
edg03 Electronic EDGAR Proof

Job Number: -NOT DEFINED-

Company Name: -NOT DEFINED-

Form Type: 10KSB

Reporting Period / Event Date: 12-31-2004

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Reporting Period	12-31-2004
Global Enclosed File Count	9
Internet Address	Sherie@bloomcpa.com

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	Jump Joint Venture
EX-10.3	ex10_3.htm
	Symbol Joint Venture Agreement
EX-21.1	ex21_1.htm
	Accountant's Consent
EX-31	ex31_1.htm
	Makrides Ex31.1
EX-31.2	ex31_2.htm
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Module and Segment References

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U.S. SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-KSB
(Mark One)

**[X] ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2004
Commission file number 0-12183

BOVIE MEDICAL CORPORATION

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

Delaware No.

(State or other jurisdiction
of incorporation or organization)

11-2644611

(IRS Employer Identification No.)

734 Walt Whitman Rd., Melville, New York 11747

(Address of principal executive offices)

(631) 421-5452

(Issuer's telephone number)

Securities registered under Section 12(b) of the Exchange Act

Common Stock, \$.001 Par Value
(Title of class)

Securities registered under Section 12(g) of the Exchange Act

None

Indicate by check mark whether the registrant (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act of 1934 during the past 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[]

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B is not contained in this form, and no disclosure will be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB any amendment to this Form 10-KSB. []

Issuer's revenues for its most recent fiscal year were \$20,495,101.

The aggregate market value of the voting stock held by non-affiliates computed by reference to the price at which the stock was sold, or the average bid and asked prices of such stock, as of March 15, 2005 was approximately \$26,528,577.

The number of shares of the registrant's \$.01 par value common stock outstanding as of March 15 was 13,897,858.

Company Symbol-BVX Company SIC (Standard Industrial Code)-3841

DOCUMENTS INCORPORATED BY REFERENCE

There are no documents incorporated by reference.

Bovie Medical Corporation
2004 Form 10-KSB Annual Report

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BOVIE MEDICAL CORPORATION

Part I

Item 1. Description of Business.

Background

Bovie Medical Corporation (“the Company” or “Bovie”) was incorporated in 1982, under the laws of the State of Delaware and has its principal executive office at 734 Walt Whitman Road, Melville, New York 11747.

Bovie is actively engaged in the business of manufacturing and marketing medical products and developing related technologies. Aaron Medical Industries, Inc. (“Aaron”), a 100% owned subsidiary based in St. Petersburg, Florida is engaged in marketing our medical products. Over the past several years, we changed our focus to the manufacture and marketing of generators and electrosurgical disposables, evidenced by the development of a broad range of electrosurgical generators designed for doctors offices, surgicenters and hospitals. .

We manufacture and market products both under private label and the Bovie/Aaron label to distributors worldwide. Additionally, Bovie/Aaron has original equipment manufacturing (OEM) agreements with other medical device manufacturers. These OEM and private label arrangements and our use of the Bovie/Aaron label allow us to gain greater market share for the distribution of our products.

Company Products

Electrosurgery Products

We continue to expand our line of electrosurgery products, which include, generators, electrodes, electrosurgery pencils, and various ancillary disposable products. These products are used in surgery for the cutting and coagulation of tissue and constitute our largest product line. Our accessories for electrosurgery products are substantially compatible with most major manufacturers’ electrosurgery generator products. With the exception of OEM products, all of our electrosurgery generators and accessories are marketed using the internationally recognized Bovie trademark . It is estimated that 80% of all surgical procedures performed worldwide are accomplished by electrosurgery, including laparoscopic, as well as general surgery and surgical procedures in gynecology, urology, plastic surgery and dermatology.

Bovie/Aaron 800 and 900 High Frequency Generators

These products are low powered generators, designed primarily for dermatology and plastic surgery in a physician’s office. The units are 30-watt high frequency generators used mainly in doctors’ offices for removing small skin lesions and growths.

Bovie/Aaron 950

Bovie has developed the first high frequency generator with cut capacity for outpatient surgical procedures. It was designed mainly for use in doctors’ offices and is utilized in a variety of specialties including dermatology, gynecology, and plastic surgery.

Bovie/Aaron 1250

We have also developed a 120-watt multipurpose electrosurgery generator. The unit features monopolar and bipolar functions with pad sensing. The product is being produced in at least two private label formats in addition to the Bovie/Aaron label.

Bovie/Aaron 2250/IDS 300

Given the market interest in more powerful electrosurgical generators, we have developed a 200-watt multipurpose digital electrosurgery generator designed for the rapidly expanding surgi-center market in the United States. This unit features both monopolar and bipolar functions, has pad and tissue sensing, plus nine blended cutting settings. This unit has the capability to do most procedures performed today in the surgi-center or outpatient settings and was introduced in 2003. The Bovie® IDS Series are the latest electrosurgical generators with fully digital implementation. Bovie is using dedicated digital hardware instead of a general purpose controller for processing data. The digital hardware allows very high parallel data processing throughout the operation. All data is sampled and processed digitally. While 200 watts is more than enough power to do most procedures in the operating room, 300 watts is considered the standard and believed to be what most hospitals and surgi-centers will require. The Bovie IDS-300 has been designed based on a digital feedback system. The unit has a tissue sensing capability 20 times faster than the market leader. For the first time in electrosurgery, through digital technology, we are able to measure tissue impedance in real time (5000 times a second). As the impedance varies, the power is adjusted to deliver a consistent clinical effect.

Battery Operated Cauteries

Battery operated cauteries constitute our second largest product line. Cauteries were originally designed for precise hemostasis (to stop bleeding) in ophthalmology. The current use of cauteries has been substantially expanded to include sculpting woven grafts in bypass surgery, vasectomies, evacuation of subungual hematoma (smashed fingernail) and for arresting bleeding in many types of surgery. Battery operated cauteries are primarily sterile one-time use products. Bovie manufactures the broadest line of cauteries in the world, including but not limited to, a line of replaceable battery and tip cauteries, which are popular in overseas markets.

Battery Operated Medical Lights

We manufacture a variety of specialty lighting instruments for use in ophthalmology as well as patented specialty lighting instruments for general surgery, hip replacement surgery and for the placement of endotracheal tubes in emergency and surgical procedures. We also manufacture and market physicians office use penlights.

Nerve Locator Stimulator

Bovie manufactures a nerve locator stimulator primarily used for identifying motor nerves in hand and facial reconstructive surgery. This instrument is a self-contained, battery operated unit, used for single surgical procedures.

New Products

Low Temperature Focused Plasma Technology (in development)

In February 2000, we entered into a Joint Venture Agreement with a non-affiliated German corporation, Jump Agentur Fur Elektrotechnik GMBH, wherein we have a 50% interest in the equity and a 50% interest in the profits of the joint venture. Pursuant to the agreement, Bovie initially advanced \$200,000 to the partnership to cover costs of further research toward the production of two commercial prototypes. Bovie has made available its facilities in Florida for development, manufacturing and marketing of the products of the joint venture and is responsible to expend its best efforts to secure all necessary financing for the research, development and marketing of the products estimated to be an amount up to \$1.5 millions. To date we have expended approximately \$.5 million for the development of the technology. Based upon our current cash position, cash flows and credit facility we believe we have the financial resources to satisfy our obligations.

Pursuant to agreement, the joint venture acquired an exclusive license to produce and market any surgical/medical devices utilizing this technology. In fiscal 2004 and 2003, Bovie made additional advances to the joint venture in the form of research and development of prototypes expending \$39,286 and \$81,914 in development and engineering costs, respectively.

This technology utilizes a gas ionization process using only one working electrode. The device produces a stable thin focused beam of ionized gas that can be controlled in a wide range of temperatures and intensities, providing the surgeon with precision, minimal invasiveness and an absence of conductive currents during surgery.

The device has been developed and patented in both Europe and the United States. Bovie has constructed its first two pre-production prototypes for field testing purposes as a prelude to eventual FDA submission and clearance for manufacturing. The initial intended uses are in the areas of dermatology, plastic surgery, cosmetology and gastroenterology.

To date there have been no revenues recorded by the joint venture.

GI Device (in development)

This new electrosurgical generator has been designed as a specialty electrosurgical niche product for the gastroenterological market. The device's styling adds a new dimension to Bovie's continued expansive array of generators. Additionally, the product is expected to be the basis for other new electrosurgical generator introductions.

Suture Removal Device (in development)

In October, 2003 we entered into an exclusive worldwide license agreement with Emergency Medical Innovations, LLC., (EMI) a non-affiliated company, to manufacture and market a disposable suture removal device (patent pending). The device is expected to reduce time for removing stitches in a doctor's office, medical clinic or emergency room. The device is designed to remove sutures with a tension free cut to be utilized in various medical procedures on humans and animals. We are presently developing pre-production prototypes and subject to FDA clearance for marketing, we have now targeted the last quarter of 2005 for release and marketing to medical professionals. We expended development funds of approximately \$50,000 in 2004 and when the product begins selling we will pay a 5% royalty to EMI.

Manufacturing, Marketing and Distribution

Bovie manufactures the majority of its products on its premises in St. Petersburg, Florida. Labor intensive sub-assemblies and labor intensive products may be out-sourced to our specification. Although we sell through distributors, we market our products through national trade journal advertising, direct mail, distributor sales representatives and trade shows, under the Bovie name, the Bovie/Aaron name and private label. Major distributors include Allegiance (a Cardinal Company), IMCO, McKesson Medical Surgical, Inc., NDC (Abco, Cida and Starline), Owens & Minor, and Physician Sales & Service.

We have a major OEM customer, Arthrex, Inc., for which we manufacture products on a private label basis, pursuant to agreement. The agreement provides, among other things, that we will be reimbursed for our expenses in developing products according to Arthrex's specifications. Arthrex owns the technology and we may not generally compete with the product developed in Arthrex markets. The agreement further provides that Arthrex is not obliged to place any orders for the product developed, but if it does seek to place orders, it must place them with us. The agreement also generally provides for product warranties, insurance, termination, and confidentiality. In fiscal 2004, Arthrex orders represented approximately 29% of revenues for us. As such, should Arthrex determine to reduce or cease placement of orders for the products, our business will be adversely affected.

Competition

The medical device industry is highly competitive. Many competitors in this industry are well established, do a substantially greater amount of business, and have greater financial resources and facilities than we do.

We believe we rank third in the field of electrosurgical generator manufacturing and we sell our products and compete with other manufacturers in various ways. In addition to advertising, attending trade shows and supporting our distribution channels, we strive to enhance product quality, improve user friendliness and expand product exposure.

We also compete by private labeling our products for major distributors under their label. This allows us to have our product in the marketplace and thereby compete from two different approaches, our Aaron or Bovie label, and our customers private label. Our private label customers distribute our products under their name through their internal sales force. Our main competitors do not private label their products

Lastly, we only sell our product through distributors. Since we never sell direct to the end user we are participating with our distribution partners, and never competing with them. Many of the companies we compete with sell direct, thus competing directly with distributors they sometimes use.

Main competitors are Conmed, Valleylab (a division of Tyco), in the electrosurgery market and Xomed (a division of Medtronic) in the battery operated cautery market.

Government Regulation

United States

The Company's products and research and development activities are subject to regulation by the FDA and other regulatory bodies. FDA regulations govern, among other things, the following activities:

- Product development.
- Product testing.
- Product labeling.
- Product storage.
- Pre-market clearance or approval.
- Advertising and promotion.
- Product tractability, and
- Product indications.

In the United States, medical devices are classified on the basis of control deemed necessary to reasonably ensure the safety and effectiveness of the device. Class I devices are subject to general controls. These controls include registration and listing, labeling, pre-market notification and adherence to the FDA Quality System Regulation. Class II devices are subject to general and special controls. Special controls include performance standards, post market surveillance, patient registries and FDA guidelines. Class III devices are those which must receive pre-market approval by the FDA to ensure their safety and effectiveness. Currently, we only manufacture Class I and Class II devices.

Manufacturing

Manufacturing and distribution of our products may be subject to continuing regulation by the FDA. We will also be subject to routine inspections by the FDA to determine compliance with the following:

- Quality System Regulations.
- Medical device reporting regulations, and
- FDA restrictions on promoting products for unapproved or off-label uses.

In addition to regulations enforced by the FDA, we are also subject to regulations under the Occupational Safety and Health Act, the Environmental Protection Act and other federal, state and local regulations.

International

To market products in the European Union and countries other than the United States, we must obtain regulatory approval similar to that required by the FDA. All of our medical devices are classified as Class III devices under the European Medical Devices directive. Therefore, we were required to obtain a “CE Mark” certification from a “Notified Body” in one of the member countries in the European Union. CE Mark certification is an international symbol of adherence to quality assurance standards and compliance with the applicable European Medical Devices Directive.

Approval by a Notified Body typically includes a detailed review of the following:

- Description of the device and its components,
- Safety and performance of the device,
- Clinical evaluations with respect to the device,
- Methods, facilities and quality controls used to manufacture the device, and
- Proposed labeling for the device.

Manufacturing and distribution of a device is subject to continued inspection and regulation by the Notified Body after CE Mark certification to ensure compliance with quality control and reporting requirements.

Pre-market notification clearance must be obtained for some Class I and most Class II devices when the FDA does not require pre-market approval. A pre-market approval application is required for most Class III devices. A pre-market approval application must be supported by valid scientific evidence to demonstrate the safety and effectiveness of the device. The pre-market approval application typically includes:

- Results of bench and laboratory tests, animal studies, and clinical studies,
- A complete description of the device and its components,
- A detailed description of the methods, facilities and controls used to manufacture the device, and
- Proposed labeling.

The approval process can be expensive, uncertain and lengthy. A number of devices for which FDA approval has been sought by other companies have never been approved for marketing. To date we have not experienced non-approval of any of our devices heretofore submitted to the FDA.

We obtained CE Mark certification to market our products in the European Union in 1999. In addition to CE Mark certification, each member country of the European Union maintains the right to impose additional regulatory requirements.

Outside of the European Union, regulations vary significantly from country to country. The time required to obtain approval to market products may be longer or shorter than that required in the United States or the European Union. Certain European countries outside of the European Union do recognize and give effect to the CE Mark certification. We are permitted to market and sell our products in those countries.

Patents and Trademarks

We own a total of twelve outstanding patents which are specific, as opposed to general in nature and we do not believe our current patents have a material effect on our operations. Although the useful lives of our existing patents have substantially diminished, we can give no assurance that competitors will not infringe on our patent rights or otherwise create similar or non-infringing competing products that are technically patentable in their own right.

Liability Insurance

The manufacture and sale of medical products entail significant risk of product liability claims. Bovie currently maintains product liability insurance with combined coverage limits of \$5 million on a claims made basis. There is no assurance that this coverage will be adequate to protect us from any liabilities we might incur in connection with the sale or testing of our products. In addition, we may need increased product liability coverage as products are commercialized. This insurance is expensive and in the future may not be available on acceptable terms, if at all.

Research and Development

The amount expended by us on research and development of its products during the years 2004 and 2003, totaled \$907,389 and \$717,347 respectively. We have not incurred any direct costs relating to environmental regulations or requirements.

Employees

Presently Bovie has a total of approximately 134 employees. These consist of 5 executives, 10 administrative, 6 sales, and 113 technical support and factory employees.

Significant Subsidiary - Aaron Medical Industries, Inc.

Aaron Medical Industries, Inc., is a Florida Corporation with offices in St. Petersburg, Florida. It is principally engaged in the business of marketing our medical products.

Item 2. Properties.

Bovie has executive office space at 734 Walt Whitman Road, Melville, New York and its St. Petersburg, Florida manufacturing facility located at 7100 30th Ave N. Bovie leases the executive offices in New York for \$1,450 per month through the year 2006. Bovie owns its main facility in Florida consisting of 28,000 square feet of office, warehousing and manufacturing space.

On August 20, 2003, Bovie signed an agreement to lease approximately 20,000 square feet of space located at 3200 Tyrone Blvd., St. Petersburg Fla for sixty-two months commencing on September 1, 2003 and terminating on October 31, 2008, with an option to renew for an additional five years. This additional space provides Bovie with a total of 48,000 square feet of manufacturing warehousing and office space in Florida. The building leased is in close proximity to our present manufacturing facility in St. Petersburg, Florida. The base monthly rent is \$8,750 commencing on November 1, 2003. The base rent increases by 3% for each year of the lease. We are responsible for common area maintenance, insurance and real estate taxes which have been established at \$1,667 per month for the first year of the term of the lease.

In October 2004 a hurricane damaged the roof of approximately 1500 square feet of office space at 7100 30th Ave N, St. Petersburg causing extensive water damage. The offices had been used by several engineers which had to be moved to other space. An additional 4200 square feet of office and warehouse space was leased on a month to month basis at 7191 30th Ave N, St. Petersburg for \$2,140 per month.

The damage to our building was estimated at \$296,000 which the insurance company has paid to us. The City of St. Petersburg has issued a permit so that the contractor retained can commence repairs.

Item 3. Legal Proceedings

We presently have no material litigation outstanding.

Item 4. Submission of Matters to a Vote of Security Holders

There were no matters submitted to securities holders during the fourth quarter of the year ended December 31, 2004.

PART II

Item 5. Markets and Market Prices

Bovie's common stock has been traded on the American Stock Exchange since November 5, 2003. Prior to that it was traded in the over-the-counter market on the OTC bulletin board. The table shows the reported high and low bid prices for the common stock during each quarter of the last eight respective quarters as reported by the OTC Bulletin Board (symbol "BOVI") and the American Stock Exchange (symbol "BVX"). These prices do not represent actual transactions and do not include retail markups, markdowns or commissions.

2004	High	Low
1st Quarter	\$ 3.70	\$ 2.32
2nd Quarter	3.10	2.31
3rd Quarter	3.00	2.06
4th Quarter	2.72	2.25
2003	High	Low
1st Quarter	\$ 1.02	\$.72
2nd Quarter	1.45	.85
3rd Quarter	3.35	1.35
4th Quarter	3.75	2.95

On March 24, 2005, the closing bid for Bovie's Common Stock as reported by the American Stock Exchange was \$2.42 per share. As of March 24, 2005, the total number of shareholders of the Bovie's Common Stock was approximately 1,500, of which approximately 700 are estimated to be shareholders whose shares are held in the name of their broker, stock depository or the escrow agent holding shares for the benefit of Bovie Medical Corporation shareholders and the balance are shareholders who keep their shares registered in their own name.

Item 6. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Executive Level Overview

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

We divide our operations into three reportable business segments. Electrosurgical products, battery operated cauteries and other products. The electrosurgical segment sells electrosurgical products which includes 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 85% of total revenues in 2004. Most of the Company's products are marketed through medical distributors which distribute to more than 6,000 hospitals and to doctors and other health-care facilities.

International sales accounted for 15% of total revenues in 2004. The Company's products are sold in more than 150 countries through local dealers. Local dealer support is coordinated by sales and marketing personnel at the St. Petersburg, Florida facility. We have no branch offices other than the Florida facility. We sell our products to distributors that distribute them in the following countries: Argentina, Australia, Austria, Belgium, Brazil, Canada, Chile, Denmark, Finland, France, Germany, Greece, India, Italy, Japan, Korea, Mexico, The Netherlands, New Zealand, Norway, Poland, Portugal, Singapore, South Africa, Spain, Sweden, Switzerland, Taiwan and the United Kingdom, China, the CIS (former Soviet Union), Cyprus, Indonesia, Ireland, Korea, Latin America, Malaysia, the Middle East, the Philippines, Thailand, Turkey, and Vietnam. Our business is generally not seasonal in nature.

Outlook for 2005

Based upon preliminary forecasts, we currently expect diluted net earnings per share from operations for 2005 may be less than 2004. In addition, net earnings may be negatively impacted by increased costs, of selling, general payroll, professional fees, research and development and administrative. Sales for the year 2005 are expected to be comparable to 2004. For the first six months of the current fiscal year, we expect similar sales to the same period last year, despite a decline in orders from our main OEM customer. If foreign currency exchange rates hold at current levels, we anticipate a favorable impact on foreign sales for the full year of 2005.

Even though our main OEM customer has reduced its orders during the first three months our sales for that period should be comparable with sales for the same period last year. We continue to have an excellent relationship with this customer, evidenced by the fact we are receiving significant orders. OEM business is marked by variables, making it difficult to forecast future performance, as OEM contracts create a climate of limited visibility. A single OEM order or new product can favorably and materially impact our performance. During fiscal 2005 we will direct increased effort and resources at advancing product development, and geographic expansion of distributors while continuing to take advantage of selective OEM opportunities as they occur. Management believes that this course of action will result in a greater diversification to our revenue stream.

We have paid off all previously outstanding borrowings under our existing credit facility. We anticipate investing in future business growth, including business and product line acquisitions to supplement our current product offerings, new product launches and future building expansions, including manufacturing facility expansions.

Results of Operations (to be read in conjunction with the profit and loss statement)

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

Analysis of 2003/2004

	2004	2003	Percentage change in dollar amounts 2003/2004
	%	%	%
Sales	100.0	100.0	27.0
Cost of sales	61.1	59.6	30.0
Gross profit	38.9	40.4	23.0
Other costs:			
R & D	4.4	4.5	26.0
Professional fees	2.0	2.4	6.0
Salaries	9.6	10.7	15.0
SGA	16.4	18.2	15.0
Equity in loss of			
Unconsolidated affiliate	.2	.5	-52.0
Total other costs	32.7	36.3	15.0
Income from operations	6.2	4.1	93.1
Other expense	-.1	-.1	-61.0
Income after other expense	6.1	4.1	93.0
Discontinued operations	--	--	--
Net Income	6.1	4.0	86.0
Income tax expense	-2.2	1.0	85.0
Income tax benefit	2.2	1.0	85.0
Net income after taxes	6.1	4.0	86.0
Extraordinary item	1.2	--	
Net earnings	7.4	4.2	122.0

The table below sets forth domestic/international and product line sales information:

Net Sales (in thousands)			Percentage change	
	2004	2003	2004/2003	Increase
Domestic/international sales:(in thousands)				
Domestic	\$ 17,448	\$ 13,714	27%	3,734
International	3,047	2,403	27	644
Total net sales	\$ 20,495	\$ 16,117	27	4,378
Product line sales:				
Electrosurgical	\$ 12,684	\$ 8,957	42	3,727
Cauteries	5,460	5,004	9	456
Other	2,351	2,156	9	195
Total net sales	\$ 20,495	\$ 16,117	27	4,378

2004 Compared with 2003

Our net sales increased 27% in 2004 to \$20.5 million from \$16.1 million in 2003 (\$4.4 million increase). Net sales grew by 27% as a result of increased OEM sales and an increase in number of electrosurgical generators units shipped through standard distribution of our products including OEM. Approximately 4500 units were shipped in 2004 as compared to 3,800 for 2003. No sales of one particular electrosurgical product dominates the number of units sold.

Domestic sales were \$17.4 million for 2004, representing an increase of 27% as a result of increased shipments of generators and accessories. International sales were \$3.0 million for 2004, representing an increase of 27% as a result of higher shipments of generators. Excluding the impact of foreign currency, international sales increased 27% in 2004.

Cost of sales represented 61% of sales in 2004 compared to 60% in 2003. The 1% higher cost of sales in 2004 was mainly attributable to the increased volume of electrosurgical accessories sold to one large customer at lower than normal margins.

Research, development and engineering expenses represented 4.4% and 4.5% of sales for 2004 and 2003, respectively. These expenses increased 26% in 2004 to \$907,389, an increase over 2003 spending of \$190,042. The higher spending level is the result of development spending in advance of our proposed product launches in 2005. New products under development are the suture removal device, plasma technology, gastrointestinal and various improvements to our line of electrosurgical generators.

Professional fees increased from \$392,796 in 2003 to \$415,606 in 2004, an increase of \$22,810 or 6%. Audit fees increased by \$22,774 or 20% and legal fees mainly associated with new product development increased by \$31,220 or 15%.

Salaries and related costs increased by 14.8% from \$1.72 million to \$1.98 million. Annual employee increases, overtime increases, medical insurance increases and the hiring of an addition salesperson accounted for the increase in cost.

Selling, general and administrative expenses increased by 14.5% from \$2.9 million in 2003 to \$3.36 million in 2004. The 14.5% increase in selling, general and administrative expenses is partially due to an increase in commissions expense of \$138,520 directly related to increased sales of 27%, increased trade show costs, increased general liability insurance, increased depreciation on new software and equipment purchased, increased regulatory costs, and increased costs associated with rent and utilities on the new building we moved into at the end of 2003.

Net interest expense declined to \$11,828 in 2004 from \$31,080 in 2003, primarily as a result of lower outstanding debt balances.

The effective income tax rate was 36.2% in 2004. There was also a tax loss carryover benefit of 36.2%.

Net earnings, after an extraordinary item of \$.25 million increased 122% to \$1.5 million from \$.7 million in 2003. Basic net earnings per share, before extraordinary item, increased by 80% to \$.09 in 2004 from \$.05 in 2003. Earning per share including extraordinary item in 2004 were \$.11 per share. Diluted earning per share with and without extraordinary item were \$.09 and \$.08, respectively, compared to \$.05 for diluted earnings per share for 2003.

In October 2004 a hurricane tore a portion of the roof off the office facility at 7100 30th Avenue North, St. Petersburg, Florida causing extensive water damage to that portion of the building. The cost of the building allocated to the loss was \$63,749 of which there was depreciation of \$12,278 leaving a net cost of \$51,471. As per Financial Accounting Standard Board interpretation number 30 we have recognized a gain of \$245,264 from the non monetary asset being involuntarily converted to a monetary asset through the payment by the insurance company of \$296,735.

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

In the fourth quarter of 1998, we made agreements with various sales representatives to develop markets for our new products and to maintain customer relations. Our current representatives receive an average commission of approximately 4% of sales in their market areas. In 2004 and 2003, commissions paid were \$367,299 and \$228,779 respectively, an increase of 61 %. The increase is directly related to increased sales.

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.

In order to provide additional working capital, we have secured a \$1.5 millions credit facility with a local commercial bank. This facility is payable on demand. For the year ended December 31, 2004, we had zero funds drawn down on this credit facility.

Our ten largest customers accounted for approximately 70% of net revenues for 2004 as compared to 66% in 2003. For both years December 31, 2004 and 2003, our ten largest trade receivables accounted for approximately 63% of outstanding receivables. In 2004 and 2003 one customer accounted for 29% and 22% of total sales, respectively.

Product Development

Most of the Company's products and product improvements have been developed internally. Funds for this development have come from internal cash flow and the sale 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 one manufacturing location 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 2004 we invested in the J Plasma Technology, the Suture Removal Technology, the Gastrointestinal "GI" device and undertook development of Cardio and Urological Electrosurgical devices for a contractual partner. The suture removal device and the GI device are slated to be marketed during the fourth quarter of 2005. 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 which our ordinary cash flow and or credit line would not be able to sustain.

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 Bovie maintaining compliance with our credit facility.

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 our inventory at cost, and licensing our customer list and manufacturing technology to our largest customer in that field for \$500,000 payable in equal installments over 5 years. We believe this sale will have no material impact on our continuing operations or financial condition. The transaction is being accounted for as a licensing agreement over five years and in 2003 and 2004 we received income of \$57,750 and \$100,000, respectively, from the licensing.

Scientific Advisory Board

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

Backgrounds

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

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

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

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 a similar informal collaborative arrangements with two foreign suppliers except that we request the development of certain items and components and we purchase them from the foreign supplier pursuant to purchase orders. Our purchase orders are never for more than one year and are supported by customer purchase orders from our customers.

Liquidity and Capital Resources

Our working capital at December 31, 2004 increased \$1.7 million to \$5.55 million from \$3.84 million at December 31, 2003. The increase in working capital resulted from growth in our overall business and the use of cash earnings to fund increases in accounts receivable. Accounts payable and other accrued liabilities together increased to a small degree in 2004 as a result of the growth in the business. Accounts receivable days sales outstanding were 41 days and 45 days at December 31, 2004 and 2003 respectively. Days sales in inventory decreased 34 days to 58 days at December 31, 2004 from 92 days at December 31, 2003. The lower days sales in inventory is due to decreased inventories resulting from efficiencies in manufacturing practices domestically in the new facility and overseas.

We generated cash of \$2.04 million from operations in 2004 compared with \$.92 million in 2003. The increase in cash from operations in 2004 compared to the prior year is primarily due to the reduction of inventory of \$.25 million and the generation of cash of \$1.13 million in 2004 from cash earnings as compared to \$.52 million in 2003.

In 2004 we used \$606,495 for the purchase of fixed assets. Total borrowing declined by \$35,344 which is the amount we reduced our first mortgage by. Employees and others exercised options and purchased 397,600 shares for \$294,711.

We had 2.30 million in cash and cash equivalents at December 31, 2004. We also had outstanding borrowings totaling \$.38 million at that date. Current maturities of long-term debt at December 31, 2004 was \$31,668. 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 and other capital expenditures and future acquisitions to supplement our current product offerings. Should additional funds be required, we have \$1.5 million of additional borrowing capacity available under our existing credit facility.

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):

	2005	2006	Payment Period		2009
			2007	2008	
Long-term debt	32	348	-0-	-0-	-0-
Operating leases	146	142	135	115	-0-
Unconditional purchase obligations	2,691	-0-	-0-	-0-	-0-

The Company's additional borrowing capacity, along with the expected expiration period of the commitments, is summarized as follows (in millions):

	Total Amount Committed	Amount of Commitment Expiration Per Period	
		Less than 1 year	In excess of 1 year
Secured revolving credit agreement and other lines of credit	\$ 1.5	\$ 1.5	-0-

As of December 2004 the total amount is available.

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.

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 (GAAP) in the United States of America (U.S.). 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, minority investment, legal proceedings, research and development, warranty obligations, product liability, pension obligations, 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, actuarial valuations, or various assumptions that are believed to be reasonable under the circumstances and the results form the basis for making judgments about the reported values of assets, liabilities, revenues and expenses. Actual results may materially differ from these estimates.

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

Allowance for doubtful accounts

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

Inventory Reserves

We maintain reserves for excess and obsolete inventory resulting from the potential inability to sell our products at prices in excess of current carrying costs. The markets in which we operate are highly competitive, with new products and surgical procedures introduced on an ongoing basis. Such marketplace changes may cause our products to become obsolete. We make estimates regarding the future recoverability of the costs of these products and record a provision for excess and obsolete inventories based on historical experience, and expected future trends. If actual product life cycles, product demand or acceptance of new product introductions are less favorable than projected by management, additional inventory write-downs may be required, which could unfavorably affect future operating results.

Income Taxes

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

We 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 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.

In December 2004, the Financial Accounting Standards Board (FASB) issued a revision to Statement No. 123, *Share-Based Payment*. This revision supersedes Accounting Principles Board (APB) Opinion No. 25, *Accounting for Stock Issued to Employees*, and its related implementation guidance. This revision requires companies to recognize the cost of stock options based on the grant-date fair value pursuant to their employee stock option plans over the period during which the recipient is required to provide services in exchange for the options, typically the vesting period. Pursuant to the requirements of the Statement, the Company plans to adopt the provisions of the standard during the third quarter of 2005. (See Note 1. Significant Accounting Policies)

Item 7. Financial Statements.

(See Attached)

Item 8. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

There are no disagreements with, or changes in, accountants.

Item 8A. Disclosure 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 December 31, 2004) 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 to bring to the attention of the Company's management the relevant information necessary to permit an assessment of the need to disclose material developments and risks pertaining to the Company's business in its periodic filings with the Securities and Exchange Commission.

(b) Changes in internal controls

There was no change to the Company's internal control over financial reporting during the quarter ended December 31, 2004 that materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

Item 8B. Other Information

There was no information to be disclosed on Form 8K that was not reported.

Part III

Item 9. Directors, Executive Officers, Promoters and Control Persons

Bovie's Executive Officers and directors are as follows:

Name	Position	Director Since
Andrew Makrides	Chairman of the Board, President, CEO	December 1982
J. Robert Saron	President of Aaron Medical Industries, Inc. and Director	August 1994
George Kromer	Director	October 1995
Alfred V. Greco	Director	April 1998
Brian Madden	Director	September 2003
Moshe Citronowicz	Executive Vice President and Chief Operating Officer	--
Charles Peabody	Chief Financial Officer and Secretary	--
Michael Norman	Director	September 2004
Randy Rossi	Director	September 2004

Directors serve for one-year terms and are elected at the annual shareholders meeting.

Andrew Makrides, Esq. age 63, Chairman of the Board and President, member of the Board of Directors, received a Bachelor of Arts degree in Psychology from Hofstra University and a Juris Doctor Degree from Brooklyn Law School. He is a member of the Bar of the State of New York and practiced law from 1968 until joining Bovie Medical Corporation as Executive Vice President and director, in 1982. Mr. Makrides became President of the Company in 1985 and the CEO in December 1998 and has served as such to date. Mr. Makrides employment contract extends to December 31, 2009.

J. Robert Saron, age 52, Director, holds a Bachelor degree in Social and Behavioral Science from the University of South Florida. From 1988 to present Mr. Saron has served as a director of Aaron Medical Industries, Inc. (formerly Suncoast Medical Manufacturing, Inc.). Mr. Saron served as CEO and chairman of the Board of the Company from 1994 to December 1998. Mr. Saron is presently the President of Aaron Medical Industries, Inc., which serves as the Company's marketing subsidiary, and he is also a member of the Board of Directors of the Company. Mr. Saron serves on two industry boards, the Health Industry Distributors Association Education Foundation and the Health Care Manufacturing Marketing Council. Mr. Sarons employment contract extends to December 31, 2009.

Alfred V. Greco, Esq. age 69, Director, is the principal of Alfred V. Greco, PLLC, a partner of Sierchio Greco and Greco LLP, has been counsel to us since our inception. Mr. Greco is a member of the Bar of the State of New York and has been engaged in the practice of law for the past 35 years in the City of New York. The main focus of Mr. Greco's experience for the past 30 years has been in the area of corporate and securities law during which he has represented a large number of public companies, securities brokerage firms, executives and registered representatives and has developed a broad range of experience in administrative, regulatory and legal aspects of public companies, their organization and operation. Mr. Greco graduated from Fordham University School of Law with a Doctor of Law degree in June of 1960. He was admitted to the New York State Bar in March, 1961.

George W. Kromer, Jr., age 64, became a director on October 1, 1995. Bovie Medical Corporation has also retained Mr. Kromer on a month-to-month basis as a consultant in addition to his capacity as a director. He has been writing for business publications since 1980. In 1976, he received a Master's Degree in health administration from Long Island University. He was engaged as a Senior Hospital Care Investigator for the City of New York Health & Hospital Corporation from 1966 to 1986. He also holds a Bachelor of Science Degree from Long Island University's Brooklyn Campus and an Associate in Applied Science Degree from New York City Community College, Brooklyn, New York.

Moshe Citronowicz, age 52, is a graduate of the University of Be'er Sheva, Be'er Sheva, Israel, with a Bachelor of Science Degree in electrical engineering. He has also received certificates from Worcester Polytech, Lowell University and the American Management Association for completion of seminars in MRP, master scheduling, purchasing SPC, JIT, accounting and plant management. Since coming to the United States in 1978, Mr. Citronowicz has worked in a variety of manufacturing and high tech industries. In October 1993, Mr. Citronowicz joined the Company as Vice President of Operations. He is responsible for all areas of manufacturing, purchasing, product redesign, as well as new product design. In September 1997, Mr. Citronowicz was appointed by the Board of Directors to the position Executive Vice President and Chief Operating Officer. Mr. Citronowicz's employment contract extends to December 31, 2009.

Charles Peabody, CPA, age 53, graduated from Babson College with a BSBA in accounting. He is a Certified Public Accountant in the States of Florida and Vermont. During the past twenty years, Mr. Peabody has had positions ranging from vice president, finance and administration of an \$11 million telecommunication equipment manufacturer to the chief financial officer of an \$18 million commercial refrigeration glass door company. Mr. Peabody is a member of the American and Florida Institutes of Certified Public Accountants. Mr. Peabody's employment contract is renewed annually.

Brian Madden, age 50, graduated from Iona College in 1976 with a Bachelor of Business Administration degree. Mr. Madden is married with two children and is currently the President of Liberty Title Agency. He has been a member of the boards of various professional and civic organizations such as: Long Island Housing Partnership, chairman of NYS Land Title Assoc-Agents Committee, Elwood School Board, Good Samaritan Hospital Board of Governors, Long Island Childrens Museum and various others. Mr. Madden presently sits on our audit committee.

Randy Rossi, age 45, has over 14 years of experience in medical manufacturing. Most recently, he was President of the Patient Care Division, Kendall/TYCO which specialized in Wound Care, Urology and Incontinent Care with revenues in excess of \$500M.

Michael Norman, CPA age 48, manages a CPA firm specializing in business financial planning as well as governmental and financial auditing. Mr. Norman is a member of the Nassau County Board of Assessors, Treasurer of the Don Monti Memorial Research Foundation and a Glen Cove City Councilman, all located on Long Island, New York. He also serves as the expert member of Bovie's audit committee.

We have a 3-member audit committee consisting of three independent members of the Board of Directors, George Kromer Chairman, Brian Madden and Michael Norman CPA. One of the independent members, Michael Norman serves as a financial expert for the Committee.

On March 30, 2004 Bovie adopted an executive employee ethics code.

A copy of the code of ethics which expressly relates to the CEO (Andrew Makrides) and Chief Financial Officer (Charles Peabody) will be provided without charge to any person upon request to Bovie Medical Corporation, 734 Walt Whitman Road, Melville, NY 11747, Attn: Andrew Makrides.

Item 10. Remuneration

The following table sets forth the compensation paid to the executive officers of the registrant for the three years ended December 31, 2004:

Summary Compensation Table								
(a)	Annual Compensation				Long Term Compensation			
	(b)	(c)	(d)	(e)	Awards (f)	(g)	Payouts (h)	(i)
Name and Principal Position	Year	Salary(\$)	Bonus(\$)	Other Annual Compensation- (\$)*	Restricted Stock Award(s) (\$)	Securities Underlying Options/ SARs(#)	LTIP Payouts (\$)	All Other Compensation (\$)
Andrew Makrides President, CEO, Chairman of the Board	2004	\$167,320	3,189	9,921	--	25,000	--	--
	2003	\$158,406	2,967	9,942	--	110,000	--	--
	2002	\$141,835	2,760	9,581	--	--	--	--
J. Robert Saron President of Aaron Medical and Director	2004	\$233,036	4515	16,533	--	25,000	--	--
	2003	\$219,786	4,200	15,568	--	110,000	--	--
	2002	\$200,545	3,907	15,533	--	--	--	--
Moshe Citronowicz Executive Vice President- Chief Operating Officer	2004	\$170,766	3,318	15,848	--	25,000	--	--
	2003	\$158,637	3,086	14,345	--	110,000	--	--
	2002	\$147,370	2,871	15,688	--	--	--	--
Charles Peabody Chief Financial Officer	2004	\$81,825	1,579	7,893	--	25,000	--	--
	2003	\$77,221	1,532	6,216	--	60,000	--	--
	2002	\$76,227	1,532	6,051	-	--	--	--

(*) Other compensation consists of medical insurance and auto.

No options were granted or issued to any executive officer or director during fiscal year ending December 31, 2002. In 2003 and 2004, a total of 585,000 and 225,000 options were granted to executive officers and directors, respectively.

Option Grants Table:

The following table sets forth, with respect to grants of stock options made during 2004 to each of the Named Executive Officers: (I) the name of the executive officer (column (a)); (ii) the number of securities underlying options granted (column (b)); (iii) the percent the grant represents of the total options granted to all employees during 2004; (iv) the per share exercise price of the options granted (column (d)); (v) the expiration date of the options (column (e)); and (vi) the potential realizable value of each grant, assuming the market price of the Common Stock appreciates in value from the date of grant to the end of the option term at a rate of (A) 5% per annum (column (f)) and (B) 10% per annum (column (g)).

Option Grants in 2004:

Name (a)	Number of Securities Underlying Options Granted (b)	Individual Grants % of Total Options Granted to Employees in 2004 (c)	Exercise or Base Price per Share (d)	Expiration Date (e)	Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation for Option Term	
					5%(\$) (f)	10%(\$) (g)
Charles Peabody(CFO)	25,000	6.76%	2.13	09/23/14	\$ 33,383	\$ 87,684
Moshe Citronowicz(COO)	25,000	6.76%	2.13	09/23/14	\$ 33,383	\$ 87,684
J. Robert Saron(2)	25,000	6.76%	2.13	09/23/14	\$ 33,383	\$ 87,684
Andrew Makrides(CEO)	25,000	6.76%	2.13	09/23/14	\$ 33,383	\$ 87,684

Total options granted were 370,000 which represents 100% of the options granted in 2004.

(1) Such options were granted at 100% of fair market value on the date of grant and become immediately exercisable as to the shares covered thereby.

(2) President of Aaron Medical.

Equity Compensation Plan Information:

Plan category	Number of Securities to be issued upon exercise of outstanding options,	Weighted- average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans
Equity compensation Plans approved by Security holders	3,951,200	\$1.12	27,700
Total	3,951,200	1.12	27,700

The following table summarizes: 1. The options granted in the last fiscal year 2004 and 2. The aggregated option exercises in the last fiscal year and the fiscal year-end option values.

Aggregate Option/SAR Exercises in the Fiscal Year Ended December 31, 2004 and December 31, 2004 Option/SAR Values

(a)	(b)	(c)	(d)		(e)	
Name	Shares Acquired on Exercise (#)	Value Realized (\$)	Number of Securities Underlying Unexercised Options/SARs at December 31, 2004 (#)		Value of Unexercised In-the Money Options/SARs at December 31, 2004(\$)	
			Exercisable	Unexercisable	Exercisable	Unexercisable
Andrew Makrides	-	-	510,000	-	\$ 849,150	-
Alfred Greco	-	-	360,000	-	615,650	-
George Kromer	-	-	415,000	-	690,475	-
Moshe Citronowicz	-	-	465,000	-	803,725	-
Rob Saron	-	-	530,000	-	901,200	-
Brian Madden	-	-	50,000	-	35,250	-
Michael Norman	-	-	25,000	-	10,250	-
Charles Peabody	-	-	110,000	-	119,400	-
Randy Rossi	-	-	25,000	-	35,250	-
Total	-	-	2,490,000	-	\$ 4,010,350	-

(1) Assumes \$2.54 per share fair market value on December 31, 2004 which was the closing price on December 31, 2004, the last day of trading on NASDAQ in 2004.

In 2003, the Board of Directors adopted and shareholders approved Bovie's 2003 Executive and Employee Stock Option Plan covering a total of one million two hundred thousand (1,200,000) shares of common stock issuable upon exercise of options to be granted under the Plan. In 2004, the Board of Directors granted 25,000 options to each Executive Officer and Director totaling 225,000 shares.

Outside Directors are compensated in their capacities as Board members through option grants. Our Board of Directors presently consists of J. Robert Saron, Andrew Makrides, Chairman CEO, and President, George W. Kromer, Jr., Alfred Greco and Brian Madden. For the past years, pursuant to a written agreement, Mr. Kromer has been retained by Bovie Medical Corporation as a business and public relations consultant on a month-to-month basis at an average monthly fee of \$1,700. Mr. Greco is the managing director of Alfred V. Greco PLLC, a partner of Sierchio, Greco and Greco counsel to Bovie, to which Bovie paid legal fees of \$63,650 during 2004.

There have been no changes in the pricing of any options previously or currently awarded.

In January 3, 2004, we extended employment contracts with certain of its officers for two years. The following schedule shows all contracts and terms with officers of Bovie.

Bovie Medical Corporation
December 31, 2004

	Contract Date	Expiration Date(1)	Current Base Pay	Auto Allowance
Andrew Makrides	01/01/98	12/31/2009(1)	\$155,246	\$ 6,067
J. Robert Saron	01/01/98	12/31/2009(1)	214,638	6,067
Moshe Citronowicz	01/01/98	12/31/2009(1)	161,521	6,067
Charles Peabody	08/18/03	08/18/2004(2)	77,479	--

(1) Includes total extensions for six years- Salaries increase annually pursuant to a contract formula. In the event of a change in control, each officers' contract contains an option for each respective officer to resign and receive 3 years salary.

(2) If not cancelled 30 days prior to year-end, the contract automatically renews for one year periods.

Item 11. Section 16(a) Beneficial Ownership Reporting Compliance

The following table sets forth certain information as of December 31, 2004, with respect to the beneficial ownership of the Company's common stock by all persons known by the Company to be the beneficial owners of more than 5% of its outstanding shares, by directors who own common stock and/or options to levy common stock and by all officers and directors as a group.

Name and Address	Title	Number of Shares		Nature of Ownership	Percentage of Ownership(i)
		Owned (i)			
The Frost National Bank FBO Renaissance US Growth Investment Trust PLC. Trust no. W00740100	Common	1,000,000		Beneficial	5.6%
The Frost National Bank FBO, BFS US Special Opportunities Trust PLC. Trust no. W00118000	Common	1,000,000		Beneficial	5.6%
Directors and Officers					
Andrew Makrides 734 Walt Whitman Road Melville, NY 11746	Common	825,800(ii)		Beneficial	4.6%
George Kromer P.O. Box 188 Farmingville, NY 11738	Common	415,000(iii)		Beneficial	2.3%
Alfred V. Greco 666 Fifth Avenue New York, NY 10103	Common	381,500(iv)		Beneficial	2.3%
J. Robert Saron 7100 30th Avenue North St. Petersburg, FL 33710	Common	962,976(v)		Beneficial	5.4%
Moshe Citronowicz 7100 30th Avenue North St. Petersburg, FL 33710	Common	639,591 (vi)		Beneficial	3.6%
Brian Madden 300 Garden City Plaza Garden City, NY 11530	Common	75,000 (vii)		Beneficial	.4%
Charles Peabody 7100 30 th Ave N. St. Petersburg, FL	Common	110,000(x)		Beneficial	.6%
Mike Norman 410 Jericho Tpke, Jericho, NY	Common	25,000(ix)		Beneficial	.1%
Randy Rossi 19 Bubbling Brook Rd., Walpole, Mass	Common	25,000(ix)		Beneficial	.1%
Officers and Directors as a group(9)		3,449,867(viii)			20%

(i) Based on 13,862,128 outstanding shares of Common Stock and 3,951,200 outstanding options to acquire a like number of shares of Common Stock as of December 31, 2004, of which officers and directors owned a total of 2,490,000 options and 969,867 shares at December 31, 2004.

(ii) Includes 510,000 shares reserved and underlying ten year options owned by Mr. Makrides to purchase shares of Common Stock of the Company. Exercise prices for his options range from \$.50 for 155,000 shares to \$3.25 for 25,000 shares.

(iii) Includes 415,000 shares reserved pursuant to ten year options owned by Mr. Kromer to purchase shares of the Company. Exercise prices for his options range from \$.50 for 100,000 shares to \$3.25 for 25,000 shares.

(iv) Includes 360,000 shares reserved pursuant to 10 year options exercisable at prices varying between \$.50 per share for 100,000 shares up to \$3.25 per share for 25,000 shares. Mr. Greco's wife presently owns 21,500 shares.

(v) Includes 530,000 shares reserved pursuant to 10 year options owned by Mr. Saron, exercisable at prices ranging from \$.50 per share for 155,000 shares, and \$3.25 per share for 25,000 shares.

(vi) Includes 465,000 shares reserved pursuant to 10 year options owned by Mr. Citronowicz exercisable at prices ranging from \$.50 for 155,000 shares to \$3.25 for 25,000.

(vii) Includes 50,000 shares reserved pursuant to 10 year options owned by Mr. Madden exercisable at prices ranging from \$3.25 for 25,000 to \$2.13 for 25,000 options to purchase Common Stock.

(viii) Includes 2,490,000 shares reserved for outstanding options owned by all Executive Officers and directors as a group. The last date options can be exercised is September 22, 2014.

(ix) During 2004 two new directors were appointed, Mr. Michael Norman, CPA and Mr. Randy Rossi. Each received 25,000 10 year options to purchase shares at \$2.13 per share on September 23, 2004.

(x) Includes 110,000 shares reserved pursuant to 10 year option owned by Mr. Peabody exercisable at prices ranging from \$.70 for 35,000 shares to \$3.25 for 25,000 shares to purchase common stock.

(xi) Russell Cleveland is the principal individual with voting and dispositive control of these trusts and is also the principal in charge of securities of a third trust, The Frost National Bank FBO Renaissance Capital Growth Income Fund III, Inc. Trust No. W00740000, owning 300,000 shares. The aggregate ownership of the three trusts equal 2.3 million shares over which Mr. Cleveland has complete voting and despositive control which equals 12.9% of our outstanding shares and options.

Except for Mr. Norman and Mr. Rossi the above executive officers and directors received grants of options in 2004 for which they inadvertently neglected to timely file appropriate Form 4 reflecting the option grants. Mr. Norman and Mr. Rossi neglected to timely file their Form 3 for the options received by them in 2004.

Item 12. Certain Relationships and Related Transactions

In 2004, the Executive Officers and directors were awarded a total of 225,000 options to purchase our Common Stock at an exercise price of \$2.13 per share expiring on September 22, 2014 under our 2003 Executive and Employee Stock Option Plan. See Remuneration

A director, Alfred V. Greco Esq. is the principal of Alfred Greco PLLC, a partner of Sierchio, Greco and Greco the Company's counsel. Alfred V. Greco PLLC received \$63,650 and \$73,646 in legal fees for the years 2004 and 2003, respectively. See "Security Ownership of Certain Beneficial Owners and Management."

A director, George Kromer also serves as a consultant to us with consulting compensation of \$20,751 and \$16,615 for 2004 and 2003, respectively.

Two relatives of the chief operating officer of the Company are employed by the Company. Yechiel Tsitrinovich, an engineering consultant received compensation for 2004 and 2003 of \$86,764 and \$46,978 respectively. The other relative, Arik Zoran, is an employee of the Company in charge of the engineering department. He had a two year contract providing for a salary of \$90,000 per year plus living expenses and benefits which has been extended. For 2003 and 2004 he was paid \$144,434 and \$144,314 which includes living expenses and benefits. The Company is attempting at this time to secure a permanent work visa for Mr. Zoran.

Item 13. Exhibits

Two Form 8-K were filed in the fourth quarter of 2004.

(a) Filed on October 4, 2004 item 5 - other events reporting appointment of two new directors.

(b) Filed on December 30, 2004 item 1.01 regarding a distribution agreement for the Far East.

Item 14. Principal Accountant Fees And Services

The following table sets forth the aggregate fees billed to us for fiscal years ended December 31, 2004 and 2003 by Bloom & Co., LLP, our auditors:

	2004	2003
Audit Fees (1)	\$ 133,442	\$ 110,669
Non-Audit Fees:		
Audit Related Fees(2)	--	--
Tax Fees(3)	5,000	5,000
All other Fees(4)	--	--
Total Fees paid to Auditor	\$ 138,442	\$ 115,669

(1) Audit fees consist of fees billed for professional services rendered for the audit of Bovie's annual financial statements and review of the interim consolidated financial statements and review of the interim consolidated financial statements included in quarterly reports and services that are normally provided by Bloom & Co., LLP in connection with statutory and regulatory filings or engagements.

(2) Audit-Related fees consist of fees billed for assurance and related services that are reasonably related to the performance of the audit or review of Bovie's consolidated financial statements and are not reported under "Audit Fees".

(3) Tax fees consist of fees billed for professional services rendered for tax compliance, tax advice and tax planning (domestic and international). These services include assistance regarding federal, state and international tax compliance, acquisitions and international tax planning.

(4) All other fees consist of fees for products and services other than the services reported above.

In the past the Board of Directors had considered the role of Bloom & Co., LLP in providing certain tax services to Bovie and had concluded that such services were compatible with Bloom & Co., LLP's independence as our auditors. In addition, since the effective date of the SEC rules stating that an auditor is not independent of an audit client if the services it provides to the client are not appropriately approved (which was previously done by the Board of Directors). Now the Audit Committee will pre-approve all audit and permissible non-audit services provided by the independent auditors.

Audit Committee

The Audit Committee has adopted a policy for the pre-approval of services provided by the independent auditors, pursuant to which it may pre-approve any service consistent with applicable law, rules and regulations. Under the policy, the Audit Committee may also delegate authority to pre-approve certain specified audit or permissible non-audit services to one or more of its members, including the Chairman. A member to whom pre-approval authority has been delegated must report its pre-approval decisions, if any, to the Audit Committee at its next meeting, and any such pre-approvals must specify clearly in writing the services and fees approved. Unless the Audit Committee determines otherwise, the term for any service pre-approved by a member to whom pre-approval authority has been delegated is twelve months.

Prior to September 29, 2003 the audit committee consisted of the board of directors. On September 29, 2003 the board of directors appointed Brian Madden, George Kromer (both independent directors) and Andrew Makrides as audit committee members. Mr. Madden was considered audit committee financial expert until Mr. Michael Norman CPA was made a board member on September 23, 2004. The audit committee is presently made up of three members, George Kromer (Chairman), Michael Norman, CPA (Financial Expert) and Brian Madden.

SIGNATURES

Pursuant to the requirements of the Section 13 or 15(d) 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, in the City of St. Petersburg, State of Florida on March 25, 2005.

Bovie Medical Corporation

By: /s/ Andrew Makrides

Andrew Makrides

President

Chairman of the Board

Pursuant to the requirements of the Securities and Exchange Act of 1934, this report has been signed by the following persons on behalf of the Registrant in the capacities and on the dates indicated.

Signatures	Title and Date
/s/Andrew Makrides Andrew Makrides	Chairman of Board Chief Executive Officer President, Director March 25, 2005
/s/J. Robert Saron J. Robert Saron	Director March 25, 2005
/s/George W. Kromer George W. Kromer	Director March 25, 2005
/s/Charles Peabody Charles Peabody	Chief Financial Officer March 25, 2005
/s/Alfred V. Greco Alfred V. Greco	Director March 25, 2005
/s/Brian Madden Brian Madden	Director March 25, 2005
/s/Michael Norman Michael Norman	Director March 25, 2005
/s/Randy Rossi Randy Rossi	Director March 25, 2005

PART II

ITEM 7. FINANCIAL STATEMENTS

BOVIE MEDICAL CORPORATION INDEX TO FINANCIAL STATEMENTS

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Independent Auditors' Report

Consolidated Balance Sheet at December 31, 2004 and 2003

Consolidated Statements of Operations for the years
ended December 31, 2004 and 2003

Consolidated Statements of Shareholders' Equity for the years
ended December 31, 2004 and 2003

Consolidated Statements of Cash Flows for the years
ended December 31, 2004 and 2003

Notes to Consolidated Financial Statements

Consent of Certified Public Accountant

BLOOM & CO., LLP 50 CLINTON STREET. HEMPSTEAD. NEW YORK 11550:
CERTIFIED PUBLIC ACCOUNTANTS

TEL: 516 - 486-5900
FAX: 516 - 486-5476

STEVEN BLOOM, CPA
FREDERICK PAUKER, CPA
SIROUSSE TABRIZTCHI, Ph.D. CPA

MEMBER OF
AMERICAN INSTITUTE OF
CERTIFIED PUBLIC
ACCOUNTANTS

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors
and Shareholders of
Bovie Medical Corporation

We have audited the accompanying consolidated balance sheets of Bovie Medical Corporation as of December 31, 2004 and 2003, and the related consolidated statements of operations, stockholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with standards of the Public Company Accounting Oversight Board (United States). These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining on a test basis evidence supporting the amounts and disclosures in the financial statements. We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Bovie Medical Corporation as of December 31, 2004 and 2003, and the consolidated results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

BLOOM & CO., LLP
Hempstead, New York
March 25, 2005

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

ASSETS

	<u>2004</u>	<u>2003</u>
Current assets:		
Cash	\$ 2,294,746	\$ 306,137
Trade accounts receivable, net	1,954,287	1,708,181
Inventories	2,001,637	2,451,149
Prepaid expenses	328,765	390,025
Deferred tax asset	<u>386,200</u>	<u>386,200</u>
Total current assets	6,965,635	5,241,692
Property and equipment, net	2,116,324	1,900,015
Other assets:		
Repair parts	124,363	228,226
Trade name	1,509,662	1,509,662
Patent rights, net	88,572	144,967
Deposits	14,445	9,470
Investment Joint Venture	<u>200,000</u>	<u>200,000</u>
	<u>1,937,042</u>	<u>2,092,325</u>
Total Assets	<u>\$ 11,019,001</u>	<u>\$ 9,234,032</u>

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

BOVIE MEDICAL CORPORATION
CONSOLIDATED BALANCE SHEET
DECEMBER 31, 2004 AND 2003
(Continued)

LIABILITIES AND STOCKHOLDERS' EQUITY

LIABILITIES

Current liabilities:	2004	2003
Accounts payable	\$ 620,151	\$ 679,792
Accrued expenses and other liabilities	568,482	473,630
Customers deposits	36,000	112,000
Deferred Revenue	157,844	103,445
Current maturities of long term debt	31,668	35,343
Total current liabilities	1,414,145	1,404,210
Mortgage Payable-Non current	348,325	379,995
Stockholders' equity:		
Preferred stock 10,000,000 shares authorized, none outstanding		
Common stock par value \$.001; 40,000,000 shares authorized, 13,862,128 and 13,464,528 issued and outstanding on December 31, 2004 and December 31, 2003 respectively,	13,881	13,482
Additional paid in capital	20,391,407	20,097,095
Accumulated deficit	(11,148,757)	(12,660,750)
Total stockholders' equity	9,256,531	7,449,827
Total liabilities and stockholders' equity	\$ 11,019,001	\$ 9,234,032

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

BOVIE MEDICAL CORPORATION
CONSOLIDATED STATEMENT OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003

	<u>2004</u>	<u>2003</u>
Sales	\$ 20,495,101	\$ 16,117,722
Cost of sales	<u>12,514,063</u>	<u>9,604,183</u>
Gross Profit	7,981,038	6,513,539
Other costs:		
Research and development	907,389	717,347
Professional services	415,606	392,796
Salaries and related costs	1,977,053	1,721,545
Selling, general and administration	3,363,148	2,936,479
Equity in net loss of unconsolidated affiliate	<u>39,286</u>	<u>81,914</u>
Total other costs	<u>6,702,482</u>	<u>5,850,081</u>
Income from operations	1,278,556	663,458
Other income and (expense):		
Interest income	3,263	2,980
Interest expense	(15,090)	(34,060)
	<u>(11,827)</u>	<u>(31,080)</u>
Net income before income tax	1,266,729	632,378
Income tax expense	(456,000)	(228,000)
Income tax benefit	<u>456,000</u>	<u>228,000</u>
Net income from continuing operations	\$ 1,266,729	\$ 632,378
Discontinued Operations:		
Gain from operations of discontinued component		
(loss on disposal -0-)	--	48,939
Income tax expense		(18,000)
Income tax benefit	<u>--</u>	<u>18,000</u>
Gain from discontinued operations	<u>--</u>	<u>48,939</u>
Net income before extraordinary item	<u>\$ 1,266,729</u>	<u>\$ 681,317</u>

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

BOVIE MEDICAL CORPORATION
CONSOLIDATED STATEMENT OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003
(CONTINUED)

	<u>2004</u>	<u>2003</u>
Extraordinary income:		
Involuntary conversion of fixed assets	\$ 245,264	\$ --
Income tax expense	(85,000)	--
Income tax benefit	85,000	--
Net earnings	<u>\$ 1,511,993</u>	<u>\$ 681,317</u>
Basic earnings per common share	<u>.09</u>	<u>.05</u>
Basic earnings per share after extraordinary item	<u>.11</u>	<u>--</u>
Diluted earnings per common share	<u>.08</u>	<u>.05</u>
Diluted earnings per share after extraordinary item	<u>.09</u>	<u>--</u>
Earnings from discontinued operations	<u>--</u>	<u>*</u>
Weighted average number of common shares outstanding	<u>13,755,552</u>	<u>13,188,353</u>
Incremental items:		
Stock options	<u>2,422,329</u>	<u>1,647,097</u>
Diluted weighted average common shares outstanding	<u>16,177,881</u>	<u>14,835,450</u>

*Basic Earnings per share were \$.004 and diluted earnings per share were \$.003 from discontinued operations.

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

BOVIE MEDICAL CORPORATION
CONSOLIDATED STATEMENT OF SHAREHOLDERS EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003

	Options Outstanding	Preferred Shares	Value	Common Shares	Value	Paid- in Capital	Deficit	Total
January 1, 2003	2,909,000	--	--	13,256,103	\$13,274	\$19,820,044	\$(13,342,067)	\$6,491,251
Subscription Receivable						6,131		6,131
Cancel shares on								
Recission offer	--	--	--	(142,575)	(143)	18,931	--	18,788
Exercise options for cash	(350,000)			350,000	350	250,650	--	251,000
Options cancelled or forfeited	(361,200)	--	--	--	--	--	--	--
Options granted	1,791,000	--	--	--	--	--	--	--
Shares issued for promotion	--	--	--	1,000	1	1,339	--	1,340
Income for period	--	--	--	--	--	--	681,317	681,317
December 31, 2003	3,988,800	--	--	13,464,528	\$13,482	\$20,097,095	\$(12,660,750)	\$7,449,827
Options granted	370,000	--	--	--	--	--	--	--
Options exercised	(397,600)	--	--	397,600	399	294,312	--	294,711
Options forfeited	(10,000)	--	--	--	--	--		
Income for period	--	--	--	--	--	--	1,511,993	1,511,993
December 31, 2004	3,951,200	--	--	13,862,128	\$13,881	\$20,391,407	\$(11,148,757)	\$9,256,531

BOVIE MEDICAL CORPORATION
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003

	<u>2004</u>	<u>2003</u>
Cash flows from operating activities:		
Net income	\$ 1,511,993	\$ 681,317
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	395,119	314,682
Cancel recission liability		18,788
Promotion cost paid with shares		1,340
Write down of inventories and parts	303,872	352,295
Write down development cost		112,471
Involuntary conversion of fixed assets	(245,264)	--
Change in assets and liabilities:		
Trade receivables	(322,106)	(357,694)
Prepaid expenses	61,260	(225,761)
Inventories and parts	249,503	(392,419)
Other receivables	--	45,044
Accounts payable	(59,641)	201,124
Accrued expenses	<u>149,251</u>	<u>164,126</u>
Total adjustments	<u>531,994</u>	<u>233,996</u>
Net cash provided by operations	<u>\$ 2,043,987</u>	<u>\$ 915,313</u>

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

BOVIE MEDICAL CORPORATION
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003
(Continued)

	2004	2003
Net cash provided by operating activities	\$ 2,043,987	\$ 915,313
Cash flows from investing activities:		
(Increase) in fixed assets	(606,505)	(565,915)
Decrease(Increase)in security deposits	(4,975)	--
Purchase of technology	--	(88,926)
Involuntary conversion of fixed assets	296,735	--
Net cash provided by (used in) investing activities	(314,745)	(654,841)
Cash flows from financing activities;		
Loans from shareholders		(37,215)
Sale of common stock	290,425	251,000
Reduction in subscription receivable	4,286	6,131
Reduction in mortgage	(35,344)	(31,668)
Bonds payable	--	(20,000)
Short term notes	--	(501,792)
Net cash (used in) financing activities	259,367	(333,544)
Net increase(decrease) in cash	1,988,609	(73,072)
Cash at beginning of year	306,137	379,209
Cash at end of year	\$ 2,294,746	\$ 306,137

Cash paid during the twelve months ended December 31:

	2004	2003
Interest	\$ 11,625	\$ 34,060
Income Taxes	--	--

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

BOVIE MEDICAL CORPORATION AND SUBSIDIARY
CONSOLIDATED STATEMENT OF CASH FLOWS
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS
FOR THE YEAR ENDED DECEMBER 31, 2004 AND 2003

SUPPLEMENTAL SCHEDULE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:

FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2004 AND 2003:

During 2003 we gave as a promotion, 1,000 shares of common stock valued at \$1,340 to a vendor.

In October 2004 a hurricane tore a portion of the roof off the office facility at 7100 30th Avenue North, St. Petersburg, Florida causing extensive water damage to that portion of the building. The cost of the building allocated to the loss was \$63,749 of which there was depreciation of \$12,278 leaving a net cost of \$51,471. As per Financial Accounting Standard Board interpretation number 30 we have recognized a gain of 245,264 from the non monetary asset being involuntarily converted to a monetary asset through the payment by the insurance company of \$296,735.

BOVIE MEDICAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. 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 reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Consolidated Financial Statements

The accompanying consolidated financial statements include the accounts of Bovie Medical Corporation and its wholly owned subsidiary Aaron Medical Industries, Inc. Intercompany transaction accounts have been eliminated in consolidation.

The equity method of accounting is used when the Company has a 20% to 50% interest in other companies. Under the equity method, original investments are recorded at cost and adjusted by the company's share of undistributed earnings or losses of these companies.

Cash and cash equivalents

Holdings of highly liquid investments with maturities 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. The amount of federally insured cash deposits was \$100,000 as of December 31, 2004.

Fair Values of Financial Instruments

The carrying amount of trade accounts receivable, accounts payable, prepaid and accrued expenses, bonds and notes payable, and amounts due to shareholders, as presented in the balance sheet, approximates fair value.

Accounts Receivable

Accounts for which no payments have been received for three consecutive months are considered delinquent and a reserve is setup for them. Customary collection efforts are initiated and an allowance for uncollectible accounts is set up and the related expense is charged to operations. We give negotiated sales volume discounts which amounted to \$382,433 and \$323,071 for 2004 and 2003, respectively. Sales, as shown on the profit and loss statement of net of all discounts.

Inventories and Repair Parts

Inventories are stated at the lower of cost or market. Cost is determined principally on the average actual cost method. Finished goods and work-in-process inventories include material, labor, and overhead costs. Factory overhead costs are allocated to inventory manufactured in-house based upon cost of materials. Bovie monitors usage reports to determine if the carrying value of any items should be adjusted due to lack of demand for the item. Bovie adjusts down the inventory for estimated obsolescence (inventory judged to be unused in the manufacturing process for 2 years and is eventually discarded) or unmarketable inventory equal to the difference between the cost of inventory and the estimated market value based upon assumptions about future demand and market conditions. If actual market conditions are less favorable than those projected by management, additional inventory write-down may be required.

BOVIE MEDICAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Inventories and Repair Parts (Continued)

Inventory at December 31, 2004 and 2003 was as follows:

	2004	2003
Raw materials (net of reserves)	\$ 705,188	\$ 1,332,742
Work in process	742,289	616,837
Finished goods	554,160	501,570
Total	\$ 2,001,637	\$ 2,451,149

Reserves for obsolescence of raw materials were \$817,808 and \$784,992 at December 31, 2004 and 2003, respectively. There were no reserves for finished goods or work in progress.

Obsolete raw material inventory charged to operations was \$303,872 and \$352,295 for 2004 and 2003, respectively.

Repair Parts. We 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. Bovie 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 December 31, 2004 and 2003 the inventory of parts were as follows:

	2004	2003
Raw materials	\$ 317,615	\$ 317,614
Allowance for excess or obsolete parts	(193,252)	(89,388)
Total	\$ 124,363	\$ 228,226

Notes Payable

We account for all note liabilities that are due and payable in one year as short term notes for example: Our line of credit with a commercial bank and our insurance premium financing arrangement which had zero balances at December 31, 2004.

Property, plant and equipment

These assets 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. Betterments 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 CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of Long-Lived Assets

We review long-lived assets consisting of intangible assets subject to and not subject to amortization and property, plant and equipment subject to depreciation. Trade name is tested for impairment annually, or more frequently if the events or changes in circumstances indicate that the asset may have been impaired. In the event of impairment of any intangible asset, the excess of the carrying amount over the fair value is recognized as impairment loss. The impairment losses are not restored in future. We assess the recovery ability of goodwill and other intangible assets based on independent appraisal and or undiscounted cash flows that measures the impairment, if any.

Goodwill and Other Intangible Assets

These assets consist of patent rights and trade name. The patent rights (other intangibles) are being amortized by the straight-line method over a 5-year period. The trade name (goodwill) qualifies as an indefinite-lived intangible asset and is not subject to amortization.

Goodwill represents the excess of purchase price over fair value of identifiable net assets of acquired businesses. Other intangible assets primarily represent allocations of purchase price to identifiable intangible assets of acquired businesses. Goodwill and other intangible assets had been amortized over periods ranging from 5 to 40 years through December 31, 2001. Because of our history of growth through acquisitions, goodwill and other intangible assets comprise a substantial portion (60.7% at December 31, 2004) of our total assets.

In June 2001, the Financial Accounting Standards Board issued statement of Financial Accounting Standards No. 142 "Goodwill and other Intangible Assets" ("SFAS 142"). We adopted SFAS 142 effective January 1, 2002. As a result of the adoption of this standard, amortization of goodwill and certain intangibles has been discontinued.

Revenue recognition

Revenue is recognized when title has been transferred to the customer, which is generally at the time of shipment. The following policies apply to our major categories of revenue transactions:

Sales to customers are evidenced by firm purchase orders. Title and the risks and rewards of ownership are transferred to the customer when product is shipped. Payment by the customer is due under fixed payment terms.

Product returns are only accepted at our discretion and in accordance with our "Returned Goods Policy". Historically, the level of product returns has not been significant. We accrue for sales returns, rebates and allowances based upon an analysis of historical customer returns and credits, rebates, discounts and current market conditions.

Our terms of sale to customers generally do not include any obligations to perform future services. Limited warranties are generally provided for sales and provisions for warranty are provided at the time of product sale based upon an analysis of historical data.

Amounts billed to customers related to shipping and handling have been included in net sales. Shipping and handling costs included in cost of sales expense were \$305,391, and \$249,919 for 2004 and 2003, respectively.

We have no consignment inventory.

We sell to a diversified base of customers around the world and, therefore, believe there is no material concentration of credit risk.

We assess the risk of loss on accounts receivable and adjust the allowance for doubtful accounts based on this risk assessment. Historically, losses on accounts receivable have not been material. Management believes that the allowance for doubtful accounts of \$112,392 at December 31, 2004 is adequate to provide for probable losses resulting from accounts receivable.

Advertising Costs

All advertising costs are expensed, as incurred. The amounts of advertising costs were \$452,121 and \$529,711 for 2004 and 2003, respectively.

Net Earnings Per Common share

Basic earnings per share ("EPS") is computed based on the weighted average number of common shares outstanding for the period. Diluted EPS gives effect to all dilutive potential shares outstanding (i.e., options and warrants) during the period. (See Significant Accounting Policies - Stock Based Compensation)

BOVIE MEDICAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Research and Development Costs

Research and development expenses are charged to operations. Only the development costs that are purchased from another enterprise and have alternative future use are capitalized and are amortized over the estimated useful life of the asset, generally five years.

Research and Development Costs for Others

For research and development activities that are partially or completely funded by other parties and the obligation is incurred solely to perform contractual services all expenses are charged to cost of sales and all revenues are shown as sales.

We will only develop electrosurgical products for others that use our product as the base for their instrument. Our development agreements provide that the customer must pay the costs for the development as it progresses and further provide that any future purchases of the developed product must be purchased from us. We assume no contractual risk and operate as the customer's original equipment manufacturer. Our agreements call for no minimum order, but the customer may not manufacture or purchase this product from any other manufacturer.

Income Taxes

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

Non-monetary Transactions

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

Stock-Based Compensation

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

1. Compensation costs are recognized as an expense over the period of employment attributable to any employee stock options. 2. Stocks issued in accordance with a plan for past or future services of an employee are allocated between the expired costs and future costs. Future costs are charged to the periods in which the services are performed.

BOVIE MEDICAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Stock-Based Compensation(Continued)

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

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

At December 31, 2004, we had key employee and director stock option plans, which are described more fully in Note 8. The Company follows Accounting Principles Board (APB) Opinion No. 25, *Accounting for Stock Issued to Employees*, in accounting for its stock option plans. Under Opinion No. 25, no compensation expense is recognized because the exercise price of the Company's stock options equals the market price of the underlying stock on the measurement date (date of grant). Had compensation expense for the Company's stock-based compensation plans been determined based on the fair value at the grant dates for awards under those plans consistent with the method of FASB Statement No. 123, *Accounting for Stock-Based Compensation*, the Company's net earnings and net earnings per share would have been as follows: (in thousands)

	2004	2003
Net earnings:		
As reported	\$ 1,512	\$ 681
Deduct: Compensation expense --		
fair value method	(522)	(999)
Pro forma	<u>\$ 990</u>	<u>\$ (318)</u>
Basic net earnings per share:		
As reported	\$.09	\$.05
Pro forma	\$.05	\$ (.03)
Diluted net earnings per share:		
As reported	\$.08	\$.05
Pro forma	\$.05	\$ (.02)
Diluted Earnings after Extraordinary Item		
As reported	\$.09	\$ --
Proforma	\$.06	\$ --

BOVIE MEDICAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The weighted-average fair value per share of options granted during 2004 and 2003, estimated on the date of grant using the Black-Scholes option pricing model, was \$1.41 and \$1.00, respectively. The fair value of options granted was estimated on the date of grant using the following assumptions:

	2004	2003
Risk-free interest rate	4.18%	6.34%
Expected dividend yield	0.00%	0.00%
Expected stock price volatility	43%	50.0%
Expected option life	10 years	10 years

New Accounting Pronouncements

In December 2004, the FASB issued SFAS No.123 (revised 2004), "Share-Based Payment" ("SFAS 123R"), which replaces SFAS No. 123, "Accounting for Stock-Based Compensation" ("SFAS 123") and supercedes APB Opinion No. 25, "Accounting for Stock Issued to Employees." SFAS 123R requires that all share-based payments to employees, including grants of employee stock options, be recognized in the financial statements based on their fair values, beginning with the first interim or annual period after June 15, 2005, with early adoption encouraged. The pro forma disclosures previously permitted under SFAS 123, no longer will be an alternative to financial statement recognition. We are required to adopt SFAS 123R in the third quarter of 2005. Under SFAS 123R, we must determine the appropriate fair value model to be used in valuing share-based payments, the amortization method for compensation cost and the transition method to be used at the date of adoption. Upon adoption, we may choose from two transition methods: the modified-prospective transition approach or the modified-retroactive transition approach. Under the modified-prospective transition approach we would be required to recognize compensation cost for awards that were granted prior to, but not vested as of the date of adoption. Prior periods remain unchanged and pro forma disclosures previously required by SFAS No. 123 continue to be required. Under the modified-retrospective transition method, we would be required to restate prior periods by recognizing compensation cost in the amounts previously reported in the pro forma disclosure under SFAS No. 123. Under this method, we would be permitted to apply this presentation to all periods presented or to the start of the fiscal year in which SFAS No. 123R is adopted. We would also be required to follow the same guidelines as in the modified-prospective transition method for awards granted subsequent to adoption and those that were granted and not yet vested. We are currently evaluating the requirements of SFAS 123R and its impact on our consolidated results of operations and earnings per share. We have not yet determined the method of adoption or the effect of adopting SFAS 123R, and it has not been determined whether the adoption will result in amounts similar to the current pro forma disclosures under SFAS 123.

In December 2004, the FASB issued Staff Position ("FSP") No.109-2, "Accounting and Disclosure Guidance for the Foreign Earnings Repatriation Provision within the American Jobs Creation Act of 2004" ("FSP 109-2"). This position provides guidance under FASB Statement No.109 ("SFAS 109"), "Accounting for Income Taxes", with respect to recording the potential impact of the repatriation provisions of the American Jobs Creation Act of 2004 (the "Jobs Act") on enterprises' income tax expense and deferred tax liability. The Jobs Act was enacted on October 22, 2004. FSP 109-2 states that an enterprise is allowed time beyond the financial reporting period of enactment to evaluate the effect of the Jobs Act on its plan for reinvestment or repatriation of foreign earnings for purposes of applying SFAS 109. The Company does not have accumulated income earned abroad and The Act and the FSP No. 109-2 do not have any effect on the Company's financial statements.

In December 2004, the FASB issued SFAS No. 153, "Exchanges of Nonmonetary Assets - An Amendment of APB Opinion No. 29, Accounting for Nonmonetary Transactions" ("SFAS 153"). SFAS 153 eliminates the exception

BOVIE MEDICAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

from fair value measurement for nonmonetary exchanges of similar productive assets in paragraph 21(b) of APB Opinion No. 29, "Accounting for Nonmonetary Transactions," and replaces it with an exception for exchanges that do not have commercial substance. SFAS 153 specifies that a nonmonetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. SFAS 153 is effective for fiscal periods beginning after June 15, 2005. We have considered SFAS 153 and have determined that this pronouncement is not applicable to our current operations.

In November 2004, the FASB issued SFAS No. 151, "Inventory Costs - An Amendment of ARB Opinion No. 43, Chapter 4" ("SFAS 151"). SFAS 151 amends the guidance in ARB No. 43, Chapter 4, "Inventory Pricing," to clarify the accounting for abnormal amounts of idle facility expense, freight, handling costs, and wasted material (spoilage). Among other provisions, the new rule requires that items such as idle facility expense, excessive spoilage, double freight, and rehandling costs be recognized as current period charges regardless of whether they meet the criterion of "so abnormal" as stated in ARB No. 43. Additionally, SFAS 151 requires that the allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. SFAS 151 is effective for fiscal years beginning after June 15, 2005. We have considered SFAS 151 and have determined that this pronouncement will not materially impact our consolidated results of operations.

In November 2004, the FASB issued SFAS No. 152, "Accounting for Real Estate Time-Sharing Transactions - An amendment of SFAS No. 66 and 67". This statement amends SFAS No. 66, "Accounting for Sales of Real Estate, to reference the financial accounting and reporting guidance for real estate time-sharing transactions which is provided in AICPA Statement of Position ("SOP") 04-2, "Accounting for Real Estate Time-Sharing Transactions." This statement also amends SFAS No. 67, "Accounting for Costs and Initial Rental Operations of Real Estate Projects," to state the guidance for (a) incidental costs and (b) costs incurred to sell real estate projects does not apply to real estate time-sharing transactions. The accounting for those costs is subject to guidance in SOP 04-2. SFAS 152 is effective for fiscal years beginning after June 15, 2005. We have considered SFAS 152 and have determined that this pronouncement is not applicable to our current operations.

In December 2003, the FASB issued a revision to Statement No. 132, Employers' Disclosures about Pensions and Other Postretirement Benefits. This revision requires additional disclosures by the Company regarding its plan assets, investment strategies, plan obligations and cash flows. We have considered revised statement 132 and have determined that at this time this pronouncement is not applicable to our current operations.

Reclassifications: Certain prior year amounts have been reclassified to conform with the presentation used in 2004.

NOTE 2. DESCRIPTION OF BUSINESS

Background

Bovie Medical Corporation ("Bovie") was incorporated as An-Con Genetics, Inc. in 1982, under the laws of the State of Delaware and has its principal executive office at 734 Walt Whitman Road, Melville, New York 11747.

Bovie is actively engaged in the business of manufacturing and marketing medical products and developing related technologies. Aaron Medical Industries, Inc. ("Aaron"), a 100% owned subsidiary based in St. Petersburg, Florida is engaged in marketing our medical products. Previously Bovie's largest product line was battery-operated cauteries, we have shifted our focus to the manufacture and marketing of generators and electrosurgical disposables. This new focus on high frequency generators is evident in the development of the Aaron 800 and Aaron 900 high frequency desiccators, the Aaron 950- the first high frequency desiccator with cut capability, the Aaron 1250 and the Aaron 2250. The Aaron 1250 and Aaron 2250 are designed for today's rapidly expanding surgi-center market.

BOVIE MEDICAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2. DESCRIPTION OF BUSINESS

Additionally, our new 200-watt electrosurgical unit and our new 300-watt electrosurgical unit are being marketed under the Bovie name.

Bovie also manufactures a variety of specialty lighting instruments for use in ophthalmology, general surgery, hip replacement surgery, and for the placement of endotracheal tubes.

Bovie manufactures and markets its products both under private label and the Bovie/Aaron label to distributors worldwide. Additionally, Bovie/Aaron has original equipment manufacturing (OEM) agreements with other medical device manufacturers. These OEM arrangements combined with private label and the Bovie/Aaron label allows us to gain greater market share for the distribution of its products.

Joint Venture Agreement

In February 2000, Bovie entered into a Joint Venture Agreement with a German corporation, Jump Agentur Fur Elektrotechnik GMBH. Pursuant to the agreement, Bovie advanced \$200,000 to the partnership to cover costs of further research toward the production of two commercial prototypes for our contribution we received a 50% equity interest and 50% interest in the profits. Bovie has made available its facilities in Florida for development, manufacturing and marketing of the products of the joint venture and is responsible to expend its best efforts to secure all necessary financing for the research, development and marketing of the products estimated to be an amount up to \$1,500,000, as per contract.

Pursuant to agreement, the joint venture acquired an exclusive license to produce and market any surgical/medical devices utilizing this technology. In fiscal, 2004 and 2003, Bovie made additional advances to the joint venture in the form of research and development of prototypes expending \$39,286 and \$81,914 in development costs and engineering costs, respectively. Bovie has charged these costs to operations as equity in net loss of unconsolidated affiliate. To date the joint venture has no revenues and is not considered by us to be a significant subsidiary.

The device has been developed and patented in both Europe and the United States. Bovie has constructed two pre-production prototypes for field testing purposes as a prelude to eventual submission to the FDA for clearance to manufacture. The initial intended uses are in the areas of dermatology and plastic surgery. Other contemplated surgical uses for the technology are cardiovascular, thoracic, gynecological, trauma and other surgeries.

NOTE 3. TRADE ACCOUNTS RECEIVABLE

As of December 31, 2004 and 2003 the trade accounts receivable were as follows:

	2004	2003
Trade accounts receivable	\$ 2,131,445	\$ 1,917,694
Less: allowance for doubtful accts	(112,392)	(116,952)
Allowance for discounts	(64,766)	(92,561)
Trade accounts receivable, net	<u>\$ 1,954,287</u>	<u>\$ 1,708,181</u>

Bad debt expense charged to operations was \$5,477 in 2004 and \$55,614 in 2003.

At December 31, 2004 trade accounts receivable were pledged as collateral in connection with bank loans.

BOVIE MEDICAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 4. PROPERTY, PLANT AND EQUIPMENT

As of December 31, 2004 and 2003 property, plant and equipment consisted of the following:

	2004	2003
Equipment	\$ 992,542	\$ 714,222
Building	573,736	637,485
Furniture and Fixtures	969,948	903,711
Leasehold Improvements	626,804	531,694
Molds	516,689	398,589
	<u>3,679,719</u>	<u>3,185,701</u>
Less: accumulated depreciation	(1,563,395)	(1,285,686)
	<u>2,116,324</u>	<u>1,900,015</u>
Net property, plant, and equipment	<u>\$ 2,116,324</u>	<u>\$ 1,900,015</u>

Depreciation expense for the years ended December 31, 2004 and 2003 were \$338,724 and \$226,762, respectively.

Property and Rental Agreements

The following is a schedule of future minimum rental payments as of December 31, 2004 and for the next five years.

2005	\$ 145,974
2006	141,952
2007	135,308
2008	115,150
2009	<u>-0-</u>
	<u>\$ 538,384</u>

Total consolidated rent expense for the Company was \$152,442 in 2004 and \$95,647 in 2003.

NOTE 5. DUE TO SHAREHOLDERS

In response to the registered rescission offer made in 1996 by Bovie Medical Corporation to Aaron's former shareholders, certain shareholders owning 46,800 shares had not contacted us. The amount due to these shareholders, including \$18,787 of accrued interest, is \$37,214. In 2003 we investigated and found that the shareholders that we believed did not receive their shares had actually received them.

BOVIE MEDICAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 6. INTANGIBLE ASSETS

At December 31, 2004 and 2003 intangible assets consisted of the following:

	2004	2003
Goodwill acquired:		
Trade name (life indefinite)	\$ 1,509,662	\$ 1,509,662
Other intangibles:		
Purchased technology (5 yr life)	\$ 278,763	\$ 278,763
Less: Accumulated amortization	(190,191)	(133,796)
Net carrying amount	\$ 88,572	\$ 144,967

Trademarks and tradename is recognized in connection with the 1998 acquisition of Bovie Medical Corporation. We continue to market products, release new product and product extensions and maintain and promote these trademarks and tradenames in the marketplace through legal registration and such methods as advertising, medical education and trade shows. It is our belief that these trademarks and tradenames will generate cash flow for an indefinite period of time. Therefore, in accordance with SFAS 142, our trademarks and tradenames intangible assets are not amortized.

The cost of patents, trademarks, patent rights, technologies and copyrights acquired are being amortized on the straight-line method over five years. Amortization expense charged to operations in 2004 and 2003 was \$56,395 and \$95,618, respectively. Fully amortized intangibles that were deleted during 2003 amounted to \$94,877 and had a book value of -0-.

NOTE 7. LONG-TERM DEBT AND LINE OF CREDIT

The long-term debt of the Company at December 31, 2004 and 2003 includes a mortgage and notes payable.

	2004	2003
Mortgage payable	\$ 379,994	\$ 411,664
Term loan	--	3,675
Line of credit- bank	--	--
	\$ 379,994	\$ 415,339

Mortgage Payable

In 2001, Bovie paid off its existing mortgage on its premises at 7100 30th Avenue North, St. Petersburg, Florida, and replaced it with a new first mortgage of \$475,000, from its commercial lender. The interest Bovie pays on the mortgage is variable at the banks base rate which is 4.75%, presently. Bovie makes principal payments of \$2,639 per month plus interest. The mortgage has a balloon payment of \$320,562 due in November of 2006.

BOVIE MEDICAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Mortgage Payable(Continued)

The scheduled principal payments for the next five years are as follows:

Year	Amount
2005	\$ 31,668
2006	348,325
	<u>\$ 379,993</u>

Line of Credit - Commercial Bank

Advances under the new line of credit secured in May of 2001 are limited to the lesser of \$1,500,000 or 80% of net accounts receivable from non-affiliated parties. Availability was \$1,500,000 on December 31, 2004. The annual interest rate on the loan is variable and is based on the bank's base rate. The line has no expiration date and is due on demand by the bank. The bank has a security interest in inventory, accounts receivable and equipment of the Company (the collateral). The balance due the bank on the credit line at December 31, 2004 was zero.

NOTE 8. OPTIONS

Stock-Based Compensation

The Company has an employee incentive compensation plan (the "Plan") pursuant to which the Company's board of directors may grant stock options to officers and key employees. Pursuant to an amendment approved by the Company's shareholders during 2003, stock options to purchase up to an additional 1,200,000 shares of common stock may be granted under the Plan. Stock options are granted with an exercise price equal to the stock's fair market value at the date of grant. All stock options have a ten year term and vest and become exercisable immediately on the date of the grant. During 2004, a total of 370,000 options were granted at prices between \$1.30 and \$2.95 of the 1,200,000 authorized and there were a total of 27,700 additional shares available for grant under the various plans.

Stock-option activity during the periods indicated was as follows:

	2004		2003	
	Number of Shares	Weighted average exercise price	Number of Shares	Weighted average exercise price
Balance January 1,	3,988,800	1.00	2,909,000	.703
Exercised	(397,000)	.74	(350,000)	.71
Cancelled & forfeited	(10,000)	.50	(361,200)	.86
Granted	370,000	2.14	1,791,000	1.40
Balance December 31,	3,951,200	1.13	3,988,800	1.00

BOVIE MEDICAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 8. OPTIONS (CONTINUED)

Stock-Based Compensation

Stock options consisted of the following at December 31, 2004:

Number of Options Currently Exercisable	Weighted Average Remaining Estimated Life	Exercise Price
470,000	8.5	\$ 3.25
95,000	8.5	1.30
143,000	3.0	1.125
50,000	3.0	1.15
1,311,000	3.5	.75
500,000	8.0	.70
1,062,200	6.5	.50
35,000	9.5	2.95
225,000	9.5	2.13
60,000	9.5	2.41
3,951,200	5.7	\$1.13(a)

(a) The amount of \$1.13 represents the weighted average exercise price of the outstanding options.

At December 31, 2004 and 2003, the number of options exercisable was 3,951,200 and 3,988,800, respectively, and the weighted-average exercise prices of those options were \$1.13 and \$1.00, respectively.

During the year 2004 Bovie cancelled 10,000 options issued prior to December 31, 2002 at an exercise price of .50 per share (the "cancelled options"). The cancelled options were not replaced. In addition, we issued 370,000 options during the year at exercise prices from \$1.30 to \$2.95. The options issued in 2004 did not affect the fiscal year 2004 statement of operations as the market value for Bovie's common stock was the same as the exercise price on the day granted. Had the compensation cost for Bovie's three stock option issuances been determined based on the fair value at the grant date for awards in 2004 consistent with the provisions of SFAS No.123, the Company's net earnings and earnings per share would have been reduced to the pro forma amounts indicated in Note 1 under Significant Accounting Policies.

BOVIE MEDICAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 9. TAXES AND NET OPERATING LOSS CARRYFORWARDS

As of December 31, 2004, the components of deferred tax assets were as follows:

Deferred tax assets:

	2004	2003
Accounts receivable(allowances)	\$ 177,158	\$ 53,300
Inventories(reserves)	1,011,060	874,380
Net operating loss carry forwards	2,392,000	2,922,000
Patent rights, primarily due to amortization	(118,439)	(73,633)
Total gross deferred tax assets	3,461,779	3,776,047
Less: Valuation allowance	(3,075,579)	(3,389,847)
Net deferred tax assets - current	\$ 386,200	\$ 386,200

Bovie had net operating losses (NOLs) of approximately \$6,872,000 at December 31, 2004. These NOLs and corresponding estimated tax assets, computed at a 34% tax rate, expire as follows:

Year loss Incurred	Expiration Date	Loss Amount	Estimated Tax Asset
1990	2010	\$38,000	\$13,000
1991	2011	246,000	86,000
1992	2012	1,004,000	352,000
1993	2013	465,000	163,000
1994	2014	1,197,000	419,000
1995	2015	637,000	223,000
1998	2018	548,000	192,000
1999	2019	2,184,000	764,000
2002	2022	515,000	180,000
Total		\$ 6,834,000	\$ 2,392,000

Under the provisions of SFAS 109, NOLs represent temporary differences that enter into the calculation of deferred tax assets. Realization of deferred tax assets associated with the NOL is dependent upon generating sufficient taxable income prior to their expiration.

Management believes that there is a risk that certain of these NOLs may expire unused and, accordingly, has established a valuation allowance against them. Although realization is not assured for the remaining deferred tax assets, based on the historical trend in sales and profitability, sales backlog, and budgeted sales of Bovie's wholly owned and consolidated subsidiary, Aaron Medical Industries, Inc., management believes it is likely that they may not be totally realized through future taxable earnings. In addition, the net deferred tax assets could be reduced in the near term if management's estimates of taxable income during the carryforward period are significantly reduced.

BOVIE MEDICAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 9. TAXES AND NET OPERATING LOSS CARRYFORWARDS(Continued)

The valuation allowance of \$3,075,579 as of December 31, 2004 decreased by \$314,268 from December 31, 2003. The change in valuation allowance was a consequence of decreasing tax assets of \$530,000 and reserving for additional allowances for accounts receivable and inventory loss of \$260,538, and patent amortization of \$(44,806). The Company believes it is possible that the benefit of these additional assets may not be realized in the future. A reconciliation of the Federal statutory tax rate to Bovie's effective tax rate is as follows:

Tax at statutory rate	34.0%
State income taxes, net of U.S. federal benefit	2.4%
Tax benefit of loss carry forward	(36.2%)
Effective tax rate	-0.0%

NOTE 10. RETIREMENT PLANS

Bovie and/or its subsidiary provides a tax-qualified profit-sharing retirement plan under section 401k of the Internal Revenue Code the ("Qualified Plans") for the benefit of eligible employees with an accumulation of funds for retirement on a tax-deferred basis and provides for annual discretionary contribution to individual trust funds.

All employees are eligible to participate if they have one year of service in Bovie. The employees may make voluntary contributions to the plan of up to 15% of their annual compensation. Bovie's contributions to the plan are discretionary but may not exceed 50% of the first 4% of an employees annual compensation if he contributes 4% or more to the plan. Vesting is graded and depends on the years of service. After six years of service, the employees are 100% vested.

Bovie has made a contribution during 2004 and 2003 of \$61,177 and \$48,967 respectively, for the benefit of its employees. The Company also maintains a group health and dental insurance plan. The employees are eligible to participate in the plan after three months of full-time service.

NOTE 11. RELATED PARTY TRANSACTIONS

Professional Services and Employment Agreements

A director, Alfred V. Greco Esq. is the principal of Alfred Greco PLLC, Bovie's counsel. The legal fees paid to Alfred Greco PLLC were \$63,650 and \$73,646 for the years 2004 and 2003, respectively.

A director, George W. Kromer, Jr. also serves as a consultant to us. The consulting fees to Mr. Kromer were \$20,751 and \$16,615 for 2004 and 2003, respectively.

Two employees of the Engineering Department of Bovie are related to the chief operating officer. Yechiel Tsitrinovich served as an engineering consultant and was paid fees of \$86,764 and \$46,978, for 2004 and 2003 respectively. Bovie entered into a two-year contract with Mr. Arik Zoran for him to assume supervision of the engineering department, for a salary of \$90,000 per year plus living expenses and benefits. During 2004 Mr. Zorans salary was \$144,314. Bovie agreed to secure a permanent work visa for Mr. Zoran.

Employment Agreement

Bovie has employment agreements with five key employees. These agreements are for terms extending to December 31, 2009.

BOVIE MEDICAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 11. RELATED PARTY TRANSACTIONS

Employee Benefit Plans

In 1996, 1998, 2001 and 2003, Bovie established stock option plans under which officers, key employees and non-employee directors may be granted options to purchase shares of Bovie's authorized, but unissued, Common Stock. Under its existing Employee Stock Option Plans, the Company has Options outstanding as of December 31, 2004 for employees to purchase 3,891,200 shares of common stock at exercise prices ranging from \$.50 to \$3.25.

NOTE 12. COMMITMENTS AND CONTINGENCIES

Legal Proceedings

We have no material legal proceeding pending against us at this time. During 2004 and 2003 legal fees associated with the deductible on our insurance policy were \$21,317 and \$ -0-, respectively.

Product Liability

Bovie currently has product liability insurance which it believes to be adequate for its business. The Company's existing policy expires December 31, 2005. During 2004 our legal fee deductible was \$10,000 per case up to \$50,000. In 2005 that legal fee deductible went from \$10,000 to \$50,000 per case and the maximum out of pocket went from \$50,000 to \$250,000. In 2005 we will set up a reserve for the cost of legal fees on a monthly bases equal to an estimate based on past product liability cases and legal costs.

Bank Line of Credit and Term Loan

The financial covenants of the bank are:

Maximum Liability to Net Worth Ratio: On a consolidated basis, Bovie shall maintain a Maximum Liability to Tangible Net Worth Ratio of 1.00: 1.00 defined as liability (total liabilities, including any subordinated debt) divided by Adjusted Tangible Net Worth.

Minimum Adjusted Tangible Net Worth: Bovie shall maintain Minimum Tangible Adjusted Net Worth of \$5,000,000 at all times, defined as total net worth minus intangibles and related party receivables.

Minimum Fixed Charge Coverage: Bovie shall maintain a Minimum Fixed Charge Coverage of 2:00:1:00 measured at Bovie's fiscal year end, defined as (After tax income + depreciation + amortization + lease expense + interest expense) divided by (lease expense + interest expense + current maturities of long term debt). We believe we are in compliance with all the bank's covenants.

Joint Venture - J Plasma Technology

The agreement provides that we shall be responsible to expend our best efforts to obtain additional capital if required up to a total estimated amount of \$1.5 million. As of December 31, 2004 we have expended approximated \$500,000 for product development and are additionally obligated to expend our best efforts to finance one million more.

Deferred Revenue

During the past two years we have sold generators and guaranteed to replace hand pieces for 5 years. A portion of the sale associated with the future delivery of the additional hand pieces are considered deferred revenue.

BOVIE MEDICAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 13. EARNINGS PER SHARE

In 2004 and 2003, basic earnings per share were \$.09 and \$.05 per share, respectively. The diluted weighted average common shares outstanding at December 31, 2004 and 2003 were 16,177,881 and 14,835,450, respectively.

Diluted basic earnings per share for 2004 and 2003 were \$.08 and \$.04, respectively. In 2003 basic and diluted earnings per share associated with discontinued operations were both nil. In 2004 basic earnings and diluted per share after an extraordinary item were \$.11 and \$.09 per share, respectively.

NOTE 14. INDUSTRY SEGMENT REPORTING

Disclosures about Reportable Segments - Types of products and services.

Bovie had two reportable segments: medical and non-medical products. In 2004, because we had sold our non-medical products division in 2003 and the electrosurgical division has continued to grow we now show three segments. Electrosurgical generator and accessories, battery operated cauteries and other products. The electrosurgical segment sells electrosurgical products which includes 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.

Sale of Product Line

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 this non-medical product line by selling our inventory at cost, customer list and manufacturing technology to that largest customer. The customer will also pay us a license fee of \$500,000 payable in equal installments over 5 years. We believe this discontinuance will have no material impact on our continuing operations or financial condition. We are picking up the license fee as income over 5 years. At the end of 5 years all aspect of the assets of the license agreement become the property of the licensee.

Measurement of segment profit or loss and segment assets

The accounting policies of the segments are the same as those described in the summary of significant accounting policies. Bovie evaluates performance based on profit or loss from operations before income taxes not including non-recurring gains and losses. There were no intersegment sales and transfers in 2004 and 2003.

Bovie now operates in three reportable segments, electrosurgical products, cauteries and other products. We sold our non-medical products division in the beginning of 2003.

Bovie's principal markets are the United States, Europe, Asia and Latin America, with the U.S. and Europe being the largest markets based on revenues. Bovie's major products include cauteries, electrosurgery generators, nerve locators, disposable penlights and electrodes. Electrosurgical products, cauteries, accounted for 62% and 55%, 27% and 31% of our sales for 2004 and 2003, respectively.

In 2004 and 2003, one significant customer accounted for 29% and 22% of total sales, respectively.

Bovie's ten largest customers accounted for approximately 70% of net revenues for 2004 and 66% of revenue in 2003.

BOVIE MEDICAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 14. INDUSTRY SEGMENT REPORTING(CONTINUED)

At December 31, 2004 and 2003, receivables from Bovie's 10 largest customers accounted for approximately 66% and 62% of outstanding accounts receivable, respectively.

Summary information by segment area for years ended December 31, 2004 and 2003 were as follows:

(in thousands)

	Cauteries	Electrosurgical	Other	Total
Year ended December 31, 2004				
Net sales	5,460	12,684	2,351	20,495
Interest income	1	2	--	3
Interest expense	4	9	1	14
Depreciation & amortization	158	186	51	395
Income taxes	194	216	46	456
Income tax benefit	(194)	(216)	(46)	(456)
Segment net earnings(basic)	538	602	127	1,267
Total assets	2,975	6,832	1,212	11,019(1)
Capital expenditures	164	375	67	606
Extraordinary Income			245	245
Year ended December 31, 2003				
Net sales	5004	8,957	2,156	16,117
Interest income	1	2	--	3
Interest expense	10	19	5	34
Depreciation & Amortization	138	151	26	315
Income taxes	100	109	19	228
Income tax benefit	(100)	(109)	(19)	(228)
Segment net earnings(basic)	277	296	60	633
Total Assets	2,863	5,171	1,200	9,234(1)
Capital expenditures	203	367	85	655
Gain on sale of segment			48	48

BOVIE MEDICAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 14. INDUSTRY SEGMENT REPORTING(CONTINUED)

Information by geographic area is as follows (in thousands):

	Net Sales	Long Lived Assets
Year ended December 31, 2004		
United States	\$ 17,448	\$ 2,167
Europe	1,348	
Asia	597	
South America	586	
Other	516	-
	<u>20,495</u>	<u>2,167</u>
Total	<u>\$ 20,495</u>	<u>\$ 2,167</u>
Year ended December 31, 2003		
United States	\$ 13,915	\$ 1,900
Europe	1,238	--
South America	279	--
Other	529	--
	<u>16,118</u>	<u>1,900</u>
Total	<u>\$ 16,118</u>	<u>\$ 1,900</u>

(1) Included is a 200,000 investment in the equity of an unconsolidated affiliate at December 31, 2004 and December 31, 2003.

(2) Loss in the net income of an investee accounted for by the equity method was \$39,286 and \$81,914 for 2004 and 2003, respectively.

(3) Sales for non-medical products for 2003 were \$375,000.

Assets and liabilities outside the U.S.A. (in thousands)

	2004	2003
Total assets	\$ 411	\$ 187
Total liabilities	-0-	-0-
Net property, plant and equipment	29	-0-

Bovie had no assets (other than certain trade receivables, equipment, molds and inventory) outside the United States, in the years ended December 31, 2004 and 2003.

During 2004 and 2003, a portion of Bovie's consolidated net sales and consolidated gain from operations was derived from foreign operations. Foreign operations are subject to certain risks inherent in conducting business abroad, including price and exchange controls, limitations on foreign participation in local enterprises, possible nationalization or expropriation, potential default on the payment of government obligations with attendant impact

BOVIE MEDICAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 14. INDUSTRY SEGMENT REPORTING(CONTINUED)

on private enterprise, political instability and health care regulations and other restrictive governmental actions. Changes in the relative value of currencies take place from time to time and could adversely affect Bovie's results of operations and financial condition. The future effects of these fluctuations on the operations of Bovie and its subsidiaries are not predictable.

NOTE 15. RESEARCH AND DEVELOPMENT PERFORMED FOR OTHERS

Bovie has entered into several manufacturing and development agreements to produce electrosurgical products for medical equipment companies. The agreements are considered Original Equipment Manufacturing (OEM) contracts that call for: (1) Bovie to develop specific use devices and components (2) the customer is not committed to a certain dollar amount of purchases and (3) Bovie charges what it believes will be its costs for the development of the product. If the customer rejects or terminates the contract then it forfeits the development payments we have incurred. The customer must fulfill its agreement if Bovie delivers its working prototypes timely. Bovie has an arrangement with a customer whereby the customer will receive a credit for its reimbursement of research and

development cost of \$36,000 at December 31, 2004. We do not recognize the arrangement as income because we believe that the liability shown will be eventually off-set when the customer takes a credit against its purchases from us.

The following is research and development revenue and costs related to specific contracts, for 2004 and 2003:

Contracted Development Payments Received:

	<u>2004</u>	<u>2003</u>
Amounts:		
Revenue from development in progress	\$ 230,120	\$ 304,461
Revenues included in Gross Sales	<u>\$ 230,120</u>	<u>\$ 304,461</u>
Cost of Research and Development contracts included in gross profit	<u>\$ 230,120</u>	<u>\$ 304,461</u>

NOTE 16. RESEARCH AND DEVELOPMENT COSTS CAPITALIZED

During the years 2004 and 2003 we had capitalized development costs, performed by third parties for our line of electrosurgical generators of \$-0- and \$88,926, respectively.

EXHIBIT INDEX

Exhibit 3.1	Articles of Incorporation*
Exhibit 3.2	By-Laws*
Exhibit 4.1	Copy of Stock Certificate *
<u>Exhibit 10.1</u>	<u>Joint Venture Agreement dated February 25, 2000 Between Bovie Medical Corporation and Jump Agentur fur Elektrotechnik GmbH</u>
Exhibit 10.2	Agreement between Bovie Medical Corporation and Arthrex Inc. dated June 2002, filed with Form S-3 on November 23, 2004, which is incorporated here in by reference. This agreement is the subject of an application for confidential treatment.
Exhibit 10.3	Distribution and Service Center Agreement between Bovie and Symbol
<u>Exhibit 21.1</u>	<u>Consent of Bloom & Co., LLP</u>
<u>Exhibit 31.1</u>	<u>Certification pursuant to Section 302 of Sarbanes-Oxley Act of 2002.</u>
<u>Exhibit 31.2</u>	<u>Certification pursuant to Section 302 of Sarbanes-Oxley Act of 2002.</u>
<u>Exhibit 32.1</u>	<u>Certification pursuant to Section 906 of Sarbanes-Oxley Act of 2002.</u>
<u>Exhibit 32.2</u>	<u>Certification pursuant to Section 906 of Sarbanes-Oxley Act of 2002.</u>

* Incorporated by reference to Exhibits 3.1, 3.2 and 4.1 to Form 10KSB/A for December 31, 2003 filed
With the SEC on February 16, 2005.

JOINT VENTURE AGREEMENT

This JOINT VENTURE AGREEMENT is made as of the 25th day of February 2000 by and between BOVIE MEDICAL CORPORATION, a Delaware corporation, having its principal place of business located at 1700 30th Avenue North, St. Petersburg Florida 33110 (hereinafter, "BOVIE") and JUMP AGENTUR FUER ELEKTROTECHNIK GMBH, a German corporation having its principal place of business located at Ernst-Abbe Str. 25, 72770 Reutlinger, Germany (hereinafter, "JUMP"). BOVIE and JUMP are, unless otherwise specifically identified, each referred to as a "Venturer" and, collectively, the "Venturers."

WITNESSETH:

WHEREAS, JUMP and BOVIE together wish to create a joint venture limited liability partnership to provide uni-polar low temperature plasma technology for application and use in the medical industry (the "Technology"), research and funding for the development of commercially viable surgical and medical products to be manufactured and marketed for their mutual benefit; and

WHEREAS, pursuant to the terms hereof, JUMP is the assignee of JUMP Technologies Limited (HK) which is the registered owner of patents (including the US patent# _____) for the Technology, and JUMP is granting an exclusive world-wide license to the joint venture (as hereinafter defined) to produce and market any surgical and medical devices utilizing the Technology. During the term of the venture, JUMP shall continue research and development initially for the production of two commercial prototypes for dermatology and general surgery, the technical requirements of which shall be agreed upon by the Venturers; and

WHEREAS, BOVIE shall advance \$200,000 to the Partnership to cover costs of further research and development for the production of two commercial prototypes for dermatology and general surgery, and shall make available its facilities in Florida for development, manufacturing and marketing of the products of the joint venture pursuant to the terms hereof and shall be responsible to expend its best efforts to secure all necessary financing for the research, development and marketing of the products estimated to be an amount up to \$1,500,000.

NOW, THEREFORE, in consideration of the premises and the mutual covenants and conditions herein contained, the Venturers HEREBY AGREE AS FOLLOWS:

1. Formation of the Venture.

- 1.1. Formation. The Venturers do hereby form the joint venture as a limited liability company, for the purposes hereinafter set forth, under the laws of the State of Delaware. Each of the Venturers agrees to execute and file, promptly after the date hereof, with the appropriate Delaware state and local offices all necessary fictitious name certificates, and all documents necessary to qualify the joint venture to conduct business in the States of New York and Florida.
- 1.2. Name. The name of the joint venture shall be Unipolar Plasma Technologies. LLC., a Delaware limited liability company (the "Venture").
- 1.3. Principal Office. The principal office of the Venture shall be located at St. Petersburg, Florida or at such other location within or without the State of Florida as may hereafter be agreed to by the Venturers.
- 1.4. Term. The term of the Venture shall be from the date hereof until the later of (a) February 17, 2020, or (b) such later date as may be mutually agreed between the Venturers (the "Term").
- 1.5. Purposes. The purposes of the Venture are to develop, manufacture and market uni-polar low temperature plasma products for application and use in the medical industry utilizing the Technology for the mutual benefit of the Venturers.
- 1.6. Authority of the Venture. In order to carry out its purposes consistently with and subject to the provisions of the Joint Venture Agreement and all applicable laws, the Venture is empowered and authorized to do any and all things necessary, appropriate, proper, advisable, incidental to or convenient for the performance and accomplishment of its purposes.
- 1.7. Authority to Grant License. JUMP covenants that it is the assignee of the patents for the Technology (from JUNM Technologies, Limited (HK), an affiliate) and has full authority and right to grant the exclusive license thereto to the Venture.
- 1.8. Grant of License. JUMP does hereby grant to the Venture for the Term hereof, an exclusive worldwide license to develop, manufacture and market any and all surgical and medical products utilizing the Technology and the underlying patents therefore.

2. Management of the Venture.

- 2.1. Management.
 - a) BOVIE shall be responsible for the day-to-day management of the manufacturing, marketing and financing the Venture and JUMP shall be responsible for research and development. All decisions relating to the overall management, operations or policies of the Venture shall be unanimously agreed to by the Venturers in the manner set forth in Section 2.1(c) hereof. Except as provided in the first sentence of this Section 2.1(a) and Section 2.1(b) hereof, neither the Venture nor either Venturer shall enter into, approve, or commit the Venture to any contract or arrangement including, without limitation, any letter of intent or similar document, nor incur any obligation or liability including, without limitation, the borrowing of funds, without the unanimous approval of the Venturers in the manner set forth in Section 2.1(c) hereof.
 - b) All Venture funds shall be maintained in such Venture bank accounts as shall be agreed upon by the Venturers; provided, however, that each independent facility created as a part of the Venture shall maintain an independent bank account. Withdrawals therefrom in excess of \$5,000, unless otherwise specifically provided in an approved budget, shall be made only upon the joint signature of the Venturers in the manner set forth in Section 2.1(c) hereof.
 - c) Exhibit A hereto designates those persons ("Designees") authorized to act on behalf of each Venturer, and each person shall have full authority to act individually on behalf of such Venturer. The Designees shall under no circumstances be deemed to be general partners or agents of the Venture. The Designees shall make all decisions, on behalf of the Venturers, regarding the day to day management of the Venture. All decisions of the Venture, and all withdrawals from Venture bank accounts, shall be made by the written approval of at least one of BOVIE Designees and one of JUMP Designees. In the event of a deadlock concerning the overall operation, management and policies of the Venture (e.g., BOVIE and JUMP cannot come to an agreement on a particular policy concerning the Venture), and after having made attempts to reconcile and/or resolve the dispute between the Venturers, the deadlock shall

be resolved by submitting the dispute for resolution to a private alternative dispute resolution ("ADR") firm, the costs of which shall be borne equally by the Venturers.

- d) Each Venturer may, at its will at any time and from time to time, remove and replace any of its Designees by a writing delivered to the other Venturer which is signed by at least a majority of the other Designees of the Venturer which appointed the replaced Designee or by an executive officer of such Venturer.
- e) The Designees may unanimously delegate to one or more of them (and give any such individual a title) the power and authority to conduct various activities relating to the business of the Venture, on such terms and subject to such conditions as the Designees shall determine, subject always to the control of the Designees and the Venturers as set forth herein.
- f) All title to the property held by the Venture shall be held in its Partnership name; all business of the Venture shall be effected in its Partnership name; all contracts and obligations of the Venture shall be executed in its Partnership name; and all monies received by the Venture shall be deposited in a bank account or accounts in its Partnership name.

2.2. Accountants. The independent accountants for the Venture shall be Bloom & Company, 50 Clinton Street, Suite 502, Hempstead, NY 11550, unless otherwise agreed by the Venturers.

2.3. Business Plan; Budgets. The business plan for the Venture shall be consistent with the purpose of the Venture as set forth above in Section 1.5 and shall be prepared and implemented by BOVIE in consultation with JUMP; provided, however, that BOVIE shall be responsible to deliver a written, formal business plan to JUMP upon its request. All the budgetary determinations for the Venture shall be unanimously made by the Venturers as set forth in Section 2.1 (c) hereof.

2.4. Confidential Information. Each of the Venturers and the Designees shall use such confidential information as may relate to the Venture only in connection with the business of the Venture and for no other purpose, and shall hold all of such confidential information strictly confidential. The foregoing obligation of confidentiality shall not apply to information which is in the public domain of which is already known to the recipient from a source not known by the recipient to be under any obligation of confidentiality to the disclosing Venturer.

2.5. Future Business Opportunities. BOVIE and JUMP expressly acknowledge the very limited nature and purpose of the Venture as set forth in Section 1.5 and, accordingly, during the Term hereof and thereafter, BOVIE and JUMP may pursue any corporate and/or business opportunity outside the specific, limited purposes of the Venture as herein set forth which shall not conflict with the purposes herein expressed.

2.6. Employees; Compensation of the Venturers. BOVIE shall be compensated for the manufacturing hereunder in an amount equal to its costs and JUMP shall be compensated for its costs of research and development hereunder in an amount of US\$200,000 for the production of two commercial prototypes for dermatology and general surgery, and in such amounts to be determined by the Venturers for its costs of farther research and development for production of other devices than the aforementioned two utilizing the Technology. The Venture will have its own employees and payroll, and as the Venture develops, it shall hire a program manager. Such employees and any persons who perform services for the Venture shall be compensated by the Venture in such amounts as may be determined by the Venturers; provided, however, during the initial stages of the Venture, none of the officers, directors and/or principal shareholders of either JUMP or BOVIE shall be employed by the Venture. As a consequence thereof, except for manufacturing compensation to BOVIE and development and research compensation to JUMP, none of such persons nor the Venturers shall receive any salaries or other compensation for their respective services to and/or on behalf of the Venture.

2.7. Key Employee. JUMP covenants and represents that German Bekker, employee of JUMP shall remain employed and available for the duration of research and development of the Technology or a minimum of three years.

2.8. Books, Records and Reports; Inspection. The Venture shall maintain its own independent books and records, which books and records shall be maintained for the Venture by BOVIE. These books and records shall be readily available for inspection by either of the Venturers upon reasonable advance written notice thereof to the other. To the extent of performance of these respective responsibilities hereunder, JUMP and BOVIE shall provide each other with monthly reports (each a "Reports" and, collectively, the "Report"), including status of operations and internally prepared financial statements (which shall not be audited or prepared by the Venture's independent accountants).

3. Capital Contributions and Loans

3.1. Initial Capital. Within 30 days following the execution and delivery of this Agreement by each of the Venturers, BOVIE shall advance \$200,000 to the capital of the Venture to cover costs of JUMP's research and development in Moscow for production of two commercial prototypes, and shall make Bovie's manufacturing facilities in St. Petersburg, Florida available as needed for the development, manufacturing and marketing of the products; and JUMP shall contribute an exclusive world-wide license to market and manufacture medical devices utilizing the Technology (and consulting services) to the Venture (hereinafter, the "Capital Contributions").

3.2. Additional Capital Contributions. Any additional capital required by the Venture for the implementation of the Business Plan shall be the responsibility solely of BOVIE to expend its best efforts to obtain such additional capital up to a total estimate of \$1,500,000. In the event of such subsequent financing, BOVIE shall be repaid the sums previously advanced hereunder in Section 3.1 and BOVIE and JUMP each acknowledge, that in the event such financing is equity financing, the equity interests of each as specified in Sections 4.2 and 4.3 below, may be pro-rately diluted as a result thereof. The determination of the amount of additional capital required by the Venture shall be unanimously made by the Venturers, and such additional sums shall be used for development, research, marketing and other business purposes. JUMP shall not be required to contribute any additional capital, provided, however, that JUMP shall be required to continue its research and development works and to provide on-going consulting services to the Venture.

3.3. Capital Accounts.

- a) The Venture shall maintain an individual capital account ("Capital Account") in the records of the Venture for each Venturer in accordance with this Agreement and in accordance with the applicable U.S. Treasury Regulations.

- b) In the event that any interest in the Venture is transferred in accordance with the terms of this Agreement, the transferee shall succeed to the Capital Account of the transferor to the extent it relates to the transferred interest.

3.4. Loans. No Venturer shall make any loan to the Venture without the prior written consent of the other Venturer to the principal amount thereof, the percentage rate of interest payable thereon and the terms of repayment.

4. **Profits, Losses and Distributions.**

4.1. Fiscal Year. The fiscal year of the Venture shall end on December 31st of each year, including the year in which operations are commenced.

4.2. Allocation of Income, etc. BOVIE and JUMP shall each have a fifty percent (50%) interest in each item of Venture income, gain and credit as determined by the Venture's regularly retained accountants, and in the assets of the Venture; provided, however, that to the extent losses have been specially allocated pursuant to the proviso in Section 4.3 hereof, subsequent allocations of income and gain in the same amount shall be specially allocated to the Venturer who received a special allocation of losses.

4.3. Allocation of Losses etc. BOVLE and JUMP shall each have a fifty percent (50%) interest in each item of Venture loss or deduction as determined by the Venture's then regularly retained accountants, and in the debts, liabilities and obligations of the Venture; provided, however, that losses attributable to debt for which a Venturer has the economic risk of loss shall be specially allocated to such Venturer.

4.4. Determination of Income Losses etc. At the end of each of the Venturer's fiscal years, and as of the end of such interim accounting periods as the Venturers may both agree, the allocable share of each Venturer in each item of Venture income, gain, credit, loss or deduction for such accounting period shall be determined. Such items shall be credited or debited, as the case may be, to the capital account of each Venturer.

4.5. Distributions. Distributions by the Venture shall be made quarterly to the extent practicable in the following priority:

- a) To the payment of debts, obligations and liabilities of the Venture (including, without limitation, any and all loans made to the Venture by third parties);
- b) To the setting up of any reserves which the Venturers deem reasonably necessary for contingent or unforeseen liabilities or obligations of the Venture;
- c) To the repayment of any unreimbursed out-of-pocket and/or overhead expenses incurred by either Venturer in accordance with this Agreement;
- d) To the repayment of any loans made to the Venture by any Venturer;
- e) To the extent that there is any surplus remaining after making payments/reserves for the Venture in accordance with Section 5(a) through (d) above, then the Venture shall make a preferred distribution to BOVIE and JUMP in the amount of such surplus on each anniversary of the date hereof, and at such other times as the Venturers shall agree, to each Venturer in accordance with its interest in the Venture set forth in Section 4.2 hereof; and
- f) Upon termination of the Venture, to the Venturers, in an amount equal to each Venturer's positive balance in its capital account.

5. **Transfer of Interests.**

5.1. Permitted Transfers,

- a) Either Venturer without the consent of the other Venturer may, after thirty (30) days' prior written notice to the other Venturer, transfer and assign all of its interest in the Venture to an entity controlled by or under common control with the assigning Venturer.
- b) Notwithstanding any assignment as set forth above, the assigning Venturer shall not be relieved of any of its liabilities or obligations to the Venture or the other Venturer.

5.2. Consent Required. Except as otherwise permitted or required in this Agreement, neither Venturer nor any assignee or successor in interest of either Venturer, without the prior written consent of the other Venturer, shall sell, assign, give, pledge, hypothecate, encumber or otherwise transfer its interest in the Venture, or in any part thereof, or in all or any part of the assets of the Venture.

6. **Termination and Dissolution.**

6.1. Dissolution or Merger. Except as otherwise permitted in Section 5.1 above, neither Venturer shall dissolve or merge with or consolidate into a corporation or other legal entity, or transfer all or substantially all of its assets, without the prior consent of the other Venturer.

6.2. Bankruptcy, etc. In the event that:

- a) either Venturer shall file a voluntary petition in a bankruptcy or shall be adjudicated a bankrupt or seek any reorganization, rearrangement, composition, readjustment, liquidation, dissolution or similar relief for itself under the present or any future Federal bankruptcy act or any other present or future applicable Federal, state or other statute or law relative to bankruptcy, insolvency or other relief for debtors, or shall seek or consent to or acquiesce in the appointment of any trustee, receiver, conservator or liquidator of said Venturer or its interest in the Venture (the term "acquiesce" includes but is not limited to the failure to file a petition or motion to vacate or discharge any order, judgment or decree providing for such appointment within twenty (20) days after the appointment); or
- b) a court of competent jurisdiction shall enter an order, judgment or decree approving a petition filed against either Venturer seeking any reorganization, arrangement, composition, readjustment, liquidation, dissolution or similar relief under the present or any future Federal bankruptcy act or any other present or future applicable Federal, state or other statute relating to bankruptcy, insolvency or other relief for debtors, and said Venturer shall acquiesce in the entry for such order, judgment or decree (the "acquiesce" includes but is not limited to the failure to file a petition or motion to vacate or discharge such order, judgment or decree within 20 days after the entry of the order, judgment or decree) or such order, judgment or decree shall remain unvacated and unstayed for an aggregate of 90 days (whether or not consecutive) from the date of entry thereof, or any trustee, receiver, conservator or liquidator of said Venturer, or of all or any substantial part of said Venturer's properly or its interest in the Venture shall be

appointed without the consent or acquiescence of said Venturer and such appointment shall remain unvacated and unstayed for an aggregate of 60 days (whether or not consecutive); or

- c) either Venturer shall admit in writing its inability to pay its debts as they mature; or
- d) either Venturer shall give notice to any governmental body of insolvency or pending insolvency, or suspension or pending suspension of operations;
- e) either Venturer shall make a general assignment for the benefit of its creditors or take any other similar action for the protection or benefit of creditors; then such event shall, at the option of the other Venturer, cause a dissolution of the Venture and such other Venturer shall be the Liquidating Venturer. Such other Venturer shall have 60 days after it receives notice of an event described in this Section to exercise its option to dissolve the Venture.

6.3. Negation of Right to Dissolve by Singular Act of Venturer. Except as otherwise herein set forth, neither Venturer acting alone shall have the right to terminate this Agreement or dissolve the Venture by its express will or by withdrawal without the consent of the other Venturer. This Joint Venture Agreement may be terminated at any time upon the written consent of both Venturers. Upon any dissolution occurring by operation of law or caused by the express will or withdrawal of one of the Venturers in contravention of this Agreement, the Venturer not causing the dissolution shall be the liquidator.

6.4. Winding Up by Venturers. Upon dissolution of the Venture by expiration of the Term hereof, by operation of law, by any provision of this Agreement, or by agreement between the Venturers, the Venture's business shall be wound up and all its assets distributed in liquidation. In such dissolution, except as otherwise herein provided, the Venturers shall be co-liquidating Venturers and shall continue to act jointly and shall proceed to cause the Venturer's property to be sold and distribute the proceeds of sale as herein provided. Except in respect of any assets which the Venturers shall determine are not readily severable or distributable in kind, the Venturers, to the extent that liquidation of such assets is not required to fulfill the payments, if any, under Section 4.5 hereof, shall have the right to distribute, in kind, all or any portion of the assets of the Venture to the Venturers pro-rata in accordance with their respective interests in the Venture as set forth in Section 4.2 hereof.

6.5. Winding up by Liquidating Venturer. In a dissolution by the Liquidating Venturer pursuant to the terms hereof, such Liquidating Venturer shall have the sole right to wind up the Venture in its discretion and cause the Venture's assets to be sold and the proceeds of any such sale distributed as required by this Agreement.

6.6. Orderly Liquidation. A reasonable time shall be allowed for the orderly liquidation of the assets of the Venture and the discharge of liabilities to creditors so as to enable the Venturers to minimize the losses normally attendant upon a liquidation.

7. Notices.

7.1. In Writing; Address. All notices provided for in this Agreement shall be in writing and shall be given by hand delivery or by a mailing by United States, Express, Registered or Certified Mail, postage pre-paid, return receipt requested, or Federal Express or similar overnight courier, to the address set forth below or to such other address as either of the Venturers may hereafter specify in writing:

To: BOVIE
734 Walt Whitman Road, Suite 207
Melville, NY 11747
Att: Andrew Makrides
Fax No. 5 16/421 5821
To: JUMP Agentur Fur Elektrotechnik GmbH
Earnst-Abbe Str. 25
72770 Reutlinger
Germany
Att: Soo In Kim
Fax No. +49 7121 578888

7.2. Copies. A copy of any notice, service of process, or other document in the nature thereof, received by either Venturer from anyone other than the other Venturer, shall be delivered by the receiving Venturer to the other Venturer as soon as practicable.

8. Certain Representations. Each Venturer, by its execution of this Agreement, and each assignee or transferee of a Venturer's interest in the Venture by acceptance of the rights and interests of his assignor or transferor in the Venture, represents and warrants to and covenants and agrees with the Venture and the Venturers as follows:

- a) Such person is to acquire its interest in the Venture for such person's own account, and for investment purposes and not with a view to, or for sale in connection with, any unlawful distribution thereof, nor with any present intention of distributing or selling such interest.
- b) Such person will not transfer, sell, hypothecate or assign any interest in the Venture in the absence of an opinion of counsel satisfactory to the other Venturer that such does not violate the registration provisions of any applicable securities law, state or Federal.
- c) Such person will not transfer, sell, hypothecate or assign any interest in the Venture such as would cause termination of the Venture for Federal income tax purposes, except as herein otherwise permitted or required.

9. General.

9.1. Authority. No Violation. Each Venturer hereby represents and warrants to the other that it has full power and authority to enter into this Agreement, and that neither the execution and delivery of this Agreement nor the consummation of the transactions contemplated hereby will (a) violate any provision of the Articles or Certificate of Incorporation or By-Laws of such Venturer; (b) violate any provision of any agreement to which such Venturer is a party or is subject; or (c) be in conflict with or constitute a default (or an event which, with notice or lapse of time or both, would constitute a default) under or result in the termination of, or accelerate any performance required by, or cause the acceleration of the maturity of any debt or obligation pursuant to, or result in the creation or imposition of any security interest, lien or other encumbrance upon any property or assets of such Venturer under, any agreement or commitment to which it is a party or by which it is bound, or to which its property is subject, or violate any statute or law or any judgment, decree, order, regulation or rule of any court or governmental authority. The Venturers and the Venture shall be responsible or liable only for

indebtedness, liabilities or obligations incurred in the furtherance of the Venture's purposes in accordance with the provisions of this Agreement, and each Venturer hereby indemnifies and agrees to hold the other Venturer harmless from any obligations and/or indebtedness not so incurred.

- 9.2. Entire Agreement; etc. This Agreement contains all of the understandings and agreements of whatever kind existing between the parties hereto (and their affiliates) with respect to the subject matter hereof and supersedes all prior negotiations, whether written or oral, between the parties and their affiliates. This Agreement shall be binding upon and inure to the benefit of the parties hereto and, except as otherwise herein set forth, their respective successors and assigns. This Agreement may not be amended, altered or modified except by a written instrument signed by all of the parties hereto. This Agreement shall be governed by and construed in accordance with the laws of the State of [Connecticut], without regard to principles of conflicts of laws.
- 9.3. Access. Each of the Venturers shall have full and complete access to all of the books, records and information pertaining to the Venture and to its operations and affairs. Each Venturer may at its option and its own expense, conduct internal audits of the books, records and accounts of the Venture.
- 9.4. Public Announcements. No public announcements with regard to the Venture, the Venturers, or its or their activities, shall be made except upon the approval of both Venturers.
- 9.5. Tax Returns; etc. The Venture shall be treated and shall file its Federal, state and local tax returns as a partnership, and each Venturer shall use its best efforts to cause the partnership to maintain its status as a partnership for tax purposes. BOVIE shall be the "Tax Matters Partner" for purposes of the Internal Revenue Code. Should there be any question or controversy with the Internal Revenue Service or other tax authorities involving the Venture, the Venture may incur any expense which it deems necessary or advisable in the interest of the Venturers in connection with any such question or controversy, including professional fees and costs of any protests, litigation and/or appeals. The Tax Matters Partner shall not have the authority to pay the tax on any claimed deficiency and then institute a proceeding for a refund of such tax payment, without having first obtained the written consent of the other Venturer to such action. The out-of-pocket expenses of the Tax Matters Partner reasonably incurred in the performance of its duties hereunder shall be reimbursed in accordance with the provisions of this Agreement. Both Venturers shall have agreed to and signed any tax return of the Venture prior to the filing of such tax return.
- 9.6. Additional Documents and Acts. In connection with this Agreement, as well as all transactions contemplated by this Agreement, each Venturer agrees to execute and deliver such additional documents as may be necessary or appropriate to effectuate, carry out and perform all of the terms, provisions and conditions of this Agreement, and all such transactions.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the day and year first above written.

BOVIE MEDICAL CORPORATION

By: /s/ Andrew Makrides

Name: Andrew Makrides

Title: President, Chief Executive Officer

A Duly Authorized Signatory

JUMP Agentur Fur Elektrotechnik GmbH

By: /s/ German Bekker

Name: German Bekker

Title: Director

A Duly Authorized Signatory

SCHEDULE A

Bovie Medical Corporation Designees:

Moshe Citronowicz

Andrew Makrides

JUMP Agentur fur Elektrotechnik GmbH Designees:

Soo In Kim

German Bekker

Distribution and Service Center Agreement between Bovie and Symbol

Bovie Medical Corporation (hereinafter referred to as "Bovie") is the manufacturer and provider of Bovie's electrosurgical RF generators (the "Products"); and wishes to set up its distribution and service center named Bovie Medical Limited (hereinafter referred to as the "Bovie-HK") to provide distribution which includes marketing, support and servicing of the Products for sale in the Markets (see Appendix 1).

WHEREAS, Bovie wishes to appoint and authorize Symbol Medical Limited (hereinafter referred to as "Symbol") and Symbol wishes to accept such appointment, to set up Bovie-HK in Hong Kong on the terms and conditions set forth herein.

NOW, THEREFORE, Bovie and Symbol agree as follows:

Section Operations of Bovie-HK

1

- 1.1.1 Symbol agrees to set-up Bovie-HK upon the effective day of this agreement. Bovie-HK will be operated and managed by Symbol independently in this phase. In this phase, the Products will be assembled at Bovie and sold to Bovie-HK. Bovie-HK will function as a distribution and service center of the Products in Markets.
- 1.1.2 Subsequent to the commencement of this agreement, Bovie and Symbol will further negotiate with the intent to form a Joint Venture transforming Bovie-HK, from independent ownership by Symbol to a possible co-ownership by both parties.
- 1.1.3 The parties agree that prior to the commencement of business pursuant to this agreement non-disclosure / confidentiality agreements, agreeable to Bovie, shall be executed by Modern Medical Equipment Manufacturing LTD, Symbol Medical Limited, PSC Corporation and their affiliates, if any.

Section Appointment of Distribution Center

2

2.1 Distribution Center for Existing Customers

- 2.1.1 Grant of Distribution Right - Bovie hereby appoints Bovie-HK as the distributor to solicit and collect orders and service for the products use within the Markets. Bovie-HK shall serve as a distribution center and be responsible for re-distribution and inquiries of the Products and carry out marketing of the Products in the Markets.

Bovie agrees that within thirty (30) days of the signing of this agreement it will notify existing distributors of the agreement's execution. Under no circumstances shall Symbol or any of its affiliates provide such notification without Bovie's consent.

Bovie-HK agrees that Bovie can continue to carry on relationships between Bovie and its Far East Distributors as described in Appendix B. All distribution relationships between Bovie and its existing distributors shall not be changed during the effectiveness of their agreements. Bovie agrees to provide the cooperation time of each of the current distributors to Bovie-HK as reference.

Bovie and Symbol agree that any change in business relationships between Bovie and its existing creditors must be mutually agreed upon.

Bovie shall have the right to ship the Products directly to its existing distributors in the Markets or through Bovie-HK for final inspection, as it chooses. Bovie-HK will receive minimum 5% handling charge from Bovie for all shipments executed and delivered by Bovie or Bovie-HK to existing customers after effectiveness of this agreement.

2.1.2 Management of Loaner Units

Bovie will provide Bovie-HK, at its expense, reasonable quantities of Product to be used as loaner units for customers during any repair period. Bovie-HK shall provide equivalent loaner units to customers for temporary operation or replacement of defective Products, depends on individual case and customer's need. Such defective Products which are superseded by replacement loaner units shall be exchanged by Bovie-HK at additional charge, if functional or physical condition of the replacement unit is superior to the defective Product. Bovie-HK will execute a Product Traceability System for documentation of serial number, lot number and relevant information supporting the instant replacement service.

Bovie-HK shall furnish to Bovie a business plan for determination of service fee and handling charge paid to and received by Bovie-HK., for the management of its loaner unit service of the Products.

2.1.3 Purchase Orders

During the first year of execution of this Agreement, all Purchase Orders from existing customers for the Products in the Markets are to be addressed to Bovie. After the first year of execution, Bovie will ship Bovie-HK several sets of Product as inventory depends on the sales quantity of the first year and the forecast of coming annual. Bovie will notify Bovie-HK if any Product to be shipped via Bovie-HK for final inspection and Bovie-HK will be responsible to arrange shipment of such products to customers after its final inspection.

2.2 Distribution Centre for Marketing of New Customers

2.2.1 Marketing of Products

Bovie-HK shall sign distribution agreements, only if mutually agreed upon by Bovie, to sell the Products to new customers in the Markets. Bovie-HK shall prepare, adopt, and implement a business, marketing and sales plan of reasonable scope and detail, and shall dedicate sufficient personnel and resources for the advancement and accomplishment of such plan.

2.2.2 Products and Services, Promotional Materials

Bovie will supply Bovie-HK with a reasonable quantity of promotional materials, such as literature, catalogues, leaflets, and other advertising material relating to the Products. Bovie-HK shall have the right to incorporate Bovie's literature. Bovie agrees to grant Bovie-HK a license to use "Bovie" and "Bovie-Asia" on Bovie-HK's literature during the effective period of this agreement. Bovie shall be responsible to review in advance and comment on the combined promotional Product in the interest of assuring accuracy and completeness of the information therein. Any change, other than strict translation of promotional materials shall be submitted to Bovie for final approval. The cost of establishing promotion materials and translations will be at Bovie-HK's expense or their assigned distributor's expense. Under no circumstances shall Bovie be responsible for these costs.

Copyrights, patent rights, trademark rights, trade name rights or other similar rights under Chinese law shall inure to the sole benefit of Bovie, and Symbol and Bovie-HK, or its affiliates, will not contest Bovie's right title and interest to any of the above anywhere in the world.

2.2.3 Bovie's pricing to Bovie-HK

The Price of the Products paid by Bovie-HK to Bovie shall be determined by suggested list prices as described in Appendix C.

The suggested list prices shall generally apply and discount terms to Bovie-HK shall be reviewed and considered for adjustment.

2.2.4 Bovie-HK's pricing to Customers in the Markets

Prices charged new customers for the Products distributed by Bovie-HK in the Markets shall be mutually agreed upon between Bovie and Bovie-HK. Price quotations shall include, in addition to prices for the Products, prices for supporting services provided by Bovie-HK.

2.2.5 Purchase Orders from new customers for the Products in the Markets are to be addressed to Bovie-HK.

Bovie-HK shall in turn place a purchase order of Bovie-HK to Bovie with the suggested list price between Bovie and Bovie-HK.

2.3 PSC Corporation

2.3.1 Registration and applying documents

Bovie approves Symbol's designation of its affiliate PSC Corporation, a corporation organized and existing under the Laws of the People's Republic of China with its principal place of business at Room 2004-05, 20/F, Huaxin Building East, Shuiyin Road No. 2, DongShan District, Guangzhou (hereinafter referred to as "PSC") for the registration of sales and distributions, repairing and assembling of the Products in China. The cost of registration will be at Symbol's own expense.

Bovie will issue a warrant of attorney to appoint PSC as its exclusive representative of distribution, repairing and assembling of the Products in China. PSC will use its best efforts to apply and obtain licenses necessary for distribution, repairing and assembly of the Products within nine (9) months after

receipt of Authorization Notification and all others relevant documents from Bovie.

Upon incorporation, PSC will serve as the exclusive distribution and service center of Bovie in China to establish distribution channel and support the Markets for Products and accessories.

2.3.2 Accessories Pricing

Bovie shall offer Bovie-HK Prefer Pricing Schedule for all accessories. Bovie-HK shall offer Bovie's existing customers all accessories at its existing pricing. Neither the existing customers nor new customers shall pay Bovie-HK a pricing higher than the Listed-Price provided by Bovie.

2.4 Other Obligations

2.4.1 Warranties

Symbol and Bovie-HK will hold itself out to customers as a distribution and service center of Bovie. Symbol and Bovie-HK shall make no warranties with respect to the Products which exceed the Warranties made by Bovie.

2.4.2 Modification in Pricing

If Bovie changes list prices, Bovie shall give Sixty (60) days written notice to Bovie-HK. However, outstanding customer quotations based upon the price list in effect prior to a price change shall be honored for up to Ninety (90) days from the date of notice of the price change.

2.4.3 Payment Collection

Bovie-HK shall collect full payment for all orders received from new customers and keep accounting records of costs and sales. Bovie-HK shall pay Bovie within 30 days upon receipt of payment from customers. Any payment term offered by Bovie-HK to new customers beyond net 30 days shall be mutually agreed upon by Bovie and Bovie-HK.

Bovie shall pay Bovie-HK within 30 days after shipment of inspected goods or for providing management and/or repairing services.

2.4.4 Product Shipment

Bovie shall ship the Products to fulfill orders of customers in the Markets to Bovie-HK or according to Bovie-HK instructions pursuant to the purchase order submitted to Bovie by Bovie-HK.

2.4.5 Export Control Regulation

Bovie will use its best efforts to assist Bovie-HK to facilitate any import processing by Bovie-HK with regard to all required documents and information. In the event that the Products and the Components parts and materials thereof are the object of export regulations of the Markets, Bovie-HK will use its best effort to apply or and obtain the license necessary for Bovie-HK's export of such Products to the Markets (with Bovie's authorization). Bovie agrees to comply with all applicable export control laws and regulations relating to the Products. Bovie will also use its best efforts to provide information necessary for Bovie-HK to comply with all applicable export control laws and regulations relating to the Products.

Bovie represents and warrants that the Products supplies hereunder are produced and delivered in accordance with all applicable laws, rules and regulations, including but not limited to those laws, rules and regulations governing Product Safety.

Section Appointment of Repairing Services Center

3

3.1 During the terms of Agreement, Bovie-HK will provide the following service to the Products for the Markets:

- a. repair service;
- b. technical support relating to the use, operation and general knowledge of the Products;
- c. insuring the repaired Products can meet quality standards.

3.2 Cost and Expenses of Repairing

The warranty period of Products extends for 24 months after the purchase date.

The replacement of PC Boards or components shall be provided by Bovie-HK free of charge upon evidence of acknowledgement by a user within the warranty period. The replacement of any parts or components shall be provided by Bovie at customer's own expense beyond the warranty period.

Any expense of examination or inspection provided within warranty period of the Products shall be paid by Bovie to Bovie-HK. The expense of repairing services provided within the warranty period of the Products shall be paid by Bovie to Bovie-HK in accordance with the actual repair work provided by Bovie-HK. The actual costs of inspection tests and components may be requested for such products repaired and shall be listed specifically, case by case, in Hong Kong Dollars and United States Currency, and provided to Bovie on a quarterly basis. Any expense of repair services provided beyond the warranty period of the Products shall be at the customer's expense (The suggested repair prices as described in Appendix D.)

3.3 Maintenance of Quality and Safety standards

3.3.1 Quality Standard

Bovie will provide Bovie-HK, at its expense, the specification, detail requirements, technical standard drawings of all parts, components and equipment used for assuring the various kinds of technological specifications of the Products after repair and all tools that are required to use in the repair work.

Bovie-HK hereby agrees to strictly comply with quality standards of the Products for repair work of the Products hereunder. At the request of Bovie-HK, Bovie agrees to submit to Bovie-HK its quality control and inspection data for Bovie-HK'S inspection. Bovie shall give Bovie-HK pertinent advice or instruction for Bovie-HK's reference and compliance.

In the event problems arise out of the Procedure of Acceptance of the Products, Bovie shall assist Bovie-HK to solve the problems and complete the procedure or Acceptance.

3.3.2 Repair and Product Warranty

Bovie warrants that the Products manufactured meets Bovie's requirements for production at its manufacturing facilities with final checking in Bovie-HK's facilities.

Bovie shall assist Bovie-HK to repair or fix any breakdown in Products, and provide the PC Board for repair at its expense and at a fixed price beyond the warranty period.

3.3.3 Technical Information

Bovie shall use its best efforts to provide Bovie-HK with copy of specification and instruction manuals for each Product.

Bovie may make any modification of specifications and keep Bovie-HK informed of the modifications with reasons for such changes.

3.3.4 Technical Support and Training

For the purpose of improving the repair technique of technicians in Bovie-HK, Bovie shall provide training for repair work by Bovie-HK as Bovie-HK requires. In addition, Bovie shall send its staff to guide Bovie-HK technicians in their repair work and to furnish them with the latest technological know-how necessary to properly train them. Bovie shall certify Bovie-HK's repair service quality and capabilities when they meet Bovie's standards.

3.3.5 Indemnity

Assembly, sale, use or other disposition of the Products as well as quality guarantee to customers, responsibility for product liability, advertising and servicing of the Products, obtaining approval(s) for the Products pursuant to any standard, legal or otherwise applicable to the Product, shall be made by Bovie at its expense. Symbol and Bovie-HK and its subsidiaries and/or affiliates shall not be responsible therefore to Bovie or any third party. Bovie shall indemnify Bovie-HK for and hold Symbol and Bovie-HK (or all of the above subsidiaries and affiliates) harmless from any liabilities, damages and costs and expenses arising out of or in connection with its operations.

In WITNESS WHEREOF, the parties hereto have executed this Agreement as of the day and year first above written.

Agreed and Accepted By:

Moshe Citronowicz
Vice President/COO
Bovie Medical Corporation

Agreed and Accepted By:

Alex Fung
Shareholder and Director
Symbol Medical Limited

Appendix B

Existing distributors of Bovie assigned in the Markets

The Markets covered by this Agreement and the existing Exclusive Asia Distributors in each of those Markets are as follows:

Country	Tier	Models	Distributor	Contract Until
Thailand	One	ALL	AFTA Service & Supply Company	Dec 2005
Japan	One	IDS	Air Water Inc.	Dec 2005
Philippines	Two	ALL	Biomedica Health care	To be advised
Korea	Two	ALL excepts IDS	Hyup-Jin Trading Co Ltd	Dec 2005
Taiwan	One	ALL	Kingjing International	Dec 2005
Malaysia	One	ALL	Labo-medica Pte, Ltd	Dec 2005
Singapore	One	ALL	Labo-medica Pte, Ltd	Dec 2005
Indonesia	One	ALL	Labo-medica Pte, Ltd	Dec 2005
Japan	One	ALL excepts IDS	Medical U & A Inc.	Dec 2005
Vietnam	Two	ALL	VIMEC	Dec 2005
Hong Kong	One	ALL	VITA	Dec 2005
India	To be Advised	IDS	Edifice	To be advised

Appendix C
Suggested Purchasing Price

The Suggested Price of the Products purchasing from Bovie-HK to Bovie and suggested price from Bovie-HK to new customers:

Model	Descriptions
Aaron A900	Aaron 900 High Frequency Desiccator
Aaron A950	Aaron 950 High Frequency Electrosurgical Generator
Aaron A1250	Aaron 1250 High Frequency Electrosurgical Generator
Bovie IDS-200	Electrosurgical Generator
Bovie IDS-300	High Frequency Electrosurgical Generator

Model	The Highest Unit Price from Bovie-HK to customer (FOB HK)	Discount offered By Bovie to Bovie-HK	Depot Price from Bovie to Bovie-HK (Door to Door)
A900	USD666.75	Minimum 5%	USD633.41
A950	USD1286.25	Minimum 5%	USD1221.94
A1250	USD1758.75	Minimum 5%	USD1670.81
IDS-200	USD3144.75	Minimum 5%	USD2987.51
IDS-300	USD3984.75	Minimum 5%	USD3785.51

The final pricing and discount offered for any shipment by Bovie to Bovie-HK will be further determined by both parties.

Appendix D
Suggested Price of Repairing Services

The suggested price for repairing services from Bovie-HK to customers equal to:

[The material cost of replacement parts] *multiplier* two (2) or three (3) plus [Labor cost of repairing in Bovie-HK] *plus*
[Overhead cost of Bovie-HK] *plus* [Transportation cost from Bovie-HK to customer].

Appendix 1
The Markets

The “Markets” referenced in the agreement are as follows:

Far East

Australia

New Zealand

BOVIE MEDICAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

CONSENT OF CERTIFIED PUBLIC ACCOUNTANT

We consent to the incorporation by reference in this Annual Report on Form 10-KSB of Bovie Medical Corporation of our report dated March 25, 2005.

/s/Bloom and Company LLP
Hempstead, New York
March 25, 2005

CERTIFICATIONS

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

1. I have reviewed this annual report on Form 10-KSB of Bovie Medical Corporation;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the liability of financial reporting and the preparation of financial statements for external purposes in accordance with Generally Accepted Accounting Principles.
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the Registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 25, 2005

/s/Andrew Makrides
Chief Executive Officer

CERTIFICATIONS

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

1. I have reviewed this annual report on Form 10-KSB of Bovie Medical Corporation;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the liability of financial reporting and the preparation of financial statements for external purposes in accordance with Generally Accepted Accounting Principles.
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the Registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 25, 2005

/s/Charles Peabody
Chief Financial Officer

BOVIE MEDICAL CORPORATION

EXHIBIT 32.1

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

In connection with the Annual Report of Bovie Medical Corporation (the "Company") on Form 10-KSB for the year ended December 31, 2004 as filed with the Securities and Exchange Commission on the date hereof, I, Andrew Makrides, President and Chairman of the Board of the Company, certify, pursuant to 18 USC §1350 as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002, that (1) the annual report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and (2) the information contained in the annual report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: March 25, 2005

/s/ Andrew Makrides

President, Chief
Executive Officer, Chairman
of the Board and Director

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

BOVIE MEDICAL CORPORATION

EXHIBIT 32.2

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

In connection with the Annual Report of Bovie Medical Corporation (the “Company”) on Form 10-KSB for the year ended December 31, 2003 as filed with the Securities and Exchange Commission on the date hereof, I, Charles Peabody, Chief Financial Officer, certify, pursuant to 18 USC §1350 as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002, that (1) the Annual Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and (2) the information contained in the annual report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: March 25, 2005

/s/ Charles Peabody

Chief Financial Officer,

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