

NEOPROBE CORP
Form 424B3
May 17, 2007

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

PROSPECTUS SUPPLEMENT

Number 2

to

Prospectus dated December 29, 2006, and Prospectus Supplement dated May 3, 2007,

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. 2 includes the attached Quarterly Report on Form 10-QSB (the "Form 10-QSB") of Neoprobe Corporation (the "Company") for the quarter ended March 31, 2007, filed by the Company with the Securities and Exchange Commission on May 15, 2007. The exhibits to the Form 10-QSB are not included with this Prospectus Supplement No. 2 and are not incorporated by reference herein. This Prospectus Supplement No. 2 should be read in conjunction with the prospectus supplement dated May 3, 2007.

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. 2 is May 17, 2007.

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
Washington, D.C. 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, 2007

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

For the transition period from to _____ 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

(IRS Employer Identification No.)

425 Metro Place North, Suite 300, Dublin, OH 43017-1367

(Address of principal executive offices)

(614) 793-7500

(Issuer's telephone number)

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

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

**APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY
PROCEEDINGS DURING THE PRECEDING FIVE YEARS**

Check whether the registrant filed all documents and reports required to be filed by Section 12, 13, or 15(d) of the Exchange Act after the distribution of securities under a plan confirmed by a court. Yes No

APPLICABLE ONLY TO CORPORATE ISSUERS

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date: 61,259,471 shares of common stock, par value \$.001 per share (as of the close of business on May 4, 2007).

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**

	March 31, 2007 (unaudited)	December 31, 2006
ASSETS		
Current assets:		
Cash	\$ 1,977,505	\$ 2,502,655
Accounts receivable, net	977,930	1,246,089
Inventory	1,047,321	1,154,376
Prepaid expenses and other	268,953	430,623
Total current assets	4,271,709	5,333,743
Property and equipment	2,278,519	2,238,050
Less accumulated depreciation and amortization	1,925,433	1,882,371
	353,086	355,679
Patents and trademarks	3,131,508	3,131,391
Acquired technology	237,271	237,271
	3,368,779	3,368,662
Less accumulated amortization	1,601,152	1,540,145
	1,767,627	1,828,517
Other assets	458,161	515,593
Total assets	\$ 6,850,583	\$ 8,033,532

Continued

Neoprobe Corporation and Subsidiaries
Consolidated Balance Sheets, continued

	March 31, 2007 (unaudited)	December 31, 2006
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current liabilities:		
Accounts payable	\$ 922,891	\$ 668,288
Accrued liabilities and other	632,742	544,215
Capital lease obligations	13,944	14,841
Deferred revenue	305,211	348,568
Notes payable to finance companies	78,812	136,925
Notes payable to investors, current portion, net of discounts of \$161,500 and \$53,585, respectively	2,813,500	1,696,415
Total current liabilities	4,767,100	3,409,252
Capital lease obligations	13,358	17,014
Deferred revenue	39,782	40,495
Notes payable to CEO, net of discounts of \$17,156 and \$19,030, respectively	82,844	80,970
Notes payable to investors, net of discounts of \$1,209,873 and \$1,468,845, respectively	3,290,127	4,781,155
Other liabilities	2,061	2,673
Total liabilities	8,195,272	8,331,559
Commitments and contingencies		
Stockholders' deficit:		
Preferred stock; \$.001 par value; 5,000,000 shares authorized at March 31, 2007 and December 31, 2006; none issued and outstanding	-	-
Common stock; \$.001 par value; 150,000,000 shares authorized; 60,088,384 and 59,624,379 shares issued and outstanding at March 31, 2007 and December 31, 2006, respectively	60,088	59,624
Additional paid-in capital	135,394,439	135,330,668
Accumulated deficit	(136,799,216)	(135,688,319)
Total stockholders' deficit	(1,344,689)	(298,027)
Total liabilities and stockholders' deficit	\$ 6,850,583	\$ 8,033,532

See accompanying notes to the consolidated financial statements

Neoprobe Corporation and Subsidiaries
Consolidated Statements of Operations
(unaudited)

	Three Months Ended	
	March 31,	
	2007	2006
Net sales	\$ 1,743,320	\$ 1,787,918
Cost of goods sold	789,492	737,220
Gross profit	953,828	1,050,698
Operating expenses:		
Research and development	863,841	834,183
Selling, general and administrative	782,576	852,483
Total operating expenses	1,646,417	1,686,666
Loss from operations	(692,589)	(635,968)
Other income (expenses):		
Interest income	25,058	66,203
Interest expense	(442,145)	(356,534)
Other	(1,221)	(1,303)
Total other expenses	(418,308)	(291,634)
Net loss	\$ (1,110,897)	\$ (927,602)
Net loss per common share:		
Basic	\$ (0.02)	\$ (0.02)
Diluted	\$ (0.02)	\$ (0.02)
Weighted average shares outstanding:		
Basic	59,651,298	58,510,944
Diluted	59,651,298	58,510,944

See accompanying notes to the consolidated financial statements.

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

	Three Months Ended	
	March 31,	
	2007	2006
Cash flows from operating activities:		
Net loss	\$ (1,110,897)	\$ (927,602)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	106,142	100,700
Amortization of debt discount and debt offering costs	210,364	190,264
Stock compensation expense	34,348	79,150
Other	31,493	26,521
Changes in operating assets and liabilities:		
Accounts receivable	268,159	(37,812)
Inventory	91,947	(16,658)
Prepaid expenses and other assets	82,197	196,217
Accounts payable	254,603	215,213
Accrued liabilities and other liabilities	37,914	(473,657)
Deferred revenue	(44,070)	(11,784)
Net cash used in operating activities	(37,800)	(659,448)
Cash flows from investing activities:		
Maturities of available-for-sale securities	-	1,476,000
Purchases of property and equipment	(29,259)	(16,504)
Patent and trademark costs	(385)	(7,786)
Net cash (used in) provided by investing activities	(29,644)	1,451,710
Cash flows from financing activities:		
Proceeds from issuance of common stock	150,000	-
Payment of stock offering costs	(20,040)	(5,000)
Payment of notes payable	(583,113)	(64,755)
Payments under capital leases	(4,553)	(4,682)
Net cash used in financing activities	(457,706)	(74,437)
Net (decrease) increase in cash	(525,150)	717,825
Cash, beginning of period	2,502,655	4,940,946
Cash, end of period	\$ 1,977,505	\$ 5,658,771

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, 2007 and for the three-month periods ended March 31, 2007 and March 31, 2006 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, 2006, 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

At March 31, 2007, 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, 2007, there was approximately \$126,000 of total unrecognized compensation cost related to unvested stock-based awards, which we expect to recognize over remaining weighted average vesting terms of 1.5 years. For the three-month periods ended March 31, 2007 and 2006, our total stock-based compensation expense was approximately \$34,000 and \$79,000, respectively. We have not recorded any income tax benefit related to stock-based compensation in either of the three-month periods ended March 31, 2007 and 2006.

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, 2007, and changes during the three-month period then ended is presented below:

	Three Months Ended March 31, 2007			
	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life	Aggregate Intrinsic Value
Outstanding, January 1, 2007	5,975,473	\$ 0.42		