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Neoprobe Corporation

OTC: BB-NEOP- \$0.46

www.neoprobe.com

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2Q01 Results

On Track to Post 2nd Year of Profitable Operations

Current Data		EPS	FY: Dec	P/E
Current Price	\$ 0.46	2000	\$ 0.04	11.3
52-Week Range	1.05-.38	2001E	\$ 0.03	16.6
Shares Out (Mill)	26.3	2002E	\$ 0.04	11.9
Ave Volume LTM	129,100	Valuation		LTM
Market Capitalization	\$ 12.1	P/E (Next FY)	16.6	29-(4)
LTD/Total Capital (est.)	1.2%	P/B	3.7	32-4
Institutional Holdings	3.0%	Price/Sales	1.4	4-1
Insider Holdings	29%	Operating Data		LTM
Book Value (est.)	\$ 0.12	Sales Growth	-35.5%	-4.4%
30Yr Bond	5.40%	EBITDA Margin	14.6%	53.4%
Oil/Barrel	\$ 27.19	Net Inc. Growth	210%	113.6%

Source: Baseline, Big Charts, and researchstock.com



Source: Big Charts

Key Investment Points

- EPS of \$0.01 was as we forecast
- Sales and earnings for 2001 will be below 2000 due to the scheduled reduction in transfer prices and increased R&D spending.
- WE reiterate our 1-18 month target price of \$1.00

Company Description

Dublin, Ohio-based Neoprobe is dedicated to improving the diagnosis and treatment of cancer by the innovative use of gamma guided surgery. Neoprobe's main product is a gamma detection device used for a surgical procedure called intraoperative lymphatic mapping ("ILM") of the sentinel node. ILM is a minimally invasive technique for evaluating the potential spread of cancer to lymph nodes. Surgeons are using lymphatic mapping as a standard of care for patients with malignant melanoma and investigating its use with breast cancer. The company is developing strategic partnerships to commercialize products worldwide that are based on its proprietary radioimmuno-guided surgery technology (RIGS®).

The Bottom Line

NEOP remains on track to post its second consecutive year of profitability, thanks to its product focus and marketing agreement with Ethicon Endo-Surgery ("EES"), a wholly-owned subsidiary of Johnson & Johnson (JNJ-\$53.87). Due to the planned reduction in transfer pricing with EES, 2001 results will be below that of 2000. We expect growth to resume in 2002 if unit volumes increase. Our earnings model is unchanged and our 12-18 month target price remains \$1.00.

In 1Q01, the shares received a boost from the June 5, 2001 announcement of a collaboration with Aastom Biosciences (ASTM-\$1.19) to develop a new cell therapy delivery mechanism. (ASTM is currently in the news as the result of the interest in stem cell research.)

2Q01 Results

Results for 2Q01 were in line with our forecasts; EPS was \$0.01 (as we had forecast) vs. \$0.02 in 2Q00 and \$0.01 in 1Q01. Sales and net income were below 2Q00 levels due to the scheduled reduction in transfer prices (a part of the original agreement with EES). Sales did rebound from 1Q01, when a component shortage reduced production. Figure 1 illustrates the trend in quarterly sales since March 1998. The spike in December 1999 resulted from the start of the EES agreement (shipment of demo units and starting inventory). The March 2001 decline was due to the combined impact of the change in transfer pricing and the component shortage.

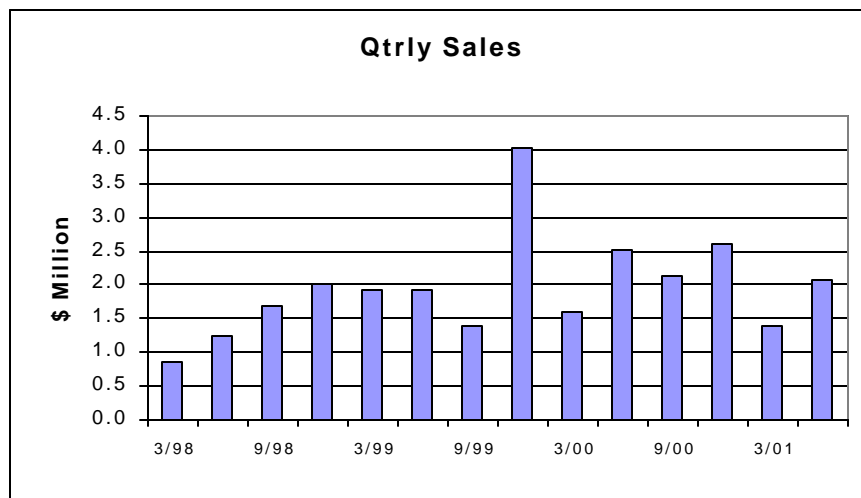


Figure 1

Operating margins were 7.1%, down from 22.5% in 2Q00 but improved from 1.9% in 1Q01. The main factors for this trend were;

- the change in transfer pricing relative to 2Q00,
- an increase in both SG&A and R&D expenses relative to 2Q00, but lower than 1Q01, and
- No marketing expenses in 2Q01 relative to \$52,000 in 2Q00.

Figure 2 illustrates the trend in the quarterly operating margin.

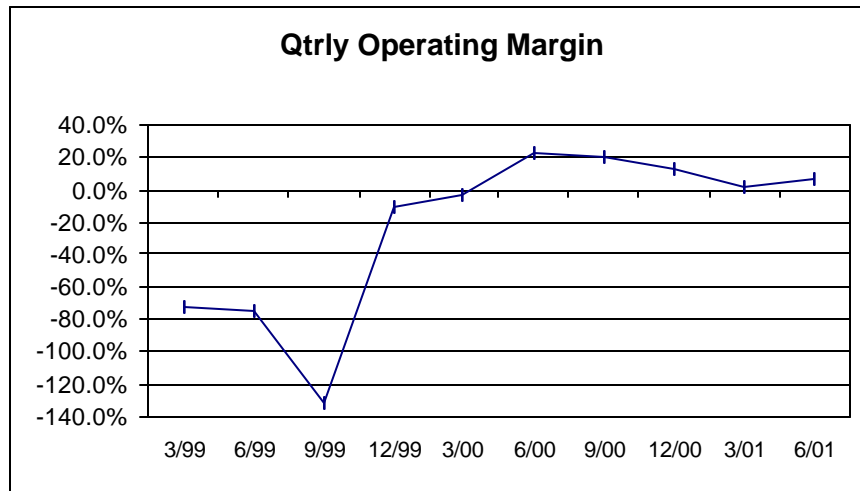


Figure 2

We expected R&D to increase as the Company continues to explore ways to leverage its technology. NEOP made several announcements in August that show promise but are not expected to contribute to earnings for several years.

Table 1 compares the results for the quarter and year to date periods.

(\$Million)	2Q00	2Q01	Growth	1H00	1H01	Growth
Unit Sales	2.512	2.077	-17.3%	4.118	3.471	-15.7%
Lic Revs	0.200	0.200	0.0%	0.45	0.425	-5.6%
Total Revs	2.712	2.277	-16.0%	4.568	3.896	-14.7%
COGS	1.444	1.441	-0.2%	2.282	2.389	4.7%
Gross Margin	1.268	0.836	-34.1%	2.286	1.507	-34.1%
Market/Sell	0.052	0.000	-100.0%	0.163	0	-100.0%
G&A	0.569	0.592	4.0%	1.237	1.162	-6.1%
R&D	0.081	0.097	19.8%	0.375	0.171	-54.4%
Operating Income	0.566	0.147	-74.0%	0.511	0.174	-65.9%
Interest Inc	0.043	0.031	-27.9%	0.088	0.081	-8.0%
Interest Expense	-0.006	0.000	-100.0%	-0.016	-0.003	-81.3%
Other Income/Expenses	0.037	0.000	-100.0%	0.03	0.007	-76.7%
PreTax Income	0.640	0.178	-72.2%	0.613	0.259	-57.7%
Inc Taxes	0.000	0.000	na	0	0	na
Net Inc	0.640	0.178	-72.2%	0.613	0.259	-57.7%
EPS-Dil	\$ 0.02	\$ 0.01	-71.5%	\$ (0.01)	\$ 0.01	
Diluted Shares	26.735	26.064	-2.5%	26.618	26.075	
Margins						
Gross	46.8%	36.7%		50.0%	38.7%	
Operating	20.9%	6.5%		11.2%	4.5%	
Net	23.6%	7.8%		13.4%	6.6%	

The impact of the new transfer pricing, component shortage and R&D investment is visible in NEOP's sales momentum (Figure 3) and Figure 4 (Net Income Momentum). Also adversely impacting the comparison to 2Q00 is the reduction in interest income that resulted from lower interest rates.

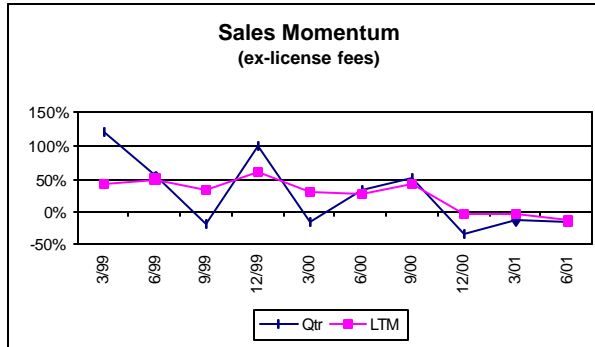


Figure3

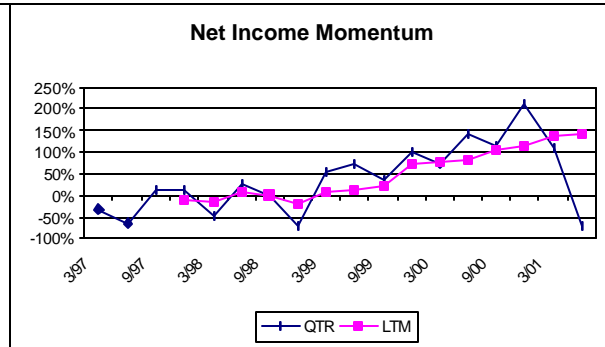


Figure 4

Financial Condition

NEOP's financial condition remains strong as debt levels remain low and cash balances are high. Prior to 1Q00, the debt/equity ratio ranged from 18% in 1Q98 to 42% in 2Q99. During the last half of 1999, the ratio was distorted as the result of a capital restructuring (redemption of preferred stock: see our initial report dated October 16, 2000 for more details). As the result of improved profitability, the debt/equity ratio has remained below 5% (see Figure 6).

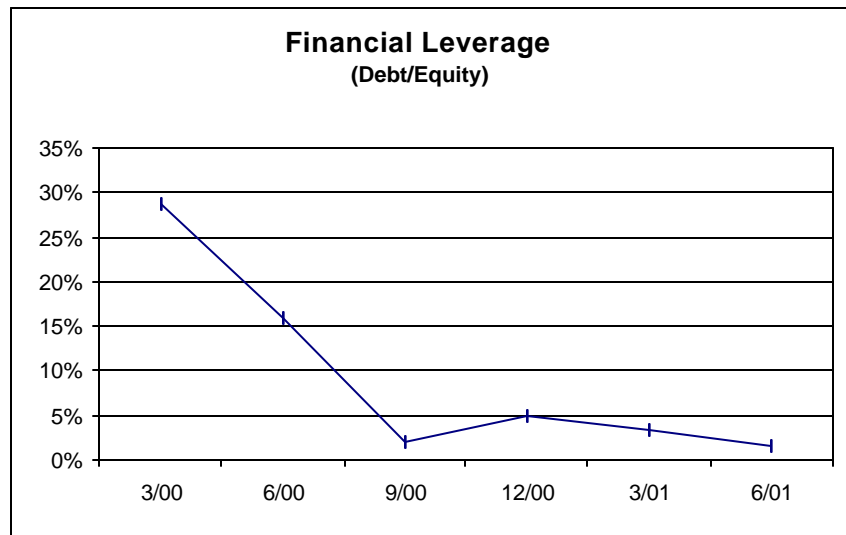


Figure 6

Peer Group Comparison

NEOP outperformed the peer group despite the challenges caused by the new pricing structure and component shortage. As shown in Table 2, NEOP's;

- Net margin lead the field for the trailing 12-month period, despite the 8% drop in sales,
- EPS was better than 75% of the peer group, and
- Leverage ratio was the lowest of the group.

Table 2: Sector Comparables			Performance Last 12 Months (LTM)								Valuation	
(Million except ratios and EPS)												
Company	Ticker	Price	Revenues		Net	EPS		Debt/	Interest	P/E		
			(Million)	% Chg	Margin		% Chg	Capital	Cover	CY00	CY01	
NEOPROBE CORP.	NEOP	\$ 0.46	\$ 8.8	-4%	27.9%	\$ 0.04	112%	1.5%	22.9	11.3	16.6	
PEER GROUP (see below)		\$ 9.60	\$ 17.0	47.2%	-410.0%		54%	1.9%	5.2	na	40.1	
JOHNSON & JOHNSON	JNJ	\$ 53.87	\$ 31,000	6%	16.9%	\$ 1.79	16%	9.9%	55.5	28.7	24.7	
Peer Group												
TRIPATH IMAGING	TPTH	\$ 4.81	\$ 33.0	22%	-52.1%	\$ (0.37)	52%	0.8%	-	-	40.1	
CELSION	CLN	\$ 0.70	\$ 0.4	0%	-1425.0%	-	na	-	-	-	-	
FISCHER IMAGING	FIMG	\$ 13.89	\$ 49.0	-10%	4.1%	\$ 0.30	314%	2.8%	5.2	-	-	
VISTA MEDICAL TECH	VMTI	\$ 2.85	\$ 7.2	9%	-54.2%	\$ (0.84)	40%	-	-	-	-	
MATRITECH	NMPS	\$ 2.52	\$ 2.1	122%	-419.0%	\$ (0.33)	-43%	2.0%	-	-	-	
CHROMAVISION MED SYS	CVSN	\$ 3.20	\$ 2.6	243%	-844.4%	\$ (0.75)	-9%	-	-	-	-	
VYSIS	VYSI	\$ 25.35	\$ 26.0	18%	16.2%	\$ 0.24	134%	-	-	-	-	
PHOTOELECTRON	PHX	\$ 4.49	\$ 1.1	-11%	-781.8%	\$ (0.95)	-14%	-	-	-	-	
IGEN INT'L	IGEN	\$ 28.55	\$ 32.0	32%	-134.0%	\$ (2.32)	-46%	-	-	-	-	

(Source: Baseline, researchstock.com)

Product Development

NEOP provided additional information on their efforts to widen the Company's product line:

- Patient enrollment began in clinical evaluations of NEOP's proprietary lymphatic targeting agent.
- OncoSurg, Inc. (formerly known as NuRigs, Ltd.) has commenced patient enrollment in a clinical trial to evaluate a second-generation radiolabeled antibody targeting agent (the RIGScan product licensed from NEOP) in patients with colorectal cancer.
- NEOP received three new patents, including one for a laparoscopic probe, and received notice of allowance for three additional patents.
- New instrument products have reached the prototype stage and the Company is planning to begin the clinical evaluation.

Outlook

We are reiterating our EPS forecast of \$0.03 in 2001 and raised our 2002 forecast to \$0.04 (up \$0.01). Our sales forecast for the remainder of 2001 is unchanged because we are not assuming that any sales lost in 1Q01 will be recouped in 2Q01. However, this is a possibility. We did reduce our assumption on quarterly marketing spending from \$70,000 to the \$20,000-\$30,000 range in 2001, but this did not have a material impact. In 2002, the reduced marketing assumption (\$40,000 from \$70,000) and reduced G&A did result in the \$0.01 increase in 2002. Table 3 contains our annual forecast and Table 4 shows our quarterly expectations.

Table 3: Annual Income Statement & Forecast							
(\$Million, except per share data)							
	1996	1997	1998	1999	2000	2001	2002
Unit Sales	1.17	5.13	5.83	9.25	8.84	8.39	9.90
Lic Fees	0.00	0.00	0.00	0.20	0.88	0.88	0.80
Total Revs	1.17	5.13	5.83	9.45	9.71	9.27	10.70
COGS	0.68	1.58	1.40	4.51	4.99	5.85	6.93
Gross Margin	0.49	3.55	4.43	4.94	4.72	3.42	3.77
Market/Sell	1.53	4.31	5.27	4.47	0.28	0.08	0.16
G&A	6.22	6.85	6.09	3.74	2.68	2.34	2.42
R&D	16.08	19.66	14.37	1.31	0.47	0.45	0.46
Discont. Ops	0.00	0.00	7.18	0.48	0.00	0.00	0.00
Operating Income	-23.34	-27.27	-28.47	-5.06	1.29	0.56	0.72
Interest Inc	0.00	0.00	0.60	0.10	0.21	0.13	0.10
Interest Expense	0.00	0.00	-0.19	-0.08	-0.03	-0.01	-0.01
Other Income/(Exp.)	2.37	4.02	0.03	0.16	0.37	0.13	0.16
PreTax Income	-20.97	-23.25	-28.03	-4.17	1.84	0.80	0.97
Inc Taxes	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Net Inc	-20.97	-23.25	-28.03	-4.17	1.84	0.80	0.97
Stock Conversion	0.00	0.00	0.00	-3.72	-0.76	0.00	0.00
Net to Comm SH	-20.97	-23.25	-28.03	-7.90	1.08	0.80	0.97
EPS-Dil	\$ (1.06)	\$ (1.02)	\$ (1.23)	\$ (0.34)	\$ 0.04	\$ 0.03	\$ 0.04
Shares	19.743	22.735	22.842	23.003	26.319	26.087	26.087
Growth Rates							
Unit Sales	22.0%	337.9%	13.7%	58.5%	-4.4%	-5.0%	17.9%
Operating Income	-102.6%	-16.8%	-4.4%	82.2%	125.5%	-56.6%	29.8%
Net Income	94.9%	10.9%	20.6%	-71.8%	-113.6%	-25.8%	21.9%
EPS		3.7%	-20.0%	72.0%	111.9%	-25.1%	21.9%
Margin Analysis							
Gross (ex-Lic Fees)	42.2%	69.3%	75.9%	51.2%	43.5%	30.3%	30.0%
Operating	-1993.4%	-531.7%	-488.1%	-54.7%	14.6%	6.6%	7.3%
Net	-1790.8%	-453.3%	-480.6%	-45.1%	20.8%	9.5%	9.8%
Boldface data are estimates							

Table 4: Quarterly Forecast					
	1Q	2Q	3Q	4Q	FY
1998	\$ (0.31)	\$ (0.23)	\$ (0.24)	\$ (0.44)	\$ (1.23)
1999	\$ (0.14)	\$ (0.06)	\$ (0.15)	\$ 0.01	\$ (0.34)
2000	\$ (0.03)	\$ 0.02	\$ 0.02	\$ 0.03	\$ 0.04
2001	\$ 0.00	\$ 0.01	\$ 0.01	\$ 0.01	\$ 0.03
Boldfaced data are forecasts					

Valuation

Subsequent to the announcement of the Aastrom joint venture (on June 5th), the shares rose from \$0.40 at the start of June to a new high of \$1.05 on June 11th and then pulled back to the current level (\$0.60). As a result, NEOP's valuation metrics has improved, but remain below peer group averages. The key points to note in Table 5 are:

- NEOP remains relatively undervalued on a price/sales and price/book basis,
- NEOP is the only one in its peer group with expectations of positive earnings, and
- For stocks with similar market caps (under \$50 million), NEOP is undervalued on a price/sales basis and the only company with positive EPS in 2000 and expectations of positive EPS in 2001.

Company	Symbol	Price		Market Cap.(MM)	P/B	P/S	Calendar P/E		
		\$	LTM %				2000	2001	2002
NEOPROBE CORP.	NEOP	\$ 0.46	28%	12	3.7	1.4	11.3	16.6	11.9
PEER GROUP AVERAGE		\$ 9.60	35%	151	17.7	17.0	-19.7	-9.6	0.6
JOHNSON & JOHNSON	JNJ	\$ 53.87	14%	163,124	7.2	5.3	30.1	33.0	28.7
Peer Group Detail									
IGEN INT'L	IGEN	\$ 28.55	51%	552	-	17.2	-14.4	-12.0	-23.0
VYSIS	VYSI	\$ 25.35	172%	260	16.9	10.1	-158.4	na	na
TRIPATH IMAGING	TPTH	\$ 4.81	-46%	179	2.2	5.5	-12.7	-12.0	40.1
FISCHER IMAGING	FIMG	\$ 13.89	429%	120	4.1	2.4	49.6	na	na
CHROMAVISION MED	CVSN	\$ 3.20	-73%	65	10.8	25.3	-4.3	-4.8	-15.2
MATRITECH	NMPS	\$ 2.52	-68%	67	42.7	31.9	-9.3	na	na
CELSION	CLN	\$ 0.70	-75%	54	43.7	-	na	na	na
PHOTOELECTRON	PHX	\$ 4.49	-24%	45	-	41.3	-5.2	na	na
VISTA MEDICAL TECH	VMTI	\$ 2.85	-53%	14	3.4	1.9	-3.1	na	na

Source: Baseline, Company data, and researchstock.com.

Our 12-18 month target price of \$1.00 is the mid-point of our target range (\$1.44 - \$0.55) and is based upon our expectations of NEOP's current operations and does not include any upside from the Aastrom collaboration or the clinical activities of OncoSurge. Our target price also uses valuation multiples that are more reflective of the recent past rather than what could occur from an overall rise in investor interest (see Table 6, next page).

Table 6: Target Price Calculations

Price to:	LTM Range		Current	Forecast Multiple	2001 Estimate	Range
	Absolute	Average				
Sales	3.1	2.4	1.7	3.0	\$ 0.34	\$ 1.03
	1.7	1.3		1.5		\$ 0.52
Book	17.0	9.9	4.7	14.0	\$ 0.18	\$ 2.52
	9.3	5.5		5.0		\$ 0.90
EPS	33.8	13.9	20.9	20.0	\$ 0.04	\$ 0.77
	22.5	8.3		6.0		\$ 0.23

Average	High	\$ 1.44
	Low	\$ 0.55
	Average	\$ 1.00

Risk Consideration

Investors need to consider the following risks before investing:

The Company currently sells just one product (the ILM technology) with a growing number of attachments and supplies.

NEOP is committed to leveraging its expertise and expanding its product line. If there are promising results from one of these initiatives, the Company will need to seek additional funds, most likely via a stock offering. Such an offering would probably be dilutive to current shareholders.

It is difficult to forecast future sales because detailed information is not disclosed. Our forecasts assume a modest steady growth, but actual sales levels could be more erratic and cause EPS to vary from our forecast.

While other uses are under development, the units are only widely used in the diagnosis and treatment of two primary types of cancer: melanoma and breast cancer. While the Company believes that its technology has significant advantages over other methods, broad-based acceptance will not occur until physicians outside major cancer centers and teaching hospitals adopt the ILM approach.

NEOP is highly dependent on EES, the company's exclusive distributor. EES is a subsidiary of Johnson & Johnson. EES has agreed to purchase a minimum quantity of NEOP products during the first three years (until late 2002) of the first five-year term of the agreement. However, there can be no assurances that EES will purchase product from NEOP in excess of the minimum or that such purchases will generate sufficient cash flow to finance NEOP's operations over the long term.

The Company has outsourced its manufacturing needs and is dependent on one supplier. While we think it was a good decision to outsource manufacturing, this does result in the risk that the supplier may devote resources to other clients and not meet the needs of NEOP.

The Company's balance sheet does not reflect any obligations of Neoprobe Israel. However, it is possible, in the event that proceeds from the liquidation of Neoprobe Israel do not fully satisfy its outstanding obligations, that creditors could seek to pursue claims against NEOP (referred to as "piercing the corporate veil"). If such claims were successful, NEOP would be required to pay creditors some or all of the amounts owed by Neoprobe Israel. Such payments would severely deplete NEOP's cash and the Company may not be able to continue operations without seeking relief from creditors. However, management believes that the prospect that creditors would prevail if claims were brought against NEOP is remote. As such, NEOP has made no provision for such a contingent liability.

The shares are not very liquid and thus subject to volatility. Average daily volume for the last 50 days has been about 72,400 shares and 97,900 during the last 12 months.

The Company is not widely followed by Wall Street analysts. Consequently, it is possible that the stock could remain undervalued due to a lack of analyst support.

Investors should read the Company's SEC filings and consider their risk tolerance, cash needs, and investment time horizons before investing in this, and any small cap stock.

This report contains "forward looking" statements within the meaning of U.S. federal securities laws. Forward-looking statements regarding the Company's performance inherently involve risks and uncertainties that could cause actual results to differ from such forward-looking statements. Factors that would cause or contribute to such differences include, but are not limited to, continued acceptance of the Company's products/services in the marketplace; acceptance in the marketplace of the Company's new product lines/services; competitive factors; new product/service introductions by others; technological changes; dependence upon third party vendors; and other risks discussed in the Company's periodic report filings, including interim reports, with the Securities and Exchange Commission, By making these forward looking statements, researchstock.com, Inc. undertakes no obligation to update these statements for revisions or changes after the date of this report.

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