

NEOPROBE CORP  
Form 424B3  
May 16, 2006

Filed Pursuant to Rule 424(b)(3)  
Registration No. 333-121673

**PROSPECTUS SUPPLEMENT**

Number 1

to

First Amended Prospectus dated April 7, 2006,

of

**NEOPROBE CORPORATION**

**32,350,000 Shares of Common Stock**

This Prospectus Supplement relates to the sale of up to 32,350,000 shares of Neoprobe Corporation common stock (the "Shares"). The Shares are being registered to permit public secondary trading of the shares that are being offered by the selling stockholders named in the prospectus. We are not selling any of the Shares in this offering and therefore will not receive any proceeds from this offering.

This Prospectus Supplement No. 1 includes the attached Quarterly Report on Form 10-QSB (the "Form 10-QSB") of Neoprobe Corporation (the "Company"), for the quarter ended March 31, 2006, filed by the Company with the Securities and Exchange Commission on May 15, 2006. The exhibits to the Form 10-QSB are not included with this Prospectus Supplement No. 1 and are not incorporated by reference herein.

Our common stock is traded on the Over-the-Counter 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 16, 2006.

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, DC 20549**

**FORM 10-QSB**

(Mark One)

**QUARTERLY REPORT UNDER SECTION 13 OR 15 (d) OF THE  
SECURITIES EXCHANGE ACT OF 1934  
For the quarterly period ended: March 31, 2006**

or

**TRANSITION REPORT UNDER SECTION 13 OR 15 (d) OF THE  
EXCHANGE ACT  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_**

**Commission File Number: 0-26520**

**NEOPROBE CORPORATION**

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

**Delaware**

(State or other jurisdiction of  
incorporation or organization)

**31-1080091**

(I.R.S. employer identification no.)

**425 Metro Place North, Suite 300, Dublin, Ohio 43017**

(Address of principal executive offices)

**614-793-7500**

(Issuer's telephone number)

**58,691,046 shares of common stock, par value \$.001 per share**

(Number of shares of issuer's common equity outstanding as of the close of business on May 5, 2006)

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

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

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date: 58,691,046 shares of common stock, par value \$.001 per share (as of the close of business on May 5, 2006).

Transitional Small Business Disclosure Format (check one) Yes  No



**NEOPROBE CORPORATION and SUBSIDIARIES**

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**PART I - FINANCIAL INFORMATION****Item 1. Financial Statements****Neoprobe Corporation and Subsidiaries  
Consolidated Balance Sheets**

<b>ASSETS</b>	<b>March 31, 2006 (unaudited)</b>	<b>December 31, 2005</b>
<b>Current assets:</b>		
Cash and cash equivalents	\$ 5,658,771	\$ 4,940,946
Available-for-sale securities	54,853	1,529,259
Accounts receivable, net	710,820	673,008
Inventory	800,910	803,703
Prepaid expenses and other	307,340	501,557
<b>Total current assets</b>	<b>7,532,694</b>	<b>8,448,473</b>
Property and equipment	2,065,528	2,051,793
Less accumulated depreciation and amortization	1,785,645	1,768,558
	279,883	283,235
Patents and trademarks	3,170,333	3,162,547
Acquired technology	237,271	237,271
	3,407,604	3,399,818
Less accumulated amortization	1,365,875	1,300,908
	2,041,729	2,098,910
Other assets	685,703	739,823
<b>Total assets</b>	<b>\$ 10,540,009</b>	<b>\$ 11,570,441</b>

**Continued**

**Neoprobe Corporation and Subsidiaries**  
**Consolidated Balance Sheets, continued**

<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>March 31, 2006 (unaudited)</b>	<b>December 31, 2005</b>
<b>Current liabilities:</b>		
Accounts payable	\$ 423,037	\$ 207,824
Accrued liabilities and other	348,737	821,781
Capital lease obligations, current	19,401	19,530
Deferred revenue, current	249,898	252,494
Notes payable to finance companies	132,299	200,054
<b>Total current liabilities</b>	<b>1,173,372</b>	<b>1,501,683</b>
Capital lease obligations	27,302	31,855
Deferred revenue	31,944	41,132
Notes payable to CEO, net of discounts of \$24,568 and \$26,249, respectively	75,432	73,751
Notes payable to investors, net of discounts of \$1,965,435 and \$2,099,898, respectively	6,034,565	5,900,102
Other liabilities	4,510	5,122
<b>Total liabilities</b>	<b>7,347,125</b>	<b>7,553,645</b>
<b>Commitments and contingencies</b>		
<b>Stockholders' equity:</b>		
Preferred stock; \$.001 par value; 5,000,000 shares authorized at March 31, 2006 and December 31, 2005; none issued and outstanding	—	—
Common stock; \$.001 par value; 150,000,000 shares authorized; 58,690,046 shares issued and outstanding at March 31, 2006; 58,622,059 shares issued and outstanding at December 31, 2005	58,690	58,622
Additional paid-in capital	135,008,954	134,903,259
Accumulated deficit	(131,874,705)	(130,947,103)
Accumulated other comprehensive (loss) income	(55)	2,018
<b>Total stockholders' equity</b>	<b>3,192,884</b>	<b>4,016,796</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 10,540,009</b>	<b>\$ 11,570,441</b>

See accompanying notes to the consolidated financial statements

**Neoprobe Corporation and Subsidiaries**  
**Consolidated Statements of Operations**  
**(unaudited)**

	<b>Three Months Ended</b>	
	<b>March 31,</b>	
	<b>2006</b>	<b>2005</b>
Net sales	\$ 1,787,918	\$ 1,465,887
Cost of goods sold	737,220	563,323
Gross profit	1,050,698	902,564
<b>Operating expenses:</b>		
Research and development	834,183	638,445
Selling, general and administrative	852,483	836,115
Total operating expenses	1,686,666	1,474,560
Loss from operations	(635,968)	(571,996)
<b>Other income (expenses):</b>		
Interest income	66,203	40,963
Interest expense	(356,534)	(327,573)
Increase in warrant liability	—	(142,427)
Other	(1,303)	(1,738)
Total other expenses	(291,634)	(430,775)
Net loss	\$ (927,602)	\$ (1,002,771)
<b>Net loss per common share:</b>		
Basic	\$ (0.02)	\$ (0.02)
Diluted	\$ (0.02)	\$ (0.02)
<b>Weighted average shares outstanding:</b>		
Basic	58,510,944	58,317,098
Diluted	58,510,944	58,317,098

See accompanying notes to the consolidated financial statements.

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

	<b>Three Months Ended</b>	
	<b>March 31,</b>	
	<b>2006</b>	<b>2005</b>
<b>Cash flows from operating activities:</b>		
Net loss	\$ (927,602)	\$ (1,002,771)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	100,700	149,812
Amortization of debt discount and offering costs	190,264	161,391
Increase in warrant liability	—	142,427
Stock option expense	79,150	—
Other	26,521	(111)
Changes in operating assets and liabilities:		
Accounts receivable	(37,812)	(500,245)
Inventory	(16,658)	(8,259)
Prepaid expenses and other assets	196,217	87,532
Accounts payable	215,213	9,465
Accrued liabilities and other liabilities	(473,657)	(74,761)
Deferred revenue	(11,784)	172,978
Net cash used in operating activities	(659,448)	(862,542)
<b>Cash flows from investing activities:</b>		
Purchases of available-for-sale securities	—	(3,494,029)
Maturities of available-for-sale securities	1,476,000	—
Purchases of property and equipment	(16,504)	(24,748)
Proceeds from sales of property and equipment	—	154
Patent and trademark costs	(7,786)	(8,470)
Net cash provided by (used in) investing activities	1,451,710	(3,527,093)
<b>Cash flows from financing activities:</b>		
Proceeds from issuance of common stock	—	57,922
Payment of debt issuance costs	(5,000)	(9,635)
Payment of notes payable	(64,755)	(76,977)
Payments under capital leases	(4,682)	(3,181)
Other	—	20
Net cash used in financing activities	(74,437)	(31,851)
Net increase (decrease) in cash and cash equivalents	717,825	(4,421,486)
Cash and cash equivalents, beginning of period	4,940,946	9,842,658
Cash and cash equivalents, end of period	\$ 5,658,771	\$ 5,421,172

See accompanying notes to the consolidated financial statements.





**Notes to the Consolidated Financial Statements  
(unaudited)**

**1. Basis of Presentation**

The information presented as of March 31, 2006 and 2005 and for the three-month periods then ended 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, 2005, which were included as part of our Annual Report on Form 10-KSB.

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.

**2. Stock-Based Compensation**

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

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

We are continuing to use 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. As of March 31, 2006, there was approximately \$291,000 of total unrecognized compensation cost related to unvested stock-based awards, which we expect to recognize over remaining weighted average vesting terms of 1.3 years. For the quarter ended March 31, 2006, our total stock-based compensation expense was \$79,000. We have not recorded any income tax benefit related to stock-based compensation in either of the quarters ended March 31, 2006 and 2005.

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

<b>Three Months Ended March 31, 2005</b>	
Net loss, as reported	\$ (1,002,771)
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards	(214,301)
Pro forma net loss	\$ (1,217,072)
<b>Loss per common share:</b>	
As reported (basic and diluted)	\$ (0.02)
Pro forma (basic and diluted)	\$ (0.02)

During the first quarter of 2005, the Board of Directors granted options to directors and certain employees to purchase 335,000 shares of our common stock, exercisable at an average price of \$0.68 per share, vesting over three years. No options were granted during the first quarter of 2006. As of March 31, 2006, we have 5.5 million options outstanding under three stock option plans. Of the outstanding options, 4.1 million options have vested as of March 31, 2006, at an average exercise price of \$0.46 per share.

### 3. Comprehensive Income (Loss)

Due to our net operating loss position, there are no income tax effects on comprehensive income (loss) components for the three-month periods ended March 31, 2006 and 2005.

	<b>Three Months Ended March 31,</b>	
	<b>2006</b>	<b>2005</b>
Net loss	\$ (927,602)	\$ (1,002,771)
Unrealized losses on securities	(2,073)	(2,198)
Other comprehensive loss	\$ (929,675)	\$ (1,004,969)

#### 4. Earnings Per Share

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

	Three Months Ended March 31, 2006		Three Months Ended March 31, 2005	
	Basic Earnings Per Share	Diluted Earnings Per Share	Basic Earnings Per Share	Diluted Earnings Per Share
Outstanding shares	58,690,046	58,690,046	58,585,008	58,585,008
Effect of weighting changes in outstanding shares	(49,102)	(49,102)	(137,910)	(137,910)
Contingently issuable shares	(130,000)	(130,000)	(130,000)	(130,000)
Adjusted shares	58,510,944	58,510,944	58,317,098	58,317,098

There is no difference in basic and diluted loss per share related to the three-month periods ended March 31, 2006 and 2005. The net loss per common share for these periods excludes 41,341,677 and 38,722,364, respectively, of common shares issuable upon exercise of outstanding stock options and warrants into our common stock or upon the conversion of convertible debt since such inclusion would be anti-dilutive.

#### 5. Available-for-Sale Securities

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

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

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

#### 6. Inventory

The components of inventory are as follows:

	March 31, 2006 (unaudited)	December 31, 2005
Materials and component parts	\$ 380,956	\$ 461,218
Finished goods	419,954	342,485
Total	\$ 800,910	\$ 803,703



## 7. Intangible Assets

The major classes of intangible assets are as follows:

	Wtd Avg Life	March 31, 2006		December 31, 2005	
		Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Patents and trademarks	10 yrs	\$ 3,170,333	\$ 1,221,303	\$ 3,162,547	\$ 1,164,763
Acquired technology	3 yrs	237,271	144,572	237,271	136,145
<b>Total</b>		<b>\$ 3,407,604</b>	<b>\$ 1,365,875</b>	<b>\$ 3,399,818</b>	<b>\$ 1,300,908</b>

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

	Estimated Amortization Expense
For the year ended 12/31/2006	\$ 262,992
For the year ended 12/31/2007	226,830
For the year ended 12/31/2008	201,976
For the year ended 12/31/2009	168,267
For the year ended 12/31/2010	168,267

## 8. Product Warranty

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

The activity in the warranty reserve account for the three-month periods ended March 31, 2006 and 2005 is as follows:

	Three Months Ended March 31,	
	2006	2005
Warranty reserve at beginning of period	\$ 41,185	\$ 66,000
Provision for warranty claims and changes in reserve for	13,451	23,573

warranties		
Payments charged against the reserve	(10,911)	(23,073)
Warranty reserve at end of period	\$ 43,725	\$ 66,500

## 9. Notes Payable

In December 2004, we completed a private placement of four-year convertible promissory notes in an aggregate principal amount of \$8.1 million with Biomedical Value Fund, L.P., Biomedical Offshore Value Fund, Ltd. and David C. Bupp (our President and CEO). Biomedical Value Fund, L.P. and Biomedical Offshore Value Fund, Ltd. are funds managed by Great Point Partners, LLC. The notes bear interest at 8% per annum, payable quarterly on each March 31, June 30, September 30 and December 31 of each year, and are freely convertible into shares of our common stock at a price of \$0.40 per share. Neoprobe may force conversion of the notes prior to their stated maturity under certain circumstances. All of our material assets, except the intellectual property associated with our Lymphoseek™ and RIGS® products under development, have been pledged as collateral for these notes.

In addition to the security interest in our assets, the notes carry substantial covenants that impose significant requirements on us, including, among others, requirements that: we pay all principal, interest and other charges on the notes when due; we use the proceeds from the sale of the notes only for permitted purposes such as Lymphoseek development and general corporate purposes; we nominate and recommend for election as a director a person designated by the holders of the notes (as of March 31, 2006, the holders of the notes have not designated a potential board member); we keep reserved out of our authorized shares of common stock sufficient shares to satisfy our obligation to issue shares on conversion of the notes and the exercise of the warrants issued in connection with the sale of the notes; we achieve annual revenues on a consolidated basis of at least \$5.4 million in 2005, \$6.5 million in 2006, and \$9.0 million in each year thereafter; we maintain minimum cash balances of \$4.5 million at the end of the first six months of 2005, \$4.0 million at the end of the second six months of 2005, and \$3.5 million at the end of each six-month period thereafter; and we indemnify the purchasers of the notes against certain liabilities. Additionally, with certain exceptions, the notes prohibit us from: amending our organizational or governing agreements and documents, entering into any merger or consolidation, dissolving the company or liquidating its assets, or acquiring all or any substantial part of the business or assets of any other person; engaging in transactions with any affiliate; entering into any agreement inconsistent with our obligations under the notes and related agreements; incurring any indebtedness, capital leases, or contingent obligations outside the ordinary course of business; granting or permitting liens against or security interests in our assets; making any material dispositions of our assets outside the ordinary course of business; declaring or paying any dividends or making any other restricted payments; or making any loans to or investments in other persons outside of the ordinary course of business.

As part of this transaction, we issued the investors 10,125,000 Series T warrants to purchase our common stock at an exercise price of \$0.46, expiring in December 2009. The fair value of the warrants issued to the investors was \$1,315,000 on the date of issuance and was determined by a third-party valuation expert using the Black-Scholes option pricing model with the following assumptions: an average risk-free interest rate of 3.4%, volatility of 50% and no expected dividend rate. In connection with this financing, we also issued 1,600,000 warrants to purchase our common stock to the placement agents, containing substantially the same terms as the warrants issued to the investors. The fair value of the warrants issued to the placement agents was \$208,014 using the Black-Scholes option pricing model with the same assumptions used to determine the fair value of the warrants issued to the investors. The value of the beneficial conversion feature of the notes was estimated at \$1,315,000 based on the effective conversion price at the date of issuance. The fair value of the warrants issued to the investors and the value of the beneficial conversion feature were recorded as discounts on the note and are being amortized over the term of the notes using an effective interest rate of 19.8%. The fair value of the warrants issued to the placement agents was recorded as a deferred debt issuance cost and is being amortized over the term of the notes. If we issue equity at prices below the conversion rate for the promissory notes (and for the warrants below the exercise price), then we would be required to reset the exercise and conversion prices for these securities. This provision results in a contingent beneficial conversion feature that may require us to estimate an additional debt discount if a reset occurs.

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



fair value of the warrant liability was then reclassified to additional paid-in capital during the first quarter of 2005.

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**10. Stock Warrants**

During the first quarter of 2005, 143,278 of our Series R and 63,587 of our Series S warrants that were issued in October 2003 were exercised and we realized proceeds of \$57,922. No warrants were exercised during the first quarter of 2006.

At March 31, 2006, there are 17.0 million warrants outstanding to purchase our common stock. The warrants are exercisable at prices ranging from \$0.13 to \$0.75 per share with a weighted average exercise price of \$0.40 per share.

**11. Segment and Subsidiary Information**

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

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

<i>(\$ amounts in thousands)</i> <b>Three Months Ended March 31, 2006</b>	<b>Gamma Detection Devices</b>	<b>Blood Flow Devices</b>	<b>Drug and Therapy Products</b>	<b>Corporate</b>	<b>Total</b>
Net sales:					
United States <sup>1</sup>	\$ 1,479	\$ 35	\$ —	\$ —	1,514
International	95	179	—	—	274
Research and development expenses	112	257	465	—	834
Selling, general and administrative expenses, excluding depreciation and amortization <sup>2</sup>	—	—	—	—	—