

U.S. SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC 20549

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FORM 10-Q

(MARK ONE)

----- QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE  
X SECURITIES EXCHANGE ACT OF 1934

-----  
FOR THE QUARTERLY PERIOD ENDED: MARCH 31, 1998

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 Registrant 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)

REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE: 614-793-7500

Indicate by check whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes X No  
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22,835,705 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 May 8, 1998)

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

<TABLE>

NEOPROBE CORPORATION AND SUBSIDIARIES  
(A DEVELOPMENT STAGE COMPANY)  
CONSOLIDATED BALANCE SHEETS

<CAPTION>

DECEMBER 31, MARCH 31,  
1997 1998

<S>

-----  
<C> <C>

ASSETS

Current assets:

Cash and cash equivalents	\$ 9,921,025	\$ 8,344,484
Available-for-sale securities	14,672,496	9,552,165
Accounts receivable	793,376	676,314
Inventory	413,024	1,189,182
Note receivable	1,500,000	0
Prepaid expenses and other current assets	2,001,378	1,533,920

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Total current assets	29,301,299	21,296,065
	-----	-----
Property and equipment at cost:		
Equipment, net of accumulated depreciation	6,667,763	7,394,881
Construction in progress	3,757,133	4,012,266
	-----	-----
	10,424,896	11,407,147
	-----	-----
Intangible assets, net of accumulated amortization	1,715,834	1,726,433
Other assets	131,375	1,630,005
	-----	-----
Total assets	\$41,573,404	\$36,059,650
	=====	=====

</TABLE>

The accompanying notes are an integral part  
of the consolidated financial statements.

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<TABLE>

NEOPROBE CORPORATION AND SUBSIDIARIES  
(A DEVELOPMENT STAGE COMPANY)  
CONSOLIDATED BALANCE SHEETS

<CAPTION>

	DECEMBER 31, 1997	MARCH 31, 1998
	-----	-----
<S>	<C>	<C>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 3,848,172	\$ 3,052,484
Accrued expenses	2,743,293	2,745,298
Notes payable to finance company	202,615	136,096
Capital lease obligation, current	156,140	140,062
	-----	-----
Total current liabilities	6,950,220	6,073,940
	-----	-----
Long term debt	1,813,437	4,159,031
Capital lease obligation	255,355	230,744
	-----	-----
Total liabilities	9,019,012	10,463,715
	-----	-----

Commitments and contingencies

Stockholders' equity:

Preferred stock; \$.001 par value; 5,000,000 shares authorized at December 31, 1997 and March 31, 1998; none outstanding (500,000 shares designated as Series A, \$.001 par value, at March 31, 1998; none outstanding)		0	0
Common stock; \$.001 par value; 50,000,000 shares authorized; 22,763,430 shares issued and outstanding at December 31, 1997; 22,807,055 shares issued and outstanding at March 31, 1998		22,763	22,807
Additional paid in capital	120,034,876	120,149,176	
Deficit accumulated during the development stage		(87,362,531)	(94,426,143)
Accumulated other comprehensive loss		(140,716)	(149,905)
	-----	-----	-----
Total stockholders' equity		32,554,392	25,595,935
		-----	-----
Total liabilities and stockholders' equity		\$ 41,573,404	\$ 36,059,650

</TABLE>

The accompanying notes are an integral part  
of the consolidated financial statements.

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<TABLE>

NEOPROBE CORPORATION AND SUBSIDIARIES  
(A DEVELOPMENT STAGE COMPANY)  
CONSOLIDATED STATEMENTS OF OPERATIONS

<CAPTION>

	NOVEMBER 16, THREE MONTHS ENDED			1983
	MARCH 31, 1997	1998	(INCEPTION) TO MARCH 31, 1998	
	-----	-----	-----	
<S>	<C>	<C>	<C>	
Net sales	\$ 1,124,974	\$ 863,891	\$ 10,050,805	
Cost of goods sold	492,941	224,473	3,928,469	
	-----	-----	-----	
Gross profit	632,033	639,418	6,122,336	
	-----	-----	-----	
Operating expenses:				
Research and development	3,450,934	5,226,696	69,782,834	
Marketing and selling	856,905	1,095,977	6,934,283	
General and administrative	1,634,282	1,604,602	32,684,217	
	-----	-----	-----	
Total operating expenses	5,942,121	7,927,275	109,401,334	
	-----	-----	-----	
Loss from operations	(5,310,088)	(7,287,857)	(103,278,998)	
	-----	-----	-----	
Other income (expenses):				
Interest income	584,603	254,091	6,176,271	
Interest expense	(6,152)	(10,623)	(578,108)	
Other	5,709	(19,223)	3,254,692	
	-----	-----	-----	
Total other income	584,160	224,245	8,852,855	
	-----	-----	-----	
Net loss	\$(4,725,928)	\$(7,063,612)	\$(94,426,143)	
	=====	=====	=====	
Net loss per common share (basic and diluted)	\$ (0.21)	\$ (0.31)		
	=====	=====		
Weighted average shares outstanding during the period	22,652,473	22,799,277		
	=====	=====		

</TABLE>

<TABLE>

NEOPROBE CORPORATION AND SUBSIDIARIES  
(A DEVELOPMENT STAGE COMPANY)  
CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

<CAPTION>

	NOVEMBER 16, THREE MONTHS ENDED			1983
	MARCH 31, 1997	1998	(INCEPTION) TO MARCH 31, 1998	
	-----	-----	-----	
<S>	<C>	<C>	<C>	
Net loss	\$(4,725,928)	\$(7,063,612)	\$(94,426,143)	
Other comprehensive losses, net of taxes	(189,492)	(9,189)	(149,905)	
	-----	-----	-----	
Comprehensive loss	\$(4,915,420)	\$(7,072,801)	\$(94,576,048)	
	=====	=====	=====	

</TABLE>

The accompanying notes are an integral part

of the consolidated financial statements.

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<TABLE>

NEOPROBE CORPORATION AND SUBSIDIARIES  
(A DEVELOPMENT STAGE COMPANY)  
CONSOLIDATED STATEMENTS OF CASH FLOWS

<CAPTION>

	NOVEMBER 16,		
	THREE MONTHS ENDED		1983
	MARCH 31,	(INCEPTION) TO	
	1997	1998	MARCH 31, 1998
	-----	-----	-----
<S>	<C>	<C>	<C>
Net cash used in operating activities		\$(7,297,045)	\$(7,838,003) \$ (84,201,597)
Cash flows from investing activities:			
Purchases of available-for-sale securities		(986,302)	0 (108,163,190)
Proceeds from sales of available-for-sale securities		760,234	2,046,796 49,921,058
Maturities of available-for-sale securities	4,600,000		3,100,000 48,803,943
Purchase of property and equipment		(801,949)	(1,219,547) (12,428,145)
Other	(28,661)	(15,599)	(1,052,631)
	-----	-----	-----
Net cash provided by (used in) investing activities		3,543,322	3,911,650 (22,918,965)
Cash flows from financing activities:			
Proceeds from issuance of common stock, net		626,355	114,343 102,650,033
Proceeds from bank loan	0	2,345,594	4,159,031
Other	221,323	(107,159)	8,689,566
	-----	-----	-----
Net cash provided by financing activities		847,678	2,352,778 115,498,630
Effect of exchange rate changes on cash		(7,836)	(2,966) (33,584)
	-----	-----	-----
Net decrease (increase) in cash and cash equivalents		(2,913,881)	(1,576,541) 8,344,484
Cash and cash equivalents at beginning of period		30,168,412	9,921,025 0
	-----	-----	-----
Cash and cash equivalents at end of period		\$27,254,531	\$ 8,344,484 \$ 8,344,484
	=====	=====	=====

</TABLE>

The accompanying notes are an integral part  
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NEOPROBE CORPORATION AND SUBSIDIARIES  
(A DEVELOPMENT STAGE COMPANY)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION

The information presented for March 31, 1997 and 1998, and for the periods then ended is unaudited, but includes all adjustments (which consist only of normal recurring adjustments) which the management of Neoprobe Corporation (the "Company") 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 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 the Company's audited financial statements for the year ended December 31, 1997, which were included as part of the Company's Annual Report on Form 10-K. Certain 1997 amounts have been

reclassified to conform with the 1998 presentation.

In June 1997, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No.130 ("FAS 130") "Reporting Comprehensive Income." This Statement establishes standards for reporting and display of comprehensive income in a full set of general purpose financial statements. The Company adopted FAS 130 as of January 1, 1998. Other comprehensive losses of the Company include the effects of translation gain or loss related to the Company's foreign operations and unrealized gains and losses on available-for-sale securities.

The Company is a development stage enterprise engaged in the development and commercialization of technologies for the diagnosis and treatment of cancers. There can be no assurance that the Company will be able to commercialize its proposed products. There can also be no assurance that adequate financing will be available when needed or on terms attractive to the Company.

## 2. INVENTORY

The components of inventory are as follows:

	DECEMBER 31, 1997	MARCH 31, 1998
Materials and component parts	\$ 36,890	\$ 51,268
Work-in-process	145,234	241,148
Finished goods	230,900	896,766
	<u>\$413,024</u>	<u>\$1,189,182</u>

## 3. LONG-TERM DEBT

Neoprobe (Israel) Ltd. ("Neoprobe (Israel)"), a subsidiary of the Company, is in the process of constructing a radiolabeling facility near Dimona, Israel, for use in future operations of the Company. Construction of the facility is being partially financed under an investment program approved by the state of Israel's Finance Committee (the "Committee"). Under the approved program, Neoprobe (Israel) is entitled to government grants and government loan guarantees equal to a percentage of the total loan taken for the construction and operation of the facility. Amounts received under the agreement are collateralized by certain property obtained through the use of proceeds received. As of March 31, 1998, Neoprobe (Israel) has received \$4.2 million and \$1.0 million in the form of loans and grants, respectively.

## 4. STOCK OPTIONS

During the first quarter of 1998, the Board granted options to employees and certain directors of the Company under the 1996 Stock Incentive Plan (the "Plan") for 358,000 shares of common stock, exercisable at \$5.63 per share, vesting over three to four years. The Company has 2.4 million options outstanding under two stock option plans. Of the outstanding options, 1.4 million options have vested as of March 31, 1998, at an average exercise price of \$6.97 per share.

## 5. CONTINGENCIES

The Company is subject to legal proceedings and claims which arise in the ordinary course of its business. In the opinion of management, the amount of ultimate liability with respect to these actions will not materially affect the financial position of the Company.

## 6. SUBSEQUENT EVENT

In April 1998, the Company executed an agreement with Ethicon Endo-Surgery, Inc. ("EES"), a Johnson & Johnson company to market and promote the Neoprobe(R) 1500 Portable Radioisotope Detector and its 14mm and 19mm reusable probes for gamma guided lymphatic mapping and minimally invasive surgery. During the initial one-year term of the

agreement, EES will promote and sell the aforementioned products and train physicians in the use of Neoprobe's devices. EES will immediately begin marketing activities in the United States while the companies discuss expanding the agreement to cover other geographic areas. In exchange for promoting and selling the device products, EES will receive sales commissions based on sales of the aforementioned products.

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

This Management Discussion and Analysis of Financial Condition and Results of Operations and other parts of this Report contain forward-looking statements that involve risks and uncertainties. The Company's actual results in 1998 and future periods may differ significantly from the prospects discussed in the forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, government regulations, absence of government approval for marketing the Company's products, limited revenues, continuing net losses, accumulated deficit, uncertainty of capital funding for future capital needs, dependence on patents, proprietary technology and trade secrets, limited marketing experience, limited manufacturing capacity and experience, dependence on principal product line, uncertainty of market acceptance, no assurance of continued rights to targeting agents, royalty payments, competition, limited third party reimbursement, risk of technological obsolescence, possible volatility of stock price, anti-takeover provisions, product liability, dependence on key personnel, ability to attract new personnel, and ability to manage a changing business.

### LIQUIDITY AND CAPITAL RESOURCES

Since inception, the Company has financed its operations primarily through private and public offerings of its equity securities, from which it has raised gross proceeds of approximately \$120 million. As of March 31, 1998, the Company had cash, cash equivalents, and available-for-sale securities of \$17.9 million. To date, the Company has devoted substantially all of its efforts and resources to research and clinical development of innovative systems for the intraoperative diagnosis and treatment of cancers. During the first quarter of 1998, the Company implemented a business plan to reduce operating expenses and focus on three main business activities: commercializing the Company's first RIGS(R) system (radioimmunoguided surgery) product, called RIGScan(R) CR49 (125I - - CC49 monoclonal antibody) for the surgical detection of metastatic colorectal cancer, increasing the Company's market position in gamma guided surgery applications, and developing activated cellular therapy products for cancer and viral diseases. During the first quarter of 1998, the Company cut its domestic staff and reduced annual compensation expense by approximately \$1 million (approximately 20%) and postponed certain research projects which were expected to be carried out in 1998.

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The RIGS system integrates radiolabeled targeting agents and radiation detection instruments. The Company is developing both the radiolabeled targeting agents and radiation-detection instrument components of the RIGS technology. Prior to 1996, the Company completed testing in a Phase III clinical trial for the detection of metastatic colorectal cancer. In addition, the Company has completed testing in a separate Phase III clinical trial for the detection of primary colorectal cancer. The Company must obtain regulatory approval to market its products before commercial revenue can be generated. During 1996, the Company submitted applications to the European regulatory agencies and to the United States Food and Drug Administration ("FDA") to request permits to begin marketing and selling the Company's RIGS products for the detection of metastatic colorectal cancer. In November 1997, the Company withdrew its application from the European Agency for the Evaluation of Medicinal Products ("EMEA") as a result of additional requests for information from the European Committee for Proprietary Medicinal Products ("CPMP"). In addition, in December 1997, the FDA's Center for Biologics Evaluation and Research ("CBER") completed its review of data submitted by the Company for its product and determined that additional information must be provided before it can further consider the approval of the Company's product.

In October 1997, the Company launched the Neoprobe(R) 1500 Portable Radioisotope Detector in response to an emerging new surgical technique called lymphatic mapping for treating patients with melanoma, a potentially deadly form of skin cancer. Lymphatic mapping represents a less invasive surgical technique than

existing techniques for staging cancer or determining whether the cancer has spread to the lymph nodes. Surgeons are using the lymphatic mapping technique for treating patients with melanoma and investigating its use in patients with breast cancer as well. The Company is currently selling the Neoprobe 1500 Portable Radioisotope Detector for the lymphatic mapping application and expanding its line of instruments to provide a variety of gamma-detecting probes for specialized uses. In March 1998, the Company introduced a smaller (14mm diameter) detection probe whose performance has been optimized for use in lymphatic mapping procedures. The Company recorded revenue of \$864,000 during the first quarter of 1998, predominantly related to sales of instruments used in application of the lymphatic mapping technique.

The Company is also studying the safety and efficacy of certain therapy products. In 1997, Neoprobe opened an IND application for clinical studies with RIGS/ACT(TM) (RIGS technology based activated cellular therapy) for colorectal cancer. One study is a Phase I/II multicenter trial using RIGS/ACT in patients with recurrent, operable colorectal cancer. A second study is a Phase II multicenter trial using RIGS/ACT with chemotherapy in patients with recurrent but inoperable colorectal cancer. The Company has also funded a Phase I study to determine the safety and feasibility of using ACT to help boost the immune system of patients with HIV/AIDS. This study has completed enrollment. In addition, the Company is funding a Phase I study to investigate the use of activated cellular therapy with patients coinfecting with HIV/AIDS and chronic active hepatitis B or C.

For the period from inception to March 31, 1998, the Company has incurred cumulative net losses of approximately \$94.4 million. The Company does not currently have a RIGS product approved for commercial sale in any major market and does not anticipate commercial sales of sufficient volume to generate positive cash flow until 2001, at the earliest. The Company has incurred, and will continue to incur, substantial expenditures for research and development activities related to bringing its products to the commercial market. The Company intends to devote significant additional funds to clinical testing, manufacturing validation, and other activities required for regulatory review and commercialization of its products. The amount of funds and length of time required to complete such testing will depend upon the outcome of regulatory reviews. The regulatory bodies may require more testing than is anticipated by the Company. There can be no assurance that the Company's RIGS products will be approved for marketing by the FDA or any foreign government agency, or that any such products will be successfully introduced or achieve market acceptance.

In April 1998, the Company executed a \$3 million revolving line of credit arrangement with a bank. Available borrowings under the line of credit are based on a formula of eligible accounts receivable and inventory. Interest on the line of credit is based on the prime rate or LIBOR, as elected by the Company. During May 1998, the Company borrowed \$700,000 under the line of credit.

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Research and development expenses during the first quarter of 1998 were \$5.2 million, or 66% of operating expenses for the period. Marketing and selling expenses were \$1.1 million, or 14% of operating expenses during the period and general and administrative expenses were \$1.6 million, or 20% of operating expenses for the period. The Company anticipates that 1998 total operating expenses will decrease over 1997 levels. The Company expects research and development and general and administrative expenses to decrease from 1997. However, the Company also expects marketing and selling expenses to increase slightly from 1997 levels. The Company currently anticipates that approximately \$13.5 million in cash will be used to finance operating activities during 1998.

During 1998, the Company intends to file amendments to its BLA in order to respond to the safety and product manufacturing questions raised in the CBER's December 1997 letter. In addition, the Company continues to negotiate with the FDA to determine how to obtain the additional clinical information necessary to respond to its clinical questions. Furthermore, the Company intends to negotiate with European regulatory authorities regarding the design of clinical trial(s) to provide additional information to support submission of a new dossier. The Company cannot assure if marketing approvals will be received without additional substantial expenses or delays, or at all. However, if and when the Company receives permission from the regulatory authorities to begin marketing its products, additional costs for marketing and distribution will be incurred. The Company has executed various agreements with third parties that supplement the technical and business capabilities of the Company. The Company is generally obligated to such parties to pay royalties or commissions upon commercial sale

of the related product. The Company's estimate of its allocation of cash resources is based on the current state of its business operations, its current business plan, and current industry and economic conditions, and is subject to revisions due to a variety of factors including without limitation, additional expenses related to marketing and distribution, regulatory licensing and research and development, and to reallocation among categories and to new categories. The Company may need to supplement its funding sources from time to time.

Neoprobe Europe AB is a wholly-owned subsidiary of the Company, located in Lund, Sweden, where it operates a biologics manufacturing and purification facility. The Company uses the facility to prepare the CC49 monoclonal antibody produced by Bio-Intermediar BV for final radiolabeling. The Company advanced funds to Neoprobe Europe during the first quarter of 1998 to cover operating and capital expenditures of approximately \$416,000. The Company anticipates advancing an additional \$800,000 during the remainder of 1998 to cover operating and capital expenditures.

In 1994, the Company formed Neoprobe (Israel) Ltd. ("Neoprobe (Israel)") to construct and operate a radiolabeling facility near Dimona, Israel, for radiolabeling of the Company's targeting agents. The Company owns 95 percent of Neoprobe (Israel), with Rotem Industries Ltd. ("Rotem"), the private arm of the Israeli atomic energy authority owning the balance and managing the facility. Construction of the facility is being financed through a financial program approved by the state of Israel's Finance Committee (the "Committee"). The total amount of the approved program is \$9.9 million. Neoprobe (Israel) is entitled to receive grants based on a percentage of its investment and a government guarantee of 75% to 85% of the principal balance of bank loans taken to build and operate the facility. During the first quarter of 1998, the Company received loan proceeds of approximately \$2.4 million under the government sponsored program. The Company expects to receive an additional \$1.0 million in loan and grant proceeds under the approved program during 1998. The Company does not anticipate advancing any significant amount of funds to Neoprobe (Israel) during 1998.

At December 31, 1997, the Company had U.S. net operating tax loss carryforwards of approximately \$75.8 million to offset future taxable income through 2012. Additionally, the Company has U.S. tax credit carryforwards of approximately \$2.2 million available to reduce future income tax liability through 2012. Under Section 382 of the Internal Revenue Code of 1986, as amended, use of prior tax loss carryforwards is limited after an ownership change. As a result of ownership changes which occurred in March 1989 and in September 1994, the Company's tax loss carryforwards and tax credit carryforwards are subject to the limitations described by Section 382. The Company's international subsidiaries also have net operating tax loss carryforwards in their respective foreign jurisdictions.

The Company has performed a preliminary assessment of the year 2000 issue as it relates to the Company's information systems and vendor supplied application software. Based on these assessments, management does not anticipate any significant impact on the Company as a result of implications associated with that issue.

## RESULTS OF OPERATIONS

Since inception, the Company has dedicated substantially all of its resources to research and development of its RIGS system for the intraoperative diagnosis and treatment of cancer. Until the appropriate regulatory approvals are received, the Company is limited in its ability to generate revenue. During the first quarter of 1998, the Company generated sales of Neoprobe 1500 systems of \$864,000. Results of operations for the first quarter of 1998 include approximately \$800,000 in reorganization costs associated with the adoption of the Company's new business plan.

Three Months ended March 31, 1998, and 1997.

### Revenue and Other Income

The Company had net sales of approximately \$864,000 during the first quarter of 1998, compared to \$1.1 million during the same period in 1997. Net sales in 1998 were composed almost entirely of instrument sales. In March 1998, the Company introduced a smaller (14mm diameter) detection probe whose performance has been



optimized for use in lymphatic mapping procedures. In 1997, net sales included instrument sales of \$1.0 million and blood serology products of \$100,000. Instrument sales in 1997 reflect the impact of the Company's marketing arrangement with the United States Surgical Corporation which was terminated in October 1997. Sales of serology products at Neoprobe Europe continued to decrease as a result of the Company's efforts to develop the long-term production capacity for targeting agents. Other income during the first quarter of 1998 and 1997 was \$224,000 and \$584,000, respectively, and represented primarily interest income earned during both periods.

#### Research and Development Expenses

Research and development expenses increased during the first quarter of 1998 to \$5.2 million from \$3.5 million for the same period in 1997. The increase reflects the Company's efforts to develop and produce the Company's next generation of devices for the gamma guided surgery business. The increase also reflects severance and other costs incurred during the first quarter associated with the Company's reorganization in February. Clinical trial activity decreased during the first quarter of 1998, compared to the same period in 1997, and was primarily related to the development of activated cellular therapy technology.

#### Marketing and Selling Expenses

During the first quarter of 1998, marketing and selling expenses increased by \$239,000 over the same period in 1997. The increase in marketing expenses during the first quarter of 1998, as compared to the same period in 1997, relates to an increased marketing effort to meet competitive pressure and further penetrate the lymphatic mapping market as well as to continue to support the anticipated launch of the Company's first RIGS(R) product. The increased expenses were the result of a greater number of sales and marketing personnel in 1998, coupled with relative increases in travel and entertainment as well as promotional costs associated with the launch of new products.

#### General and Administrative Expenses

General and administrative expenses were \$1.6 million for both the first quarter of 1998 and the same period in 1997. Additional costs related to the February reorganization were offset by an overall lower headcount during the first quarter of 1998 than the same period in 1997.

### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not applicable.

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## PART II - OTHER INFORMATION

### ITEM 1. LEGAL PROCEEDINGS.

None.

### ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS.

None.

### ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

None.

### ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

None.

### ITEM 5. OTHER INFORMATION.

None.

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

A. LIST OF EXHIBITS

3. ARTICLES OF INCORPORATION AND BY-LAWS

Exhibit 3.1

Complete Restated Certificate of Incorporation of Neoprobe Corporation, as corrected February 18, 1994, and as amended June 27, 1994, July 25, 1995, and June 3, 1996 (incorporated by reference to Exhibit 99.2 to the Registrant's Current Report on Form 8-K dated June 20, 1996; Commission File No. 0-26520).

Exhibit 3.2

Amended and Restated By-Laws dated July 21, 1993, as amended July 18, 1995, and May 30, 1996 (incorporated by reference to Exhibit 99.4 to the June 1996 Form 8-K).

4. INSTRUMENTS DEFINING THE RIGHTS OF HOLDERS, INCLUDING INDENTURES

Exhibit 4.1

See Articles FOUR, FIVE, SIX and SEVEN of the Restated Certificate of Incorporation of the Registrant (see Exhibit 3.1).

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Exhibit 4.2

See Articles II and VI and Section 2 of Article III and Section 4 of Article VII of the Amended and Restated By-Laws of the Registrant (see Exhibit 3.2).

Exhibit 4.3

Rights Agreement dated as of July 18, 1995 between the Registrant and Continental Stock Transfer & Trust Company (incorporated by reference to Exhibit 1 of the registration statement on Form 8-A; Commission File No. 0-26520).

EXHIBIT 10. MATERIAL CONTRACTS.

Exhibit 10.2.42

Severance Agreement dated October 9, 1997 between the Registrant and Larry Anderson.

Exhibit 10.2.43

Agreement, Release, and Waiver dated February 23, 1998 between the Registrant and Dr. William Eisenhardt.

11. STATEMENT REGARDING COMPUTATION OF PER SHARE EARNINGS.

Exhibit 11.1

Computation of Net Loss Per Share (basic and diluted).

27. FINANCIAL DATA SCHEDULE.

Exhibit 27.1

Financial Data Schedule (submitted electronically for SEC information only).

B. REPORTS ON FORM 8-K.

No current report on Form 8-K was filed by the Registrant during the first quarter of fiscal 1998.

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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  
(Registrant)

By: /s/ David C. Bupp

-----  
President and Chief Executive Officer  
(principal executive officer)

Dated: May 14, 1998

By: /s/ John Schroepfer

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John Schroepfer, Vice President  
Finance & Administration  
(principal financial and accounting  
officer)

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SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

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NEOPROBE CORPORATION

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FORM 10-Q QUARTERLY REPORT

FOR THE QUARTER ENDED:

MARCH 31, 1998

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EXHIBITS

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Exhibit 4.2

See Articles II and VI and Section 2 of Article III and Section 4 of Article VII of the Amended and Restated By-Laws of the Registrant (see Exhibit 3.2).

Exhibit 4.3

Rights Agreement dated as of July 18, 1995 between the Registrant and Continental Stock Transfer & Trust Company (incorporated by reference to Exhibit 1 of the registration statement on Form 8-A; Commission File No. 0-26520).

Exhibit 10.2.42

Severance Agreement dated October 9, 1997 between the Registrant and Larry Anderson.

Page 16 in the manually signed original.

Exhibit 10.2.43

Agreement, Release, and Waiver dated February 23, 1998 between the Registrant and Dr. William Eisenhardt.

Page 22 in the manually signed original.

Exhibit 11.1

Computation of Net Loss Per Share.

Page 29 in the manually signed original.

Exhibit 27.1

Financial Data Schedule (submitted electronically for SEC information only).

SEVERANCE AGREEMENT  
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THIS AGREEMENT, effective on the last date executed below, is entered into between NEOPROBE CORPORATION, 425 Metro Place North, Dublin, Ohio, on behalf of itself, its officers, directors, shareholders, employees and agents (in their individual and representative capacities), and its parent, affiliated, predecessor, successor, subsidiary and other related companies, and each of them, jointly and severally (herein singularly and collectively called the "Company"), and LARRY E. ANDERSON, 4957 Chaddington Drive, Dublin, Ohio, on behalf of himself and his heirs, executors, guardians, administrators, successors and assigns, and each of them, jointly and severally (herein singularly and collectively called "Anderson"), who agree to be bound by all of the terms and conditions hereof.

WHEREAS, the Parties desire to fully and completely settle and dispose of any and all claims of whatever kind or nature which Anderson ever had, may now have or may hereafter have against the Company, whether known or unknown, the Parties hereto agree as follows:

1. The Company agrees to pay Anderson the sum of Forty-One Thousand Two Hundred Fifty Dollars (\$41,250.00), which represents any and all backpay, severance pay, front pay, wages, vacation pay, benefits, attorneys' fees, costs, interest, damages (whether compensatory, exemplary, punitive or otherwise) and other monies to which Anderson may now or may hereafter be entitled from the Company, except as otherwise specifically set forth in Paragraphs 2 through 5 of this Agreement. The amount being paid hereunder shall be subject to deduction for the applicable federal, state and local social security, wage, withholding and similar taxes. The amount being paid hereunder shall be paid in six (6) semi-monthly installments, of Six Thousand Eight Hundred Seventy-Five Dollars (\$6,875.00) each, in accordance with the Company's regular payroll practices, commencing on or after the tenth (10th) day following Anderson's execution of this Agreement.

2. Anderson acknowledges receipt of notice of his right to elect continued health care coverage in accordance with the provisions of the federal Consolidated Omnibus Budget & Reconciliation Act, as amended ("COBRA"). In the event that Anderson exercises his COBRA right to continue coverage under the Company's group health insurance policy, the Company agrees to pay the premiums for such coverage through December 31, 1997. Thereafter, if Anderson wishes to continue such coverage for the remainder of the fifteen (15) month COBRA period, he must do so at his own expense.

3. The Company agrees that Anderson shall receive all monies to which he is entitled under the Neoprobe, Inc. 401(k) Plan in accordance with the terms thereof.

4. Anderson's coverage under the Company's disability, travel and life insurance plans shall terminate as of October 10, 1997, and he may have the right to convert such coverage to his own individual plan if provided for under, and in accordance with, the terms of, such plans.

5. The Company agrees not to contest any claim for unemployment benefits which Anderson might file as a result of his separation from the Company on October 10, 1997. However, the Company expressly waives any commitment that it is warranting or guaranteeing Anderson's receipt of such unemployment benefits inasmuch as that determination is solely within the province of the Ohio Bureau of Employment Services.

6. Anderson waives any and all rights to reinstatement or to future employment with the Company, which he ever had, may now have or may hereafter have, whether known or unknown to Anderson at the time of execution of this Agreement. Anderson further agrees not to apply for employment or reemployment with the Company.

7. Anderson waives any and all rights to participation in any Company benefit plan which he ever had, may now have or may hereafter have, whether known or unknown to Anderson at the time of execution of this Agreement, with the exception of those benefits provided in Paragraphs 2 through 5 of this

Agreement.

8. Anderson agrees not to file any charges, claims, suits, complaints or grievances against the Company with any federal, state or local governmental agency, or in any court of law, with respect to any aspect of his employment by, or separation of employment from, the Company, or with respect to any other matter whatsoever, whether known or unknown to Anderson at the time of execution of this Agreement, with the exception of any claim that the Company breached its commitments under Paragraphs 1 through 5 of this Agreement.

9. Anderson acquits, releases and forever discharges the Company of and from all, and in all manner of, actions and causes of action, suits, debts, claims and demands whatsoever, in law or in equity, which he ever had, may now have or may hereafter have with respect to any aspect of his employment by, or separation of employment from, the Company, or with respect to any other matter whatsoever, whether known or unknown to Anderson at the time of execution of this Agreement, with the exception of any claim that the Company breached its commitments under Paragraphs 1 through 5 of this Agreement.

10. Anderson's covenants and releases, as set forth in this Agreement, include a waiver of any and all rights or remedies which he ever had, may now have or may hereafter have against the Company in tort or in contract, or under any present or future federal, state or local statute or law, including, but not limited to, Ohio's Laws Against Discrimination, O.R.C. Chapter 4112; Title VII of the 1964 Civil Rights Act, 42 U.S.C. Section 2000e, et seq.; the 1866 Civil Rights Act, 42 U.S.C. Section 1981; the Civil Rights Act of 1991, PL. 102-166; the 1967 Age Discrimination in Employment Act, 29 U.S.C. Section 621, et seq.; the Americans with Disabilities Act, 42 U.S.C. Section 12101, et seq.; the Fair Labor Standards Act of 1938, 29 U.S.C. Section 201, et seq.; the Equal Pay Act, 29 U.S.C. Section 206(d); the Family and Medical Leave Act of 1993, 29 U.S.C. Section 2601, et seq.; the Occupational Safety and Health Act of 1970, 29 U.S.C. Section 553, et seq.; the Employee Retirement Income Security Act of 1974, 29 U.S.C. Section 1001, et seq.; the Consolidated Omnibus Budget Reconciliation Act of 1986, 29 U.S.C. Section 1161, et seq.; Ohio's Workers' Compensation Law; and any statutory amendments.

11. Anderson intends that this Agreement shall bar each and every claim, demand and cause of action hereinabove specified, whether known or unknown to him at the time of execution of this Agreement. As a result, Anderson acknowledges that he might, in the future, discover claims or facts in addition to or different from those which he now knows or believes to exist with respect to the subject matters of this Agreement and which, if known or suspected at the time of executing this Agreement, may have materially affected this settlement. Nevertheless, Anderson hereby waives any right, claim, or cause of action that might arise as a result of such different or additional claims or facts.

12. By entering into this Agreement, the Company does not admit to the breach of any contractual or other promises to Anderson, and does not admit to the violation of any federal, state, local or other statute or law, including, but not limited to, those laws referred to in Paragraph 10 of this Agreement, and any claimed breaches or violations are hereby specifically denied.

13. Anderson agrees that, immediately upon execution of this Agreement by all Parties hereto, he will return to the Company all Company credit cards, keys, customer lists and records, policy and procedure manuals, price lists, business contracts and other documents and information belonging to the Company.

14. Anderson recognizes that the Company possesses certain business and financial information about its operations, information about new or envisioned products or services, manufacturing methods, product research, product specifications, records, plans, prices, costs, customer lists, concepts and ideas, and is the owner of proprietary rights in certain systems, methods, processes, procedures, technical and non-technical information, inventions, machinery, research and other things which constitute valuable trade secrets of the Company. Anderson acknowledges that he has been employed in positions in which he has had access to such information and that the Company has a legitimate interest in protecting such confidential and proprietary information in order to maintain and enhance a competitive edge within its industry. Accordingly, Anderson agrees that he will not use or remove, duplicate or disclose, directly or indirectly, to any persons or entities outside the Company any information, property, trade secrets or other things of value which have not been publicly disclosed. In the event that Anderson is requested or required in a judicial, administrative or governmental proceeding to disclose any information that is the subject matter of this Paragraph 14, he will provide the

Company with prompt written notice of such request and all related proceedings so that the Company may seek an appropriate protective order or remedy or, as soon as practicable, waive Anderson's compliance with the provisions of this Paragraph 14. Anderson recognizes that the remedy at law for any breach by him of this Paragraph 14 will be inadequate and that the damages flowing from such breach are not readily susceptible to being measured in monetary terms. Accordingly, upon proof of Anderson's violation of any legally enforceable provision of this Paragraph 14, the Company shall be entitled to immediate injunctive relief and may obtain a temporary order restraining any threatened or further breach. Nothing in this Agreement shall be deemed to limit the remedies at law or in equity

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available to the Company for any breach by Anderson of this Paragraph 14. Anderson has carefully considered the nature and extent of the restrictions upon him and the rights and remedies conferred upon the Company under this Paragraph 14, and hereby agrees that the same are reasonably designed to eliminate competition which otherwise would be unfair to the Company, do not stifle the inherent skill and experience of Anderson, would not operate as a bar to his sole means of support, are fully required to protect the legitimate interests of the Company and do not confer a benefit upon the Company disproportionate to the detriment to Anderson.

15. Anderson agrees that he will not, directly or indirectly, and without the Company's prior written consent, voluntarily provide information, documents or testimony to any governmental agency, entity or person (except his counsel and immediate family) regarding: (a) Anderson's employment with, or termination of employment from, the Company (except in connection with Anderson's application for employment with another employer, or his application for any insurance, retirement, disability or unemployment benefits); (b) any other person's employment with, or termination of employment from, the Company; or (c) any information or documents concerning the Company. In the event that a subpoena or other lawful process is properly served upon Anderson requiring production or disclosure of information or documents concerning the foregoing matters, Anderson shall promptly notify the Company's human resources department, in writing, and provide it with copies of any subpoena or other process served upon him. Anderson shall thereafter make such documents available to the Company for inspection and copying at a reasonable time and place designated by the Company prior to their production. In the event that the subpoena or other process requires testimony or statements from Anderson, Anderson agrees to meet, telephonically or in person, with attorneys or agents designated by the Company, at a time and place designated by the Company and prior to the testimony, for the purpose of discussing such testimony. Nothing herein shall give the Company the right to control or dictate the content of any testimony given by Anderson, or any documents produced by him, pursuant to subpoena or other lawful process. It is understood that Anderson shall provide all information lawfully required of him. In the event that the Company requires any information or testimony from Anderson in connection with any claim made against the Company, or any claims made by the Company against persons or entities not party to this Agreement, Anderson agrees to cooperate fully with the Company, including: (a) appearing at any trial, hearing, deposition or arbitration; (b) meeting telephonically or in person with attorneys or agents designated by the Company, at a time and place designated by the Company and prior to the testimony, for the purpose of discussing such testimony and any other matters relating to the claim; and (c) providing the Company with any documentation in Anderson's custody or control. The Company agrees to pay Anderson for any reasonable travel, telephone, photocopy and other out-of-pocket expenses incurred as a result of any requests made of him by the Company under this Paragraph 15. The provisions of this Paragraph 15 shall not apply to any action brought under this Agreement.

16. Anderson agrees that no later than October 30, 1997, he shall meet with a

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representative of the Company's human resources department for the purpose of making an accounting of all business expenses related to his employment with the Company, in accordance with the Company's expense reimbursement policy and practices, for which Anderson claims reimbursement from the Company. In the event that Anderson has incurred such expenses for which he was not already reimbursed by the Company, the Company shall reimburse Anderson for the same. If the amount of any travel advances or reimbursements made to Anderson by the Company exceeds the amount of his business expenses (as herein defined), the

difference shall be deducted by the Company from amounts owing to Anderson under Paragraph 1 of this Agreement. As part of such accounting, Anderson shall also provide the Company with proof, by way of copies of cancelled checks, that he has paid all of his bills on his Corporate American Express Card. If any bills have not been paid in full, the amount owing to American Express shall be deducted by the Company from amounts owing to Anderson under Paragraph 1 of this Agreement and the Company shall thereafter be responsible for paying such amounts owed to American Express.

17. Anderson agrees that he will not reveal the existence of this Agreement, nor any terms thereof, to any person, entity, or organization, except to his immediate family, to his attorney, or as may be required by law.

18. In the event that Anderson, or any person, entity or organization, breaches any of his promises made in this Agreement, and the Company defends or pursues any charge, suit, complaint, claim or grievance as a result thereof, Anderson shall be liable to the Company for all damages, attorneys' fees, expenses and costs (including discovery costs) incurred by it in defending or pursuing the same.

19. The Parties agree that this Agreement shall be construed in accordance with Ohio law, and that any action brought by any party hereunder may be instituted and maintained only in the appropriate court having jurisdiction over Franklin County, Ohio.

20. Anderson acknowledges that he has been advised of his right to have at least twenty-one (21) days within which to review and consider this Agreement, and has been advised of his right to consult with legal counsel with respect thereto. Anderson further acknowledges that he has entered into this Agreement voluntarily and of his own free will. Anderson acknowledges his right to revoke this Agreement within seven (7) days following his execution hereof, by giving written notice thereof to the Company. In the event of such revocation, this Agreement shall become null and void, and no party hereto shall have any rights or obligations hereunder.

21. The Parties agree that the foregoing constitutes the entire agreement among them, and that there exist no other agreements, oral or written, express or implied, relating to any matters covered by this Agreement, or relating to any other matter whatsoever, whether or not within the knowledge or contemplation of either of the Parties at the time of execution of this Agreement. This Agreement may only be changed in writing signed by both Parties hereto.

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WHEREFORE, the Parties have read all of the foregoing, understand the same, and agree to all of the provisions contained herein.

NEOPROBE CORPORATION

LARRY ANDERSON

By: /s/ David Bupp

By: /s/ Larry Anderson

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David Bupp, President

-----  
Larry Anderson

Dated: October 9, 1997

Dated: October 9, 1997

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AGREEMENT, RELEASE AND WAIVER  
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NOTICE: YOU ARE ADVISED TO CONSULT WITH AN ATTORNEY PRIOR TO EXECUTING THIS AGREEMENT.

This Agreement, Release and Waiver (the "Agreement") is a contract between the undersigned employee ("you") who is being involuntarily separated from employment on February 16, 1998 and your employer, Neoprobe Corporation ("Neoprobe").

1. BENEFITS. In consideration for signing this Agreement, Release and Waiver, you will receive the following benefits (the "Severance Benefits").
  - A. Neoprobe agrees to pay you your regular salary, in the gross amount of Three Thousand Six Hundred Forty-Five Dollars and Eighty-Three Cents (\$3,645) per week, for a period of twenty-four (24) weeks, in accordance with Neoprobe's regular payroll practices. Such payments shall commence on the first pay day after seven (7) days have elapsed following your execution of this Agreement.
  - B. Neoprobe agrees to pay you the gross amount of Fourteen Thousand Five Hundred Eighty Three Dollars (\$14,583.00), which represents all accrued but unused vacation pay owed to you. Such payment shall be made in a lump sum on the first pay day after seven (7) days have elapsed following your execution of this Agreement.
  - C. Neoprobe agrees to engage Drake, Beam, Morin ("DBM") to provide outplacement services to you to assist you in securing other employment. However, Neoprobe's obligation hereunder shall be limited to the payment of DBM's fees for such services, as agreed upon between Neoprobe and DBM. Neoprobe shall not be considered as a guarantor nor as warranting the results of the services provided, and you agree to hold Neoprobe harmless from, and waive any claims against Neoprobe, in connection with the services provided to you by DBM.
2. COBRA. You acknowledge receipt of notice of your right to elect continued health care coverage in accordance with the provisions of the federal Consolidated Omnibus Budget & Reconciliation Act, as amended. amended ("COBRA"). In the event that you exercise your COBRA right to continue coverage under Neoprobe's group health insurance policy, Neoprobe agrees to pay the premiums for such coverage through August 31, 1998. Thereafter, if you wish to continue such coverage for the remainder of the twelve (12) month COBRA period, you must do so at your own expense.
3. 401(K) PLAN. You shall receive all monies to which you are entitled under Neoprobe's 401(k) Plan in accordance with the terms thereof.
4. UNEMPLOYMENT BENEFITS. Neoprobe agrees not to contest any claim for unemployment benefits which you might file as a result of your separation from Neoprobe on February 16, 1998. However, Neoprobe expressly waives any commitment that it is warranting or guaranteeing your receipt of such unemployment benefits inasmuch as that determination is solely within the province of the Ohio Bureau of Employment Services.
5. LETTER OF REFERENCE. Neoprobe agrees to provide you with a letter of reference in the form of the draft letter attached hereto as Exhibit A.
6. STOCK OPTIONS. Neoprobe agrees that you shall be eligible to exercise any stock options to which you may be entitled under the Neoprobe Stock Purchase Plan in accordance with the terms thereof.
7. INSURANCE. Your coverage under Neoprobe's disability insurance plan

shall terminate as of February 17, 1998, and you may have the right to convert such coverage to your own individual plan if provided for under, and in accordance with, the terms of, such plan. Your coverage under Neoprobe's life insurance plan shall continue for the period set forth in Section 1(A) hereinabove, and you may have the right to convert such coverage to your own individual plan if provided for under, and in accordance with, the terms of, such plan.

8. **WAIVER OF RIGHT TO NEOPROBE BENEFITS.** You waive any and all rights to participation in any Neoprobe benefit plan which you ever had, may now have or may hereafter have, whether known or unknown to you at the time of execution of this Agreement, with the exception of those benefits provided in this Agreement.
9. **RELEASE.** In consideration for the Severance Benefits specified in Section 1 above, you hereby release and discharge Neoprobe Corporation, its subsidiaries, affiliates, successors and assigns and their respective directors, officers, employees and agents (hereinafter collectively referred to as "Releasees"), both individually and in their official capacity, from all claims, actions and causes of action of any kind, which you, or your agents, executors, heirs, or assigns ever had, now have, or may have, whether known or unknown, as a result of your employment by or termination of employment from Neoprobe. This release includes, but is not limited to, the following: any action or cause of action asserted or which could have been asserted under Ohio's Laws Against Discrimination, O.R.C. Chapter 4112; Title VII of the 1964 Civil Rights Act, 42 U.S.C. Section 2000e, et seq.; the 1866 Civil Rights Act, 42 U.S.C. Section 1981; the Civil Rights Act of 1991, PL. 102-166; the 1967 Age Discrimination in Employment Act, 29 U.S.C. Section 621, et seq.; the Americans with Disabilities Act, 42 U.S.C. Section 12101, et seq.; the Fair Labor Standards Act of 1938, 29 U.S.C. Section 201, et seq.; the Equal Pay Act, 29 U.S.C. Section 206(d); the Family and Medical Leave Act of 1993, 29 U.S.C. Section 2601, et seq.; the Occupational Safety and Health Act of 1970, 29 U.S.C. Section 553, et seq.; the Employee Retirement Income Security Act of 1974, 29 U.S.C. Section 1001, et seq.; the Consolidated Omnibus Budget Reconciliation Act of 1986, 29 U.S.C. Section 1161, et seq.; Ohio's Workers' Compensation

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Law; any claims for wrongful discharge, unjust dismissal, or constructive discharge; any claims for breach of any alleged oral, written or implied contract of employment; any claims for emotional distress or other torts; any claims for salary, severance payments, bonuses or other compensation of any kind; any claims for benefits; claims for libel, slander defamation and attorneys' fees; and any other claims under federal, state, or local statute, law, rule or regulation.

**BY SIGNING THIS AGREEMENT, YOU GIVE UP ANY RIGHT YOU MAY HAVE TO BRING A LAWSUIT OR RECEIVE A RECOVERY ON ANY CLAIM AGAINST NEOPROBE AND THOSE ASSOCIATED WITH NEOPROBE BASED ON ANY ACTIONS, FAILURES TO ACT, STATEMENTS, OR EVENTS OCCURRING PRIOR TO THE DATE OF THIS AGREEMENT, INCLUDING CLAIMS THAT IN ANY WAY ARISE FROM OR RELATE TO YOUR EMPLOYMENT WITH NEOPROBE OR THE TERMINATION OF THAT EMPLOYMENT, WITH THE EXCEPTION OF ANY CLAIM THAT NEOPROBE BREACHED ITS COMMITMENTS UNDER THIS AGREEMENT.**

10. **FUTURE RELATIONSHIP WITH NEOPROBE.** In further consideration of the Severance Benefits, you agree to waive reinstatement of employment and/or future employment with Neoprobe, and agree not to apply for, solicit, seek or otherwise attempt to obtain employment with Neoprobe without first obtaining written authorization from the office of Neoprobe's Director, Human Resources. You further agree that should any such employment application be made by you to Neoprobe without first obtaining such written authorization, Neoprobe shall have no obligation to process that application or to hire you, and the failure to process that application or to hire you shall not constitute a violation any state, federal or local law, order, regulation or common law doctrine.
11. **NO FUTURE LAWSUITS.** In addition to all other obligations you may have under the terms of this Agreement, you also separately and independently covenant and agree that you will not sue Releasees upon any of the claims that you have released in Section 9 of this

Agreement, and/or upon a claim arising out of any employment application which you may make in violation of Section 10 of this Agreement. You further agree not to assist any other person or entity in bringing any lawsuit against Neoprobe in any state or federal court unless such restriction is prohibited by law.

12. NOTICE FOR IMPACTED EMPLOYEES. You acknowledge that on or prior to February 16, 1998, you received from Neoprobe a list of (a) the job titles and ages of employees from Neoprobe who were selected involuntarily for separation from Neoprobe on February 16, 1998; and (b) the job titles and ages of employees who were not selected for separation (hereafter such list shall collectively be referred to as the "Notice for Impacted Employees").
13. CONFIDENTIALITY OF NOTICE. You agree that the contents of the Notice for Impacted

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Employees shall be kept confidential and shall not be disclosed to any person or entity, except to your attorney, legal advisor or spouse or except as required by law.

14. COOPERATION. You understand that following your termination of employment, Neoprobe may need your continued cooperation and involvement with various pieces of litigation and other legal matters which are pending at such time or which may arise thereafter. In further consideration of Severance Benefits, you agree at Neoprobe's request from time to time, to cooperate with Neoprobe in its efforts to defend and/or pursue any such litigation or other legal matters. You will provide this assistance to Neoprobe at no additional remuneration beyond the Severance Benefits. When performing these services at Neoprobe's request, except where prohibited by law, Neoprobe will reimburse you for reasonable travel, lodging and lost income that you incur upon submission of documented expenses acceptable to Neoprobe. By way of illustration and not by way of limitation, the types of services that may be requested of you under this Section 14 include: attending strategy sessions, attending preparations for trial, appearing at depositions, executing affidavits and testifying at trials.
15. RETURN OF NEOPROBE PROPERTY. Whether or not you sign this Agreement, you, as a terminating employee, are reminded that you must return to Neoprobe, (i) all Neoprobe documents, and other tangible items, and any copies, that are in your possession or control and which contain confidential information in written, magnetic or other form and shall have not given such documents, items, or copies to anyone other than another Neoprobe employee; and (ii) all other Neoprobe property within your possession including, but not limited to, office keys, identification badges or passes, Neoprobe credit cards, and computer equipment and software.
16. NEOPROBE EMPLOYEES' AGREEMENT. Whether or not you sign this Agreement, you, as a terminating employee, are reminded that the Neoprobe Employees' Agreement (the "Employee's Agreement") entered into between Neoprobe and yourself remains in full force and effect after termination of your employment. Under the Employees' Agreement, you have a continuing obligation to maintain the confidentiality of all confidential, proprietary and trade secret information which you obtained during your employment with Neoprobe.
17. DUTY OF CONFIDENTIALITY. You recognize that Neoprobe possesses certain business and financial information about its operations, information about new or envisioned products or services, manufacturing methods, product research, product specifications, records, plans, prices, costs, customer lists, concepts and ideas, and is the owner of proprietary rights in certain systems, methods, processes, procedures, technical and non-technical information, inventions, machinery, research and other things which constitute valuable trade secrets of Neoprobe. You acknowledge that you have been employed in positions in which you have had access to such information and that Neoprobe has a legitimate interest in protecting such confidential and proprietary information in order to maintain

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and enhance a competitive edge within its industry. Accordingly, you agree that you will not use or remove, duplicate or disclose, directly or indirectly, to any persons or entities outside Neoprobe any information, property, trade secrets or other things of value which have not been publicly disclosed. In the event that you are requested or required in a judicial, administrative or governmental proceeding to disclose any information that is the subject matter of this Section 17, you will provide Neoprobe with prompt written notice of such request and all related proceedings so that Neoprobe may seek an appropriate protective order or remedy or, as soon as practicable, waive your compliance with the provisions of this Section 17. You acknowledge that you have carefully considered the nature and extent of the restrictions upon you and the rights and remedies conferred under Neoprobe under this Section 17 and hereby agree that the same are reasonably designed to eliminate competition which otherwise would be unfair to Neoprobe, do not stifle the inherent skill and experience of you, would not operate as a bar to your sole means of support, are fully required to protect the legitimate interests of Neoprobe and do not confer a benefit upon Neoprobe disproportionate to the detriment of you.

18. **BREACH.** You agree that if you violate any part of this Agreement or your Employees' Agreement, you will not be entitled to the Severance Benefits described in Section 1. You further agree that any breach or threatened breach by you of this Agreement cannot be remedied solely by the recovery of damages and Neoprobe shall therefore be entitled to an injunction against such breach or threatened breach without posting any bond or other security. Nothing herein, however, shall be construed as prohibiting Neoprobe from pursuing all its available rights, in law or equity for such breach or threatened breach, including the recovery of damages. In the event that you breach any of the promises made in this Agreement, and Neoprobe defends or pursues any charge, suit, complaint, claim or grievance as a result thereof, you shall be liable to Neoprobe for all damages, attorneys' fees, expenses and costs (including discovery costs) incurred by Neoprobe in defending or pursuing the same.
19. **DISCLOSURE OF NEOPROBE INFORMATION PURSUANT TO LEGAL PROCESS.** You agree that you will not, directly or indirectly, and without Neoprobe's prior written consent, voluntarily provide information, documents or testimony to any governmental agency, entity or person (except to your legal counsel and immediate family) regarding: (a) your employment with, or termination of employment from, Neoprobe (except in connection with your application for employment with another employer, or your application for any insurance, retirement, disability or unemployment benefits); (b) any other person's employment with, or termination of employment from, Neoprobe; or (c) any information or documents concerning Neoprobe. In the event that a subpoena or other lawful process is properly served upon you requiring production or disclosure of information or documents concerning the foregoing matters, you shall promptly notify Neoprobe's Human Resources department, in writing, and provide it with copies of any subpoena or other process served upon you. In the event that the subpoena or other process requires

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testimony or statements from you, you agree to meet, telephonically or in person, with attorneys or agents designated by Neoprobe, at a time and place designated by Neoprobe and prior to the testimony, for the purpose of discussing such testimony. Nothing herein shall give Neoprobe the right to control or dictate the content of any testimony given by you, or any documents produced by you, pursuant to subpoena or other lawful process. It is understood that you shall provide all information lawfully required of you.

20. **CONFIDENTIALITY OF THIS AGREEMENT.** You agree that you will not reveal the existence of this Agreement, nor any terms thereof, to any person, entity, or organization, except to your immediate family, to your attorney, or as may be required by law.
22. **PERIOD OF REVIEW AND OTHER CONSIDERATIONS**
- A. **DATE OF RECEIPT.** You acknowledge that you received this Agreement on or prior to February 16, 1998.

- B. ATTORNEY CONSULTATION. You acknowledge that you have had the opportunity to consult an attorney of your choice concerning this Agreement, Release and Waiver.
- C. PERIOD OF REVIEW. You acknowledge that you have been given at least 45 days in which to consider signing this Agreement and to review the list of (a) the job titles and ages of employees who were selected for this separation program; and (b) the job titles and ages of employees who were not selected for this separation program. In the event you execute this Agreement within less than 45 days of the date of its delivery to you, you acknowledge that such decision was entirely voluntary and that you have had the opportunity to consider this Agreement for the entire 45 day period but decided to waive that opportunity.
- D. ENTIRE AGREEMENT. This Agreement, Release and Waiver, sets forth the entire agreement between Neoprobe and yourself and supersedes and renders null and void any and all prior or contemporaneous oral or written understandings, statements, representations or promises. This Agreement does not, however, supersede the Employees' Agreement which remains in full force and effect.
- E. GOVERNING LAW. This Agreement shall be construed and governed by the laws of the State of Ohio and adjudicated within the exclusive jurisdiction of the courts having jurisdiction over, Franklin County, Ohio.
- F. REVOCATION OF AGREEMENT, RELEASE AND WAIVER. You understand that you have the right to revoke this Agreement within seven (7) days of your signing it, and that this Agreement shall not become effective or enforceable until this seven (7) day period has expired. To revoke this Agreement, Release and Waiver, you

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agree to notify in writing; Susan S. Gaunce, Director, Human Resources, Neoprobe Corporation, 425 Metro Place North, Suite 300, Dublin, OH 43017. Unless so revoked, this Agreement will be effective at 5:00 p.m. on such seventh day. You agree that if you exercise your right to revoke this Agreement within seven (7) days, your termination of employment will nevertheless occur, you will not be entitled to the Severance Benefits, and you will immediately return to Neoprobe any consideration you have already received.

YOU ACKNOWLEDGE THAT YOU HAVE CAREFULLY READ AND FULLY UNDERSTAND ALL THE PROVISIONS OF THIS AGREEMENT, RELEASE AND WAIVER, AND YOU ARE ENTERING INTO THIS AGREEMENT VOLUNTARILY. YOU ACKNOWLEDGE THAT THE CONSIDERATION YOU ARE RECEIVING IN EXCHANGE FOR EXECUTING THIS AGREEMENT IS GREATER THAN THAT WHICH YOU WOULD BE ENTITLED TO IN THE ABSENCE OF THIS AGREEMENT. YOU HAVE NOT RELIED UPON ANY REPRESENTATION OR STATEMENT, WRITTEN OR ORAL, NOT SET FORTH IN THIS AGREEMENT.

WHEREFORE, the parties have read all of the foregoing, understand the same, and agree to all of the provisions contained herein.

NEOPROBE CORPORATION

WILLIAM A. EISENHARDT, Ph.D.

By: /s/ David C. Bupp

By: /s/ William A. Eisenhardt, Ph.D.

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David C. Bupp  
President

Dated: February 23, 1998

Dated: February 23, 1998

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Exhibit 11.1

NEOPROBE CORPORATION AND SUBSIDIARIES  
COMPUTATION OF NET LOSS PER SHARE

	Three Months Ended	
	March 31,	
	1997	1998
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Net Loss	(\$4,725,928)	(\$7,063,612)
Weighted average number of shares outstanding:		
Weighted average common shares		
outstanding beginning of period	22,586,527	22,763,430
Weighted average common shares		
issued during period	65,946	15,847
	-----	
Weighted average number of shares outstanding		
used in computing basic net loss per share	22,652,473	22,779,277
	=====	=====
Weighted average number of shares used in		
computing diluted net loss per share	22,652,473	22,779,277
	=====	=====
Earnings (Net Loss) Per Share:		
Basic	(\$0.21)	(\$0.31)
	=====	=====
Diluted	(\$0.21)	(\$0.31)
	=====	=====

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<ARTICLE> 5

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<PERIOD-TYPE>	3-MOS
<FISCAL-YEAR-END>	DEC-31-1998
<PERIOD-START>	JAN-01-1998
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<SECURITIES>	9,522,165
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<ALLOWANCES>	105,160
<INVENTORY>	1,189,182
<CURRENT-ASSETS>	21,296,065
<PP&E>	14,226,201
<DEPRECIATION>	2,819,054
<TOTAL-ASSETS>	36,059,650
<CURRENT-LIABILITIES>	6,073,940
<BONDS>	4,389,775
<PREFERRED-MANDATORY>	0
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<COMMON>	22,807
<OTHER-SE>	25,573,128
<TOTAL-LIABILITY-AND-EQUITY>	36,059,650
<SALES>	863,891
<TOTAL-REVENUES>	863,891
<CGS>	224,473
<TOTAL-COSTS>	224,473
<OTHER-EXPENSES>	5,226,696
<LOSS-PROVISION>	0
<INTEREST-EXPENSE>	10,623
<INCOME-PRETAX>	(7,063,612)
<INCOME-TAX>	0
<INCOME-CONTINUING>	(7,063,612)
<DISCONTINUED>	0
<EXTRAORDINARY>	0
<CHANGES>	0
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<EPS-PRIMARY>	(0.31)
<EPS-DILUTED>	(0.31)

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