

Gamma Detection Devices

We rely on independent contract manufacturers, some of which are single-source suppliers, for the manufacture of the principal components of our current line of gamma detection system products. See Risk Factors. We have devoted significant resources to develop production capability for our gamma detection systems at qualified contract manufacturers. Production of the **neo2000** control unit, the 14mm probe, the 11mm laparoscopic probe, and the Bluetooth probes involve the manufacture of components by a combination of subcontractors, including but not limited to eV Products, a division of II-VI Corporation (eV), and TriVirix International, Inc. (TriVirix). We also purchase certain accessories for our line of gamma detection systems from other qualified manufacturers.

In December 1997, we entered into a supply agreement with eV for the supply of certain crystals and associated electronics to be used in the manufacture of our proprietary line of hand-held gamma detection probes. The original term of the agreement with eV expired on December 31, 2002 and was automatically extended through December 31, 2005. Since the expiration of the agreement with eV, they have continued to supply crystals under purchase orders. eV supplies 100% of the crystals used in our products. While eV is not the only potential supplier of such crystals, any prolonged interruption of this source could restrict the availability of our probe products, which would adversely affect our operating results.

In February 2004, we executed a Product Supply Agreement with TriVirix for the manufacture of the **neo2000**, 14mm probe and 11mm laparoscopic probe. The initial term of this agreement expired in February 2007 but was automatically extended through February 2008. The Agreement is automatically extended for successive one-year periods unless six months notice is provided by either party.

We cannot assure you that we will be able to maintain agreements with our subcontractors on terms acceptable to us, or that our subcontractors will be able to meet our production requirements on a timely basis, at the required levels of performance and quality. In the event that any of our subcontractors is unable or unwilling to meet our production requirements, we cannot assure you that an alternate source of supply could be established without significant interruption in product supply or without significant adverse impact to product availability or cost. Any significant supply interruption or yield problems that we or our subcontractors experience would have a material adverse effect on our ability to manufacture our products and, therefore, a material adverse effect on our business, financial condition, and results of operations until a new source of supply is qualified. See Risk Factors.

Gamma Detection Radiopharmaceuticals

In preparation for the commencement of multi-center clinical evaluation of **Lymphoseek**, Neoprobe engaged drug manufacturing organizations to produce the drug for use in the Phase 2 and pivotal (i.e., Phase 3) clinical trials. Neoprobe selected Reliable Biopharmaceutical Corporation (Reliable) to produce the basic chemical compound and Cardinal Health, Inc. (Cardinal) to perform final product manufacturing including final drug formulation, lyophilization (i.e., freeze-drying) and packaging processes. Once packaged, the vialed drug can then be shipped to a hospital or regional commercial radiopharmacy where it can be made radioactive (i.e., radiolabeled) with Tc99m to become **Lymphoseek**. The commercial manufacturing processes at Reliable and Cardinal have been validated and both organizations have assisted Neoprobe in the preparation of the chemistry, manufacturing and control sections of our submissions to FDA. Both Reliable and Cardinal are registered manufacturers with FDA. At this point, our agreements with Reliable and Cardinal cover only product to be used in the clinical trials and regulatory registration process for **Lymphoseek**. Further commercial supply and distribution agreements have yet to be negotiated with both Reliable and Cardinal. We cannot assure you that we will be successful in reaching such agreements with Reliable or Cardinal on terms satisfactory to us or at all.

In preparation for the initiation of the next phase of clinical evaluation of **RIGScan** CR, we have also initiated discussions with potential biologic manufacturers and radiolabeling organizations. We have held discussions with parties who may assist in the manufacturing validation and radiolabeling of the **RIGScan** product; however, we have not yet finalized agreements with these entities. We anticipate finalizing these discussions following securing a development partner in order to accommodate the commencement of future **RIGScan** CR clinical trials. We cannot assure you that we will be successful in securing and/or maintaining the necessary biologic, product and/or radiolabeling capabilities. See Risk Factors.

Blood Flow Measurement Devices

The **Quantix** blood flow measurement devices distributed through early 2006 were manufactured by our subsidiary, Cardiosonix Ltd. In early 2006, we received approval from the Office of the Chief Scientist in Israel to transfer manufacturing rights for the **Quantix** devices to Neoprobe. See Risk Factors. Future assembly of **Quantix** blood flow control units will therefore be done under the terms of the Product Supply Agreement we have in place with TriVirix for the assembly of our gamma devices. Assembly of the **Quantix/OR** control units started at TriVirix in March 2006. We currently purchase ultrasound transducer modules and probe subassemblies from Vermon S.A. (Vermon) of France under purchase orders. The ultrasound probe assemblies are then completed by Technical Services for Electronics, Inc. (TSE), also under purchase orders.

We cannot assure you that we will be able to finalize supply and service agreements with Vermon, TSE or other subcontractors for the **Quantix** products, that we will be able to maintain our agreement with TriVirix, or that our subcontractors will be able to meet our production requirements on a timely basis, at the required levels of performance and quality. In the event that any of our subcontractors is unable or unwilling to meet our production requirements, we cannot assure you that an alternate source of supply could be established without significant interruption in product supply or without significant adverse impact to product availability or cost. Any significant supply interruption or yield problems that we or our subcontractors experience would have a material adverse effect on our ability to manufacture our products and, therefore, a material adverse effect on our business, financial condition, and results of operations until a new source of supply is qualified. See Risk Factors.

Competition

We face competition from medical product and biotechnology companies, as well as from universities and other non-profit research organizations in the field of cancer diagnostics and treatment. Many emerging medical product companies have corporate partnership arrangements with large, established companies to support the research, development, and commercialization of products that may be competitive with our products. In addition, a number of large established companies are developing proprietary technologies or have enhanced their capabilities by entering into arrangements with or acquiring companies with technologies applicable to the detection or treatment of cancer and the measurement of blood flow. Many of our existing or potential competitors have substantially greater financial, research and development, regulatory, marketing, and production resources than we have. Other companies may develop and introduce products and processes competitive with or superior to those of ours. See Risk Factors.

For our products, an important factor in competition is the timing of market introduction of our products or those of our competitors' products. Accordingly, the relative speed with which we can develop products, complete the regulatory clearance processes and supply commercial quantities of the products to the market is an important competitive factor. We expect that competition among products cleared for marketing will be based on, among other things, product efficacy, safety, reliability, availability, price, and patent position.

Gamma Detection Devices

With the emergence of ILM, a number of companies have begun to market gamma radiation detection instruments. Most of the competitive products have been designed from an industrial or nuclear medicine perspective rather than being developed initially for surgical use. We compete with products produced and/or marketed by Care Wise Medical Products Corporation, Intra-Medical Imaging LLC (distributed by GE Healthcare), SenoRx, Pol.Hi.Tech. Srl, and other companies.

It is often difficult to glean accurate competitive information within the lymphatic mapping field, primarily because most of our competitors are either subsidiaries or divisions of a large corporation or privately held corporations, whose sales revenue or volume data is, therefore, not readily available or determinable. In addition, lymphatic mapping does not currently have a separate reimbursement code in most healthcare systems. As such, determining trends in the actual number of procedures being performed using lymphatic mapping is difficult. We believe, based on our understanding of EES' success rate in competitive bid situations, that our market share has remained relatively constant or increased slightly in light of changes in the competitive landscape over the past few years. As we have discussed, we believe that current sales levels indicate that some prospective customers may be waiting on the results of important international clinical trials prior to adoption the SLNB procedure and purchasing a gamma detection device. We expect the results from these trials, when announced, will likely have a positive impact on sales volumes. We believe our intellectual property portfolio will be a barrier to competitive products; however, we cannot assure you that competitive products will not be developed, be successful in eroding our market share or affect the prices we receive for our gamma detection devices. See Risk Factors.

Gamma Detection Radiopharmaceuticals

We do not believe there are any directly competitive intraoperative diagnostic radiopharmaceuticals with **RIGScan** CR that would be used intraoperatively in the colorectal cancer application that **RIGScan** CR is initially targeted for. There are other radiopharmaceuticals that are used as preoperative imaging agents; however, we are unaware of any that could be used as a real-time diagnostic aid during surgery such as **RIGScan** CR.

Surgeons who practice the lymphatic mapping procedure that **Lymphoseek** is intended for currently use other radiopharmaceuticals such as a sulphur-colloid compound in the U.S. and other colloidal compounds in other markets. However, these drugs are being used "off-label" (i.e., they are not specifically indicated for use as a lymphatic targeting agent). As such, we believe that **Lymphoseek**, if ultimately approved, would be the first drug specifically labeled for use as a lymphatic tissue targeting agent.

Blood Flow Measurement Devices

There are several technologies on the market that measure or claim to measure indices of blood flow. These products can be categorized as devices that measure blood flow directly and devices that only obtain an estimation of flow conditions. We believe our device is most directly competitive with Transit Time Ultrasound (TT) Flowmetry. TT is the leading modality for blood flow measurement in the operating room today. TT systems monitor blood flow invasively and are restricted to isolated vessels. They require probe adaptation to the vessel size, and do not provide additional vascular parameters. The technology requires the operator to encircle the blood vessel with a probe that includes two ultrasound transmitters/receivers on one side, and a mirror reflector on the opposite side of the vessel. By measuring the transit time of the ultrasound beam in the upstream and downstream directions, volume blood flow estimates can be evaluated. In addition, there are other competitive technologies which utilize Doppler ultrasound. Doppler technology has been around for several decades, and is being widely used in non-invasive vascular diagnostics. Duplex ultrasound systems have the potential to measure blood flow non-invasively. Duplex systems are designed for imaging the anatomical severity of pathology. This method is technician-dependent, often cumbersome and does not offer monitoring capabilities. Plain Doppler systems provide only blood flow velocity rather than volume flow.

Cardiosonix products are designed to address blood flow measurement across a variety of clinical and surgical settings, and there are a number of companies already in the marketplace that offer products related to blood flow measurement. However, most of these products do not directly compete with Cardiosonix products. The companies that do offer potentially competitive products are, for the most part, smaller, privately held companies, with which we believe we can effectively compete. Indeed, due to our belief in the technical superiority of our products, we believe the existence of competitors will help to educate the marketplace regarding the importance of blood flow measurement. As we have discussed, adoption of blood flow monitoring devices for the measurement of hemodynamic status will likely take an involved education process as it often involves a change in clinical or surgical management. While there is not a clear leader in these markets, the following companies compete most directly with Cardiosonix: Transonic Systems, Inc., Medi-Stim AS, and Carolina Medical, Inc.

Patents and Proprietary Rights

We regard the establishment of a strong intellectual property position in our technology as an integral part of the development process. We attempt to protect our proprietary technologies through patents and intellectual property positions, in the United States as well as major foreign markets. Approximately 20 instrument patents issued in the United Sates as well as major foreign markets protect our SLNB technology.

Cardiosonix has also applied for patent coverage for the key elements of its Doppler blood flow technology in the U.S. The first of the two patents covering Cardiosonix technology was issued in the U.S. in January 2003 and claims for the second patent have been allowed.

Lymphoseek is also the subject of patents and patent applications in the United States and certain major foreign markets. The patents and patent applications are held by The Regents of the University of California and have been licensed exclusively to Neoprobe for lymphatic tissue imaging and intraoperative detection. The first composition of matter patent covering **Lymphoseek** was issued in the United States in June 2002. The claims of the composition of matter patent covering **Lymphoseek** have been allowed in the EU and issued in the majority of EU countries in 2005. The composition of matter patent is being prosecuted in Japan.

We continue to maintain proprietary protection for the products related to **RIGS** and ACT in major global markets such as the U.S. and the EU, which although not currently integral to our near-term business plans, may be important to a potential **RIGS** or ACT development partner. The original methodology aspects of our **RIGS** technology are claimed in the United States in U.S. Patent No. 4,782,840, which expired in August 2005. However, Neoprobe has recently gained access to additional methodology applications related to our **RIGS** technology that are covered by patents that provide additional patent coverage through 2018, unless extended. In addition to the **RIGS** methodology patents, composition of matter patents have been issued in the U.S. and EU that cover the antibodies used in clinical studies. The most recent of these patents was issued in 2004 and additional patent applications are pending.

The activated cellular therapy technology of Cira Bio is the subject of issued patents in the United States to which Neoprobe has exclusive license rights. European patent statutes do not permit patent coverage for treatment technologies such as Cira Bio's. The oncology applications of Cira Bio's treatment approach are covered by issued patents with expiration dates of 2018 and 2020, unless extended. The autoimmune applications are covered by an issued patent with an expiration date of 2018, unless extended. The viral applications are the subject of patent applications and other aspects of the Cira Bio technology that are in the process of being reviewed by the United States Patent and Trademark Office. Cira Bio has received favorable office action correspondence on both applications.

The patent position of biotechnology and medical device firms, including our company, generally is highly uncertain and may involve complex legal and factual questions. Potential competitors may have filed applications, or may have been issued patents, or may obtain additional patents and proprietary rights relating to products or processes in the same area of technology as that used by our company. The scope and validity of these patents and applications, the extent to which we may be required to obtain licenses thereunder or under other proprietary rights, and the cost and availability of licenses are uncertain. We cannot assure you that our patent applications will result in additional patents being issued or that any of our patents will afford protection against competitors with similar technology; nor can we assure you that any of our patents will not be designed around by others or that others will not obtain patents that we would need to license or design around. See Risk Factors.

We also rely upon unpatented trade secrets. We cannot assure you that others will not independently develop substantially equivalent proprietary information and techniques, or otherwise gain access to our trade secrets, or disclose such technology, or that we can meaningfully protect our rights to our unpatented trade secrets.

We require our employees, consultants, advisers, and suppliers to execute a confidentiality agreement upon the commencement of an employment, consulting or manufacturing relationship with us. The agreement provides that all confidential information developed by or made known to the individual during the course of the relationship will be kept confidential and not disclosed to third parties except in specified circumstances. In the case of employees, the agreements provide that all inventions conceived by the individual will be the exclusive property of our company. We cannot assure you, however, that these agreements will provide meaningful protection for our trade secrets in the event of an unauthorized use or disclosure of such information.

Government Regulation

Most aspects of our business are subject to some degree of government regulation in the countries in which we conduct our operations. As a developer, manufacturer and marketer of medical products, we are subject to extensive regulation by, among other governmental entities, FDA and the corresponding state, local and foreign regulatory bodies in jurisdictions in which our products are sold. These regulations govern the introduction of new products, the observance of certain standards with respect to the manufacture, safety, efficacy and labeling of such products, the maintenance of certain records, the tracking of such products and other matters.

Failure to comply with applicable federal, state, local or foreign laws or regulations could subject us to enforcement action, including product seizures, recalls, withdrawal of marketing clearances, and civil and criminal penalties, any one or more of which could have a material adverse effect on our business. We believe that we are in substantial compliance with such governmental regulations. However, federal, state, local and foreign laws and regulations regarding the manufacture and sale of medical devices are subject to future changes. We cannot assure you that such changes will not have a material adverse effect on our company.

For some products, and in some countries, government regulation is significant and, in general, there is a trend toward more stringent regulation. In recent years, FDA and certain foreign regulatory bodies have pursued a more rigorous enforcement program to ensure that regulated businesses like ours comply with applicable laws and regulations. We devote significant time, effort and expense addressing the extensive governmental regulatory requirements applicable to our business. To date, we have not received any notifications or warning letters from FDA or any other regulatory bodies of alleged deficiencies in our compliance with the relevant requirements, nor have we recalled or issued safety alerts on any of our products. However, we cannot assure you that a warning letter, recall or safety alert, if it occurred, would not have a material adverse effect on our company.

In the early- to mid-1990s, the review time by FDA to clear medical products for commercial release lengthened and the number of marketing clearances decreased. In response to public and congressional concern, FDA Modernization Act of 1997 (the 1997 Act) was adopted with the intent of bringing better definition to the clearance process for new medical products. While FDA review times have improved since passage of the 1997 Act, we cannot assure you that FDA review process will not continue to delay our company's introduction of new products in the U.S. in the future. In addition, many foreign countries have adopted more stringent regulatory requirements that also have added to the delays and uncertainties associated with the release of new products, as well as the clinical and regulatory costs of supporting such releases. It is possible that delays in receipt of, or failure to receive, any necessary clearance for our new product offerings could have a material adverse effect on our business, financial condition or results of operations.

While we are unable to predict the extent to which our business may be affected by future regulatory developments, we believe that our substantial experience dealing with governmental regulatory requirements and restrictions on our operations throughout the world, and our development of new and improved products, should enable us to compete effectively within this environment.

Gamma Detection and Blood Flow Measurement Devices

As a manufacturer of medical devices sold in various global markets, we are required to manufacture the devices under quality system regulations (QSR) and maintain appropriate technical files and quality records. Our medical devices are regulated in the United States by FDA and in the EU according to the Medical Device Directive (93/42/EEC). Under this regulation, we must obtain CE Mark status for all products exported to the EU.

Our initial generation gamma detection instruments received 510(k) marketing clearance from FDA in December 1986 with modified versions receiving similar clearances in 1992 through 1997. In 1998, FDA reclassified "nuclear uptake detectors" as being exempt from the 510(k) process. We believe the **neo2000** device is exempt from the 510(k) process because it is substantially equivalent to previously cleared predecessor devices. We obtained the CE Mark for the **neo2000** device in January 1999, and therefore, must continue to manufacture the devices under a quality system compliant to the requirements of ISO 9001/EN 46001 and maintain appropriate technical files. We maintain a license to import our gamma detection devices into Canada, and therefore must continue to manufacture the devices under a quality system compliant to the requirements of ISO 13485 and relevant Canadian regulations.

Cardiosonix has received 510(k) and CE mark clearance to market the **Quantix/ND** device in the U.S. and EU for non-invasive applications. The **Quantix/OR** has also received CE Mark clearance to market in the EU and 510(k) clearance to market in the U.S. Our distribution partners in certain foreign markets other than the EU are seeking marketing clearances, as required, for both the **Quantix/ND** and **Quantix/OR**.

Gamma Detection Radiopharmaceuticals (Lymphoseek and RIGScan)

Our radiolabeled targeting agents and biologic products, if developed, would require a regulatory license to market by FDA and by comparable agencies in foreign countries. The process of obtaining regulatory licenses and approvals is costly and time consuming, and we have encountered significant impediments and delays related to our previously proposed biologic products.

The process of completing pre-clinical and clinical testing, manufacturing validation and submission of a marketing application to the appropriate regulatory bodies usually takes a number of years and requires the expenditure of substantial resources, and we cannot assure you that any approval will be granted on a timely basis, if at all. Additionally, the length of time it takes for the various regulatory bodies to evaluate an application for marketing approval varies considerably, as does the amount of preclinical and clinical data required to demonstrate the safety and efficacy of a specific product. The regulatory bodies may require additional clinical studies that may take several years to perform. The length of the review period may vary widely depending upon the nature and indications of the proposed product and whether the regulatory body has any further questions or requests any additional data. Also, the regulatory bodies will likely require post-marketing reporting and surveillance programs to monitor the side effects of the products. We cannot assure you that any of our potential drug or biologic products will be approved by the regulatory bodies or approved on a timely or accelerated basis, or that any approvals received will not subsequently be revoked or modified.

In addition to regulations enforced by FDA, the manufacture, distribution, and use of radioactive targeting agents, if developed, are also subject to regulation by the Nuclear Regulatory Commission (NRC), the Department of Transportation and other federal, state, and local government authorities. We, or our manufacturer of the radiolabeled antibodies, must obtain a specific license from the NRC to manufacture and distribute radiolabeled antibodies, as well as comply with all applicable regulations. We must also comply with Department of Transportation regulations on the labeling and packaging requirements for shipment of radiolabeled antibodies to licensed clinics, and must comply with federal, state, and local governmental laws regarding the disposal of radioactive waste. We cannot assure you that we will be able to obtain all necessary licenses and permits and be able to comply with all applicable laws. The failure to obtain such licenses and permits or to comply with applicable laws would have a materially adverse effect on our business, financial condition, and results of operations.

Employees

As of March 14, 2007, we had 22 full-time employees. We consider our relations with our employees to be good.

Risk Factors

An investment in our common stock is highly speculative, involves a high degree of risk, and should be made only by investors who can afford a complete loss. You should carefully consider the following risk factors, together with the other information in this report, including our financial statements and the related notes, before you decide to buy or continue to hold our common stock. Our most significant risks and uncertainties are described below; however, they are not the only risks we face. If any of the following risks actually occur, our business, financial condition, or results of operations could be materially adversely affected, the trading of our common stock could decline, and you may lose all or part of your investment therein.

We have suffered significant operating losses for several years in our history and we may not be able to again achieve profitability.

We had an accumulated deficit of approximately $136 million and have an overall deficit in stockholders' equity as of December 31, 2006. Although we were profitable in 2000 and in 2001, we incurred substantial losses in the years prior to that, and again in 2002 through 2006. The deficit resulted because we expended more money in the course of researching, developing and enhancing our technology and products and establishing our marketing and administrative organizations than we generated in revenues. We expect to continue to incur significant expenses in the foreseeable future, primarily related to the completion of development and commercialization of **Lymphoseek**, but also potentially related to **RIGS** and the **Quantix** product line. As a result, we are sustaining substantial operating and net losses, and it is possible that we will never be able to sustain or develop the revenue levels necessary to again attain profitability.

Our products and product candidates may not achieve the broad market acceptance they need in order to be a commercial success.

Widespread use of our handheld gamma detection devices is currently limited to one surgical procedure, SLNB, used in the diagnosis and treatment of two primary types of cancer: melanoma and breast cancer. While the adoption of SLNB within the breast and melanoma indications appears to be widespread, expansion of SLNB to other indications such as colorectal and prostate cancers is likely dependent on a better lymphatic tissue targeting agent than is currently available. Without expanded indications in which to apply SLNB, it is likely that gamma detection devices will reach market saturation. Our efforts and those of our marketing and distribution partners may not result in significant demand for our products, and the current demand for our products may decline.

Our future success will also be affected by the success of the Cardiosonix product line. To date, our efforts to place Cardiosonix's products have met with limited success. The long-term commercial success of the Cardiosonix product line will require widespread acceptance of our products as safe, efficient and cost-effective in the treatment of the cardiac and vascular indications for which they are intended. Widespread acceptance of blood flow measurement would represent a significant change in current medical practice patterns. Other cardiac monitoring procedures, such as pulmonary artery catheterization, are generally accepted in the medical community and have a long standard of use. It is possible that the Cardiosonix product line will never achieve the broad market acceptance necessary to become a commercial success.

Our radiopharmaceutical product candidates, **Lymphoseek** and **RIGScan** CR, are still in the process of development, and even if we are successful in commercializing them, we cannot assure you that they will obtain significant market acceptance.

Clinical trials for our radiopharmaceutical product candidates will be lengthy and expensive and their outcome is uncertain.

Before obtaining regulatory approval for the commercial sale of any product candidates, we must demonstrate through preclinical testing and clinical trials that our product candidates are safe and effective for use in humans. Conducting clinical trials is a time consuming, expensive and uncertain process and may take years to complete. We only recently commenced a Phase 2 clinical trial for our most advanced radiopharmaceutical product candidate, **Lymphoseek**, and we are taking steps to evaluate commencement of a Phase 3 clinical trial for our next radiopharmaceutical candidate, **RIGScan** CR. Historically, the results from preclinical testing and early clinical trials have often not been predictive of results obtained in later clinical trials. Frequently, drugs that have shown promising results in preclinical or early clinical trials subsequently fail to establish sufficient safety and efficacy data necessary to obtain regulatory approval. At any time during the clinical trials, we, the participating institutions or FDA might delay or halt any clinical trials for our product candidates for various reasons, including:

- ineffectiveness of the product candidate;
- discovery of unacceptable toxicities or side effects;
- development of disease resistance or other physiological factors;
- delays in patient enrollment; or
- other reasons that are internal to the businesses of our potential collaborative partners, which reasons they may not share with us.

The results of the clinical trials may fail to demonstrate the safety or effectiveness of our product candidates to the extent necessary to obtain regulatory approval or such that commercialization of our product candidates is worthwhile. Any failure or substantial delay in successfully completing clinical trials and obtaining regulatory approval for our product candidates could severely harm our business.

If we fail to obtain collaborative partners, or those we obtain fail to perform their obligations or discontinue clinical trials for particular product candidates, our ability to develop and market potential products could be severely limited.

Our strategy for the development and commercialization of our product candidates depends, in large part, upon the formation of collaborative arrangements. Collaborations may allow us to:

- generate cash flow and revenue;
- offset some of the costs associated with our internal research and development, preclinical testing, clinical trials and manufacturing;
- seek and obtain regulatory approvals faster than we could on our own; and
- successfully commercialize existing and future product candidates.

We do not currently have collaborative agreements covering **Lymphoseek, RIGScan** CR or ACT. We cannot assure you that we will be successful in securing collaborative partners, or that we will be able to negotiate acceptable terms for such arrangements. The development, regulatory approval and commercialization of our product candidates will depend substantially on the efforts of collaborative partners, and if we fail to secure or maintain successful collaborative arrangements, or if our partners fail to perform their obligations, our development, regulatory, manufacturing and marketing activities may be delayed, scaled back or suspended.

We rely on third parties for the worldwide marketing and distribution of our gamma detection and blood flow measurement devices, who may not be successful in selling our products.

We currently distribute our gamma detection devices in most global markets through two partners who are solely responsible for marketing and distributing these products. The partners assume direct responsibility for business risks related to credit, currency exchange, foreign tax laws or tariff and trade regulation. Our blood flow products are marketed and sold in the U.S. and a number of foreign markets through other distribution partners specific to those markets. Further, we have had only limited success to date in marketing or selling our **Quantix** line of blood flow products. While we believe that our distribution partners intend to continue to aggressively market our products, we cannot assure you that the distribution partners will succeed in marketing our products on a global basis. We may not be able to maintain satisfactory arrangements with our marketing and distribution partners, who may not devote adequate resources to selling our products. If this happens, we may not be able to successfully market our products, which would decrease our revenues.

Our radiopharmaceutical product candidates are subject to extensive government regulations and we may not be able to obtain necessary regulatory approvals.

We may not receive the regulatory approvals necessary to commercialize our **Lymphoseek** and **RIGScan** product candidates, which could cause our business to be severely harmed. Our product candidates are subject to extensive and rigorous government regulation. FDA regulates, among other things, the development, testing, manufacture, safety, record-keeping, labeling, storage, approval, advertising, promotion, sale and distribution of pharmaceutical products. If our potential products are marketed abroad, they will also be subject to extensive regulation by foreign governments. None of our product candidates has been approved for sale in the United States or in any foreign market. The regulatory review and approval process, which includes preclinical studies and clinical trials of each product candidate, is lengthy, complex, expensive and uncertain. Securing FDA clearance to market requires the submission of extensive preclinical and clinical data and supporting information to FDA for each indication to establish the product candidate's safety and efficacy. Data obtained from preclinical and clinical trials are susceptible to varying interpretation, which may delay, limit or prevent regulatory approval. The approval process may take many years to complete and may involve ongoing requirements for post-marketing studies. In light of the limited regulatory history of monoclonal antibody-based therapeutics, regulatory approvals for our products may not be obtained without lengthy delays, if at all. Any FDA or other regulatory approvals of our product candidates, once obtained, may be withdrawn. The effect of government regulation may be to:

- delay marketing of potential products for a considerable period of time;

- limit the indicated uses for which potential products may be marketed;
- impose costly requirements on our activities; and
- provide competitive advantage to other pharmaceutical and biotechnology companies.

We may encounter delays or rejections in the regulatory approval process because of additional government regulation from future legislation or administrative action or changes in FDA policy during the period of product development, clinical trials and FDA regulatory review. Failure to comply with applicable FDA or other regulatory requirements may result in criminal prosecution, civil penalties, recall or seizure of products, total or partial suspension of production or injunction, as well as other regulatory action against our product candidates or us. Outside the United States, our ability to market a product is contingent upon receiving clearances from the appropriate regulatory authorities. This foreign regulatory approval process includes risks similar to those associated with FDA approval process.

Our radiopharmaceutical product candidates will remain subject to ongoing regulatory review even if they receive marketing approval. If we fail to comply with continuing regulations, we could lose these approvals and the sale of our products could be suspended.

Even if we receive regulatory clearance to market a particular product candidate, the approval could be conditioned on us conducting additional costly post-approval studies or could limit the indicated uses included in our labeling. Moreover, the product may later cause adverse effects that limit or prevent its widespread use, force us to withdraw it from the market or impede or delay our ability to obtain regulatory approvals in additional countries. In addition, the manufacturer of the product and its facilities will continue to be subject to FDA review and periodic inspections to ensure adherence to applicable regulations. After receiving marketing clearance, the manufacturing, labeling, packaging, adverse event reporting, storage, advertising, promotion and record-keeping related to the product will remain subject to extensive regulatory requirements. We may be slow to adapt, or we may never adapt, to changes in existing regulatory requirements or adoption of new regulatory requirements.

If we fail to comply with the regulatory requirements of FDA and other applicable U.S. and foreign regulatory authorities or previously unknown problems with our products, manufacturers or manufacturing processes are discovered, we could be subject to administrative or judicially imposed sanctions, including:

- restrictions on the products, manufacturers or manufacturing processes;
- warning letters;
- civil or criminal penalties;
- fines;
- injunctions;
- product seizures or detentions;
- import bans;
- voluntary or mandatory product recalls and publicity requirements;
- suspension or withdrawal of regulatory approvals;
- total or partial suspension of production; and
- refusal to approve pending applications for marketing approval of new drugs or supplements to approved applications.

Our existing products are highly regulated and we could face severe problems if we do not comply with all regulatory requirements in the global markets in which these products are sold.

FDA regulates our gamma detection and blood flow measurement products in the United States. Foreign countries also subject these products to varying government regulations. In addition, these regulatory authorities may impose limitations on the use of our products. FDA enforcement policy strictly prohibits the marketing of FDA cleared medical devices for unapproved uses. Within the European Union, our products are required to display the CE Mark in order to be sold. We have obtained FDA clearance to market and European certification to display the CE Mark on our current line of gamma detection systems and on two blood flow products, the **Quantix/ND** and **Quantix/OR**. We may not be able to obtain clearance to market any new products in a timely manner, or at all. Failure to comply with these and other current and emerging regulatory requirements in the global markets in which our products are sold could result in, among other things, warning letters, fines, injunctions, civil penalties, recall or seizure of products, total or partial suspension of production, refusal of the government to grant pre-market clearance for devices, withdrawal of clearances, and criminal prosecution.

We rely on third parties to manufacture our products and our business will suffer if they do not perform.

We rely on independent contract manufacturers for the manufacture of our current **neo2000** line of gamma detection systems and for our **Quantix** line of blood flow monitoring products. Our business will suffer if our contract manufacturers have production delays or quality problems. Furthermore, medical device manufacturers are subject to the QSR of FDA, international quality standards, and other regulatory requirements. If our contractors do not operate in accordance with regulatory requirements and quality standards, our business will suffer. We use or rely on components and services used in our devices that are provided by sole source suppliers. The qualification of additional or replacement vendors is time consuming and costly. If a sole source supplier has significant problems supplying our products, our sales and revenues will be hurt until we find a new source of supply. In addition, our distribution agreement with EES for gamma detection devices contains failure to supply provisions, which, if triggered, could have a significant negative impact on our business.

We may be unable to establish the pharmaceutical manufacturing capabilities necessary to develop and commercialize our potential products.

We do not have our own manufacturing facility for the manufacture of the radiopharmaceutical compounds necessary for clinical testing or commercial sale. We intend to rely in part on third-party contract manufacturers to produce sufficiently large quantities of drug materials that are and will be needed for clinical trials and commercialization of our potential products. Third-party manufacturers may not be able to meet our needs with respect to timing, quantity or quality of materials. If we are unable to contract for a sufficient supply of needed materials on acceptable terms, or if we should encounter delays or difficulties in our relationships with manufacturers, our clinical trials may be delayed, thereby delaying the submission of product candidates for regulatory approval and the market introduction and subsequent commercialization of our potential products. Any such delays may lower our revenues and potential profitability.

We may develop our manufacturing capacity in part by expanding our current facilities or building new facilities. Either of these activities would require substantial additional funds and we would need to hire and train significant numbers of employees to staff these facilities. We may not be able to develop manufacturing facilities that are sufficient to produce drug materials for clinical trials or commercial use. We and any third-party manufacturers that we may use must continually adhere to current Good Manufacturing Practices regulations enforced by FDA through its facilities inspection program. If our facilities or the facilities of third-party manufacturers cannot pass a pre-approval plant inspection, FDA will not grant approval to our product candidates. In complying with these regulations and foreign regulatory requirements, we and any of our third-party manufacturers will be obligated to expend time, money and effort on production, record-keeping and quality control to assure that our potential products meet applicable specifications and other requirements. If we or any third-party manufacturer with whom we may contract fail to maintain regulatory compliance, we or the third party may be subject to fines and/or manufacturing operations may be suspended.

Unfavorable pricing regulations, third-party reimbursement practices or healthcare reform initiatives applicable to our products and product candidates could limit our potential product revenue.

The regulations governing drug pricing and reimbursement vary widely from country to country. Some countries require approval of the sale price of a drug before it can be marketed and, in many of these countries, the pricing review period begins only after approval is granted. In some countries, prescription pharmaceutical pricing remains subject to continuing governmental control even after initial approval is granted. Although we monitor these regulations, our product candidates are currently in the development stage and we will not be able to assess the impact of price regulations for at least several years. As a result, we may obtain regulatory approval for a product in a particular country, but then be subject to price regulations that may delay the commercial launch of the product and may negatively impact the revenues we are able to derive from sales in that country.

The healthcare industry is undergoing fundamental changes resulting from political, economic and regulatory influences. In the United States, comprehensive programs have been proposed that seek to increase access to healthcare for the uninsured, control the escalation of healthcare expenditures within the economy and use healthcare reimbursement policies to balance the federal budget.

We expect that Congress and state legislatures will continue to review and assess healthcare proposals, and public debate of these issues will likely continue. We cannot predict which, if any, of such reform proposals will be adopted and when they might be adopted. Other countries also are considering healthcare reform. Significant changes in healthcare systems could have a substantial impact on the manner in which we conduct our business and could require us to revise our strategies.

We may have difficulty raising additional capital, which could deprive us of necessary resources.

We expect to continue to devote significant capital resources to fund research and development and to maintain existing and secure new manufacturing capacity. In order to support the initiatives envisioned in our business plan, we will likely need to raise additional funds through the sale of assets, public or private debt or equity financing, collaborative relationships or other arrangements. Our ability to raise additional financing depends on many factors beyond our control, including the state of capital markets, the market price of our common stock and the development or prospects for development of competitive technology by others. Because our common stock is not listed on a major stock market, many investors may not be willing or allowed to purchase it or may demand steep discounts. Sufficient additional financing may not be available to us or may be available only on terms that would result in further dilution to the current owners of our common stock.

We believe that we have access to sufficient financial resources with which to fund our operations or those of our subsidiaries through 2007. We expect to raise capital during 2007 in order to continue executing on our current business plan. However, if we are unsuccessful in raising additional capital, or the terms of raising such capital are unacceptable, we may have to modify our business plan and/or significantly curtail our planned development activities and other operations.

Market conditions may not permit us to effectively sell shares under our stock purchase agreement with Fusion Capital Fund II.

In December 2006, we entered into a common stock purchase agreement with Fusion Capital Fund II, LLC (Fusion) that allows us to sell shares of common stock for up to $6.0 million in proceeds. We have authorized up to 12,000,000 shares of our common stock for sale to Fusion under the agreement, and have issued 720,000 shares as a commitment fee. Up to an additional 720,000 shares of our common stock may be issued to Fusion as an additional commitment fee as shares are sold to Fusion. Our right to make sales under the agreement is limited to $50,000 every four business days, unless our stock price equals or exceeds $0.30 per share, in which case we can sell greater amounts to Fusion as the price of our common stock increases. Fusion does not have the right or the obligation to purchase any shares on any business day that the market price of our common stock is less than $0.20 per share. Assuming the entire 12,000,000 shares are sold, the selling price per share would have to average at least $0.50 for us to receive the maximum proceeds of $6.0 million. Assuming a purchase price of $0.22 per share (the closing sale price of the common stock on March 2, 2007) and the purchase by Fusion of the entire 12,000,000 shares, proceeds to us would only be $2.6 million.

The extent to which we rely on Fusion as a source of funding will depend on a number of factors, including the prevailing market price of our common stock and the extent to which we are able to secure working capital from other sources, such as through the sale of our products. Specifically, Fusion does not have the right or the obligation to purchase any shares of our common stock on any business day that the market price of our common stock is less than $0.20 per share. To the extent that we are unable to make sales to Fusion to meet our capital needs, or to the extent that we decide not to make such sales because of excessive dilution or other reasons, and if we are unable to generate sufficient revenues from sales of our products, we will need to secure another source of funding in order to satisfy our working capital needs. Even if we are able to access the full $6.0 million potentially available under the agreement with Fusion, we may still need additional capital to fully implement our business, operating and development plans. Should the financing we require to sustain our working capital needs be unavailable or prohibitively expensive when we require it, the consequences could be a material adverse effect on our business, operating results, financial condition and prospects.

The sale of the shares of common stock acquired in private placements could cause the price of our common stock to decline.

During 2003 and 2004, we completed several financings in which we issued common stock, convertible notes, warrants and other securities convertible into common stock to certain private investors and as required under the terms of those transactions, we filed registration statements with the Securities and Exchange Commission (SEC) under which the investors may resell to the public common stock acquired in these transactions, as well as common stock acquired on the exercise of the warrants and convertible securities held by them.

The selling stockholders under these registration statements may sell none, some or all of the shares of common stock acquired from us, as well as common stock acquired on the exercise of the warrants and convertible securities held by them. We have no way of knowing whether or when the selling stockholders will sell the shares covered by these registration statements. Depending upon market liquidity at the time, a sale of shares covered by these registration statements at any given time could cause the trading price of our common stock to decline. The sale of a substantial number of shares of our common stock under these registration statements, or anticipation of such sales, could make it more difficult for us to sell equity or equity-related securities in the future at a time and at a price that we might otherwise wish to effect sales.

The sale of our common stock to Fusion may cause dilution and the sale of common stock acquired by Fusion could cause the price of our common stock to decline.

In connection with our agreement with Fusion, we have authorized the sale of up to 12,000,000 shares of our common stock and the issuance of 1,440,000 shares in commitment fees, and we filed a registration statement with the SEC for the sale to the public of the entire 13,440,000 shares. The number of shares ultimately offered for sale to the public will be dependent upon the number of shares purchased by Fusion under the agreement. It is anticipated that these shares will be sold over a period of up to 24 months from the date of the agreement, at prices that will fluctuate based on changes in the market price of our common stock over that period. Depending upon market liquidity at the times sales are made, these sales could cause the market price of our common stock to decline. Consequently, sales to Fusion may result in substantial dilution to the interests of other holders of our common stock. The sale of a substantial number of shares of our common stock by Fusion, or anticipation of such sales, could make it more difficult for us to sell equity or equity-related securities in the future at a time and at a price that we might otherwise wish to effect sales. However, we have the right to control the timing and amount of any sales of our shares to Fusion and the agreement may be terminated by us at any time at our discretion without any cost to us.

We may lose out to larger and better-established competitors.

The medical device and biotechnology industries are intensely competitive. Some of our competitors have significantly greater financial, technical, manufacturing, marketing and distribution resources as well as greater experience in the medical device industry than we have. The particular medical conditions our product lines address can also be addressed by other medical devices, procedures or drugs. Many of these alternatives are widely accepted by physicians and have a long history of use. Physicians may use our competitors' products and/or our products may not be competitive with other technologies. If these things happen, our sales and revenues will decline. In addition, our current and potential competitors may establish cooperative relationships with large medical equipment companies to gain access to greater research and development or marketing resources. Competition may result in price reductions, reduced gross margins and loss of market share.

Our products may be displaced by newer technology.

The medical device and biotechnology industries are undergoing rapid and significant technological change. Third parties may succeed in developing or marketing technologies and products that are more effective than those developed or marketed by us, or that would make our technology and products obsolete or non-competitive. Additionally, researchers could develop new surgical procedures and medications that replace or reduce the importance of the procedures that use our products. Accordingly, our success will depend, in part, on our ability to respond quickly to medical and technological changes through the development and introduction of new products. We may not have the resources to do this. If our products become obsolete and our efforts to develop new products do not result in any commercially successful products, our sales and revenues will decline.

We may not have sufficient legal protection against infringement or loss of our intellectual property, and we may lose rights to our licensed intellectual property if diligence requirements are not met.

Our success depends, in part, on our ability to secure and maintain patent protection, to preserve our trade secrets, and to operate without infringing on the patents of third parties. While we seek to protect our proprietary positions by filing United States and foreign patent applications for our important inventions and improvements, domestic and foreign patent offices may not issue these patents. Third parties may challenge, invalidate, or circumvent our patents or patent applications in the future. Competitors, many of which have significantly more resources than we have and have made substantial investments in competing technologies, may apply for and obtain patents that will prevent, limit, or interfere with our ability to make, use, or sell our products either in the United States or abroad.

In the United States, patent applications are secret until patents issue, and in foreign countries, patent applications are secret for a time after filing. Publications of discoveries tend to significantly lag the actual discoveries and the filing of related patent applications. Third parties may have already filed applications for patents for products or processes that will make our products obsolete or will limit our patents or invalidate our patent applications.

We typically require our employees, consultants, advisers and suppliers to execute confidentiality and assignment of invention agreements in connection with their employment, consulting, advisory, or supply relationships with us. They may breach these agreements and we may not obtain an adequate remedy for breach. Further, third parties may gain access to our trade secrets or independently develop or acquire the same or equivalent information.

Agencies of the United States government conducted some of the research activities that led to the development of antibody technology that some of our proposed antibody-based surgical cancer detection products use. When the United States government participates in research activities, it retains rights that include the right to use the technology for governmental purposes under a royalty-free license, as well as rights to use and disclose technical data that could preclude us from asserting trade secret rights in that data and software.

The patents underlying our radiopharmaceutical products and ACT technology are exclusively licensed to us by third parties, and the relevant license agreements require us to use diligence in the development and commercialization of products using the licensed patents. Our failure to meet the diligence requirements in any license agreement may result in our loss of some or all of our license rights to the patents licensed thereunder.

The government grants Cardiosonix has received for research and development expenditures restrict our ability to manufacture blood flow monitoring products and transfer technologies outside of Israel and require us to satisfy specified conditions. If we fail to satisfy these conditions, we may be required to refund grants previously received together with interest and penalties, and may be subject to criminal charges.

Cardiosonix received grants from the government of Israel through the Office of the Chief Scientist (OCS) of the Ministry of Industry and Trade for the financing of a portion of its research and development expenditures associated with our blood flow monitoring products. From 1998 to 2001, Cardiosonix received grants totaling $775,000 from the OCS. The terms of the OCS grants may affect our efforts to transfer manufacturing of products developed using these grants outside of Israel without special approvals. In January 2006, the OCS consented to the transfer of manufacturing as long as Neoprobe complies with the terms of the OCS statutes under Israeli law. As long as we maintain at least 10% Israeli content in our blood flow devices, we will pay a royalty rate of 4% on sales of applicable blood flow devices and must repay the OCS a total of $1.2 million in royalties. However, should the amount of Israeli content of our blood flow device products decrease below 10%, the royalty rate could increase to 5% and the total royalty payments due could increase to $2.3 million. This may impair our ability to effectively outsource manufacturing or engage in similar arrangements for those products or technologies. In addition, if we fail to comply with any of the conditions imposed by the OCS, we may be required to refund any grants previously received together with interest and penalties, and may be subject to criminal charges. In recent years, the government of Israel has accelerated the rate of repayment of OCS grants related to other grantees and may further accelerate them in the future.

We may lose the license rights to certain in-licensed products if we do not exercise adequate diligence.

Our license agreements for **Lymphoseek**, **RIGS**, and ACT contain provisions that require that we demonstrate ongoing diligence in the continuing research and development of these potential products. Cira Bio's rights to certain applications of the ACT technology may be affected by its failure to achieve certain capital raising milestones by December 31, 2006. In addition, our licensed rights to **RIGS**, unless modified, have certain diligence requirements we must demonstrate by the end of September, 2007. Should we fail to demonstrate the requisite diligence required by any such agreement, we may lose our development and commercialization rights for the associated product.

We could be damaged by product liability claims.

Our products are used or intended to be used in various clinical or surgical procedures. If one of our products malfunctions or a physician misuses it and injury results to a patient or operator, the injured party could assert a product liability claim against our company. We currently have product liability insurance with a $10 million per occurrence limit, which we believe is adequate for our current activities. However, we may not be able to continue to obtain insurance at a reasonable cost. Furthermore, insurance may not be sufficient to cover all of the liabilities resulting from a product liability claim, and we might not have sufficient funds available to pay any claims over the limits of our insurance. Because personal injury claims based on product liability in a medical setting may be very large, an underinsured or an uninsured claim could financially damage our company.

We may have trouble attracting and retaining qualified personnel and our business may suffer if we do not.

Our business has experienced challenges the past two years that have resulted in several significant changes in our strategy and business plan, including the shifting of resources to support our current product initiatives and downsizings to what we consider to be the minimal support structure necessary to operate a publicly traded company. Our management will need to remain flexible to support our business model over the next few years. However, losing members of the Neoprobe management team could have an adverse effect on our operations. Our success depends on our ability to attract and retain technical and management personnel with expertise and experience in the medical device business. The competition for qualified personnel in the medical device industry is intense and we may not be successful in hiring or retaining the requisite personnel. If we are unable to attract and retain qualified technical and management personnel, we will suffer diminished chances of future success.

Our secured indebtedness imposes significant restrictions on us, and a default could cause us to cease operations.

All of our material assets, except the intellectual property associated with our **Lymphoseek**, **RIGS** and ACT products under development, have been pledged as collateral for the $8.1 million in principal amount of our Series A Convertible Notes, issued to funds managed by Great Point Capital Partners and to our CEO under an agreement dated December 13, 2004, as amended November 30, 2006 (the Notes). In addition to the security interest in our assets, the Notes carry substantial covenants that impose significant requirements on us, including, among others, requirements that:

- we pay all principal ($500,000 paid January 8, 2007, $1,250,000 due July 9, 2007, $1,750,000 due January 7, 2008, $2,000,000 due July 7, 2008, and $2,600,000 due January 7, 2009), interest (12% per annum, payable on March 31, June 30, September 30, and December 31 of each year) and other charges on the Notes when due;

- we use the proceeds from the sale of the Notes only for permitted purposes, such as **Lymphoseek** development and general corporate purposes;

- we nominate and recommend for election as a director a person designated by the holders of the Notes (as of February 28, 2007, the holders of the Notes have not designated a potential board member);

- we keep reserved out of our authorized shares of common stock sufficient shares to satisfy our obligation to issue shares on conversion of the Notes and the exercise of the warrants issued in connection with the sale of the Notes;

- we indemnify the purchasers of the Notes against certain liabilities; and

- we use our best efforts to offer and sell equity securities with gross proceeds of up to $10 million and apply not less than 50% of the net proceeds of such sales to the repayment of principal on the Notes.

Additionally, with certain exceptions, the Notes prohibit us from:

- amending our organizational or governing agreements and documents, entering into any merger or consolidation, dissolving the company or liquidating its assets, or acquiring all or any substantial part of the business or assets of any other person;

- engaging in transactions with any affiliate;

- entering into any agreement inconsistent with our obligations under the Notes and related agreements;

- incurring any indebtedness, capital leases, or contingent obligations outside the ordinary course of business;

- granting or permitting liens against or security interests in our assets;

- making any material dispositions of our assets outside the ordinary course of business;

- declaring or paying any dividends or making any other restricted payments; or

- making any loans to or investments in other persons outside of the ordinary course of business.

Further, the Notes require us to apply at least 50% of the proceeds of any permitted asset disposition or any permitted licensing, distribution or similar strategic alliance agreement to the repayment of principal on the Notes.

Our ability to comply with these provisions may be affected by changes in our business condition or results of our operations, or other events beyond our control. The breach of any of these covenants would result in a default under the Notes, permitting the holders of the Notes to accelerate their maturity and to sell the assets securing them. Such actions by the holders of the Notes could cause us to cease operations or seek bankruptcy protection.

Our common stock is traded over the counter, which may deprive stockholders of the full value of their shares.

Our common stock is quoted via the National Association of Securities Dealers' Over the Counter Bulletin Board (OTCBB). As such, our common stock may have fewer market makers, lower trading volumes and larger spreads between bid and asked prices than securities listed on an exchange such as the New York Stock Exchange or the NASDAQ Stock Market. These factors may result in higher price volatility and less market liquidity for the common stock.

A low market price may severely limit the potential market for our common stock.

Our common stock is currently trading at a price substantially below $5.00 per share, subjecting trading in the stock to certain SEC rules requiring additional disclosures by broker-dealers. These rules generally apply to any non-NASDAQ equity security that has a market price share of less than $5.00 per share, subject to certain exceptions (a "penny stock"). Such rules require the delivery, prior to any penny stock transaction, of a disclosure schedule explaining the penny stock market and the risks associated therewith and impose various sales practice requirements on broker-dealers who sell penny stocks to persons other than established customers and institutional or wealthy investors. For these types of transactions, the broker-dealer must make a special suitability determination for the purchaser and have received the purchaser's written consent to the transaction prior to the sale. The broker-dealer also must disclose the commissions payable to the broker-dealer, current bid and offer quotations for the penny stock and, if the broker-dealer is the sole market maker, the broker-dealer must disclose this fact and the broker-dealer's presumed control over the market. Such information must be provided to the customer orally or in writing before or with the written confirmation of trade sent to the customer. Monthly statements must be sent disclosing recent price information for the penny stock held in the account and information on the limited market in penny stocks. The additional burdens imposed upon broker-dealers by such requirements could discourage broker-dealers from effecting transactions in our common stock.

The price of our common stock has been highly volatile due to several factors that will continue to affect the price of our common stock.

Our common stock traded as low as $0.22 per share and as high as $0.36 per share during the twelve-month period ended December 31, 2006. The market price of our common stock has been and is expected to continue to be highly volatile. Factors, including announcements of technological innovations by us or other companies, regulatory matters, new or existing products or procedures, concerns about our financial position, operating results, litigation, government regulation, developments or disputes relating to agreements, patents or proprietary rights, may have a significant impact on the market price of our stock. In addition, potential dilutive effects of future sales of shares of common stock by the company and by stockholders, and subsequent sale of common stock by the holders of warrants and options could have an adverse effect on the market price of our shares.

Some additional factors which could lead to the volatility of our common stock include:

- price and volume fluctuations in the stock market at large which do not relate to our operating performance;
- financing arrangements we may enter that require the issuance of a significant number of shares in relation to the number of shares currently outstanding;
- public concern as to the safety of products that we or others develop; and
- fluctuations in market demand for and supply of our products.

An investor's ability to trade our common stock may be limited by trading volume.

Generally, the trading volume for our common stock has been relatively limited. A consistently active trading market for our common stock may not occur on the OTCBB. The average daily trading volume for our common stock on the OTCBB for the 12-month period ended February 28, 2007 was approximately 74,000 shares.

Some provisions of our organizational and governing documents may have the effect of deterring third parties from making takeover bids for control of our company or may be used to hinder or delay a takeover bid.

Our certificate of incorporation authorizes the creation and issuance of "blank check" preferred stock. Our Board of Directors may divide this stock into one or more series and set their rights. The Board of Directors may, without prior stockholder approval, issue any of the shares of "blank check" preferred stock with dividend, liquidation, conversion, voting or other rights, which could adversely affect the relative voting power or other rights of the common stock. Preferred stock could be used as a method of discouraging, delaying, or preventing a take-over of our company. If we issue "blank check" preferred stock, it could have a dilutive effect upon our common stock. This would decrease the chance that our stockholders would realize a premium over market price for their shares of common stock as a result of a takeover bid.

Because we will not pay dividends, stockholders will only benefit from owning common stock if it appreciates.

We have never paid dividends on our common stock and we do not intend to do so in the foreseeable future. We intend to retain any future earnings to finance our growth. Accordingly, any potential investor who anticipates the need for current dividends from his investment should not purchase our common stock.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This report contains forward-looking statements within the meaning of Section 27A of the Securities Act and Section 21E of the Exchange Act. We have based these forward-looking statements largely on our current expectations and projections about future events and financial trends affecting the financial condition of our business. These forward-looking statements are subject to a number of risks, uncertainties and assumptions, including, among other things:

- general economic and business conditions, both nationally and in our markets,
- our history of losses, negative net worth and uncertainty of future profitability;
- our expectations and estimates concerning future financial performance, financing plans and the impact of competition;
- our ability to implement our growth strategy;
- anticipated trends in our business;
- advances in technologies; and
- other risk factors set forth under "Risk Factors" in this report.

In addition, in this report, we use words such as "anticipate," "believe," "plan," "expect," "future," "intend," and similar expressions to identify forward-looking statements.

We undertake no obligation to update publicly or revise any forward-looking statements, whether as a result of new information, future events or otherwise after the date of this report. In light of these risks and uncertainties, the forward-looking events and circumstances discussed in this report may not occur and actual results could differ materially from those anticipated or implied in the forward-looking statements.

Item 2. Description of Property

We currently lease approximately 11,300 square feet of office space at 425 Metro Place North, Dublin, Ohio, as our principal offices. The current lease term is from February 1, 2005 and ending on January 31, 2008, at a monthly base rent of approximately $8,300 during 2007. We must also pay a pro-rata portion of the operating expenses and real estate taxes of the building. We believe these facilities are in good condition, but that we may need to expand our leased space related to our radiopharmaceutical activities depending on the level of activities performed internally versus by third parties.

Item 3. Legal Proceedings

None.

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

None.

PART II

Item 5. Market for Common Equity, Related Stockholder Matters and Small Business Issuer Purchases of Equity Securities

Our common stock trades on the OTCBB under the trading symbol NEOP. The prices set forth below reflect the quarterly high, low and closing sales prices for shares of our common stock during the last two fiscal years as reported by Reuters Limited. These quotations reflect inter-dealer prices, without retail markup, markdown or commission, and may not represent actual transactions.

	High	***Low***	**Close**
Fiscal Year 2006:			
First Quarter	$ 0.36	$ 0.25	$ 0.29
Second Quarter	0.30	0.23	0.26
Third Quarter	0.33	0.23	0.33
Fourth Quarter	0.34	0.22	0.24
Fiscal Year 2005:			
First Quarter	$ 0.72	$ 0.37	$ 0.46
Second Quarter	0.46	0.30	0.35
Third Quarter	0.40	0.25	0.30
Fourth Quarter	0.32	0.20	0.25

As of March 9, 2007, we had approximately 805 holders of common stock of record.

We have not paid any dividends on our common stock and do not anticipate paying cash dividends in the foreseeable future. We intend to retain any earnings to finance the growth of our business. We cannot assure you that we will ever pay cash dividends. Whether we pay cash dividends in the future will be at the discretion of our Board of Directors and will depend upon our financial condition, results of operations, capital requirements and any other factors that the Board of Directors decides are relevant. See Management's Discussion and Analysis of Financial Condition and Results of Operations, below.

Recent Sales of Unregistered Securities

The following sets forth certain information regarding the sale of equity securities of our company during the period covered by this report that were not registered under the Securities Act of 1933 (the Securities Act).

In March 2006, our Board of Directors authorized the issuance of 67,987 shares of common stock to the trustees of our 401(k) employee benefit plan (the Plan) without registration. Such issuance is exempt from registration under the Securities Act under Section 3(a)(2). The Plan is a pension, profit sharing or stock bonus plan that is qualified under Section 401 of the Internal Revenue Code. The assets of the Plan are held in a single trust fund for the benefit of our employees, which does not hold assets for the benefit of the employees of any other employer. All of the contributions to the Plan from our employees have been invested in assets other than our common stock. We have contributed all of the Neoprobe common stock held by the Plan as a matching contribution that has been less in value at the time it was contributed to the Plan than the employee contributions that it matches.

In December 2006, we entered into a common stock purchase agreement with Fusion Capital Fund II, LLC (Fusion). We have authorized up to 12,000,000 shares of our common stock for sale to Fusion under the agreement. Under the terms of the agreement, in December 2006, we issued 720,000 shares of our common stock as an initial commitment fee, in reliance upon an exemption from registration provided by Sections 4(2) and 4(6) of the Securities Act and Regulation D. We are also required to issue to Fusion an additional 720,000 shares of our common stock as an additional commitment fee in connection with each purchase made by Fusion. The additional 720,000 shares will be issued pro rata as we sell our common stock to Fusion under the agreement, resulting in a total commitment fee of 1,440,000 shares of our common stock if the entire $6.0 million in value of stock is sold. The price of shares sold to Fusion will generally be based on market prices for purchases that are not subject to the floor price of $0.20 per share. During 2006, we sold a total of 208,333 shares of common stock under the agreement, realized gross proceeds of $50,000 from such sales, and issued Fusion 6,000 shares of common stock as additional commitment fees related to such sales.

During 2005, certain investors and placement agents who received warrants to purchase our common stock in connection with a November 2003 financing exercised a total of 206,865 warrants in exchange for 206,865 shares of our common stock, resulting in net proceeds of $57,922. The issuances of the shares and warrants to the investors and the placement agents were exempt from registration under Sections 4(2) and 4(6) of the Securities Act and Regulation D.

Item 6. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion should be read together with our Consolidated Financial Statements and the Notes related to those statements, as well as the other financial information included in this Form 10-KSB. Some of our discussion is forward-looking and involves risks and uncertainties. For information regarding risk factors that could have a material adverse effect on our business, refer to Item 1 of this Form 10-KSB, Description of Business - Risk Factors.

The Company

Neoprobe Corporation is a biomedical technology company that provides innovative surgical and diagnostic products that enhance patient care. We currently market two lines of medical devices; our **neo2000®** gamma detection systems and the **Quantix®** line of blood flow measurement devices of our subsidiary, Cardiosonix. In addition to our medical device products, we have two radiopharmaceutical products, **RIGScan®** CR and **Lymphoseek®**, in the advanced phases of clinical development. We are also exploring the development of our activated cellular therapy (ACT) technology for patient-specific disease treatment through our majority-owned subsidiary, Cira Biosciences, Inc. (Cira Bio).

Executive Summary

This Executive Summary section contains a number of forward-looking statements, all of which are based on current expectations. Actual results may differ materially. Our financial performance is highly dependent on our ability to continue to generate income and cash flow from our gamma device product line and on our ability to successfully commercialize the blood flow products of our subsidiary, Cardiosonix. We cannot assure you, however, that we will achieve the volume of sales anticipated, or if achieved, that the margin on such sales will be adequate to produce positive operating cash flow. We continue to be optimistic about the longer-term potential for our other proprietary, procedural-based technologies such as **Lymphoseek** and **RIGS®** (radioimmunoguided surgery); however, these technologies are not anticipated to generate any significant revenue for us during 2007. In addition, we cannot assure you that these products will ever obtain marketing clearance from the appropriate regulatory bodies.

We believe that the future prospects for Neoprobe continue to improve as we make progress in all of our lines of business. We expect revenue from our gamma device line to continue to provide a strong revenue base during 2007. We also continue to expect revenue from our **Quantix** blood flow measurement products for 2007 to increase over 2006 as our marketing partners gain more experience in selling our products. We have also made progress on our oncology drug development initiatives. During the third quarter of 2006, we initiated a Phase 2 clinical trial for **Lymphoseek** which we expect to be completed during the first half of 2007.

The majority of our development expenses over the next 12 to 18 months will be devoted to our **Lymphoseek** efforts to complete manufacturing validation and scale-up, to complete Phase 2 and Phase 3 clinical trials and to prepare for the submission of a new drug application to the U.S. Food and Drug Administration (FDA) which we expect to submit in the first half of 2008 subject to clearance from FDA to commence the Phase 3 studies in a timely fashion. We anticipate the total outsourced out-of-pocket costs for **Lymphoseek** to be approximately $9 million. We also expect to incur development expenses in 2007 as we continue to innovate our device product lines, although we do not currently expect our out-of-pocket expenses to exceed $1 million related to these projects in 2007. We may also incur some development expenses in 2007 related to our **RIGS** radiopharmaceutical product development although we intend to defer any major expenses until we identify a partner to assist us in the development and commercialization of **RIGScan** CR. As a result, although we expect to see positive movement in all our lines of business during 2007, we will likely show a loss for the year primarily due to our drug product development efforts.

As of December 31, 2006, our cash and investments on hand totaled $2.5 million. During 2006, we used $3.6 million in cash to fund our operations. We believe our currently available capital resources will be adequate to sustain our device operations at planned levels in 2007. We intend to raise additional funds through our stock purchase agreement with Fusion to supplement our capital needs until we are able to generate positive cash flow from **Lymphoseek** and our medical device product lines. However, the extent to which we rely on Fusion as a source of funding will depend on a number of factors, including the prevailing market price of our common stock and the extent to which we are able to secure working capital from other sources, such as through the sale of our products. Specifically, Fusion does not have the right or the obligation to purchase any shares of our common stock on any business day that the market price of our common stock is less than $0.20 per share. If we decide to seek additional funding from other sources to support the development of our products and additional financing is not available when required or is not available on acceptable terms, or we are unable to arrange a suitable strategic opportunity, we may need to modify our business plan. We cannot assure you that the additional capital we require will be available on acceptable terms, if at all. We cannot assure you that we will be able to successfully commercialize products or that we will achieve significant product revenues from our current or potential new products. In addition, we cannot assure you that we will achieve or sustain profitability in the future.

Our Outlook for our Gamma Detection Device Products

We believe our core gamma detection device business line will continue to achieve positive results. Our belief is based on continued interest in the research community in lymphatic mapping. The National Cancer Institute (NCI) recently sponsored two large randomized clinical trials (research studies) for breast cancer comparing sentinel lymph node biopsy (SLNB) with conventional axillary lymph node dissection. The trials were conducted by the National Surgical Adjuvant Breast and Bowel Project (NSABP) and the American College of Surgeons Oncology Group (ACOSOG). NSABP and ACOSOG are both NCI-sponsored Clinical Trials Cooperative Groups, which are networks of institutions and physicians across the country who jointly conduct trials. Although several studies have examined the correlation between the sentinel node and the remaining axillary nodes, these are the first two large randomized multi-center trials that will compare the long-term results of sentinel lymph node removal with full axillary node dissection. Both of these trials are now closed. However, final data from these studies likely will not be presented for another year or so. We expect the results from these clinical trials, when announced, will have a positive impact on helping us to penetrate the remaining market for breast cancer and melanoma. We also believe that the surgical community will continue to adopt the SLNB application while a standard of care determination is still pending. We also believe that **Lymphoseek**, our lymphatic targeting agent, should it become commercially available, could significantly improve the adoption of SLNB in future years in areas beyond melanoma and breast cancer. To that end, we are supporting the clinical evaluation of **Lymphoseek** in patients with either prostate or colon cancers.

We believe that most of the leading cancer treatment institutions in the U.S. and other major global markets have adopted SLNB and purchased gamma detection systems such as the **neo2000**. As a result, we may be reaching saturation within this segment of the market, except for potential replacement sales. As such, our marketing focus in all major global markets for gamma detection devices will continue to be among local/regional hospitals, which typically lag behind leading research centers and major hospitals in adapting to new technologies. A decline in the adoption rate of SLNB at these institutions or the development of alternative technologies by competitors may negatively impact our sales volumes, and therefore, revenues and net income in future years. In order to address the issue of potential saturation as well as to continue to provide our customers with the highest quality tools for performing SLNB, we introduced a new gamma detection probe at the American College of Surgeons 92nd Annual Clinical Congress meeting in Chicago. The new probe uses Bluetooth® wireless technology to communicate gamma radiation counts to our **neo2000** control unit. The wireless probe eliminates cumbersome cables that can complicate the surgical field and provides the surgeon with operative field flexibility. The new probe is designed to be used with all existing models of our **neo2000** system (Models 2000, 2100 and 2200). The wireless probe will be available with either a straight or angled detection tip.

During March 2006, our primary gamma device marketing partner, Ethicon Endo-Surgery, Inc. (EES), a Johnson & Johnson company, exercised the second of its two options to extend the termination date of our distribution agreement with them through the end of 2008. We believe that total quantities of base **neo2000** systems expected to be purchased by EES during 2007 should be consistent with 2005 and 2006 purchase levels. We cannot assure you, however, that EES' product purchases beyond those firmly committed through mid-2007 will indeed occur or that the prices we realize will not be affected by increased competition.

Under the terms of our distribution agreement with EES, the transfer prices we receive on product sales to EES are based on a fixed percentage of their end-customer sales price, subject to a floor transfer price. Throughout their sales history, our products have generally commanded a price premium in most of the markets in which they are sold, which we believe is due to their superior performance and ease of use. The average end-customer sales prices received by EES for our gamma detection devices declined less than 3% in 2006 as compared to 2005; however, the transfer price that we received from selling to EES during 2006 remained approximately 18% above the floor pricing for the base system configuration. While we continue to believe in the technical and user-friendly superiority of our products, the competitive landscape continues to evolve and we may lose market share or experience price erosion as a result. A loss of market share or significant price erosion would have a direct negative impact on net income. If price erosion continues into 2007, there is a risk associated with future sales of our gamma detection devices to EES that may erode some or all of the premium we received in prior years in excess of the floor price. However, we believe the anticipated steady volumes will result in continued profitability for our gamma device business line for 2007, even at floor prices.

Our Outlook for our Drugs and Therapeutics

The primary focus of our drug and therapeutic development efforts during 2006 centered around commencing a Phase 2 clinical trial for **Lymphoseek**. **Lymphoseek** is intended to be used in biopsy procedures for the detection of cancer cells in lymph nodes in a variety of tumor types including breast, melanoma, prostate, gastric and colon cancers. If approved, **Lymphoseek** would be the first radiopharmaceutical specifically designed to target lymphatic tissue.

Patient enrollment activities for the Phase 2 trial for **Lymphoseek** commenced during the third quarter of 2006 and we reported positive preliminary results for the first 40 patients earlier in March 2007. **Lymphoseek** identified lymphatic tissue in over 97% of treated and evaluable patients. We expect to complete the Phase 2 study and report results for all 80 patients during the summer of 2007. While preparing for the Phase 2 study, we began working with regulatory agencies in Europe to determine the pathway to seek marketing clearance for **Lymphoseek** in Europe. As a result of those discussions, it is our intention to pursue marketing clearance for **Lymphoseek** through the centralized authority, the European Agency for the Evaluation of Medicinal Products (EMEA) in London. We have reviewed with the EMEA the Phase 2 protocol design with the intention of including European sites in the Phase 3 study. We cannot assure you, however, that this product will achieve regulatory approval, or if approved, that it will achieve market acceptance.

Over the past few years, we have made progress in advancing our **RIGScan** CR development program while incurring little in the way of research expenses. Our **RIGS** technology, which had been essentially inactive since the failure to gain approval following our original license application in 1997, has been the subject of renewed interest due primarily to the analysis of survival data related to patients who participated in the original Phase 3 clinical studies that were completed in 1996. We believe there are development milestones that can be achieved prior to the need for significant capital investment in **RIGScan** CR such as preparing the request for a special protocol assessment (SPA) and completing a final protocol review. However, we continue to believe it will be necessary for us to identify a development partner or an alternative funding source in order to prepare for and fund the pivotal clinical testing that will be necessary to gain marketing clearance for **RIGScan** CR. We have engaged in discussions with various parties regarding such a partnership. At the present time, while we have parties who have indicated an interest in entering into a development relationship, we do not believe these efforts will result in a partnership until further clarity can be added to the **RIGScan** regulatory approval pathway, such as perhaps obtaining a positive SPA determination from FDA. However, even if we are able to make such arrangements on satisfactory terms, we believe that the time required for continued development, regulatory approval and commercialization of a **RIGS** product would likely be a minimum of five years before we receive any significant product-related royalties or revenues. We cannot assure you that we will be able to complete definitive agreements with a development partner for the **RIGS** technology and do not know if a partner will be obtained on a timely basis on terms acceptable to us, or at all. We also cannot assure you that FDA or the EMEA will clear our **RIGS** products for marketing or that any such products will be successfully introduced or achieve market acceptance.

In early 2005, we formed a new subsidiary, Cira Bio, to explore the development of ACT. Neoprobe owns approximately 90% of the outstanding shares of Cira Bio with the remaining shares being held by the principals of a private holding company, Cira LLC. In conjunction with the formation of Cira Bio, an amended technology license agreement also was executed with The Ohio State University, from whom both Neoprobe and Cira LLC had originally licensed or optioned the various cellular therapy technologies. As a result of the cross-license agreements, Cira Bio has the development and commercialization rights to three issued U.S. patents that cover the oncology and autoimmune applications of its technology. In addition, Cira Bio has licenses to several pending patent applications.

Cira Bio intends to raise the necessary capital to move this technology platform forward; however, Cira Bio has not yet identified a potential source of capital. Obtaining this funding would likely dilute Neoprobe's ownership interest in Cira Bio; however, we believe that moving forward such a promising technology will only yield positive results for the Neoprobe stockholders and the patients who could benefit from these treatments. However, we do not know if we will be successful in obtaining funding on terms acceptable to us, or at all. In addition, because Cira Bio was not successful in obtaining sufficient capital by December 31, 2006, the technology rights for the oncology applications of ACT may revert back to Neoprobe and the technology rights for the viral and autoimmune applications may revert back to Cira LLC upon notice by either party.

Our Outlook for our Blood Flow Measurement Products

We have two blood flow measurement devices, the **Quantix/OR**™ and the **Quantix/ND**™, that have regulatory clearance to market in the U.S. and European Union (EU) as well as certain other foreign markets. The **Quantix/OR** is primarily intended to measure blood flow in cardiac bypass graft and other similar procedures while the **Quantix/ND** is designed to measure blood flow in neurovascular settings. Sales of blood flow measurement equipment, while higher in 2006 than in previous years, have thus far not met our expectations. We are encouraged by the activities of our blood flow distribution partners and over the second half of 2006 we saw increasing numbers of competitive evaluations of our **Quantix/OR** device. As such, we remain cautiously optimistic about our blood flow measurement business as we look toward 2007. Due in part to the disappointing performance to date of our blood flow product line, we put significant effort during 2006 into transferring the marketing of our **Quantix/OR** system to distributor organizations that have broader market presence while we work with thought leaders to determine the ultimate market viability of the **Quantix/ND**. Currently, we have in place or have executed or reached agreement in principle with distributors and/or master distributors for the **Quantix/OR** covering the United States, all major market countries in the EU, and substantially all countries that comprise the Pacific Rim of Asia. In addition, we have distribution arrangements in place covering major portions of Central and South America. Our goal is to secure and maintain marketing and distribution arrangements with partners who possess appropriate expertise in marketing medical devices, preferably ultrasound or cardiac care devices, into our primary target markets, the cardiovascular, vascular surgery and neurosurgical markets.

We anticipate spending a significant amount of time and effort in 2007 to close on leads generated regarding the **Quantix/OR** and to develop new sales leads. The sales cycle for medical devices such as our blood flow products is typically a four to six month cycle. This sales cycle, coupled with the timetable necessary to train the new distributors we engaged during 2006 has resulted in disappointing sales levels of our blood flow measurement equipment to date. We are also investigating alternative pricing strategies such as per-use fees or leasing that may affect the adoption rates for our blood flow measurement devices. As a result, we anticipate that the product development and market support costs we will incur in 2007 will be greater than the revenue we generate from the sales of blood flow devices. We are still evaluating our outlook for 2007 but believe the coming quarters are important to demonstrating the ultimate success of this product line.

Summary

The strength of our oncology product (device and drug) portfolio coupled with expected increased sales of our **Quantix** blood flow measurement products should position us to eventually achieve profitable operating performance for our device product lines. However, overall profitable operational results will be significantly affected by our decision to fund drug and therapeutic development activities internally.

We anticipate generating a net profit from the sale of our gamma detection devices in 2007, excluding the allocation of any corporate general and administrative costs; however, we expect to show a loss for our blood flow device product line for 2007 due to ongoing research and development and increased marketing and administrative support costs that may be required to expand market acceptance for the product line. The overall operating results for 2007 will be greatly affected by the amount of development of our radiopharmaceutical products. If we are unsuccessful in achieving adequate commercial sales of the **Quantix/OR** product in 2007, or if we modify our business plan, our medical device profitability estimates will be adversely affected and our business plan will likely need to be modified.

Primarily as a result of the significant development costs we expect to incur related to the continued clinical development of **Lymphoseek**, we do not expect to achieve operating profit during 2007. In addition, our net loss and loss per share will likely be significantly impacted by the non-cash interest expense we expect to record related to the accounting treatment for the beneficial conversion feature of the convertible debt and for the warrants issued in connection with the private placement we completed in December 2004 and modified in November 2006. Also, we cannot assure you that our current or potential new products will be successfully commercialized, that we will achieve significant product revenues, or that we will achieve or be able to sustain profitability in the future.

Results of Operations

Revenue for 2006 increased to $6.1 million from $5.9 million in the prior year. The increase was due to increased blood flow device sales of $263,000, offset by a decrease of $134,000 in sales of gamma detection devices and extended service contracts.

Gross profit for 2006 decreased $124,000 or 4% as compared to 2005. The decrease in gross profit on net sales of our medical devices in 2006 was primarily due to the decline in gross margin percentage related to our blood flow product line. The decline in blood flow gross margin percentage resulted from $129,000 of inventory impairments related to design changes to our **Quantix** products in 2006 coupled with lower margins on blood flow sales due to a greater proportion of blood flow devices being sold on a wholesale basis to distributors as opposed to on a retail basis to end customers. By comparison, we recorded $45,000 of inventory impairments related to our laparoscopic gamma detection probe and $13,000 of inventory impairments related to our blood flow product line in 2005.

Results for 2006 also reflect significant expenditures made in the development of **Lymphoseek** and in continuing to innovate our gamma detection device line with the introduction of a Bluetooth wireless probe. Despite these development advances, our research and development costs for 2006 decreased to $3.8 million compared to $4.0 million in 2005. Consolidated general and administrative expenses decreased slightly to $3.1 million in 2006 from $3.2 million in 2005.

Net Sales and Margins. Net sales, primarily of our gamma detection systems, increased $132,000, or 2%, to $6.1 million in 2006 from $5.9 million in 2005. Gross margins on net sales decreased to 57% of net sales for 2006 compared to 60% of net sales for 2005.

The increase in net sales was the result of increased blood flow device sales of $263,000, offset by a decrease of $134,000 in sales of gamma detection devices and extended service contracts. The price at which we sell our gamma detection products to EES is based on a percentage of the global average selling price received by EES on sales of Neoprobe products to end customers, subject to a minimum floor price. The base system price at which we sold **neo2000** systems to EES decreased approximately 3% from 2005 to 2006.

The decrease in gross margins on net product sales was primarily the result of a greater proportion of blood flow devices being sold on a wholesale basis to distributors as opposed to on a retail basis to end customers. Gross margins in 2006 were also adversely affected by inventory impairments of $129,000 related to design changes to our **Quantix** products. Gross margins in 2005 were adversely affected by inventory impairments of $45,000 related to our laparoscopic gamma detection probe and $13,000 related to our blood flow measurement products.

Research and Development Expenses. Research and development expenses decreased $229,000, or 6%, to $3.8 million during 2006 from $4.0 million in 2005. Research and development expenses in 2006 included approximately $2.1 million in drug and therapy product development costs, $952,000 in gamma detection device development costs, and $708,000 in product design activities for the **Quantix** products. This compares to expenses of $2.3 million, $276,000 and $1.4 million in these respective product categories in 2005. The changes in each category were primarily due to (i) efforts to move development of **Lymphoseek** forward offset by decreased activities related to **RIGScan** CR and our therapeutic products, (ii) development of our Bluetooth wireless gamma detection probe, and (iii) decreased product refinement activities related to the **Quantix**/**OR**, respectively.

Selling, General and Administrative Expenses. Selling, general and administrative expenses decreased $79,000, or 3%, to $3.1 million during 2006 from $3.2 million in 2005. Decreases in amortization of intangible assets, professional services and insurance were offset by increases in base compensation, including $156,000 of non-cash stock compensation required to be expensed starting in 2006 under SFAS No. 123(R), *Share-Based Payment*, coupled with increases in marketing and recruiting expenses.

Other Income (Expenses). Other expenses remained steady at $1.3 million during 2006 and 2005. Interest expense increased $146,000 to $1.5 million during 2006 from $1.4 million during 2005 related to the convertible debt agreements we completed in December 2004. Of this interest expense, $809,000 and $687,000 in 2006 and 2005, respectively, was non-cash in nature related to the amortization of debt issuance costs and discounts resulting from the warrants and beneficial conversion features of the convertible debt. This increase was offset by the first quarter 2005 increase in warrant liability of $142,000 resulting from the accounting treatment for the warrants we issued in connection with the convertible debt.

Liquidity and Capital Resources

Operating Activities. Cash used in operations increased $556,000 to $3.6 million during 2006 from $3.0 million during 2005. Working capital decreased $5.0 million to $1.9 million at December 31, 2006 as compared to $6.9 million at December 31, 2005. The current ratio decreased to 1.6:1 at December 31, 2006 from 5.6:1 at December 31, 2005. The decrease in working capital was primarily related to $3.6 million used in operations coupled with the classification of $1.7 million of convertible debt as a current liability following modification of the debt terms in November 2006, as compared to no current convertible debt at December 31, 2005.

Cash and investment balances decreased to $2.5 million at December 31, 2006 from $6.5 million at December 31, 2005, primarily as a result of cash used to fund operating activities and service our debt during 2006.

Accounts receivable increased to $1.2 million at December 31, 2006 from $673,000 at December 31, 2005. The increase was primarily a result of normal fluctuations in timing of purchases and payments by EES. We expect overall receivable levels will continue to fluctuate in 2007 depending on the timing of purchases and payments by EES. However, on average, we expect accounts receivable balances will increase commensurate with anticipated increases in sales of blood flow measurement products to our distributors. Such increases, if any, may require the increased use of our cash resources over time. Inventory levels increased to $1.2 million at December 31, 2006 from $804,000 at December 31, 2005. Finished gamma detection device inventories increased as we built up of our safety stock levels, and materials and work-in-process inventories increased in connection with the start-up of Bluetooth wireless gamma detection probe production. In addition, we capitalized $48,000 of **Lymphoseek** materials inventory during 2006. During 2006, we also recorded inventory impairment charges totaling $129,000, primarily related to our **Quantix** products. We expect inventory levels to decrease during 2007 as we convert our Bluetooth inventory into sales and reassess our gamma detection and blood flow measurement device safety stock levels.

Prepaid expenses and other assets decreased to $431,000 at December 31, 2006 from $502,000 at December 31, 2005. The net decrease was primarily the result of decreases in various prepaid assets such as prepaid production costs and prepaid insurance which were offset by net increases in certain non-cash items such as deferred stock offering costs.

Accounts payable increased to $668,000 at December 31, 2006 from $208,000 at December 31, 2005, primarily due to the timing of purchases and payments to vendors.

Investing Activities. Investing activities provided $1.4 million in cash during 2006 versus $1.6 million used during 2005. We received $1.5 million from maturities of available-for-sale securities during 2006. We purchased $5.5 million and received $4.0 million from maturities of available-for-sale securities during 2005. Capital expenditures during 2006 were primarily for software and production tools and equipment in preparation for Bluetooth wireless gamma detection probe production at our contract manufacturers. Capital expenditures during 2005 were primarily related to purchases of production tools and equipment in preparation for blood flow measurement device production. We expect our overall capital expenditures for 2007 will be lower than for 2006.

Financing Activities. Cash used in financing activities decreased $33,000 to $240,000 during 2006 from $273,000 during 2005. Proceeds from the issuance of common stock were $50,000 and $58,000 in 2006 and 2005, respectively. Payments of common stock and debt issuance costs were $36,000 and $30,000 in 2006 and 2005, respectively. Payments of notes payable were $235,000 and $286,000 during 2006 and 2005, respectively.

In December 2006, we entered into a common stock purchase agreement with Fusion Capital Fund II, LLC (Fusion). We have authorized up to 12,000,000 shares of our common stock for sale to Fusion under the agreement. Under the terms of the agreement, in December 2006, we issued 720,000 shares of our common stock as an initial commitment fee. We are also required to issue to Fusion up to an additional 720,000 shares of our common stock as an additional commitment fee in connection with future purchases made by Fusion. The additional 720,000 shares will be issued pro rata as we sell our common stock to Fusion under the agreement, resulting in a total commitment fee of 1,440,000 shares of our common stock if the entire $6.0 million in value of stock is sold. The price of shares sold to Fusion will generally be based on market prices for purchases that are not subject to the floor price of $0.20 per share. During 2006, we sold a total of 208,333 shares of our common stock under the agreement, realized gross proceeds of $50,000 from such sales, and issued Fusion 6,000 shares of our common stock as additional commitment fees related to such sales.

During 2005, certain investors and placement agents who received warrants to purchase our common stock in connection with a November 2003 financing exercised a total of 206,865 warrants in exchange for 206,865 shares of our common stock, resulting in net proceeds of $57,922.

In December 2004, we completed a private placement of four-year convertible promissory notes in an aggregate principal amount of $8.1 million with Biomedical Value Fund, L.P., Biomedical Offshore Value Fund, Ltd. and David C. Bupp (our President and CEO). Biomedical Value Fund, L.P. and Biomedical Offshore Value Fund, Ltd. are funds managed by Great Point Partners, LLC. We modified the convertible notes on November 30, 2006 to eliminate the revenue and cash covenants, modify the repayment schedule of the notes, eliminate certain anti-dilution rights, and avoid potential future violations of the debt covenants. The notes originally bore interest at 8% per annum and were originally due on December 13, 2008. In connection with the November 30, 2006 amendment, we cancelled the original notes and issued to the noteholders replacement notes which bear interest at 12% per annum. Instead of the notes being due on December 13, 2008, the principal is now due as follows: $500,000 due January 8, 2007; $1,250,000 due July 9, 2007; $1,750,000 due January 7, 2008; $2,000,000 due July 7, 2008; and the remaining $2,600,000 due January 7, 2009. Additionally, as part of the amendment we agreed to use our best efforts to offer and sell equity securities with gross proceeds of up to $10 million and apply not less than 50% of the net proceeds of any such sales to the repayment of the principal on the notes, and to apply at least 50% of the proceeds of any permitted asset disposition or any permitted licensing, distribution or similar strategic alliance agreement to the repayment of principal on the notes. The notes are freely convertible into shares of our common stock at a price of $0.40 per share. Neoprobe may force conversion of the notes prior to their stated maturity under certain circumstances. As part of the original transaction, we issued the investors 10,125,000 Series T warrants to purchase our common stock at an exercise price of $0.46 per share, expiring in December 2009. In connection with the original placement of this financing, we issued 1,600,000 Series U warrants to purchase our common stock to the placement agents, containing substantially identical terms to the warrants issued to the investors. The convertible promissory note issued to Mr. Bupp in connection with this transaction had an outstanding principal amount of $100,000 on December 31, 2006, and an outstanding principal amount of $100,000 as of March 14, 2007. We made interest payments due under the note to Mr. Bupp totaling $8,333 during the fiscal year ended December 31, 2006.

Our future liquidity and capital requirements will depend on a number of factors, including our ability to raise additional capital in a timely manner through additional investment, expanded market acceptance of our current products, our ability to complete the commercialization of new products, our ability to monetize our investment in non-core technologies, our ability to obtain milestone or development funds from potential development and distribution partners, regulatory actions by FDA and other international regulatory bodies, and intellectual property protection. Our near-term development priorities are to complete the **Lymphoseek** Phase 2 clinical study and to subsequently commence Phase 3 clinical trials, to support the growth of the reengineered version of the **Quantix**/**OR** products, and to identify a development and commercialization partner for our **RIGS** technology. However, we have significant principal repayments due under our debt during 2007 and 2008 that, based on our current operating plan, will require us to raise additional capital. We have secured a potential source of additional capital through our common stock purchase agreement with Fusion Capital and are evaluating other potential sources. However, we cannot assure you that we will be successful in raising additional capital through Fusion Capital or any other sources, at terms acceptable to the Company, or at all. In addition, we cannot assure you that we will be able to achieve significant product revenues from our current or potential new products. We also cannot assure you that we will achieve profitability again.

Recent Accounting Developments

In February 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 155, *Accounting for Certain Hybrid Financial Instruments - An Amendment of FASB Statements No. 133 and 140* (SFAS No. 155). SFAS No. 155 amends SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, and SFAS No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*. SFAS No. 155 (a) permits fair value remeasurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation, (b) clarifies which interest-only strips and principal-only strips are not subject to the requirements of SFAS No. 133, (c) establishes a requirement to evaluate interests in securitized financial assets to identify interests that are freestanding derivatives or that are hybrid financial instruments that contain an embedded derivative requiring bifurcation, (d) clarifies that concentrations of credit risk in the form of subordination are not embedded derivatives, and (e) amends SFAS No. 140 to eliminate the prohibition on a qualifying special-purpose entity from holding a derivative financial instrument that pertains to a beneficial interest other than another derivative financial instrument. SFAS No. 155 is effective for all financial instruments acquired or issued after the beginning of an entity's first fiscal year that begins after September 15, 2006 and is required to be adopted by Neoprobe beginning January 1, 2007. We do not expect the adoption of SFAS No. 155 to have a material impact on our consolidated results of operations or financial condition.

In March 2006, the FASB issued SFAS No. 156, *Accounting for Servicing of Financial Assets - An Amendment of FASB Statement No. 140* (SFAS No. 156). SFAS No. 156 amends SFAS No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*. SFAS No. 156 (a) requires recognition of a servicing asset or servicing liability each time an obligation to service a financial asset is undertaken by entering into a servicing contract in certain circumstances, (b) requires measurement at fair value of all separately recognized servicing assets and servicing liabilities, (c) permits the use of either the amortization method or the fair value measurement method for each class of separately recognized servicing assets and servicing liabilities, (d) permits a one-time reclassification of available-for-sale securities to trading securities at initial adoption, and (e) requires separate presentation of servicing assets and servicing liabilities subsequently measured at fair value in the statement of financial position and additional disclosures for all separately recognized servicing assets and servicing liabilities. SFAS No. 156 is effective for fiscal years beginning after September 15, 2006, and is required to be adopted by Neoprobe beginning January 1, 2007. We do not expect the adoption of SFAS No. 156 to have a material impact on our consolidated results of operations or financial condition.

In June 2006, the FASB issued Financial Interpretation (FIN) No. 48, *Accounting for Uncertainty in Income Taxes - an Interpretation of FASB Statement No. 109* (FIN 48). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with SFAS No. 109, *Accounting for Income Taxes*. FIN 48 outlines a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006, and is required to be adopted by Neoprobe beginning January 1, 2007. We are required to adopt FIN 48 as of January 1, 2007. We are currently evaluating the effect that FIN 48 may have on our results of operations and financial condition, but we do not expect the adoption to have a material impact.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* (SFAS No. 157). SFAS No. 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS No. 157 applies under other accounting pronouncements that require or permit fair value measurements, the FASB having previously concluded in those accounting pronouncements that fair value is the relevant measurement attribute. Accordingly, SFAS No. 157 does not require any new fair value measurements. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007, and is required to be adopted by Neoprobe beginning January 1, 2008. We do not expect the adoption of SFAS No. 157 to have a material impact on our consolidated results of operations or financial condition.

In September 2006, the FASB also issued SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans - an Amendment of FASB Statements No. 87, 88, 106, and 132(R)* (SFAS No. 158). SFAS No. 158 requires an employer to recognize the overfunded or underfunded status of a defined benefit postretirement plan (other than a multiemployer plan) as an asset or liability in its statement of financial position and to recognize changes in that funded status in the year in which the changes occur through comprehensive income of a business entity or changes in unrestricted net assets of a not-for-profit organization. SFAS No. 158 also requires an employer to measure the funded status of a plan as of the date of its year-end statement of financial position, with limited exceptions. SFAS No. 158 is effective for employers with publicly traded equity securities as of the end of the fiscal year ending after December 15, 2006, and for employers without publicly traded equity securities as of the end of the fiscal year ending after June 15, 2007. Neoprobe is required to adopt SFAS No. 158 beginning January 1, 2007. We do not expect the adoption of SFAS No. 158 to have a material impact on our consolidated results of operations or financial condition.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities - Including an Amendment of FASB Statement No. 115* (SFAS No. 159). SFAS No. 159 permits entities to choose to measure many financial instruments and certain other items at fair value at specified election dates. Most of the provisions of SFAS No. 159 apply only to entities that elect the fair value option. However, the amendment to FASB Statement No. 115, *Accounting for Certain Investments in Debt and Equity Securities*, applies to all entities with available-for-sale and trading securities. The fair value option established by SFAS No. 159 permits all entities to choose to measure eligible items at fair value at specified election dates. A business entity shall report unrealized gains and losses on items for which the fair value option has been elected in earnings at each subsequent reporting date. The fair value option may be applied instrument by instrument, with a few exceptions, such as investments otherwise accounted for by the equity method, is irrevocable (unless a new election date occurs), and is applied only to entire instruments and not to portions of instruments. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. Early adoption is permitted as of the beginning of a fiscal year that begins on or before November 15, 2007, provided the entity also elects to apply the provisions of SFAS No. 157, *Fair Value Measurements*. We have not completed our review of the new guidance; however, we do not expect the adoption of SFAS No. 159 to have a material impact on our consolidated results of operations or financial condition.

Critical Accounting Policies

The following accounting policies are considered by us to be critical to our results of operations and financial condition.

Revenue Recognition Related to Net Sales. We currently generate revenue primarily from sales of our gamma detection products; however, sales of blood flow products constituted approximately 10% of total revenues for 2006 and are expected to increase in the future. Our standard shipping terms are FOB shipping point, and title and risk of loss passes to the customer upon shipment. We generally recognize sales revenue related to sales of our products when the products are shipped and the earnings process has been completed. However, in cases where product is shipped but the earnings process is not yet completed, revenue is deferred until it has been determined that the earnings process has been completed. Our customers have no right to return products purchased in the ordinary course of business.

The prices we charge our primary customer, EES, related to sales of our gamma detection device products are subject to retroactive annual adjustment based on a fixed percentage of the actual sales prices achieved by EES on sales to end customers made during each fiscal year. To the extent that we can reasonably estimate the end-customer prices received by EES, we record sales to EES based upon these estimates. If we are unable to reasonably estimate end customer sales prices related to certain products sold to EES, we record revenue related to these product sales at the minimum (i.e., floor) price provided for under our distribution agreement with EES.

We also generate revenue from the service and repair of out-of-warranty products. Fees charged for service and repair on products not covered by an extended service agreement are recognized on completion of the service process when the serviced or repaired product has been returned to the customer. Fees charged for service or repair of products covered by an extended warranty agreement are deferred and recognized as revenue ratably over the life of the extended service agreement.

Use of Estimates. The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. We base these estimates and assumptions upon historical experience and existing, known circumstances. Actual results could differ from those estimates. Specifically, management may make significant estimates in the following areas:

- *Stock-Based Compensation.* Effective January 1, 2006, we adopted SFAS No. 123(R), *Share-Based Payment*, which is a revision of SFAS No. 123, *Accounting for Stock-Based Compensation*. SFAS No. 123(R) supersedes APB Opinion No. 25, *Accounting for Stock Issued to Employees*, and amends SFAS No. 95, *Statement of Cash Flows*. SFAS No. 123(R) requires all share-based payments to employees, including grants of employee stock options, to be recognized in the income statement based on their estimated fair values. Compensation cost arising from stock-based awards is recognized as expense using the straight-line method over the vesting period. We used the modified prospective application method in adopting SFAS No. 123 (R). We use the Black-Scholes option pricing model to value share-based payments. The valuation assumptions used have not changed from those used under SFAS No. 123. Prior to the adoption of SFAS No. 123(R), we followed the guidance in APB No. 25 and SFAS No. 123, which resulted in disclosure only of the pro forma financial impact of stock options. Financial statements of the Company for periods prior to January 1, 2006 do not reflect any recorded stock-based compensation expense. In adopting SFAS No. 123(R), we made no modifications to outstanding stock options, nor do we have any other outstanding share-based payment instruments subject to SFAS No. 123(R). Based in part on the anticipated adoption of SFAS No. 123(R), the Company generally reduced the number of stock options issued to employees in 2005 and shortened the vesting periods, with a portion of the options vesting immediately and the remainder vesting over a two-year period as compared to our previous practice of issuing stock options that vested over a three-year period. In 2006, we returned to the practice of vesting options over a three-year period. We will continue to evaluate compensation trends and may further revise our option granting practices in future years.

- *Inventory Valuation.* We value our inventory at the lower of cost (first-in, first-out method) or market. Our valuation reflects our estimates of excess, slow moving and obsolete inventory as well as inventory with a carrying value in excess of its net realizable value. Write-offs are recorded when product is removed from saleable inventory. We review inventory on hand at least quarterly and record provisions for excess and obsolete inventory based on several factors, including current assessment of future product demand, anticipated release of new products into the market, historical experience and product expiration. Our industry is characterized by rapid product development and frequent new product introductions. Uncertain timing of product approvals, variability in product launch strategies, product recalls and variation in product utilization all impact the estimates related to excess and obsolete inventory.

- *Impairment or Disposal of Long-Lived Assets.* We account for long-lived assets in accordance with the provisions of SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*. This Statement requires that long-lived assets and certain identifiable intangibles be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net undiscounted cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell. As of December 31, 2006, the most significant long-lived assets on our balance sheet relate to assets recorded in connection with the acquisition of Cardiosonix and gamma detection device patents related to SLNB. The recoverability of these assets is based on the financial projections and models related to the future sales success of Cardiosonix' products and the continuing success of our gamma detection product line. As such, these assets could be subject to significant adjustment should the Cardiosonix technology not be successfully commercialized or the sales amounts in our current projections not be realized.

- *Product Warranty.* We warrant our products against defects in design, materials, and workmanship generally for a period of one year from the date of sale to the end customer. Our accrual for warranty expenses is adjusted periodically to reflect actual experience. EES also reimburses us for a portion of warranty expense incurred based on end customer sales they make during a given fiscal year.

- *Fair Value of Warrant Liability*. U.S. generally accepted accounting principles required us to classify the warrants issued in connection with our December 2004 placement of convertible promissory notes as a liability due to penalty provisions contained in the underlying securities purchase agreement. The penalty provisions could have required us to pay a penalty of 0.0667% per day of the total debt amount if we failed to meet certain registration deadlines, or if our stock was suspended from trading for more than 30 days. As a liability, the warrants were considered derivative instruments that were required to be periodically "marked to market" on our balance sheet. We estimated the fair value of the warrants at December 31, 2004 using the Black-Scholes option pricing model. On February 16, 2005, Neoprobe and the investors confirmed in writing their intention that the penalty provisions which led to this accounting treatment were intended to apply only to the $8.1 million principal balance of the promissory notes and underlying conversion shares and not to the warrant shares. The value of our stock increased $0.02 per share from $0.59 at December 31, 2004 to $0.61 per share at February 16, 2005, such that marking the warrant liability to "market" at February 16, 2005 resulted in an increase in the estimated fair value of the warrant liability of $142,427 which was recorded as non-cash expense during the first quarter of 2005. The estimated fair value of the warrant liability was then reclassified to additional paid-in capital during the first quarter of 2005.

Other Items Affecting Financial Condition

At December 31, 2006, we had deferred tax assets in the U.S. related to net operating tax loss carryforwards and tax credit carryforwards of approximately $34.9 million and $4.7 million, respectively, available to offset or reduce future income tax liability, if any, through 2026. However, under Sections 382 and 383 of the Internal Revenue Code of 1986, as amended, use of prior tax loss and credit carryforwards may be limited after an ownership change. As a result of ownership changes as defined by Sections 382 and 383, which have occurred at various points in our history, we believe utilization of our tax loss carryforwards and tax credit carryforwards may be significantly limited.

Item 7. Financial Statements

Our consolidated financial statements, and the related notes, together with the report of BDO Seidman, LLP dated March 14, 2007, are set forth at pages F-1 through F-27 attached hereto.

Item 8. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 8A. Controls and Procedures.

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934 (the Exchange Act)). Based on that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of the period covered by this report, our disclosure controls and procedures are adequately designed to ensure that the information required to be disclosed by us in the reports we file or submit under the Exchange Act is recorded, possessed, summarized and reported, within the time periods specified in the applicable rules and forms. During the last fiscal quarter covered by this Annual Report on Form 10-KSB, there was no change in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) identified in connection with the evaluation required by paragraph (d) of Rule 13a-15 that materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Item 8B. Other Information.

None.

PART III

Item 9. Directors, Executive Officers, Promoters and Control Persons; Compliance with Section 16(a) of the Exchange Act

Directors

The following directors' terms continue until the 2007 Annual Meeting:

Reuven Avital, age 55, has served as a director of our Company since January 2002. Mr. Avital is a partner and general manager of Ma'Aragim Enterprises Ltd., an investment company in Israel, and he is a member of the board of Neoprobe as well as a number of privately-held Israeli companies, two of them in the medical device field. Mr. Avital was a board member of Cardiosonix, Ltd. from April 2001 through December 31, 2001, when we acquired the company. Previously, Mr. Avital served in the Israeli government in a variety of middle and senior management positions. He is also chairman or board member in several not-for-profit organizations, mainly involved in education for the under-privileged and international peace-building. Mr. Avital has B.A. degrees in The History of the Middle East and International Relations from the Hebrew University of Jerusalem, and a M.P.A. from the Kennedy School of Government at Harvard University.

David C. Bupp, age 57, has served as President and a director of our Company since August 1992 and as Chief Executive Officer since February 1998. From August 1992 to May 1993, Mr. Bupp served as our Treasurer. In addition to the foregoing positions, from December 1991 to August 1992, he was Acting President, Executive Vice President, Chief Operating Officer and Treasurer, and from December 1989 to December 1991, he was Vice President, Finance and Chief Financial Officer. From 1982 to December 1989, Mr. Bupp was Senior Vice President, Regional Manager for AmeriTrust Company National Association, a nationally chartered bank holding company, where he was in charge of commercial banking operations throughout Central Ohio. Mr. Bupp has a B.A. degree in Economics from Ohio Wesleyan University. Mr. Bupp also completed a course of study at Stonier Graduate School of Banking at Rutgers University.

Julius R. Krevans, M.D., age 82, has served as a director of our Company since May 1994 and as Chairman of the Board of Directors of our Company since February 1999. Dr. Krevans served as Chancellor of the University of California, San Francisco from July 1982 until May 1993. Prior to his appointment as Chancellor, Dr. Krevans served as a Professor of Medicine and Dean of the School of Medicine at the University of California, San Francisco from 1971 to 1982. Dr. Krevans is a member of the Institute of Medicine, National Academy of Sciences, and led its committee for the National Research Agenda on Aging until 1991. Dr. Krevans also serves on the Board of Directors and the compensation committee of the Board of Directors of Calypte Biomedical Corporation (Calypte), a publicly held corporation. Dr. Krevans has a B.S. degree and a M.D. degree, both from New York University.

The following directors' terms continue until the 2008 Annual Meeting:

Carl J. Aschinger, Jr., age 68, has served as a director of our Company since June 2004. Mr. Aschinger is the Chairman and Chief Executive Officer of Columbus Show Case Co., a privately-held company that manufactures showcases for the retail industry. Mr. Aschinger also serves on the Board of Directors and as Chairman of the Audit Committee of Pinnacle Data Systems, a publicly-traded company that provides software and hardware solutions to original equipment manufacturers. Mr. Aschinger is a former director of Liqui-Box Corporation and Huntington National Bank as well as other privately-held ventures and has served on boards or advisory committees of several not-for-profit organizations.

Fred B. Miller, age 67, has served as a director of our Company since January 2002. Mr. Miller serves as Chairman of the Audit Committee. Mr. Miller is the President and Chief Operating Officer of Seicon, Limited, a privately held company that specializes in developing, applying and licensing technology to reduce seismic and mechanically induced vibration. Mr. Miller also serves on the board of one other privately-held company. Until his retirement in 1995, Mr. Miller had been with Price Waterhouse LLP since 1962. Mr. Miller is a Certified Public Accountant, a member of the American Institute of Certified Public Accountants (AICPA), a past member of the Council of the AICPA and a member and past president of the Ohio Society of Certified Public Accountants. He also has served on the boards or advisory committees of several universities and not-for-profit organizations. Mr. Miller has a B.S. degree in Accounting from the Ohio State University.

The following directors' terms continue until the 2009 Annual Meeting:

Kirby I. Bland, M.D., age 65, has served as a director of our Company since May 2004. Dr. Bland currently serves as Professor and Chairman and Fay Fletcher Kerner Professor and Chairman, Department of Surgery of the University of Alabama at Birmingham (UAB) School of Medicine since 1999 and 2002, respectively, Deputy Director of the UAB Comprehensive Cancer Center since 2000 and Senior Scientist, Division of Human Gene Therapy, UAB School of Medicine since 2001. Prior to his appointments at UAB, Dr. Bland was J. Murry Breadsley Professor and Chairman, Professor of Medical Science, Department of Surgery and Director, Brown University Integrated Program in Surgery at Brown University School of Medicine from 1993 to 1999. Prior to his appointments at Brown University, Dr. Bland was Professor and Associate Chairman, Department of Surgery, University of Florida College of Medicine from 1983 to 1993 and Associate Director of Clinical Research at the University of Florida Cancer Center from 1991 to 1993. Dr. Bland held a number of medical staff positions at the University of Louisville, School of Medicine from 1977 to 1983 and at M. D. Anderson Hospital and Tumor Institute from 1976 to 1977. Dr. Bland is a member of the Board of Governors of the American College of Surgeons (ACS), a member of the ACS' Advisory Committee, Oncology Group (ACOSOG), a member of the ACS' American Joint Committee on Cancer Task Force and serves as Chairman of the ACS' Breast Disease Site Committee, COC. Dr. Bland is a past President of the Society of Surgical Oncology. Dr. Bland received his B.S. in Chemistry/Biology from Auburn University and a M.D. degree from the University of Alabama, Medical College of Alabama.

J. Frank Whitley, Jr., age 64, has served as a director of our Company since May 1994. Mr. Whitley was Director of Mergers, Acquisitions and Licensing at The Dow Chemical Company (Dow), a multinational chemical company, from June 1993 until his retirement in June 1997. After joining Dow in 1965, Mr. Whitley served in a variety of marketing, financial, and business management functions. Mr. Whitley has a B.S. degree in Mathematics from Lamar State College of Technology.

Executive Officers

In addition to Mr. Bupp, the following individuals are executive officers of our Company and serve in the position(s) indicated below:

Name	Age	Position
Anthony K. Blair	46	Vice President, Manufacturing Operations
Carl M. Bosch	50	Vice President, Research and Development
Rodger A. Brown	56	Vice President, Regulatory Affairs and Quality Assurance
Brent L. Larson	43	Vice President, Finance; Chief Financial Officer; Treasurer and Secretary
Douglas L. Rash	63	Vice President, Marketing

Anthony K. Blair has served as Vice President, Manufacturing Operations of our Company since July 2004. Prior to joining our Company, he served as Vice President, Manufacturing Operations of Enpath Medical, Lead Technologies Division, formerly known as Biomec Cardiovascular, Inc. from 2002 to June 2004. From 1998 through 2001, Mr. Blair led the manufacturing efforts at Astro Instrumentation, a medical device contract manufacturer. From 1989 to 1998 at Ciba Corning Diagnostics (now Bayer), Mr. Blair held managerial positions including Operations Manager, Materials Manager, Purchasing Manager and Production Supervisor. From 1985 to 1989, Mr. Blair was employed by Bailey Controls and held various positions in purchasing and industrial engineering. Mr. Blair started his career at Fisher Body, a division of General Motors, in production supervision. Mr. Blair has a B.B.A. degree in management and labor relations from Cleveland State University.

Carl M. Bosch has served as Vice President, Research and Development of our Company since March 2000. Prior to that, Mr. Bosch served as our Director, Instrument Development from May 1998 to March 2000. Before joining our Company, Mr. Bosch was employed by GE Medical Systems from 1994 to 1998 where he served as Manager, Nuclear Programs. From 1977 to 1994, Mr. Bosch was employed by GE Aerospace in several engineering and management functions. Mr. Bosch has a B.S. degree in Electrical Engineering from Lehigh University and a M.S. degree in Systems Engineering from the University of Pennsylvania.

Rodger A. Brown has served as Vice President, Regulatory Affairs and Quality Assurance of our Company since November 2000. From July 1998 through November 2000, Mr. Brown served as our Director, Regulatory Affairs and Quality Assurance. Prior to joining our Company, Mr. Brown served as Director of Operations for Biocore Medical Technologies, Inc. from April 1997 to April 1998. From 1981 through 1996, Mr. Brown served as Director, Regulatory Affairs/Quality Assurance for E for M Corporation, a subsidiary of Marquette Electronics, Inc.

Brent L. Larson has served as Vice President, Finance and Chief Financial Officer of our Company since February 1999. Prior to that, he served as our Vice President, Finance from July 1998 to January 1999 and as Controller from July 1996 to June 1998. Before joining our Company, Mr. Larson was employed by Price Waterhouse LLP. Mr. Larson has a B.B.A. degree in accounting from Iowa State University of Science and Technology and is a Certified Public Accountant.

Douglas L. Rash has served as Vice President, Marketing of our Company since January 2005. Prior to that, Mr. Rash was Neoprobe's Director, Marketing and Product Management from March to December 2004. Before joining our Company, Mr. Rash served as Vice President and General Manager of MTRE North America, Inc. from 2000 to 2003. From 1994 to 2000, Mr. Rash served as Vice President and General Manager (Medical Division) of Cincinnati Sub-Zero, Inc. From 1993 to 1994, Mr. Rash was Executive Vice President of Everest & Jennings International, Ltd. During his nine-year career at Gaymar Industries, Inc. from 1984 to 1993, Mr. Rash held positions as Vice President and General Manager (Clinicare Division) and Vice President, Marketing and Sales (Acute Care Division). From 1976 to 1984, Mr. Rash held management positions at various divisions of British Oxygen Corp. Mr. Rash has a B.S. degree in Business Administration with a minor in Chemistry from Wisconsin State University.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934 requires our officers and directors, and greater than 10% stockholders, to file reports of ownership and changes in ownership of our securities with the Securities and Exchange Commission. Copies of the reports are required by SEC regulation to be furnished to us. Based on our review of these reports and written representations from reporting persons, we believe that all reporting persons complied with all filing requirements during the fiscal year ended December 31, 2006, except for Carl Aschinger, Reuven Avital, Anthony Blair, Kirby Bland, Carl Bosch, Rodger Brown, David Bupp, Julius Krevans, Brent Larson, Fred Miller, Douglas Rash, and J. Frank Whitley, who each had one late Form 4 filing relating to options granted by the Company in December 2006.

Code of Conduct and Ethics

We have adopted a code of conduct and ethics that applies to our directors, officers and all employees. The code of conduct and ethics is posted on our website at www.neoprobe.com. The code of business conduct and ethics may be also obtained free of charge by writing to Neoprobe Corporation, Attn: Chief Financial Officer, 425 Metro Place North, Suite 300, Dublin, Ohio 43017.

Audit Committee

The Audit Committee of the Board of Directors selects our independent public accountants with whom the Audit Committee reviews the scope of audit and non-audit assignments and related fees, the accounting principles that we use in financial reporting, internal financial auditing procedures and the adequacy of our internal control procedures. The members of our Audit Committee are: Fred B. Miller (Chairman), Carl J. Aschinger, Jr., Reuven Avital, and J. Frank Whitley, Jr., each of whom is "independent" under the Nasdaq rules referenced below in Part III, Item 12 of this Form 10-KSB. The Board of Directors has determined that Fred B. Miller meets the requirements of an "audit committee financial expert" as set forth in Section 401(e) of Regulation S-B promulgated by the SEC. The Audit Committee held seven meetings in fiscal 2006.

Item 10. Executive Compensation

Summary Compensation Table

The following table sets forth certain information concerning the annual and long-term compensation of our Chief Executive Officer and our other two highest paid executive officers during the last fiscal year (the Named Executives) for the last two fiscal years.

Name and Principal Position	Year	Salary	(a) Bonus	(b) Option Awards	(c) All Other Compensation	Total Compensation
Carl M. Bosch	2006	$ 160,000	$ 6,000	$ 16,175	$ 4,558	$ 186,733
Vice President,	2005	149,000	7,500	-	4,107	160,607
Research and Development						
David C. Bupp	2006	$ 305,000	$ 20,000	$ 60,006	$ 8,099	$ 393,105
President and	2005	290,000	45,000	-	7,789	342,789
Chief Executive Officer						
Brent L. Larson	2006	$ 160,000	$ 5,000	$ 16,175	$ 4,576	$ 185,751
Vice President, Finance and	2005	149,000	7,500	-	4,113	160,613
Chief Financial Officer						

(a) Bonuses, if any, have been disclosed for the year in which they were earned (i.e., the year to which the service relates).

(b) Amount represents the dollar amount recognized for financial statement reporting purposes in accordance with SFAS 123(R). Assumptions made in the valuation of stock option awards are disclosed in Item 1(l) of the Notes to the Consolidated Financial Statements in this Form 10-KSB. Prior to 2006, the Company accounted for stock option awards under APB Opinion No. 25's intrinsic value method and, as such, generally recognized no compensation cost for employee stock options.

(c) Amount represents life insurance premiums paid during the fiscal year for the benefit of the Named Executives and matching contributions under the Neoprobe Corporation 401(k) Plan (the Plan). Eligible employees may make voluntary contributions and we may, but are not obligated to, make matching contributions based on 40 percent of the employee's contribution, up to five percent of the employee's salary. Employee contributions are invested in mutual funds administered by an independent plan administrator. Company contributions, if any, are made in the form of shares of common stock. The Plan qualifies under section 401 of the Internal Revenue Code, which provides that employee and company contributions and income earned on contributions are not taxable to the employee until withdrawn from the Plan, and that we may deduct our contributions when made.

Compensation of Mr. Bupp

Employment Agreement. David C. Bupp is employed under a thirty-six (36) month employment agreement effective January 1, 2007. The employment agreement provides for an annual base salary of $305,000.

The Board of Directors will, on an annual basis, review the performance of our company and of Mr. Bupp and may pay a bonus to Mr. Bupp as it deems appropriate, in its discretion. Such review and bonus will be consistent with any bonus plan adopted by the Compensation Committee that covers the executive officers of our company generally.

If a change in control occurs with respect to our company and the employment of Mr. Bupp is concurrently or subsequently terminated:

- by our company without cause (cause is defined as any willful breach of a material duty by Mr. Bupp in the course of his employment or willful and continued neglect of his duty as an employee);
- by the expiration of the term of Mr. Bupp's employment agreement; or
- by the resignation of Mr. Bupp because his title, authority, responsibilities or compensation have materially diminished, a material adverse change occurs in his working conditions or we breach the agreement;

then, Mr. Bupp will be paid a severance payment of $762,500 (less amounts paid as Mr. Bupp's salary and benefits that continue for the remaining term of the agreement if his employment is terminated without cause).

For purposes of Mr. Bupp's employment agreement, a change in control includes:

- the acquisition, directly or indirectly, by a person (other than our company or an employee benefit plan established by the Board of Directors) of beneficial ownership of thirty percent (30%) or more of our securities with voting power in the next meeting of holders of voting securities to elect the directors;
- a majority of the Directors elected at any meeting of the holders of our voting securities are persons who were not nominated by our then current Board of Directors or an authorized committee thereof;
- our stockholders approve a merger or consolidation of our company with another person, other than a merger or consolidation in which the holders of our voting securities outstanding immediately before such merger or consolidation continue to hold voting securities in the surviving or resulting corporation (in the same relative proportions to each other as existed before such event) comprising eighty percent (80%) or more of the voting power for all purposes of the surviving or resulting corporation; or
- our stockholders approve a transfer of substantially all of our assets to another person other than a transfer to a transferee, eighty percent (80%) or more of the voting power of which is owned or controlled by us or by the holders of our voting securities outstanding immediately before such transfer in the same relative proportions to each other as existed before such event.

Mr. Bupp will be paid a severance amount of $406,250 if his employment is terminated at the end of his employment agreement or without cause. If Mr. Bupp is terminated without cause, his benefits will continue for the longer of thirty-six (36) months or the full term of the agreement.

Compensation of Other Named Executives

Our Executive Officers are employed under employment agreements of varying terms as outlined below. In addition, the Compensation Committee of the Board of Directors will, on an annual basis, review the performance of our company and may pay bonuses to our executives as the Compensation Committee deems appropriate, in its discretion. Such review and bonus will be consistent with any bonus plan adopted by the Compensation Committee that covers Mr. Bupp as well as the executive officers of our company generally.

Carl M. Bosch

Employment Agreement. Carl Bosch is employed under a twenty-four (24) month employment agreement effective January 1, 2007. The employment agreement provides for an annual base salary of $170,000.

The Compensation Committee will, on an annual basis, review the performance of our company and of Mr. Bosch and we may pay a bonus to Mr. Bosch as we deem appropriate, in our discretion. Such review and bonus will be consistent with any bonus plan adopted by the Compensation Committee that covers the executive officers of our company generally.

If a change in control occurs with respect to our company and the employment of Mr. Bosch is concurrently or subsequently terminated:

- by our company without cause (cause is defined as any willful breach of a material duty by Mr. Bosch in the course of his employment or willful and continued neglect of his duty as an employee);

- by the expiration of the term of Mr. Bosch's employment agreement; or

- by the resignation of Mr. Bosch because his title, authority, responsibilities or compensation have materially diminished, a material adverse change occurs in his working conditions or we breach the agreement;

then, Mr. Bosch will be paid a severance payment of $340,000 and will continue his benefits for the longer of twelve (12) months or the remaining term of his employment agreement.

For purposes of Mr. Bosch's employment agreement, a change in control includes:

- the acquisition, directly or indirectly, by a person (other than our company or an employee benefit plan established by the Board of Directors) of beneficial ownership of thirty percent (30%) or more of our securities with voting power in the next meeting of holders of voting securities to elect the directors;

- a majority of the directors elected at any meeting of the holders of our voting securities are persons who were not nominated by our then current Board of Directors or an authorized committee thereof;

- our stockholders approve a merger or consolidation of our company with another person, other than a merger or consolidation in which the holders of our voting securities outstanding immediately before such merger or consolidation continue to hold voting securities in the surviving or resulting corporation (in the same relative proportions to each other as existed before such event) comprising eighty percent (80%) or more of the voting power for all purposes of the surviving or resulting corporation; or

- our stockholders approve a transfer of substantially all of the assets of our company to another person other than a transfer to a transferee, eighty percent (80%) or more of the voting power of which is owned or controlled by us or by the holders of our voting securities outstanding immediately before such transfer in the same relative proportions to each other as existed before such event.

Mr. Bosch will be paid a severance amount of $170,000 if his employment is terminated at the end of his employment agreement or without cause. If Mr. Bosch is terminated without cause, his benefits will continue for the longer of twelve (12) months or the full term of the agreement.

Brent L. Larson

Employment Agreement. Brent Larson is employed under a twenty-four (24) month employment agreement effective January 1, 2007. The employment agreement provides for an annual base salary of $170,000.

The terms of Mr. Larson's employment agreement are substantially identical to Mr. Bosch's employment agreement.

The Compensation Committee will, on an annual basis, review the performance of our company and of Mr. Larson and we may pay a bonus to Mr. Larson as we deem appropriate, in our discretion. Such review and bonus will be consistent with any bonus plan adopted by the Compensation Committee that covers the executive officers of our company generally.

Outstanding Equity Awards at Fiscal Year End

The following table presents certain information concerning outstanding equity awards held by the Named Executives as of December 31, 2006.

Name	Number of Securities Underlying Unexercised Options (#) Exercisable	Unexercisable	Option Exercise Price	Option Expiration Date	Note
Carl M. Bosch	10,000	-	$ 1.50	9/28/2008	(b)
	20,000	-	$ 1.25	2/11/2009	(c)
	45,000	-	$ 0.50	1/4/2010	(d)
	45,000	-	$ 0.41	1/3/2011	(e)
	50,000	-	$ 0.42	1/7/2012	(f)
	40,000	-	$ 0.14	1/15/2013	(g)
	30,000	-	$ 0.13	2/15/2013	(h)
	46,667	23,333	$ 0.30	1/7/2014	(i)
	33,333	16,667	$ 0.49	7/28/2014	(j)
	33,333	16,667	$ 0.39	12/10/2014	(k)
	26,667	13,333	$ 0.26	12/27/2015	(l)
	-	50,000	$ 0.27	12/15/2016	(m)
David C. Bupp	180,000	-	$ 0.50	1/4/2010	(d)
	180,000	-	$ 0.41	1/3/2011	(e)
	180,000	-	$ 0.42	1/7/2012	(f)
	100,000	-	$ 0.14	1/15/2013	(g)
	70,000	-	$ 0.13	2/15/2013	(h)
	100,000	50,000	$ 0.30	1/7/2014	(i)
	100,000	50,000	$ 0.49	7/28/2014	(j)
	133,333	66,667	$ 0.39	12/10/2014	(k)
	133,333	66,667	$ 0.26	12/27/2015	(l)
	-	300,000	$ 0.27	12/15/2016	(m)
Brent L. Larson	7,200	-	$ 5.63	1/28/2008	(a)
	25,000	-	$ 1.50	9/28/2008	(b)
	25,000	-	$ 1.25	2/11/2009	(c)
	60,000	-	$ 0.50	1/4/2010	(d)
	60,000	-	$ 0.41	1/3/2011	(e)
	50,000	-	$ 0.42	1/7/2012	(f)
	40,000	-	$ 0.14	1/15/2013	(g)
	30,000	-	$ 0.13	2/15/2013	(h)
	46,667	23,333	$ 0.30	1/7/2014	(i)
	33,333	16,667	$ 0.49	7/28/2014	(j)
	33,333	16,667	$ 0.39	12/10/2014	(k)
	26,667	13,333	$ 0.26	12/27/2015	(l)
	-	50,000	$ 0.27	12/15/2016	(m)

(a) Options were granted 1/28/1998 and vested as to one-third immediately and on each of the first two anniversaries of the date of grant.

(b) Options were granted 9/28/1998 and vested as to one-thirtieth (1/30) per month for thirty (30) months after the date of grant.

(c) Options were granted 2/11/1999 and vested as to one-third immediately and on each of the first two anniversaries of the date of grant.

(d) Options were granted 1/4/2000 and vested as to one-third on each of the first three anniversaries of the date of grant.

(e) Options were granted 1/3/2001 and vested as to one-third on each of the first three anniversaries of the date of grant.

(f) Options were granted 1/7/2002 and vested as to one-third on each of the first three anniversaries of the date of grant.

(g) Options were granted 1/15/2003 and vested as to one-third on each of the first three anniversaries of the date of grant.

(h) Options were granted 2/15/2003 and vested as to one-third on each of the first three anniversaries of the date of grant.

(i) Options were granted 1/7/2004 and vest as to one-third on each of the first three anniversaries of the date of grant.

(j) Options were granted 7/28/2004 and vest as to one-third on each of the first three anniversaries of the date of grant.

(k) Options were granted 12/10/2004 and vest as to one-third on each of the first three anniversaries of the date of grant.

(l) Options were granted 12/27/2005 and vest as to one-third immediately and on each of the first two anniversaries of the date of grant.

(m) Options were granted 12/15/2006 and vest as to one-third on each of the first three anniversaries of the date of grant.

Compensation of Non-Employee Directors

Non-employee directors received a quarterly retainer of $3,000 and earned $1,000 per board meeting attended in person or $500 per telephonic board meeting. The Chairman of the Board and the Chairman of the Audit Committee each received an additional quarterly retainer of $1,250 for their services in those capacities during 2006. The Chairman of the Audit Committee also earned an additional $500 per Audit Committee meeting attended in person or $250 per telephonic Audit Committee meeting. In addition, members of the Audit Committee received a quarterly retainer of $625 and earned $250 per Audit Committee meeting attended, whether in person or telephonically. We also reimbursed non-employee directors for travel expenses for meetings attended during 2006.

Each non-employee director also received 20,000 options to purchase common stock as a part of our annual stock incentive grants. Options granted to purchase common stock vest on the first anniversary of the date of grant and have an exercise price equal to not less than the closing market price of common stock at the date of grant. The aggregate number of option awards outstanding at February 28, 2007 for each Director is set forth below in the footnotes to the beneficial ownership table provided in Part II, Item 11 of this Form 10-KSB. Directors who are also officers or employees of Neoprobe do not receive any compensation for their services as directors.

The following table sets forth certain information concerning the compensation of non-employee Directors for the fiscal year ended December 31, 2006.

Name	(a) Fees Earned or Paid in Cash	(b) Option Awards	Total Compensation
Carl J. Aschinger, Jr.	$ 19,750	$ 9,099	$ 28,849
Reuven Avital	20,250	9,099	29,349
Kirby I. Bland, M.D.	17,000	9,988	26,988
Julius R. Krevans, M.D.	21,500	10,366	31,866
Fred B. Miller	23,500	10,366	33,866
J. Frank Whitley, Jr.	20,250	9,099	29,349

(a) Amount represents fees earned during the fiscal year ended December 31, 2006 (i.e., the year to which the service relates). Quarterly retainers are paid during the quarter in which they are earned. Meeting attendance fees are paid during the quarter following the quarter in which they are earned.

(b) Amount represents the dollar amount recognized for financial statement reporting purposes in accordance with SFAS 123(R). Assumptions made in the valuation of stock option awards are disclosed in Item 1(l) of the Notes to the Consolidated Financial Statements in this Form 10-KSB. Prior to 2006, the Company accounted for stock option awards under APB Opinion No. 25's intrinsic value method and, as such, generally recognized no compensation cost for employee stock options.

Item 11. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

Equity Compensation Plan Information

The following table sets forth additional information as of December 31, 2006, concerning shares of our common stock that may be issued upon the exercise of options and other rights under our existing equity compensation plans and arrangements, divided between plans approved by our stockholders and plans or arrangements not submitted to our stockholders for approval. The information includes the number of shares covered by, and the weighted average exercise price of, outstanding options and other rights and the number of shares remaining available for future grants excluding the shares to be issued upon exercise of outstanding options, warrants, and other rights.

	(a) Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights	(b) Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights	(c) Number of Securities Remaining Available for Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (a))
Equity compensation plans approved by security holders	5,975,473	$ 0.42	1,007,500
Equity compensation plans not approved by security holders	-	-	-
Total	5,975,473	$ 0.42	1,007,500

Security Ownership of Principal Stockholders, Directors, Nominees and Executive Officers and Related Stockholder Matters

The following table sets forth, as of February 28, 2007, certain information with respect to the beneficial ownership of shares of our common stock by: (i) each person known to us to be the beneficial owner of more than 5 percent of our outstanding shares of common stock, (ii) each director or nominee for director of our Company, (iii) each of the Named Executives (see "Executive Compensation - Summary Compensation Table"), and (iv) our directors and executive officers as a group.

Beneficial Owner	Number of Shares Beneficially Owned (*)		Percent of Class (**)
Carl J. Aschinger, Jr.	180,000	(a)	(l)
Reuven Avital	294,256	(b)	(l)
Kirby I. Bland	140,000	(c)	(l)
Carl M. Bosch	507,178	(d)	(l)
David C. Bupp	3,056,934	(e)	4.9%
Julius R. Krevans	392,000	(f)	(l)
Brent L. Larson	627,762	(g)	(l)
Fred B. Miller	266,000	(h)	(l)
J. Frank Whitley, Jr.	246,000	(i)	(l)
All directors and officers as a group (12 persons)	6,326,295	(j)(m)	9.7%
Great Point Partners, L.P. 2 Pickwick Plaza, Suite 450 Greenwich, CT 06830	28,750,000	(k)	32.4%

(*) Beneficial ownership is determined in accordance with the rules of the Securities and Exchange Commission which generally attribute beneficial ownership of securities to persons who possess sole or shared voting power and/or investment power with respect to those securities. Unless otherwise indicated, voting and investment power are exercised solely by the person named above or shared with members of such person's household.

(**) Percent of class is calculated on the basis of the number of shares outstanding on February 28, 2007, plus the number of shares the person has the right to acquire within 60 days of February 28, 2007.

(a) This amount includes 80,000 shares issuable upon exercise of options which are exercisable within 60 days, but does not include 30,000 shares issuable upon exercise of options which are not exercisable within 60 days.

(b) This amount consists of 139,256 shares of our common stock owned by Mittai Investments Ltd. (Mittai), an investment fund under the management and control of Mr. Avital, and 155,000 shares issuable upon exercise of options which are exercisable within 60 days but does not include 20,000 shares issuable upon exercise of options which are not exercisable within 60 days. The shares held by Mittai were obtained through a distribution of 2,785,123 shares previously held by Ma'Aragim Enterprise Ltd. (Ma'Aragim), another investment fund under the management and control of Mr. Avital. On February 28, 2005, Ma'Aragim distributed its shares to the partners in the fund. Mr. Avital is not an affiliate of the other fund to which the remaining 2,645,867 shares were distributed. Of the 2,785,123 shares previously held by Ma'Aragim, 2,286,712 were acquired in exchange for surrendering its shares in Cardiosonix Ltd. on December 31, 2001, in connection with our acquisition of Cardiosonix, and 498,411 were acquired by Ma'Aragim based on the satisfaction of certain developmental milestones on December 30, 2002, associated with our acquisition of Cardiosonix.

(c) This amount includes 140,000 shares issuable upon exercise of options which are exercisable within 60 days but does not include 20,000 shares issuable upon exercise of options which are not exercisable within 60 days.

(d) This amount includes 403,333 shares issuable upon exercise of options which are exercisable within 60 days and 63,845 shares in Mr. Bosch's account in the 401(k) Plan, but does not include 96,667 shares issuable upon exercise of options which are not exercisable within 60 days.

(e) This amount includes 1,226,666 shares issuable upon exercise of options which are exercisable within 60 days, 875,000 warrants which are exercisable within 60 days, a promissory note convertible into 250,000 shares of our common stock, 175,511 shares that are held by Mr. Bupp's wife for which he disclaims beneficial ownership and 91,257 shares in Mr. Bupp's account in the 401(k) Plan, but it does not include 483,334 shares issuable upon exercise of options which are not exercisable within 60 days.

(f) This amount includes 390,000 shares issuable upon exercise of options which are exercisable within 60 days, but does not include 20,000 shares issuable upon the exercise of options which are not exercisable within 60 days.

(g) This amount includes 460,533 shares issuable upon exercise of options which are exercisable within 60 days and 64,229 shares in Mr. Larson's account in the 401(k) Plan, but it does not include 96,667 shares issuable upon exercise of options which are not exercisable within 60 days.

(h) This amount includes 215,000 shares issuable upon exercise of options which are exercisable within 60 days and 31,000 shares held by Mr. Miller's wife for which he disclaims beneficial ownership, but does not include 20,000 shares issuable upon the exercise of options which are not exercisable within 60 days.

(i) This amount includes 245,000 shares issuable upon exercise of options which are exercisable within 60 days, but does not include 20,000 shares issuable upon exercise of options which are not exercisable within 60 days.

(j) This amount includes 3,893,365 shares issuable upon exercise of options which are exercisable within 60 days and 240,663 shares held in the 401(k) Plan on behalf of certain officers, but it does not include 963,335 shares issuable upon the exercise of options which are not exercisable within 60 days. The Company itself is the trustee of the Neoprobe 401(k) Plan and may, as such, share investment power over common stock held in such plan. The trustee disclaims any beneficial ownership of shares held by the 401(k) Plan. The 401(k) Plan holds an aggregate total of 444,536 shares of common stock.

(k) This amount includes 10,278,125 shares issuable upon conversion of promissory notes in the principal amount of $4,111,250 held by Biomedical Value Fund, L.P. (BVF) that are convertible within 60 days, 8,409,375 shares issuable upon conversion of promissory notes in the original principal amount of $3,363,750 held by Biomedical Offshore Value Fund, Ltd. (BOVF) that are convertible within 60 days, 5,500,000 warrants held by BVF that are exercisable within 60 days and 4,500,000 warrants held by BOVF that are exercisable within 60 days. BVF and BOVF are investment funds managed by Great Point Partners, LLP.

(l) Less than one percent.

(m) The address of all directors and executive offices is c/o Neoprobe Corporation, 425 Metro Place North, Suite 300, Dublin, Ohio 43017-1367.

Item 12. Certain Relationships and Related Transactions

Director Independence

Our Board of Directors has adopted the definition of "independence" as described under the Sarbanes-Oxley Act of 2002 (Sarbanes-Oxley) Section 301, Rule 10A-3 under the Securities Exchange Act of 1934 (the Exchange Act) and Nasdaq Rules 4200 and 4350. Our Board of Directors has determined that Messrs. Aschinger, Avital, Miller and Whitley, and Drs. Bland and Krevans meet the independence requirements.

See Liquidity and Capital Resources in Part II, Item 6 of this Form 10-KSB for information about our related party transactions.

Item 13. Exhibits

Exhibit Number	Exhibit Description
3.1	Amended and Restated Certificate of Incorporation of Neoprobe Corporation as corrected February 18, 1994 and amended June 27, 1994, June 3, 1996, March 17, 1999, May 9, 2000, June 13, 2003, July 27, 2004, June 22, 2005, and November 20, 2006 (incorporated by reference to Exhibit 3.1 to the Company's Registration Statement on Form SB-2 filed December 7, 2006).
3.2	Amended and Restated By-Laws dated July 21, 1993, as amended July 18, 1995 and May 30, 1996 (filed as Exhibit 99.4 to the Company's Current Report on Form 8-K dated June 20, 1996, and incorporated herein by reference).
10.1	Amended and Restated Stock Option and Restricted Stock Purchase Plan dated March 3, 1994 (incorporated by reference to Exhibit 10.2.26 to the Company's December 31, 1993 Form 10-K).
10.2	1996 Stock Incentive Plan dated January 18, 1996 as amended March 13, 1997 (incorporated by reference to Exhibit 10.2.37 to the Company's December 31, 1997 Form 10-K).
10.3	Neoprobe Corporation Amended and Restated 2002 Stock Incentive Plan (incorporated by reference to Appendix A to the Company's Definitive Proxy Statement (File No. 000-26520), filed with the Securities and Exchange Commission on April 29, 2005).
10.4	Form of Stock Option Agreement under the Neoprobe Corporation Amended and Restated 2002 Stock Incentive Plan (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed December 21, 2006).
10.5	Employment Agreement, dated January 1, 2007, between the Company and David C. Bupp. (Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed January 5, 2007. This is one of three substantially identical employment agreements. A schedule identifying the other agreements and setting forth the material details in which such agreements differ from the one that is incorporated by reference herein is filed as Exhibit 10.6 to this Annual Report on Form 10-KSB).
10.6	Schedule identifying material differences between the employment agreement incorporated by reference as Exhibit 10.5 to this Annual Report on Form 10-KSB and other substantially identical employment agreements (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed January 5, 2007).
10.7	Technology Transfer Agreement dated July 29, 1992 between the Company and The Dow Chemical Corporation (portions of this Exhibit have been omitted pursuant to a request for confidential treatment and have been filed separately with the Commission) (incorporated by reference to Exhibit 10.10 to the Company's Form S-1 filed October 15, 1992).
10.8	Cooperative Research and Development Agreement between the Company and the National Cancer Institute (incorporated by reference to Exhibit 10.3.31 to the Company's September 30, 1995 Form 10-QSB).
10.9	License dated May 1, 1996 between the Company and The Dow Chemical Company (incorporated by reference to Exhibit 10.3.45 to the Company's June 30, 1996 Form 10-QSB).

10.10	License Agreement dated May 1, 1996 between the Company and The Dow Chemical Company (portions of this Exhibit have been omitted pursuant to a request for confidential treatment and have been filed separately with the Commission) (incorporated by reference to Exhibit 10.3.46 to the Company's June 30, 1996 Form 10-QSB).
10.11	License Agreement dated January 30, 2002 between the Company and the Regents of the University of California, San Diego, as amended on May 27, 2003 and February 1, 2006 (portions of this Exhibit have been omitted pursuant to a request for confidential treatment and have been filed separately with the Commission) (incorporated by reference to Exhibit 10.11 to the Company's Annual Report on Form 10-KSB filed March 31, 2006).
10.12	Evaluation License Agreement dated March 31, 2005 between the Company and the Regents of the University of California, San Diego (portions of this Exhibit have been omitted pursuant to a request for confidential treatment and have been filed separately with the Commission) (incorporated by reference to Exhibit 10.12 to the Company's Annual Report on Form 10-KSB filed March 31, 2006).
10.13	Distribution Agreement between the Company and Ethicon Endo-Surgery, Inc. dated October 1, 1999 (portions of this Exhibit have been omitted pursuant to a request for confidential treatment and have been filed separately with the Commission).*
10.14	Product Supply Agreement between the Company and TriVirix International, Inc., dated February 5, 2004 (portions of this Exhibit have been omitted pursuant to a request for confidential treatment and have been filed separately with the Commission) (incorporated by reference to Exhibit 10.17 to the Company's December 31, 2004 Form 10-KSB).
10.15	Warrant to Purchase Common Stock of Neoprobe Corporation dated March 8, 2004 between the Company and David C. Bupp (incorporated by reference to Exhibit 10.28 to the Company's December 31, 2003 Form 10-KSB).
10.16	Warrant to Purchase Common Stock of Neoprobe Corporation dated April 2, 2003 between the Company and Donald E. Garlikov (incorporated by reference to Exhibit 99(g) to the Company's Current Report on Form 8-K filed April 2, 2003).
10.17	Warrant to Purchase Common Stock of Neoprobe Corporation dated April 2, 2003 between the Company and David C. Bupp (incorporated by reference to Exhibit 99(h) to the Company's Current Report on Form 8-K filed April 2, 2003).
10.18	Registration Rights Agreement dated April 2, 2003 between the Company, David C. Bupp and Donald E. Garlikov (incorporated by reference to Exhibit 99(i) to the Company's Current Report on Form 8-K filed April 2, 2003).
10.19	Stock Purchase Agreement dated October 22, 2003 between the Company and Bridges & Pipes, LLC (incorporated by reference to Exhibit 10.32 to the Company's registration statement on Form SB-2 filed December 2, 2003).
10.20	Registration Rights Agreement dated October 22, 2003 between the Company and Bridges & Pipes, LLC (incorporated by reference to Exhibit 10.33 to the Company's registration statement on Form SB-2 filed December 2, 2003).
10.21	Series R Warrant Agreement dated October 22, 2003 between the Company and Bridges & Pipes, LLC (incorporated by reference to Exhibit 10.34 to the Company's registration statement on Form SB-2 filed December 2, 2003).
10.22	Series S Warrant Agreement dated November 21, 2003 between the Company and Alberdale Capital, LLC (incorporated by reference to Exhibit 10.35 to the Company's registration statement on Form SB-2 filed December 2, 2003).

10.23	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 (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed December 16, 2004).
10.24	Amendment, dated November 30, 2006, to the 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 (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed December 4, 2006).
10.25	Form of Neoprobe Corporation Replacement Series A Convertible Promissory Note issued by the Company in connection with the Amendment, dated November 30, 2006, to the Securities Purchase Agreement, dated as of December 13, 2004, by and among Neoprobe Corporation, Biomedical Value Fund, L.P., Biomedical Offshore Value Fund, Ltd. and David C. Bupp (Incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed December 4, 2006. This is the form of three substantially identical agreements. A schedule identifying the agreements and setting forth the material details in which such agreements differ from the form that is incorporated by reference herein is filed as Exhibit 10.26 to this Annual Report on Form 10-KSB).
10.26	Schedule identifying material differences between the form of Replacement Series A Convertible Promissory Note incorporated by reference as Exhibit 10.25 to this Annual Report on Form 10-KSB and the substantially identical Replacement Series A Convertible Promissory Notes (incorporated by reference to Exhibit 10.4 to the Company's Current Report on Form 8-K filed December 4, 2006).
10.27	Form of Series T Neoprobe Corporation Replacement Common Stock Purchase Warrant issued by the Company in connection with the Amendment, dated November 30, 2006, to the Securities Purchase Agreement, dated as of December 13, 2004, by and among Neoprobe Corporation, Biomedical Value Fund, L.P., Biomedical Offshore Value Fund, Ltd. and David C. Bupp (Incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K filed December 4, 2006. This is the form of three substantially identical warrants. A schedule identifying the warrants and setting forth the material details in which such agreements differ from the form that is incorporated by reference herein is filed as Exhibit 10.28 to this Annual Report on Form 10-KSB).
10.28	Schedule identifying material differences between the Form of Series T Neoprobe Corporation Replacement Common Stock Purchase Warrant incorporated by reference as Exhibit 10.27 to this Annual Report on Form 10-KSB and the substantially identical Series T Neoprobe Corporation Replacement Common Stock Purchase Warrants (incorporated by reference to Exhibit 10.4 to the Company's Current Report on Form 8-K filed December 4, 2006).
10.29	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 (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed December 16, 2004).
10.30	Form of Series U Warrant Agreement, dated December 13, 2004, between the Company and the placement agents for the Series A Convertible Promissory Notes and Series T Warrants. (Incorporated by reference to Exhibit 10.35 to the Company's December 31, 2004 Form 10-KSB. This is the form of six substantially identical agreements. A schedule identifying the other agreements and setting forth the material details in which such agreements differ from the one that is incorporated by reference herein was filed as Exhibit 10.36 to the Company's December 31, 2004 Form 10-KSB.)

10.31	Common Stock Purchase Agreement between the Company and Fusion Capital Fund II, LLC dated December 1, 2006 (incorporated by reference to Exhibit 10.5 to the Company's Current Report on Form 8-K filed December 4, 2006).
10.32	Registration Rights Agreement dated December 1, 2006, between the Company and Fusion Capital Fund II, LLC (incorporated by reference to Exhibit 10.6 to the Company's Current Report on Form 8-K filed December 4, 2006).
21.1	Subsidiaries of the registrant.*
23.1	Consent of BDO Seidman, LLP.*
24.1	Powers of Attorney.*
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*
32.1	Certification of Chief Executive Officer of Periodic Financial Reports pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350.*
32.2	Certification of Chief Financial Officer of Periodic Financial Reports pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350.*

* Filed herewith.

Item 14. Principal Accountant Fees and Services

Audit Fees. The aggregate fees billed and expected to be billed for professional services rendered by BDO Seidman, LLP for the audit of the Company's annual consolidated financial statements for the 2006 fiscal year, the reviews of the financial statements included in the Company's Quarterly Reports on Form 10-QSB for the 2006 fiscal year, and consents related to the Company's registration statements filed during the 2006 fiscal year were $150,650 (including direct engagement expenses). The aggregate fees billed for professional services rendered by BDO Seidman, LLP for the audit of the Company's annual consolidated financial statements for the 2005 fiscal year and the review of the financial statements included in the Company's Quarterly Report on Form 10-QSB for the quarter ended September 30, 2005 were $103,360 (including direct engagement expenses). The aggregate fees billed for professional services rendered by KPMG LLP for consents related to the Company's registration statements filed during the 2006 fiscal year were $18,000 (including direct engagement expenses). The aggregate fees billed for professional services rendered by KPMG LLP for the reviews of the financial statements included in the Company's Quarterly Reports on Form 10-QSB for the quarters ended March 31, 2005 and June 30, 2005 and consents related to the Company's registration statements filed during the 2005 fiscal year were $42,400 (including direct engagement expenses). KPMG LLP is no longer the Company's principal accountant.

Audit-Related Fees. No fees were billed by BDO Seidman, LLP for audit-related services for the 2006 or 2005 fiscal years.

Tax Fees. No fees were billed by BDO Seidman, LLP for tax-related services for the 2006 or 2005 fiscal years. The aggregate fees billed by KPMG LLP for tax-related services rendered for the Company for the 2005 fiscal year were $8,750. KPMG LLP is no longer the Company's principal accountant. The tax-related services were all in the nature of tax compliance and tax planning.

All Other Fees. The aggregate fees billed for services rendered to the company by BDO Seidman, LLP, other than the audit services, were $0 for the 2006 fiscal year and $0 for the 2005 fiscal year.

Pre-Approval Policy. The Audit Committee is required to pre-approve all auditing services and permitted non-audit services (including the fees and terms thereof) to be performed for the company by its independent auditor or other registered public accounting firm, subject to the *de minimis* exceptions for non-audit services described in Section 10A(i)(1)(B) of the Securities Exchange Act of 1934 that are approved by the Audit Committee prior to completion of the audit.

SIGNATURES

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

Dated: March 16, 2007

NEOPROBE CORPORATION
(the Company)

By: /s/ David C. Bupp

David C. Bupp, President and
Chief Executive Officer

Signature	Title	Date
/s/David C. Bupp David C. Bupp	Director, President and Chief Executive Officer (principal executive officer)	March 1, 2007
/s/ Brent L. Larson* Brent L. Larson	Vice President, Finance and Chief Financial Officer (principal financial officer)	March 1, 2007
/s/ Carl J. Aschinger, Jr.* Carl J. Aschinger, Jr.	Director	March 1, 2007
/s/ Reuven Avital* Reuven Avital	Director	March 1, 2007
/s/ Kirby I. Bland* Kirby I. Bland	Director	March 1, 2007
/s/ Julius R. Krevans* Julius R. Krevans	Chairman, Director	March 1, 2007
/s/ Fred B. Miller* Fred B. Miller	Director	March 1, 2007
/s/ J. Frank Whitley, Jr.* J. Frank Whitley, Jr.	Director	March 1, 2007

*By: /s/ David C. Bupp

David C. Bupp, Attorney-in-fact

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

NEOPROBE CORPORATION

FORM 10-KSB ANNUAL REPORT

FOR THE FISCAL YEARS ENDED:

DECEMBER 31, 2006 AND 2005

FINANCIAL STATEMENTS

NEOPROBE CORPORATION and SUBSIDIARY

Index to Financial Statements

Report of Independent Registered Public Accounting Firm

Board of Directors
Neoprobe Corporation
Dublin, Ohio

We have audited the accompanying consolidated balance sheets of Neoprobe Corporation as of December 31, 2006 and 2005 and the related consolidated statements of operations, stockholders' equity (deficit), and cash flows for the two years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Neoprobe Corporation at December 31, 2006 and 2005 and the results of its operations and its cash flows for the two years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the consolidated financial statements, effective January 1, 2006, the Company adopted Statement of Financial Accounting Standards No. 123(R), "Share-Based Payment", using the modified prospective transition method.

/s/ BDO Seidman, LLP

Chicago, Illinois
March 14, 2007

Neoprobe Corporation and Subsidiaries
Consolidated Balance Sheets

December 31, 2006 and 2005

	2006	2005
ASSETS		
Current assets:		
Cash	$ 2,502,655	$ 4,940,946
Available-for-sale securities	-	1,529,259
Accounts receivable, net	1,246,089	673,008
Inventory	1,154,376	803,703
Prepaid expenses and other	430,623	501,557
Total current assets	5,333,743	8,448,473
Property and equipment	2,238,050	2,051,793
Less accumulated depreciation and amortization	1,882,371	1,768,558
	355,679	283,235
Patents and trademarks	3,131,391	3,162,547
Acquired technology	237,271	237,271
	3,368,662	3,399,818
Less accumulated amortization	1,540,145	1,300,908
	1,828,517	2,098,910
Other assets	515,593	739,823
Total assets	$ 8,033,532	$ 11,570,441

Continued

Neoprobe Corporation and Subsidiaries
Consolidated Balance Sheets, continued

	2006	2005
LIABILITIES AND STOCKHOLDERS' (DEFICIT) EQUITY		
Current liabilities:		
Accounts payable	$ 668,288	$ 207,824
Accrued liabilities and other	544,215	821,781
Capital lease obligations	14,841	19,530
Deferred revenue	348,568	252,494
Notes payable to finance companies	136,925	200,054
Notes payable to investors, current portion, net of discount of $53,585	1,696,415	-
Total current liabilities	3,409,252	1,501,683
Capital lease obligations	17,014	31,855
Deferred revenue	40,495	41,132
Notes payable to CEO, net of discounts of $19,030 and $26,249, respectively	80,970	73,751
Notes payable to investors, net of discounts of $1,468,845 and $2,099,898, respectively	4,781,155	5,900,102
Other liabilities	2,673	5,122
Total liabilities	8,331,559	7,553,645
Commitments and contingencies		
Stockholders' (deficit) equity:		
Preferred stock; $.001 par value; 5,000,000 shares authorized at December 31, 2006 and 2005; none issued and outstanding	-	-
Common stock; $.001 par value; 150,000,000 shares authorized; 59,624,379 and 58,622,059 shares issued and outstanding at December 31, 2006 and 2005, respectively	59,624	58,622
Additional paid-in capital	135,330,668	134,903,259
Accumulated deficit	(135,688,319)	(130,947,103)
Accumulated other comprehensive income	-	2,018
Total stockholders' (deficit) equity	(298,027)	4,016,796
Total liabilities and stockholders' (deficit) equity	$ 8,033,532	$ 11,570,441

See accompanying notes to consolidated financial statements.

Neoprobe Corporation and Subsidiaries
Consolidated Statements of Operations

	Years Ended December 31,	
	2006	**2005**
Net sales	$ 6,051,071	$ 5,919,473
Cost of goods sold	2,632,131	2,376,211
Gross profit	3,418,940	3,543,262
Operating expenses:		
Research and development	3,803,060	4,031,790
Selling, general and administrative	3,076,379	3,155,674
Total operating expenses	6,879,439	7,187,464
Loss from operations	(3,460,499)	(3,644,202)
Other income (expense):		
Interest income	225,468	226,663
Interest expense	(1,496,332)	(1,350,592)
Increase in warrant liability	-	(142,427)
Other	(9,853)	(18,392)
Total other expenses	(1,280,717)	(1,284,748)
Net loss	$ (4,741,216)	$ (4,928,950)
Net loss per common share:		
Basic	$ (0.08)	$ (0.08)
Diluted	$ (0.08)	$ (0.08)
Weighted average shares outstanding:		
Basic	58,586,593	58,433,895
Diluted	58,586,593	58,433,895

See accompanying notes to consolidated financial statements.

Neoprobe Corporation and Subsidiaries
Consolidated Statements of Stockholders' Equity (Deficit)

	Common Stock		Additional Paid-in	Accumulated	Accumulated Other Comprehensive	
	Shares	Amount	Capital	Deficit	Income	Total
Balance, December 31, 2004	58,378,143	$ 58,378	$ 132,123,605	$ (126,018,153)	$ -	$ 6,163,830
Issued stock upon exercise of warrants	206,865	207	57,715	-	-	57,922
Issued stock to 401(k) plan at $0.39	37,051	37	19,205	-	-	19,242
Reclassified liability related to warrants to purchase common stock	-	-	2,702,734	-	-	2,702,734
Comprehensive income (loss):						
Net loss	-	-	-	(4,928,950)	-	(4,928,950)
Unrealized gain on available-for-sale securities	-	-	-	-	2,018	2,018
Total comprehensive loss						(4,926,932)
Balance, December 31, 2005	58,622,059	58,622	134,903,259	(130,947,103)	2,018	4,016,796
Issued stock to 401(k) plan at $0.39	67,987	68	26,545	-	-	26,613
Issued stock as a commitment fee in connection with stock purchase agreement	720,000	720	179,280	-	-	180,000
Issued stock in connection with stock purchase agreement, net of costs	214,333	214	-	-	-	214
Stock option expense	-	-	221,584	-	-	221,584
Comprehensive income (loss):						
Net loss	-	-	-	(4,741,216)	-	(4,741,216)
Realized gain on available-for-sale securities	-	-	-	-	(2,018)	(2,018)
Total comprehensive loss						(4,743,234)
Balance, December 31, 2006	59,624,379	$ 59,624	$ 135,330,668	$ (135,688,319)	$ -	$ (298,027)

See accompanying notes to consolidated financial statements.

Neoprobe Corporation and Subsidiaries
Consolidated Statements of Cash Flows

	Years Ended December 31,	
	2006	**2005**
Cash flows from operating activities:		
Net loss	$ (4,741,216)	$ (4,928,950)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation of property and equipment	148,934	163,121
Amortization of intangible assets	262,802	440,629
Loss on disposal and abandonment of assets	39,031	6,650
Amortization of debt discount and debt offering costs	808,916	687,370
Stock compensation expense	221,584	-
Increase in warrant liability	-	142,427
Other	22,854	(8,199)
Change in operating assets and liabilities:		
Accounts receivable	(573,081)	(261,152)
Inventory	(428,202)	34,163
Prepaid expenses and other assets	408,918	257,005
Accounts payable	460,463	8,912
Accrued liabilities and other liabilities	(284,212)	396,201
Deferred revenue	95,437	59,843
Net cash used in operating activities	(3,557,772)	(3,001,980)
Cash flows from investing activities:		
Purchases of available-for-sale securities	-	(5,480,787)
Maturities of available-for-sale securities	1,531,000	3,950,000
Purchases of property and equipment	(144,022)	(86,004)
Proceeds from sales of property and equipment	4,097	11,092
Patent and trademark costs	(31,163)	(20,625)
Net cash provided by (used in) investing activities	1,359,912	(1,626,324)
Cash flows from financing activities:		
Proceeds from issuance of common stock	50,000	57,922
Payment of stock offering costs	(35,570)	-
Payment of debt issuance costs	-	(29,635)
Payment of notes payable	(235,330)	(286,035)
Payments under capital leases	(19,530)	(15,680)
Other	-	20
Net cash used in financing activities	(240,430)	(273,408)
Net decrease in cash	(2,438,290)	(4,901,712)
Cash, beginning of year	4,940,946	9,842,658
Cash, end of year	$ 2,502,656	$ 4,940,946

See accompanying notes to consolidated financial statements.

1. Organization and Summary of Significant Accounting Policies:

a. Organization and Nature of Operations: Neoprobe Corporation (Neoprobe, the company, or we), a Delaware corporation, is engaged in the development and commercialization of innovative surgical and diagnostic products that enhance patient care by meeting the critical decision making needs of physicians. We currently manufacture two lines of medical devices: the first is a line of gamma radiation detection equipment used in the application of sentinel lymph node biopsy (SLNB), and the second is a line of blood flow monitoring devices for a variety of diagnostic and surgical applications.

Our gamma detection device products are marketed throughout most of the world through a distribution arrangement with Ethicon Endo-Surgery, Inc. (EES), a Johnson & Johnson company. For the years ended December 31, 2006 and 2005, 84% and 92% of net sales, respectively, were made to EES. The loss of this customer would have a significant adverse effect on our operating results.

Our blood flow measurement device product line is in the early stages of commercialization. Our activity with this product line was initiated with our acquisition of Cardiosonix Ltd. (Cardiosonix, formerly Biosonix Ltd.) on December 31, 2001.

We also have developmental and/or intellectual property rights related to two drugs that might be used in connection with gamma detection devices in cancer surgeries. The first, Lymphoseek®, is intended to be used in tracing the spread of certain solid tumor cancers. The second, RIGScan® CR, is intended to be used to help surgeons locate cancerous tissue during colorectal cancer surgeries. Both of these drug products are still in development and must be cleared for marketing by the appropriate regulatory bodies before they can be sold in any markets.

In addition, in January 2005 we formed a new corporation, Cira Biosciences, Inc. (Cira Bio), to explore the development of patient-specific cellular therapies that have shown positive patient responses in a variety of clinical settings. Cira Bio is combining our activated cellular therapy (ACT) technology for patient-specific oncology treatment with similar technology licensed from Cira LLC, a privately held company, for treating viral and autoimmune diseases. Neoprobe owns approximately 90% of the outstanding shares of Cira Bio with the remaining shares being held by the principals of Cira LLC.

b. Principles of Consolidation: Our consolidated financial statements include the accounts of Neoprobe, our wholly-owned subsidiary, Cardiosonix, and our majority-owned subsidiary, Cira Bio. All significant inter-company accounts were eliminated in consolidation.

c. Fair Value of Financial Instruments: The following methods and assumptions were used to estimate the fair value of each class of financial instruments:

(1) Cash and cash equivalents, accounts receivable, accounts payable, and accrued liabilities: The carrying amounts approximate fair value because of the short maturity of these instruments.

(2) Available-for-sale securities: Available-for-sale securities are recorded at fair value. Unrealized holding gains and losses, net of the related tax effect, on available-for-sale securities are excluded from earnings and are reported as a separate component of other comprehensive income (loss) until realized. Realized gains and losses from the sale of available-for-sale securities are determined on a specific identification basis.

A decline in the market value of any available-for-sale security below cost that is deemed to be other than temporary results in a reduction in carrying amount to fair value. The impairment is charged to earnings and a new cost basis for the security is established. Premiums and discounts are amortized or accreted over the life of the related available-for-sale security as an adjustment to yield using the effective interest method. Dividend and interest income are recognized when earned.

Available-for-sale securities are classified as current based on our intent to use them to fund short-term working capital needs.

(3) Notes payable to finance companies: The fair value of our debt is estimated by discounting the future cash flows at rates currently offered to us for similar debt instruments of comparable maturities by banks or finance companies. At December 31, 2006 and 2005, the carrying values of these instruments approximate fair value.

(4) Note payable to CEO: The carrying value of our debt is presented as the face amount of the notes less the unamortized discounts related to the value of the beneficial conversion features and the initial estimated fair value of the warrants to purchase common stock issued in connection with the notes. At December 31, 2006 and 2005, the carrying value of the note payable to our CEO approximates fair value.

(5) Note payable to outside investors: The carrying value of our debt is presented as the face amount of the notes less the unamortized discounts related to the value of the beneficial conversion features and the initial estimated fair value of the warrants to purchase common stock issued in connection with the notes. At December 31, 2006 and 2005, the carrying value of the note payable to outside investors approximates fair value.

d. Cash and Cash Equivalents: There were no cash equivalents at December 31, 2006 or 2005. No cash was restricted as of December 31, 2006. As of December 31, 2005, $8,000 was restricted to secure bank guarantees related to sub-lease agreements for Cardiosonix' office space.

e. Inventory: All components of inventory are valued at the lower of cost (first-in, first-out) or market. We adjust inventory to market value when the net realizable value is lower than the carrying cost of the inventory. Market value is determined based on recent sales activity and margins achieved. During 2006 and 2005, we wrote off $129,000 and $58,000, respectively, of excess and obsolete materials, primarily due to design changes to our Quantix® product line and reduced demand for our laparoscopic probes.

We capitalize certain inventory costs associated with our Lymphoseek® product prior to regulatory approval and product launch, based on management's judgment of probable future commercial use and net realizable value. We could be required to permanently write down previously capitalized costs related to pre-approval or pre-launch inventory upon a change in such judgment, due to a denial or delay of approval by regulatory bodies, a delay in commercialization, or other potential factors. Conversely, our gross margins may be favorably impacted if some or all of the inventory previously written down becomes available and is used for commercial sale. During 2006, we capitalized $48,000 in inventory costs associated with our Lymphoseek product.

The components of net inventory at December 31, 2006 and 2005 are as follows:

	2006	2005
Materials and component parts	$ 522,225	$ 461,218
Work-in-process	167,188	-
Finished goods	464,963	324,485
	$ 1,154,376	$ 803,703

f. Property and Equipment: Property and equipment are stated at cost. Property and equipment under capital leases are stated at the present value of minimum lease payments. Depreciation is computed using the straight-line method over the estimated useful lives of the depreciable assets ranging from 2 to 7 years, and includes amortization related to equipment under capital leases. Maintenance and repairs are charged to expense as incurred, while renewals and improvements are capitalized. Property and equipment includes $78,000 of equipment under capital leases with accumulated amortization of $53,000 and $33,000 at December 31, 2006 and 2005, respectively. During 2006 and 2005, we recorded losses of $2,000 and $7,000, respectively, on the disposal of property and equipment.

The major classes of property and equipment are as follows:

	Useful Life	2006	2005
Production machinery and equipment	5 years	$ 1,107,278	$ 999,106
Other machinery and equipment, primarily computers and research equipment	2 - 5 years	598,555	543,313
Furniture and fixtures	7 years	336,537	334,275
Leasehold improvements	Life of Lease[1]	74,682	74,682
Software	3 years	120,998	100,417
		$ 2,238,050	$ 2,051,793

[1] We amortize leasehold improvements over the life of the lease, which in all cases is shorter than the estimated useful life of the asset.

g. Intangible Assets: Intangible assets consist primarily of patents and other acquired intangible assets. Intangible assets are stated at cost, less accumulated amortization. Patent costs are amortized using the straight-line method over the estimated useful lives of the patents of 5 to 15 years. Patent application costs are deferred pending the outcome of patent applications. Costs associated with unsuccessful patent applications and abandoned intellectual property are expensed when determined to have no recoverable value. Acquired technology costs are amortized using the straight-line method over the estimated useful life of seven years. We evaluate the potential alternative uses of all intangible assets, as well as the recoverability of the carrying values of intangible assets on a recurring basis.

The major classes of intangible assets are as follows:

		December 31, 2006		December 31, 2005	
	Wtd Avg Life	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Patents and trademarks	9.7 yrs	$ 3,131,391	$ 1,370,291	$ 3,162,547	$ 1,164,763
Acquired technology	2.0 yrs	237,271	169,854	237,271	136,145
Total		$ 3,368,662	$ 1,540,145	$ 3,399,818	$ 1,300,908

During 2006 and 2005, we recorded $263,000 and $440,000, respectively, of intangible asset amortization in general and administrative expenses. Of those amounts, $2,000 and $11,000, respectively, were related to the abandonment of gamma detection patents and patent applications that were deemed no longer recoverable or part of our ongoing business.

The estimated future amortization expenses for the next five fiscal years are as follows:

	Estimated Amortization Expense
For the year ended 12/31/2007	$ 222,709
For the year ended 12/31/2008	216,116
For the year ended 12/31/2009	170,852
For the year ended 12/31/2010	170,033
For the year ended 12/31/2011	168,581

h. Other Assets:

Other assets consist primarily of deferred debt issuance costs. We defer costs associated with the issuance of notes payable and amortize those costs over the period of the notes using the effective interest method. In 2005, we incurred $10,000 of debt issuance costs related to notes payable. See Note 6.

i. Revenue Recognition:

(1) Product Sales: We derive revenues primarily from sales of our medical devices. Our standard shipping terms are FOB shipping point, and title and risk of loss passes to the customer upon delivery to a common carrier. We generally recognize sales revenue when the products are shipped and the earnings process has been completed. However, in cases where product is shipped but the earnings process is not yet completed, revenue is deferred until it has been determined that the earnings process has been completed. Our customers generally have no right to return products purchased in the ordinary course of business.

Sales prices on gamma detection products sold to EES are subject to retroactive annual adjustment based on a fixed percentage of the actual sales prices achieved by EES on sales to end customers made during each fiscal year, subject to a minimum (i.e., floor) price. To the extent that we can reasonably estimate the end customer prices received by EES, we record sales to EES based upon these estimates. To the extent that we are not able to reasonably estimate end customer sales prices related to certain products sold to EES, we record revenue related to these product sales at the floor price provided for under our distribution agreement with EES.

We recognize revenue related to the sales of products to be used for demonstration units when products are shipped and the earnings process has been completed. Our distribution agreements do not permit return of purchased demonstration units in the ordinary course of business nor do we have any performance obligations other than normal product warranty obligations. To the extent that the earnings process has not been completed, revenue is deferred. To the extent we enter into multiple-element arrangements, we allocate revenue based on the relative fair value of the elements.

(2) Extended Warranty Revenue: We derive revenues from the sale of extended warranties covering our medical devices over periods of one to four years. We recognize revenue from extended warranty sales on a pro-rata basis over the period covered by the extended warranty. Expenses related to the extended warranty are recorded when incurred.

(3) Service Revenue: We derive revenues from the repair and service of our medical devices that are in use beyond the term of the original warranty and that are not covered by an extended warranty. We recognize revenue from repair and service activities once the activities are complete and the repaired or serviced device has been shipped back to the customer.

j. Research and Development Costs: All costs related to research and development are expensed as incurred.

k. Income Taxes: Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Due to the uncertainty surrounding the realization of the deferred tax assets in future tax returns, all of the deferred tax assets have been fully offset by a valuation allowance at December 31, 2006 and 2005.

l. Stock-Based Compensation: At December 31, 2006, we have three stock-based compensation plans. Under the Amended and Restated Stock Option and Restricted Stock Purchase Plan (the Amended Plan), the 1996 Stock Incentive Plan (the 1996 Plan), and the 2002 Stock Incentive Plan (the 2002 Plan), we may grant incentive stock options, nonqualified stock options, and restricted stock awards to full-time employees, and nonqualified stock options and restricted awards may be granted to our consultants and agents. Total shares authorized under each plan are 2 million shares, 1.5 million shares and 5 million shares, respectively. The Amended Plan was approved by the stockholders in 1994, and although options are still outstanding under this plan, the Amended Plan is considered expired and no new grants may be made from it. Under all three plans, the exercise price of each option is greater than or equal to the closing market price of our common stock on the day prior to the date of the grant.

Options granted under the Amended Plan, the 1996 Plan and the 2002 Plan generally vest on an annual basis over one to three years. Outstanding options under the plans, if not exercised, generally expire ten years from their date of grant or 90 days from the date of an optionee's separation from employment with us.

Effective January 1, 2006, we adopted Statement of Financial Accounting Standards (SFAS) No. 123(R), *Share-Based Payment*, which is a revision of SFAS No. 123, *Accounting for Stock-Based Compensation*. SFAS No. 123(R) supersedes APB Opinion No. 25, *Accounting for Stock Issued to Employees*, and amends SFAS No. 95, *Statement of Cash Flows*. Generally, the approach in SFAS No. 123(R) is similar to the approach described in SFAS No. 123. However, SFAS No. 123(R) requires all share-based payments to employees, including grants of employee stock options, to be recognized in the income statement based on their estimated fair values.

We are applying the modified prospective method for recognizing the expense over the remaining vesting period for awards that were outstanding but unvested as of January 1, 2006. Under the modified prospective method, we have not adjusted the financial statements for periods ending prior to January 1, 2006. Under the modified prospective method, the adoption of SFAS No. 123(R) applies to new awards and to awards modified, repurchased, or cancelled after December 31, 2005, as well as to the unvested portion of awards outstanding as of January 1, 2006.

Compensation cost arising from stock-based awards is recognized as expense using the straight-line method over the vesting period. As of December 31, 2006, there was approximately $160,000 of total unrecognized compensation cost related to unvested stock-based awards, which we expect to recognize over remaining weighted average vesting terms of 1.4 years. For the year ended December 31, 2006, our total stock-based compensation expense was approximately $222,000. We have not recorded any income tax benefit related to stock-based compensation for the year ended December 31, 2006.

As permitted by SFAS No. 123, prior to 2006 Neoprobe accounted for share-based payments to employees using APB Opinion No. 25's intrinsic value method and, as such, generally recognized no compensation cost for employee stock options. The following table illustrates the effect on net loss and net loss per share for the year ended December 31, 2005 as if compensation cost for our stock-based compensation plans had been determined based on the fair value at the grant dates for awards under those plans consistent with SFAS No. 123.

	Year Ended December 31, 2005
Net loss, as reported	$ (4,928,950)
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards	(511,712)
Pro forma net loss	$ (5,440,662)
Loss per common share:	
As reported (basic and diluted)	$ (0.08)
Pro forma (basic and diluted)	$ (0.09)

The fair value of each option award is estimated on the date of grant using the Black-Scholes option pricing model to value share-based payments. Expected volatilities are based on the company's historical volatility, which management believes represents the most accurate basis for estimating expected volatility under the current circumstances. Neoprobe uses historical data to estimate forfeiture rates. The expected term of options granted is based on the vesting period and the contractual life of the options. The risk-free rate is based on the U.S. Treasury yield in effect at the time of the grant. The assumptions used for the years ended December 31, 2006 and 2005 are noted in the following table:

	2006	2005
Expected term	5.9 years	10 years
Expected volatility	105%	79%
Expected dividends	-	-
Risk-free rate	4.7%	4.3%

A summary of stock option activity under our stock option plans as of December 31, 2006, and changes during the year then ended is presented below:

	Year Ended December 31, 2006			
	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life	Aggregate Intrinsic Value
Outstanding, January 1, 2006	5,523,974	$ 0.44		
Granted	620,000	$ 0.27		
Exercised	-	-		
Forfeited	(168,501)	$ 0.32		
Expired	-	-		
Outstanding, December 31, 2006	5,975,473	$ 0.42	6.1 years	-
Exercisable, December 31, 2006	4,643,640	$ 0.45	5.6 years	-

The weighted average grant-date fair value of options granted in 2006 and 2005 was $0.19 and $0.32, respectively.

A summary of the status of our restricted stock as of December 31, 2006, and changes during the year then ended is presented below:

	Year Ended December 31, 2006	
	Number of Shares	Weighted Average Grant-Date Fair Value
Outstanding, January 1, 2006	130,000	$ 7.84
Granted	-	-
Exercised	-	-
Forfeited	-	-
Expired	-	-
Outstanding, December 31, 2006	130,000	$ 7.84

All of our outstanding restricted shares are pending cancellation due to failure to vest under the terms of issuance of these shares. Restricted shares, if any, generally vest on a change of control of our company as defined in the specific grant agreements. As a result, we have not recorded any deferred compensation related to past grants of restricted stock due to the inability to assess the probability of the vesting event.

m. Use of Estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

n. Impairment or Disposal of Long-Lived Assets: We account for long-lived assets in accordance with the provisions of SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets.* This Statement requires that long-lived assets and certain identifiable intangibles be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net undiscounted cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell.

o. Recent Accounting Developments: In February 2006, the Financial Accounting Standards Board (FASB) issued SFAS No. 155, *Accounting for Certain Hybrid Financial Instruments - An Amendment of FASB Statements No. 133 and 140* (SFAS No. 155). SFAS No. 155 amends SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, and SFAS No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*. SFAS No. 155 (a) permits fair value remeasurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation, (b) clarifies which interest-only strips and principal-only strips are not subject to the requirements of SFAS No. 133, (c) establishes a requirement to evaluate interests in securitized financial assets to identify interests that are freestanding derivatives or that are hybrid financial instruments that contain an embedded derivative requiring bifurcation, (d) clarifies that concentrations of credit risk in the form of subordination are not embedded derivatives, and (e) amends SFAS No. 140 to eliminate the prohibition on a qualifying special-purpose entity from holding a derivative financial instrument that pertains to a beneficial interest other than another derivative financial instrument. SFAS No. 155 is effective for all financial instruments acquired or issued after the beginning of an entity's first fiscal year that begins after September 15, 2006 and is required to be adopted by Neoprobe beginning January 1, 2007. We do not expect the adoption of SFAS No. 155 to have a material impact on our consolidated results of operations or financial condition.

In March 2006, the FASB issued SFAS No. 156, *Accounting for Servicing of Financial Assets - An Amendment of FASB Statement No. 140* (SFAS No. 156). SFAS No. 156 amends SFAS No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*. SFAS No. 156 (a) requires recognition of a servicing asset or servicing liability each time an obligation to service a financial asset is undertaken by entering into a servicing contract in certain circumstances, (b) requires measurement at fair value of all separately recognized servicing assets and servicing liabilities, (c) permits the use of either the amortization method or the fair value measurement method for each class of separately recognized servicing assets and servicing liabilities, (d) permits a one-time reclassification of available-for-sale securities to trading securities at initial adoption, and (e) requires separate presentation of servicing assets and servicing liabilities subsequently measured at fair value in the statement of financial position and additional disclosures for all separately recognized servicing assets and servicing liabilities. SFAS No. 156 is effective for fiscal years beginning after September 15, 2006, and is required to be adopted by Neoprobe beginning January 1, 2007. We do not expect the adoption of SFAS No. 156 to have a material impact on our consolidated results of operations or financial condition.

In June 2006, the FASB issued Financial Interpretation (FIN) No. 48, *Accounting for Uncertainty in Income Taxes - an Interpretation of FASB Statement No. 109* (FIN 48). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with SFAS No. 109, *Accounting for Income Taxes*. FIN 48 outlines a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006, and is required to be adopted by Neoprobe beginning January 1, 2007. We are currently evaluating the effect that FIN 48 may have on our results of operations and financial condition, but we do not expect the adoption to have a material impact.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* (SFAS No. 157). SFAS No. 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS No. 157 applies under other accounting pronouncements that require or permit fair value measurements, the FASB having previously concluded in those accounting pronouncements that fair value is the relevant measurement attribute. Accordingly, SFAS No. 157 does not require any new fair value measurements. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007, and is required to be adopted by Neoprobe beginning January 1, 2008. We do not expect the adoption of SFAS No. 157 to have a material impact on our consolidated results of operations or financial condition.

In September 2006, the FASB also issued SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans - an Amendment of FASB Statements No. 87, 88, 106, and 132(R)* (SFAS No. 158). SFAS No. 158 requires an employer to recognize the overfunded or underfunded status of a defined benefit postretirement plan (other than a multiemployer plan) as an asset or liability in its statement of financial position and to recognize changes in that funded status in the year in which the changes occur through comprehensive income of a business entity or changes in unrestricted net assets of a not-for-profit organization. SFAS No. 158 also requires an employer to measure the funded status of a plan as of the date of its year-end statement of financial position, with limited exceptions. SFAS No. 158 is effective for employers with publicly traded equity securities as of the end of the fiscal year ending after December 15, 2006, and for employers without publicly traded equity securities as of the end of the fiscal year ending after June 15, 2007. Neoprobe is required to adopt SFAS No. 158 beginning January 1, 2007. We do not expect the adoption of SFAS No. 158 to have a material impact on our consolidated results of operations or financial condition.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities - Including an Amendment of FASB Statement No. 115* (SFAS No. 159). SFAS No. 159 permits entities to choose to measure many financial instruments and certain other items at fair value at specified election dates. Most of the provisions of SFAS No. 159 apply only to entities that elect the fair value option. However, the amendment to FASB Statement No. 115, *Accounting for Certain Investments in Debt and Equity Securities*, applies to all entities with available-for-sale and trading securities. The fair value option established by SFAS No. 159 permits all entities to choose to measure eligible items at fair value at specified election dates. A business entity shall report unrealized gains and losses on items for which the fair value option has been elected in earnings at each subsequent reporting date. The fair value option may be applied instrument by instrument, with a few exceptions, such as investments otherwise accounted for by the equity method, is irrevocable (unless a new election date occurs), and is applied only to entire instruments and not to portions of instruments. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. Early adoption is permitted as of the beginning of a fiscal year that begins on or before November 15, 2007, provided the entity also elects to apply the provisions of SFAS No. 157, *Fair Value Measurements*. We have not completed our review of the new guidance; however, we do not expect the adoption of SFAS No. 159 to have a material impact on our consolidated results of operations or financial condition.

2. Earnings Per Share:

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

	Year Ended December 31, 2006		Year Ended December 31, 2005	
	Basic Earnings Per Share	Diluted Earnings Per Share	Basic Earnings Per Share	Diluted Earnings Per Share
Outstanding shares	59,624,379	59,624,379	58,622,059	58,622,059
Effect of weighting changes in outstanding shares	(907,786)	(907,786)	(58,164)	(58,164)
Contingently issuable shares	(130,000)	(130,000)	(130,000)	(130,000)
Adjusted shares	58,586,593	58,586,593	58,433,895	58,433,895

There is no difference in basic and diluted loss per share related to 2006 or 2005. The net loss per common share for 2006 and 2005 excludes the effects of 41,873,016 and 40,648,684, respectively, common shares issuable upon exercise of outstanding stock options and warrants into our common stock or upon the conversion of convertible debt since such inclusion would be anti-dilutive.

3. Accounts Receivable and Concentrations of Credit Risk:

Accounts receivable at December 31, 2006 and 2005, net of allowance for doubtful accounts of $0 and $1,000, respectively, consist of the following:

	2006	2005
Trade	$ 1,243,114	$ 663,898
Other	2,975	9,110
	$ 1,246,089	$ 673,008

At December 31, 2006 and 2005, approximately 86% and 91%, respectively, of net accounts receivable are due from EES. We do not believe we are exposed to significant credit risk related to EES based on the overall financial strength and credit worthiness of the customer and its parent company. We believe that we have adequately addressed other credit risks in estimating the allowance for doubtful accounts.

We estimate an allowance for doubtful accounts based on a review and assessment of specific accounts receivable and write off accounts when deemed uncollectible.

4. Accrued Liabilities:

Accrued liabilities at December 31, 2006 and 2005 consist of the following:

	2006	2005
Contracted services and other	$ 401,224	$ 540,932
Compensation	91,167	204,421
Warranty reserve	44,858	41,185
Inventory purchases	6,966	35,243
	$ 544,215	$ 821,781

5. Product Warranty:

We warrant our products against defects in design, materials, and workmanship generally for a period of one year from the date of sale to the end customer, except in cases where the product has a limited use as designed. Our accrual for warranty expenses is adjusted periodically to reflect actual experience. EES also reimburses us for a portion of warranty expense incurred based on end customer sales they make during a given fiscal year. Payments charged against the reserve are disclosed net of EES' estimated reimbursement.

The activity in the warranty reserve account for the years ended December 31, 2006 and 2005 is as follows:

	2006	2005
Warranty reserve at beginning of year	$ 41,185	$ 66,000
Provision for warranty claims and changes in reserve for warranties	40,103	24,539
Payments charged against the reserve	(36,430)	(49,354)
Warranty reserve at end of year	$ 44,858	$ 41,185

6. Notes Payable:

In December 2004, we completed a private placement of four-year convertible promissory notes in an aggregate principal amount of $8.1 million under a Securities Purchase Agreement (the Agreement) with Biomedical Value Fund, L.P., Biomedical Offshore Value Fund, Ltd. and David C. Bupp (our President and CEO). Biomedical Value Fund, L.P. and Biomedical Offshore Value Fund, Ltd. are funds managed by Great Point Partners, LLC (collectively, the Great Point Funds). The notes originally bore interest at 8% per annum and were originally due on December 13, 2008.

All of our material assets, except the intellectual property associated with our Lymphoseek and RIGS® products under development, have been pledged as collateral for these notes. In addition to the security interest in our assets, the notes carry substantial covenants that impose significant requirements on us, including, among others, requirements that: we pay all principal, interest and other charges on the notes when due; we use the proceeds from the sale of the notes only for permitted purposes such as Lymphoseek development and general corporate purposes; we nominate and recommend for election as a director a person designated by the holders of the notes (as of December 31, 2006, the holders of the notes have not designated a potential board member); we keep reserved out of our authorized shares of common stock sufficient shares to satisfy our obligation to issue shares on conversion of the notes and the exercise of the warrants issued in connection with the sale of the notes; and we indemnify the purchasers of the notes against certain liabilities. Additionally, with certain exceptions, the notes prohibit us from: amending our organizational or governing agreements and documents, entering into any merger or consolidation, dissolving the company or liquidating its assets, or acquiring all or any substantial part of the business or assets of any other person; engaging in transactions with any affiliate; entering into any agreement inconsistent with our obligations under the notes and related agreements; incurring any indebtedness, capital leases, or contingent obligations outside the ordinary course of business; granting or permitting liens against or security interests in our assets; making any material dispositions of our assets outside the ordinary course of business; declaring or paying any dividends or making any other restricted payments; or making any loans to or investments in other persons outside of the ordinary course of business.

As part of the original transaction, we issued the investors 10,125,000 Series T warrants to purchase our common stock at an exercise price of $0.46 per share, expiring in December 2009. The fair value of the warrants issued to the investors was $1,315,000 on the date of issuance and was determined by a third-party valuation expert using the Black-Scholes option pricing model with the following assumptions: an average risk-free interest rate of 3.4%, volatility of 50% and no expected dividend rate. In connection with this financing, we also issued 1,600,000 Series U warrants to purchase our common stock to the placement agents, containing substantially the same terms as the warrants issued to the investors. The fair value of the warrants issued to the placement agents was $208,014 using the Black-Scholes option pricing model with the same assumptions used to determine the fair value of the warrants issued to the investors. The value of the beneficial conversion feature of the notes was estimated at $1,315,000 based on the effective conversion price at the date of issuance. The fair value of the warrants issued to the investors and the value of the beneficial conversion feature were recorded as discounts on the note and were being amortized over the term of the notes using an effective interest rate of 19.8%. The fair value of the warrants issued to the placement agents was recorded as a deferred debt issuance cost and was being amortized over the term of the notes.

U.S. generally accepted accounting principles also required us at the time of the original transaction to classify the warrants issued in connection with the placement as a liability due to penalty provisions contained in the securities purchase agreement. The penalty provisions could have required us to pay a penalty of 0.0667% per day of the total debt amount if we failed to meet certain registration deadlines, or if our stock was suspended from trading for more than 30 days. As a liability, the warrants were considered a derivative instrument that were required to be periodically “marked to market” on our consolidated balance sheet. We estimated the fair value of the warrants at December 31, 2004 using the Black-Scholes option pricing model with the following assumptions: an average risk-free interest rate of 3.4%, volatility of 50% and no expected dividend rate. On February 16, 2005, Neoprobe and the investors confirmed in writing their intention that the penalty provisions which led to this accounting treatment were intended to apply only to the $8.1 million principal balance of the promissory notes and underlying conversion shares and not to the warrant shares. Because the value of our stock increased $0.02 per share from $0.59 per share at December 31, 2004 to $0.61 per share at February 16, 2005, the effect of marking the warrant liability to “market” resulted in an increase in the estimated fair value of the warrant liability of $142,427 which was recorded as non-cash expense during the first quarter of 2005. The estimated fair value of the warrant liability was then reclassified to additional paid-in capital during the first quarter of 2005.

In November 2006, we amended the Agreement and modified several of the key terms in the related notes. The original notes were thereby cancelled and replacement notes were issued to the noteholders which bear interest at 12% per annum, payable on March 31, June 30, September 30 and December 31 of each year. The maturity of the notes was modified as follows: $500,000 due January 8, 2007; $1,250,000 due July 9, 2007; $1,750,000 due January 7, 2008; $2,000,000 due July 7, 2008 and the remaining $2,600,000 due January 7, 2009. Neoprobe is also required to make mandatory repayments of principal to the Great Point Funds under certain circumstances such as asset dispositions, partnering transactions and sales of equity. Such mandatory repayments are applied against future scheduled principal payments. In exchange for the increased interest rate and accelerated principal repayment schedule, the noteholders eliminated the financial covenants under the original notes and eliminated certain conversion price adjustments from the original notes related to sales of equity securities by Neoprobe. In addition, Neoprobe may make optional prepayments to the Great Point Funds by giving them ten (10) business days notice during which time the noteholders may decide to convert the notes into common stock of the Company. The new notes remain freely convertible into shares of our common stock at a price of $0.40 per share. Neoprobe may force conversion of the notes prior to their stated maturity under certain circumstances.

7. Income Taxes:

As of December 31, 2006 and 2005, our deferred tax assets in the U.S. were approximately $39.6 million and $39.3 million, respectively. The components of our deferred tax assets, pursuant to SFAS No. 109, *Accounting for Income Taxes*, are summarized as follows:

	As of December 31,	
	2006	**2005**
Deferred tax assets:		
Federal net operating loss carryforwards	$ 32,227,107	$ 32,247,897
State net operating loss carryforwards	2,273,948	2,304,919
R&D credit carryforwards	4,722,457	4,418,656
Temporary differences	354,340	325,077
Deferred tax assets before valuation allowance	39,577,852	39,296,549
Valuation allowance	(39,577,852)	(39,296,549)
Net deferred tax assets	$ -	$ -

SFAS No. 109 requires a valuation allowance against deferred tax assets if, based on the weight of available evidence, it is more likely than not that some or all of the deferred tax assets may not be realized. Due to the uncertainty surrounding the realization of these deferred tax assets in future tax returns, all of the deferred tax assets have been fully offset by a valuation allowance at December 31, 2006 and 2005.

As of December 31, 2006 and 2005, Cardiosonix had deferred tax assets in Israel of approximately $2 million, primarily related to net operating loss carryforwards available to offset future taxable income, if any. Under current Israeli tax law, net operating loss carryforwards do not expire. Due to the uncertainty surrounding the realization of these deferred tax assets in future tax returns, all of the deferred tax assets have been fully offset by a valuation allowance at December 31, 2006 and 2005. Since a valuation allowance was recognized for the deferred tax asset for Cardiosonix' deductible temporary differences and operating loss carryforwards at the acquisition date, the tax benefits for those items that are first recognized (that is, by elimination of the valuation allowance) in financial statements after the acquisition date shall be applied (a) first to reduce to zero other noncurrent intangible assets related to the acquisition and (b) second to reduce income tax expense.

Under Sections 382 and 383 of the Internal Revenue Code (IRC) of 1986, as amended, the utilization of U.S. net operating loss and tax credit carryforwards may be limited under the change in stock ownership rules of the IRC. As a result of ownership changes as defined by Sections 382 and 383, which have occurred at various points in our history, we believe utilization of our net operating loss carryfowards and tax credit carryforwards will likely be significantly limited under certain circumstances.

Reconciliations between the statutory federal income tax rate and our effective tax rate are as follows:

	Years Ended December 31,			
	2006		2005	
	Amount	%	Amount	%
Benefit at statutory rate	$ (1,612,013)	(34.0%)	$ (1,675,843)	(34.0%)
Adjustments to valuation allowance	1,462,443	30.8%	1,442,711	29.3%
Other	149,570	3.2%	233,132	4.7%
Benefit per financial statements	$ -	-	$ -	-

Deferred tax assets of $1.1 million related to net operating loss carryforwards and $98,000 related to R&D credit carryforwards expired during 2006.

8. Equity:

a. Stock Warrants: At December 31, 2006, there are 17.0 million warrants outstanding to purchase our common stock. The warrants are exercisable at prices ranging from $0.13 to $0.50 per share with a weighted average exercise price per share of $0.40.

The following table summarizes information about our outstanding warrants at December 31, 2006:

	Exercise Price	Number of Warrants	Expiration Date
Series Q	$ 0.13	875,000	April 2008
Series Q	$ 0.50	375,000	March 2009
Series R	$ 0.28	2,808,898	October 2008
Series S	$ 0.28	1,195,478	October 2008
Series T	$ 0.46	10,125,000	December 2009
Series U	$ 0.46	1,600,000	December 2009
	$ 0.40	16,979,376	

In April 2003, we completed bridge loans with our President and CEO, David Bupp, and an outside investor. In connection with these loans, we issued a total of 875,000 Series Q warrants to purchase our common stock at an exercise price of $0.13 per share, expiring in April 2008. In March 2004, at the request of our Board of Directors, Mr. Bupp agreed to extend the due date of his loan. In exchange for extending the due date of his loan, we issued Mr. Bupp an additional 375,000 Series Q warrants to purchase our common stock at an exercise price of $0.50 per share, expiring in March 2009. All 1,250,000 Series Q warrants related to the bridge loans remain outstanding at December 31, 2006.

b. Private Placement: In November 2003, we executed common stock purchase agreements with certain investors for the purchase of 12,173,914 shares of our common stock at a price of $0.23 per share for net proceeds of $2.4 million. In addition, we issued the purchasers 6,086,959 Series R warrants to purchase our common stock at an exercise price of $0.28 per share, expiring in October 2008, and issued the placement agents 1,354,348 Series S warrants to purchase our common stock on similar terms. During 2005, certain investors and placement agents exercised a total of 206,865 warrants related to this placement, resulting in the issuance of 206,865 shares of our common stock and we realized net proceeds of $57,922. No warrants were exercised during 2006.

c. Common Stock Purchase Agreement: In December 2006, we entered into a common stock purchase agreement with Fusion Capital Fund II, LLC (Fusion). A registration statement registering for resale up to 12,000,000 shares of our common stock became effective on December 28, 2006. We have authorized up to 12,000,000 shares of our common stock for sale to Fusion under the agreement. Under the terms of the agreement, in December 2006, we issued 720,000 shares of common stock as an initial commitment fee. We are also required to issue to Fusion up to an additional 720,000 shares of our common stock as an additional commitment fee in connection with future purchases made by Fusion. The additional 720,000 shares will be issued pro rata as we sell our common stock to Fusion under the agreement, resulting in a total commitment fee of 1,440,000 shares of our common stock if the entire $6.0 million in value of stock is sold. Under the terms of the agreement, generally we have the right but not the obligation from time to time to sell our shares to Fusion in amounts between $50,000 and $1.0 million depending on certain conditions set forth in the agreement. We have the right to control the timing and amount of any sales of our shares to Fusion. The price of shares sold to Fusion will generally be based on market prices for purchases that are not subject to the floor price of $0.20 per share. The common stock purchase agreement may be terminated by us at any time at our discretion without

any cost to us. During 2006, we sold a total of 208,333 shares of our common stock under the agreement, realized gross proceeds of $50,000 from such sales, and issued Fusion 6,000 shares of our common stock as additional commitment fees related to such sales.

d. Common Stock Reserved: We have reserved 43,204,849 shares of authorized common stock for the exercise of all outstanding options, warrants, and convertible debt.

9. Shareholder Rights Plan:

During July 1995, our Board of Directors adopted a shareholder rights plan. Under the plan, one "Right" was to be distributed for each share of common stock held by shareholders on the close of business on August 28, 1995. The Rights were exercisable only if a person and its affiliate commenced a tender offer or exchange offer for 15% or more of our common stock, or if there was a public announcement that a person and its affiliate had acquired beneficial ownership of 15% or more of the common stock, and if we did not redeem the Rights during the specified redemption period. Initially, each Right, upon becoming exercisable, would have entitled the holder to purchase from us one unit consisting of $1/100^{th}$ of a share of Series A Junior Participating preferred stock at an exercise price of $35 (which was subject to adjustment). Once the Rights became exercisable, if any person, including its affiliate, acquired 15% or more of our common stock, each Right other than the Rights held by the acquiring person and its affiliate would have become a right to acquire common stock having a value equal to two times the exercise price of the Right. We were entitled to redeem the Rights for $0.01 per Right at any time prior to the expiration of the redemption period. The shareholder rights plan and the Rights expired on August 28, 2005.

10. Segments and Subsidiary Information:

a. Segments: We report information about our operating segments using the "management approach" in accordance with SFAS No. 131, *Disclosures about Segments of an Enterprise and Related Information.* This information is based on the way management organizes and reports the segments within the enterprise for making operating decisions and assessing performance. Our reportable segments are identified based on differences in products, services and markets served. There were no inter-segment sales. We own or have rights to intellectual property involving two primary types of medical device products, including gamma detection instruments currently used primarily in the application of SLNB, and blood flow measurement devices. We also own or have rights to intellectual property related to several drug and therapy products.

The information in the following table is derived directly from each reportable segment's financial reporting.

($ amounts in thousands)	Gamma Detection Devices	Blood Flow Devices	Drug and Therapy Products	Corporate	Total
2006					
Net sales:					
United States[1]	$ 5,214	$ 80	$ -	$ -	$ 5,294
International	231	526	-	-	757
Research and development expenses	952	708	2,143	-	3,803
Selling, general and administrative expenses, excluding depreciation and amortization[2]	-	-	-	2,664	2,664
Depreciation and amortization	103	250	-	59	412
Income (loss) from operations[3]	2,237	(831)	(2,143)	(2,723)	(3,460)
Other income (expense)[4]	-	-	-	(1,281)	(1,281)
Total assets, net of depreciation and amortization:					
United States operations	1,961	612	57	3,510	6,140
Israeli operations (Cardiosonix Ltd.)	-	1,894	-	-	1,894
Capital expenditures	102	7	-	35	144
2005					
Net sales					
United States[1]	$ 5,459	$ 58	$ -	$ -	$ 5,517
International	120	282	-	-	402
Research and development expenses	276	1,414	2,342	-	4,032
Selling, general and administrative expenses, excluding depreciation and amortization[2]	-	-	-	2,552	2,552
Depreciation and amortization	137	408	1	58	604
Income (loss) from operations[3]	2,943	(1,634)	(2,343)	(2,610)	(3,644)
Other income (expense) [4]	-	-	-	(1,285)	(1,285)
Total assets, net of depreciation and amortization:					
United States operations	1,171	318	28	7,734	9,251
Israeli operations (Cardiosonix Ltd.)	-	2,319	-	-	2,319
Capital expenditures	-	64	1	21	86

[1] All sales to EES are made in the United States. EES distributes the product globally through its international affiliates.

[2.] Selling, general and administrative costs, excluding depreciation and amortization, represent costs that relate to the general administration of the Company and as such are not currently allocated to our individual reportable segments.

[3] Income (loss) from operations does not reflect the allocation of selling, general and administrative costs to our individual reportable segments.

[4.] Amounts consist primarily of interest income and interest expense which are currently not allocated to our individual reportable segments.

b. Subsidiary: On December 31, 2001, we acquired 100 percent of the outstanding common shares of Cardiosonix, an Israeli company. We accounted for the acquisition under SFAS No. 141, *Business Combinations*, and certain provisions of SFAS No. 142, *Goodwill and Other Intangible Assets.* The results of Cardiosonix' operations have been included in our consolidated results from the date of acquisition.

As a part of the acquisition, we also entered into a royalty agreement with the three founders of Cardiosonix. Under the terms of the royalty agreement, which expired December 31, 2006, we are obligated to pay the founders an aggregate one percent royalty on up to $120 million in net revenue generated by the sale of Cardiosonix blood flow products through 2006. As of December 31, 2006, approximately $2,000 of founders' royalties were accrued under the royalty agreement.

11. Agreements:

a. Supply Agreements: In December 1997, we entered into an exclusive supply agreement with eV Products (eV), a division of II-VI Incorporated, for the supply of certain crystals and associated electronics to be used in the manufacture of our proprietary line of hand-held gamma detection instruments. The original term of the agreement expired on December 31, 2002 and was automatically extended during 2002 through December 31, 2005; however, the agreement was no longer exclusive throughout the extended period. Total purchases were $770,000 and $430,000 for the years ended December 31, 2006 and 2005, respectively. We have issued purchase orders under the same terms as the original agreement for $409,000 of crystal modules for delivery of product through December 2007.

In February 2004, we entered into a product supply agreement with TriVirix International (TriVirix) for the manufacture of the neo2000 control unit, 14mm probe, Bluetooth® wireless probes, 11mm laparoscopic probe, Quantix/OR™ control unit and Quantix/ND™ control unit. The initial term of the agreement expires in January 2007, but may be automatically extended for successive one-year periods. Either party has the right to terminate the agreement at any time upon one hundred eighty (180) days prior written notice, or may terminate the agreement upon a material breach or repeated non-material breaches by the other. Total purchases under the product supply agreement were $1.1 million for the years ended December 31, 2006 and 2005. We have issued purchase orders under the agreement for $1.4 million of our products for delivery through May 2008.

b. Marketing and Distribution Agreement: During 1999, we entered into a distribution agreement with EES covering our gamma detection devices used in SLNB. The initial five-year term expired December 31, 2004, with options to extend for two successive two-year terms. In March 2006, EES exercised its option for a second two-year term extension of the distribution agreement covering our gamma detection devices, thus extending the distribution agreement through the end of 2008. Under the agreement, we manufacture and sell our current line of SLNB products exclusively to EES, who distributes the products globally, except in Japan. EES agreed to purchase minimum quantities of our products over the first three years of the term of the agreement and to reimburse us for certain research and development costs and a portion of our warranty costs. We are obligated to continue certain product maintenance activities and to provide ongoing regulatory support for the products.

EES may terminate the agreement if we fail to supply products for specified periods, commit a material breach of the agreement, suffer a change of control to a competitor of EES, or become insolvent. If termination were due to failure to supply or a material breach by us, EES would have the right to use our intellectual property and regulatory information to manufacture and sell the products exclusively on a global basis for the remaining term of the agreement with no additional financial obligation to us. If termination is due to insolvency or a change of control that does not affect supply of the products, EES has the right to continue to sell the products on an exclusive global basis for a period of six months or require us to repurchase any unsold products in its inventory.

Under the agreement, EES received a non-exclusive worldwide license to our SLNB intellectual property to make and sell other products that may be developed using our SLNB intellectual property. The term of the license is the same as that of the agreement. EES paid us a non-refundable license fee of $4 million. We recognized the license fee as revenue on a straight-line basis over the five-year initial term of the agreement, and the license fee was fully amortized into income as of the end of September 2004. If we terminate the agreement as a result of a material breach by EES, they would be required to pay us a royalty on all products developed and sold by EES using our SLNB intellectual property. In addition, we are entitled to a royalty on any SLNB product commercialized by EES that does not infringe any of our existing intellectual property.

c. Research and Development Agreements: Cardiosonix' research and development efforts have been partially financed through grants from the Office of the Chief Scientist of the Israeli Ministry of Industry and Trade (the OCS). Through the end of 2004, Cardiosonix received a total $775,000 in grants from the OCS. In return for the OCS's participation, Cardiosonix is committed to pay royalties to the Israeli Government at a rate of 3% to 5% of the sales if its products, up to 300% of the total grants received, depending on the portion of manufacturing activity that takes place in Israel. There are no future performance obligations related to the grants received from the OCS. However, under certain limited circumstances, the OCS may withdraw its approval of a research program or amend the terms of its approval. Upon withdrawal of approval, Cardiosonix may be required to refund the grant, in whole or in part, with or without interest, as the OCS determines. In January 2006, the OCS consented to the transfer of manufacturing as long as we comply with the terms of the OCS statutes under Israeli law. As long as we maintain at least 10% Israeli content in our blood flow devices, we will pay a royalty rate of 4% on sales of applicable blood flow devices and must repay the OCS a total of $1.2 million in royalties. However, should the amount of Israeli content of our blood flow device products decrease below 10%, the royalty rate could increase to 5% and the total royalty payments due could increase to $2.3 million. As such, the total amount we will have to repay the OCS will likely be 150% to 300% of the amounts of the original grants. Through December 2006, we have paid the OCS a total of $36,000 in royalties related to sales of products developed under this program. As of December 31, 2006, we have accrued obligations for royalties totaling $10,000.

During January 2002, we completed a license agreement with the University of California, San Diego (UCSD) for a proprietary compound that we believe could be used as a lymph node locating agent in SLNB procedures. The license agreement is effective until the later of the expiration date of the longest-lived underlying patent or January 30, 2023. Under the terms of the license agreement, UCSD has granted us the exclusive rights to make, use, sell, offer for sale and import licensed products as defined in the agreement and to practice the defined licensed methods during the term of the agreement. We may also sublicense the patent rights, subject to the approval of certain sublicense terms by UCSD. In consideration for the license rights, we agreed to pay UCSD a license issue fee of $25,000 and license maintenance fees of $25,000 per year. We also agreed to pay UCSD milestone payments related to successful regulatory clearance for marketing of the licensed products, a royalty on net sales of licensed products subject to a $25,000 minimum annual royalty, fifty percent of all sublicense fees and fifty percent of sublicense royalties. We also agreed to reimburse UCSD for all patent-related costs. Total costs related to the UCSD license agreement were $91,000 and $44,000 in 2006 and 2005, respectively, and were recorded in research and development expenses.

UCSD has the right to terminate the agreement or change the nature of the agreement to a non-exclusive agreement if it is determined that we have not been diligent in developing and commercializing the covered products, marketing the products within six months of receiving regulatory approval, reasonably filling market demand or obtaining all the necessary government approvals.

During April 2005, we completed an evaluation license agreement with UCSD expanding the field of use for the proprietary compound developed by UCSD researchers. The expanded field of use will allow Lymphoseek to be developed as an optical or ultrasound agent. The evaluation license agreement is effective until March 31, 2007. Under the terms of the agreement, UCSD has granted us limited rights to make and use licensed products as defined in the agreement and to practice the defined licensed methods during the term of the agreement for the sole purpose of evaluating our interest in negotiating a commercial license. We may also sublicense the patent rights, subject to the approval of certain sublicense terms by UCSD. In consideration for the license rights, we agreed to pay UCSD an evaluation license fee of $36,000 and evaluation license maintenance fees of $9,000 payable on the first year anniversary of the effective date, $9,000 payable on the eighteen-month anniversary of the effective date, and $18,000 payable prior to termination. We also agreed to pay UCSD fifty percent of any sublicense fees and to reimburse UCSD for all patent-related costs. Total costs related to the UCSD evaluation license agreement were $18,000 and $36,000 in 2006 and 2005, respectively, and were recorded in research and development expenses.

During January 2005, we executed a license agreement with The Ohio State University (OSU), Cira LLC, and Cira Bio for certain technology relating to activated cellular therapy. The license agreement is effective until the expiration date of the longest-lived underlying patent. Under the terms of the license agreement, OSU has granted the licensees the exclusive rights to make, have made, use, lease, sell and import licensed products as defined in the agreement and to utilize the defined licensed practices. We may also sublicense the patent rights. In consideration for the license rights, we agreed to pay OSU a license fee of $5,000 on January 31, 2006. We also agreed to pay OSU additional license fees related to initiation of Phase 2 and Phase 3 clinical trials, a royalty on net sales of licensed products subject to a minimum annual royalty of $100,000 beginning in 2012, and a percentage of any non-royalty license income. Also during January 2005, we completed a business venture agreement with Cira LLC that defines each party’s responsibilities and commitments with respect to Cira Bio and the license agreement with OSU. Total costs related to the OSU license agreement were $9,000 in 2006, and were recorded as research and development expenses.

d. Employment Agreements: We maintain employment agreements with six of our officers. The employment agreements contain change in control provisions that would entitle each of the officers to one to two times their current annual salaries, vest outstanding restricted stock and options to purchase common stock, and continue certain benefits if there is a change in control of our company (as defined) and their employment terminates. Our maximum contingent liability under these agreements in such an event is approximately $1.9 million. The employment agreements also provide for severance, disability and death benefits. See Note 16(a).

12. Leases:

We lease certain office equipment under capital leases which expire from 2007 to 2009. In August 2003, we entered into an operating lease agreement for office space, which originally expired in September 2006. In February 2005, we entered into another operating lease agreement for additional office space expiring in January 2008. The February 2005 lease agreement also extended the term of the original lease through January 2008.

In June 2004, Cardiosonix entered into an operating sublease agreement for office space that expired in June 2005. In July 2004, Cardiosonix entered into a sublease agreement for parking space that expired in June 2005, and automatically renewed until either party terminated the agreement. The Cardiosonix office space and parking space subleases expired in January 2006.

The future minimum lease payments for the years ending December 31 are as follows:

	Capital Leases	Operating Leases
2007	$ 18,008	$ 100,129
2008	15,889	8,561
2009	2,485	-
2010	-	-
2011	-	-
	36,382	$ 108,690
Less amount representing interest	4,527	
Present value of net minimum lease payments	31,855	
Less current portion	14,841	
Capital lease obligations, excluding current portion	$ 17,014	

Total rental expense was $163,000 and $221,000 for the years ended December 31, 2006 and 2005, respectively.

13. Employee Benefit Plan:

We maintain an employee benefit plan under Section 401(k) of the Internal Revenue Code. The plan allows employees to make contributions and we may, but are not obligated to, match a portion of the employee's contribution with our common stock, up to a defined maximum. We accrued expenses of $30,000 and $27,000 during 2006 and 2005, respectively, related to common stock to be subsequently contributed to the plan.

14. Supplemental Disclosure for Statements of Cash Flows:

We paid interest aggregating $687,000 and $677,000 for the years ended December 31, 2006 and 2005, respectively. During 2005, we purchased equipment under capital leases totaling $23,000. No new equipment was leased during 2006. During 2006 and 2005, we transferred $96,000 and $17,000, respectively, in inventory to fixed assets related to the creation and maintenance of a pool of service loaner equipment. Also during 2006 and 2005, we prepaid $175,000 and $243,000, respectively, in insurance through the issuance of notes payable to finance companies with weighted average interest rates of 6%. The notes payable to a finance company issued in 2006 mature in July 2007.

15. Contingencies:

We are subject to legal proceedings and claims that arise in the ordinary course of business. In our opinion, the amount of ultimate liability, if any, with respect to these actions will not materially affect our financial position.

16. Subsequent Event:

Effective January 1, 2007, we entered into new employment agreements with six executive officers. The new agreements have substantially similar terms to the previous agreements. See Note 11(d).

17. Supplemental Information (Unaudited):

The following summary financial data are derived from our consolidated financial statements that have been audited by our independent registered public accounting firm. These data are qualified in their entirety by, and should be read in conjunction with, our Consolidated Financial Statements and Notes thereto included herein.

	Years Ended December 31,				
(Amounts in thousands, except per share data)	**2006**	**2005**	**2004**	**2003**	**2002**
Statement of Operations Data:					
Net sales	$ 6,051	$ 5,919	$ 5,353	$ 5,564	$ 3,383
License and other revenue	-	-	600	946	1,538
Gross profit	3,419	3,543	3,608	3,385	2,570
Research and development expenses	3,803	4,032	2,454	1,894	2,324
Selling, general and administrative expenses	3,076	3,156	3,153	3,103	3,267
Acquired in-process research and development	-	-	-	-	(28)
Loss from operations	(3,460)	(3,644)	(1,999)	(1,611)	(2,993)
Other (expenses) income	(1,281)	(1,285)	(1,542)	(188)	29
Net loss	$ (4,741)	$ (4,929)	$ (3,541)	$ (1,799)	$ (2,964)
Loss per common share:					
Basic	$ (0.08)	$ (0.08)	$ (0.06)	$ (0.04)	$ (0.08)
Diluted	$ (0.08)	$ (0.08)	$ (0.06)	$ (0.04)	$ (0.08)
Shares used in computing loss per common share: [1]					
Basic	58,587	58,434	56,764	40,338	36,045
Diluted	58,587	58,434	56,764	40,338	36,045

	As of December 31,				
	2006	**2005**	**2004**	**2003**	**2002**
Balance Sheet Data:					
Total assets	$ 8,034	$ 11,570	$ 15,366	$ 7,385	$ 7,080
Long-term obligations	4,922	6,052	8,192	585	1,169
Accumulated deficit	(135,688)	(130,947)	(126,018)	(122,477)	(120,678)

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

Exhibit 10.13

DISTRIBUTION AGREEMENT

BETWEEN

NEOPROBE CORPORATION

AND

ETHICON ENDO-SURGERY, INC.

DISTRIBUTION AGREEMENT

This is an Agreement dated and effective as of the last date of signature below ("Effective Date"), by and between Ethicon Endo-Surgery, Inc. a corporation organized under the laws of the State of Ohio, having a business address at 4545 Creek Road, Cincinnati, Ohio 45242 ("Ethicon"); and Neoprobe Corporation, a corporation organized under the laws of the State of Delaware, having a business address at 425 Metro Place North, Suite 300, Dublin, Ohio 43017 ("Neoprobe", together with Ethicon, the "Parties", and each a "Party").

ARTICLE 1 - BACKGROUND

1.1 Ethicon manufactures and markets surgical instruments and accessories for minimally invasive surgery, including trocars, staplers, ligation devices, hand-held instruments, retractors, manipulation devices, electrosurgery and diagnostic surgical products.

1.2 Neoprobe manufactures and markets radiation detection devices, including but not limited to, devices for use in intraoperative lymphatic mapping ("ILM") and gamma radiation guided surgery.

1.3 Ethicon has developed and continues to develop certain technology, know how, intellectual property, devices and instruments for use in ILM and gamma radiation guided surgery.

1.4 The devices manufactured and marketed by Neoprobe complement Ethicon's surgical instruments and accessories for minimally invasive surgery, ILM and gamma radiation guided surgery and the Parties desire that Ethicon distribute the Products (as defined below) on a worldwide exclusive basis pursuant to the terms of this Agreement.

1.5 The Parties entered into a standstill and rights agreement (the "Standstill and Rights Agreement") on August 10, 1999, pursuant to which Ethicon paid Neoprobe four hundred thousand dollars ($400,000.00) in consideration of Neoprobe obligations in the Standstill and Rights Agreement.

1.6 In connection with a good faith purchase order placed by Ethicon on August 13, 1999 for Products (the "PO"), Neoprobe placed purchase orders with the appropriate vendors to fill the PO in accordance with the terms thereof.

Therefore, in consideration of the mutual promises, covenants and agreements hereinafter set forth, the Parties agree as follows:

ARTICLE 2 - DEFINITIONS

The following terms, when used with initial capital letters, shall have the following meanings:

2.1 "Affiliate" is any entity that directly or indirectly controls, is controlled by, or is under common control with a specified Party, and for such purpose "control" shall mean the possession, direct or indirect, of the power to direct or cause the direction of the management and policies of the entity, whether through the ownership of voting securities, by contract or otherwise.

2.2 A “Change of Control” shall be deemed to have occurred if (A) any “person” (as such term is used in Sections 13(d) and 14(d) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”) is or becomes the “beneficial owner” (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of Neoprobe representing 30% or more of the combined voting power of Neoprobe’s then outstanding securities; or (B) the stockholders of Neoprobe approve a merger or consolidation of Neoprobe with any other corporation, other than a merger or consolidation which would result in the voting securities of Neoprobe outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity) at least 80% of the combined voting power of the voting securities of Neoprobe or such surviving entity outstanding immediately after such merger or consolidation, or the stockholders of Neoprobe approve a plan of complete liquidation of Neoprobe or an agreement for the sale or disposition by Neoprobe of all or substantially all of Neoprobe’s assets.

2.3 “Commercial Year” shall mean a one (1) year period commencing on January 1 and any anniversary thereof during the term of this Agreement.

2.4 “Control Unit” shall mean a gamma radiation detection device including a microcomputer-based unit which measures the presence of gamma-emitting isotopes, including, but not limited, to the model 2000 Control Unit.

2.5 “First Commercial Year” is the one (1) year period commencing on January 1, 2000. The four (4) years following the First Commercial Year shall be referred to as the “Second”, “Third”, “Fourth” and “Fifth” Commercial Years, respectively.

2.6 “Gross Profit” is the difference between Neoprobe’s cost as indicated in Schedule 5.2 and the Transfer Price indicated in Schedule 5.2.

2.7 “Improved Product” or “Improved Products” shall mean an enhancement or modification to an existing Product.

2.8 “Insolvency Event” shall mean the occurrence of any of the following events:

(a) Neoprobe shall admit in writing its inability, or be generally unable, to pay its debts as such debts become due; or

(b) Neoprobe shall (1) apply for or consent to the appointment of, or the taking of possession by, a receiver, custodian, trustee or liquidator of itself or of all or a substantial part of its property, (2) make a general assignment for the benefit of its creditors, (3) commence a voluntary case under the United States Bankruptcy Code, as now or hereafter in effect (the “Bankruptcy Code”), (4) file a petition seeking to take advantage of any other law relating to bankruptcy, insolvency, reorganization, winding-up, or composition or readjustment of debts, (5) fail to controvert in a timely and appropriate manner, or acquiesce in writing to, any petition filed against it in any involuntary case under the Bankruptcy Code, or (6) take any corporate action for the purpose of effecting any of the foregoing; or

(c) A proceeding or case shall be commenced by or against Neoprobe in any court of competent jurisdiction, seeking (1) its liquidation, reorganization, dissolution or winding-up, or the composition or readjustment of its debts, (2) the appointment of a trustee, receiver, custodian, liquidator or the like of Neoprobe or of all or any substantial part of its assets, or (3) similar relief in respect of Neoprobe under any law relating to bankruptcy, insolvency, reorganization, winding-up, or composition or adjustment of debts, or an order, judgment or decree approving or ordering any of the foregoing shall be entered and continue unstayed and in effect for a period of ninety (90) days; or an order for relief against Neoprobe shall be entered in a case under the Bankruptcy Code.

2.9 "Know-How" shall mean all know-how relating to the design, development, manufacture, sale or use of any Product or Improved Product, including, without limitation, processes, techniques, methods, products, apparatuses, materials and compositions which are reasonably related thereto.

2.10 "New Product" shall mean an instrument or device developed by or for Neoprobe prior to and/or during the term of this Agreement and any extensions thereof other than a Product or Improved Product.

2.11 "Patent Applications" are the U.S. Patent applications listed in Schedule 2.11 hereto; all foreign counterparts of such applications; and all continuations, continuations-in-part, and divisionals of such applications.

2.12 "Patents" are the U.S. Patents listed in Schedule 2.11 hereto and any patents subsequently issuing from the Patent Applications as well as renewals, reissues, reexaminations, extensions, and patents of addition and patents of importation. Furthermore, Patents shall also include each patent, U.S. or foreign, which Neoprobe owns or is empowered to grant a license to Ethicon prior to or during the term of this Agreement or any extension thereof, the practice of which is reasonably necessary for Ethicon to sell the Product.

2.13 "Probe" shall mean a hand-held gamma radiation-sensing device that connects to a Control Unit.

2.14 "Probe Isolation Module" or "PIM" shall mean a device that provides a type BF applied part interface between a 14mm Probe and a Control Unit.

2.15 "Product" or "Products" shall mean instruments and devices used for radiation detection, including but not limited to, Neoprobe portable radioisotope detector systems, probes and related accessories set forth on Schedule 2.15 attached hereto as may be amended from time to time by mutual agreement of the Parties or a New Product added to Schedule 2.15 pursuant to Section 5.7 or Section 6.2.

2.16 “Raw Materials” shall mean the materials, components, and packaging required to manufacture and package any Product in accordance with the Specifications.

2.17 “Regulatory Compliance” shall mean compliance with (i) all applicable statutes, laws, and regulations, including good manufacturing practices (“GMP”) and (ii) Ethicon Endo-Surgery, Inc. Quality Assurance Requirements, which are attached and incorporated into this Agreement as Exhibit 2.17.

2.18 “Specifications” shall mean the requirements with which the Product must conform as specified by 21 CFR §820.181 and include device specifications, production process specifications, quality assurance procedures and specifications, packaging and labeling specifications, and installation, maintenance and servicing procedures and methods that are contained in the Device Master Record for the Product.

2.19 “Trademarks” shall mean the (i) U.S. and foreign marks set forth in Schedule 2.19 hereto; (ii) any unregistered trademarks used in connection with Products; and (iii) all copyrights or distinctive features of the packaging, including but not limited to trade dress, used in connection with the Products.

2.20 “Year 2000 Compliance” shall mean: (a) the Products perform in a consistent manner and functions without interruptions regardless of the date in time on which the Product is delivered, used and/or further distributed, whether before, on or after January 1, 2000 and whether or not the dates are affected by leap years;

(b) the Product, if computerized, accept, calculate, compare, sort, extract, sequence and otherwise process date inputs and date values, and return and display date values and perform, in a consistent manner regardless of the dates used, whether before, on or after January 1, 2000;

(c) the Product, if computerized, accept and respond to two-digit year-date input in a manner that resolves any ambiguities as to the century in a defined, predetermined and appropriate manner; and

(d) the Product, if computerized, store and display date information in ways that are unambiguous as to the determination of the century.

ARTICLE 3 - APPOINTMENT

3.1 **Distribution Rights**. Subject to the terms and conditions of this Agreement, and specifically to the terms and conditions of Sections 3.2 and 3.3 below, Neoprobe hereby appoints Ethicon, and Ethicon hereby accepts the appointment as Neoprobe’s exclusive distributor on a worldwide basis during the term of this Agreement and any extension thereof at the agreed upon Transfer Prices (as defined below).

*** Portions have been omitted and filed separately with the Securities and Exchange Commission pursuant to a request for confidential treatment.**

3.2 **Third Party Rights**. The granting to Ethicon by Neoprobe of the rights in Section 3.1 shall be on a country-by-country basis subject to Neoprobe's termination of distribution and similar rights granted to third parties by Neoprobe or its Affiliates ("Third Party Agreements"). Neoprobe represents and warrants that Schedule 3.2 accurately sets forth all countries where any such Third Party Agreement is in effect. Neoprobe represents and warrants that it has contractual rights which enable it to rightfully terminate such Third Party Agreements in accordance with the time lines set forth in Schedule 3.2 and covenants to take such actions and rightfully terminate all such Third Party Agreements as soon as practicable in a manner that would not prejudice the non-competition provisions imposed on such third parties therein and to deliver exclusive distribution rights pursuant to Section 3.1 to Ethicon on or before the dates set forth Schedule 3.2. Neoprobe agrees to indemnify and hold harmless Ethicon and its Affiliates and their respective officers, directors, employees and agents from and against any liability, loss, costs (including reasonable attorneys' fees), expenses or damages that are attributable to claims of third parties against Ethicon arising out of Neoprobe's efforts to terminate the rights of such third parties as contemplated by this Section 3.2. This obligation shall survive termination of this Agreement. Neoprobe agrees that upon the termination of each of the Third Party Agreements, the right to distribute the Products in the territories covered by such Third Party Agreement shall immediately be added to this Agreement and shall be subject to the terms and conditions set forth herein, at no additional license or other fee to Ethicon.

3.3 **Supply to Third Parties**. Neoprobe grants Ethicon the exclusive right to supply Products to all other distributors of Products or at Ethicon's request on a case by case basis, assign to Ethicon the underlying Third Party Agreement with such distributor if such distributor consents to such assignment. As used in this Section 3.3 the term "supply" shall mean, filling purchase orders (either to Neoprobe or directly to Ethicon), and shipping, invoicing, and collecting for such orders according to the applicable terms of the Third Party Agreements. Neoprobe agrees to forward any purchase orders for Products it receives to Ethicon promptly (but in any event within five (5) business days of receipt of the purchase order). Ethicon shall pay Neoprobe for Products shipped to such distributors in accordance with Section 5.2 herein. Ethicon's sales of Products to such distributors (except to Century Medical, Inc. in Japan) shall be included in the calculation of any average selling price and minimum purchase requirements ("MPRs") of a Product covered by this Agreement.

ARTICLE 4 - TERM

The initial term of this Agreement (the "Initial Term") shall commence on the Effective Date and shall continue until December 31, 2004 (the "Initial Term Date"), unless earlier terminated as expressly provided under the terms of this Agreement; **provided**, **however**, that Ethicon shall have the option (the "Option") of extending the term of this Agreement for two (2) subsequent two (2) year periods [*] (in Ethicon's sole reasonable judgment) than the immediately preceding Commercial Year. Neoprobe shall deliver to Ethicon written notice (the "Renewal Notice") setting forth the Initial Term Date not less than one (1) year nor more than one (1) year and thirty (30) days prior to such date or the date of the expiration of any such period of extension, as the case may be. In the event that Ethicon exercises the Option, it shall deliver to Neoprobe written notice thereof within ninety (90) days following its receipt of the Renewal Notice.

ARTICLE 5 - RESPONSIBILITIES OF THE PARTIES

5.1 **Supply of the Product**. During the term of this Agreement, Neoprobe shall manufacture and sell the Products and Improved Products exclusively to Ethicon in accordance with the Specifications, and shall not sell, supply or distribute any Products or Improved Products to any third party. Neoprobe shall supply Ethicon (and its Affiliates) with all of those quantities of Products as ordered by Ethicon (and its Affiliates) pursuant to this Agreement.

5.2 **Transfer Pricing**. The transfer price (the "Transfer Price") for each type of Product shipped by Neoprobe during the term of this Agreement shall be set forth on Schedule 5.2 hereto. The Transfer Prices set forth therein include all costs of packaging in accordance with the Specifications and all cost of delivery F.O.B. Neoprobe's manufacturing facility. Ethicon shall pay the Transfer Prices set forth in Schedule 5.2 for delivery of the Products within thirty (30) days from the date of invoice. The date of invoice shall not be earlier than the date of shipment. Ethicon agrees to purchase the demonstration units referenced in Notes 2 and 3 of Article 11 "Demonstration Units" of Schedule 5.2 hereto within thirty (30) days after the units have been returned to Neoprobe and refurbished to the reasonable satisfaction of Ethicon.

5.3 **Cost Reduction Programs**. Neoprobe hereby agrees that it shall use its best reasonable efforts to minimize the costs of manufacturing the Products to the extent it may do so without compromising the quality and/or regulatory status of the Products or compliance with the terms of this Agreement. Each Party will reasonably cooperate with the other Party in the pursuit of cost reduction programs in the manufacture of the Products. Each Party shall inform the other party of cost reduction initiatives related to the manufacture of Products within fourteen (14) days after cost reduction initiatives have begun. The resulting savings will initially be allocated to the Party that has incurred documented costs until such costs have been recovered. Thereafter, fifty percent (50%) of the savings shall be allocated to the Party which has initiated and funded the cost reduction program.

5.4 **Demonstration Unit Pricing**. During the term of this Agreement or any extension thereof, the Transfer Price for Products and fully functional demonstration units shall be as listed in Schedule 5.2.

5.5 **Risk of Loss**. Neoprobe shall ship Products, at Ethicon's cost, to any location chosen by Ethicon utilizing carriers chosen by Ethicon. The risk of loss with respect to the Products shall remain with Neoprobe until the Product is loaded aboard the common carrier at Neoprobe's manufacturing facility for a Product, or other location mutually agreed upon by both Parties. Neoprobe will pack the Product in a manner suitable for shipment to enable the Product to withstand the effects of reasonable shipping conditions, including handling during loading and unloading.

5.6 **Labeling and Sales Literature**. As of the Effective Date, Neoprobe has on hand, the labeling, inserts, sales literature or customer instructions for Products in the quantities and at the respective costs listed on Schedule 5.6. Existing inventories of all labeling, inserts, sales literature, or customer instructions for all Neoprobe Products shall be provided to Ethicon at Ethicon's request at Neoprobe's cost. Additional inventories will be provided to Ethicon at Ethicon's cost. Master art work for all labeling, inserts, sales literature or customers instructions shall be made available to Ethicon should additional quantities be produced by Ethicon or should changes be desired by Ethicon. Neoprobe will provide to Ethicon documented evidence of Neoprobe's internal copy clearance review and approval; and Ethicon shall have the right to review and accept master art work for all labeling, inserts, sales literature or customer instructions prior to production of such.

5.7 **Transfer Price and Forecasts for New Products**. Before a New Product the research and development of which is not funded by Ethicon ("Unfunded New Product") may be added to Schedule 2.15 and become a Product subject to the terms of this Agreement, the Parties must agree to a Provisional Transfer Price (as defined in Schedule 5.2) and to a forecast of Ethicon's expected purchases of such Unfunded New Product including a schedule of desired delivery dates for the following six (6) months, the first three (3) months of this forecast shall constitute a binding purchase order. Neoprobe shall be under no obligation to deliver and Ethicon shall be under no obligation to accept any Unfunded New Products until a Provisional Transfer Price and forecast is established for such New Product. If the Parties cannot agree upon a Provisional Transfer Price and forecast within ninety (90) days, Neoprobe shall be free to market and distribute the Unfunded New Product (a "Proposed Transaction") subject to a right of first refusal of Ethicon. Pursuant to Ethicon's right of first refusal, Neoprobe shall not consummate or agree to consummate a Proposed Transaction with any party without first giving prompt notice thereof to Ethicon in writing (the "Notice") specifying the pricing, terms, conditions and other material provisions of such Proposed Transaction. In the event that Ethicon elects to consummate a transaction upon the same pricing, terms, conditions and other material provisions as specified in the Notice, Ethicon shall have thirty (30) days to so notify Neoprobe and Neoprobe shall use all reasonable commercial efforts to facilitate the consummation of such a proposed transaction with Ethicon or its Affiliate within ninety (90) days following the receipt of such notification. In the event that Ethicon fails to elect to exercise this right of first refusal within the above mentioned thirty (30) day period, Neoprobe may enter into an agreement with the party identified in the Notice with respect to the Proposed Transaction on terms that are not less favorable to Neoprobe than the terms specified by Neoprobe in the Notice; **provided**, **however**, that in the event that (a) Neoprobe and the third party identified in the Notice are unable to consummate such an agreement within sixty (60) days or (b) the pricing, terms, conditions and other material provisions of the Proposed Transaction are modified to be materially less favorable to Neoprobe than were specified in the Notice, then Neoprobe shall be required pursuant to this Section 5.7 to give anew the requisite notice to Ethicon and comply with the right of first refusal set forth herein for an additional thirty (30) business day period following the receipt of such new notice.

5.8 **Minimum Purchase Requirements**.

(a) During each of the first three (3) Commercial Years, Ethicon shall purchase from Neoprobe the following minimum numbers of the neo2000 System and/or Products or New Products consisting of a Control Unit and Probe (Neoprobe shall provide accessories to support the aforementioned neo2000 Systems; however, no minimums will be established for these accessories):

Commercial Year	Minimum Purchase Requirement
First	400 neo2000 Systems, Products and/or New Products consisting of a Control Unit and Probe
Second	500 neo2000 Systems, Products and/or New Products consisting of a Control Unit and Probe
Third	600 neo2000 Systems, Products and/or New Products consisting of a Control Unit and Probe

As used in this Section 5.8, a **"**neo2000 System" consists of a model 2000 Control Unit and a reusable Probe. Subject to the provisions of Sections 3.2 and 3.3, to the extent that there is any delay in Ethicon's ability to exclusively distribute the neo2000 Systems worldwide on an exclusive basis in any market due to a breach of Neoprobe of any of its representations, warranties, covenants or obligations under this Agreement, the MPR for the Commercial Years set forth above shall be reduced with respect thereto on a pro rata basis based upon the number of days of the delay and the number of days in the applicable Commercial Year. Purchase orders for neo2000 Systems placed by Ethicon prior to the First Commercial Year shall count towards the MPR for the First Commercial Year. The MPRs set forth in this Section 5.8(a) shall be completely satisfied at such time as the purchases of neo2000 Systems by Ethicon exceed fifteen hundred (1,500) units in the aggregate at any time prior to or during the first three (3) Commercial Years during the term of this Agreement. Demonstration units purchased pursuant to Section 5.2 shall not count towards the MPRs.

(b) The MPR for a Product set forth in Section 5.8(a) is a "take or pay" obligation. In the event Ethicon does not meet its MPR for a Commercial Year as required by Section 5.8(a), Neoprobe shall notify Ethicon of the deficiency and Ethicon shall have forty-five (45) days to either place a purchase order for the neo2000 Systems and/or Products consisting of a Control Unit and Probe to make up the difference between actual purchases and the MPR or pay Neoprobe an amount equal to the Gross Profit on the amount of purchases necessary to satisfy such MPR.

5.9 **Ethicon Obligation to Commercially Exploit**. Neoprobe shall consider the MPRs of Section 5.8 above as complete satisfaction of any duty, whether express or implied, which could be imposed upon Ethicon to commercially exploit its rights under this Agreement and is accepted by Neoprobe in lieu of any best efforts obligation on the part of Ethicon.

5.10 **Reduction of Minimum Purchase Requirements**. The MPRs set forth under Section 5.8(a) above shall for any applicable Commercial Year be reduced in the following circumstances:

*** Portions have been omitted and filed separately with the Securities and Exchange Commission pursuant to a request for confidential treatment.**

(a) If Neoprobe fails for any reason other than a Major Forces event under Section 17.6 below to deliver the Products to Ethicon in accordance with the terms of this Agreement, or replace Products which are defective under Section 11.1 below, then the MPRs shall be reduced by an amount equal to one and one-half (1 ½) times the number of Products not delivered or replaced.

(b) If any Products is voluntarily or involuntarily recalled from the market or withdrawn from sale because of a lack of governmental approvals or for reason of safety, efficacy or quality, or if a Major Forces event under Section 17.6 occurs, then the MPRs for the Products shall be waived until a period of six (6) months shall have elapsed after either market re-entry or the Major Forces event is removed, whichever is applicable, and shall then be proportionately reduced.

(c) If this Agreement is terminated pursuant to Articles 12 or 14 below during any applicable Commercial Year, then the MPRs for all Products shall be proportionately reduced for such Commercial Year, and Ethicon shall be relieved of MPRs for all Products thereafter.

5.11 **Forecasts**. Within thirty (30) days of the Effective Date, Ethicon shall provide Neoprobe with a forecast of its expected purchases of the Products, including a schedule of desired delivery dates, for the following six (6) months, and the first four (4) months of this forecast shall constitute a binding purchase order. Thereafter, Ethicon shall (a) update the forecasts monthly so that its expected purchases and schedule of desired delivery dates are continually forecast for a six (6) month time period, the first four (4) months of such rolling forecasts constituting a binding purchase order and (b) provide a report of actual monthly Product sales.

5.12 **Adjustment of Forecasts**. Ethicon may adjust the total number of Products to be delivered pursuant to Section 5.11 above upon sixty (60) days written notice, provided however, that any such adjustment shall not serve to reduce Ethicon's obligation to purchase the total number of Product indicated in the binding purchase order. In any given month, if Ethicon wants Neoprobe to deliver more than [*] of the total number of the Products indicated in the binding purchase order, then Neoprobe shall not be obligated to supply the excess above [*], but Neoprobe shall nevertheless use its best reasonable efforts to deliver to Ethicon any such excess above one hundred twenty percent (120%) on a priority basis.

5.13 **Delivery**. Neoprobe shall deliver the Products to Ethicon in accordance with the schedule of delivery dates specified in the binding purchase orders set forth in Section 5.11 above.

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5.14 **Provision of Information**. No later than seven (7) days after the execution of the Agreement and provided that Neoprobe has such information in its possession or has a legal or contractual right to access to such information, Neoprobe agrees to provide Ethicon with documentation setting forth a complete list of all current Neoprobe customers and potential customer leads (including, but not limited to, outstanding leads and quotations from terminated distributors). Included in this documentation will be customer names, location, Products purchased, date of Product purchase, Product service history, and specific contact information in the case of customer leads.

5.15 **Product Changes**. Neoprobe shall not change the form, fit, function, components or materials of any of the Products (or any change or modification to the Specifications), the process by which the Products are manufactured or the Raw Materials, without the prior written consent of Ethicon, such consent not to be unreasonably withheld. Neoprobe shall provide Ethicon notice of all other changes at least fourteen (14) days prior to making any such changes. If the Parties agree on any such change, improvement or modification, they shall modify the Specifications to reflect the same. Ethicon shall have the right to review and amend any qualification protocol(s) initiated by Neoprobe prior to the execution of such protocol(s), and shall have the right to review and agree upon the subsequent results of the protocol prior to releasing change into production. In the event of any change, Ethicon and Neoprobe may jointly establish an appropriate qualification protocol, and Ethicon and Neoprobe shall determine an appropriate inventory level for the pre-change Product in order to cover on-going requirements during the qualification process.

5.16 **Purchase of Neoprobe 1500 Units**. Ethicon agrees to purchase existing inventories of Neoprobe 1500 Control Units each accompanied by a 14mm reusable Probe, noise adjustment fixture, battery charger, cord set, carrying case, operation manual, detector probe cable and Probe collimator ("Neoprobe 1500 Systems") up to a maximum unit quantity of fifty (50) Neoprobe 1500 Systems respectively, **provided that**, Ethicon has received all prior agreed upon inventory stocking and sales Demonstration Units orders for the neo2000 System. The agreed upon cost to Ethicon for a Neoprobe 1500 System cost is $5,881.00 or less. In the event the Neoprobe 1500 Systems are sold to Ethicon customers, Ethicon agrees to rebate to Neoprobe the appropriate gross margin on the sale of these Units in accordance with the agreed upon Transfer Prices outlined for neo2000 Systems as referenced in Schedule 5.2, **provided that**, any Neoprobe 1500 Systems sold will be credited against the MPRs for that Calendar Year accordingly.

5.17 **Sales of Product**. All [*] distributed under this Agreement, shall be within the sole discretion of [*].

5.18 **Neoprobe Sales and Marketing [*]**. Neoprobe shall [*] for Neoprobe's sales and marketing organization (the "Sales and Marketing Organization") which include, but is not limited to, Neoprobe employees and programs, consulting agreements, etc. as referenced heretofore in Schedule 5.18 for a [*] from the Effective Date. [*] at its sole discretion, may continue the [*] directly or indirectly of these Sales and Marketing Organization activities.

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5.19 **Training Assistance**. Neoprobe shall provide Ethicon with all information in its possession reasonably necessary or appropriate to enable Ethicon to market the Products, and Neoprobe agrees further to consult with and advise Ethicon in such matters, including without limitation, the preparation of promotional, advertising and sales materials and presentations.
Provided that it has the personnel on staff and subject to the availability of the Sales and Marketing Organization, Neoprobe shall provide reasonable sales training to Ethicon and its Affiliates at reasonable locations selected by Ethicon (travel expenses to be paid by Ethicon) and consented to by Neoprobe, such consent not to be unreasonably withheld. Thereafter Neoprobe will provide similar sales training from time to time in connection with any Products that become available at times and locations reasonably selected by Ethicon and consented to by Neoprobe, such consent not to be unreasonably withheld.

5.20 [*] **Program**. The Parties agree to develop and negotiate the terms for an [*] and to implement such [*] within [*] after the Parties complete their marketing and customer assessments. The revenues for such program will be shared according to the gross revenues, less the selling [*], as agreed to for Transfer Pricing of Products in Schedule 5.2.

5.21 **[*] Expenses**. Ethicon will fund the costs related to the [*] pursuant to Section 11.1 and the [*] Program only with respect to Products sold by [*] to its customers but not to the third party distributors listed on Schedule 3.2 up to a limit of [*] of Products of the immediately preceding Commercial Year sold by [*] but not to the [*]. Net sales shall mean the revenue received by [*] from the sale of the Products to an independent third party less the following amounts: (i) discounts, including cash discounts, or rebates actually allowed or granted; (ii) credits or allowances actually granted upon claims or returns, regardless of the party requesting the return; (iii) freight charges paid for customer delivery; and (iv) taxes or other governmental charges levied on or measured by the invoiced amount whether absorbed by the billing or billed party.

5.22 **Disposition of Defective Product**. Without prejudice to any other remedy which Ethicon may have, Neoprobe shall replace at its own cost and expense, including reimbursement of freight and disposition costs incurred by Ethicon, Products that fail to comply with the Specifications or other warranties made in Article 11. Ethicon shall notify Neoprobe of the existence and nature of any non-compliance or defect which comes to its attention and Neoprobe shall have a reasonable opportunity, [*], to inspect such defective Product and provide Ethicon with detailed written instructions to return or dispose of such defective Product. Ethicon shall [*]. If Neoprobe fails to so inspect and instruct Ethicon as to the disposition of such defective Product, Ethicon may dispose of such defective Product as it sees fit and Neoprobe shall promptly (i) reimburse Ethicon for all direct, out-of-pocket costs incurred by Ethicon in respect of such disposition, and (ii) replace such defective Product at its own cost and expense.

5.23 **Independent Testing**. If, after Neoprobe's inspections of any Product, the parties disagree as to whether such Product conforms to the Specifications and other warranties made in Article 11 or whether the Product has such a defect, either party may deliver the item to an independent third-party laboratory, mutually and reasonably acceptable to both parties, for analytical testing to confirm such item's conformance to the Specifications and other warranties made in Article 11 or the presence or absence of defects. All costs associated with such third-party testing shall be at Ethicon's expense unless the tested item is deemed by such third-party to be defective or not in compliance with the Specifications and other warranties made in Article 11, in which case all such costs, including reimbursement of freight and disposition costs, shall be promptly paid by Neoprobe. No inspection or testing of or payment for Product by Ethicon or any third-party agent of Ethicon shall constitute acceptance by Ethicon thereof, nor shall any such inspection or testing be in lieu or substitution of any obligation of Neoprobe for testing, inspection and quality control as provided in the Specifications and other warranties made in Article 11 or under applicable local, state, or federal laws, rules, regulations, standards, codes or statutes.

5.24 **Transfer Price Reporting**.

(a) Ethicon shall, within ninety (90) days from the end of December 31 of each calendar year during the term of this Agreement, deliver to Neoprobe a report of the actual Transfer Price for the Initial Period (as defined in Schedule 5.2) or the preceding Commercial Year, including a schedule calculating the actual Transfer Price. Ethicon shall keep for a period of at least three (3) years after the date of entry, accurate books and records reasonably necessary to verify the accuracy of the information used to establish the actual Transfer Price as described in Schedule 5.2.

(b) Neoprobe shall have the right after thirty (30) days advance written notice to Ethicon, to appoint an independent certified accountant at its own expense, acceptable and approved by Ethicon (which approval shall not be unreasonably withheld) who shall have access to Ethicon's records during reasonable business hours for the sole purpose of verifying the accuracy of the calculation of the Transfer Prices for the Products for a period not more than the previous four (4) calendar quarters, but this right may not be exercised more than once in any calendar year. Ethicon shall be entitled to withhold approval of an accountant which Neoprobe nominates unless the accountant duly executes a confidentiality agreement with Ethicon which shall obligate such accountant to keep the information it receives from Ethicon in confidence.

(c) Unless otherwise agreed to by the Parties, if as a result of the audit performed pursuant to Section 5.24(b), the independent certified accountant determines that Ethicon has under-reported any information (e.g., the information used to calculate Net Selling Price) used to calculate the Transfer Price for a Product and as a result Neoprobe has received less than it should have under the Agreement, Ethicon shall, no later than forty-five (45) business days after receiving notice of such underpayment, remit to Neoprobe the amount of the underpayment. If as a result of the audit performed pursuant to Section 5.24(b), the independent certified accountant determines that Ethicon has over-reported any information (e.g., the information used to calculate Net Selling Price) used to calculate the Transfer Price for a Product and as a result Neoprobe has received more than it should have under the Agreement, Neoprobe shall, no later than forty-five (45) business days after receiving notice of such overpayment, remit to Ethicon the amount of the overpayment less the reasonable fees of the independent

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certified accountant, but in no case shall Ethicon be required to remit any amount to Neoprobe if the fees of the independent certified accountant exceed the amount of the Ethicon overpayment.

(d) If as a result of an audit performed pursuant to Section 5.24(b), it is determined by the independent certified accountant that Ethicon has underpaid any payment due to Neoprobe by more than [*], in addition to remitting the amount of the underpayment as described in Section 5.24(c), Ethicon shall pay Neoprobe interest on such amount at the rate per annum of "prime" (interest changing as and when the "prime" changes); such interest being payable on demand. As used herein, the term "prime" refers to the prime rate of interest per annum announced, from time to time, by major money center banks in the United States and as published daily in **The Wall Street Journal**; provided, however, that if **The Wall Street Journal** should ever cease, for any reason, to publish such rate on a daily basis, then the prime rate shall be at the rate of interest designated and in effect from time to time, by Citibank, N.A., in New York, New York as its prime rate.

(e) In the event the audit conducted pursuant to Section 5.24(b) reveals an inaccuracy in the information reported to Neoprobe which results in an underpayment by Ethicon and if Ethicon disagrees with the results of such audit and further in the event the parties can not resolve such disagreement, the Parties shall mutually choose an independent accountant acceptable to both to conduct a second audit. The Parties agree to be bound by the results of the second independent audit. The cost of an audit conducted pursuant to this Section 5.24(e) shall be borne by Neoprobe if the independent accountant finds no underpayment and by Ethicon if an underpayment is found.

5.25 **14mm Probe Accessory Marketing Implementation Program**. Neoprobe agrees to implement the 14mm Probe accessory program attached hereto as Schedule 5.25 in accordance with the deadlines set forth therein.

5.26 **PIM**. (a) Neoprobe shall, at its sole expense, develop and release an external Probe Isolation Module ("EPIM") and associated labeling and end-user communications subject to the provisions of Sections 5.15 and 8.12. Neoprobe agrees to use its best efforts to obtain all necessary market clearances from appropriate regulatory authorities as soon as practicable and to replace and in-service all 14mm reusable adaptor cables (model #2007) currently in distribution with the EPIM in countries where there are Third Party Agreements in effect within sixty (60) days thereof. Neoprobe agrees to use its best efforts to obtain all necessary market clearances from appropriate regulatory authorities as soon as practicable and to provide Ethicon with sufficient quantities of the EPIM to replace all 14mm reusable adaptor cables (model #2007) currently in distribution in the U.S. by January 15, 2000 and outside the U.S. by February 14, 2000.

(b) Neoprobe agrees to use its best efforts to provide EPIM's to Ethicon for all sales and training demonstration units in Ethicon's possession at cost to Ethicon by January 15, 2000.

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(c) Neoprobe shall use its best efforts to provide EPIM's for all finished goods and work-in-progress neo2000 Systems at Neoprobe warehousing facilities by January 15, 2000.

(d) Neoprobe, at its sole expense, shall use its best efforts to develop and release an internal Probe Isolation Module ("IPIM"), by March 15, 2000 compatible with all Probe Products.

(e) Neoprobe agrees to review all designs and modifications to the control unit, Probes and accessories during design and manufacturing phases of the EPIM and IPIM with Ethicon in accordance to Section 5.15.

5.27 Should Ethicon develop and sell an instrument or device (a "Competing Ethicon Product") which is a direct clinical replacement of a Product, Ethicon shall agree to provide Neoprobe financial consideration of [*] of Net Sales of the Competing Ethicon Product during the term of this Agreement.

ARTICLE 6 - PRODUCT IMPROVEMENTS AND RESEARCH AND DEVELOPMENT

6.1 **Research & Development Payments**. Ethicon agrees to fund at the end of each calendar quarter during the first three (3) years of the Agreement, a total of one hundred twenty-five thousand dollars ($125,000.00) per calendar quarter for the four (4) technical research and development personnel in the job positions listed on Schedule 6.1 hereto, provided that, (a) Neoprobe retains the identified research and development personnel or persons in Ethicon's reasonable judgment adequately skilled and trained personnel to fill the job positions listed on Schedule 6.1 ("R&D Personnel") to the entire calendar quarter; (b) the R&D Personnel are utilized at Ethicon's sole discretion for continued Product support and (c) the R&D Personnel are available to support to Ethicon identified and funded R&D programs. The one hundred twenty-five thousand dollars ($125,000.00) per calendar quarter as stated above shall be prorated in the event that less than four (4) individuals are available. The four hundred thousand dollars ($400,000.00) paid in consideration for the Standstill and Rights Agreement shall be credited against the research and development payments with any excess promptly returned to Ethicon within ten (10) days if no further research and development payments are to be made pursuant to this Section 6.1. A copy of the retention programs for the R&D Personnel shall be provided to Ethicon prior to the Effective Date.

6.2 **Improved Product and Ethicon [*] New Products**. With respect to Improved Products and New Products the research and development [*], once the Parties agree to a Provisional Transfer Price and to a forecast of [*] of the Improved Product or [*] including a schedule of desired delivery dates for the following six (6) months, the first three (3) months of this forecast shall constitute a binding purchase order for such Improved Product [*], such Improved Product [*] shall be added to the Agreement and shall become a Product within the meaning of Section 2.15.

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6.3 **Existing [*] R&D Programs**. Within, [*] days after the Effective Date, [*] agrees to review existing [*] research and development programs as described in Schedule 6.3 (the "R&D Programs.") and in its sole discretion, agree to fund any or none of the R&D Programs in addition to the research and development payments made pursuant to Section 6.1. [*] shall have sixty (60) days to make its determination and to inform [*] of the result. The Parties agree to negotiate in good faith within [*] days from the Effective Date an agreement setting forth: (i) development work plan(s) for the R&D Programs (ii) the transfer pricing for such any products resulting from the funded R&D Programs and (iii) ownership of intellectual property developed under such programs. In no event shall the [*] products developed under such R&D [*] set forth in Schedule 5.2.

6.4 **Ethicon Identified Research Programs**. Ethicon may request that Neoprobe conduct certain R&D activities on behalf of Ethicon ("Ethicon Identified R&D"). In the event that Ethicon requests that Neoprobe conduct such Ethicon Identified R&D, Ethicon and Neoprobe shall, in good faith, negotiate an agreement setting forth: a) responsibility for costs associated with such Ethicon Identified R&D; b) ownership of designs, prototypes, or intellectual property; and (c) royalties, if any, payable to Neoprobe on instruments developed under such Ethicon Identified R&D and sold by Ethicon.

6.5 **Reports**. Upon Ethicon's written request, but no more than once per month, Neoprobe shall promptly provide Ethicon written research and development progress reports and activity reports relating to Products and Improved Products that are identified in the Specifications or Schedule 6.3.

ARTICLE 7 - REPRESENTATIONS AND WARRANTIES

7.1 **Execution and Performance of Agreement**. Neoprobe and Ethicon each represents and warrants to the other that it has full right, power and authority to enter into and perform its respective obligations under this Agreement. Neoprobe and Ethicon each further represents and warrants to the other that the performance of its obligations under this Agreement will not result in a violation or breach of, and will not conflict with or constitute a default under any agreement, contract, commitment or obligation to which such Party or any of its Affiliates is a party or by which it is bound or infringe upon the rights of any third party and that it has not granted and will not grant during the term of this Agreement or any renewal thereof, any conflicting rights, license, consent or privilege with respect to the rights granted herein.

7.2 **Intellectual Property**. Neoprobe represents and warrants to Ethicon that (a) Neoprobe owns all of the rights, title and interest in and to the Patents, Neoprobe Trademarks, Know-How and all other intellectual property that appear on or are otherwise used in connection with the Products; (b) no academic institution, member of an academic institution, corporation or other entity, or any local, state or federal government holds any property rights through it in any Product; (c) Neoprobe is able to consummate this Agreement in the capacity of a free agent; (d) the manufacture, use and sale of the Products in accordance with the terms of this Agreement does not present any issue of infringement of Neoprobe's or any third party's rights under any issued patent or license; (e) it has no outstanding encumbrances or agreements, whether written, oral or implied, which would be inconsistent with the licenses granted herein; (f) the use of the Neoprobe Trademarks by Ethicon hereunder does not and will not infringe the rights of any third party; and (g) Neoprobe is presently aware of no infringement or dispute by any third party of any Neoprobe Patent or any Neoprobe Trademark.

7.3 **Year 2000 Compliance**. Neoprobe hereby represents and warrants to Ethicon that:

(a) it is able to demonstrate Year 2000 Compliance in full production versions of the Products and all of its services related to its performance hereunder, with accompanying documentation;

(b) Neoprobe's information systems and other business systems for estimates, performance schedules, orders, confirmations, manufacture and delivery, invoicing, crediting of payments and other business operations are able to accept and properly process input for dates before, on or after January 1, 2000; and

(c) Neoprobe is now planning and taking action to implement and will continue to implement, in a commercially reasonable manner, any and all measures to continue to perform its obligations under this Agreement with respect to Year 2000 Compliance strictly according to its terms and otherwise to meet the needs of its relationship with Ethicon;

(d) Neoprobe will promptly provide to Ethicon, in response to Ethicon's periodic requests for updates, information concerning its Year 2000 Compliance program to the extent it affects performance of this Agreement and might impair its performance hereunder.

7.4 Neoprobe expressly represents and warrants that a) it owns all of the right, title and interest in and to the Products listed on Schedule 2.15 as of the Effective Date; b) it is empowered to supply the Products to Ethicon; c) it has no outstanding encumbrances or agreements, contracts, understandings or arrangements of any kind pursuant to which any entity may purchase from Neoprobe, or has the right to sell or market, the Product or any component of such Product except for the Third Party Agreements; e) it is empowered to grant Ethicon licenses of the scope set forth in Articles 12, 13 and 14 below and f) it has the financial capacity to supply the Product to Ethicon in view of the terms and conditions set forth in this Agreement.

ARTICLE 8 - REGULATORY COMPLIANCE AND QUALITY ASSURANCE

8.1 **Inspections**. Ethicon shall have the right, upon reasonable notice to Neoprobe and during regular business hours, to inspect and audit manufacturing processes and procedures, quality assurance/control processes and procedures, inventory, work-in-process, Quality System Regulations ("QSRs") records in the countries where any Product is marketed, Raw Materials and the facilities being used by Neoprobe (or any third party) for production and storage of Products to assure compliance by Neoprobe (and its suppliers) with (a) all applicable statutes, laws and regulatory requirements and standards, including, without limitation, QSRs enforced by the United States Food and Drug Administration (the "FDA"), (b) Ethicon Endo-Surgery, Inc. Quality Assurance Requirements, (c) the terms and provisions of this Agreement. To the extent it has the right to do so, Neoprobe agrees to give Ethicon access during normal working hours to such records as are reasonably necessary to enable Ethicon to conduct its audit, including quality control records, test records, Device History Record and Device Master Records. Ethicon's right of access to Neoprobe (or its agent's) Confidential Information shall be restricted to those matters necessary to verify the compliance of Neoprobe (or its agents) with (a) all applicable statutes, laws and regulatory requirements and standards, including, without limitation, QSRs enforced by the FDA, (b) Ethicon Endo-Surgery, Inc. Quality Assurance Requirements, (c) the terms and provisions of this Agreement. Ethicon personnel exercising this right of inspection shall comply with applicable rules and regulations in place at the manufacturing facility when such personnel or representatives are made aware of such rules and regulations.

8.2 **Results of Ethicon's Audit**. Ethicon shall promptly (no more than ten (10) business days after conclusion of any audit conducted pursuant to Section 8.1) share the results of the audit with Neoprobe. If Ethicon believes that a deficiency exists, it shall inform Neoprobe and Neoprobe shall within ten (10) business days remedy or cause the remedy of any deficiencies that were noted in such audit, or if any such deficiency can not reasonably be remedied within ten (10) business days, present to Ethicon a written plan to remedy such deficiencies as soon as possible. Failure by Neoprobe to remedy or cause the remedy of a deficiency in the agreed upon time period shall be deemed a material breach of this Agreement; provided however, that if in Neoprobe's reasonable judgement it disagrees with Ethicon's conclusion that a deficiency exists and if the Parties continue to disagree after reasonable discussion, Neoprobe shall have the right to have an independent regulatory expert conduct the same audit as Ethicon. If the independent expert agrees with Neoprobe that no deficiency exists, Ethicon shall bear the cost of such audit. If the independent expert agrees with Ethicon's assessment, Neoprobe shall bear the cost of the independent expert and shall correct all deficiencies as provided in this Section 8.2. Neoprobe acknowledges that the provisions of this Article Eight granting Ethicon certain audit rights shall in no way relieve Neoprobe of any of its obligations under this Agreement, nor shall such provisions require Ethicon to conduct any such audits.

8.3 **510(k) Clearance**. Neoprobe represents and warrants that it has obtained 510(k) to the extent it is required to do so clearance from the FDA to manufacture and sell the Products; and that the submissions which Neoprobe made to the FDA were made in good faith and contained accurate and complete data and information regarding the Product as required by applicable laws, rules and regulations. Neoprobe shall maintain for the term of this Agreement or any extension thereof all 510(k) clearances for the Products. Furthermore, Neoprobe shall file, and maintain at its own cost for the Products listed on Schedule 2.15 as of the Effective Date, all appropriate registrations with the FDA and similar regulatory authorities in the United States and in foreign countries which have the authority to approve the sale of the Product for use in humans. Neoprobe shall review all Product changes agreed to pursuant to Section 5.15 for regulatory impact in the United States and other countries where any Product is marketed, and shall provide Ethicon with copies of all regulatory impact review documentation.

8.4 **Regulatory Compliance**. Neoprobe represents and warrants that all Products sold or delivered to Ethicon during the term of this Agreement or any extension thereof shall be manufactured and delivered in accordance with Regulatory Compliance, and that continually during the term of this Agreement or any extension thereof no Products delivered by Neoprobe to Ethicon will be adulterated or misbranded at the time of delivery within the meaning of the Federal Food, Drug and Cosmetic Act. Neoprobe shall notify Ethicon in accordance with Section 8.8 below after receiving notice of any claim or action by the FDA relating to non-compliance with this Article or any notice with respect to any violation of any applicable laws, rules or regulations. In addition, Neoprobe shall notify Ethicon of any adverse reaction, malfunction, injury or other similar claims with respect to the Products of which it becomes aware in accordance with Section 8.8 below.

8.5 **Regulatory Inspections**. Neoprobe shall notify Ethicon of any FDA inspection, or any inspection from any other regulatory body, of the facilities for the manufacture of the Products, or any request for information from the FDA or other regulatory body related to the manufacture of the Products, as soon as practically possible after Neoprobe becomes aware of such inspection or such request.

8.6 **Recalls**. Upon mutual consent of the Parties, which consent may not be unreasonably withheld, or in the case of a recall required by an agency with competent jurisdiction, Neoprobe shall be required to institute and fund any recall, field corrective action, or the like in circumstances relating to a breach by Neoprobe of the warranty set forth in Article 11 below or other breach of its representations, warranties, guarantees, covenants or other obligations hereunder. In such circumstances, the actual retrieval of the Products and costs associated with that retrieval shall be undertaken and absorbed by Neoprobe. The Parties shall maintain adequate records concerning traceability of the Products, and shall cooperate with each other in the event that any procedures described in this paragraph are undertaken. In the event of any such recall, Neoprobe shall accept recalled Products and deliver to Ethicon replacement Products at Neoprobe's sole cost and expense.

8.7 **Cooperation**. Because regulatory requirements vary throughout the world, the Parties agree to cooperate with one another to obtain regulatory approvals.

8.8 **Adverse Experiences and Product Complaints**. Each Party shall notify the other within three (3) business days of any serious and life-threatening adverse experiences related to the Product of which it becomes aware. Each Party shall notify the other within ten (10) business days of any other adverse experiences related to a Product of which it becomes aware. Neoprobe shall be responsible for all reporting to the FDA and all other regulatory bodies where any Product is marketed. Neoprobe shall provide Ethicon with a copy of the quarterly adverse experience reports for the Products, or any other reportable events, which Neoprobe is required by the Act to submit to the FDA or any other regulatory requirements in countries where any Product is marketed, within three (3) business days of its submission. Each Party shall notify the other of any serious complaints relating to the Products which it receives within thirty (30) days of becoming aware of such complaint.

8.9 **Corrective Action**. In the event any governmental agency having jurisdiction shall request or order, or if Ethicon shall determine to undertake, any corrective action with respect to any Product, including any recall, corrective action or market action, and the cause or basis of such recall or action is attributable to a breach by Neoprobe of any of its warranties, guarantees, representations, obligations or covenants contained herein, then Neoprobe shall be liable, and shall reimburse Ethicon for the reasonable costs of such action including the cost of any Product which is so recalled whether or not any such specific unit of Product shall be established to be in breach of any warranty by Neoprobe hereunder.

8.10 **Provision of Information**. Upon Ethicon's request, Neoprobe shall provide Ethicon with access to the following information at no cost to Ethicon:

(a) necessary data, descriptions, processes, photographs and statements of claims for safety, efficacy or performance;

(b) technical data to allow Ethicon to prepare up-to-date customer instruction for the Products;

(c) the Device Master Records for the Products and the Device History Records for the Products, as defined in 21 Code of Federal Regulations §800, for the Products and components thereof; and

(d) copies of all U.S. and foreign regulatory submissions, including the 510(k) submission, for the Products.

8.11 **Provision of Support**. Neoprobe shall provide Ethicon with the following support at no cost to Ethicon:

a) claim support for any claims, indications, or other representations included in any labeling, inserts, sales literature or customer instruction prepared by Neoprobe relating to the Products (it is understood and agreed that in the event Ethicon reasonably disagrees with any such claims, indications, or other representations, Neoprobe shall modify the same in the manner agreeable to both Parties; and

b) prompt review and approval, as appropriate, of all training materials and sales and promotional literature developed by Ethicon relating to the Products (it being understood and agreed that no such review shall relieve Neoprobe of responsibility for the accuracy of such materials).

c) Neoprobe agrees to promptly obtain and maintain CE marking for all Products, **provided however**, it is the obligation of Ethicon, at its expense, to obtain other regulatory approvals necessary for distributors to market the Products in a specific country. Neoprobe agrees to support Ethicon in obtaining such regulatory approvals, including but not limited to, by providing any necessary documentation within Neoprobe's control.

8.12 **Labeling and Sales Literature**. Neoprobe shall be responsible for the appearance, text and regulatory compliance of all Neoprobe originated package labeling used in connection with the Products. Any labeling, inserts, sales literature, or customer instruction prepared by Ethicon relating to the Product is subject to written approval by Neoprobe, which approval shall not be unreasonably withheld (it being understood and agreed that no such review shall relieve Neoprobe of responsibility for the accuracy of such materials).

ARTICLE 9 - INDEMNIFICATION

9.1 **Indemnification by Neoprobe**. Neoprobe shall indemnify and hold harmless Ethicon and its Affiliates and their respective officers, directors and employees from and against any and all damages, liabilities, claims, costs, charges, judgments and expenses (including interest, penalties and reasonable attorneys' fees) (collectively "Damages") incurred by such party that (i) arise as the result of Neoprobe's breach of this Agreement or of any obligation, covenant, warranty or representation made to Ethicon under this Agreement; or, (ii) which result from any claim made against Ethicon in connection with Neoprobe's sale of defective Product; or (iii) which result from the negligent acts or willful malfeasance on the part of Neoprobe or Neoprobe's employees or agents in connection with Neoprobe's registration or other activities or actions in connection with the Product; (iv) which result from Ethicon's use of promotional materials, provided by Neoprobe, so long as Ethicon's use is in accordance with the Agreement; or (v) which result from any claim of patent or trademark infringement made against Ethicon by a third party which arises as a consequence of Ethicon's promotion of the Product.

9.2 **Neoprobe Insurance**. Neoprobe shall obtain and maintain in full force and effect valid and collectible product liability insurance in respect of the Products for death, illness, bodily injury and property damage in an amount not less than $10 million per occurrence. Such policy shall name Ethicon as an insured or an additional insured thereunder and Neoprobe shall grant like coverage to Ethicon under a standard broad form vendor's endorsement thereto. Neoprobe shall within ten (10) days of the Effective Date provide Ethicon with evidence of this coverage, provided that the existence of such coverage shall in no way limit Neoprobe's liability or obligations hereunder. Such insurance policy shall provide that in the event such insurance coverage should be materially adversely changed or terminated for any reason, the insurer thereunder will give Neoprobe and Ethicon ten (10) days prior notice of such change or termination.

9.3 **Indemnification by Ethicon**. Ethicon shall indemnify and hold harmless Neoprobe and its Affiliates and their respective officers, directors and employees from and against any and all Damages incurred by such party which: (i) arise out of Ethicon's breach of this Agreement or of any obligation, covenant, warranty or representation made to Neoprobe under this Agreement; or, (ii) result from the negligent acts or willful malfeasance on the part of Ethicon or its employees or agents, in promoting the Product in a manner inconsistent with the Product's labeling.

9.4 **Claims**. (a) A Party (hereinafter referred to as the "Indemnifying Party") indemnifying another party or parties (hereinafter referred to as the "Indemnified Party"), pursuant to this Agreement, shall indemnify and hold the Indemnified Party harmless against any and all actions, suits, proceedings, demands, claims, assessments, costs, judgments, legal and other expenses incidental to any of the foregoing (hereinafter referred to as a "Claim"). In the event a Claim is made upon the Indemnified Party, the Indemnified Party shall promptly give notice of such Claim to the Indemnifying Party, and shall promptly deliver to such Indemnifying Party all information and written material available to the Indemnified Party relating to such Claim. If such Claim is first made upon the Indemnifying Party, the Indemnifying Party shall promptly give notice of such Claim to the Indemnified Party.

(b) The Indemnified Party will, if notified of the Indemnifying Party's election to do so within fifteen (15) days of the date of notice of a Claim, permit the Indemnifying Party to defend in the name of the Indemnified Party any Claim in any appropriate administrative or judicial proceedings and take whatever actions may be reasonably requested of the Indemnified Party to permit the Indemnifying Party to make such defense and obtain an adjudication of such Claim on the merits, including the signing of pleadings and other documents, if necessary; provided that the Indemnifying Party shall defend the Claim with counsel reasonably satisfactory to the Indemnified Party and provide the Indemnified Party with evidence reasonably satisfactory to the Indemnified Party that the Indemnifying Party can satisfy the Claim if it is upheld. In addition to the liability for the ultimate settlement or judgment, if any, arising out of such Claim under this Agreement, the Indemnifying Party shall be solely responsible for all the expenses incurred in connection with such defense or proceedings, regardless of their outcome. However, the Indemnifying Party shall not be responsible for any expenses, including attorneys fees and costs, incurred by the Indemnified Party to monitor the defense of the Claim by the Indemnifying Party.

(c) In the event the Indemnifying Party does not accept the defense of such Claim under the terms hereof, the Indemnified Party shall be entitled to conduct such defense and settle or compromise such Claim, and the Indemnifying Party's indemnification obligation under this Agreement shall be absolute, regardless of the outcome of such Claim. The Indemnified Party, at its option, may elect not to permit the Indemnifying Party to control the defense against a Claim. If the Indemnified Party so elects, then the Indemnifying Party shall not be obligated to indemnify the Indemnified Party against any settlements, judgments or other costs or obligations arising thereunder which the Indemnified Party may make or incur relating to such Claim.

ARTICLE 10 - COVENANTS

10.1 During the term of this Agreement and any extension thereof, Neoprobe shall not enter into any agreements, contracts, understandings or arrangements with any person other than Ethicon relating to the distribution or licensing of the Product or Improved Products during the term of this Agreement or any extension thereof.

10.2 Within thirty (30) days from the Effective Date, Neoprobe shall place with an escrow agent mutually agreed upon by Neoprobe and Ethicon and as described in Schedule 10.2 hereto, a description of Neoprobe's process for the manufacture of the Products and Improved Products in sufficiently clear and detailed terms that it can be readily followed and carried out by a trained scientist or engineer to make the Products and Improved Products in the manner Neoprobe considers most efficient ("Escrowed Process"). Furthermore, should Neoprobe alter, modify or change its process for manufacturing the Products and Improved Products, Neoprobe shall amend the description in escrow to include such alteration, modification or change. Pursuant to the exercise of its rights and licenses under its Secondary License as set forth in Section 13.1 below, Ethicon shall have the right, at any time, and without Neoprobes's consent, to access the Escrowed Process and the escrow agent is hereby directed to release such material to Ethicon and its Affiliates upon receiving a written request from Ethicon. Ethicon agrees not to exercise its rights to access the Escrowed Process except in connection with the exercise of its rights under its Secondary License and any such exercise shall be a material breach of the terms of this Agreement.

*** Portions have been omitted and filed separately with the Securities and Exchange Commission pursuant to a request for confidential treatment.**

ARTICLE 11 - WARRANTY

11.1 **Warranty**. Neoprobe warrants during the warranty period set forth under Section 11.2 below that all Products delivered to Ethicon under this Agreement shall be manufactured in accordance and conformity with the Specifications and in compliance with this Agreement, and that the Product so delivered shall be of merchantable quality, free from defects in design, construction, materials and workmanship. Neoprobe warrants that it shall comply with all present and future statutes, laws, ordinances and regulations relating to the manufacture, assembly and supply of the Product, including, without limitation, those enforced by the FDA (including compliance with QSRs) and International Standards Organization Rules 9,000 et seq. Ethicon shall be entitled during the warranty period to return to Neoprobe for exchange or full credit at Ethicon's original cost, including incurred freight and insurance costs, any Products returned by a customer of Ethicon for defects in design, construction, materials or workmanship. Any inspection by Ethicon shall not relieve Neoprobe of its obligation to manufacture Products which meet the Specifications and comply with good manufacturing practices.

11.2 **Warranty Period**. The initial warranty period shall [*], whichever is later.

11.3 **Warranty Pass-through**. Neoprobe agrees that Ethicon may pass the warranty given to Ethicon under this Section 11.1 above along to Ethicon's customers.

11.4 [*]. As part of Neoprobe's warranty obligation described in Sections 11.1 and 11.2, Neoprobe agrees [*] to [*]. Neoprobe shall provide Ethicon with a procedure for handling customer returns for servicing and repairing Products covered under the warranty obligations described in Sections 11.1 and 11.2 within thirty (30) days of the Effective Date.

11.5 **Replacement Parts**. With respect to Products outside of the warranty periods set forth in Section 11.2 above, Neoprobe shall provide repairs and replacement parts, as appropriate, for devices manufactured by Neoprobe at reasonable rates and prices mutually agreed upon in writing by both Parties.

ARTICLE 12 - FAILURE TO SUPPLY, CHANGE OF CONTROL OR INSOLVENCY EVENT

12.1 If Neoprobe fails to supply [*] of the Products meeting the Specifications on a desired delivery date specified on a binding purchase order under either of the following conditions:

(a) for any reason other than those set forth under Section 17.6 below, and this failure lasts longer than [*] from such desired delivery date; or

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(b) for any reason set forth under Section 17.6 below, and this failure lasts longer than [*] from such desired delivery date;

then Ethicon shall thereafter have the right to [*] terminate this Agreement upon written notice to Neoprobe and to manufacture or have manufactured the Product. Additionally, if a Change of Control occurs followed by a failure to supply lasting longer than [*] from the desired delivery date set forth in a binding purchase order, or an Insolvency Event occurs, then [*] upon written notice to Neoprobe, Ethicon shall have the right to [*] terminate this Agreement upon written notice to Neoprobe.

12.2 In the event that a Change of Control occurs and such controlling or surviving entity is a competitor of Ethicon, then Ethicon shall have the right to immediately terminate this Agreement upon written notice to Neoprobe.

ARTICLE 13 - PATENTS, TRADEMARKS AND CONFIDENTIAL INFORMATION

13.1 **License**. Ethicon and its Affiliates shall have a fully paid-up worldwide, exclusive license under the Patents to use, sell, offer for sale, import or otherwise dispose of, Products for the term of this Agreement or any extension thereof. Ethicon shall also have a secondary license (the "Secondary License") which includes a worldwide, exclusive, paid-up license under all Patents and Know-How necessary to make, have made, import, use or sell the Products, Improved Products and Ethicon Funded New Products; a license under Neoprobe's regulatory clearances, including Neoprobe's 510(k), to market the Products, Improved Products and Ethicon Funded New Products and an exclusive, irrevocable, sub-licensable, right to continue to use the Neoprobe Trademarks pursuant to the restrictions set forth in Section 13.2. Ethicon's Secondary License shall run for the term of this Agreement and any extension thereof, assuming Ethicon had exercised all rights to extensions thereof. In the event Ethicon exercises its rights under its Secondary License, to make, have made or import the Products, Improved Products and/or Ethicon Funded New Products Neoprobe shall make available to Ethicon all of the information then in Neoprobe's possession or at its free disposal relating to the manufacture of the Products, Improved Products and/or Ethicon Funded New Products. Ethicon hereby agrees not to exercise its rights to make, have made, import, use or sell the Products, Improved Products and Ethicon Funded New Products under its Secondary License, except in the event of a failure to supply meeting the requirements of Section 12.1 above or a termination of this Agreement by Ethicon pursuant to Section 14.1, and any such exercise shall be a material breach of the terms of this Agreement.

13.2 **Trademarks**. Ethicon shall have the right to promote and sell the Product under any trademark selected by Ethicon which trademark and all rights and goodwill associated thereto shall be and shall remain the property of Ethicon. Nothing herein shall be deemed to give one Party, either during the term of this Agreement or thereafter, any right to trademarks or copyrights of the other Party or to their use except that Ethicon shall have the right to use Neoprobe's Trademarks in association with the marketing and sale of the Products during the term of this Agreement, any extension thereof or as provided by Section 13.1 if it chooses to do so, but Ethicon shall acquire no ownership rights to the Trademarks.

13.3 **Confidential Information**. All written information designated as confidential and exchanged between Neoprobe and Ethicon while this Agreement is in effect shall be treated as confidential information. Neither Party shall for three (3) years after the date of expiration or termination of this Agreement, use (other than in the performance of its obligations hereunder) or disclose such information to any third party without the prior written approval of the other Party, unless such information has become public knowledge through no fault of the Party receiving such information, or comes to such Party from a third party under no obligation of confidentiality with respect to such information, or was in the possession of such Party prior to the date of disclosure, or is developed by or on behalf of such Party without reliance on confidential information received hereunder, or is requested to be disclosed in compliance with applicable laws or regulations in connection with the sale of the Product, or is otherwise required to be disclosed in compliance with an order by a court or other regulatory body having competent jurisdiction, or is product-related information which is reasonably required to be disclosed in connection with marketing the Products. The obligations imposed by this section shall not limit any rights provided to Ethicon pursuant to Section 12.1 above to manufacture or have manufactured the Product following Neoprobe's failure to supply pursuant to this Agreement; provided that the disclosure of confidential information to a third party (except as may be reasonably required in preliminary discussions with such third party) for the purpose of enabling such Party to manufacture the Products shall be conditioned upon such third party signing a confidentiality agreement prohibiting the disclosure of such information to any other party and limiting the use of such information to the manufacturing of the Products.

ARTICLE 14 - TERMINATION

14.1 This Agreement may be terminated by either Party in the event the other materially fails to perform or otherwise materially breaches any of its obligations under this Agreement (other than pursuant to Article 12) by giving written notice of its intent to terminate and stating the grounds for termination. The Party receiving the notice shall have thirty (30) days from the date of receipt of the notice to cure the failure or breach. In the event it is cured, the notice shall be of no effect. In the event it is not cured, this Agreement then shall, without more, terminate at the end of such thirty (30) day period. If the failure to perform or other breach is due to circumstances covered under Section 17.6 below, then this subsection shall not apply until such circumstances have ceased.

14.2 For purposes of Section 14.1 a breach by Neoprobe of its obligations, covenants, representations or warranties under Section 3.2 and 3.3 shall be deemed to be a material failure to perform and a material breach of its obligations under this Agreement. If Ethicon exercises its rights to terminate this Agreement under Section 14.1, Neoprobe grants Ethicon an exclusive paid-up worldwide license under the Patents to make, have made, use, sell, offer for sale, import or otherwise dispose of, the Products, rights under Neoprobe's regulatory clearances, including 510(k), to market the Products, and rights to all Know-How necessary to make, have made, use, sell, offer for sale, import or otherwise dispose of, the Products, such license and rights shall run for the term of this Agreement and any extension thereof, assuming Ethicon had exercised all rights to extensions thereof. Ethicon further shall have the exclusive right to continue to use the Neoprobe Trademarks pursuant to the restrictions set forth in Section 13.2. In the event Ethicon exercises its right to terminate this Agreement under Section 14.1, Neoprobe shall make available to Ethicon all of the information then in Neoprobe's possession or at its free disposal relating to the manufacture of the Products.

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14.3 Ethicon may terminate this Agreement upon ninety (90) days written notice if Ethicon discovers a patent of a third party which arguably covers in whole or in part any aspect of the Product and the infringement is not cured within such ninety (90) day period in a manner which is satisfactory in Ethicon's sole discretion.

14.4 Following the effective date of termination of this Agreement, Ethicon shall have the right and option to either (i) continue to sell Products in the Territory on an exclusive worldwide basis for a period of [*], or (ii) on written notice to Neoprobe, sell to Neoprobe and have Neoprobe buy, within thirty (30) days after request, all of the Products in the Ethicon's stock which were received by Ethicon [*] of less prior to the effective date of the effective date of termination which are in good condition. Such Products shall be repurchased at the most recent landed cost for such Products in effect hereunder prior to termination of this Agreement, and will be shipped to the designation selected by the Neoprobe, freight collect. Outdated, used or damaged Products shall either be made available to Neoprobe for destruction by Neoprobe at their then current location, or shipped to Neoprobe, freight collect, as determined by Neoprobe.

14.5 Termination of this Agreement for any reason shall not affect rights and obligations of the Parties accrued through the effective date of termination, including without limitation indemnification provisions relating to the Product manufactured or distributed during the term of this Agreement or any extension thereof.

ARTICLE 15 - RESOLUTION OF DISPUTES

15.1 Any dispute, claim or controversy arising from or related in any way to this agreement or the interpretation, application, breach, termination or validity thereof, including any claim of inducement of this agreement by fraud or otherwise, will be submitted for resolution to arbitration pursuant to the commercial arbitration rules then pertaining of the CPR Institute for Dispute Resolution, or successor ("CPR"), except where those rules conflict with these provisions, in which case these provisions control. The arbitration will be held in Cincinnati, Ohio.

15.2 The panel shall consist of three (3) arbitrators chosen from the CPR Panels of Distinguished Neutrals (or, by agreement from another provider of arbitrators) each of whom is a lawyer with at least fifteen (15) years experience with a law firm or corporate law department of over twenty-five (25) lawyers or was a judge of a court of general jurisdiction. In the event the aggregate damages sought by the claimant are stated to be less than $5 million, and the aggregate damages sought by the counterclaimant are stated to be less than $5 million, and neither side seeks equitable relief, then a single arbitrator shall be chosen, having the same qualifications and experience specified above. Each arbitrator shall be neutral, independent, disinterested, impartial and shall abide by The Code of Ethics for Arbitrators in Commercial Disputes approved by the AAA. There shall be no ex parte communications with an arbitrator either before or during the arbitration, relating to the dispute or the issues involved in the dispute or the arbitrator's views on any such issues.

15.3 The Parties agree to cooperate (a) to obtain selection of the arbitrator(s) within forty-five (45) days of initiation of the arbitration, including jointly interviewing the final candidates, (b) to meet with the arbitrator(s) within forty-five (45) days of selection and (c) to agree at that meeting or before upon procedures for discovery and as to the conduct of the hearing which will result in the hearing being concluded within no more than nine (9) months after selection of the arbitrator(s) and in the award being rendered within sixty (60) days of the conclusion of the hearings, or of any post-hearing briefing, which briefing will be completed by both sides within thirty (30) days after the conclusion of the hearings. In the event no such agreement is reached, (a) the CPR will select arbitrator(s), allowing appropriate strikes for reasons of conflict or other cause and three (3) peremptory challenges for each side, and permitting the Parties, prior to exercising their final peremptory challenge, jointly to interview each of the top three (3) final candidates (for no more than one (1) hour each) if a single arbitrator is being selected or the top five (5) finalists if a panel of three (3) is being selected, (b) the arbitrator(s) shall set a date for the hearing in accord with the above schedule, commit to the rendering of the award within sixty (60) days of the conclusion of the evidence at the hearing, or of any post-hearing briefing (which briefing will be completed by both sides in no more than thirty (30) days after the conclusion of the hearings), and (c) the arbitrator(s) shall provide for discovery according to these time limits, giving recognition to the understanding of the Parties that they contemplate reasonable discovery, including document demands and depositions, but that such discovery be limited so that the time limits specified herein may be met without difficulty. In no event will the arbitrator(s), absent agreement of the parties, allow more than a total of ten (10) days for the hearing or permit either side to obtain more than a total of forty (40) hours of deposition testimony from all witnesses, including both fact and expert witnesses, or serve more than twenty (20) individual requests for documents, including subparts, or twenty (20) individual requests for admission or interrogatories, including subparts. Multiple hearing days will be scheduled consecutively to the greatest extent possible.

15.4 The arbitrator(s) must render their award by application of the substantive law of the State of Ohio and are not free to apply "amiable compositeur" or their own or another's view of "natural justice and equity." The arbitrator(s) shall render an opinion setting forth findings of fact and conclusions of law with the reasons therefor stated. A transcript of the evidence adduced at the hearing shall be made and shall, upon request, be made available to either party. The arbitrator(s) shall have power to exclude evidence on grounds of hearsay, prejudice beyond its probative value, redundancy, or irrelevance and no award shall be overturned by reason of such ruling on evidence.

15.5 To the extent possible, the arbitration hearings and award will be maintained in confidence.

15.6 The United States District Court for the Southern District of Ohio, Western Division at Cincinnati, may enter judgment upon any award. In the event the panel's award exceeds $5 million in monetary damages or includes or consists of equitable relief, or rejects a claim in excess of that amount or for that relief, then the court shall vacate, modify or correct any award (including remanding to the arbitrators for further proceedings) where the arbitrators' findings of fact are clearly erroneous, and/or where the arbitrators' conclusions of law are erroneous; in other words, the court will undertake the same review as if it were a federal appellate court reviewing a district court's findings of fact and conclusions of law rendered after a bench trial. An award for less than $5 million in damages and not including equitable relief or which neither rejects a claim in excess of that amount or for that relief, may be vacated, modified or corrected only pursuant to the Federal Arbitration Act. The Parties consent to the jurisdiction of the above-specified Court for the enforcement of these provisions, the review specified herein, and the entry of judgment on any award. In the event such Court lacks jurisdiction, then any court having jurisdiction of this matter may enter judgment upon any award and provide the same relief, and undertake the same review, as specified herein.

15.7 In the event the expanded judicial review provided for under Section 15.6 above is not available from the court as a matter of law, the party unable to obtain such review may instead obtain review of the arbitrators' award or decision by a single appellate arbitrator (the "Appeal Arbitrator") selected from the CPR list of distinguished neutrals and pursuant to then current CPR selection procedures. No Appeal Arbitrator shall be selected unless he or she can commit to rendering a decision within forty-five (45) days following oral argument as provided in this Section. Any such review must be initiated with the CPR within thirty (30) days following the date the district court declines the expanded review specified in Section 15.6 above. In the event timely review is sought, the Appeal Arbitrator will make the same review of the arbitration panel's ruling and its bases that the Court of Appeals of the federal circuit where the arbitration hearings are held would make of findings of fact and conclusions of law rendered by a district court after a bench trial and then modify, vacate or affirm the arbitration panel's award or decision accordingly. The Appeal Arbitrator will consider only the arbitration panel's findings of fact and conclusions of law, pertinent portions of the hearing transcript and evidentiary record as submitted by the parties, opening and reply briefs of the party pursuing the review, and the answering brief of the opposing party, plus a total of no more than four (4) hours of oral argument evenly divided between the parties. The party seeking review must submit its opening brief and any reply brief within seventy-five (75) and one hundred twenty (120) days, respectively, following the date the court declines the expanded review specified in Section 15.6; whereas, the opposing Party must submit its responsive brief within one hundred ten (110) days of that date. Oral argument shall take place within five (5) months after the district court declines the expanded review specified in Section 15.6, and the Appeal Arbitrator shall render a decision within forty-five (45) days following oral argument.

15.8 Each party has the right before or, if the arbitrator(s) cannot hear the matter within an acceptable period, during the arbitration to seek and obtain from the appropriate court provisional remedies such as attachment, preliminary injunction, replevin, etc. to avoid irreparable harm, maintain the status quo, or preserve the subject matter of the arbitration.

15.9 **EACH PARTY HERETO WAIVES ITS RIGHT TO TRIAL OF ANY ISSUE BY JURY.**

15.10 **EACH PARTY HERETO WAIVES ANY CLAIM TO PUNITIVE OR EXEMPLARY, CONSEQUENTIAL DAMAGES FROM THE OTHER.**

15.11 **EACH PARTY HERETO WAIVES ANY CLAIM FOR ATTORNEYS' FEES AND COSTS AND PREJUDGMENT INTEREST FROM THE OTHER.**

15.12 Any dispute, controversy or claim arising out of or related to this agreement, or the interpretation, application, breach, termination or validity thereof, including any claim of inducement by fraud or otherwise, which claim would, but for this provision, be submitted to arbitration shall, before submission to arbitration, first be mediated through non-binding mediation in accordance with the Model Procedures for the Mediation of Business Disputes promulgated by the CPR then in effect, except where those rules conflict with these provisions, in which case these provisions control. The mediation will be held in Cincinnati, Ohio and shall be attended by a senior executive with authority to resolve the dispute from each of the operating companies that are parties.

15.13 The mediator shall be neutral, independent, disinterested and shall be selected from a professional mediation firm such as ADR Associates or JAMS/ENDISPUTE or CPR.

15.14 The Parties shall promptly confer in an effort to select a mediator by mutual agreement. In the absence of such an agreement within fifteen (15) days of initiation of the mediation, the mediator shall be selected by CPR from a list generated by CPR with each Party having the right to exercise challenges for cause and two (2) peremptory challenges within seventy-two (72) hours of receiving the CPR list.

15.15 The mediator shall confer with the Parties to design procedures to conclude the mediation within no more than forty-five (45) days after initiation. Under no circumstances shall the commencement of arbitration under Section 15.1 above be delayed more than forty-five (45) days by the mediation process specified herein.

15.16 Each Party agrees not to use the period or pendancy of the mediation to disadvantage the other Party procedurally or otherwise. No statements made by either side during the mediation may be used by the other or referred to during any subsequent arbitration.

15.17 Each Party has the right to pursue provisional relief from any court, such as attachment, preliminary injunction, replevin, etc., to avoid irreparable harm, maintain the status quo, or preserve the subject matter of the arbitration, even though mediation has not been commenced or completed.

*** Portions have been omitted and filed separately with the Securities and Exchange Commission pursuant to a request for confidential treatment.**

ARTICLE 16 - DISCLAIMER

[*]. Furthermore, all business decisions, including without limitation, sale, price and promotion of the Product marketed under this Agreement and the decision whether to sell the Product shall be within the sole discretion of [*]. Neoprobe realizes that Ethicon (and its Affiliates) already sells a complete line of diagnostic and surgical devices and [*] under this Agreement.

ARTICLE 17 - MISCELLANEOUS

17.1 [*]

17.2 **Transfer and Assignment**. Neither Party shall transfer or assign this Agreement, in whole or in part, without the prior written consent of the other Party (which shall not be unreasonably withheld); except that Ethicon may, without such consent, assign this Agreement to an Affiliate or with the sale of substantially all of the assets of the business to which the Products relate.

17.3 **Communications**. All communications, purchase orders, invoices, payments and notices required or called for under this Agreement shall be in writing, shall be transmitted by facsimile or first class mail, postage prepaid, and shall be deemed delivered upon confirmed receipt if by facsimile or mailing to the address below or to such other address as either Party may give to the other in writing:

If to Ethicon:

Ethicon Endo-Surgery, Inc.
4545 Creek Road
Cincinnati, Ohio 45242
Attn: President
Facsimile: (513) 483-8945

If to Neoprobe:

Neoprobe Corporation
425 Metro Place North, Suite 300
Dublin, Ohio 43017
Attn: President
Facsimile: (614) 793-7522

17.4 **Relationship of Parties**. The Parties hereto are entering into this Agreement as independent contractors, and nothing herein is intended or shall be construed to create between the Parties a relationship of principal and agent, partners, joint venturers or employer and employee. Neither Party shall hold itself out to others or seek to bind or commit the other Party in any manner inconsistent with the foregoing provisions of this Article 17.

17.5 **No Waiver**. The failure of either Party to enforce at any time for any period the provisions of this Agreement shall not be construed to be a waiver of such provisions or of the right of such Party thereafter to enforce each such provision.

17.6 **Major Forces**. Subject to Ethicon's rights set forth in Article 12 above, neither Party shall be responsible for and the terms of this Agreement shall be inapplicable to any defaults or delays which are due to unforeseen causes beyond the Parties' control including, but without limitation, acts of God or public enemy, acts or other order of a government, particularly full market approval by the United States Food and Drug Administration and any foreign government equivalent approval, fire, flood or other natural disasters, embargoes, accidents, explosions, strikes or other labor disturbances (regardless of the reasonableness of the demands of labor), shortage of fuel, power or raw materials, inability to obtain or delays of transportation facilities, incidents of war, or other unforeseen events causing the inability of a Party, acting in good faith with due diligence, to perform its obligations under this Agreement.

17.7 **Publicity**. With respect to any other publicity, neither Party shall originate any such publicity, news release or public announcement, written or oral, whether to the public or press, stockholders or otherwise, relating to this Agreement or any of its terms, to any amendment or performances under the Agreement, save only such announcements as in the opinion of counsel for the Party making such announcement is required by law to be made. If a Party decides to make an additional announcement required by law under this Agreement, it will give the other Party thirty (30) days advance written notice, or any shorter notice period otherwise required by law, of the text of the announcement so that the other Party will have an opportunity to comment upon the announcement.

17.8 **Bankruptcy**. All licenses granted under or pursuant to this Agreement, by Neoprobe to Ethicon are for all purposes of Section 365(n) of the Bankruptcy Code, licenses to "intellectual property" as defined in the Bankruptcy Code. The Parties agree that Ethicon, as a licensee of such rights under this Agreement, shall retain and may fully exercise all of its rights and elections under the Bankruptcy Code. Neoprobe agrees during the term of this Agreement to create and maintain current copies or, if not amenable to copying, detailed descriptions or other appropriate embodiments, of all such licensed intellectual property. If a case is commenced by or against Neoprobe under the Bankruptcy Code, then, unless and until this Agreement is rejected as provided in the Bankruptcy Code, Neoprobe (in any capacity, including debtor-in-possession) and its successors and assigns (including, without limitation, a Bankruptcy Code trustee) shall either perform all of the obligations provided in this Agreement to be performed by Neoprobe or provide to Ethicon all such intellectual property (including all embodiments thereof) held by Neoprobe and such successors and assigns, as Ethicon may elect in a written request, immediately upon such request. If a Bankruptcy Code case is commenced by or against Neoprobe, this Agreement is rejected as provided in the Bankruptcy Code and Ethicon elects to retain its rights hereunder as provided in the Bankruptcy Code, then Neoprobe (in any capacity, including debtor-in-possession) and its successors and assigns (including, without limitation, a Bankruptcy Code trustee) shall provide to Ethicon all such intellectual property (including all embodiments thereof) held by Neoprobe and such successors and assigns immediately upon Ethicon's written request therefor. All rights, powers and remedies of Ethicon provided under this Article are in addition to and not in substitution for any and all other rights, powers and remedies now or hereafter existing at law or in equity (including, without limitation, the Bankruptcy Code) in the event of any such commencement of a bankruptcy proceeding by or against Neoprobe. Ethicon, in addition to the rights, powers and remedies expressly provided herein, shall be entitled to exercise all other such rights and powers and resort to all other such remedies as may now or hereafter exist at law or in equity (including the Bankruptcy Code) in such event.

17.9 **Entire Agreement**. The Parties have, in this Agreement, incorporated all representations, warranties, covenants, commitments and understandings on which they have relied in entering into this Agreement and, except as provided herein, the Parties make no covenants or other commitments to the other concerning their future actions. Accordingly, this Agreement

(a) constitutes the entire agreement and understanding between the Parties, and there are no promises, representations, conditions, provisions or terms relating to it other than as set forth in this Agreement, and

(b) supersedes all previous understandings, agreements and representations between the Parties, written or oral, relating to the subject matter of this Agreement. This Agreement may be altered or amended only upon mutual written consent.

17.10 **Survival of Certain Provisions**. The provisions of this Agreement set forth in Sections 3.2, 5.22, 10.2, 13.3, 14.3, 14.4, 17.7 and 17.14 and Articles 7, 8, 9, 11, 12 and 15 any remedies for the breach thereof, shall survive the termination of this Agreement under the terms hereof.

17.11 **Counterparts**. This Agreement may be executed in one or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

17.12 **Expenses**. Each party shall pay all of its own fees and expenses (including all legal, accounting and other advisory fees) incurred in connection with the negotiation and execution of this Agreement and the arrangements contemplated hereby.

17.13 **Modifications and Amendments**. This Agreement shall not be modified or otherwise amended except pursuant to an instrument in writing executed and delivered by each of the parties hereto.

17.14 **Construction**. The parties have participated jointly in the negotiation and drafting of this Agreement. In the event an ambiguity or question of intent or interpretation arises, this Agreement shall be construed as if drafted jointly by the parties 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.

17.15 **Governing Law**. This Agreement shall be governed by, and construed in accordance with, the laws of the State of Ohio, without giving effect to the choice of laws provisions thereof.

17.16 **Incorporation of Exhibits and Schedules**. The Exhibits and Schedules identified in this Agreement are incorporated herein by reference and made a part hereof.

The Parties agree to the terms of this Agreement, as indicated by the signatures of their respective corporate officers, duly authorized as of the last date of signature below.

NEOPROBE CORPORATION	**ETHICON ENDO-SURGERY, INC.**
By: /s/ David Bupp	By: /s/ Alastair Clemon
Name: David Bupp	Name: Alastair Clemon
Title: President, CEO	Title: V.P. Business Development
Date: Sept. 28, 1999	Date: Sept. 28, 1999

APPENDIX A

PATENT, COMPUTER SOFTWARE, AND MASK WORK LICENSE AGREEMENT

This is an agreement (hereinafter referred to as "Agreement") dated and effective as of September, 28, 1999 ("Effective Date"), by and between the following parties:

a) Ethicon Endo-Surgery, Inc., a corporation organized under the laws of the State of Ohio, having its principal office at 4545 Creek Road, Cincinnati, Ohio 45242 ("Ethicon"); and

b) Neoprobe Corporation, a corporation having its principal office at 425 Metro Place North, Suite 300, Dublin, Ohio ("Licensor").

ARTICLE 1 - BACKGROUND

1.1 Licensor has represented to Ethicon that it owns issued U.S. and foreign patents, copyrighted computer software, mask works, and pending U.S. and foreign patent applications, `covering instruments for radiation detection.

1.2 Ethicon desires to obtain a exclusive license from the Licensor under such patents and equivalent pending patent applications. Ethicon further desires to obtain an exclusive license from the Licensor for such copyrighted software and mask works.

1.3 Licensor is willing to grant such a license to Ethicon upon the terms and conditions set forth below.

1.4 Ethicon and Licensor have entered into a Distribution Agreement dated September 28, 1999 to which this Patent, Computer Software, and Mask Work License Agreement is attached as Appendix A ("Distribution Agreement") whereby Licensor has granted Ethicon exclusive rights to distribute Licensor's gamma radiation detection products.

Therefore, in consideration of the mutual promises contained in this Agreement, the parties agree as follows:

ARTICLE 2 - DEFINITIONS

The following terms, when used with initial capital letters, shall have the meanings set forth below, terms set forth herein in capital letters and not defined below shall have the meanings set forth in the Distribution Agreement.

2.1 "Licensed Product" is any instrument, or other product developed by or for Ethicon, which, but for the licenses granted under this Agreement, would infringe at least one Valid Claim of the Licensed Patents in the country in which any Licensed Product is made, used or sold or which uses any Know How, Licensed Software or Licensed Mask Works.

2.2 “Licensed Patents” are the U.S. Patent applications and U.S. Patents listed in Schedule 2.11 of the Distribution Agreement as well as any counterpart patent applications and any patents subsequently issuing from such applications. Licensed Patents shall also include any other counterparts of the above worldwide, as well as all continuations, continuations-in-part, divisions, renewals, reissues, reexaminations, extensions, and patents of addition and patents of importation. Furthermore, Licensed Patents shall also include each patent which Licensor owns or is empowered to grant a license to Ethicon prior to or during the term of this Agreement, the practice of which is reasonably necessary for Ethicon to make, have made, use, sell, offer for sale, import or otherwise dispose of a Licensed Product.

2.3 “Licensed Software” shall mean any copyrightable computer software (both source code and object code) used in connection with the Licensed Products.

2.4 “Licensed Mask Work” shall mean any “mask work,” as defined in Section 901 of the U.S. Copyright Act, used in connection with the Licensed Products.

2.5 “Derivative Work” shall mean a work that is based upon one or more pre-existing works, such as a revision, modification, translation, abridgment, condensation, expansion, or any other form in which such pre-existing works may be recast, transformed, or adapted and that, if prepared without authorization of the owner of the copyright in such pre-existing work would constitute a copyright infringement. For purposes hereof, a “Derivative Work” shall also include any compilation that incorporates such a pre-existing work.

2.6 “Valid Claim” is a bona fide, unexpired issued claim in the Licensed Patents which has not been held invalid or unenforceable by a decision of a court or other governmental agency of competent jurisdiction, unappealable or unappealed within the time allowed for appeal, and which has not been admitted to be invalid by the Licensor or his successors or assigns through reissue or disclaimer.

2.7 “Net Sales” is the revenue which Ethicon or its Affiliates actually collect from the sale of the Licensed Product to an unaffiliated third party, less the following amounts: (i) discounts, including cash discounts, or rebates actually allowed or granted, (ii) credits or allowances actually granted upon claims or returns regardless of the party requesting the return, (iii) freight charges paid for delivery, and (iv) taxes or other governmental charges levied on or measured by the invoiced amount whether absorbed by the billing or the billed party.

ARTICLE 3 - TERM

Unless otherwise terminated in accordance with the provisions of Article 10 herein, the term of this Agreement shall be from the Effective Date until the date upon which the last of the Licensed Patents expires.

ARTICLE 4 - LICENSE GRANT AND RELEASE

4.1 In addition to the rights and licenses granted to Ethicon under the Distribution Agreement and subject to the terms and conditions of this Agreement, Licensor grants Ethicon the following licenses:

*** Portions have been omitted and filed separately with the Securities and Exchange Commission pursuant to a request for confidential treatment.**

(a) a non-exclusive, worldwide, fully paid-up license under the Licensed Patents and Know How to make, have made, use, sell, offer for sale, import or otherwise dispose of, the Licensed Product;

(b) a non-exclusive, worldwide, fully paid-up license under the Licensed Software to make, display, have made, make derivative works from, use, sell, offer for sale, import, or otherwise dispose of the Licensed Product; and

(c) a non-exclusive, worldwide, fully paid-up license under the Licensed Mask Works to make, have made, use, sell, offer for sale, import or otherwise dispose of, and reproduce the Mask Work by optical, electronic or any other means in, the Licensed Product.

4.2 In the event that the Distribution Agreement is terminated by Licensor in accordance with the provisions of Article 14.1 of the Distribution Agreement, Ethicon's Licenses under Article 4.1 above shall remain in effect, however, Ethicon shall thereafter be required to pay Licensor a royalty of twenty percent (20%) on Net Sales of Licensed Products where, but for the licenses granted under this Agreement, such Licensed Product would infringe at least one Valid Claim of the Licensed Patents in the country in which any Licensed Product is made, used or sold. No multiple earned royalties shall be payable because the Licensed Product is covered by more than one of the Licensed Patents. If Ethicon takes a third party license to a patent which covers a Licensed Product, [*].

4.3 Ethicon shall have the right to extend the licenses granted herein to any of its Affiliates, upon the terms and conditions of this Agreement, provided Ethicon agrees in writing to be responsible for the performance by such Affiliates of all of Ethicon's obligations hereunder.

4.4 Licensor forever releases and discharges Ethicon and its Affiliates, directors, officers, employees, suppliers and customers (the "Released Parties") from and against all claims, liabilities, damages and other expenses whatsoever relating to the manufacture, use, sale, offer for sale or importation of the Licensed Product by or on behalf of the Released Parties prior to the Effective Date.

4.5 Any Derivative Work created by or for Ethicon based upon the Licensed Software or Licensed Mask Work shall be the exclusive property of Ethicon, and with respect to the Licensed Software or Licensed Mask Work upon which this Derivative Work is based, Ethicon's license granted under 4.1(b) or (c) shall be perpetual and fully paid-up.

ARTICLE 5 - PAYMENTS

5.1 **Non-refundable Upfront Payment**. In full consideration for the execution of this Agreement, and for the exclusive license and release granted to Ethicon under Article 4 herein, Ethicon shall pay Licensor the non-refundable sum of four million dollars ($4,000,000.00) within three (3) business days of the Effective Date.

5.2 **Royalty Payments**. Except as specifically set forth herein, Ethicon shall not have any royalty obligations during the term of this Agreement.

5.3 **Upfront Payment as Adequate Consideration**. Except as specifically set forth in the Distribution Agreement, Licensor shall consider the upfront payment set forth in Article 5.1 above as complete satisfaction of any duty, whether express or implied, which could be imposed upon Ethicon to commercially exploit its rights during the term of this Agreement, and is accepted by Licensor in lieu of any best efforts or other obligation on the part of Ethicon.

ARTICLE 6 - RESERVED

ARTICLE 7 - ENFORCEMENT

The parties acknowledge that it is of the utmost importance to Ethicon to ensure that infringement of the Licensed Patents is prevented. Accordingly, each party shall promptly notify the other party in writing of any infringement by third parties relating to the Licensed Patents. If within ninety (90) days of such notice Licensor has not entered into a royalty-bearing license agreement with such third party under the Licensed Patents or such third party continues its infringing activity, then Licensor shall thereafter promptly initiate and diligently pursue legal proceedings against such third party to protect the Licensed Patents, provided that Licensor shall not be obligated to initiate separate litigation against more than one infringer at any one time. Should Licensor fail to take prompt legal action or diligently pursue legal proceedings, then Ethicon shall be relieved of its obligation to make the earned royalty payments set forth in Article 4.2 above until such time as either Licensor enters into a royalty-bearing license agreement with such third party under the Licensed Patents or such third party discontinues its infringing activity.

ARTICLE 8 - PATENT PROSECUTION AND MAINTENANCE

8.1 Licensor is solely responsible for the continued prosecution of any pending patent applications included in the Licensed Patents, as well as the prosecution of patent applications subsequently filed pursuant to Article 8.2 below. Licensor shall also be solely responsible for the issuance of such applications after allowance.

8.2 Licensor shall pay all government fees in any given country required to maintain the Licensed Patents, including official taxes, annuities and maintenance fees. Any decision to pay any such taxes, annuities or maintenance fees shall be in the sole discretion of Licensor and Licensor may, at any time, after providing written notice to Licensee, drop prosecution or maintenance of any Licensed Patent.

ARTICLE 9 - WARRANTIES AND REPRESENTATIONS

9.1 Licensor expressly warrants and represents that a) it owns all of the right, title and interest in and to the Licensed Patents, Licensed Software, and Licensed Mask Works; b) it is empowered to grant the licenses and release granted herein; c) it has no outstanding encumbrances or agreements, including any agreements with academic institutions, universities, or third party employers, whether written, oral or implied, which would be inconsistent with the licenses and release granted herein; d) the Licensed Patents are the only patents or pending patent applications related to any instrument for radiation detection which the Licensor currently owns or otherwise have the right to grant licenses therein, whether domestic or foreign; and e) it is unaware of any information which would raise a substantial question of the validity of any of the Licensed Patents, Licensed Software; or Licensed Mask Works.

9.2 Licensor shall indemnify and hold Ethicon harmless from all liabilities, demands, damages, expenses and losses upon the breach of any of the warranties and representations set forth in Article 9.1 above. In the event of any breach of the warranties and representations set forth in Article 9.1 above, Licensee shall be entitled to recover all payments made to Licensor under article 5.1 above.

ARTICLE 10 - TERMINATION

10.1 Ethicon may terminate either this Agreement in full or a portion of its exclusive license in any given country at any time during the term of this Agreement upon four (4) months written notice to Licensor, and such termination shall become effective at the end of the four (4) month notice period.

10.2 Either party may terminate this Agreement upon sixty (60) days written notice for any material breach or default of the other party. Such termination shall (subject to the provisions of Article 11 below) become effective at the end of the sixty (60) day period unless during such period the party in breach or default cures such breach or default.

ARTICLE 11 - RESOLUTION OF DISPUTES

11.1 Any dispute, claim or controversy arising from or related in any way to this agreement or the interpretation, application, breach, termination or validity thereof, including any claim of inducement of this agreement by fraud or otherwise, shall be settled in accordance with the provisions of Article 15 of the Distribution Agreement.

11.2 From the date one party notifies the other it wishes to commence an arbitration proceeding until such time as the matter has been finally settled by arbitration, the running of the time period set forth in Article 10.1 above, as to which a party must cure a breach, shall be suspended as to the subject matter of the dispute.

ARTICLE 12 - MISCELLANEOUS

12.1 **Business Decisions**. Subject to the provisions of the Distribution Agreement, all business decisions, including without limitation the design, manufacture, sale, price and promotion of the Licensed Product shall be within the sole discretion of Ethicon.

12.2 **Confidentiality and Publicity**. Neither party shall disclose the financial terms of this Agreement to an unaffiliated third party, except for legal, financial, accounting or other similar advisors who agree to keep the financial terms of this Agreement confidential, without the prior written approval of the other party. Furthermore, neither party will originate any publicity, news release, or other public announcement, written or oral, whether to the public press, to stockholders, or otherwise, relating to this Agreement, to any amendment hereto or to performance hereunder or the existence of an arrangement between the parties without the prior written approval of the other party.

12.3 **Notices**. All notices hereunder shall be in writing and shall be deemed to have been duly given if delivered personally, one day after delivery to a nationally recognized overnight delivery service, charges prepaid, three days after sent by registered or certified mail, postage prepaid, or when receipt is confirmed if by, facsimile or other telegraphic means:

In the case of Licensor:

Neoprobe Corporation
425 Metro Place North, Suite 300
Dublin, Ohio 43017
Attn: President
Facsimile: (614) 793-7522

In the case of Ethicon:

Ethicon Endo-Surgery, Inc.
4545 Creek Road
Cincinnati, Ohio 45242
Attn: President
Facsimile: (513) 483-8945

With a copy to:

Chief Patent Counsel
Johnson & Johnson
One Johnson & Johnson Plaza
New Brunswick, New Jersey 08933

Such addresses may be altered by written notice given in accordance with this Article 12.3.

12.4 **Assignment**. Ethicon may assign this Agreement or any rights and obligations contemplated herein to an Affiliate of Ethicon or to a company acquiring substantially all of the assets of Ethicon to which this Agreement relates, without the consent of Licensor, upon giving written notice thereof to Licensor. In all other instances, neither Ethicon nor Licensor shall assign this Agreement or any rights granted hereunder without the prior written consent of the other party. Subject to the foregoing, this Agreement shall bind and inure to the benefit of the respective parties hereto and their successors and assigns.

12.5 **Force Majeure**. Any delays in or failures of performance by either party under this Agreement shall not be considered a breach of this Agreement if and to the extent caused by occurrences beyond the reasonable control of the party affected, including but not limited to: acts of God; acts, regulations or laws of any government; strikes or other concerted acts of workers; fires; floods; explosions; riots; wars; rebellions; and sabotage; and any time for performance hereunder shall be extended by the actual time of delay caused by such occurrence.

12.6 **Licensor Bankruptcy**. Notwithstanding anything to the contrary in the Distribution Agreement, all rights and licenses granted under or pursuant to this Agreement by Licensor to Ethicon are, for all purposes of Section 365(n) of Title 11, U.S. Code (the "Bankruptcy Code"), licenses of rights to "intellectual property" as defined in the Bankruptcy Code. The parties agree that Ethicon, as a licensee of such rights under this Agreement, shall retain and may fully exercise all of its rights and elections under the Bankruptcy Code. Licensor agrees during the term of this Agreement to create and maintain current copies or, if not amenable to copying, detailed descriptions or other appropriate embodiments, of all such licensed intellectual property. If a case is commenced by or against Licensor under the Bankruptcy Code, then, unless and until this Agreement is rejected as provided in the Bankruptcy Code, Licensor (in any capacity, including debtor-in-possession) and its successors and assigns (including, without limitation, a Bankruptcy Code trustee) shall either perform all of the obligations provided in this Agreement to be performed by Licensor or provide to Ethicon all such intellectual property (including all embodiments thereof) held by Licensor and such successors and assigns, as Ethicon may elect in a written request, immediately upon such request. If a Bankruptcy Code case is commenced by or against Licensor, this Agreement is rejected as provided in the Bankruptcy Code and Ethicon elects to retain its rights hereunder as provided in the Bankruptcy Code, then Licensor (in any capacity, including debtor-in-possession) and its successors and assigns (including, without limitation, a Bankruptcy Code trustee) shall provide to Ethicon all such intellectual property (including all embodiments thereof) held by Licensor and such successors and assigns immediately upon Ethicon's written request therefor. All rights, powers and remedies of Ethicon provided under this Article are in addition to and not in substitution for any and all other rights, powers and remedies now or hereafter existing at law or in equity (including, without limitation, the Bankruptcy Code) in the event of any such commencement of a bankruptcy proceeding by or against Licensor. Ethicon, in addition to the rights, powers and remedies expressly provided herein, shall be entitled to exercise all other such rights and powers and resort to all other such remedies as may now or hereafter exist at law or in equity (including the Bankruptcy Code) in such event.

12.7 **Relationship of Parties**. The parties hereto are entering into this Agreement as independent contractors, and nothing herein is intended or shall be construed to create between the parties a relationship of principal and agent, partners, joint venturers or employer and employee. Neither party shall hold itself out to others or seek to bind or commit the other party in any manner inconsistent with the foregoing provisions of this Article.

12.8 **Integration**. It is the mutual desire and intent of the parties to provide certainty as to their future rights and remedies against each other by defining the extent of their mutual undertakings as provided herein. The parties have in this Agreement incorporated all representations, warranties, covenants, commitments and understandings on which they have relied in entering into this Agreement and, except as provided for herein and in the Distribution Agreement, neither party has made any covenant or other commitment to the other concerning its future action. Except where specifically set forth herein, in the event of any conflict between the terms of this Agreement and the Distribution Agreement, the terms of the Distribution Agreement shall control. Accordingly, except as expressly set forth herein, this Agreement constitutes the entire agreement and understanding between the parties with respect to the matters contained herein, and there are no prior oral or written promises, representations, conditions, provisions or terms related thereto other than those set forth in this Agreement. The parties may from time to time during the term of this Agreement modify any of its provisions by mutual agreement in writing.

12.9 **Headings**. The inclusion of headings in this Agreement is for convenience only and shall not affect the construction or interpretation hereof.

This Agreement is signed on the dates set forth below by duly authorized representatives of Ethicon and the Licensor, respectively.

Licensor	**Ethicon Endo-Surgery, Inc.**
By: /s/ David Bupp	By: /s/ Alastair Clemo
Date: Sept. 28, 1999	Date: Sept. 28, 1999

Schedule 2.11 Patents and Patent Applications

NEOPROBE PATENTS

Patent Number	Serial Number	Filing Date	Patent Title
US4782840	06/905880	10-Sep-86	Method for Locating Differentiating, and Removing Neoplasms (RIGS)
US4801803	07/027197	17-Mar-87	Detector and Localizer for Low Energy Radiation Emissions (RIGS)
US4889991	07/248816	23-Sep-88	Gamma Radiation Detector with Enhanced Signal Treatment
US4893013	07/248920	23-Sep-88	Detector and Localizer for Low Energy Radiation Emissions
US5070878	07/404403	08-Sep-89	Detector and Localizer for Low Energy Radiation Emissions
US5151598	07/629271	18-Dec-90	Detector and Localizer for Low Energy Radiation Emissions
US5383456	08/214814	17-Mar-94	Radiation-Based Laproscopic Method For Determining Treatment Modality
US5429133	07/992617	18-Dec-92	Radiation Responsive Laparoscopic Instrument
US5441050	07/992622	18-Dec-92	Radiation Responsive Surgical Instrument
US5475219	08/329505	26-Oct-94	Validation of Photon Emission Based Signals Using an Energy Window Network in Conjunction With a Fundamental mode Discriminator Circuit
US5495111	08/329319	26-Oct-94	Crystal Array based Localizer for tissue sampling
US5682888	08/662600	13-Jan-96	Apparatus and System for Detecting and Locating Photon Emissions with Remote Switch Control
US5732704	08/542955	13-Oct-95	Radiation Based Method Locating And Differentiating Sentinel Node
US5857463	08/543032	13-Oct-95	Remotely controlled system for tracking and locating a source of photon emission
US5916167	08/949125	10-Oct-97	Surgical probe apparatus and system
US5928150	08/944078	04-Oct-97	System for locating and detecting a source of photon emissions.
D390480	29/060780	07-Oct-96	Detector Unit for Radiation Detecting Probe
D390481	29/060782	10-Oct-96	Radiation Detecting Probe
D390485	29/060781	07-Oct-96	Handle Unit for Radiation Detecting Probe
D400249	29/077957	14-Oct-97	Console for Controlling a radiation probe
D411118	29/067945	18-Mar-97	Console for controlling a radiation probe
D411468	29/092799	27-Aug-98	Console for controlling a radiation probe - medium scope
D412125	29/092808	27-Aug-98	Console for controlling a radiation probe-broad
Filed	08/949107	10-Oct-97	Surgical probe apparatus and system
Filed	08/067947	08-Mar-97	Detector unit for radiation detecting probe
Filed	08/067946	18-Mar-97	Radiation detecting probe
Filed	08/067944	18-Mar-97	Radiation detecting probe
Filed	29/092780	27-Aug-98	Console for controlling a radiation probe - narrow scope
Filed	09/167704	06-Oct-98	Radiation response surgical probe apparatus
Filed	09/167643	06-Oct-98	Surgical probe apparatus and system
Filed	09/167008	06-Oct-98	Radiation probe with compound semiconductor crystal performing in a trapping
Filed	09/167420	06-Oct-98	Surgical probe apparatus
Filed	09/178322	23-Oct-98	System and apparatus for detecting and locating sources of radiation
Filed	09/177714	23-Oct-98	Scanning system and method for locating sources of radiation emission RIGS
Filed	09/177725	23-Oct-98	Scanning a radiation source with a count rate output derived with a Dynamic window

NEOPROBE PATENTS

Patent Number	Serial Number	Filing Date	Patent Title
US478280	61905880	10-Sep-86	Method for Locating Differentiating, and Removing Neoplasms (RIGS)
US4801803	07/027197	17-Mar-87	Detector and Localizer for Low Energy Radiation Emissions (RIGS)
US4889991	07/248816	23-Sep-88	Gamma Radiation Detector with Enhanced Signal Treatment
US4893013	07/248920	23-Sep-88	Detector and Localizer for Low Energy Radiation Emissions
US5070878	071404403	08-Sep-89	Detector and Localizer for Low Energy Radiation Emissions
US5151598	07/629271	18-Dec-90	Detector and Localizer for Low Energy Radiation Emissions
US5383456	08/214814	17-Mar-94	Radiation-Based Laproscopic Method For Determining Treatment Modality
US5429133	07/992617	18-Dec-92	Radiation Responsive Laparoscopic Instrument
US5441050	07/992622	18-Dec-92	Radiation Responsive Surgical Instrument
US5475219	08/329505	26-Oct-94	Validation of Photon Emission Based Signals Using an Energy Window Network in Conjunction With a Fundamental mode Discriminator Circuit
US5495111	08/329319	26-Oct-94	Crystal Array based Localizer for tissue sampling
US5682888	08/662600	13-Jan-96	Apparatus and System for Detecting and Locating Photon Emissions with Remote Switch Control
US5732704	08/542955	13-Oct-95	Radiation Based Method Locating And Differentiating Sentinel Node
US5857463	08/543032	13-Oct-95	Remotely controlled system for tracking and locating a source of photon, emission
US5916167	08/949125	10-Oct-97	Surgical probe apparatus and system
US5928150	08/944078	04-Oct-97	System for locating and detecting a source of photon emissions.
D390480	29/060780	07-Oct-96	Detector Unit for Radiation Detecting Probe
D390481	29/060782	10-Oct-96	Radiation Detecting Probe
D390485	29/060781	07-Oct-96	Handle Unit for Radiation Detecting Probe
D400249	29/077957	14-Oct-97	Console for Controlling a radiation probe
D411118	29/067945	18-Mar-97	Console for controlling a radiation probe
D411468	29/092799	27-Aug-98	console for controlling a radiation probe - medium scope
D412125	29/092808	27-Aug-98	Console for controlling a radiation probe-broad
Filed	08/949107	10-Oct-97	Surgical probe apparatus and system
Filed	08/067947	08-Mar-97	Detector unit for radiation detecting probe
Filed	08/067946	18-Mar-97	Radiation detecting probe
Filed	081067944	18-Mar-97	Radiation detecting probe
Filed	29/092780	27-Aug-98	Console for controlling a radiation probe - narrow scope
Filed	09/167704	06-Oct-98	Radiation response surgical probe apparatus
Filed	09/167643	06-Oct-98	Surgical probe apparatus and system
Filed	09/167008	06-Oct-98	Radiation probe with compound semiconductor crystal performing in a trapping
Filed	09/167420	06-Oct-98	Surgical probe apparatus
Filed	09/178322	23-Oct-98	System and apparatus for detecting and locating sources of radiation
Filed	09/177714	23-Oct-98	Scanning system and method for locating sources of radiation emission RIGS
Filed	09/177725	23-Oct-98	Scanning a radiation source with a count rate output derived with a dynamic window

Schedule 2.15 Products

Schedule 2.15 Products

NEOPROBE MODEL #	DESCRIPTION
	neo2000TM Control Uni
2000	neo2000 Control Unit
2009	AC Power Cord, N. America
2008	Op Manual - English (2000)
2020	Instr Video (2000)
2010	Accy Case
	14mm Probe & Collimator
1017	14mm Probe
1013	14mm Collimator
	BlueTipTM Probes & Collimators
2001	12mm Uncollimated Tip
2002	12mm Collimated Tip
2003	19mm Uncollimated Tip
2004	12mm BTP Collimator
2019	19mm BTP Collimator
	Probe Cables
2021	Probe Cable (14mm/2000)
2012	Disposable Handle, 12-pack
	Int'l Power Cords
1021	N. America (for 1500/1000)
1022	Continental Europe
1023	UK
1024	Italy
1025	Denmark
1026	Australia
1027	Swiss
1028	Israel
1029	Japan
1032	India
1033	Argentina
1034	China
1050	Ground Plug Adapter
	1500 Control Unit
1500	1500 Control Unit
1508	Op Manual (1500)
1510	Op Manual Int'l (1500)
1502	Instr Video (1500)
1514	Carry Case
	19mm Probe & Accessories
1002	19mm Probe
1015	19mm Collimator
1016	19mm Shield
1007	Background Shield
1009	O-ring 10-Pack
	Probe Cables
1003	Reusable Probe Cable
1503	Probe Tip Adapter Cable (1500)

1500 Battery Chargers

1504	US Battery Charger (1500)
1531	Canadian Batt Chrgr (1500)
1530	EU Battery Charger (1500)
1020	Int'l Battery Charger
1519	Intl Charger Adapter Cable

Model 1000

1000	1000 Console (w/ 1014 case)
1008	1000 Op Manual
1014	1000 Carry Case
1004	1000 US Charger
1030	1000 EU Charger
1019	1000 Intl Adapter Cable

Schedule 2.19 Trademarks

Schedule 2.19

Neoprobe Trademarks & Trade Names[1]

	U.S. Registration #	OUS Registration #	
Audible Tone Sequence	1959649		
Neoprobe	1938283	1510060	Austria
		541191	Benelux
		8155193	1 U K
		1787313	Spain
		1787314	Spain
		259040	Sweden
		2079214	Germany
		90098	Israel
		90099	Israel
		784400	Taiwan
		446971	S. Korea
		800774	Taiwan
		Appl #T093C002090	Italy 11/93
		Appl #113414/93	Japan 11/93
		(?) Appl #38908/93	S. Korea 11/93
		(?) Appl #38909/93	S. Korea 11/93
		(?) Appl #2861/97	Singapore N/A
Neoprobe and Design	446971 (4/26/99)		
	Appl #75/636945 (2/2/99)		
Blue Tip	Appl #75/734590 6/99		
NE02000	Appl #75/432104 6/98		
NEOLINK	Appl #75/784096 8/99		
NEOMAX	Appl #75/783829 8/99		

1 Correspondence from P. Coburn, dated 9/21/99

Schedule 3.2 Third Party Agreements

SCHEDULE 3.2

Date of Delivery of Exclusive Distribution Rights

PARTY	TERRITORY	DATE*
Artimed	Poland	60 days
CEI	Brazil	60 days
Century Medical, Inc.	Japan	03/03/09**
CM Nuclear	S. Africa	60 days
Endoskopiki	Greece	60 days
Endounique	Austria	60 days
Epsilon	Turkey	60 days
Evergreen	China	60 days
Global Damon Pharma	Korea Thailand Singapore Taiwan	6 months
KOL Bio-Medical	USA	10/15/99
Murray	Ireland	6.25 months
Sigma B.V.B.A.	Belgium	6.25 months
Sigma B.V.	The Netherlands	6.25 months

* Stated as time running from the Effective Date of this Agreement

** Initial Term is 5 Years with an automatic term renewal of 5 years provided Century is meeting its contractual obligations.

Neoprobe agrees to use its reasonable best efforts to reduce the stated time if possible under a particular distribution agreement with a party listed above.

Schedule 5.2 Transfer Pricing for Products

*** Portions have been omitted and filed separately with the Securities and Exchange Commission pursuant to a request for confidential treatment.**

SCHEDULE 5.2

TRANSFER PRICING

I. Saleable Product

A. The following schedule shall be used, in conjunction with paragraph I.B., to determine the applicable per unit Transfer Price for all Products meeting the Specifications:

Commercial Year	Product Description(2)	Provisional Transfer Price (4)	Floor Price(6)	Actual Transfer Price
Initial Period(1)	[*]	[*]	[*]	[*]
	[*]	[*]	[*]	
	All other Products	[*]	[*]	
	[*] Products	[*]	[*]	[*]
Year [*]	[*]	[*]	[*]	[*]
	[*]		[*]	[*]
	[*]		[*]	[*]
			[*]	
[*] Products	[*]			[*]
Years [*]	[*]	[*]	[*]	[*]
	[*]	[*]	[*]	[*]
[*]	[*]	[*]	[*]	[*]
	[*]	[*]	[*]	[*]

*** Portions have been omitted and filed separately with the Securities and Exchange Commission pursuant to a request for confidential treatment.**

Notes

1. For purposes of this Schedule 5.2 only, the Initial Period shall mean the period beginning on the Effective Date of the Agreement and ending on March 31, 2000.

2. Products described include all Products as defined in Section 2.15 of the Agreement.

3. For purposes of this Schedule 5.2, a "System" shall be defined as one (1) neo2000 control unit, one (1) reusable 14mm probe and other accessories (including, but not limited to, cord set, operations manual, detector probe cable and adapter, Probe collimator) sold as a package meeting the Specifications.

4. The Provisional Transfer Price (the "Provisional Price") is the amount that shall be used solely for purchase orders and invoicing purposes. The Provisional Price shall be recalculated annually, by the end of the first calendar quarter of each Commercial Year, and will then be in effect for the subsequent twelve-month period as described in paragraph I.B.2.

5. Net Selling Price ("NSP") shall mean the revenue received by Ethicon or an Affiliate from the sale of the Product to an independent third party less the following amounts: (i) discounts, including cash discounts, or rebates actually allowed or granted; (ii) credits or allowances actually granted upon claims or returns, regardless of the party requesting the return; (iii) freight charges paid for customer delivery; and (iv) taxes or other governmental charges levied on or measured by the invoiced amount whether absorbed by the billing or billed party. Commissions paid by Ethicon to its sales representatives shall not be deducted from the amount that Ethicon charges to such third party in determining the NSP.

6. Average Net Selling Price ("Average NSP") shall mean the sum of the NSP for all units sold during the commercial year, including [*] as provided for in Section 3.2 and 3.3, divided by the total number of units sold during that same commercial year provided that the total number of units is [*] Commercial Year.

7. "Floor Price" shall mean the minimum Transfer Price and the minimum Provisional Price for a unit as defined in the schedule above or based on the actual cost ("Cost") to manufacture plus the indicated percentage markup. The Cost to manufacture are the direct material and labor costs for Products supplied to Neoprobe from its suppliers plus Neoprobe's direct and indirect overhead charges, provided that any cost reductions or volume-related discounts or other associated cost savings are applied to the Cost in the Floor Price calculation. Neoprobe's overhead charges mentioned above shall be calculated in like manner as the "Current Cost Estimate" shown in the table in paragraph II.

*** Portions have been omitted and filed separately with the Securities and Exchange Commission pursuant to a request for confidential treatment.**

B. Provisional Price Calculation

1. During the Initial Period, the Provisional Price for each unit shipped to Ethicon will be as established in the schedule in paragraph I.A.

2. During the first calendar quarter of each Commercial Year, the average NSP will be recalculated based on the actual world-wide sales recognized during the prior Commercial Year, except that, [*], the average NSP will be recalculated based on the actual world-wide sales recognized during the period from the Effective Date to [*].

3. Concurrently, the Provisional Price will also be recalculated based on the recalculated average NSP as described above. The recalculated Provisional Price shall be equal to the recalculated average NSP multiplied by the percentage indicated in the "Provisional Transfer Price" column of the schedule in paragraph I.A. above or the amount in the "Floor Price" column, whichever is greater. This revised Provisional Price will be in effect for the following twelve-month period, and will be communicated to Neoprobe no later than March 31 of each Commercial Year

C. Reconciliation to Actual Transfer Price

On [*] the Provisional Price will be reconciled to the actual Transfer Price based on actual, world-wide average NSP for the period from the Effective Date [*] After the Initial Reconciliation, the Provisional Price will be reconciled to the actual Transfer Price by the end of the first calendar quarter of each Commercial Year, i.e. March 31, based on actual, world-wide average NSP for the previous Commercial Year. Any overpayments or underpayments to Neoprobe shall be reflected on the first invoice to Ethicon after April 1 as a lump-sum adjustment.

*** Portions have been omitted and filed separately with the Securities and Exchange Commission pursuant to a request for confidential treatment.**

II. Sample Demonstration Units

Products purchased by Ethicon to be used as promotional product demonstration units, training units or sales representative samples will be priced according to the calculation under "Demonstration Unit Pricing" under the following schedule:

	Demonstration Unit Pricing	Current Cost Estimate	Estimated Demonstration Unit Price[1]
[*]			
[*]	[*]		[*]
[*]	[*]	[*]	[*]
Control unit only:			
[*]	[*]	[*]	[*]
[*]	[*]	[*]	[*]
[*]	[*]	[*]	[*]
Probes:			
[*]	[*]	[*]	[*]
[*]	[*]	[*]	[*]
[*]			
[*]	[*]	[*]	[*]
[*]	[*]	[*]	[*]
[*]	[*]	[*]	[*]
[*]	[*]		
[*]	[*]	[*]	[*]
All other Products	[*]		

Notes

1. The "Estimated Demonstration" Unit Price" is based on the current estimated Cost of the Products provided to Ethicon by Neoprobe as shown in the "Current Cost Estimate" column in the above schedule and represents the maximum Demonstration Unit Price. It is agreed that any cost reductions, volume-related deductions or associated Cost savings shall reduce the Cost in the demonstration unit pricing calculation.

*** Portions have been omitted and filed separately with the Securities and Exchange Commission pursuant to a request for confidential treatment.**

2. The Demonstration Unit Price of [*] for the returned and refurbished demonstration units ("Returned Units") [*] only. The maximum quantity of Returned Units is [*]. Any and all other demonstration system purchases shall be made at the [*] whichever is less. For tracking and compliance purposes, Neoprobe shall provide Ethicon with a list of serial numbers for those demonstration units [*] including serial numbers for all related components.

3. The Demonstration Unit Price of [*] demonstration units from the [*] only. The maximum quantity of [*] Blue Tip [*]. Any and all other demonstration unit purchases shall be made at the [*]. For tracking and compliance purposes, Neoprobe shall provide Ethicon with a list of serial numbers for those demonstration units owned by the current U.S. distributor including serial numbers for all related components.

Schedule 5.6 Sales and Marketing Literature

SCHEDULE 5.6

LIST OF APPROVED MARKETING LITERATURE

DOCUMENT	REVIEW NUMBER	USE	QUANTITY AS OF 9/15/99
neo2000™ BIueTip™ Probe Sales Training Binder	99-581	Released for use by Sales Reps; internal use only; not for dissemination to users/ public	1 (Master)
neo2000™ Gamma Detection System Operation Manual	99-582	Released for use by product users	75
neo2000™ Gamma Detection System Operation Training Binder	99-583	Released for use by Sales Reps; internal use only; not for dissemination to users/ public	1 (Master)
Neoprobe 14mm Reusable Probe Sales Aid	99-584	Released for use by Sales Reps to interface with potential customers	2,500
neo2000™ BlueTip™ Probe Sales Aid	99-585	Released for use by Sales Reps to interface with potential customers	6,000
neo2000™ Gamma Detection System Sales Aid	99-586	Released for use by Sales Reps to interface with potential customers	6,000

Schedule 5.18 Sales and Marketing Organization

Schedule 5.18 Sales and Marketing Organization

EUROPE

Employee	Location	Title	Hire Date
Cookson, Doug	Oxfordshire, England	Marketing Director	11/3/97
Janssen, Jan-Willem	Grave, Netherlands	Clinical Specialist	9/1/98
Vinotti, Donatella	Nepi, Italy	Clinical Specialist	9/1/98
Wright, Susan	Hampshire, England	Professional Educ. Mgr	7/1/98
U.S.			
Bellett, Dennis	Issaguah, WA (Seattle)	Clinical Specialist	5/14/98
Gates, Dan	McKinney, TX (Dallas)	Western Area Dir.	1/12/98
Regester, Steve	Westerville, OH	Clinical Specialist	1/12/98
Russell, Mike	Raleigh, NC	Sales Director	8/1/96

Schedule 5.25 14 mm Probe Accessory Marketing Implementation Program

Schedule 5.25 14mm Probe Accessory Marketing Implementation Program - Page 1

Program Revised labeling and customer instructions for the Neoprobe Reusable Probes when used neo2000 Control Units

Scope The Parties agree to the following key items of the Program:

- A Warning shall be developed and placed on the neo2000 Control Units as well as, added to Section 1.1-1, System Warnings, Cautions and Notes of the Operation Manual, as well as any promotional material and read as follows: "Warning! To minimize the risk of safety hazards (electric shock or burns) and to maintain proper operation, Neoprobe Corporation recommends that this equipment not be in contact with the patient or operator when any electrosurgical device is in use and energized."

- Recommendation shall be added to Section 1.1-1 and Section 4.3-1, Sterilization Procedures of the Operation Manual and read as follows: "When reusable probes, Models 1002 and 1017 are used with the neo2000 Control Unit, it is recommended that the probes always be placed in commercially available sterile surgical drape barriers [as noted above]."

- Written communications shall be developed and provided to all Neoprobe customers on the Warning and Recommendation.

- Customer inservicing shall be conducted to reinforce the written communications and ensure proper procedures are followed during Product use.

Responsibilities and Timing

Actions	Responsibility	Timing from Effective Date
Finalize Regulatory strategy.	Neoprobe	7 days
Develop Warning and Recommendation labeling and revised Operation Manual pages (include artwork and copies)	Neoprobe	21 days
Prepare written communications on Warning and Recommendations and send to all Neoprobe Customers (“Customers”); Prepare inservicing script	Neoprobe - Preparation of communications including script and mailing to Customers Ethicon - Affixing Labels and inserting new Operation Manual pages where Customer inservicing to existing neo2000 customers will be done b Ethicon (as noted below)	7-10 days
Conduct Customer inservicing to existing neo2000 customers where Third Party Agreements are not in effect (refer to Schedule 3.2 of the Agreement)	Ethicon	45 days from final printed labeling and operations manual updates

In - Service Script
Neo2000 Gamma Detection System

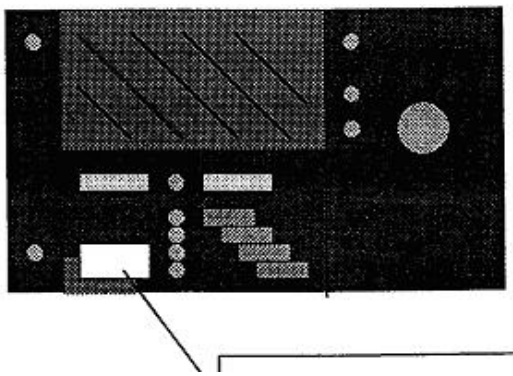
The following information is required to be disseminated to the customer during inservice training.

To ensure the intended operation, and safe and effective use of the neo2000 Gamma Detection System, when configured with the Model 1002 (19mm) or Model 1017 (14mm) detector probes, follow these basic rules:

1) To minimize the risk of safety hazards (electric shock or bums) and to maintain proper operation, Neoprobe Corporation recommends that this equipment not be in contact with the patient or operator when any electrosurgical device is in use and energized.

a) For existing accounts:

Add the ESU warning label to the front of the console as depicted here:



WARNING! To minimize the risk of safety hazards (electric shock or bums) and to maintain proper operation, Neoprobe Corporation recommends that this equipment not be in contact with the patient or operator when any electrosurgical device is in use and energized.

2) When reusable probes, Models 1002 and 1017 are used with the neo2000 Control Unit, it is recommended that the probes always be placed in commercially available sterile surgical drape barriers. Refer the customer to page 4.3-3 for the surgical sheath product information (i.e., Microtek Probe Drape Catalog No. 3787; 1-800-824-3027).

3) Update the Operation Manual with new pages for Sections: l.1-1, 4.1-1, and 7.1-1 will be provided with this in-service document.

Schedule 6.1 R&D Personnel

SCHEDULE 6.1

INSTRUMENT DEVELOPMENT POSITIONS

POSITION	CURRENT INCUMBENT
Director, Instrument Development	Carl Bosch
Project Engineer	John Call
Project Engineer	Open
Software Engineer FT Consultant	Olwen Wee
Executive Assistant	Jean Jerew

Schedule 6.3 R&D Programs

*** Portions have been omitted and filed separately with the Securities and Exchange Commission pursuant to a request for confidential treatment.**

Schedule 6.3 R&D Programs

SCHEDULE 6.3

EXISTING NEOPROBE R&D PROGRAMS

PRODUCT	DESCRIPTION	IMPACT	AVAILABILITY
[*]	· [*] · [*] · [*] · [*]	· [*]	· [*] · [*] · [*]
[*]	· [*]	· [*] · [*] · [*]	· [*] · [*]
[*]	· [*] · [*] · [*]	· [*]	· [*] · [*]
[*]	· [*] · [*] · [*] · [*] · [*]	· [*]	· [*] · [*]

SCHEDULE 10.2

MATERIAL FOR ESCROW

1) Copy of the Product Technical Documentation

2) Copy of the Method Sheets(Manufacturing Instructions)

3) Copy of the Verification and Validation Procedures

ETHICON QUALITY ASSURANCE REQUIREMENTS

1. Neoprobe shall maintain a quality assurance system for the manufacture of the Products that is compliant with the requirements of FAR 820, Quality System Regulation, Current Good Manufacturing Practices.

2. Neoprobe represents and warrants that each of the Products is marked and attested to comply with Council Directive 93/42/EEC and that each of the Products is compliant with EN60601-1 and any related requirements relating to such Product.

3. Neoprobe shall provide Ethicon with the most recent copies of all applicable EC certificates # 02033 and all other certifications upon Ethicon's written request.

4. Neoprobe represents that each of the Products is marked (UL) and attested to comply with Underwriters Laboratory safety requirements. Neoprobe shall be responsible for assuring that each of the Products is compliant with UL 2601-1; Medical Electrical Equipment, Part 1: General Requirements for Safety.

5. Neoprobe shall be responsible for assuring all external suppliers maintain the appropriate quality, process and material controls to assure that the goods and services they provide are delivered on schedule and meet the requisite material and quality specifications.

6. Pursuant to Section 8.2, Neoprobe shall agree to provide Ethicon with a written plan to remedy deficiencies lasting longer than ten (10) business days with updates on a monthly basis until such activities necessary to correct such deficiencies are completed.

Exhibit 21.1

Subsidiaries	Jurisdiction of Incorporation	Percentage Owned by Registrant
Cardiosonix Ltd.	Israel	100%
Cira Biosciences, Inc.	Delaware, USA	90%

Exhibit 23.1

Consent of Independent Registered Public Accounting Firm

Neoprobe Corporation
Dublin, Ohio

We hereby consent to the incorporation by reference in the Registration Statements on Form S-8 (Nos. 33-81410, 333-01543, 333-119219, 333-130640 and 333-130636) of Neoprobe Corporation of our report dated March 14, 2007, relating to the consolidated financial statements, which appears in this Form 10-KSB.

/s/ BDO Seidman, LLP

Chicago, Illinois
March 14, 2007

Exhibit 24.1

POWER OF ATTORNEY

Each of the undersigned officers and directors of Neoprobe Corporation, a Delaware corporation (the "Company"), does hereby constitute and appoint David C. Bupp and Brent L. Larson as his agents and lawful attorneys-in-fact, or either one of them individually with power to act without the other, as his agent and lawful attorney-in-fact, in his name and on his behalf, and in any and all capacities stated below;

- To sign and file with the United States Securities and Exchange Commission the Annual Report of the Company on Form 10-KSB for the fiscal year ended December 31, 2006, and any amendments or supplements to such Annual Report; and

- To execute and deliver any instruments, certificates or other documents which they shall deem necessary or proper in connection with the filing of such Annual Report, and generally to act for and in the name of the undersigned with respect to such filing as fully as could the undersigned if then personally present and acting.

Each agent named above is hereby empowered to determine in his discretion the times when, the purposes for, and the names in which, any power conferred upon him herein shall be exercised and the terms and conditions of any instrument, certificate or document which may be executed by him pursuant to this instrument.

This Power of Attorney shall not be affected by the disability of any of the undersigned or the lapse of time.

The validity, terms and enforcement of this Power of Attorney shall be governed by those laws of the State of Ohio that apply to instruments negotiated, executed, delivered and performed solely within the State of Ohio.

This Power of Attorney may be executed in any number of counterparts, each of which shall have the same effect as if it were the original instrument and all of which shall constitute one and the same instrument.

IN WITNESS WHEREOF, the undersigned have executed this Power of Attorney effective as of March 1, 2007.

Signature	*Title*
/s/ David C. Bupp David C. Bupp	President, Chief Executive Officer and Director (principal executive officer)
/s/ Brent L. Larson Brent L. Larson	Vice President, Finance and Chief Financial Officer (principal financial officer and principal accounting officer)
/s/ Julius R. Krevans Julius R. Krevans, M.D.	Chairman of the Board of Directors
/s/ Carl J. Aschinger, Jr. Carl J. Aschinger, Jr.	Director
/s/ Reuven Avital Reuven Avital	Director
/s/ Kirby I. Bland Kirby I. Bland, M.D.	Director
/s/ Fred B. Miller Fred B. Miller	Director
/s/ J. Frank Whitley, Jr. J. Frank Whitley, Jr.	Director

Exhibit 31.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, David C. Bupp, certify that:

1. I have reviewed this annual report on Form 10-KSB of Neoprobe Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the small business issuer as of, and for, the periods presented in this report;

4. The small business issuer's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the small business issuer and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the small business issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Evaluated the effectiveness of the small business issuer's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(c) Disclosed in this report any change in the small business issuer's internal control over financial reporting that occurred during the small business issuer's most recent fiscal quarter (the small business issuer's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the small business issuer's internal control over financial reporting; and

5. The small business issuer's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the small business issuer's auditors and the audit committee of the small business issuer's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the small business issuer's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the small business issuer's internal control over financial reporting.

March 16, 2007

/s/ David C. Bupp

David C. Bupp
President and Chief Executive Officer

Exhibit 31.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Brent L. Larson, certify that:

1. I have reviewed this annual report on Form 10-KSB of Neoprobe Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the small business issuer as of, and for, the periods presented in this report;

4. The small business issuer's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the small business issuer and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the small business issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Evaluated the effectiveness of the small business issuer's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(c) Disclosed in this report any change in the small business issuer's internal control over financial reporting that occurred during the small business issuer's most recent fiscal quarter (the small business issuer's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the small business issuer's internal control over financial reporting; and

5. The small business issuer's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the small business issuer's auditors and the audit committee of the small business issuer's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the small business issuer's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the small business issuer's internal control over financial reporting.

March 16, 2007

/s/ Brent L. Larson

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

Exhibit 32.1

CERTIFICATION OF PERIODIC FINANCIAL REPORT PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002,18 U.S.C. SECTION 1350

The undersigned hereby certifies that he is the duly appointed and acting Chief Executive Officer of Neoprobe Corporation (the "Company") and hereby further certifies as follows:

(1) The periodic report containing financial statements to which this certificate is an exhibit fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the periodic report to which this certificate is an exhibit fairly presents, in all material respects, the financial condition and results of operations of the Company.

In witness whereof, the undersigned has executed and delivered this certificate as of the date set forth opposite his signature below.

March 16, 2007

/s/ David C. Bupp

David C. Bupp
President and Chief Executive Officer

Exhibit 32.2

CERTIFICATION OF PERIODIC FINANCIAL REPORT PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002, 18 U.S.C. SECTION 1350

The undersigned hereby certifies that he is the duly appointed and acting Chief Financial Officer of Neoprobe Corporation (the "Company") and hereby further certifies as follows:

(1) The periodic report containing financial statements to which this certificate is an exhibit fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the periodic report to which this certificate is an exhibit fairly presents, in all material respects, the financial condition and results of operations of the Company.

In witness whereof, the undersigned has executed and delivered this certificate as of the date set forth opposite his signature below.

March 16, 2007

/s/ Brent L. Larson

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