BOVIE MEDICAL CORP
Form 10-Q
May 14, 2008

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 March 31, 2008

OR

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

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 May 5, 2008 was 16,121,742.

BOVIE MEDICAL CORPORATION

INDEX TO FORM 10-Q
FOR THE QUARTER ENDED MARCH 31, 2008

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PART I. FINANCIAL INFORMATION

ITEM 1: CONSOLIDATED FINANCIAL STATEMENTS

BOVIE MEDICAL CORPORATION
CONSOLIDATED BALANCE SHEETS
MARCH 31, 2008 AND DECEMBER 31, 2007

Assets

	(Unaudited) March 31, 2008	(Audited) December 31, 2007
Current assets:		
Cash and cash equivalents	$ 3,520,047	$ 3,534,759
Trade accounts receivable, net of allowance for doubtful accounts of $8,645 and $8,734, respectively	2,416,258	2,525,451
Inventories	4,926,531	4,521,992
Prepaid expenses	706,387	278,262
Deferred income tax asset, net	501,846	603,223
Total current assets	12,071,069	11,463,687
Property and equipment, net	3,655,109	3,421,455
Other assets:		
Brand name/trademark, net	1,509,662	1,509,662
Purchased technology, net	2,078,106	2,102,844
License rights, net	263,016	278,797
Deposits	26,747	44,438
Total other assets	3,877,531	3,935,741
Total Assets	$ 19,603,709	$ 18,820,883

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

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BOVIE MEDICAL CORPORATION
CONSOLIDATED BALANCE SHEETS
MARCH 31, 2008 AND DECEMBER 31, 2007
(CONTINUED)

Liabilities and Stockholders' Equity

	(Unaudited) March 31, 2008	(Audited) December 31, 2007
Current liabilities:		
Accounts payable	$ 896,036	$ 807,437
Accrued warranty	48,424	56,386
Accrued payroll	110,750	113,308
Accrued vacation	249,889	229,591
Current portion of due to Lican	50,000	50,000
Customer deposits	36,240	36,077
Deferred revenues	-	56,386
Accrued expenses and other liabilities	893,867	353,494
Total current liabilities	2,285,206	1,702,679
Deferred income taxes payable, net	12,042	8,188
Due to Lican, net of current portion	318,150	318,150
Total liabilities	2,615,398	2,029,017
Commitments and Contingencies		
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, 15,936,834 and 15,457,088 issued and outstanding on March 31, 2008 and December 31, 2007, respectively	15,938	15,457
Additional paid in capital	22,440,681	22,435,161
Accumulated deficit	(5,468,308)	(5,658,752)
Total stockholders' equity	16,988,311	16,791,866
Total Liabilities and Stockholders' Equity	$ 19,603,709	$ 18,820,883

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

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BOVIE MEDICAL CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE THREE MONTHS ENDED MARCH 31, 2008 AND 2007
(UNAUDITED)

	March 31, 2008	March 31, 2007
Sales	$ 6,677,567	$ 6,705,175
Cost of sales	4,091,642	4,222,431
Gross profit	2,585,925	2,482,744
Other costs and expenses:		
Research and development	357,700	350,673
Professional services	163,132	190,585
Salaries and related costs	732,401	700,618
Selling, general and administrative	1,043,744	822,937
Development cost-joint venture	-	27,316
Total costs and expenses	2,296,977	2,092,129
Income from operations	288,948	390,615
Interest income, net	21,727	39,672
Income before minority interest and income taxes	310,675	430,287
Minority interest	-	5,000
Provision for income taxes	(120,231)	(189,996)
Realized benefit of tax loss carryforward	--	334,896
Net income	$ 190,444	$ 580,187
Earnings per common share		
Basic	$ 0.01	$ 0.04
Diluted	$ 0.01	$ 0.03
Weighted average number of shares outstanding	15,922,863	15,288,638
Weighted average number of shares outstanding adjusted for dilutive securities	17,684,783	17,844,626

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

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BOVIE MEDICAL CORPORATION
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2007 AND THE PERIOD ENDED MARCH 31, 2008

	Options Outstanding	Common Shares	Common Par Value	Additional Paid-in Capital	Accumulated Deficit	Total
January 1, 2007	3,263,700	15,223,538	$ 15,241	$ 22,104,399	$ (8,059,343)	$ 14,060,297
Options granted	137,500	--	--	--	--	--
Options exercised	(225,300)	225,300	225	309,925	--	310,150
Options forfeited	(42,500)	--	--	--	--	--
Stock based compensation	---	--	--	72,089		72,089
Stock swap to acquire assets	--	(9,179)	(9)	(56,241)	--	(56,250)
Other	--	17,429	--	4,989	--	4,989
Income for the year	--	--	--	--	2,400,591	2,400,591
December 31, 2007	3,133,400	15,457,088	15,457	22,435,161	(5,658,752)	16,791,866
Options exercised	(550,000)	557,500	558	497,317		497,875
Stock based compensation	--	--	--	(499)	--	(499)
Options granted	--	--	--	--	--	--
Options forfeited	--	--	--	--	--	--
Stock swap to acquire Shares	--	(77,754)	(77)	(491,298)	--	(491,375)
Income for the period	--	--	--	--	190,444	190,444
March 31, 2008	2,583,400	15,936,834	$ 15,938	$ 22,440,681	$ (5,468,308)	$ 16,988,311

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

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BOVIE MEDICAL CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE THREE MONTHS ENDED MARCH 31, 2008 AND 2007
(UNAUDITED)

	2008	2007
Cash flows from operating activities		
Net income	$ 190,444	$ 580,187
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization of property and equipment	208,782	113,387
Amortization of intangible assets	37,883	14,230
Provision for (recovery of) inventory obsolescence	(465)	(2,103)
Loss on disposal of property and equipment	2,236	-
Stock based compensation	(499)	4,468
Non-cash reclassification	2,639	-
Provision (benefit) for deferred tax asset	105,231	(159,900)
Provision for bad debts	-	(1,219)
Minority interest in net loss of joint venture	-	(5,000)
Changes in current assets and liabilities:		
Trade receivables	109,193	79,160
Prepaid expenses	(428,124)	(1,330)
Inventories	(404,074)	(570,182)
Deposits	17,691	-
Accounts payable	88,599	348,822
Accrued and other liabilities	501,724	10,996
Customer deposits	161	(29,788)
Deferred revenues	(7,962)	(85,651)
Net cash provided by operations	423,461	296,077
Cash flows from investing activities		
Purchases of property and equipment	(455,245)	(268,563)
Proceeds from sale of property and equipment	10,573	-
Net cash used in investing activities	(444,672)	(268,563)
Cash provided by financing activities -		
Common shares issued	6,499	144,404
Net change in cash and cash equivalents	(14,712)	171,918
Cash and cash equivalents, beginning of period	3,534,759	2,952,892
Cash and cash equivalents, end of period	$ 3,520,047	$ 3,124,810
Cash paid during the three months ended March 31, 2008 and 2007:		
Interest paid	$ 948	$ –

Income taxes	$ –	$ 25,344

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

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BOVIE MEDICAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
UNAUDITED

NOTE 1. BASIS OF PRESENTATION

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, 2007. Certain prior year amounts may have been reclassified to conform to the presentation used in 2008.

NOTE 2. INVENTORIES

Inventories are stated at the lower of cost or market. Cost is determined principally on the average cost method. Inventories at March 31, 2008 and December 31, 2007 were as follows:

	March 31, 2008	December 31, 2007
Raw materials	$ 2,709,397	$ 2,447,090
Work in process	1,305,730	1,230,172
Finished goods	911,404	844,730
Total	$ 4,926,531	$ 4,521,992

NOTE 3. INTANGIBLE ASSETS

At March 31, 2008 and December 31, 2007 intangible assets consisted of the following:

	March 31, 2008	December 31, 2007
Trade name (life indefinite)	$ 1,509,662	$ 1,509,662
Purchased technology (9-17 yr life)	$ 2,435,539	$ 2,438,175
Less: Accumulated amortization	(357,433)	(335,331)
Net carrying amount	$ 2,078,106	$ 2,102,844
License rights (5 yr life)	$ 315,619	$ 315,619
Less accumulated amortization	(52,603)	(36,822)
Net carrying amount	$ 263,016	$ 278,797

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NOTE 4. NEW ACCOUNTING PRONOUNCEMENTS

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. The Company adopted this statement effective January 1, 2007 and its adoption did not have a material impact on the Company's consolidated financial position or results of operations.

SFAS No. 141 (revised 2007), “Business Combinations” (SFAS No. 141(R)

In December 2007, the FASB issued SFAS No. 141 (revised 2007), “Business Combinations” (SFAS No. 141(R), which replaces SFAS No. 141, “Business Combinations.” SFAS No. 141(R) retains the underlying concepts of SFAS No. 141 in that all business combinations are still required to be accounted for at fair value under the acquisition method of accounting, but SFAS No. 141(R) changes the method of applying the acquisition method in a number of significant aspects. Acquisition costs will generally be expensed as incurred; non-controlling interests will be valued at fair value at the acquisition date; in-process research and development will be recorded at fair value as an indefinite-lived intangible asset at the acquisition date; restructuring costs associated with a business combination will generally be expensed subsequent to the acquisition date; and changes in deferred tax asset valuation allowances and income tax uncertainties after the acquisition date generally will affect income tax expense. SFAS No. 141(R) is effective on a prospective basis for all business combinations for which the acquisition date is on or after the beginning of the first annual period subsequent to December 15, 2008, with an exception related to the accounting for valuation allowances on deferred taxes and acquired contingencies related to acquisitions completed before the effective date. SFAS No. 141(R) amends SFAS No. 109 to require adjustments, made after the effective date of this statement, to valuation allowances for acquired deferred tax assets and income tax positions to be recognized as income tax expense. The impact of our adoption of SFAS 141R will depend upon the nature and terms of business combinations, if any, that we consummate on or after January 1, 2009.

SFAS 157 – Fair Value Measurement’

In September 2006, the FASB issued SFAS No. 157, “Fair Value Measurements (“FAS 157”). This standard defines fair value, establishes a framework and gives guidance regarding the methods used for measuring fair value, and expands disclosures about fair value measurements. This standard is effective for financial statements issued for fiscal years beginning after November 15, 2007. In February 2008, the FASB released a FASB Staff Position (FSP FAS 157-2—Effective Date of FASB Statement No. 157) which delays the effective date of SFAS No. 157 for all non-financial assets and non-financial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually) to fiscal years beginning after November 15, 2008. The partial adoption of SFAS No. 157 on January 1, 2008, for financial assets and liabilities did not have a material impact 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.

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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 FASB Statement No. 115," which provides a fair value option election that permits entities to irrevocably elect to measure certain financial assets and liabilities (exceptions are specifically identified in the Statement) at fair value as the initial and subsequent measurement attribute, with changes in fair value recognized in earnings as they occur. SFAS No. 159 permits the fair value option election on an instrument-by-instrument basis at initial recognition of an asset or liability or upon an event that gives rise to a new basis of accounting for that instrument. The adoption of SFAS No. 159 on January 1, 2008, for financial assets and liabilities did not have a material impact on the Company's consolidated financial position or results of operations.

SFAS No. 160, "Non-controlling Interests in Consolidated Financial Statements, an amendment of ARB No. 51" (SFAS No. 160)

In December 2007, the FASB issued SFAS No. 160, "Non-controlling Interests in Consolidated Financial Statements, an amendment of ARB No. 51" (SFAS No. 160). SFAS No. 160 will change the accounting and reporting for minority interests, which will be recharacterized as non-controlling interests (NCI) and classified as a component of equity. This new consolidation method will significantly change the accounting for partial and/or step acquisitions. SFAS No. 160 will be effective for the Company in the first quarter of fiscal year 2010. The Company is currently evaluating the impact that the adoption of SFAS No. 160 will have, but does not believe it will be material to the consolidated financial statements.

SFAS 161 – Disclosures about Derivative Instruments and Hedging Activities — an amendment of FASB Statement No. 133 ("FAS 161")

In March 2008, the FASB issued Statement of Financial Accounting Standards No. 161, Disclosures about Derivative Instruments and Hedging Activities — an amendment of FASB Statement No. 133 ("FAS 161"). This Standard requires enhanced disclosures regarding derivatives and hedging activities, including: (a) the manner in which an entity uses derivative instruments; (b) the manner in which derivative instruments and related hedged items are accounted for under Statement of Financial Accounting Standards No. 133, Accounting for Derivative Instruments and Hedging Activities; and (c) the effect of derivative instruments and related hedged items on an entity's financial position, financial performance, and cash flows. The Standard is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. As FAS 161 relates specifically to derivatives, the Standard will have no impact on our consolidated financial position or results of operations.

EITF Issue No. 07-3, "Accounting for Nonrefundable Advance Payments for Goods or Services Received to Be Used in Future Research and Development Activities" (EITF No. 07-3)

In June 2007, the Emerging Issues Task Force (EITF) reached a consensus on EITF Issue No. 07-3, "Accounting for Nonrefundable Advance Payments for Goods or Services Received to Be Used in Future Research and Development Activities" (EITF No. 07-3). EITF No. 07-3 requires companies that are involved in research and development activities to defer nonrefundable advance payments for future research and development activities and to recognize those payments as goods and services are delivered. The Company will be required to assess on an ongoing basis whether or not the goods or services will be delivered and to expense the nonrefundable advance payments immediately if it is determined that delivery is unlikely. EITF No. 07-3 is effective for new arrangements entered into subsequent to the beginning of the Company's fiscal year 2009. The Company is currently evaluating the impact that the adoption of EITF No. 07-3 will have, but does not believe it will be material to the consolidated financial position or results of operations.

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NOTE 5. STOCKHOLDERS' EQUITY

During the three month period ended March 31, 2008, we issued 557,500 common shares on the exercise of employee and non-employee options. During the same time period we received 77,754 common shares in a stock swap to exercise 552,500 options (which exercise is included in the 557,500 shares). The issuance of the common stock along with the receipt of treasury stock received through the stock swap, resulted in a net increase in capital of $6,500.

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 dilutive potential shares outstanding resulting from employee stock options during the period. The following table sets forth the computation of basic and diluted earnings per share for the three month periods ended March 31, 2008 and 2007.

	March 31, 2008	March 31, 2007
Net income	$ 190,444	$ 580,187
Basic-weighted average shares outstanding	15,922,863	15,288,638
Effect of dilutive potential securities	1,761,921	2,555,988
Diluted – weighted average shares outstanding	17,684,783	17,844,626
Basic EPS	$ 0.01	$ 0.04
Diluted EPS	$ 0.01	$ 0.03

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 157,500 and 130,000 as of March 31, 2008 and 2007, respectively.

NOTE 7 STOCK-BASED COMPENSATION

Under the Company's stock option plan, options to purchase Common Shares may be granted to key employees, officers and directors of the Company 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, which includes a number of estimates that affect the amount of our expense. During the three months ended March 31, 2008 the Company recaptured previously expensed costs in the amount of $20,040 related to stock options that were fully vested prior to the adoption of SFAS Statement 123 (R).This amount was substantially offset by stock option expense for the three month period ended March 31, 2008 of $19,542.

NOTE 8 INCOME TAXES

As of March 31, 2008, the Company had a net deferred income tax assets of approximately $502,000 arising primarily from net operating loss carry forwards. The Company's income has been reduced by a provision for deferred income

taxes in accordance with Financial Accounting Standards Statement No. 109 "Accounting for Income Taxes" ("FAS 109"), 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 December 31, 2008. Until such carryforwards are utilized, we do not expect to pay any income taxes, other than those arising from the alternative minimum tax.

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NOTE 9 SUBSEQUENT EVENT

On April 29, Bovie signed an agreement with Boston Scientific Corporation (NYSE: BSX - News) to acquire technology, patents, and assets related to the use of conductive sintered steel as an electrode for radio frequency (RF) cutting and coagulation, intended to lower blood loss, quicken procedure times and provide cost savings for hospitals. Potential fields of therapy for the technology acquired include liver, pancreatic and kidney tumor therapies along with orthopedic and blood vessel sealing. The process involves delivery of RF current and sterile saline for resection, hemostatic sealing and coagulation in open and laparoscopic surgery. The worldwide market size for the liver and orthopedic market is expected to total $500 million in 2009.

This agreement replaces a previously signed distribution and marketing agreement between the Company and Boston Scientific that required Bovie to develop and manufacture certain products using Boston Scientifics' intellectual property. Bovie intends to finalize the development and commercialization of the technology. As part of the agreement, Bovie granted a license to Boston Scientific limited until 2016 to uses outside of those fields listed above.

End of financial information

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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 internally divide our operations into three product lines. Electrosurgical products, battery operated cauteries and other products. The electrosurgical segment sells electrosurgical products which include dessicators, 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 79% of total revenues in the first three months of 2008 as compared to approximately 85% in the first three months of 2007. 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 64.6% and 71.2% of net revenues for the first three months of 2008 and 2007 respectively. At March 31, 2008 and 2007, our ten largest trade receivables accounted for approximately 63.3% and 73% of our net receivables, respectively. In the first three months of 2008 and 2007 one customer, accounted for 16% and 18% of total sales, respectively.

Our business is generally not seasonal in nature.

Outlook for 2008

With our continued progress in the development of Bovie's MEG and Polarian hand held instruments, coupled with the recently acquired technology from Boston Scientific Corporation, management remains optimistic that these products could significantly impact future revenues. Subsequent to the close of our first quarter, we announced a CE Mark for our Modular Ergonomic Instruments (MEG laparoscopic line); thus, allowing this product to be marketed throughout the European Union. Our domestic marketing efforts in these areas should commence prior to the end of the third quarter, subject to FDA clearance.

We strive to become a dynamic, strong growth and profit oriented company, marked by proprietary technologies, creating value-building opportunities. This commitment to be a leading innovator requires great effort and financial resources that should result in increased shareholder value.

Forecasting is admittedly a difficult task and it has always been our policy to adopt a conservative approach. The outlook is based on a number of assumptions, which are subject to change and some of which are outside our control. A variation in our assumptions may result in a change in this outlook.

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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 percentages of net sales and the year-to-year percentage changes in dollar amounts for the quarters ended March 31, 2008 and 2007:

	2008 %	2007 %	Percentage change in Dollar amounts 2008/2007 %
Sales	100.0	100.0	(0.4)
Cost of sales	61.3	63.0	(3.1)
Gross profit	38.7	37.0	4.2
Other costs:			
Research and development	5.4	5.2	2.0
Professional services	2.4	2.8	(14.4)
Salaries and related costs	10.9	10.4	4.5
Selling, general and administrative	15.6	12.3	26.8
Development cost-joint venture	0.0	0.4	(100.0)
Total other costs	34.3	31.2	9.8
Income from operations	4.4	5.8	(26.0)
Interest income, net	0.3	0.6	(45.2)
Income before minority interest and income tax	4.7	6.4	(27.8
Minority interest	0.0	0.1	(100.0)
Provision for income tax	(1.8)	(2.8)	(36.7)
Realized benefit of tax loss carryforward	0.0	5.0	(100.0)
Net income	2.9	8.7	(67.2)

The table below sets forth domestic/international and product line sales information for the first quarters of 2008 and 2007.

Net Sales (in thousands)	2008	2007	Percentage change 2008/2007	Increase/ (Decrease)
Domestic/international sales:				
Domestic	$ 5,238	$ 5,708	(8.2)	$ (470)
International	1,440	997	44.4	443

Total net sales	$ 6,678	$ 6,705	(.4)	$ (27)
Product line sales:				
Electrosurgical	$ 4,534	$ 4,654	(2.6)	$ (120)
Cauteries	1,535	1,461	5.1	74
Other	609	590	3.2	19
Total net sales	$ 6,678	$ 6,705	(.4)	$ (27)

2008 Compared with 2007

The results of operations for the three months ended March 31, 2008 show a 0.4% decrease in sales, as compared to the first three months of 2007. Sales of electrosurgical products decrease by 2.6% or $0.1 million compared to the first quarter of 2007. This decrease was due to a decrease in sales of products to our OEM customers. Sales of cauteries increased by 5.1%, from $1.46 million in 2007 to $1.54 million in 2008. Other sales increased by 3.2% from approximately $590,000 to $609,000. No sales of one particular electrosurgical product dominated the number of units sold.

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Domestic sales were $5.2 million for first quarter 2008, representing a decrease of 8.2% from the same period last year. International sales were $1.4 million for the first quarter of 2008, representing an increase of 44.4% over the same period in 2007.

Cost of sales represented 61.3% of sales in the first quarter of 2008 as compared to 63% of sales in the first quarter of 2007, a total of $4.1 million and $4.2 million, respectively, a decrease of $0.1 million. The reason for the decrease in cost of sales percentage was due to the decrease in our higher cost OEM products.

Research and development expenses were 5.4% and 5.2% of sales for the first quarters of 2008 and 2007, respectively. These expenses increased 2.0% in 2008 to $357,700, an increase over the corresponding period of 2007 of $350,673. This increase is due to costs related to annual salary increases. New products under development are the MEG and Polarian hand held instruments, plasma technology, and various improvements to our line of electrosurgical generators.

Professional services decreased by $27,453 or 14.4%, from $190,585 in the first quarter of 2007 to $162,132 for the first quarter of 2008. This decrease was mainly from a reduction in legal costs.

Administrative and sales salaries and related costs increased in the first quarter of 2008 by 4.5% to approximately $730,000 as compared to the first quarter of 2007 at approximately $700,000. The increase was mainly attributable to annual salary increases.

Selling, general and administrative expenses increased as a percentage of sales by 3.3% for the first quarter of 2008 as compared to the first quarter of 2007. Selling, general and administrative expenses were $1,043,744 and $822,937 for first quarters of 2008 and 2007, respectively, an increase of $220,807. This change was due mainly to four items: an increase in commissions from higher non-OEM sales, the addition of European market consulting fees to setup the distribution channel for our new products, an increase in amortization expense from manufacturing and license agreements, and an increase in general insurance premiums.

Net interest earned decreased by $17,945 during the first quarter of 2008 when compared to the first quarter of 2007 primarily as a result of our cash balances being invested and yielding lower interest rates due to certain interest rate cuts that have occurred since March 31, 2007.

The provisions for income taxes in the financial statements are based on effective income tax rates of 38.7% and 44% for the quarters ended December 31, 2008 and 2007, respectively. There was also a significant tax loss carryover benefit recorded in the first quarter of 2007. This benefit arose from management's decision to reverse a portion of the valuation allowance related to the Company's deferred income tax assets at such time. Later in 2007, the remaining portion of the valuation allowance was eliminated when management determined it was more likely than not that all of its deferred income taxes would be realized. As a result, the Company's income is now being reduced by a provision for deferred income taxes, and such treatment will continue (assuming positive results of operations) until such time that the Company's deferred income tax asset arising from its net operating loss carryforwards and certain other credits are realized. In spite of this, until such assets are realized, the Company does not anticipate having to pay any income taxes other than those arising from alternative minimum taxes which approximated $15,000 for each of the quarters ended March 31, 2008 and 2007.

Diluted net earnings decreased $0.02 to $0.01 per share or $190,444 in the first quarter of 2008 as compared to $580,187 of $0.03 per share in the first quarter of 2007. The decrease in earnings from operations was $101,667 versus the after tax difference of $389,743 when compared to the first quarter of 2007. The difference was a result of the realized tax benefit of the loss carryforward realized in the first quarter of 2007.

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.

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.

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Product Development

Most of the Company's products and product improvements have been developed internally. Funds for this development have resulted primarily 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 2007 and into 2008 we invested in the ICON GS (J-Plasma technology), modular laparoscopic and Endoscopic instruments, the Gastrointestinal "GI" device and undertook development of Cardio and Urological Electrosurgical devices for a contractual partner. 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.

Liquidity and Capital Resources

Our working capital at March 31, 2008 and 2007 remained stable at $9.8 million. Accounts receivable day sales outstanding were 34.5 days and 41.0 days at March 31, 2008 and March 31, 2007 respectively.

We generated cash from operations of $0.4 million for the three months ended March 31, 2008 compared with generating cash to operations of $0.3 million in the same period of 2007, an increase of $0.1 million.

In the first three months ended March 31, 2008 we used approximately $450,000 for the purchase of property and equipment.

We had approximately $3.5 million in cash and cash equivalents at March 31, 2008. 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 March 31, 2008	Payment Period 2009	2010	2011	2012
Operating leases	203	208	199	172	167
Employment Agreement	782	1,022	799	858	72
Purchase Commitments	2,897	-0-	-0-	-0-	-0-

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, involve 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 components at reasonable prices, risk of nonpayment of accounts receivable, risks associated with foreign operations and litigation involving intellectual property and consumer issues.

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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

We have adopted various accounting policies to prepare the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP). Our most significant accounting policies are disclosed in Note 1 to the consolidated financial statements.

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, 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 would 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 would unfavorably affect future operating results.

Impairment of goodwill and other long-lived assets

We review long-lived assets which are held and used, including property and equipment 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.

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We test our goodwill for impairment, at a minimum, annually. The goodwill impairment test is a two-step process. The first step of the impairment analysis compares the fair value of the goodwill to its carrying amount. In determining fair value, the accounting guidance allows for the use of several valuation methodologies, although it states quoted market prices are the best evidence of fair value. If the fair value is less than the assets' carrying amount, we recognize an impairment loss equal to that excess amount.

Share-based Compensation

Under the Company's stock option plan, options to purchase Common Shares of the Company may be granted to key employees, officers and directors of the Company 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, which includes a number of estimates that affect the amount of our expense.

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.

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 March 31, 2008, 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.

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 March 31, 2008 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.

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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
At December 31, 2007, our management identified a significant deficiency in our disclosure controls, however such deficiency was remediated as of the filing date of our 2007 Form 10-K. With the exception of the remediation of this deficiency, there were no changes in our internal control over financial reporting that occurred during our first quarter of fiscal 2008 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

There were no legal proceedings during the quarterly period ended March 31, 2008 that could have a material effect on our financial position.

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, 2007, 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 approval to market its ICON GI.

(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.

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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.

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: May 12, 2008

/s/Andrew Makrides
Chief Executive Officer - Andrew Makrides

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