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

FORM 8-K

CURRENT REPORT
Pursuant to Section 13 or 15(d) of The Securities Exchange Act of 1934

Date of Report (Date of earliest event reported) December 30, 2011

NEOPROBE CORPORATION

(Exact name of registrant as specified in its charter)

Delaware	0-26520	31-1080091
(State or other jurisdiction of incorporation)	(Commission File Number)	(IRS Employer Identification No.)

425 Metro Place North, Suite 300, Columbus, Ohio	43017
(Address of principal executive offices)	(Zip Code)

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

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

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

☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Item 8.01 Other Events.

Effective August 17, 2011, Neoprobe Corporation (the "Company") completed the sale of the assets used in its business of developing, commercializing, distributing, marketing, selling and servicing gamma detection devices used in the diagnosis or treatment of cancer in human beings (the "GDS Business") to Devicor Medical Products, Inc. As a result of the disposition of its GDS Business, the Company has recast certain information included in the following sections of its Annual Report on Form 10-K for the year ended December 31, 2010 (the "2010 Annual Report") to reflect the disposition of the GDS Business for all periods presented:

Part II, Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Part II, Item 8. Financial Statements and Supplementary Data

This report is being filed solely for the purpose described above. The recast financial information is filed as Exhibits 99.1 and 99.2 to this Current Report on Form 8-K and is incorporated herein by reference. This report should be read together with the portions of the 2010 Annual Report that it supplements, and together with the Company's Quarterly Reports on Forms 10-Q for the quarters ended March 31, 2011, June 30, 2011, and September 30, 2011, and other Current Reports on Form 8-K filed with the Securities and Exchange Commission after the 2010 Annual Report.

Item 9.01 Financial Statements and Exhibits.

(d) Exhibits.

Exhibit Number	*Exhibit Description*
23.1	Consent of BDO USA, LLP
99.1	Management's Discussion and Analysis of Financial Condition and Results of Operations
99.2	Financial Statements and Supplementary Data

SIGNATURES

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

Neoprobe Corporation

Date: December 30, 2011

By: /s/ Brent L. Larson
Brent L. Larson, Senior Vice President and
Chief Financial Officer

EXHIBIT INDEX

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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, 333-05143, 333-119219, 333-130636, 333-130640, 333-153110, and 333-158323) of Neoprobe Corporation of our report dated March 16, 2011, except for Note 2 which is as of December 30, 2011, relating to the consolidated financial statements, which appears in this Form 8-K.

/s/ BDO USA, LLP

Chicago, Illinois
December 30, 2011

Item 7. 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-K. 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 1A of this Form 10-K, Risk Factors.

The Company

Neoprobe is a biopharmaceutical technology company focused on enhancing patient care and improving patient benefit through radiopharmaceutical product development. Neoprobe is actively developing two radiopharmaceutical agent platforms – Lymphoseek® (Tilmanocept) and RIGScan™ – to help surgeons better identify and stage certain types of cancer. Neoprobe's 90%-owned subsidiary, Cira Biosciences, Inc. (Cira Bio), also has rights to a patient-specific cellular therapy technology platform called ACT. Neoprobe's strategy is to deliver superior growth and shareholder return by bringing to market novel radiopharmaceutical agents and advancing the Company's pipeline program through continued investment and selective partnerships, licenses and/or acquisitions.

In August 2009, the Company's Board of Directors decided to discontinue the operations and attempt to sell our wholly-owned subsidiary, Cardiosonix Ltd. (Cardiosonix). This decision was based on the determination that the blood flow measurement device segment was no longer considered a strategic initiative of the Company, due in part to positive achievements related to our other device product and drug development initiatives. We have not received significant expressions of interest in the Cardiosonix business; however, we are obligated to continue to service and support the Cardiosonix devices through 2013. As such, while we continue to wind down our activities in this area, we expect to continue to generate minimal revenues and incur minimal expenses related to our blood flow measurement device business until a final shutdown of operations or a sale of the business unit is completed.

In connection with our development of radiopharmaceutical products, we had developed and marketed a line of medical devices, the neoprobe® GDS gamma detection systems (the GDS Business). However, on August 15, 2011 our stockholders approved the sale of our gamma detection device line of business (the Asset Sale) to Devicor Medical Products, Inc. (Devicor). The Asset Sale closed on August 17, 2011 consistent with the terms of the Asset Purchase Agreement (APA) signed on May 24, 2011. Under the terms of the APA, we sold the assets and assigned certain liabilities that were primarily related to the GDS Business. In exchange for the net assets of the GDS Business, Devicor made a cash payment to us of $30,000,000, assumed certain liabilities of the Company associated with the GDS Business as specified in the APA, and agreed to make royalty payments to us of up to an aggregate maximum amount of $20,000,000 based on the net revenue attributable to the GDS Business over the course of the next six fiscal years. Our consolidated balance sheets and statements of operations have been reclassified, as required, for all periods presented to reflect the GDS Business as a discontinued operation. Cash flows associated with the operation of the GDS Business have been combined within operating, investing and financing cash flows, as appropriate, in our consolidated statements of cash flows.

With the completion of the Asset Sale, we have taken an important step in reshaping Neoprobe into a specialty pharmaceutical company focused on precision diagnostics. We are currently actively reviewing a number of different product candidates to partner, in-license and/or acquire. These evaluations generally involve relatively late-stage radiopharmaceutical development candidates, some of which we believe would significantly augment our current development pipeline. Some of our discussions regarding pipeline candidates are in relatively advanced stages. We expect to make progress, and ultimately announcements, regarding these pipeline business development efforts, as well as on Lymphoseek distribution arrangements covering additional global markets, over the coming quarters.

Executive Summary

This Overview 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 medical device product lines. We cannot assure you 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 believe that the future prospects for Neoprobe continue to improve as we make progress in all of our key growth and development areas, especially related to our Lymphoseek initiative. We expect our overall research and development expenditures to rise in 2011 over 2010 as we have expanded our clinical and regulatory staffing to support the commercialization of Lymphoseek and further development of RIGScan and as we take steps to expand our product pipeline. The level to which the expenditures rise will depend on the extent to which we are able to execute on each of these strategic initiatives, but we are confident we will have the resources necessary to execute on these initiatives. Our primary development efforts over the last few years have been focused on our oncology drug development initiatives: Lymphoseek and RIGScan. We continue to make progress with both initiatives; however, neither Lymphoseek nor RIGScan is anticipated to generate any significant revenue for us during 2011.

Our efforts in 2010 resulted in the following milestone achievements:

- Completed a successful meeting with the United States Food and Drug Administration (FDA) to review the Phase 3 (NEO3-05) clinical study results and development plan discussion to support a New Drug Application (NDA) submission for Lymphoseek as a lymphatic tissue tracing agent;
- Completed a successful pre-NDA dialogue with FDA on Lymphoseek pre-clinical data;
- Completed a successful pre-NDA dialogue with FDA on Lymphoseek chemistry, manufacturing and control data;
- Initiated a third Lymphoseek Phase 3 clinical study in subjects with breast cancer or melanoma (NEO3-09) to support the NDA filing with the potential to expand Lymphoseek's product labeling;
- Completed a pre-NDA meeting for Lymphoseek clarifying the regulatory pathway for Lymphoseek approval;
- Elected two new directors to Neoprobe's Board, bringing significant drug industry and corporate development expertise to the Company's leadership;
- Completed transactions that converted all of the Company's outstanding debt to equity;
- Received notice of grant awards of over $1.2 million to support future Lymphoseek development through non-dilutive funding;
- Filed a shelf registration on Form S-3 to allow the Company to raise capital as necessary through the sale of up to $20 million in a primary offering of securities to provide us with additional financial planning flexibility and to support the diversification of our share ownership to new institutions;
- Completed an offering and sale of common stock and warrants under the shelf registration statement resulting in approximately $5.5 million in net proceeds to the Company and the potential for an additional $7.0 million in proceeds from the cash-only exercise of the warrants included in the placement;
- Completed preliminary RIGS® development activities including transfer of the biologic license application (BLA) from the Center for Biologics Evaluation and Research (CBER) to the Division of Medical Imaging Products in the Center for Drug Evaluation and Research (CDER) at FDA and preparation of an investigational new drug (IND) request for the biologic product; and
- Filed a complete response to the open BLA for RIGScan.

Outlook

Our operating expenses during 2010 were focused primarily on support of Lymphoseek product development, and to a lesser extent, on efforts to restart active development of RIGScan. We expect our drug-related development expenses to increase in 2011 as we complete the NEO3-09 clinical trial, prepare and file the NDA for Lymphoseek with FDA, and support the other drug stability and production validation activities related to supporting the potential marketing registration of Lymphoseek in the U.S. and other major markets. In addition, following the recent meeting with FDA regarding the development and regulatory pathway for RIGScan, we expect to incur significant expenses related to pre-clinical and manufacturing activities necessary to prepare to re-enter clinical trials with RIGScan in 2012. To the extent we are successful in identifying and securing additional product candidates to augment our product development pipeline, we may incur additional expenses related to furthering the development of such products.

Results of Operations

In June 2010, Neoprobe was notified that Ohio's Third Frontier Commission voted to award a grant of $1 million to fund ongoing development of the Company's Lymphoseek initiative. The grant is being used to accelerate the application of Lymphoseek in head and neck cancer treatment and involves a collaboration of several Ohio-based companies as well as leading cancer centers in the US. Neoprobe and its collaborators will be required to contribute an additional $1.1 million in matching funds over the course of the project. We recognized approximately $358,000 in Ohio Third Frontier grant revenue during 2010, and expect to recognize the remaining $642,000 as revenue during 2011 and 2012. In October 2010, Neoprobe was awarded a grant of approximately $244,000 under the Qualifying Therapeutic Discovery Project (QTDP) program established under Section 48D of the Internal Revenue Code. The QTDP grant was a reimbursement of previous expenditures and there is no requirement for future matching funds from Neoprobe. We recognized the entire $244,000 of QTDP grant revenue in the fourth quarter of 2010. During the fourth quarter of 2010, Neoprobe received and recognized an additional $15,000 of miscellaneous grant revenue.

Years Ended December 31, 2010 and 2009

Grant Revenue. Grant revenue, primarily related to the Ohio Third Frontier grant to support Lymphoseek development and the QTDP grant, was $617,000 during 2010. Recognition of grant revenue began late in the third quarter of 2010.

Research and Development Expenses. Research and development expenses increased $4.5 million, or 104%, to $8.9 million during 2010 from $4.4 million in 2009. The net increase was primarily due to (i) increased process development costs of $1.5 million, increased clinical activity costs of $929,000, increased regulatory consulting costs of $303,000, and increased pricing study costs of $217,000 related to Lymphoseek, (ii) increased process development costs of $544,000, increased regulatory consulting costs of $118,000, increased pricing study costs of $108,000, and increased license fees of $62,000 related to RIGScan, and (iii) increased compensation costs of $680,000 related to increased headcount and incentive-based compensation.

Selling, General and Administrative Expenses. Selling, general and administrative expenses increased $1.4 million, or 44%, to $4.4 million during 2010 from $3.0 million in 2009. The increase was primarily due to increased financial advisory fees of $304,000, increased compensation costs of $254,000 related to increased headcount and incentive-based compensation, increased investor relations fees of $225,000 related to re-listing the Company's stock on a major exchange, increased Board of Directors costs of $162,000 related to increased incentive-based compensation and fees, increased professional services of $152,000, and the audit of our internal control over financial reporting of $70,000.

Other Income (Expense). Other expense, net increased $7.7 million to $43.6 million in 2010 from $35.9 million in 2009. During 2010, we recorded a non-cash loss on the extinguishment of debt of $41.7 million related to the exchange of our outstanding convertible debt for convertible preferred stock. During 2009, we recorded a $16.2 million non-cash loss on extinguishment of debt related to changes in the terms of our convertible debt, convertible preferred stock and the related warrants to purchase our common stock. During 2010 and 2009, we recorded charges of $1.3 million and $18.1 million, respectively, related to the increase in the fair value of our derivative liabilities resulting from the requirement to mark our derivative liabilities to market. Interest expense, primarily related to the convertible debt agreements we completed in December 2007 and April 2008 and extinguished in June 2010, decreased $978,000 to $555,000 in 2010 from $1.5 million in 2009. Of this interest expense, $16,000 and $428,000 in 2010 and 2009, respectively, were non-cash in nature related to the amortization of debt issuance costs and debt discounts resulting from the warrants and conversion features of the convertible debt. An additional $403,000 and $917,000 of interest expense in 2010 and 2009, respectively, was non-cash in nature due to the payment or accrual of interest on our convertible debt with shares of our common stock.

Impairment Loss on Discontinued Operations. During the third quarter of 2009, we made the decision to discontinue operations of the blood flow measurement device segment of our business as the segment was no longer considered a strategic initiative of the Company. As a result, we recorded an impairment loss for discontinued operations of $1.7 million for the year ended December 31, 2009.

Income from Discontinued Operations. Income from discontinued operations increased $872,000, or 16%, to $6.3 million during 2010 from $5.4 million in 2009, primarily due to increased sales of our gamma detection device products. Total revenues from discontinued operations were $10.1 million and $9.6 million in 2010 and 2009, respectively.

Years Ended December 31, 2009 and 2008

Research and Development Expenses. Research and development expenses increased $624,000, or 17%, to $4.4 million during 2009 from $3.8 million in 2008. The net increase was primarily due to (i) increased clinical activity costs of $497,000 offset by decreased process development costs of $436,000 related to Lymphoseek, (ii) decreased regulatory consulting costs of $70,000 related to RIGScan, and (iii) increased compensation costs of $580,000 related to increased headcount and incentive-based compensation.

Selling, General and Administrative Expenses. Selling, general and administrative expenses increased $92,000, or 3%, to $3.0 million during 2009 from $2.9 million in 2008. The increase was primarily due to increased compensation costs of $134,000 related to incentive-based compensation and increased office space costs of $52,000, offset by decreased investor relations fees of $66,000.

Other Income (Expense). Other expense, net increased $33.8 million to $35.9 million during 2009 from $2.1 million during the same period in 2008. During 2009, we recorded a $16.2 million non-cash loss on extinguishment of debt related to changes in the terms of our convertible debt, convertible preferred stock and the related warrants to purchase our common stock. Also during 2009, we recorded a $18.1 million increase in derivative liabilities resulting from the accounting treatment for the convertible debt agreements we executed in December 2007 and April 2008, the convertible preferred stock we issued in December 2008, and the related warrants to purchase our common stock, which contained certain provisions that resulted in their being treated as derivative liabilities under new accounting guidance effective January 1, 2009. During 2008, we recorded a $451,000 increase in derivative liabilities. Interest expense, primarily related to the convertible debt agreements we completed in December 2007 and April 2008, decreased $212,000 to $1.5 million during 2009 from $1.7 million for the same period in 2008. Of this interest expense, $428,000 and $706,000 in 2009 and 2008, respectively, was non-cash in nature related to the amortization of debt issuance costs and discounts resulting from the warrants and conversion features of the convertible debt. An additional $917,000 of interest expense in 2009 was non-cash in nature due to the payment or accrued payment of interest on our convertible debt with shares of our common stock.

Impairment Loss on Discontinued Operations. During the third quarter of 2009, we made the decision to discontinue operations of the blood flow measurement device segment of our business as the segment was no longer considered a strategic initiative of the Company. As a result, we recorded an impairment loss for discontinued operations of $1.7 million for the year ended December 31, 2009.

Income from Discontinued Operations. Income from discontinued operations increased $1.8 million, or 48%, to $5.4 million during 2009 from $3.6 million in 2008, primarily due to the increased percentage of revenues for certain gamma detection products that Neoprobe began receiving in 2009 under the terms of an amended distribution agreement. Total revenues from discontinued operations were $9.6 million and $7.9 million in 2009 and 2008, respectively.

Liquidity and Capital Resources

Cash balances increased to $6.4 million at December 31, 2010 from $5.6 million at December 31, 2009. The net increase was primarily due to cash received for the issuance of common stock, offset by cash used to fund our operations, mainly for research and development activities.

Operating Activities. Cash used in operations increased $3.7 million to $5.2 million during 2010 compared to $1.5 million during 2009. Cash used in operations decreased $1.5 million to $1.5 million during 2009 compared to $3.0 million during 2008.

Inventory levels increased to $632,000 at December 31, 2010 from $525,000 at December 31, 2009. During 2010, we capitalized $741,000 of pharmaceutical materials related to our Lymphoseek product; however, also during 2010, we expensed $634,000 of previously capitalized pharmaceutical materials to research and development as they were no longer considered to be usable in the production of future saleable drug product inventory. Inventory levels increased to $525,000 at December 31, 2009 from zero at December 31, 2008. During 2009, we capitalized $525,000 of pharmaceutical materials related to our Lymphoseek product. We expect inventory levels to increase over 2011 as we produce additional drug inventory in anticipation of the Lymphoseek product launch.

Accounts payable increased to $1.4 million at December 31, 2010 from $457,000 at December 31, 2009 primarily due to increases in Lymphoseek and RIGScan development activities as well as normal fluctuations in timing of receipt and payment of invoices. Accounts payable increased to $457,000 at December 31, 2009 from $407,000 at December 31, 2008 due to normal fluctuations in timing of receipt and payment of invoices. Accrued liabilities and other increased to $1.0 million at December 31, 2010 from $828,000 at December 31, 2009, primarily due to increases in Lymphoseek and RIGScan development activities. Accrued liabilities and other increased to $828,000 at December 31, 2009 from $699,000 at December 31, 2008 primarily due to interest accrued on our convertible securities. Our payable and accrual balances will continue to fluctuate but will likely increase overall as we increase our level of development activity related to RIGScan.

Assets associated with discontinued operations increased to $3.0 million at December 31, 2010 from $2.3 million at December 31, 2009, primarily due to increases in the assets of the GDS Business, mainly increases in accounts receivable and inventory offset by decreases in net property and equipment. Assets associated with discontinued operations decreased to $2.3 million at December 31, 2009 from $4.3 million at December 31, 2008, primarily due to the impairment of assets related to the blood flow measurement device business.

Liabilities associated with discontinued operations increased to $1.8 million at December 31, 2010 from $1.7 million at December 31, 2009, primarily due to increases in deferred revenue related to the GDS Business. Liabilities associated with discontinued operations increased to $1.7 million at December 31, 2009 from $1.6 million at December 31, 2008, also primarily due to increases in deferred revenue related to the GDS Business.

Investing Activities. Investing activities used $399,000 of cash during 2010 compared to providing $327,000 during 2009 and using $627,000 during 2008. We purchased $690,000 of available-for-sale securities during 2008. Available-for-sale securities of $494,000 and $196,000 matured during 2009 and 2008, respectively. Capital expenditures of $367,000 during 2010 were primarily for equipment to be used in the production of Lymphoseek, office furniture, software, and computers. Capital expenditures of $96,000 and $116,000 during 2009 and 2008, respectively, were primarily for computers, production and laboratory equipment, and software. We do not expect to incur significant additional costs for Lymphoseek production equipment. As such, we expect our overall capital expenditures for 2011 will be lower than 2010. Payments for patent and trademark costs were $32,000, $71,000 and $17,000 during 2010, 2009 and 2008, respectively.

Financing Activities. Financing activities provided $6.3 million of cash during 2010 compared to $3.2 million provided during 2009 and $5.7 million provided during 2008. The $6.3 million provided by financing activities in 2010 consisted primarily of proceeds from the issuance of common stock of $7.1 million, offset by payments of stock offering costs of $611,000, payments of preferred stock dividends of $111,000, payments of capital leases of $12,000, and payments of notes payable of $9,000. The $3.2 million provided by financing activities in 2009 consisted primarily of proceeds from the issuance of common stock of $3.6 million, offset by payments of stock offering costs of $238,000, payments of notes payable of $138,000, payments of debt issuance costs of $20,000, and payments of capital leases of $9,000. The $5.7 million provided by financing activities in 2008 consisted primarily of proceeds from the issuance of preferred stock of $3.0 million, proceeds from the issuance of new notes payable of $3.0 million, and proceeds from the issuance of common stock of $232,000, offset by payments of stock offering costs of $181,000, payments of debt issuance costs of $200,000 and payments of notes payable of $158,000. We do not rely to any material extent on short-term borrowings for working capital or to fund our operations.

In December 2006, we entered into a common stock purchase agreement with Fusion Capital Fund II, LLC (Fusion Capital), an Illinois limited liability company, to sell $6.0 million of our common stock to Fusion Capital over a 24-month period which ended on November 21, 2008. Upon execution of the agreement, we issued to Fusion Capital 720,000 shares of our common stock as a commitment fee. Through November 2008, we sold to Fusion Capital under the agreement 7,568,671 shares for proceeds of $1.9 million. As sales of our common stock were made under the original agreement, we issued an additional 234,000 shares of our common stock to Fusion Capital as an additional commitment fee. In December 2008, we entered into an amendment to the agreement which gave us a right to sell an additional $6.0 million of our common stock to Fusion Capital before March 1, 2011, along with the $4.1 million of the unsold balance of the $6.0 million we originally had the right to sell to Fusion Capital under the original agreement. As consideration for Fusion Capital's agreement to enter into the amendment, we issued Fusion Capital an additional 360,000 shares. Also, we agreed to issue to Fusion Capital an additional 486,000 shares of our common stock as a commitment fee pro rata as we sold the first $4.1 million of our common stock under the amended agreement. In March 2010, we sold to Fusion Capital under the amended agreement 540,541 shares for proceeds of $1.0 million and issued an additional 120,000 shares of our common stock to Fusion Capital as an additional commitment fee related to the sale. The agreement with Fusion Capital expired as planned on March 1, 2011, and as a result, Fusion Capital may liquidate any commitment fee shares issued to it during the term of the agreement.

In July 2007, David C. Bupp, our President and CEO, and certain members of his family (the Bupp Investors) purchased a $1.0 million convertible note (the Bupp Note) and warrants. The Bupp Note bore interest at 10% per annum, had an original term of one year and was repayable in whole or in part with no penalty. The note was convertible, at the option of the Bupp Investors, into shares of our common stock at a price of $0.31 per share. As part of this transaction, we issued the Bupp Investors Series V warrants to purchase 500,000 shares of our common stock at an exercise price of $0.31 per share, expiring in July 2012.

In December 2007, we entered into a Securities Purchase Agreement (SPA) with Platinum Montaur Life Sciences, LLC (Montaur), pursuant to which we issued Montaur a 10% Series A Convertible Senior Secured Promissory Note in the principal amount of $7,000,000, $3.5 million of which was convertible into shares of our common stock at the conversion price of $0.26 per share, due December 26, 2011 (the Series A Note); and a five-year Series W warrant to purchase 6,000,000 shares of our common stock at an exercise price of $0.32 per share.

In connection with the SPA, Montaur requested that the term of the $1.0 million Bupp Note be extended approximately 42 months or until at least one day following the maturity date of the Series A Note. In consideration for the Bupp Investors' agreement to extend the term of the Bupp Note pursuant to an Amendment to the Bupp Purchase Agreement, dated December 26, 2007, we agreed to provide security for the obligations evidenced by the Amended 10% Convertible Note in the principal amount of $1,000,000, due December 31, 2011, executed by Neoprobe in favor of the Bupp Investors (the Amended Bupp Note), under the terms of a Security Agreement, dated December 26, 2007, by and between Neoprobe and the Bupp Investors (the Bupp Security Agreement). As further consideration for extending the term of the Bupp Note, we issued the Bupp Investors additional Series V warrants to purchase 500,000 shares of our common stock at an exercise price of $0.32 per share, expiring in December 2012.

In April 2008, following receipt by the Company of clearance from the United States Food and Drug Administration to commence a Phase 3 clinical trial for Lymphoseek in patients with breast cancer or melanoma, we amended the SPA related to the second tranche and issued Montaur a 10% Series B Convertible Senior Secured Promissory Note in the principal amount of $3,000,000, which was convertible into shares of our common stock at the conversion price of $0.36 per share, also due December 26, 2011 (the Series B Note, and hereinafter referred to collectively with the Series A Note as the Montaur Notes); and a five-year Series X warrant to purchase 8,333,333 shares of our common stock at an exercise price of $0.46 per share.

In December 2008, after we obtained 135 vital blue dye lymph nodes from patients who had completed the injection of the drug and surgery in a Phase 3 clinical trial of Lymphoseek in patients with breast cancer or melanoma, we issued Montaur 3,000 shares of our 8% Series A Cumulative Convertible Preferred Stock (the Series A Preferred Stock) and a five-year Series Y warrant to purchase 6,000,000 shares of our common stock at an exercise price of $0.575 per share (hereinafter referred to collectively with the Series W warrant and Series X warrant as the Montaur Warrants), for an aggregate purchase price of $3,000,000. The "Liquidation Preference Amount" for the Series A Preferred Stock was $1,000 and the "Conversion Price" of the Series A Preferred Stock was set at $0.50 on the date of issuance, thereby making the shares of Series A Preferred Stock convertible into an aggregate 6,000,000 shares of our common stock, subject to adjustment as described in the Certificate of Designations.

In July 2009, we entered into a Securities Amendment and Exchange Agreement with Montaur, pursuant to which Montaur agreed to the amendment and restatement of the terms of the Montaur Notes, the Series A Preferred Stock, and the Montaur Warrants. The Series A Note was amended to grant Montaur conversion rights with respect to the $3.5 million portion of the Series A Note that was previously not convertible. The newly convertible portion of the Series A Note was convertible into 3,600,000 shares of our common stock at $0.9722 per share. The amendments also eliminated certain price reset features of the Montaur Notes, the Series A Preferred Stock and the Montaur Warrants that had created significant non-cash derivative liabilities on the Company's balance sheet. In conjunction with this transaction, we issued Montaur a Series AA Warrant to purchase 2.4 million shares of our common stock at an exercise price of $0.97 per share, expiring in July 2014. The change in terms of the Montaur Notes, the Series A Preferred Stock and the Montaur Warrants were treated as an extinguishment of debt for accounting purposes. Following the extinguishment, the Company's balance sheet reflected the face value of the $10 million due to Montaur pursuant to the Montaur Notes, which approximated fair value at the date of the extinguishment.

In June 2010, we entered into a Securities Exchange Agreement with Montaur, pursuant to which Montaur exchanged the Montaur Notes and the Series A Preferred Stock for 10,000 shares of Series B Convertible Preferred Stock (the Series B Preferred Stock), convertible into 32,700,000 shares of common stock. The Series B Preferred Stock is convertible at the option of Montaur, carries no dividend requirements and participates equally with our common stock in liquidation proceeds based upon the number of common shares into which the Series B Preferred Stock is then convertible. As consideration for the exchange, Neoprobe issued additional Series B Preferred Stock which is convertible into 1.3 million shares of common stock.

Also in June 2010, we entered into a Securities Exchange Agreement with the Bupp Investors, pursuant to which the Bupp Investors exchanged the Amended Bupp Note for 1,000 shares of Series C Convertible Preferred Stock (the Series C Preferred Stock), convertible into 3,226,000 shares of common stock. The Series C Preferred Stock has a 10% dividend rate, payable quarterly, and participates equally with our common stock in liquidation proceeds based upon the number of common shares into which the Series C Preferred Stock is then convertible. The exchange of the Montaur Notes, the Series A Preferred Stock and the Amended Bupp Note were treated as extinguishments for accounting purposes. As a result of these exchange transactions, all security interests in the Company's assets held by Montaur and the Bupp Investors were extinguished.

During 2009 the largest aggregate amount outstanding on the Amended Bupp Note was $1.0 million, and, prior to the extinguishment of the Amended Bupp Note on June 25, 2010, the largest aggregate amount of principal outstanding on the Amended Bupp Note during 2010 was $1.0 million. The Company paid $0 of principal outstanding on the Amended Bupp Note during 2009, and $0 of the principal outstanding on the Amended Bupp Note during 2010. The Company paid $100,000 of interest on the Amended Bupp Note during 2009, and $48,611 of interest on the Amended Bupp Note during 2010. During 2009, and prior to the extinguishment of the Amended Bupp Note on June 25, 2010, the Amended Bupp Note accrued interest at the rate of 10% per annum.

In November 2010, we entered into a Securities Purchase Agreement with institutional investors for a registered direct offering of 3,157,896 shares of our common stock at a price of $1.90 per share for total gross proceeds of $6.0 million. In addition to the common stock, we issued one-year Series CC warrants to purchase 1,578,948 shares of our common stock at an exercise price of $2.11 per share, and two-year Series DD warrants to purchase 1,578,948 shares of our common stock at an exercise price of $2.11 per share. As compensation for the services of the placement agent in connection with the offering, we paid the placement agent $420,000 (7% of the gross proceeds) and issued five-year Series EE warrants to purchase 157,895 shares of our common stock at an exercise price of $2.375 per share. The common stock, warrants, and shares of common stock underlying the warrants were issued pursuant to a shelf registration statement on Form S-3 that was declared effective by the Securities and Exchange Commission on August 3, 2010.

The Series CC and Series DD warrants originally contained language that required Neoprobe to classify the warrants as derivative liabilities, and we recorded them at their estimated fair values totaling $1.2 million. In December 2010, a portion of the Series CC and Series DD warrants were modified to remove the language that had previously required them to be classified as derivative liabilities. As a result of the modification of certain of the Series CC and Series DD warrants, we reclassified $801,000 in derivative liabilities related to those warrants to additional paid-in capital. In January 2011, certain investors agreed to modify their outstanding Series CC and Series DD warrants to remove the language that had previously required them to be classified as derivative liabilities. The net effect of marking the derivative liabilities related to the modified Series CC and Series DD warrants to market resulted in net increases in the estimated fair values of the derivative liabilities of $76,000, which were recorded as non-cash expense. As a result of the modification of the Series CC and Series DD warrants, we reclassified $549,000 in derivative liabilities related to those warrants to additional paid-in capital. Between January 1 and March 15, 2011, certain outside investors exercised 1,578,948 Series CC warrants in exchange for issuance of 1,578,948 shares of our common stock, resulting in gross proceeds of $3,331,580. Also between January 1 and March 15, 2011, certain outside investors exercised 799,474 Series DD warrants in exchange for issuance of 799,474 shares of our common stock, resulting in gross proceeds of $1,686,890. The net effect of marking the derivative liabilities related to the exercised Series CC and Series DD warrants to market resulted in net increases in the estimated fair values of the derivative liabilities of $676,000, which were recorded as non-cash expense. As a result of the Series CC and Series DD warrant exercises, we reclassified $1.1 million in derivative liabilities related to those warrants to additional paid-in capital.

Our future liquidity and capital requirements will depend on a number of factors, including our ability to complete the development and commercialization of new products, our ability to achieve market acceptance of our 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 international regulatory bodies, the ability to procure additional pipeline development opportunities, and intellectual property protection.

Our most significant near-term development priority is to complete additional clinical testing for Lymphoseek, to file the NDA and to continue our pre-commercialization activities. We believe our current funds will be adequate to sustain our operations at planned levels for the foreseeable future. We are in the process of determining the total development cost necessary to commercialize RIGScan but believe that it will require total additional commitments of approximately $5 million during 2011 to restart manufacturing and other activities necessary to prepare for the clinical trial activities as we currently contemplate them. We expect to use currently available funds to continue the initial steps of restarting manufacturing of RIGScan. We are in the process of evaluating our funding alternatives related to RIGScan, but have not ruled out funding it in connection with a partner. While we have no current plans to raise additional equity capital, we will consider all alternatives available to us as we evaluate our strategic goals and plans. We cannot assure you that we will be successful in raising additional capital at terms acceptable to the Company, or at all. We also cannot assure you that we will be able to successfully obtain regulatory approval for and commercialize new products, that we will achieve significant product revenues from our current or potential new products or that we will achieve or sustain profitability in the future. See Risk Factors.

Recent Accounting Developments

In January 2010, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2010-6, *Improving Disclosures about Fair Value Measurements*. ASU 2010-6 amends FASB ASC Topic 820, Fair Value Measurements and Disclosures. ASU 2010-6 requires new disclosures as follows: (1) Transfers in and out of Levels 1 and 2 and (2) Activity in Level 3 fair value measurements. An entity should disclose separately the amounts of significant transfers in and out of Level 1 and Level 2 fair value measurements and describe the reasons for the transfers. In the reconciliation of fair value measurements using significant unobservable inputs (Level 3), an entity should present separately information about purchases, sales, issuances, and settlements (that is, on a gross basis rather than as one net number). ASU 2010-6 also clarifies existing disclosures as follows: (1) Level of disaggregation and (2) Disclosures about inputs and valuation techniques. An entity should provide fair value measurement disclosures for each class of assets and liabilities. A class is often a subset of assets or liabilities within a line item in the statement of financial position. An entity needs to use judgment in determining the appropriate classes of assets and liabilities. An entity should provide disclosures about the valuation techniques and inputs used to measure fair value for both recurring and nonrecurring fair value measurements. Those disclosures are required for fair value measurements that fall in either Level 2 or Level 3. ASU 2010-6 is effective for interim and annual reporting periods beginning after December 15, 2009, except for the separate disclosures about purchases, sales, issuances, and settlements in the roll forward of activity in Level 3 fair value measurements. Those disclosures are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. We adopted the initial provisions of ASU 2010-6 beginning January 1, 2010. As the new provisions of ASU 2010-6 provide only disclosure requirements, the adoption of this standard did not impact our consolidated financial position, results of operations or cash flows, but did result in increased disclosures.

In December 2010, the FASB issued ASU 2010-27, *Fees Paid to the Federal Government by Pharmaceutical Manufacturers*. ASU 2010-27 specifies that the liability for the Company's portion of the annual fee on the pharmaceutical manufacturing industry should be estimated and recorded in full upon the first qualifying sale with a corresponding deferred cost that is amortized to expense using a straight-line method of allocation unless another method better allocates the fee over the calendar year that it is payable. ASU 2010-27 is effective for calendar years beginning after December 31, 2010, when the fee initially becomes effective. ASU 2010-27 will not impact our consolidated financial position, results of operations or cash flows until the period in which we begin sales of our pharmaceutical products. The effect the adoption of ASU 2010-27 will have on us will depend on the amount of the total annual fee and the amount of Neoprobe's annual sales relative to the total sales of all other U.S. pharmaceutical manufacturers.

Critical Accounting Policies

We consider the following accounting policies to be critical to our results of operations and financial condition.

Revenue Recognition. We currently generate revenue primarily from grants to support various product development initiatives. We generally recognize grant revenue when expenses reimbursable under the grants have been incurred and payments under the grants become contractually due.

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 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.* Stock-based payments to employees and directors, including grants of stock options and restricted stock, are recognized in the statements of operations based on their estimated fair values. 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. Compensation cost arising from stock-based awards is recognized as expense using the straight-line method over the vesting period.

- *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 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, regulations regarding use and shelf life, product recalls and variation in product utilization all impact the estimates related to excess and obsolete inventory.

- *Fair Value of Derivative Instruments.* Derivative instruments embedded in contracts, to the extent not already a free-standing contract, are bifurcated and accounted for separately. All derivatives are recorded on the consolidated balance sheets at fair value in accordance with current accounting guidelines for such complex financial instruments. Fair value of warrant liabilities is determined based on a Black-Scholes option pricing model calculation. Unrealized gains and losses on the derivatives are classified in other expenses as a change in derivative liabilities in the statements of operations. We do not use derivative instruments for hedging of market risks or for trading or speculative purposes.

Other Items Affecting Financial Condition

At December 31, 2010, we had deferred tax assets in the U.S. related to net operating tax loss carryforwards and tax credit carryforwards of approximately $31.9 million and $6.0 million, respectively, available to offset or reduce future income tax liabilities, if any, through 2029. However, due to the uncertainty of realizing taxable income in the future, utilization of our tax loss and tax credit carryforwards may be limited. In addition, we believe the ultimate utilization of these tax loss and tax credit carryforwards may be further limited as a result of cumulative ownership changes as defined by Sections 382 and 383 of the Internal Revenue Code of 1986, as amended, which have occurred at various points in our history. As a result, the related deferred tax assets have been fully reserved in our financial statements.

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

NEOPROBE CORPORATION

FORM 10-K ANNUAL REPORT

FOR THE FISCAL YEARS ENDED:

DECEMBER 31, 2010, 2009 AND 2008

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, 2010 and 2009 and the related consolidated statements of operations, stockholders' equity (deficit) and cash flows for each of the three years in the period ended December 31, 2010. 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 audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and the 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, 2010 and 2009, and the results of its operations and cash flows for each of the three years in the period ended December 31, 2010, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Neoprobe Corporation's internal control over financial reporting as of December 31, 2010, based on criteria established in *Internal Control−Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated March 16, 2011, not included herein, expressed an unqualified opinion thereon.

/s/ BDO USA, LLP

Chicago, Illinois
March 16, 2011, except for Note 2 which is as of December 30, 2011

Neoprobe Corporation and Subsidiaries
Consolidated Balance Sheets

December 31, 2010 and 2009

ASSETS	**2010**	**2009**
Current assets:		
Cash	$ 6,420,506	$ 5,639,842
Accounts receivable, net	137,958	413
Inventory	632,000	525,000
Prepaid expenses and other	257,899	390,293
Assets associated with discontinued operations, current	2,784,640	2,061,617
Total current assets	10,233,003	8,617,165
Property and equipment	1,366,105	1,009,215
Less accumulated depreciation and amortization	960,726	867,298
	405,379	141,917
Patents and trademarks	63,643	37,767
Less accumulated amortization	21,171	21,171
	42,472	16,596
Other assets	7,421	24,707
Assets associated with discontinued operations	174,463	217,374
Total assets	$ 10,862,738	$ 9,017,759

Continued

Neoprobe Corporation and Subsidiaries
Consolidated Balance Sheets, continued

LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)	2010	2009
Current liabilities:		
Accounts payable	$ 1,357,796	$ 456,572
Accrued liabilities and other	1,014,130	828,493
Notes payable to finance companies	62,411	—
Derivative liabilities, current	405,524	—
Liabilities associated with discontinued operations, current	1,104,578	1,117,582
Total current liabilities	3,944,439	2,402,647
Note payable to Bupp Investors, net of discount of $54,093	—	945,907
Notes payable to investor	—	10,000,000
Derivative liabilities	2,077,799	1,951,664
Liabilities associated with discontinued operations	672,924	534,119
Other liabilities	35,831	53,274
Total liabilities	6,730,993	15,887,611
Commitments and contingencies		
Preferred stock; $.001 par value; 5,000,000 shares authorized; 3,000 Series A shares, $1,000 face value, issued and outstanding at December 31, 2009	—	3,000,000
Stockholders' equity (deficit):		
Preferred stock; $.001 par value; 5,000,000 shares authorized; 10,000 Series B shares and 1,000 Series C shares issued and outstanding at December 31, 2010	11	—
Common stock; $.001 par value; 150,000,000 shares authorized; 86,319,913 and 80,936,711 shares issued and outstanding at December 31, 2010 and 2009, respectively	86,320	80,937
Additional paid-in capital	254,915,713	182,747,897
Accumulated deficit	(250,870,299)	(192,698,686)
Total stockholders' equity (deficit)	4,131,745	(9,869,852)
Total liabilities and stockholders' equity (deficit)	$ 10,862,738	$ 9,017,759

See accompanying notes to consolidated financial statements.

Neoprobe Corporation and Subsidiaries
Consolidated Statements of Operations

	Years Ended December 31,		
	2010	**2009**	**2008**
Grant revenue	$ 617,392	$ —	$ —
Operating expenses:			
Research and development	8,941,046	4,379,614	3,755,622
Selling, general and administrative	4,353,136	3,028,500	2,936,344
Total operating expenses	13,294,182	7,408,114	6,691,966
Loss from operations	(12,676,790)	(7,408,114)	(6,691,966)
Other income (expense):			
Interest income	8,804	18,749	60,808
Interest expense	(554,988)	(1,533,047)	(1,744,825)
Change in derivative liabilities	(1,336,234)	(18,132,274)	(451,381)
Loss on extinguishment of debt	(41,717,380)	(16,240,592)	—
Other	32,594	(3,422)	11,308
Total other expense, net	(43,567,204)	(35,890,586)	(2,124,090)
Loss from continuing operations	(56,243,994)	(43,298,700)	(8,816,056)
Discontinued operations:			
Impairment loss	—	(1,713,822)	—
Income from operations	6,279,126	5,406,802	3,649,830
Net loss	(49,964,868)	(39,605,720)	(5,166,226)
Preferred stock dividends	(8,206,745)	(240,000)	—
Loss attributable to common stockholders	$ (58,171,613)	$ (39,845,720)	$ (5,166,226)
Loss per common share (basic and diluted):			
Continuing operations	$ (0.80)	$ (0.59)	$ (0.13)
Discontinued operations	$ 0.08	$ 0.05	$ 0.05
Attributable to common stockholders	$ (0.72)	$ (0.54)	$ (0.08)
Weighted average shares outstanding:			
Basic and diluted	80,726,498	73,771,871	68,594,172

See accompanying notes to consolidated financial statements.

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

	Preferred Stock		Common Stock		Additional Paid-In	Accumulated	Accumulated Other Comprehensive	
	Shares	Amount	Shares	Amount	Capital	Deficit	Income (Loss)	Total
Balance, December 31, 2007	—	$ —	67,240,030	$ 67,240	$ 136,765,697	$ (140,776,531)	$ —	$ (3,943,594)
Issued restricted stock to employees	—	—	480,000	480	(30)	—	—	450
Issued stock to investor advisory service firms	—	—	117,500	118	78,433	—	—	78,551
Issued stock to 401(k) plan	—	—	114,921	115	29,916	—	—	30,031
Issued stock upon exercise of warrants	—	—	2,365,190	2,365	167,441	—	—	169,806
Issued stock upon exercise of stock options	—	—	185,000	185	61,715	—	—	61,900
Issued stock as a commitment fee in connection with a stock purchase agreement	—	—	360,000	360	215,640	—	—	216,000
Paid preferred stock issuance costs	—	—	—	—	(180,000)	—	—	(180,000)
Paid common stock issuance costs	—	—	—	—	(900)	—	—	(900)
Issued warrants to purchase common stock	—	—	—	—	2,473,087	(1,130,629)	—	1,342,458
Effect of beneficial conversion feature of convertible promissory note	—	—	—	—	1,443,845	—	—	1,443,845
Effect of beneficial conversion feature of convertible preferred stock	—	—	—	—	1,550,629	(1,550,629)	—	—
Effect of put option feature of convertible preferred stock	—	—	—	—	—	(216,000)	—	(216,000)
Reclassified derivative liabilities	—	—	—	—	2,924,994	—	—	2,924,994
Stock compensation expense	—	—	—	—	211,577	—	—	211,577
Comprehensive loss:								
Net loss	—	—	—	—	—	(5,166,226)	—	(5,166,226)
Unrealized gain on available-for-sale securities	—	—	—	—	—	—	1,383	1,383
Total comprehensive loss	—	—	—	—	—	—	—	(5,164,843)
Balance, December 31, 2008	—	—	70,862,641	70,863	145,742,044	(148,840,015)	1,383	(3,025,725)
Effect of adopting new provisions of FASB ASC Topic 815	—	—	—	—	(8,948,089)	(4,012,951)	—	(12,961,040)
Issued restricted stock to employees and directors	—	—	1,260,000	1,260	—	—	—	1,260
Cancelled restricted stock	—	—	(9,000)	(9)	9	—	—	—
Issued stock to 401(k) plan	—	—	80,883	81	33,392	—	—	33,473
Issued stock upon exercise of warrants	—	—	6,948,507	6,949	6,534,985	—	—	6,541,934
Issued stock upon exercise of stock options	—	—	400,441	400	124,216	—	—	124,616
Issued stock in payment of interest on convertible debt and dividends on convertible preferred stock	—	—	1,393,239	1,393	1,029,940	—	—	1,031,333
Paid preferred stock issuance costs	—	—	—	—	(6,323)	—	—	(6,323)
Paid common stock issuance costs	—	—	—	—	(207,000)	—	—	(207,000)
Effect of change in terms of notes payable, preferred stock and warrants	—	—	—	—	37,999,312	—	—	37,999,312
Stock compensation expense	—	—	—	—	445,411	—	—	445,411
Preferred stock dividends	—	—	—	—	—	(240,000)	—	(240,000)
Comprehensive loss:								
Net loss	—	—	—	—	—	(39,605,720)	—	(39,605,720)
Unrealized loss on available-for-sale securities	—	—	—	—	—	—	(1,383)	(1,383)
Total comprehensive loss	—	—	—	—	—	—	—	(39,607,103)
Balance, December 31, 2009	—	—	80,936,711	80,937	182,747,897	(192,698,686)	—	(9,869,852)

Continued

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

	Preferred Stock		Common Stock		Additional Paid-In	Accumulated	Accumulated Other Comprehensive	
	Shares	Amount	Shares	Amount	Capital	Deficit	Income (Loss)	Total
Balance, December 31, 2009	—	—	80,936,711	80,937	182,747,897	(192,698,686)	—	(9,869,852)
Issued stock in payment of interest on convertible debt and dividends on convertible preferred stock	—	—	347,832	348	476,319	—	—	476,667
Issued stock upon exercise of options, net of costs	—	—	350,156	350	(64,055)	—	—	(63,705)
Issued stock in connection with stock purchase agreement, net of costs	—	—	660,541	661	776,797	—	—	777,458
Issued stock to 401(k) plan	—	—	53,499	53	40,570	—	—	40,623
Issued Series B and Series C convertible preferred stock, net of costs	11,000	11	—	—	64,636,810	—	—	64,636,821
Cancelled restricted stock	—	—	(4,500)	(5)	5	—	—	—
Issued restricted stock	—	—	660,000	660	—	—	—	660
Issued warrants in connection with consulting agreement	—	—	—	—	279,367	—	—	279,367
Issued stock upon exercise of warrants and other	—	—	157,778	158	316,660	—	—	316,818
Issued common stock and warrants in connection with direct offering, net of costs	—	—	3,157,896	3,158	4,306,793	—	—	4,309,951
Effect of change in terms of warrants	—	—	—	—	800,878	—	—	800,878
Stock compensation expense	—	—	—	—	597,672	—	—	597,672
Preferred stock dividends, including deemed dividends	—	—	—	—	—	(8,206,745)	—	(8,206,745)
Comprehensive loss:								
Net loss	—	—	—	—	—	(49,964,868)	—	(49,964,868)
Balance, December 31, 2010	11,000	$ 11	86,319,913	$ 86,320	$ 254,915,713	$ (250,870,299)	$ —	$ 4,131,745

See accompanying notes to consolidated financial statements.

Neoprobe Corporation and Subsidiaries
Consolidated Statements of Cash Flows

	Years Ended December 31,		
	2010	**2009**	**2008**
Cash flows from operating activities:			
Net loss	$ (49,964,868)	$ (39,605,720)	$ (5,166,226)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization of equipment	215,462	202,703	183,209
Amortization of intangible assets	7,998	131,046	225,143
Loss on disposal and abandonment of assets	7,476	18,794	30,850
Amortization of debt discount and debt offering costs	16,109	428,060	706,064
Issuance of common stock in payment of interest and dividends	476,667	791,333	—
Stock compensation expense	597,672	445,411	211,577
Change in derivative liabilities	1,336,234	18,132,274	451,381
Loss on extinguishment of debt	41,717,380	16,240,592	—
Issuance of warrants in connection with consulting agreement	279,367	—	—
Impairment loss on discontinued operations	—	1,713,822	—
Other	40,623	33,473	130,341
Change in operating assets and liabilities:			
Accounts receivable	(707,914)	296,813	(22,160)
Inventory	(381,382)	(653,043)	93,372
Prepaid expenses and other assets	39,232	105,262	131,039
Accounts payable	759,411	38,146	(46,865)
Accrued liabilities and other liabilities	157,899	121,277	108,525
Deferred revenue	232,866	77,704	(58,368)
Net cash used in operating activities	(5,169,768)	(1,482,053)	(3,022,118)
Cash flows from investing activities:			
Purchases of available-for-sale securities	—	—	(690,000)
Maturities of available-for-sale securities	—	494,000	196,000
Purchases of equipment	(366,629)	(96,331)	(116,352)
Proceeds from sales of equipment	—	251	495
Patent and trademark costs	(32,111)	(71,344)	(17,486)
Net cash (used in) provided by investing activities	(398,740)	326,576	(627,343)
Cash flows from financing activities:			
Proceeds from issuance of preferred stock	—	—	3,000,000
Proceeds from issuance of common stock	7,092,163	3,641,010	232,156
Payment of stock offering costs	(611,264)	(244,001)	(180,900)
Payment of preferred stock dividends	(111,389)	—	—
Proceeds from notes payable	—	—	3,000,000
Payment of debt issuance costs	—	(20,183)	(200,154)
Payment of notes payable	(8,710)	(137,857)	(158,304)
Payments under capital leases	(11,628)	(9,487)	(17,720)
Net cash provided by financing activities	6,349,172	3,229,482	5,675,078
Net increase in cash	780,664	2,074,005	2,025,617
Cash, beginning of year	5,639,842	3,565,837	1,540,220
Cash, end of year	$ 6,420,506	$ 5,639,842	$ 3,565,837

See accompanying notes to consolidated financial statements.

Notes to the 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 treatment by meeting the critical decision making needs of physicians. We currently manufacture a line of gamma radiation detection equipment used in the application of sentinel lymph node biopsy (SLNB).

Our gamma detection device products are currently marketed throughout most of the world through a distribution arrangement with Devicor Medical Products, Inc. (Devicor). Prior to July 2010, our gamma detection device products were marketed through a distribution arrangement with Ethicon Endo-Surgery, Inc. (EES), a Johnson & Johnson company. In July 2010, Devicor acquired EES' breast biopsy business, including an assignment of the distribution agreement with Neoprobe. For the year ended December 31, 2010, 96% of net sales were made to Devicor or EES. The loss of this customer would have a significant adverse effect on our operating results. For the year ended December 31, 2009, 92% of net sales were made to EES. As disclosed below, we sold our gamma detection device line of business (the GDS Business) to Devicor in August 2011.

We also have developmental and/or intellectual property rights related to two drugs that could be used in connection with gamma detection devices in cancer surgeries. The first, Lymphoseek®, is intended to be used in determining the spread of certain solid tumor cancers into the lymphatic system. The second, RIGScan™, is intended to be used to help surgeons locate cancerous or disease-involved 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 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.

In May 2011, the Company's Board of Directors approved the sale (the Asset Sale) of the GDS Business to Devicor and the Company executed an Asset Purchase Agreement (APA) with Devicor dated May 24, 2011. Our stockholders approved the Asset Sale at our Annual Meeting of Stockholders on August 15, 2011, and the Asset Sale closed on August 17, 2011 consistent with the terms of the APA. Under the terms of the APA, we sold the assets and assigned certain liabilities that were primarily related to the GDS Business. In exchange for the assets of the GDS Business, Devicor made a cash payment to us of $30,000,000 and agreed to pay an additional amount for a net working capital adjustment, currently estimated at $254,000, assumed certain liabilities of the Company associated with the GDS Business as specified in the APA, and agreed to make royalty payments to us of up to an aggregate maximum amount of $20,000,000 based on the net revenue attributable to the GDS Business over the course of the next six fiscal years. Our consolidated balance sheets and statements of operations have been reclassified, as required, for all periods presented to reflect the GDS Business as a discontinued operation. Cash flows associated with the operation of the GDS Business have been combined within operating, investing and financing cash flows, as appropriate, in our consolidated statements of cash flows. See Note 2.

In August 2009, the Company's Board of Directors decided to discontinue the operations of and attempt to sell our Cardiosonix subsidiary. This decision was based on the determination that the blood flow measurement device segment was no longer considered a strategic initiative of the Company, due in large part to positive events in our other device product and drug development initiatives. Our consolidated statements of operations have been reclassified, as required, for all periods presented to reflect Cardiosonix as a discontinued operation. Cash flows associated with the operation of Cardiosonix have been combined within operating, investing and financing cash flows, as appropriate, in our consolidated statements of cash flows. See Note 2.

c. 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.

d. Financial Instruments and Fair Value: The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value, giving the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below:

Level 1 – Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;

Level 2 – Quoted prices in markets that are not active or financial instruments for which all significant inputs are observable, either directly or indirectly; and

Level 3 – Prices or valuations that require inputs that are both significant to the fair value measurement and unobservable.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. In determining the appropriate levels, we perform a detailed analysis of the assets and liabilities whose fair value is measured on a recurring basis. At each reporting period, all assets and liabilities for which the fair value measurement is based on significant unobservable inputs or instruments which trade infrequently and therefore have little or no price transparency are classified as Level 3. In estimating the fair value of our derivative liabilities, we used the Black-Scholes option pricing model and, where necessary, other macroeconomic, industry and Company-specific conditions. In addition, we considered non-performance risk and determined that such risk is minimal. See Note 3.

The following methods and assumptions were used to estimate the fair value of each class of financial instruments:

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

(2) Note payable to finance company: 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, 2010, the carrying value of this instrument approximated fair value. We had no notes payable to finance companies at December 31, 2009.

(3) Note payable to Bupp Investors: The carrying value of our debt is presented as the face amount of the note less the unamortized discount related to the initial estimated fair value of the warrants to purchase common stock issued in connection with the note. At December 31, 2009, the note payable to the Bupp Investors had an estimated fair value of $3.9 million based on the closing market price of our common stock. During June 2010, the Bupp Investors exchanged their note for preferred stock, resulting in extinguishment of the debt. See Note 9.

(4) Notes payable to investor: The carrying value of our debt at December 31, 2009 is presented as the face amount of the notes. At December 31, 2009, the notes payable to investor had an estimated fair value of $31.0 million based on the closing market price of our common stock. During June 2010, the investor exchanged their notes for preferred stock, resulting in extinguishment of the debt. See Note 9.

(5) Derivative liabilities: Derivative liabilities are recorded at fair value. Fair value of warrant liabilities is determined based on a Black-Scholes option pricing model calculation. Fair value of conversion and put option liabilities is determined based on a probability-weighted Black-Scholes option pricing model calculation. Unrealized gains and losses on the derivatives are classified in other expenses as a change in derivative liabilities in the statements of operations. During June 2010, certain investors exchanged their notes for preferred stock, resulting in extinguishment of our remaining put option liabilities. See Note 10.

e. Stock-Based Compensation: At December 31, 2010, we have instruments outstanding under three stock-based compensation plans; the Amended and Restated Stock Option and Restricted Stock Purchase Plan (the Amended Plan), the 1996 Stock Incentive Plan (the 1996 Plan), and the Second Amended and Restated 2002 Stock Incentive Plan (the 2002 Plan). Currently, under the 2002 Plan, we may grant incentive stock options, nonqualified stock options, and restricted stock awards to full-time employees and directors, and nonqualified stock options and restricted stock awards may be granted to our consultants and agents. Total shares authorized under each plan are 2 million shares, 1.5 million shares and 7 million shares, respectively. An additional 3 million shares have been authorized under the 2002 Plan by the Company's board of directors, subject to ratification by stockholders at the next annual stockholders' meeting. Although instruments are still outstanding under the Amended Plan and the 1996 Plan, these plans have expired and no new grants may be made from them. 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.

Stock options granted under the Amended Plan, the 1996 Plan and the 2002 Plan generally vest on an annual basis over one to four years. Outstanding stock 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 the Company. We issue new shares of our common stock upon exercise of stock options.

Stock-based payments to employees and directors, including grants of stock options, are recognized in the statement of operations based on their estimated fair values. The fair value of each stock 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 stock 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 to calculate fair value for the years ended December 31, 2010 and 2009 are noted in the following table:

	2010	2009
Expected volatility	61%-68%	73%-91%
Weighted-average volatility	66%	81%
Expected dividends	—	—
Expected term (in years)	6.0-6.3	5.5-6.0
Risk-free rate	1.7%-2.4%	1.8%-2.7%

Compensation cost arising from stock-based awards is recognized as expense using the straight-line method over the vesting period. Restricted shares generally vest upon occurrence of a specific event or achievement of goals as defined in the grant agreements. As a result, we record compensation expense related to grants of restricted stock based on management's estimates of the probable dates of the vesting events. See Note 4.

f. Cash and Cash Equivalents: Cash equivalents are highly liquid instruments such as U.S. Treasury bills, bank certificates of deposit, corporate commercial paper and money market funds which have maturities of less than 3 months from the date of purchase. The Company held no cash equivalents at December 31, 2010 or 2009.

g. 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 estimated sales activity and margins.
From time to time, 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 of the inventory. 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 expensed becomes available and is used for commercial sale. See Note 6.

h. Property and Equipment: Property and equipment are stated at cost, less accumulated depreciation and amortization. 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, which is amortized over the shorter of the estimated useful life of the leased asset or the term of the lease. Maintenance and repairs are charged to expense as incurred, while renewals and improvements are capitalized. See Note 7.

i. Intangible Assets: Intangible assets consist primarily of patents and trademarks. 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 approximately 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. 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.

j. Impairment or Disposal of Long-Lived Assets: Long-lived assets and certain identifiable intangibles are 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 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. See Notes 2 and 7.

k. Other Assets: 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 2009, we incurred $20,000 of debt issuance costs related to notes payable. During 2010 and 2009, we expensed $13,000 and $524,000, respectively, of deferred debt issuance costs as a result of debt modification activities. Other assets at December 31, 2009 include deferred debt issuance costs of $17,000. See Note 9.

l. Derivative Instruments: Derivative instruments embedded in contracts, to the extent not already a free-standing contract, are bifurcated from the debt instrument and accounted for separately. All derivatives are recorded on the consolidated balance sheet at fair value in accordance with current accounting guidelines for such complex financial instruments. Derivative liabilities with expiration dates within one year are classified as current, while those with expiration dates in more than one year are classified as long term. We do not use derivative instruments for hedging of market risks or for trading or speculative purposes. See Note 10.

m. Revenue Recognition: We currently generate revenue primarily from grants to support various product development initiatives. We generally recognize grant revenue when expenses reimbursable under the grants have been incurred and payments under the grants become contractually due.

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

o. 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, 2010 and 2009. See Note 12.

Current accounting standards include guidance on the accounting for uncertainty in income taxes recognized in the financial statements. Such standards also prescribe a recognition threshold and measurement model for the financial statement recognition of a tax position taken, or expected to be taken, and provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. The ultimate deductibility of all tax positions is highly certain, although there is uncertainty about the timing of such deductibility. As a result, no liability for uncertain tax positions was recorded as of December 31, 2010 or 2009 and we do not expect any significant changes in the next twelve months. Should we need to accrue interest or penalties on uncertain tax positions, we would recognize the interest as interest expense and the penalties as a selling, general and administrative expense. As of December 31, 2010, tax years 2007-2010 remained subject to examination by federal and state tax authorities.

p. Recent Accounting Developments: In January 2010, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2010-6, *Improving Disclosures about Fair Value Measurements*. ASU 2010-6 amends FASB ASC Topic 820, *Fair Value Measurements and Disclosures*. ASU 2010-6 requires new disclosures as follows: (1) Transfers in and out of Levels 1 and 2 and (2) Activity in Level 3 fair value measurements. An entity should disclose separately the amounts of significant transfers in and out of Level 1 and Level 2 fair value measurements and describe the reasons for the transfers. In the reconciliation of fair value measurements using significant unobservable inputs (Level 3), an entity should present separately information about purchases, sales, issuances, and settlements (that is, on a gross basis rather than as one net number). ASU 2010-6 also clarifies existing disclosures as follows: (1) Level of disaggregation and (2) Disclosures about inputs and valuation techniques. An entity should provide fair value measurement disclosures for each class of assets and liabilities. A class is often a subset of assets or liabilities within a line item in the statement of financial position. An entity needs to use judgment in determining the appropriate classes of assets and liabilities. An entity should provide disclosures about the valuation techniques and inputs used to measure fair value for both recurring and nonrecurring fair value measurements. Those disclosures are required for fair value measurements that fall in either Level 2 or Level 3. ASU 2010-6 is effective for interim and annual reporting periods beginning after December 15, 2009, except for the separate disclosures about purchases, sales, issuances, and settlements in the roll forward of activity in Level 3 fair value measurements. Those disclosures are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. We adopted the initial provisions of ASU 2010-6 beginning January 1, 2010. As the new provisions of ASU 2010-6 provide only disclosure requirements, the adoption of this standard did not impact our consolidated financial position, results of operations or cash flows, but did result in increased disclosures.

In December 2010, the FASB issued ASU 2010-27, *Fees Paid to the Federal Government by Pharmaceutical Manufacturers*. ASU 2010-27 specifies that the liability for the Company's portion of the annual fee on the pharmaceutical manufacturing industry should be estimated and recorded in full upon the first qualifying sale with a corresponding deferred cost that is amortized to expense using a straight-line method of allocation unless another method better allocates the fee over the calendar year that it is payable. ASU 2010-27 is effective for calendar years beginning after December 31, 2010, when the fee initially becomes effective. ASU 2010-27 will not impact our consolidated financial position, results of operations or cash flows until the period in which we begin sales of our pharmaceutical products. The effect the adoption of ASU 2010-27 will have on us will depend on the amount of the total annual fee and the amount of Neoprobe's annual sales relative to the total sales of all other U.S. pharmaceutical manufacturers.

2. Discontinued Operations

In August 2009, the Company's Board of Directors decided to discontinue the operations of and attempt to sell our Cardiosonix subsidiary. This decision was based on the determination that the blood flow measurement device segment was no longer considered a strategic initiative of the Company, due in large part to positive achievements related to our other device product and drug development initiatives. We have not received significant expressions of interest in the Cardiosonix business; however, we are obligated to continue to service and support the Cardiosonix devices through 2013. As such, while we continue to wind down our activities in this area, we expect to continue to generate minimal revenues and incur minimal expenses related to our blood flow measurement device business until a final shutdown of operations or a sale of the business unit is completed.

In August 2011, we completed the sale of the GDS Business to Devicor under the terms of the APA that was signed in May 2011. On August 17, 2011, Devicor made a cash payment to us of $30,000,000, assumed certain liabilities of the Company associated with the GDS Business as specified in the APA, and agreed to make royalty payments to us of up to an aggregate maximum amount of $20,000,000 based on the net revenue attributable to the GDS Business over the course of the next six fiscal years. We recorded a net gain on the sale of the GDS business of $25.2 million in 2011. The sales price of $30.3 million includes an initial cash payment of $30.0 million and an accrued net working capital adjustment of an additional $254,000. The proceeds were offset by $2.8 million in legal and other fees related to the sale and $2.3 million in net balance sheet dispositions and write-offs.

In December 2011, we disposed of the extended warranty contracts related to the GDS Business, which were outstanding as of the date of the sale of the GDS Business but were not included in the August 2011 transaction. In exchange for transferring the liability related to the extended warranty contracts, which was previously recorded as deferred revenue, we made a cash payment to Devicor of $178,000.

In 2011, the gains on the sale of the GDS Business and the disposition of the extended warranty contracts will be reduced by estimated tax expense.

As a result of our decision to hold Cardiosonix for sale, we reduced all assets and liabilities to their estimated fair value at that time. In accordance with current accounting guidance, we recorded an impairment loss of $1.7 million, primarily related to $1.3 million of intangible assets, $416,000 of inventory, and $30,000 of equipment. The impairment loss was included in the loss from discontinued operations for the year ended December 31, 2009.

We estimate an allowance for doubtful accounts based on a review and assessment of specific accounts receivable and write off accounts when deemed uncollectible. The allowance for doubtful accounts at December 31, 2010 and 2009 was $1,200 and $1,000, respectively. At December 31, 2010, approximately 87% of net accounts receivable were due from Devicor and EES. At December 31, 2009, approximately 82% of net accounts receivable were due from EES.

During 2010 and 2009, we also wrote off $65,000 and $2,000, respectively, of excess and obsolete gamma detection device materials.

Deferred revenue consists primarily of non-refundable license fees and reimbursement of past research and development expenses which EES paid us as consideration for extending our distribution agreement with them. During 2010 and 2009, we recognized license revenue of $100,000 in each year. The unearned license revenue remaining at the sale of the GDS Business was written off as part of the gain on the sale. In addition, deferred revenue includes revenues from the sale of extended warranties covering our medical devices over periods of one to five years. Prior to the disposal of the extended warranty contracts, we recognized revenue from extended warranty sales on a pro-rata basis over the period covered by the extended warranty.

As a result of the sale of the GDS Business, we reclassified all assets and liabilities as assets and liabilities associated with discontinued operations. We also reclassified all remaining assets and liabilities related to discontinued operations of our Cardiosonix subsidiary for all periods presented, the amounts of which are not significant. The following assets and liabilities have been segregated and included in assets associated with discontinued operations or liabilities associated with discontinued operations, as appropriate, in the consolidated balance sheets:

	December 31, 2010	December 31, 2009
Accounts receivable, net	$ 1,917,213	$ 1,346,844
Inventory, net	826,588	630,823
Other current assets	40,839	83,950
Assets associated with discontinued operations, current	2,784,640	2,061,617
Property and equipment, net of accumulated depreciation	114,248	155,396
Patents and trademarks, net of accumulated amortization	60,215	61,978
Assets associated with discontinued operations, non-current	174,463	217,374
Total assets associated with discontinued operations	$ 2,959,103	$ 2,278,991
Accounts payable	$ 170,981	$ 312,793
Accrued liabilities	279,167	244,420
Deferred revenue, current	654,430	560,369
Liabilities associated with discontinued operations, current	1,104,578	1,117,582
Deferred revenue, non-current	672,924	534,119
Liabilities associated with discontinued operations	$ 1,777,502	$ 1,651,701

In addition, we reclassified revenues and expenses related to the GDS Business and our Cardiosonix subsidiary to discontinued operations for all periods presented. The following amounts, as well as the $1.7 million Cardiosonix impairment in 2009, have been segregated from continuing operations and included in discontinued operations in the consolidated statements of operations:

	Years Ended December 31,		
	2010	**2009**	**2008**
Net sales	$ 10,140,476	$ 9,647,160	$ 7,886,270
Cost of goods sold	3,230,575	3,185,584	3,010,232
Gross profit	6,909,901	6,461,576	4,876,038
Operating expenses:			
Research and development	371,794	635,863	763,389
Selling, general and administrative	258,452	418,111	462,277
Total operating expenses	630,246	1,053,974	1,225,666
Other expense, net	(529)	(800)	(542)
Income from discontinued operations	$ 6,279,126	$ 5,406,802	$ 3,649,830

Cash flows associated with the operation of the GDS Business and Cardiosonix have been combined within operating, investing and financing cash flows, as appropriate, in our consolidated statements of cash flows.

Subsequent to the sale of the GDS Business, the Company re-evaluated its segment disclosures and determined that our radiopharmaceutical products under development constitute our only current line of business.

3. Fair Value Hierarchy

The following tables set forth, by level, financial liabilities measured at fair value on a recurring basis:

Liabilities Measured at Fair Value on a Recurring Basis as of December 31, 2010

Description	Quoted Prices in Active Markets for Identical Assets and Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance as of December 31, 2010
Liabilities:				
Derivative liabilities related to warrants, current portion	$ —	$ 405,524	$ —	$ 405,524
Derivative liabilities related to warrants, long-term portion	—	2,077,799	—	2,077,799
Total derivative liabilities	$ —	$ 2,483,323	$ —	$ 2,483,323

Liabilities Measured at Fair Value on a Recurring Basis as of December 31, 2009

Description	Quoted Prices in Active Markets for Identical Assets and Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance as of December 31, 2009
Liabilities:				
Derivative liabilities related to warrants	$ —	$ 985,664	$ —	$ 985,664
Derivative liabilities related to put options	—	—	966,000	966,000
Total derivative liabilities	$ —	$ 985,664	$ 966,000	$ 1,951,664

There were no transfers in or out of our Level 1 and Level 2 fair value measurements during year ended December 31, 2010. During the year ended December 31, 2009, we transferred $7.7 million into our Level 2 liabilities. The transfer was a result of the required January 1, 2009 adoption of a new accounting standard which clarified the determination of whether equity-linked instruments, such as warrants to purchase our common stock, are considered indexed to our own stock. As a result of adopting the new standard, certain warrants to purchase our common stock that were previously treated as equity were reclassified as derivative liabilities.

The following tables set forth a summary of changes in the fair value of our Level 3 liabilities for the years ended December 31, 2010 and 2009:

	Year Ended December 31, 2010				
Description	**Balance at December 31, 2009**	**Unrealized Losses**	**Purchases, Issuances and Settlements**	**Transfers In and/or (Out)**	**Balance at December 31, 2010**
Liabilities:					
Derivative liabilities related to put options	$ 966,000	$ —	$ (966,000)	$ —	$ —

	Year Ended December 31, 2009				
Description	**Balance at December 31, 2008**	**Unrealized Losses**	**Adoption of New Accounting Standard (Note 14)**	**Transfers In and/or (Out)**	**Balance at December 31, 2009**
Liabilities:					
Derivative liabilities related to conversion and put options	$ 853,831	$ 7,596,329	$ 5,304,487	$ (12,788,647)	$ 966,000

4. Stock-Based Compensation

For the years ended December 31, 2010 and 2009, our total stock-based compensation expense was approximately $598,000 and $445,000, respectively. We have not recorded any income tax benefit related to stock-based compensation for the years ended December 31, 2010 and 2009.

A summary of the status of our stock options as of December 31, 2010, and changes during the year then ended, is presented below:

	Year Ended December 31, 2010			
	Number of Options	**Weighted Average Exercise Price**	**Weighted Average Remaining Contractual Life**	**Aggregate Intrinsic Value**
Outstanding at beginning of year	5,689,500	$ 0.44		
Granted	615,000	1.83		
Exercised	(491,667)	0.42		
Forfeited	(18,333)	0.74		
Expired	(60,000)	0.75		
Outstanding at end of year	5,734,500	$ 0.58	5.1 years	$ 8,471,410
Exercisable at end of year	4,581,833	$ 0.39	4.1 years	$ 7,635,470

The weighted average grant-date fair value of options granted in 2010 and 2009 was $1.13 and $0.68, respectively. During 2010, 491,667 stock options with an aggregate intrinsic value of $697,662 were exercised in exchange for issuance of 350,156 shares of our common stock, resulting in gross proceeds of $32,550. During 2009, 465,000 stock options with an aggregate intrinsic value of $282,250 were exercised in exchange for issuance of 400,441 shares of our common stock, resulting in gross proceeds of $148,750. During 2010 and 2009, the aggregate fair value of stock options vested was $668,000 and $343,000, respectively.

A summary of the status of our unvested restricted stock as of December 31, 2010, and changes during the year then ended, is presented below:

	Year Ended December 31, 2010	
	Number of Shares	Weighted Average Grant-Date Fair Value
Unvested at beginning of year	1,719,000	$ 0.76
Granted	660,000	1.86
Vested	—	—
Forfeited	(4,500)	0.65
Unvested at end of year	2,374,500	$ 1.07

During 2009, 5,000 shares of restricted stock vested with an aggregate fair value of $6,000.

As of December 31, 2010, there was approximately $2.3 million of total unrecognized compensation cost related to unvested stock-based awards, which we expect to recognize over remaining weighted average vesting terms of 1.9 years. See Note 1(e).

5. Earnings Per Share

Basic earnings (loss) per share is calculated by dividing net income (loss) attributable to common stockholders by the weighted-average number of common shares and, except for periods with a loss from operations, participating securities outstanding during the period. Diluted earnings (loss) per share reflects additional common shares that would have been outstanding if dilutive potential common shares had been issued. Potential common shares that may be issued by the Company include convertible securities, options and warrants.

The following table sets forth the reconciliation of the weighted average number of common shares outstanding to those used to compute basic and diluted earnings (loss) per share for the years ended December 31, 2010 and 2009:

	Basic and Diluted Earnings Per Share	
	Years Ended December 31,	
	2010	2009
Outstanding shares	86,319,913	80,936,711
Effect of weighting changes in outstanding shares	(3,218,915)	(5,445,840)
Unvested restricted stock	(2,374,500)	(1,719,000)
Adjusted shares	80,726,498	73,771,871

Earnings (loss) per common share for the years ended December 31, 2010 and 2009 excludes the effects of 64,121,457 and 58,840,844 common share equivalents, respectively, since such inclusion would be anti-dilutive. The excluded shares consist of common shares issuable upon exercise of outstanding stock options and warrants, and upon the conversion of convertible debt and convertible preferred stock.

The Company's unvested stock awards contain nonforfeitable rights to dividends or dividend equivalents, whether paid or unpaid (referred to as "participating securities"). Therefore, the unvested stock awards are included in the number of shares outstanding for both basic and diluted earnings per share calculations, except in the event of a net loss from operations. Due to our net loss, 2,374,500 and 1,719,000 shares of unvested restricted stock were excluded in determining basic and diluted loss per share for the years ended December 31, 2010 and 2009, respectively.

6. Inventory

The components of net inventory at December 31, 2010 and 2009 are as follows:

	2010	2009
Pharmaceutical materials	$ 482,000	$ 525,000
Pharmaceutical work-in-process	150,000	—
	$ 632,000	$ 525,000

During 2010 and 2009, we capitalized $741,000 and $525,000, respectively, of inventory costs associated with our Lymphoseek product. During 2010 and 2008, we wrote off $634,000 and $153,000, respectively, of previously capitalized Lymphoseek inventory due to changes in our projections of the probability of future commercial use for the specific lots previously capitalized or the consumption of the Lymphoseek material in previously unanticipated product development activities.

7. Property and Equipment

The major classes of property and equipment are as follows:

	Useful Life	2010	2009
Production machinery and equipment	5 years	$ 218,205	$ —
Other machinery and equipment, primarily computers	2 – 5 years	426,778	397,611
Furniture and fixtures	7 years	423,769	353,863
Software	3 years	213,326	183,059
Leasehold improvements	Life of Lease[1]	84,027	74,682
		$ 1,366,105	$ 1,009,215

[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.

Property and equipment includes $40,000 of equipment under capital leases with accumulated amortization of $21,000 and $10,000 at December 31, 2010 and 2009, respectively. During 2010, 2009 and 2008, we recorded $102,000, $78,000 and $70,000, respectively, of depreciation and amortization related to property and equipment. During 2010, 2009 and 2008, we recorded net losses of less than $1,000 in each year on the disposal of property and equipment.

8. Accrued Liabilities and Other

Accrued liabilities and other at December 31, 2010 and 2009 consist of the following:

	2010	2009
Contracted services and other	$ 621,612	$ 461,377
Compensation	257,787	187,518
Interest and dividends	126,111	168,333
Capital lease obligations, current portion	8,620	11,265
	$1,014,130	$ 828,493

9. Convertible Securities

In July 2007, David C. Bupp, our President and CEO, and certain members of his family (the Bupp Investors) purchased a $1.0 million convertible note (the Bupp Note) and warrants. The Bupp Note bore interest at 10% per annum, had an original term of one year and was repayable in whole or in part with no penalty. The note was convertible, at the option of the Bupp Investors, into shares of our common stock at a price of $0.31 per share. As part of this transaction, we issued the Bupp Investors Series V warrants to purchase 500,000 shares of our common stock at an exercise price of $0.31 per share, expiring in July 2012.

In December 2007, we entered into a Securities Purchase Agreement (SPA) with Platinum Montaur Life Sciences, LLC (Montaur), pursuant to which we issued Montaur a 10% Series A Convertible Senior Secured Promissory Note in the principal amount of $7,000,000, $3.5 million of which was convertible into shares of our common stock at the conversion price of $0.26 per share, due December 26, 2011 (the Series A Note); and a five-year Series W warrant to purchase 6,000,000 shares of our common stock at an exercise price of $0.32 per share.

In connection with the SPA, Montaur requested that the term of the $1.0 million Bupp Note be extended approximately 42 months or until at least one day following the maturity date of the Series A Note. In consideration for the Bupp Investors' agreement to extend the term of the Bupp Note pursuant to an Amendment to the Bupp Purchase Agreement, dated December 26, 2007, we agreed to provide security for the obligations evidenced by the Amended 10% Convertible Note in the principal amount of $1,000,000, due December 31, 2011, executed by Neoprobe in favor of the Bupp Investors (the Amended Bupp Note), under the terms of a Security Agreement, dated December 26, 2007, by and between Neoprobe and the Bupp Investors (the Bupp Security Agreement). As further consideration for extending the term of the Bupp Note, we issued the Bupp Investors additional Series V warrants to purchase 500,000 shares of our common stock at an exercise price of $0.32 per share, expiring in December 2012.

In April 2008, following receipt by the Company of clearance from the United States Food and Drug Administration to commence a Phase 3 clinical trial for Lymphoseek in patients with breast cancer or melanoma, we amended the SPA related to the second tranche and issued Montaur a 10% Series B Convertible Senior Secured Promissory Note in the principal amount of $3,000,000, which was convertible into shares of our common stock at the conversion price of $0.36 per share, also due December 26, 2011 (the Series B Note, and hereinafter referred to collectively with the Series A Note as the Montaur Notes); and a five-year Series X warrant to purchase 8,333,333 shares of our common stock at an exercise price of $0.46 per share.

In December 2008, after we obtained 135 vital blue dye lymph nodes from patients who had completed the injection of the drug and surgery in a Phase 3 clinical trial of Lymphoseek in patients with breast cancer or melanoma, we issued Montaur 3,000 shares of our 8% Series A Cumulative Convertible Preferred Stock (the Series A Preferred Stock) and a five-year Series Y warrant to purchase 6,000,000 shares of our common stock at an exercise price of $0.575 per share (hereinafter referred to collectively with the Series W warrant and Series X warrant as the Montaur Warrants), for an aggregate purchase price of $3,000,000. The "Liquidation Preference Amount" for the Series A Preferred Stock was $1,000 and the "Conversion Price" of the Series A Preferred Stock was set at $0.50 on the date of issuance, thereby making the shares of Series A Preferred Stock convertible into an aggregate 6,000,000 shares of our common stock, subject to adjustment as described in the Certificate of Designations.

In July 2009, we entered into a Securities Amendment and Exchange Agreement with Montaur, pursuant to which Montaur agreed to the amendment and restatement of the terms of the Montaur Notes, the Series A Preferred Stock, and the Montaur Warrants. The Series A Note was amended to grant Montaur conversion rights with respect to the $3.5 million portion of the Series A Note that was previously not convertible. The newly convertible portion of the Series A Note was convertible into 3,600,000 shares of our common stock at $0.9722 per share. The amendments also eliminated certain price reset features of the Montaur Notes, the Series A Preferred Stock and the Montaur Warrants that had created significant non-cash derivative liabilities on the Company's balance sheet. In conjunction with this transaction, we issued Montaur a Series AA Warrant to purchase 2.4 million shares of our common stock at an exercise price of $0.97 per share, expiring in July 2014. The change in terms of the Montaur Notes, the Series A Preferred Stock and the Montaur Warrants were treated as an extinguishment of debt for accounting purposes. Following the extinguishment, the Company's balance sheet reflected the face value of the $10 million due to Montaur pursuant to the Montaur Notes, which approximated fair value at the date of the extinguishment.

In June 2010, we entered into a Securities Exchange Agreement with Montaur, pursuant to which Montaur exchanged the Montaur Notes and the Series A Preferred Stock for 10,000 shares of Series B Convertible Preferred Stock (the Series B Preferred Stock), convertible into 32,700,000 shares of common stock. The Series B Preferred Stock is convertible at the option of Montaur, carries no dividend requirements and participates equally with our common stock in liquidation proceeds based upon the number of common shares into which the Series B Preferred Stock is then convertible. As consideration for the exchange, Neoprobe issued additional Series B Preferred Stock which is convertible into 1.3 million shares of common stock. Also in June 2010, we entered into a Securities Exchange Agreement with the Bupp Investors, pursuant to which the Bupp Investors exchanged the Amended Bupp Note for 1,000 shares of Series C Convertible Preferred Stock (the Series C Preferred Stock), convertible into 3,226,000 shares of common stock. The Series C Preferred Stock has a 10% dividend rate, payable quarterly until December 31, 2011, and participates equally with our common stock in liquidation proceeds based upon the number of common shares into which the Series C Preferred Stock is then convertible. The exchange of the Montaur Notes, the Series A Preferred Stock and the Amended Bupp Note were treated as extinguishments for accounting purposes. As a result, the Company recognized a loss on extinguishment of debt of $47.1 million, including the write-off of $966,000 in put option derivative liabilities, and recorded a deemed dividend of $8.0 million during the second quarter of 2010. As a result of these exchange transactions, all security interests in the Company's assets held by Montaur and the Bupp Investors were extinguished.

During the years ended December 31, 2010 and 2009, we recorded interest expense of $16,000 and $428,000, respectively, related to amortization of the debt discounts and deferred financing costs related to our convertible notes.

10. Derivative Instruments

Effective January 1, 2009, we adopted a new accounting standard which clarified the determination of whether equity-linked instruments (or embedded features), such as our convertible securities and warrants to purchase our common stock, are considered indexed to our own stock. As a result of adopting the new standard, certain embedded features of our convertible securities which were extinguished in the second quarter of 2010, as well as warrants to purchase our common stock, that were previously treated as equity were recorded as derivative liabilities. We do not use derivative instruments for hedging of market risks or for trading or speculative purposes.

The impact of the January 1, 2009 adoption of the new accounting standard is summarized in the following table:

	December 31, 2008	Impact of New Accounting Standard Adoption	January 1, 2009
Other assets	$ 594,449	$ 2,104	$ 596,553
Total assets	$ 9,619,450		$ 9,621,554
Notes payable to investors, net of discounts	$ 4,998,851	(54,396)	$ 4,944,455
Derivative liabilities	853,831	13,017,540	13,871,371
Total liabilities	$ 9,645,175		$ 22,608,319
Additional paid-in capital	$ 145,742,044	(8,948,089)	$ 136,793,955
Accumulated deficit	(148,840,015)	(4,012,951)	(152,852,966)
Total stockholders' deficit	$ (3,025,725)		$ (15,986,765)

Convertible Notes – other assets increased $2,104, notes payable to investors, net of discount, increased $518,229, derivative liabilities increased $4,146,392, additional paid-in capital decreased $2,843,781, and accumulated deficit increased $1,818,736.
Convertible Preferred Stock – derivative liabilities increased $1,158,095, additional paid-in capital decreased $1,550,629, and accumulated deficit decreased $392,534.
Warrants – notes payable to investors, net of discount, decreased $572,625, derivative liabilities increased $7,713,053, additional paid-in capital decreased $4,553,679, and accumulated deficit increased $2,586,749.

In July 2009, we entered into a Securities Amendment and Exchange Agreement with Montaur, pursuant to which Montaur agreed to the amendment and restatement of the terms of the Montaur Notes, the Series A Preferred Stock, and the Montaur Warrants as discussed in Note 13. As a result, the Company reclassified $27.0 million in derivative liabilities related to the Montaur Notes, the Series A Preferred Stock, and the Montaur Warrants to additional paid-in capital. Also in July 2009, Montaur exercised 2,844,319 of their Series Y warrants, which resulted in a decrease in the related derivative liability of $2.2 million. In June 2010, we entered into a Securities Exchange Agreement with Montaur, pursuant to which Montaur exchanged the Montaur Notes and the Series A Preferred Stock for 10,000 shares of Series B Convertible Preferred Stock. As a result of this exchange transaction, the Company wrote off $966,000 in put option derivative liabilities during the second quarter of 2010.

In November 2010, we entered into agreements with certain institutional investors, pursuant to which the investors purchased $6.0 million of our common stock at $1.90 per share. In addition to the common stock, we issued two series of warrants to the investors: (1) one-year Series CC warrants to purchase 1,578,948 shares of our common stock at an exercise price of $2.11 per share, and (2) two-year Series DD warrants to purchase 1,578,948 shares of our common stock at an exercise price of $2.11 per share. The Series CC and Series DD warrants originally contained language that required Neoprobe to classify the warrants as derivative liabilities, and we recorded them at their estimated fair values totaling $1.2 million. On December 23, 2010, a portion of the Series CC and Series DD warrants were modified to remove the language that had previously required them to be classified as derivative liabilities. As a result of the modification of certain of the Series CC and Series DD warrants, we reclassified $801,000 in derivative liabilities related to those warrants to additional paid-in capital. See Note 18(a).

During 2010, 120,000 Series V warrants and 60,000 Series Z warrants were exercised. The Company reclassified $280,000 in derivative liabilities related to these warrants to additional paid-in capital.

The net effect of marking the Company's derivative liabilities to market during the years ended December 31, 2010 and 2009 resulted in net increases in the estimated fair values of the derivative liabilities of $1.3 million and $18.1 million, respectively, which were recorded as non-cash expense. The total estimated fair value of the derivative liabilities was $2.5 million and $2.0 million as of December 31, 2010 and 2009, respectively.

11. Equity

a. Common Stock Purchase Agreement: In December 2006, we entered into a Common Stock Purchase Agreement with Fusion Capital Fund II, LLC (Fusion Capital), an Illinois limited liability company, to sell $6.0 million of our common stock to Fusion Capital over a 24-month period which ended on November 21, 2008. Through November 21, 2008, we sold 7,568,671 shares of our common stock to Fusion Capital under the agreement for proceeds of $1.9 million. In December 2008, we entered into the First Amendment to the Common Stock Purchase Agreement (the First Amendment) which gave us a right to sell an additional $6.0 million of our common stock to Fusion Capital before March 1, 2011, along with the $4.1 million of the unsold balance of the $6.0 million we originally had the right to sell to Fusion Capital under the original agreement.

In December 2006, we issued 720,000 shares of our common stock to Fusion Capital as a commitment fee upon execution of the agreement. In connection with sales of our common stock, we issued an additional 234,000 shares of our common stock to Fusion Capital as an additional commitment fee. In connection with entering into the First Amendment, we issued an additional 360,000 shares in consideration for Fusion Capital's entering into the amendment. Also, as an additional commitment fee, we agreed to issue to Fusion Capital pro rata an additional 486,000 shares of our common stock as we sell the first $4.1 million of our common stock to Fusion Capital under the agreement as amended.

In March 2010, we sold 540,541 shares of our common stock to Fusion Capital for proceeds of $1.0 million under the amended agreement. In connection with this sale, we issued 120,000 shares of our common stock to Fusion Capital as an additional commitment fee. Subsequent to this sale, the remaining aggregate amount of our common stock we can sell to Fusion Capital under the amended agreement is approximately $9.1 million. We have reserved a total of 10,113,459 shares of our common stock in respect to potential sales of common stock we may make to Fusion Capital in the future under the amended agreement.

b. Securities Purchase Agreement: In November 2010, we entered into a Securities Purchase Agreement with institutional investors for a registered direct offering of 3,157,896 shares of our common stock at a price of $1.90 per share for total gross proceeds of $6.0 million. In addition to the common stock, we issued one-year Series CC warrants to purchase 1,578,948 shares of our common stock at an exercise price of $2.11 per share, and two-year Series DD warrants to purchase 1,578,948 shares of our common stock at an exercise price of $2.11 per share. As compensation for the services of the placement agent in connection with the offering, we paid the placement agent $420,000 (7% of the gross proceeds) and issued five-year Series EE warrants to purchase 157,895 shares of our common stock at an exercise price of $2.375 per share. The common stock, warrants, and shares of common stock underlying the warrants were issued pursuant to a shelf registration statement on Form S-3 that was declared effective by the Securities and Exchange Commission in August 2010.

c. Stock Warrants: At December 31, 2010, there are 21.2 million warrants outstanding to purchase our common stock. The warrants are exercisable at prices ranging from $0.31 to $2.375 per share with a weighted average exercise price per share of $0.75. See Note 18(b).

The following table summarizes information about our outstanding warrants at December 31, 2010:

	Exercise Price	Number of Warrants	Expiration Date
Series V	$ 0.31	380,000	July 2012
Series V	0.32	450,000	December 2012
Series W	0.32	6,000,000	December 2012
Series X	0.46	8,333,333	April 2013
Series Z	0.70	30,000	August 2013
Series Z	0.85	30,000	August 2013
Series AA	0.97	2,400,000	July 2014
Series BB	2.00	300,000	July 2015
Series CC	2.11	1,578,948	November 2011
Series DD	2.11	1,578,948	November 2012
Series EE	2.375	157,895	August 2015
	$ 0.75	21,239,124	

During 2009, David C. Bupp, our President and CEO, exercised 50,000 Series Q warrants in exchange for issuance of 50,000 shares of our common stock, resulting in gross proceeds of $25,000. The remaining 325,000 Series Q warrants held by Mr. Bupp expired during the year. During the same period, another Bupp Investor exercised 50,000 Series V warrants in exchange for issuance of 50,000 shares of our common stock, resulting in gross proceeds of $16,000. Also during 2009, certain outside investors exercised a total of 1,480,000 Series U warrants on a cashless basis in exchange for issuance of 848,507 shares of our common stock.

In July 2009, in conjunction with entering into a Securities Amendment and Exchange Agreement, Montaur exercised 2,844,319 Series Y warrants in exchange for issuance of 2,844,319 shares of our common stock, resulting in gross proceeds of $1.6 million. In September 2009, Montaur exercised their remaining 3,155,681 Series Y warrants in exchange for issuance of 3,155,681 shares of our common stock, resulting in additional gross proceeds of $1.8 million.

During 2010, a Bupp Investor exercised 120,000 Series V warrants in exchange for issuance of 120,000 shares of our common stock, resulting in gross proceeds of $37,200. Also during 2010, certain outside investors exercised a total of 60,000 Series Z warrants on a cashless basis in exchange for issuance of 37,778 shares of our common stock.

In July 2010, we issued five-year Series BB Warrants to purchase 300,000 shares of our common stock at an exercise price of $2.00 per share to an investment advisory firm in connection with a consulting agreement.

See Note 11(b) for a discussion of Series CC, Series DD, and Series EE warrant transactions during 2010.

d. Common Stock Reserved: As of December 31, 2010, we have reserved 62,899,624 shares of authorized common stock for the exercise of all outstanding options, warrants, and convertible preferred stock.

12. Income Taxes

As of December 31, 2010 and 2009, our deferred tax assets in the U.S. were approximately $37.9 million and $34.2 million, respectively, prior to any limitations under Sections 382 and 383 of the Internal Revenue Code (IRC), as discussed below. The components of our deferred tax assets are summarized as follows:

	As of December 31,	
	2010	2009
Deferred tax assets:		
U.S. net operating loss carryforwards	$ 30,121,076	$ 27,513,699
R&D credit carryforwards	6,006,233	5,067,722
Temporary differences	1,745,473	1,617,390
Deferred tax assets before valuation allowance	37,872,782	34,198,811
Valuation allowance	(37,872,782)	(34,198,811)
Net deferred tax assets	$ —	$ —

Current accounting standards require 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, 2010 and 2009.

As of December 31, 2010 and 2009, we had U.S. net operating loss carryforwards of approximately $88.6 million and $92.6 million, respectively. At December 31, 2010 and 2009, we had U.S. R&D credit carryforwards of approximately $6.0 million and $5.1 million, respectively. U.S. net operating loss carryforwards of $9.5 million and $9.0 million and R&D credit carryforwards of $156,000 and $311,000 expired during 2010 and 2009, respectively. The details of our U.S. net operating loss and R&D credit carryforward amounts and expiration dates are summarized as follows:

	As of December 31, 2010	
Expiration	U.S. Net Operating Loss Carryforwards	U.S. R&D Credit Carryforwards
2011	$ 16,551,856	$ 346,305
2012	20,797,107	1,064,623
2013	17,142,781	1,173,387
2014	—	130,359
2015	—	71,713
2016	—	39,128
2017	1,282,447	5,350
2018	337,714	2,905
2019	1,237,146	22,861
2020	3,246,062	218,332
2021	3,127,238	365,541
2022	2,863,443	342,898
2023	2,826,656	531,539
2024	13,753,769	596,843
2025	5,425,180	1,094,449
Total carryforwards	$ 88,591,399	$ 6,006,233

As of December 31, 2010 and 2009, Cardiosonix had tax loss carryforwards in Israel of approximately $12.3 and $12.2 million, respectively, 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 the related deferred tax assets in future tax returns, all of the deferred tax assets have been fully offset by a valuation allowance at December 31, 2010 and 2009. Current accounting standards require that reduction in the amount of an acquired valuation allowance be recorded as a reduction of income tax expense.

Under Sections 382 and 383 of the IRC of 1986, as amended, the utilization of U.S. net operating loss and R&D 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,			
	2010		2009	
	Amount	%	Amount	%
Benefit at statutory rate	$(16,988,055)	(34.0)%	$(13,465,945)	(34.0)%
Adjustments to valuation allowance	3,410,056	6.8%	7,816,084	19.7%
Loss on extinguishment of debt	14,179,468	28.4%	5,343,694	13.5%
Other	(601,469)	(1.2)%	306,167	0.8%
Benefit per financial statements	$ —		$ —	

13. Agreements

a. Supply Agreements: In February 2004, we entered into a product supply agreement with Nortech Systems, Inc. (Nortech, formerly TriVirix International) for the manufacture of certain of our medical device products. The term of this agreement expired in February 2010, but was automatically extended through February 2011, and may continue to be automatically extended for successive one-year periods. Either party has the right to terminate the agreement at any time upon 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 $1.7 million and $1.5 million for the years ended December 31, 2010 and 2009, respectively. As of December 31, 2010, we have issued purchase orders under the agreement with TriVirix for $1.4 million of our products for delivery through December 2011. In February 2011, the term of this agreement was once again automatically extended through February 2012.

In November 2009, we entered into a manufacture and supply agreement with Reliable Biopharmaceutical Corporation (Reliable) for the manufacture and supply of the active pharmaceutical ingredient (API) of Lymphoseek. The initial ten-year term of the agreement expires in November 2019, with options to extend the agreement for successive three-year terms. Either party has the right to terminate the agreement upon mutual written agreement, or upon material breach by the other party which is not cured within 60 days from the date of written notice of the breach. Total purchases under the manufacture and supply agreement were $1.0 million for the year ended December 31, 2010. As of December 31, 2010, we have issued purchase orders under the agreement with Reliable for $8,000 of our products for delivery through May 2011.

b. Research and Development Agreements: Cardiosonix's 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 of $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 of its products, if any, up to 300% of the total grants received, depending on the portion of manufacturing activity that takes place in Israel. 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. We are not aware of any future performance obligations related to the grants received from the OCS. We do not believe we will be obligated to pay the OCS any amounts greater than any royalties due on future sales in the event that future sales are not sufficient to generate adequate revenue to completely cover the full amount of the grant. 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. Through December 2010, we have paid the OCS a total of $79,000 in royalties related to sales of products developed under this program. As of December 31, 2010, we have accrued obligations for royalties totaling less than $1,000.

During January 2002, we completed a license agreement with the University of California, San Diego (UCSD) for a proprietary compound that we believe can 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. 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 commencement of clinical trials and successful regulatory clearance for marketing of the licensed products, a 5% 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 $36,000 and $63,000 in 2010 and 2009, respectively, and were recorded in research and development expenses.

During April 2008, we completed a license agreement with UCSD for an expanded field of use allowing Lymphoseek to be developed as an optical or ultrasound agent. The license agreement is effective until the expiration date of the longest-lived underlying patent. 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 certain sublicense terms as defined in the agreement. 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 commencement of clinical trials and successful regulatory clearance for marketing of the licensed products, a 5% 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 $27,000 and $26,000 in 2010 and 2009, respectively, and were recorded in research and development expenses.

During January 2005, we completed 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. In connection with the execution of the option, Cira Ltd. also agreed to assign all interests in the ACT technology in the event of the closing of such a financing transaction.

c. Employment Agreements: We maintain employment agreements with seven of our officers. The employment agreements contain termination and/or change in control provisions that would entitle each of the officers to 2 to 2.5 times their current annual salaries, vest outstanding restricted stock and options to purchase common stock, and continue certain benefits if there is a termination without cause or change in control of the Company (as defined) and their employment terminates. As of December 31, 2010, our maximum contingent liability under these agreements in such an event is approximately $3.3 million. The employment agreements also provide for severance, disability and death benefits. See Note 18(c).

14. Leases

We lease certain office equipment under capital leases which expire from 2011 to 2013. We also lease office space under an operating lease that expires in January 2013.

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

	Capital Leases	Operating Leases
2011	$ 10,848	$ 139,395
2012	6,900	143,256
2013	5,750	8,930
	23,498	$ 291,581
Less amount representing interest	3,950	
Present value of net minimum lease payments	19,548	
Less current portion	8,620	
Capital lease obligations, excluding current portion	$ 10,928	

Total rental expense was $125,000 and $115,000 for the years ended December 31, 2010 and 2009, respectively.

15. 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 $48,000 and $41,000 during 2010 and 2009, respectively, related to common stock to be contributed to the plan in 2011 and 2010, respectively.

16. Supplemental Disclosure for Statements of Cash Flows

During the years ended December 31, 2010, 2009 and 2008, we paid interest aggregating $136,000, $163,000 and $1.0 million, respectively. During the years ended December 31, 2010 and 2009, we issued 347,832 and 1,393,239 shares of our common stock, respectively, as payment of interest on our convertible debt and dividends on our convertible preferred stock. During 2010, 2009 and 2008, we issued 53,499, 80,883 and 114,921 shares of our common stock, respectively, as matching contributions to our 401(k) Plan. During the years ended December 31, 2010, 2009 and 2008, we transferred $79,000, $43,000 and $182,000, respectively, of inventory to fixed assets related to the creation and maintenance of a pool of service loaner equipment. During 2010 and 2008, we prepaid $71,000 and $171,000, respectively, in insurance through the issuance of notes payable to finance companies with weighted average interest rates of 7.0% and 6.6%, respectively. During 2009 and 2008, we purchased equipment under capital leases totaling $20,000 in each year. During the year ended December 31, 2010, we reclassified $223,000 of deferred stock offering costs to additional paid-in capital related to the issuance of our common stock to Fusion Capital. See Note 11(a). Also during the year ended December 31, 2010, we recorded a deemed dividend of $8.0 million related to the exchange of the Series A Preferred Stock for Series B Preferred Stock. See Note 9.

17. 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.

18. Subsequent Events

a. Change in Terms of Stock Warrants: In January 2011, certain Bupp Investors agreed to modify their outstanding Series V warrants to remove the language that had previously required them to be classified as derivative liabilities. The net effect of marking the derivative liabilities related to the modified Series V warrants to market resulted in net increases in the estimated fair values of the derivative liabilities of $48,000, which were recorded as non-cash expense. As a result of the modification of the Series V warrants, we reclassified $1.4 million in derivative liabilities related to those warrants to additional paid-in capital.

Also in January 2011, certain investors agreed to modify their outstanding Series CC and Series DD warrants to remove the language that had previously required them to be classified as derivative liabilities. The net effect of marking the derivative liabilities related to the modified Series CC and Series DD warrants to market resulted in net increases in the estimated fair values of the derivative liabilities of $76,000, which were recorded as non-cash expense. As a result of the modification of the Series CC and Series DD warrants, we reclassified $549,000 in derivative liabilities related to those warrants to additional paid-in capital.

b. Stock Warrant Exercises: Between January 1 and March 15, 2011, certain outside investors exercised 1,578,948 Series CC warrants in exchange for issuance of 1,578,948 shares of our common stock, resulting in gross proceeds of $3,331,580. Also between January 1 and March 15, 2011, certain outside investors exercised 799,474 Series DD warrants in exchange for issuance of 799,474 shares of our common stock, resulting in gross proceeds of $1,686,890. The net effect of marking the derivative liabilities related to the exercised Series CC and Series DD warrants to market resulted in net increases in the estimated fair values of the derivative liabilities of $676,000, which were recorded as non-cash expense. As a result of the Series CC and Series DD warrant exercises, we reclassified $1.1 million in derivative liabilities related to those warrants to additional paid-in capital. See Note 11(b).

c. Employment Agreements: During January 2011, we entered into new 2-year employment agreements with five of our officers. The new agreements have substantially similar terms to the officers' previous agreements, except that the change in control provisions would entitle each of the officers to 1.5 times their current annual salaries. See Note 13(c).

19. 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.

(Amounts in thousands, except per share data)	Years Ended December 31,				
	2010	**2009**	**2008**	**2007**	**2006**
Statement of Operations Data:					
Grant revenue	$ 617	$ —	$ —	$ —	$ —
Research and development expenses	8,941	4,380	3,756	2,116	2,466
Selling, general and administrative expenses	4,353	3,028	2,936	2,388	2,469
Loss from operations	(12,677)	(7,408)	(6,692)	(4,504)	(4,935)
Other expenses, net	(43,567)	(35,891)	(2,124)	(3,325)	(1,282)
Loss from continuing operations	(56,244)	(43,299)	(8,816)	(7,829)	(6,217)
Discontinued operations	6,279	3,693	3,650	2,741	1,476
Net loss	(49,965)	(39,606)	(5,166)	(5,088)	(4,741)
Preferred stock dividends	(8,207)	(240)	—	—	—
Loss attributable to common stockholders	$ (58,172)	$ (39,846)	$ (5,166)	$ (5,088)	$ (4,741)
Loss per common share (basic and diluted):					
Continuing operations	$ (0.80)	$ (0.59)	$ (0.13)	$ (0.12)	$ (0.11)
Discontinued operations	$ 0.08	$ 0.05	$ 0.05	$ 0.04	$ 0.03
Loss attributable to common stockholders	$ (0.72)	$ (0.54)	$ (0.08)	$ (0.08)	$ (0.08)
Shares used in computing loss per common share: [1]					
Basic and diluted	80,726	73,772	68,594	62,921	58,587

	As of December 31,				
	2010	**2009**	**2008**	**2007**	**2006**
Balance Sheet Data:					
Total assets	$ 10,863	$ 9,018	$ 9,619	$ 7,063	$ 8,034
Long-term obligations	2,787	13,485	7,323	8,836	4,922
Accumulated deficit	(250,870)	(192,699)	(148,840)	(140,777)	(135,688)

[1] Basic earnings (loss) per share is calculated by dividing net income (loss) by the weighted-average number of common shares and, except for periods of loss, participating securities outstanding during the period. Diluted earnings (loss) per share reflects additional common shares that would have been outstanding if dilutive potential common shares had been issued. Potential common shares that may be issued by the Company include convertible securities, options and warrants. See Note 5.