BOVIE MEDICAL CORP
Form 10QSB
November 15, 2004

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, 2004

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

For the transition period from to Commission file number 0-12183

BOVIE MEDICAL CORPORATION

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

Delaware	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: 13,853,628.

BOVIE MEDICAL CORPORATION
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PART I. FINANCIAL INFORMATION
ITEM 1: CONSOLIDATED FINANCIAL STATEMENTS

BOVIE MEDICAL CORPORATION
CONSOLIDATED BALANCE SHEET
SEPTEMBER 30, 2004 AND DECEMBER 31, 2003
(UNAUDITED)

Assets	September 30, 2004	December 31, 2003(1)
Current assets:		
Cash	$ 1,771,130	$ 306,137
Trade accounts receivable	2,298,851	1,708,181
Inventories	2,005,003	2,451,149
Prepaid expenses	150,993	390,025
Deferred tax asset	386,200	386,200
Total current assets	6,612,177	5,241,692
Property and equipment, net	2,166,281	1,900,015
Other assets:		
Repair parts	142,203	228,226
Trade name	1,509,662	1,509,662
Patent rights, net	102,671	144,967
Deposits	6,111	9,470
Investment - in unconsolidated affiliate	200,000	200,000

	1,960,647	2,092,325
	$ 10,739,105	$ 9,234,032

(1) Derived from audited financial statements.

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

BOVIE MEDICAL CORPORATION
CONSOLIDATED BALANCE SHEET
SEPTEMBER 30, 2004 AND DECEMBER 31, 2003
(CONTINUED)
(UNAUDITED)

Liabilities and Stockholders' Equity

	September 30, 2004	December 31, 2003(1)
Current liabilities:		
Accounts payable	$ 770,491	$ 679,792
Accrued expense	478,673	473,630
Deferred revenue	159,554	103,445
Customer deposits	36,000	112,000
Current maturities of long-term debt	31,668	31,668
Total current liabilities	1,476,386	1,400,535
Long Term Liabilities	356,246	383,670
Stockholders' equity:		
Preferred Stock, par value $.001 10,000,000 shares authorized 0 issued and outstanding on September 30, 2004 and December 31, 2003	--	--
Common stock par value $.001; 40,000,000 shares authorized, issued and outstanding 13,853,628 shares and 13,464,528 shares on September 30, 2004 and December 31, 2003 respectively	20,532	16,641
Additional paid in capital	20,379,499	20,093,936
Accumulated deficit	(11,493,558)	(12,660,750)
Total stockholders' equity	8,906,473	7,449,827
Total liabilities and stockholders' equity	$ 10,739,105	$ 9,234,032

(1) Derived from audited financial statements.

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, 2004 AND 2003
(UNAUDITED)

	2004	2003
Sales	$ 15,629,483	$ 12,363,919
Cost of sales	9,498,374	7,183,850
Gross profit	6,131,109	5,180,069
Costs and expenses:		
Research and development	836,661	668,490
Professional services	307,717	307,500
Salaries and related costs	1,346,904	1,167,791
Selling, general and administrative	2,434,565	2,012,709
Equity in net loss of unconsolidated affiliate	26,886	51,983
	4,952,733	4,208,473
Gain (Loss) from operations	1,178,376	971,596
Other income (expense):		
Interest	(11,185)	(27,272)
Income	1,167,191	944,324
Provision for income tax	(420,200)	(330,513)
Realized benefit of loss carryforward	420,200	330,513
Net income	$ 1,167,191	$ 944,324
Earnings per share		
Net income:		
Basic	.09	.07
Diluted	.07	.06
Weighted average number of shares outstanding	13,721,602	13,187,217
Weighted average number of shares adjusted for dilutive securities	16,515,281	15,359,284

(1) Certain accounts have been reclassified to conform to current year's 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, 2004 AND 2003
(UNAUDITED)

	Third Quarter 2004	Third Quarter 2003
Sales	$ 5,616,662	$ 4,324,017
Cost of sales	3,346,904	2,524,953
Gross profit	2,269,758	1,799,064
Costs and expenses:		
Research and development	297,291	199,983
Professional services	84,869	92,569
Salaries and related costs	439,444	396,437
Selling, general and administrative	910,572	649,816
Equity in net loss of unconsolidated affiliate	10,919	32,026
	1,743,095	1,370,831
Gain (Loss) from operations	526,663	428,233
Other income (expense):		
Interest	(3,848)	(4,613)
Income	522,815	423,620
Provision for income tax	(194,668)	(148,267)
Realized benefit of loss carryforward	194,668	148,267
Net income	$ 522,815	$ 423,620
Earnings per share		
Net income:		
Basic	.04	.03
Diluted	.03	.03
Weighted average number of shares outstanding	13,834,101	13,115,930
Weighted average number of shares adjusted for dilutive securities	16,438,199	15,512,953

(1) Certain accounts have been reclassified to conform to current year's 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, 2004 AND 2003
(UNAUDITED)

	2004	2003

	----	----
Cash flows from operating activities:		
Net income	$ 1,167,191	$ 944,324
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	295,320	211,436
Write off of patent rights	--	54,790
Write down fixed assets,	54,700	--
Changes in current assets and liabilities:		
Receivables	(296,822)	(426,494)
Inventories and repair parts	238,321	(161,372)
Prepaid expenses	239,032	85,609
Accounts payable	90,700	165,578
Accrued expense	5,043	93,611
Other assets	--	45,044
Obligations to shareholders	--	(37,214)
Customers Deposits	(76,000)	(16,000)
Deferred revenue	56,109	--
Net cash provided by operating activities	1,773,594	959,312
Cash flows from investing activities		
Fixed assets	(571,989)	(318,530)
Patents	(2,001)	--
Decrease in deposits	3,359	--
Net cash used in investing activities	(570,631)	(318,530)
Cash flows from financing activities		
(Decrease) in notes payable	(27,424)	(531,371)
Common shares purchased	289,454	88,903
Net cash provided by (used in) financing activities	262,030	(442,468)
Net increase (decrease) in cash and cash equivalents	1,464,993	198,314
Cash and cash equivalents, beginning of period	306,137	379,209
Cash and cash equivalents, end of period	$ 1,771,130	$ 577,523

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, 2004 AND 2003

Cash paid during the nine
months ended September 30:

	2004	2003

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Interest paid	$ 13,294	$ 26,210
Income Taxes	-0-	- 0 -

SUPPLEMENTAL SCHEDULE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:

FOR THE NINE MONTHS ENDED SEPTEBER 30, 2004:

1) Pursuant to our 2003 executive and employee stock option plan, on April 23, July 1, and September 23, 2004, we issued 35,000, 50,000, and 225,000 stock options, respectively, to our directors, certain employees and consultants. The options are to purchase 310,000 shares at various prices from $1.30 to $2.95, the bid prices when options were granted. The options expire 10 years from the dates of issue.

2) During 2004, the Company identified indicators of possible impairment of its property and equipment. These indicators included the significant decrease in the market value of equipment compared to new technologies and the history of cash flows to date. The Company performed an asset impairment test by comparing the projected undiscounted cash flows to the carrying cost of the property and equipment. Based on the results of this test, the Company determined that certain property and equipment with net carrying cost of $54,700 that was replaced was impaired. The cost of the impaired equipment was written off.

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2003:

1) On September 29, 2003, we issued stock options pursuant to our 2003 executive and employee stock option plan to directors, certain employees and consultants to purchase 1,090,000 shares of our common stock at the bid price of $3.25, the stock price when options were granted. The options give the recipients the right to purchase the shares for 10 years from the date of issue.

2) The Company determined that, based on the results of its operations during 2003, it was appropriate to test its intangible assets for impairment. Accordingly the Company evaluated the fair value of certain acquired research and development based on the estimated future cash flows related to the asset and recorded an impairment charge of $54,790, which has been included in general and administrative expenses.

3) In conjunction with the acquisition of Aaron and the recission offer of 1996, 142,575 shares were issued and contingently held in trust and a corresponding contingent liability of $18,787 was set up until final disposition of the actual number of outstanding shares. In 2003, it was determined that all existing shareholders had converted their shares and the contingent shares were not necessary. The shares were cancelled and the additional paid in capital was increased by $18,787.

BOVIE MEDICAL CORPORATION
CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2003 AND FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2004

	Options Outstanding	Preferred Shares	Value
	-----------	------	-----
Balance as of January 1, 2003	2,909,000	--	--
Subscription Receivable			
Cancelled shares on Recission offer	--	--	--

Exercise options for cash	(350,000)	--	--
Options cancelled or forfeited	(361,200)	--	--
Options granted	1,791,000	--	--
Shares issued for promotion	--	--	--
Income for period	--	--	--
	-------------	--	--
December 31, 2003 (1)	3,988,800	--	--
(Unaudited)			
Exercise options for cash	(167,100)	--	--
Subscription receivable	--	--	--
Income for period	--	--	--
	-------------	--	--
March 31, 2004	3,821,700	--	--
Exercise options for cash	(163,000)	--	--
Subscription receivable	--	--	--
Options granted	85,000	--	--
Options forfeited	(10,000)	--	--
Income for period	--	--	--
	------------	--	--
June 30, 2004	3,733,700	--	--
Exercise options for cash	(59,000)	--	--
Subscription receivable	--	--	--
Options granted	225,000	--	--
Income for period	--	--	--
	------------	--	--
September 30, 2004	3,899,700	--	--
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	Common Shares	Common Value	Paid-in Capital
Balance as of January 1, 2003	13,256,103	$ 13,274	$19,820,044
Subscription Receivable			6,131
Cancelled shares on Recission offer	(142,575)	(143)	18,931
Exercise options for cash	350,000	3,500	247,500
Options cancelled or forfeited	--	--	--
Options granted	--	--	--
Shares issued for promotion	1,000	10	1,330
Income for period	--	--	--
	----------	-------	----------
December 31, 2003 (1)	13,464,528	$16,641	$20,093,936
(Unaudited)			
Exercise options for cash	167,100	1,671	118,254
Subscription receivable	--	--	1,113
Income for period	--	--	--
	----------	--------	---------
March 31, 2004	13,631,628	$18,312	$20,213,303
Exercise options for cash	163,000	1,630	130,870

Subscription receivable	--	--	1,595
Options granted	--	--	--
Options forfeited	--	--	--
Income for period	--	--	--
June 30, 2004	13,794,628	$19,942	$20,345,768
Exercise options for cash	59,000	590	32,160
Subscription receivable	--	--	1,571
Options granted	--	--	--
Income for period	--	--	--
September 30, 2004	13,853,628	$20,532	$20,379,499

	Deficit	Total
Balance as of January 1, 2003	$(13,342,067)	$6,491,251
Subscription Receivable		6,131
Cancelled shares on Recission offer	--	18,788
Exercise options for cash	--	251,000
Options cancelled or forfeited	--	--
Options granted	--	--
Shares issued for promotion	--	1,340
Income for period	681,317	681,317
December 31, 2003 (1)	$(12,660,750)	$7,449,827
(Unaudited)		
Exercise options for cash		119,925
Subscription receivable		1,113
Income for period	239,832	239,832
March 31, 2004	$(12,420,918)	$7,810,697
Exercise options for cash	--	132,500
Subscription receivable	--	1,595
Options granted	--	--
Options forfeited	--	--
Income for period	404,547	404,547
June 30, 2004	$(12,016,371)	$8,349,339
Exercise options for cash	--	32,750
Subscription receivable	--	1,571
Options granted	--	--
Income for period	522,813	522,813
September 30, 2004	$ 11,493,558	$8,906,473

(1) The figures for 2003 were derived from the audited financial statements for that year.

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

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 2003 Annual Report filed with 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 and accrued expenses on the balance sheet approximates fair value.

Short term and long term debt:

The carrying amount of notes payable 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, 2004 and December 31, 2003 were as follows:

	September 30, 2004	December 31, 2003
Raw materials	$ 783,754	$ 1,332,742

Work in process	733,040	616,837
Finished goods	488,209	501,570
Total	$ 2,005,003	$ 2,451,149

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.

As of September 30, 2004 and December 31, 2003, the inventory of parts was as follows:

	September 30, 2004	December 31, 2003
Raw materials	$ 317,614	$ 317,614
Allowance for excess or obsolete parts	(175,411)	(89,388)
	$ 142,203	$ 228,226

Long-Lived Assets

Long-lived 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.

BOVIE MEDICAL CORPORATION
NOTES TO FINANCIAL STATEMENTS

PART I. FINANCIAL INFORMATION (CONTINUED)

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Long-Lived Assets (Continued)

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.

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. Items where sales are made currently for future delivery are shown as deferred sales.

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 expensed, 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 Share 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

Bovie and its wholly-owned subsidiary 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 the asset surrendered.

Stock-Based Compensation

The Company had adopted SFAS 123 and has adopted the amendments to SFAS 123 disclosure provisions required under SFAS 148. Bovie will continue to account for stock-based compensation utilizing the intrinsic value method pursuant to Accounting Principles Board Opinion No. 25 (APB 25), Accounting for Stock Issued to Employees. Under this policy:

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

2. Stocks 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.

In December 2002, the FASB issued Statement No. 148, Accounting for Stock-Based compensation - Transition and Disclosure - an amendment of FASB Statement No. 123. Statement No. 148 amends Statement 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, Statement No. 148 amends the disclosure requirements of Statement No. 123 to require disclosure in interim financial statements regarding the method of accounting for stock-based employee compensation and the effect of the method used on reported results. Bovie does not intend to adopt a fair-value based method of accounting for stock-based employee compensation until a final standard is issued by the FASB that addresses concerns related to the applicability of current option pricing models to non-exchange traded employee stock option plans. SFAS 148 also amends the disclosure requirements of SFAS 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 148 is effective for financial statements for annual periods ending after December 15, 2002 and interim periods beginning after December 31, 2002.

BOVIE MEDICAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

New Accounting Standards

Bovie has adopted the amendments to SFAS 123 disclosure provisions required under SFAS 148 but will continue to use intrinsic value method under APB 25 to account for stock-based compensation. As such, the adoption of this statement has not had a significant impact on Bovie s financial position, results of operations or cash flows.

Pursuant to the disclosure requirements of SFAS 148, the Company provides an expanded reconciliation for all periods presented in Note 9.

Recently Issued Accounting Standards:

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. This interpretation addresses the disclosures to be made by a guarantor in its interim and annual financial statements about its obligations under certain guarantees. It also clarifies (for guarantees issued after January 1, 2003) that a guarantor is required to recognize, at the inception of a guarantee, a liability for the fair value of the obligations undertaken in issuing the guarantee. At December 31, 2002, Bovie did not have any significant guarantees. Bovie adopted the disclosure requirements of FIN 45 for the year ended December 31, 2002, and the recognition provisions effective January 1, 2003.

In January 2003, the FASB issued FASB Interpretation No. 46 (FIN 46), Consolidation of Variable Interest Entities. FIN 46 clarifies the application of Accounting Research Bulletin No. 51, Consolidated Financial Statements, to certain entities in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. FIN 46 applies immediately to variable interest entities (VIE s) created after January 31, 2003, and to VIE s in which an enterprise obtains an interest after that date. On October 9, 2003, the FASB issued FASB Staff Position No. FIN 46-6 Effective Date of FASB Interpretation No.46 *Consolidation of Variable Interest Entities,* which defers the implementation date for public entities that hold an interest in a variable interest entity or potential variable interest entity from the first fiscal year or interim period beginning after June 15, 2003 to the end of the first interim or annual period ending after December 15, 2003. This deferral applies only if 1) the variable interest entity was created before February 1, 2003 and 2) the public entity has not issued financial statements reporting that variable interest entity in accordance with FIN 46, other than disclosures required by paragraph 26 of FIN 46. The adoption of FIN 46 did not have a material impact on the Company s financial position, liquidity or results of operations. In May 2003, the FASB issued SFAS No. 149, Amendment of Statement 133 on Derivative Instruments and Hedging Activities. This Statement 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 FASB Statement No. 133, Accounting for Derivative Instruments and Hedging Activities. SFAS No. 149 is effective for contracts entered into or modified after June 30, 2003, and for hedging relationships designated after June 30, 2003. The adoption of SFAS No. 149 did not materially impact the Company's financial position or results of operations.

In May 2003, the FASB issued SFAS No. 150, Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity. The statement requires that an issuer classify financial instruments that are within its scope as a liability. Many of those instruments were classified as equity under previous guidance. SFAS No. 150 is effective for all financial instruments entered into or modified after May 31, 2003. Otherwise, it is effective on July 1, 2003 except for mandatorily redeemable non-controlling (minority) interest which, on October 29, 2003, the FASB decided to defer indefinitely. The adoption of SFAS No. 150 did not materially impact the Company s financial position or results of operations.

In December 2003, the SEC issued Staff Accounting Bulletin (SAB) No. 104, Revenue Recognition, which supercedes SAB No. 101, Revenue Recognition in Financial Statements. SAB No. 104 rescinds accounting guidance in SAB No. 101 related to multiple element arrangements, which was previously superceded by EITF 00-21 (see above). The adoption of SAB No. 104 did not have a material impact on the Company s results of operations or financial position.

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, 2004 and September 30, 2003

The results of operations over the nine months ended September 30, 2004 show increased sales and increased profitability, as compared to the first nine months of 2003. Our sales revenues increased by 26%, from $12,363,919 to $15,629,483. Gross profit percentage of 39% in 2004 was down from 42% for the same period in 2003. The reason for the 3% decrease in gross profit was that although electrosurgical sales increased, such sales consisted largely of sales of OEM products which have a lower gross profit margin. Overall dollar margins will increase as sales increase even though margins on electrosurgical products are less than other product margins. Gross profit increased from $5,180,069 in 2003 to $6,131,109 in 2004, an increase of 18%. Increased gross profit was mainly attributable to increased sales of electrosurgical devices. Bovie is increasing the volume of accessory and component manufacturing being undertaken in Europe and the Far East in order to reduce costs. The difference in cost of sales and gross profit were principally due to an increase in sales and increase in cost of sales of our family of OEM electrosurgical generators and accessories.

Operating salaries and related expenses increased 15% and went from $1,167,791 to $1,346,904 in the nine months ended September 30, 2004 as compared to the same period in 2003. The main reason for the increases were employee raises, increased health insurance costs, additional personnel in sales, marketing, customer service and an increase in employee procurement costs.

Research and development costs increased by 25% from $668,490 to $836,661 for the nine months ended September 30, 2004 as compared to the nine months ended September 30, 2003. The cost of research and development was mainly attributable to engineering on new generator models as well as other development projects.

Expenses for professional services increased by $217 to $307,500 in the nine months ended September 30, 2003, as compared to $307,717 in the same period of 2004.

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 - Nine months ended September 30, 2004 and September 30, 2003

Selling, General and Administrative expenses increased by $421,850 (21%). These expenses were $2,434,565 for the nine months ended September 30, 2004 as compared to $2,012,709 for the nine months ended September 30, 2003. The increase was mainly attributable to the expense of additional personnel, advertising, promotions, commissions, insurance, and depreciation of fixed assets.

Net interest expense decreased from $27,272 for the nine months ended September 30, 2003 to $11,185 in the same period of 2004. The largest part of the interest we pay is on our building mortgage and line of credit. There was no borrowing on the line of credit for the first nine months of 2004, which accounts for the decrease.

The operating gain was $1,178,376 in the first nine months of 2004 as compared to an operating gain of $971,596 in the same period in 2004, an increase of 21%.

Total other costs of $4,952,733 for 2004 and $4,208,473 for 2003 as a percentage of sales were 32% in 2004 as compared to 34% in 2003, an increase of 18%. Total costs increased of $744,260 was mostly due to the costs associated with the increase in selling, general and administrative expenses.

We had a net income of $1,167,191 for the nine months ended September 30, 2004 as compared to a net income of $944,324 for the same period in 2003. The main reason for the increase in income of $222,867 for the first nine months of 2004 from the first nine months of 2003 was an increase in OEM (Original Equipment Manufacturer) sales of the company s generators and disposable electrosurgical accessories.

Our effective federal income tax rate is 35%. As a result of the net gain in the past year, Bovie has reduced its projected net operating loss tax benefit asset. The net operating loss carryover is now approximately $7 million.

We sell our products through distributors both overseas and in U.S. markets. New distributors are contacted through responses to our advertising in international and domestic medical journals and domestic or international trade shows.

During the first nine months of 2004, international sales of our product lines increased by $369,136 or (20%). In 2004, these sales were $2,222,079 (14% of total sales) as compared to $1,852,943 (15% of total sales) in 2003. We are marketing our products overseas through a network of foreign distributors.

In the fourth quarter of 1998, Bovie made agreements with various sales representatives to develop markets for its new products and to maintain customer relations. The representatives receive an average commission of approximately 2% of sales in their market areas. In the nine months of 2004 and 2003, commissions paid were $257,237 and $186,460, respectively, an increase of 38%. This is attributable to our distributors giving us sales tracking information to allow us to pay representatives in those areas previously unpaid.

An adequate supply of raw material is available from both domestic and international suppliers. The relationship between Bovie and its suppliers is generally limited to individual purchase order agreements, supplemented by contractual arrangements with key vendors to ensure availability of certain products. We have developed multiple sources of supply where possible.

In order to provide additional working capital, the Company has secured a $1,500,000 credit facility with a local commercial bank. This facility is payable on demand. For the period January 1, 2004 to October 31, 2004, the Company had zero funds drawn down on this credit facility.

Results of Operations - Three months ended September 30, 2004 and September 30, 2003

Sales for the three month period ended September 30, 2004 were $5,616,662 as compared to $4,324,017 for the same period in 2003, an increase of $1,292,645 or 30%. The increase was mainly attributed to increased sales of electrosurgical products.

Cost of goods sold increased from $2,524,953 to $3,346,904 an increase of $821,951 or 33% for the three month period ended September 30, 2004 as compared to the same period in 2003.

Gross profit increased from $1,799,064 to $2,269,758 an increase of $470,694 or 26% for the three months period ended September 30, 2004 as compared to the same period in 2003. Gross profit percentage decreased during such comparative periods from 42% in 2003 to 40% in 2004. The reason for the decrease is that the margin on sales of electrosurgical products is not as great as other products and as electrosurgical sales increase in relation to other products overall margins decrease.

Research and development increased by $97,308 or 49% from $199,983 to $297,291 for the three months ended September 30, 2003 and September 30, 2004, respectively. The increase is due to our focus on developing new specialty use electrosurgical products.

Professional fees decreased by $7,700 or 8% from $92,569 to $84,869 for the three months ended September 30, 2003 when compared to September 30, 2004, respectively.

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 - Three months ended September 30, 2004 and September 30, 2003

Salaries and related costs increased from $396,437 to $439,444 an increase of $43,007 or 11%. The main reason for the increases were employee raises, increased health insurance costs, additional personnel in sales, marketing, customer service and an increase in employee procurement costs.

Selling, general and administrative expenses increased by $260,756 or 40% from $649,816 to $910,572 for the three months ended September 30, 2003 as compared to September 30, 2004, respectively. The largest areas of increased costs were for advertising, travel and the costs relating to a recall of a product.

Net interest expense decreased from $4,613 to $3,848 for the three months ended September 30, 2004 as compared to three months ended September 30, 2003. The reason for the decrease was that we did not use our credit facility during the three months ended September 30, 2004.

Total other costs went from $1,370,831 for the three months ended September 30, 2003 to $1,743,095 for the same period in 2004, an increase of $372,264 or 27%.

Net income for the three months ended September 30, 2004 was $522,815 as compared to $423,620 for the same quarter in 2003, an increase of $99,195 or 23%. The main reason was an increase in OEM (Original Equipment Manufacturer) sales of the company s generators and disposable electrosurgical accessories.

Financial Condition

As of September 30, 2004, cash totaled $1,771,130 as compared to $577,523 at September 30, 2003. Cash provided by operating activities was $1,987,807 in the first nine months of 2004 as compared to $959,312 in 2003. Net working capital of Bovie was $5,135,791 and $4,082,055 on September 30, 2004 and 2003, respectively.

The amount of cash used in investing activities was $784,844 in the first nine months of 2004, compared to $318,530 in 2003. We continued to invest in property, plant and equipment needed for anticipated future business requirements, including manufacturing capacity for the nine months ended September 30, 2004. We invested $571,989 in plant and equipment predominately for the new facility. In the year 2001, the Company invested $200,000 in a joint venture involving a new unipolar low temperature plasma technology. Since 2001, the Company has invested additional funds in such developments which have been charged as a net loss of an unconsolidated affiliate.

The net cash provided by financing activities in the first nine months of 2004 was $262,030. In the same period of 2003, net cash used by financing activities was $442,468. A significant item of financing activity in 2004 resulted from the exercise of 330,100 stock options by current and former employees and consultants for $252,425. In each of the first nine months of 2004 and 2003, Bovie reduced its first mortgage by $19,507.

Our ten largest customers accounted for approximately 72% of net revenues for the nine months of 2004 as compared to 65% in the same period of 2003. For both periods ended September 30, 2004 and September 30, 2003, our ten largest trade receivable customers accounted for approximately 66% of outstanding receivables. For the first nine months of 2004, one customer accounted for 31% of total sales.

We believe that Bovie has the financial resources needed to meet business requirements in the foreseeable future, including capital expenditures needed for the expansion of our manufacturing site, working capital requirements, and product development programs, subject to us maintaining compliance with our credit facility.

Outlook

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

Our line of electrosurgery products now include standard stainless steel electrodes, the Bovie/Aaron 800, Bovie/Aaron 900, Bovie/Aaron 950, Bovie/Aaron 1250, the Bovie 2250 and IDS 300 high frequency generators.

BOVIE MEDICAL CORPORATION
NOTES TO FINANCIAL STATEMENTS

PART I. FINANCIAL INFORMATION (CONTINUED)

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

Outlook (continued)

During the first nine months of 2003, versus 2004, Bovie s electrosurgery sales increased by 50% from $6,520,728 to $9,778,827. The increase was mainly attributable to OEM sales. Through our private label capability and our sales division, we anticipate continued opportunities in the domestic and foreign markets. The electrosurgery product market is larger than our other traditional markets and is dominated by two competitors, Valleylab and Conmed. The global market for electrosurgery products exceeds $800 million annually.

Non-Medical Products

In 2003, our sales of flexible lighting products, used primarily in the automotive and locksmith industries, totaled $375,250. One customer accounted for 80% of such sales. We discontinued our non-medical product line by entering into a license agreement to our largest customer in that field for $500,000, payable in equal monthly installments over 5 years.

Scientific Advisory Board

On July 8, 2003, we 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 Konesky.

Reliance on Collaborative, Manufacturing and Selling Arrangements

Bovie is dependent on certain contractual partners for manufacturing and product development. Should a collaborative partner reduce its business to us, our future business and value of related assets could be negatively impacted.

Liquidity and Future Plans

Our focus is to acquire, develop, and manufacture new product technologies and to expand our manufacturing capabilities.

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

In December 2001, we satisfied our first mortgage on the building that we own in St. Petersburg, Florida and replaced it with a new first mortgage from our 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 4.00%. Bovie pays a principal payment of $2,639 plus interest each month. On September 30, 2004, the balance of the loan was $387,913. A balloon payment of $316,660 is due in December 2006.

BOVIE MEDICAL CORPORATION
NOTES TO FINANCIAL STATEMENTS

PART I. FINANCIAL INFORMATION (CONTINUED)

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

Liquidity and Future Plans (continued)

In May 2001, we changed commercial lenders and increased our 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 due on the credit line on October 31, 2004 was zero.

Our 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, involves a number of risks and uncertainties. In addition to the factors discussed above, there are other factors that could cause actual results to differ materially, such as business conditions and the general economies; competitive factors including 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.

Our management believes that Bovie 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 the 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, 2003, Part I, Item 3, which is incorporated herein by reference.

BOVIE MEDICAL CORPORATION
NOTES TO FINANCIAL STATEMENTS

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.

There have been no dividends declared.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None

ITEM 4. SUBMISSION OF MATTERS TO VOTE OF SECURITY HOLDERS

There has been no submission of a matter to vote by security holders since July of 2003.

ITEM 5. EXHIBITS AND REPORTS ON FORM 8-K

Exhibits

(31)Certification pursuant to Section 302 of Sarbanes-Oxley Act of 2002.

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

Report on Form 8-K

None

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 15, 2004

/s/Andrew Makrides
Chief Executive Officer - Andrew Makrides