NEOPROBE CORP
Form 424B3
May 20, 2008

Filed Pursuant to Rule 424(b)(3)
Registration No. 333-139185

PROSPECTUS SUPPLEMENT
Number 1
to
Second Amended Prospectus dated May 15, 2008
of
NEOPROBE CORPORATION
13,440,000 Shares of Common Stock

This Prospectus Supplement relates to the sale of up to 13,440,000 shares of Neoprobe Corporation common stock (the Shares) by Fusion Capital Fund II, LLC (Fusion Capital). We will not receive proceeds from the sale of the Shares by Fusion Capital.

This Prospectus Supplement No. 1 includes the attached Quarterly Report on Form 10-Q (the Form 10-Q) of Neoprobe Corporation (the Company) for the quarter ended March 31, 2008, filed by the Company with the Securities and Exchange Commission on May 15, 2008. The exhibits to the Form 10-Q are not included with this Prospectus Supplement No. 1 and are not incorporated by reference herein.

Our common stock is traded on the OTC Bulletin Board under the symbol NEOP.

NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED OF THESE SECURITIES OR PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS SUPPLEMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

The date of this Prospectus Supplement No. 1 is May 20, 2008.

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2008

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

For the transition period from to __________ to __________

Commission File Number: 0-26520

NEOPROBE CORPORATION

(Exact name of registrant as specified in its charter)

Delaware	31-1080091
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)
425 Metro Place North, Suite 300, Dublin, Ohio	43017-1367
(Address of principal executive offices)	(Zip Code)

(614) 793-7500

(Registrant s telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer o	Accelerated filer o	Non-accelerated filer o	Smaller reporting company þ

(Do not check if a smaller reporting company)

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

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date: 68,950,821 shares of common stock, par value $.001 per share (as of the close of business on May 9, 2008).

NEOPROBE CORPORATION and SUBSIDIARIES

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PART I FINANCIAL INFORMATION
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Neoprobe Corporation and Subsidiaries
Consolidated Balance Sheets

	March 31, 2008 (unaudited)	December 31, 2007
ASSETS		
Current assets:		
Cash	$ 1,528,181	$ 1,540,220
Accounts receivable, net	1,212,697	1,621,910
Inventory	1,083,670	1,237,403
Prepaid expenses and other	182,994	247,035
Total current assets	4,007,542	4,646,568
Property and equipment	1,957,929	1,918,343
Less accumulated depreciation and amortization	1,668,501	1,630,740
	289,428	287,603
Patents and trademarks	3,017,270	3,016,783
Acquired technology	237,271	237,271
	3,254,541	3,254,054
Less accumulated amortization	1,707,188	1,652,912
	1,547,353	1,601,142
Other assets	513,517	527,634
Total assets	$ 6,357,840	$ 7,062,947

Continued

Neoprobe Corporation and Subsidiaries
Consolidated Balance Sheets, continued

	March 31, 2008 (unaudited)	December 31, 2007
LIABILITIES AND STOCKHOLDERS DEFICIT		
Current liabilities:		
Accounts payable	$ 815,081	$ 778,085
Accrued liabilities and other	482,904	801,949
Capital lease obligations, current portion	12,743	14,592
Deferred revenue, current portion	454,362	451,512
Notes payable to finance companies	71,883	124,770
Total current liabilities	1,836,973	2,170,908
Capital lease obligations, net of current portion	615	2,422
Deferred revenue, net of current portion	590,814	623,640
Notes payable to CEO, net of discounts of $91,148 and $95,786, respectively	908,852	904,214
Notes payable to investors, net of discounts of $2,501,181 and $2,600,392, respectively	4,498,819	4,399,608
Derivative liabilities	315,228	2,853,476
Other liabilities	58,687	52,273
Total liabilities	8,209,988	11,006,541
Commitments and contingencies		
Stockholders deficit:		
Preferred stock; $.001 par value; 5,000,000 shares authorized at March 31, 2008 and December 31, 2008; none issued and outstanding		
Common stock; $.001 par value; 150,000,000 shares authorized; 68,950,821 and 67,240,030 shares issued and outstanding at March 31, 2008 and December 31, 2007, respectively	68,951	67,240
Additional paid-in capital	139,881,423	136,765,697
Accumulated deficit	(141,802,522)	(140,776,531)
Total stockholders deficit	(1,852,148)	(3,943,594)
Total liabilities and stockholders deficit	$ 6,357,840	$ 7,062,947

See accompanying notes to consolidated financial statements

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Neoprobe Corporation and Subsidiaries
Consolidated Statements of Operations
(unaudited)

	Three Months Ended March 31,	
	2008	**2007**
Net sales	$ 1,782,792	$ 1,743,320
Cost of goods sold	660,007	789,492
Gross profit	1,122,785	953,828
Operating expenses:		
Research and development	563,703	863,841
Selling, general and administrative	875,408	782,576
Total operating expenses	1,439,111	1,646,417
Loss from operations	(316,326)	(692,589)
Other income (expenses):		
Interest income	10,608	25,058
Interest expense	(331,779)	(442,145)
Change in derivative liabilities	(386,746)	
Other	(1,748)	(1,221)
Total other expenses	(709,665)	(418,308)
Net loss	$ (1,025,991)	$ (1,110,897)
Net loss per common share:		
Basic	$ (0.02)	$ (0.02)
Diluted	$ (0.02)	$ (0.02)
Weighted average shares outstanding:		
Basic	67,284,589	59,651,298
Diluted	67,284,589	59,651,298

See accompanying notes to consolidated financial statements.

Neoprobe Corporation and Subsidiaries
Consolidated Statement of Stockholders Deficit
(unaudited)

	Common Stock		Additional Paid-in	Accumulated	
	Shares	Amount	Capital	Deficit	Total
Balance, December 31, 2007	67,240,030	$ 67,240	$ 136,765,697	$ (140,776,531)	$ (3,943,594)
Issued restricted stock	450,000	450			450
Issued stock to 401(k) plan at $0.28	114,921	115	29,916		30,031
Issued stock upon exercise of warrants	1,145,870	1,146	112,605		113,751
Reclassified derivative liabilities			2,924,994		2,924,994
Stock compensation expense			48,211		48,211
Net loss				(1,025,991)	(1,025,991)
Balance, March 31, 2008	68,950,821	$ 68,951	$ 139,881,423	$ (141,802,522)	$ (1,852,148)

See accompanying notes to consolidated financial statements.

Neoprobe Corporation and Subsidiaries
Consolidated Statements of Cash Flows
(unaudited)

	Three Months Ended March 31,	
	2008	**2007**
Cash flows from operating activities:		
Net loss	$ (1,025,991)	$ (1,110,897)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	95,815	106,142
Amortization of debt discount and debt offering costs	129,373	210,364
Provision for bad debts	4,558	962
Stock compensation expense	48,211	34,348
Change in derivative liabilities	386,746	
Other	32,795	31,493
Changes in operating assets and liabilities:		
Accounts receivable	404,655	267,197
Inventory	123,057	91,947
Prepaid expenses and other assets	64,041	82,197
Accounts payable	36,996	254,603
Accrued liabilities and other liabilities	(312,631)	37,914
Deferred revenue	(29,976)	(44,070)
Net cash used in operating activities	(42,351)	(37,800)
Cash flows from investing activities:		
Purchases of property and equipment	(15,572)	(29,259)
Proceeds from sales of property and equipment	120	
Patent and trademark costs	(487)	(385)
Net cash used in investing activities	(15,939)	(29,644)
Cash flows from financing activities:		
Proceeds from issuance of common stock	114,200	150,000
Payment of stock offering costs		(20,040)
Payment of debt issuance costs	(11,406)	
Payment of notes payable	(52,887)	(583,113)
Payments under capital leases	(3,656)	(4,553)
Net cash provided by (used in) financing activities	46,251	(457,706)
Net decrease in cash	(12,039)	(525,150)

Cash, beginning of period	1,540,220	2,502,655
Cash, end of period	$ 1,528,181	$ 1,977,505

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements
(unaudited)

1. **Summary of Significant Accounting Policies**

a. **Basis of Presentation:** The information presented as of March 31, 2008 and for the three-month periods ended March 31, 2008 and March 31, 2007 is unaudited, but includes all adjustments (which consist only of normal recurring adjustments) that the management of Neoprobe Corporation (Neoprobe, the Company, or we) believes to be necessary for the fair presentation of results for the periods presented. Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. generally accepted accounting principles have been condensed or omitted pursuant to the rules and regulations of the U.S. Securities and Exchange Commission. The results for the interim periods are not necessarily indicative of results to be expected for the year. The consolidated financial statements should be read in conjunction with Neoprobe s audited consolidated financial statements for the year ended December 31, 2007, which were included as part of our Annual Report on Form 10-K.

Our consolidated financial statements include the accounts of Neoprobe, our wholly-owned subsidiary, Cardiosonix Ltd. (Cardiosonix), and our 90%-owned subsidiary, Cira Biosciences, Inc. (Cira Bio). All significant inter-company accounts were eliminated in consolidation.

b. **Financial Instruments and Fair Value:** We adopted Statement of Financial Accounting Standards (SFAS) No. 157, *Fair Value Measurements*, for financial assets and liabilities as of January 1, 2008. SFAS No. 157 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives 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 under SFAS No. 157 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 that are subject to SFAS No. 157. 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.

2. Fair Value Hierarchy

The following tables set forth by level liabilities measured at fair value on a recurring basis. As required by SFAS No. 157, assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

Liabilities Measured at Fair Value on a Recurring Basis as of March 31, 2008

Description	Quoted Prices in Active Markets for Identical Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance as of March 31, 2008
Derivative liabilities related to warrants	$	$	$	$
Derivative liabilities related to conversion and put options			315,228	315,228
Total derivative liabilities	$	$	$ 315,228	$ 315,228

Liabilities Measured at Fair Value on a Recurring Basis as of December 31, 2007

Description	Quoted Prices in Active Markets for Identical Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance as of December 31, 2007
Derivative liabilities related to warrants	$	$ 1,254,404	$	$ 1,254,404
Derivative liabilities related to conversion and put options			1,599,072	1,599,072
Total derivative liabilities	$	$ 1,254,404	$ 1,599,072	$ 2,853,476

The following table sets forth a summary of changes in the fair value of our Level 2 and Level 3 liabilities for the three months ended March 31, 2008:

Description	Balance at December 31, 2007	Unrealized Losses	Transfers in and/or (Out) (See Note 9)	Balance at March 31, 2008
Derivative liabilities related to warrants	$ 1,254,404	$ 270,654	$ (1,525,058)	$
Derivative liabilities related to conversion and put options	1,599,072	116,092	(1,399,936)	315,228

Total derivative liabilities	$ 2,853,476	$ 386,746	$ (2,924,994)	$ 315,228

Nonfinancial Assets and Liabilities Subject to FSP FAS 157-2 Deferral Provisions

We will apply the fair value measurement and disclosure provisions of SFAS No. 157 effective January 1, 2009 to nonfinancial assets and liabilities measured on a nonrecurring basis. We measure the fair value of (1) long-lived assets and (2) intangible assets on a nonrecurring basis.

3. Stock-Based Compensation

At March 31, 2008, we have three stock-based compensation plans. Under the Amended and Restated Stock Option and Restricted Stock Purchase Plan (the Amended Plan), the 1996 Stock Incentive Plan (the 1996 Plan), and the 2002 Stock Incentive Plan (the 2002 Plan), we may grant incentive stock options, nonqualified stock options, and restricted stock awards to full-time employees, and nonqualified stock options and restricted awards may be granted to our consultants and agents. Total shares authorized under each plan are 2 million shares, 1.5 million shares and 5 million shares, respectively. Although options are still outstanding under the Amended Plan and the 1996 Plan, these plans are considered 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.

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

Compensation cost arising from stock-based awards is recognized as expense using the straight-line method over the vesting period. As of March 31, 2008, there was approximately $263,000 of total unrecognized compensation cost related to unvested stock-based awards, which we expect to recognize over remaining weighted average vesting terms of 0.9 years. For the three-month periods ended March 31, 2008 and 2007, our total stock-based compensation expense was approximately $48,000 and $34,000, respectively. We have not recorded any income tax benefit related to stock-based compensation in either of the three-month periods ended March 31, 2008 and 2007.

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

A summary of stock option activity under our stock option plans as of March 31, 2008, and changes during the three-month period then ended is presented below:

	Three Months Ended March 31, 2008			
	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life	Aggregate Intrinsic Value
Outstanding at beginning of period	5,495,473	$ 0.42		
Granted	460,000	$ 0.36		
Exercised				
Forfeited				
Expired	(7,200)	$ 5.63		
	&			