

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC 20549

FORM 10-QSB

(Mark One)

QUARTERLY REPORT UNDER SECTION 13 OR 15 (d) OF THE  
SECURITIES EXCHANGE ACT OF 1934  
FOR THE QUARTERLY PERIOD ENDED: MARCH 31, 2004

OR

TRANSITION REPORT UNDER SECTION 13 OR 15 (d) OF THE  
EXCHANGE ACT  
FOR THE TRANSITION PERIOD FROM \_\_\_\_\_ TO \_\_\_\_\_

COMMISSION FILE NUMBER: 0-26520

NEOPROBE CORPORATION

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

DELAWARE 31-1080091  
(State or other jurisdiction of (I.R.S. employer identification no.)  
incorporation or organization)

425 METRO PLACE NORTH, SUITE 300, DUBLIN, OHIO 43017  
(Address of principal executive offices)

614.793.7500  
(Issuer's telephone number)

57,381,535 SHARES OF COMMON STOCK, PAR VALUE \$.001 PER SHARE  
(Number of shares of issuer's common equity outstanding as of the close of  
business on April 30, 2004)

Transitional Small Business Disclosure Format (check one) Yes  No

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

NEOPROBE CORPORATION AND SUBSIDIARY  
CONSOLIDATED BALANCE SHEETS

<TABLE>  
<CAPTION>

ASSETS	MARCH 31,	
	2004	DECEMBER 31,
	(UNAUDITED) 2003	
	-----	-----
<S>	<C>	<C>
Current assets:		
Cash and cash equivalents	\$ 3,390,284	\$ 1,588,760
Accounts receivable, net	821,710	1,107,800
Inventory	921,454	1,008,326
Prepaid expenses and other	383,841	346,449
Total current assets	5,517,289	4,051,335
Property and equipment	2,273,486	2,237,741
Less accumulated depreciation and amortization	1,901,810	1,875,028
	371,676	362,713
Patents and trademarks	3,161,865	3,156,101
Non-compete agreements	584,516	584,516
Acquired technology	237,271	237,271
	3,983,652	3,977,888
Less accumulated amortization	1,149,978	1,042,373

	2,833,674	2,935,515
Other assets	32,973	35,479
Total assets	\$ 8,755,612	\$ 7,385,042

</TABLE>

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NEOPROBE CORPORATION AND SUBSIDIARY  
CONSOLIDATED BALANCE SHEETS, CONTINUED

<TABLE>  
<CAPTION>

LIABILITIES AND STOCKHOLDERS' EQUITY	MARCH 31, 2004	DECEMBER 31, (UNAUDITED)	2003
<S>	<C>	<C>	
Current liabilities:			
Notes payable to finance companies		\$ 113,586	\$ 192,272
Capital lease obligations, current		13,889	9,731
Accrued liabilities	271,395	227,306	
Accounts payable	329,909	225,032	
Deferred revenue, current	670,851	886,657	
Total current liabilities	1,399,630	1,540,998	
Note payable to CEO, net of discount of \$169,200 and \$12,702, respectively		80,800	237,298
Note payable to investor, net of discount of \$32,496		-	217,504
Capital lease obligations	40,831	24,009	
Deferred revenue	56,240	68,930	
Other liabilities	39,203	37,358	
Total liabilities	1,616,704	2,126,097	
Commitments and contingencies			
Stockholders' equity:			
Preferred stock; \$.001 par value; 5,000,000 shares authorized at March 31, 2004 and December 31, 2003; none issued and outstanding (500,000 shares designated as Series A, \$.001 par value, at March 31, 2004 and December 31, 2003; none outstanding)		-	-
Common stock; \$.001 par value; 75,000,000 shares authorized; 57,047,285 shares issued and outstanding at March 31, 2004; 51,520,723 shares issued and outstanding at December 31, 2003		57,047	51,521
Additional paid-in capital	130,147,569	127,684,555	
Accumulated deficit	(123,065,708)	(122,477,131)	
Total stockholders' equity	7,138,908	5,258,945	
Total liabilities and stockholders' equity	\$ 8,755,612	\$ 7,385,042	

</TABLE>

See accompanying notes to the consolidated financial statements

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NEOPROBE CORPORATION AND SUBSIDIARY  
CONSOLIDATED STATEMENTS OF OPERATIONS  
(UNAUDITED)

<TABLE>  
<CAPTION>

THREE MONTHS ENDED MARCH 31,	
2004	2003

<u>&lt;S&gt;</u>	<u>&lt;C&gt;</u>	<u>&lt;C&gt;</u>
Revenues:		
Net sales	\$ 1,225,617	\$ 1,303,646
License and other revenue	200,000	235,390
Total revenues	1,425,617	1,539,036
Cost of goods sold	540,142	839,062
Gross profit	885,475	699,974
Operating expenses:		
Research and development	583,100	418,769
Selling, general and administrative	813,393	754,083
Total operating expenses	1,396,493	1,172,852
Loss from operations	(511,018)	(472,878)
Other income (expenses):		
Interest income	533	2,550
Interest expense	(72,358)	(4,636)
Other	(5,734)	(3,604)
Total other expenses	(77,559)	(5,690)
Net loss	\$ (588,577)	\$ (478,568)
Net loss per common share:		
Basic	\$ (0.01)	\$ (0.01)
Diluted	\$ (0.01)	\$ (0.01)
Weighted average shares outstanding:		
Basic	53,049,534	38,258,231
Diluted	53,049,534	38,258,231

</TABLE>

See accompanying notes to the consolidated financial statements.

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NEOPROBE CORPORATION AND SUBSIDIARY  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(UNAUDITED)

<TABLE>  
<CAPTION>

<u>&lt;S&gt;</u>	<u>THREE MONTHS ENDED</u> <u>MARCH 31,</u>	
	<u>2004</u>	<u>2003</u>
<u>&lt;C&gt;</u>	<u>&lt;C&gt;</u>	<u>&lt;C&gt;</u>
Cash flows from operating activities:		
Net loss	\$ (588,577)	\$ (478,568)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	144,996	216,048
Amortization of debt discount and offering costs	60,665	-
Other	22,949	40,225
Change in operating assets and liabilities:		
Accounts receivable	286,090	(170,425)
Inventory	83,477	217,602
Prepaid expenses and other assets	103,110	57,959
Accrued and other liabilities	45,933	42,644
Accounts payable	104,877	8,883
Deferred revenue	(228,497)	(180,332)
Net cash provided by (used in) operating activities	35,023	(245,964)
Cash flows from investing activities:		
Purchases of property and equipment	(16,015)	(8,480)
Proceeds from sales of property and equipment	150	-

Patent and trademark costs	(5,763)	(9,942)
Net cash used in investing activities	(21,628)	(18,422)
Cash flows from financing activities:		
Proceeds from issuance of common stock	1,880,030	-
Payment of offering costs	(7,874)	(596)
Payment of notes payable	(78,686)	(79,374)
Payments under capital leases	(5,341)	(3,496)
Net cash provided by (used in) financing activities	1,788,129	(83,466)
Net increase (decrease) in cash and cash equivalents	1,801,524	(347,852)
Cash and cash equivalents, beginning of period	1,588,760	700,525
Cash and cash equivalents, end of period	\$ 3,390,284	\$ 352,673

</TABLE>

See accompanying notes to the consolidated financial statements.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
(unaudited)

1. BASIS OF PRESENTATION

The information presented for March 31, 2004 and 2003 and for the periods then ended is unaudited, but includes all adjustments (which consist only of normal recurring adjustments) that the management of Neoprobe Corporation (Neoprobe 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 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 period are not necessarily indicative of results to be expected for the year. The financial statements should be read in conjunction with Neoprobe's audited financial statements for the year ended December 31, 2003, which were included as part of our Annual Report on Form 10-KSB.

Our consolidated financial statements include the accounts of Neoprobe and our wholly-owned subsidiary, Cardiosonix Ltd. (Cardiosonix). All significant inter-company accounts were eliminated in consolidation.

2. COMPREHENSIVE INCOME (LOSS)

We had no accumulated other comprehensive income (loss) activity during the three-month periods ended March 31, 2004 and 2003.

3. EARNINGS PER SHARE

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

<TABLE>

<CAPTION>

	THREE MONTHS ENDED MARCH 31, 2004	THREE MONTHS ENDED MARCH 31, 2003
	BASIC EARNINGS PER SHARE	DILUTED EARNINGS PER SHARE

<S>

<C>   <C>   <C>   <C>

Outstanding shares	57,047,285	57,047,285	38,588,009	38,588,009
Effect of weighting changes in outstanding shares	(3,867,751)	(3,867,751)	(199,778)	(199,778)

Contingently issuable shares (130,000) (130,000) (130,000) (130,000)

Adjusted shares	53,049,534	53,049,534	38,258,231	38,258,231
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</TABLE>

There is no difference in basic and diluted loss per share related to the three-month periods ended March 31, 2004 and 2003. The net loss per common share for these periods excludes the number of common shares issuable upon exercise of outstanding stock options and warrants into our common stock since such inclusion would be anti-dilutive.

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#### 4. INVENTORY

The components of net inventory are as follows:

<TABLE>

<CAPTION>

	MARCH 31, 2004 (UNAUDITED)		DECEMBER 31, 2003	
	<C>	<C>	<C>	<C>
Materials and component parts	\$ 713,245	\$ 747,788		
Work in process	884	-		
Finished goods	207,325	260,538		
	\$ 921,454	\$ 1,008,326		

</TABLE>

#### 5. INTANGIBLE ASSETS

The major classes of intangible assets are as follows:

<TABLE>

<CAPTION>

	MARCH 31, 2004 (UNAUDITED)		DECEMBER 31, 2003	
	GROSS CARRYING AMOUNT	ACCUMULATED AMORTIZATION	GROSS CARRYING AMOUNT	ACCUMULATED AMORTIZATION
	<C>	<C>	<C>	<C>
Patents and trademarks	\$ 3,161,865	\$ 741,207	\$ 3,156,101	\$ 678,160
Non-compete agreements	584,516	331,616	584,516	295,486
Acquired technology	237,271	77,155	237,271	68,727
Total	\$ 3,983,652	\$ 1,149,978	\$ 3,977,888	\$ 1,042,373

</TABLE>

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

<TABLE>

<CAPTION>

	ESTIMATED AMORTIZATION EXPENSE
	<C>
For the year ended 12/31/2004	\$ 427,285
For the year ended 12/31/2005	427,285
For the year ended 12/31/2006	282,770
For the year ended 12/31/2007	214,545
For the year ended 12/31/2008	204,002

</TABLE>

#### 6. 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. Our accrual for warranty expenses is adjusted periodically to reflect actual experience. Our primary marketing partner, Ethicon Endo-Surgery, Inc. (EES), a Johnson and 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' reimbursement.

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The activity in the warranty reserve account for the three-month periods ended March 31, 2004 and 2003 is as follows:

<TABLE>  
<CAPTION>

	THREE MONTHS ENDED MARCH 31,	
	2004	2003
<S>	<C>	<C>
Warranty reserve at beginning of period	\$ 53,000	\$ 35,000
Provision for warranty claims and changes in reserve for warranties	-	43,714
Payments charged against the reserve	-	(13,714)
Warranty reserve at end of period	\$ 53,000	\$ 65,000

</TABLE>

## 7. NOTES PAYABLE

During April 2003, we completed a bridge loan agreement with our President and CEO, David Bupp. Under the terms of the agreement, Mr. Bupp advanced us \$250,000. In consideration for the loan, we issued a note in the principal amount of \$250,000. The note is secured by general assets of the company, excluding accounts receivable. In addition, we issued Mr. Bupp 375,000 warrants to purchase common stock at an exercise price of \$0.13 per share, expiring in April 2008. The per share value of these warrants was \$0.10 on the date of issuance using the Black-Scholes option pricing model with the following assumptions: an average risk-free interest rate of 2.9%, volatility of 139% and no expected dividend rate. Interest accrues on the note at 8.5% per annum, payable monthly, and the note was originally due on June 30, 2004. On March 8, 2004, the due date of the note to Mr. Bupp was extended from June 30, 2004 to June 30, 2005. In exchange for extending the due date of the note, we issued Mr. Bupp an additional 375,000 warrants to purchase our common stock at an exercise price of \$0.50 per share, expiring in March 2009. The per share value of these warrants was \$0.46 on the date of issuance using the Black-Scholes option pricing model with the following assumptions: an average risk-free interest rate of 2.7%, volatility of 152% and no expected dividend rate. The total estimated fair values for the warrants issued to Mr. Bupp in April 2003 and March 2004 were \$31,755 and \$171,801, respectively. These amounts were recorded as discounts on the note and are being amortized over the period of the note. At March 31, 2004, the unamortized discounts related to Mr. Bupp's note totaled \$169,200.

During April 2003, we also completed a bridge loan agreement with an outside investor for an additional \$250,000. In consideration for the loan, we issued a note in the principal amount of \$250,000. The note was secured by general assets of the company, excluding accounts receivable. In addition, we issued the investor 500,000 warrants to purchase common stock at an exercise price of \$0.13 per share. The per share value of these warrants was \$0.10 on the date of issuance using the Black-Scholes option pricing model with the following assumptions: an average risk-free interest rate of 2.9%, volatility of 139% and no expected dividend rate. The total estimated fair value for the warrants issued to the outside investor was \$40,620. Under the terms of the agreement, the note bore interest at 9.5% per annum, payable monthly, was convertible into common stock and was due on June 30, 2004. Fifty percent of the principal and accrued interest of the note was convertible into common stock at a 15% discount to the closing market price on the date of conversion, subject to

a floor conversion price of \$0.10. The remaining 50% of the principal and accrued interest was convertible into common stock based on a 15% discount to the closing market price on the date of conversion, subject to a floor conversion price of \$0.10 and a ceiling conversion price of \$0.20. The intrinsic value of the conversion feature of the note to the outside investor was estimated at \$40,620 based on the effective conversion price at the date of issuance and was recorded as an additional discount on the note. The estimated fair value of the warrants and the intrinsic value of the conversion feature were recorded as discounts on the note and were amortized over the term of the note. During January 2004, the outside investor converted the entire balance of the note into 1.1 million shares of common stock according to the conversion terms of the agreement. The total value of the shares issued in conversion of the note was \$378,955 based on the closing market prices for our common stock on the dates of conversion. The discount remaining at conversion totaling \$27,604 was recorded as interest expense.

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## 8. STOCK OPTIONS AND RESTRICTED STOCK

During the first quarter of 2004, the Board of Directors granted options to consultants, employees and certain directors to purchase 1.2 million shares of our common stock, exercisable at an average price of \$0.38 per share, vesting over three years. We recognized \$22,000 of research and development expense related to options granted to consultants in the first quarter of 2004. As of March 31, 2004, we have 4.0 million options outstanding under three stock option plans. Of the outstanding options, 2.0 million options have vested as of March 31, 2004, at an average exercise price of \$0.60 per share.

The following table illustrates the effect on net loss and net loss per share if compensation cost for our stock-based compensation plans had been determined based on the fair value at the grant dates for awards under those plans consistent with Statement of Financial Accounting Standards (SFAS) No. 123, Accounting for Stock-Based Compensation:

<TABLE>

<CAPTION>

	THREE MONTHS ENDED MARCH 31,	
	2004	2003
	-----	-----
	2004	2003
	-----	-----
<S>	<C>	<C>
Net loss, as reported	\$ (588,577)	\$ (478,568)
Add: Total stock-based employee compensation expense included in reported net loss	-	39,990
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards	(66,001)	(82,780)
	-----	-----
Pro forma net loss	\$ (654,578)	\$ (521,358)
	=====	=====
Loss per common share:		
As reported (basic and diluted)	\$ (0.01)	\$ (0.01)
Pro forma (basic and diluted)	\$ (0.01)	\$ (0.01)

</TABLE>

During the first quarter of 2003, we vested 310,000 shares of previously restricted stock related to new or amended employment agreements of three of our officers. We recognized \$39,990 of compensation expense related to this transaction in the first quarter of 2003.

## 9. STOCK WARRANTS

In November 2003, we completed a \$2.8 million placement of common stock and warrants for net proceeds of \$2.4 million. In the placement, 12.2 million shares of common stock were issued at \$0.23 per share, and Series R warrants were issued to purchase an additional 6.1 million shares of common stock at \$0.28 per share. In addition, we paid \$291,000 in cash and issued 1.4 million Series S warrants to purchase common stock at \$0.28 per share as fees to the placement agents. All warrants issued in connection with the placement expire in October 2008. The per share value of these

warrants was \$0.31 on the date of issuance using the Black-Scholes option pricing model with the following assumptions: an average risk-free interest rate of 3.2%, volatility of 151% and no expected dividend rate. A registration statement registering for resale the common stock and warrants issued in the private placement was declared effective on December 17, 2003. During the first quarter of 2004, 2.2 million of these warrants were exercised and we realized net proceeds of \$608,000.

During 2003, an investment banking firm, Alberdale Capital, LLC (Alberdale), assisted us in arranging an accounts receivable financing transaction. In exchange for Alberdale's services, we issued them warrants to purchase 78,261 shares of our common stock. During the first quarter of 2004, Alberdale exercised these warrants on a cashless basis in exchange for 53,500 shares of common stock.

At March 31, 2004 there are 6.6 million warrants outstanding to purchase our common stock. The warrants are exercisable at prices ranging from \$0.13 to \$0.75 per share with a weighted average exercise price per share of \$0.28. See Note 13(a).

#### 10. COMMON STOCK PURCHASE AGREEMENT

On November 19, 2001, we entered into a common stock purchase agreement with an investment fund, Fusion Capital Fund II, LLC (Fusion) for the issuance and purchase of our common stock.

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Under the stock purchase agreement, Fusion committed to purchase up to \$10 million of our common stock over a forty-month period that commenced in May 2002. A registration statement registering for resale up to 5 million shares of our common stock became effective on April 15, 2002. Under the terms of the agreement, we can request daily drawdowns, subject to a daily base amount currently set at \$12,500. The number of shares we are to issue to Fusion in return for that money will be based on the lower of (a) the closing sale price for our common stock on the day of the draw request or (b) the average of the three lowest closing sales prices for our common stock during a twelve day period prior to the draw request. However, no shares may be sold to Fusion at lower than a floor price currently set at \$0.30, which may be reduced by us, but in no case below \$0.20 without Fusion's prior consent. During the first quarter of 2004, we sold Fusion a total of 2,100,000 shares of common stock and realized net proceeds of \$1,271,334. We also issued Fusion 57,140 shares of common stock for commitment fees related to the sales of our common stock to them during the first quarter of 2004. See Note 13(b).

#### 11. SEGMENT AND SUBSIDIARY INFORMATION

We own or have rights to intellectual property related to gamma detection drugs. We also own or have rights to intellectual property involving two primary types of medical device products, including gamma detection instruments currently used primarily in the application of ILM, and blood flow measurement devices. Prior to 2004, gamma detection drugs and devices were reported as one segment. Certain 2003 amounts have been reclassified to conform to the 2004 presentation.

The information in the following table is derived directly from each segment's internal financial reporting used for corporate management purposes. Selling, general and administrative costs and other income, including amortization, interest and other costs that relate primarily to corporate activity, are not currently allocated to the operating segments for financial reporting purposes.

<TABLE>

<CAPTION>

	GAMMA		GAMMA		BLOOD		
	(\$ AMOUNTS IN THOUSANDS)		DETECTION		DETECTION		FLOW
	THREE MONTHS ENDED MARCH 31, 2004		DRUGS	DEVICES	DEVICES	UNALLOCATED	TOTAL
<S>	<C>	<C>	<C>	<C>	<C>	<C>	
Net sales:							
United States(1)	\$	-	\$ 1,164	\$	-	\$	- \$ 1,164
International		-	24	38	-	62	



License and other revenue	-	200	-	-	200
Research and development expenses	93	235	255	-	583
Selling, general and administrative expenses	-	-	-	813	813
Income (loss) from operations(2)	(93)	625	(230)	(813)	(511)
Other income	-	-	-	(78)	(78)

### THREE MONTHS ENDED MARCH 31, 2003

#### Net sales:

United States(1)	\$	-	\$	1,254	\$	-	\$	-	\$	1,254
International	-	1	49	-	50					
License and other revenue	-	235	-	-	235					
Research and development expenses	1	135	283	-	419					
Selling, general and administrative expenses	-	-	-	754	754					
Income (loss) from operations(2)	(1)	563	(281)	(754)	(473)					
Other income	-	-	-	(6)	(6)					

</TABLE>

(1) All sales to EES are made in the United States. EES distributes the product globally through its international affiliates.

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(2) Income (loss) from operations does not reflect the allocation of selling, general and administrative costs to the operating segments.

### 12. SUPPLEMENTAL DISCLOSURE FOR STATEMENTS OF CASH FLOWS

During the first quarter of 2004, we purchased equipment under capital leases totaling \$27,000. During the first quarter of 2004 and 2003, we transferred \$3,000 and \$5,000, respectively, in inventory to fixed assets related to the maintenance of a pool of service loaner equipment.

### 13. SUBSEQUENT EVENTS

- A. **WARRANT EXERCISES:** From April 1 through May 12, 2004, certain investors exercised a total of 795,000 warrants to purchase our common stock and we realized proceeds of \$213,000. See Note 9.
- B. **COMMON STOCK PURCHASE AGREEMENT:** From April 1 through May 12, 2004, we sold Fusion a total of 250,000 shares of common stock and realized proceeds of \$200,000. We also issued Fusion 8,989 shares of common stock for commitment fees related to the sale of our common stock to them. See Note 10.

## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Our operating results were below our original expectations for the quarter. Revenue from our gamma detection device product line was, with the exception of a temporary backorder to our primary distributor at the end of the quarter related to the transfer of manufacturing, in line with our original expectations; however, sales of our blood flow measurement devices were behind our expectations due, we believe, to the need for certain product enhancements for which we are in the process of implementing near-term solutions. In addition we incurred expenses during the first quarter of 2004 related to our RIGS(R) and Lymphoseek(TM) initiatives in order to move those development efforts forward to the next stage of development. The combination of these events contributed to a greater than expected operating loss for the first quarter of 2004.

### RESULTS OF OPERATIONS

Revenue for the first quarter of 2004 decreased \$113,000, or 7%, to \$1.4 million from \$1.5 million for the same period in 2003. Major expense categories as a percentage of net sales increased in the first quarter of 2004 as compared to the same period in 2003, due primarily to the increased development and marketing expenses coupled with the decrease in net sales. Research and development expenses, as a percentage of net sales, increased to 48% during the first quarter of 2004 from 32% during the same period in 2003. Selling, general and administrative expenses, as a percentage of net sales, increased to 66% during the first quarter of 2004 from 58% during the same period in 2003. Due to

development activities of the company, research and development expenses are expected to be higher as a percentage of sales in 2004 than they were in 2003. In addition, as we move forward with commercialization activities related to the Quantix(R) product line, selling expenses are expected to push our selling, general and administrative expenses higher in 2004 than 2003 as a percentage of sales.

#### Three Months Ended March 31, 2004 and 2003

**Net Sales and Margins.** Net sales, primarily of our gamma detection systems, decreased \$78,000, or 6%, to \$1.2 million during the first quarter of 2004 from \$1.3 million during the same period in 2003. Gross margins on net sales increased to 56% of net sales for the first quarter of 2004 compared to 36% of net sales for the same period in 2003. The decrease in net sales was the result of delays in the transfer of manufacturing of our neo2000(R) gamma detection device to a new contract manufacturer that resulted in a backorder position to our primary distributor of over \$125,000 at March 31, 2004. If we had not been in backorder, which our contract manufacturer has since corrected, our gamma device revenue would have been consistent with or slightly higher than last year as expected. The increase in gross margins was primarily due to decreases in the unit costs to manufacture our neo2000 control unit resulting from internal design changes and a lower cost structure at the new contract manufacturer. Sales of blood flow devices did not contribute significantly to revenue in either period.

**License and Other Revenue.** License and other revenue in the first quarters of 2004 and 2003 included \$200,000 from the pro-rata recognition of license fees related to the distribution agreement with EES and \$35,000 in 2003 from the reimbursement by EES of certain product development costs.

**Research and Development Expenses.** Research and development expenses increased \$164,000 or 39% to \$583,000 during the first quarter of 2004 from \$419,000 during the same period in 2003. The increase was primarily due to efforts to support the re-initiation of our RIGS research effort and to move our development of Lymphoseek forward, final development activities related to an updated version of our neo2000 system and product refinement activities related to the Quantix/OR(TM). Research and development expenses in the first quarter of 2004 included approximately \$90,000 in gamma detection drug development costs, \$55,000 in final development costs of the current Model 2200 of our neo2000 system and \$73,000 in external project costs related to product design improvements for the Quantix/OR system.

**Selling, General and Administrative Expenses.** Selling, general and administrative expenses increased \$59,000 or 8% to \$813,000 during the first quarter of 2004 from \$754,000 during the same period in 2003. The increase was primarily due to an increase of \$66,000 in marketing expenses related to the planned increase in marketing activities to support the launch of our Quantix line of blood flow products. Selling, general and administrative expenses in the first quarter of 2003 included \$30,000 in impairment of intellectual property that we did not believe had ongoing value to the business.

**Other Income (Expenses).** Other expenses increased \$72,000 to \$78,000 of expenses during the first quarter of 2004 from \$6,000 during the same period in 2003. The primary reason for the increase was \$68,000 in interest expense on debt financings we entered into during 2003. Of this interest expense, \$61,000 was non-cash in nature related to the amortization of debt discounts resulting from the warrants and beneficial conversion feature issued in connection with the underlying debt agreements.

#### LIQUIDITY AND CAPITAL RESOURCES

**Operating Activities.** Cash provided by (used in) operations increased \$281,000 to \$35,000 provided during the first quarter of 2004 from \$246,000 used during the same period in 2003. Working capital increased \$1.6 million to \$4.1 million at March 31, 2004 as compared to \$2.5 million at December 31, 2003. The current ratio increased to 3.9:1 at March 31, 2004 from 2.6:1 at December 31, 2003. The increase in working capital was primarily related to cash received from the sale of our common stock and the exercise of warrants.

Cash balances increased to \$3.4 million at March 31, 2004 from \$1.6 million at December 31, 2003, primarily due to the cash received from the sale of our common stock and the exercise of warrants, offset by increased operating expenses during the first quarter of 2004.

Accounts receivable decreased to \$822,000 at March 31, 2004 from \$1.1 million at December 31, 2003. We expect receivable levels to increase during 2004 depending on the timing of purchases and payments by EES as well as the potential effect of sales of blood flow products.

Inventory levels decreased to \$921,000 at March 31, 2004 as compared to \$1.0 million at December 31, 2003. The decrease in inventory was the result of delays in the manufacturing transfer of our neo2000 gamma detection device to our new contract manufacturer that resulted in a backorder position to our primary distributor at March 31, 2004. We expect inventory levels to increase over the course of 2004 as we re-establish our gamma device safety stock and build finished units of our blood flow products in preparation for broader distribution.

Investing Activities. Cash used in investing activities increased \$3,000 to \$22,000 during the first quarter of 2004 from \$18,000 during the same period in 2003. Capital expenditures in the first quarter of 2004 were related to purchases of technology infrastructure. Capital expenditures in the first quarter of 2003 were split between purchases of production tools and equipment and technology infrastructure. Capital needs for 2004 are expected to increase over 2003 as we start up blood flow device production at our contract manufacturer.

Financing Activities. Financing activities generated \$1.8 million in cash in the first quarter of 2004 versus \$83,000 used during the same period in 2003.

On November 19, 2001, we entered into a common stock purchase agreement with an investment fund, Fusion Capital Fund II, LLC (Fusion) for the issuance and purchase of our common stock. Under the stock purchase agreement, Fusion committed to purchase up to \$10 million of our common stock over a forty-month period that commenced in May 2002. A registration statement registering for resale up to 5 million shares of our common stock became effective on April 15, 2002. Under the terms of the agreement, we can request daily drawdowns, subject to a daily base amount currently set at \$12,500. The number of shares we are to issue to Fusion in return for that money is based on the lower of (a) the closing sale price for our common stock on the day of the draw request or (b) the average of the three lowest closing sales prices for our common stock during a twelve-day period prior to the draw request. However, no shares may be sold to Fusion at lower than a floor price currently set at \$0.30, which may be reduced by us, but in no case below \$0.20 without Fusion's prior consent. Upon execution of the common stock purchase agreement, we issued 449,438 shares of our common stock to Fusion as a commitment fee. During the second half of 2003, we sold Fusion a total of 473,869 shares of common stock and realized net proceeds of \$143,693. We issued Fusion 6,462 shares of common stock for commitment fees related to the sales of our common stock to them during 2003. During the first quarter of 2004, we sold Fusion a total of 2,100,000 shares of common stock and realized net proceeds of \$1,271,334. We also issued Fusion 57,140 shares of common stock for commitment fees related to the sales of our common stock to them during the first quarter of 2004.

During April 2003, we completed a bridge loan agreement with our President and CEO, David Bupp. Under the terms of the agreement, Mr. Bupp advanced us \$250,000. In consideration for the loan, we issued a note in the principal amount of \$250,000. The note is secured by general assets of the company, excluding accounts receivable. In addition, we issued Mr. Bupp 375,000 warrants to purchase shares of our common stock at an exercise price of \$0.13 per share, expiring in April 2008. The per share value of these warrants was \$0.10 on the date of issuance using the Black-Scholes option pricing model with the following assumptions: an average risk-free interest rate of 2.9%, volatility of 139% and no expected dividend rate. Interest accrues on the note at 8.5% per annum, payable monthly, and the note was originally due on June 30, 2004. On March 8, 2004, the due date of the note to Mr. Bupp was extended from June 30, 2004 to June 30, 2005. In exchange for extending the due date of the note, we issued Mr. Bupp an additional 375,000 warrants to purchase our common stock at an exercise price of \$0.50 per share, expiring in March 2009. The per share value of these warrants was \$0.46 on the date of

issuance using the Black-Scholes option pricing model with the following assumptions: an average risk-free interest rate of 2.7%, volatility of 152% and no expected dividend rate. Mr. Bupp's 750,000 warrants remain outstanding.

During April 2003, we also completed a convertible bridge loan agreement with an investor for an additional \$250,000. In consideration for the loan, we issued a note in the principal amount of \$250,000. The note was secured by general assets of the company, excluding accounts receivable. In addition, we issued the investor 500,000 warrants to purchase shares of our common stock at an exercise price of \$0.13 per share, expiring in April 2008. The per share value of these warrants was \$0.10 on the date of issuance using the Black-Scholes option pricing model with the following assumptions: an average risk-free interest rate of 2.9%, volatility of 139% and no expected dividend rate. Under the terms of the agreement, the note bore interest at 9.5% per annum, payable monthly, was convertible into common stock and was due on June 30, 2004. During January 2004, the investor converted the entire balance of the note into 1.1 million shares of common stock according to the conversion terms of the agreement. The investor's 500,000 warrants remain outstanding.

During 2003, an investment banking firm, Alberdale Capital, LLC (Alberdale), assisted us in arranging an accounts receivable financing transaction. In exchange for Alberdale's services, we issued them warrants to purchase 78,261 shares of our common stock. During the first quarter of 2004, Alberdale exercised these warrants on a cashless basis in exchange for 53,500 shares of common stock.

During October and November 2003, we executed common stock purchase agreements with third parties introduced to us by a third investment banking firm, Rockwood, Inc., for the purchase of 12,173,914 shares of our common stock at a price of \$0.23 per share for net proceeds of \$2.4 million. In addition, we agreed to issue the purchasers warrants to purchase 6,086,959 shares of common stock at an exercise price of \$0.28 per share and agreed to issue the placement agents warrants to purchase 1,354,348 shares of our common stock on similar terms. All warrants issued in connection with the transaction expire in October 2008. The per share value of these warrants was \$0.31 on the date of issuance using the Black-Scholes option pricing model with the following assumptions: an average risk-free interest rate of 3.2%, volatility of 151% and no expected dividend rate. During the first quarter investors and placement agents who participated in this placement exercised warrants representing a total of 2,234,957 shares of common stock resulting in net proceeds of \$608,000.

Our future liquidity and capital requirements will depend on a number of factors, including our ability to raise additional capital in a timely manner through additional investment, expanded market acceptance of our current products, our ability to complete the commercialization of new products such as our blood flow product line, our ability to monetize our investment in non-core technologies, our ability to obtain milestone or development funds from potential development and distribution partners, regulatory actions by the FDA and other international regulatory bodies, and intellectual property protection. We believe we have adequate capital to assure that we can properly support our current business goals and objectives for 2004. Our near-term priorities are improvements to the Quantix products based on thought leader feedback in the U.S. and EU. We believe this will position us for improved commercial viability of the product by the fourth quarter of this year. In addition, we are moving forward with efforts to develop other products in our pipeline such as RIGS and Lymphoseek. However, we cannot assure you that we will be able to achieve significant product revenues from our current or potential new products. We also cannot assure you that we will achieve profitability in 2004 or in the future.

#### CRITICAL ACCOUNTING POLICIES

THE FOLLOWING ACCOUNTING POLICIES ARE CONSIDERED BY US TO BE CRITICAL TO OUR RESULTS OF OPERATIONS AND FINANCIAL CONDITION.

Revenue Recognition Related to Net Sales. We currently generate revenue primarily from sales of our gamma detection products; however, sales of blood flow products constituted approximately 3% of total revenues for the first quarter of 2004 and are expected to increase in the future. We generally

recognize sales revenue related to sales of our products when the products are shipped and the earnings process has been completed. Our customers have no right to return products purchased in the ordinary course of business. However, in cases where product is shipped but the earnings process is not yet completed, revenue is deferred until it has been determined that the earnings process has been completed. We also generate revenue from the service and repair of out-of-warranty products. Fees charged for service and repair on products not covered by an extended service agreement are recognized on completion of the service process when the serviced or repaired product has been returned to the customer. Fees charged for service or repair of products covered by an extended warranty agreement are deferred and recognized as revenue ratably over the life of the extended service agreement. The prices we charge our primary customer, EES, related to sales of products are subject to retroactive annual adjustment based on a fixed percentage of the actual sales prices achieved by EES on sales to end customers made during each fiscal year. To the extent that we can reasonably estimate the end-customer prices received by EES, we record sales to EES based upon these estimates. If we are unable to reasonably estimate end customer sales prices related to certain products sold to EES, we record revenue related to these product sales at the minimum (i.e., floor) price provided for under our distribution agreement with EES.

**Impairment or Disposal of Long-Lived Assets.** We account for long-lived assets in accordance with the provisions of SFAS No. 144. This Statement requires that long-lived assets and certain identifiable intangibles be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net undiscounted cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell. As of March 31, 2004, the most significant long-lived assets on our balance sheet relate to assets recorded in connection with the acquisition of Cardiosonix and gamma detection device patents related to ILM. The recoverability of these assets is based on the financial projections and models related to the future sales success of Cardiosonix' products and the continuing success of our gamma detection product line. As such, these assets could be subject to significant adjustment should the Cardiosonix technology not be successfully commercialized or the sales amounts in our current projections not be realized.

**Inventory Reserves.** We value our inventory at the lower of cost (first-in, first-out method) or market. Reserves are estimated for excess, slow moving and obsolete inventory as well as inventory with a carrying value in excess of its net realizable value. Write-offs are recorded when product is removed from saleable inventory. We review inventory on hand at least quarterly and record provisions for excess and obsolete inventory based on several factors, including current assessment of future product demand, anticipated release of new products into the market, historical experience and product expiration. Our industry is characterized by rapid product development and frequent new product introductions. Uncertain timing of product approvals, variability in product launch strategies, product recalls and variation in product utilization all impact the estimates related to excess and obsolete inventory.

**Allowance for Doubtful Accounts.** We maintain an allowance for doubtful accounts receivable to cover estimated losses resulting from the inability of our customers to make required payments. We determine the adequacy of this allowance by regularly reviewing our accounts receivable aging and evaluating individual customer receivables, considering customers' credit and financial condition, payment history and relevant economic conditions. If the financial condition of our customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances for doubtful accounts may be required.

## FORWARD-LOOKING STATEMENTS

The Private Securities Litigation Reform Act of 1995 (the Act) provides a safe harbor for forward-looking statements made by or on behalf of our company. From time to time, our representatives and we may make written or verbal forward-looking statements, including statements contained in this report and other company filings with the SEC and in our reports to stockholders. Statements that relate to other than strictly historical facts, such as

statements about our plans and strategies, expectations for future financial performance, new and existing products and technologies, and markets for our products are forward-looking statements within the meaning of the Act. Generally, the words "believe," "expect," "intend," "estimate," "anticipate," "will" and other similar expressions identify forward-looking statements. The forward-looking statements are and will be based on our then-current views and assumptions regarding future events and operating performance, and speak only as of their dates. Investors are cautioned that such statements involve risks and uncertainties that could cause actual results to differ materially from historical or anticipated results due to many factors including, but not limited to, our limited revenues, accumulated deficit, future capital needs, uncertainty of capital funding, dependence on limited product line and exclusive distributor, uncertainty of market acceptance, competition, limited marketing and manufacturing experience, and other risks detailed in our most recent Annual Report on Form 10-KSB and other SEC filings. We undertake no obligation to publicly update or revise any forward-looking statements.

### ITEM 3. CONTROLS AND PROCEDURES

As of the end of the period covered by this report, we carried out an evaluation, under the supervision and with the participation of management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Exchange Act Rule 13a-15. Based upon that evaluation, the Chief Executive Officer, along with the Chief Financial Officer, concluded that our disclosure controls and procedures are effective in timely alerting them to material information relating to our company (including our consolidated subsidiary) required to be included in our periodic SEC filings. It should be noted that the design of any system of controls is based in part upon certain assumptions about the likelihood of future events, and we cannot assure you that any design will succeed in achieving its stated goals under all potential future conditions, regardless of how remote.

There were no changes in our internal controls over financial reporting that occurred during our most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Since the date of our evaluation to the filing date of this quarterly report, there have been no significant changes in our internal controls or in other factors that could significantly affect internal controls, including any corrective actions with regard to significant deficiencies and material weaknesses.

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## PART II - OTHER INFORMATION

### ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

#### (a) EXHIBITS

10.36 Employment Agreement between the Company and Richard N. Linder, Jr., dated November 1, 2003.\*

31.1 Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.\*

31.2 Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.\*

32.1 Certification of Chief Executive Officer of Periodic Financial Reports pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350.\*

32.2 Certification of Chief Financial Officer of Periodic Financial Reports pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350.\*

\* Filed herewith.

#### (b) REPORTS ON FORM 8-K

On March 10, 2004, we filed a Current Report on Form 8-K (dated March 10, 2004) with the Securities and Exchange Commission pursuant to Item 12 (under Item 9) in connection with our March 10, 2004, press release announcing our consolidated financial results for the fiscal year ended December 31, 2003.

On February 25, 2004, we filed a Current Report on Form 8-K (dated February 25, 2004) with the Securities and Exchange Commission pursuant to Items 5 and 7 in connection with our February 24, 2004, press release announcing a scheduled meeting with the United States Food and Drug Administration on April 15, 2004.

ITEMS 1, 3, 4 AND 5 ARE NOT APPLICABLE AND HAVE BEEN OMITTED.

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#### SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

NEOPROBE CORPORATION  
(the Company)  
Dated: May 14, 2004

By: /s/ DAVID C. BUPP  
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David C. Bupp  
President and Chief Executive Officer  
(duly authorized officer; principal executive officer)

By: /s/ BRENT L. LARSON  
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Brent L. Larson  
Vice President, Finance and Chief Financial Officer  
(principal financial and accounting officer)

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EXHIBIT 10.36

EMPLOYMENT AGREEMENT

This Employment Agreement is made and entered into effective as of November 1, 2003 (the "Effective Date"), by and between NEOPROBE CORPORATION, a Delaware Corporation with a place of business at 425 Metro Place North, Suite 300, Dublin, Ohio 43017-1367 (the "Company") and RICHARD N. LINDER, JR. of Collierville, Tennessee (the "Employee").

WHEREAS, the Company and the Employee wish to establish terms, covenants, and conditions for the Employee's continued employment with the Company through this agreement ("Employment Agreement").

NOW, THEREFORE, in consideration of the mutual agreements herein set forth, the parties hereto agree as follows:

1. **DUTIES.** From and after the Effective Date, and based upon the terms and conditions set forth herein, the Company agrees to employ the Employee and the Employee agrees to be employed by the Company, as Vice President Sales and Marketing of the Company and in such equivalent, additional or higher executive level position or positions as shall be assigned to him by the Company's President and CEO. While serving in such executive level position or positions, the Employee shall report to, be responsible to, and shall take direction from the President and CEO of the Company. The Company shall not require the Employee to perform any task that is inconsistent with the position of an Executive Officer. During the Term of this Employment Agreement (as defined in Section 2 below), the Employee agrees to devote substantially all of his working time to the position he holds with the Company and to faithfully, industriously, and to the best of his ability, experience and talent, perform the duties, which are assigned to him. The Employee shall observe and abide by the reasonable corporate policies and decisions of the Company in all business matters.

The Employee represents and warrants to the Company that Exhibit A attached hereto sets forth a true and complete list of (a) all offices, directorships and other positions held by the Employee in corporations and firms other than the Company and its subsidiaries and (b) any investment or ownership interest in any corporation or firm other than the Company beneficially owned by the Employee (excluding investments in life insurance policies, bank deposits, publicly traded securities that are less than five percent (5%) of their class and real estate). The Employee will promptly notify the Board of Directors of the Company of any additional positions undertaken or investments made by the Employee during the Term of this Employment Agreement if they are of a type, which if they had existed on the date hereof, should have been listed on Exhibit A hereto. As long as the Employee's other positions or investments in other firms do not create a conflict of interest, violate the Employee's obligations under Section 7 below or cause the Employee to neglect his duties hereunder, such activities and positions shall not be deemed to be a breach of this Employment Agreement.

2. **TERM OF THIS EMPLOYMENT AGREEMENT.** Subject to Sections 4 and 5 hereof, the Term of this Employment Agreement shall be for a period of fourteen (14) months, commencing November 1, 2003 and terminating December 31, 2004.
3. **COMPENSATION.** During the Term of this Employment Agreement, the Company shall pay, and the Employee agrees to accept as full consideration for the services to be rendered by the Employee hereunder, compensation consisting of the following:
  - A. **SALARY.** Beginning on the first day of the Term of this Employment Agreement, the Company shall pay the Employee a salary of One Hundred Sixty-Five Thousand Dollars (\$165,000) per year, payable in semi-monthly or monthly installments as requested by the Employee.



- B. **BONUS.** The Compensation Committee of the Board of Directors will, on an annual basis, review the performance of the Company and of the Employee and will pay such bonus as it deems appropriate, in its discretion, to the Employee based upon such review. Such review and bonus shall be consistent with any bonus plan adopted by the Compensation Committee, which covers the executive officers and employees of the Company generally.
- C. **BENEFITS.** During the Term of this Employment Agreement, the Employee will receive such employee benefits as are generally available to all employees of the Company.
- D. **STOCK OPTIONS.** The Compensation Committee of the Board of Directors may, from time-to-time, grant stock options, restricted stock purchase opportunities and such other forms of stock-based incentive compensation as it deems appropriate, in its discretion, to the Employee under the Company's 2002 Stock Incentive Plan (the "Stock Plan"). The terms of the relevant award agreements shall govern the rights of the Employee and the Company thereunder in the event of any conflict between such agreement and this Employment Agreement. With the signing of this agreement, the Employee is granted stock options to 200,000 shares of the Company's common stock.
- E. **VACATION.** The Employee shall be entitled to fifteen (15) days of vacation during each full calendar year during the Term of this Employment Agreement.
- F. **EXPENSES.** The Company shall reimburse the Employee for all reasonable out-of-pocket expenses incurred by him in the performance of his duties hereunder, including expenses for travel, entertainment and similar items, promptly after the presentation by the Employee, from time-to-time, of an itemized account of such expenses.

#### 4. TERMINATION.

- A. **FOR CAUSE.** The Company may terminate the employment of the Employee prior to the end of the Term of this Employment Agreement "for cause." Termination "for cause" shall be defined as a termination by the Company of the employment of the Employee occasioned by the failure by the Employee to cure a willful breach of a material duty imposed on the Employee under this Employment Agreement within 15 days after written notice thereof by the Company or the continuation by the Employee after written notice by the Company of a willful and continued neglect of a duty imposed on the Employee under this Employment Agreement. In the event of termination by the Company "for cause," all salary, benefits and other payments shall cease at the time of termination, and the Company shall have no further obligations to the Employee.
- B. **RESIGNATION.** If the Employee resigns for any reason, all salary, benefits and other payments (except as otherwise provided in paragraph G of this Section 4 below) shall cease at the time such resignation becomes effective. At the time of any such resignation, the Company shall pay the Employee the value of any accrued but unused vacation time, and the amount of all accrued but previously unpaid base salary through the date of such termination. The Company shall promptly reimburse the Employee for the amount of any expenses incurred prior to such termination by the Employee as required under paragraph F of Section 3 above.
- C. **DISABILITY OR DEATH.** The Company may terminate the employment of the Employee prior to the end of the Term of this Employment Agreement if the Employee has been unable to perform his duties hereunder for a continuous period of six (6) months due to a physical or mental condition that, in the opinion of a licensed physician, will be of indefinite duration or is without a reasonable probability of recovery. The Employee agrees to submit to an examination by a licensed

physician of his choice in order to obtain such opinion, at the request of the Company, made after the Employee has been absent from his place of employment for at least six (6) months. The Company shall pay for any such examination. However, this provision does not abrogate either the Company's or the Employee's rights and

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obligations pursuant to the Family and Medical Leave Act of 1993, and a termination of employment under this paragraph C shall not be deemed to be a termination for cause.

If during the Term of this Employment Agreement, the Employee dies or his employment is terminated because of his disability, all salary, benefits and other payments shall cease at the time of death or disability, provided, however, that the Company shall provide such health, dental and similar insurance or benefits as were provided to Employee immediately before his termination by reason of death or disability, to Employee or his family for the longer of twelve (12) months after such termination or the full unexpired Term of this Employment Agreement on the same terms and conditions (including cost) as were applicable before such termination. In addition, for the first six (6) months of disability, the Company shall pay to the Employee the difference, if any, between any cash benefits received by the Employee from a Company-sponsored disability insurance policy and the Employee's salary hereunder. At the time of any such termination, the Company shall pay the Employee, the value of any accrued but unused vacation time, and the amount of all accrued but previously unpaid base salary through the date of such termination. The Company shall promptly reimburse the Employee for the amount of any expenses incurred prior to such termination by the Employee as required under paragraph F of Section 3 above.

- D. **TERMINATION WITHOUT CAUSE.** A termination without cause is a termination of the employment of the Employee by the Company that is not "for cause" and not occasioned by the resignation, death or disability of the Employee. If the Company terminates the employment of the Employee without cause, (whether before the end of the Term of this Employment Agreement or, if the Employee is employed by the Company under paragraph E of this Section 4 below, after the Term of this Employment Agreement has ended) the Company shall, at the time of such termination, pay to the Employee the severance payment provided in paragraph F of this Section 4 below together with the value of any accrued but unused vacation time and the amount of all accrued but previously unpaid base salary through the date of such termination and shall provide him with all of his benefits under paragraph C of Section 3 above for the longer of six (6) months or the full unexpired Term of this Employment Agreement. The Company shall promptly reimburse the Employee for the amount of any expenses incurred prior to such termination by the Employee as required under paragraph F of Section 3 above.

If the Company terminates the employment of the Employee because it has ceased to do business or substantially completed the liquidation of its assets or because it has relocated to another city and the Employee has decided not to relocate also, such termination of employment shall be deemed to be without cause.

- E. **END OF THE TERM OF THIS EMPLOYMENT AGREEMENT.** Except as otherwise provided in paragraphs F and G of this Section 4 below, the Company may terminate the employment of the Employee at the end of the Term of this Employment Agreement without any liability on the part of the Company to the Employee but, if the Employee continues to be an employee of the Company after the Term of this Employment Agreement ends, his employment shall be governed by the terms and conditions

of this Agreement, but he shall be an employee at will and his employment may be terminated at any time by either the Company or the Employee without notice and for any reason not prohibited by law or no reason at all. If the Company terminates the employment of the Employee at the end of the Term of this Employment Agreement, the Company shall, at the time of such termination, pay to the Employee the severance payment provided in paragraph F of this Section 4 below together with the value of any accrued but unused vacation time and the amount of all accrued but previously unpaid base salary through the date of such termination. The Company shall promptly reimburse the Employee for the amount of any reasonable expenses incurred prior to such termination by the Employee as required under paragraph F of Section 3 above.

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- F. SEVERANCE. If the employment of the Employee is terminated by the Company, at the end of the Term of this Employment Agreement or, without cause (whether before the end of the Term of this Employment Agreement or, if the Employee is employed by the Company under paragraph E of this Section 4 above, after the Term of this Employment Agreement has ended), the Employee shall be paid, as a severance payment at the time of such termination, the amount of Eighty-Two Thousand Five Hundred Dollars (\$82,500) together with the value of any accrued but unused vacation time.
- G. CHANGE OF CONTROL SEVERANCE. In addition to the rights of the Employee under the Company's employee benefit plans (paragraphs C of Section 3 above) but in lieu of any severance payment under paragraph F of this Section 4 above, if there is a Change in Control of the Company (as defined below) and the employment of the Employee is concurrently or subsequently terminated (a) by the Company without cause, (b) by the expiration of the Term of this Employment Agreement, or (c) by the resignation of the Employee because he has reasonably determined in good faith that his titles, authorities, responsibilities, salary, bonus opportunities or benefits have been materially diminished, that a material adverse change in his working conditions has occurred, that his services are no longer required in light of the Company's business plan, or the Company has breached this Employment Agreement, the Company shall pay the Employee, as a severance payment, at the time of such termination, the amount of One Hundred Sixty-Five Thousand Dollars (\$165,000) together with the value of any accrued but unused vacation time, and the amount of all accrued but previously unpaid base salary through the date of termination and shall provide him with all of this benefits under paragraph C of Section 3 above for the longer of six (6) months or the full unexpired Term of this Employment Agreement. The Company shall promptly reimburse the Employee for the amount of any expenses incurred prior to such termination by the Employee as required under paragraph F of Section 3 above.

For the purpose of this Employment Agreement, a Change in Control of the Company has occurred when: (a) any person (defined for the purposes of this paragraph G to mean any person within the meaning of Section 13 (d) of the Securities Exchange Act of 1934 (the "Exchange Act")), other than Neoprobe or an employee benefit plan created by its Board of Directors for the benefit of its employees, either directly or indirectly, acquires beneficial ownership (determined under Rule 13d-3 of the Regulations promulgated by the Securities and Exchange Commission under Section 13(d) of the Exchange Act) of securities issued by Neoprobe having Thirty percent (30%) or more of the voting power of all the voting securities issued by Neoprobe in the election of Directors at the next meeting of the holders of voting securities to be held for such purpose; (b) a majority of the Directors elected at any meeting of the holders of voting securities of Neoprobe are persons who were not nominated for such election by the Board

of Directors or a duly constituted committee of the Board of Directors having authority in such matters; (c) the stockholders of Neoprobe approve a merger or consolidation of Neoprobe with another person other than a merger or consolidation in which the holders of Neoprobe's voting securities issued and outstanding immediately before such merger or consolidation continue to hold voting securities in the surviving or resulting corporation (in the same relative proportions to each other as existed before such event) comprising eighty percent (80%) or more of the voting power for all purposes of the surviving or resulting corporation; or (d) the stockholders of Neoprobe approve a transfer of substantially all of the assets of Neoprobe to another person other than a transfer to a transferee, eighty percent (80%) or more of the voting power of which is owned or controlled by Neoprobe or by the holders of Neoprobe's voting securities issued and outstanding immediately before such transfer in the same relative proportions to each other as existed before such event. The parties hereto agree that for the purpose of determining the time when a Change of Control has occurred that if any transaction results from a definite proposal that was made before the end of the Term of this Employment Agreement but which continued until after the end of the Term of this Employment Agreement and such transaction is consummated after the end of the Term of this Employment Agreement, such transaction

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shall be deemed to have occurred when the definite proposal was made for the purposes of the first sentence of this paragraph G of this Section 4.

- H. BENEFIT AND STOCK PLANS. In the event that a benefit plan or Stock Plan which covers the Employee has specific provisions concerning termination of employment, or the death or disability of an employee (e.g., life insurance or disability insurance), then such benefit plan or Stock Plan shall control the disposition of the benefits or stock options.
5. PROPRIETARY INFORMATION AGREEMENT. Employee has executed a Proprietary Information Agreement as a condition of employment with the Company. The Proprietary Information Agreement shall not be limited by this Employment Agreement in any manner, and the Employee shall act in accordance with the provisions of the Proprietary Information Agreement at all times during the Term of this Employment Agreement.
6. NON-COMPETITION. Employee agrees that for so long as he is employed by the Company under this Employment Agreement and for one (1) year thereafter, the Employee will not:
- A. enter into the employ of or render any services to any person, firm, or corporation, which is engaged, in any part, in a Competitive Business (as defined below);
  - B. engage in any directly Competitive Business for his own account;
  - C. become associated with or interested in through retention or by employment any Competitive Business as an individual, partner, shareholder, creditor, director, officer, principal, agent, employee, trustee, consultant, advisor, or in any other relationship or capacity; or
  - D. solicit, interfere with, or endeavor to entice away from the Company, any of its customers, strategic partners, or sources of supply.

Nothing in this Employment Agreement shall preclude Employee from taking employment in the banking or related financial services industries nor from investing his personal assets in the securities or any Competitive Business if such securities are traded on a

national stock exchange or in the over-the-counter market and if such investment does not result in his beneficially owning, at any time, more than one percent (1%) of the publicly-traded equity securities of such Competitive Business. "Competitive Business" for purposes of this Employment Agreement shall mean any business or enterprise which:

- a. is engaged in the development and/or commercialization of products and/or systems for use in intraoperative detection of cancer, or
- b. reasonably understood to be competitive in the relevant market with products and/or systems described in clause a above, or
- c. the Company engages in during the Term of this Employment Agreement pursuant to a determination of the Board of Directors and from which the Company derives a material amount of revenue or in which the Company has made a material capital investment.

The covenant set forth in this Section 6 shall terminate immediately upon the substantial completion of the liquidation of assets of the Company or the termination of the employment of the Employee by the Company without cause or at the end of the Term of this Employment Agreement.

7. **ARBITRATION.** Any dispute or controversy arising under or in connection with this Employment Agreement shall be settled exclusively by arbitration in Columbus, Ohio, in accordance with the non-union employment arbitration rules of the American Arbitration Association ("AAA") then in effect. If specific non-union employment dispute rules are not in effect, then AAA commercial

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arbitration rules shall govern the dispute. If the amount claimed exceeds \$100,000, the arbitration shall be before a panel of three arbitrators. Judgment may be entered on the arbitrator's award in any court having jurisdiction. The Company shall indemnify the Employee against and hold him harmless from any attorney's fees, court costs and other expenses incurred by the Employee in connection with the preparation, commencement, prosecution, defense, or enforcement of any arbitration, award, confirmation or judgment in order to assert or defend any right or obtain any payment under paragraph C of Section 4 above or under this sentence; without regard to the success of the Employee or his attorney in any such arbitration or proceeding.

8. **GOVERNING LAW.** The Employment Agreement shall be governed by and construed in accordance with the laws of the State of Ohio.
9. **VALIDITY.** The invalidity or unenforceability of any provision or provisions of this Employment Agreement shall not affect the validity or enforceability of any other provision of the Employment Agreement, which shall remain in full force and effect.
10. **ENTIRE AGREEMENT.** This Employment Agreement constitutes the entire understanding between the parties with respect to the subject matter hereof, superseding all negotiations, prior discussions, and preliminary agreements. This Employment Agreement may not be amended except in writing executed by the parties hereto.
11. **EFFECT ON SUCCESSORS OF INTEREST.** This Employment Agreement shall inure to the benefit of and be binding upon heirs, administrators, executors, successors and assigns of each of the parties hereto. Notwithstanding the above, the Employee recognizes and agrees that his obligation under this Employment Agreement may not be assigned without the consent of the Company.

IN WITNESS WHEREOF, the parties hereto have executed and delivered this Employment Agreement as of the date first written above.

NEOPROBE CORPORATION

EMPLOYEE

By: /s/ David C. Bupp

/s/ Richard N. Linder, Jr.

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David C. Bupp  
President and CEO

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Richard N. Linder, Jr.

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EXHIBIT A

Non paid board member of "The Solution Center"

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EXHIBIT 31.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER  
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, David C. Bupp, certify that:

1. I have reviewed this quarterly report on Form 10-QSB of Neoprobe Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The small business issuer's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the small business issuer and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Evaluated the effectiveness of the small business issuer's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(c) Disclosed in this report any change in the small business issuer's internal control over financial reporting that occurred during the small business issuer's most recent fiscal quarter (the small business issuer's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the small business issuer's internal control over financial reporting; and

5. The small business issuer's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the small business issuer's auditors and the audit committee of small business issuer's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the small business issuer's internal control over financial reporting.

May 14, 2004

/s/ David C. Bupp

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David C. Bupp  
President and Chief Executive Officer

EXHIBIT 31.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER  
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Brent L. Larson, certify that:

1. I have reviewed this quarterly report on Form 10-QSB of Neoprobe Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The small business issuer's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the small business issuer and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the small business issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Evaluated the effectiveness of the small business issuer's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(c) Disclosed in this report any change in the small business issuer's internal control over financial reporting that occurred during the small business issuer's most recent fiscal quarter (the small business issuer's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the small business issuer's internal control over financial reporting; and

5. The small business issuer's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the small business issuer's auditors and the audit committee of the small business issuer's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the small business issuer's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the small business issuer's internal control over financial reporting.

May 14, 2004

/s/ Brent L. Larson

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Brent L. Larson  
Vice President, Finance and Chief Financial Officer



EXHIBIT 32.1

CERTIFICATION OF PERIODIC FINANCIAL REPORT PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002, 18 U.S.C. SECTION 1350

The undersigned hereby certifies that he is the duly appointed and acting Chief Executive Officer of Neoprobe Corporation (the "Company") and hereby further certifies as follows:

(1) The periodic report containing financial statements to which this certificate is an exhibit fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the periodic report to which this certificate is an exhibit fairly presents, in all material respects, the financial condition and results of operations of the Company.

In witness whereof, the undersigned has executed and delivered this certificate as of the date set forth opposite his signature below.

May 14, 2004

/s/ David C. Bupp

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David C. Bupp  
President and Chief Executive Officer

EXHIBIT 32.2

CERTIFICATION OF PERIODIC FINANCIAL REPORT PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002, 18 U.S.C. SECTION 1350

The undersigned hereby certifies that he is the duly appointed and acting Chief Financial Officer of Neoprobe Corporation (the "Company") and hereby further certifies as follows:

(1) The periodic report containing financial statements to which this certificate is an exhibit fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the periodic report to which this certificate is an exhibit fairly presents, in all material respects, the financial condition and results of operations of the Company.

In witness whereof, the undersigned has executed and delivered this certificate as of the date set forth opposite his signature below.

May 14, 2004

/s/ Brent L. Larson

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Brent L. Larson  
Vice President, Finance and Chief Financial Officer