BOVIE MEDICAL CORP
Form 10-Q
November 13, 2007

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(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, 2007

OR

¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Period from _____ to _____

Commission file number 012183

BOVIE MEDICAL CORPORATION
(Exact name of registrant 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
(Registrant's telephone number, including area code)

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 ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (check one):

Large Accelerated filer ¨ Accelerated filer ¨ Non-accelerated filer x

Indicate by check mark whether the registrant is a shell company (as defined in the Rule 12b-2 of the Exchange Act). YES ¨ NO x

The number of shares of common stock, par value $0.001 per share, outstanding on September 30, 2007 was 15,410,323

BOVIE MEDICAL CORPORATION
INDEX TO FORM 10-Q
FOR THE QUARTER ENDED SEPTEMBER 30, 2007

Index

PART I. FINANCIAL INFORMATION

ITEM 1: CONSOLIDATED FINANCIAL STATEMENTS

BOVIE MEDICAL CORPORATION
CONSOLIDATED BALANCE SHEETS
SEPTEMBER 30, 2007 AND DECEMBER 31, 2006

Assets

	(Unaudited) September 30, 2007	(Audited) December 31, 2006
Current assets:		
Cash and cash equivalents	$ 2,637,574	$ 2,952,892
Trade accounts receivable, net of allowance for doubtful accounts of approximately $8,700 and $10,000, respectively	2,982,000	2,817,557
Inventories	4,680,752	3,609,301
Prepaid expenses	465,988	402,423
Deferred tax asset	757,392	386,200
Total current assets	11,523,706	10,168,373
Property and equipment, net	3,396,754	3,217,020
Other assets:		
Brand name/trademark, net	1,509,662	1,509,662
Purchased technology, net	2,123,991	1,529,330
License rights, net	294,578	240,000
Deposits	21,215	21,215
Total other assets	3,949,446	3,300,207
Total Assets	$ 18,869,906	$ 16,685,600

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

Index

BOVIE MEDICAL CORPORATION
CONSOLIDATED BALANCE SHEETS
SEPTEMBER 30, 2007 AND DECEMBER 31, 2006
(CONTINUED)

Liabilities and Stockholders' Equity

	(Unaudited) September 30, 2007	(Audited) December 31, 2006
Current liabilities:		
Accounts payable	$ 869,171	$ 916,253
Accrued and other liabilities	1,063,321	955,716
Customer deposits	48,260	91,198
Deferred revenue	67,036	173,986
Total current liabilities	2,047,788	2,137,153
Liability for purchased assets	368,150	368,150
Total liabilities	2,415,938	2,505,303
Minority interest	--	120,000
Stockholders' equity:		
Preferred stock, par value $.001; 10,000,000 shares authorized; none issued and outstanding	--	--
Common stock par value $.001; 40,000,000 shares authorized, 15,410,323 and 15,223,538 issued and outstanding on September 30, 2007 and December 31, 2006, respectively	15,410	15,224
Additional paid in capital	22,378,088	22,104,416
Accumulated deficit	(5,939,530)	(8,059,343)
Total stockholders' equity	16,453,968	14,060,297
Total Liabilities and Stockholders' Equity	$ 18,869,906	$ 16,685,600

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

Index

BOVIE MEDICAL CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2007 AND 2006
(UNAUDITED)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
Sales	$ 7,459,818	$ 6,999,054	$ 21,602,061	$ 19,751,250
Cost of sales	4,343,709	4,118,252	12,942,901	11,743,121
Gross profit	3,116,109	2,880,802	8,659,160	8,008,129
Other costs and expenses:				
Research and development	415,992	261,923	1,232,585	631,674
Professional services	219,354	154,264	609,201	400,945
Salaries and related costs	665,882	647,002	2,134,392	1,847,328
Selling, general and administrative	1,104,050	952,453	2,995,684	2,789,005
Development cost-joint venture	--	34,506	--	112,506
Total costs and expenses	2,405,278	2,050,148	6,971,862	5,781,458
Income from operations	710,831	830,654	1,687,298	2,226,671
Interest income, net	34,086	28,872	101,323	50,795
Income before minority interest and income taxes	744,917	859,526	1,788,621	2,277,466
Minority interest	--	5,000	5,000	15,000
Provision for income tax	(273,281)	(292,239)	(694,427)	(774,338)
Realized benefit of tax loss carryforward	--	284,672	1,020,619	741,771
Net income	$ 471,636	$ 856,959	$ 2,119,813	$ 2,259,899
Earnings per share				
Basic	$ .03	$ .06	$ .14	$ .16
Diluted	$ .03	$ .05	$ .12	$ .13
Weighted average number of shares outstanding	15,388,073	14,610,828	15,284,033	14,351,324
Weighted average number of shares outstanding adjusted for dilutive	17,699,654	17,483,781	17,669,657	16,895,099

securities

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

Index

BOVIE MEDICAL CORPORATION
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2006 AND THE NINE MONTHS ENDED SEPTEMBER 30, 2007 (UNAUDITED)

	Options Outstanding	Common Shares	Par Value	Additional Paid-in Capital	Accumulated Deficit	Total
January 1, 2006	4,168,870	14,040,728	$ 14,041	$ 20,530,108	$ (10,742,549)	$ 9,801,600
Options granted	120,000	--	--	41,097	--	41,097
Options exercised	(982,810)	982,810	983	794,943	--	795,926
Options forfeited	(102,360)	--	--	--	--	--
Stock options issued to acquire assets	--	--	--	63,300	--	63,300
Stock issued to acquire assets	--	200,000	200	674,968	--	675,168
Income for the year	--	--	--	--	2,683,206	2,683,206
December 31, 2006	3,203,700	15,223,538	15,224	22,104,416	(8,059,343)	14,060,297
Options exercised	(174,800)	174,800	175	248,501		248,676
Options granted	145,000	--	--	--	--	--
Stock option expense	--	--	--	52,693	--	52,693
Options forfeited	(42,500)	--	--	--	--	--
Stock Swap to Acquire Options	--	(5,444)	(5)	(32,495)	--	(32,500)
Other	--	(98)	16	(16)	--	--
Reclass adjustment	--	17,527		4989	--	4,989
Income for the period	--	--	--	--	2,119,813	2,119,813
September 30, 2007 (Unaudited)	3,131,400	15,410,323	$ 15,410	$ 22,378,088	$ (5,939,530)	$ 16,453,968

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

6

Index

BOVIE MEDICAL CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2007 AND 2006
(UNAUDITED)

		2007		2006
Cash flows from operating activities				
Net income	$	2,119,813	$	2,259,899
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization of property and equipment		492,463		355,024
Amortization of intangible assets		67,739		54,082
Provision for (recovery of) inventory obsolescence		(67,976)		(26,502)
Loss on disposals of fixed assets		--		6,727
Non-cash adjustment		4,989		--
Stock based compensation		52,693		20,390
Stock-based expense for Henvil asset purchase		--		20,886
Benefit for deferred income taxes		(371,192)		--
Minority interest in net loss of joint venture		(5,000)		(15,000)
Changes in current assets and liabilities:				
Receivables		(164,443)		(699,948)
Inventories		(1,003,475)		(354,653)
Prepaid expenses		(63,565)		1,045
Accounts payable		(47,082)		53,725
Accrued and other liabilities		107,605		304,903
Customer deposits		(42,938)		-
Deferred revenue		(106,950)		(31,950)
Net cash provided by operating activities		972,681		1,948,628
Cash flows from investing activities				
Purchases of property and equipment		(672,200)		(929,253)
Purchased technology		(516,356)		(264,088)
Purchase of license rights		(315,619)		-
Net cash used in investing activities		(1,504,175)		(1,193,341)
Cash flows from financing activities				
Repayments of long term debt		-		(367,153)
Increase in notes payable		-		132,067
Proceeds from sales of common shares		216,176		494,025
Net cash provided by financing activities		216,176		258,939
Net change in cash and cash equivalents		(315,318)		1,014,226
Cash and cash equivalents, beginning of period		2,952,892		1,295,266
Cash and cash equivalents, end of period	$	2,637,574	$	2,309,492

Cash paid during the nine months ended September 30, 2007 and 2006:

Interest	$	2,439	$	15,969
Income taxes	$	59,916	$	25,000

Supplemental disclosure of non-cash investing and financing activities - During the nine months ended September 30, 2007, the minority interest and license rights intangible asset declined by $115,000 upon the acquisition of the minority interest in a joint venture. In addition, at such time, the remaining net balance of the license rights intangible asset of $115,000 was reclassified to purchased technology.

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

Index

BOVIE MEDICAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
UNAUDITED

NOTE 1. INTERIM FINANCIAL INFORMATION

The accompanying condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (U.S.) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information necessary for a fair presentation of results of operations, financial position, and cash flows in conformity with accounting principles generally accepted in the U.S. In the opinion of management, the condensed consolidated financial statements reflect all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation of the results of Bovie Medical Corporation and its subsidiaries (collectively, the "Company" or "we", "us", "our") for the periods presented. Operating results for interim periods are not necessarily indicative of results that may be expected for the fiscal year as a whole.

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements. The reported amounts of revenues and expenses during the reporting period may be affected by the estimates and assumptions management is required to make. Estimates that are critical to the accompanying consolidated financial statements relate principally to the adequacy of our accounts receivable and inventory allowances, the recoverability of long-lived assets and the valuation of our net deferred income tax assets. The markets for the Company's products are characterized by intense price competition, rapid technological development, evolving standards and short product life cycles, all of which could impact the future realization of its assets. Estimates and assumptions are reviewed periodically and the effects of revisions are reflected in the period that they are determined to be necessary. It is at least reasonably possible that the Company's estimates could change in the near term with respect to these matters.

For further information, refer to the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2006. Certain prior year amounts may have been reclassified to conform to the presentation used in 2007.

NOTE 2. INVENTORIES

Inventories are stated at the lower of cost or market. Cost is determined principally on the average cost method. Inventories at September 30, 2007 and December 31, 2006 were as follows:

	September 30, 2007	December 31, 2006
Raw materials	$ 2,377,899	$ 1,640,254
Work in process	1,455,237	1,351,540
Finished goods	847,616	617,507
Total	$ 4,680,752	$ 3,609,301

NOTE 3. INTANGIBLE ASSETS

At September 30, 2007 and December 31, 2006 intangible assets consisted of the following:

	September 30, 2007	December 31, 2006
Trade name (life indefinite)	$ 1,509,662	$ 1,509,662
Purchased technology (9-17 year lives)	$ 2,437,220	$ 1,805,864
Less accumulated amortization	(313,229)	(276,534)
Net carrying amount	$ 2,123,991	$ 1,529,330
License rights (5 year life)	$ 315,619	$ -
License rights (10 year life)	-	400,000
Less accumulated amortization	(21,041)	(160,000)
Net carrying amount	$ 294,578	$ 240,000

Index

NOTE 4. NEW ACCOUNTING PRONOUNCEMENTS

Accounting for Stock-Based Compensation

Effective January 1, 2006, the Company adopted Statement of Financial Accounting Standards No. 123R, Share-Based Payment ("SFAS 123R"), which requires companies to measure and recognize compensation expense for all share-based payment awards made to employees and directors based on estimated fair values. SFAS 123R is being applied on the modified prospective basis. Prior to the adoption of SFAS 123R, the Company accounted for its stock-based compensation plans under the recognition and measurement principles of Accounting Principles Board (APB) Opinion No. 25, Accounting for Stock Issued to Employees, as provided by SFAS 123, "Accounting for Stock Based Compensation" ("SFAS 123") and accordingly, recognized no compensation expense related to the stock-based plans as stock options granted to employees and directors were equal to the fair market value of the underlying stock at the date of grant. In March 2005, the SEC issued Staff Accounting Bulletin No. 107 ("SAB 107") relating to SFAS 123R. The Company has applied the provisions of SAB 107 in its adoption of SFAS 123R.

SFAS 123R applies to new awards and to awards that were outstanding on January 1, 2006 that are subsequently modified, repurchased or cancelled. Under the modified prospective approach, the Company is required to recognize an allocable portion of compensation cost for all share-based payments granted prior to, but not yet vested on, January 1, 2006 (compensation costs are recognized as the awards continue to vest), based on the grant-date fair value estimated in accordance with the provisions of SFAS 123. Prior periods were not restated to reflect the impact of adopting the new standard. As of September 30, 2007, there was approximately $420,200 of total unrecognized compensation costs related to unvested options. That cost is expected to be recognized over a period of 4 to 7 years.

The weighted average grant date fair value of options granted during the nine months ended September 30, 2007 was estimated on the grant date using the binomial lattice option-pricing model with the following assumptions: expected volatility of 26%, expected term of 5 to 7 years, risk-free interest rate of 5.5%, and expected dividend yield of 0%. Expected volatility is based on a weighted average of the historical volatility of the Company's stock and peer company volatility. The average expected life was calculated using the simplified method under SAB 107. The risk-free rate is based on the rate of U.S. Treasury zero-coupon issues with a remaining term equal to the expected life of option grants. The Company uses historical data to estimate pre-vesting forfeiture rates.

FIN 46(R) "Consolidation of Variable Interest Entities--an interpretation of ARB No. 51"

FIN 46R expands the scope of ARB51 and various EITFs and can require consolidation of legal structures, called *Variable Interest Entities ("VIEs")*. Companies with investments in *Special Purpose Entities ("SPEs")* were required to implement FIN 46R in 2003; however, companies with VIEs were permitted to implement in the first quarter of 2004. While we do not have SPEs, we did have a VIE that qualified for consolidation (Jump Agentur Fur Electrotechnik GMBH - “the Joint Venture” or “JAG”) until we purchased the minority stockholder’s 50% ownership interest in May 2007. Accordingly, the financial position and results of operations of this entity were in our consolidated financials statements through the date of such purchase.

SFAS No. 151 - Inventory Costs, an amendment of Accounting Research Bulletin No. 43, Chapter 4

In November 2004, the FASB issued SFAS No. 151, “Inventory Costs, an amendment of Accounting Research Bulletin No. 43, Chapter 4,” which adopts wording from the International Accounting Standards Board’s (IASB) IAS 2 “Inventories” (“AS 151”) in an effort to improve the comparability of cross-border financial reporting. The FASB and

IASB both believe the standards have the same intent; however, an amendment to the wording was adopted to avoid inconsistent application. The new standard indicates that abnormal freight, handling costs, and wasted materials (spoilage) are required to be treated as current period charges rather than as a portion of inventory cost. Additionally, the standard clarifies that fixed production overhead should be allocated based on the normal capacity of a production facility. Adoption of this statement, which was effective January 1, 2007 did not have a material impact on our consolidated earnings, financial position or cash flows.

Index

FSP 109-1 Application of FASB Statement No. 109 – Accounting for Income Taxes to the Tax Deduction on Qualified Production Activities Provided by the American Jobs Creation Act of 2004

In December 2004, the FASB issued FSP FAS 109-1, “Application of FASB Statement No. 109, Accounting for Income Taxes to the Tax Deduction on Qualified Production Activities Provided by the American Jobs Creation Act of 2004.” The FSP clarifies that the manufacturer’s deduction provided for under the American Jobs Creation Act of 2004 (the Act) should be accounted for as a special deduction in accordance with SFAS No. 109, “Accounting for Income Taxes,” and not as a tax rate reduction. The Qualified Production Activities Deduction did not impact the Company’s consolidated earnings, financial position or cash flows for fiscal year 2006. We are currently evaluating the effect that this deduction will have in 2007 and beyond.

SFAS 154 - Accounting Changes and Error Corrections--A Replacement of APB Opinion No. 20 and FASB Statement No. 3

In May 2005, the FASB issued SFAS No. 154, "Accounting Changes and Error Corrections, - a replacement of APB Opinion No. 20 and SFAS No. 3" (“FAS 154”). The Statement established, unless impracticable, retrospective application as the required method for reporting a change in accounting principle in the absence of explicit transition requirements specific to the newly adopted accounting principle. The provisions of this Statement were effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. The adoption of this Statement did not have a material impact on the Company's consolidated financial position or result of operations.

SFAS 155 - Accounting for Certain Hybrid Financial Instruments – an amendment of FASB Statement Numbers 133 and 140

In February 2006, the FASB issued SFAS No. 155, "Accounting for Certain Hybrid Financial Instruments - an amendment of SFAS No. 133 and No. 140" (“FAS 155”). This Statement, among other things, allows a preparer to elect fair value measurement of instruments in cases in which a derivative would otherwise have to be bifurcated. The provisions of this Statement are effective for all financial instruments acquired or issued in fiscal years beginning after September 15, 2006. The adoption of this Statement did not have a material impact on the Company's consolidated financial position or results of operations.

SFAS 156 - Accounting for Servicing of Financial Assets – an amendment of FASB Statement No. 140

In March 2006, the FASB issued SFAS No. 156, "Accounting for Servicing of Financial Assets-an amendment of SFAS No. 140" (“FAS 156”). This Statement amends SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities", with respect to the accounting for separately recognized servicing assets and servicing liabilities. The provisions of this Statement are effective for all financial instruments acquired or issued in fiscal years beginning after September 15, 2006. Adoption of this Statement did not have a material impact on the Company's consolidated financial position or results of operations.

FIN 48 - Accounting for Uncertainty in Income Taxes – an Interpretation of FASB Statement No. 109

In July 2006, the FASB issued Interpretation No. 48, "Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109" ("FIN 48") which prescribes a recognition threshold and measurement attribute, as well as criteria for subsequently recognizing, derecognizing and measuring uncertain tax positions for financial statement purposes. FIN 48 also requires expanded disclosure with respect to the uncertainty in income tax assets and liabilities. FIN 48 is effective for fiscal years beginning after December 15, 2006 and is required to be recognized as a change in accounting principle through a cumulative-effect adjustment to retained earnings as of the beginning of the year of

adoption. Adoption of this statement is not expected to have a material impact on the Company's consolidated financial position or results of operations.

SAB 108 – 'Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements'

In September 2006, the SEC issued Staff Accounting Bulletin No. 108 ("SAB 108"), Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements. SAB 108 provides guidance on the consideration of the effects of prior year unadjusted errors in quantifying current year misstatements for the purpose of a materiality assessment. The Statement is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007. Early adoption is permitted as of the beginning of a fiscal year that begins on or before November 15, 2007, provided the entity also elects to apply the provisions of FASB Statement No. 157, Fair Value Measurements. Adoption of this Statement is not expected to have a material impact on the Company's consolidated financial position or results of operations.

Index

SFAS 157 – Fair Value Measurement

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements ("FAS 157"). This standard establishes a standard definition for fair value establishes a framework under generally accepted accounting principles for measuring fair value and expands disclosure requirements for fair value measurements. This standard is effective for financial statements issued for fiscal years beginning after November 15, 2007. Adoption of this statement is not expected to have a material effect on the Company's consolidated financial position or results of operations.

SFAS 158 – Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statement Nos. 87, 88, 106, and 132(R)

In September 2006, the FASB issued SFAS No. 158, Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statement Nos. 87, 88, 106, and 132(R), or ("FAS 158"). This Statement requires an employer that is a business entity and sponsors one or more single-employer defined benefit plans to (a) recognize the funded status of a benefit plan—measured as the difference between plan assets at fair value (with limited exceptions) and the benefit obligation—in its statement of financial position; (b) recognize, as a component of other comprehensive income, net of tax, the gains or losses and prior service costs or credits that arise during the period but are not recognized as components of net periodic benefit cost pursuant to FAS 87, Employers' Accounting for Pensions, or FAS 106, Employers' Accounting for Postretirement Benefits Other Than Pensions; (c) measure defined benefit plan assets and obligations as of the date of the employer's fiscal year-end statement of financial position (with limited exceptions); and (d) disclose in the notes to financial statements additional information about certain effects on net periodic benefit cost for the next fiscal year that arise from delayed recognition of the gains or losses, prior service costs or credits, and transition assets or obligations. An employer with publicly traded equity securities is required to initially recognize the funded status of a defined benefit postretirement plan and to provide the required disclosures as of the end of the fiscal year ending after December 15, 2006. Adoption of this statement did not have a material effect on the Company's consolidated financial position or results of operations.

SFAS 159 – The Fair Value Option for Financial Assets and Financial Liabilities—Including an amendment of FASB Statement No. 115

In February 2007, the FASB issued SFAS No. 159 "The Fair Value Option for Financial Assets and Financial Liabilities—Including an amendment of SFAS No. 115" ("FAS 159"). This Statement permits entities to choose to measure many financial instruments and certain other items at fair value. Most of the provisions of this Statement apply only to entities that elect the fair value option.

The following are eligible items for the measurement option established by this Statement:

1. Recognized financial assets and financial liabilities except:

a. An investment in a subsidiary that the entity is required to consolidate

b. An interest in a variable interest entity that the entity is required to consolidate

c. Employers' and plans' obligations (or assets representing net over funded positions) for pension benefits, other postretirement benefits (including health care and life insurance benefits), post employment benefits, employee stock option and stock purchase plans, and other forms of deferred compensation arrangements.

d. Financial assets and financial liabilities recognized under leases as defined in FASB Statement No. 13, Accounting for Leases.

e. Withdrawable on demand deposit liabilities of banks, savings and loan associations, credit unions, and other similar depository institutions

Index

f. Financial instruments that are, in whole or in part, classified by the issuer as a component of shareholder's equity (including "temporary equity"). An example is a convertible debt security with a non-contingent beneficial conversion feature.

2. Firm commitments that would otherwise not be recognized at inception and that involve only financial instruments

3. Non-financial insurance contracts and warranties that the insurer can settle by paying a third party to provide those goods or services

4. Host financial instruments resulting from separation of an embedded non-financial derivative instrument from a non-financial hybrid instrument.

The fair value option:

1. May be applied instrument by instrument, with a few exceptions, such as investments otherwise accounted for by the equity method

2. Is irrevocable (unless a new election date occurs)

3. Is applied only to entire instruments and not to portions of instruments.

The Statement is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007. Early adoption is permitted as of the beginning of a fiscal year that begins on or before November 15, 2007, provided the entity also elects to apply the provisions of FASB Statement No. 157, Fair Value Measurements. Adoption of this statement is not expected to have a material effect on the Company's consolidated financial position or results of operations**.**

NOTE 5. STOCKHOLDERS' EQUITY

During the nine month period ended September 30, 2007, we issued 174,800 common shares on the exercise of employee and non-employee options. During the same time period we received 5,444 common shares in a stock swap to exercise 25,000 options (which exercise is included in the 174,800 shares mentioned above). The issuance of the common stock along with the retirement of the shares received through the stock swap, resulted in a net increase in capital of $216,176

NOTE 6. EARNINGS PER SHARE

We compute basic earnings per share ("basic EPS") by dividing net income by the weighted average number of common shares outstanding for the reporting period. Diluted earnings per share ("Diluted EPS") gives effect to all potential dilutive shares outstanding (in our case, employee stock options) during the period. There were 2,385,624 and 2,543,775 potentially dilutive shares outstanding during the nine month periods ended September 30, 2007 and 2006, respectively. The shares used in the calculation of Diluted EPS exclude options to purchase shares where the exercise price was greater than the average market price of common shares during the quarter. Such shares aggregated 130,000 and zero during the nine months ended September 30, 2007 and 2006, respectively.

NOTE 7. INCOME TAXES

At December 31, 2006, and March 31, 2007, a significant portion of our deferred income tax assets arising from net operating loss carryforwards were reduced by valuation allowances. At June 30, 2007, we satisfied ourselves

that such valuation allowances were no longer necessary in accordance with the provisions of Financial Accounting Standards Statement No. 109 "Accounting for Income Taxes" ("FAS 109"). Accordingly, we reversed the valuation allowances and recognized a significant deferred income tax benefit as of such date. Because of this, our September 30, 2007 income has been reduced by a provision for deferred income taxes; and assuming we continue to generate positive results of operations, such treatment will continue until the remaining balance of our deferred income tax assets arising from net operating loss carryforwards are realized. We estimate that our net operating loss carryforwards will be fully utilized by June 30, 2008. Until such carryforwards are utilized, we do not expect to pay any income taxes, other than those arising from the alternative minimum tax.

Index

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

Executive Level Overview

We are a medical device company engaged in the manufacturing and marketing of electrosurgical devices. Our medical products include a wide range of devices including electrosurgical generators and accessories, cauteries, medical lighting, nerve locators and other products.

We divide our operations into three reportable business segments. Electrosurgical products, battery operated cauteries and other products. The electrosurgical segment sells electrosurgical products which include desiccators, generators, electrodes, electrosurgical pencils and various ancillary disposable products. These products are used in surgery for the cutting and coagulation of tissue. Battery operated cauteries are used for precise hemostasis (to stop bleeding) in ophthalmology and in other fields. Our other revenues are derived from nerve locators, disposable and reusable penlights, medical lighting, license fees, development fees and other miscellaneous income.

Domestic sales accounted for approximately 85% of total revenues in the first nine months of 2007 as compared to approximately 88% in the first nine months of 2006. Most of the Company's products are marketed through medical distributors, which distribute to more than 6,000 hospitals, as well as doctors and other health-care facilities. The Company's products are sold in more than 150 countries through local distributors coordinated by our in-house sales and marketing personnel at our St. Petersburg, Florida facility. We have no manufacturing facilities or branch offices other than the Florida and Canadian facilities.

Our ten largest customers accounted for approximately 71% and 72% of net revenues for the first nine months of 2007 and 2006 respectively. At September 30, 2007 and 2006, our ten largest trade receivables accounted for approximately 67% and 78% of our net receivables, respectively. In the first nine months of 2007 and 2006 one customer accounted for 21% and 22% of total sales, respectively.

Our business is generally not seasonal in nature.

Outlook

Given the continued positive progress of Bovie's MEG and Polaris™ hand held instrument product lines, management is optimistic that the marketing of the MEG, anticipated in early 2008 and Polaris™ in the first half of 2008 could significantly increase future revenues. In addition, Bovie has been engaged in continuous discussions with larger companies, which could lead to beneficial collaborative manufacturing and marketing efforts. The market size for these products, together with expected higher margins, over the long term, could translate into significantly improved earnings.

Other new products in electrosurgery will continue to be featured during 2007 and 2008 as we move into new niche markets. Shipments of our ICON GI began in August 2007 and we anticipate that our agreement with Canady Technologies will mark our entry into the plasma markets and accelerate our efforts to market J-Plasma.

Through careful study of markets and the development of appropriate marketing strategies to maximize our potential, we seek to create opportunities for growth by the introduction of new medical products with expanding applications

Forecasting is admittedly a difficult task and it has always been our policy to adopt a conservative approach. However, as always, our commitment is not just to sustain our level of growth but also to accelerate it in future years.

The outlook is based on a number of assumptions, which are subject to change; some of which are outside our control. A variation in our assumptions may result in a change in this outlook.

Result of Operations (to be read in conjunction with the consolidated statements of operations)

The table below outlines the components of the consolidated statements of operations as a percentage of net sales and the year-to-year percentage change in dollar amounts:

Analysis of Periods Ended September 30, 2007 and 2006

Index

	3rd Quarter		Percentage Change in Dollar Amounts	Nine Months		Percentage Change in Dollar Amounts
	2007 %	2006 %	%	2007 %	2006 %	%
Sales	100.0	100.0	6.6	100.0	100.0	9.4
Cost of sales	58.2	59.0	5.5	59.9	60.0	10.2
Gross profit	41.8	41.0	8.2	40.1	40.0	8.1
Other costs:						
Research & development	5.6	4.0	40.3	5.7	3.0	65.6
Professional services	3.0	2.0	42.2	2.8	2.0	51.9
Salaries and related costs	8.9	9.0	2.9	9.9	9.0	15.5
Selling, general and administrative	14.8	13.0	16.5	13.9	14.0	8.0
Development cost-joint venture	0.0	1.0	0.0	0.0	1.0	0.0
Total other costs	32.3	29.0	17.6	32.3	29.0	20.9
Income from operations	9.5	12.0	-14.9	7.8	11.0	-24.7
Interest income, net	0.5	0.0	18.1	0.5	0.0	109.3
Income before minority interest and income tax	10.0	12.0	-13.8	8.3	11.0	-21.8
Minority interest	0.0	0.0	0.0	0.0	0.0	0.0
Provision for income tax	(3.7)	(4.0)	6.5	(3.2)	(4.0)	10.3
Realized benefit of tax loss carryforward	0.0	4.0	-100.0	4.7	4.0	37.6
Net earnings	6.3	12.0	-45.0	9.8	11.0	-6.2

Results of Operations -Nine months ended September 30, 2007 compared to nine months ended September 30, 2006

The table below sets forth domestic/international and product line sales information for the first nine months of 2007 and 2006:

	2007	2006	%age change 2007/2006	Increase/ (Decrease)
Net Sales (in thousands):				
Domestic	$ 18,409	$ 17,278	6.5	$ 1,131
International	3,193	2,473	29.1	720
Total net sales	$ 21,602	$ 19,751	9.4	$ 1,851
Product line sales:				
Electrosurgical	$ 15,182	$ 13,435	13.0	$ 1,747
Cauteries	4,607	4,343	6.1	264
Other	1,813	1,973	(8.1)	(160)
Total net sales	$ 21,602	$ 19,751	9.4	$ 1,851

The results of operations for the nine months ended September 30, 2007 show increased sales but a decrease in pre-tax income, as compared to the first nine months of 2006. Sales of electrosurgical products increased by 13% or $1.7 million compared to the same nine month period of 2006 while sales of cauteries increased by 6.1% from $4.3 million to $4.6 million. Other sales decreased by 8.1% from $2 million to $1.8 million. This decrease was mainly the result of a decrease in contracted development services revenue as OEM developed products went into production and is offset by the increase in electrosurgical product sales. No sales of one particular electrosurgical product dominated the number of units sold.

Index

Arthrex sales of generators and accessories increased slightly by approximately $223,000 or 5.1% to $4.6 million for the nine months ended September 30, 2007 from $4.4 million for the nine months ended September 30, 2006.

Domestic sales were $18.4 million for the nine months ended September 30, 2007, representing an increase of 6.5% from the same period last year. International sales were $3.2 million for the nine months ended September 30, 2007, representing an increase of 29.1% over the same period in 2006.

Cost of sales represented 59.9% of sales during the nine months ended September 30, 2007 as compared to 59.5% of sales during the same period in 2006, a total of $12.9 million and $11.7 million, respectively. The reason for the net increase in cost of sales, as a dollar amount, was due to an increase in material cost of .8% offset by a decrease of .5% in direct labor costs.

Research and development expenses were 5.7% and 4.0% of sales for the nine months ended September 30, 2007 and 2006, respectively. These expenses increased 95% in 2007 to approximately $1,233,000, an increase over the corresponding period of 2006 of approximately $600,000. This increase is largely due to costs related to our Canadian facility which we did not own until the fourth quarter of 2006, annual salary increases, and Icon GI final program testing. New products under development are the modular forceps instruments, plasma technology, and various improvements to our line of electrosurgical generators. As of August 2007 we began production and sales of the Icon GI device.

Professional services increased from approximately $401,000 in the first nine months of 2006 to $609,000 in the first nine months of 2007, an increase of approximately $208,000 or 51.9%. We had an increase in legal costs related to the development of additional manufacturing and development contracts and patent related filings for the nine months ended September 30, 2007 compared to the previous year's first nine months.

Salaries and related costs increased in the first nine months of 2007 by 15.5% to $2.1 million as compared to the first nine months of 2006 at $1.8 million. The increase was mainly attributable to additional employees needed to foster our growth in various areas coupled with annual salary increases.

Selling, general and administrative expenses decreased as a percentage of sales by 0.1% for the first nine months of 2007 as compared to the first nine months of 2006, but increased as a dollar amount by approximately $207,000 to a total of $3.0 million for first nine months of 2007 from $2.8 million for the same period in 2006.

We have agreements with various sales representatives to develop markets for our new products and to maintain customer relations. Our current representatives receive an average commission of approximately 4% of sales in their market areas. In the first nine months of 2007 and 2006, commissions expense approximated $463,000 and $449,000 respectively, an increase of 3.1%.

Net interest earned increased by approximately $51,000 during the first nine months of 2007 when compared to the same period in 2006 primarily as a result of our higher cash balances being invested and yielding higher interest rates.

Before consideration of our net operating loss carryforwards, our effective income tax rate was 37.8% in the first nine months of 2007 compared to 36% in the first nine months of 2006. However, and with the exception of AMT taxes (approximately $45,000 for both 2007 and 2006), both of these provisions were reduced to zero as a result of the recovery of deferred income tax assets arising from the utilization of net operating loss carryforwards. In addition, during the nine months ended September 30, 2007, we recognized additional income of approximately $370,000 as a result of a deferred benefit recorded for the anticipated utilization of substantially all of our remaining net operating loss carryforwards (previously a portion of our deferred income tax assets arising from net operating loss carryforwards were reduced by a valuation allowance).

Results of Operations - Three months ended September 30, 2007 compared to three months ended September 30, 2006

The table below sets forth domestic/international and product line sales information for the third quarter of 2007 and 2006:

Index

	2007	2006	%age change 2007/2006	Increase/ (Decrease)
Net Sales (in thousands)				
Domestic	$ 6,373	$ 6,160	3.5	$ 213
International	1,087	839	29.6	248
Total net sales	$ 7,460	$ 6,999	6.6	$ 461
Product line sales:				
Electrosurgical	$ 5,328	$ 5,041	5.7	$ 287
Cauteries	1,557	1,465	6.3	92
Other	575	493	16.6	82
Total net sales	$ 7,460	$ 6,999	6.6	$ 461

Sales for the three month period ended September 30, 2007 were $7.5 million as compared to $7.0 million for the same period in 2006, an increase of $.5 million or 6.6%. The increase was mainly attributed to increased sales of electrosurgical products.

Cost of goods sold increased from $4.1 million to $4.3 million an increase of $.2 million or 5% for the three month period ended September 30, 2007 as compared to the same period in 2006.

Gross profit increased from $2.9 million to $3.1 million an increase of $.2 million or 8.2%. Gross profit percentage increased from 41% in 2006 to 41.8% in 2007. The reason for the net increase was mainly attributed to a 1.3% decrease in material costs as a percentage of sales along with a 0.2 % increase in Manufacture overhead costs.

Research and development increased by approximately $155,000 or 59% from $261,923 to $415,992 for the quarters ended September 30, 2006 and September 30, 2007, respectively. The increase is due to costs for new products under development as they approach completion (i.e. modular forceps instruments, plasma technology devices, and the GI device), especially the Icon GI device which went into production as of August 2007.

Professional fees increased by approximately $65,000 or 42.2% from $154,264 to $219,354 for the quarters ended September 30, 2006 to September 30, 2007, respectively. This increase is mainly attributed to increased legal costs in patent research and filings for some of the new products under development.

Salaries and related costs increased as a dollar amount from approximately $647,000 to $666,000 for the quarters ended September 30, 2006 to September 30, 2007, respectively, an increase of approximately $19,000 or 2.9%. This increase was mainly attributable to salary increases offset by a decrease in field reps deemed necessary to foster the growth of the company.

Selling, general and administrative expenses increased by approximately $152,000 or 16% from $952,000 to $1,104,000 for the quarters ended September 30, 2006 to September 30, 2007, respectively. The largest areas of increased costs were for show costs, Canadian facility related expenses, travel, commissions and amortization.

Total other costs increased from $2,050,148 for the three months ended September 30, 2006 to $2,405,279 for the same period in 2007, an increase of approximately $360,000 or 17.6%.

Net interest income increased by approximately $5,200 or 18.1%, from $34,086 in income for the quarter ended September 30, 2007 as compared to $28,872 for the quarter ended September 30, 2006. The increase is a direct result

from the investment of our higher cash balances yielding higher interest rates.

As a result of the above, income from operations for the three months ended September 30, 2007 was $471,635 compared to $856,959 for the same three month period in 2006.

Before consideration of our net operating loss carryforwards, our effective income tax rate approximated 37.8% in the third quarter of 2007 compared to 40% for the corresponding period of the preceding fiscal year. However, and with the exception of AMT taxes (approximately $45,000 for both 2007 and 2006), both of these provisions were reduced to zero as a result of the utilization of net operating loss carryforwards.

Marketing and Sales

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

Index

An adequate supply of raw materials is available from both domestic and international suppliers. The relationship between us and our 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.

Product Development

Most of the Company's products and product improvements have been developed internally. Funds for this development have come from internal cash flow and the issuance of common stock upon the exercise of stock options. The Company maintains close working relationships with physicians and medical personnel in hospitals and universities who assist in product research and development. New and improved products play a critical role in the Company's sales growth. The Company continues to place emphasis on the development of proprietary products and product improvements to complement and expand its existing product lines. The Company has a centralized research and development focus, with its Florida and Canadian manufacturing locations responsible for new product development and product improvements. Our research, development and engineering units at the manufacturing location maintain relationships with distribution locations and customers in order to provide an understanding of changes in the market and product needs. During 2006 and into 2007 we invested in the J Plasma Technology, the Suture Removal Technology, the Gastrointestinal "GI" device and undertook development of Cardio and Urological Electrosurgical devices for a contractual partner. The suture removal device, the GI device, modular laparoscopic instruments and the Bovie Button are being marketed, although no significant sales are anticipated until the fourth quarter of 2007. The ongoing cost for this development will be paid from operating cash flows.

In the next year we do not contemplate any material purchase or acquisition of assets that our ordinary cash flow and or credit line would be unable to sustain.

Reliance on Collaborative, Manufacturing and Selling Arrangements

We are dependent on certain contractual OEM customers for product development, wherein we are to provide the manufacturing of the product developed. However, the customer has no legal obligation to purchase the developed products. Should the collaborative customer fail to give us purchase orders for the product after development, our future business and value of related assets could be negatively affected. Furthermore, no assurance can be given that a collaborative customer may give sufficient high priority to our products. In addition, disagreements or disputes may arise between Bovie and its contractual customers, which could adversely affect production of our products. We also have informal collaborative arrangements with two foreign suppliers where in we request the development of certain items and components and we purchase them pursuant to purchase orders. Our purchase orders are never more than one year and are supported by orders from our customers.

In January 2006 we entered into an agreement to acquire patents and technology for endoscopic disposable and reusable modular instruments, requiring us to purchase equipment, tools and molds valued at $450,000. As part of the agreement, we retained the services of the seller and its principal at a rate of $30,000 per month for one year, which ended on December 31, 2006, to develop commercial prototypes for marketing. The seller, Steve Livneh, as of October 1, 2006 accepted an employment position with Bovie Medical.

Liquidity and Capital Resources

Our working capital at September 30, 2007 increased $1.4 million to $9.5 million from $8.1 million at December 31, 2006. The increase in working capital was primarily a result of cash provided from operating activities. Accounts payable and other accrued liabilities together increased minimally by approximately $40,000 in the first nine months of 2007. Accounts receivable day sales outstanding were 42.6 days and 47.3 days at September 30, 2007 and

September 30, 2006 respectively.

We generated cash from operations of $1.0 and $1.9 million for the nine months ended September 30, 2007 and 2006, respectively. The decrease in cash from operations for the period ended September 30, 2007 compared to the prior year is primarily due to the increase in purchases for inventory necessary to facilitate the production schedule of our new product the Icon GI, especially items that have longer than our average lead time.

In the first nine months ended September 30, 2007 we used $.7 million for the purchase of fixed assets, $.5 million for purchased technology, and $.3 million for the purchase of licensing rights.

Index

We had $2.6 million in cash and cash equivalents at September 30, 2007. We believe our cash on hand, as well as anticipated cash flows from operations, will be sufficient to fund future operating capital requirements, future manufacturing facility construction, other capital expenditures and future acquisitions to supplement our current product offerings. Should additional funds be required, we have $1.5 million of borrowing capacity available under our existing credit facility, which currently expires on May 2, 2009.

The Company's future contractual obligations for agreements with initial terms greater than one year, including agreements to purchase materials in the normal course of business, are summarized as follows (in thousands):

	As of September 30, 2007	Payment Period			
		2008	2009	2010	2011
Operating leases	52,289	209,156	134,736	0	0
Unconditional purchase obligations	806,674	2,420,020	0	0	0

We believe that we have the product mix, facilities, personnel, competitive edge, operating cash flows and financial resources for business success in the immediate (1 year) future and distant future (after 1 year), but future revenues, costs, margins, product mix and profits are all subject to the influence of a number of factors, as discussed above.

Critical Accounting Estimates

The preparation of the consolidated financial statements, in conformity with U.S. GAAP, requires us to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Our estimates and assumptions, including those related to bad debts, inventories, intangible assets, property, plant and equipment, minority investment, legal proceedings, research and development, warranty obligations, product liability, sales returns and discounts, and income taxes are updated as appropriate, which in most cases is at least quarterly. We base our estimates on historical experience, or various assumptions that are believed to be reasonable under the circumstances and the results form the basis for making judgments about the reported values of assets, liabilities, revenues and expenses. Actual results may materially differ from these estimates.

Estimates are considered to be critical if they meet both of the following criteria: (1) the estimate requires assumptions about material matters that are uncertain at the time the accounting estimates are made, and (2) other materially different estimates could have been reasonably made or material changes in the estimates are reasonably likely to occur from period to period. Our critical accounting estimates include the following:

Allowance for doubtful accounts

We maintain an allowance for doubtful accounts for estimated losses in the collection of accounts receivable. We make estimates regarding the future ability of our customers to make required payments based on historical credit experience and expected future trends. If actual customer financial conditions are less favorable than projected by management, additional accounts receivable write-offs may be necessary, which could unfavorably affect future operating results.

Inventory Reserves

We maintain reserves for excess and obsolete inventory resulting from the potential inability to sell our products at prices in excess of current carrying costs. The markets in which we operate are highly competitive, with new products and surgical procedures introduced on an ongoing basis. Such marketplace changes may cause our products to become

obsolete. We make estimates regarding the future recoverability of the costs of these products and record a provision for excess and obsolete inventories based on historical experience, and expected future trends. If actual product life cycles, product demand or acceptance of new product introductions are less favorable than projected by management, additional inventory write-downs may be required, which could unfavorably affect future operating results.

Impairment of long-lived assets

We review long-lived assets which are held and used, including fixed assets and purchased intangible assets, for impairment whenever changes in circumstances indicate that the carrying amount of the assets may not be recoverable. Such evaluations compare the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset over its expected useful life and are significantly impacted by estimates of future prices and volumes for our products, capital needs, economic trends and other factors which are inherently difficult to forecast. If the asset is considered to be impaired, we record an impairment charge equal to the amount by which the carrying value of the asset exceeds its fair value determined by either a quoted market price, if any, or a value determined by utilizing a discounted cash flow technique. Occasionally, we may hold certain assets for sale. In those cases, the assets are reclassified on our balance sheet from long-term to current, and the carrying value of such assets are reviewed and adjusted each period thereafter to the fair value less expected cost to sell.

Index

Stock -based Compensation

Options to purchase our common shares may be granted to our key employees, officers and directors by the Board of Directors. The Company accounts for stock options in accordance with SFAS Statement 123 (R) with option expense amortized over the vesting period based on the binomial lattice option-pricing model fair value on the grant date.

Income Taxes

We operate in multiple tax jurisdictions both inside and outside the United States. Accordingly, management must determine the appropriate allocation of income to each of these jurisdictions. Tax audits associated with the allocation of this income and other complex issues may require an extended period of time to resolve and may result in income tax adjustments if changes to the income allocation are required between jurisdictions with different tax rates. Because tax adjustments in certain jurisdictions can be significant, we record accruals representing our best estimate of the probable resolution of these matters. To the extent additional information becomes available, such accruals are adjusted to reflect the revised estimated probable outcome.

We have recognized a current deferred income tax asset arising from the anticipated utilization of certain net operating loss carryforwards by June 30, 2008. As a result, and assuming we continue to generate positive results of operations, our net income will be reduced by a provision for income taxes in the future. However, we do not expect to pay any income taxes, other than those arising from the alternative minimum tax, until we fully utilize our net operating loss carryforwards.

If we are unable to utilize our net operating loss carryforwards before they expire (in various years between 2015 and 2022), then all or a portion of this deferred income tax asset will not be realized, and we will most likely be required to record additional income tax expense in our future results of operations.

Other Matters

We distribute our products throughout the world. As a result, our financial results could be significantly affected by factors such as changes in foreign currency exchange rates or weak economic conditions in foreign markets. Our operating results are primarily exposed to changes in exchange rates among the United States dollar and European currencies, in particular the euro and the British pound. When the United States dollar weakens against foreign currencies, the dollar value of sales denominated in foreign currencies increases. When the United States dollar strengthens, the opposite situation occurs. We manufacture our products in the United States, China, Canada and Bulgaria and incur the costs to manufacture in US dollars. This worldwide deployment of factories serves to partially mitigate the impact of the high costs of manufacturing in the US.

ITEM 3. Quantitative and Qualitative Disclosures About Market Risk

Interest rate risk

Our financial instruments include cash, cash equivalents and short-term investments. We are exposed to interest rate risk on our short-term investments. The primary objective of our investment activities is to preserve principal while at the same time maximizing yields without significantly increasing risk. To achieve this objective, we invest in highly liquid overnight money market investments. To minimize our exposure due to adverse shifts in interest rates, we invest in short-term overnight securities. If a 10% change in interest rates were to have occurred on September 30, 2007, this change would not have had a material effect on the fair value of our investment portfolio as of that date. Due to the short holding period of our investments, we have concluded that we do not have a material financial market risk exposure.

19

Index

Foreign Currency Risk

Although we have a foreign subsidiary located in Canada, our transactions outside our functional currency are minimal and not a material financial risk.

ITEM 4. CONTROLS AND PROCEDURES

(a) Evaluation of disclosure controls and procedures

An evaluation of the effectiveness of the design and operation of the Company's disclosure controls and procedures [as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)] as of September 30, 2007 was carried out under the supervision and with the participation of the Company's management, including the President and Chief Executive Officer and the Chief Financial Officer ("the Certifying Officers"). Based on that evaluation, the Certifying Officers concluded that the Company's disclosure controls and procedures are effective.

Disclosure controls and procedures are designed to ensure that information required to be disclosed in our reports filed or submitted under the Securities Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in our reports filed or submitted under the Securities Exchange Act is accumulated and communicated to management, including our President and Chief Financial Officer, as appropriate, to allow timely decisions and timely reporting regarding required disclosure.

(b) Changes in internal controls

There were no changes to the Company's internal control over financial reporting during the quarter ended September 30, 2007 that materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

We are not aware of any legal proceedings outstanding that could have a material effect on our financial position as of September 30, 2007.

ITEM 1A. RISK FACTORS

There have been no material changes to the Risk Factors previously disclosed in our Form 10K for the year ended December 31, 2006, in response to Item 1A to Part 1 of Form 10K.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None

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

None

ITEM 5. OTHER INFORMATION

(a) The Company filed a Form 510-K application, which has since been approved, with the Food and Drug Administration (FDA) for its “In-a-Flash” Suture Removal Device which is designed to remove sutures with a tension free cut. This device is to be utilized in various human and animal medical procedures.

The Company has received 510-K clearance to market its ICON GI for gastroenterological and modular laparoscopic instruments.

(b) Since our last proxy statement disseminated to our shareholders in connection with our last annual meeting of shareholders held on October 30, 2007, there have been no changes in the procedures by which our security holders or 5% holders may recommend nominees to our Board of Directors.

Index

ITEM 6. EXHIBITS

31.1	Certifications of Andrew Makrides, President and Chief Executive Officer of Registrant pursuant to Rule 13a-14 adopted under the Securities Exchange Act of 1934, as amended, and Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certifications of Gary D. Pickett, Chief Financial Officer of Registrant pursuant to Rule 13a-14 adopted under the Securities Exchange Act of 1934, as amended, and Section 302 of the Sarbanes-Oxley act of 2002.
32.1	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

Index

SIGNATURES:

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Bovie Medical Corporation.
(Registrant)

Date:

/s/Andrew Makrides
Chief Executive Officer - Andrew Makrides

/s/Gary D. Pickett
Chief Financial Officer- Gary D. Pickett