

BOVIE MEDICAL CORP
Form 10QSB
August 12, 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 June 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: 13,794,628.

**BOVIE MEDICAL CORPORATION
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PART I. FINANCIAL INFORMATION

ITEM 1: CONSOLIDATED FINANCIAL STATEMENTS

BOVIE MEDICAL CORPORATION CONSOLIDATED BALANCE SHEET JUNE 30, 2004 AND DECEMBER 31, 2003

	Assets	
	(Unaudited) June 30, 2004	(Audited) December 31, 2003
	-----	-----
Current assets:		
Cash	\$ 878,325	\$ 306,137
Trade accounts receivable	2,283,225	1,708,181
Inventories	2,428,498	2,451,149
Prepaid expenses	194,125	390,025
Deferred tax asset	386,200	386,200
	-----	-----
Total current assets	6,170,373	5,241,692
Property and equipment, net	2,262,350	1,900,015
Other assets:		

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Repair parts	160,044	228,226
Trade name	1,509,662	1,509,662
Patent rights, net	116,771	144,967
Deposits	6,111	9,470
Investment - Joint Venture	200,000	200,000
	-----	-----
	1,992,588	2,092,325
	-----	-----
	\$ 10,425,311	\$ 9,234,032
	=====	=====

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

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

Liabilities and Stockholders' Equity

	(Unaudited) June 30, 2004	(Audited) December 31, 2003
	-----	-----
Current liabilities:		
Accounts payable	\$ 889,655	\$ 679,792
Accrued expense	538,037	473,630
Deferred revenue	140,449	103,445
Customer deposits	112,000	112,000
Current maturities of long-term debt	31,668	31,668
	-----	-----
Total current liabilities	1,711,809	1,400,535
Long Term Liabilities	364,163	383,670
Stockholders' equity:		
Preferred Stock, par value \$.001 10,000,000 shares authorized 0 issued and outstanding on June 30, 2004 and December 31, 2003	--	--
Common stock par value \$.001; 40,000,000 shares authorized, issued and outstanding 13,794,628 shares and 13,464,528 shares on June 30, 2004 and December 31, 2003 respectively	19,942	16,641
Additional paid in capital	20,345,768	20,093,936
Accumulated deficit	(12,016,371)	(12,660,750)
	-----	-----
Total stockholders' equity	8,349,339	7,449,827
	-----	-----
Total liabilities and stockholders' equity	\$ 10,425,311	\$ 9,234,032
	=====	=====

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

BOVIE MEDICAL CORPORATION. CONSOLIDATED STATEMENTS OF OPERATIONS FOR THE SIX MONTHS ENDED JUNE 30, 2004 AND 2003 (UNAUDITED)

	Six Months Ended June 30,	
	2004	2003
	----	----
Sales	\$ 10,012,821	\$ 8,039,902
Cost of sales	5,983,284	4,582,133
	-----	-----
Gross profit	4,029,537	3,457,769
Costs and expenses:		
Research and development	555,337	488,464
Professional services	222,848	214,931
Salaries and related costs	907,460	771,354
Selling, general and administrative	1,692,179	1,439,657
	-----	-----
	3,377,824	2,914,406
	-----	-----
Gain (Loss) from operations	651,713	543,363
Other income (expense):		
Interest	(7,337)	(22,659)
	-----	-----
Income	644,376	520,704
Provision for income tax	(225,532)	(182,246)
Realized benefit of loss carryforward	225,532	182,246
	-----	-----
Net income	\$ 644,376	\$ 520,704
	=====	=====
Earnings per share		
Net income:		
Basic	.05	.04
Diluted	.04	.04
Weighted average number of shares outstanding	13,664,419	13,169,111
Weighted average number of shares adjusted for dilutive securities	16,048,888	13,997,467

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

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

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**BOVIE MEDICAL CORPORATION.
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE THREE MONTHS ENDED JUNE 30, 2004 AND 2003
(UNAUDITED)**

	Three months ended June 30,	
	2004	2003
	----	----
Sales	\$ 5,258,863	\$ 4,369,848
Cost of sales	3,069,577	2,398,378
	-----	-----
Gross profit	2,189,286	1,971,470
Costs and expenses:		
Research and development	309,860	214,103
Professional services	93,596	84,512
Salaries and related costs	465,343	370,318
Selling, general and administrative	912,500	827,176
	-----	-----
	1,781,299	1,496,109
	-----	-----
Gain (Loss) from operations	407,987	475,361
Other income (expense):		
Interest	(3,440)	(12,147)
Income (loss)	404,547	463,214
Provision for income tax	(141,590)	(162,125)
Realized benefit of loss carryforward	141,590	162,125
	-----	-----
Net income	\$ 404,547	\$ 463,214
	=====	=====
Earnings per share		
Net income (loss):		
Basic	.03	.04
Diluted	.03	.03
Weighted average number of shares		
outstanding	13,762,430	13,133,467
Weighted average number of shares adjusted		
for dilutive securities	16,024,195	13,714,518

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

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

**BOVIE MEDICAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS
FOR THE SIX MONTHS ENDED JUNE 30, 2004 AND 2003
(UNAUDITED)**

2004

2003

BOVIE MEDICAL CORPORATION AND SUBSIDIARIES CONSOLIDATED STATEMENT OF CASH FLOWS INCR

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Cash flows	----	----
from operating activities:		
Net income	\$ 644,376	\$ 520,704
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	193,070	191,731
Changes in current assets and liabilities:		
Receivables	(575,044)	(202,807)
Inventories and repair parts	90,833	(179,009)
Prepaid expenses	195,899	74,562
Accounts payable	209,866	241,901
Accrued expense	64,407	3,705
Other assets	--	45,044
Obligations to shareholders-		
Interest payable	--	(18,427)
Customers Deposits	--	(16,000)
Deferred revenue	37,004	--
	-----	-----
Net cash provided by operating activities	860,411	661,404
	-----	-----
Cash flows from investing activities		
Fixed assets	(525,208)	(130,120)
Patents	(2,001)	--
Deposits-Office rental	3,359	--
	-----	-----
Net cash used in investing activities	(523,850)	(130,120)
	-----	-----
Cash flows from financing activities		
Line of credit	--	200,000
Notes payable	(19,507)	(440,599)
Common shares sold	252,425	--
Subscription receivable	2,708	2,967
	-----	-----
Net cash provided by (used in) financing activities	235,626	(237,632)
	-----	-----
Net increase (decrease) in cash and cash equivalents	572,187	293,652
Cash and cash equivalents, beginning of period	306,137	379,209
	-----	-----
Cash and cash equivalents, end of period	\$ 878,324	\$ 672,861
	=====	=====

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

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BOVIE MEDICAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS
FOR THE SIX MONTHS ENDED JUNE 30, 2004 AND 2003

Cash paid during the six months ended June 30:

	2004 ----	2003 -----
Interest paid	\$ 7,450	\$ 22,730
Income Taxes	-0-	- 0

SUPPLEMENTAL SCHEDULE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:
FOR THE SIX MONTHS ENDED JUNE 30, 2004:

We issued stock options pursuant to our 2003 executive and employee stock option plan to directors and certain employees to purchase 85,000 shares of common stock at the bid price when granted. 10,000 options were forfeited by employees that terminated employment.

FOR THE SIX MONTHS ENDED JUNE 30, 2003:

- 1) We issued stock options pursuant to our 2003 executive and employee stock option plan to directors and certain employees to purchase 525,000 shares of our common stock at the bid price when granted. The options give the recipients the right to purchase the shares for 10 years.
- 2) We cancelled 142,575 shares that were held in trust where the trust was no longer valid.
- 3) Intangible assets with net book value of \$20,750 were written off as impaired. The write off is included in general and administrative expenses.
- 4) We credited capital in excess for a liability to the former shareholders of Aaron Medical. The liability was a result of a rescission offer made to the Aaron shareholders in 1996. This liability was due to certain Aaron shareholders who had received shares of An-Con Genetics (predecessor to Bovie) but had not responded to the rescission offer. An investigation showed these shareholders had either 1) sold the shares, 2) increased their holdings or moved the stock to street name. We believe we no longer have an obligation to these shareholders.

BOVIE MEDICAL CORPORATION
CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY
FOR THE PERIOD JANUARY 1, 2003 TO JUNE 30, 2004

	Options Outstanding -----	Preferred Shares -----	Value -----	Common Shares -----	Value -----
(Audited)					
Balance as of January 1, 2003	2,909,000	--	--	13,256,103	13,274
Subscription Receivable					
Cancelled shares on Rescission offer	--	--	--	(142,575)	(143)
Exercise options for cash	(350,000)	--	--	350,000	3,500

BOVIE MEDICAL CORPORATION CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY FOR THE PE

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Options cancelled or forfeited (361,200)	--	--	--	--
Options granted	1,791,000	--	--	--
Shares issued for promotion	--	--	--	1,000
Income for period	--	--	--	--
	-----	-----	---	-----
December 31, 2003	3,988,800	--	--	13,464,528
(Unaudited)				\$16,641
Exercise options for cash	(167,100)	--	--	167,100
Subscription receivable	--	--	--	--
Income for period	--	--	--	--
	-----	-----	---	-----
March 31, 2004	3,821,700	--	--	13,631,628
Exercise options for cash	(163,000)	--	--	163,000
Subscription receivable	--	--	--	--
Options granted	85,000	--	--	--
Options forfeited	(10,000)	--	--	--
Income for period	--	--	--	--
	-----	-----	---	-----
June 30, 2004	3,733,700	--	--	13,794,628
	=====	=====	=====	=====

	Paid-in Capital	Deficit	Total
	-----	-----	-----
(Audited)			
Balance as of			
January 1, 2003	\$19,820,044	\$ (13,342,067)	\$6,491,251
Subscription Receivable	6,131	--	6,131
Cancelled shares on Recission offer	18,931	--	18,788
Exercise options for cash	247,500	--	251,000
Options cancelled or forfeited	--	--	--
Options granted	--	--	--
Shares issued for promotion	1,330	--	1,340
Income for period	--	681,317	681,317
	-----	-----	-----
December 31, 2003	\$20,093,936	\$ (12,660,750)	\$7,449,827
(Unaudited)			
Exercise options for cash	118,254		119,925
Subscription receivable	1,113		1,113
Income for period	--	239,832	239,832

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	-----	-----	-----
March 31, 2004	\$20,213,303	\$ (12,420,918)	\$7,810,697
Exercise options for cash	130,870	--	132,500
Subscription receivable	1,595	--	1,595
Options granted	--	--	--
Options forfeited	--	--	--
Income for period	--	404,547	404,547
	-----	-----	-----
June 30, 2004	\$ 20,345,768	\$ (12,016,371)	\$ 8,349,339
	=====	=====	=====

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 June 30, 2004 and December 31, 2003 were as follows:

	June 30, 2004	December 31, 2003
	-----	-----
Raw materials	\$ 894,197	\$ 1,332,742
Work in process	919,424	616,837
Finished goods	614,877	501,570
	-----	-----
Total	\$ 2,428,498	\$ 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 June 30, 2004 and December 31, 2003, the inventory of parts was as follows:

	June 30, 2004	December 31, 2003
Raw materials	\$ 317,614	\$ 317,614
Allowance for excess or obsolete parts	(157,570)	(89,388)
	-----	-----
	\$ 160,044	\$ 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.

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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

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

Non-monetary Transactions

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

Stock-Based Compensation

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

PART I. FINANCIAL INFORMATION (CONTINUED)

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

Accounting Standards - Goodwill and other intangible assets

Effective February 3, 2002, the Company adopted SFAS No. 142, *Goodwill and Other Intangible Assets*. SFAS No. 142 requires that ratable amortization of goodwill be replaced by periodic tests for impairment within six months of the date of adoption, and then on a periodic basis thereafter. Based on the impairment testing performed in February 2004, management determined that there was no impairment loss related to the net carrying value of the Company's recorded goodwill.

BOVIE MEDICAL CORPORATION NOTES TO FINANCIAL STATEMENTS

PART I. FINANCIAL INFORMATION (CONTINUED)

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accounting Standards (Continued)

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

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

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

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

BOVIE MEDICAL CORPORATION NOTES TO FINANCIAL STATEMENTS

PART I. FINANCIAL INFORMATION (CONTINUED)

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accounting Standards (Continued)

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

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

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

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

Results of Operations-Six months ended June 30, 2004 and June 30, 2003

The results of operations over six months ended June 30, 2004 show increased sales and increased profitability, as compared to the first six months of 2003. Our sales revenues increased by 25%, from \$8,039,902 to \$10,012,821. Gross profit percentage of 40% in 2004 was down from 43% for the same period in 2003. The reason for the 3% decrease in gross profit was that electrosurgical sales, which made up most of the increase and was attributable to increased sales of OEM products, 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 \$3,457,769 in 2003 to \$4,029,537 in 2004, an increase of 17%. 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

**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

Results of Operations (continued)

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 18% and went from \$771,354 to \$907,460, in the six months ended June 30, 2004 as compared to the same period in 2003. These were due to increases in employee salaries, health insurance premiums and an increase in personnel in customer service and an increase in employee procurement.

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Research and development costs increased by 14% from \$488,464 to \$555,337 from the six months ended June 30, 2004 as compared to the six months ending June 30, 2003. The cost of research and development was mainly attributable to engineering on new generator models as well as other development projects. The increase is attributable to consultants designing new models for specific use electrosurgical devices.

Expenses for professional services increased by 4% to \$222,848 in the six months ended June 30, 2004, as compared to \$214,931 in the same period of 2003. The main reason for this increase was professional fees associated with legal matters.

Selling, General and Administrative expenses increased by \$252,522 (18%). These expenses were \$1,692,179 for the six months ended June 30, 2004 as compared to \$1,439,657 for the six months ended June 30, 2003. The increase was mainly attributable to the expense of additional personnel, advertising, promotions, commissions, insurance, depreciation of fixed assets, and a product recall.

Net interest expense decreased from for the six months ended June 30, 2004 to \$7,337 as opposed to \$22,659 the same period of 2003. 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 quarter of 2004, which accounts for the decrease.

The operating gain was \$651,713 in the first six months of 2004 as compared to an operating gain of \$543,363 in the same period in 2003, an increase of 20%.

Total other costs of \$3,377,824 for 2004 and \$2,914,406 for 2003 as a percentage of sales were 36% in 2004 as compared to 34% in 2003, an increase of 2%. The total costs increased of \$463,418 was mostly due to the costs associated with the increase in selling, general and administrative expenses.

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)

Results of Operations (continued)

We had a net income of \$644,376 for the six months ended June 30, 2004 as compared to a net gain of \$520,704 in 2003 for the same period. The increase in income of \$123,672 for the first six months of 2004 when compared to the first six months of 2003 was mostly due to an increase in OEM (Original Equipment Manufacturer) sales of the company's generators and disposable electrosurgical accessories.

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

Sales for the three month period ended June 30, 2004 were 5,258,863 as compared to \$4,369,848 for the same period in 2003, an increase of \$889,015 or 20%. The increase was mainly attributed to increased sales of electrosurgical products.

Cost of goods sold increased from \$2,398,378 to \$3,069,577 an increase of \$671,199 or 28% for the three month period ended June 30, 2004 as compared to the same period in 2003.

Gross profit increased from \$1,971,470 to \$2,189,286 an increase of \$217,816 or 11%. Gross profit percentage decreased from 45% in 2003 to 42% 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 \$95,757 or 45% from \$214,103 to \$309,860 for the quarters ended June 30, 2004 and June 30, 2003, respectively. The increase is due to our focus on developing new specialty use electrosurgical products.

Professional fees increased by \$9,084 or 11% from \$84,512 to 93,596 for the quarters ended June 30, 2003 to June 30, 2004, respectively.

Salaries and related costs increased from \$370,318 to \$465,343 an increase of \$95,025 or 26%. The main areas of increase were in customer service employee procurement and health insurance.

Selling, general and administrative expenses increased by \$85,324 or 10% from \$827,176 to \$912,500 for the quarters ended June 30, 2003 to June 30, 2004, respectively. The largest areas of increased costs were for advertising, travel and the costs relating to a recall of a product.

PART I. FINANCIAL INFORMATION (CONTINUED)

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Net interest expense decreased from \$12,147 to \$3,440 for the quarter ended June 30, 2004 as compared to quarter ended June 30, 2003. The reason for the decrease was that we did not use our credit facility during the quarter ended June 30, 2004.

Total other costs went from \$1,496,109 for the three months ended June 30, 2003 to \$1,781,299 for the same period in 2004, and increase of \$285,190 or 19%.

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)

Results of Operations (continued)

Net income for the three months ended June 30, 2004 was \$404,547 as compared to \$463,214 for the same quarter in 2003, a decrease of \$58,667 or 13%. The main reason for the decrease in gain was the increased cost of additional personnel and overhead associated with the new plant.

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 \$7.5 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 six months of 2004, international sales of our product lines increased by 168,959 or (13%). In 2004, these sales were \$1,428,482 (14% of total sales) as compared to \$1,259,523 (16%) 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 first six months of 2004 and 2003, commissions paid were \$164,257 and \$96,079, respectively, an increase of 73%.

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 July 31, 2004, the Company had zero funds drawn down on this credit facility.

Financial Condition

As of June 30, 2004, cash totaled \$878,325 as compared to \$672,861 at June 30, 2003. Cash provided by operating activities was \$860,411 in the first six months 2004 compared to \$661,404 in 2003. Net working capital of Bovie was \$4,458,564 and \$3,699,468 on June 30, 2004 and 2003, respectively.

The amount of cash used in investing activities was \$523,850 in the first six months of 2004, compared to \$130,120 in 2003. We continued to invest in property, plant and equipment needed for anticipated future business requirements, including manufacturing capacity. 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 development which have been charged as a net loss of an unconsolidated affiliate.

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)

Financial Condition(continued)

The net cash provided by financing activities in the first six months of 2004 was \$235,626. In the same period of 2003, net cash used by financing activities was \$237,632. 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 both the first six months of 2004 and 2003, Bovie reduced its first mortgage by \$19,507.

Our ten largest customers accounted for approximately 71% of net revenues for the six months of 2004 as compared to 65% in the same period of 2003. For both periods ended June 30, 2004 and June 30, 2003, our ten largest trade receivable customers accounted for approximately 66% of outstanding receivables. For the first six months of 2004, one customer accounted for 32% 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 includes the 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.

From the first six months 2003 to the first six months 2004, Bovie's electrosurgery sales increased by 48% from \$4,282,220 to \$6,328,179. 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 selling through a license agreement our inventory, customer list and manufacturing technology to our largest customer in that field for \$500,000, payable in equal monthly installments over 5 years.

**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)

Scientific Advisory Board

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

Reliance on Collaborative, Manufacturing and Selling Arrangements

Bovie is dependent on certain contractual partners for manufacturing and product development. Should a collaborative partner fail to meet its contractual obligation to us, our future business and value of related assets could be negatively affected. Furthermore, no assurance can be given that a collaborative partner may give sufficient high priority to our products. In addition, disagreements or disputes may arise between Bovie and its contractual partners which could adversely affect production of its products.

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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 its ability to sell in Europe, the Company has been certified as ISO9001/EN46001 quality system compliant and has been granted its CE mark (International Quality control.)

In December 2001, 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 June 30, 2004, the balance of the loan was \$395,831. A balloon payment of \$316,660 is due in December 2006.

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 4.00% per annum. The outstanding balance due on the credit line on July 30, 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.

BOVIE MEDICAL CORPORATION NOTES TO FINANCIAL STATEMENTS

PART I. FINANCIAL INFORMATION (CONTINUED)

ITEM 3. DISCLOSURE CONTROLS AND PROCEDURES

(a) Evaluation of disclosure controls and procedures

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

(b) Changes in internal controls

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

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

See Form 10-KSB for the year ended December 31, 2003, Part I, Item 3, which is incorporated herein by reference.

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

BOVIE MEDICAL CORPORATION

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

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

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

Report on Form 8-K

None

BOVIE MEDICAL CORPORATION

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: August 12, 2004

/s/Andrew Makrides
Chief Executive Officer - Andrew Makrides