

April 6, 2001

Neoprobe Corporation

OTC: BB-NEOP- \$0.47

www.neoprobe.com

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4Q and Fiscal 2000 Results

Marketing Alliance Results in First Profitable Year in Company History.

Current Data		EPS	FY: Dec	P/E
Current Price	\$ 0.47	2000	\$ 0.04	11.5
52-Week Range	1.47-0.38	2001E	\$ 0.03	14.3
Shares Out (Mill)	25.9	2002E	\$ 0.03	14.0
Ave Volume LTM	97,900	Valuation		LTM
Market Capitalization	\$ 12.2	P/E (Next FY)	14.3	29-(4)
LTD/Total Capital (est.)	1.5%	P/B	5.5	32-4
Institutional Holdings	3.0%	Price/Sales	1.4	4-1
Insider Holdings	29%	Operating Data		LTM
Book Value (est.)	\$ 0.09	Sales Growth	-35.5%	-4.4%
30Yr Bond	5.53%	EBITDA Margin	14.6%	0.0%
Oil/Barrel	\$ 27.28	Net Inc. Growth	210%	113.6%

Source: Baseline, Big Charts, and researchstock.com



Source: Big Charts

Key Investment Points

- Quarter and YTD operating results grew significantly due to the marketing alliance with Ethicon EndoSurgery, Inc. (a subsidiary of Johnson & Johnson) and streamlined operations.
- Company had cash of 4.5 million (\$0.18/diluted share) and remains relatively debt-free.
- Only publicly-traded pure-play in this sector.
- Lowering sales and earnings forecast to reflect new pricing model, potential competition, and increased R&D spending.
- Our 12-18 month target price range is \$0.94, and represents an 88% gain from the current price.

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 posted its first year of profitability due to the benefits of the marketing agreement with Ethicon Endo-Surgery, Inc. Their ILM product appears to be the standard in the field, but the regulatory approval process could slow the adoption rate. We lowered our earnings forecast to reflect a more conservative sales growth rate and increased R&D spending to widen their product line and keep abreast of technological advances.

While our EPS forecast was lowered, NEOP remains the only pure-play in this sector. With its proprietary technology in this niche, the Company could be a takeover target.

4Q00 Results

NEOP posted its third consecutive quarter of positive earnings and sales growth with EPS of \$0.03 versus \$0.01 in 4Q99. Results were better than we expected due to higher sales and lower SG&A and R&D expenditures. Figure 1 illustrates the three-year trend in EPS.

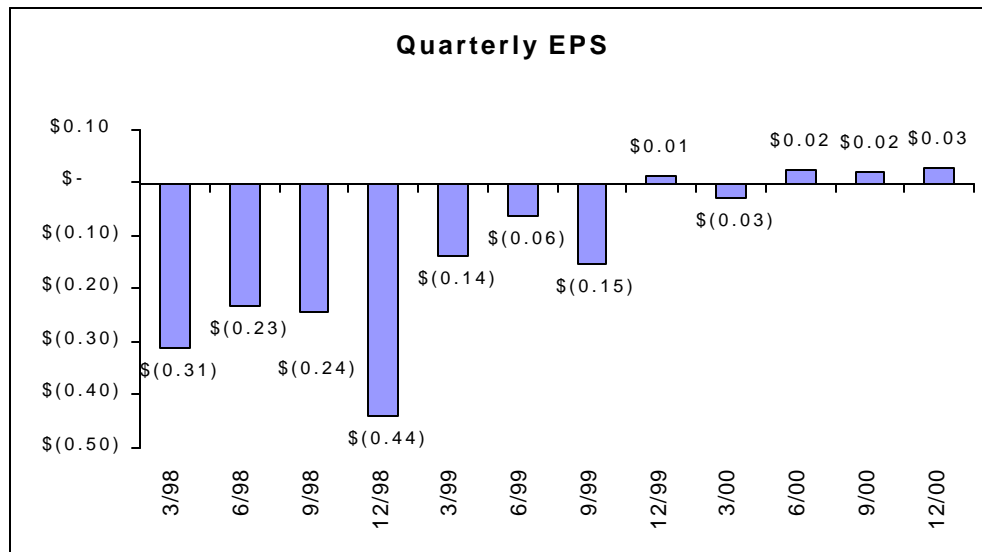


Figure 1

Excluding licensing revenues, sales were \$2.6 million versus \$2.1 million in 3Q00 and \$3.8 million in 4Q99. The reason for the negative comparison with 4Q99 is that sales in that quarter were exceptionally strong (\$4.0 million) as the result of the initial shipment to Ethicon Endo-Surgery, Inc. ("EES") of stock and demo units. As shown in Figure 2, excluding the difficult comparison with 4Q99, sales have improved with the EES relationship.

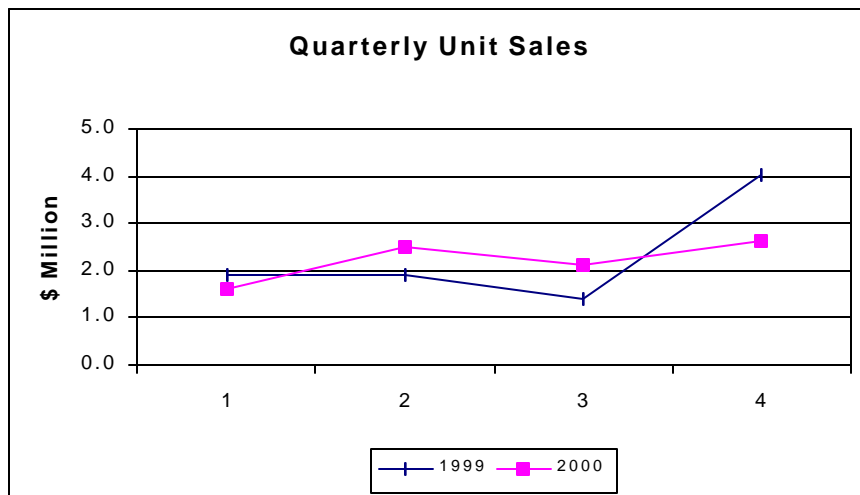


Figure 2

Operating margins improved as NEOP benefited from increased sales volume, reduced R&D spending, and controlled administrative expenses. Table 1 compares the 4Q00 results with last year. The decline in R&D and marketing expense is the result of NEOP's agreement with EES which requires EES to reimburse the company for certain R&D expenses and undertake the marketing effort. Please note that as the result of the marketing arrangement with EES, NEOP's marketing expense shifted from the marketing line to cost of goods sold, reducing the gross margin.

Table 1: Comparative Operating Results			
(\$Million)	4Q99	4Q00	Change
Sales (MM)	4.02	2.59	-36%
Lic Revs	0.20	0.23	13%
Total Revs	4.22	2.82	-33%
COGS	2.76	1.48	-47%
Gross Margin	1.46	1.34	-8%
Market/Sell	0.59	0.08	-87%
G&A	0.84	0.88	5%
R&D	0.42	0.04	-91%
Operating Income	-0.40	0.34	-187%
Interest Inc	0.04	0.08	88%
Interest Expense	-0.01	0.00	-79%
Other Income/Expenses	-0.08	0.28	-437%
PreTax Income	0.25	0.70	183%
Inc Taxes	0.00	0.00	
Net Inc	0.25	0.72	194%
Stock Conversion	-0.01	0.00	-100%
Net to Comm SH	0.23	0.72	210%
EPS-Dil	\$ 0.01	\$ 0.03	218%
Dil Shares OS	26.589	25.964	
Eff Tax Rate	0%	-4%	
Margins			
Gross	35%	48%	
Operating	-9%	12%	
Net to Sharehldrs	6%	26%	

Fiscal 2000

2000 was the first full year of operations under the EES agreement and the benefits are visible in the bottom line. Namely:

- EPS increased to \$0.04 versus a loss per share of \$0.34, the first profitable year in its 17 year history;
- Operating margins improved as NEOP focused on their core competence of product development and outsourced the marketing to EES; and
- Sales declined slightly due to the shift from "retail" pricing for the first three quarters of 1999 to wholesale pricing to EES from 4Q99 onward. The slight decline in total sales indicates a significant increase in volume and the benefit of the relationship with EES.

Table 2 compares the annual operating results.

Table 2: Comparative Operating Results			
(\$Million, except per share data)			
	YTD99	YTD00	Change
Sales (MM)	9.25	8.84	-4%
Lic Revs	0.20	0.88	338%
Total Revs	9.45	9.71	3%
COGS	4.51	4.99	11%
Gross Margin	4.94	4.72	-4%
Market/Sell	4.47	0.28	-94%
G&A	3.74	2.68	-28%
R&D	1.31	0.47	-64%
Discont Ops	0.48	0.00	-100%
Operating Income	-5.06	1.29	-125%
Interest Inc	0.10	0.21	98%
Interest Expense	-0.08	-0.03	-70%
Sub Deconsol	0.70	0.00	-100%
Other Income/Expenses	0.16	0.37	128%
PreTax Income	-4.17	1.84	-144%
Inc Taxes	0.00	0.00	nc
Net Inc	-4.17	1.84	-144%
Stock Conversion	-3.72	-0.76	-79%
Net to Comm SH	-7.90	1.08	-114%
EPS-Dil	\$ (0.34)	\$ 0.04	-112%
Operating Income	23.0	26.3	
Other Income/Expenses	0%	0%	
Margins			
Gross	52%	49%	
Operating	-54%	13%	
Net to Sharehldrs	-84%	11%	

A historical perspective clearly shows how NEOP's operating performance has improved.

Sales and net income trends have turned positive...

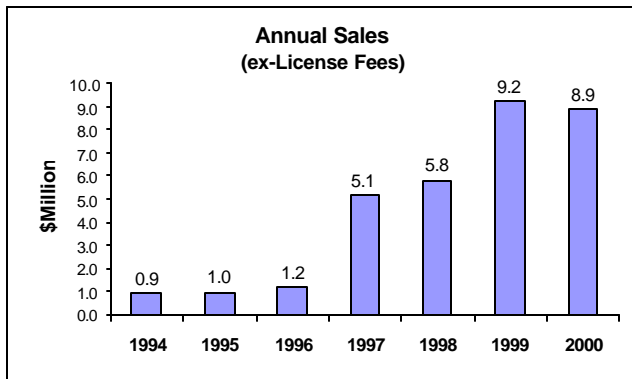


Figure 3

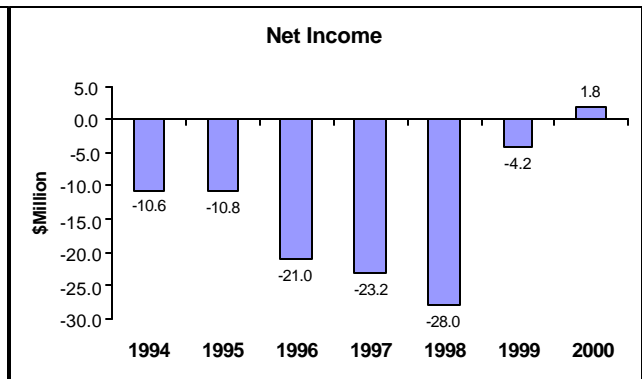


Figure 4

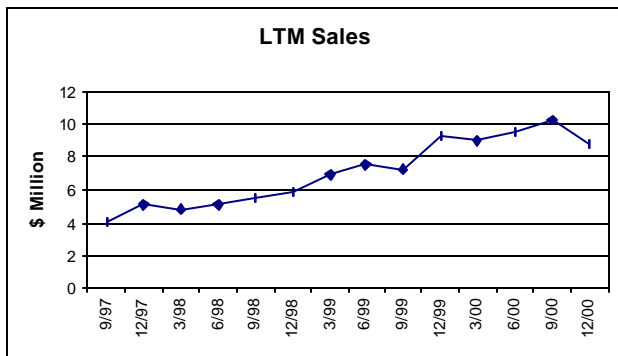


Figure 5

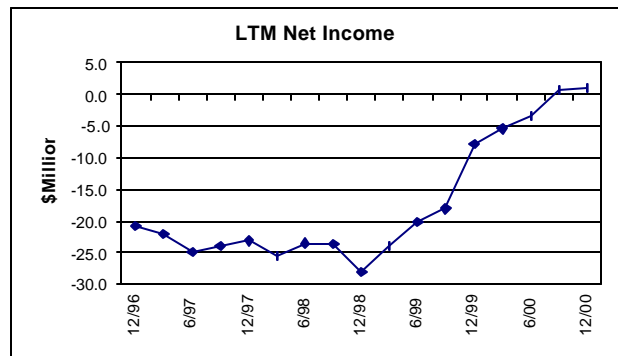


Figure 6

and as expenses have declined as a percent of sales and cash flow per share continued to exceed EPS.

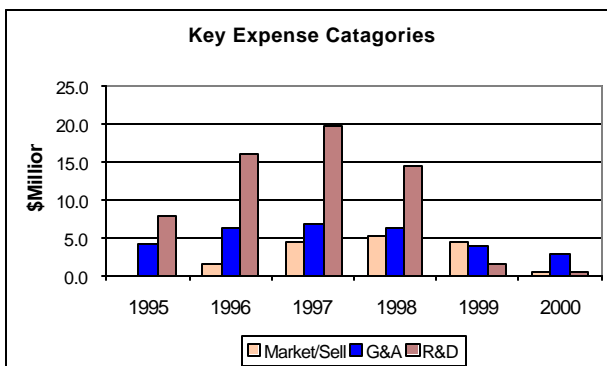


Figure 7

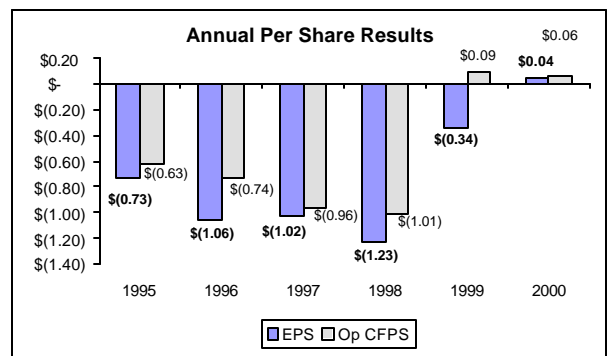


Figure 8

Peer Group Operating Comparison

NEOP posted impressive operating performance relative to its peer group. As shown in Table 3, NEOP's net margin and EPS surpassed that of the peer group, despite the slight decline in sales. The Company's financial condition (discussed in more detail in the next section) is also stronger than others in the group. We included Johnson & Johnson (NYSE-JNJ) for an additional perspective.

Table 3: Sector Comparables (Million except ratios and EPS)			Performance Last 12 Months (LTM)								Valuation				
Company	Ticker	Price	Mkt Cap (Million)	Revenues (Million)	% Chg	Net Margin	EPS	% Chg	Debt/ Capital	Interest Coverage	P/E		P/B	P/CF	P/Sales
											CY00	CY01			
NEOPROBE CORP.	NEOP	\$ 0.50	\$ 12.9	\$ 8.8	-4%	27.9%	\$ 0.04	112%	1.5%	22.9	12.2	15.2	5.8	9.9	1.5
PEER GROUP (see below)		\$ 5.09	\$ 87.3	\$ 16.4	80.6%	-479.0%		41%	4.8%	3.4	#DIV/0!	8.4	9.1	6.8	21.9
JOHNSON & JOHNSON	JNJ	\$ 88.88	\$ 123,545.8	\$ 29,000.0	6%	16.5%	\$ 3.41	15%	9.8%	46.4	23.1	20.4	6.6	19.8	4.2
Peer Group															
TRIPATH IMAGING	TPTH	\$ 3.38	\$ 96.5	\$ 33.0	77%	-46.3%	\$ (0.38)	67%	8.1%	-	-	8.4	2.2	-	3.0
CELSION	CLN	\$ 1.10	\$ 70.9	\$ 0.4	0%	-1275.0%	-	na	-	-	-	-	30.6	-	-
FISCHER IMAGING	FIMG	\$ 4.19	\$ 33.8	\$ 51.0	-23%	3.2%	\$ 0.28	144%	2.9%	3.4	-	-	1.3	6.8	0.7
VISTA MEDICAL TECH	VMTI	\$ 0.85	\$ 16.6	\$ 6.5	19%	-70.8%	\$ (0.23)	65%	-	-	-	-	2.2	-	2.6
MATRITECH	NMPS	\$ 3.44	\$ 88.8	\$ 1.4	70%	-566.7%	\$ (0.27)	7%	3.4%	-	-	-	15.7	-	61.9
CHROMAVISION MED SYS	CVSN	\$ 4.34	\$ 87.3	\$ 1.2	349%	-1566.7%	\$ (0.74)	-17%	-	-	-	-	5.1	-	73.0
VYSIS	VYSI	\$ 7.94	\$ 80.7	\$ 24.0	10%	-12.1%	\$ (0.16)	85%	-	-	-	-	6.7	-	3.4
PHOTOLELECTRON	PHX	\$ 3.54	\$ 30.0	\$ 1.4	166%	-641.7%	\$ (0.86)	11%	-	-	-	-	-	-	21.0
IGEN INTL	IGEN	\$ 17.06	\$ 280.9	\$ 29.0	57%	-134.9%	\$ (1.98)	-38%	-	-	-	-	-	-	9.7

(Source: Baseline)

Financial Condition

NEOP's financial condition improved as it continued to post improving cash flow (see graphs in previous section. At the end of the year, NEOP had cash of \$4.5 million, or \$0.18 per diluted share, and debt of less than \$150,000. Historically, the debt/capital ratio has been between 5-6%, except in the second half of 1999. During this period, NEOP was in the process of a capital restructuring and timing issues and accounting rules forced the ratio to temporary extremes.

Operating cash flow dipped slightly relative to 1999 (see Figure 9), despite a big swing in net income for two main reasons:

1. Operating cash flows in 1999 benefited from \$3.8 million in deferred revenues received from the EES agreement (versus a \$800,000 use of cash in 2000), and
2. 1999 benefited from a significant reduction in receivables and inventory that resulted from better asset management.

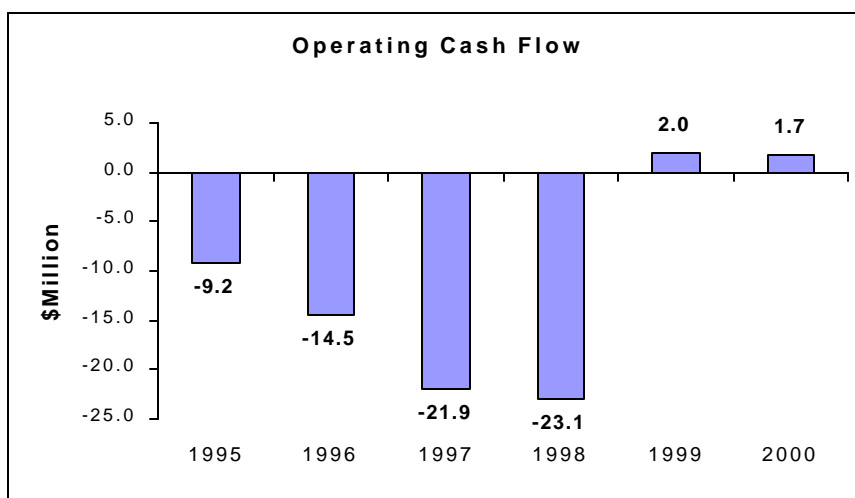


Figure 9

The generally improving trend in days sales outstanding ("DSO") and inventory turnover is illustrated in Figure 10.

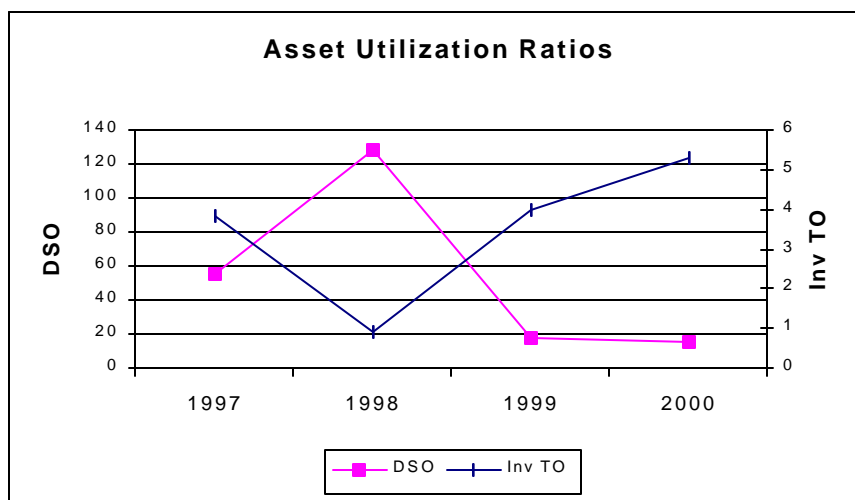


Figure 10

Outlook

We lowered our EPS forecast based upon comments made by management in the 2000 10-K (see page 24 of that document). More specifically, management:

- Cautioned that a "slower than anticipated adoption rate may negatively impact the Company's sales volumes."
- Competition could reduce the wholesale price NEOP receives from EES.
- These pricing pressures, as well as the reduced pricing allowed by the second phase of the EES agreement, could reduce the gross margin by 10-15 percentage points.
- R&D is expected to increase as the Company seeks to broaden its product line.

Consequently, we changed our assumptions as follows:

For 2001:

- *Sales*: Quarterly average sales in 2001 were reduced to \$2.3 million from \$2.6 million.
- *Gross Margin*: Reduced 13.5 percentage points to 30% in 2001 from 43.5% in 2000 (conservative end of the range management provided).
- *Operating Expenses*: As a percent of sales, marketing is assumed to remain flat, G&A expenses are expected to increase 3% (in line with inflation), and R&D is assumed to increase to \$500,000.
- *Taxes*: No taxes are assumed do to the size of the net loss carry forward.

For 2002, we assume; a 5.6%, volume-driven, increase in the average quarterly sales figure (\$2.5 million), a constant gross margin, G&A and R&D expenses increase at 3.5% (inflation pace), marketing expenses remain at current levels, and no taxes.

The net result is that our EPS forecast for 2001 is \$0.03 (versus our previous \$0.08) and our initial estimate for 2002 is \$0.03. Table 4 contains our annual forecast while Table 5 summarizes our quarterly forecast for 2001.

Table 4: 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	9.30	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	10.18	10.70
COGS	0.68	1.58	1.40	4.51	4.99	6.51	6.93
Gross Margin	0.49	3.55	4.43	4.94	4.72	3.67	3.77
Market/Sell	1.53	4.31	5.27	4.47	0.28	0.28	0.28
G&A	6.22	6.85	6.09	3.74	2.68	2.37	2.45
R&D	16.08	19.66	14.37	1.31	0.47	0.50	0.52
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	0.52	0.52
Interest Inc	0.00	0.00	0.60	0.10	0.21	0.20	0.20
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	0.15	0.16
PreTax Income	-20.97	-23.25	-28.03	-4.17	1.84	0.85	0.87
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	0.85	0.87
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	0.85	0.87
EPS-Dil	\$ (1.06)	\$ (1.02)	\$ (1.23)	\$ (0.34)	\$ 0.04	\$ 0.03	\$ 0.03
Growth Rates							
Unit Sales	22.0%	337.9%	13.7%	58.5%	-4.4%	5.3%	6.5%
Operating Income	-102.6%	-16.8%	-4.4%	82.2%	125.5%	-59.9%	0.9%
Net Income	94.9%	10.9%	20.6%	-71.8%	-113.6%	-20.6%	1.7%
EPS		3.7%	-20.0%	72.0%	111.9%	-19.5%	1.7%
Margin Analysis							
Gross (ex-Lic Fees)	42.2%	69.3%	75.9%	51.2%	43.5%	30.0%	30.0%
Operating	-1993.4%	-531.7%	-488.1%	-54.7%	14.6%	5.5%	5.3%
Net	-1790.8%	-453.3%	-480.6%	-45.1%	20.8%	9.2%	8.8%
Boldface data are estimates							

(\$ Million)	1Q01	2Q01	3Q01	4Q01
Sales	2.300	2.300	2.300	2.400
Lic Revs	0.225	0.225	0.225	0.200
Total Revs	2.525	2.525	2.525	2.600
COGS	1.610	1.610	1.610	1.680
Gross Margin	0.915	0.915	0.915	0.920
Market/Sell	0.070	0.070	0.070	0.070
G&A	0.600	0.589	0.590	0.590
R&D	0.125	0.125	0.125	0.125
Discnt Ops	0.000	0.000	0.000	0.000
Operating Income	0.120	0.131	0.130	0.135
Interest Inc	0.050	0.050	0.050	0.050
Interest Expense	(0.003)	(0.003)	(0.003)	(0.003)
Other Income/(Exp.)	0.030	0.040	0.040	0.040
PreTax Income	0.197	0.218	0.217	0.222
Inc Taxes	0.000	0.000	0.000	0.000
Net Inc	0.197	0.218	0.217	0.222
Stock Conversion	0.000	0.000	0.000	0.000
Net to Comm SH	0.197	0.218	0.217	0.222
EPS-Dil	\$ 0.01	\$ 0.01	\$ 0.01	\$ 0.01
Q/Q Growth	-125%	-65%	-57%	-69%

Valuation

We lowered our 12-18 month target price to \$0.94 from \$1.25 based upon our revised earnings model and lowered valuation multiples. Valuation multiples were reduced to reflect the lowered expectations discussed above. However, our reduced target price still represents a potential 88% gain from the current stock price. Table 6 contains our valuation model while Table 7 compares current peer group valuations.

Price to:	LTM Range		Forecast Multiple	2001 Estimate	Range
	Absolute	Average			
Sales	4.0	2.8	3.0	\$ 0.39	\$ 1.18
	1.1	1.5	1.5		\$ 0.59
Book	32.4	16.5	14.0	\$ 0.18	\$ 2.53
	4.4	8.7	5.0		\$ 0.90
EPS	33.8	9.4	9.0	\$ 0.03	\$ 0.30
	-4.0	6.3	5.0		\$ 0.17
			Average High	\$	1.33
			Low	\$	0.55
			Average	\$	0.94

Table 7: Comparative Valuation Data			Market	LTM	Calendar P/E				
Company	Symbol	Price	Cap.(MM)	Return	P/B	P/S	1999	2000	2001
TRIPATH IMAGING	TPTH	\$ 3.38	96.5	-59%	2.2	3.0	-8.9	-12.1	8.4
CELSION	CLN	\$ 1.10	70.9	-78%	30.6	-	na	na	na
FISCHER IMAGING	FIMG	\$ 4.19	33.8	14%	1.3	0.7	15.0	na	na
VISTA MEDICAL TECH	VMTI	\$ 0.85	16.6	-20%	2.2	2.6	-3.7	na	na
PHOTOELECTRON	PHX	\$ 3.54	30.0	-2%	-	21.0	-4.1	na	na
MATRITECH	NMPS	\$ 3.44	88.8	-58%	15.7	61.9	-12.7	na	na
CHROMAVISION MED	CVSN	\$ 4.34	87.3	-69%	5.1	73.0	-5.9	-6.4	-20.7
VYSIS	VYSI	\$ 7.94	80.7	-19%	6.7	3.4	-49.6	na	na
IGEN INT'L	IGEN	\$17.06	280.9	-26%	-	9.7	-8.6	-7.8	-15.8
average			87.3	-35%	9.1	21.9	-9.8	-8.7	-9.3
NEOPROBE CORP.	NEOP	\$ 0.50	12.9	0%	5.8	1.5	-1.5	12.2	15.2
	JNJ	\$88.88	123545.8	16%	6.6	4.2	26.1	26.1	23.1

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

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.

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 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.

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