

BOVIE MEDICAL Corp
Form 10-Q
August 03, 2017

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, 2017

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.)

4 Manhattanville Road, Suite 106, Purchase, NY 10577

(Address of principal executive offices, zip code)

(914) 468-4009

(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 31, 2017, 30,859,753 shares of the registrant's \$0.001 par value common stock were outstanding.

Table of Contents

BOVIE MEDICAL CORPORATION

INDEX TO QUARTERLY REPORT ON FORM 10-Q

For the quarterly period ended June 30, 2017

(Unaudited)

Part I.	<u>Financial Information</u>	Page <u>2</u>
Item 1.	<u>Financial Statements</u>	<u>2</u>
	<u>Consolidated Balance Sheets at June 30, 2017 and December 31, 2016</u>	<u>2</u>
	<u>Consolidated Statements of Operations for the three and six months ended June 30, 2017 and 2016</u>	<u>3</u>
	<u>Consolidated Statement of Changes in Stockholders' Equity for the six months ended June 30, 2017 and 2016</u>	<u>4</u>
	<u>Consolidated Statements of Cash Flows for the six months ended June 30, 2017 and 2016</u>	<u>5</u>
	<u>Notes to Consolidated Financial Statements</u>	<u>6</u>
Item 2.	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>14</u>
Item 3.	<u>Quantitative and Qualitative Disclosures about Market Risk</u>	<u>24</u>
Item 4.	<u>Controls and Procedures</u>	<u>24</u>
Part II.	<u>Other Information</u>	<u>25</u>
Item 1.	<u>Legal Proceedings</u>	<u>25</u>
Item 1A.	<u>Risk Factors</u>	<u>25</u>
Item 2.	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>25</u>
Item 3.	<u>Defaults Upon Senior Securities</u>	<u>25</u>
Item 4.	<u>Mine Safety Disclosures</u>	<u>25</u>
Item 5.	<u>Other Information</u>	<u>25</u>
Item 6.	<u>Exhibits</u>	<u>26</u>
	<u>Signatures</u>	<u>27</u>

Table of Contents

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, 2017	December 31, 2016
ASSETS		
Current assets:		
Cash and cash equivalents	\$10,292	\$ 14,456
Restricted cash	779	779
Trade accounts receivable, net of allowance of \$186 and \$118	4,929	4,733
Inventories, net	7,582	6,158
Prepaid expenses and other current assets	538	413
Total current assets	24,120	26,539
Property and equipment, net	6,240	6,449
Brand name and trademark	1,510	1,510
Purchased technology and license rights, net	217	215
Goodwill	185	185
Deposits	66	109
Other assets	218	103
Total assets	\$32,556	\$ 35,110
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$2,077	\$ 1,606
Accrued payroll	416	419
Accrued vacation	375	404
Current portion of mortgage note payable	239	239
Accrued and other liabilities	2,511	2,604
Total current liabilities	5,618	5,272
Mortgage note payable, net of current portion	2,575	2,694
Note payable	140	140
Deferred rents	11	14
Deferred tax liability	564	564
Derivative liabilities	77	203
Total liabilities	8,985	8,887
STOCKHOLDERS' EQUITY		
Series B convertible preferred stock, \$0.001 par value; 3,588,139 authorized and 975,639 issued and outstanding as of June 30, 2017 and December 31, 2016	1	1
Common stock, \$0.001 par value; 40,000,000 shares authorized; 31,002,832 issued and 30,859,753 outstanding as of June 30, 2017 and December 31, 2016	31	31
Additional paid-in capital	49,966	49,625
Accumulated deficit	(26,427)	(23,434)
Total stockholders' equity	23,571	26,223
Total liabilities and stockholders' equity	\$32,556	\$ 35,110

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

Table of Contents

BOVIE MEDICAL CORPORATION

CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share data, Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Sales	\$9,799	\$9,295	\$18,188	\$17,070
Cost of sales	4,757	4,595	8,920	9,048
Gross profit	5,042	4,700	9,268	8,022
Other costs and expenses:				
Research and development	696	592	1,405	1,259
Professional services	480	396	870	753
Salaries and related costs	2,243	2,200	4,703	4,300
Selling, general and administrative	2,929	2,022	5,333	4,213
Total other costs and expenses	6,348	5,210	12,311	10,525
Loss from operations	(1,306)	(510)	(3,043)	(2,503)
Interest expense, net	(36)	(50)	(67)	(88)
Change in fair value of derivative liabilities	38	41	126	128
Total other income (loss), net	2	(9)	59	40
Loss before income taxes	(1,304)	(519)	(2,984)	(2,463)
Income tax expense	4	—	9	—
Net loss	\$(1,308)	\$(519)	\$(2,993)	\$(2,463)
Loss per share				
Basic	\$(0.04)	\$(0.02)	\$(0.10)	\$(0.09)
Diluted	\$(0.04)	\$(0.02)	\$(0.10)	\$(0.09)
Weighted average number of shares outstanding - basic	30,860	27,051	30,860	27,051
Weighted average number of shares outstanding - dilutive	30,860	27,051	30,860	27,051

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

Table of Contents

BOVIE MEDICAL CORPORATION

CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

(In thousands, Unaudited)

	Preferred Stock		Common Stock		Additional	Accumulated	Total
	Shares	Par Value	Shares	Par Value	Paid-In Capital	Deficit	
Balance							
December 31, 2015	1,976	\$ 2	27,051	\$ 27	\$ 42,859	\$ (19,484)	\$ 23,404
Stock based compensation	—	—	—	—	360	—	360
Net loss	—	—	—	—	—	(2,463)	(2,463)
Balance							
June 30, 2016	1,976	\$ 2	27,051	\$ 27	\$ 43,219	\$ (21,947)	\$ 21,301
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

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

Table of Contents

BOVIE MEDICAL CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands, Unaudited)

	Six Months Ended June 30,	
	2017	2016
Cash flows from operating activities		
Net loss	\$(2,993)	\$(2,463)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	356	355
Provision for inventory obsolescence	83	334
Gain on disposal of property and equipment, net	2	14
Stock based compensation	341	360
Change in fair value of derivative liabilities	(126)	(128)
Provision for allowance for doubtful accounts	159	159
Changes in current assets and liabilities:		
Trade receivables	(355)	(740)
Prepaid expenses	(125)	(20)
Inventories	(1,507)	(792)
Deposits and other assets	(72)	44
Accounts payable	471	560
Accrued and other liabilities	(128)	(63)
Net cash used in operating activities	(3,894)	(2,380)
Cash flows from investing activities		
Purchases of technology, property and equipment	(151)	(41)
Net cash used in investing activities	(151)	(41)
Cash flows from financing activities		
Change in restricted cash	—	60
Repayment of mortgage note payable	(119)	(120)
Net cash used in financing activities	(119)	(60)
Net change in cash and cash equivalents	(4,164)	(2,481)
Cash and cash equivalents, beginning of period	14,456	11,805
Cash and cash equivalents, end of period	\$ 10,292	\$ 9,324
Cash paid for:		
Interest paid	\$67	\$50

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

Table of Contents

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, 2016. 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.

In the first quarter of 2017, the Company adopted a change in presentation on its Consolidated Statements of Cash Flows in order to present a "Provision for allowance for doubtful accounts". Previously reported information has been modified to conform to this new presentation.

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,	
	2017	2016
Raw materials	\$4,887	\$ 4,521
Finished goods	4,189	3,048
Gross inventories	9,076	7,569
Less: reserve for obsolescence	(1,494)	(1,411)
Net inventories	\$7,582	\$ 6,158

NOTE 3. INTANGIBLE ASSETS

Intangible assets consisted of the following:

(In thousands)	June 30, December 31,	
	2017	2016
Brand name and trademark (life indefinite)	\$1,510	\$ 1,510
Purchased technology (5-17 year lives)	\$1,497	\$ 1,441
Less: accumulated amortization	(1,280)	(1,226)
Purchased technology, net	\$217	\$ 215
Goodwill	\$185	\$ 185

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. It is our belief that 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 resulted from our acquisition of Bovie Bulgaria, EOOD.

Amortization of intangible assets was \$27,000 and \$54,000 for the three and six months ended June 30, 2017, respectively, as compared with \$27,000 and \$54,000 for the three and six months ended June 30, 2016. 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.

In August 2016, the FASB issued ASU 2016-15, Classification of Certain Cash Receipts and Cash Payments. The new guidance clarifies the classification of certain cash receipts and cash payments in the statement of cash flows, including debt prepayment or extinguishment costs, settlement of contingent consideration arising from a business combination, insurance settlement proceeds, and distributions from certain equity method investees. The new standard is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017. 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.

In March 2016, FASB issued ASU No. 2016-09 Compensation-Stock Compensation - (Topic 718) Improvements to employee share-based payments accounting as part of simplicity initiatives. This update involves several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. Some of the areas for simplification apply only to nonpublic entities. For us, the amendments in this Update are effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods. The amendment has not made a material impact on our financial condition or results of operations.

In February 2016, FASB issued ASU No. 2016-02, Leases (Topic 842). The core principle of Topic 842 is that a lessee should recognize the assets and liabilities that arise from leases. ASU 2016-02 is effective for public companies for annual reporting periods beginning after December 15, 2018, and interim periods within those fiscal years. The guidance may be adopted prospectively or retrospectively and early adoption is permitted. The Company is currently assessing the impact the adoption of ASU 2016-02 will have on its consolidated financial statements.

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers, which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. ASU No. 2014-09 will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective. The new standard is effective for us on January 1, 2018. Early adoption is not permitted. The standard permits the use of either the retrospective or cumulative effect transition method. The amendment is not expected to have a material impact on our financial condition or results of operations.

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.

Table of Contents

BOVIE MEDICAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued

(Unaudited)

NOTE 5. FAIR VALUE MEASUREMENTS

Certain assets and liabilities that are measured at fair value on a recurring basis are measured in accordance with FASB ASC Topic 820-10-05, Fair Value Measurements. FASB ASC Topic 820-10-05 defines fair value, establishes a framework for measuring fair value and expands the disclosure requirements regarding fair value measurements for financial assets and liabilities as well as for non-financial assets and liabilities that are recognized or disclosed at fair value on a recurring basis in the financial statements.

The statement requires fair value measurement be classified and disclosed in one of the following three categories:

Level 1: Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;

Level 2: Quoted prices in markets that are not active, or inputs which are observable, either directly or indirectly, for substantially the full term of the asset or liability; and

Level 3: Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (i.e., supported by little or no market activity).

Assets and liabilities measured at fair value are classified in their entirety based on the lowest level of input that is significant to their fair value measurement. Our derivative financial instruments that are measured at fair value on a recurring basis are all measured at fair value using Level 3 inputs. Level 3 inputs are unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The following represents a reconciliation of the changes in fair value of warrants measured at fair value using Level 3 inputs during the six months ended June 30, 2017:

	2013
	Placement
(in thousands)	Agent
	Warrants
Balance, December 31, 2016	\$ 203
Change in fair value	(126)
Balance, June 30, 2017 ⁽¹⁾	\$ 77

The warrants are valued using a trinomial lattice valuation methodology because that model embodies all of the relevant assumptions that address the features underlying these instruments. Significant assumptions used in the model at June 30, 2017 included the market price of our common stock, an expected dividend yield of zero, the remaining period to the expiration date of the warrants, expected volatility of our common stock over the remaining life of the warrants of 2.0 years, estimated based on a review of our historical volatility of 55.720% and risk-free rates of return of 1.380% for the 2013 warrants based on constant maturity rates published by the U.S. Federal Reserve, applicable to the remaining life of the warrants. We also take into consideration a probability assumption for anti-dilution.

Table of Contents

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.

	Three Months Ended June 30,		Six Months Ended June 30,	
(in thousands, except per share data)	2017	2016	2017	2016
Numerator:				
Net loss available to common shareholders	\$(1,308)	\$(519)	(2,993)	(2,463)
Effect of dilutive securities:				
Derivative liability - warrants	—	—	—	—
Numerator for dilutive loss per common share	(1,308)	(519)	(2,993)	(2,463)
Denominator:				
Weighted average shares used to compute basic loss per common share	30,860	27,051	30,860	27,051
Effect of dilutive securities:				
Derivative liability - warrants	—	—	—	—
Denominator for dilutive loss per common share	30,860	27,051	30,860	27,051
Basic loss per common share	\$(0.04)	\$(0.02)	(0.10)	(0.09)
Diluted loss per common share	\$(0.04)	\$(0.02)	(0.10)	(0.09)

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 \$182,000 and \$341,000 in stock-based compensation during the three and six months ended June 30, 2017, respectively, as compared with \$184,000 and \$360,000 for the three and six months ended June 30, 2016.

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

	Number of options	Weighted average exercise price
Outstanding at December 31, 2016	3,752,209	\$ 3.04
Granted	505,000	3.32
Canceled and forfeited	(203,803)	4.84
Outstanding at June 30, 2017	4,053,406	\$ 2.98

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.

Table of Contents

BOVIE MEDICAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued

(Unaudited)

	2017 Grants
Option value	\$1.96-\$2.34
Risk-free rate	1.5%
Expected dividend yield	—%
Expected volatility	68.0%
Expected term (in years)	6

NOTE 8. INCOME TAXES

The Company's income tax provision was \$4,000 with an effective tax rate of 0.0% and \$9,000 with an effective tax rate of 0.0% for the three and six months ended June 30, 2017, respectively, as compared to \$0 with an effective tax rate of 0.0% for both the three and six months ended June 30, 2016. 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.

For the six months ended June 30, 2017, 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 NOL's), we are subject to income tax audits in the jurisdictions in which we operate.

NOTE 9. COMMITMENTS, CONTINGENCIES AND CONCENTRATIONS

Property and Rental Agreements

In March 2014, we signed a lease for offices located in Purchase, New York. The lease is for 3,650 square feet of office space with a monthly cost of approximately \$9,277 per month for the lease expiring in June 2019.

In October 2015, pursuant to our acquisition of Bovie Bulgaria, we are obligated to pay a lease of \$4,944 per month, expiring in December 2021, for 16,500 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, 2017:

(In thousands)

2017 (remaining six months)	\$87
2018	175
2019	118
2020	59
2021	59

Total \$498

Rent expense was approximately \$43,539 and \$85,326 for the three and six months ended June 30, 2017, respectively compared to \$37,230 and \$82,280 for the three and six months ended June 30, 2016.

10

Table of Contents

BOVIE MEDICAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued

(Unaudited)

Purchase Commitments

At June 30, 2017, we had purchase commitments for inventories totaling approximately \$4.0 million, substantially all of which is expected to be purchased by the end of 2017.

Concentrations

With respect to receivables, our ten largest customers accounted for approximately 29.2% and 47.6% of trade receivables as of June 30, 2017 and 2016, respectively and approximately 51.7% and 56.2% of net revenues for the six months ended June 30, 2017 and 2016, respectively. For the six months ended June 30, 2017, McKesson and National Distribution & Contracting Inc. accounted for 15.5% and 10.1% of sales, while for the same period in 2016, McKesson and National Distribution & Contracting Inc. accounted for 16.5% and 9.6% of sales.

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.

A relative of Moshe Citronowicz, Bovie's Senior Vice President, is considered a related party. Arik Zoran is a consultant of the Company doing business as AR Logic, Inc., a consulting firm owned by Arik Zoran, Mr. Citronowicz's brother. The Company has been working with AR Logic since 2011 and as of April 14, 2017, the Company agreed to a renewal contract and terms to continue the consulting arrangement, expiring December 31, 2017. AR Logic was paid consulting fees of approximately \$67,533 and \$96,033 for the three and six months ended June 30, 2017, respectively compared to \$46,662 and \$76,662 for the three and six months ended June 30, 2016.

NOTE 11. 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 \$779,000 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, 2017 was 4.560%.

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

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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
2017 (remaining six months)	\$ 120
2018	239
2019	2,455
Total	\$ 2,814

Table of Contents

BOVIE MEDICAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued

(Unaudited)

NOTE 12. 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.

Prior to the first quarter of 2017, we disclosed only one reporting segment. Beginning in 2017, 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 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.

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

Three Months Ended June 30, 2017					
	Core	OEM	Advanced Energy	Corporate (Other)	Total
Sales	\$7,488	\$498	\$ 1,813	\$ —	\$9,799
Income (loss) from operations	2,710	205	(1,250)	(2,971)	(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
Three Months Ended June 30, 2016					
	Core	OEM	Advanced Energy	Corporate (Other)	Total
Sales	\$6,881	\$1,648	\$ 766	\$ —	\$9,295
Income (loss) from operations	1,836	1,151	(1,090)	(2,407)	(510)
Interest expense, net	—	—	—	(50)	(50)
Change in fair value of derivative liabilities	—	—	—	41	41
Income tax expense	—	—	—	—	—
Depreciation and amortization	—	—	—	173	173

Table of Contents

BOVIE MEDICAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued

(Unaudited)

	Six Months Ended June 30, 2017				
	Core	OEM	Advanced Energy	Corporate (Other)	Total
Sales	\$14,263	\$1,505	\$2,420	\$ —	\$18,188
Income (loss) from operations	5,023	708	(2,971)	(5,803)	(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
	Six Months Ended June 30, 2016				
	Core	OEM	Advanced Energy	Corporate (Other)	Total
Sales	\$13,359	\$2,589	\$1,122	\$ —	\$17,070
Income (loss) from operations	2,958	1,808	(2,624)	(4,645)	(2,503)
Interest expense, net	—	—	—	(88)	(88)
Change in fair value of derivative liabilities	—	—	—	128	128
Income tax expense	—	—	—	—	—
Depreciation and amortization	—	—	—	355	355

We derive revenues from four major product lines: Electrosurgical, Cauteries, Lighting and Other products. We do not review or analyze our four major product lines below net sales. Sales for the product lines are summarized as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
(In thousands)				
Sales by Product Line				
Electrosurgical	\$6,206	\$5,078	\$11,536	\$9,330
Cauteries	1,873	1,720	3,528	3,554
Lighting	948	800	1,393	1,306
Other	772	1,697	1,731	2,880
Total	\$9,799	\$9,295	\$18,188	\$17,070

International sales represented approximately 11.1% and 13.7% of total revenues for the three and six months ended June 30, 2017, respectively, as compared with 16.6% and 15.9% of total revenues for the three and six months ended June 30, 2016. 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 June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
(In thousands)				
Sales by Domestic and International				
Domestic	\$8,708	\$7,757	\$15,700	\$14,372

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International	1,091	1,538	2,488	2,698
Total	\$9,799	\$9,295	\$18,188	\$17,070

13

Table of Contents

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 4 Manhattanville Road, Suite 106, Purchase, NY 10577.

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; a patented plasma-based surgical product for cutting, coagulation and ablation of soft tissue. J-Plasma utilizes a helium ionization process to produce a stable, focused beam of plasma that provides surgeons with greater precision, minimal invasiveness and an absence of conductive currents through the patient during surgery. The new J-Plasma 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 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.

On November 10, 2016, we entered into an underwriting agreement (the "Underwriting Agreement") with certain selling stockholders of the Company (the "Selling Stockholders") and Piper Jaffray & Co. (the "Underwriter") relating to public offerings of our common stock, par value \$0.001 per share at a public offering price of \$4.00 per share. We made a primary offering of 1,625,000 shares and a secondary offering of 1,625,000 shares by the Selling Stockholders.

Our net proceeds from the sale of the shares, after deducting the Underwriter's discounts and commissions and estimated offering expenses payable by us, were approximately \$5.8 million. The offerings closed on November 16, 2016.

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.

International sales represented approximately 11.1% and 13.7% of total revenues for the three and six months ended June 30, 2017, respectively, as compared with 16.6% and 15.9% of total revenues for the three and six months ended June 30, 2016. The decrease in international sales as a percentage of revenue was driven primarily by higher domestic sales, pending product registration in foreign jurisdictions and large international purchase tenders that did not occur in the current period as compared to the same period of 2016. 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. Our business is generally not seasonal in nature.

Table of Contents

BOVIE MEDICAL CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS - Continued

During 2017, we continued our full scale commercialization efforts for Advanced Energy technology which includes J-Plasma. We have a direct sales force of 17 field-based selling professionals and a network of 14 independent manufacturing representatives, resulting in a total sales force of 31. This selling organization is focused on the use of Advanced Energy technology, primarily J-Plasma, for operating room procedures. In addition, we have invested in training programs and marketing-related activities to support accelerated adoption of Advanced Energy technology.

The Company continuously reviews and refines its marketing strategies and distribution channels regarding the commercialization of Advanced Energy technology as well as initiatives to manage expenses and costs as appropriate for market conditions.

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.

Results of Operations

Sales

(In thousands)	Three Months Ended June 30,			Six Months Ended June 30,				
	2017	2016	Change	2017	2016	Change		
Sales by Reportable Segment								
Core	\$7,488	\$6,881	8.8 %	\$14,263	\$13,359	6.8 %		
OEM	498	1,648	(69.8)%	1,505	2,589	(41.9)%		
Advanced Energy	1,813	766	136.7 %	2,420	1,122	115.7 %		
Total	\$9,799	\$9,295	5.4 %	\$18,188	\$17,070	6.5 %		

Sales by Product Line

Electrosurgical	\$6,206	\$5,078	22.2 %	\$11,536	\$9,330	23.6 %		
Cauteries	1,873	1,720	8.9 %	3,528	3,554	(0.7)%		
Lighting	948	800	18.5 %	1,393	1,306	6.7 %		
Other	772	1,697	(54.5)%	1,731	2,880	(39.9)%		
Total	\$9,799	\$9,295	5.4 %	\$18,188	\$17,070	6.5 %		

Sales by Domestic and International

Domestic	\$8,708	\$7,757	12.3 %	\$15,700	\$14,372	9.2 %		
International	1,091	1,538	(29.1)%	2,488	2,698	(7.8)%		
Total	\$9,799	\$9,295	5.4 %	\$18,188	\$17,070	6.5 %		

Overall sales increased by 5.4% or approximately \$0.5 million for the three months ended June 30, 2017 when compared with 2016. Core segment revenue, which consists of our brand name electrosurgical devices and accessories, cauteries, penlights, lighting, colposcopes and other similar products, increased 8.8% or approximately \$0.6 million for the three months ended June 30, 2017, when compared with 2016. The OEM segment consists of proprietary products designed specifically for third party equipment manufacturers; revenue for this product line decreased 69.8% or approximately \$1.2 million, due to a one-time order in the comparable period of 2016. Advanced Energy segment sales were \$1.8 million, an increase of approximately 136.7% when compared to 2016.

For the three months ended June 30, 2017, the increase in electrosurgical sales was mainly attributable to an increase in sales of generators of \$1.1 million.

Table of Contents

BOVIE MEDICAL CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS - Continued

Overall sales increased by 6.5% or approximately \$1.1 million for the six months ended June 30, 2017 when compared with 2016. Core segment revenue, which consists of our brand name electrosurgical devices and accessories, cauteries, penlights, lighting, colposcopes and other similar products, increased 6.8% or approximately \$0.9 million for the six months ended June 30, 2017, when compared with 2016. The OEM segment consists of proprietary products designed specifically for third party equipment manufacturers; revenue for this product line decreased 41.9% or approximately \$1.1 million, due to a one-time order in the comparable period of 2016. Advanced Energy segment sales were \$2.4 million, an increase of approximately 115.7% when compared to 2016.

For the six months ended June 30, 2017, the increase in electrosurgical sales was mainly attributable to an increase in sales of generators of \$2.0 million and accessories of \$0.2 million.

Our ten largest customers accounted for approximately 29.2% and 47.6% of trade receivables as of June 30, 2017 and 2016, respectively and approximately 51.7% and 56.2% of net revenues for the six months ended June 30, 2017 and 2016, respectively. For the six months ended June 30, 2017, McKesson and National Distribution & Contracting Inc. accounted for 15.5% and 10.1% of sales, while for the same period in 2016, McKesson and National Distribution & Contracting Inc. accounted for 16.5% and 9.6% of sales.

Gross Profit

	Three Months Ended June 30,			Six Months Ended June 30,		
(In thousands)	2017	2016	Change	2017	2016	Change
Cost of sales	\$4,757	\$4,595	3.5 %	\$8,920	\$9,048	(1.4)%
Percentage of revenue	48.5 %	49.4 %		49.0 %	53.0 %	
Gross profit	\$5,042	\$4,700	7.3 %	\$9,268	\$8,022	15.5 %
Percentage of revenue	51.5 %	50.6 %	0.9 %	51.0 %	47.0 %	4.0 %

Our gross profit increased by 7.3% and 15.5% or approximately \$0.3 million and \$1.2 million during the three and six months ended June 30, 2017 when compared to 2016. The increase was attributed to higher margins in the Advanced Energy segment, driven by higher volume and pricing mix on generator sales and in the Core segment, due to an improved product and pricing mix. The overall increase in margins was partially offset by lower margins in OEM due to a one time order during the comparable period in 2016. Additionally, comparable margins in the six months ended June 30, 2016 were negatively impacted due to a write down of approximately \$484,000 for obsolete inventory.

We do not anticipate any material impact to our gross profit, material costs, or other costs as a result of the effect of inflation or any material impact of changing prices on net revenue.

Other Costs and Expenses

Research and development

	Three Months Ended June 30,			Six Months Ended June 30,		
(In thousands)	2017	2016	Change	2017	2016	Change
Research and Development expense	\$696	\$592	17.6 %	\$1,405	\$1,259	11.6 %

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Percentage of revenue	7.1	%	6.4	%	7.7	%	7.4	%	0.3	%
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Bringing new, innovative products to market and enhancing existing products is a critical component of our strategy. As such, spending in R&D as a percentage of sales was 7.1% and 7.7% for the three and six months ended June 30, 2017, respectively. The increases over the same periods in 2016, were primarily driven by necessary case studies and trials for recently developed products, prior to commercialization.

Table of Contents

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)	2017	2016	Change	2017	2016	Change
Professional services expense	\$480	\$396	21.2 %	\$870	\$753	15.4 %
Percentage of revenue	4.9 %	4.3 %	0.6 %	4.8 %	4.4 %	0.4 %

During the three and six months ended June 30, 2017, professional services expense increased approximately 21.2% and 15.4%, respectively, compared to the prior year. The change was attributable to increases in consulting agreements, related to the Advanced Energy segment and accounting and auditing expense.

Salaries and related costs

	Three Months Ended June 30,			Six Months Ended June 30,		
(In thousands)	2017	2016	Change	2017	2016	Change
Salaries and related expenses	\$2,243	\$2,200	2.0 %	\$4,703	\$4,300	9.4 %
Percentage of revenue	22.9 %	23.7 %		25.9 %	25.2 %	

During the three months ended June 30, 2017, salaries and related expenses increased approximately 2.0% compared to the prior year. The increase was attributable to approximately \$115,000 of incentive compensation, partially offset by approximately \$73,000 related to decreases in other administrative expenses.

During the six months ended June 30, 2017, salaries and related expenses increased approximately 9.4% or approximately \$0.4 million compared to the prior year. The increase was attributable to approximately \$0.3 million of incentive compensation and \$0.1 million related to administrative, direct sales force and associated management.

Selling, general and administrative expenses

	Three Months Ended June 30,			Six Months Ended June 30,		
(In thousands)	2017	2016	Change	2017	2016	Change
SG&A Expense	\$2,929	\$2,022	44.9 %	\$5,333	\$4,213	26.6 %
Percentage of revenue	29.9 %	21.8 %		29.3 %	24.7 %	

Selling, general and administrative expense increased by 44.9% or approximately \$0.9 million for the three months ended June 30, 2017, when compared to 2016. We experienced increases in administrative and marketing expense of \$0.6 million and sales commissions of \$0.4 million, partially offset by decreases of \$0.1 million in regulatory consulting and trade show expenses.

Selling, general and administrative expense increased by 26.6% or approximately \$1.1 million for the six months ended June 30, 2017, respectively, when compared to 2016. We experienced increases in sales commissions of \$0.5 million, administrative, regulatory and trade show expenses of \$0.5 million and marketing of \$0.3 million, partially offset by decreases in professional service and general insurance of \$0.2 million.

Table of Contents

BOVIE MEDICAL CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS - Continued

Other Income (Expense), net

	Three Months			Six Months		
	Ended			Ended		
	June 30,			June 30,		
(In thousands)	2017	2016	Change	2017	2016	Change
Interest expense, net	\$(36)	\$(50)	(28.0)%	\$(67)	\$(88)	(23.9)%
Percentage of revenue	(0.4)%	(0.5)%		(0.4)%	(0.5)%	
Change in fair value of derivative liabilities	\$38	\$41	(7.3)%	\$126	\$128	(1.6)%
Percentage of revenue	0.4 %	0.4 %		0.7 %	0.7 %	

Interest expense

Total net interest expense decreased for the three and six months ended June 30, 2017 as compared with 2016, due to a decline in the mortgage note principal balance.

Change in fair value of liabilities

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 94,375 have a strike price of \$2.387, remain outstanding as of June 30, 2017. The warrants are accounted for as derivative financial instruments at fair value and are re-valued each period.

On March 17, 2015, we completed transactions contemplated under an exchange agreement (the "Exchange Agreement") entered into on March 11, 2015 with certain investors (the "Investors") with respect to which Great Point Partners, LLC acts as investment manager. Pursuant to the terms of the Exchange Agreement, we issued 3,588,139 shares of our Series B Convertible Preferred Stock (the "Series B Preferred Stock") in exchange for 3,500,000 shares of our Series A 6% Convertible Preferred Stock and warrants to purchase up to 5,250,000 shares of our common stock in the aggregate which were previously issued in conjunction with the sale of our Series A 6% Convertible Preferred Stock to the Investors in a December 13, 2013 offering, as well as accrued and unpaid preferred dividends. The Series B Preferred Stock issued at that time was convertible into an aggregate of 7,176,298 shares of our common stock, upon the terms set forth in the Certificate of Designation. The remaining Series B Preferred Stock at June 30, 2017 is convertible into an aggregate of 1,951,278 shares of our common stock.

At June 30, 2017, the placement agent warrants were valued at \$0.1 million and we recognized a gain of \$126,000.

Income Taxes

We recorded approximately \$4,000 and \$9,000 for tax provision during the three and six months ended June 30, 2017, respectively. A valuation allowance is required to be provided to reduce the deferred tax assets to a level which, more likely than not, will be realized. Management evaluated the positive and negative evidence in determining the realizability of the net deferred tax asset. In determining the need for valuation allowance, we reviewed historic operating results, the current period operating results, as well as future income forecasts based on the projections, management concluded that it was not more likely that the Company should realize its net deferred tax assets through future operating results and the reversal of taxable temporary differences. If in the future we determine that we will be

able to realize any of the net deferred tax assets, we will make adjustment to the valuation allowance, which would increase our income in the period that the determination is made.

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.

Table of Contents

BOVIE MEDICAL CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS - Continued

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.

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, 2017 was approximately \$18.5 million compared with \$21.3 million at December 31, 2016. Accounts receivable days sales outstanding were 48 days and 43 days at June 30, 2017 and 2016, 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 12 days to 179 days equating to an inventory turn ratio of 2.00 at June 30, 2017 from 167 days and an inventory turn ratio of 2.00 at June 30, 2016. The higher number of days sales in inventory is mainly attributable to an inventory build in support of new, extended and improved product lines.

For the six months ended June 30, 2017, net cash used in operating activities was approximately \$3.9 million compared with net cash used by operating activities of approximately \$2.4 million for the same period in 2016. The net cash used in operating activities was attributed to \$3.0 million of net loss, increases of inventory of \$1.5 million and \$1.1 million of 2016 incentive compensation paid in 2017, partially offset by other working capital cash inflows of \$0.0 million and non-cash inflows of \$0.8 million.

Net cash used in investing activities was attributed to purchases of property and equipment for approximately \$151,000 during the six months ended June 30, 2017, compared to \$41,000 cash used for the same period in 2016.

Cash used in financing activities of approximately \$119,000 during the six months ended June 30, 2017, compared to cash used in financing activities of approximately \$60,000 for the same period in 2016.

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 \$779,000 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, 2017 was 4.560%.

Table of Contents

BOVIE MEDICAL CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS - Continued

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.

Approximate future expected principal and interest payments under the Loan agreement are as follows as of June 30, 2017:

(In thousands)

2017 (remaining six months)	\$ 124
2018	247
2019	2,541
Total	\$2,912

At June 30, 2017, we had purchase commitments for inventories totaling approximately \$4.0 million, substantially all of which is expected to be purchased by the end of 2017.

Table of Contents

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, 2016, filed on March 10, 2017.

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.

Derivative liabilities valued at fair value

We generally do not use derivative financial instruments to hedge exposures to cash-flow risks or market-risks. However, certain financial instruments, such as warrants, which are indexed to our common stock, are classified as liabilities when either (a) the holder possesses rights to net-cash settlement or (b) physical or net-share settlement is not within our control. In such instances, net-cash settlement is assumed for financial accounting and reporting purposes, even when the terms of the underlying contracts do not provide for net-cash settlement. Such financial instruments are initially recorded and continuously carried, at fair value.

Determining the fair value of these instruments involves judgment and the use of certain relevant assumptions including, but not limited to, interest rate risk, historical volatility and stock price, estimated life of the derivative, anti-dilution provisions and conversion/redemption privileges. The use of different assumptions or changes in those assumptions could have a material effect on the estimated fair value amounts.

Table of Contents

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

From time to time, we are exposed to claims and litigation arising in the ordinary course of business or otherwise and use various methods to resolve these matters in a manner that we believe serves the best interest of the Company and our stockholders. There can be no assurance these actions or other third party assertions will be resolved without costly litigation, or in a manner that is not adverse to our financial position. We do not believe that any of the currently identified claims or litigation matters will have a material adverse impact on our results of operations, cash flows or financial condition. However, given uncertainties associated with any litigation, if our assessments prove to be wrong, or if additional information becomes available such that we estimate that there is a possible loss or possible range of loss associated with these contingencies, then we would record the minimum estimated liability, which could materially impact our results of operations, financial position and 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 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, 2017, 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 NOL's), 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.

Table of Contents

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.

23

Table of Contents

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, 2016. 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, 2017. 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, 2017 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Table of Contents

BOVIE MEDICAL CORPORATION

PART II. Other Information

ITEM 1. Legal Proceedings

From time to time, we are exposed to claims and litigation arising in the ordinary course of business or otherwise and use various methods to resolve these matters in a manner that we believe serves the best interest of the Company and our stockholders. There can be no assurance these actions or other third party assertions will be resolved without costly litigation, or in a manner that is not adverse to our financial position. We do not believe that any of the currently identified claims or litigation matters will have a material adverse impact on our results of operations, cash flows or financial condition. However, given uncertainties associated with any litigation, if our assessments prove to be wrong, or if additional information becomes available such that we estimate that there is a possible loss or possible range of loss associated with these contingencies, then we would record the minimum estimated liability, which could materially impact our results of operations, financial position and cash flows.

We expense costs of litigation related to contingencies in the periods in which the costs are incurred.

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, 2016, 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.

Table of Contents

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 Designation of Preferences, Rights and Limitations of Series A 6% Convertible Preferred Stock of Bovie Medical Corporation (Incorporated by reference to the Registrant's report on Form 8-K filed December 16, 2013)
- 3.4 Certificate of Designation of Series B Preferred Stock (Incorporated by reference to Exhibit 3.1 on Form 8-K filed on March 11, 2015).
- 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.

Table of Contents

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 3, 2017 By: /s/ Robert L. Gershon

Robert L. Gershon

Chief Executive Officer and Director

(Principal Executive Officer)

Date: August 3, 2017 By: /s/ Jay D. Ewers

Jay D. Ewers

Chief Financial Officer,

Treasurer and Secretary

(Principal Financial Officer)