

BOVIE MEDICAL Corp
Form 10-Q
November 02, 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 September 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 ✓ 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 provided pursuant to Section 13(a) of the Exchange Act. o

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 October 29, 2018, 33,203,517 shares of the registrant's \$0.001 par value common stock were outstanding.

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BOVIE MEDICAL CORPORATION

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For the quarterly period ended September 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)

| | September 30, 2018 | December 31, 2017 |
|---|-----------------------|----------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 40,663 | \$ 9,949 |
| Restricted cash | — | 719 |
| Short term investments | 55,480 | — |
| Trade accounts receivable, net of allowance of \$311 and \$204 | 4,080 | 4,857 |
| Inventories, net | 6,037 | 4,274 |
| Prepaid expenses and other current assets | 627 | 433 |
| Current assets of discontinued operations | — | 2,315 |
| Total current assets | 106,887 | 22,547 |
| Property and equipment, net | 5,842 | 6,033 |
| Purchased technology and license rights, net | 32 | 67 |
| Goodwill | 185 | 185 |
| Deposits | 46 | 92 |
| Other assets | 122 | 67 |
| Non-current assets of discontinued operations | — | 1,997 |
| Total assets | \$ 113,114 | \$ 30,988 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Accounts payable | \$ 2,348 | \$ 1,583 |
| Accrued severance and related | 95 | 1,242 |
| Accrued payroll | 163 | 447 |
| Current portion of mortgage note payable | — | 239 |
| Accrued taxes and other liabilities | 19,066 | 214 |
| Current liabilities of discontinued operations | — | 2,248 |
| Total current liabilities | 21,672 | 5,973 |
| Mortgage note payable, net of current portion | — | 2,455 |
| Note payable | 140 | 140 |
| Deferred tax liability | — | 368 |
| Derivative liabilities | — | 20 |
| Total liabilities | \$ 21,812 | \$ 8,956 |
| STOCKHOLDERS' EQUITY | | |
| Common stock, \$0.001 par value; 75,000,000 shares authorized; 33,763,019 issued and 33,620,444 outstanding as of September 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 | 51,798 | 50,495 |
| Retained earnings (accumulated deficit) | 39,471 | (28,496) |
| Total stockholders' equity | 91,302 | 22,032 |
| Total liabilities and stockholders' equity | \$ 113,114 | \$ 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 September 30, | | Nine Months Ended September 30, | |
|--|--|------------|------------------------------------|-------------|
| | 2018 | 2017 | 2018 | 2017 |
| Sales | \$3,672 | \$2,651 | \$10,760 | \$6,576 |
| Cost of sales | 1,151 | 738 | 3,490 | 2,314 |
| Gross profit | 2,521 | 1,913 | 7,270 | 4,262 |
| Other costs and expenses: | | | | |
| Research and development | 613 | 487 | 1,890 | 1,600 |
| Professional services | 628 | 421 | 1,815 | 1,291 |
| Salaries and related costs | 2,119 | 1,826 | 5,734 | 6,016 |
| Selling, general and administrative | 1,957 | 2,012 | 6,280 | 6,003 |
| Total other costs and expenses | 5,317 | 4,746 | 15,719 | 14,910 |
| Loss from operations | (2,796) | (2,833) | (8,449) | (10,648) |
| Interest income (expense), net | 105 | (36) | 33 | (103) |
| Other losses | (155) | — | (155) | — |
| Change in fair value of derivative liabilities | — | (69) | 20 | 57 |
| Total other expense, net | (50) | (105) | (102) | (46) |
| Loss from continuing operations before income taxes | (2,846) | (2,938) | (8,551) | (10,694) |
| Income tax (benefit) expense | (2,408) | 6 | (2,384) | 15 |
| Net loss from continuing operations | \$(438) | \$(2,944) | \$(6,167) | \$(10,709) |
| Income from discontinued operations, net of tax | 540 | 1,699 | 5,062 | 6,471 |
| Gain on sale of the Core Business, net of tax | 69,072 | — | 69,072 | — |
| Total income from discontinued operations, net of tax | 69,612 | 1,699 | 74,134 | 6,471 |
| Net income (loss) | \$69,174 | \$(1,245) | \$67,967 | \$(4,238) |
| Loss per share from continuing operations | | | | |
| Basic | \$(0.01) | \$(0.09) | \$(0.19) | \$(0.35) |
| Diluted | \$(0.01) | \$(0.09) | \$(0.19) | \$(0.35) |
| Income per share from discontinued operations | | | | |
| Basic | 2.09 | 0.05 | 2.25 | 0.21 |
| Diluted | 1.99 | 0.05 | 2.19 | 0.21 |
| Income (loss) per share | | | | |
| Basic | \$2.08 | \$(0.04) | \$2.06 | \$(0.14) |
| Diluted | \$1.98 | \$(0.04) | \$2.00 | \$(0.14) |
| Weighted average number of shares outstanding - basic | 33,275 | 31,078 | 33,014 | 30,932 |
| Weighted average number of shares outstanding - dilutive | 34,934 | 31,078 | 33,952 | 30,932 |

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 | | Additional | Retained | Total |
|---|--------------------|--------------|-----------------|--------------|--------------------|--------------------------------------|-----------|
| | Shares | Par Value | Shares | Par Value | Paid-In Capital | Earnings (Accumulated Deficit) | |
| Balance December 31, 2016 | 976 | \$ 1 | 30,860 | \$ 31 | \$ 49,625 | \$ (23,434) | \$ 26,223 |
| Options exercised | — | — | 21 | — | 275 | — | 275 |
| Conversion of Series B convertible preferred to common stock | (976) | (1) | 1,951 | 2 | (1) | — | — |
| Stock based compensation | — | — | — | — | 532 | — | 532 |
| Stock swap to acquire options and warrants | — | — | — | — | (275) | — | (275) |
| Net loss | — | — | — | — | — | (4,238) | (4,238) |
| Balance September 30, 2017 | — | \$ — | 32,832 | \$ 33 | \$ 50,156 | \$ (27,672) | \$ 22,517 |
| Balance December 31, 2017 | — | \$ — | 32,878 | \$ 33 | \$ 50,495 | \$ (28,496) | \$ 22,032 |
| Options exercised | — | — | 1,278 | — | 3,103 | — | 3,103 |
| Warrants exercised | — | — | 40 | — | 95 | — | 95 |
| Stock based compensation | — | — | — | — | 1,238 | — | 1,238 |
| Stock exercise to acquire options and warrants | — | — | (576) | — | (3,133) | — | (3,133) |
| Net income | — | — | — | — | — | 67,967 | 67,967 |
| Balance September 30, 2018 | — | \$ — | 33,620 | \$ 33 | \$ 51,798 | \$ 39,471 | \$ 91,302 |

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)

| | Nine Months Ended September 30, | |
|--|---------------------------------------|------------|
| | 2018 | 2017 |
| Cash flows from operating activities | | |
| Net income (loss) | \$67,967 | \$(4,238) |
| Adjustments to reconcile net income (loss) to net cash used in operating activities: | | |
| Gain on sale of the Core Business, net of tax | (69,072) | — |
| Depreciation and amortization | 429 | 527 |
| Gain on disposal of property and equipment, net | — | 3 |
| Stock based compensation | 1,238 | 532 |
| Change in fair value of derivative liabilities | (20) | (57) |
| Unrealized gain on short term investments | (47) | — |
| Provision for allowance for doubtful accounts | 123 | 128 |
| Benefit of deferred taxes | (368) | — |
| Changes in current assets and liabilities, net of effect of disposition: | | |
| Trade receivables | 654 | 528 |
| Prepaid expenses | (188) | (221) |
| Inventories | (1,706) | (1,177) |
| Deposits and other assets | (9) | 9 |
| Accounts payable | 765 | (219) |
| Accrued and other liabilities | (2,601) | (250) |
| Net cash used in operating activities | (2,835) | (4,435) |
| Cash flows from investing activities | | |
| Purchases of property and equipment | (203) | (431) |
| Proceeds from the disposition of Core business | 91,095 | — |
| Purchases of marketable securities | (55,433) | — |
| Net cash from investing activities | 35,459 | (431) |
| Cash flows from financing activities | | |
| Proceeds from stock options/warrants exercised | 65 | — |
| Repayment of mortgage note payable | (2,694) | (179) |
| Net cash used in financing activities | (2,629) | (179) |
| Net change in cash, cash equivalents and restricted cash | 29,995 | (5,045) |
| Cash, cash equivalents and restricted cash, beginning of period | 10,668 | 15,235 |
| Cash, cash equivalents and restricted cash, end of period | \$40,663 | \$10,190 |
| Cash paid for: | | |
| Interest (income) expense, net | \$(33) | \$103 |
| Non cash investing activities: | | |
| Cashless exercise of stock options/warrants | 3,133 | 275 |

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.

We reclassified the financial results of the Core business to discontinued operations and from segment results for all periods presented.

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.

NOTE 2. DISPOSITION OF THE CORE BUSINESS

On August 30, 2018, we closed on a previously disclosed definitive asset purchase agreement with Specialty Surgical Instrumentation Inc., a Tennessee Corporation and wholly-owned subsidiary of Symmetry Surgical Inc. (“Symmetry”), pursuant to which the Company divested and sold the Company's electrosurgical "Core" business segment and related intellectual property, including the Bovie® brand and trademarks, to Symmetry for gross proceeds of \$97 million in cash.

In connection with the asset purchase agreement, we entered into a previously disclosed Electro Surgical Disposables and Accessories, Cauteries and Other Products Supply Agreement with Symmetry for a four-year term, whereby we will manufacture certain Core products and sell them to Symmetry at agreed upon prices. Any revenue, costs and expenses resulting from this agreement are netted and reported in our Consolidated Statements of Operations as Other gains or losses.

Additionally, in connection with the asset purchase agreement, we entered into a previously disclosed Manufacture and Supply Agreement with Symmetry for a ten-year term, whereby we will manufacture certain products and sell them to Symmetry at agreed upon prices. Revenue, costs and expenses resulting from this agreement are reported in our Consolidated Statements as income or loss from operations of our OEM reporting segment.

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BOVIE MEDICAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued

(Unaudited)

We concluded that the divestiture of the Core business met the criteria for discontinued operations set forth in ASC No. 205, Presentation of Financial Statements. The table below summarizes the cash consideration and the carrying values of disposed assets at the disposition date of August 30, 2018 included as part of discontinued operations:

(In thousands)

| | |
|--|----------|
| Gross consideration from the sale of the Core Business | \$97,000 |
| Closing and transaction costs | 5,905 |
| Net proceeds from sale of the Core Business before taxes | \$91,095 |

Book value of the Core Business

Current assets:

| | |
|--|---------|
| Inventories, net | 2,195 |
| Prepaid expenses and other current assets | 57 |
| Total current assets | 2,252 |
| Property and equipment, net of depreciation | 375 |
| Brand name and trademark | 1,510 |
| Purchased technology and license rights, net of depreciation | 112 |
| Total non-current assets | 1,997 |
| Total assets | \$4,249 |

Current liabilities:

| | |
|---------------------------------------|---------|
| Accrued inventory liability | 2,305 |
| Total current liabilities | 2,305 |
| Total book value of the Core Business | \$6,554 |

| | |
|--|----------|
| Net gain on sale of the Core Business before taxes | 84,541 |
| Income tax expense | 15,469 |
| Net gain on sale of the Core Business after income taxes | \$69,072 |

NOTE 3. 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) | September 30, 2018 | December 31, 2017 |
|---|-----------------------|----------------------|
| Raw materials | \$ 5,032 | \$ 5,163 |
| Finished goods | 1,998 | 1,024 |
| Gross inventories | 7,030 | 6,187 |
| Less: reserve for obsolescence | (993) | (1,913) |
| Net inventories of continuing operations | 6,037 | 4,274 |
| Finished goods of discontinued operations | — | 2,252 |
| Net inventories of continuing and discontinued operations | \$ 6,037 | \$ 6,526 |

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BOVIE MEDICAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued

(Unaudited)

NOTE 4. INTANGIBLE ASSETS

Intangible assets consisted of the following:

| (In thousands) | September 30, 2018 | December 31, 2017 |
|--|-----------------------|----------------------|
| Brand name and trademark (life indefinite) of discontinued operations | \$ — | \$ 1,510 |
| Purchased technology (5-17 year lives) | \$ 1,447 | \$ 1,401 |
| Purchased technology (5-17 year lives) of discontinued operations, net | — | 112 |
| Less: accumulated amortization | (1,415) | (1,334) |
| Purchased technology, net | \$ 32 | \$ 179 |
| Goodwill | \$ 185 | \$ 185 |

The Bovie brand name and trademarks were included in the definitive asset purchase agreement with Specialty Surgical Instrumentation Inc., as previously disclosed.

Goodwill results from our acquisition of Bovie Bulgaria, EOOD.

Amortization of purchased technology was \$27,000 and \$81,000 for the three and nine months ended September 30, 2018 and 2017, respectively. Amortization expense is classified within selling, general and administration expenses in the consolidated statements of operations.

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BOVIE MEDICAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued

(Unaudited)

NOTE 5. 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 nine months ended September 30, 2017:

| (In thousands) | As Reported (Pre-Adoption) | ASU 2016-18 Impact | Reported (Post Adoption) |
|---|-------------------------------|--------------------------|--------------------------------|
| Nine Months Ended September 30, 2017 | | | |
| Net change in cash, cash equivalents and restricted cash | \$ (5,045) | \$ — | \$ (5,045) |
| Cash, cash equivalents and restricted cash, beginning of period | 14,456 | 779 | 15,235 |
| Cash, cash equivalents and restricted cash, end of period | \$ 9,411 | \$ 779 | \$ 10,190 |

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. We have disaggregated revenue by segment and geography in Note 13 Geographic and Segment Information. Based on the current state of our business, management does not see a material reason to disaggregate further.

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 6. 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.

| (in thousands, except per share data) | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|--|--|-----------|------------------------------------|------------|
| | 2018 | 2017 | 2018 | 2017 |
| Numerator: | | | | |
| Net loss from continuing operations | \$(438) | \$(2,944) | \$(6,167) | \$(10,709) |
| Total income from discontinued operations, net of tax | 69,612 | 1,699 | 74,134 | 6,471 |
| Net income (loss) | \$69,174 | \$(1,245) | \$67,967 | \$(4,238) |
| Denominator: | | | | |
| Weighted average shares used to compute basic income (loss) | 33,275 | 31,078 | 33,014 | 30,932 |
| Effect of dilutive securities: | | | | |
| Stock options | 1,659 | — | 938 | — |
| Denominator for dilutive income (loss) per share | 34,934 | 31,078 | 33,952 | 30,932 |
| Loss per share from continuing operations | | | | |
| Basic | \$(0.01) | \$(0.09) | \$(0.19) | \$(0.35) |
| Diluted | \$(0.01) | \$(0.09) | \$(0.19) | \$(0.35) |
| Income per share from discontinued operations | | | | |
| Basic | \$2.09 | \$0.05 | \$2.25 | \$0.21 |
| Diluted | \$1.99 | \$0.05 | \$2.19 | \$0.21 |
| Income (loss) per share | | | | |
| Basic | \$2.08 | \$(0.04) | \$2.06 | \$(0.14) |
| Diluted | \$1.98 | \$(0.04) | \$2.00 | \$(0.14) |
| Anti-dilutive instruments excluded from diluted loss per common share: | | | | |
| Warrants | — | 7 | — | 13 |
| Options | — | 373 | — | 771 |

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BOVIE MEDICAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued

(Unaudited)

NOTE 7. 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 \$489,000 and \$1,238,000 in stock-based compensation during the three and nine months ended September 30, 2018, respectively, as compared with \$191,000 and \$532,000 for the three and nine months ended September 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 | 225,000 | 4.08 |
| Exercised | (1,277,615) | 2.43 |
| Canceled and forfeited | (225,841) | 5.62 |
| Outstanding at September 30, 2018 | 3,581,701 | \$ 3.08 |

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-\$3.07 |
| Risk-free rate | 1.9% -2.5 % |
| Expected dividend yield | — |
| Expected volatility | 60.9%-68.8 % |
| Expected term (in years) | 6 |

NOTE 8. INCOME TAXES

The Company's income tax benefit from continuing operations was \$2.4 million and \$2.4 million with an effective tax rate of 82.9% and 26.4% for the three and nine months ended September 30, 2018, respectively, as compared to an expense of \$6,000 and \$15,000 with an effective tax rate of 0.0% for the three and nine months ended September 30, 2017, respectively. The increase in the Company's tax rate for the three and nine months ended September 30, 2018 as compared to the three months and nine months ended September 30, 2017, is primarily due to the Company's ability to offset the 2018 operating loss from continuing operations against the taxable income generated by the extraordinary gain recognized by the income and asset sale reflected in discontinued operations.

The Company recognized tax expense of \$0.3 million and \$1.2 million within net income from discontinued operations for the three and nine months ended September 30, 2018, respectively. The Company recognized tax expense of \$13.2 million and \$15.5 million within the gain on sale of the Core Business for the three and nine months ended September 30, 2018, respectively.

Management expects the gain from the sale of the Core business segment to Symmetry will utilize substantially all of the historical Federal net operating loss carryover of \$24.7 million, state(s) net operating loss carryover of \$21.2 million, and research and development credit carryover of \$1.3 million. As a result, the valuation allowance on these deferred tax assets was released during the third quarter of 2018 and the Company recorded a tax benefit of \$7.8 million from the release of the valuation allowance. The tax benefit of \$7.8 million is netted against the tax expenses within net income from discontinued operations and within the gain from asset sales. Pursuant to guidance under ASC 740, for the nine months ended September 30, 2018, continuing operations includes a current benefit of \$2.4 million, which reflects the Company's ability to fully utilize the net operating loss expected to be generated from continuing operations in the 2018 tax year.

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BOVIE MEDICAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued

(Unaudited)

As a result of historical losses, exclusive of discontinued operations, 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 beyond the 2018 tax year. 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 the financial results of continuing operations improve and it becomes more likely than not that the deferred tax assets will be realizable. As Management expects the Company to continue to generate loss in the foreseeable future after 2018, the Company will continue to record a valuation allowance on the remaining deferred tax assets at the end of 2018.

NOTE 9. COMMITMENTS AND CONTINGENCIES

Property and Rental Agreements

In March 2014, we signed a lease for offices located in Purchase, New York. In December 2017, 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. In August 2018 we negotiated a termination of the remainder of the lease, releasing us from any future obligation.

In October 2015, pursuant to our acquisition of Bovie Bulgaria, we are obligated to pay a lease of \$5,980 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 September 30, 2018:

(In thousands)

| | |
|-------------------------------|-------|
| 2018 (remaining three months) | \$ 18 |
| 2019 | 72 |
| 2020 | 72 |
| 2021 | 72 |
| Total | \$234 |

On August 30, 2018, the Company paid the remaining mortgage balance of \$2.5 million, releasing us from any and all obligations to the Bank of Tampa.

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 September 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.

Our manufacturing services agreements requires Symmetry to provide us with a twelve-month rolling production forecast, of which four months are binding, non-cancelable orders, subject to certain termination rights.

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BOVIE MEDICAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued

(Unaudited)

NOTE 10. 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.

NOTE 11. FINANCIAL INSTRUMENTS

Cash, Cash Equivalents and Marketable Securities:

| (In thousands) | Adjusted Cost | Unrealized Gains | Fair Value ⁽³⁾ | Cash and Cash Equivalents ⁽¹⁾ | Short-term Marketable Securities |
|--|------------------|---------------------|------------------------------|--|--|
| Cash | \$5,774 | | \$5,774 | \$ 5,774 | |
| Level 1 ⁽²⁾ | | | | | |
| U.S. Treasury Securities, maturities less than three months | \$34,889 | | \$34,889 | \$ 34,889 | |
| U.S. Treasury Securities, maturities greater than three months | \$55,433 | \$ 47 | \$55,480 | | \$ 55,480 |
| Total | \$96,096 | \$ 47 | \$96,143 | \$ 40,663 | \$ 55,480 |

⁽¹⁾ The company considers all highly liquid instruments with maturities of three months or less at the time of purchase to be cash equivalents.

⁽²⁾ The fair value of the debt securities consisting of U.S. Treasury bills is based on their quoted market prices. The fair value of these financial instruments are classified as Level 1 in the fair value hierarchy.

⁽³⁾ ASC 825-10 Financial Instruments, allows entities to voluntarily choose to measure certain financial assets and liabilities at fair value (fair value option). The fair value option may be elected on an instrument-by-instrument basis and is irrevocable, unless a new election date occurs. If the fair value option is elected for an instrument, unrealized gains and losses for that instrument should be reported in earnings at each subsequent reporting date. At the date of purchase, the Company elected the fair value option for all investments with maturities of three months or greater at the time of purchase.

NOTE 12. 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.

On August 30, 2018, the Company paid the remaining mortgage balance of \$2.5 million, releasing us from any and all obligations to the Bank of Tampa.

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BOVIE MEDICAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued

(Unaudited)

NOTE 13. 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: Advanced Energy, OEM and Corporate & Other. The Corporate & Other category includes certain unallocated corporate and administrative 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 and manufacturing contract and product driven, all related expenses are recorded as cost of sales, therefore no segment specific operating expenses are incurred.

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

| Three Months Ended September 30, 2018 | | | | |
|--|--------------------|--------|----------------------|----------|
| (In thousands) | Advanced Energy | OEM | Corporate & Other | Total |
| Sales | \$2,985 | \$ 687 | \$ — | \$3,672 |
| (Loss) income from operations | (1,155) | 368 | (2,009) | (2,796) |
| Interest income, net | — | — | 105 | 105 |
| Income tax benefit | — | — | (2,408) | (2,408) |
| Depreciation and amortization | — | — | 58 | 58 |
| Three Months Ended September 30, 2017 | | | | |
| (In thousands) | Advanced Energy | OEM | Corporate & Other | Total |
| Sales | \$2,126 | \$ 525 | \$ — | \$2,651 |
| (Loss) income from operations | (718) | 323 | (2,438) | (2,833) |
| Interest expense, net | — | — | (36) | (36) |
| Change in fair value of derivative liabilities | — | — | (69) | (69) |
| Income tax expense | — | — | 6 | 6 |
| Depreciation and amortization | — | — | 171 | 171 |

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BOVIE MEDICAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued

(Unaudited)

| | Nine Months Ended September 30, 2018 | | | |
|--|---|---------|----------------------|----------|
| (In thousands) | Advanced Energy | OEM | Corporate & Other | Total |
| Sales | \$8,727 | \$2,033 | \$ — | \$10,760 |
| (Loss) income from operations | (2,525) | 1,076 | (7,000) | (8,449) |
| Interest income, net | — | — | 33 | 33 |
| Change in fair value of derivative liabilities | — | — | 20 | 20 |
| Income tax expense | — | — | (2,384) | (2,384) |
| Depreciation and amortization | — | — | 429 | 429 |
| | Nine Months Ended September 30, 2017 | | | |
| (In thousands) | Advanced Energy | OEM | Corporate & Other | Total |
| Sales | \$4,546 | \$2,030 | \$ — | \$6,576 |
| (Loss) income from operations | (3,821) | 1,031 | (7,858) | (10,648) |
| Interest expense, net | — | — | (103) | (103) |
| Change in fair value of derivative liabilities | — | — | 57 | 57 |
| Income tax expense | — | — | 15 | 15 |
| Depreciation and amortization | — | — | 527 | 527 |

International sales represented approximately 24.8% and 21.2% of total revenues for the three and nine months ended September 30, 2018, respectively, as compared with 16.6% and 11.5% of total revenues for the three and nine months ended September 30, 2017, respectively. 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:

| | Three Months Ended September 30, 2018 | | Nine Months Ended September 30, 2017 | |
|-------------------------------------|--|---------|---|---------|
| (In thousands) | 2018 | 2017 | 2018 | 2017 |
| Sales by Domestic and International | | | | |
| Domestic | \$2,763 | \$2,212 | \$8,481 | \$5,821 |
| International | 909 | 439 | 2,279 | 755 |
| Total | \$3,672 | \$2,651 | \$10,760 | \$6,576 |

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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

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 a medical technology company and the developer of J-Plasma® (marketed and sold under the Renuvion™ Cosmetic Technology brand in the cosmetic surgery market), a patented plasma-based surgical product for cutting, coagulation and ablation of soft tissue. J-Plasma technology utilizes a helium ionization process to produce a stable, focused beam of plasma that provides surgeons with greater precision, and minimal invasiveness. The Company also leverages its expertise through original equipment manufacturing (OEM) agreements with other medical device manufacturers.

On August 30, 2018, we closed on a previously disclosed definitive asset purchase agreement with Specialty Surgical Instrumentation Inc., a Tennessee Corporation and wholly-owned subsidiary of Symmetry Surgical Inc. ("Symmetry"), pursuant to which the Company divested and sold the Company's electrosurgical "Core" business segment and related intellectual property, including the Bovie® brand and trademarks, to Symmetry for gross proceeds of \$97 million in cash. The divestiture and sale of our Core business segment to Symmetry allows us to further focus on our strategic objective of commercializing our J-Plasma technology, including the Renuvion™ brand in the cosmetic surgery market. The Company and Symmetry also entered into a transition services agreement, a patent licensing agreement, a disposables supply agreement and a generator manufacturing and supply agreement, the latter of which will establish the Company as an OEM-provider of generators to Symmetry for a period of at least 10 years.

In connection with the asset purchase agreement, we entered into a previously disclosed Electro Surgical Disposables and Accessories, Cauteries and Other Products Supply Agreement with Symmetry for up to a four-year term, whereby we will manufacture certain Core products and sell them to Symmetry at agreed upon prices. Any revenue, costs and expenses resulting from this agreement are netted and reported in our Consolidated Statements of Operations as Other gains or losses.

In connection with the asset purchase agreement, we entered into a previously disclosed Manufacture and Supply Agreement with Symmetry for a ten-year term, whereby we will manufacture certain products and sell them to Symmetry at agreed upon prices. Revenue, costs and expenses resulting from this agreement are reported in our Consolidated Statements as income or loss from operations of our OEM reporting segment.

During 2018, we continued our full scale commercialization efforts for Renuvion. We have a direct sales force of 19 field-based selling professionals and a network of 11 independent sales agencies, resulting in a field sales team of more than 40 representatives. This selling organization is focused on the use of Renuvion in the cosmetic surgery market. In addition, we have invested in training programs and marketing-related activities to support accelerated adoption of Renuvion.

International sales represented approximately 24.8% and 21.2% of total revenues for the three and nine months ended September 30, 2018, respectively, as compared with 16.6% and 11.5% of total revenues for the three and nine months ended September 30, 2017, respectively. Our products are sold in 26 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, and availability of discrete financial information and information presented to the Board of Directors and investors.

We reclassified the financial results of the Core business to discontinued operations and from segment results for all periods presented.

Our reportable segments are disclosed as principally organized and managed as three operating segments: Advanced Energy, OEM and Corporate & Other. The Corporate & Other category includes certain unallocated corporate and administrative 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 and manufacturing contract and product driven, all related expenses are recorded as cost of sales, therefore no segment specific operating expenses are incurred.

We strongly encourage investors to visit our website: www.boviemedical.com to view the most current news and to review our filings with the Securities and Exchange Commission. Information on our website does not constitute a part of this Quarterly Report on Form 10-Q.

Results of Operations

Sales

| (In thousands) | Three Months Ended September 30, 2018 | | | Nine Months Ended September 30, 2017 | | |
|-----------------------------|---------------------------------------|---------|--------|--------------------------------------|---------|--------|
| | 2018 | 2017 | Change | 2018 | 2017 | Change |
| Sales by Reportable Segment | | | | | | |
| Advanced Energy | 2,985 | 2,126 | 40.4 % | 8,727 | 4,546 | 92.0 % |
| OEM | 687 | 525 | 30.9 % | 2,033 | 2,030 | 0.1 % |
| Total | \$3,672 | \$2,651 | 38.5 % | \$10,760 | \$6,576 | 63.6 % |

Sales by Domestic and International

| | | | | | | |
|---------------|---------|---------|---------|----------|---------|---------|
| Domestic | \$2,763 | \$2,212 | 24.9 % | \$8,481 | \$5,821 | 45.7 % |
| International | 909 | 439 | 107.1 % | 2,279 | 755 | 201.9 % |
| Total | \$3,672 | \$2,651 | 38.5 % | \$10,760 | \$6,576 | 63.6 % |

Overall sales from continuing operations increased by 38.5% or approximately \$1.0 million for the three months ended September 30, 2018 when compared with the same period of 2017. Advanced Energy segment sales were approximately \$3.0 million, an increase of 40.4% when compared to the same period of 2017 as a result of continued focus of our selling into the cosmetic surgery market and sales growth in international markets. The OEM segment consists of proprietary products designed specifically for third party equipment manufacturers; revenue for this product line increased 30.9% or approximately \$0.2 million when compared to 2017.

Overall sales from continuing operations increased by 63.6% or approximately \$4.2 million for the nine months ended September 30, 2018 when compared with the same period of 2017. Advanced Energy segment sales were approximately \$8.7 million, an increase of approximately 92.0% when compared to the same period of 2017 as a result of continued focus of our selling into the cosmetic surgery market and sales growth in international markets. The OEM segment consists of proprietary products designed specifically for third party equipment manufacturers; revenue for this product line was approximately the same when compared to 2017.

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BOVIE MEDICAL CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS - Continued

Gross Profit

| | Three Months Ended September 30, | | | Nine Months Ended September 30, | | |
|---------------------|--|---------|--------|---------------------------------------|---------|--------|
| (In thousands) | 2018 | 2017 | Change | 2018 | 2017 | Change |
| Cost of sales | \$1,151 | \$738 | 56.0 % | \$3,490 | \$2,314 | 50.8 % |
| Percentage of sales | 31.3 % | 27.8 % | | 32.4 % | 35.2 % | |
| Gross profit | \$2,521 | \$1,913 | 31.8 % | \$7,270 | \$4,262 | 70.6 % |
| Percentage of sales | 68.7 % | 72.2 % | | 67.6 % | 64.8 % | |

Our gross margin decreased by 3.5% during the three months ended September 30, 2018, when compared to the same period of 2017. The decrease was driven by lower margins in Advanced Energy due to product mix and increased sales growth in international markets where we sell at lower margins through a network of distributors, offsetting higher domestic selling prices and manufacturing efficiencies. Additionally, margins decreased in the OEM segment when compared to 2017.

Our gross margin increased by 2.8% during the nine months ended September 30, 2018, when compared to the same period of 2017. The increase was driven by higher margins in the OEM segment when compared to 2017. Additionally, the Advanced Energy segment margins expanded due to increases in pricing mix partially offset by increased sales growth in international markets where we sell at lower margins through a network of distributors.

In conjunction with the previously disclosed divestment of our electrosurgical Core business segment we performed a review of our standard costs, including the composition of our overhead cost pools. As a result, we reclassified certain overhead costs related to quality and regulatory to Salaries and Related Costs, in the amount of \$62,000. This change in estimate is necessary in order to better reflect the change in operations to our Advanced Energy segment.

Other Costs and Expenses

Research and development

| | Three Months Ended September 30, | | | Nine Months Ended September 30, | | |
|----------------------------------|--|--------|--------|---------------------------------------|---------|--------|
| (In thousands) | 2018 | 2017 | Change | 2018 | 2017 | Change |
| Research and Development expense | \$613 | \$487 | 25.9 % | \$1,890 | \$1,600 | 18.1 % |
| Percentage of sales | 16.7 % | 18.4 % | | 17.6 % | 24.3 % | |

Spending on Research and development increased 25.9% and 18.1% for the three and nine months ended September 30, 2018, respectively, primarily due to focused spending on clinical studies and research projects related to the cosmetic surgery market.

Professional services

| | Three Months Ended September 30, | | | Nine Months Ended September 30, | | |
|----------------|--|------|--------|---------------------------------------|------|--------|
| (In thousands) | 2018 | 2017 | Change | 2018 | 2017 | Change |

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| | | | | | | |
|-------------------------------|--------|--------|--------|---------|---------|--------|
| Professional services expense | \$628 | \$421 | 49.2 % | \$1,815 | \$1,291 | 40.6 % |
| Percentage of sales | 17.1 % | 15.9 % | | 16.9 % | 19.6 % | |

Professional services expense increased 49.2% and 40.6% for the three and nine months ended September 30, 2018, respectively, versus comparable periods in 2017. The change was primarily attributable to expense increases for training-related physician consulting and honorariums for speaking engagements at professional conferences and trade events.

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BOVIE MEDICAL CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS - Continued

Salaries and related costs

| | Three Months Ended September 30, | | | Nine Months Ended September 30, | | |
|-------------------------------|--|---------|--------|---------------------------------------|---------|---------|
| (In thousands) | 2018 | 2017 | Change | 2018 | 2017 | Change |
| Salaries and related expenses | \$2,119 | \$1,826 | 16.0 % | \$5,734 | \$6,016 | (4.7)% |
| Percentage of sales | 57.7 % | 68.9 % | | 53.3 % | 91.5 % | |

During the three months ended September 30, 2018, salaries and related expenses increased approximately 16.0%, compared to the prior year. The increase was primarily driven by additional sales-related support personnel compared to the comparable period of 2017.

During the nine months ended September 30, 2018, salaries and related expenses decreased approximately 4.7%, respectively, compared to the prior year. The decrease was primarily driven by a reduction in management and sales related personnel and executive compensation compared to the comparable period of 2017.

In conjunction with the previously disclosed divestment of our electrosurgical Core business segment we performed a review of our standard costs, including the composition of our overhead cost pools. As a result, we reclassified certain overhead costs related to quality and regulatory to Salaries and Related Costs, in the amount of approximately \$62,000. This change in estimate is necessary in order to better reflect the change in operations to our Advanced Energy segment.

Selling, general and administrative expenses

| | Three Months Ended September 30, | | | Nine Months Ended September 30, | | |
|---------------------|--|---------|---------|---------------------------------------|---------|--------|
| (In thousands) | 2018 | 2017 | Change | 2018 | 2017 | Change |
| SG&A Expense | \$1,957 | \$2,012 | (2.7)% | \$6,280 | \$6,003 | 4.6 % |
| Percentage of sales | 53.3 % | 75.9 % | | 58.4 % | 91.3 % | |

Selling, general and administrative expense decreased by 2.7% for the three months ended September 30, 2018 when compared to 2017. The decrease was primarily driven by sales commissions and reductions in sample expense, offset by increases from general insurance and marketing.

Selling, general and administrative expense increased by 4.6% or approximately \$0.3 million for the nine months ended September 30, 2018 when compared to 2017. The increase was driven by consulting in the Advanced Energy segment, sales commissions, bank service charges and technology upgrades, slightly offset by reductions in sample expense.

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BOVIE MEDICAL CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS - Continued

Other Income (Expense), net

| (In thousands) | Three Months Ended September 30, | | | Nine Months Ended September 30, | | |
|---|--|---------|----------|---------------------------------------|---------|----------|
| | 2018 | 2017 | Change | 2018 | 2017 | Change |
| Interest income (expense), net | \$105 | \$(36) | (391.7)% | \$33 | \$(103) | (132.0)% |
| Percentage of sales | 2.9 % | (1.4)% | | 0.3 % | (1.6)% | |
| Change in fair value of derivative liabilities, net | \$— | \$(69) | (100.0)% | \$20 | \$57 | (64.9)% |
| Percentage of sales | — % | (2.6)% | | 0.2 % | 0.9 % | |

Interest income (expense), net

Net interest income resulted from realized and unrealized interest on cash, cash equivalents and short-term marketable securities, offset by interest paid on our mortgage to the Bank of Tampa until extinguishment on August 30, 2018.

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 at a strike price of \$2.387. As of September 30, 2018, all remaining warrants were converted to common stock and for the nine months ended September 30, 2018 we recognized a net loss of \$20,000.

Other losses, net

Other losses of \$0.2 million for the three and nine months ended September 30, 2018 was in connection with the asset purchase agreement, we entered into a previously disclosed Electro Surgical Disposables and Accessories, Cauteries and Other Products Supply Agreement with Symmetry for a four-year term, whereby we will manufacture certain Core products and sell them to Symmetry at agreed upon prices. Any revenue, costs and expenses resulting from this agreement are netted and reported in our Consolidated Statements of Operations as Other gains or losses.

Income Taxes

The Company's income tax benefit from continuing operations was \$2.4 million and \$2.4 million with an effective tax rate of 82.9% and 26.4% for the three and nine months ended September 30, 2018, respectively, as compared to an expense of \$6,000 and \$15,000 with an effective tax rate of 0.0% for the three and nine months ended September 30, 2017, respectively. The increase in the Company's tax rate for the three and nine months ended September 30, 2018 as compared to the three months and nine months ended September 30, 2017, is primarily due to the Company's ability to offset the 2018 operating loss from continuing operations against the taxable income generated by the extraordinary gain recognized by the income and asset sale reflected in discontinued operations.

The Company recognized tax expense of \$0.3 million and \$1.2 million within net income from discontinued operations for the three and nine months ended September 30, 2018, respectively. The Company recognized tax expense of \$13.2 million and \$15.5 million within the gain on sale of the Core Business for the three and nine months ended September 30, 2018, respectively.

Management expects the gain from the sale of the Core business segment to Symmetry will utilize substantially all of the historical Federal net operating loss carryover of \$24.7 million, state(s) net operating loss carryover of \$21.2 million, and research and development credit carryover of \$1.3 million. As a result, the valuation allowance on these deferred tax assets was released during the third quarter of 2018 and the Company recorded a tax benefit of \$7.8 million from the release of the valuation allowance. The tax benefit of \$7.8 million is netted against the tax expenses within net income from discontinued operations and within the gain from asset sales. Pursuant to guidance under ASC 740, for the nine months ended September 30, 2018, continuing operations includes a current benefit of \$2.4 million, which reflects the Company's ability to fully utilize the net operating loss expected to be generated from continuing operations in the 2018 tax year.

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BOVIE MEDICAL CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS - Continued

As a result of historical losses, exclusive of discontinued operations, 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 beyond the 2018 tax year. 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 the financial results of continuing operations improve and it becomes more likely than not that the deferred tax assets will be realizable. As Management expects the Company to continue to generate loss in the foreseeable future after 2018, the Company will continue to record a valuation allowance on the remaining deferred tax assets at the end of 2018.

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 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 Clearwater, 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.

We also perform development services for 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. Additionally, we will function as an OEM-provider of generators to Symmetry for a period of at least 10 years.

We also have collaborative arrangements with two key foreign suppliers 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 September 30, 2018 was approximately \$85.2 million compared with \$16.6 million at December 31, 2017, primarily driven by the gain from the disposition of the Core business. Accounts receivable days sales outstanding were 41 days and 48 days at September 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, increased 6 days to 185 days equating to an inventory turn ratio of 2.23 at September 30, 2018 from 179 days and an inventory turn ratio of 2.00 at September 30, 2017.

For the nine months ended September 30, 2018, net cash used in operating activities was approximately \$2.8 million compared with net cash used by operating activities of approximately \$4.4 million for the same period in 2017. Net income of \$68.0 million, non-cash inflows of \$1.2 million, accounts receivable of \$0.7 million and changes in working capital of \$0.3 million, were offset by the gain on the sale of the Core business of \$69.1 million and increases of inventory of \$1.7 million.

Net cash from investing activities was attributed to proceeds from the disposition of the Core business of \$91.1 million, partially offset by purchases of marketable securities of \$55.4 million and property and equipment for approximately \$0.2 million during the nine months ended September 30, 2018, compared to approximately \$0.4 million cash used for purchases of property and equipment for the same period in 2017.

Cash used in financing activities of approximately \$2.6 million was attributed to the extinguishment of the mortgage note payable of \$2.7 million, partially offset by proceeds from the exercise of options of \$0.1 million during the nine months ended September 30, 2018, compared to cash used in financing activities for the repayment of the mortgage note payable of approximately \$179,000 for the same period in 2017.

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BOVIE MEDICAL CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS - Continued

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. On August 30, 2018, the Company paid off the remaining mortgage balance of \$2.5 million, releasing us from any and all obligations to the Bank of Tampa.

At September 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.

Our manufacturing services agreements requires Symmetry to provide us with a twelve-month rolling production forecast, of which four months are binding, non-cancelable orders, subject to certain termination rights.

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BOVIE MEDICAL CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS - Continued

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.

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.

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BOVIE MEDICAL CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS - Continued

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.

Management expects the gain from the sale of the Core business segment to Symmetry will utilize substantially all of the historical Federal net operating loss carryover of \$24.7 million, state(s) net operating loss carryover of \$21.2 million, and research and development credit carryover of \$1.3 million. As a result, the valuation allowance on these deferred tax assets was released during the third quarter of 2018 and the Company recorded a tax benefit of \$7.8 million from the release of the valuation allowance. The tax benefit of \$7.8 million is netted against the tax expenses within net income from discontinued operations and within the gain from asset sales. Pursuant to guidance under ASC 740, for the nine months ended September 30, 2018, continuing operations includes a current benefit of \$2.4 million, which reflects the Company's ability to fully utilize the net operating loss expected to be generated from continuing operations in the 2018 tax year.

As a result of historical losses, exclusive of discontinued operations, 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 beyond the 2018 tax year. 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 the financial results of continuing operations improve and it becomes more likely than not that the deferred tax assets will be realizable. As Management expects the Company to continue to generate loss in the foreseeable future after 2018, the Company will continue to record a valuation allowance on the remaining deferred tax assets at the end of 2018.

Since inception, we have been subject to tax by both federal and state taxing authorities. Until the respective statutes of limitations expire, 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.

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 September 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 nine months ended September 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

Not Applicable.

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

- 2.1 Asset Purchase Agreement, dated as of July 9, 2018, by and between Bovie Medical Corporation and Specialty Surgical Instrumentation Inc. (Incorporated by reference to the Registrant's Current Report on Form 8-K file on July 9, 2018)
- 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)
- 10.1 J. Robert Saron Separation Agreement and General Release, dated August 30, 2018 (Incorporated by reference to the Registrant's Current Report on Form 8-K filed on August 30, 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: November 2, 2018 By: /s/ Charles D. Goodwin II

Charles D. Goodwin II

President, Chief Executive Officer and Director

(Principal Executive Officer)

Date: November 2, 2018 By: /s/ Jay D. Ewers

Jay D. Ewers

Chief Financial Officer,

Treasurer and Secretary

(Principal Financial Officer)