NEOPROBE CORP
Form 424B3
June 16, 2003

Filed Pursuant to 424(b)(3)
Registration No. 333-91462

PROSPECTUS

NEOPROBE CORPORATION

11,800,563 SHARES OF COMMON STOCK

This prospectus relates to the sale of up to 11,800,563 shares of our common stock by the former shareholders of Cardiosonix, Ltd., an Israeli company limited by shares, formerly known as Biosonix, Ltd. The former shareholders of Cardiosonix are sometimes referred to in this prospectus as the selling stockholders. The prices at which the selling stockholders may sell the shares will be determined by the prevailing market price for the shares or in negotiated transactions. We will not receive proceeds from the sale of our shares by the selling stockholders.

Our common stock is quoted on the Nasdaq Over-The-Counter Bulletin Board under the symbol NEOP. On June 13, 2003, the last reported sale price for our common stock as reported on the Nasdaq Over-The-Counter Bulletin Board was $0.20 per share.

Each of the selling stockholders is an "underwriter" within the meaning of the Securities Act of 1933, as amended.

THE SECURITIES OFFERED IN THIS PROSPECTUS INVOLVE A HIGH DEGREE OF RISK. YOU SHOULD CONSIDER THE RISK FACTORS BEGINNING ON PAGE 3 BEFORE PURCHASING OUR COMMON STOCK.

NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED OF THESE SECURITIES OR PASSED UPON THE ADEQUACY OR ACCURACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

The date of this prospectus is June 16, 2003.

TABLE OF CONTENTS

Prospectus Summary.....
Risk Factors.....
Cautionary Note Regarding Forward-Looking Statements.....
Use of Proceeds.....
Market for Common Equity and Related Stockholder Matters.....
Management's Discussion and Analysis of Financial Condition

and Results of Operations.....
Description of Business.....
Description of Property.....
Our Management.....
Security Ownership of Certain Beneficial Owners and Management.....
Certain Relationships and Related Party Transactions.....
Description of Capital Stock.....
Acquisition of Cardiosonix.....
Selling Stockholders.....
Plan of Distribution.....
Legal Opinion.....
Experts.....
Additional Information.....
Index to Financial Statements.....

UNLESS OTHERWISE SPECIFIED, THE INFORMATION IN THIS PROSPECTUS IS SET FORTH AS OF JUNE 16, 2003, AND WE ANTICIPATE THAT CHANGES IN OUR AFFAIRS WILL OCCUR AFTER SUCH DATE. WE HAVE NOT AUTHORIZED ANY PERSON TO GIVE ANY INFORMATION OR TO MAKE ANY REPRESENTATIONS, OTHER THAN AS CONTAINED IN THIS PROSPECTUS, IN CONNECTION WITH THE OFFER CONTAINED IN THIS PROSPECTUS. IF ANY PERSON GIVES YOU ANY INFORMATION OR MAKES REPRESENTATIONS IN CONNECTION WITH THIS OFFER, DO NOT RELY ON IT AS INFORMATION WE HAVE AUTHORIZED. THIS PROSPECTUS IS NOT AN OFFER TO SELL OUR COMMON STOCK IN ANY STATE OR OTHER JURISDICTION TO ANY PERSON TO WHOM IT IS UNLAWFUL TO MAKE SUCH OFFER.

PROSPECTUS SUMMARY

The following summary highlights selected information from this prospectus and may not contain all the information that is important to you. To understand our business and this offering fully, you should read this entire prospectus carefully, including the financial statements and the related notes beginning on page F-1. When we refer in this prospectus to the "company," "we," "us," and "our," we mean Neoprobe Corporation, a Delaware corporation, together with our subsidiaries. This prospectus contains forward-looking statements and information relating to Neoprobe Corporation. See Cautionary Note Regarding Forward Looking Statements on page 10.

OUR COMPANY

We are Neoprobe Corporation, a Delaware corporation and biomedical technology company that provides innovative surgical and diagnostic products that enhance patient care by meeting the critical decision-making needs of healthcare professionals. We were originally incorporated in Ohio in 1983 and reincorporated in Delaware in 1988. Our principal executive offices are located at 425 Metro Place North, Suite 300, Dublin, Ohio, 43017. Our telephone number is (614) 793-7500. The address of our website is www.neoprobe.com. Information on our website is not part of this prospectus.

From our inception through the end of 2001, we devoted substantially all of our efforts and resources to the research and clinical development of innovative systems for the intraoperative diagnosis and treatment of cancers. Following an evaluation of our business plan during early 2001, however, we determined that we needed to expand our product portfolio and consider synergistic products outside the cancer or oncology fields.

In December 2001, we acquired Biosonix Ltd., a private Israeli company limited by shares. In February 2002, Biosonix Ltd. changed its name to Cardiosonix Ltd.

(Cardiosonix). Cardiosonix is developing and commercializing a unique line of blood flow measurement devices for a variety of diagnostic and surgical applications. The decision to expand beyond our product focus on oncology was based on our belief that the technology platform underlying the Cardiosonix line of products has tremendous market potential and has a number of commonalities with our gamma detection device product line. We intend to take advantage of those synergies in the development, regulation and manufacture of Cardiosonix' devices. We believe that the path of market adoption for the Cardiosonix devices will be similar to the path we have experienced with our gamma detection devices.

Although we have expanded our strategic focus to include blood flow medical devices, we intend to continue many of the strategies outlined in prior years related to the internal development of gamma detection medical devices and to continue promoting development of our other complementary technologies through strategic partnerships and alliances. Our primary goals are to maximize the market potential of Cardiosonix' blood flow products as leaders in the measurement of blood flow in both clinical and surgical settings to supplement our leadership position in the current intraoperative gamma detection market.

THE OFFERING

On November 29, 2001, we entered into a stock purchase agreement with Cardiosonix, Ltd. (formerly Biosonix, Ltd.), an Israeli company limited by shares (Cardiosonix), and selling stockholders Dan Manor; Eli Levi; Roni Bibi; First Isratech Fund LP, a Minnesota limited partnership; First Isratech Fund LLC, a Minnesota limited liability company; First Isratech Fund Norway A.S., a Norway company; Greatway Commercial Inc., a corporation organized under the laws of Panama; Uzi Zucker, a resident of the State of New York; Caremi Partners, a partnership organized under the laws of the state of Delaware; Emicar, LLC, a limited liability company organized under the laws of the state of New York; and Ma'Aragim Enterprises Ltd., an Israeli company limited by shares, which provided, among other things, for our acquisition of all of their outstanding shares of capital stock of Cardiosonix. The selling stockholders under this prospectus are offering for sale up to 11,800,563 shares of our common stock. As of May 15,

2003, there were 38,588,009 shares of our common stock outstanding. The number of shares offered by this prospectus represents 31% of our total common stock outstanding as of May 15, 2003.

AN INVESTMENT IN OUR COMMON STOCK IS HIGHLY SPECULATIVE AND INVOLVES A HIGH DEGREE OF RISK. SEE RISK FACTORS BELOW.

RISK FACTORS

An investment in our common stock is highly speculative, involves a high degree of risk, and should be made only by investors who can afford a complete loss. You should carefully consider the following risk factors, together with the other information in this prospectus, including our financial statements and the related notes, before you decide to buy our common stock. Our most significant risks and uncertainties are described below; however, they are not the only risks we face. If any of the following risks actually occur, our business, financial condition, or results of operations could be materially adversely affected, the trading of our common stock could decline, and you may lose all or part of your investment therein.

If we are unable to obtain additional funds we may have to significantly curtail

the scope of our operations and alter our business model.

As of March 31, 2003, our cash on-hand was $352,000. During the first quarter of 2003, we used $246,000 in cash to fund our operations. We believe, based on currently available financing and forecasted sales and expenses, that our funding will be adequate to sustain operations through the end of 2003. Although in April 2003 we completed bridge financing loans for a total of $500,000 ($250,000 of which was obtained from our President and CEO), we do not know if we will succeed in raising additional funds through further offerings of debt or equity. We believe that unless additional financing is arranged, we would likely have to make significant changes to our business plan during the third or fourth quarter of 2003. Such changes would likely delay the successful launch of our blood flow product line.

We must ultimately achieve profitability from our blood flow product line for our business model to succeed. In the absence of significant revenue from our blood flow product line, we believe that we will need to arrange financing of at least $1.5 million by the end of 2003 (including $500,000 to pay off bridge loans in June 2004) in order to sustain our operations at current levels into 2004. However, we cannot assure you that subsequent additional financings will be available to us on a timely basis or that the additional capital that we require will be available on acceptable terms, if at all. The terms of a subsequent financing may involve the authorization of additional shares of our common stock that may result in a significant dilution, a change of control and/or require stockholder approval. We have been, and continue to be, actively engaged in seeking additional financing in a variety of venues and formats and we continue to impose actions designed to minimize our operating losses. We would consider strategic opportunities, including additional investments in Neoprobe, a merger or other comparable transaction, to sustain our operations. We do not currently have any agreements in place with respect to such strategic opportunity, and we cannot assure you that additional capital will be available to us on acceptable terms, or at all. If additional financing is not available when required or is not available on acceptable terms, or we are unable to arrange a suitable strategic opportunity, we will be in significant financial jeopardy and we may be unable to continue our operations at current levels, or at all.

We have suffered significant operating losses for several years in our history and we may not be able to again achieve profitability.

We had an accumulated deficit of approximately $121 million as of March 31, 2003. Although we were profitable in 2000 and in 2001, we incurred substantial losses in the years prior to that and in 2002. The deficit resulted because we expended more money in the course of researching, developing and enhancing our technology and products and establishing our marketing and administrative organizations than we generated in revenues. We expect to continue to incur significant operating expenses in the foreseeable future, primarily related to the development and commercialization of the Cardiosonix product line. As a result, it is likely that we will sustain substantial operating and net losses in 2003, and it is

possible that we will never be able to sustain or develop the revenue levels necessary to again attain profitability.

We may have difficulty raising additional capital, which could deprive us of necessary resources.

We expect to continue to devote substantial capital resources to fund research

and development, especially related to our Cardiosonix products and to maintain existing and secure new manufacturing capacity. In order to support the initiatives envisioned in our business plan, we will need to raise additional funds through the sale of assets, public or private financing, collaborative relationships or other arrangements. Our ability to raise additional financing depends on many factors beyond our control, including the state of capital markets, the market price of our common stock and the development or prospects for development of competitive technology by others. Because our common stock is not listed on a major stock exchange, many investors may not be willing or allowed to purchase it or may demand steep discounts. The necessary additional financing may not be available to us or may be available only on terms that would result in further dilution to the current owners of our common stock. If we are unable to raise additional funds when we need them, we may have to severely curtail our operations.

Our products may not achieve the broad market acceptance they need in order to be a commercial success.

Widespread use of our gamma detection devices is currently limited to a surgical procedure (ILM) used in the treatment and diagnosis of two primary types of cancer: melanoma and breast cancer. The success of our gamma detection devices greatly depends on the medical community's acceptance of ILM, and on our devices for use in ILM as a reliable, safe and cost effective alternative to current treatments and procedures. The adoption rate for ILM appears to be leveling off and may not meet our expectations. Although we continue to believe that ILM has significant advantages over other currently competing procedures, broad-based clinical adoption of ILM will likely not occur until after the completion of ongoing international trials related to breast cancer. Even if the results of these trials are positive, we cannot assure you that ILM will attain rapid and widespread acceptance. Our efforts and those of our marketing and distribution partners may not result in significant demand for our products, and the current demand for our products may decline.

Our future success now also greatly depends on the success of the Cardiosonix product line. Cardiosonix' products are just beginning to be marketed commercially. The market for these products is in an early stage of development and may never fully develop as we expect. The long-term commercial success of the Cardiosonix product line will require widespread acceptance of our products as safe, efficient and cost-effective. Widespread acceptance would represent a significant change in medical practice patterns. Other cardiac monitoring procedures, such as pulmonary artery catheterization, are

generally accepted in the medical community and have a long standard of use. It is possible that the Cardiosonix product line will never achieve the broad market acceptance necessary to become a commercial success.

Our auditors have issued a "Going Concern" opinion on our financial statements.

We have suffered recurring losses from operations and may need substantial amounts of additional capital to finance our operations. The report of KPMG LLP dated February 7, 2003, except Notes 16 and 17 as to which the date is March 26, 2003, covering the December 31, 2002 consolidated financial statements has been modified to include an explanatory paragraph stating that, in their opinion, there is substantial doubt about our ability to continue as a going concern. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty. This situation may make it much harder for us to secure marketing and distribution partners for our blood flow product line and market our products. It may also depress the price of our

common stock and adversely affect our ability to raise additional capital.

We rely on third parties for the worldwide marketing and distribution of our gamma detection devices, who may not be successful in selling our products.

We currently distribute our gamma detection devices in most global markets through two partners who are solely responsible for marketing and distributing these products. The partners assume direct responsibility for business risks related to credit, currency exchange, foreign tax laws or tariff and trade regulation. While we believe that our distribution partners intend to continue to aggressively market our products, we cannot assure you that the distribution partners will succeed in marketing our products on a global basis. We may not be able to maintain satisfactory arrangements with our marketing and distribution partners, who may not devote adequate resources to selling our gamma detection devices. If this happens, we may not be able to successfully market our products, which would decrease our revenues.

We do not have experience in marketing blood flow products and we have not yet established strategic relationships with potential marketing partners.

We completed the Cardiosonix acquisition on December 31, 2001, and to date have entered into arrangements covering only seven countries to distribute the Quantix line of blood flow products. We believe the adoption path for Cardiosonix' products will be similar to that of our gamma detection devices, but we have no direct experience in marketing or selling blood flow measurement devices. We may not be successful in creating the necessary infrastructure, either internally or through third parties, to support the successful marketing and sales of Cardiosonix products.

We rely on third parties to manufacture our products and our business will suffer if they do not perform.

We rely on independent contract manufacturers for the manufacture of our current line of gamma detection systems. Our business will suffer if our contract manufacturers have production delays or quality problems. Furthermore, medical device manufacturers are subject to the QSR regulations of the U.S. FDA, international quality standards, and other regulatory requirements. If our contractors do not operate in accordance with regulatory requirements and quality standards, our business will suffer. We use or rely on components and services used in our devices that are provided by sole source suppliers. The qualification of additional or replacement vendors is time consuming and costly. If a sole source supplier has significant problems supplying our products, our sales and revenues will be hurt until we find a new source of supply. In addition, our distribution agreement with EES contains failure to supply provisions, which, if triggered, could have a significant negative impact on our business.

We may lose out to larger and better-established competitors.

The medical device and biotechnology industries are intensely competitive. Some of our competitors have significantly greater financial, technical, manufacturing, marketing and distribution resources as well as

greater experience in the medical device industry than we have. The particular medical conditions our product lines can address can also be addressed by other medical devices, procedures or drugs. Many of these alternatives are widely accepted by physicians and have a long history of use. Physicians may use our competitors' products and/or our products may not be competitive with other

technologies. If these things happen, our sales and revenues will decline. In addition, our current and potential competitors may establish cooperative relationships with large medical equipment companies to gain access to greater research and development or marketing resources. Competition may result in price reductions, reduced gross margins and loss of market share.

Our products may be displaced by newer technology.

The medical device and biotechnology industries are undergoing rapid and significant technological change. Third parties may succeed in developing or marketing technologies and products that are more effective than those developed or marketed by us, or that would make our technology and products obsolete or non-competitive. Additionally, researchers could develop new surgical procedures and medications that replace or reduce the importance of the procedures that use our products. Accordingly, our success will depend, in part, on our ability to respond quickly to medical and technological changes through the development and introduction of new products. We may not have the resources to do this. If our products become obsolete and our efforts to develop new products do not result in any commercially successful products, our sales and revenues will decline.

We are in a highly regulated business and we could face severe problems if we do not comply with all regulatory requirements in the global markets in which our products are sold.

The U.S. FDA regulates our products in the United States. Foreign countries also subject our products to varying government regulations. In addition, such regulatory authorities may impose limitations on the use of our products. U.S. FDA enforcement policy strictly prohibits the marketing of U.S. FDA cleared medical devices for unapproved uses. Within the European Union, our products are required to display the CE Mark in order to be sold. We have obtained U.S. FDA clearance to market our medical device products and European certification to display the CE Mark on our current line of gamma detection systems and on two of Cardiosonix' products, the Quantix/ND and Quantix/OR. We may not be able to obtain certification for any new products in a timely manner, or at all. Failure to comply with these and other current and emerging regulatory requirements in the global markets in which our products are sold could result in, among other things, warning letters, fines, injunctions, civil penalties, recall or seizure of products, total or partial suspension of production, refusal of the government to grant pre-market clearance for devices, withdrawal of clearances, and criminal prosecution.

Our intellectual property may not have or provide sufficient legal protections against infringement or loss of trade secrets.

Our success depends, in part, on our ability to secure and maintain patent protection, to preserve our trade secrets, and to operate without infringing on the patents of third parties. While we seek to protect our proprietary positions by filing United States and foreign patent applications for our important inventions and improvements, domestic and foreign patent offices may not issue these patents. Third parties may challenge, invalidate, or circumvent our patents or patent applications in the future. Competitors, many of which have significantly more resources than we have and have made substantial investments in competing technologies, may apply for and obtain patents that will prevent, limit, or interfere with our ability to make, use, or sell our products either in the United States or abroad.

In the United States, patent applications are secret until patents issue, and in foreign countries, patent applications are secret for a time after filing. Publications of discoveries tend to significantly lag the actual discoveries and the filing of related patent applications. Third parties may have already filed applications for patents for products or processes that will make our products obsolete or will limit our patents or invalidate our patent applications.

We typically require our employees, consultants, advisers and suppliers to execute confidentiality and assignment of invention agreements in connection with their employment, consulting, advisory, or supply relationships with us. They may breach these agreements and we may not obtain an adequate remedy for breach. Further, third parties may gain access to our trade secrets or independently develop or acquire the same or equivalent information.

Agencies of the United States government conducted some of the research activities that led to the development of antibody technology that some of our proposed antibody-based surgical cancer detection products use. When the United States government participates in research activities, it retains rights that include the right to use the technology for governmental purposes under a royalty-free license, as well as rights to use and disclose technical data that could preclude us from asserting trade secret rights in that data and software.

Conditions in Israel may affect the operations of Cardiosonix and may limit our ability to complete development of its products.

Our Cardiosonix subsidiary is incorporated in Israel, and its offices and research and development facilities are located there. Political, economic and military conditions in Israel may directly affect its operations. Since the establishment of the State of Israel in 1948, a number of armed conflicts have taken place between Israel and its Arab neighbors and a state of hostility, varying in degree and intensity, has led to security and economic problems for Israel. Despite past progress towards peace between Israel and its Arab neighbors, the future of these peace efforts is uncertain. Any armed conflict, political instability or continued violence in the region could have a negative effect on the activities of Cardiosonix and the completion of development and commercialization of our blood flow monitoring products.

Cardiosonix' operations could be disrupted as a result of the obligation of key personnel in Israel to perform military service.

Some of Cardiosonix employees, including key officers, may currently be obligated to perform annual reserve duty. These employees could also be called to active duty in the event of a national emergency. Cardiosonix' operations could be disrupted by their absence for a significant period due to military service.

The government grants Cardiosonix has received for research and development expenditures restrict our ability to manufacture blood flow monitoring products and transfer technologies outside of Israel and require us to satisfy specified conditions. If we fail to satisfy these conditions, we may be required to refund grants previously received together with interest and penalties, and may be subject to criminal charges.

Cardiosonix received grants from the government of Israel through the Office of the Chief Scientist of the Ministry of Industry and Trade for the financing of a portion of its research and development expenditures associated with our blood flow monitoring products. From 1998 to 2001, Cardiosonix received grants totaling $775,000 from the Office of the Chief Scientist. The terms of the Chief Scientist grants may prohibit us from manufacturing products or transferring technologies developed using these grants outside of Israel without special approvals. Even if we receive approval to manufacture our blood flow monitoring products outside of Israel, we may be required to pay an increased total amount of royalties, which may be up to 300% of the grant amount plus interest, depending on the manufacturing volume that is performed outside of Israel. This

restriction may impair our ability to outsource manufacturing or engage in similar arrangements for those products or technologies. In addition, if we fail to comply with any of the conditions imposed by the Office of the Chief Scientist, we may be required to refund any grants previously received together with interest and penalties, and may be subject to criminal charges. In recent years, the government of Israel has accelerated the rate of repayment of Chief Scientist grants and may further accelerate them in the future.

The placement of our common stock with Fusion Capital may cause dilution and the sale of the shares of common stock acquired by Fusion Capital could cause the price of our common stock to decline.

On November 19, 2001, we entered into a common stock purchase agreement with an investment fund, Fusion Capital Fund II, LLC (Fusion) for the issuance and purchase of our common stock. The stock purchase agreement established an equity line of credit or draw-down facility. Under the agreement, Fusion committed to purchase up to $10 million of our common stock over a forty-month period that commenced in May 2002. A registration statement registering for resale up to 5 million shares of our common stock was declared effective on April 15, 2002. Depending upon market liquidity at the time, a sale of shares under the registration statement could cause the trading price of our common stock to decline, thus affecting the value that our other stockholders can obtain for their shares. Additionally, the sale of a substantial number of shares of our common stock by Fusion, or anticipation of such sales, could make it more difficult for us to sell equity or equity-related securities in the future at a time and at a price that we might otherwise wish to effect sales, and we may be forced to effect such sales at depressed market prices. The market price for our common stock also traded under $0.20 per share for a significant portion of the last 12 months below which price Fusion is not required to purchase our common stock. In addition, at the current trading price of our common stock, we do not have enough shares available for issuance in order to draw the full $10 million available under the facility.

Our product sales may be adversely affected by healthcare pricing regulation and reform activities.

The healthcare industry is undergoing fundamental changes resulting from political, economic and regulatory influences. In the United States, comprehensive programs have been proposed that seek to increase access to healthcare for the uninsured, control the escalation of healthcare expenditures within the economy and use healthcare reimbursement policies to balance the federal budget.

We expect that Congress and state legislatures will continue to review and assess healthcare proposals, and public debate of these issues will likely continue. We cannot predict which, if any, of such reform proposals will be adopted and when they might be adopted. Other countries also are considering healthcare reform. Significant changes in healthcare systems could have a substantial impact on the manner in which we conduct our business and could require us to revise our strategies.

We could be damaged by product liability claims.

Our products are used or intended to be used in various clinical or surgical procedures. If one of our products malfunctions or a physician misuses it and injury results to a patient or operator, the injured party could assert a product liability claim against our company. We currently have product liability insurance with a $10 million per occurrence and aggregate claim limit and a

$50,000 aggregate deductible limit, which, we believe, is adequate for our current activities. However, we may not be able to continue to obtain insurance at a reasonable cost. Furthermore, insurance may not be sufficient to cover all of the liabilities resulting from a product liability claim, and we might not have sufficient funds available to pay any claims over the limits of our insurance. Because personal injury claims based on product liability in a medical setting may be very large, an underinsured or an uninsured claim could financially damage our company.

We may have trouble attracting and retaining qualified personnel and our business may suffer if we do not.

Our business has experienced developments the past two years that have resulted in several significant changes in our strategy and business plan, including the shifting of resources to support our current product initiatives and downsizings to what we consider to be the minimal support structure necessary to operate a publicly traded company. Our management will need to remain flexible to support our business model over the next few years. However, losing any member of the Neoprobe management team or the Cardiosonix development team could have an adverse effect on our operations. Our success depends on our ability to attract and retain technical and management personnel with expertise and experience in the medical device business. The competition for qualified personnel in the medical device industry is intense and we may not be successful in hiring or retaining the requisite personnel. If we are unable to attract and retain qualified technical and management personnel, we will suffer diminished chances of future success.

Under the terms of our recent bridge financings, we have or may be required to grant partial or complete liens on substantially all of our assets.

Under the terms of the secured note purchase agreements we entered into with our President and another investor, we granted each of the note holders a security interest in certain of our assets, including our intellectual property. We believe this is customary in the types of arrangements we have entered into; however, the security holders could foreclose on the security interest in our assets in the event of default under the terms of the notes. If this were to happen, we may be required to file a petition under Chapter 11 of the Bankruptcy Code seeking bankruptcy reorganization, or liquidation under Chapter 7.

Our common stock is traded over the counter, which may deprive stockholders of the full value of their shares.

Our common stock is quoted via the National Association of Securities Dealers' Over The Counter Bulletin Board (OTCBB). As such, our common stock may have fewer market makers, lower trading volumes and larger spreads between bid and asked prices than securities listed on an exchange such as the New York Stock Exchange or the NASDAQ. These factors may result in higher price volatility and less market liquidity for the common stock.

A low market price may severely limit the potential market for our common stock.

Our common stock is currently trading at a price substantially below $5.00 per share, subjecting trading in the stock to certain SEC rules requiring additional disclosures by broker-dealers. These rules generally apply to any non-NASDAQ equity security that has a market price share of less than $5.00 per share, subject to certain exceptions (a "penny stock"). Such rules require the delivery, prior to any penny stock transaction, of a disclosure schedule explaining the penny stock market and the risks associated therewith and impose

various sales practice requirements on broker-dealers who sell penny stocks to persons other than established customers and institutional or wealthy investors. For these types of transactions, the broker-dealer must make a special suitability determination for the purchaser and have received the purchaser's written consent to the transaction prior to the sale. The broker-dealer also must disclose the commissions payable to the broker-dealer, current bid and offer quotations for the penny stock and, if the broker-dealer is the sole market maker, the broker-dealer must disclose this fact and the broker-dealer's presumed control over the market. Such information must be provided to the customer orally or in writing before or with the written confirmation of trade sent to the customer. Monthly statements must be sent disclosing recent price information for the penny stock held in the account and information on the limited market in penny stocks. The additional burdens imposed upon broker-dealers by such requirements could discourage broker-dealers from effecting transactions in our common stock.

The price of our common stock has been highly volatile due to several factors that will continue to affect the price of our stock.

Our common stock has traded as low as $0.05 per share and as high as $0.55 per share in the twelve months ended December 31, 2002. Some of the factors leading to the volatility include:

- price and volume fluctuations in the stock market at large which do not relate to our operating performance;
- fluctuations in our operating results;
- financing arrangements we may enter that require the issuance of a significant number of shares in relation to the number of shares currently outstanding;
- announcements of technological innovations or new products which we or our competitors make;
- U.S. FDA and international regulatory actions;
- developments with respect to patents or proprietary rights;
- public concern as to the safety of products that we or others develop; and,
- fluctuations in market demand for and supply of our products.

An investor's ability to trade our common stock may be limited by trading volume.

The trading volume for our common stock has been relatively limited. A consistently active trading market for our common stock may not occur on the OTCBB. The average daily trading volume for our common stock on the OTCBB for the twelve-month period ended December 31, 2002 was approximately 57,528 shares. Daily volume during that period ranged from 400 shares to 1,002,400 shares.

Our stockholder rights plan, some provisions of our organizational and governing documents and an agreement with the former Cardiosonix stockholders, may have the effect of deterring third parties from making takeover bids for control of our company or may be used to hinder or delay a takeover bid.

Our certificate of incorporation authorizes the creation and issuance of "blank check" preferred stock. Our Board of Directors may divide this stock into one or more series and set their rights. The Board of Directors may, without prior stockholder approval, issue any of the shares of "blank check" preferred stock with dividend, liquidation, conversion, voting or other rights, which could adversely affect the relative voting power or other rights of the common stock. Preferred stock could be used as a method of discouraging, delaying, or preventing a take-over of our company. If we issue "blank check" preferred stock, it could have a dilutive effect upon our common stock. This would decrease the chance that our stockholders would realize a premium over market price for their shares of common stock as a result of a takeover bid.

Also, in connection with the Cardiosonix acquisition, the former stockholders of Cardiosonix entered into an agreement with us that for a period of two years following the acquisition, they would not participate in certain actions and transactions that would lead to a change in control of our company, and to vote their shares in conformity with the recommendations of our Board of Directors as to certain matters, including the approval of transactions that would result in a change in control. These provisions could have the effect of discouraging, delaying or preventing a takeover of our company.

Because we will not pay dividends, stockholders will only benefit from owning common stock if it appreciates.

We have never paid dividends on our common stock and we do not intend to do so in the foreseeable future. We intend to retain any future earnings to finance our growth. Accordingly, any potential investor who anticipates the need for current dividends from his investment should not purchase our common stock.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This prospectus contains forward-looking statements within the meaning of Section 27A of the Securities Act and Section 21E of the Exchange Act. We have based these forward-looking statements largely on our current expectations and projections about future events and financial trends affecting the financial condition of our business. These forward-looking statements are subject to a number of risks, uncertainties and assumptions, including, among other things:

- general economic and business conditions, both nationally and in our markets,
- our history of losses,
- our expectations and estimates concerning future financial performance, financing plans and the impact of competition,
- our ability to implement our growth strategy,
- anticipated trends in our business,
- advances in technologies, and
- other risk factors set forth under "Risk Factors" in this prospectus.

In addition, in this prospectus, we use words such as "anticipates," "believes," "plans," "expects," "future," "intends," and similar expressions to identify forward-looking statements.

We undertake no obligation to update publicly or revise any forward-looking statements, whether as a result of new information, future events or otherwise after the date of this prospectus. In light of these risks and uncertainties, the forward-looking events and circumstances discussed in this prospectus may not occur and actual results could differ materially from those anticipated or implied in the forward-looking statements.

USE OF PROCEEDS

This prospectus relates to shares of our common stock that may be offered and sold from time to time by the former shareholders of Cardiosonix, Ltd., an Israeli company limited by shares, formerly known as Biosonix, Ltd. We will receive no proceeds from the sale of shares of common stock in this offering.

MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Our common stock trades on the OTC Bulletin Board under the trading symbol NEOP. The prices set forth below reflect the quarterly high and low sales prices for shares of our common stock during fiscal years 2001 and 2002, and for the first quarter ended March 31, 2003, as reported by Reuters Limited. These quotations reflect inter-dealer prices, without retail markup, markdown or commission, and may not represent actual transactions.

	HIGH	LOW
Fiscal Year 2003		
First Quarter	$ 0.17	$ 0.10
Second Quarter through May 28, 2003	0.26	0.10
Fiscal Year 2002		
First Quarter	$ 0.55	$ 0.35
Second Quarter	0.42	0.25
Third Quarter	0.30	0.08
Fourth Quarter	0.31	0.05
Fiscal Year 2001		
First Quarter	$ 0.69	$ 0.41
Second Quarter	1.05	0.40
Third Quarter	0.77	0.35
Fourth Quarter	0.51	0.34

As of May 15, 2003, we had approximately 773 holders of common stock of record.

We have not paid any dividends on our common stock and do not anticipate paying cash dividends in the foreseeable future. We intend to retain any earnings to finance the growth of our business. We cannot assure you that we will ever pay cash dividends. See "Management's Discussion and Analysis of Financial Condition and Results of Operations" below.

EQUITY COMPENSATION PLAN INFORMATION

The following table sets forth additional information as of December 31, 2002, concerning shares of our common stock that may be issued upon the exercise of

options and other rights under our existing equity compensation plans and arrangements, divided between plans approved by our stockholders and plans or arrangements not submitted to our stockholders for approval. The information includes the number of shares covered by, and the weighted average exercise price of, outstanding options and other rights and the number of shares remaining available for future grants excluding the shares to be issued upon exercise of outstanding options, warrants, and other rights.

	NUMBER OF SECURITIES TO BE ISSUED UPON EXERCISE OF OUTSTANDING OPTIONS, WARRANTS AND RIGHTS (a)	WEIGHTED-AVERAGE EXERCISE PRICE OF OUTSTANDING OPTIONS, WARRANTS AND RIGHTS (b)	NUMB REMA FOR EQU PL SECU IN
Equity compensation plans approved by security holders	2,317,725	$0.70	
Equity compensation plans not approved by security holders	-	-	
Total	2,317,725	$0.70	

MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read together with our Financial Statements and the Notes related to those statements, as well as the other financial information included in the Form SB-2 Registration Statement, of which this prospectus is a part. Some of our discussion is forward-looking and involves risks and uncertainties. For information regarding risk factors that could have a material adverse effect on our business, refer to the Risk Factors section of this prospectus beginning on page 3.

THE COMPANY

We are a biomedical technology company that provides innovative surgical and diagnostic products that enhance patient care by meeting the critical decision-making needs of healthcare professionals. Prior to the acquisition of Cardiosonix Ltd. (Cardiosonix) on December 31, 2001, our marketable products were limited to a line of gamma detection devices used in the surgical application of intraoperative lymphatic mapping (ILM). The acquisition of Cardiosonix significantly expanded the potential of our product offerings. Cardiosonix is in the process of developing and commercializing a unique line of proprietary blood flow monitoring devices for a variety of diagnostic and surgical applications. Cardiosonix has received marketing clearance for two of its products, QUANTIX/ND(TM) and QUANTIX/OR(TM), in Europe and for the QUANTIX/ND in the U.S.

OUTLOOK AND OVERVIEW

This Overview and Outlook section contains a number of forward-looking statements, all of which are based on current expectations. Actual results may

differ materially. Our financial performance is highly

dependent on our ability to continue to generate income and cash flow from our gamma device product line and on our ability to successfully commercialize the blood flow products of our subsidiary, Cardiosonix. We cannot assure you, however, that we will achieve the volume of sales anticipated, or if achieved, that the margin on such sales will be adequate to produce positive operating cash flow. While we remain optimistic about the longer-term potential for our other proprietary technologies such as LYMPHOSEEK(TM), RIGS(R) and ACT, these technologies are not anticipated to generate any significant revenue for us during 2003. We have tried unsuccessfully to identify development partners for RIGS and ACT over the past few years and as such, we have recently engaged an investment banker to assist us in selling or licensing the RIGS and ACT technologies.

We continue to assess our business plan and the challenges we face, including our future capital requirements. Although in April 2003 we obtained bridge financing loans for a total of $500,000 ($250,000 of which was obtained from our President and CEO), we do not know if we will succeed in raising additional funds through further offerings of debt or equity. We believe our currently available financing, including the recent bridge loans, will be adequate to sustain operations through the end of 2003. However, our independent auditors have issued an opinion that indicates that they have substantial doubt about our ability to continue our business operations as a going concern. We believe that unless additional financing is arranged, we will likely have to make significant changes to our business plan during the third or fourth quarter of 2003 in order to sustain our operations into 2004. Such changes would likely delay the successful launch of our blood flow product line or force us to significantly curtail our blood flow operations, thus jeopardizing our future.

We must achieve profitability starting in 2004 for our business model to succeed. Prior to accomplishing this goal, we believe that we will need to arrange an additional capital infusion of at least $1.5 million (including $500,000 to pay off bridge loans in June 2004) in order to realize the goals in our current business plan. While such capital infusion could include financings under our share purchase agreement with Fusion Capital, current market prices preclude our use of that facility. We cannot assure you that subsequent additional capital infusions will be made available to us on a timely basis or that the additional capital that we require will be available on acceptable terms, if at all. Additionally, the terms of a subsequent financing may involve a change of control and/or require stockholder approval. If we are unable to obtain additional financing as necessary, we may have to severely curtail our operations.

During 2002, we implemented a number of cost saving measures including workforce reductions of over 50% in our gamma product development and support staff during the third and fourth quarters of 2002. In addition, starting in August 2002, we began implementing voluntary salary deferments for our officers. In February 2003, the deferment of our President's salary was amended at his direction to decrease his salary by 40% for the remainder of his existing contract and Neoprobe's other officers accepted new employment agreements that defer 20% of their previous base salaries until our financial condition improves.

As of March 31, 2003, our cash on-hand was $352,000. During the first quarter of 2003, we used $246,000 in cash to fund our operations. We obtained $500,000 in bridge financing loans in April 2003; however, we are actively engaged in seeking additional financing in a variety of venues and formats and we continue to impose actions designed to minimize our operating losses. In addition,

although we have no current plans to do so, we may be forced to consider strategic opportunities such as a merger or other comparable transaction, to sustain our operations. We do not currently have any agreements in place with respect to any such strategic opportunity, and we cannot assure you that additional capital will be available to us on acceptable terms, or at all. If additional financing is not available when required or is not available on acceptable terms, or we are unable to arrange a suitable strategic opportunity, we may be unable to continue our operations at current levels, or at all.

We cannot assure you that the additional capital we require will be available on acceptable terms, if at all. We cannot assure you that we will be able to successfully commercialize Cardiosonix' products or that we

will achieve significant product revenues from our current or potential new products. In addition, we cannot assure you that we will achieve or sustain profitability in the future.

OUR OUTLOOK FOR OUR GAMMA DETECTION PRODUCTS

Numerous articles have been published in recent years in peer-reviewed journals on the topics of sentinel lymph node biopsy and ILM, and a number of thought leaders and cancer treatment institutions have recognized and embraced the technology as standard of care for melanoma and, in some cases, for breast cancer. However, as the melanoma market represents less than 10% of the breast care market, standard of care recognition related to breast care is much more important to us. Standard of care designation for breast cancer is most likely dependent on completion of several large multi-center clinical trials in the U.S. and abroad. Final data from these studies likely will not be presented for two to three years, at the earliest. However, we believe that the surgical community will continue to adopt the ILM application while the standard of care determination is still pending. We also believe the lymphatic targeting agent being developed by the University of California, San Diego (UCSD) for us, if it should become commercially available, could improve the adoption of ILM in future years.

Despite the lower than expected demand for our gamma detection products that we and our marketing and distribution partners experienced in 2002, we continue to be encouraged by the attention focused on ILM by the medical community at surgical conferences, especially related to investigations into other applications beyond melanoma and breast cancer. We believe the introduction of our laparoscopic probe will greatly assist surgeons in expanding into areas such as gastric and colon cancers. We also believe the market focus in all major global markets for hand-held gamma detection devices will continue to be among local/community hospitals, which typically lag behind leading research centers and major hospitals in adapting to new technologies. A slower than anticipated adoption rate may negatively impact our sales volumes, and therefore, revenues and net income in 2003. The contractual minimum purchase requirements from our 1999 distribution agreement with Ethicon Endo-Surgery, Inc. (EES), a Johnson and Johnson company, were met during the fourth quarter of 2002; however, we believe that EES' total purchases of base NEO2000(R) systems for 2003 may be as much as 25% - 30% greater than 2002 based on their current forecast and the fact that their overstock position had been eliminated as of the end of 2002. We cannot assure you, however, that EES' sales will indeed increase and result in increased demand for our products.

In addition, under the terms of our marketing agreement with EES, the transfer prices we receive on product sales to EES are based on a percentage of their

end-customer sales price, subject to a floor transfer price. To date, our products have commanded a price premium in most of the markets in which they are sold, which we believe is due to their superior performance and ease of use. While we continue to believe in the technical and user-friendly superiority of our products, competitors continue to innovate and we may lose market share as a result. A loss of market share would likely have a direct negative impact on net income. Although the end-customer average sales price (ASP) may decline due to external market pressures and competition, the percentage of ASP shared with us will not change again under the terms of the current distribution agreement. In addition, the price that we received during 2002 was only 11% above the floor pricing for base systems, so we believe there is little downside pricing risk associated with future sales of our gamma detection devices to EES.

EES has also reimbursed us for a flat amount per quarter ($125,000) related to research and development expenses incurred on EES' behalf. This flat reimbursement ended at the end of the third quarter of 2002. Since that time, we have performed development activities on behalf of EES that are being evaluated and reimbursed on a project-by-project basis. We currently have one such project underway that is expected to be completed by mid-2003. We cannot assure you that we will be successful in negotiating additional reimbursement from EES covering product development at terms acceptable to us, or at all.

Despite the declines experienced in our gamma detection business line in 2002, we believe the anticipated increase in volumes, coupled with the reductions in our overhead structure, will result in our gamma business line being profitable in 2003.

OUR OUTLOOK FOR OUR BLOOD FLOW PRODUCTS

Our primary efforts concerning the QUANTIX products in 2003 will include significant continued development and product refinement, regulatory approval efforts, pre-commercialization market preparation, distribution, marketing and administrative support activities. During late 2002, we received regulatory approvals to market the QUANTIX/ND in the U.S. and the EU. We placed a small number of devices with two distributors covering three countries for their demonstration purposes. Since the end of 2002, we have received CE Mark clearance to market the QUANTIX/OR in the EU and have a 510(k) pending in the U.S. Currently, we have six distributors covering seven countries for the QUANTIX/ND and five distributors covering six countries for the QUANTIX/OR. We have commenced commercial shipment of the QUANTIX/OR to distributors in Europe and the Pacific Rim. We are in active dialogue for marketing and distribution rights with a number of parties of varying sizes and with varying market expertise for additional markets including the U.S. The majority of the distributors signed up to date are in the EU and the Pacific Rim. We have not yet signed a distributor for the QUANTIX/ND or QUANTIX/OR covering the U.S. or Japan. Our goal in securing marketing and distribution partners is to first identify parties who possess appropriate expertise in marketing medical devices, preferably ultrasound or cardiac care devices, into our primary target markets, the cardiac care and neurosurgical markets. If possible, we will try to secure partners with broad global reach similar to the path we have followed for our gamma detection devices. If such a partner is not available for a given market or if a territory-specific partner has expertise that we believe outweighs the value of a global market reach, we will enter into territory-specific arrangements as necessary.

We anticipate spending a significant amount of time and effort in 2003 to bring the Cardiosonix blood flow products to a wider market. We will need to continue to train our distributors and work through them with thought leaders in the

cardiac and neurosurgical fields to gain broader exposure to the advantages of our technology. We anticipate placing blood flow systems with industry thought leaders to obtain critical pre-commercialization feedback prior to widespread market launch. The market education process we envision will likely take some time to develop in the manner we desire. In addition, the sales cycle for medical devices such as our blood flow products is typically a four to six month cycle. As such, significant end customer sales, if they occur, will likely lag the signing of distribution arrangements. Our sales of blood flow products for the first two to three quarters of 2003 will likely consist primarily of demonstration units sold to distributors. As a result, we anticipate that the product development and market support costs we will incur in 2003 will be greater than the revenue we generate from the sales of blood flow devices. We expect a significant loss from our blood flow operations for 2003.

SUMMARY

The strengthening of our gamma business portfolio coupled with the introduction of the Cardiosonix blood flow products should position Neoprobe to achieve long-term profitable operating performance beginning in late 2003 or early 2004. However, as we have previously stated, we are in critical need of additional capital in order to give us greater assurance that we will be able to fund the remaining research and market development activities associated with our blood flow line and to allow us to meet our business objectives in the timeframe we have set out in our business plan. Our future liquidity and capital requirements will depend on numerous factors, including the ability to raise additional capital in a timely manner through additional investment, a potential merger, or similar transaction, as well as expanded market acceptance of our current products, improvements in the costs and efficiency of our manufacturing processes, our ability to develop and commercialize new products, regulatory actions by the U.S. FDA and other international regulatory bodies, and intellectual property protection.

We anticipate generating a net profit from our gamma detection devices in 2003; however, we expect our overall operating and net results for 2003 to show a loss due to significant research and development, marketing and administrative support costs that are still required to commercialize our blood flow product line. Currently, we expect the loss for 2003 to be less than the loss incurred in 2002. However, this expectation is based to a large degree on our anticipation that we will achieve the necessary developmental and regulatory milestones necessary to achieve significant commercial sales of our QUANTIX/OR product in a timely manner. If we are unsuccessful in achieving significant commercial sales

of the OR product in 2003 or additional funding, our estimates and our business plan may need to be significantly modified or curtailed.

Depending on the success of our QUANTIX product line and the timing of new product development and regulatory approval cycles, we expect to achieve a small operating profit no earlier than mid-2004. However, we cannot assure you that our current or potential new products will be successfully commercialized or that we will achieve significant product revenues. In addition, we cannot assure that we will achieve or sustain profitability in the future.

RESULTS OF OPERATIONS

YEARS ENDED DECEMBER 31, 2002 AND 2001

We reported revenues for 2002 of $4.9 million compared to $8.2 million in the

prior year. The decline in revenue in 2002 versus 2001 is the direct result of a decline in demand from our primary distributor, EES. We attribute this decline in demand primarily to three factors: EES was overstocked of base NEO2000 systems for most of 2002 and finally eliminated its overstock position by year end; a lack of success to date in placing our BLUETIP(R) products with end users; and the timing of the reporting of results from multinational clinical trials regarding the use of ILM in breast cancer. Exact market penetration for our products is difficult to gauge, as there are no widely published use statistics on this specific type of device or the application of sentinel lymph node biopsy. We believe, based on anecdotal information, that the application of ILM has increased steadily over the past few years, but that the global adoption rate for lymphatic mapping may be slowing pending the outcome of major international trials in breast care. In 2000 and 2001, EES' end-customer device placements of our base gamma detection systems increased over the respective prior years. In 2002, the sales rate was relatively flat compared to the prior year. Although EES' minimum purchase commitments were fully satisfied by the end of 2002, we believe, based on EES' current committed and forecast demand, that 2003 demand may be as much as 25% - 30% higher than 2002 demand for base NEO2000 systems. During the fourth quarter of 2002, EES experienced a return to historical levels of placements of our gamma detection equipment.

Our overall gross profit for fiscal year 2002 improved to 52% of gross revenue as compared to 46% for fiscal year 2001. Our gross profit percentage increased over the prior year primarily due to our principal distribution partner's ability to maintain the premium pricing position of our gamma detection products in the marketplace. In addition, increases in revenue from extended warranty sales coupled with decreases in overhead associated with our continuing efforts to reduce our cost structure contributed to the improvement. Gross margins on net product sales were 30% of net sales in 2002, as compared to 35% of net product sales in 2001. The decline in gross margins was due to a $214,000 impairment charge we recorded during the third quarter of 2002 related to BLUETIP probe-related inventory that we did not believe had ongoing value to the business. The impairment charge had a 7% negative effect on our gross margins for the year but were offset in large part to a recovery in the average prices EES received from end customers for gamma detection products. Our distribution agreement with EES provides for our transfer prices to be based on a percentage of the end-customer ASP they receive, subject to a floor transfer price. During the first three quarters of 2002, we recorded revenue based on the floor transfer price; however, during the fourth quarter, we negotiated final transfer prices for our 2002 sales to EES and recorded a positive adjustment to revenue of $193,000.

Results for 2002 also reflect the significant efforts made in the development of Cardiosonix' Angle-independent Doppler Blood Flow (ADBF(TM)) technology. Accordingly, our research and development costs for 2002 increased to $2.3 million compared to $948,000 in 2001. In addition, consolidated administrative expenses increased over the prior year with the absorption of market development and other overhead costs associated with Cardiosonix' operations.

We were able to achieve better than expected results for 2002 while continuing our development of the Cardiosonix blood flow measurement products. The development activities culminated with the shipment of the first Cardiosonix blood flow demonstration units to distributors in the fourth quarter.

Our major expense categories as a percentage of sales increased from 2001 to 2002 due in large part to the decline in overall sales between the two periods. Research and development expenses, as a percentage of sales, increased to 69% in 2002 from 14% in 2001 due also to the incremental development costs associated

with the QUANTIX line of blood flow products. Selling, general and administrative expenses, as a percentage of sales, increased to 97% in 2002 from 34% in 2001 due largely to the decline in net sales but also due to the amortization of intangible assets and other general and administrative charges following our acquisition of Cardiosonix. We believe these major expense categories, as a percentage of sales, will decrease in 2003 as compared to 2002 due to anticipated increases in sales coupled with a lower overall cost structure for our gamma business; however, this decrease will depend greatly on our success in achieving commercial sales of our blood flow products.

Net Sales and Margins. Net product sales, primarily of our gamma detection systems, decreased $3.4 million or 50% to $3.4 million in 2002 from $6.8 million in 2001. Gross margins on net product sales were 30% of net sales in 2002, as compared to 35% of net product sales in 2001. However, our gross margins on net sales for 2002 included an impairment charge of $214,000 we recorded during the third quarter related to BLUETIP probe-related inventory that we did not believe had ongoing value to the business. The impairment charge had a 7% negative effect on our gross margins for the year. Excluding the impairment charge, our gross margins for 2002 would have increased for the year due in large part to a recovery in the average prices EES received from end customers for gamma detection products.

The decline in net product sales was the result of lower overall demand from EES for the base NEO2000 gamma detection system (i.e., a 14mm probe and NEO2000 control unit) during 2002 as compared to 2001. End-customer (i.e., hospital) demand for these base systems appears to have flattened in 2002 as compared to 2001. In addition, BLUETIP probes did not achieve the end customer acceptance originally anticipated when EES' initial stocking orders were delivered in the first half of 2001, and as a result, EES notified us during the third quarter of 2002 of their intent to shift product sales emphasis to the 14mm probe and away from the BLUETIP probes during 2003. The decline in demand below EES' original expectations for NEO2000 systems and for BLUETIP probes, coupled with purchases they were required to make under the terms of the distribution agreement, resulted in an overstock position for probes and control units at EES at the end of 2001 that was not corrected until the end of 2002. These factors resulted in a net decrease in probe sales (i.e., BLUETIP probes and 14mm probes) of 71% during 2002 as compared to 2001. Our sales of control units were also affected by the decline in demand from EES, resulting in a net decrease of 39% in control unit sales volumes over the two periods.

The decline in gross margins on net product sales was almost entirely due to the obsolescence charge for $214,000 in BLUETIP probe-related materials and finished goods inventory. The impairment charge had a 7% negative effect on our gross margins for the year but were offset in large part to a recovery in the average prices EES received from end customers for NEO2000 systems.

License and Other Revenue. License and other revenue in 2002 and 2001 included $800,000 from the pro-rata recognition of license fees related to the distribution agreement with EES and $520,000 and $603,000, respectively, from the reimbursement by EES of certain product development costs. License and other revenue in 2002 also included $218,000 from EES' waiver of certain warranty costs due from us in exchange for a release from contractual minimum purchase requirements.

Research and Development Expenses. Research and development expenses increased $1.4 million or 145% to $2.3 million in 2002 from $948,000 in 2001. The increase is primarily due to product development efforts related to the Cardiosonix line of blood flow measurement products and $54,000 in gamma detection drug development costs, offset by lower compensation costs resulting from headcount reductions of gamma product line personnel in the third and fourth quarters of 2002.

Selling, General and Administrative Expenses. Selling, general and administrative expenses increased $946,000 or 41% to $3.3 million in 2002 from $2.3 million in 2001. The increase was primarily a result of the general and administrative costs incurred in the operation and support of Cardiosonix, $360,000 in amortization of intangible assets related to the acquisition of Cardiosonix, increased consulting and professional services incurred related to Cardiosonix, the transfer of manufacturing of certain components of the NEO2000 gamma detection system to a new contract manufacturer, and $138,000 in impairment of production equipment and intellectual property that we did not believe had ongoing value to the business. These increases were offset by decreases in certain overhead costs, such as compensation and warranty expenses.

Acquired In-Process Research and Development. In 2001, we recorded an $885,000 expense representing the portion of the purchase price of Cardiosonix that was allocated to in-process research and development (IPR&D) for the QUANTIX/OR product as estimated at the date of acquisition. Our original recording of the acquisition in 2001 also included recording the assets and liabilities acquired along with some contingent consideration related to the future achievement of a developmental milestone by Cardiosonix. We recorded the contingent consideration at December 31, 2001, based on the value of our common stock at that time. The contingent consideration we had recorded at the end of last year was re-valued at the date the milestone was achieved and the contingency satisfied. In reflecting the satisfaction of the contingency on our books, we adjusted the final purchase price paid for Cardiosonix according to generally accepted accounting principles. As a result, the $885,000 IPR&D charge recorded in 2001 was decreased by $28,000 in 2002.

Other Income. Other income decreased $341,000 or 92% to $28,000 during 2002 from $370,000 during 2001. Other income in 2002 consisted primarily of interest income. Our interest income decreased because we maintained a lower balance and received a lower interest rate on our cash and investments during 2002 as compared to 2001, consistent with marketplace activity over the two periods.

Other income during 2001 consisted primarily of a $238,000 refund of a portion of the limited guarantee that we made related to a loan made by a bank to our former subsidiary, Neoprobe (Israel) Ltd. (Neoprobe Israel). We had previously put cash on deposit with the bank as security for the limited guarantee. The full amount of the limited guarantee was written off in 1998 in conjunction with our decision to liquidate Neoprobe Israel, as we did not expect to receive any of the cash deposit back from the bank. In connection with the refunded cash deposit, the bank also granted us a general release from all obligations related to the loan.

THREE MONTHS ENDED MARCH 31, 2003 AND 2002

RESULTS OF OPERATIONS

Revenue for the first quarter of 2003 increased $479,000 or 45% to $1.5 million from $1.1 million for the same period in 2002. Major expense categories as a percentage of net sales decreased in the first quarter of 2003 as compared to the same period in 2002, due primarily to the increase in net sales coupled with a lower overall cost structure for our gamma business. Research and development expenses, as a percentage of net sales, decreased to 32% during the first quarter of 2003 from 73% during the same period in 2002. Selling, general and

administrative expenses, as a percentage of net sales, decreased to 58% during the first quarter of 2003 from 116% during the same period in 2002. We will continue to control our costs and expect these major expense categories, as a percentage of net sales, to continue to decrease for 2003 as compared to 2002; however, this decrease will depend greatly on our success in achieving commercial sales of our blood flow products.

Net Sales and Margins. Net sales, primarily of our gamma detection systems, increased $568,000 or 77% to $1.3 million during the first quarter of 2003 from $735,000 during the same period in 2002. Gross margins on net sales increased to 36% of net sales for the first quarter of 2003 compared to 30% of net sales for the same period in 2002. The increase in net sales was the result of increased demand from our primary marketing partner, Ethicon Endo-Surgery, Inc. (EES), for the base neo2000(R) gamma detection system (i.e., a 14mm probe and neo2000 control unit) coupled with higher average revenue per

system being recorded in 2003. The price at which Neoprobe sells its products to EES is based on a percentage of the global average sales price (ASP) received by EES on sales to end customers. During the first quarter of 2002, we recorded revenue at the floor transfer prices per the distribution agreement due to perceived weakness in the global ASP. However, over the course of 2002 and continuing into 2003, global ASP appears to be remaining stronger than expected such that management believed it was more appropriate to record revenue at the provisional transfer price per the distribution agreement for the first quarter of 2003. The increase in gross margins was due to higher recorded revenue per system combined with lower capitalized internal manufacturing costs contributing to lower average costs for gamma detection products, offset by increased estimated warranty costs related to initial sales of our blood flow devices during the first quarter of 2003 as compared to the first quarter of 2002.

License and Other Revenue. License and other revenue in the first quarters of 2003 and 2002 included $200,000 from the pro-rata recognition of license fees related to the distribution agreement with EES and $35,000 and $125,000, respectively, from the reimbursement by EES of certain product development costs.

Research and Development Expenses. Research and development expenses decreased $121,000 or 22% to $419,000 during the first quarter of 2003 from $540,000 during the same period in 2002. The decrease was primarily due to lower compensation costs resulting from headcount reductions of gamma product line personnel in the third and fourth quarters of 2002, offset by increased product development efforts related to the Cardiosonix line of blood flow measurement products. Research and development expenses in the first quarter of 2002 also included $55,000 in gamma detection drug development costs.

Selling, General and Administrative Expenses. Selling, general and administrative expenses decreased $97,000 or 11% to $754,000 during the first quarter of 2003 from $851,000 during the same period in 2002. The decrease was primarily due to lower compensation costs resulting from headcount reductions of gamma product line personnel in the third and fourth quarters of 2002, offset by increased selling, general and administrative expenses incurred in the operation and support of Cardiosonix. Selling, general and administrative expenses in the first quarters of 2003 and 2002 included $30,000 and $45,000, respectively, in impairment of intellectual property that we did not believe had ongoing value to the business. Selling, general and administrative expenses in the first quarter of 2002 also included $55,000 for the transfer of manufacturing of certain components of the neo2000 gamma detection system to a new contract manufacturer.

Other Income (Expenses). Other income (expenses) decreased $8,000 to expenses of $5,700 during the first quarter of 2003 from income of $2,600 during the same period in 2002. Other income during the first quarters of 2003 and 2002 consisted primarily of interest income. Our interest income decreased because we maintained a lower balance of cash and investments during the first quarter of 2003 as compared to the same period in 2002.

LIQUIDITY AND CAPITAL RESOURCES

Operating Activities. Cash used in operations decreased $214,000 to $246,000 during the first quarter of 2003 from $460,000 during the same period in 2002. Working capital decreased $470,000 to $670,000 at March 31, 2003 as compared to $1.1 million at December 31, 2002. The current ratio decreased to 1:1.3 at March 31, 2003 from 1:1.6 at December 31, 2002. The decrease in working capital was primarily related to cash used to fund development activities.

Cash balances decreased to $353,000 at March 31, 2003 from $701,000 at December 31, 2002, primarily due to the requirements of supporting the operations of Cardiosonix, offset by the increase in net sales during the first quarter of 2003.

Accounts receivable increased to $917,000 at March 31, 2003 from $746,000 at December 31, 2002. We expect receivable levels to continue to fluctuate in 2003 depending on the timing of purchases and payments by EES.

Inventory levels decreased to $970,000 at March 31, 2003 as compared to $1.2 million at December 31, 2002, primarily due to the increased demand from EES and the use of certain long-lead gamma detection device components that were built up during 2001 to take advantage of quantity price breaks. These decreases were offset by the build-up of inventory related to our blood flow products in preparation for market launch. During the remainder of 2003, we will continue to work through our carryover stock of certain long-lead components of gamma detection materials. We expect inventory levels to increase during 2003 as the building of initial inventory of blood flow products offsets the use of these long-lead components.

Investing Activities. Cash used in investing activities decreased to $18,000 during the first quarter of 2003 from $2.5 million during the same period in 2002. During February and March 2002, we invested in $2.5 million of available-for-sale securities. Capital expenditures in the first quarters of 2003 and 2002 were split between purchases of production tools and equipment and technology infrastructure. Capital needs for 2003 are expected to increase over 2002 to support blood flow product development and manufacturing activities, although it is our intent to initially outsource manufacturing of blood flow products as much as possible as is currently done for our gamma detection devices. We estimate that the additional costs to complete planned development activities, respond to initial customer feedback, and support initial marketing efforts for our blood flow products for 2003 could approach $2.0 million.

Financing Activities. Financing activities used $83,000 in cash in the first quarter of 2003 versus $72,000 during the same period in 2002. Payments of notes payable were $13,000 higher during the first quarter of 2003 as compared to the same period in 2002 due to the increased cost of financed insurance.
On November 19, 2001, we entered into a common stock purchase agreement with an investment fund, Fusion Capital Fund II, LLC (Fusion) for the issuance and purchase of our common stock. Under the stock purchase agreement, Fusion committed to purchase up to $10 million of our common stock over a forty-month period that commenced in May 2002. A registration statement registering for

resale up to 5 million shares of our common stock became effective on April 15, 2002. Under the terms of the agreement, we can request daily drawdowns, subject to a daily base amount currently set at $12,500. The number of shares we are to issue to Fusion in return for that money will be based on the lower of (a) the closing sale price for our common stock on the day of the draw request or (b) the average of the three lowest closing sales prices for our common stock during a twelve day period prior to the draw request. However, no shares may be sold to Fusion at lower than a floor price currently set at $0.30, but in no case below $0.20 without Fusion's prior consent. Upon execution of the common stock purchase agreement, we issued 449,438 shares of our common stock to Fusion as a commitment fee. Market conditions (i.e., share price) have effectively prohibited us from drawing funds under the Fusion facility, and in the absence of a change in those conditions, the Fusion facility is unlikely to be drawn on in the foreseeable future.

During April 2003, we completed a bridge loan agreement with our President and CEO, David Bupp. Under the terms of the agreement, Mr. Bupp advanced us $250,000. Interest is payable on the note at 8.5%, payable monthly, and the note is due on June 30, 2004. In consideration for the loan, we issued Mr. Bupp 375,000 warrants to purchase our common stock at an exercise price of $0.13 per share.

During April 2003, we also completed a bridge loan agreement with an outside investor for an additional $250,000. Under the terms of the agreement, interest is payable on the note at 9.5%, payable monthly, and the note is due on June 30, 2004. In consideration for the loan, we issued the investor 500,000 warrants to purchase our common stock at an exercise price of $0.13 per share. The notes are also convertible into our common stock beginning on July 1, 2003. Half of the principal is convertible into common stock at a 15% discount to the 20-day average market price preceding the conversion, but in no case greater than a $0.20 ceiling conversion price or less than a $0.10 floor conversion price. The remaining half of the principal is also convertible at a 15% discount to a 20-day average market price preceding the conversion, subject only to the $0.10 floor conversion price.

Our future liquidity and capital requirements will depend on a number of factors, including our ability to raise additional capital in a timely manner through additional investment, expanded market acceptance of

our current products, our ability to commercialize new products such as our blood flow product line, our ability to monetize our investment in non-core technologies, our ability to obtain milestone or development funds from potential development and distribution partners, regulatory actions by the U.S. FDA and other international regulatory bodies, and intellectual property protection.

Throughout 2002, we made modifications to our operating plan and cut or delayed planned expenditures as a result of delays in our ability to obtain additional sources of financing. To this point, such changes and cuts have not had a significant impact on our ability to meet the operational milestones we set at the beginning of the year. Despite the bridge loans we completed with Mr. Bupp and the outside investor, we continue to believe we will need to raise at least $1.0 million of additional funds to ensure we can complete the commercialization of the Cardiosonix product line. We continue to have discussions with potential external financing sources; however, we cannot assure you that additional capital will be available on acceptable terms, if at all. If additional funding is not secured in the near future, we will have to further modify and/or significantly curtail our current strategic and operating plans. We cannot

assure you that we will be able to achieve significant product revenues from our current or potential new products. In addition, we cannot assure you that we will achieve profitability again in the future.

Contractual Obligations and Commercial Commitments. The following table presents our contractual obligations and commercial commitments as of March 31, 2003.

	PAYMENTS DUE BY PERIOD			
CONTRACTUAL CASH OBLIGATIONS	TOTAL	LESS THAN 1 YEAR	1 - 3 YEARS	4 - 5 YEARS
Capital Lease Obligation	$ 17,784	$ 16,417	$ 1,367	$ -
Operating Leases(1)	370,275	177,465	192,810	-
Unconditional Purchase Obligations(2)	467,816	467,816	-	-
Other Long-Term Obligations	-	-	-	-
Total Contractual Cash Obligations	$ 855,875	$ 661,998	$ 194,177	$ -

(1) In May 2003, we signed an amendment to the lease for our corporate office space. Obligations under the amendment total $43,000 due in less than 1 year, $152,000 due in 1-3 years, and $39,000 due in 4-5 years.

(2) This amount represents purchases under binding purchase orders for which we are required to take delivery of the product under the terms of the underlying supply agreements going out approximately four to five months. In addition, we have annual minimum purchase commitments for an another $714,000 in finished medical devices that are not currently covered by binding purchase orders, but for which we must either submit binding purchase orders on a monthly basis or reimburse the contract manufacturer for any non-cancelable, non-returnable materials. We believe the amount of non-cancelable, non-returnable materials to be less than half of the remaining commitment amount at any point in time.

New Accounting Pronouncements. In April 2003, the FASB issued SFAS No. 149, Amendment of Statement 133 on Derivative Instruments and Hedging Activities. SFAS No 149 amends and clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts (collectively referred to as derivatives) and for hedging activities under SFAS No. 133, Accounting for Derivative and Hedging Activities. SFAS No. 149 is generally effective for contracts entered into or modified after June 30, 2003 and for hedging relationships designated after June 30, 2003. We are still in the process of evaluating the potential impact of this Statement.

In May 2003, the FASB issued SFAS No. 150, Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity. SFAS No. 150

requires issuers to classify as liabilities (or assets in some circumstance) three classes of freestanding financial instruments that embody obligations for the issuer. SFAS No. 150 is generally effective for financial instruments entered into or modified after May 31, 2003 and is otherwise effective at the beginning of the first interim period beginning after June 15, 2003. We are still in the process of evaluating the potential impact of this Statement.

Other Items Affecting Financial Condition. At December 31, 2002, we had U.S. net operating tax loss carryforwards and tax credit carryforwards of approximately $92.4 million and $4.3 million, respectively, available to offset or reduce future income tax liability, if any, through 2022. However, under Sections 382 and 383 of the Internal Revenue Code of 1986, as amended, use of prior tax loss and credit carryforwards may be limited after an ownership change. As a result of ownership changes as defined by Sections 382 and 383, which have occurred at various points in our history, we believe utilization of our tax loss carryforwards and tax credit carryforwards may be limited.

CRITICAL ACCOUNTING POLICIES

The following accounting policies are considered to be critical to our results of operations and financial condition.

Revenue Recognition Related to Net Product Sales. We currently generate revenue primarily from sales of our gamma detection devices. We recognize sales revenue when the products are shipped and the earnings process has been completed. Our customers have no right to return products purchased in the ordinary course of business. The prices we charge our primary customer, EES, are subject to retroactive annual adjustment based on a fixed percentage of the actual sales prices achieved by EES on sales to end customers made during each fiscal year. To the extent that we can reasonably estimate the end-customer prices received by EES, we record sales to EES based upon these estimates. If we are unable to reasonably estimate end customer sales prices related to certain products sold to EES, we record revenue related to these product sales at the minimum price provided for under our distribution agreement with EES. Due to uncertainty regarding end customer prices during 2002 and 2001, we recorded revenue at the minimum prices for most of the year until the final reconciliation was completed with EES. The completion of the reconciliation resulted in our recording approximately $193,000 and $60,000, respectively, in additional revenue in the fourth quarters of 2002 and 2001 related to sales made during the first, second and third quarters of 2002 and the second and third quarters of 2001. Final adjusted prices for 2002 and 2001 were approximately 11% and 4%, respectively, above the floor prices. The final adjusted prices for 2002 serve as the basis for provisional prices to be charged EES for sales in 2003. As such, we believe we have only a small amount of price exposure related to sales to EES in 2003 and beyond related to currently marketed products.

Impairment or Disposal of Long-Lived Assets. We account for long-lived assets in accordance with the provisions of SFAS No. 144. This Statement requires that long-lived assets and certain identifiable intangibles be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net undiscounted cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell. As of December 31, 2002, the most significant long-lived assets on our balance sheet relate to assets recorded in connection with the acquisition of Cardiosonix and gamma detection device patents related to ILM. The recoverability of these assets is based on the financial projections and

models related to future sales of Cardiosonix' products which have yet to begin and the continuing success of our gamma detection product line. As such, these assets could be subject to significant adjustment should the Cardiosonix technology not be successfully commercialized or the sales amounts in our current projections not be realized.

ADDITIONAL INFORMATION

For additional information about our operations, cash flows, liquidity and capital resources, please refer to the information on pages F-1 through F-28 of this prospectus.

DESCRIPTION OF BUSINESS

DEVELOPMENT OF THE BUSINESS

We are a biomedical technology company that provides innovative surgical and diagnostic products that enhance patient care by meeting the critical decision-making needs of healthcare professionals. We were originally incorporated in Ohio in 1983 and reincorporated in Delaware in 1988. Our executive offices are located at 425 Metro Place North, Suite 300, Dublin, Ohio 43017. Our telephone number is (614) 793-7500.

From our inception through the end of 2001, we devoted substantially all of our efforts and resources to the research and clinical development of innovative systems for the intraoperative diagnosis and treatment of cancers. Following an evaluation of our business plan during early 2001, however, we determined that we needed to expand our product portfolio and consider synergistic products outside the cancer or oncology fields.

In December 2001, we acquired Biosonix Ltd., a private Israeli company limited by shares. In February 2002, Biosonix Ltd. changed its name to Cardiosonix Ltd. (Cardiosonix). Cardiosonix is developing and commercializing a unique line of blood flow measurement devices for a variety of diagnostic and surgical applications. The decision to expand beyond our product focus on oncology was based on our belief that the technology platform underlying the Cardiosonix line of products has tremendous market potential and has a number of commonalities with our gamma detection device product line. We intend to take advantage of those synergies in the development, regulation and manufacture of Cardiosonix' devices. We believe that the path of market adoption for the Cardiosonix devices will be similar to the path we have experienced with our gamma detection devices.

Although we have expanded our strategic focus to include blood flow medical devices, we intend to continue many of the strategies outlined in prior years related to the internal development of gamma detection medical devices and to continue promoting development of our other complementary technologies through strategic partnerships and alliances. Our primary goals are to maximize the market potential of Cardiosonix' blood flow products as leaders in the measurement of blood flow in both clinical and surgical settings to supplement our leadership position in the current intraoperative gamma detection market.

OUR TECHNOLOGY

GAMMA DETECTION DEVICES

Through 2002, substantially all of our revenue has been generated from the sale of a line of gamma radiation detection devices and related products used by surgeons in the diagnosis and treatment of cancer and related diseases. Our currently-marketed line of gamma detection devices has been cleared by the U.S. Food and Drug Administration (U.S. FDA) and other international regulatory agencies for marketing and commercial distribution throughout most major global commercial markets.

Our patented gamma detection devices consist of hand-held detector probes and a control unit. The detection device in the tip of the probe is a highly radiosensitive crystal that relays a signal through a preamplifier to the control unit to produce both a digital readout and an audible signal. The detector element fits into a housing approximately the size of a pocket flashlight. The NEO2000(R) Gamma Detection System, originally released in 1998, is the third generation of our gamma detection systems. The NEO2000 is designed as a platform for future growth of our instrument business. The NEO2000 is software upgradeable and is designed to support future surgical targeting probes without the necessity of costly remanufacture. Since 1998, we have developed two software releases that are currently available for upgrade of customer units. We anticipate a third major release will be made available during the second quarter of 2003.

Surgeons are using our gamma detection systems in a surgical application referred to as sentinel lymph node biopsy (SLNB) or intraoperative lymphatic mapping (lymphatic mapping or ILM). ILM helps trace the lymphatic patterns in a cancer patient to evaluate potential tumor drainage and cancer spread in lymphatic tissue. The technique does not detect cancer; rather it helps surgeons identify the lymph node(s) to which a tumor is likely to drain and spread. The lymph node(s) (sometimes referred to as the "sentinel" node(s)) may provide critical information about the stage of a patient's disease. ILM begins when a patient is injected at the site of the main tumor with a commercially available radioactive tracing agent. The agent is intended to follow the same lymphatic flow as the cancer would if it had metastasized. The surgeon may then track the agent's path with a hand-held gamma-radiation-detection probe, thus following the potential avenues of metastases and identifying lymph nodes to be biopsied for evaluation and determination of cancer spread.

Numerous clinical studies, involving a total of nearly two thousand patients and published in peer-review medical journals such as Oncology (January 1999) and The Journal of The American College of Surgeons (December 2000), have indicated ILM is approximately 97% accurate in predicting the presence or absence of disease spread in melanoma or breast cancers. Consequently, it is estimated that more than 80% of women who would otherwise have undergone full axillary lymph node dissections (ALND), involving the removal of as many as 20 - 30 lymph nodes, might be spared this radical surgical procedure if the sentinel node was found to be free of cancer. Surgeons practicing ILM have found that our gamma-detection probes are well suited to the procedure.

Lymphatic mapping has become the standard of care for treating patients with melanoma at many institutions. For breast cancer, the technique appears to be moving toward standard of care status at major cancer centers and is the subject of national and international clinical trials, including studies sponsored by the U.S. Department of Defense, the National Cancer Institute and the American College of Surgeons. While we believe many thought leaders in surgical oncology have adopted lymphatic mapping, the rate of growth in the application of ILM appears to have slowed over the past two years, thus affecting the demand for our gamma detection devices. We believe this is due to a number of surgeons delaying adoption of lymphatic mapping pending the outcome of these important trials. We are also concerned that the completion of these trials may be delayed because some patients participating in clinical trials may perceive that if they

are assigned to a particular study's control group and receive a full ALND, that they may not be receiving the best and latest care. We continue to monitor these trials and we continue to work with our marketing partners and thought leaders in the surgical community to set up and support training courses internationally for lymphatic mapping. Courses showcasing our instruments

continue to be held at many nationally and internationally renowned cancer-specializing and teaching institutions. These courses appear to be positively impacting the adoption of lymphatic mapping, albeit not as rapidly as we would like to see.

In addition to lymphatic mapping, surgeons are investigating the use of our device for other gamma guided surgery applications, such as evaluating the thyroid function, in determining the state of disease in patients with vulvar and penile cancers, and in SLNB in gastric and non-small cell lung cancers. At the 3rd International Conference on Lymphatic Mapping held in Japan in 2002, over half of the presentations were related to investigations of the use of ILM in applications other than breast cancer and melanoma.

Expanding the application of ILM beyond the current primary uses in the treatment of breast cancer and melanoma is the primary focus of our strategy regarding our gamma guided surgery products. To support that expansion, we continue to work with our marketing and distribution partners to develop software-based enhancements to the NEO2000 platform as well as probes such as the laparoscopic probe introduced in 2002 that supports the minimally invasive emphasis in today's practice of surgery. To that end, our primary goals for our gamma device business for 2003 center around working with our marketing partners to improve the market position of our laparoscopic approach and increase awareness of independent research being done to expand the application of ILM to other indications.

BLOOD FLOW DEVICES

Accurate blood flow measurement is required for various clinical needs, including:

- real-time monitoring;
- intra-operative quantification;
- non-invasive diagnostics; and
- evaluation of cardiac function.

Currently, the medical community has no simple, immediate, real-time means to quantify the adequacy of organ perfusion, that is, the direct measurement of blood flow into the organ. Devices do exist that visually show perfusion of a target organ. We are unaware, however, of any device that provides an accurate, real-time measurement of blood flow in as many applications without having to isolate target vessels or conduct other invasive procedures.

In addition, blood flow velocity measurements are often confused with volume blood flow. These two variables, however, are normally different parameters that respond differently to pathological conditions and provide different data. Blood flow velocity is used primarily for determining the existence of a stenosis (narrowing or obstruction) in the vascular surgery setting, while the applications of blood flow volume have potential impact across a much broader range of medical disciplines.

Cardiosonix is developing and commercializing the QUANTIX(TM) line of products that employ a unique and proprietary Angle-independent Doppler Blood Flow (ADBF(TM)) technology that allows for blood flow volume and velocity readings. Most current applications of DoppleR technology to blood flow measurement are angle-dependent and therefore more prone to estimation errors and potential inaccuracy. ADBF eliminates calculation estimation and permits real-time measurement of volume blood flow.

The ADBF technology utilizes a special application of the Doppler method through simultaneous projection of a combination of narrow beams with a known angle between them. Thus, based on trigonometric and Doppler considerations, the angle of insonation can be obtained, resulting in accurate, angle-independent blood flow velocity measurements that do not require the use of complicated, expensive imaging systems. In order to obtain high-resolution velocity profiles, the QUANTIX devices use a multi-gated pulse wave Doppler beam. With this method, specific sample volumes along the ultrasound beam can be separately evaluated, and the application of a flow/no flow criterion can be applied. The Cardiosonix technology applies a special use of digital Doppler technology, which with the digital signal processing power of the system allows hundreds of sample volumes to be sampled and processed

simultaneously, thus providing high resolution velocity profiles for both angle and vascular diameter calculations, and subsequently volume blood flow measurements. At present, Cardiosonix has two products in the early stages of commercialization and one still in development that are designed to provide blood flow measurement and cardiac output information to physicians in cardiac/vascular surgery, neurosurgery and critical care settings.

QUANTIX/ND(TM) is designed to allow neurosurgeons and neurologists, as well as intensive care unit or emergency room physicians, to non-invasively measure carotid artery blood flow in a simple and real-time manner. QUANTIX/ND consists of a control unit and an angle-independent ultrasound probe that obtains signals directly from the carotid artery in a non-invasive manner. QUANTIX/ND is designed primarily for use in monitoring head trauma patients in neuro-intensive care units and emergency rooms. Periodic blood flow measurements minimize the risk of brain impairment. We are unaware of any measurement system on the market today that provides real-time, bedside, non-invasive, continuous, direct and accurate measurements of complete hemodynamic parameters including blood flow. Other modalities that do monitor capabilities of the brain are significantly more invasive, expose the patient to incremental risk or are inherently complicated, offering only indirect estimation of perfusion conditions. Some medical devices use an estimated measurement of blood flow velocity to create an index of blood flow but do not account for instantaneous changes in vascular cross-sectional area. In most competing devices, however, blood flow velocity is angle-dependent and cannot be measured accurately. The QUANTIX/ND device, as well as its predecessor device, the FLOWGUARD(TM), has received CE mark regulatory clearance for marketing in the European Union (EU) as well as U.S. FDA 510(k) clearance for marketing in the United States. Neoprobe has begun commercial shipment of the QUANTIX/ND to distributors in Europe and Asia.

QUANTIX/OR(TM) is designed to permit cardiovascular surgeons and assisting physicians to obtain intraoperative volume blood flow readings in various targeted blood vessels within seconds. The system consists of an angle-independent ultrasound probe and digital numerical displays of blood flow rate. Thus, the surgeon obtains immediate, real-time and quantitative readings while focused on the target vessel. Quantifying blood flow is crucial during anastomostic or other bypass graft procedures to determine adequate blood flow.

While measurement is advisable whenever a blood vessel is exposed intra-operatively, generally this is not the current practice.

Ultimately, in practice, the surgeon generally resorts to using his eyes and fingers in a process called finger palpation to qualitatively assess vessel flow. The QUANTIX/OR offers the surgeon immediate and simple quantitative assessment of blood flow in multiple blood vessels and grafts. The primary advantage of finger palpation is that it is fast and simple; the disadvantages are that it requires a good deal of experience, it is difficult to perform in vessels embedded in tissue, it can become difficult to interpret in large vessels, and it permits only a very qualitative and subjective assessment. A significant partial occlusion (or even a total occlusion) will result in a significant vessel "inflation" and strong palpations that could mislead the surgeon. Instead of such a subjective clinical practice that is highly experience-dependent, the QUANTIX/OR is designed to allow the surgeon to rely on more evidence-based medicine.

We believe that QUANTIX/OR represents a significant improvement over existing technologies to directly measure blood flow intraoperatively. Other technologies that attempt to measure intraoperative blood flow directly are generally more invasive and are impractical when multiple vessel measurements are required. They are, therefore, not used routinely in the operating room, so surgeons most often resort to finger palpation to qualitatively, rather than quantitatively, measure vessel perfusion. The QUANTIX/OR device has received CE mark regulatory clearance for marketing in the EU and is pending U.S. FDA 510(k) clearance for marketing in the United States. We have begun commercial shipment of the QUANTIX/OR to distributors in Europe and Asia.

QUANTIX/TE(TM) is being designed as a transesophageal cardiac function monitor for measuring blood flow in the descending aorta in critical care settings. The system employs a special transesophageal catheter for quantitative assessment of blood flow in the descending aorta for cardiac output calculations. The system is designed for bedside use in intensive care settings. Cardiac output and function monitoring is essential in critical care and trauma patients. The procedure of transesophageal monitoring is a well-

recognized clinical modality, particularly for echocardiography of the heart. Only highly invasive methods of cardiac output via thermodilution techniques are currently available, or indirect and non-invasive methods such as bioimpedance with an unknown degree of clinical significance. The QUANTIX/TE is not currently cleared for commercial sale in any market.

Our strategy related to Cardiosonix products for 2003 has four primary objectives:

- to obtain regulatory clearance to market the QUANTIX/OR in the U.S.;
- to promote and expand the critical evaluation of the QUANTIX/ND and QUANTIX/OR with thought leaders in the neurosurgical and cardiac arenas;
- to secure and train additional marketing and distribution partners for key global markets for the QUANTIX/ND and QUANTIX/OR devices; and,
- to achieve commercial sales of Cardiosonix' Quantix products beyond demonstration unit sales which would demonstrate the

initial market acceptance of the products.

We cannot assure you, however, that any of Cardiosonix' products will achieve additional regulatory clearance, or if cleared, that such products will achieve market acceptance. See also Risk Factors.

THE LYMPHOSEEK(TM) PROCEDURAL PRODUCT

Our gamma detection devices are primarily capital in nature; as such, they generate revenue only on the initial sale. To complement the one-time revenue stream related to capital products, we are working on developing recurring revenue or "procedural" products that would generate revenue based on each procedure in which they were used. Our primary efforts in this area involve an exclusive worldwide license agreement with the University of California, San Diego (UCSD) for a proprietary compound we refer to as LYMPHOSEEK. We believe LYMPHOSEEK, if proven effective, could be used as a lymph node locating agent in ILM procedures. Neoprobe and UCSD completed pre-clinical evaluations of LYMPHOSEEK in 2001 and completed a Phase I trial in the treatment of breast cancer in humans. The initial Phase I studies of LYMPHOSEEK in breast cancer were funded through a research grant from the Susan G. Komen Breast Cancer Research Foundation. Preliminary results from the Phase I breast trial were presented at the Spring 2002 meeting of the Society of Nuclear Medicine.

A Phase II clinical trial in melanoma patients is underway and is expected to be completed during the second or third quarter of 2003. The Phase II melanoma trial is being funded through a research grant from the American College of Surgeons. Our discussions held to date with potential strategic partners to assist in the further development and commercialization of LYMPHOSEEK have focused on gaining a better understanding of the regulatory approval process related to LYMPHOSEEK. As such, following the completion of the Phase II melanoma trial, we intend to prepare for and request a meeting with the U.S. FDA to discuss the regulatory approval process and determine the objectives for the next clinical trial involving LYMPHOSEEK. We cannot assure you, however, that any such products will achieve regulatory approval, or if approved, that such products will achieve market acceptance. See also Risk Factors.

THE RIGS(R) TECHNOLOGY

Our radioimmunoguided surgery (RIGS) system is an investigational technology that combines our patented hand-held gamma radiation detection probe, proprietary disease-specific radiolabeled cancer targeting agents, and a patented surgical method to provide surgeons with real-time information to locate tumor deposits that may not be detectable by conventional methods, and to assist in more thorough removal of the cancer. Before surgery, a cancer patient is injected with one of the targeting agents, which circulates throughout the patient's body and binds specifically to cancer cell antigens or receptors. Concentrations of the targeting agent are then located during surgery by our gamma-detection instrument, which emits an audible tone to direct the surgeon to targeted tissue.

We conducted several clinical trials related to the first generation drug of our RIGS technology in past years, but were unsuccessful in gaining the necessary regulatory approvals. Since discontinuing internal development efforts in 1998, we have been working to secure a partner to assume financial and

regulatory responsibility for the ongoing development of the RIGS technology. While we continue to be interested in obtaining a development partner, we have engaged an investment banking firm to help us sell or license our RIGS assets in

the event a partner is not identified.

At this time, we cannot assure you that any potential development partner will have a continuing interest in developing the RIGS technology. In addition, should such a partner ultimately decide to move forward with development of a RIGS product and be able to reach a satisfactory agreement, we believe that it would take at least four to five years to complete development, regulatory and commercialization activities for a RIGS product. We cannot assure you, however, that we will be able to complete license or sales agreements with another development partner for the RIGS technology on terms acceptable to us, or at all. Also, we cannot assure you that the regulatory authorities will clear our RIGS products for marketing, or that any such products will be successfully introduced or achieve market acceptance. See also Risk Factors.

ACTIVATED CELLULAR THERAPY

We have performed early stage research on another technology platform, activated cellular therapy (ACT), based on work originally done in conjunction with the RIGS technology. ACT is intended to boost the patient's own immune system by removing lymph nodes identified during surgery and then, in a cell processing technique, activating and expanding "helper" T-cells found in the nodes. Within 10 to 14 days, the patient's own immune cells, activated and numbering more than 20 billion, are infused into the patient in an attempt to trigger a more effective immune response to the cancer.

During the second quarter of 2001, we announced a research collaboration with Aastrom Biosciences (Aastrom) intended to determine whether Aastrom's Replicell(TM) system would be able to duplicate cell expansion results experienced in previous Phase I clinical testing of our ACT technology for oncology. Unfortunately, we experienced delays in completing the evaluation in 2001 due to a lack of available tissue for testing purposes and since that time have not had the funding available to move the research forward. We engaged the same investment banking firm as we did for the RIGS technology to assist us in identifying parties to license or purchase the ACT technology. We do not know if a partner will be identified on a timely basis, on terms acceptable to us, or at all. We do not intend to fund any significant ACT-related research and development without a partner. We cannot assure you that any ACT products will be successfully developed, tested or licensed, or that any such products will gain market acceptance. See also Risk Factors.

MARKET OVERVIEWS

The medical device marketplace is a fast-growing market. Medical Device & Diagnostic Industry magazine reports an annual medical device and diagnostic market of $75 billion in the U.S. and $169 billion internationally.

CANCER MARKET OVERVIEW

Cancer is the second leading cause of death in the U.S. and Western Europe and is responsible for over half a million deaths annually in the U.S. alone. The National Institutes of Health (NIH) estimate the overall annual costs for cancer (the primary focus of our products) for the U.S. in the year 2002 at $171.6 billion: $60.9 billion for direct medical costs, $15.5 billion for indirect morbidity, and $95.2 billion for indirect mortality. Our line of gamma detection systems is currently used primarily in the application of ILM in breast cancer and melanoma which, according the American Cancer Society (ACS), are expected to account for 16% and 4%, respectively, of new cancer cases in the U.S. in 2003.

NIH has estimated that breast cancer will annually affect approximately 500,000 women in North America, Western Europe, and other major economic markets. Breast cancer is the leading cause of death from cancer in the United States among the 30 million women between the ages of 40 and 55 and the second leading cause of

death from cancer among all women. According to the ACS, over 200,000 new cases of invasive breast cancer are expected to be diagnosed and over 40,000 women are expected

to die from the disease during 2003 in the U.S. alone. The incidence of breast cancer increases with age, rising from about 100 cases per 100,000 women at age 40 to about 400 cases per 100,000 women at age 65. Thus, we believe that the significant aging of the population, combined with improved education and awareness of breast cancer and diagnostic methods, will lead to an increased number of breast cancer surgical diagnostic procedures.

Approximately 80% of the patients diagnosed with breast cancer undergo a lymph node dissection (either ALND or SLNB) to determine if the disease has spread. While many breast cancer patients are treated in large cancer centers or university hospitals, regional and/or community hospitals currently treat the majority of breast cancer patients. Over 10,000 hospitals are located in the markets targeted for our gamma detection ILM products. While we are aware of no published statistics on the number of institutions that currently are using gamma detection devices in ILM, we believe that approximately fifty percent of the total potential global market for gamma detecting devices remains to be penetrated at this time. However, if the potential of Lymphoseek as a radioactive tracing agent is ultimately realized, it has the potential to address not only the current breast and melanoma markets on a procedural basis, but to also assist in the clinical evaluation and staging of solid tumor cancers and expanding ILM to additional indications, such as gastric, non-small cell lung and other solid tumor cancers.

BLOOD FLOW MARKET OVERVIEW

Cardiovascular disease is the number one killer of men and women in the U.S. and in a majority of countries in the rest of the world that track such statistics. In the U.S. alone, the Centers for Disease Control (CDC) estimated that there were over 65 million physician office visits and over 6.8 million outpatient department visits in 2000 with a primary diagnosis of cardiovascular disease. The CDC registered over 5.9 million inpatient cardiovascular procedures in the U.S. during 2000 that directly involve cardiovascular circulation. We, as well as our competitors and other industry analysts, generally estimate the rest of the world's incidence of such modalities at roughly twice U.S. estimates.

The American Heart Association (AHA) estimates the total cost of cardiovascular diseases and stroke in the United States will exceed $350 billion in 2003. A substantial portion of these expenditures is expected to be for non-invasive image and intravascular examination. In 1999, these modalities, employed in approximately 99 million diagnostic procedures, generated more than $2.4 billion worldwide in product sales. Industry analysts have also estimated the worldwide market for multi-functional patient monitoring equipment totaled $6.6 billion in 1999. This market is forecasted to grow at a compound annual rate of 11.5% over the next five years.

We have identified three distinct markets within the hospital setting for Cardiosonix' products:

- non-invasive diagnostics (QUANTIX/ND);
- intraoperative assessment (QUANTIX/OR); and
- critical care monitoring (QUANTIX/TE).

The American Hospital Association has estimated there are approximately 6,000 hospitals in the U.S., over half of which house one hundred beds or more (i.e., large hospitals). The American Association of Operating Room Nurses has estimated there are approximately 30,000 operating rooms in the U.S. Based on these estimates and information obtained from industry sources and data published by our competitors and other medical device companies, we estimate that the worldwide totals for hospitals and operating rooms to be approximately two to two-and-a-half times the U.S. totals.

Based on the above number of institutions, assuming the larger hospitals could use two or more systems of each type to support their activities, and assuming we are able to achieve market prices that are comparable to what our competitors are achieving (currently averaging $25,000 to $30,000 per system), we believe the worldwide market potential for blood flow measurement products, such as those being developed by Cardiosonix, to be more than $1.5 billion. We believe that gaining even a modest share of this market would result in significant annual revenues for our company. We cannot assure you, however, that Cardiosonix products will achieve market acceptance and generate the level of sales or

prices anticipated.

MARKETING AND DISTRIBUTION

GAMMA DETECTION DEVICES

We began marketing the current generation of our gamma detection systems, the NEO2000, in October 1998. Since October of 1999, our gamma detection systems have been marketed and distributed throughout most of the world through Ethicon Endo-Surgery, Inc. (EES), a Johnson and Johnson company. In Japan, however, we market our products through a pre-existing relationship with Century Medical, Inc. (CMI).

The heart of the NEO2000 system is a control unit that is software-upgradeable, permitting product enhancements without costly remanufacturing. Since the original launch of the NEO2000 system, we have introduced an enhanced version of our 14mm reusable probe optimized for lymphatic mapping procedures and a laparoscopic probe intended for certain minimally invasive procedures. We have also developed three major software version upgrades for the system that have been or will soon be made available to customers. We intend to continue developing additional ILM-related probes and instrument products in cooperation with EES to maintain our leadership position in the ILM field.

Physician training is critical to the use and adoption of ILM products by surgeons and other medical professionals. Our company and our marketing partners have established relationships with leaders in the ILM surgical community and have established and supported training courses internationally for lymphatic mapping. We intend to continue to work with our partners to expand the number of ILM training courses available to surgeons.

We entered into our current distribution agreement with EES effective October 1, 1999 for an initial five-year term with options to extend for two successive two-year terms. Under this agreement, we manufacture and sell our ILM products almost exclusively to EES, who distributes the products globally (except for Japan). EES agreed to purchase minimum quantities of our products over the first three years of the five-year original term of the agreement and to reimburse us for certain research and development costs during the first three years and a portion of our warranty costs. EES' minimum purchase and reimbursement commitments were satisfied during 2002. EES has no ongoing purchase or

reimbursement commitments to us other than the rolling four-month binding purchase commitment for gamma detection devices as outlined in the distribution agreement. Our agreement with EES also contains certain termination provisions and licenses to our intellectual property that take effect only in the event we fail to supply product, or for other reasons such as a change of control. See also Risk Factors.

BLOOD FLOW DEVICES

During late 2002, we received regulatory approval to market QUANTIX/ND in the U.S. and the EU and placed a small number of devices with two distributors covering three countries for their demonstration purposes. Since the end of 2002, we have received CE Mark clearance to market the QUANTIX/OR in the EU and have 510(k) clearance pending in="bottom">

Apax NXP VI 1 L.P., Apax NXP VI A L.P., Apax NXP V A L.P., Apax V B-2 L.P., Apax NXP US VII L.P. and Meridian Holding S.à.r.l. (

Kings Road Holdings IV, L.P., NXP Co-Investment Partners II, L.P., NXP Co-Investment Partners III, L.P., NXP Co-Investment Partners IV, L.

Item 9.

Notice of Dissolution of Group.

Not applicable

Item 10.

Certifications.

Not applicable

After reasonable inquiry and to the best of the undersigned s knowledge and belief, the undersigned certify that the information set forth in this statement is true, complete and correct.

APAX PARTNERS EUROPE MANAGERS LTD

Dated: February 14, 2013

Signature: /s/ Ian Jones
Name: Ian Jones
Title: Director

Dated: February 14, 2013

Signature: /s/ Andrew Sillitoe
Name: Andrew Sillitoe
Title: POA

APAX EUROPE VI GP CO. LIMITED

Dated: February 14, 2013

Signature: /s/ A W Guille
Name: A W Guille
Title: Director

APAX EUROPE VI GP L.P. INC.

By: APAX EUROPE VI GP CO. LIMITED
Its: General Partner

Dated: February 14, 2013

Signature: /s/ A W Guille
Name: A W Guille
Title: Director

FOR AND BEHALF OF APAX PARTNERS EUROPE MANAGERS LIMITED AS MANAGER OF APAX EUROPE VI-A LP

Dated: February 14, 2013

Signature: /s/ Ian Jones
Name: Ian Jones
Title: Director

Signature: /s/ Andrew Sillitoe
Name: Andrew Sillitoe
Title: POA

APAX NXP (UK) VI A1 GP CO. LTD

Dated: February 14, 2013

Signature: /s/ A W Guille
Name: A W Guille
Title: Director

Dated: February 14, 2013

Signature: /s/ Denise Fallaize
Name: Denise Fallaize
Title: Director

FOR AND BEHALF OF APAX PARTNERS EUROPE MANAGERS LIMITED AS MANAGER OF APAX NXP VI-A LP

Dated: February 14, 2013

Signature: /s/ Ian Jones
Name: Ian Jones
Title: Director

Dated: February 14, 2013

Signature: /s/ Andrew Sillitoe
Name: Andrew Sillitoe
Title: POA

MERIDIAN HOLDING S.À.R.L.

Dated: February 14, 2013

Signature: /s/ Geoffrey Henry
Name: Geoffrey Henry
Title: Class A manager

Dated: February 14, 2013

Signature: /s/ Isabelle Probstel
Name: Isabelle Probstel
Title: Class B manager

EXHIBIT INDEX

Exhibit 1	Joint Filing Agreement dated as of February 14, 2013

Exhibit 1

Joint Filing Agreement

We, the signatories of the statement on Schedule 13G to which this Agreement is attached, hereby agree that such statement is, and any amendments thereto filed by any of us will be, filed on behalf of each of us.

APAX PARTNERS EUROPE MANAGERS LTD

Dated: February 14, 2013

Signature: /s/ Ian Jones
Name: Ian Jones
Title: Director

Dated: February 14, 2013

Signature: /s/ Andrew Sillitoe
Name: Andrew Sillitoe
Title: POA

APAX EUROPE VI GP CO. LIMITED

Dated: February 14, 2013

Signature: /s/ A W Guille
Name: A W Guille
Title: Director

APAX EUROPE VI GP L.P. INC.

By: APAX EUROPE VI GP CO. LIMITED
Its: General Partner

Dated: February 14, 2013

Signature: /s/ Andrew W. Guille
Name: Andrew W. Guille
Title: Director of General Partner

FOR AND BEHALF OF

APAX PARTNERS EUROPE MANAGERS

LIMITED AS MANAGER OF APAX

EUROPE VI-A LP

Dated: February 14, 2013

Signature: /s/ Ian Jones
Name: Ian Jones
Title: Director

Signature: /s/ Andrew Sillitoe
Name: Andrew Sillitoe
Title: POA

APAX NXP (UK) VI A1 GP CO. LTD

Dated: February 14, 2013

Signature: /s/ A W Guille
Name: A W Guille
Title: Director

Dated: February 14, 2013

Signature: /s/ Denise Fallaize
Name: Denise Fallaize
Title: Director

FOR AND BEHALF OF APAX PARTNERS EUROPE MANAGERS LIMITED AS MANAGER OF APAX NXP VI-A LP

Dated: February 14, 2013

Signature: /s/ Ian Jones
Name: Ian Jones
Title: Director

Dated: February 14, 2013

Signature: /s/ Andrew Sillitoe
Name: Andrew Sillitoe
Title: POA

MERIDIAN HOLDING S.À.R.L.

Dated: February 14, 2013

Signature: /s/ Geoffrey Henry
Name: Geoffrey Henry
Title: Class A manager

Dated: February 14, 2013

Signature: /s/ Isabelle Probstel
Name: Isabelle Probstel
Title: Class B manager