HILL PAMELA
Form 4
April 05, 2011

FORM 4

Check this box if no longer subject to Section 16. Form 4 or Form 5 obligations may continue. *See* Instruction 1(b).

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

STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

OMB APPROVAL	
OMB Number:	3235-0287
Expires:	January 31, 2005
Estimated average burden hours per response...	0.5

(Print or Type Responses)

1. Name and Address of Reporting Person *
HILL PAMELA

(Last) (First) (Middle)

500 HILLS DRIVE, SUITE 300, PO BOX 700

(Street)

BEDMINSTER, NJ 07921

(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
PEAPACK GLADSTONE FINANCIAL CORP [PGC]

3. Date of Earliest Transaction (Month/Day/Year)
03/30/2011

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

__X__ Director _____ 10% Owner
_____ Officer (give title below) _____ Other (specify below)

6. Individual or Joint/Group Filing(Check Applicable Line)
_X_ Form filed by One Reporting Person
___ Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1.Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)		4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)			5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price			
Common Stock	03/30/2011		G	V	200	D	(6)	73,674	D	
Common Stock								26,192	I	Held in a trust for which Ms. Hill is a beneficiary

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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SEC 1474 (9-02)

displays a currently valid OMB control number.

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(*e.g.*, puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)		5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)		6. Date Exercisable and Expiration Date (Month/Day/Year)		7. Title and Amount of Underlying Securities (Instr. 3 and 4)		8. Price of Derivative Security (Instr. 5)
				Code	V	(A)	(D)	Date Exercisable	Expiration Date	Title	Amount or Number of Shares	
Director Stock Options (right to buy)	$ 27.51							(1)	01/09/2014	Common Stock	11,550	
Stock Option (right to buy)	$ 27.51							(1)	01/09/2014	Common Stock	5,773	
Stock Option (right to buy)	$ 26.76							(2)	01/03/2017	Common Stock	2,310	
Stock Option (right to buy)	$ 23.4							(3)	01/02/2018	Common Stock	2,310	
Stock Option (right to buy)	$ 13.43							(5)	01/04/2020	Common Stock	5,000	
Stock Option (right to buy)	$ 13.53							(4)	01/03/2021	Common Stock	2,500	

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
HILL PAMELA 500 HILLS DRIVE, SUITE 300 PO BOX 700 BEDMINSTER, NJ 07921	X			

Signatures

Pamela Hill	04/05/2011
**Signature of Reporting Person	Date

Explanation of Responses:

- * If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).
- ** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).
- **(1)** The options were exercisable in five equal annual installments on April 28, 1999, 2000, 2001, 2002 and 2003.
- **(2)** The options are exercisable in five equal annual installments on January 3, 2008, 2009, 2010, 2011 and 2012.
- **(3)** The options are exercisable in five equal annual installments on January 2, 2009, 2010, 2011, 2012 and 2013.
- **(4)** The options are exercisable in four equal annual installments on January 3, 2012, 2013, 2014 and 2015.
- **(5)** The options are exercisable in four equal annual installments on January 4, 2011, 2012, 2013 and 2014.
- **(6)** A gift involves no payment of consideration; therefore, no price is necessary.

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.
Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB number.

Total current liabilities
1,684,093 2,170,908

Capital lease obligations, net of current portion
13,882 2,422
Deferred revenue, net of current portion
522,233 623,640
Notes payable to CEO, net of discounts of $86,357 and $95,786, respectively
913,643 904,214
Notes payable to investors, net of discounts of $5,307,080 and $2,600,392, respectively
4,692,920 4,399,608
Derivative liabilities
686,638 2,853,476
Other liabilities
49,632 52,273

Total liabilities	8,563,041	11,006,541
Commitments and contingencies		
Stockholders deficit:		
Preferred stock; $.001 par value; 5,000,000 shares authorized at June 30, 2008 and December 31, 2008; none issued and outstanding		
Common stock; $.001 par value; 150,000,000 shares authorized; 69,115,058 and 67,240,030 shares issued and outstanding at June 30, 2008 and December 31, 2007, respectively	69,115	67,240
Additional paid-in capital	142,647,735	136,765,697
Accumulated deficit	(142,821,381)	(140,776,531)
Accumulated other comprehensive losses	(456)	
Total stockholders deficit	(104,987)	(3,943,594)
Total liabilities and stockholders deficit	$8,458,054	$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 June 30,		Six Months Ended June 30,	
	2008	**2007**	**2008**	**2007**
Net sales	$ 2,255,025	$ 1,517,430	$ 4,037,817	$ 3,260,750
Cost of goods sold	906,670	699,844	1,566,677	1,489,336
Gross profit	1,348,355	817,586	2,471,140	1,771,414
Operating expenses:				
Research and development	898,712	875,304	1,462,415	1,739,145
Selling, general and administrative	903,884	650,293	1,779,292	1,432,869
Total operating expenses	1,802,596	1,525,597	3,241,707	3,172,014
Loss from operations	(454,241)	(708,011)	(770,567)	(1,400,600)
Other income (expenses):				
Interest income	18,482	19,199	29,090	44,257
Interest expense	(470,035)	(444,702)	(801,814)	(886,847)
Change in derivative liabilities	(113,442)		(500,188)	
Other	377	(1,128)	(1,371)	(2,349)
Total other expenses, net	(564,618)	(426,631)	(1,274,283)	(844,939)
Net loss	$ (1,018,859)	$ (1,134,642)	$ (2,044,850)	$ (2,245,539)
Net loss per common share:				
Basic	$ (0.01)	$ (0.02)	$ (0.03)	$ (0.04)
Diluted	$ (0.01)	$ (0.02)	$ (0.03)	$ (0.04)
Weighted average shares outstanding:				
Basic	68,526,573	61,608,782	67,905,581	60,635,448
Diluted	68,526,573	61,608,782	67,905,581	60,635,448

See accompanying notes to consolidated financial statements.

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

	Common Stock		Additional Paid-in	Accumulated	Accumulated Other Comprehensive	
	Shares	Amount	Capital	Deficit	Loss	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	1,310,107	1,310	112,440			113,750
Paid common stock issuance costs			(500)			(500)
Issued warrants to purchase common stock			1,277,178			1,277,178
Effect of beneficial conversion feature of convertible promissory note			1,443,845			1,443,845
Reclassified derivative liabilities			2,924,994			2,924,994
Stock compensation expense			94,165			94,165
Comprehensive loss:						
Net loss				(2,044,850)		(2,044,850)
Unrealized loss on available-for-sale securities					(456)	(456)
Total comprehensive loss						(2,045,306)
Balance, June 30, 2008	69,115,058	$ 69,115	$ 142,647,735	$ (142,821,381)	$ (456)	$ (104,987)

See accompanying notes to consolidated financial statements.

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

	Six Months Ended June 30,	
	2008	**2007**
Cash flows from operating activities:		
Net loss	$ (2,044,850)	$ (2,245,539)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	199,469	207,508
Amortization of debt discount and debt offering costs	333,754	431,071
Provision for bad debts	29,297	962
Stock compensation expense	94,165	67,224
Change in derivative liabilities	500,188	
Other	36,160	34,020
Changes in operating assets and liabilities:		
Accounts receivable	434,106	101,859
Inventory	143,381	(28,544)
Prepaid expenses and other assets	147,461	123,349
Accounts payable	(41,676)	152,484
Accrued liabilities and other liabilities	(361,593)	330,978
Deferred revenue	(83,191)	(112,938)
Net cash used in operating activities	(613,329)	(937,566)
Cash flows from investing activities:		
Purchases of available-for-sale securities	(196,000)	
Purchases of property and equipment	(44,736)	(36,202)
Proceeds from sales of property and equipment	120	
Patent and trademark costs	(8,980)	(1,885)
Net cash used in investing activities	(249,596)	(38,087)
Cash flows from financing activities:		
Proceeds from issuance of common stock	114,200	650,000
Payment of stock offering costs	(500)	(20,040)
Proceeds from notes payable	3,000,000	
Payment of debt issuance costs	(200,154)	
Payment of notes payable	(106,651)	(942,078)
Payments under capital leases	(7,964)	(7,873)
Net cash provided by (used in) financing activities	2,798,931	(319,991)

Net increase (decrease) in cash	1,936,006	(1,295,644)
Cash, beginning of period	1,540,220	2,502,655
Cash, end of period	$ 3,476,226	$ 1,207,011

See accompanying notes to consolidated financial statements.

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Notes to Consolidated Financial Statements
(unaudited)

1. **Summary of Significant Accounting Policies**

   a. **Basis of Presentation:** The information presented as of June 30, 2008 and for the three-month and six-month periods ended June 30, 2008 and June 30, 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 accounting principles generally accepted in the United States of America 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.

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2. Fair Value Hierarchy

The following tables set forth by level financial assets and liabilities measured at fair value on a recurring basis.

Assets and Liabilities Measured at Fair Value on a Recurring Basis as of June 30, 2008

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 June 30, 2008
Assets:				
Available-for-sale securities	$ 195,544	$	$	$ 195,544
Total available-for-sale securities	$ 195,544	$	$	$ 195,544
Liabilities:				
Derivative liabilities related to warrants	$	$	$	$
Derivative liabilities related to conversion and put options			686,638	686,638
Total derivative liabilities	$	$	$ 686,638	$ 686,638

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

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, 2007
Assets:				
Available-for-sale securities	$	$	$	$
Total available-for-sale securities	$	$	$	$
Liabilities:				
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

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The following table sets forth a summary of changes in the fair value of our Level 3 liabilities for the three-month period ended June 30, 2008:

Description	Balance at March 31, 2008	Unrealized Losses	Purchases, Issuances and Settlements	Transfers In and/or (Out) (See Note 9)	Balance at June 30, 2008
Derivative liabilities related to conversion and put options	$ 315,228	$ 113,442	$ 257,968	$	$ 686,638
Total derivative liabilities	$ 315,228	$ 113,442	$ 257,968	$	$ 686,638

The following table sets forth a summary of changes in the fair value of our Level 2 and Level 3 liabilities for the six month period ended June 30, 2008:

Description	Balance at December 31, 2007	Unrealized Losses	Purchases, Issuances and Settlements	Transfers In and/or (Out) (See Note 9)	Balance at June 30, 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	229,534	257,968	(1,399,936)	686,638
Total derivative liabilities	$ 2,853,476	$ 500,188	$ 257,968	$ (2,924,994)	$ 686,638

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 June 30, 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 Second Amended and Restated 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 7 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 June 30, 2008, there was approximately $238,000 of total unrecognized compensation cost related to unvested stock-based awards, which we expect to recognize over remaining weighted average vesting terms of 0.8 years. For the three-month periods ended June 30, 2008 and 2007, our total stock-based compensation expense was approximately $46,000 and $33,000, respectively. For the six-month periods ended June 30, 2008 and 2007, our total stock-based compensation expense was approximately $94,000 and $67,000, respectively. We have not recorded any income tax benefit related to stock-based compensation in any of the three-month and six-month periods ended June 30, 2008 and 2007.

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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 June 30, 2008, and changes during the six-month period then ended is presented below:

	Six Months Ended June 30, 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	506,000	$ 0.40		
Exercised				
Forfeited				
Expired	(17,200)	$ 4.24		
Outstanding at end of period	5,984,273	$ 0.41	5.4 years	
Exercisable at end of period	5,138,273	$ 0.42	4.8 years	

A summary of the status of our restricted stock as of June 30, 2008, and changes during the six-month period then ended is presented below:

	Six Months Ended June 30, 2008	
	Number of Shares	Weighted Average Grant-Date Fair Value
Outstanding at beginning of period		
Granted	450,000	$ 0.36
Exercised		
Forfeited		
Expired		
Outstanding at end of period	450,000	$ 0.36

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4. Comprehensive Loss

We had no accumulated other comprehensive loss activity during the three-month and six-month periods ended June 30, 2007. Due to our net operating loss position, there are no income tax effects on comprehensive loss components for the three-month and six-month periods ended June 30, 2008.

	Three Months Ended June 30, 2008	Six Months Ended June 30, 2008
Net loss	$ (1,018,859)	$ (2,044,850)
Unrealized losses on securities	(456)	(456)
Other comprehensive loss	$ (1,019,315)	$ (2,045,306)

5. Earnings Per Share

Basic earnings (loss) per share is calculated using the weighted average number of common shares outstanding during the periods, adjusted for unvested restricted stock. 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, restricted shares, options and warrants determined using the treasury stock method, if dilutive.

	Three Months Ended June 30, 2008		Three Months Ended June 30, 2007	
	Basic Earnings Per Share	Diluted Earnings Per Share	Basic Earnings Per Share	Diluted Earnings Per Share
Outstanding shares	69,115,058	69,115,058	62,739,731	62,739,731
Effect of weighting changes in outstanding shares	(138,485)	(138,485)	(1,130,949)	(1,130,949)
Contingently issuable shares	(450,000)	(450,000)		
Adjusted shares	68,526,573	68,526,573	61,608,782	61,608,782

	Six Months Ended June, 2008		Six Months Ended June 30, 2007	
	Basic Earnings Per Share	Diluted Earnings Per Share	Basic Earnings Per Share	Diluted Earnings Per Share
Outstanding shares	69,115,058	69,115,058	62,739,731	62,739,731
Effect of weighting changes in outstanding shares	(759,477)	(759,477)	(2,104,283)	(2,104,283)
Contingently issuable shares	(450,000)	(450,000)		
Adjusted shares	67,905,581	67,905,581	60,635,448	60,635,448

There is no difference in basic and diluted loss per share related to the three-month and six-month periods ended June 30, 2008 and 2007. The net loss per common share for these periods excludes the effects of 50,364,050 and 40,055,682 common share equivalents, respectively, since such inclusion would be anti-dilutive. The excluded shares consist of restricted stock and common shares issuable upon exercise of outstanding stock options and warrants, or upon the conversion of convertible debt.

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6. 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.

7. Inventory

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 written down becomes available for commercial use and is used for commercial sale. During the six-month periods ended June 30, 2008 and 2007, we capitalized $1,000 and $150,000, respectively, associated with our Lymphoseek product.

The components of inventory are as follows:

	June 30, 2008 (unaudited)	December 31, 2007
Materials and component parts	$ 377,402	$ 471,753
Work-in-process	152,794	151,741
Finished goods	518,393	613,909
Total	$ 1,048,589	$ 1,237,403

8. Intangible Assets

The major classes of intangible assets are as follows:

		June 30, 2008		December 31, 2007	
	Wtd Avg Life	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Patents and trademarks	8.3 yrs	$ 3,025,763	$ 1,547,135	$ 3,016,783	$ 1,449,350
Acquired technology	0.5 yrs	237,271	220,416	237,271	203,562
Total		$ 3,263,034	$ 1,767,551	$ 3,254,054	$ 1,652,912

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

	Estimated Amortization Expense
For the year ended 12/31/2008	$212,148
For the year ended 12/31/2009	170,136
For the year ended 12/31/2010	169,414
For the year ended 12/31/2011	168,310
For the year ended 12/31/2012	168,267

9. 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 and is included in accrued liabilities on the consolidated balance sheets. 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 and six-month periods ended June 30, 2008 and 2007 is as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
Warranty reserve at beginning of period	$ 81,513	$ 67,401	$ 115,395	$ 44,858
Provision for warranty claims and changes in reserve for warranties	23,998	39,153	9,962	71,905
Payments charged against the reserve	(17,832)	(16,378)	(37,678)	(26,587)
Warranty reserve at end of period	$ 87,679	$ 90,176	$ 87,679	$ 90,176

10. Notes Payable

In December 2004, we completed a private placement of four-year convertible promissory notes in an aggregate principal amount of $8.1 million under a Securities Purchase Agreement with Biomedical Value Fund, L.P., Biomedical Offshore Value Fund, Ltd. and David C. Bupp, our President and CEO. Biomedical Value Fund, L.P. and Biomedical Offshore Value Fund, Ltd. are funds managed by Great Point Partners, LLC (collectively, the Great Point Funds). The notes originally bore interest at 8% per annum and were due on December 13, 2008. As part of the original transaction with the Great Point Funds, we issued the investors 10,125,000 Series T warrants to purchase our common stock at an exercise price of $0.46 per share, expiring in December 2009. The fair value of the warrants issued to the investors and the value of the beneficial conversion feature were recorded as discounts on the note and were being amortized over the term of the notes using the effective interest method. In November 2006, we amended the Agreement and modified several of the key terms in the related notes, including the interest rate which was increased to 12% per annum, and modified the maturity of the notes to provide for a series of scheduled payments due on approximately six month intervals through January 7, 2009. We were also required to make additional mandatory repayments of principal to the Great Point Funds under certain circumstances. During 2007, we made scheduled principal payments and mandatory repayments totaling $2.4 million.

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In exchange for the increased interest rate and accelerated principal repayment schedule, the note holders eliminated the financial covenants under the original notes and eliminated certain conversion price adjustments from the original notes related to sales of equity securities by Neoprobe. We treated the amendment to the Agreement as a modification for accounting purposes, and the amortization of debt discount and issuance costs using the effective interest method was revised accordingly. During the third quarter of 2007, management determined that we had, from the date of the modification of the notes payable on November 30, 2006, through June 30, 2007, incorrectly applied the effective interest method in calculating the amortization of the debt discount and issuance costs related to the notes. As a result of the error in calculation, we recorded a total adjustment of $286,000 in non-cash interest expense related to the seven months ended June 30, 2007 in our results of operations for the third quarter of 2007. We determined that the net effect of this adjustment was not material, either quantitatively or qualitatively, to our results of operations and would not have resulted in changes to net loss per share, as reported, for the year ended December 31, 2006 or for the quarters ended March 31, 2007 and June 30, 2007. Recording the adjustment did not require amendment of the previously filed reports for the periods affected.

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 note bears interest at 10% per annum, had an original term of one year and is repayable in whole or in part with no penalty. The note is convertible, at the option of the investors, into shares of our common stock at a price of $0.31 per share, a 25% premium to the average closing market price of our common stock for the 5 days preceding the closing of the transaction. As part of this transaction, we issued the investors 500,000 Series V warrants to purchase our common stock at an exercise price of $0.31 per share, expiring in July 2012. The fair value of the warrants issued to the investors was approximately $80,000 on the date of issuance and was determined using the Black-Scholes option pricing model with the following assumptions: an average risk-free interest rate of 4.95%, volatility of 105% and no expected dividend rate. The value of the beneficial conversion feature of the note was estimated at $86,000 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. We incurred $43,000 of costs related to completing the Bupp financing, which were recorded in other assets. The discounts and the deferred debt issuance costs were being amortized over the term of the note using the effective interest method.

In December 2007, we executed a Securities Purchase Agreement (the Montaur Purchase Agreement) with Platinum Montaur Life Sciences, LLC (Montaur), pursuant to which we issued Montaur: (1) a 10% Series A Convertible Senior Secured Promissory Note in the principal amount of $7,000,000, due December 26, 2011 (the Series A Note); and (2) 6,000,000 Series W warrants to purchase our common stock at an exercise price of $0.32 per share, expiring in December 2012 (the Series W warrants). Additionally, pursuant to the terms of the Montaur Purchase Agreement: (1) upon commencement of the Phase 3 clinical studies of Lymphoseek, we agreed to issue to Montaur a 10% Series B Convertible Senior Secured Promissory Note, due December 26, 2011 (the Series B Note, and hereinafter referred to collectively with the Series A Note as the Montaur Notes), and five-year warrants to purchase an amount of common stock equal to the number of shares into which Montaur may convert the Series B Note, at an exercise price of 115% of the conversion price of the Series B Note (the Series X warrants), for an aggregate purchase price of $3,000,000; and (2) upon completion of enrollment of 200 patients in the Phase 3 clinical studies of Lymphoseek, we agreed to issue to Montaur 3,000 shares of our 8% Series A Cumulative Convertible Preferred Stock (the Preferred Stock) and five-year warrants to purchase an amount of common stock equal to the number of shares into which Montaur may convert the Preferred Stock, at an exercise price of 115% of the conversion price of the Preferred Stock (the Series Y warrants, and hereinafter referred to collectively with the Series W warrants and Series X warrants as the Montaur warrants), also for an aggregate purchase price of $3,000,000.

The Series A Note bears interest at 10% per annum and is partially convertible at the option of Montaur into common stock at a price of $0.26 per share. Interest is payable monthly, in arrears, beginning February 2008 until the earlier of the maturity date or the date of conversion. At our

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discretion, we may pay the monthly interest payments in cash, common stock, or a combination of cash and common stock, subject to certain limitations set forth in the Series A Note. According to the provisions of the Certificate of Designations, Voting Powers, Preferences, Limitations, Restrictions, and Relative Rights of Series A 8% Cumulative Convertible Preferred Stock (the Certificate of Designations), Montaur may convert all or any portion of the shares of Preferred Stock into a number of shares of common stock equal to the quotient of: (1) the Liquidation Preference Amount of the shares of Preferred Stock by (2) the Conversion Price then in effect for the Preferred Stock. Per the Certificate of Designations, the Liquidation Preference Amount is equal to $1,000 per share of Preferred Stock, and the Conversion Price is equal to the lesser of $0.50 or the closing price of the common stock on the issuance date of the Preferred Stock, subject to adjustment as described in the Certificate of Designations.

Under the terms of a Registration Rights Agreement, dated December 26, 2007, as amended by the Amendment to Registration Rights Agreement, dated February 7, 2008, and Second Amendment to Registration Rights Agreement, dated April 16, 2008, and Third Amendment to Registration Rights Agreement dated July 10, 2008 (the Rights Agreement), we agreed to file a registration statement with the Securities and Exchange Commission providing for the resale of: (i) the shares of common stock issuable upon conversion of the Series B Note; (ii) the shares of common stock issuable upon exercise of the Series X Warrant; and (iii) 3,500,000 shares of common stock which the Company may elect to issue in payment of interest on the Montaur Notes, no later that 60 days following the closing, which deadline was subsequently extended to May 5, 2008. (See Note 15.) Additionally, in connection with the Montaur Purchase Agreement, we entered into: (1) a Security Agreement, dated December 26, 2007, between Neoprobe and Montaur (the Montaur Security Agreement); and (2) a Patent, Trademark, and Copyright Security Agreement, dated December 26, 2007, by and among Neoprobe, Cardiosonix Ltd., Cira Biosciences, Inc. and Montaur (the IP Security Agreement), pursuant to which we have granted Montaur a security interest in all of our property and assets and our subsidiaries to secure our obligations under the Montaur Notes and all other transaction agreements. The Security Agreement and IP Security Agreement contain covenants, remedies and other provisions as are customary for agreements of such type.

In accordance with SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, the conversion option and two put options were considered derivative instruments and were required to be bifurcated from the Series A Note and accounted for separately. In addition, in accordance with SFAS No. 150, *Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity*, the Series W warrants were accounted for as a liability due to the existence of certain provisions in the instrument. As a result, we recorded a total aggregate derivative liability of $2.6 million on the date of issuance of the Series A Note and Series W warrants. The fair value of the bifurcated conversion option and put options was approximately $1.45 million on the date of issuance. The fair value of the Series W warrants was approximately $1.15 million on the date of issuance and was determined using the Black-Scholes option pricing model with the following assumptions: an average risk-free interest rate of 3.7%, volatility of 94% and no expected dividend rate. Changes in the fair value of the derivative liabilities are recorded in the consolidated statement of operations. As of December 31, 2007, the derivative liabilities had estimated fair values of $1.60 million and $1.25 million for the conversion and put options and the warrants, respectively.

On March 14, 2008, Neoprobe and Montaur executed amendments to the Series A Note and the Series W warrants. The amendments eliminated certain minor cash-based penalty provisions in the Series A Note and Series W warrants which entitled the holders to different compensation than our common shareholders under certain circumstances and qualifying Triggering Events. The provisions that were eliminated and/or modified were the provisions that led to the derivative accounting treatment for the embedded conversion option in the Series A Note and the Series W warrants. Because the value of our stock increased between December 31, 2007, our year end, and March 14, 2008, the effect of marking the conversion option and warrant liabilities to market at March 14, 2008 resulted in an increase in the estimated fair value of the conversion option and warrant liabilities of $381,000 which was recorded as non-cash expense during the first quarter of 2008. The estimated fair value of the conversion option and warrant liabilities of $2.9 million was reclassified to additional

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paid-in capital during the first quarter of 2008 as a result of the amendments. The effect of marking the put option liabilities related to the Series A Note to market at March 31, 2008 resulted in an increase in the estimated fair value of the put option liabilities of $5,000 which was recorded as non-cash expense during the first quarter of 2008. In addition, the effect of marking the put option liabilities to market at June 30, 2008 resulted in an increase in the estimated fair value of the put option liabilities of $75,000 which was recorded as non-cash expense during the second quarter of 2008. The estimated fair value of the put option liabilities related to the Series A Note of $390,000 remained classified as derivative liabilities as of June 30, 2008.

The initial aggregate fair value of the conversion option and the put options related to the Series A Note and the fair value of the Series W warrants of $2.6 million were recorded as a discount on the note and are being amortized over the term of the note using the effective interest method. During the first six months of 2008, we recorded interest expense of $265,000 related to the amortization of the debt discount. We incurred $510,000 of costs related to completing the initial Montaur financing, which were recorded in other assets on the consolidated balance sheet. The deferred financing costs are being amortized using the effective interest method over the term of the note. During the first six months of 2008, we recorded interest expense of $52,000 related to the amortization of the deferred financing costs.

In April 2008, we completed the second closing under the December 2007 Montaur Purchase Agreement, as amended, pursuant to which we issued Montaur a 10% Series B Convertible Senior Secured Promissory Note in the principal amount of $3,000,000, due December 26, 2011; and 8,333,333 Series X warrants to purchase our common stock at an exercise price of $0.46 per share, expiring in April 2013. The Series B Note bears interest at 10% per annum and is fully convertible at the option of Montaur into common stock at a price of $0.36 per share. Interest is payable monthly, in arrears, beginning in April 2008 until the earlier of the maturity date or the date of conversion. At our discretion, we may pay the monthly interest payments in cash, common stock, or a combination of cash and common stock, subject to certain limitations set forth in the Series B Note.

The fair value of the Series X warrants was approximately $1.28 million on the date of issuance and was determined using the Black-Scholes option pricing model with the following assumptions: an average risk-free interest rate of 2.6%, volatility of 95% and no expected dividend rate. The value of the beneficial conversion feature of the Series B Note was estimated at $1.44 million 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 notes and are being amortized over the term of the notes using the effective interest method. The two put options were considered derivative instruments and were required to be bifurcated from the Series B Note and accounted for separately. The fair value of the bifurcated put options was approximately $258,000 on the date of issuance. Changes in the fair value of the derivative liabilities are recorded in the consolidated statement of operations. The effect of marking the put option liabilities related to the Series B Note to market at June 30, 2008 resulted in an increase in the estimated fair value of the put option liabilities of $38,000 which was recorded as non-cash expense during the second quarter of 2008. The estimated fair value of the put option liabilities related to the Series B Note of $296,000 remained classified as derivative liabilities as of June 30, 2008.

The initial aggregate fair value of the beneficial conversion feature and put options related to the Series B Note, and the fair value of the Series X warrants of $2.98 million were recorded as a discount on the note and are being amortized over the term of the note using the effective interest method. During the second quarter of 2008, we recorded interest expense of $7,000 related to the amortization of the debt discount. We incurred $188,000 of costs related to completing the second Montaur financing, which were recorded in other assets on the consolidated balance sheet. The deferred financing costs are being amortized using the effective interest method over the term of the note. During the second quarter of 2008, we recorded interest expense of $400 related to the amortization of the deferred financing costs.

In connection with the second closing, we also amended the Montaur Purchase Agreement with respect to the milestone that would trigger the third closing for an additional $3 million investment from Montaur. The milestone was revised from the accrual of 200 patients in a Phase 3 trial for Lymphoseek to obtaining 135 vital blue dye lymph nodes from patients with breast cancer or melanoma who have completed surgery with the injection of the drug in a Phase 3 clinical trial of Lymphoseek.

In connection with the Montaur Purchase Agreement, Montaur requested that the term of the $1.0 million Bupp Note be extended until at least one day following the maturity date of the Montaur Notes. 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 500,000 Series V warrants to purchase our common stock at an exercise price of $0.32 per share, expiring in December 2012. The fair value of the warrants issued to the Bupp Investors was approximately $96,000 on the date of issuance and was determined using the Black-Scholes option pricing model with the following assumptions: an average risk-free interest rate of 3.72%, volatility of 94% and no expected dividend rate. The fair value of the warrants was recorded as a discount on the note and is being amortized over the term of the note using the effective interest method. We treated the amendment to the Bupp Note as an extinguishment of debt for accounting purposes. As such, the remaining discount resulting from the fair value of the warrants and the value of the beneficial conversion feature and the remaining unamortized deferred financing costs associated with the original note were written off as a loss on extinguishment of debt in December 2007.

We applied $5,725,000 from the proceeds of our issuance of the Series A Note and Series W warrants to the complete and total satisfaction of our outstanding obligations under the Replacement Series A Convertible Promissory Notes issued to the Great Point Funds and David C. Bupp as of November 30, 2006, pursuant to the Securities Purchase Agreement, dated as of December 13, 2004, by and among Neoprobe, the Great Point Funds and Mr. Bupp, as amended by the Amendment dated as of November 30, 2006 (the Amended GPP Purchase Agreement). We treated the early repayment of the notes as an extinguishment of debt for accounting purposes. As such, the remaining discount resulting from the fair value of the warrants and the value of the beneficial conversion feature associated with the original notes was written off as a loss on extinguishment of debt in December 2007. We applied an additional $675,000 from the proceeds of our issuance of the Series A Note and Series W warrants to the redemption of 10,000,000 Series T warrants to purchase our common stock at an exercise price of $0.46 per share, issued to the Great Point Funds pursuant to the Amended GPP Purchase Agreement. In connection with the consummation of the Montaur Purchase Agreement and amendment of the Bupp Purchase Agreement, Mr. Bupp agreed to the cancellation of 125,000 Series T warrants to purchase our common stock at an exercise price of $0.46 per share, originally issued to Mr. Bupp pursuant to the Amended GPP Purchase Agreement. The combined events retired all of the Series T warrants issued to the Great Point Funds and Mr. Bupp.

11. Stock Warrants

During the first six months of 2008, David C. Bupp, our President and CEO, exercised 375,000 Series Q warrants in exchange for issuance of 375,000 shares of our common stock, resulting in gross proceeds of $48,750. In addition, an outside investor exercised 500,000 Series Q warrants in exchange for issuance of 500,000 shares of our common stock, resulting in gross proceeds of $65,000. Also during the first six months of 2008, certain outside investors exercised a total of 1,354,349 Series R warrants and 253,261 Series S warrants on a cashless basis in exchange for issuance of 435,107 shares of our common stock.

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At June 30, 2008, there are 19.8 million warrants outstanding to purchase our common stock. The warrants are exercisable at prices ranging from $0.28 to $0.50 per share with a weighted average exercise price of $0.39 per share.

12. Income Taxes

Effective January 1, 2007, we adopted Financial Interpretation (FIN) No. 48, *Accounting for Uncertainty in Income Taxes an Interpretation of FASB Statement No. 109* (FIN 48). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in the financial statements in accordance with SFAS No. 109, *Accounting for Income Taxes*. FIN 48 also prescribes 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. No adjustment was made to the beginning retained earnings balance as 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 June 30, 2008. 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.

13. 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 oncology instruments currently used primarily in the application of sentinel lymph node biopsy, and blood flow measurement devices. We also own or have rights to intellectual property related to several drug and therapy products.

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

($ amounts in thousands) **Three Months Ended June 30, 2008**	**Oncology Devices**	**Blood Flow Devices**	**Drug and Therapy Products**	**Corporate**	**Total**
Net sales:					
United States[1]	$2,151	$ 4	$	$	$2,154
International	21	80			101
Research and development expenses	286	52	561		899
Selling, general and administrative expenses, excluding depreciation and amortization[2]				800	800
Depreciation and amortization	31	63		10	104
Income (loss) from operations[3]	996	(78)	(561)	(810)	(454)
Other income (expenses)[4]				(565)	(565)
Total assets, net of depreciation and amortization:					
United States operations	1,705	596	179	4,516	6,996
Israeli operations (Cardiosonix Ltd.)		1,462			1,462
Capital expenditures			18	11	29

($ amounts in thousands) **Three Months Ended June 30, 2007**	**Oncology Devices**	**Blood Flow Devices**	**Drug and Therapy Products**	**Corporate**	**Total**
Net sales:					
United States[1]	$1,338	$ 115	$	$	$1,453
International	40	24			64
Research and development expenses	163	101	611		875
Selling, general and administrative expenses, excluding depreciation and amortization[2]				548	548
Depreciation and amortization	25	66		11	102
Income (loss) from operations[3]	576	(114			