

BOVIE MEDICAL Corp  
Form 10-Q  
August 01, 2018

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
FORM 10-Q

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

For the quarterly period ended June 30, 2018

or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 0-12183

BOVIE MEDICAL CORPORATION

(Exact name of registrant as specified in its charter)

Delaware 11-2644611

(State or other jurisdiction of (I.R.S. Employer  
incorporation or organization) Identification No.)

5115 Ulmerton Road, Clearwater, FL 33760

(Address of principal executive offices, zip code)

(727) 384-2323

(Registrant's telephone number)

Indicate by check mark whether the registrant (1) filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes: ✓ No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes: ✓ No o

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

Large accelerated filer o Accelerated filer o

Non-accelerated filer o (Do not check if a smaller reporting company) Smaller reporting company ✓

Emerging growth company o

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards o provided pursuant to Section 13(a) of the Exchange Act.

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

As of July 25, 2018, 33,203,517 shares of the registrant's \$0.001 par value common stock were outstanding.



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For the quarterly period ended June 30, 2018

(Unaudited)

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## BOVIE MEDICAL CORPORATION

## PART I. Financial Information

## ITEM 1. Financial Statements

## CONSOLIDATED BALANCE SHEETS

(In thousands, except share and per share data, Unaudited)

	June 30, 2018	December 31, 2017
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$7,875	\$ 9,949
Restricted cash	660	719
Trade accounts receivable, net of allowance of \$180 and \$204	5,592	4,857
Inventories, net	7,533	6,526
Prepaid expenses and other current assets	568	496
Total current assets	22,228	22,547
Property and equipment, net	6,314	6,408
Brand name and trademark	1,510	1,510
Purchased technology and license rights, net	235	179
Goodwill	185	185
Deposits	115	92
Other assets	67	67
Total assets	\$30,654	\$ 30,988
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$2,745	\$ 1,583
Accrued severance and related	439	1,242
Accrued payroll	394	447
Current portion of mortgage note payable	239	239
Accrued and other liabilities	2,420	2,462
Total current liabilities	6,237	5,973
Mortgage note payable, net of current portion	2,335	2,455
Note payable	140	140
Deferred tax liability	368	368
Derivative liabilities	—	20
Total liabilities	\$9,080	\$ 8,956
<b>STOCKHOLDERS' EQUITY</b>		
Common stock, \$0.001 par value; 75,000,000 shares authorized; 33,055,131 issued and 32,912,556 outstanding as of June 30, 2018 and 75,000,000 shares authorized; 33,021,170 issued and 32,878,091 outstanding as of December 31, 2017, respectively	33	33
Additional paid-in capital	51,244	50,495
Accumulated deficit	(29,703 )	(28,496 )
Total stockholders' equity	21,574	22,032
Total liabilities and stockholders' equity	\$30,654	\$ 30,988

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



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## BOVIE MEDICAL CORPORATION

## CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share data, Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Sales	\$11,475	\$9,799	\$21,391	\$18,188
Cost of sales	5,198	4,757	10,124	8,920
Gross profit	6,277	5,042	11,267	9,268
Other costs and expenses:				
Research and development	816	696	1,378	1,405
Professional services	681	480	1,187	870
Salaries and related costs	2,118	2,243	4,234	4,703
Selling, general and administrative	2,929	2,929	5,599	5,333
Total other costs and expenses	6,544	6,348	12,398	12,311
Loss from operations	(267 )	(1,306 )	(1,131 )	(3,043 )
Interest expense, net	(38 )	(36 )	(72 )	(67 )
Change in fair value of derivative liabilities	46	38	20	126
Total other income (expense), net	8	2	(52 )	59
Loss before income taxes	(259 )	(1,304 )	(1,183 )	(2,984 )
Income tax expense	13	4	24	9
Net loss	\$(272 )	\$(1,308 )	\$(1,207 )	\$(2,993 )
Loss per share				
Basic	\$(0.01 )	\$(0.04 )	\$(0.04 )	\$(0.10 )
Diluted	\$(0.01 )	\$(0.04 )	\$(0.04 )	\$(0.10 )
Weighted average number of shares outstanding - basic	32,890	30,860	32,884	30,860
Weighted average number of shares outstanding - dilutive	32,890	30,860	32,884	30,860

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

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## BOVIE MEDICAL CORPORATION

## CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

(In thousands, Unaudited)

	Preferred Stock		Common Stock				Accumulated Deficit	Total
	Shares	Par Value	Shares	Par Value	Additional Paid-In Capital			
Balance December 31, 2016	976	\$ 1	30,860	\$ 31	\$ 49,625	\$ (23,434 )		\$ 26,223
Stock based compensation	—	—	—	—	341	—		341
Net loss	—	—	—	—	—	(2,993 )		(2,993 )
Balance June 30, 2017	976	\$ 1	30,860	\$ 31	\$ 49,966	\$ (26,427 )		\$ 23,571
Balance December 31, 2017	—	\$ —	32,878	\$ 33	\$ 50,495	\$ (28,496 )		\$ 22,032
Options exercised	—	—	37	—	83	—		83
Warrants exercised	—	—	40	—	95	—		95
Stock based compensation	—	—	—	—	749	—		749
Stock swap to acquire options and warrants	—	—	(42 )	—	(178 )	—		(178 )
Net loss	—	—	—	—	—	(1,207 )		(1,207 )
Balance June 30, 2018	—	\$ —	32,913	\$ 33	\$ 51,244	\$ (29,703 )		\$ 21,574

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

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## BOVIE MEDICAL CORPORATION

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands, Unaudited)

	Six Months Ended June 30,	
	2018	2017
Cash flows from operating activities		
Net loss	\$(1,207)	\$(2,993)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	371	356
Provision for inventory obsolescence	(52)	83
(Loss) gain on disposal of property and equipment, net	(1)	2
Stock based compensation	749	341
Change in fair value of derivative liabilities	(20)	(126)
Provision for allowance for doubtful accounts	82	159
Changes in current assets and liabilities:		
Trade receivables	(817)	(355)
Prepaid expenses	(72)	(125)
Inventories	(955)	(1,507)
Deposits and other assets	(23)	(72)
Accounts payable	1,162	471
Accrued and other liabilities	(898)	(128)
Net cash used in operating activities	(1,681)	(3,894)
Cash flows from investing activities		
Purchases of technology, property and equipment	(332)	(151)
Net cash used in investing activities	(332)	(151)
Cash flows from financing activities		
Repayment of mortgage note payable	(120)	(119)
Net cash used in financing activities	(120)	(119)
Net change in cash, cash equivalents and restricted cash	(2,133)	(4,164)
Cash, cash equivalents and restricted cash, beginning of period	10,668	15,235
Cash, cash equivalents and restricted cash, end of period	\$8,535	\$11,071
Cash paid for:		
Interest paid	\$72	\$67

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



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BOVIE MEDICAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 1. BASIS OF PRESENTATION

Unless the context otherwise indicates, the terms “we,” “our,” “us,” “Bovie,” and similar terms refer to Bovie Medical Corporation and its consolidated subsidiaries.

The accompanying unaudited consolidated financial statements have been prepared based upon SEC rules that permit reduced disclosure for interim periods. For a more complete discussion of significant accounting policies and certain other information, please refer to the financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2017. These financial statements reflect all adjustments that are necessary for a fair presentation of results of operations and financial condition for the interim periods shown, including normal recurring accruals and other items. The results for the interim periods are not necessarily indicative of results for the full year.

On July 9, 2018, we entered into a definitive agreement with Specialty Surgical Instrumentation Inc., a subsidiary of Symmetry Surgical Inc. (“Symmetry”), pursuant to which the Company will divest and sell the Core business segment, including the Bovie® brand and trademarks to Symmetry for gross proceeds of \$97 million in cash. The asset purchase agreement was approved by the Company’s Board of Directors and is subject to customary closing conditions, including approval by the Company’s stockholders, and expiration or termination of the applicable waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976. The Company is retaining and will continue to operate its Advanced Energy and OEM businesses, its facilities in Clearwater, FL and Sofia, Bulgaria, and certain intellectual property related to specialty generators.

NOTE 2. INVENTORIES

Inventories are stated at the lower of cost or market. Cost is determined on a first in, first out basis. Finished goods and work-in-process inventories include material, labor and overhead costs. Factory overhead costs are allocated to inventory manufactured in-house based upon labor hours.

Inventories consisted of the following:

(In thousands)	June 30, December 31,	
	2018	2017
Raw materials	\$6,093	\$ 5,163
Finished goods	3,301	3,276
Gross inventories	9,394	8,439
Less: reserve for obsolescence	(1,861 )	(1,913 )
Net inventories	\$7,533	\$ 6,526

NOTE 3. INTANGIBLE ASSETS

Intangible assets consisted of the following:

(In thousands)	June 30, December 31,	
	2018	2017
Brand name and trademark (life indefinite)	\$1,510	\$ 1,510
Purchased technology (5-17 year lives)	\$1,623	\$ 1,513
Less: accumulated amortization	(1,388 )	(1,334 )

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Purchased technology, net	\$235	\$ 179
Goodwill	\$185	\$ 185

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## BOVIE MEDICAL CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued

(Unaudited)

With respect to our trademark and brand name, we continue to market products, release new products and product extensions and maintain and promote these trademarks and brand name in the marketplace through legal registration and such methods as advertising, medical education and trade shows. Based on our annual impairment testing performed, these trademarks and brand names will generate cash flow for an indefinite period of time. Therefore, we believe our trademarks and brand name intangible assets are not impaired. Goodwill results from our acquisition of Bovie Bulgaria, EOOD.

Amortization of purchased technology was \$27,000 and \$54,000 for the three and six months ended June 30, 2018 and 2017, respectively. Amortization expense is classified within selling, general and administration expenses in the consolidated statements of operations.

## NOTE 4. RECENT ACCOUNTING PRONOUNCEMENTS

In January 2017, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2017-04, Intangibles-Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment. The purpose of this ASU is to reduce the cost and complexity of evaluating goodwill for impairment. It eliminates the need for entities to calculate the implied fair value of goodwill by assigning the fair value of a reporting unit to all of its assets and liabilities as if that reporting unit had been acquired in a business combination. Under this ASU, an entity will perform its goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. An impairment charge is recognized for the amount by which the carrying value exceeds the reporting unit’s fair value. The new standard is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. Early adoption is permitted, however we have chosen not to do so. The amendment is not expected to have a material impact on our financial condition or results of operations.

ASU No. 2016-18, Restricted Cash Flows provides guidance on the presentation of restricted cash and restricted cash equivalents, which are now included with cash and cash equivalents when reconciling the beginning and ending cash amounts shown on the statements of cash flows. Using the retrospective transition method required under the standard, the Company has adjusted the presentation of its Condensed Consolidated Statements of Cash Flows for all periods presented. The adoption of ASU No. 2016-18 did not have any other impact on the Company’s Consolidated Financial Statements.

The following table provides additional detail by financial statement line item of the ASU 2016-18 impact in our Consolidated Statement of Cash Flows for the six months ended June 30, 2018 and 2017:

(In thousands)	As Reported (Pre-Adoption)	ASU 2016-18 Impact	Reported (Post Adoption)
Six Months Ended June 30, 2018			
Cash, cash equivalents and restricted cash, beginning of period	\$ 9,949	\$ 719	\$ 10,668
Six Months Ended June 30, 2017			
Net change in cash, cash equivalents and restricted cash	\$ (4,164 )	\$ —	\$ (4,164 )
Cash, cash equivalents and restricted cash, beginning of period	14,456	779	15,235
Cash, cash equivalents and restricted cash, end of period	\$ 10,292	\$ 779	\$ 11,071

ASU No. 2014-09 (ASC 606), Revenue from Contracts with Customers became effective for us beginning with the first quarter of 2018, and adopted the new accounting standard using the modified retrospective transition approach. The modified retrospective transition approach recognized any changes from the beginning of the year of initial

application through retained earnings with no restatement of comparative periods. We record revenue under ASC 606 at a single point in time, when control is transferred to the customer, which is consistent with past practice. We will continue to apply our current business processes, policies, systems and controls to support recognition and disclosure under the new standard. Based on the results of the evaluation, we have determined that the adoption of the new standard presents no material impact on our consolidated financial statements. Application of the transition requirements of the new standard did not have a material impact on opening retained earnings.

No other new accounting pronouncement issued or effective during the fiscal year had or is expected to have a material impact on our consolidated financial statements or disclosures.

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## BOVIE MEDICAL CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued

(Unaudited)

## NOTE 5. EARNINGS PER SHARE

We compute basic earnings per share ("basic EPS") by dividing the net income or loss by the weighted average number of common shares outstanding for the reporting period. Diluted earnings per share ("diluted EPS") gives effect to all dilutive potential shares outstanding. The following table provides the computation of basic and diluted earnings per share.

	Three Months Ended June 30,		Six Months Ended June 30,	
(in thousands, except per share data)	2018	2017	2018	2017
Numerator:				
Net loss available to common shareholders	\$(272 )	\$(1,308 )	\$(1,207 )	\$(2,993 )
Effect of dilutive securities:				
Derivative liability - warrants	—	—	—	—
Numerator for dilutive loss per common share	\$(272 )	\$(1,308 )	\$(1,207 )	\$(2,993 )
Denominator:				
Weighted average shares used to compute basic loss per common share	32,890	30,860	32,884	30,860
Effect of dilutive securities:				
Derivative liability - warrants	—	—	—	—
Denominator for dilutive loss per common share	32,890	30,860	32,884	30,860
Basic loss per common share	\$(0.01)	\$(0.04 )	\$(0.04 )	\$(0.10 )
Diluted loss per common share	\$(0.01)	\$(0.04 )	\$(0.04 )	\$(0.10 )
Anti-dilutive instruments excluded from diluted loss per common share:				
Warrants	14	3	10	16
Options	1,061	500	821	805

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## BOVIE MEDICAL CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued

(Unaudited)

## NOTE 6. STOCK-BASED COMPENSATION

Under our stock option plans, our board of directors may grant options to purchase common shares to our key employees, officers, directors and consultants. We account for stock options in accordance with FASB ASC Topic 718, Compensation - Stock Compensation, with option expense amortized over the vesting period based on the trinomial lattice option-pricing model fair value on the grant date, which includes a number of estimates that affect the amount of our expense. We expensed approximately \$377,000 and \$749,000 in stock-based compensation during the three and six months ended June 30, 2018, as compared with \$182,000 and \$341,000 for the three and six months ended June 30, 2017, respectively.

The status of our stock options and stock awards are summarized as follows:

	Number of options	Weighted average exercise price
Outstanding at December 31, 2017	4,860,157	\$ 3.00
Granted	117,000	2.95
Exercised	(37,250 )	2.23
Canceled and forfeited	(57,500 )	6.55
Outstanding at June 30, 2018	4,882,407	\$ 2.94

Common shares required to be issued upon the exercise of stock options and warrants would be issued from our authorized and unissued shares. We calculated the fair value of issued options utilizing a trinomial lattice with an expected life calculated via the simplified method as we do not have sufficient history to determine actual expected life.

	2018 Grants
Option value	\$1.46-\$1.96
Risk-free rate	1.9%
Expected dividend yield	—
Expected volatility	68.8%
Expected term (in years)	6

## NOTE 7. INCOME TAXES

The Company's income tax expense was \$13,000 and \$24,000 with an effective tax rate of 0.0% for the three and six months ended June 30, 2018, as compared to \$4,000 and \$9,000 with an effective tax rate of 0.0% for the three and six months ended June 30, 2017. The Company's effective tax rate differs from the statutory rate primarily due to the change in the valuation allowance on the Company's net deferred tax assets with a finite life.

As a result of historical losses, the Company recorded a valuation allowance on the net deferred tax asset with a finite life and does not anticipate recording an income tax benefit related to these deferred tax assets. The Company will reassess the realization of deferred tax assets each reporting period and will be able to reduce the valuation allowance to the extent that the financial results of these operations improve and it becomes more likely than not that the deferred tax assets are realizable. Management expects the gain from the sale of the Core business segment to Symmetry will utilize substantially all of the historical loss carryforwards and the valuation allowance on the deferred tax asset will be reversed during the third quarter of 2018, when the transaction is approved by the Company's

stockholders.

For the six months ended June 30, 2018, we do not believe we had any significant uncertain tax positions nor did we have any interest or penalties related to any significant uncertain tax positions.

The Company is subject to U.S. federal income tax, state income tax and Bulgarian income tax. Until the respective statutes of limitations expire (which may be as much as 20 years while we have unused Net Operating Losses), we are subject to income tax audits in the jurisdictions in which we operate.

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BOVIE MEDICAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued

(Unaudited)

NOTE 8. COMMITMENTS, CONTINGENCIES AND CONCENTRATIONS

Property and Rental Agreements

In March 2014, we signed a lease for offices located in Purchase, New York. We decided to consolidate operations in the Purchase, NY office with the facility in Clearwater, Florida. Based on this, we determined the office in Purchase, NY was no longer necessary and decided to cease all activity at the location. The remaining \$119,000 of the lease was expensed in the fourth quarter of 2017 as part of severance and related expense. These remaining payments expensed in 2017 will be operational cash outflows in 2018 and 2019.

In October 2015, pursuant to our acquisition of Bovie Bulgaria, we are obligated to pay a lease of \$6,006 per month, expiring in December 2021, for 18,745 square feet of office, research and manufacturing space in Sofia, Bulgaria.

The following is a schedule of approximate future minimum lease payments under operating leases as of June 30, 2018:

(In thousands)

2018 (remaining six months)	\$36
2019	72
2020	72
2021	72
Total	\$252

Litigation

The medical device industry is characterized by frequent claims and litigation, and we are and may become subject to various claims, lawsuits and proceedings in the ordinary course of our business, including claims by current or former employees, distributors and competitors, and with respect to our products and product liability claims, lawsuits and proceedings.

We are involved in a number of legal actions relating to the use of our J-Plasma technology. The outcomes of these legal actions are not within our complete control and may not be known for prolonged periods of time. In the opinion of management, the Company has meritorious defenses, and such claims are adequately covered by insurance, or are not expected, individually or in the aggregate, to result in a material, adverse effect on our financial condition. However, in the event that damages exceed the aggregate coverage limits of our policy or if our insurance carriers disclaim coverage, we believe it is possible that costs associated with these claims could have a material adverse impact on our consolidated earnings, financial position or cash flows.

Purchase Commitments

At June 30, 2018, we had purchase commitments for inventories totaling approximately \$5.4 million, substantially all of which is expected to be purchased by the end of 2018.

Concentrations

Our ten largest customers accounted for approximately 36.7% and 29.2% of trade receivables as of June 30, 2018 and 2017, respectively, and approximately 39.5% and 51.7% of net revenues for the six months ended June 30, 2018 and



2017, respectively. For the six months ended June 30, 2018, McKesson and National Distribution & Contracting Inc. accounted for 15.5% and 7.1% of sales, respectively, while for the same period in 2017, McKesson and National Distribution & Contracting Inc. accounted for 15.5% and 10.1% of sales, respectively.

NOTE 9. RELATED PARTY TRANSACTIONS

Several relatives of Nikolay Shilev, Bovie Bulgaria's Managing Director, are considered related parties. Teodora Shileva, Mr. Shilev's spouse, is an employee of the Company working in the Accounting department. Antoaneta Dimitrova Shileva-Toromanova, Mr. Shilev's sister, is the Manager of Production and Human Resources. Svetoslav Shilev, Mr. Shilev's son, is an Engineer in the Quality Assurance department.

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BOVIE MEDICAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued

(Unaudited)

NOTE 10. LONG TERM DEBT

On June 28, 2016, the Company entered into a transaction with Bank of Tampa, a Florida banking corporation (“Lender”), wherein Lender amended the terms of a mortgage loan (“the Loan”) originally executed on March 20, 2014 with a principal amount of \$3,592,000. The Initial Maturity Date of the Loan was extended to July 20, 2019 from March 19, 2017, and the Extended Maturity Date was amended to July 20, 2024 from March 20, 2022. In addition, the Lender released as collateral to the Loan, the Company’s working capital accounts in exchange for a negative covenant limited to \$2,000,000 of the aggregate indebtedness secured by these accounts.

The obligations under the Loan are secured by a first mortgage and security interest in the Company’s Clearwater, Florida facility. In addition, the Company has pledged an interest in a certificate of deposit in the amount of \$660,000 as additional collateral. The amount of the additional collateral required declines on a pro rata basis as principal is paid.

Borrowings under the Loan bear interest at LIBOR plus 3.5%, with a fixed monthly principal payment of \$19,956. The interest rate at June 30, 2018 was 5.501%.

The Loan documents contain customary financial covenants, including a covenant that the Company maintains a minimum liquidity, as defined, of \$750,000. Should we desire to extend the Loan beyond July 20, 2019, we must maintain a Debt Service Coverage Ratio for each of the preceding four quarters of not less than 1.0 to 1.0.

Our future contractual obligations for agreements with initial terms greater than one year are as follows:

(In thousands)	Long-term debt
2018 (remaining six months)	\$ 120
2019	2,454
Total	\$ 2,574

NOTE 11. GEOGRAPHIC AND SEGMENT INFORMATION

Operating segments are aggregated into reportable segments only if they exhibit similar economic characteristics. In addition to similar economic characteristics, we also consider the following factors in determining the reportable segments: the nature of business activities, the management structure directly accountable to our chief operating decision maker for operating and administrative activities, availability of discrete financial information and information presented to the Board of Directors and investors.

Our reportable segments are disclosed as principally organized and managed as three operating segments: Core, OEM and Advanced Energy. We adopted reportable segments to align with changes in how we manage our business, review operating performance and allocate resources as a result of the growth in Advanced Energy and the differing behavior of the Core and OEM product lines. The Corporate & Other category includes certain unallocated corporate, operational, research and development and marketing costs which were not specifically attributed to any reportable segment. Net assets are shared, therefore, not allocated to the reportable segments. The OEM segment is primarily development contract and product driven, all related expenses are recorded as cost of sales, therefore no segment specific operating expenses are incurred.



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## BOVIE MEDICAL CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued

(Unaudited)

Summarized financial information with respect to reportable segments is as follows:

Three Months Ended June 30, 2018					
(In thousands)	Core	Advanced Energy	OEM	Corporate (Other)	Total
Sales	\$7,784	\$ 3,113	\$ 578	\$ —	\$ 11,475
Income (loss) from operations	2,666	(792 )	302	(2,443)	(267 )
Interest expense, net	—	—	—	(38 )	(38 )
Change in fair value of derivative liabilities	—	—	—	46	46
Income tax expense	—	—	—	13	13
Depreciation and amortization	—	—	—	172	172
Three Months Ended June 30, 2017					
(In thousands)	Core	Advanced Energy	OEM	Corporate (Other)	Total
Sales	\$7,488	\$ 1,813	\$ 498	\$ —	\$ 9,799
Income (loss) from operations <sup>(1)</sup>	2,559	(1,284 )	205	(2,786)	(1,306 )
Interest expense, net	—	—	—	(36 )	(36 )
Change in fair value of derivative liabilities	—	—	—	38	38
Income tax expense	—	—	—	4	4
Depreciation and amortization	—	—	—	178	178
Six Months Ended June 30, 2018					
(In thousands)	Core	Advanced Energy	OEM	Corporate (Other)	Total
Sales	\$14,303	\$ 5,742	\$ 1,346	\$ —	\$ 21,391
Income (loss) from operations	4,522	(1,370 )	708	(4,991)	(1,131 )
Interest expense, net	—	—	—	(72 )	(72 )
Change in fair value of derivative liabilities	—	—	—	20	20
Income tax expense	—	—	—	24	24
Depreciation and amortization	—	—	—	371	371

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## BOVIE MEDICAL CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued

(Unaudited)

(In thousands)	Six Months Ended June 30, 2017				
	Core	Advanced Energy	OEM	Corporate (Other)	Total
Sales	\$14,263	\$2,420	\$1,505	\$ —	\$18,188
Income (loss) from operations <sup>(1)</sup>	4,772	(3,103)	708	(5,420)	(3,043)
Interest expense, net	—	—	—	(67)	(67)
Change in fair value of derivative liabilities	—	—	—	126	126
Income tax expense	—	—	—	9	9
Depreciation and amortization	—	—	—	356	356

During the first and second quarter of 2017, marketing expenses were presented as attributable only to the Corporate (Other) segment in the line Income (loss) from operations. It was subsequently determined that certain marketing expenses are attributable to specific segments. The disclosure of Income (loss) from operations was updated for the first and second quarter of 2017 to reflect marketing expense by segment.

International sales represented approximately 15.5% and 17.4% of total revenues for the three and six months ended June 30, 2018, respectively, as compared with 11.1% and 13.7% of total revenues for the three and six months ended June 30, 2017. Substantially all of these sales are denominated in U.S. dollars. Revenue by geographic region, based on the “ship to” location on the invoice, are as follows:

(In thousands)	Three Months Ended		Six Months Ended	
	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
Sales by Domestic and International				
Domestic	\$9,700	\$8,708	\$17,673	\$15,700
International	1,775	1,091	3,718	2,488
Total	\$11,475	\$9,799	\$21,391	\$18,188

## NOTE 12. SUBSEQUENT EVENTS

On July 9, 2018, we entered into a definitive agreement with Specialty Surgical Instrumentation Inc., a subsidiary of Symmetry Surgical Inc. (“Symmetry”), pursuant to which the Company will divest and sell the Core business segment, including the Bovie® brand and trademarks to Symmetry for gross proceeds of \$97 million in cash. The asset purchase agreement was approved by the Company’s Board of Directors and is subject to customary closing conditions, including approval by the Company’s stockholders, and expiration or termination of the applicable waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976. The Company is retaining and will continue to operate its Advanced Energy and OEM businesses, its facilities in Clearwater, FL and Sofia, Bulgaria, and certain intellectual property related to specialty generators.

As of June 30, 2018, the Company concluded that the planned divestitures did not meet the criteria for assets held for sale – discontinued operations set forth in ASC No. 205–20, “Presentation of Financial Statements,” as stockholder approval is required prior to closing of the planned divestiture. The Company continues to classify these businesses in its continuing operations for all periods presented.



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BOVIE MEDICAL CORPORATION  
MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

You should read the following discussion and analysis in conjunction with our financial statements and related notes contained elsewhere in this report. This discussion contains forward-looking statements that involve risks, uncertainties and assumptions. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of a variety of factors discussed in this report and those discussed in other documents we file with the SEC. In light of these risks, uncertainties and assumptions, readers are cautioned not to place undue reliance on such forward-looking statements. These forward-looking statements represent beliefs and assumptions as of the date of this report. While we may elect to update forward-looking statements and at some point in the future, we specifically disclaim any obligation to do so, even if our estimates change. Past performance does not guarantee future results.

Executive Level Overview

On July 9, 2018, we entered into a definitive agreement with Specialty Surgical Instrumentation Inc., a subsidiary of Symmetry Surgical Inc. ("Symmetry"), pursuant to which the Company will divest and sell the Core business segment, including the Bovie® brand and trademarks to Symmetry for gross proceeds of \$97 million in cash. The asset purchase agreement was approved by the Company's Board of Directors and is subject to customary closing conditions, including approval by the Company's stockholders, and expiration or termination of the applicable waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976. The Company is retaining and will continue to operate its Advanced Energy and OEM businesses, its facilities in Clearwater, FL and Sofia, Bulgaria, and certain intellectual property related to specialty generators.

Bovie Medical Corporation ("Company", "Bovie Medical", "we", "us", or "our") was incorporated in 1982, under the laws of the State of Delaware and has its principal executive office at 5115 Ulmerton Road, Clearwater, FL 33760.

We are an energy-based medical device company specializing in developing, manufacturing and marketing a range of electrosurgical products and technologies, as well as related medical products used in doctor's offices, surgery centers and hospitals worldwide. Our medical devices are marketed through Bovie's own well-respected brands (Bovie®, IDS™ and DERM™) and on a private label basis to distributors throughout the world. We also leverage our expertise in the design, development and manufacturing of electrosurgical equipment by producing equipment for large, well-known medical device manufacturers through original equipment manufacturing (OEM) agreements, as well as start-up companies with the need for our energy based designs.

We are also the developer of J-Plasma (rebranded as Renuvion™ Cosmetic Technology for the cosmetic surgery market), a patented plasma-based surgical product for cutting, coagulation and ablation of soft tissue. J-Plasma/Renuvion system utilizes a helium ionization process to produce a stable, focused beam of plasma that provides surgeons with greater precision, and minimal invasiveness. The new J-Plasma/Renuvion handpieces with Cool-Coag™ technology deliver the precision of helium plasma energy, the power of traditional monopolar coagulation and the efficiency of plasma beam coagulation - enabling thin-layer ablation and dissection and fast coagulation with a single instrument, minimizing instrument exchange and allowing a surgeon to focus on their patient and their procedures. With Cool-Coag technology, the new J-Plasma/Renuvion handpieces can deliver three distinctly different energy modalities - further increasing the utility and versatility of the J-Plasma system. J-Plasma has been the subject of ten white papers and has been cited therein for its clinical utility in gynecological and plastic surgery procedures.

During 2018, we will continue our full scale commercialization efforts for J-Plasma/Renuvion. We have a direct sales force of 19 field-based selling professionals and a network of 14 independent manufacturing representatives, resulting in a total sales force of 33. This selling organization is focused on the use of J-Plasma for surgical procedures. In addition, we have invested in training programs and marketing-related activities to support accelerated adoption of J-Plasma.

International sales represented approximately 15.5% and 17.4% of total revenues for the three and six months ended June 30, 2018, respectively, as compared with 11.1% and 13.7% of total revenues for the three and six months ended June 30, 2017. Management estimates our products have been sold in more than 150 countries through local dealers coordinated by sales and marketing personnel at the Clearwater, Florida facility.



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## BOVIE MEDICAL CORPORATION

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF

## FINANCIAL CONDITION AND RESULTS OF OPERATIONS - Continued

Operating segments are aggregated into reportable segments only if they exhibit similar economic characteristics. In addition to similar economic characteristics we also consider the following factors in determining the reportable segments: the nature of business activities, the management structure directly accountable to our chief operating decision maker for operating and administrative activities, availability of discrete financial information and information presented to the Board of Directors and investors.

Our reportable segments are disclosed as principally organized and managed as three operating segments: Core, OEM and Advanced Energy. We adopted reportable segments to align with changes in how we manage our business, review operating performance and allocate resources as a result of the growth in Advanced Energy and the differing behavior of the Core and OEM product lines.

The OEM segment is primarily development contract and product driven. Related expenses are recorded as cost of sales, therefore no segment specific operating expenses are incurred.

The majority of our core products are marketed through medical distributors, which distribute to more than 6,000 hospitals, and to doctors and other healthcare facilities. New distributors are contacted through responses to our advertising in international and domestic medical journals and our presence at domestic and international trade shows.

We strongly encourage investors to visit our website: [www.boviemedical.com](http://www.boviemedical.com) to view the most current news and to review our filings with the Securities and Exchange Commission.

## Results of Operations

## Sales

	Three Months			Six Months		
	Ended			Ended		
(In thousands)	June 30,			June 30,		
	2018	2017	Change	2018	2017	Change
Sales by Reportable Segment						
Core	\$7,784	\$7,488	4.0 %	\$14,303	\$14,263	0.3 %
Advanced Energy	3,113	1,813	71.7 %	5,742	2,420	137.3 %
OEM	578	498	16.1 %	1,346	1,505	(10.6) %
Total	\$11,475	\$9,799	17.1 %	\$21,391	\$18,188	17.6 %

## Sales by Domestic and International

Domestic	\$9,700	\$8,708	11.4 %	\$17,673	\$15,700	12.6 %
International	1,775	1,091	62.7 %	3,718	2,488	49.4 %
Total	\$11,475	\$9,799	17.1 %	\$21,391	\$18,188	17.6 %

Overall sales increased by 17.1% or approximately \$1.7 million for the three months ended June 30, 2018 when compared with the same period of 2017. Sales of J-Plasma/Renuvion generators and handpieces were the primary driver of total revenue growth in the first quarter of 2018. Advanced Energy segment sales were \$3.1 million, an increase of approximately 71.7% when compared to the same period of 2017 as a result of continued focus of our selling into the cosmetic surgery market. Core segment sales, which consists of our brand name electrosurgical devices and accessories, cauteries, penlights, lighting, colposcopes and other similar products, increased 4.0% or

approximately \$0.3 million for the three months ended June 30, 2018, when compared with 2017. The OEM segment consists of proprietary products designed specifically for third party equipment manufacturers; revenue for this product line increased 16.1% or approximately \$0.1 million when compared to 2017.

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## BOVIE MEDICAL CORPORATION

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF

## FINANCIAL CONDITION AND RESULTS OF OPERATIONS - Continued

Overall sales increased by 17.6% or approximately \$3.2 million for the six months ended June 30, 2018 when compared with the same period of 2017. Sales of J-Plasma/Renuvion generators and handpieces were the primary driver of total revenue growth in the first quarter of 2018. Advanced Energy segment sales were \$5.7 million, an increase of approximately 137.3% when compared to the same period of 2017 as a result of continued focus of our selling into the cosmetic surgery market. Core segment sales, which consists of our brand name electrosurgical devices and accessories, cauteries, penlights, lighting, colposcopes and other similar products, increased 0.3% or approximately \$0.0 million for the six months ended June 30, 2018, when compared with 2017. The OEM segment consists of proprietary products designed specifically for third party equipment manufacturers; revenue for this product line decreased 10.6% or approximately \$0.2 million when compared to 2017.

## Gross Profit

	Three Months Ended June 30,			Six Months Ended June 30,		
(In thousands)	2018	2017	Change	2018	2017	Change
Cost of sales	\$5,198	\$4,757	9.3 %	\$10,124	\$8,920	13.5 %
Percentage of sales	45.3 %	48.5 %		47.3 %	49.0 %	
Gross profit	\$6,277	\$5,042	24.5 %	\$11,267	\$9,268	21.6 %
Percentage of sales	54.7 %	51.5 %		52.7 %	51.0 %	

Our gross profit increased by 24.5% or approximately \$1.2 million during the three months ended June 30, 2018 when compared to 2017. The primary drivers of the increase were favorable manufacturing variances partially offset by lower margins in the Advanced Energy segment attributable to product mix.

Our gross profit increased by 21.6% or approximately \$2.0 million during the six months ended June 30, 2018 when compared to 2017. Increased revenue in the Advanced Energy segment was the primary contributor to the increase in gross profit. Partially offsetting these gains is the impact of unfavorable manufacturing variances in the Core segment for the six months ended June 30, 2018.

We have components and finished goods manufactured in China and imported to the United States. The Office of the United States Trade Representative ("USTR") has imposed new tariffs on the import of a number of products into the United States from China. Management is currently assessing the potential impacts of the new duties on our products and intend to use our best efforts to mitigate the potential impacts and protect our competitive position in the marketplace.

## Other Costs and Expenses

## Research and development

	Three Months Ended June 30,			Six Months Ended June 30,		
(In thousands)	2018	2017	Change	2018	2017	Change
Research and Development expense	\$816	\$696	17.2 %	\$1,378	\$1,405	(1.9) %
Percentage of sales	7.1 %	7.1 %		6.4 %	7.7 %	

Research and development spend increased 17.2% for the three months ended June 30, 2018, due to more focused spending on clinical studies and research projects related to cosmetic surgery market.

Research and development spend decreased 1.9% for the six months ended June 30, 2018, due to personnel reductions and discontinuation of Core business related contract design agreements partially offset by more focused spending on clinical studies and research projects related to cosmetic surgery market.

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## BOVIE MEDICAL CORPORATION

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF

## FINANCIAL CONDITION AND RESULTS OF OPERATIONS - Continued

## Professional services

	Three Months Ended June 30,			Six Months Ended June 30,		
(In thousands)	2018	2017	Change	2018	2017	Change
Professional services expense	\$681	\$480	41.9 %	\$1,187	\$870	36.4 %
Percentage of sales	5.9 %	4.9 %		5.5 %	4.8 %	

Professional services increased 41.9% and 36.4% for the three and six months ended June 30, 2018, respectively, versus comparable periods in 2017. The change was primarily attributable to increases in physician consulting and legal expenses related to the Advanced Energy segment.

## Salaries and related costs

	Six Months Ended June 30,			Six Months Ended June 30,		
(In thousands)	2018	2017	Change	2018	2017	Change
Salaries and related expenses	\$2,118	\$2,243	(5.6)%	\$4,234	\$4,703	(10.0)%
Percentage of sales	18.5 %	22.9 %		19.8 %	25.9 %	

During the three and six months ended June 30, 2018, salaries and related expenses decreased approximately 5.6% and 10.0%, respectively, compared to the prior year. The decrease was primarily driven by a reduction in management and sales related personnel and executive compensation versus the comparable period of 2017.

## Selling, general and administrative expenses

	Three Months Ended June 30,			Six Months Ended June 30,		
(In thousands)	2018	2017	Change	2018	2017	Change
SG&A Expense	\$2,929	\$2,929	—%	\$5,599	\$5,333	5.0 %
Percentage of sales	25.5 %	29.9 %		26.2 %	29.3 %	

Selling, general and administrative expense was flat for the three months ended June 30, 2018 when compared to 2017. A decrease was primarily driven by reductions in travel and entertainment, general insurance and timing differences in marketing, offset by increases from consulting in the Advanced Energy segment and sales commissions.

Selling, general and administrative expense increased by 5.0% or approximately \$0.3 million for the six months ended June 30, 2018 when compared to 2017. The increase was driven by consulting in the Advanced Energy segment and sales commissions, partially offset by reductions in travel and entertainment, general insurance and timing differences in marketing.

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## BOVIE MEDICAL CORPORATION

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF

## FINANCIAL CONDITION AND RESULTS OF OPERATIONS - Continued

## Other Income (Expense), net

	Three Months Ended June 30,			Six Months Ended June 30,		
(In thousands)	2018	2017	Change	2018	2017	Change
Interest expense, net	\$(38)	\$(36)	5.6 %	\$(72)	\$(67)	7.5 %
Percentage of sales	(0.3 )%	(0.4 )%		(0.3 )%	(0.4 )%	
Change in fair value of derivative liabilities, net	\$46	\$38	21.1 %	\$20	\$126	(84.1)%
Percentage of sales	0.4 %	0.4 %		0.1 %	0.7 %	

## Interest expense, net

Total net interest expense increased, due to a higher LIBOR rate for the three and six months ended June 30, 2018 as compared with the comparable periods in 2017.

## Change in fair value of liabilities, net

On December 13, 2013, we entered into a securities purchase agreement pursuant to which we issued 3,500,000 shares of our newly designated Series A 6% Convertible Preferred Stock with a stated value of \$2.00 per share and 5,250,000 warrants to purchase our common stock, at an exercise price of \$2.387 per share. We also issued 525,000 warrants to the placement agent, of which 40,000 have a strike price of \$2.387 and remain outstanding as of June 30, 2018. The warrants are accounted for as derivative financial instruments at fair value and are re-valued each period.

As of June 30, 2018, all remaining warrants were converted to common stock and for the six months ended June 30, 2018 we recognized a net loss of \$20,000.

## Income Taxes

The Company's income tax expense was \$13,000 and \$24,000 with an effective tax rate of 0.0% for the three and six months ended June 30, 2018, as compared to \$4,000 and \$9,000 with an effective tax rate of 0.0% for the three and six months ended June 30, 2017. The Company's effective tax rate differs from the statutory rate primarily due to the change in the valuation allowance on the Company's net deferred tax assets with a finite life.

## Product Development

We have developed most of our products and product improvements internally. Funds for this development have come primarily from our internal cash flow and equity issuances. We maintain close working relationships with physicians and medical personnel in hospitals and universities who assist in product research and development. New and improved products play a critical role in our sales growth. We continue to emphasize the development of proprietary products and product improvements to complement and expand our existing product lines. Our research and development team members are based in our Florida office and our facility in Sofia, Bulgaria.

## Reliance on Collaborative, Manufacturing and Selling Arrangements

We manufacture the majority of our products on our premises in Clearwater, Florida and in Sofia, Bulgaria. Labor-intensive sub-assemblies and labor-intensive products may be out-sourced to our specification. Although we sell through distributors, we market our products through national trade journal advertising, direct mail, distributor sales representatives and trade shows, under the Bovie name and private label. Major distributors include Cardinal Health, Independent Medical Co-Op Inc. (IMCO), McKesson Medical Surgical, Inc., Medline, National Distribution and Contracting Inc. (NDC) and Owens & Minor. If any of these distributor relationships are terminated or not replaced, our revenue from the territories served by these distributors could be adversely affected.

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BOVIE MEDICAL CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS - Continued

We are also dependent on OEM customers who have no legal obligation to purchase products from us. Should such customers fail to give us purchase orders for the product after development, our future business and value of related assets could be negatively affected. Furthermore, no assurance can be given that such customers will give sufficient high priority to our products. Finally, disagreements or disputes may arise between us and our customers, which could adversely affect production and sales of our products.

We also have collaborative arrangements with three key foreign suppliers under which we request the development of certain items and components and we purchase them pursuant to purchase orders. Our purchase order commitments are never more than one year in duration and are supported by our sales forecasts. The majority of our raw materials are purchased from sole-source suppliers. While we believe we could ultimately procure other sources for these components, should we experience any significant disruptions in this key supply chain, there are no assurances that we could do so in a timely manner which could render us unable to meet the demands of our customers, resulting in a material and adverse effect on our business and operating results.

Liquidity and Capital Resources

Our working capital at June 30, 2018 was approximately \$16.0 million compared with \$16.6 million at December 31, 2017. Accounts receivable days sales outstanding were 42 days and 48 days at June 30, 2018 and 2017, respectively. The number of days sales in inventory, which is the total inventory available for production divided by the 12-month average cost of materials, decreased 22 days to 157 days equating to an inventory turn ratio of 2.10 at June 30, 2018 from 179 days and an inventory turn ratio of 2.00 at June 30, 2017. The lower number of days sales in inventory is mainly due to an increase in sales against flat inventory balances compared to June 30, 2017.

For the six months ended June 30, 2018, net cash used in operating activities was approximately \$1.7 million compared with net cash used by operating activities of approximately \$3.9 million for the same period in 2017. The net cash used in operating activities was attributed to \$1.2 million of net loss, accounts receivable of \$0.8 million and increases of inventory of \$1.0 million, partially offset by non-cash inflows of \$1.0 million and changes in working capital of \$0.3 million.

Net cash used in investing activities was attributed to purchases of property and equipment for approximately \$332,000 during the six months ended June 30, 2018, compared to \$151,000 cash used for the same period in 2017.

Cash used in financing activities of approximately \$120,000 during the six months ended June 30, 2018, compared to cash used in financing activities of approximately \$119,000 for the same period in 2017.

On June 28, 2016, the Company entered into a transaction with Bank of Tampa, a Florida banking corporation ("Lender") wherein Lender amended the terms of a mortgage loan ("the Loan") originally executed on March 20, 2014 with a principal amount of \$3,592,000. The Initial Maturity Date of the Loan was extended to July 20, 2019 from March 19, 2017, and the Extended Maturity Date was amended to July 20, 2024 from March 20, 2022. In addition, the Lender released as collateral to the Loan, the Company's working capital accounts in exchange for a negative covenant limited to \$2,000,000 of the aggregate indebtedness secured by these accounts.

The obligations under the Loan are secured by a first mortgage and security interest in the Company's Clearwater, Florida facility. In addition, the Company has pledged an interest in a certificate of deposit in the amount of \$660,000 as additional collateral. The amount of the additional collateral required declines on a pro rata basis as principal is



paid.

Borrowings under the Loan bear interest at LIBOR plus 3.5%, with a fixed monthly principal payment of \$19,956. The interest rate at June 30, 2018 was 5.501%.

The Loan documents contain customary financial covenants, including a covenant that the Company maintains a minimum liquidity of \$750,000. Should we desire to extend the Loan beyond July 20, 2019, we must maintain a Debt Service Coverage Ratio for each of the preceding four quarters of not less than 1.0 to 1.0.

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BOVIE MEDICAL CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS - Continued

Approximate future expected principal and interest payments under the Loan agreement are as follows as of June 30, 2018:

(In thousands)

2018 (remaining six months)	\$ 128
2019	2,536
Total	\$2,664

At June 30, 2018, we had purchase commitments for inventories totaling approximately \$5.4 million, substantially all of which is expected to be purchased by the end of 2018.

Critical Accounting Estimates

In preparing the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP), we have adopted various accounting policies. Our most significant accounting policies are disclosed in Note 2 to the consolidated financial statements included in our report on Form 10-K for the year ended December 31, 2017, filed on March 13, 2018.

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

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

Inventory reserves

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

Long-lived assets

We review long-lived assets which are held and used, including property and equipment and intangible assets, for impairment whenever changes in circumstances indicate that the carrying amount of the assets may not be

recoverable. Such evaluations compare the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset over its expected useful life and are significantly impacted by estimates of future prices and volumes for our products, capital needs, economic trends and other factors that are inherently difficult to forecast. If the asset is considered to be impaired, we record an impairment charge equal to the amount by which the carrying value of the asset exceeds its fair value determined by either a quoted market price, if any, or a value determined by utilizing a discounted cash flow technique.

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BOVIE MEDICAL CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS - Continued

Stock-based Compensation

Under our stock option plan, options to purchase common shares of the Company may be granted to key employees, officers and directors of the Company by the Board of Directors. The Company accounts for stock options in accordance with FASB ASC Topic 718-10, Compensation-Stock Compensation, with compensation expense amortized over the vesting period based on the trinomial lattice option-pricing model fair value on the grant date, which includes a number of estimates that affect the amount of our expense.

Litigation Contingencies

The medical device industry is characterized by frequent claims and litigation, and we are and may become subject to various claims, lawsuits and proceedings in the ordinary course of our business, including claims by current or former employees, distributors and competitors, and with respect to our products and product liability claims, lawsuits and proceedings.

We are involved in a number of legal actions relating to the use of our J-Plasma technology. The outcomes of these legal actions are not within our complete control and may not be known for prolonged periods of time. In the opinion of management, the Company has meritorious defenses, and such claims are adequately covered by insurance, or are not expected, individually or in the aggregate, to result in a material, adverse effect on our financial condition. However, in the event that damages exceed the aggregate coverage limits of our policy or if our insurance carriers disclaim coverage, we believe it is possible that costs associated with these claims could have a material adverse impact on our consolidated earnings, financial position or cash flows.

Income Taxes

The provision for income taxes includes federal, foreign, state and local income taxes currently payable and those deferred because of temporary differences between the financial statement and tax bases of assets and liabilities. Deferred tax assets or liabilities are computed based on the difference between the financial statement and income tax bases of assets and liabilities using enacted marginal tax rates. Valuation allowances are recorded to reduce deferred tax assets when it is more likely than not that a tax benefit will not be realized. Deferred income tax expenses or credits are based on the changes in the asset or liability from period to period.

We have net operating loss and tax credit carry forwards available in certain jurisdictions to reduce future taxable income. Future tax benefits for net operating loss and tax credit carry forwards are recognized to the extent that realization of these benefits is considered more likely than not. This determination is based on the expectation that related operations will be sufficiently profitable or various tax, business and other planning strategies will enable us to utilize the operating loss and tax credit carry forwards. We cannot be assured that we will be able to realize these future tax benefits or that future valuation allowances will not be required. To the extent that available evidence raises sufficient doubt about the realization of a deferred income tax asset, a valuation allowance is established.

It is our policy to provide for uncertain tax positions and the related interest and penalties based upon management's assessment of whether a tax benefit is more likely than not to be sustained upon examination by tax authorities. To the extent that the probable tax outcome of these uncertain tax positions changes, such changes in estimate will impact the income tax provision in the period in which such determination is made. At June 30, 2018, we believe we have appropriately accounted for any unrecognized tax positions. To the extent we prevail in matters for which a liability

for an unrecognized tax benefit is established or we are required to pay amounts in excess of the liability, our effective tax rate in a given financial statement period may be affected.

Since inception, we have been subject to tax by both federal and state taxing authorities. Until the respective statutes of limitations expire (which may be as much as 20 years while we have unused Net Operating Losses), we are subject to income tax audits in the jurisdictions in which we operate.

#### Inflation

Inflation has not materially impacted the operations of our Company.

#### Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements at this time.

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BOVIE MEDICAL CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS - Continued

Recent Accounting Pronouncements

See Note 4 of the Notes to Consolidated Financial Statements.

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BOVIE MEDICAL CORPORATION

ITEM 3. Quantitative and Qualitative Disclosures about Market Risk

For our disclosures about market risk, please see Part II, Item 7A., “Quantitative and Qualitative Disclosures about Market Risk,” in our Annual Report on Form 10-K for the year ended December 31, 2017. We believe there have been no material changes to the information provided therein.

ITEM 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

We have carried out an evaluation, under the supervision of and with the participation of our management, including our Chief Executive Officer (“CEO”) and Chief Financial Officer (“CFO”), of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended), as of June 30, 2018. Based upon that evaluation, our CEO and CFO concluded that, as of the end of that period, our disclosure controls and procedures are effective in providing reasonable assurance that (a) the information required to be disclosed by us in the reports that we filed or submitted under the Securities Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms and (b) such information is accumulated and communicated to our management, including our CEO and CFO, as appropriate to allow timely decisions regarding required disclosure. In designing and evaluating our disclosure controls and procedures, our management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives and our management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting (as defined in Rules 13(a)-15(f) and 15(d)-15(f)) during the six months ended June 30, 2018 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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BOVIE MEDICAL CORPORATION

PART II. Other Information

ITEM 1. Legal Proceedings

The medical device industry is characterized by frequent claims and litigation, and we are and may become subject to various claims, lawsuits and proceedings in the ordinary course of our business, including claims by current or former employees, distributors and competitors, and with respect to our products and product liability claims, lawsuits and proceedings.

We are involved in a number of legal actions relating to the use of our J-Plasma technology. The outcomes of these legal actions are not within our complete control and may not be known for prolonged periods of time. In the opinion of management, the Company has meritorious defenses, and such claims are adequately covered by insurance, or are not expected, individually or in the aggregate, to result in a material, adverse effect on our financial condition. However, in the event that damages exceed the aggregate coverage limits of our policy or if our insurance carriers disclaim coverage, we believe it is possible that costs associated with these claims could have a material adverse impact on our consolidated earnings, financial position or cash flows.

ITEM 1A. Risk factors

There have been no material changes to the risk factors previously disclosed in our Form 10-K for the year ended December 31, 2017, in response to Item 1A to Part 1 of Form 10-K.

ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds

None.

ITEM 3. Defaults Upon Senior Securities

None.

ITEM 4. Mine Safety Disclosures

Not Applicable.

ITEM 5. Other Information

None.



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BOVIE MEDICAL CORPORATION

ITEM 6. Exhibits

- 3.1 Articles of Incorporation of the Registrant (Incorporated by reference to the Registrant's report on Form 10-K/A filed on March 31, 2011)
- 3.2 By laws of the Registrant (Incorporated by reference to the Registrant's report on Form 10-K/A filed on March 31, 2011)
- 3.3 Certificate of Amendment of the Certificate of Incorporation of the Registrant (Incorporated by reference to the Registrant's Quarterly Report on Form 10-Q filed on November 3, 2017).
- 3.4 Certificate of Elimination (Incorporated by reference to the Registrant's Current Report on Form 8-K filed on May 3, 2018)
- 31.1\* Certification pursuant to Section 302 of Sarbanes-Oxley Act of 2002
- 31.2\* Certification pursuant to Section 302 of Sarbanes-Oxley Act of 2002
- 32.1\* Certification pursuant to Section 906 of Sarbanes-Oxley Act of 2002
- 32.2\* Certification pursuant to Section 906 of Sarbanes-Oxley Act of 2002
- 101.INS\*\* XBRL Instance Document
- 101.SCH\*\* XBRL Taxonomy Extension Schema Document
- 101.CAL\*\* XBRL Taxonomy Extension Calculation Linkbase Document
- 101.DEF\*\* XBRL Taxonomy Extension Definition Linkbase Document
- 101.LAB\*\* XBRL Taxonomy Extension Label Linkbase Document
- 101.PRE\*\* XBRL Taxonomy Extension Label Presentation Document

\* Filed herewith.

\*\* XBRL (Extensible Business Reporting Language) information is furnished and not filed or a part of registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended is deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended and otherwise is not subject to liability under these sections.

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BOVIE MEDICAL CORPORATION

SIGNATURES

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

Bovie Medical Corporation

Date: August 1, 2018 By: /s/ Charles D. Goodwin II  
Charles D. Goodwin II  
Chief Executive Officer and Director  
(Principal Executive Officer)

Date: August 1, 2018 By: /s/ Jay D. Ewers  
Jay D. Ewers  
Chief Financial Officer,  
Treasurer and Secretary  
(Principal Financial Officer)