BOVIE MEDICAL CORP
Form 10QSB
November 13, 2003

U.S. SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-QSB

(Mark One)

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2003

[ ] TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE EXCHANGE ACT

For the Transition Period from to

Commission file number 000-12183

BOVIE MEDICAL CORPORATION

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

Delaware	No. 11-2644611
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

734 Walt Whitman Rd., Melville, New York 11747
(Address of principal executive offices)

(631) 421-5452
(Issuer's telephone number)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No [ ]

APPLICABLE ONLY TO CORPORATE ISSUERS

Indicate the number of shares outstanding of each of the issuer's class of common stock, as of the latest practicable date:13,169,680

BOVIE MEDICAL CORPORATION

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PART I. FINANCIAL INFORMATION

ITEM 1: CONSOLIDATED FINANCIAL STATEMENTS

BOVIE MEDICAL CORPORATION
CONSOLIDATED BALANCE SHEET
SEPTEMBER 30, 2003 AND DECEMBER 31, 2002

	Assets	
	(Unaudited) September 30, 2003	(Audited) December 31, 2002
Current assets:		
Cash	$ 577,523	$ 379,209
Trade accounts receivable	1,776,981	1,350,487
Inventories	2,559,017	2,357,505
Prepaid expenses	78,655	164,264
Deferred tax asset	386,200	386,200
Other assets	--	45,044
Total current assets	5,378,376	4,682,709
Property and equipment, net	1,710,204	1,559,080
Other assets:		
Repair parts	241,606	281,746
Trade name	1,509,662	1,509,662
Patent rights, net	159,395	258,214

Deposits	9,470	9,470
Investment - Joint Venture	200,000	200,000
	2,120,133	2,259,092
	$ 9,208,713	$ 8,500,881

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

BOVIE MEDICAL CORPORATION
CONSOLIDATED BALANCE SHEET
SEPTEMBER 30, 2003 AND DECEMBER 31, 2002
(CONTINUED)

Liabilities and Stockholders' Equity

	(Unaudited) September 30, 2003	(Audited) December 31, 2002
Current liabilities:		
Accounts payable	$ 644,246	$ 478,668
Accrued expense	490,560	396,949
Notes payable - current portion	--	525,467
Due to shareholders	--	37,214
Customer deposits	112,000	128,000
Current maturities of long-term debt	49,515	31,668
Total current liabilities	1,296,321	1,597,966
Long Term Liabilities	387,913	411,664
Stockholders' equity:		
Preferred Stock, par value $.001 10,000,000 shares authorized 0 issued and outstanding on September 30, 2003 and December 31, 2002	--	--
Common stock par value $.001; 40,000,000 shares authorized, issued and outstanding 13,169,680 shares and 13,204,755 shares on September 30, 2003 and December 31, 2002 respectively	14,,206	13,274
Additional paid in capital	19,908,015	19,820,044
Accumulated deficit	(12,397,742)	(13,342,067)
Total stockholders' equity	7,524,479	6,491,251
Total liabilities and stockholders' equity	$ 9,208,713	$ 8,500,881

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

BOVIE MEDICAL CORPORATION.
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2003 AND 2002
(UNAUDITED)

	2003	2002
Sales	$ 12,363,919	$ 9,277,461
Cost of sales	7,018,704	5,624,097(1)
Gross profit	5,345,215	3,653,364
Costs and expenses:		
Research and development	720,473	770,610
Professional services	307,500	247,935
Salaries and related costs	1,167,791	998,168(1)
Selling, general and administrative	2,177,855	1,776,872
	4,373,619	3,793,585
Gain (Loss) from operations	971,596	(140,221)
Other income (expense):		
Interest	(27,272)	(33,933)
	(27,272)	(33,933)
Income (loss)	944,324	(174,154)
Provision for income tax	(330,513)	--
Realized benefit of loss carryforward	330,513	--
Net income	$ 944,324	$ (174,154)
Earnings per share		
Net income (loss):		
Basic	.07	(.01)
Diluted	.06	(.01)
Weighted average number of shares outstanding	13,187,217	13,204,755
Weighted average number of shares adjusted for dilutive securities	14,946,001	N/A

(1) Certain accounts have been reclassified to conform to current years presentation.

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

BOVIE MEDICAL CORPORATION.
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2003 AND 2002
(UNAUDITED)

	Quarter 2003	Quarter 2002
Sales	$ 4,324,017	$ 3,045,994
Cost of sales	2,513,335	1,935,732(1)
Gross profit	1,810,682	1,110,262
Costs and expenses:		
Research and development	232,009	268,532
Professional services	92,569	59,882
Salaries and related costs	396,437	349,946(1)
Selling, general and administrative	661,434	484,498
	1,382,449	1,162,858
Gain (Loss) from operations	428,233	(52,596)
Other income (expense):		
Interest	(4,613)	(11,953)
	(4,613)	(11,953)
Income (loss)	423,620	(64,549)
Provision for income tax	(148,267)	--
Realized benefit of loss carryforward	148,267	--
Net income	$ 423,620	$ (64,549)
Earnings per share		
Net income (loss):		
Basic	.03	NIL
Diluted	.03	NIL
Weighted average number of shares outstanding	13,115,930	13,204,755
Weighted average number of shares adjusted for dilutive securities	15,638,212	N/A

(1) Certain accounts have been reclassified to conform to current years presentation.

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

BOVIE MEDICAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2003 AND 2002
(UNAUDITED)

	2003	2002
Cash flows from operating activities		

Net income (loss)	$ 944,325	$ (174,155)
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	211,435	204,274
Write off of patent rights	54,790	--
Changes in current assets and liabilities:		
Receivables	(426,494)	(180,014)
Inventories and repair parts	(161,372)	(178,643)
Prepaid expenses	85,609	(22,285)
Accounts payable	165,578	71,448
Accrued expense	93,611	(9,946)
Other assets	45,044	10,338
Obligations to shareholders	(37,214)	3,946
Customers Deposits	(16,000)	--
Net cash provided (applied) by operating activities	959,312	(275,037)
Cash flows from investing activities		
Increase in fixed assets	(318,530)	(109,911)
Increase in patents	--	(25,300)
Net cash used in investing activities	(318,530)	(135,211)
Cash flows from financing activities		
Borrowing - line of credit/insurance premium financing	--	410,651
(Decrease) in notes payable	(531,371)	(121,191)
Common shares purchased	88,903	4,216
Net cash used in financing activities	(442,468)	293,676
Net increase (decrease) in cash and cash equivalents	198,314	(116,572)
Cash and cash equivalents, beginning of period	379,209	578,354
Cash and cash equivalents, end of period	$ 577,523	$ 461,782

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

BOVIE MEDICAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2003 AND 2002

Cash paid during the nine months ended September 30:

	2003	2002

Interest paid	$ 26,210	$ 32,910
Income Taxes	- 0 -	- 0 -

SUPPLEMENTAL SCHEDULE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2002:

There were no non-cash investing and financing activities in the first nine months of the year 2002.

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2003:

1) The Company issued stock options pursuant to its 2003 executive and employee stock option plan to directors, certain employees and consultants to purchase 1,090,000 shares of the Company's common stock at the bid price when granted. The options give the recipients the right to purchase the shares for 10 years.

2) The Company cancelled 142,575 shares that were held in trust where the trust was no longer valid.

3) The Company evaluated certain intangible assets and found that they no longer had sales potential. The Company has written off these assets, which had net book value of $54,790.

4) The Company charged capital in excess for a liability to the former shareholders of Aaron Medical which was a result of a recission offer made to the Aaron shareholders in 1996. This liability was due to certain Aaron shareholders who had received shares of An-Con Genetics (predecessor to Bovie) but had not responded to the recission offer. An investigation showed these shareholders had either 1) sold the shares, 2) increased their holdings or moved the stock to street name. Based on the above the Company believes it no longer has a obligation to these shareholders.

BOVIE MEDICAL CORPORATION
NOTES TO FINANCIAL STATEMENTS

PART I. FINANCIAL INFORMATION (CONTINUED)

NOTE 1. INTERIM CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements include the accounts of Bovie Medical Corporation and its wholly owned subsidiary Aaron Medical Industries, Inc. In the opinion of management, the interim financial statements reflect all adjustments, consisting of only normal recurring items, which are necessary for a fair presentation of the results for the interim periods presented.

The results for interim periods are not necessarily indicative of results for the full year. These financial statements should be read in conjunction with the significant accounting policies and the other notes to the financial statements included in the Corporation s 2002 Annual Report to the SEC on Form 10-KSB.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates in the Preparation of Financial Statements

The preparation of consolidated financial statements, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Fair Values of Financial Instruments

Cash and cash equivalents. Holdings of highly liquid investments with maturity of three months or less, when purchased, are considered to be cash equivalents. The carrying amount reported in the balance sheet for cash and cash equivalents approximates its fair values.

Accounts receivable and accounts payable. The carrying amount of accounts receivable and accounts payable on the balance sheet approximates fair value.

Short term and long term debt. The carrying amount of the bonds and notes payable and amounts due to shareholders approximates fair value.

BOVIE MEDICAL CORPORATION
NOTES TO FINANCIAL STATEMENTS

PART I. FINANCIAL INFORMATION (CONTINUED)

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES(CONTINUED)

Inventories

Inventories are stated at the lower of cost or market. Cost is determined principally on the average cost method. Inventories at September 30, 2003 and December 31, 2002 were as follows:

	September 30, 2003	December 31, 2002
Raw materials	$ 1,262,441	$ 1,180,758
Work in process	762,711	524,322
Finished goods	533,865	652,425
Total	$ 2,559,017	$ 2,357,505

Repair Parts. The Company acquired the inventory of repair parts in conjunction with the purchase of the Bovie line of generators and Bovie trade name, on May 8, 1998. The Company has maintained the inventory to service the previously sold generators. The useful life of repair parts is estimated to be five to seven years and the Company has set up an allowance for excess and obsolete parts.

The inventory of parts was as follows:

	September 30, 2003	December 31, 2002
Raw materials	$ 542,295	$ 498,136
Allowance for excess or obsolete parts	(300,689)	(216,390)
	$ 241,606	$ 281,746

Long-Lived Assets

Long-lived and assets consist of property, plant and equipment, and intangible assets.

Property, plant and equipment are recorded at cost less depreciation and amortization. Depreciation and amortization are accounted for on the straight-line method based on estimated useful lives. The amortization of leasehold improvements is based on the shorter of the lease term or the life of the improvement. Betterment and large renewals, which extend the life of the asset, are capitalized whereas maintenance and repairs and small renewals are expenses, as incurred. The estimated useful lives are: machinery and equipment, 7-15 years; buildings, 30 years; and leasehold improvements; 10-20 years.

Intangible assets consist of patent rights and goodwill. Goodwill represents the excess of the cost of assets of the acquired companies over the values assigned to net tangible assets. These intangibles are being amortized by the straight-line method over a 5 to 20 year period.

BOVIE MEDICAL CORPORATION
NOTES TO FINANCIAL STATEMENTS

PART I. FINANCIAL INFORMATION (CONTINUED)

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Long-Lived Assets (Continued)

Long-lived and assets consist of property, plant and equipment, and intangible assets. (Continued)

The Company reviews long-lived assets for impairment whenever events or changes in business circumstances occur that indicate that the carrying amount of the assets may not be recovered. The Company assesses the recoverability of long-lived assets held, and to be used, based on undiscounted cash flows and measures the impairment, if any, using discounted cash flows.

Revenue Recognition and Product Warranty

Revenue from sales of products is generally recognized upon shipment to customers. The Company warrants its products for one year. The estimated future costs of warranties have been determined on past experience not to be material.

Income is recognized in the financial statements (and the customer billed) when products are shipped from stock. Net sales are arrived at by deducting discounts from and adding freight charged to customers to gross sales.

Environmental Remediation

The Company accrues environmental remediation costs if it is probable that an asset has been impaired or a liability incurred at the financial statement date and the amount can be reasonably estimated. Environmental compliance costs are expenses, as incurred. Certain environmental costs would be capitalized if incurred based on estimates and depreciated over their useful lives.

Earnings Per Common and Common Equivalent Share

Basic Earnings Per Shares are computed by dividing income available to common stockholders by the weighted average number of common shares outstanding during the period. Diluted Earnings Per Share shall be computed by including contingently issuable shares with the weighted average shares outstanding during the period. When inclusion of the contingently issuable shares would have an antidilutive effect upon earnings per share no diluted earnings per share shall be presented.

Research and Development Costs

Only the development costs that are purchased from another enterprise and have alternative future use are capitalized and amortized over five years.

BOVIE MEDICAL CORPORATION

NOTES TO FINANCIAL STATEMENTS

PART I. FINANCIAL INFORMATION (CONTINUED)

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES(CONTINUED)

Income Taxes

The Company and its wholly-owned subsidiary, Aaron Medical Industries, Inc. file a consolidated federal income tax return. Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

Non-monetary Transactions

The accounting for non-monetary assets is based on the fair values of the assets involved. Cost of a non-monetary asset acquired in exchange for another non-monetary asset is recorded at the fair value of the asset surrendered to obtain it. The difference in the costs of the assets exchanged is recognized as a gain or loss. The fair value of the asset received is used to measure the cost, if it is more clearly evident than the fair value of asset surrendered.

Stock-Based Compensation

The Company has adopted SFAS No. 148 and Accounting Principles Board Opinion 25 for its accounting for stock based compensation. Under this policy:

1. Compensation costs are recognized as an expense over the period of employment attributable to the employee stock options.

2. Shares issued in accordance with a plan for past or future services of an employee are allocated between the expired costs and future costs. Future costs are charged to the periods in which the services are performed. The pro forma amounts of the difference between compensation cost included in net income, and related cost, measured by the fair value based method including tax effects, are disclosed.

New Accounting Standards

Effective February 3, 2002 the Company adopted SFAS No. 142, Goodwill and Other Intangible Assets . SFAS No. 142 requires that ratable amortization of goodwill be replaced by periodic tests for impairment within nine months of the date of adoption, and then on a periodic basis thereafter. Based on the impairment testing performed in February 2003, management determined that there was no impairment loss related to the net carrying value of the Company s recorded goodwill.

BOVIE MEDICAL CORPORATION

PART I. FINANCIAL INFORMATION (CONTINUED)

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

New Accounting Standards (Continued)

In July 2001, the Financial Accounting Standards Board (the FASB) issued SFAS No. 143, Accounting for Asset Retirement Obligations , which provides accounting requirements for retirement obligations associated with tangible long-lived assets. SFAS No. 143 are effective for fiscal years beginning after June 15, 2002. The adoption of SFAS No. 143 has not had a significant impact on the Company s consolidated financial statements.

In August 2001, the FASB issued SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets . This statement addresses accounting and reporting for the impairment or disposal of long-lived assets, other than goodwill, including discontinued operations. SFAS No. 144 are effective for fiscal years beginning after December 15, 2001. Management has determined that the adoption of SFAS No. 144 has had no impact on the Company s consolidated financial statements.

In April 2002, the FASB issued SFAS No. 145, Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections . SFAS No. 145 primarily affects the reporting requirements and classification of gains and losses from the extinguishments of debt, rescinds the transitional accounting requirements for intangible assets of motor carriers, and requires that certain lease modifications with economic effects similar to sale-leaseback transactions be accounted for in the same manner as sale-leaseback transactions. SFAS No. 145 is effective for financial statements issued after April 2002, with the exception of the provisions affecting the accounting for lease transactions, which should be applied for transactions entered into after May 15, 2002, and the provisions affecting classification of gains and losses from the extinguishments of debt, which should be applied in fiscal years beginning after May 15, 2002. Management has determined that the adoption of SFAS No. 145 will have no immediate impact on the Company s consolidated financial statements, but will evaluate in future periods the classification of any debt extinguishments costs in accordance with APB Opinion No. 30 Reporting the Results of Operations - Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions .

In June 2002, the FASB issued SFAS No. 146, Accounting for Costs Associated with Exit or Disposal Activities . SFAS No. 146 requires companies to recognize costs associated with exit or disposal activities when they are incurred, rather than at the date of a commitment to an exit or disposal plan. Examples of costs covered by the standard include lease termination costs and certain employee severance costs that are associated with a restructuring, discontinued operation, plant closing, or other exit or disposal activity. Previous accounting guidance was provided by Emerging Issues Task Force (EITF) No. 94-3, Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)". SFAS No. 146 replace EITF No. 94-3, and are required to be applied prospectively to exit or disposal activities initiated after December 31, 2002. The Company adopted SFAS No. 146 during the fourth quarter of

Fiscal 2002 with no material impact on the Company s consolidated financial statements.

BOVIE MEDICAL CORPORATION

PART I. FINANCIAL INFORMATION (CONTINUED)

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

New Accounting Standards (Continued)

In November 2002, the FASB issued FASB Interpretation (FIN) No. 45, Guarantor s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others . FIN No. 45 clarifies and expands on existing disclosure requirements for guarantees, and clarifies that a guarantor is required to recognize, at the inception of the guarantee, a liability equal to the fair value of the obligation undertaken in issuing the guarantee. The initial recognition and measurement provisions of FIN No. 45 are applicable on a prospective basis for guarantees issued or modified after December 31, 2002. The disclosure requirements of FIN No. 45 are effective for financial statements issued after December 15, 2002. The Company adopted FIN No. 45 during the fourth quarter of Fiscal 2002 with no material impact on the Company s consolidated financial Statements.

In December 2002, the FASB issued SFAS No. 148, Accounting for Stock-Based Compensation - Transition and Disclosure. SFAS No. 148 amends SFAS No. 123;Accounting for Stock-Based Compensation to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, this Statement amends the disclosure requirements of Statement No. 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. SFAS No. 148 is effective for periods beginning after December 15, 2002. Accordingly, the Company has started making the disclosures required by SFAS No. 148 beginning in the first quarter of fiscal year 2003.

In January 2003, the FASB issued FIN No. 46, Consolidation of Variable Interest Entities - an Interpretation of Accounting Research Bulletin No. 51". FIN No. 46 requires unconsolidated variable interest entities to be consolidated by their primary beneficiaries if the entities do not effectively disperse the risks and rewards of ownership among their owners and other parties involved. The provisions of FIN No. 46 are applicable immediately to all variable interest entities created after January 31, 2003 and variable interest entities in which a company obtains an interest after that date. For variable interest entities created before January 31, 2003, the provisions of this interpretation are effective July 1, 2003. Management is currently evaluating the provisions of this interpretation, and does not believe that it will have a significant impact on the Company s consolidated financial statements.

BOVIE MEDICAL CORPORATION

PART I. FINANCIAL INFORMATION (CONTINUED)

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

Results of Operations Nine Months Ended September 30, 2003

The results of operations for the nine months ended September 30, 2003 show increased sales and increased profitability, as compared to the first nine months of 2002. The Company s sales revenues increased by 33%, from $9,277,461 to $12,363,919. Gross profit percentage of 43% was up from 39% for the same period in 2002. The reason for the four percentage points increase in gross profit ratio was that as electrosurgical sales grow indirect manufacturing overhead associated costs remains relatively constant. Overall margins will likely increase as sales increase even though margins on electrosurgical products are less than other product margins. Gross profit increased from $3,653,364 in 2002 to $5,345,215 in 2003. Increased gross profit was mainly attributable to increased sales of electrosurgical products. For the first nine months of 2003 and 2002, cauteries accounted for 30% and 41% of sales, respectively. For the same period, electrosurgical devices accounted for 54% and 35% of sales, respectively.

Operating salaries and related expenses had increased 17% to $1,167,791 from $998,168 in the nine months ended September 30, 2003 as compared to the same period in 2002. The main reason for the increase was in the area of customer service, employee training and independent representative training.

Research and development costs decreased by $50,137 or 7% from $770,610 to $720,473 from the nine months ended 2002 to the nine months ending September 30, 2003. The high cost of research and development are mainly attributable to engineering costs on new generator models being developed and the cost of the continued development of the J-Plasma device.

Expenses for professional services increased by $59,565 or 24% to $307,500 in the nine months ended September 30, 2003, as compared to $247,935 in the same period of the previous year. The main reason for this increase was professional fees associated with legal matters, audit of the year 2002 and consulting services.

Selling, General and Administrative expenses increased by $400,983 or 23%. These expenses were $2,177,855 in the nine month period ended September 30, 2003 as compared to $1,776,872 for the nine months ended September 30, 2002. The increase was mainly attributable to the expense of additional personnel, advertising promotions and the disposition of unmarketable inventory of products.

Interest expense net of interest income, decreased from $33,933 in the nine months ended September 30, 2002 to $27,272 in 2003. The largest part of the interest the Company pays is on its building mortgage and its line of credit. During the third quarter of 2003 the Company paid off the outstanding balance due under its line of credit.

The operating gain was $971,596 in the first nine months of 2003 as compared to an operating loss of $140,221 in the same period in 2002, constituting an increase in operating profit of $1,111,817 or 793%.

The Company had a net gain of $944,324 for the nine months ended September 30, 2003 as compared to net loss of $174,154 in 2002 for the same period. The most significant reason for the increase in income of $1,118,478 for the nine months of 2003 from the first nine months of 2002 was an increase in OEM (Original Equipment Manufacturer) sales of the Company s generators and accessories.

BOVIE MEDICAL CORPORATION

PART I. FINANCIAL INFORMATION (CONTINUED)

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

Results of Operations (continued)

The Company sells its products mostly through distributors, OEM agreements and independent representatives who service the distributors, both in the international market and in the USA. Distributors are contacted through response to Company advertising in international medical journals or at domestic or international trade shows. The main focus for export sales has been Western Europe.

The Company has distributors in all major markets in Europe and is expanding into the Far East. The Company intends to continue marketing its products internationally by concentrating on major markets for increased market exposure and the introduction of new products.

During the first nine months of 2003, international sales increased by $70,643. These sales were $1,852,943, which represented 15% of total sales, while in 2002 total international sales were $1,782,300 and 19% of total sales. The Company is ISO 9001 certified.

Results of Operations - Three-Month Period Ended September 30, 2003

Sales for the three-month period ended September 30, 2003 were 4,324,017 as compared to $3,045,994 for the same period in 2002, an increase of $1,278,023 or 42%. The increase was mainly attributed to increased sales of electro surgical products.

Cost of goods sold increased from $1,935,732 to $2,513,335 an increase of $577,603 or 30% for the three-month period ended September 30, 2003 as compared to the same period in 2002.

Gross profit for the quarterly period increased from $1,110,262 to $1,810,682 an increase of $700,420 or 63%. Gross profit percentage for the quarterly period increased from 36% in 2002 to 42% in 2003. The reason for the increase is that the direct overhead to produce the products remained relatively constant for the first three quarters of 2003 therefore causing the gross profit to increase.

Research and development decreased by $31,523 or 14% from $268,532 to $232,009 for the quarters ended September 30, 2003 and September 30, 2002, respectively.

Professional fees increased by $32,687 or 55% from $59,882 to 92,569 for the quarters ended September 30, 2002 to September 30, 2003, respectively.

Salaries and related costs increased from $349,946 to $396,437 an increase of $46,491 or 13%. The main areas of increase were in customer service, training of employees and sales representatives.

Selling, general and administrative increased by $176,936 or 37% from $652,642 to $661,434 for the quarters ended September 30, 2002 to September 30, 2003, respectively. The largest areas of increased costs were for advertising, travel and the disposition of obsolete material.

BOVIE MEDICAL CORPORATION

PART I. FINANCIAL INFORMATION (CONTINUED)

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

Financial Condition

As of September 30, 2003, the amount of cash was $577,523 as compared to $461,782 at September 30, 2002. Cash provided by operating activities was $959,312 in the first nine months of 2003 as compared to funds applied of $275,037 in 2002. Net working capital of the Company on September 30, 2003 was $4,082,055 as compared to $3,464,169 in 2002 and increase of $617,886.

Investing activities utilized $318,530 in cash during the first nine months of 2003, compared to $135,211 in the first nine months of 2002. In 2003, the Company continued its policy of investing in property, plant and equipment needed for future business requirements, including manufacturing capacity.

The amount of cash applied to financing activity was $442,468 for the period ended September 30, 2003. The amount of cash provided for the nine month period ended September 30, 2002 was $293,676. The most significant financing activity in the nine months ended September 30, 2003 was the reduction of credit line debt by $400,000.

The Company s ten largest customers accounted for approximately 65% of net revenues for the first nine months of 2003. As of September 30, 2003, the ten largest receivables accounted for approximately 62% of outstanding accounts receivable. For the nine months ended September 30, 2003 one customer accounted for 19% of total sales.

The Company believes that it has the financial resources needed to meet business requirements in the foreseeable future, including capital expenditures for the expansion of its manufacturing site, working capital requirements, and product development programs.

On August 20, 2003, the Company signed an agreement to lease approximately 20,000 square feet of manufacturing, warehousing, and office space for sixty-two months commencing on September 1, 2003 and terminating on October 31, 2008, with an option to renew for an additional five years. The building leased is in close proximity to the Company s present manufacturing facility in St. Petersburg, Florida. The base monthly rent is $8,750 commencing on November 1, 2003. The base rent increases by 3% for each year of the lease, commencing on November 1, 2004. The Company is responsible for common area maintenance, insurance and real estate taxes, which have been established at $1,667 per month for the first year of the term of the lease.

BOVIE MEDICAL CORPORATION

PART I. FINANCIAL INFORMATION (CONTINUED)

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

Financial Condition (continued)

Outlook

The statements contained in this Outlook are based on current expectations. These statements are forward looking, and actual results may differ materially.

The Company has continued to expand its line of electrosurgery products which include the standard stainless steel electrodes, the Bovie/Aaron 800, Bovie/Aaron 900, Bovie/Aaron 950, Bovie/Aaron 1250, and the Aaron 2250 high frequency generators. Pursuant to perceived market demands, the Company has developed and is currently marketing the Bovie IDS 300-Watt and Bovie IDS 200-Watt digital generators under the newly formed Bovie sales division. The newly formed Bovie sales division is experiencing competition from companies with greater financial resources and personnel. Currently, the division is exploring new marketing programs with the goal to place the Bovie IDS-300 in a wider cross section of medical facilities.

During the first nine months of 2003 the Company s electrosurgical sales increased a total of 105% to $6,623,448 from $3,233,043 for the similar period in 2002 for a total increase in electrosurgical sales of $3,390,405 for the period. This increase was mainly attributable to contract purchasers. The Company expects electrosurgical sales to continue to increase in 2003. The Company, through its private label capability, anticipates new opportunities in the domestic market. The electrosurgical product market is larger than the Company s traditional market and is dominated by two main competitors, ValleyLab and Conmed. The Company believes combined markets for these products exceeds $800 million worldwide, annually.

The Company believes that the world market for disposable medical products, including the Company s battery-operated cauteries continued to have growth potential domestically and abroad. Accordingly, the Company has designed certain disposable products to be reusable. The Company presently has a significant portion of the U.S. cautery market and expects moderate growth in sales of cautery-related products to continue.

Non-Medical Products

Sales of the Company flexible lighting products had been on the decline for several years. In 2002, the Company sales of these products, used primarily in the automotive and locksmith industries, totaled $736,758. One customer accounted for $561,276 (77%) of such sales in that year.

Sales for the first nine months of 2003 and 2002 of industrial lighting products was $367,491 and $589,748, respectively. In May of 2003 the Company executed an exclusive license agreement with its largest customer of industrial lighting products to transfer its technology and manufacturing capability to that customer for a royalty fee of $8,250 per month for five years. The Company will no longer manufacture or sell industrial lighting products.

Scientific Advisory Board

On July 8, 2003, The Company announced the formation of a scientific advisory board to assist in the advancement of new products and technologies. The advisory board includes: Yuval Carmel, Ph. D., Peter M. Pardoll, MD and Mr. Gregory Konesty.

BOVIE MEDICAL CORPORATION

Backgrounds

Dr. Yuval Carmel is a senior research scientist at the University of Maryland. Dr. Carmel has over 20 years of research and development experience in the areas of advanced electrosurgical equipment for medical applications, physics of plasma, applied physics, electromagnetics and electro-physics. He has published over 90 papers in scientific journals, a holder of three patents and five pending patents.

Dr. Peter Pardoll is a Gastroenterologist and the president of Medical Education Associates (MEA), a healthcare consulting group. Dr. Pardoll is a trustee of the Board of the American College of Gastroenterology, past president of the Florida Gastroenterology Society and current president of the National GI Political Action Committee as well as a practicing physician at the Center for Digestive Diseases in St. Petersburg, Florida.

Mr. Gregory Konesky has been Bovie's lead scientist in new product development for J-Plasma, advanced plasma applicator designa, plasma physical research and other electrosurgical products. Mr. Konesky has published over 13 scientific papers, holds one patent, with another pending. He has also presented at a variety of scientific forums over the past several years as well as being a member of over 10 scientific societies.

The Board s term is for one year and the members will be compensated with stock options and at their per diem rate, as required.

Reliance on Collaborative, Manufacturing and Selling Arrangements

The Company is dependent on certain contractual partners for manufacturing and product development. Should a collaborative partner fail to develop and manufacture products., the Company s future business and value of related assets could be negatively affected. No assurance can be given that a collaborative partner may give sufficient high priority to the Company s products. In addition, disagreements or disputes may arise between the Company and its contractual partners which could adversely affect production of its products.

Liquidity and Future Plans

The Company s focus is to acquire, develop, and manufacture new product technologies and to expand its manufacturing capabilities.

In order to increase international sales growth and maintain its ability to sell in Europe, the Company has been certified as ISO9001/EN46001 quality system compliant and has been granted its CE mark (International Quality Control.)

In December 2001, the Company satisfied its first mortgage on the building it owns in St. Petersburg, Florida and replaced it with a new first mortgage from its prime lender in the amount of $475,000. The mortgage loan is to be repaid over 5 years with a variable interest starting at the bank s present base rate of 4.25%. The Company pays a principal payment of $2,639 plus interest each month. A balloon payment of $316,660 is due in December 2006.

In May 2001, the Company changed commercial lenders and increased its credit line from $600,000 to $1,500,000. The interest rate on the line is variable and is presently at the bank s base rate, which is 4.25% per annum. The outstanding balance on the credit line on September 30, 2003 was $0.

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The Company s future results of operations and the other forward-looking statements contained herein particularly the statements regarding growth in the medical products industry, capital spending, research and development, and marketing and general and administrative expenses, involve a number of risks and uncertainties. In addition to the factors discussed above, other factors that could cause actual results to differ materially, are the following: business conditions and the general economy; competitive factors such as rival manufacturers availability of products at reasonable prices; risk of nonpayment of accounts receivable; risks associated with foreign operations; and litigation involving intellectual property and consumer issues.

The management of Bovie Medical Corporation believes that it has the product mix, facilities, personnel, and competitive and financial resources for business success, but future revenues, costs, margins, product mix and profits are all subject to the influence of a number of factors, as discussed above.

ITEM 3. DISCLOSURE CONTROLS AND PROCEDURES

(a) Evaluation of disclosure controls and procedures

For purposes of rule 13a-14 and 15d-14 of the Securities Exchange Act of 1934 (Exchange Act) the term disclosure controls and procedures refers to the controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files under the Exchange Act is recorded, processed, summarized and reported within required time periods. Within 90 days prior to the date of this report (Evaluation Date), the Company carried out an evaluation under the supervision and with the participation of the Company s Chief Executive Officer and its Chief Financial Officer of the effectiveness of the design and operation of its disclosure controls and procedures. Based on that evaluation, the Company s Chief Executive Officer and Chief Financial Officer have concluded that, as of the Evaluation Date, such controls and procedures were effective at ensuring that required information will be disclosed on a timely basis in our periodic reports filed under and pursuant to the Exchange Act.

(b) Changes in internal controls

There were no significant changes to our internal controls or in other factors that could significantly affect our internal controls subsequent to the Evaluation Date.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

See Form 10-KSB for the year ended December 31, 2002, Part I, Item 3.

ITEM 2. CHANGES IN SECURITIES

There have been no changes in the instruments defining the rights or rights evidenced by any class of registered securities.

The Company began trading it s securities on the American Stock Exchange on November 5, 2003 under the symbol BVX.

There have been no dividends declared.

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ITEM 3. DEFAULTS UPON SENIOR SECURITIES

In February of 1997, the 10-year notes came due and the Company offered each bond holder 2,200 shares of common stock for their $1,000 bond and accrued interest of $550. Nineteen bondholders accepted the offer and forty-three bondholders received cash for their bonds and accrued interest. The balance of the bondholders have not redeemed their bonds or accepted the shares offered. The Company has located and paid off the remaining bondholders or has turned over their funds to the bondholders respective states. The balance of the bonds outstanding on September 30, 2003 was zero.

ITEM 4. SUBMISSION OF MATTERS TO VOTE OF SECURITY HOLDERS

During 2003 there has been no meeting of the shareholders.

ITEM 5. EXHIBITS AND REPORTS ON FORM 8-K

Exhibits

(a)Certification pursuant to Section 906 of Sarbanes-Oxley Act of 2002.

(b)Certification pursuant to Section 906 of Sarbanes-Oxley Act of 2002.

Report on Form 8-K

None

BOVIE MEDICAL CORPORATION

EXHIBIT 99(a)

Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

In connection with the Quarterly Report of Bovie Medical Corporation (the Company) on Form 10-QSB of the period ended September 30, 2003 as filed with the Securities and Exchange Commission on the date hereof, I, Andrew Makrides, President and Chairman of the Board of the Company, certify, pursuant to section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge: (1) the quarterly report fully complies with the requirements of section 13(a) of the Securities Exchange Act of 1934; and (2) the information contained in the quarterly report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date:November 5, 2003

/s/Andrew Makrides
President, Chief
Executive Officer, Chairman
of the Board and Director

A signed original of this written statement required by Section 906 of the Sarbanes-Oxley Act has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

BOVIE MEDICAL CORPORATION

EXHIBIT 99(b)

Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

In connection with the Quarterly Report of Bovie Medical Corporation (the Company) on Form 10-QSB of the period ended September 30, 2003 as filed with the Securities and Exchange Commission on the date hereof, I, Charles Peabody, Chief Financial Officer, certify, pursuant to section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge: (1) the quarterly report fully complies with the requirements of section

13(a) of the Securities Exchange Act of 1934; and (2) the information contained in the quarterly report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 5, 2003

/s/Charles Peabody
Chief Financial Officer

A signed original of this written statement required by Section 906 of the Sarbanes-Oxley Act has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

BOVIE MEDICAL CORPORATION

SIGNATURES:

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

Bovie Medical Corporation.
(Registrant)

Date: November 5, 2003

/s/Andrew Makrides
Chief Executive Officer - Andrew Makrides

CERTIFICATIONS

I, Andrew Makrides, the Registrant's Chief Executive Officer, certify that:

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

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

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

4. The Registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have: a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared; b) evaluated the effectiveness of the Registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The Registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of Registrant's board of directors (or persons performing the equivalent function): a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the Registrant's auditors any material weaknesses in internal controls; and b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal controls; and

6. The Registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date November 5, 2003

/s/<u>Andrew Makrides</u>
Chief Executive Officer

CERTIFICATIONS

I, Charles Peabody, the Registrant's Chief Financial Officer, certify that:

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

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

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

4. The Registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have: a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared; b) evaluated the effectiveness of the Registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The Registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of Registrant's board of directors (or persons performing the equivalent function): a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the Registrant's auditors any material weaknesses in internal controls; and b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal controls; and

6. The Registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: November 5, 2003

/s/<u>Charles Peabody</u>
Chief Financial Officer