NEOPROBE CORP
Form 10QSB
August 13, 2002

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-QSB

(Mark One)

[X] QUARTERLY REPORT UNDER SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE QUARTERLY PERIOD ENDED: JUNE 30, 2002

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 incorporation or organization)	(I.R.S. employer identification no.)

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

614.793.7500
(Issuer's telephone number)

36,503,183 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 August 1, 2002)

Transitional Small Business Disclosure Format (check one) Yes [ ] No [X]

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

NEOPROBE CORPORATION AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS

ASSETS	JUNE 30, 2002 (UNAUDITED)	DECEMBE 200
Current assets:		
Cash and cash equivalents	$1,003,535	$ 4,
Available-for-sale securities	2,243,765	
Accounts receivable, net	468,143	
Inventory	1,528,170	1,
Prepaid expenses and other	286,751	
Total current assets	5,530,364	6,
Property and equipment	2,372,498	2,
Less accumulated depreciation and amortization	1,716,251	1,
	656,247	
Patents and trademarks	3,196,659	3,
Non-compete agreements	603,880	
Acquired technology	245,131	
	4,045,670	4,
Less accumulated amortization	364,030	
	3,681,640	3,
Other assets	82,308	
Total assets	$9,950,559	$11,

NEOPROBE CORPORATION AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS, CONTINUED

LIABILITIES AND STOCKHOLDERS' EQUITY	JUNE 30, 2002 (UNAUDITED)

Current liabilities:	
Line of credit	$1,000,000
Notes payable to finance company	27,953
Capital lease obligations, current	13,770
Accrued liabilities	971,440
Accounts payable	328,137
Deferred license revenue, current	800,000
Total current liabilities	3,141,300
Capital lease obligations	12,905
Deferred license revenue	1,000,000
Contingent consideration for acquisition	429,574
Other liabilities	146,831
Total liabilities	4,730,610
Commitments and contingencies	
Stockholders' equity:	
Preferred stock; $.001 par value; 5,000,000 shares authorized at June 30, 2002 and December 31, 2001; none issued and outstanding (500,000 shares designated as Series A, $.001 par value, at June 30, 2002 and and December 31, 2001; none outstanding)	-
Common stock; $.001 par value; 50,000,000 shares authorized; 36,502,183 shares issued and outstanding at June 30, 2002; 36,449,067 shares issued and outstanding at December 31, 2001	36,502
Additional paid-in capital	124,600,682
Accumulated deficit	(119,430,696)
Unrealized gain on available-for-sale securities	13,461
Total stockholders' equity	5,219,949
Total liabilities and stockholders' equity	$9,950,559

See accompanying notes to the financial statements

NEOPROBE CORPORATION AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)

THREE MONTHS ENDED

	JUNE 30,		
	2002	2001	20
Revenues:			
Net sales	$ 905,941	$2,079,619	$ 1
License revenue and other	359,442	325,000	
Total revenues	1,265,383	2,404,619	2
Cost of goods sold	706,186	1,442,281	1
Gross profit	559,197	962,338	1
Operating expenses:			
Research and development	697,431	223,162	1
Selling, general and administrative	745,589	593,449	1
Total operating expenses	1,443,020	816,611	2
(Loss) income from operations	(883,823)	145,727	(1,
Other income (expense):			
Interest income	20,386	32,838	
Interest expense	(5,217)	(3,541)	
Other	(2,506)	2,360	
Total other income	12,663	31,657	
Net (loss) income	$(871,160)	$ 177,384	$ (1,
(Loss) income per common share:			
Basic	$ (0.02)	$ 0.01	$
Diluted	$ (0.02)	$ 0.01	$
Weighted average shares:			
Basic	36,023,659	25,895,770	36
Diluted	36,023,659	26,111,063	36

See accompanying notes to the financial statements

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

	SIX MONTHS ENDED JUNE 30, 2002	2001
Cash flows from operating activities:		
Net (loss) income	$(1,716,285)	$
Adjustments to reconcile net (loss) income to net cash used in operating activities:		
Depreciation and amortization	456,743	
Change in operating assets and liabilities:		
Accounts receivable	108,252	
Inventory	(111,681)	(2
Accounts payable	(185,331)	(1
Deferred license revenue	(400,000)	(4
Other assets and liabilities	183,154	
Net cash used in operating activities	(1,665,148)	(
Cash flows from investing activities:		
Purchases of available-for-sale securities	(2,491,361)	
Maturities of available-for-sale securities	250,000	
Purchases of property and equipment	(165,216)	(
Proceeds from sales of property and equipment	-	
Patent and trademark costs	(13,020)	
Subsidiary acquisition costs	(24,028)	
Net cash used in investing activities	(2,443,625)	(
Cash flows from financing activities:		
Proceeds from issuance of common stock, net	-	
Payment of offering costs	(34,631)	
Proceeds from notes payable	1,000,000	
Payment of notes payable	(133,912)	(
Payments under capital leases	(6,250)	
Net cash provided by (used in) financing activities	825,207	(
Net decrease in cash and cash equivalents	(3,283,566)	(1
Cash and cash equivalents, beginning of period	4,287,101	4,
Cash and cash equivalents, end of period	$ 1,003,535	$4,

See accompanying notes to the financial statements

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION

The information presented for June 30, 2002 and 2001, 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, we or 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 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 the Company's audited financial statements for the year ended December 31, 2001, which were included as part of the Company's Annual Report on Form 10-KSB. Certain 2001 amounts have been reclassified to conform with the 2002 presentation (see Note 10).

The consolidated financial statements of the Company include the accounts of the Company and its wholly-owned subsidiary, Cardiosonix Ltd. (Cardiosonix) beginning December 31, 2001 (see also Note 10). All significant inter-company accounts were eliminated in consolidation.

2. COMPREHENSIVE INCOME (LOSS)

Due to the Company's net operating loss position, there are no income tax effects on comprehensive (loss) components for the three-month and six-month periods ended June 30, 2002.

	THREE MONTHS ENDED JUNE 30, 2002	SIX MONTHS ENDED JUNE 30, 2002
Net loss	$ (871,160)	$ (1,716,285)
Unrealized gains on securities	19,829	13,461
Other comprehensive loss	$ (851,331)	$ (1,702,824)

The Company had no accumulated other comprehensive income (loss) activity during the three-month and six-month periods ended June 30, 2002.

3. EARNINGS PER SHARE

Basic earnings per share is calculated using the weighted average number of common shares outstanding during the periods. Diluted earnings 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.

	THREE MONTHS ENDED JUNE 30, 2002		THR J
	BASIC EARNINGS PER SHARE	DILUTED EARNINGS PER SHARE	BASIC EARNINGS PER SHAR

Outstanding shares	36,502,183	36,502,183	26,265,
Effect of weighting changes in outstanding shares	(38,524)	(38,524)	
Contingently issuable shares	(440,000)	(440,000)	(370,0
Stock options	-	-	
Adjusted shares	36,023,659	36,023,659	25,895,

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	SIX MONTHS ENDED JUNE 30, 2002		S
	BASIC EARNINGS PER SHARE	DILUTED EARNINGS PER SHARE	BASIC EARNINGS PER SHAR
Outstanding shares	36,502,183	36,502,183	26,265,
Effect of weighting changes in outstanding shares	(45,780)	(45,780)	(4
Contingently issuable shares	(440,000)	(440,000)	(370,0
Stock options	-	-	
Adjusted shares	36,016,403	36,016,403	25,895,

The following table summarizes options to purchase common stock of the Company which were outstanding during the three-month and six-month periods ended June 30, 2001, but which were not included in the computation of diluted income per share because their effect was anti-dilutive.

THREE MONTHS ENDED JUNE 30, 2001		SIX MONTHS ENDED JUNE 30, 2001	
EXERCISE PRICE	OPTIONS OUTSTANDING	EXERCISE PRICE	OP OUTS
$0.60 - $1.25	407,000	$0.60 - $ 1.25	
$1.50 - $2.50	227,373	$1.50 - $2.50	
$3.25 - $6.00	269,700	$3.25 - $6.00	
$13.38 - $15.75	92,500	$13.38 - $15.75	
	996,573		

There is no difference in basic and diluted earnings per share for the Company related to the three-month and six-month periods ended June 30, 2002. The net loss per common share for this period excludes the number of common shares issuable upon exercise of outstanding stock options and warrants into the Company's common stock since such inclusion would be anti-dilutive.

4. INVENTORY

The components of inventory are as follows:

	JUNE 30, 2002	DECEMBER 31, 2001
Materials and component parts	$ 818,440	$ 807,393
Work in process	25,178	-
Finished goods	684,552	623,515
	$ 1,528,170	$ 1,430,908

5. LINE OF CREDIT

During February 2002, the Company entered into a line of credit facility with an investment management company. The facility provides for a maximum line of credit of $2.0 million and is fully collateralized by pledged cash and investments on deposit with the investment management company. Availability under the facility is based on advance rates varying from 80% to 92% of the underlying available collateral. Outstanding amounts under the facility bear interest at LIBOR plus

175 basis points. The facility expires in February 2007. There was $1.0 million outstanding under the line of credit as of June 30, 2002.

6. INCOME TAXES

For the six months ended June 30, 2001, the reversal of certain temporary differences related to accrued expenses and deferred revenue resulted in the generation of a loss for income tax purposes. As a result, no income tax expense is reflected in the statement of operations for the six months ended June 30, 2001. All of the Company's net deferred tax assets have been fully offset by a valuation allowance.

7. STOCK OPTIONS

During the first half of 2002, the Board of Directors granted options to employees and certain directors of the Company to purchase 905,000 shares of common stock, exercisable at an average price of $0.42 per share, vesting over three years. As of June 30, 2002, the Company has 2.8 million options outstanding under three stock option plans. Of the outstanding options, 1.1 million options have vested as of June 30, 2002, at an average exercise price of $0.87 per share.

8. AGREEMENTS

During January 2002, the Company completed a license agreement with the University of California, San Diego (UCSD) for a proprietary compound that the Company believes could be used as a lymph node locating agent in intraoperative lymphatic mapping (ILM) procedures. The license agreement is effective until the later of the expiration date of the longest-lived underlying patent or January 30, 2023. Under the terms of the license agreement, UCSD has granted the Company the exclusive rights to make, use, sell, offer for sale and import Licensed Products as defined in the agreement and to practice the defined Licensed Methods during the term of the agreement. The Company may also sublicense the Patent Rights, subject to the approval of certain sublicense terms by UCSD. In consideration for the license rights, the Company agreed to pay UCSD a license issue fee of $25,000 and license maintenance fees of $25,000 per year. The Company also agreed to pay UCSD milestone payments related to successful regulatory clearance for marketing of the Licensed Products, a royalty on Net Sales of Licensed Products subject to a $25,000 minimum annual royalty, fifty percent of all sublicense fees and fifty percent of sublicense royalties. The Company also agreed to reimburse UCSD for all patent-related costs.

UCSD also has the right to terminate the agreement or change the nature of the agreement to a non-exclusive agreement if the Company is determined not to have been diligent in developing and commercializing the covered products, not marketing the products within six months of receiving regulatory approval, reasonably filling market demand or obtaining all the necessary government approvals.

9. SEGMENT AND SUBSIDIARY INFORMATION

The Company owns or has rights to intellectual property involving two primary types of medical diagnostic products, including gamma detection instruments currently used primarily in the application of ILM, and blood flow measurement devices.

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

($ AMOUNTS IN THOUSANDS) THREE MONTHS ENDED JUNE 30, 2002	GAMMA DETECTION	BLOOD FLOW	UNALLOCAT
Net sales:			
United States(1)	$ 905	$ -	$
International	1	-	
License revenue and other	359	-	
Research and development expenses	212	485	
Selling, general and administrative expenses	-	-	
Income (loss) from operations(2)	347	(485)	(
Other income	-	-	

THREE MONTHS ENDED JUNE 30, 2001			
Net sales:			
United States(1)	$ 2,080	$ -	$
International	-	-	
License revenue and other	325	-	
Research and development expenses	223	-	
Selling, general and administrative expenses	-	-	
Income (loss) from operations(2)	739	-	(
Other income	-	-	

($ AMOUNTS IN THOUSANDS) SIX MONTHS ENDED JUNE 30, 2002	GAMMA DETECTION	BLOOD FLOW	UNALLOCAT
Net sales:			
United States(1)	$ 1,581	$ -	$
International	60	-	
License revenue and other	684	-	
Research and development expenses	495	742	
Selling, general and administrative expenses	-	-	1
Income (loss) from operations(2)	630	(742)	(1,
Other income	-	-	

SIX MONTHS ENDED JUNE 30, 2001			
Net sales:			
United States(1)	$ 3,407	$ -	$
International	68	-	
License revenue and other	675	-	
Research and development expenses	423	-	
Selling, general and administrative expenses	-	-	1
Income (loss) from operations(2)	1,337	-	(1,
Other income	-	-	

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

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

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10. NEW ACCOUNTING PRONOUNCEMENTS

In July 2001, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 141, Business Combinations, and SFAS No. 142, Goodwill and Other Intangible Assets. Under SFAS 141, any business combination initiated after June 30, 2001 must be accounted for as a purchase. For purchase business combinations that are consummated after June 30, 2001, goodwill and identifiable intangibles should be recorded and amortized in accordance with SFAS 142, i.e., goodwill and intangible assets with indefinite lives are not amortized and other identified intangibles are amortized. For any purchase business combination consummated on or before June 30, 2001, the accounting under APB 16 and APB 17 still applies. Goodwill and separately identifiable intangibles should be recorded and amortized until adopting SFAS 142, which is required for fiscal years beginning after December 15, 2001. A calendar year-end company would continue to amortize goodwill and all separately identifiable intangibles through December 31, 2001. Upon adoption of SFAS 142, a company would cease amortizing goodwill and separately identifiable intangibles with indefinite lives and amortize other identifiable intangibles in accordance with the guidelines set forth in the standard. The Company adopted SFAS 141 and SFAS 142 as of December 31, 2001 related to its acquisition of Cardiosonix. The adoption of these pronouncements resulted in recording $3.5 million of acquired intangible assets with a weighted average useful life of approximately 13 years. During the first half of 2002, the Company recorded $180,000 in amortization expense that is included in selling, general and administrative expenses, and recorded a purchase price adjustment of $24,000 to the contingent consideration liability related to net acquisition costs in excess of initial estimates.

In October 2001, the FASB issued SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, which supersedes both SFAS 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of and the accounting and reporting provisions of APB Opinion No. 30, Reporting the Results of Operations--Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions, for the disposal of a segment of a business (as previously defined in that Opinion). SFAS 144 retains the fundamental provisions in SFAS 121 for recognizing and measuring impairment losses on long-lived assets held for use and long-lived assets to be disposed of by sale, while also resolving significant implementation issues associated with SFAS 121. For example, SFAS 144 provides guidance on how a long-lived asset that is used as part of a group should be evaluated for impairment, establishes criteria for when a long-lived asset is held for sale, and prescribes the accounting for a long-lived asset that will be disposed of other than by sale. SFAS 144 retains the basic provisions of APB 30 on how to present discontinued operations in the income statement but broadens that presentation to include a component of an entity (rather than a segment of a business). Unlike SFAS 121, an impairment assessment under SFAS 144 will never result in a write-down of goodwill. Rather, goodwill is evaluated for impairment under SFAS 142, Goodwill and Other Intangible Assets.

The Company adopted the provisions of SFAS 144 as of January 31, 2002. The impairment assessment for long-lived assets held for use under SFAS 144 is largely unchanged from SFAS 121. The provisions of SFAS 144 for assets held for sale or other disposal generally are required to be applied prospectively after the adoption date to newly initiated disposal activities. The adoption of SFAS 144 did not have a material effect on the Company's financial statements for the first half of 2002.

In November 2001, the Emerging Issues Task Force of the FASB issued Topic D-103, Income Statement Characterization of Reimbursements Received for Out-of-Pocket Expenses Incurred. The FASB is requiring Topic D-103 be applied in financial reporting periods beginning after December 15, 2001. Topic D-103 requires companies to characterize reimbursements received for out-of-pocket expenses as revenue. The adoption of Topic D-103 requirements resulted in the reclassification of the $125,000 per quarter reimbursement by Ethicon of certain research and development charges from research and development expenses to license revenue and other for all periods presented.

In July 2002, the FASB issued SFAS No. 146, Accounting for Costs Associated with Exit or Disposal Activities. SFAS 146 will require the Company to disclose information about its exit and disposal activities, the related costs, and changes in those costs in the notes to the interim and annual financial statements that include the period in which an exit or disposal activity is initiated. SFAS 146 will require the Company to disclose, for each reportable segment, the exit or disposal activity costs incurred in the period and the cumulative amount incurred, net of any changes in the liability, with an explanation of the reasons for the changes. SFAS 146 will also require the Company to disclose the total amount of costs expected to be incurred in connection with the exit or disposal activity. The new requirements are effective prospectively for exit and disposal activities initiated after December 31, 2002. We do not anticipate that adoption of SFAS 146 will have a material impact on our financial condition or results of operations.

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

RESULTS OF OPERATIONS

Revenue for the first half of 2002 decreased $1.8 million to $2.3 million from $4.2 million for the same period in 2001. Research and development expenses during the first half of 2002 were $1.2 million or 43% of operating expenses for the period. Selling, general and administrative expenses were $1.6 million or 57% of operating expenses for the period. Overall, operating expenses for the first half of 2002 increased $1.3 million or 80% over the same period in 2001. The Company anticipates that total operating expenses for the remaining half of 2002 will be consistent with first half 2002 levels, except for research and development expenses that are expected to increase as a result of efforts to bring the first of the blood flow measurement devices to market.

Three months ended June 30, 2002 and 2001

Net Sales and Margins. Net product sales decreased $1.2 million or 56% to $906,000 during the second quarter of 2002 from $2.1 million during the same period in 2001. Gross margins on product sales decreased to 22% of net sales for the second quarter of 2002 compared to 31% of net sales for the same period in 2001.

The decline in net product sales was the result of lower overall demand for gamma detection devices during the second quarter of 2002 as compared to the same period in 2001. End customer (i.e., hospital) demand for the Company's neo2000(R) gamma detection devices appears to be slowing. In addition, BlueTipTM probes do not appear to be achieving the end customer acceptance originally anticipated when initial stocking orders for Ethicon Endo-Surgery, Inc. (Ethicon) were delivered in the first and second quarters of 2001. The decline in demand below Ethicon's original expectations for neo2000 systems and BlueTip probes, coupled with purchases they were required to make under the terms of the Distribution Agreement, has resulted in an overstock position for probes and control units at Ethicon. Ethicon began to take steps to decrease the overstock position in the first quarter of 2002. These steps have resulted in a combined decrease in sales of BlueTip probes and 14mm probes of over 70% during the second quarter of 2002 as compared to the prior year. While control units are also affected by the decline in end customer demand, the timing of scheduled deliveries in the second quarters of 2001 and 2002 resulted in a net increase of 30% in control unit sales over the two periods. The decline in gross margins on product sales was due to changes in the product sales mix as noted above with decreased sales volumes of higher-margin products more than offsetting the increase in sales volumes of lower-margin products during the quarter.

License Revenue and Other. License revenue and other in the second quarters of 2002 and 2001 included $200,000 from the pro-rata recognition of license fees related to the distribution agreement with Ethicon, and $159,000 and $125,000, respectively, from the reimbursement by Ethicon of certain product development costs.

Research and Development Expenses. Research and development expenses increased $474,000 or 213% to $697,000 during the second quarter of 2002 from $223,000 during the same period in 2001. The

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increase is primarily due to the product development support efforts of Cardiosonix and $21,000 in gamma detection drug development costs.

Selling, General and Administrative Expenses. Selling, general and administrative expenses increased $152,000 or 26% to $746,000 during the second quarter of 2002 from $593,000 during the same period in 2001. The increase was primarily a result of the general and administrative costs incurred in the operation and support of Cardiosonix, $90,000 in amortization of intangible assets related to the acquisition of Cardiosonix, and the transfer of manufacturing of certain components of the neo2000 gamma detection system to a new contract manufacturer, offset by decreases in certain overhead costs, such as bad debts and warranty expense.

Other Income. Other income decreased $19,000 or 60% to $13,000 during the second quarter of 2002 from $32,000 during the same period in 2001. Other income during the second quarters of 2002 and 2001 consisted primarily of interest income. The Company's interest income decreased because the Company received a lower interest rate on its cash and investments during the second quarter of 2002 as compared to the same period in 2001, consistent with marketplace activity over the two periods.

Six months ended June 30, 2002 and 2001

Net Sales and Margins. Net product sales decreased $1.8 million or 53% to $1.6 million during the first half of 2002 from $3.5 million during the same period in 2001. Gross margins on product sales decreased to 27% of net sales for the first half of 2002 compared to 31% of net sales for the same period in 2001.

The decline in net product sales was the result of lower overall demand for gamma detection devices during the first half of 2002 as compared to the same period in 2001. End customer (i.e., hospital) demand for the Company's neo2000 gamma detection devices appears to be slowing. In addition, BlueTip probes do not appear to be achieving the end customer acceptance originally anticipated when Ethicon's initial stocking orders were delivered in the first half of 2001. The decline in demand below Ethicon's original expectations for neo2000 systems and BlueTip probes, coupled with purchases they were required to make under the terms of the Distribution Agreement, has resulted in an overstock position for probes and control units at Ethicon. In connection with delays in the transfer of manufacturing of the neo2000 systems to a new contract manufacturer during the first quarter of 2002, the Company began working with Ethicon during the first quarter to decrease their overstock position. The steps taken have resulted in a combined decrease in sales of BlueTip probes and 14mm probes of over 60% during the first half of 2002 as compared to the prior year. While control units are also affected by the decline in demand, the timing of scheduled deliveries in the first halves of 2001 and 2002 resulted in a net increase of 20% in control unit sales over the two periods. The decline in gross margins on product sales was due to changes in the product sales mix as noted above with decreased sales volumes of higher-margin products more than offsetting the increase in lower-margin products during the first half of 2002.

The Company believes, based on Ethicon's current purchase commitments and forecasts, that sales volumes for the second half of 2002 will be more consistent with first quarter 2002 levels and that Ethicon will meet its minimum purchase obligations by the end of 2002. Despite the declines in demand, the Company believes, again based primarily on Ethicon's current forecasts, that Ethicon's overstock position for 14mm probes and control units will be substantially, if not completely, eliminated by the end of 2002 and that sales of 14mm probes and control units to Ethicon should begin to increase in 2003 once the overstock position has been eliminated. The Company does not expect that the overstock situation with respect to BlueTip probes will show the same degree of improvement in the near term. The Company expects gross margins on product sales for the second half of 2002 to be consistent with margins experienced during the first half of 2002.

License Revenue and Other. License revenue and other in the first half of 2002 and 2001 included $400,000 from the pro-rata recognition of license fees related to the distribution agreement with Ethicon and $284,000 and $250,000, respectively, from the reimbursement by Ethicon of certain product development costs. License revenue and other in the first half of 2001 also included $25,500 from the

recognition of milestone fees related to an option agreement to license certain of the Company's RIGS(R) technology.

Research and Development Expenses. Research and development expenses increased $814,000 or 193% to $1.2 million during the first half of 2002 from $423,000 during the same period in 2001. The increase is primarily due to the product development efforts related to the Cardiosonix line of blood flow products coupled with $55,000 in gamma detection drug development costs.

Selling, General and Administrative Expenses. Selling, general and administrative expenses increased $457,000 or 39% to $1.6 million during the first half of 2002 from $1.2 million during the same period in 2001. The increase was primarily a result of the general and administrative costs incurred in the operation and support of Cardiosonix, $180,000 in amortization of intangible assets related to the acquisition of Cardiosonix, increased professional services incurred by the Company related to Cardiosonix, the transfer of manufacturing of certain components of the neo2000 gamma detection system to a new contract manufacturer, and $45,000 in impairment of intellectual property that the Company did not believe had ongoing value to the business. These increases were offset by decreases in certain overhead costs, such as bad debts and warranty expense.

Other Income. Other income decreased $70,000 or 82% to $15,000 during the first half quarter of 2002 from $86,000 during the same period in 2001. Other income during the first half of 2002 and 2001 consisted primarily of interest income. The Company's interest income decreased because the Company received a lower interest rate on its cash and investments during the first quarter of 2002 as compared to the same period in 2001, consistent with marketplace activity over the two periods. In addition, the Company recorded $14,000 of currency exchange losses during the first half of 2002 related to operations at Cardiosonix.

LIQUIDITY AND CAPITAL RESOURCES

Operating Activities. Cash used in operations increased $1.6 million to $1.7 million during the first half of 2002 from $32,000 during the same period in 2001. Working capital decreased $1.7 million to $2.4 million at June 30, 2002 as compared to $4.1 million at December 31, 2001. The current ratio decreased to 1.8 at June 30, 2002 from 2.6 at December 31, 2001. The decrease in working capital was primarily related to cash used to fund development activities.

Cash and investment balances decreased to $3.2 million at June 30, 2002 from $4.3 million at December 31, 2001, primarily due to the requirements of supporting the operations of Cardiosonix and the decrease in net sales during the first half of 2002.

Accounts receivable decreased to $468,000 at June 30, 2002 from $561,000 at December 31, 2001. The Company expects receivable levels to fluctuate in 2002 depending on the timing of purchases and payments by Ethicon.

Inventory levels increased to $1.5 million at June 30, 2002 as compared to $1.4 million at December 31, 2001 as we began to replenish our control unit safety stock following a manufacturing transfer in the first quarter and began to acquire materials in preparation for production of blood flow products. During the remainder of 2002, we will continue to work through our carryover stock of certain long-lead gamma device components that were built up during 2001 as a result of quantity price breaks. We expect inventory levels to increase slightly in the third quarter as the use of these long-lead components is offset by the re-establishment of our control unit safety stock and we start to build inventory of blood flow products in preparation for commercial launch.

The Company had previously indicated it would spend a net amount of $3.5 million during 2002, primarily in support of development of its blood flow product line. We believe this goal is still achievable despite the declines in revenue from our original expectations, and to that end, we made certain organizational changes early in the third quarter in the resources that support our gamma detection product line in order to keep our cash needs for the remainder of 2002 in line with our original expectations.

Investing Activities. Cash used in investing activities increased to $2.4 million during the first half of 2002 from $49,000 during the same period in 2001. During the first half of 2002, the Company invested in $2.5 million of available-for-sale securities. Capital expenditures in the first half of 2002 were primarily for purchases of production tools and equipment, product development equipment, and technology infrastructure. Capital expenditures in the first half of 2001 were split between purchases of production tools and equipment and technology infrastructure. Capital needs for the remainder of 2002 are expected to increase over 2001 to support instrument development and manufacturing activities, although it is our intent to outsource manufacturing of blood flow products in the long-term as is currently done for our gamma detection devices.

Financing Activities. Financing activities provided $825,000 in cash in the first half of 2002 versus $95,000 used during the same period in 2001. During the second quarter of 2002, the Company drew $1.0 million under a line of credit primarily to fund the development activities of Cardiosonix. Payments of notes payable were 50% higher during the first half of 2002 as compared to the same period in 2001, due to the increased cost of financed insurance.

On November 19, 2001, the Company entered into a common stock purchase agreement with an investment fund, Fusion Capital Fund II, LLC (Fusion) for the issuance and purchase of Neoprobe common stock. Under the stock purchase agreement, Fusion committed to purchase up to $10 million of Neoprobe common stock over a forty-month period that commenced in May 2002. A registration statement registering for resale of up to 5 million shares of Neoprobe common stock was declared effective on April 15, 2002. The Company will be able to request daily draw downs, subject to a daily base amount, currently set at $12,500. The number of shares the Company is to issue to Fusion in return for that money will be based on the lower of (a) the closing sale price for Neoprobe common stock on the day of the draw request or (b) the average of the three lowest closing sales prices during a twelve day period prior to the draw request. No shares may be sold to Fusion at lower than a floor price currently set at $0.30, but in no case below $0.20 without Fusion's prior consent. Upon execution of the common stock purchase agreement, the Company issued 449,438 shares of Neoprobe common stock to Fusion as a commitment fee. Market conditions (i.e., share price) have effectively prohibited the Company from drawing funds under the Fusion facility during the first half of 2002, and in the absence of a change in those conditions, the Fusion facility is unlikely to be drawn on in the foreseeable future.

During February 2002, the Company entered into a line of credit facility with an investment management company. The facility provides for a maximum line of credit of $2.0 million and is fully collateralized by pledged cash and investments on deposit with the investment management company. Availability under the facility is based on advance rates varying from 80% to 92% of the underlying available collateral. Outstanding amounts under the facility bear interest at LIBOR plus 175 basis points. The facility expires in February 2007. There was $1.0 million outstanding under the line of credit as of June 30, 2002.

The Company believes its current cash, available-for-sale securities, and cash expected to be provided through sales of its gamma detection products are adequate to sustain the Company's planned development and operations through the fourth quarter of 2002. However, the Company's ability to execute its plans into 2003 significantly depends on its ability to raise additional funds from sources other than operations. The Company's future liquidity and capital requirements will depend on a number of factors, including its ability to raise additional capital in a timely manner through additional investment, expanded market acceptance of its current products, its ability to commercialize new products such as its blood flow product line, its ability to monetize its investment in non-core technologies, its 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.

There can be no assurance that the additional capital the Company may require to finance operations beyond 2002 will be available on acceptable terms, if at all. Any failure to secure additional financing will force the Company to modify its business plan. There can be no assurance that the Company will be able to achieve significant product revenues from its current or potential new products. In addition, there can be no assurance that the Company will achieve profitability again in the future.

FORWARD-LOOKING STATEMENTS

Our company and its representatives may from time to time make written or verbal forward-looking statements, including statements contained in this report and other Company filings with the Securities and Exchange Commission and in our reports to shareholders. 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. 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 management's 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 company's 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 company's most recent Annual Report on Form 10-KSB and other Securities and Exchange Commission filings. We undertake no obligation to publicly update or revise any forward-looking statements.

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PART II - OTHER INFORMATION

ITEM 4. Submission of Matters to a Vote of Security Holders.

(a) Neoprobe Corporation held its Annual Meeting of Stockholders on June 20, 2002, for the purpose of electing two directors, approving and adopting the Company's 2002 Stock Incentive Plan, and increasing the authorized number of shares of the Company's stock.

(b) At the Annual Meeting of Stockholders, all directors nominated were elected.

(c) The table shows the voting tabulation for each matter voted upon at the Annual Meeting of Stockholders.

ACTION	FOR
Election of Directors	
Nancy E. Katz	21,828,980
Fred B. Miller	21,873,852

ACTION	FOR	AGAINST
Adoption of the Company's 2002 Stock Incentive Plan	14,250,179	1,203,240

ACTION	FOR	AGAINST
Increase the authorized number of shares of the Company from 55,000,000 to 80,000,000, consisting of		

75,000,000 shares of common stock, $.001 par value, and 5,000,000 shares of preferred stock, $.001 par value	14,740,257	2,018,830

ITEM 6. Exhibits and Reports on Form 8-K

(a) LIST OF EXHIBITS

99. ADDITIONAL EXHIBITS

Exhibit 99.1 Certification Under Section 906 of Sarbanes-Oxley Act of 2002

Exhibit 99.2 Certification Under Section 906 of Sarbanes-Oxley Act of 2002

(b) REPORTS ON FORM 8-K

None.

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: August 13, 2002

By: /s/ DAVID C. BUPP

David C. Bupp
President and Chief Executive Officer
(duly authorized officer; principal executive officer)

By: /s/ BRENT L. LARSON

Brent L. Larson
Vice President, Finance and Chief Financial Officer
(principal financial and accounting officer)