NOVT CORP
Form 10-K
March 31, 2006
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# UNITED STATES

# SECURITIES AND EXCHANGE COMMISSION

**Washington, D.C. 20549**

# Form 10-K

**x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
**For the fiscal year ended December 31, 2005.**

**¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES ACT OF 1934.**
**For the transition period _____ to _____.**

**Commission File Number: 0-20727**

# NOVT CORPORATION

**(Exact Name of Registrant as Specified in Its Charter)**

| **Florida** | **59-2787476** |
|---|---|
| **(State or Other Jurisdiction of Incorporation or Organization)** | **(I.R.S. Employer Identification No.)** |
| **4350 International Blvd., Norcross, GA** | **30093** |
| **(Address of Principal Executive Offices)** | **(Zip Code)** |

**Registrant s telephone, including area code: (770) 717-0904**

**Securities registered pursuant to Section 12(b) of the Act: None**

**Securities registered pursuant to Section 12(g) of the Act:**

**Common Stock, $.01 par value**

**(Title of Class)**

**Rights to Purchase Preferred Shares**

**(Title of Class)**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ¨ No x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes ¨ No x

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

Indicate by check mark if disclosures of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not 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-K or any amendment to this Form 10-K. x

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

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

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

The aggregate market value of voting stock held by non-affiliates of the registrant as of June 30, 2005 was approximately $16,050,000 based upon the closing sales price of the Common Stock on June 30, 2005 on the NASDAQ National Market. As of March 1, 2006, there were 4,094,454 shares of Common Stock outstanding.

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**Cautionary Note Regarding Forward-Looking Statements**

The forward-looking statements in this Form 10-K are made under the safe harbor provisions of Section 21E of the Securities Exchange Act of 1934, as amended. Our operating results and financial condition have varied and may in the future vary significantly depending on a number of factors. Statements in this Form 10-K which are not strictly historical statements, including, without limitation, statements regarding management s expectations regarding our operations or prospects following the completed sale of our vascular brachytherapy business described below, future strategic transactions, if any, as well as statements regarding our strategy and plans, constitute forward-looking statements that involve risks and uncertainties. In some cases these forward-looking statements can be identified by the use of words such as may, will, should, expect, project, predict, potential or the negative of these words or comparable words. The factors listed under Risk Factors in Part I, Item 1A among others, could cause actual results to differ materially from those contained in forward-looking statements made in this report and presented elsewhere by management from time to time. Such factors, among others, may have a material adverse effect upon our business, financial condition, and results of operations. We undertake no obligation to update publicly or revise any forward-looking statements, whether as a result of new information, future events or otherwise. Accordingly, you are cautioned not to place undue reliance on forward-looking statements, which speak only as of the date on which they are made.

**PART I**

**ITEM 1. BUSINESS**

In this Form 10-K, NOVT, the Company, we, us and our refer to NOVT Corporation (formerly Novoste Corporation). On March 9, 2006, in connection with the completion of the asset sale transaction described below, Novoste Corporation amended its amended and restated articles of incorporation to change the name of the Company from Novoste Corporation to NOVT Corporation .

**OVERVIEW**

For several years, our board of directors had been considering various strategic alternatives in anticipation of the potential impact should drug-eluting stents come to market. In the latter part of 2000, the board considered various opportunities to sell NOVT to strategic buyers, merge with potential partners or acquire other technologies, which could leverage our distribution and organizational strengths. Throughout 2001 and 2002, the board considered more than 70 companies after organizing a team composed of several board members and senior managers to screen opportunities. During this period, the board also considered various development projects within NOVT and the likelihood of successful introduction of new products derived from such projects into the market.

Our business and revenues began a steady and rapid decline during 2003 due to, we believe, the approval by the Food and Drug Administration ( FDA ) in April 2003 and subsequent market release of drug-eluting stents. In anticipation of this new product technology, our management and board of directors accelerated our exploration and review of various strategic opportunities and alliances available to us, as well as restructuring activities, shortly after the appointment in October 2002 of Mr. Alfred J. Novak as our President and Chief Executive Officer. In April 2003, we engaged a financial advisor to assist us in our review of the strategic alternatives that were available to us and to assist us in our bid for a medical device company that was offered for sale. We were unsuccessful in our bid and we allowed our engagement with this financial advisor to expire. In addition, in anticipation of the impact of drug-eluting stents upon our business, we engaged during 2003 in a restructuring of our organization and significantly reduced our workforce over the course of three separate staff reductions. As a result, by the end of 2003, nearly 30% of our workforce had been terminated. Our cost reduction program continued into the first and second quarters of 2004 and included, among other things, the consolidation of all our U.S. operations into a single building. Specifically, at the end of the first quarter of 2004, we implemented a reduction in force, eliminating 84 positions across all functions. These steps lowered annual operating costs by approximately $6,000,000. During the first quarter of 2004, approximately 59 of the individuals left NOVT, with the remaining individuals leaving during the second and third quarters. In February 2005, we announced that we were reducing our remaining U.S. workforce in the first quarter of 2005 by 52 employees, from 81 employees, and terminating the 16 employees we had at that time outside the U.S. in accordance with their contracts and the relevant country s employment regulations.

In April 2004, our board of directors, upon the recommendation of management, approved the engagement of Asanté Partners LLC as our investment banking and strategic financial advisor to assist us with our efforts to identify and implement strategic and financial alternatives.

Between April 2004 and May 2005, we and Asanté Partners identified over 75 businesses as potential candidates for a business combination transaction with us and preliminarily evaluated the merits and likelihood of entering a transaction with each such entity. NOVT and Asanté Partners contacted 67 of those entities to determine their interest in a strategic transaction and held substantial discussions with 10 of those companies.

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In February 2005, we announced that our board of directors had determined that our vascular brachytherapy ( VBT ) business, our only business line, was no longer viable and, as a result, the board had authorized a staged wind down of the business. The board of directors also authorized the sale of the VBT business. The board determined that this decision was necessary in order to preserve the company s cash resources. While the sale process continued, NOVT continued to actively sell its VBT products to its physician customers and accept new contracts. The board also announced in February 2005 that it was seeking new product opportunities, as well as a merger, business combination or other disposition of our business or assets.

The result of our search efforts culminated in our entering into the merger agreement, dated as of May 18, 2005, with ONI Medical Systems, Inc. ( ONI ), a company engaged in the development, manufacturing and marketing of dedicated-purpose magnetic resonance imaging systems, which, if the merger were completed, would become the business of NOVT. On September 26, 2005, following NOVT s reconvened special meeting of shareholders in lieu of an annual meeting, we terminated the merger agreement with ONI as a result of the failure of our shareholders to approve the issuance of shares of NOVT Common Stock necessary to complete the merger with ONI.

**Asset Sale Transaction**

Subsequent to the implementation of the wind down of the VBT business announced in February 2005, we began discussions with Best Vascular, Inc. ( Best Vascular ) and its affiliate, Best Medical International, Inc. ( BMI ), regarding a sale of substantially all of the assets of our VBT business. On August 25, 2005, NOVT entered into an asset purchase agreement to sell substantially all assets related to the VBT business to Best Vascular. On October 12, 2005, we entered into an amended and restated asset purchase agreement with Best Vascular and BMI, which agreement was subsequently amended on November 30, 2005 and January 27, 2006 (as amended, the Amended and Restated Asset Purchase Agreement ).

On March 9, 2006, the Company completed the sale of substantially all of the assets of its VBT business to Best Vascular pursuant to the Amended and Restated Asset Purchase Agreement. The asset sale transaction was approved by the Company s shareholders at a meeting held on March 7, 2006. Pursuant to the Amended and Restated Asset Purchase Agreement, BMI agreed to guarantee the full and faithful performance by Best Vascular of all agreements of Best Vascular set forth in the agreement.

The assets of the Company sold include the patents and other intellectual property, the inventory and equipment, furniture, records, sales materials, and various agreements and contracts in each case associated with the VBT business. The assets sold do not include cash and cash equivalents and certain other assets not related to the VBT business.

The consideration for the sale of assets is the assumption by Best Vascular of the Company s liabilities described below:

- liabilities incurred or arising after the closing from that certain patent infringement litigation filed against the Company by Calmedica, LLC ( Calmedica ) pending in the United States District Court for the Northern District of Georgia and the United States District Court for the Northern District of Illinois in consideration of a cash payment of $350,000 by the Company to Best Vascular;

- liabilities incurred or arising before or after the closing under the Company s supply agreement dated October 14, 1999, with AEA Technology-QSA, GmbH ( AEA ), such as obligations to decontaminate and decommission equipment;

- liabilities incurred or arising after the closing under certain royalty agreements and other agreements between the Company and various third parties;

- liabilities arising after the closing for utility payment obligations with respect to the Company s leased facilities at 4350 International Boulevard, Norcross, Georgia; and

- liabilities arising after the closing from the use or ownership of the VBT business assets.

In addition, Best Vascular acquired the Company s accounts receivable and assumed the Company s trade accounts payable related to the VBT business at the closing, subject to a reconciliation and true-up procedure in June 2006. Taking into account the assumption of such accounts

receivable and accounts payable, the payment obligation of the Company of $350,000 to Best Vascular in connection with its assumption of the Calmedica litigation described above, and various other adjustments contemplated by the Amended and Restated Asset Purchase Agreement, the Company made a total payment of approximately $67,200 to Best Vascular at the closing.

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As part of the transaction, the Company amended its amended and restated articles of incorporation to change the name of the Company from Novoste Corporation to NOVT Corporation. In addition, the Company, Best Vascular and BMI entered into a letter agreement addressing various transition issues, including shared use of office space, use of computers and communications systems, and certain other transition-related matters.

As a result of the completion of the asset sale transaction, we have no continuing business operations and may be deemed to be a shell corporation with principally cash assets and a note receivable.

**Settlement Agreement with Steel Parties**

On March 17, 2006, the Company executed and delivered a settlement agreement, dated as of March 16, 2006 (the Settlement Agreement ), with Steel Partners II, L.P., a Delaware limited partnership, J.L. Howard, Inc., a New York corporation, Steel Partners, L.L.C., a Delaware limited liability company, Warren G. Lichtenstein, Jack L. Howard, John Quicke, James Henderson, Joshua Schechter, Harvey J. Bazaar, Leonard Toboroff and The Novoste Full Value Committee (collectively, the Steel Parties ). Pursuant to the Settlement Agreement, the Company s board of directors will be reduced in size from seven to four members and the current NOVT board of directors has approved a reconstituted board, which will consist of three appointees of the Steel Parties, Jack L. Howard, John Quicke and Leonard Toboroff, as well as William E. Whitmer, who is currently a member of the board. Mr. Whitmer will continue serving, and Mr. Toboroff will be appointed as, a Class I director. Mr. Quicke will be appointed as a Class II director. Mr. Howard will be appointed as a Class III director. Six current members of our board of directors, J. Stephen Holmes, Charles E. Larsen, Judy Lindstrom, Alfred J. Novak, Stephen I. Shapiro and Thomas D. Weldon, have submitted their resignations effective as of the time that the change in composition of the board occurs.

Each of these changes in composition of the board will be effective on the later of (i) the tenth calendar day after the date of filing and dissemination to our shareholders of an Information Statement pursuant to Section 14(f) of the Securities Exchange Act of 1934, as amended (the Exchange Act ) (or such later date as may be required to comply with any comments of the staff of the Securities and Exchange Commission ( SEC )) and (ii) the filing by us with the SEC of our annual report on Form 10-K for the twelve months ended December 31, 2005, but in no event later than April 17, 2006. We currently expect that the change in composition will be effective on or around March 31, 2006.

As part of the Settlement Agreement, the previously scheduled April 13, 2006 special meeting of shareholders, for which a February 22, 2006 record date had been established, was cancelled and the election contest (the Election Contest ) with respect to the Steel Parties proposal to elect to the board of directors a new slate of nominees was terminated. In addition, the parties have agreed that, subject to the fiduciary duties of the members of the board, Messrs. Toboroff and Whitmer will stand for election as Class I directors at our next annual meeting of shareholders, and the Steel Parties have agreed in their capacities as shareholders to support the nomination and election of both such directors and to cause shares of Common Stock they own to be voted in favor of both such nominees. In addition, pursuant to Florida law, those directors elected by the board of directors to fill vacancies as Class II and Class III directors hold office until the next shareholders meeting at which directors are elected. A separate proxy statement will be mailed for that meeting.

In connection with the Settlement Agreement, Daniel G. Hall, J. Stephen Holmes, Charles E. Larsen, Judy Lindstrom, Alfred J. Novak, Subhash C. Sarda, Stephen I. Shapiro, Thomas D. Weldon and William E. Whitmer (collectively, the NOVT Parties ), entered into undertaking letters. The undertaking letters of Ms. Lindstrom and Messrs. Holmes, Larsen, Novak, Shapiro and Weldon provide that such person resigns from the board as of the time that the change in composition described above occurs.

The Settlement Agreement and undertaking letters also collectively provide that: (i) the Company shall continue to have an audit committee of the board so long as required under SEC rules, and the Steel Parties agree to support Mr. Whitmer s continued membership on such audit committee so long as he remains a director of the Company and remains eligible to serve on such audit committee; (ii) the Company shall reimburse the Steel Parties $232,912.75 for out-of-pocket expenses incurred in connection with the proxy contest involving the opposition to the dissolution proposal made by the board that was considered at the March 7, 2006 special meeting of shareholders (the Proxy Contest ) and the Election Contest; (iii) each NOVT Party releases each of the Steel Parties, and each of the Steel Parties releases each of the NOVT Parties, from any potential claims or causes of action; (iv) the Company releases each of the Steel Parties and each of the NOVT Parties from any potential claims or causes of actions relating to or arising from matters set forth in SEC filings made in connection with the Proxy Contest or the Election Contest; (v) the parties shall abide by certain non-disparagement and mutual cooperation covenants; and (vi) the Company shall continue to honor certain employee benefit plans and arrangements.

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*The following discussion regarding the Company s business relates to the Company s VBT business as of December 31, 2005, which business was sold to Best Vascular on March 9, 2006 pursuant to the Amended and Restated Asset Purchase Agreement as described above.*

**BACKGROUND**

NOVT developed the Beta-Cath System, a hand-held device to deliver beta, a low penetration radiation, to the site of a treated blockage in a coronary artery to inhibit restenosis. Restenosis, the renarrowing of a previously treated artery, is the major limitation of percutaneous transluminal coronary angioplasty or PTCA, a procedure used by interventional cardiologists to open blocked coronary arteries. Coronary stents, metal tubes or coils permanently deployed at a blockage in a coronary artery, were developed to reduce the incidence of restenosis; however, restenosis still occurs in some of the patients who receive bare metal stents. In August 1998, we qualified to apply CE marking to the Beta-Cath System. CE marking is a regulatory approval and is a requirement to sell our device in most of the European Union. We commenced the active marketing of our device in the European Union in January 1999. On November 3, 2000, we received U.S. marketing approval from the FDA for the Beta-Cath System (30-millimeter source train) for use in patients suffering from in-stent restenosis , a condition in which previously placed coronary stents become clogged with new tissue growth. We received additional approvals from the FDA for the Beta-Cath System with a 40-millimeter source train during 2001 and the 60-millimeter source train and smaller, next generation 3.5 F catheter and source train in early 2002. As described above, in February 2005 we announced that our board of directors had determined that our VBT business was no longer viable, and as a result, the board had authorized a staged wind down of our business. See Overview.

NOVT Corporation is a Florida corporation. We were incorporated in 1987 and remained dormant until May 22, 1992 at which time we began operations. We have had our principal operations in the United States and sales and distribution in Western Europe, Canada, Asia and South America. Prior to the implementation of the staged wind down of our business, we marketed our products through a direct sales force in the United States and a combination of direct sales representatives and independent distributors in markets outside the United States. All of our revenues have primarily been generated from the marketing of the Beta-Cath System, but beginning in 2003, we started to sell and distribute stents on a limited basis in Europe, pursuant to a distribution agreement with Orbus Medical Technologies, Inc. In February 2005, NOVT and Orbus mutually agreed to terminate the distribution agreement.

*Available Information*. We file annual, quarterly and current reports, proxy statements and other information with the SEC. You may read and copy any document we file at the SEC s public reference room at Room 1580, 100 F Street, NE, Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for information on the public reference room. The SEC maintains a website that contains annual, quarterly and current reports, proxy statements and other information that issuers, including NOVT file electronically with the SEC. The SEC s website is located at http://www.sec.gov.

Our website is located at http://www.novtcorporation.com. We make available, free of charge through our internet site, our annual reports on Form 10-K; quarterly reports on Form 10-Q; current reports on Form 8-K; and any amendments to those reports filed or furnished pursuant to the Exchange Act, as soon as reasonably practicable after such material is electronically filed with, or furnished to, the SEC. The information on our website is not incorporated by reference into this report.

**INDUSTRY OVERVIEW**

*Coronary Artery Disease.* Coronary artery disease is the leading cause of death in the United States. It is generally characterized by the progressive accumulation of plaque as a result of the deposit of cholesterol and other fatty materials on the walls of the arteries. The accumulation of plaque leads to a narrowing of the interior passage, or lumen, of the arteries, thereby reducing blood flow to the heart muscle. When blood flow to the heart muscle becomes insufficient, oxygen supply is restricted and a heart attack and death may result. Depending on the severity of the disease and other variables, patients will be treated either surgically with coronary artery bypass graft surgery or less invasively with a percutaneous transluminal coronary angioplasty ( PTCA ) procedure.

*Coronary Artery Bypass Graft Surgery*. Coronary artery bypass graft surgery, or CABG, was introduced as a treatment for coronary artery disease in the 1950 s. CABG is a highly invasive, open surgical procedure in which blood vessel grafts are used to bypass the site of a blocked artery, thereby restoring blood flow. CABG is generally the primary treatment for severe coronary artery disease involving multiple vessels. In addition, CABG is often a treatment of last resort for patients who have undergone other less invasive procedures like PTCA, but require revascularization. However, CABG has significant limitations, including medical complications such as stroke, multiple organ dysfunction, inflammatory response, respiratory failure and post-operative bleeding, each of which may result in death. In addition, CABG is a very expensive procedure and requires a long recovery period. Several new minimally invasive surgical techniques, which have been commercialized, attempt to lessen the cost and trauma of CABG procedures while maintaining efficacy.

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*Percutaneous Transluminal Coronary Angioplasty.* Since its introduction in the late 1970s, PTCA has emerged as the principal, less invasive alternative to CABG. PTCA is a procedure performed in cardiac catheterization labs, commonly referred to as cath labs, by an interventional cardiologist. During PTCA, a guide wire is inserted into a blood vessel through a puncture in the leg (or arm, in some cases) and guided through the vasculature to a diseased site in the coronary artery. A balloon-tipped catheter is then guided over the wire to the deposit of plaque or lesion occluding the artery. After the balloon is positioned across the lesion inside the vessel, the balloon is inflated and deflated several times. Frequently, successively larger balloons are inflated at the lesion site, requiring the use of multiple balloon catheters. The inflation of the balloon cracks or reshapes the plaque and the arterial wall, thereby expanding the arterial lumen and increasing blood flow. However, the inflation of the balloon typically results in injury to the arterial wall. The length of stay and recuperation period for PTCA procedures is substantially less than those required for CABG.

Though PTCA grew rapidly as a highly effective, less invasive therapy to treat coronary artery disease, the principal limitation of PTCA was the high rate of restenosis, the renarrowing of a treated artery, which often required reintervention. Studies have indicated that, within six months after PTCA, between 30% and 50% of PTCA patients experience restenosis.

*Pathology of Restenosis.* Restenosis is typically defined as the renarrowing of a treated coronary artery within six months after a revascularization procedure, such as PTCA, to less than 50% of its normal size. Restenosis is a vascular response to the arterial trauma caused by PTCA. Due to multiple mechanisms controlling vascular repair, restenosis may occur within a short period after a revascularization procedure or may develop over the course of months or years.

Restenosis that occurs within a day of a revascularization procedure is usually attributed to elastic recoil (acute loss of diameter) of the artery. Restenosis also may result from hyperplasia, which is the excessive proliferation of cells at the treatment site, or from vascular remodeling of the arterial segment, which is a slow contraction of a vessel wall. Hyperplasia is a physiological response to injury, similar to scarring, which occurs in wound healing. Vascular remodeling is a contraction of the vessel caused by a thickening of the artery wall. In response to an arterial injury from revascularization, the body initiates a biochemical response to repair the injured site and protect it from further harm. This response will include a signal to adjacent cells of the arterial wall to multiply. Often this cell proliferation goes unchecked, resulting in a much thicker and inelastic arterial wall and in reduced blood flow. Hyperplasia and vascular remodeling are the primary causes of restenosis.

*Coronary Stenting.* Coronary stents are expandable, implantable metal devices permanently deployed at a lesion site. Stents maintain increased lumen diameter by mechanically supporting the diseased site in a coronary artery. Of all the non-surgical treatments seeking to improve upon PTCA, stents have been the most successful in improving the outcome immediately following the procedure and reducing the incidence of restenosis. In a typical stent procedure, the artery is pre-dilated at the lesion site with a balloon catheter, and the stent is delivered to the site of the lesion and deployed with the use of a second balloon catheter that expands the stent and firmly positions it in place. This positioning may be followed by a third expansion, using a high-pressure balloon to fully deploy and secure the stent. Once placed, stents exert radial force against the walls of the coronary artery to enable the artery to remain open and functional.

Studies have concluded that the rate of restenosis in patients receiving coronary stents following PTCA is approximately 30% lower than in patients treated only by PTCA. Since their commercial introduction in the United States in 1994, the use of stents has grown rapidly.

Despite their rapid adoption, stents have certain drawbacks. The use of stents increases the cost of a PTCA procedure, especially when, as is often the case, two or more stents are used. In addition, studies have shown that restenosis still occurs in approximately 15% to 20% of the patients who receive bare metal stents following PTCA. This is commonly referred to as in-stent restenosis. Studies have shown that patients with in-stent restenosis often experience recurrent restenosis and, as a result, are prone to multiple revascularization procedures. Stents are also permanent implants that may result in unforeseen, long-term adverse effects, and cannot be used in cases where the coronary arteries are too tortuous or too narrow. Further, stents appear to be effective in reducing the frequency of restenosis resulting from elastic recoil and vascular remodeling, but they increase the degree of hyperplasia.

*Vascular Brachytherapy vs. Drug Coated Stents.* Vascular brachytherapy is the delivery of radiation within blood vessels. Studies conducted by us and other companies using radiation to treat in-stent restenosis led to FDA approval and the subsequent introduction of VBT devices in 2000 and 2001. These devices, which deliver a dose of radiation to the site of restenosis, have proven to reduce in-stent restenosis, but stents are continually being developed to make the occurrences of restenosis less frequent. The newest innovation is a drug eluting stent ( DES ). This is a product that utilizes a standard stent platform, but with a polymer coating and a therapeutic drug attached to the polymer. The drug elutes off the polymer over

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time and into the vessel, reducing the incidence of restenosis by over half, as compared to a bare metal stent ( BMS ). Johnson & Johnson received FDA approval for its Cypher DES in April 2003 and, by the end of 2003, captured approximately 60% of the U.S. stent market. In March 2004 Boston Scientific Corporation received FDA approval for its DES product, Taxus. We believe that DES will be the mainstay for interventional cardiologists particularly in the U.S. because of its success against restenosis in both trials and clinical practice. We also believe that the overall number of DES procedures will continue to grow significantly in the future, resulting in a substantial decline in the use of VBT products.

Recently several studies have indicated that there may be negative long-term health effects associated with drug-eluting stents. Such studies have shown a higher thrombosis rate, or risk of a blood clot forming, within the stent associated with drug-eluting stents when compared to BMS. The increased risk was small, approximately 0.5% higher for drug eluting stents than BMS after eighteen months of stent implantation. Based upon the number of patients reviewed, the difference shown in the studies was not statistically significant, but is nevertheless an issue that some physicians may be concerned about. However, other studies have found drug-eluting stents more favorable than BMS when all measured parameters are compared. In addition, some recent studies have also compared the effectiveness of using drug-eluting stents for instent restenosis in a bare metal stent as compared to VBT and found that drug-eluting stents are more effective. Furthermore, notwithstanding the issues surrounding the possible higher risk of thrombosis with drug eluting stents, the Company believes that several technologies are being developed to reduce or eliminate this risk. Some of these technologies may be introduced to the market within a relatively short period of time.

**PRODUCT DEVELOPMENT AND CLINICAL TRIALS**

In connection with the wind down of our business operations, we have ceased our ongoing product development and clinical trial activities except as required by regulatory agencies.

Research and development expenses, which include the cost of clinical trials, for the years ended December 31, 2005, 2004 and 2003 were approximately $749,000, $4,633,000 and $11,986,000, respectively. During these years, we continued to collect data for post-approval studies in the United States required by the FDA upon original approval of the Beta-Cath System and the 40mm version of the Beta-Cath System, as well as for European clinical trials that evaluated the 60mm Beta-Cath System and the 40mm Beta-Cath 3.5F System. The data obtained from these European trials were used in regulatory submissions to obtain commercial approval of these configurations of the Beta-Cath System.

All post-approval studies that were initiated with the Beta-Cath System have been completed, with data reported to the FDA, and all trial sites are closed. All clinical trials have been concluded and the required reports filed with the FDA.

**SALES AND MARKETING**

In connection with the wind down of our VBT business, we substantially ceased our sales and marketing activities as part of the staged wind down of the business. The U.S. field sales force was terminated in February 2005 and the European sales office was closed in June 2005. In August 2005, in connection with the asset purchase agreement to sell the VBT business to Best Vascular, NOVT entered into a marketing representation agreement pursuant to which Best Vascular marketed and solicited orders for the existing inventory of products, including the Beta-Cath System, until the sale of the VBT business was consummated, at which time the marketing representation agreement terminated.

**MANUFACTURING, SOURCES OF SUPPLY AND SCALE-UP**

While we ceased manufacturing catheters as of March 1, 2005, we continued to supply catheters from inventory and continued to service transfer devices and radiation source trains until the completion of the asset sale transaction. Our manufacturing operations were required to comply with the FDA s quality system regulations, which included an inspection of our manufacturing facilities, before pre-market approval of the Beta-Cath System. In addition, certain international markets have quality assurance and manufacturing requirements that may be more or less rigorous than those in the United States. Specifically, we are subject to the compliance requirements of ISO 9001 certification and CE mark directives in order to produce products for sale in Europe. We received ISO 9001/ISO 46001 certification from our European Notified Body in April 1998. We are subject to periodic inspections by regulatory authorities to ensure such compliance. See Government Regulation . In the past as part of our manufacturing operations, which we have discontinued, we conducted quality audits of suppliers and required that all suppliers of components be in compliance with our requirements and the FDA s quality system regulations.

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**Beta Radiation Source Train Suppliers**

Beginning in 1996, we contracted with BEBIG Isotopentechnik und Unweltdiagnostik GmbH ( Bebig ), a German corporation, to equip a production site for the production of radioactive sealed Strontium-90 seed trains.

On June 20, 2001, we entered into a new manufacturing and supply agreement with Bebig to manufacture and supply the Company with radioactive sealed Strontium-90 seed trains. During each calendar year under the four-year contract, the Company guaranteed minimum annual payments to Bebig in varying amounts. All product purchases are credited against the annual guaranteed payment. If the Company did not purchase product to exceed the annual guaranteed payment, the deficiency was due and payable to Bebig within thirty days after the end of each one-year contract period. Payment of all obligations were completed during the first quarter of 2005 and the agreement expired on June 19, 2005.

On October 14, 1999, NOVT signed a development and manufacturing supply agreement with AEA Technology-QSA, GmbH ( AEA ) for a second source of radioactive supply and for the development of a smaller diameter radiation source. The agreement provided for the construction of a production line to be finished in two phases. The first phase, the development phase, was completed in February 2002 and the second phase was completed in October 2002. The completion of the first phase provided NOVT with access to a limited supply of the smaller diameter radiation source trains by using the development equipment to produce the smaller diameter radiation source trains. The cost of this production line was paid by NOVT as construction progressed. Depreciation of the production line began when the equipment was placed into service, in October 2002. In addition, the agreement provides for joint ownership of all intellectual property arising from the development work and that AEA may manufacture vascular brachytherapy sources only for NOVT. Annual minimum purchase commitments and pricing guidelines were established extending to 2006 (see Item 7, Liquidity and Capital Resources ). These estimates are subject to negotiation and settlement with AEA. During 2005, NOVT did not purchase any product and paid AEA approximately $650,000, which is recorded as an expense in cost of sales for this shortfall. At the termination of the agreement, NOVT is obligated for costs associated with decommissioning the production facility and $557,000 has been accrued for this purpose. Pursuant to the Amended and Restated Asset Purchase Agreement, Best Vascular assumed NOVT s liabilities under the supply agreement with AEA (excluding certain payments to be made by us to AEA with respect to our minimum purchase requirements).

**PATENTS AND PROPRIETARY TECHNOLOGY**

Our policy is to protect our proprietary position by, among other methods, filing United States and foreign patent applications. We were issued United States patent no. 5,683,345 on November 4, 1997, no. 5,899,882 on May 4, 1999, no. 6,013,020 on January 11, 2000, no. 6,261,219 on July 17, 2001 and no. 6,306,074 on October 23, 2001, all of which relate to both or either the Beta-Cath System with an over-the-wire catheter or the Beta-Cath System with a rapid exchange catheter. We also have several additional United States applications pending covering aspects of our Beta-Cath System. With respect to the above identified United States patents and our other pending United States patent applications, we have filed counterpart applications in Europe and certain other regions or countries.

Like other firms that engage in the development of medical devices, we must address issues and risks relating to patents and trade secrets. United States patent nos. 5,683,345; 5,899,882; 6,013,020; 6,261,219 and 6,306,074 may not offer any protection to us because competitors may be able to design functionally equivalent devices that do not infringe these patents. Any of the patents may also be reexamined, invalidated or circumvented. In addition, claims under our other pending applications may not be allowed, or if allowed, may not offer any protection or may be reexamined, invalidated or circumvented. In addition, competitors may have or may obtain patents that will prevent, limit or interfere with our ability to make, use or sell our products in either the United States or international markets.

On June 9, 2003, Calmedica, LLC ( Calmedica ), a California limited liability corporation, filed suit against us and one of our customers, Rush-Presbyterian St. Luke s Medical Center ( Rush ), in the U. S. District Court for the Northern District of Illinois, Eastern Division, alleging that we and Rush infringe certain patents owned by Calmedica and that we induce infringement of the method claims of the patents-in-suit by our customers, such as Rush.

We retained counsel and initiated a vigorous defense of the Calmedica suit. In response to our initial motions, the Court in Illinois severed the claims against us and Rush, stayed the proceedings against Rush and transferred the case against us to the U.S. District Court for the Northern District of Georgia. We have been aware of the patents owned by Calmedica, which are the subject of this litigation, since early in the development of the Beta-Cath System. The patents were reviewed by both in-house employees and outside counsel and we believe that our products do not infringe the Calmedica patents.

In connection with the completion of the asset sale transaction, Best Vascular assumed all debts, liabilities and obligations related to or arising directly or indirectly from the Calmedica litigation after the closing (i.e., after March 9, 2006), including but not limited to, attorney s

fees, expert witness fees, costs, damages (including willful infringement or enhanced damages), and settlement amounts or judgments, incurred, awarded or arising after the closing. As part of the asset sale transaction, Best Vascular further agreed to indemnify the Company against all such debts, liabilities and obligations, and BMI agreed to guarantee all obligations of Best Vascular under the Amended and Restated Asset Purchase Agreement.

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The medical device industry has been characterized by extensive litigation regarding patents and other intellectual property rights. Companies in the medical device industry have employed intellectual property litigation to gain a competitive advantage. There can be no assurance that we will not become subject to other patent-infringement claims or litigation or interference proceedings declared by the United States Patent and Trademark Office to determine the priority of inventions. The defense and prosecution of intellectual property suits, or interference proceedings and related legal and administrative proceedings are both costly and time-consuming. Litigation may be necessary to enforce our patents, to protect our trade secrets or know-how or to determine the enforceability, scope and validity of the proprietary rights of others. Litigation or interference proceedings result in substantial expense to us and significant diversion of effort by our personnel. An adverse determination in litigation or interference proceedings to which we may become a party could subject us to significant liabilities to third parties.

We have developed certain of our patent and proprietary rights relating to the Beta-Cath System in conjunction with Emory University Hospital, a leader in the research of intravascular radiation therapy. To obtain the exclusive rights to commercialize the Beta-Cath System for the treatment of restenosis, we entered into a license agreement with Emory. Under this agreement, Emory assigned to us all of Emory s rights to one United States patent application and exclusively licensed to us its rights under another United States application and related technology. Emory made no representation or warranty with respect to its ownership of the assigned patent application, and made only limited representations as to its ownership of the licensed patent application and related technology. Under the agreement Emory is entitled to royalty payments based upon net sales of the Beta-Cath System. The term of the agreement runs through the later of (i) the date the last patent covered by the agreement expires or January 2016 unless earlier terminated as provided in the agreement. Any inventions developed jointly by our personnel and Emory during the term of the license agreement are owned jointly by Emory and us. If Emory terminated the agreement as a result of our failure to pay royalties or any other breach of our obligations under the agreement, our rights to use jointly owned patents including the United States patent no. 5,899,882, would become non-exclusive and we would have no rights to use future patents owned exclusively by Emory. In addition, if we breach our obligations under the license agreement, we could be required by Emory to cooperate in licensing the pending jointly-owned United States patent application and our foreign counterparts to third parties so that they would be able to commercialize and sell the Beta-Cath System. Pursuant to the Amended and Restated Asset Purchase Agreement, Best Vascular assumed NOVT s obligations arising after the closing under our agreement with Emory.

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**GOVERNMENT REGULATION**

**United States**

The Beta-Cath System is regulated in the United States as a medical device. The manufacture and sale of medical devices intended for commercial distribution are subject to extensive governmental regulations in the United States. Medical devices are regulated in the United States by the FDA under the Federal Food, Drug, and Cosmetic Act (the FDC Act ) and generally require pre-market clearance or pre-market approval before commercial distribution. In addition, certain material changes or modifications to medical devices also are subject to FDA review and clearance or approval. The FDA regulates the clinical testing, manufacture, packaging, labeling, storage, distribution and promotion of medical devices. Noncompliance with applicable requirements can result in, among other things, fines, injunctions, civil penalties, recall or seizure of products, total or partial suspension of production, failure of the government to grant pre-market clearance or pre-market approval for devices, withdrawal of marketing approvals, recommendation by the FDA that we not be permitted to enter into government contracts, and criminal prosecution. The FDA also has the authority to request repair, replacement or refund of the cost of any device manufactured or distributed. In the United States, medical devices are classified into one of three classes (Class I, II or III) on the basis of the controls deemed necessary by the FDA to reasonably assure their safety and effectiveness. Under FDA regulations Class I devices are subject to general controls (for example, labeling, pre-market notification and adherence to good manufacturing practices or quality systems regulations) and Class II devices are subject to general and special controls (for example, performance standards, post market surveillance, patient registries, and FDA guidelines). Class III is the most stringent regulatory category for medical devices. Generally, Class III devices are those that must receive pre-market approval by the FDA after evaluation of their safety and effectiveness (for example, life-sustaining, life-supporting or implantable devices, or new devices that have not been found substantially equivalent to other Class II legally marketed devices). The Beta-Cath System is a Class III device, which required the FDA s pre-market approval prior to its commercialization, which occurred November 2000.

Any products we manufacture or distribute pursuant to FDA approvals are subject to pervasive and continuing regulation by the FDA, including record-keeping requirements and reporting of adverse experiences with the use of the device. Device manufacturers are required to register their establishments and list their devices with the FDA and certain state agencies, and are subject to periodic inspections by the FDA and those state agencies. The FDC Act requires device manufacturers to comply with good manufacturing practices regulations, called the quality systems regulations ( QSR ). The QSR require that medical device manufacturers comply with various quality control requirements pertaining to design controls, purchasing contracts, organization and personnel; device and manufacturing process design; buildings, environmental control, cleaning and sanitation; equipment and calibration of equipment; medical device components; manufacturing specifications and processes; reprocessing of devices; labeling and packaging; in-process and finished device inspection and acceptance; device failure investigations; and record keeping requirements including complaint files. The FDA enforces these requirements through periodic inspections of medical device manufacturing facilities. In addition, a set of regulations known as the medical device reporting ( MDR ) regulations obligates manufacturers to inform the FDA whenever information reasonably suggests that one of its devices may have caused or contributed to a death or serious injury, or when one of its devices malfunctions and, if the malfunction were to recur, the device would be likely to cause or contribute to a death or serious injury.

Labeling and promotional activities are also subject to scrutiny by the FDA. Among other things, labeling violates the law if it is false or misleading in any respect or it fails to contain adequate directions for use. Moreover, any labeling claims that exceed the representations approved by the FDA will violate the FDC Act.

Our product advertising is also subject to regulation by the Federal Trade Commission under the Federal Trade Commission Act, which prohibits unfair methods of competition and unfair or deceptive acts or practices in or affecting commerce, including the dissemination of any false or misleading advertisement pertaining to medical devices. Under the Federal Trade Commission s substantiation doctrine, an advertiser is required to have a reasonable basis for all product claims at the time claims are first used in advertising or other promotions. What constitutes a reasonable basis may depend on the context of the claim and the level of substantiation expressly or impliedly claimed in the advertising.

Our business involved the import, export, manufacture, distribution, use and storage of Strontium-90 (Strontium/Yttrium), the beta-emitting radioisotope utilized in the Beta-Cath System s radiation source train. Accordingly, manufacture, distribution, use and disposal of the radioactive material used in the Beta-Cath System in the United States is subject to federal, state and/or local rules relating to radioactive material. The State of Georgia Department of Natural Resources ( Georgia DNR ) issued a sealed source and device registration certificate for our Beta-Cath System on August 4, 2000, allowing it to be listed on the Nuclear Regulatory Commission s ( NRC ) Sealed Source and Device Registry. The Georgia DNR authorized us to commercially distribute our radiation sources to licensed recipients in the United States with

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the issuance of a license allowing the manufacturing and distribution of the Beta-Cath System. In addition, we must comply with NRC, Georgia DNR and United States Department of Transportation regulations on the labeling and packaging requirements for shipment of radiation sources to hospitals or other users of the Beta-Cath System.

Hospitals in the United States are required to have radiation licenses to hold, handle and use radiation. Many of the hospitals and/or physicians in the United States are required to amend their radiation licenses to include Strontium-90 before receiving and using our Beta-Cath System. Depending on the state in which the hospital is located, its license amendment will be processed by the responsible department in states that have agreed to such arrangements, or by the NRC. Obtaining any of the foregoing radiation-related approvals and licenses can be complicated and time consuming.

We are also subject to numerous federal, state and local laws relating to such matters as safe working conditions, manufacturing practices, environmental protection, fire-hazard control and disposal of hazardous or potentially hazardous substances.

**International**

We qualified to apply the CE mark to the Beta-Cath System in August 1998, which allows us to sell the device in the 25 countries of the European Union, or EU, and Switzerland. Although the medical devices directive is intended to ensure free movement within the EU of medical devices that bear the CE marking, many countries in the EU have imposed additional requirements, such as labeling in the national language and notification of placing the device on the market. In addition, regulatory authorities in European countries can demand evidence on which conformity assessments for CE-marked devices are based, and in certain circumstances can prohibit the marketing of products that bear the CE marking. Many European countries maintain systems to control the purchase and reimbursement of medical equipment under national health care programs, and the CE marking does not affect these systems.

On February 22, 2005, we announced the staged wind down of our VBT business. At that time, we also announced that we had notified all of our employees outside of the U.S. (16 employees) that they would be terminated in accordance with their contracts and the relevant country s employment regulations in an effort to further reduce our costs.

**PRODUCT LIABILITY AND INSURANCE**

Our business entails the risk of product liability claims. Although we have not experienced any product liability claims to date, such claims could be asserted and we may not have sufficient resources to satisfy any liability resulting from such claims. We maintain product liability insurance with coverage of an annual aggregate maximum of $11,000,000. After the closing of the asset sale transaction (i.e. after March 9, 2006) NOVT purchased a product liability tail policy for an unlimited period of time. This policy will respond to product liability occurring prior to March 9, 2006 but reported to us after that date. Product liability claims could exceed such insurance coverage limits, such insurance may not continue to be available on commercially reasonable terms, or at all, and a product liability claim could have a material adverse effect on us.

**EMPLOYEES AND CONSULTANTS**

During 2004, we engaged in a restructuring of our management organization and significantly reduced our work force. As of December 31, 2004 we directly employed 98 full-time individuals.

In February 2005, we announced that we were reducing our remaining United States workforce in the first quarter of 2005 by 52 employees, from 81 employees. Additionally, we announced that we have notified all our employees outside of the U.S. (16 employees) that they would be terminated in accordance with their contracts and the relevant country s employment regulations in an effort to further reduce our costs.

During 2005, we continued to reduce our workforce consistent with the decline in business activity, and, as of December 31, 2005, we directly employed 18 full-time individuals. After the sale of the VBT business we have 7 full time employees.

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**EXECUTIVE OFFICERS OF NOVT**

Our executive officers as of December 31, 2005, and their ages as of such date, are as follows:

| Name | Age | Position |
|---|---|---|
| Alfred J. Novak | 58 | President and Chief Executive Officer |
| Daniel G. Hall | 59 | Vice President, Secretary and General Counsel |
| Subhash C. Sarda | 56 | Vice President, Finance and Chief Financial Officer |

*Alfred J. Novak*, age 58. Mr. Novak was elected by the Board of Directors to the position of a director and President and Chief Executive Officer of NOVT on October 16, 2002. Since December 1997, he has served as Chairman of the Board of Directors of ProRhythm, Inc., a start-up medical device company engaged in electrophysiology. In September 1998, he co-founded and was a management board member of Syntheon LLC, a company that developed minimally invasive medical devices for the vascular and endoscopic markets. Mr. Novak also serves as a Director of OrbusNeich Medical Company Ltd., an interventional vascular company, since April 1998. From July 1996 until January 1998, Mr. Novak was President, Chief Executive Officer and a director of Biosense, Inc., a company that developed a position sensor incorporated into catheters and used in interventional cardiology, electrophysiology, and image guided surgery, and which was acquired by Johnson & Johnson in October 1997. Mr. Novak was employed by Cordis Corporation in April 1984 and served as its Vice President and Chief Financial Officer and a member of the executive committee until Cordis was acquired by Johnson & Johnson in February 1996. Mr. Novak received his M.B.A. from the Wharton School of the University of Pennsylvania and earned his B.S. at the U.S. Merchant Marine Academy.

*Daniel G. Hall.* Mr. Hall joined NOVT in June 2000 as Vice President and General Counsel. He served as Vice President, Secretary and General Counsel of Cordis Corporation beginning in 1981 until the company was acquired by Johnson & Johnson in 1995. From 1995 to 1999, Mr. Hall managed his own private law practice. From June 1999 to June 2000, he practiced with Feldman, Gale & Weber, P.A. in Miami, Florida, serving as managing attorney from December 1999 to June 2000.

*Subhash C. Sarda.* Mr. Sarda joined NOVT in November 2002 as Corporate Controller, and served as Acting Chief Financial Officer beginning in August 2003. In February 2004, he was promoted to the position of Vice President, Finance and continued to be responsible for the duties of Controller and Acting Chief Financial Officer until December 2004 when he was promoted to the position of Chief Financial Officer. Prior to joining NOVT, Mr. Sarda worked in a number of multi-national companies with management responsibilities for operational and SEC reporting. Mr. Sarda, a CMA, ACA, holds an M.B.A. from Temple University, Philadelphia, and a B.A. in Accounting from studies pursued at the London School of Accountancy, London, UK.

See Business Overview Settlement Agreement with Steel Parties and Item 11, Executive Compensation November 2005 Letter Agreements.

**ITEM 1A. RISK FACTORS**

In connection with the safe harbor provisions of the Private Securities Litigation Reform Act of 1995, set forth below are cautionary statements identifying important factors that could cause actual events or results to differ materially from any forward-looking statements made by or on behalf of us, whether oral or written. We wish to ensure that any forward-looking statements are accompanied by meaningful cautionary statements in order to maximize to the fullest extent possible the protections of the safe harbor established in the Private Securities Litigation Reform Act of 1995. Accordingly, any such statements are qualified in their entirety by reference to, and are accompanied by, the following important factors that could cause actual events or results to differ materially from our forward-looking statements. For additional information regarding forward-looking statements, please read the Cautionary Note Regarding Forward-Looking Statements section beginning on page 1.

On February 22, 2005, we announced that our board of directors had determined that our VBT business was no longer viable and, as a result, had authorized a staged wind down of our business. In addition, as discussed above under Business - Overview, we previously engaged Asanté Partners LLC to assist us in the exploration of strategic alternatives. On March 9, 2006, we completed the sale of substantially all of the assets of our VBT business to Best Vascular pursuant to

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the Amended and Restated Asset Purchase Agreement. The proposed asset sale transaction was approved by our shareholders at a meeting held on March 7, 2006. As a result of the completion of the asset sale transaction, we have no operating VBT business and are in the process of winding down our remaining obligations and liabilities.

In addition to the other information contained or incorporated by reference into this Form 10-K, prospective investors should consider carefully the following risk factors before investing in our securities. The risks described below may not be the only risks facing the Company. Additional risks that we do not yet perceive or that we currently believe are immaterial may also adversely affect our business and the trading price of our securities.

***In connection with the completion of the sale of our VBT business, we have no continuing business operations.***

Substantially all of our operating assets were related to our VBT business. As a result of the completion of the asset sale transaction, we have no continuing business operations. Since we have no continuing business operations, the only activities to be conducted by the Company are the continued winding down of the business and to manage our current limited assets and to seek out and investigate the commencement or the acquisition of any viable business opportunity by purchase for cash or by exchange for securities of our Company or pursuant to a reorganization or merger through which securities of our Company will be issued or exchanged.

***We have no source of revenue.***

Other than limited revenues received on the Company s cash and investments, we have no source of revenues.

***We received a notice from the NASDAQ Stock Market that we are not in compliance with their continued listing requirements and we expect to be delisted from the NASDAQ Stock Market at the open of business on April 3, 2006.***

Our Common Stock is currently listed on the NASDAQ National Market. On March 23, 2006, we received a notice from the NASDAQ Stock Market indicating that the Company is not in compliance with the NASDAQ Stock Market s requirements for continued listing because, as a result of the sale on March 9, 2006 of the Company s VBT business to Best Vascular, the Company no longer has an operating business. As a result of the notice the Company received from the NASDAQ Stock Market, the Company expects that its Common Stock will be delisted from the NASDAQ Stock Market at the open of business on April 3, 2006. Upon delisting, the Company s Common Stock will not be immediately eligible to trade on the OTC Bulletin Board or in the pink sheets and there can be no assurance that the Company s Common Stock will trade on the OTC Bulletin Board or in the pink sheets. As a result, you should expect that there will be no public trading market of our Common Stock in the near future as a result of its delisting.

***Best Vascular and BMI could default on their obligations to perform and discharge the assumed liabilities.***

Pursuant to the Amended and Restated Asset Purchase Agreement, Best Vascular assumed specified liabilities related to the VBT business, such as liabilities incurred or arising before or after the closing under our supply agreement, dated October 14, 1999, with AEA, and liabilities incurred or arising after the closing under those certain patent infringement lawsuits filed against us by Calmedica pending in the United States District Court for the Northern District of Georgia and the United States District Court for the Northern District of Illinois. BMI agreed to guarantee the full and faithful performance by Best Vascular of all the obligations of Best Vascular under the Amended and Restated Asset Purchase Agreement. If Best Vascular and BMI fail to perform and discharge the assumed liabilities, including circumstances in which Best Vascular and BMI do not have the financial resources to perform and discharge the assumed liabilities, then we may remain liable for the assumed liabilities which would decrease the remaining cash available for use in connection with any future strategic deployment.

***The reporting requirements under rules adopted by the SEC relating to shell companies may delay or prevent us from making certain acquisitions.***

As a result of recent rules adopted by the SEC, the Company may be deemed to be a shell company. The rules are designed to ensure that investors in shell companies that acquire operations have timely access to the same kind of information as is available to investors in public companies generally. The rules prohibit the use by shell companies of a Form S-8 and revise the Form 8-K to require a shell company to include information that is similar to that required to register a class of securities under the Exchange Act in the filing on Form 8-K that the shell company files to report the acquisition of a business.

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The generally extensive registration-level information includes, among other information, a detailed description of a company s business and properties, management, executive compensation, related party transactions, legal proceedings and historical market price information, as well as audited historical financial statements. The revised Form 8-K rules also require a shell company to file pro forma financial statements giving effect to the acquisition.

The time and additional costs that may be incurred by some acquisition prospects to prepare such detailed disclosures and obtain audited financial statements may significantly delay or essentially preclude consummation of an otherwise desirable acquisition by the Company, or deter potential targets from negotiating with the Company.

***We have not selected a specified industry in which to acquire or develop a business.***

Since the completion of the sale of the VBT business to Best Vascular, we have not identified any particular industry or business in which to concentrate our potential interests. Accordingly, prospective investors currently have no basis to evaluate the comparative risks and merits of investing in any industry or business in which our Company may acquire. To the extent that we may acquire a business in a high-risk industry, we will become subject to those risks. Similarly, if we acquire a financially unstable business or a business that is in the early stages of development, we will also become subject to the numerous risks to which those businesses are subject.

***Product liability suits against us could result in expensive and time-consuming litigation and the payment of substantial damages.***

The past sale by NOVT and use of our products could lead to the filing of product liability claims if someone were to allege that one of our products contained a design or manufacturing defect. A product liability claim could result in substantial damages and be costly and time-consuming to defend, either of which could materially harm our business or financial condition. We cannot assure that our product liability insurance would protect our assets from the financial impact of defending a product liability claim.

***We have substantially reduced our workforce as part of our wind down of operations and the sale of our VBT business.***

We currently have extremely limited personnel resources. During 2004, we engaged in a restructuring of our management organization and significantly reduced our work force. In February 2005, we announced that we were reducing our remaining United States workforce in the first quarter of 2005 by 52 employees, from 81 employees, and terminating the 16 employees we had outside the U.S. in accordance with their contracts and the relevant country s employment regulations. Following the completion of the asset sale transaction, we terminated 12 employees and as of March 25, 2006 have seven employees. In addition, pursuant to letter agreements entered into with each of our executive officers, Alfred J. Novak, our President and Chief Executive Officer, has agreed that his last day of employment with the Company will be March 31, 2006 unless the parties agree to a one month extension through April 30, 2006; Daniel G. Hall, our Vice President, Secretary and General Counsel, has agreed that his last day of employment with the Company will be March 31, 2006; and Subhash C. Sarda, our Chief Financial Officer, has agreed that his last day of employment with the Company will be March 31, 2006. Until a new executive management team is identified and employed, it may be difficult for us to implement any future strategic deployment of our remaining cash.

***We hold an unsecured promissory note of ONI Medical Systems, Inc. that may not be repaid in full or at all.***

In May 2005, in connection with a merger agreement with ONI, we extended a $3 million unsecured 18-month loan to ONI. Principal and interest on the loan will be due in November 2006 (unless an event of default occurs in the interim period, in which case the note and interest are accelerated). We terminated the merger agreement with ONI on September 26, 2005.

During February 2006, a new federal law was enacted which we believe has the effect of reducing outpatient reimbursement rates for companies such as ONI. This could have the effect of slowing ONI s business and require faster use of their cash to sustain operations. ONI is a private company and the availability of their financial statements is limited. ONI has not provided us with financial statements for the period ended December 31, 2005. Additionally, they have informed us that, while they had a cash infusion of $7 million in November 2005, they will require further financing during 2006.

Although we have received a non-default confirmation certificate dated January 24, 2006 from ONI, as a result of the above we established a reserve as of December 31, 2005 for the ONI promissory note, including interest to that date, of approximately $3.1 million in accordance with the requirements of Generally Accepted Accounting Principles. There can be no assurance that ONI will be able to repay the note in November 2006 in full or at all. As a result, we could recoup little or no value for the note.

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***We may continue to incur the expense of complying with public company reporting requirements.***

We have an obligation to continue to comply with the applicable reporting requirements of the Exchange Act even though compliance with such reporting requirements is economically burdensome. In the future, in order to curtail such expenses, we might seek relief from the SEC for a substantial portion of the periodic reporting requirements under that Act or we may seek to exit the SEC reporting system. There can be no assurance that we would be able to obtain such relief or exit the SEC reporting system.

**ITEM 1B. UNRESOLVED STAFF COMMENTS**

Not applicable.

**ITEM 2. PROPERTIES**

The Company s headquarters are located in Norcross, Georgia and consist of a manufacturing and administrative facility totaling approximately 50,000 square feet of leased office and manufacturing space, including a 4,100 square foot, class 100,000 clean room. The lease for the property in Norcross, Georgia expires on June 30, 2006. As part of the completion of the asset sale transaction with Best Vascular, we entered into a letter agreement on March 9, 2006 addressing various transition issues with Best Vascular, including shared use of office space, use of computers and communications systems, and certain other transition-related matters. In accordance with such letter agreement, the Company agreed to vacate its headquarters in Norcross, Georgia by May 31, 2006. The lease for the sales facility in Krefeld, Germany expired April 30, 2005, and was not renewed. A temporary office was utilized until June 2005.

**ITEM 3. LEGAL PROCEEDINGS**

On June 9, 2003, Calmedica, LLC ( Calmedica ) a California limited liability corporation, filed suit against the Company and one of our customers, Rush-Presbyterian St. Luke s Medical Center ( Rush ) in the U.S. District Court for the Northern District of Illinois, Eastern Division, alleging that NOVT and Rush infringe certain patents owned by Calmedica and that NOVT induces infringement of the method claims of the patents-in-suit by its customers, such as Rush.

The Company retained counsel and initiated a vigorous defense of the Calmedica suit. In response to NOVT s initial motions, the Court in Illinois severed the claims against the Company and Rush, stayed the proceedings against Rush and transferred the case against the Company to the U.S. District Court for the Northern District of Georgia. The Company has been aware of the patents owned by Calmedica, which are the subject of this litigation, since early in the development of the Beta-Cath System. The patents were reviewed by both in-house employees and outside counsel and the Company believes that our products do not infringe the Calmedica patents.

In connection with the completion of the asset sale transaction, Best Vascular assumed all debts, liabilities and obligations related to or arising directly or indirectly from the Calmedica litigation after the closing (i.e., after March 9, 2006), including but not limited to, attorney s fees, expert witness fees, costs, damages (including willful infringement or enhanced damages), and settlement amounts or judgments, incurred, awarded or arising after the closing. As part of the asset sale transaction, Best Vascular further agreed to indemnify the Company against all such debts, liabilities and obligations, and BMI agreed to guarantee all obligations of Best Vascular under the Amended and Restated Asset Purchase Agreement.

Other than the Calmedica litigation, which was assumed by Best Vascular in connection with the completion of the asset sale transaction, the Company is not currently party to any lawsuits or legal proceedings that would have a material effect on the Company.

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

No matters were submitted to a vote of security holders during the fourth quarter of 2005.

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## PART II

### ITEM 5. MARKET FOR THE REGISTRANT S COMMON EQUITY, RELATED SHAREHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our Common Stock has been traded on the NASDAQ National Market (NASDAQ symbol: NOVT) since May 1996. The number of record holders of the Company s Common Stock at March 1, 2006 was 75 excluding beneficial owners of shares that are registered in nominee or street name. The Company has not paid any cash dividends since its inception.

The following table sets forth the range of high and low closing sale prices for our Common Stock for each of the last eight quarters (all such prices have been adjusted to reflect the one-for-four reverse stock split that occurred on November 4, 2005 as if such reverse stock split had taken effect prior to each of the periods listed below):

| Quarter Ended | High | Low |
|---|---|---|
| Year Ended December 31, 2004 | | |
| March 31, 2004 | $ 22.80 | $ 12.44 |
| June 30, 2004 | $ 13.88 | $ 9.92 |
| September 30, 2004 | $ 11.72 | $ 6.20 |
| December 31, 2004 | $ 7.04 | $ 5.16 |
| Year Ended December 31, 2005 | | |
| March 31, 2005 | $ 6.44 | $ 3.40 |
| June 30, 2005 | $ 3.92 | $ 3.28 |
| September 30, 2005 | $ 3.92 | $ 2.44 |
| December 31, 2005 | $ 2.82 | $ 1.84 |

On March 24, 2006, the last reported sale price for our Common Stock was $3.00.

Our Common Stock is currently listed on the NASDAQ National Market. On March 23, 2006, we received a notice from the NASDAQ Stock Market indicating that the Company is not in compliance with the NASDAQ Stock Market s requirements for continued listing because, as a result of the sale on March 9, 2006 of the Company s VBT business to Best Vascular, the Company no longer has an operating business. As a result of the notice the Company received from the NASDAQ Stock Market, the Company expects that its Common Stock will be delisted from the NASDAQ Stock Market at the open of business on April 3, 2006. Upon delisting, the Company s Common Stock will not be immediately eligible to trade on the OTC Bulletin Board or in the pink sheets and there can be no assurance that the Company s Common Stock will trade on the OTC Bulletin Board or in the pink sheets. As a result, you should expect that there will be no public trading market of our Common Stock in the near future as a result of its delisting.

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**ITEM 6. SELECTED CONSOLIDATED FINANCIAL DATA**

The selected financial data shown below for the fiscal years ended December 31, 2005, 2004 and 2003, and as of December 31, 2005 and 2004, have been taken or derived from our audited financial statements included in this Form 10-K. The selected financial data set forth below for the fiscal years ended December 31, 2002 and 2001, and as of December 31, 2003, 2002 and 2001, have been derived from our financial statements for those years, which are not included in this Form 10-K. The selected consolidated financial data set forth below should be read in conjunction with the consolidated financial statements and related notes thereto and with *Management s Discussion and Analysis of Financial Condition and Results of Operations* included elsewhere in this Form 10-K.

| | For The Year Ended December 31, | | | | |
|---|---|---|---|---|---|
| | 2005 | 2004 | 2003 | 2002 | 2001 |
| | (In thousands, except per share amounts) | | | | |
| **Consolidated Statement of Operations Data:** | | | | | |
| Net sales | $ 7,887 | $ 23,268 | $ 62,901 | $ 69,030 | $ 69,908 |
| Costs and expenses: | | | | | |
| Cost of sales | 5,976 | 16,111 | 24,315 | 27,313 | 19,164 |
| Impairment and related charges | | 9,349 | | 6,900 | |
| Research and development | 749 | 4,633 | 11,986 | 13,300 | 12,756 |
| Sales and marketing | 4,360 | 12,558 | 19,485 | 26,875 | 34,654 |
| General and administrative | 10,574 | 8,036 | 8,237 | 8,335 | 9,324 |
| Restructuring and other expenses | | | | | 1,214 |
| Loss from operations | (13,772) | (27,419) | (1,122) | (13,693) | (7,204) |
| Other income(expense) | (1,557) | 498 | 254 | 642 | 2,095 |
| Net loss | $ (15,329) | $ (26,921) | $ (868) | $ (13,051) | $ (5,109) |
| Basic and diluted net loss per share (1) | $ (3.75) | $ (6.59) | $ (0.21) | $ (3.21) | $ (1.27) |
| Weighted average shares outstanding, basic and diluted (1) | 4,084 | 4,083 | 4,078 | 4,067 | 4,038 |
| **Consolidated Balance Sheet Data:** | | | | | |
| Working capital | $ 10,207 | $ 25,753 | $ 39,364 | $ 30,496 | $ 40,482 |
| Total assets | 14,088 | 33,702 | 61,407 | 67,520 | 82,911 |
| Long-term liabilities | | | | 5 | 203 |
| Accumulated deficit | (177,552) | (162,223) | (135,302) | (134,434) | (121,384) |
| Total shareholders equity | 10,288 | 26,454 | 53,244 | 52,765 | 64,728 |

(1) See note 1 to the Consolidated Financial Statements for an explanation of the method used to compute net loss per share.

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**ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

**OVERVIEW**

NOVT commenced operations as a medical device company in May 1992. Since 1994, we have devoted substantially all of our efforts to developing the Beta-Cath System. We commenced the active marketing of the Beta-Cath System in Europe in January 1999 for use in patients suffering from in-stent restenosis , a condition in which coronary stents become clogged with new tissue growth. On November 3, 2000, we received U.S. marketing approval for the 30-millimeter Beta-Cath System from the FDA and subsequently shipped the first commercial system on November 27, 2000. The number of commercial sites in the U.S. grew to approximately 400 by 2003, before declining to approximately 130 at December 31, 2005.

Since our inception through June 30, 2001 we experienced significant losses in each period due to product development and clinical trial costs and, beginning in 2000, due to the costs of launching the Beta-Cath System in the U.S. Beginning in 2001, losses began to decline as revenue increased and development costs and clinical trials began to decrease. However, we have not been able to maintain consistent profitability as we have experienced competitive pressures from other vascular brachytherapy products and alternative products such as drug-eluting stents. In particular, since the introduction of drug-eluting stents in April 2003, we have seen a wider acceptance of that product in the medical community and a decline in sales of our VBT products.

Fiscal year 2003 was a challenging year as we relaunched a redesigned 3.5F diameter catheter system in January, saw the introduction of drug-eluting stents in April, and saw the curtailment of a clinical trial in July; all of which adversely affected our financial performance. However, with the execution of a cost reduction program we were able to achieve a significant turnaround, and ended the year with a net loss of $868,000 compared to a net loss of $13,051,000 in 2002.

Fiscal year 2004 was equally challenging, as the drug-eluting stents proved to be more effective than anticipated and our revenue declined significantly, $23,268,000 as compared to $62,901,000 for the fiscal year 2003. To address the decline, in March 2004, NOVT announced a reduction in force to take an additional 87 positions out of the work force. On April 22, 2004, NOVT concluded an asset purchase agreement with Guidant Corporation, pursuant to which NOVT acquired information regarding Guidant s vascular brachytherapy business, including the customer list of Guidant for the United States and Canada, as well as a five-year non-compete agreement. As a result, NOVT became the sole provider of coronary brachytherapy products (see Notes 7 and 13 to the consolidated financial statements). As noted below, NOVT began an aggressive cost reduction program at the end of the first quarter of 2004 and initiated restructuring of operations in the United States in order to bring expenses in line with lower revenues. During the second quarter of 2004, NOVT consolidated U.S. operations into a single building, with the expectation of significantly lowering fixed costs for facilities. In the third quarter of 2004, we saw the benefit of the Guidant transaction as approximately 80 customers were added or reinstated, billings for servicing transfer devices increased and our net rate of decline in catheter sales slowed. At the end of 2004, in view of continued revenue decline, NOVT concluded that the stream of funds to be generated by the Beta-Cath product line would not be sufficient to cover the carrying value of long-lived assets and recorded an impairment charge of $9,349,000 to reduce these assets to fair value. As a result, we had a net loss for the year ended December 31, 2004 of $26,921,000, or $6.59 per share, with an accumulated deficit of approximately $162,223,000.

Revenue decline for the Beta-Cath product line continued into 2005. On February 22, 2005, we announced that our board of directors had determined that our vascular brachytherapy business, which is our only business line, was no longer viable, and as a result, authorized a staged wind down of our business in an effort to further reduce our costs. Our board determined that this decision was necessary to preserve our cash resources as a result of the continuing decline in revenue for our vascular brachytherapy products.

During 2005, NOVT continued the staged wind down of the VBT business, while potential options were evaluated. Further reductions in employees and other cost reduction measures were implemented on a regular basis. Revenues continued to decline throughout 2005. Production of products was discontinued in February, as inventory was sufficient to meet anticipated sales needs. The wind down plan begun in February 2005 has reduced employment to 18 persons at December 31, 2005, from almost 100 at the beginning of the year. As a result of the revenue decline, and the reserve for the ONI note receivable, we had a net loss of $15,329,000 for 2005, compared to a loss of $26,921,000 for 2004.

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On May 18, 2005, we entered into a definitive merger agreement with ONI. On September 26, 2005, we terminated the merger agreement with ONI after the Company s shareholders, at a reconvened special meeting of shareholders in lieu of an annual meeting, failed to approve the issuance of shares of our Common Stock necessary to complete the merger with ONI. All transaction related expenses that have been incurred through December 31, 2005 have been charged to expense.

Subsequent to the implementation of the wind down of the VBT business announced in February 2005, we began discussions with Best Vascular and BMI regarding a sale of substantially all of the assets of our VBT business. On August 25, 2005, NOVT entered into an asset purchase agreement to sell substantially all assets related to the VBT business to Best Vascular. On October 12, 2005, we entered into the Amended and Restated Asset Purchase Agreement with Best Vascular and BMI. Under the Amended and Restated Asset Purchase Agreement, Best Vascular would acquire substantially all of the assets of our VBT business in exchange for the assumption of certain liabilities related to the VBT business by Best Vascular. Such assets included the patents and other intellectual property, the inventory and equipment, furniture, records, sales materials, and various agreements and contracts in each case associated with our VBT business. The assets to be transferred and conveyed to Best Vascular did not include cash and cash equivalents and certain other assets not related to our VBT business. Pursuant to the agreement, BMI agreed to guarantee the full and faithful performance by Best Vascular of all agreements of Best Vascular set forth in the Amended and Restated Asset Purchase Agreement.

On March 9, 2006, the Company completed the sale of substantially all of the assets of its VBT business to Best Vascular pursuant to the Amended and Restated Asset Purchase Agreement. The asset sale transaction was approved by the Company s shareholders at a meeting held on March 7, 2006. As a result of the completion of the asset sale transaction, we have no continuing business operations and may be deemed to be a shell corporation with principally cash assets and a note receivable.

**CRITICAL ACCOUNTING POLICIES**

The Company s discussion and analysis of its financial condition and results of operations are based upon the Company s consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of our financial statements requires that we adopt and follow certain accounting policies. Certain amounts presented in the financial statements have been determined based upon estimates and assumptions. Although we believe that our estimates and assumptions are reasonable, actual results may differ and such differences could be material.

We have included below a discussion of the critical accounting policies that we believe are affected by our more significant judgments and estimates used in the preparation of our financial statements, how we apply such policies, and how results differing from our estimates and assumptions would affect the amounts presented in our financial statements. Other accounting policies also have a significant effect on our financial statements, and some of these policies also require the use of estimates and assumptions. Note 1 to the consolidated financial statements, included in Item 15, discusses our significant accounting policies.

**Asset Impairment**

NOVT evaluates the carrying value of long-lived assets in accordance with the provisions of SFAS 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, whenever events or circumstances indicate that the carrying value of an asset may not be recoverable. Recoverability of assets to be held and used is determined based on the carrying value of an asset exceeding the future undiscounted net cash flow expected to be generated by the asset. If an asset is not recoverable, impairment is measured by the excess of the carrying value of the asset over the fair value of the asset.

During the fourth quarter of 2004, the Company updated an economic study regarding the value of all long-lived assets supporting the VBT business. The impairment analysis was based on expected future net cash flows to be generated by the assets during their remaining service lives, using undiscounted cash flows. Because the Company only has one product line, all enterprise-wide, long-lived assets were included. The study concluded that the assets were impaired, and the carrying value of all long-lived assets was reduced and expensed in the functions where the assets were used. At December 31, 2004, all of the specialized assets relating to the Beth-Cath product line were considered to have zero fair value due to their specialized nature and lack of alternative uses and the Company recorded an impairment charge of $9,349,000 on long-lived assets. Property and equipment that is more versatile in nature was reduced to estimated net realizable value. At December 31, 2005, the carrying value of all long-lived assets is recorded at their estimated net realizable value.

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Following the announcement of our staged wind down, NOVT committed to a plan for the sale of certain assets in accordance with the wind down plan. The plan included actively identifying and seeking buyers for these assets. In accordance with the provision of SFAS 144, assets held for sale are stated at estimated net realizable value and depreciation on these assets has been suspended (see also Note 5 to the consolidated financial statements).

**Revenue Recognition**

Revenue from the sale of products is recorded when an arrangement exists, delivery has occurred and services have been rendered, the seller s price is fixed and determinable and collectability is reasonably assured. The Company earns revenue from sales of catheters and stents and from license and lease agreements to use the radiation source trains and transfer devices included in the Beta-Cath System.

NOVT uses distributors in countries where the distributors experience and knowledge of local radiation and medical device regulatory issues is considered beneficial by the Company s management. Under the distributor arrangements, there are generally no purchase commitments and no provisions for cancellation of purchases. NOVT or the distributor may cancel the distributor agreements through mutual negotiation and settlement. As part of the staged wind down, such agreements were terminated and as of December 31, 2005, no such distribution agreements remained in force. In August 2005, in connection with the proposed sale of substantially all of the assets of our VBT business to Best Vascular, NOVT entered into a marketing representation agreement with Best Vascular and BMI.

Revenue from sales of catheters directly to hospitals is recognized upon shipment after the hospital has leased a Beta-Cath System and completed all licensing and other requirements to use the system. The Company recognizes revenue from sales of catheters and stents to customers at the time of shipment.

The Company retains ownership of the radiation source trains and transfer devices and enters into either a lease or service agreement with its customers. Revenue recognition begins after an agreement has been executed, the system has been shipped, and all licensing and other requirements to use the system have been completed. The revenue is recognized ratably over the term of the agreement. Under the terms of the agreement signed with customers located in the United States, replacement and servicing of the radiation source train and transfer device is required at six-month intervals or twelve-month intervals, depending on the model of the device. This amount is included in cost of sales as incurred. No other post-sale obligations exist.

The Company sells its catheters with no right of return other than in cases of product malfunction or shipping errors. In connection with the recall of 3.5F catheters in the third quarter of 2002 and subsequent relaunch in early 2003, the Company offered to exchange defective 3.5F catheters for 5.0F catheters until the redesigned 3.5F catheters were available, and agreed to take back any unused 5.0F catheters for redesigned 3.5F catheters upon re-launch of the new 3.5F catheters. The selling prices of the redesigned 3.5F and the 5.0F catheters were the same. At December 31, 2002, a revenue reserve of $2,150,000 was recorded in connection with the relaunch of the 3.5F catheters recalled during the third quarter of 2002. This reserve covered the anticipated exchange of 5.0F catheters for 3.5F catheters by customers during the first quarter of 2003. As these exchanges occurred, the reserve was released and the revenue recognized. This revenue was recognized during 2003 as these exchanges occurred. Selling expenses of $200,000 relating to this revenue reserve were deferred, and were released as revenue was recognized. The cost of goods sold relating to this revenue reserve were deemed immaterial and therefore not deferred. No new reserve has been recorded because the Company s exchange policy has expired.

**Radiation and Transfer Devices and Amortization of Costs**

The Company retains ownership of the radiation source trains ( RSTs ) and transfer devices ( TDs ) that are used by customers. The costs to acquire, test and assemble these assets are recorded as incurred. The Company has determined that based upon experience, testing and discussions with the FDA, the estimated useful life of RSTs and TDs exceeds one year and is potentially as long as four years. Accordingly, the Company classifies these assets as long-term assets (see Note 6 to the consolidated financial statements). Depreciation of the costs of these assets is included in Cost of Sales and is recognized over their estimated useful lives of 12 months and 36 months for RSTs and TDs, respectively, using the straight-line method. Depreciation begins at the time the Beta-Cath System is placed into service.

The Company has invested significant resources to acquire RSTs and TDs that make up the Beta-Cath System and offers multiple treatment length catheters requiring matching RSTs. The acquisition of these various length RSTs were based upon demand forecasts derived from available information provided by the Company s sales and marketing department. If actual demand were less favorable, or of a different mixture of treatment lengths than those projected by management, additional valuation allowances might be required, which would negatively impact operating results.

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During 2004, the Company recorded a total impairment charge of $9,349,000 of which $3,443,000 related to radiation and transfer devices (see Note 15 to the consolidated financial statements). Subsequent to December 31, 2004, no depreciation was recorded.

**Stock Based Compensation**

The Company uses the intrinsic value method for valuing its awards of stock options and restricted stock and recording the related compensation expense, if any, in accordance with Accounting Principles Board Opinion (APB) No. 25, *Accounting for Stock Issued to Employees*, and related interpretations. The Company grants stock options generally for a fixed number of shares to employees, directors, consultants and independent contractors with an exercise price equal to the fair market value of the shares at the date of grant. Compensation expense is recognized for increases in the estimated fair value of common stock for any stock options with variable terms. No compensation expense is recognized for stock option grants to employees for which the terms are fixed and the exercise price is equal to the fair value of the shares at the date of the grant.

The Company accounts for equity instruments issued to non-employees in accordance with the provisions of Statement of Financial Accounting Standards No. 123, *Accounting for Stock-Based Compensation* and Emerging Issues Task Force (EITF) Issue No. 96-18, *Accounting for Equity Instruments that Are Issued to Other than Employees for Acquiring, or in Conjunction with Selling, Goods or Services.*

Any compensation expense related to grants that do not vest immediately is amortized over the vesting period of the stock options using the straight-line method as that methodology most closely approximates the way in which the option holder earns those options (see Notes 1 and 12 to the consolidated financial statements).

**Allowance for Doubtful Accounts**

We maintain allowances for doubtful accounts related to trade accounts receivable for the estimated losses resulting from the inability of our customers to make required payments. Most of our customers are hospitals located in the U.S.; however, some are distributors of our products in foreign countries or hospitals located in Europe. The amount recorded in the allowances is based primarily on management s evaluation of the financial condition of the customers. Actual losses from uncollectible accounts are charged against the allowance when it is determined that the account cannot be collected (see Note 3 to the consolidated financial statements). We also maintain allowances for doubtful collectability of promissory notes (see Note 22 to the consolidated financial statements).

**Inventories**

NOVT values its inventories at the lower of cost or market value on a first-in, first-out (FIFO) basis. Reserves are recorded for excess or obsolete inventory equal to the cost of the inventory. Shelf-life expiration or replacement products in the marketplace may cause product obsolescence. If actual product demand and market conditions become less favorable than those projected by management, additional provisions might be required which would negatively impact operating profits. NOVT evaluates the adequacy of these provisions quarterly (see Note 4 to the consolidated financial statements).

**Intangible Assets**

These assets consist of licenses, patents, and a customer list acquired from Guidant. They are recorded at cost and amortized over the term of the license, life of the patent, or estimated life of the customer list. During the fourth quarter of 2004, the Company performed an impairment evaluation in accordance with the provisions of SFAS 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*. Based on this evaluation, the Company recorded a charge of $1,719,000 to reduce the fair value of these assets to zero (see Note 15 to the consolidated financial statements).

**Employment Termination Costs**

As part of the wind down plan, NOVT has provided financial incentives through stay bonuses and severance payments to employees to remain with the Company to complete the sale of the VBT business and to manage the wind down. NOVT accounts for these termination benefits in accordance with SFAS 146, *Accounting for Costs Associated with Exit or Disposal Activities* (see Note 16 to the consolidated financial statements).

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**RESULTS OF OPERATIONS**

**Comparison of Years Ended December 31, 2005 and 2004**

***Net Sales and Gross Margin***

Net sales, cost of sales, and gross margin are comprised of the following (in thousands):

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2005 | 2004 | Increase (decrease) |
| Net sales: | | | |
| United States | $ 6,035 | $ 19,391 | (68.9)% |
| Rest of World | 1,852 | 3,877 | (52.2)% |
| Total net sales | 7,887 | 23,268 | (66.1)% |
| Cost of sales | 5,976 | 16,111 | (62.9)% |
| Impairment charge | | 7,630 | (100.0)% |
| Gross margin | $ 1,911 | $ (473) | 504.0% |

Both the U.S. and international VBT markets continued to be negatively affected by the introduction of drug-eluting stents.

Net sales decreased 66% to $7,887,000 for the year ended December 31, 2005, from $23,268,000 for the year ended December 31, 2004. Catheter unit volume in the U.S. declined 80% as drug-eluting stents have proven to be very effective in reducing in-stent restenosis. However, unit volume decline outside the U.S. was limited to 56% as drug-eluting stents are not as predominant in PTCA procedures outside of the United States. The volume decline in the U.S. was offset by a 53% increase in revenue from service and lease agreements for radiation devices which was facilitated by the transaction with Guidant in April 2004 that made NOVT the sole source of VBT technology and provided a stronger marketing position from which to bill for these services.

Stent revenue declined in Europe due to the presence of heavy competition from larger companies and with the introduction of drug-coated stents. In February 2005, NOVT terminated their distributorship agreement, and the sale of stents was discontinued by the Company in the first quarter of 2005.

Cost of sales declined for 2005 due to lower volume and elimination of other costs. Costs for variable items such as products, shipping, and royalties declined approximately $2,666,000. Significant changes in other costs include elimination of radiation device amortization of approximately $4,239,000 as all devices were considered fully impaired at December 31, 2004, lower expenses of approximately $721,000 for servicing fewer transfer devices used by customers, and lower manufacturing overheads of approximately $2,906,000 due to the reduction in force and elimination of depreciation on the radiation source train production facility after December 2004, now considered to be fully impaired. These reductions were offset by a net increase in AEA minimum purchase payments of approximately $833,000 due to full accrual of these costs for the remaining obligation through September 2006. In addition, there was no impairment charge in 2005, compared to $7,630,000 in 2004.

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***Operating Expenses***

Operating expenses are comprised of the following (in thousands):

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2005 | 2004 | Increase (decrease) |
| Operating expenses: | | | |
| Research and development | $ 749 | $ 4,633 | (83.8)% |
| Sales and marketing | 4,360 | 12,558 | (65.3)% |
| General and administrative | 10,574 | 8,036 | 31.6% |
| Impairment charge | | 1,719 | (100.0)% |
| Total operating expenses | $ 15,683 | $ 26,946 | (41.8)% |

*Research and Development Expenses.* The 84% decline in research and development costs is due to reduced activity in product development and clinical trials. Clinical expenses declined by more than $1,017,000 due to the cessation of clinical trials and reduction of personnel. The product development department costs declined by $2,023,000 as all development was suspended following announcement of the wind down. The remaining expenses in R&D of approximately $844,000 relate to lower regulatory and medical affairs activity.

*Sales and Marketing Expenses.* Costs have declined mainly due to reduced sales and marketing personnel and the variable costs associated with revenue and staffing levels, such as commissions, travel, marketing incentives and trade show participation. Costs for the U.S. sales force declined $6,665,000 as U.S. field sales personnel were eliminated in February 2005 and costs for the European sales force declined $1,026,000 as all European personnel were eliminated by June 2005. The marketing staff and field activities declined, reducing costs by $806,000 and outside U.S. ( OUS ) marketing activity was eliminated reducing costs by $105,000. These reductions were offset by $460,000 in marketing related payments to Best Vascular pursuant to the marketing representation agreement between NOVT and Best Vascular entered into in August 2005 in connection with the asset sale transaction. (see Note 23 to the consolidated financial statements).

*General and Administrative Expenses.* The 32% increase in 2005 is related to professional and investment banking fees incurred for the merger transaction with ONI and the sale of assets to Best Vascular, as well as employment termination costs (see Note 16 to the consolidated financial statements), offset by lower personnel costs.

*Impairment Charge.* This charge in 2004 primarily relates to the unamortized value of the customer list purchased from Guidant in April 2004. The list is part of the enterprise-wide group of long-lived assets, which are impaired due to insufficient discounted projected cash flow to recover their carrying value (see Note 15 to the consolidated financial statements). As these assets are fully impaired, no expense for amortization was recorded in 2005.

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***Other Income***

Other income is as follows (in thousands):

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2005 | 2004 | Increase (decrease) |
| Total other income(expense) | $ (1,557) | $ 498 | (412.7)% |

The decrease is primarily the result of reserving for the doubtful collectability of the promissory note receivable from ONI of $3,000,000. This expense was offset by an increase in interest received of $161,000 that is primarily attributable to higher interest rates compared to 2004, to proceeds from the sale of assets during the initial stages of the wind down of $190,000, and to the recognition of foreign currency gain of $704,000 on dissolution of the European subsidiaries (see Note 20 to the consolidated financial statements). Following NOVT entering into the asset purchase agreement with Best Vascular in August 2005, no asset sales have occurred.

***Net Loss***

Net loss and per share results are as follows (in thousands, except per share):

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2005 | 2004 | Increase (decrease) |
| Net loss | $ (15,329) | $ (26,921) | (43.1)% |
| Net loss per share - basic and diluted | $ (3.75) | $ (6.59) | (43.1)% |

The decrease in net loss is due to significant cost reductions begun early in the year with the announcement of the staged wind down, the absence of last year s impairment charge of $9,349,000, and absence of depreciation and amortization for equipment, radiation devices, and intangibles. These reductions, however, were offset by significantly lower revenue, the impact of employment termination costs, expenses related to the asset sale and merger transactions, and the reserve for the ONI note receivable of $3,000,000.

**Comparison of Years Ended December 31, 2004 and 2003**

***Net Sales and Gross Margin***

Net sales, cost of sales, and gross margin are comprised of the following (in thousands):

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2004 | 2003 | Increase (decrease) |
| Net sales: | | | |
| United States | $ 19,391 | $ 57,915 | (66.5)% |
| Rest of World | 3,877 | 4,986 | (22.2)% |
| Total net sales | 23,268 | 62,901 | (63.0)% |
| Cost of sales | 16,111 | 24,315 | (33.7)% |
| Impairment charge | 7,630 | | |
| Gross margin | $ (473) | $ 38,586 | (101.2)% |

Both the U.S. and international VBT markets were negatively affected by the introduction of drug-eluting stents. The international market, however, did not decline as much because drug-eluting stents are not as predominant in PTCA procedures outside of the United States.

Net sales decreased 63% to $23,268,000 for the year ended December 31, 2004, from $62,901,000 for the year ended December 31, 2003. Catheter unit volume in the U.S. declined 70% as drug-eluting stents have proven to be very effective in reducing in-stent restenosis. However, unit volume decline outside the U.S. was limited to 33% for the reasons mentioned above. The volume decline in the U.S. was somewhat offset by a 112% increase in revenue from service and lease

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agreements for radiation devices which was facilitated by the transaction with Guidant in April 2004 that made NOVT the sole source of VBT technology and provided a stronger marketing position from which to bill for these services. By comparison, our 2003 revenues also included $2,150,000 of revenue recognition when 3.5F catheters were exchanged for 5.0F catheters. (For discussion of the recall of our 3.5F catheters, see Note 1 to our consolidated financial statements included in this Form 10-K.)

Stent revenue declined in Europe due to the presence of heavy competition from larger companies and with the introduction of DES.

Cost of sales for 2004 declined due to much lower unit volume and lower radiation device amortization as the 5.0F and many 3.5F radiation devices completed their amortizable life. Cost of sales does not decrease proportionally to sales due to higher fixed costs associated with excessive production and service capacity. In addition, $190,000 was recorded in 2004 related to royalty payments to Guidant in connection with the purchase of their customer list, and $695,000 in stand-by fees were paid to our supplier of radiation source trains (AEA) for maintaining their production facility in the absence of demand from the Company. Cost of sales also increased $7,630,000 as a result of the impairment (and related write-down in the carrying value) of the long-lived assets related to the production process.

***Operating Expenses***

Operating expenses are comprised of the following (in thousands):

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2004 | 2003 | Increase (decrease) |
| Operating expenses: | | | |
| Research and development | $ 4,633 | $ 11,986 | (61.3)% |
| Sales and marketing | 12,558 | 19,485 | (35.6)% |
| General and administrative | 8,036 | 8,237 | (2.4)% |
| Impairment charge | 1,719 | | |
| Total operating expenses | $ 26,946 | $ 39,708 | (32.1)% |

*Research and Development Expenses.* The 61% decline in research and development costs is due to reduced activity in product development and clinical trials. Clinical expenses declined by more than $4,018,000 due to the cessation of clinical trials and reduction of personnel. The product development department costs declined by $3,400,000 as in-house development was suspended and the technical staff reduced, being replaced by a modest outsourced development effort.

*Sales and Marketing Expenses.* Costs have declined mainly due to lower revenues and the variable costs associated with revenue and staffing levels, such as commissions, travel, marketing incentives and trade show participation. Costs for the U.S. sales force declined $6,300,000 as field sales personnel was reduced from 57 to 19. Other factors include fewer trade show activities and less travel than in 2003, when the 3.5F catheter system was relaunched, and a smaller in-house sales and marketing group supporting reduced field personnel.

*General and Administrative Expenses.* The 2.4% net decline in 2004 was attributed to cost reduction initiatives including lower headcount and reduced legal fees associated with patent filings, offset by the compliance costs of Sarbanes-Oxley Section 404, investment banking fees, and retention payments for key employees.

*Impairment Charge.* This charge primarily relates to the unamortized portion of the customer list purchased from Guidant in April 2004. The list is part of the enterprise-wide group of long-lived assets, which are impaired due to insufficient discounted projected cash flow to recover their carrying value (see Note 15 to the consolidated financial statements).

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***Other Income***

Other income is as follows (in thousands):

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2004 | 2003 | Increase (decrease) |
| Total other income(expense) | $ 498 | $ 254 | 96.1% |

The increase is primarily attributable to the increase in interest income as a result of higher interest rates compared to 2003, a shift to longer maturity investments which enjoy a higher interest rate, and to proceeds from the sale of assets which occurred when the company consolidated U.S. operations into a single building.

***Net loss***

Net loss and per share results are as follows (in thousands, except per share):

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2004 | 2003 | Increase (decrease) |
| Net loss | $ (26,921) | $ (868) | 3001.5% |
| Net loss per share - basic and diluted | $ (6.59) | $ (0.21) | 3001.5% |

The increase in net loss is due to the rapid decline in revenues, gross margin, and the Company s inability to reduce costs proportionally. In addition, $9,349,000, or approximately 36% of the total, is the result of the impairment charge that reduced the carrying value of long-lived assets to fair value.

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**LIQUIDITY AND CAPITAL RESOURCES**

During the year ended December 31, 2005, NOVT cash and cash equivalents decreased to $10,449,000 from $19,082,000 at the end of 2004. Of this decrease, $13,522,000 was used to fund operating activities and $3,000,000 was loaned to ONI, offset by $9,648,000 provided by net redemptions of short-term investments, $235,000 from asset sales, and a net of $1,864,000 was transferred to restricted cash to fund payments made from the Rabbi trusts (as described below).

**Operating activities**

Net cash (used in) provided by operating activities consisted of the following (in thousands):

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2005 | 2004 | 2003 |
| Cash flows from operating activities | | | |
| Net loss | $ (15,329) | $ (26,921) | $ (868) |
| Depreciation and amortization of property, equipment and intangibles | 121 | 3,706 | 3,295 |
| Depreciation of radiation and transfer devices | | 4,124 | 8,606 |
| Impairment charge | | 9,349 | |
| Provision for doubtful promissory note | 3,000 | | |
| Foreign currency gain on dissolution of subsidiaries | (704) | | |
| Other non cash items | (132) | (168) | (265) |
| Changes in assets and liabilities: | | | |
| Accounts receivable | 1,372 | 3,502 | 2,043 |
| Inventory | 1,187 | 1,091 | 1,521 |
| Prepaid expenses and other current assets | 376 | (290) | 508 |
| Other assets | 35 | 742 | 890 |
| Accounts payable | (940) | (33) | (753) |
| Accrued expenses | (961) | (3,125) | (3,527) |
| Unearned revenue | (1,547) | 1,723 | (2,258) |
| Net cash provided by (used in) operating activities | $ (13,522) | $ (6,300) | $ 9,192 |

The cash trend in 2005 is consistent with patterns expected of a declining business. The contraction of working capital items such as receivables and inventory is generating funds, offset by the use of funds to pay-down liabilities.

For the year ended December 31, 2005, $13,522,000 was used to fund operations. The loss due to the decline in revenue could not be totally offset by cost reductions and the contraction of working capital and non-cash items. The decline in receivables generated $1,372,000, as collections occurred faster than revenue replaced them. Inventory declined $1,187,000 with approximately $482,000 due to lower usage of items used to service radiation devices. The remainder of the inventory decline is attributable to reserves for excessive materials. The most significant use of working capital is the pay-down of accruals and payables. Unearned revenue declined as fewer customers renewed servicing agreements following announcement of the wind down, and some customers have opted to maintain their agreement in place on a month-to-month basis. Depreciation on radiation devices and property was not significant because all long-lived assets were considered impaired by December 31, 2004 (see Note 15 to the consolidated financial statements). Significant non-cash items affecting the net loss include the provision for doubtful collectability of the promissory note with ONI. The foreign currency gain associated with the dissolution of European subsidiaries is the cumulative effect of translation adjustments over the past six years as the Euro has strengthened in relation to the U.S. Dollar (see Note 20 to the consolidated financial statements).

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**Investing activities**

Net cash provided by (used in) investing activities consisted of the following (in thousands):

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2005 | 2004 | 2003 |
| Cash flows from investing activities: | | | |
| Maturity/sale of short-term investments | $ 11,252 | $ 10,715 | $ 16,686 |
| Purchase of short-term investments | (1,604) | (14,468) | (11,264) |
| Sale (purchase) of property and equipment | 235 | (517) | (723) |
| Transfer to restricted cash | (1,864) | | |
| Purchase of intangibles | | (2,500) | |
| Purchase of radiation and transfer devices | | (1,106) | (3,557) |
| Issuance of note receivable | (3,000) | | |
| Net cash provided by (used in) investing activities | $ 5,019 | $ (7,876) | $ 1,142 |

Investments have been liquidated to fund losses in operations, professional fees related to the ONI and Best Vascular transactions, and expenses incurred in connection with the wind down. No cash was used to purchase property and equipment in the year ended December 31, 2005, as compared to the same period of 2004, when funds were expended to consolidate facilities. Also, no cash was used to purchase radiation source trains and transfer devices compared to the same period in the prior year due to the declining VBT business. This decrease in purchases is due to the existence of radiation source train inventory levels that will be adequate to meet the needs of NOVT for the foreseeable future. As part of the wind down plan, some assets have been sold, generating proceeds of $235,000. On May 18, 2005, NOVT entered into a merger agreement with ONI. In connection with this agreement, NOVT loaned ONI $3,000,000 (see Note 22 to the consolidated financial statements). A net transfer of $1,864,000 was made to the Novoste Corporation Executive Rabbi Trust and the Novoste Corporation Employee Rabbi Trust to fund employment termination costs.

**Financing activities**

No financing activities occurred during 2005 except for the issuance of a small number of shares needed to round up to even multiples in connection with the reverse stock split in November 2005. The only financing activity in 2004 was the receipt by NOVT of $15,000 from the exercise of stock options and sales of our Common Stock to employees under the stock purchase program.

**Liquidity**

The Company s principal source of liquidity at December 31, 2005 consisted of cash, cash equivalents, restricted cash and short-term investments in the amount of $12,662,000, compared to $29,060,000 as of December 31, 2004.

In August 2001, the Company obtained a $10 million revolving line of credit with a financial institution (lender). This agreement was extended from time to time. In May 2004, NOVT replaced its working capital loan agreement and obtained a $5,000,000 revolving line of credit with the same financial institution (lender). On December 22, 2004, NOVT and the lender mutually agreed to terminate the line of credit, there being no foreseeable need for the revolving credit line and the small borrowing base that resulted from declining business (see Note 9 to the consolidated financial statements).

On February 22, 2005, the Company announced a staged wind down of the VBT business. On March 9, 2006, the Company completed the sale of substantially all of the assets of its VBT business to Best Vascular pursuant to the Amended and Restated Asset Purchase Agreement. The Company believes that existing cash will be sufficient to meet its working capital, financing and capital expenditure requirements through the final execution of the wind down.

**Commitments**

Other than the minimum purchase commitments for radiation source trains described below, at December 31, 2005, the Company had no significant commitments to purchase inventory components of the Beta-Cath System and other supplies, as compared to December 31, 2004 when the comparative amount was $221,000.

On October 14, 1999 NOVT signed a development and manufacturing supply agreement with AEA Technology-QSA, GmbH ( AEA ) for a source of radioactive supply and for the development of a smaller diameter radiation source. The

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agreement provided for the construction of a production line that was placed into service in October 2002. In addition, the agreement provides for joint ownership of all intellectual property arising from the development work and requires that AEA manufacture vascular brachytherapy sources only for NOVT. The agreement contains minimum purchase commitments and pricing guidelines have been established extending to 2006 and are reflected below on the table of contractual obligations. These estimates are subject to negotiation and settlement with AEA. During 2005, NOVT did not purchase any product and thus failed to reach the minimum purchase commitment level for product and paid AEA approximately $650,000, for minimum payment obligations, which was expensed in cost of sales. In addition NOVT has accrued an amount of $604,000 for the remaining minimum purchase amounts to be made in 2006, which was also expensed in cost of sales. At the termination of the agreement in September 2006, NOVT is obligated for costs associated with decommissioning the production facility and $557,000 has been accrued for this purpose and is being expensed in cost of sales in accordance with SFAS 143, *Accounting for Asset Retirement Obligation*. AEA disputes the NOVT calculation of the minimum contractual liability and the decommissioning amount as recorded in the NOVT financial statements as of December 31, 2005 and had further notified NOVT that it believes an additional $1,500,000 was owed by NOVT to AEA under the above agreement. As a result of recent discussions between AEA and NOVT, AEA has advised NOVT on a preliminary basis that it no longer disagrees with NOVT s position regarding amounts owed by NOVT for inventory and minimum purchase payments and therefore, the total amount in dispute is no longer $1,500,000 and NOVT believes is instead $500,000, related to the decommissioning.

On June 20, 2001, the Company entered into a manufacturing and supply agreement with Bebig Isotopentechnik und Umweltdiagnostik GmbH ( Bebig ), a German corporation, to manufacture and supply the Company with radioactive sealed Strontium-90 seed trains. During each calendar year under the four-year contract, the Company guaranteed minimum annual payments to Bebig in varying amounts. All product purchases are credited against the annual guaranteed payment. In the event that the Company did not purchase product to exceed the annual guaranteed payment, the deficiency was due and payable to Bebig within thirty days after the end of each one-year contract period (see Note 15 to the consolidated financial statements). All payments of this obligation were completed during the first quarter of 2005 and the agreement expired June 19, 2005.

On January 31, 1996, the Company entered into a license agreement with a physician pursuant to which he is entitled to receive a royalty on the net sales of the Beta-Cath System (excluding consideration paid for the radioactive isotope), subject to a maximum payment of $5,000,000. Royalty fees to the physician aggregated $47,000, $206,000, and $585,000 in 2005, 2004 and 2003, respectively, and have been expensed in cost of sales. A total of $2,209,000 has been paid since the license became effective.

On January 30, 1996, the Company entered into a license agreement whereby Emory University assigned its claim to certain technology to the Company for royalties based on net sales (as defined in the agreement) of products derived from such technology, subject to certain minimum royalties. After the first commercial sale of royalty bearing products by NOVT, minimum royalties were due to Emory University in the following amounts: year 2 after the first commercial sale $10,000; year 3 $15,000; year 4 $25,000; and years 5-10, $50,000 per year. The royalty agreement term is consistent with the life of the related patent and applies to any assignments of the patent technology to a third party. Royalty fees to Emory University aggregated $127,000, $468,000, and $1,192,000 in 2005, 2004 and 2003, respectively, and have been expensed in cost of sales.

On April 22, 2004, NOVT signed an asset purchase agreement with Guidant pursuant to which NOVT would acquire information regarding Guidant s vascular brachytherapy business, including the customer list of Guidant in the United States and Canada. NOVT paid the sum of $2,500,000 to Guidant at the signing of the transaction and has agreed to pay 5% on its net sales to customers on the Guidant customer list that transition to NOVT s products for a period of six months after April 22, 2004. After this six-month transition period, NOVT will pay an additional 5% on of all vascular brachytherapy products in the U.S. and Canada, up to an additional payment of $4,000,000 (see Notes 7 and 13 to the consolidated financial statements). Under this agreement, Guidant has earned $227,000 in additional payments during 2004 and $229,000 during 2005, or an aggregate total of $456,000 (see note 7 to the consolidated financial statements).

As part of the sale of substantially all of the VBT business assets, Best Vascular assumed the liabilities associated with all of the contracts and licensing agreements described above.

Concurrent with the execution of the original asset purchase agreement on August 25, 2005, NOVT, Best Vascular and BMI entered into a marketing representation agreement, that provides that Best Vascular will market and solicit orders for our existing inventory of products, including the Beta-Cath System, in consideration of the payment to Best Vascular of $25,000 on a weekly basis. On October 12, 2005, concurrent with the amendment and restatement of the asset purchase agreement, NOVT, Best Vascular and BMI entered into an amendment no. 1 to marketing representation agreement that extended the termination date from October 14, 2005 to December 31, 2005, consistent with the extension of the

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corresponding termination date in the amended and restated asset purchase agreement. On November 30, 2005, NOVT, Best Vascular and BMI entered into amendment no. 2 to marketing representation agreement that extended the termination date from December 31, 2005 to February 15, 2006, consistent with the extension of the corresponding termination date in amendment no. 1 to amended and restated asset purchase agreement. These termination dates for each of the amended and restated asset purchase agreement and marketing representation agreement were further extended from February 15, 2006 to March 31, 2006 pursuant to amendments entered into by NOVT, BMI and Best Vascular on January 27, 2006. A total of $460,000 has been paid for these services during 2005. As of December 31, 2005 we had contractual obligations of $325,000 for payments due under the marketing representation agreement.

As of December 31, 2005, we had contractual obligations as follows (in thousands):

| Contractual Obligations | Total | Less than 1 year | 1-3 years | 3-5 years | More than 5 years |
|---|---|---|---|---|---|
| Operating leases | $ 61 | $ 61 | $ | $ | $ |
| Marketing representation | 325 | 325 | | | |
| Purchase obligations | 623 | 623 | | | |
| Decommission obligations | 557 | 557 | | | |
| Total | $ (1,566) | $ (1,566) | $ | $ | $ |

Approximately $1,180,000 of the purchase obligations and decommission obligations listed above relate to purchase contracts denominated in Euros. This amount was derived from converting such obligations by using a December 31, 2005 conversion rate of $1.18 USD to 1 Euro. As noted above, some of these obligations extend to September 2006 and the actual settlement amount may be different from the amount presented based on the conversion rate as of December 31, 2005.

**OFF-BALANCE SHEET ARRANGEMENTS**

We do not maintain any off-balance sheet financing arrangements apart from the operating leases described above.

**RECENT ACCOUNTING PRONOUNCEMENTS**

In December 2004, the FASB issued FASB Statement No. 123(R) (revised 2004), *Share Based Payment*. Statement 123(R) addresses the accounting for share-based payment transactions in which an enterprise receives employee services in exchange for (a) equity instruments of the enterprise or (b) liabilities that are based on the fair value of the enterprise s equity instruments or that may be settled by the issuance of such equity instruments. Statement 123(R) requires an entity to recognize the grant-date fair-value of stock options and other equity-based compensation issued to employees in the income statement. The revised Statement generally requires that an entity account for those transactions using the fair-value-based method, and eliminates the intrinsic value method of accounting in APB Opinion No. 25, *Accounting for Stock Issued to Employees*, which was permitted under Statement 123, as originally issued. The revised Statement requires entities to disclose information about the nature of the share-based payment transactions and the effects of those transactions on the financial statements. Statement 123(R) is effective for the Company after December 31, 2005 (i.e., for our first quarter 2006). All public companies must use either the modified prospective or the modified retrospective transition method. We are currently evaluating the impact of adoption of this pronouncement.

**ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

**Derivative Financial Instruments, Other Financial Instruments, and Derivative Commodity Instruments**

The Company does not participate in derivative financial instruments, other financial instruments for which the fair value disclosure would be required under SFAS 107, *Disclosures about Fair Value of Financial Instruments,* or derivative commodity instruments. All of the Company s investments are in short-term, investment-grade commercial paper, corporate bonds, certificates of deposit and U.S. Government and agency securities that are carried at fair value on our books.

**Interest Rate Risk**

The Company s cash and cash equivalents and short-term investments are subject to market risk, primarily interest-rate and credit risk, but we believe these risks are immaterial due to the short-term nature of these investments. The Company s

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investments are managed by outside professional managers within investment guidelines set by the Company. Such guidelines include security type, credit quality and maturity and are intended to limit market risk by restricting the Company s investments to high credit quality securities with relatively short-term maturities.

At December 31, 2005, the Company had $10,449,000 in cash and cash equivalents with a weighted average interest rate of 3.96%, $1,864,000 in restricted cash with a weighted average rate of 4.21% and $349,000 in available-for-sale investments with a weighted average interest rate of 4.05%. At December 31, 2004, the Company had $19,082,000 in cash and cash equivalents with a weighted average interest rate of 1.82% and $9,978,000 in available-for-sale investments with a weighted average interest rate of 2.56%.

**Foreign Currency Risk**

International revenues from the Company s foreign direct sales and distributor sales comprised 23.5%, 16.7% and 7.9% of total revenues for the years ended December 31, 2005, 2004 and 2003, respectively. With the exception of the Australian, Chinese and New Zealand distributors, which sales are denominated in U.S. dollars, sales are denominated in Euros. The Company experienced an immaterial amount of transaction gains and losses for the year ended December 31, 2005.

The Company is also exposed to foreign exchange rate fluctuations as the financial results of its Dutch, Belgian, German and French subsidiaries are translated into U.S. dollars in consolidation. As exchange rates vary, these results when translated may vary from expectations and adversely impact overall expected profitability. During 2005, the Euro decreased against the dollar from $1.36 to $1.18, a 13% decrease resulting in approximately $130,000 of Other Comprehensive Loss.

The European subsidiaries were established in 1998 and 1999 and over the years, the accumulated translation adjustment had accumulated to approximately $704,000. In February 2005, the board of directors at NOVT concluded that the VBT business was not viable and authorized management to begin a staged wind down of company operations. Upon sale or complete or substantially complete liquidation of an investment in a foreign entity, FASB Statement 52, *Foreign Currency Translation*, requires that the accumulated translation adjustment component of equity related to that investment be included in measuring the resulting gain or loss. At December 31, 2005, these subsidiaries had only minor amounts of assets remaining and met the criteria of substantially complete liquidation within the meaning of SFAS 52. We recorded this accumulated translation amount as income for the financial statements at December 31, 2005.

Approximately $1,180,000 of our purchase obligations listed under Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations relate to purchase contracts of future expenses that are denominated in Euros. These amounts were derived from converting the purchase obligations using a December 31, 2005 conversion rate of $1.18 USD to 1 Euro. As noted above, some of these obligations extend to September 2006 and the actual settlement amount may be different from the amount that is presented based on the conversion rate as of December 31, 2005.

**ITEM 8. CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

The consolidated financial statements, with the reports of the independent registered public accounting firms, listed in Item 15, are included in this Annual Report on Form 10-K.

**ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

As previously reported on a Current Report on Form 8-K filed with the SEC on November 18, 2005, the Company received notice on November 16, 2005 from Ernst & Young LLP ( E&Y ), its independent registered public accounting firm, that E&Y resigned their engagement as the Company s independent registered public accounting firm effective November 16, 2005.

As previously reported, in connection with the audits of the Company s financial statements for each of the two most recent fiscal years ended December 31, 2004 and in the subsequent interim period preceding their resignation, there were no disagreements with E&Y which were not resolved on any matter concerning accounting principles or practices, financial statement disclosure, or auditing scope or procedure, which disagreements, if not resolved to the satisfaction of E&Y would have caused E&Y to make reference to the subject matter of the disagreements in connection with its reports. E&Y s reports on the financial statements of the Company for each of the past two years did not contain an adverse opinion or a disclaimer of opinion, and were not qualified or modified as to uncertainty, audit scope, or accounting principles. The Company had requested E&Y to furnish it a letter addressed to the SEC stating whether it agreed with the above statements and a copy of that letter, dated November 18, 2005, was filed as Exhibit 16.1 to the above-referenced Form 8-K.

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On November 30, 2005, as previously reported on a Current Report on Form 8-K filed with the SEC on December 5, 2005, the Company s audit committee appointed Tauber & Balser, P.C. as the Company s independent registered public accounting firm. During the Company s two most recent fiscal years and in the subsequent interim period preceding their engagement, the Company did not consult Tauber & Balser, P.C. with respect to (i) the application of accounting principles to any transaction, either completed or proposed; or the type of audit opinion that might be rendered on the Company s financial statements, and neither a written report was provided to the Company nor oral advice was provided that Tauber & Balser, P.C. concluded was an important factor considered by the Company in reaching a decision as to the accounting, auditing or financial reporting issue; or (ii) any matter that was either the subject of a disagreement (as defined in Item 304(a)(1)(iv) of Regulation S-K and the related instructions thereto) or a reportable event (as described in Item 304(a)(1)(v) of Regulation S-K).

**ITEM 9A. CONTROLS AND PROCEDURES**

*Evaluation of Disclosure Controls and Procedures.* As of the end of the period covered by this report, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934). Based on this evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures are effective in timely notification to them of information we are required to disclose in our periodic SEC filings and in ensuring that this information is recorded, processed, summarized and reported within the time periods specified in the SEC s rules and regulations.

*Changes in Internal Control*. During the fiscal quarter ended December 31, 2005, there have been no significant changes in our internal control over financial reporting that have materially affected, or were reasonably likely to materially affect, our internal control over financial reporting.

**ITEM 9B. OTHER INFORMATION**

None.

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## PART III

### ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

### DIRECTORS OF NOVT

Our directors as of December 31, 2005 are as follows:

*Class I Directors Whose Terms Expire in 2006*

*J. Stephen Holmes*, age 62. Mr. Holmes has served as a director of NOVT since October 1992. He became President of Teleflex Medical, N.A., a medical device company, in March 2002. He retired from Weck Closure Systems in August 2003 where he served as President from February 1998 through March 2002. Mr. Holmes was Executive Manager of Saber Endoscopy, LLC, a medical device company he formed in February 1996. From 1992 through 1995, Mr. Holmes was a private investor, having founded several start-up companies from 1979 through 1992, including Adler Instrument Company, Inc., SOLOS Ophthalmology, Inc. and SOLOS Endoscopy, Inc., which he founded in 1982, 1988 and 1990, respectively, and in which he sold his interests in 1988, 1991 and 1991, respectively. Mr. Holmes received a B.S. in Marketing from the University of Evansville.

*Stephen I. Shapiro*, age 61. Mr. Shapiro has served as a director of NOVT since October 1996. Mr. Shapiro previously served as a director of NOVT from August 1995 until his resignation in March 1996. Since 1999, he has been an independent consultant for venture capital firms, including Advanced Technology Ventures and Galen Associates. Beginning in 1982, he was a managing principal of The Wilkerson Group, now integrated into IBM s healthcare consulting group with clients in the health care industry. From 1970 to 1982, Mr. Shapiro held a variety of technical management and strategic planning positions with Union Carbide Clinical Diagnostics and Becton Dickinson and Company. Mr. Shapiro received a B.S. degree in Chemical Engineering from the Massachusetts Institute of Technology and a M.S. degree in Chemical Engineering from the University of California at Berkeley.

*William E. Whitmer*, age 72. Mr. Whitmer has served as a director of NOVT since October 1992. He was also a director of Interland Inc., a NASDAQ-listed company, from March 2000 until the company s merger with Micron Electronics, Inc. in 2002. Mr. Whitmer is a Certified Public Accountant and management consultant. From 1989 until 1992, he was a partner of Ernst & Young, having served as the Associate Managing Director of that firm s southern United States management consulting group. From 1968 through 1989, Mr. Whitmer was a partner of Arthur Young & Company, having served as the Managing Partner of its East and Southeast United States regions of the management consulting practice from 1975 through 1989. Mr. Whitmer received a B.A. in Economics from Denison University.

*Class II Directors Whose Terms Expire in 2007*

*Alfred J. Novak*, age 58. Mr. Novak was elected by the Board of Directors to the position of a director and President and Chief Executive Officer of NOVT on October 16, 2002. Since December 1997, he has served as Chairman of the Board of Directors of ProRhythm, Inc., a start-up medical device company engaged in electrophysiology. In September 1998, he co-founded and was a management board member of Syntheon LLC, a company that developed minimally invasive medical devices for the vascular and endoscopic markets. Mr. Novak also serves as a Director of OrbusNeich Medical Company Ltd., an interventional vascular company, since April 1998. From July 1996 until January 1998, Mr. Novak was President, Chief Executive Officer and a director of Biosense, Inc., a company that developed a position sensor incorporated into catheters and used in interventional cardiology, electrophysiology, and image guided surgery, and which was acquired by Johnson & Johnson in October 1997. Mr. Novak was employed by Cordis Corporation in April 1984 and served as its Vice President and Chief Financial Officer and a member of the executive committee until Cordis was acquired by Johnson & Johnson in February 1996. Mr. Novak received his M.B.A. from the Wharton School of the University of Pennsylvania and earned his B.S. at the U.S. Merchant Marine Academy.

*Judy Lindstrom*, age 61. Ms. Lindstrom was elected a director of NOVT in June 2002, by our Board of Directors, to fill a vacancy in the Class II director class. Ms. Lindstrom is currently a consultant and member of the board of directors of Genis Technology, a tissue regeneration technology company. Ms. Lindstrom was Chief Operating Officer of Portland Orthopaedics from 2001 until 2005. From 1998 to until 2001, Ms. Lindstrom had her own consulting firm, J.L. International, specializing in international medical device marketing and operations. From 1996 to 1998, Ms. Lindstrom was employed by Wright Medical Technology, Inc., serving as that company s Executive Vice President of Global Sales and Marketing. Ms. Lindstrom served on the board of directors of Everest Medical Corporation from 1991 to 1995 and as a member of the board of directors of the Health Industry Manufacturers Association in 1994. She was employed by Baxter International in 1975 and was general manager of the Orthopedic Business of Baxter until 1991. Ms. Lindstrom received a diploma in Registered Nursing from DePaul Hospital in Norfolk, Virginia and earned a B.S. degree in Biology from William and Mary College in Williamsburg, Virginia.

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*Class III Directors Whose Terms Expire in 2008*

*Thomas D. Weldon*, age 50. Mr. Weldon co-founded NOVT and has served as a director since May 1992, when we began operations. In June 1998, Mr. Weldon became Chairman of NOVT. From May 1992 through March 1999, Mr. Weldon also served as Chief Executive Officer of NOVT. He again served as Chief Executive Officer of NOVT, on an interim basis, from January to October 2002, during our search for a new Chief Executive Officer. In April 1999, he co-founded The Innovation Factory, a medical device venture, where he currently serves as Chairman. Mr. Weldon co-founded and was President, Chief Executive Officer and a Director of Novoste Puerto Rico Inc., a manufacturer of disposable cardiovascular medical devices, from 1987 to May 1992, prior to its sale. His previous responsibilities included management positions at Arthur Young & Company and Key Pharmaceuticals. Mr. Weldon received a B.S. in Industrial Engineering from Purdue University and an M.B.A. in Operations and Systems Management from Indiana University.

*Charles E. Larsen*, age 54. Mr. Larsen co-founded NOVT and has served as a director since May 1992, when we began operations. Currently, Mr. Larsen is Vice Chairman of The Innovation Factory, a medical device venture that he co-founded in 1999. Mr. Larsen is also a Managing Director of Accuitive Medical Ventures. As an employee of NOVT, he served as Chief Operating Officer from 1992 until 1997, and then as Senior Vice President and Chief Technical Officer until 1999. Mr. Larsen co-founded and was Vice President and Director of Novoste Puerto Rico, Inc. from 1987 to May 1992. From 1983 through 1987, Mr. Larsen was a manager of manufacturing engineering at Cordis Corporation. Mr. Larsen received a B.S. in Mechanical Engineering from New Jersey Institute of Technology.

**DIRECTORS OF NOVT AFTER CHANGE IN COMPOSITION IS EFFECTIVE**

As described under Item 1, Business Overview Settlement Agreement with Steel Parties, NOVT has entered into a Settlement Agreement dated as of March 16, 2006 with the Steel Parties. Pursuant to the Settlement Agreement, the board of directors will be reduced in size from seven to four members and the current NOVT board of directors has approved a reconstituted board, which will consist of three appointees of the Steel Parties, Jack L. Howard, John Quicke and Leonard Toboroff, as well as William E. Whitmer, who is currently a member of the board. Each of these changes in composition of the board will be effective on the later of (i) the tenth calendar day after the date of filing and dissemination to our shareholders of an Information Statement pursuant to Section 14(f) of the Exchange Act (or such later date as may be required to comply with any comments of the staff of the SEC) and (ii) the filing by us with the SEC of our annual report on Form 10-K for the twelve months ended December 31, 2005, but in no event later than April 17, 2006. We currently expect that the change in composition will be effective on or around March 31, 2006. Pursuant to Florida law, those directors elected by the board of directors to fill vacancies as Class II and Class III directors hold office until the next shareholders meeting at which directors are elected.

The information below describes the members of our board upon effectiveness of the changes to be effected pursuant to the Settlement Agreement:

*Class I Directors Whose Terms Will Expire at the 2006 Annual Meeting*

*Leonard Toboroff*, age 73. Mr. Toboroff has served as a Vice Chairman of the Board of Allis-Chalmers Energy Inc., a provider of products and services to the oil and gas industry, since May 1988 and served as Executive Vice President from May 1989 until February 2002. He served as a director and Vice President of Varsity Brands, Inc. (formerly Riddell Sports Inc.), a provider of goods and services to the school spirit industry, from April 1998 until it was sold in September 2003. Mr. Toboroff has been an Executive Director of Corinthian Capital Group, LLC, a private equity fund, since October 2005. He is also a director of Engex Corp., a closed-end mutual fund. Mr. Toboroff does not beneficially own any NOVT securities.

*William E. Whitmer*. See information under Directors of NOVT above.

*Class II Directors Whose Terms Will Expire in 2007*

*John Quicke*, age 56. Mr. Quicke has served as a Vice President of SPL since September 2005. Mr. Quicke has served as a director of WHX since July 2005 and as a Vice President since October 2005. He served as a director, President and Chief Operating Officer of Sequa Corporation, a diversified industrial company, from 1993 to March 2004, and Vice Chairman and Executive Officer of Sequa from March 2004 to March 2005. As Vice Chairman and Executive Officer of Sequa, Mr. Quicke was responsible for the Automotive, Metal Coating, Specialty Chemicals, Industrial Machinery and Other Product operating segments of the company. From March 2005 to August 2005, Mr. Quicke occasionally served as a consultant to Steel Partners and explored other business opportunities. Mr. Quicke does not beneficially own any NOVT securities.

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*Class III Directors Whose Terms Will Expire in 2008*

*Jack L. Howard,* age 44. Mr. Howard has been a registered principal of Mutual Securities, Inc., a registered broker-dealer, since 1989. He has served as the Vice President and Vice Chairman of Steel Partners, Ltd., a management and advisory company that provides management services to Steel Partners II, L.P. and its affiliates, since December 2003. Mr. Howard has served as Chairman of the Board of WebFinancial Corporation, a consumer and commercial lender, since June 2005, as a director of WebFinancial since 1996 and as its Vice President since December 1997. From December 1997 to May 2000, he also served as Secretary, Treasurer and Chief Financial Officer of WebFinancial. He has served as Chairman of the Board and Chief Executive Officer of Gateway Industries, Inc., a provider of database development and web site design and development services, since February 2004, as Vice President of Gateway since December 2001 and as a director of Gateway since May 1994. He is also a director of BNS Co., a real estate management company, WHX Corporation, a holding company, and CoSine Communications, Inc., a global telecommunications equipment supplier. Mr. Howard is deemed to beneficially own 663 shares of NOVT s Common Stock owned by J.L. Howard, a corporation controlled by Mr. Howard.

**AUDIT COMMITTEE**

The board of directors has a standing Audit Committee. The Audit Committee is currently comprised of William E. Whitmer, J. Stephen Holmes and Judy Lindstrom, with Mr. Whitmer serving as chairman. As described above under Directors of NOVT After Change in Composition is Effective, Ms. Lindstrom and Mr. Holmes are resigning from the board and no decision has been made as to whether any of the newly appointed directors will replace them on the Audit Committee. Pursuant to the terms of the Settlement Agreement, we expect that Mr. Whitmer will remain a member of the Audit Committee, although no decision has been made as to whether he will continue to serve as its chairman. The current board of directors has determined that Mr. Whitmer is an audit committee financial expert, as that term is defined in Item 401(h) of Regulation S-K, and that all of the current members of the Audit Committee are independent for purposes of current listing standards of the NASDAQ Stock Market and Section 10A(m)(3) of the Securities Exchange Act of 1934.

**CODE OF ETHICS**

The board of directors has adopted a code of business conduct and ethics that applies to all of the Company s employees, officers and directors. The text of the code of business conduct and ethics is posted on the Company s Internet website (http://www.novtcorporation.com).

**SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE**

Section 16 of the Exchange Act requires that officers, directors and holders of more than 10% of our Common Stock (collectively, reporting persons ) file reports of their trading in NOVT equity securities with the SEC. Based on a review of Section 16 forms filed by the reporting persons during the last fiscal year, NOVT believes that all reporting persons complied with all applicable Section 16 requirements for Form 3, Form 4 and Form 5 filings during 2005.

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**ITEM 11. EXECUTIVE COMPENSATION**

**EXECUTIVE COMPENSATION AND OTHER INFORMATION**

The following table sets forth a summary of the compensation paid or accrued by us during fiscal years 2005, 2004 and 2003 to (i) our Chief Executive Officer and the other two executive officers of the Company who were serving as executive officers at the end of fiscal year 2005 and whose compensation during fiscal year 2005 exceeded $100,000 and (ii) two former executive officers of the Company whose compensation during fiscal year 2005 exceeded $100,000 but who were not serving as executive officers at the end of fiscal year 2005 (collectively, the Named Executive Officers ):

**Summary Compensation Table**

| | | Annual Compensation | | | Long-Term Compensation(3) | | |
|---|---|---|---|---|---|---|---|
| Name and Principal Position | Year | Salary | Bonus (1) | Other Annual Compensation(2) | Restricted Stock Awards | Common Stock Underlying Options | All Other Compensation(4) |
| Alfred J. Novak | 2005 | $ 436,889 | $ 385,125 | $ 16,163(5) | $ | | $ 753,880 |
| President and CEO | 2004 | 429,441 | 489,538 | 29,487 | | 200,000 | 5,333 |
| | 2003 | 350,000 | 123,452 | 72,156 | | 8,700 | 4,671 |
| Daniel G. Hall | 2005 | 195,000 | 159,775 | | | | 355,474 |
| VP and Corporate | 2004 | 197,772 | 170,675 | | | | 3,955 |
| Secretary & General Counsel | 2003 | 186,810 | 47,287 | | | 8,700 | 2,612 |
| Subhash C. Sarda (6) | 2005 | 180,000 | 140,000 | | | | 344,040 |
| VP - Chief Financial Officer | 2004 | 160,096 | 142,660 | | | | 3,196 |
| | 2003 | | | | | | |
| Adam G. Lowe (7) | 2005 | 71,225 | 70,917 | | | | 232,904 |
| VP - Operations | 2004 | 180,761 | 154,634 | | | | 3,268 |
| | 2003 | 167,228 | 42,330 | | | 8,700 | 3,015 |
| Robert N. Wood, Jr. (8) | 2005 | 50,502 | 58,345 | | | | 285,434 |
| VP - Sales and Marketing | 2004 | 271,296 | 222,370 | | | 75,000 | 4,750 |
| | 2003 | 223,649 | 56,612 | | | 8,700 | 4,280 |

(1) Bonus compensation for 2005 includes payments of executive retention bonuses, as described below under the caption Executive Retention Bonus Agreements.

(2) Except as provided below, we did not pay any other annual compensation to the Named Executive Officers during the fiscal years 2005, 2004 and 2003.

(3) NOVT did not grant any stock appreciation rights or make any long-term incentive payouts to the Named Executive Officers during the fiscal years 2005, 2004 and 2003.

(4) The amounts shown for 2005 include (i) termination and severance payments (Mr. Novak $721,500; Mr. Hall $321,500; Mr. Sarda $302,000; Mr. Lowe $207,000; and Mr. Wood $260,000); (ii) lump sum payment for health insurance benefits (Mr. Novak $30,522; Mr. Hall $30,074; Mr. Sarda $39,963; Mr. Lowe $24,480; and Mr. Wood $24,480); and (iii) matching contributions to the defined contribution 401(k) plan (Mr. Novak $1,858; Mr. Hall $3,900; Mr. Sarda $2,077; Mr. Lowe $1,424; and Mr. Wood $954).

(5) Consists of payments for Mr. Novak s apartment and airfare fees paid by us under the terms of Mr. Novak s employment agreement, dated October 8, 2002.

(6) Mr. Sarda became an executive officer of the Company on February 11, 2004.

(7) Mr. Lowe s employment with the Company terminated on April 29, 2005.

(8) Mr. Wood s employment with the Company terminated on March 4, 2005.

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**Stock Options**

No options were granted to the Named Executive Officers during fiscal year 2005.

**Option Exercises and Holdings**

The following table sets forth certain information concerning the number and value realized of options exercised during fiscal year 2005, and the number and value of unexercised options held at December 31, 2005 by the Named Executive Officers.

**Option Exercises in Last Fiscal Year and Fiscal Year End Option Values**

| Name | Shares Acquired on Exercise | Value Realized | Number of Unexercised Options at December 31, 2005 | | Value of Unexercised In- the-Money Options at December 31, 2005 (1) | |
|---|---|---|---|---|---|---|
| | | | Exercisable | Unexercisable | Exercisable | Unexercisable |
| Alfred J. Novak | | | 154,132 | 73,043 | $ | $ |
| Daniel G. Hall | | | 35,225 | 5,231 | $ | $ |
| Subhash C. Sarda | | | 19,608 | 7,892 | $ | $ |
| Adam G. Lowe | | | | | $ | $ |
| Robert N. Wood | | | | | $ | $ |

(1) Based on the closing sale price of our Common Stock on The NASDAQ National Market as of December 31, 2005 ($2.22 per share) minus the applicable exercise price.

**Executive Termination Agreements**

We entered into amended and restated termination agreements with our executive officers (including the Named Executive Officers) in May 2003 (except the amended and restated termination agreement with Mr. Sarda which was entered into in April 2004), which provide for benefits in the event of a termination of an executive officer after a change in control of NOVT. The termination agreements have an initial term from the date of execution of the termination agreements through December 31, 2003. After the initial term, the termination agreements are automatically extended each January 1 thereafter for one-year terms, unless notice not to extend the agreement is given not later than 12 months prior to such January 1. If a change in control (as defined in the termination agreement) occurs during the term, the termination agreement extends for 24 months even if such notice not to extend is given. Each executive officer who has entered into a termination agreement has agreed that following the termination of employment, if any, of such executive officer, he or she will be subject to a one-year non-compete and non-solicitation agreement with us.

Prior to the amendment of such agreements as described below, upon a change in control of NOVT and the subsequent termination of an executive officer without cause or for good reason, the executive officer will receive benefits including, but not limited to, the following: a severance payment equal to three times (or, in the case of executive officers who have served for two or less full years as an executive officer of NOVT, two times) his or her annual salary and bonus, as calculated pursuant to the terms of the termination agreement; a pro-rata portion of his or her target bonus for the year in which the change in control occurs; total health care benefits for 18 months; the use of office space or outplacement services for six months; and reimbursement of specified legal fees and expenses. In the event that any payments made by us to an executive officer in connection with the change in control would be subject to the excise tax imposed under Section 4999 of the Internal Revenue Code of 1986, as amended, we are obligated to make whole the executive officer with respect to such excise tax.

In May 2005, we entered into amendments to each of the amended and restated termination agreements with our executive officers (including the Named Executive Officers other than Messrs. Lowe and Wood whose employment with NOVT had terminated). Such amendments provide that in the case of a change in control of NOVT involving a transaction with ONI, Best Vascular or certain other specified party, but only in such cases, the severance payments payable to such executive officers equal to three times annual salary and bonus are reduced as follows:

to 1.75 times annualized salary (as calculated pursuant to the terms of the amended and restated termination agreements and the amendments thereto) for executive officers other than Mr. Novak; and

to two times salary and performance bonus (as calculated pursuant to the terms of the amended and restated termination agreement and the amendment thereto) for Mr. Novak.

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**Executive Retention Bonus Agreements**

In April 2004, we entered into executive retention bonus agreements with our executive officers (including the Named Executive Officers), which provide for benefits to the executive officers for continued loyalty to NOVT during its restructuring period. These agreements were subsequently amended in the fourth quarter of 2004. The retention agreements are in effect from April 1, 2004 until December 31, 2005. Under the retention agreements, the executive officers will continue to perform the duties and responsibilities that are commensurate with each executive officer s position and will perform such other duties as we may reasonably require of the executive officers. The executive officers will also continue to devote their best efforts and full business time and attention to the performance of services customarily incident to each executive officer s position and to such other services as we may request. Each executive officer has received the following retention bonus payments:

Mr. Novak received $333,350 for remaining in our employ through December 31, 2004, and $385,125 for remaining in our employ through September 30, 2005. On November 11, 2005, Mr. Novak entered into a letter agreement with NOVT with respect to his continued employment with NOVT. See November 2005 Letter Agreements .

Mr. Hall received $124,550 for remaining in our employ through December 31, 2004, and $159,775 for remaining in our employ through September 30, 2005. On November 11, 2005, Mr. Hall entered into a letter agreement with NOVT with respect to his continued employment with NOVT. See November 2005 Letter Agreements.

Mr. Sarda received $100,000 for remaining in our employ through December 31, 2004 and $140,000 for remaining in our employ through September 30, 2005. On November 11, 2005, Mr. Sarda entered into a letter agreement with NOVT with respect to his continued employment with NOVT. See November 2005 Letter Agreements.

Mr. Lowe received $111,500 for remaining in our employ through December 31, 2004, and $70,917 for remaining in our employ through April 29, 2005 (his last date of employment by the Company).

Mr. Wood received $166,675 for remaining in our employ through December 31, 2004 and $58,345 for remaining in our employ through March 4, 2005 (his last date of employment by the Company).

With respect to Mr. Novak, his employment will continue to be terminable as described in the employment agreement between us and Mr. Novak, dated October 8, 2002, which agreement is described in greater detail below. If Mr. Novak is terminated without cause (as such term is defined in his employment agreement), he will receive benefits as set forth in the employment agreement. With respect to the other executive officers, their employment will continue to be terminable at-will. If we terminate an executive officer without cause (as such term is defined in the retention agreements) prior to December 31, 2005, the executive officer will receive a severance package equal to 52 weeks salary at the executive officer s rate of base pay on the date of termination. If we terminate an executive officer without cause (i) after December 31, 2004 and before March 31, 2005, we will also pay the executive officer a prorated amount of the retention bonus he would have been entitled to, and (ii) before December 31, 2005, we will also pay the executive officer a prorated amount of the annual target/performance bonus he would have been entitled to in connection with his employment with NOVT. These payments are subject to such executive officer s execution and non-revocation of a release agreement referred to in the retention agreements. Messrs. Lowe and Wood ceased being employed by NOVT in April and March 2005, respectively. As a result, they each received a pro rated bonus payment, as further described above, for their retention as NOVT employees during a portion of the quarterly period ended June 30, 2005 and March 31, 2005, respectively. In addition, Messrs. Lowe and Wood each received a severance package equal to 52 weeks salary at their respective base pay rates on their respective dates of termination.

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**Executive Employment Agreement**

On October 8, 2002, we entered into an employment agreement with Mr. Novak which set forth the terms and conditions of Mr. Novak s employment as our chief executive officer. The employment agreement provided that, as compensation for Mr. Novak s services, we would pay a base salary of at least $350,000 per annum (with Mr. Novak s performance to be reviewed annually by our board of directors) and grant a ten-year non-incentive stock option to purchase an aggregate of 700,000 shares of our Common Stock, at an exercise price equal to the fair market value per share of the stock on the day of grant, upon the terms and conditions (including vesting schedules) as set forth in stock option agreements between Mr. Novak and us. Mr. Novak was also entitled to participate in our discretionary annual incentive cash bonus plan for executive officers, established to reward participating individuals for their contribution to the achievement of key annual corporate objectives approved by the board of directors. The employment agreement also provided that we would provide (1) a company-paid apartment for Mr. Novak s use and pay all expenses to the apartment including, rent, utilities, and furniture rental up to $3,500 per month, (2) airfare for weekly visits to his family and (3) health, life, disability or other insurance plans, retirement plans, 401(k) plans, stock purchase plans and all other employee benefit plans that are offered by us, subject to the terms and conditions of those plans.

Mr. Novak s employment could be terminated at any time by us:

- for cause;
- if a majority of our board of directors (excluding Mr. Novak if he is then a director) gives a vote of no confidence based upon the nature or manner of the performance of his duties (which we refer to as unsatisfactory performance);
- upon 30 days prior written notice to Mr. Novak, if terminated without cause or unsatisfactory performance; or
- upon death or permanent disability.

Mr. Novak could also terminate his employment at any time for good reason or upon 90 days prior written notice to us without good reason.

If Mr. Novak s employment is terminated for cause, unsatisfactory performance, death or permanent disability, or by him without good reason, he (or his estate, as the case may be) will be entitled to be paid any accrued but unpaid salary earned by him through the date of his termination. If Mr. Novak s employment is terminated by us without cause or unsatisfactory performance (other than by reason of death or permanent disability) or by him for good reason, he will be entitled to (1) receive all accrued but unpaid salary earned through the date of termination, (2) receive a lump sum cash severance payment on the termination date equal to two times his annualized includable compensation, taking as a base period the two most recent taxable years ending before the termination date, and (3) accelerate the vesting of options for up to 400,000 shares of Common Stock from the initial option grant described above so that they become fully vested and exercisable on the termination date.

**Lowe and Wood Severance and Release Agreements**

In connection with the termination of the employment of Messrs. Lowe and Wood, NOVT entered into severance and release agreements with each of Messrs. Lowe and Wood on April 29, 2005 and March 4, 2005, respectively. The severance and release agreements provided for the following:

- severance payments of $182,000 and $235,000 to each of Messrs. Lowe and Wood, respectively, representing 52 weeks salary;
- payment or reimbursement of health insurance premiums for coverage for two months following the date of termination;

a pro rated payment through the termination date of the retention bonus payments payable under their executive retention bonus agreements with NOVT;

in the event of a change of control of NOVT as defined in the amended and restated termination agreements, such severance payment as each executive officer would be entitled under his amended and restated termination agreement with NOVT.

in the event of a change of control of NOVT, health care premiums for a period of 18 months following termination of employment; and

releases by each of Messrs. Lowe and Wood of any claims he had, has or might have against NOVT.

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**November 2005 Letter Agreements**

On November 11, 2005, the Company entered into letter agreements with each of Messrs. Novak, Hall and Sarda, which provide as follows:

Letter Agreement with Mr. Novak

The letter agreement with Mr. Novak provides that Mr. Novak will continue to be employed by the Company through March 31, 2006 at which time his employment will terminate, subject to the option of the Company to extend Mr. Novak s employment through April 30, 2006. During the period of his employment, Mr. Novak will be entitled to receive his base salary at the rate in effect on the date of the agreement and all accompanying benefits of employment. In addition, under the terms of the letter agreement, Mr. Novak received or is entitled to receive the following payments and benefits:

a payment of $579,200 which was paid on the date of execution of the letter agreement;

a payment of $142,300 which was paid on January 2, 2006; provided, however, that if there is a change in the composition of the Company s board of directors as set forth in the letter agreement (a Company Board Change ), this payment would be accelerated and paid upon the occurrence of such event (to the extent such payment was not previously made);

payments of $27,375 to be paid at the end of January, February and March 2006, unless Mr. Novak has voluntarily terminated his employment prior to the receipt of such payments without good reason as defined in the letter agreement; provided, however, that if there is a Company Board Change, these payments will be accelerated and paid upon the occurrence of such event; and provided further, however, that if Mr. Novak voluntarily terminates his employment without good reason prior to March 31, 2006 after his receipt of any such accelerated payments, he must repay to the Company a pro rata portion of such payments based on the number of days prior to March 31, 2006 that his employment terminated;

a payment of $18,250 to be paid on April 30, 2006 if the Company elects to extend Mr. Novak s employment to April 30, 2006;

a payment of $30,522 for health insurance benefits which was paid on December 31, 2005;

amounts representing the value of Mr. Novak s vested benefits under the Company s 401(k) plan, to be paid out in accordance with such plan;

continuation of Mr. Novak s travel and housing arrangements;

amounts representing four weeks of accrued but unused personal and vacation time; and

unreimbursed business expenses and up to $10,000 to reimburse any reasonable legal expenses incurred by Mr. Novak in connection with the letter agreement.

Pursuant to the letter agreement and subject to the last sentence of this paragraph, Mr. Novak (a) releases the Company from any liabilities or obligations of the Company to Mr. Novak under his employment agreement with the Company described above (other than for Mr. Novak s travel and housing benefit) and under his amended and restated termination agreement with the Company described above, and (b) acknowledges that the payments to be made pursuant to the letter agreement represent all consideration that Mr. Novak is entitled to receive from the Company (other than any rights to indemnification to which Mr. Novak may be entitled or Mr. Novak s travel and housing benefit) and that the letter agreement supersedes in its entirety his amended and restated termination agreement and supersedes his employment agreement

other than Mr. Novak s travel and housing benefit and certain specified sections unrelated to compensation. In the event Mr. Novak s letter agreement with the Company is the subject of any litigation or adversary proceeding that is not initiated by Mr. Novak, the release by Mr. Novak of the Company as described above becomes null and void and Mr. Novak will receive under his amended and restated termination agreement or employment agreement, such payments as he is entitled to receive thereunder, offset by certain of the payments described above to the extent such payments have previously been made to Mr. Novak.

Letter Agreement with Mr. Hall

The letter agreement with Mr. Hall provides that Mr. Hall would continue to be employed by the Company through December 31, 2005 at which time his employment would terminate. During such period, Mr. Hall will be entitled to receive his base salary at the rate in effect on the date of the agreement and all accompanying benefits of employment. In addition, under the terms of the letter agreement, Mr. Hall received or is entitled to receive the following payments and benefits:

a payment of $258,000 which was paid on the date of execution of the letter agreement;

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a payment of $63,500 which was paid on the later of January 2, 2006 or the date on which Mr. Hall had completed certain agreed upon tasks; provided, however, that if there is a Company Board Change, this payment would be accelerated and paid upon the occurrence of such event (to the extent such payment was not previously made);

a payment of $30,074 for health insurance benefits which was paid on December 31, 2005;

amounts representing the value of Mr. Hall s vested benefits under the Company s 401(k) plan, to be paid out in accordance with such plan;

amounts representing four weeks of accrued but unused personal and vacation time; and

unreimbursed business expenses and up to $5,000 to reimburse any reasonable legal expenses incurred by Mr. Hall in connection with the letter agreement.

In the letter agreement, Mr. Hall releases the Company from any liabilities or obligations of the Company to Mr. Hall under his executive retention bonus agreement with the Company described above for severance payments and under his amended and restated termination agreement with the Company described above. Mr. Hall further acknowledges that the payments to be made pursuant to the letter agreement represent all consideration that Mr. Hall is entitled to receive from the Company (other than any rights to indemnification to which Mr. Hall may be entitled) and that the letter agreement supersedes in its entirety his amended and restated termination agreement and supersedes his executive retention bonus agreement with respect to the Company s obligation to pay severance.

Mr. Hall s letter agreement was amended effective January 1, February 1 and March 1, 2006 to extend his employment for each of the months of January, February and March, during which, in addition to his base salary and all accompanying benefits of employment, he is entitled to receive incentive retention payments of $16,250 at the end of each such month.

Letter Agreement with Mr. Sarda

The letter agreement with Mr. Sarda provides that Mr. Sarda would continue to be employed by the Company through February 28, 2006 at which time his employment would terminate, except that Mr. Sarda s employment may terminate earlier than February 28, 2006 (but not earlier than December 31, 2005) at his election in the event he has secured new employment that requires him to commence employment prior to February 28, 2006. During the period of his employment, Mr. Sarda will be entitled to receive his base salary at the rate in effect on the date of the agreement and all accompanying benefits of employment. In addition, under the terms of the letter agreement, Mr. Sarda received or is entitled to receive the following payments and benefits:

a payment of $242,400 which was paid on the date of execution of the letter agreement;

a payment of $59,600 which was paid on the later of January 2, 2006 or the date on which Mr. Sarda had completed certain agreed upon tasks; provided, however, that if there is a Company Board Change, this payment would be accelerated and paid upon the occurrence of such event (to the extent such payment was not previously made);

payments of $15,000 which were paid at the end of January and February 2006, unless Mr. Sarda had voluntarily terminated his employment prior to the receipt of such payments; provided, however, that if there is a Company Board Change, these payments would be accelerated and paid upon the occurrence of such event; and provided further, however, that if Mr. Sarda voluntarily terminated his employment prior to February 28, 2006 after his receipt of any such accelerated payments, he would be required to repay to the Company a pro rata portion of such payments based on the number of days prior to February 28, 2006 that his employment terminated;

a payment of $39,963 for health insurance benefits which was paid on December 31, 2005;

amounts representing the value of Mr. Sarda s vested benefits under the Company s 401(k) plan, to be paid out in accordance with such plan;

amounts representing four weeks of accrued but unused personal and vacation time; and

unreimbursed business expenses and up to $5,000 to reimburse any reasonable legal expenses incurred by Mr. Sarda in connection with the letter agreement.

In the letter agreement, Mr. Sarda releases the Company from any liabilities or obligations of the Company to Mr. Sarda under his executive retention bonus agreement with the Company described above for severance payments and under his amended and restated termination agreement with the Company described above. Mr. Sarda further acknowledges that the payments to be made pursuant to the letter agreement represent all consideration that Mr. Sarda is entitled to receive from the Company (other than any rights to indemnification to which Mr. Sarda may be entitled) and that the letter agreement supersedes in its entirety his amended and restated termination agreement and supersedes his executive retention bonus agreement with respect to the Company s obligation to pay severance.

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Mr. Sarda s letter agreement was amended effective March 1, 2006 to extend his employment for the month of March during which in addition to his base salary and all accompanying benefits of employment, he is entitled to receive an incentive retention payment of $15,000 at the end of such month; provided, however, that if there is a Company Board Change, this payment would be accelerated and paid upon the occurrence of such event (to the extent such payment has not been previously made).

The Company agreed in each of the letter agreements that the Novoste Corporation Executive Rabbi Trust created by the Company on May 20, 2005, and subsequently amended on July 15, 2005, would not be terminated by the Company prior to July 15, 2006.

November 2005 Settlement and Release Agreements

On November 11, 2005, the Company entered into settlement and release agreements with each of Messrs. Lowe and Wood. Under the terms of the settlement and release agreements, each of Messrs. Lowe and Wood received a payment of $25,000, which was paid on the date of execution of the agreement, and a payment of $24,480 for health insurance benefits, which was paid on the date of execution of the agreement. In the settlement and release agreements, each of Messrs. Lowe and Wood releases the Company from any liabilities or obligations of the Company to them under their severance and release agreement and amended and restated termination agreement with the Company.

**Compensation of Directors**

Directors who are employees of NOVT do not receive additional compensation for serving on the board of directors or its committees. A non-employee director is paid a fee of $4,000 for each board meeting attended. Each director who also serves on a committee is paid $1,000 for each committee meeting attended; the director who is a committee Chairperson receives a fee of $2,000 per committee meeting. There is no compensation for attendance at a scheduled board or committee meeting to a director who attends such a meeting only by telephone. Compensation for scheduled telephonic meetings of the board or any committee will be compensated at one-half of the established board or committee attendance fee. The board of directors established an annual retainer for the Chairman of the board of directors in the amount of $26,000, payable to the Chairman on the first day of each calendar year, and a retainer for the Chairman of the Audit Committee in the amount of $24,000 per year.

**ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED SHAREHOLDER MATTERS**

**EQUITY COMPENSATION PLAN INFORMATION**

The following table provides information about stock options outstanding and shares available for future awards under all of NOVT s equity compensation plans. The information is as of December 31, 2005. NOVT has not made any grants outside of its equity compensation plans.

NOVT currently has stock options outstanding which were granted from three plans approved by our shareholders, the Novoste Corporation Employee Equity Plan, the Novoste Corporation Non-Employee Stock Option Plan and the Novoste Corporation 2001 Stock Plan and two plans which were not approved by our shareholders, the Novoste Corporation 2002 Broad-Based Stock Plan and the 2002 Chief Executive Officer Stock Option Plan.

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The Novoste Corporation Employee Equity Plan and the Non-Employee Stock Option Plan have been terminated in accordance with each plan s terms and there are, therefore, no shares available for future option grant under those plans. The 2002 Chief Executive Officer Plan was created specifically for providing a retention incentive when NOVT hired a new Chief Executive Officer in October 2002. There are no additional shares available for grant under that plan. NOVT does not have any warrants or stock appreciation rights outstanding under our equity compensation plans.

| Plan Category | Number of securities to be issued upon exercise of outstanding options, warrants and rights | 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 | 307,665 | $ 25.41 | 259,325 |
| Equity compensation plans not approved by security holders | 176,552 | 16.87 | 46,698 |
| Total | 484,217 | $ 22.30 | 306,023 |

See note 12 to the consolidated financial statements, included in Item 15, for a description of the Company s plans.

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**PRINCIPAL HOLDERS OF VOTING SECURITIES**

The following table provides information as of March 1, 2006 with respect to the ownership of shares of our Common Stock by each person believed by management to be the beneficial owner of more than five percent of the outstanding Common Stock. The information is based on the most recent Schedule 13D or 13G filed with the SEC on behalf of such persons or other information made available to us, and has been adjusted to give effect to the one-for-four reverse stock split that occurred on November 4, 2005.

| Name of Beneficial Owner | Beneficial Ownership Shares | Percentage |
|---|---|---|
| Steel Partners II, L.P. and affiliated entities (1)<br>590 Madison Avenue, 32nd Floor<br>New York, New York 10022 | 799,337 | 19.6% |
| Lloyd I. Miller, III (2)<br>4550 Gordon Drive<br>Naples, Florida 34102 | 335,139 | 8.2% |
| JANA Partners LLC (3)<br>536 Pacific Avenue<br>San Francisco, California 94133 | 331,924 | 8.1% |
| Wynnefield Capital Management, LLC, Wynnefield<br>Capital, Inc. and affiliated entities (4)<br>450 Seventh Avenue, Suite 509<br>New York, New York 10123 | 217,723 | 5.3% |
| Trellus Management Company, LLC (5)<br>350 Madison Avenue, 9th Floor<br>New York, New York 10017 | 209,608 | 5.1% |

(1) Information obtained from Schedule 13D/A filed with the SEC by Steel Partners II, L.P. and Steel Partners, L.L.C. and affiliated persons on February 21, 2006. The Schedule 13D/A discloses that Steel Partners has sole power to vote or direct the vote of and to dispose of or to direct the disposition of all of these shares. As the sole executive officer and managing member of Steel Partners L.L.C., Warren G. Lichtenstein may be deemed to beneficially own all of these shares.

(2) Information obtained from Schedule 13G/A filed with the SEC by Mr. Miller on February 24, 2006. The Schedule 13G indicates that Mr. Miller has (i) sole voting and dispositive power with respect to 12,000 shares as the manager of a limited liability company that is the general partner of a certain limited partnership and as an individual and (ii) shared voting and dispositive power with respect to 323,139 shares as an investment advisor to the trustee of certain family trusts.

(3) Information obtained from Schedule 13G/A filed with the SEC by JANA Partners LLC on February 10, 2006. The Schedule 13G discloses that JANA Partners has sole power to vote or direct the vote of and to dispose of or to direct the disposition of all of these shares.

(4) Information obtained from Schedule 13D filed with the SEC by Wynnefield Partners Small Cap Value, L.P. (WPSCV), Wynnefield Partners Small Cap Value, L.P. I (WPSCV-I), Wynnefield Small Cap Value Offshore Fund, Ltd. (WSCVOF), Wynnefield Capital Management, LLC (WCM) and Wynnefield Capital, Inc. (WCI) on January 6, 2006. The Schedule 13D disclosed that (i) WCM, as sole general manager of WPSCV and WPSCV-I, and Nelson Obus and Joshua Landes, as the co-managing members of WCM, have sole power

to direct the voting and disposition of 67,623 shares beneficially owned directly by WPSCV and 83,675 shares beneficially owned directly by WPSCV-I and (ii) WCI, as sole investment manager of WSCVOF, and Nelson Obus and Joshua Landes, as the principal executive officers of WCI, have sole power to direct the voting and disposition of 66,425 shares beneficially owned directly by WSCVOF.

(5) Information obtained from Schedule 13G/A filed with the SEC by Trellus Company, LLC and Adam Usdan on February 7, 2005. The Schedule 13G/A discloses that Trellus and Mr. Usdan have shared power to vote or direct the vote of and to dispose of or to direct the disposition of all of these shares.

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**SECURITY OWNERSHIP OF MANAGEMENT**

The following table sets forth information as of March 1, 2006 with respect to the beneficial ownership of our Common Stock by (1) each director (2) each named executive officer as defined by the regulations of the SEC and (3) all executive officers and directors as a group. The information in the table gives effect to the one-for-four reverse stock split that occurred on November 4, 2005.

| Name | Shares | Options | Beneficial Ownership | Percentage (1) |
|---|---|---|---|---|
| Thomas D. Weldon (2) | 44,693 | 28,500 | 73,193 | 1.8% |
| Alfred J. Novak | | 154,132 | 154,132 | 3.6% |
| Charles E. Larsen | 77,791 | 9,250 | 87,041 | 2.1% |
| William E. Whitmer | 2,250 | 9,250 | 11,500 | * |
| Stephen I. Shapiro | 1,054 | 9,250 | 10,304 | * |
| J. Stephen Holmes | | 9,250 | 9,250 | * |
| Judy Lindstrom | | 9,250 | 9,250 | * |
| Daniel G. Hall | 750 | 35,225 | 35,975 | * |
| Subhash C. Sarda | | 19,608 | 19,608 | * |
| All executive officers and directors as a group (9 persons) | 126,538 | 283,715 | 410,253 | 9.4%(3) |

* Less than 1%.

(1) Applicable percentage of ownership as of March 1, 2006 is based upon 4,094,454 shares of our Common Stock outstanding. A person is deemed to be the beneficial owner of our Common Stock that can be acquired within 60 days from March 1, 2006 upon the exercise of options, and that person s options are assumed to have been exercised (and the underlying shares of our Common Stock outstanding) in determining such person s percentage ownership. Consequently, the denominator for calculating such percentage may differ for each shareholder.

(2) Includes 625 shares held in trust for the benefit of Mr. Weldon s son and 625 shares held by Mr. Weldon as custodian for his nephew, 9,917 shares held by Mr. Weldon s spouse and 16,893 shares held by The Weldon Foundation, Inc., a Florida not-for-profit corporation in which Mr. Weldon is a director. Mr. Weldon disclaims beneficial ownership of all shares held by The Weldon Foundation, Inc.

(3) Messrs. Lowe and Wood s employment with the Company terminated on April 29, 2005 and March 4, 2005, respectively, and their beneficial ownership is not reflected in the line entitled All executive officers and directors as a group.

The change in the composition of the board of directors (as contemplated by the Settlement Agreement and undertaking letters described in Item 1, Business Overview Settlement Agreement with Steel Parties ) may, although approved by the Company s current board of directors, be deemed to have resulted in a change of control of the Company within the meaning of Rule 12b-2 under the Exchange Act.

**ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS**

The Company has adopted a policy that all transactions between the Company and its officers, directors, principal shareholders and their affiliates will be on terms no less favorable to the Company than could be obtained by it from unrelated third parties, and will be approved by its audit committee.

In December 2002, the Company s audit committee reviewed and approved a distribution agreement between the Company and Orbus Medical Technologies, Inc. The agreement provided for distribution of Orbus products in Germany by the Company. Alfred J. Novak, the Company s president and chief executive officer, formerly served as chairman of the board of directors of Orbus and both Mr. Novak and members of his family had equity investments in Orbus. The audit committee undertook a full review of the terms of the agreement and determined the agreement was advantageous to the Company and that it was no less favorable than could be obtained from an unrelated third party.

In February 2005, the Company and Orbus mutually agreed to terminate the distribution agreement. Orbus paid the Company $366,000 and assumed $36,000 in liabilities to repurchase inventory, refund the unused deposit and reimburse the

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Company for market development expenses. The Company ceased distributing Orbus product during the first quarter of 2005. Included in amounts payable as of December 31, 2005 is $53,000 due to Orbus relating to the final settlement for termination of the Company s contract with Orbus.

On March 17, 2006, the Company executed and delivered a settlement agreement, dated as of March 16, 2006 (the Settlement Agreement ), with Steel Partners II, L.P., a Delaware limited partnership, J.L. Howard, Inc., a New York corporation, Steel Partners, L.L.C., a Delaware limited liability company, Warren G. Lichtenstein, Jack L. Howard, John Quicke, James Henderson, Joshua Schechter, Harvey J. Bazaar, Leonard Toboroff and The Novoste Full Value Committee (collectively, the Steel Parties ). Based on a Schedule 13D/A filed with the SEC by Steel Partners II, L.P. and Steel Partners, L.L.C. and various affiliates on February 21, 2006, the Steel Parties beneficially own 799,337 or approximately 19.6% of the Company s outstanding Common Stock. See Item 12, Security Ownership of Certain Beneficial Owners and Management and Related Shareholder Matters. Pursuant to the Settlement Agreement, the Company s board of directors will be reduced in size from seven to four members and the current NOVT board of directors has approved a reconstituted board, which will consist of three appointees of the Steel Parties, Jack L. Howard, John Quicke and Leonard Toboroff, as well as William E. Whitmer, who is currently a member of the board. Mr. Whitmer will continue serving, and Mr. Toboroff will be appointed as, a Class I director. Mr. Quicke will be appointed as a Class II director. Mr. Howard will be appointed as a Class III director. Six current members of our board of directors, J. Stephen Holmes, Charles E. Larsen, Judy Lindstrom, Alfred J. Novak, Stephen I. Shapiro and Thomas D. Weldon, have submitted their resignations effective as of the time that the change in composition of the board occurs. For a description of other terms and provisions of the Settlement Agreement, see Item 1, Business Overview Settlement Agreement with Steel Parties and Item 10, Directors and Executive Officers of the Registrant Directors of NOVT after Change in Composition is Effective.

**ITEM 14. PRINCIPAL ACCOUNTANT FEES & SERVICES**

As previously reported on Current Reports on Form 8-K filed with the SEC on November 18 and December 5, 2005, the Company received notice on November 16, 2005 from Ernst & Young LLP that it resigned its engagement as the Company s independent registered public accounting firm effective November 16, 2005 and that on November 30, 2005, the Company s audit committee appointed Tauber & Balser, P.C. as the Company s independent registered public accounting firm. See Item 9.

Fees for the work performed by Ernst & Young LLP, the Company s independent registered public accounting firm in 2004 and 2005, for professional services in 2004 and 2005, are set forth below:

(a) *Audit Fees*

Fees for audit services totaled approximately $137,000 in 2005 and approximately $920,000 in 2004, including fees associated with the annual audit, the audit of internal control over financial reporting, the reviews of the Company s Quarterly Reports on Form 10-Q, and statutory audits required internationally.

(b) *Audit-Related Fees*

Fees for audit-related services totaled approximately $46,000 in 2005 and $0 in 2004. Audit-related services principally include accounting consultations concerning financial accounting and reporting matters not classified as audit fees.

(c) *Tax Fees*

Fees for tax services, including tax compliance, tax advice and tax planning totaled approximately $138,000 in 2005 and $181,000 in 2004.

(d) *All Other Fees*

Fees for all other services not included above totaled $0 in 2005 and $0 in 2004.

The Audit Committee approved, in advance, the provision by Ernst & Young of all services whether or not related to the audit. Applicable law and regulations provide an exemption that permits certain services to be provided by our outside auditors even if they are not pre-approved. We have not relied on this exemption at any time since the Sarbanes-Oxley Act was enacted. The Audit Committee typically meets with Ernst & Young throughout the year. The Audit Committee reviews both audit and non-audit services performed by Ernst & Young as well as fees charged by Ernst & Young for such services. In engaging Ernst & Young for the services described above, the Audit Committee considered whether the provision of such services was compatible with maintaining Ernst & Young s independence.

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Fees for the work performed by Tauber & Balser, P.C., an independent registered public accounting firm that audited our financial statements included in this Annual Report on Form 10-K during 2005 are set forth below:

(a) *Audit Fees*

Fees for audit services totaled approximately $111,000 in 2005.

(b) *Audit-Related Fees*

No fees for audit-related services were paid to Tauber & Balser in 2005.

(c) *Tax Fees*

Fees for tax services, including tax compliance, tax advice and tax planning totaled approximately $50,000 in 2005.

(d) *All Other Fees*

Fees for all other services not included above totaled approximately $4,000 in 2005, principally including support and advisory service relating to the proxy statement prepared in connection with the sale of the VBT business to Best Vascular.

The Audit Committee approves, in advance, the provision by Tauber & Balser of all services whether or not related to the audit. Applicable law and regulations provide an exemption that permits certain services to be provided by our outside auditors even if they are not pre-approved. We have not relied on this exemption at any time since the Sarbanes-Oxley Act was enacted. The Audit Committee typically meets with Tauber & Balser throughout the year. The Audit Committee reviews both audit and non-audit services performed by Tauber & Balser as well as fees charged by Tauber & Balser for such services. In engaging Tauber & Balser for the services described above, the Audit Committee considered whether the provision of such services is compatible with maintaining Tauber & Balser s independence.

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**PART IV**

**ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES**

1. *Index to Financial Statements*.

The following consolidated financial statements of NOVT Corporation are included herein:



2. *Financial Statement Schedule*

The following schedule is filed herewith:

Schedule V Valuation and Qualifying Account and Reserves

All other schedules for which provision is made in the applicable accounting regulations of the SEC are not required under the related instructions or are inapplicable and, therefore, have been omitted.

3. *Exhibits*.

The exhibits listed in the accompanying Index to Exhibits immediately following the financial statements are filed as part of this Report.

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**SIGNATURES**

Pursuant to the requirements of 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, on March 31, 2006.

NOVT CORPORATION

By: /s/ ALFRED J. NOVAK
**Alfred J. Novak**

**President and Chief Executive Officer**

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities indicated on March 31, 2006.

| **Signatures** | **Titles** |
|---|---|
| /s/ ALFRED J. NOVAK | President and Chief Executive Officer and Director |
| **Alfred J. Novak** | (Principal Executive Officer) |
| /s/ SUBHASH C. SARDA | Chief Financial Officer (Principal Financial and Accounting Officer) |
| **Subhash C. Sarda** | |
| /s/ THOMAS D. WELDON | Chairman of the Board of Directors |
| **Thomas D. Weldon** | |
| /s/ J. STEPHEN HOLMES | Director |
| **J. Stephen Holmes** | |
| /s/ CHARLES E. LARSEN | Director |
| **Charles E. Larsen** | |
| /s/ JUDY LINDSTROM | Director |
| **Judy Lindstrom** | |
| /s/ STEPHEN I. SHAPIRO | Director |
| **Stephen I. Shapiro** | |
| /s/ WILLIAM E. WHITMER | Director |
| **William E. Whitmer** | |

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**REPORT OF TAUBER & BALSER, PC, INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The Board of Directors and Shareholders

NOVT Corporation

We have audited the accompanying consolidated balance sheet of NOVT Corporation and subsidiaries (the Company ) as of December 31, 2005, and the related consolidated statements of operations, shareholders equity, and cash flows for the year then ended. Our audit also included the financial statement schedule listed at Schedule V. These financial statements and the financial statement schedule are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements and the financial statement schedule based on our audit.

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. The Company is not required to have, nor were we engaged to perform, an audit of their internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company s internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. 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 audit provides a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of NOVT Corporation and subsidiaries as of December 31, 2005 and the results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

/s/ Tauber & Balser, P.C.

Atlanta, Georgia

February 24, 2006, except for Note 23, as to which the date is March 9, 2006, Note 24, as to which the date is March 23, 2006, and Note 26, as to which the date is March 17, 2006.

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**REPORT OF ERNST & YOUNG LLP, INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The Board of Directors and Shareholders

Novoste Corporation

We have audited the accompanying consolidated balance sheet of Novoste Corporation (and subsidiaries) as of December 31, 2004, and the related consolidated statements of operations, shareholders equity, and cash flows for each of the two years in the period ended December 31, 2004. Our audits also included the financial statement schedule listed in the index at Item 15. These financial statements and schedule are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. 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 Novoste Corporation (and subsidiaries) at December 31, 2004, and the consolidated results of their operations and their cash flows for each of the two years in the period ended December 31, 2004, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

/s/ Ernst & Young LLP

Atlanta, Georgia

March 14, 2005

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**NOVT CORPORATION**

**CONSOLIDATED BALANCE SHEETS**

**(in thousands, except number of shares data)**

| | December 31, 2005 | December 31, 2004 |
|---|---|---|
| **ASSETS** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 10,449 | $ 19,082 |
| Restricted cash | 1,864 | |
| Short-term investments | 349 | 9,978 |
| Accounts receivable, net of allowance of $95 and $125, respectively | 476 | 1,928 |
| Inventory, net | 19 | 1,206 |
| Assets held for sale | 419 | |
| Note receivable | | |
| Prepaid expenses and other current assets | 431 | 807 |
| Total current assets | 14,007 | 33,001 |
| Property and equipment, net | 81 | 700 |
| Other assets | | 1 |
| Total assets | $ 14,088 | $ 33,702 |
| **LIABILITIES AND SHAREHOLDERS EQUITY** | | |
| Current liabilities: | | |
| Accounts payable | $ 571 | $ 1,511 |
| Accrued expenses | 2,862 | 3,823 |
| Unearned revenue | 367 | 1,914 |
| Total current liabilities | 3,800 | 7,248 |
| Shareholders equity: | | |
| Preferred stock, $.01 par value, 5,000,000 shares authorized; no shares issued and outstanding | | |
| Common stock, $.01 par value, 6,250,000 shares authorized; 4,094,454 shares issued | 41 | 41 |
| Additional paid-in capital | 187,971 | 188,017 |
| Accumulated other comprehensive income | | 826 |
| Accumulated deficit | (177,552) | (162,223) |
| Treasury stock, at cost, 10,733 shares | (172) | (172) |
| Unearned compensation | | (35) |
| Total shareholders equity | 10,288 | 26,454 |
| Total liabilities and shareholders equity | $ 14,088 | $ 33,702 |

See accompanying notes.

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**NOVT CORPORATION**

**CONSOLIDATED STATEMENTS OF OPERATIONS**

**(in thousands, except per-share data)**

| | Year Ended December 31, | | |
|---|---|---|---|
| | **2005** | **2004** | **2003** |
| Net sales | $ 7,887 | $ 23,268 | $ 62,901 |
| Cost of sales | 5,976 | 16,111 | 24,315 |
| Impairment charge | | 7,630 | |
| Gross margin | 1,911 | (473) | 38,586 |
| Operating expenses: | | | |
| Research and development | 749 | 4,633 | 11,986 |
| Sales and marketing | 4,360 | 12,558 | 19,485 |
| General and administrative | 10,574 | 8,036 | 8,237 |
| Impairment charge | | 1,719 | |
| Total operating expenses | 15,683 | 26,946 | 39,708 |
| Loss from operations | (13,772) | (27,419) | (1,122) |
| Interest income | 547 | 386 | 317 |
| Interest expense | (1) | (3) | (32) |
| Provision for note receivable | (3,000) | | |
| Foreign currency gain on dissolution of subsidiaries | 704 | | |
| Other income (expense) | 193 | 115 | (31) |
| Total other income (loss) | (1,557) | 498 | 254 |
| Net loss | $ (15,329) | $ (26,921) | $ (868) |
| Net loss per share - basic and diluted | $ (3.75) | $ (6.59) | $ (0.21) |
| Weighted average shares outstanding-basic and diluted | 4,084 | 4,083 | 4,078 |

See accompanying notes.

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**NOVT CORPORATION**

**CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY**

**(in thousands)**

| | Common Stock | | Additional Paid-In | Accumulated Other Comprehensive | | Treasury Stock | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Shares | Amount | Capital | Income (Loss) | Accumulated Deficit | Shares | Amount | Unearned Compensation | Total |
| Balance at January 1, 2003 | 4,088 | $ 41 | $ 187,936 | $ 190 | $ (134,434) | (30) | $ (445) | $ (523) | $ 52,765 |
| Exercise of stock options at $12.80 to $26.60 | 1 | | 292 | | | 25 | 382 | | 674 |
| Issuance of stock under Employee Stock Purchase Plan, 18,519 shares at $5.0582 | 5 | | 94 | | | | | | 94 |
| Amortization of unearned compensation | | | | | | | | 138 | 138 |
| Stock repurchase | | | | | | (7) | (109) | | (109) |
| Revaluation of Variable Stock Awards | | | (283) | | | | | 271 | (12) |
| Compensation expense relating to fair market value of stock options to non employees | | | 49 | | | | | (19) | 30 |
| Cancellation of unvested restricted stock awards | (1) | | (85) | | | | | 74 | (11) |
| Comprehensive loss: | | | | | | | | | |
| Unrealized loss | | | | 13 | | | | | 13 |
| Translation Adjustment | | | | 530 | | | | | 530 |
| Net loss | | | | | (868) | | | | (868) |
| Total Comprehensive loss | | | | | | | | | (325) |
| Balance at December 31, 2003 | 4,093 | $ 41 | $ 188,003 | $ 733 | $ (135,302) | (11) | $ (172) | $ (59) | $ 53,244 |

See accompanying notes.

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**NOVT CORPORATION**

**CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY**

**(in thousands)**

| | Common Stock | | Additional | | | Treasury Stock | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Shares | Amount | Paid-In Capital | Accumulated Other Comprehensive Income (Loss) | Accumulated Deficit | Shares | Amount | Unearned Compensation | Total |
| Exercise of stock options at $14.80 per share | 1 | $ | $ 7 | $ | $ | | $ | $ | $ 7 |
| Issuance of stock under Employee Stock Purchase Plan, 909 shares at $8.87 | 1 | | 8 | | | | | | 8 |
| Amortization of unearned compensation | | | | | | | | 42 | 42 |
| Revaluation of Variable Stock Awards | | | (6) | | | | | 2 | (4) |
| Compensation expense relating to fair market value of stock options to non employees | | | 32 | | | | | (27) | 5 |
| Cancellation of options for services or compensation | | | (27) | | | | | 7 | (20) |
| Comprehensive income (loss): | | | | | | | | | |
| Unrealized loss | | | | (2) | | | | | (2) |
| Translation Adjustment | | | | 95 | | | | | 95 |
| Net loss | | | | | (26,921) | | | | (26,921 |