

MILESTONE SCIENTIFIC INC.

Form 10-Q

May 12, 2010

**Table of Contents**

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

(Mark One)

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

**For the quarterly period ended March 31, 2010**  
or

**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: 001-14053**  
**MILESTONE SCIENTIFIC INC.**

(Exact name of registrant as specified in its charter)

**Delaware**

**13-3545623**

(State or other jurisdiction of incorporation or organization)

(I.R.S. Employer Identification No.)

**45 Knightsbridge Road, Piscataway, New Jersey 08854**

(Address of principal executive offices)

**(973) 535-2717**

(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has 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

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 during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).  Yes  No

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

Large accelerated filer

Accelerated filer

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

Smaller reporting company

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

As of May 12, 2010, the Issuer had a total of 14,818,194 shares of Common Stock, \$.001 par value outstanding.



MILESTONE SCIENTIFIC INC  
INDEX

**PART I FINANCIAL INFORMATION**

**Item 1. Financial Statements**

**Condensed Balance Sheets**

**March 31, 2010 (Unaudited) and December 31, 2009**

4

**Condensed Statements of Operations**

**Three Months Ended March 31, 2010 and 2009 (Unaudited)**

5

**Condensed Statements of Changes in Stockholder's Equity (Unaudited)**

**Three Months Ended March 31, 2010 (Unaudited)**

6

**Condensed Statements of Cash Flow**

**Three Months Ended March 31, 2010 and 2009 (Unaudited)**

7

**Notes to Condensed Financial Statements (Unaudited)**

8

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

15

**Item 3. Quantitative and Qualitative Disclosures About Market Risk**

22

**Item 4. Controls and Procedures**

22

**PART II OTHER INFORMATION**

**Item 1. Legal Proceedings**

23

**Item 1A. Risk Factors**

23

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

24

**Item 3. Defaults Upon Senior Securities**

24

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

24

**Item 5. Other Information**

24

**Item 6. Exhibits**

24

**SIGNATURES**

25

Exhibit 31.1

Exhibit 31.2

Exhibit 32.1

Exhibit 32.2

**Table of Contents**

**FORWARD-LOOKING STATEMENTS**

*When used in this Quarterly Report on Form 10-Q, the words may , will , should , expect , believe , anticipate , continue , estimate , project , intend and similar expressions are intended to identify forward-looking statements within the meaning of Section 27A of the Securities Act and Section 21E of the Exchange Act regarding events, conditions and financial trends that may affect Milestone s future plans of operations, business strategy, results of operations and financial condition. Milestone wishes to ensure that such statements are accompanied by meaningful cautionary statements pursuant to the safe harbor established in the Private Securities Litigation Reform Act of 1995. Prospective investors are cautioned that any forward-looking statements are not guarantees of future performance and are subject to risks and uncertainties and the actual results may differ materially from those included within the forward-looking statements as a result of various factors. Such forward-looking statements should, therefore, be considered in light of various important factors, including those set forth herein and others set forth from time to time in Milestone s reports and registration statements filed with the Securities and Exchange Commission (the Commission ). Milestone disclaims any intent or obligation to update such forward-looking statements.*

**Table of Contents**

MILESTONE SCIENTIFIC INC.  
CONDENSED BALANCE SHEETS

	March 31, 2010 (Unaudited)	December 31, 2009
<b>ASSETS</b>		
Current Assets:		
Cash and cash equivalents	\$ 1,218,027	\$ 1,029,129
Accounts receivable, net of allowance for doubtful accounts of \$5,000	931,218	1,063,742
Inventories	965,341	804,736
Advances to contract manufacturer, current	733,183	151,995
Prepaid expenses and other current assets	496,240	254,501
<b>Total current assets</b>	<b>4,344,009</b>	<b>3,304,103</b>
Advances to contract manufacturer, non current	326,020	311,230
Investment in distributor, at cost	76,319	76,319
Furniture, Fixtures & Equipment net of accumulated depreciation of \$414,280 as of March 31, 2010 and \$395,630 as of December 31, 2009	78,546	77,353
Patents, net of accumulated amortization of \$231,950 as of March 31, 2010 and \$211,539 as of December 31, 2009	966,600	947,315
Other assets	116,309	133,674
<b>Total assets</b>	<b>\$ 5,907,803</b>	<b>\$ 4,849,994</b>
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
Current Liabilities:		
Accounts payable	\$ 1,951,678	\$ 1,154,013
Accrued interest 6% note, current	92,000	\$
Accrued expenses and other payable	363,338	524,017
<b>Total current liabilities</b>	<b>2,407,016</b>	<b>1,678,030</b>
Long-term Liabilities:		
Accrued Interest 6% note, non current	61,573	92,000
Accrued Interest 12% note, non current	76,431	
Notes Payable-net of discount of \$10,458 and \$11,157, respectively	439,542	438,843
<b>Total long-term liabilities</b>	<b>577,546</b>	<b>530,843</b>
Commitments and Contingencies		
Stockholders Equity		
Common stock, par value \$.001; authorized 50,000,000 shares; 14,811,807 shares issued 692,498 shares to be issued and 14,778,474	15,502	15,472

Edgar Filing: MILESTONE SCIENTIFIC INC. - Form 10-Q

shares outstanding as of March 31, 2010; 14,781,296 shares issued,  
692,498 shares to be issued, and 14,747,962 shares outstanding as of  
December 31, 2009

Additional paid-in capital	62,498,787		62,300,619
Accumulated deficit	(58,679,532)		(58,763,454)
Treasury stock, at cost, 33,333 shares	(911,516)		(911,516)
Total stockholders' equity	2,923,241		2,641,121
Total liabilities and stockholders' equity	\$ 5,907,803	\$	4,849,994

See Notes to Condensed Financial Statements



**Table of Contents**

## MILESTONE SCIENTIFIC INC.

## CONDENSED STATEMENTS OF OPERATIONS

(Unaudited)

	Three Months Ended March 31,	
	2010	2009
Product sales, net	\$ 2,562,578	\$ 2,204,819
Cost of products sold	900,712	916,550
Gross profit	1,661,866	1,288,269
Selling, general and administrative expenses	1,541,702	1,728,815
Research and development expenses	88,464	67,622
Total operating expenses	1,630,166	1,796,437
Income (loss) from operations	31,700	(508,168)
Other income (expense)		
Other income	61,916	
Interest expense	(9,343)	(47,403)
Amortization of debt issuance	(699)	(7,875)
Interest income	348	1,804
Total other income (expenses)	52,222	(53,474)
Net income (loss) applicable to common stockholders	\$ 83,922	\$ (561,642)
Net income (loss) per share applicable to common stockholders		
Basic	\$ 0.01	\$ (0.05)
Diluted	\$ 0.01	\$ (0.05)
Weighted average shares outstanding and to be issued		
Basic	13,875,278	12,458,115
Diluted	14,320,821	12,458,115

See Notes to Condensed Financial Statements

**Table of Contents**

MILESTONE SCIENTIFIC INC.  
 CONDENSED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY  
 THREE MONTHS ENDED MARCH 31, 2010  
 (Unaudited)

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Accumulated Deficit	Treasury Stock	Total
Balance, January 1, 2010	15,473,794	\$ 15,472	\$ 62,300,619	\$ (58,763,454)	\$ (911,516)	\$ 2,641,121
Options issued to employees and consultants			147,698			147,698
Common stock issued for payment of consulting services to settle accounts payable	26,457	26	42,974			43,000
Common stock issued for payment of employee compensation	4,054	4	7,496			7,500
Net income				83,922		83,922
Balance, March 31, 2010	15,504,305	\$ 15,502	\$ 62,498,787	\$ (58,679,532)	\$ (911,516)	\$ 2,923,241

See Notes to Condensed Financial Statements

**Table of Contents**

MILESTONE SCIENTIFIC INC.  
CONDENSED STATEMENTS OF CASH FLOWS (Unaudited)

	THREE MONTHS ENDED MARCH	
	31,	
	2010	2009
Cash flows from operating activities:		
Net income (loss)	\$ 83,922	\$ (561,642)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation expense	18,651	15,503
Amortization of patents	20,410	18,281
Amortization of debt discount	699	7,875
Common stock and options issued for compensation, consulting and vendor services	124,718	220,992
Changes in operating assets and liabilities:		
Decrease (Increase) in accounts receivable	132,524	(172,787)
(Increase) Decrease in inventories	(160,605)	72,226
(Increase) Decrease to advances to contract manufacturer	(595,978)	125,160
(Increase) to prepaid expenses and other current assets	(168,259)	(10,920)
Decrease in other assets	17,365	
Increase in accounts payable	797,665	248,622
(Decrease) in accrued expenses	(22,675)	(163,567)
Net cash provided by (used in) operating activities	248,437	(200,257)
Cash flows from investing activities:		
Purchases of property and equipment	(19,844)	(30,131)
Payment for patents rights	(39,695)	(12,609)
Net cash used in investing activities	(59,539)	(42,740)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	188,898	(242,997)
Cash and cash equivalents at beginning of period	1,029,129	743,665
Cash and cash equivalents at end of period	\$ 1,218,027	\$ 500,668
Supplemental disclosure of cash flow information:		
Income taxes paid	\$ 4,146	\$ 3,597
Interest paid	\$ 24,000	\$
Shares issued to employees in lieu of cash compensation	\$ 7,500	\$ 125,324
Shares issued to settle accounts payable	\$ 43,000	\$ 42,000

See Notes to Condensed Financial Statements



**Table of Contents**

**MILESTONE SCIENTIFIC INC.  
NOTES TO CONDENSED FINANCIAL STATEMENTS  
(UNAUDITED)**

**ORGANIZATION, BUSINESS AND BASIS OF PRESENTATION**

Milestone Scientific Inc. ( Milestone or the Company ) was incorporated in the State of Delaware in August 1989. The Company leased additional office space in June 2009 and moved its headquarters to 45 Knightsbridge Road in Piscataway, New Jersey.

The unaudited financial statements of Milestone have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements.

These unaudited financial statements should be read in conjunction with the financial statements and notes thereto for the year ended December 31, 2009 included in Milestone's Annual Report on Form 10-K.

In the opinion of Milestone, the accompanying unaudited financial statements contain all adjustments (consisting of normal recurring entries) necessary to fairly present Milestone's financial position as of March 31, 2010 and December 31, 2009 and the results of its operations for the three months ended March 31, 2010 and 2009.

The results reported for the three months ended March 31, 2010 are not necessarily indicative of the results of operations which may be expected for a full year.

The Company had positive cash flows from operating activities at March 31, 2010 of \$248,437 and a negative cash flow from operating activities at March 31, 2009 of \$200,257. At March 31, 2010, the Company had cash and cash equivalents and working capital of \$1,218,027 and \$1,936,993, respectively. The Company borrowed \$450,000 in 2008 from a shareholder, with a due date of January 2009. This additional borrowing was refinanced at December 31, 2008 and the due date was extended to June 30, 2012. The Company is continuing the pursuit of positive cash flows from operating activities through an increase in revenue based upon management's assessment of present contracts and current negotiations and reductions in operating expenses. The Company may require the need for a higher level of marketing and sales efforts that at present it cannot fund. If the Company is unable to continue positive cash flows from its operating activities it will need to raise additional capital. There is no assurance that the Company will be able to achieve positive operating cash flows or that traditional capital can be raised on terms and conditions satisfactory to the Company, if at all. If positive cash flow cannot continue to be achieved or if additional capital is required and it cannot be raised, then the Company would be forced to curtail its development activities, reduce marketing expenses for existing dental products or adopt other cost saving measures, any of which might negatively affect the Company's operating results.

The Company's historical losses raises substantial doubt about its ability to continue as a going concern. The accompanying financial statements do not include any adjustments that might result from the outcome of this uncertainty.

**NOTE 1 SUMMARY OF ACCOUNTING POLICIES**

**Cash and Cash Equivalents**

Milestone considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents.

## **Table of Contents**

### **Inventories**

Inventories principally consist of finished goods and component parts stated at the lower of cost (first-in, first-out method) or market. Inventory quantities on hand are reviewed on a quarterly basis and a provision for excess and obsolete inventory is recorded, if required, based on past and expected future sales.

### **Patents**

Patents are recorded at actual cost to prepare and file the applicable documents with the United States Patent Office, or internationally with the applicable governmental office in the respective country. Although certain patents have not yet been approved, the costs related to these patents are being amortized using the straight-line method over the estimated useful life of the patent. If the applicable patent application is ultimately rejected, the remaining unamortized balance will be expensed in the period in which the Company receives a notice of such rejection. Patent applications filed and patents obtained in foreign countries are subject to the laws and procedures that differ from those in the United States. Patent protection in foreign countries may be different from patent protection under United States laws and may not be favorable to the Company. The Company also attempts to protect our proprietary information through the use of confidentiality agreements and by limiting access to our facilities. There can be no assurance that our program of patents, confidentiality agreements and restricted access to our facilities will be sufficient to protect our proprietary technology.

### **Revenue Recognition**

Revenue from product sales is recognized net of discounts and allowances to our domestic distributors on the date of arrival of the goods at the customer's location as shipments are FOB destination. Shipments to our international distributors are FOB our warehouse and revenue is therefore recognized on shipment. In both cases, the price to the buyer is fixed and the collectability is reasonably assured. Further, we have no obligation on these sales for any post sale installation, set-up or maintenance, these being the responsibility of the buyer. Customer acceptance is considered made at delivery. Our only obligation after sale is the normal commercial warranty against manufacturing defects if the alleged defective unit is returned within the warranty period.

### **Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions in determining the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. The most significant estimates relate to the allowance for doubtful accounts, inventory valuation, cash flow assumptions regarding evaluation for impairment of long-lived assets and valuation allowances on deferred tax assets. Actual results could differ from those estimates.

*Fair Value Measurements:* We follow the provisions of ASC 820, *Fair Value Measurements and Disclosures* related to financial assets and liabilities that are being measured and reported on a fair value basis. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the principal market at the measurement date (exit price). We are required to classify fair value measurements in one of the following categories:

Level 1 inputs which are defined as quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

Level 2 inputs which are defined as inputs other than quoted prices included within Level 1 that are observable for the assets or liabilities, either directly or indirectly.

Level 3 inputs are defined as unobservable inputs for the assets or liabilities.

Financial assets and liabilities are classified based on the lowest level of input that is significant to the fair value measurement. Our assessment of the significance of a particular input to the fair value measurement requires judgment, and may effect the valuation of the fair value of assets and liabilities and their placement within the fair value hierarchy levels.

**Table of Contents**

The carrying amounts reported in the consolidated balance sheet for cash, accounts receivable, advances to contract manufacturer, accounts payable and accrued expenses approximate fair value based on the maturity of these instruments.

**Recent Accounting Pronouncements**

FASB ASC Topic 860 *Accounting for Transfers of Financial Assets* (SFAS 166) an amendment of FASB No. 140 was issued in June 2009. The purpose of this Statement was to address practices that developed subsequent to the issuance of SFAS No. 140, that were not consistent with the intent or key requirements of that Statement. This Statement must be applied as of the beginning of each entity's first annual reporting period that begins after November 15, 2009. This Statement does not currently impact the financial statements of the Company.

In the first quarter of 2010, the FASB issued Accounting Standards Updates (ASU) 2010-09, *Fair Value Measurements and Disclosures: Improving Disclosures about Fair Value Measurements* (ASU 2010-06). ASU 2010-06 amends FASB ASC Topic 820, *Fair Value Measurements and Disclosures*, and requires reporting entities to make new disclosures about recurring or nonrecurring fair-value measurements. ASU 2010-06 also clarifies existing fair-value measurement disclosure guidance about the level of disaggregation, inputs and valuation techniques. Except for the detailed Level 3 rollforward disclosures, we adopted the provisions of ASU 2010-06 in the first quarter of 2010. This adoption did not affect our financial statements. We will adopt the provisions of ASU 2010-06 related to the new Level 3 rollforward disclosures in the first quarter of 2011. This adoption in 2011 will not affect our financial statements.

In the first quarter of 2010, the FASB issued ASU 2010-09, *Subsequent Events: Amendments to Certain Recognition and Disclosure Requirements* (ASU 2010-09). ASU 2010-09 amends ASC 855, *Subsequent Events*, so that SEC filers are no longer required to disclose the date through which subsequent events have been evaluated in financial statements. We adopted the provisions of ASU 2010-09 in the first quarter of 2010. This adoption did not affect our financial statements.

**NOTE 2 BASIC AND DILUTED NET INCOME (LOSS) PER COMMON SHARE**

Milestone presents basic and fully diluted earnings (loss) per common share applicable to common stockholders, and, if applicable, diluted earnings (loss) per common share applicable to common stockholders pursuant to the provisions of FASB ASC Topic 260. Basic earnings (loss) per common share is calculated by dividing net income or loss applicable to common stockholders by the weighted average number of common shares outstanding and to be issued during each period. The calculation of diluted earnings per common share is similar to that of basic earnings per common share, except that the denominator is increased to include the number of additional common shares that would have been outstanding if all potentially dilutive common shares, such as those issuable upon the exercise of stock options and warrants were issued during the period.

Since Milestone had net losses for the three months ended March 31, 2009, the assumed effects of the exercise of outstanding stock options and warrants were not included in the calculation as their effect would have been anti-dilutive. Such outstanding options and warrants totaled 1,454,666 at March 31, 2009.

**NOTE 3 STOCK OPTION PLANS**

FASB ASC Topic 505, *Share-Based Payment*, requires all share-based payments to employees, including grants of employee stock options, to be recognized in the statements of operations over the service period, as an operating expense, based on the grant-date fair values.

**Table of Contents**

A summary of option activity for employees under the plans as of March 31, 2010, and changes during the three months ended, is presented below:

	<b>Number of Options</b>	<b>Weighted Averaged Exercise Price</b>	<b>Weighted Average Remaining Contractual Life (Years)</b>	<b>Aggregate Intrinsic Options Value</b>
Outstanding, January 1, 2010	1,060,142	\$ 1.33	3.61	\$
Granted				
Exercised				
Forfeited or expired	(60,000)	3.27		
Outstanding, March 31, 2010	1,000,142	1.22	3.56	582,617
Exercisable, March 31, 2010	503,582	1.23	2.66	285,824

Milestone recognizes compensation expense on a straight line basis over the requisite service period. During the three months ended March 31, 2010, Milestone recognized a \$61,484 of total compensation cost. As of March 31, 2010, there was \$297,530 of total unrecognized compensation cost related to non-vested options which Milestone expects to recognize over a weighted average period of 2.75 years. A six percent rate of forfeitures is assumed in the calculation of the compensation cost for the period.

Expected volatilities are based on historical volatility of Milestone's common stock over a period commensurate with anticipated term. Milestone uses historical data to estimate option exercise and employee termination within the valuation model.

A summary of option activity for non-employees under the plans as of March 31, 2010, and changes during the three months ended, is presented below:

	<b>Number of Options</b>	<b>Weighted Averaged Exercise Price</b>	<b>Weighted Average Remaining Contractual Life (Years)</b>	<b>Aggregate Intrinsic Options Value</b>
Outstanding, January 1, 2010	414,999	1.90	2.70	
Granted	120,000	1.75	0.94	
Exercised				
Forfeited or expired				
Outstanding, March 31, 2010	534,999	1.87	1.90	255,833
Exercisable, March 31, 2010	518,887	1.89	2.04	245,193

During the three months ended March 31, 2010, Milestone recognized \$12,734 of expenses related to non-employee options that vested during the year. The total unrecognized compensation cost related to non-vested options was \$80,918 as of March 31, 2010. A six percent rate of forfeitures is assumed in the calculation of the compensation cost for the period.

In March of 2010, the Company entered an agreement with a public relations firm to supply services to the Company over a three year (cancelable) agreement. The first year of the agreement required 120,000 options to be provided with immediate exercisability. The Black Scholes calculation of approximately \$80,000 was recorded as an asset and an addition to additional paid in capital. The entire \$80,000 will be amortized to expense over the twelve month period.

In accordance with the provisions of FASB ASC 505-50-15, all other issuances of common stock, stock options or other equity instruments to non-employees as consideration for goods or services received by Milestone are accounted for based on the fair value of the equity instruments issued (unless the fair value of the consideration received can be



more reliably measured). The fair value of any options or similar equity instruments issued is estimated based on the Black-Scholes option-pricing model, and the assumption that all of the options or other equity instruments will ultimately vest. Such fair value is measured as of an appropriate date pursuant to the guidance, (generally, the earlier of the date the other party becomes committed to provide goods or services or the date of performance by the other party is complete) and capitalized or expensed as if Milestone had paid cash for the goods or services.

**Table of Contents****NOTE 4 CONCENTRATION OF CREDIT RISK**

Milestone's financial instruments that are exposed to concentrations of credit risk consist primarily of cash, trade accounts receivable, and advances to contract manufacturers. Milestone places its cash and cash equivalents with large financial institutions. At times, such investments may be in excess of the Federal Deposit Insurance Corporation insurance limit. Milestone has not experienced any losses in such accounts and believes it is not exposed to any significant credit risks. Financial instruments which potentially subject Milestone to credit risk consist principally of trade accounts receivable, as Milestone does not require collateral or other security to support customer receivables, and advances to contract manufacturer. Milestone entered into a purchase agreement in 2004 with a vendor to supply Milestone with 5,000 units of *CompuDent*. As part of this agreement, Milestone has a remaining advance of approximately \$421,645 with the vendor for purchase of materials at March 31, 2010. The advance will be credited to Milestone as the goods are delivered. Milestone does not believe that significant credit risk exists with respect to this advance to the contract manufacturer at March 31, 2010.

In 2010, the Company entered into a three year agreement to purchase materials for the 12,000 units of the STA System, for delivery to our China distributor over the same period. As of March 31, 2010, the Company record an increase in advances to contractors of \$637,558 for the parts.

Milestone closely monitors the extension of credit to its customers while maintaining allowances, if necessary, for potential credit losses. On a periodic basis, Milestone evaluates its accounts receivable and establishes an allowance for doubtful accounts, based on a history of past write-offs and collections and current credit conditions. Management does not believe that significant credit risk exists with respect to accounts receivable at March 31, 2010.

**NOTE 5 LINE OF CREDIT AND NOTE PAYABLE**

On June 28, 2007 the Company secured a \$1 million line of credit from a stockholder. This borrowing was amended to \$1,300,000 as of September 30, 2008 under the same terms and conditions as the original. Three year warrants exercisable at \$5.00 per share, in an amount determined by dividing 50% of the amount borrowed by \$5.00 will be issued on each drawdown. There is no facility fee on the line. The warrants have been valued as of each draw down using the Black-Scholes model and are reflected as a discount against the debt incurred under this line of credit. The \$1.3 million Line of Credit was converted into shares of Milestone's common stock in December 2009 at a conversion rate of \$1.58 per share. A total of 822,785 shares were issued and the debt liquidated at that date. Interest on the Line of Credit of aggregated \$153,573 was accrued as of March 31, 2010. This interest will be paid in equal quarterly payments of \$23,000 over the next two years. The Company borrowed an additional \$450,000 from the same shareholder in 2008. The borrowing was originally on short term loan with a maturity date of January 19, 2009. In December 2008, this borrowing was refinanced with the shareholder with a due date of June 30, 2012. The borrowing includes a twelve percent interest rate, interest compounded quarterly, with interest and principal due at the maturity. Further, the note has warrants exercisable for five years at the price of \$0.32 per share for 45,000 shares of stock. The warrants were valued using the Black-Scholes model and are reflected as a discount against the debt. At March 31, 2010, the discount was \$10,458.

Interest expense on this Line of Credit for the three months ended March 31, 2010 and 2009 is \$9,343 and \$47,403, respectively. Accrued interest related to this line of credit was \$230,005 and \$175,467 at March 31, 2010 and March 31, 2009, respectively. The charge for amortization of Debt Discount related to this Line of Credit is \$699 and \$7,875 for the three months ended March 31, 2010 and March 31, 2009, respectively.

**NOTE 6 STOCK ISSUANCE**

During the three months ended March 31, 2010, the Company issued 26,457 shares of common stock valued at \$43,000 to three parties owed in connection with public relations and consulting expenses. Additionally, 4,054 shares of common stock valued at \$7,500 were issued for payment of employee compensation.

**Table of Contents****NOTE 7 SIGNIFICANT CUSTOMERS**

Milestone had net product sales to three customers (distributors) which in the aggregate accounted for approximately 63% and 70% of revenue for three months ended March 31, 2010 and 2009, respectively. Milestone had sales to one of these major customers (a worldwide distributor of Milestone's products based in China) of \$494,108 (19%) for the three months ended March 31, 2009. Accounts receivable from these three customers amounted to \$458,839 and \$780,667, representing 49% and 71% of gross accounts receivable as of March 31, 2010 and March 31, 2009, respectively.

Milestone's sales by product and by geographical region are as follows:

	Three Months Ended March 31,	
	2010	2009
<i>Instruments</i>	\$ 599,888	\$ 791,952
Handpieces	1,936,303	1,395,212
Other	26,387	17,655
	\$ 2,562,578	\$ 2,204,819
United States	\$ 1,204,972	\$ 1,478,495
Canada	182,270	141,279
Other Foreign	1,175,336	585,045
	\$ 2,562,578	\$ 2,204,819

In June 2008, Milestone implemented a change to its domestic distribution strategy and signed Henry Schein, Inc. as a non-exclusive distributor of *STA* and *CompuDent* systems (and ancillary products) in North America. That same month, the Company also signed Patterson Dental Supply as an additional non-exclusive partner to promote sales of the Company's products in North America. Early in the third quarter of 2008, the Company added four more non-exclusive distributors to its domestic sales network, including Benco Dental, Burkhard Dental, Goetze Dental and Atlanta Dental. Milestone continued to expand its domestic distribution network in 2009, welcoming Cedar Dental, Darby Dental Supply, Dental Health Products, Iowa Dental and Nashville Dental. To expand and enhance its reach to the dental community in Canada, the Company also signed non-exclusive distribution and marketing agreements with Dental 2000, Medclub, and Specialty Dental.

Milestone has also focused on expanding its global distribution network, granting exclusive rights to market, distribute and sell its products in certain key geographic markets around the world. In June 2008, the Company named Istrodent Pty Ltd AB as exclusive distributor of the *STA System* (and ancillary products) in South Africa, and Unident AB as its exclusive distributor in Denmark, Sweden, Norway and Iceland. In April 2009, Milestone awarded exclusive distribution and marketing rights to China National Medicines Corporation, d/b/a Sinopharm, for the *STA System* (and ancillary products).

As of July 1, 2009, Milestone established a direct path to its international distributors' networks. Effectively, Milestone will sell directly to existing and new international distributors, rather than through its previous worldwide distributor in South Africa. As part of the change, Milestone agreed to pay a commission to the previous distributor, based on actual international sales, over the next six years. The commission is structured at two levels: Level One is based on historical sales volume, and Level Two is determined for incremental sales volume over the Level One plateau. The Company evaluated this event in September 2009 and continues to monitor the agreement through the date that the financial statements are issued. The commission to the previous distributor was \$138,000 for the quarter ending March 31, 2010.



**Table of Contents**

**NOTE 8 COMMITMENTS AND OTHER**

*Contract Manufacturing Arrangement*

Milestone has informal arrangements for the manufacture of its products. *CompuDent*, *STA* and *CompuMed* units are manufactured for Milestone by Tricor Systems, Inc. pursuant to specific purchase orders. *The Wand* disposable handpiece without a needle is manufactured for Milestone in Mexico pursuant to scheduled production requirements. *The Wand* handpiece (with and without needles) is supplied to Milestone by a product broker that arranges for its manufacture by manufacturers in China.

The termination of the manufacturing relationship with any of the above manufacturers could have a material adverse effect on Milestone's ability to produce and sell its products. Although alternate sources of supply exist and new manufacturing relationships could be established, Milestone would need to recover its existing tools or have new tools produced. Establishment of new manufacturing relationships could involve significant expense and delay. Any curtailment or interruption of the supply, whether or not as a result of termination of such a relationship, would adversely affect Milestone.

In January 2010, the Company issued a purchase order to Tricor Systems for the purchase of 12,000 *STA Systems* to be delivered over the next three years. The purchase order is for \$5,261,640. The Company will be required to make periodic payments over the next eighteen months to purchase the parts necessary to complete this production.

Prepaid expenses and other current assets at March 31, 2010 includes \$163,705 of advanced commission payments to our previous worldwide distributor in South Africa.

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

*The following discussions of our financial condition and results of operations should be read in conjunction with the financial statements and the notes to those statements included elsewhere in this Form 10-Q. Certain statements in this discussion and elsewhere in this report constitute forward-looking statements, within the meaning of section 21E of the Exchange Act, that involve risks and uncertainties. Our actual results may differ materially from those anticipated in these forward-looking statements. Factors that could cause actual results to differ materially from those expressed or implied by forward-looking statements include, but are not limited to, the factors set forth under the headings Business, and Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2009 as filed with the United States Securities and Exchange Commission ( Commission ). See also Risk Factors on Part II. ITEM 1A of this Form 10-Q.*

**OVERVIEW**

In 2010, Milestone will remain focused on advancing efforts to achieve our two primary objectives; those being:  
 Optimizing our tactical approach to product sales and marketing in order to materially increase penetration of the global dental and medical markets with our proprietary, patented Computer-Controlled Local Anesthesia Delivery (C-CLAD) solution, the *STA Single Tooth Anesthesia System (STA System)*; and  
 Identifying and pursuing strategic collaborations with third parties to jointly develop new products utilizing our patented *CompuFlo* pressure force technology for novel new medical applications.

***STA System Awards Industry Recognition***

Since its market introduction in the spring of 2007, the *STA System* has received rave reviews and awards from the dental industry. In July 2007, noted industry publication *Dentistry Today* featured the *STA System* as one of the Top 100 Products in 2007, helping to promote much broader recognition of the instrument and validating the *STA System*'s value proposition for dentists and patients alike. In April 2008, *Medical Device & Diagnostic Industry* magazine distinguished the *STA System* as a 2008 Medical Design Excellence Award winner in the Dental Instruments, Equipment and Supplies product category. Of the 33 products to receive this coveted award, the *STA System* was one of only two winning products that serve dental practitioners.

In December 2008, the *STA System* was again recognized as one of the dental industry's best technological innovations, winning a Townie Choice Award from *Dentaltown Magazine* in the category Anesthetics: Technique System. This marked the second consecutive year that Milestone won a Townie Choice Award; in 2007, we won the same award for our *CompuDent/The Wand*. Also in December 2008, our *STA System* was named as a *Dental Products Report* Top 100 2008 Product of Distinction. Each year, *DPR* spotlights the year's Top 100 products. Of these 100 products, 50 are the ones most often inquired about by *DPR*'s readers via an online and Product Information Card reader service program. The other 50 represent New Classics, which recognize both old and newer products and categories chosen by *DPR*'s editorial staff for their perceived impact on driving innovation or helping to establish a new, higher standard of care for patients. The *STA System* was recognized as a New Classic in the Technology category.

***Second Annual Symposium on C-CLAD***

In addition to winning noted acclaim among leading dental publications, our award winning *STA System* has also been gaining the support of many of the world's leading dental practitioners and key opinion leaders. In February 2008, we hosted the First International C-CLAD Symposium in New Orleans, welcoming a distinguished panel of dental experts who gathered to discuss advancements in the scientific and clinical practice communities toward the common goal of advancing the science, knowledge and art of C-CLAD in dentistry. The forum yielded a number of ideas on how we can integrate the *STA System* not only into dental school curricula, but also extends messaging regarding its many unique benefits to the dental community and patients alike.

**Table of Contents**

On May 1 through 3, 2009, we hosted the Second International Annual Symposium on C-CLAD in Amelia Island, Florida. Stanley Malamed, DDS, Professor of Anesthesia & Medicine at the University of Southern California, School of Dentistry, again served as Chairman of the invitational event. The 2009 Symposium covered a broad range of C-CLAD related topics including:

The History of C-CLAD

Treating with Connection

Heart Rate Study

STA Compassionate Care in the 21<sup>st</sup> Century

Injection Advances and Challenges

Physiologic and Clinical Characteristics of PDL Anesthesia Delivered by a High Pressure Hand piece and a Computerized Device

The STA for Tots and Teens

Computerized Local Anesthesia in Dentistry: A Review

Today's Technology

Managing a Successful Dental Practice: Why People Keep Coming Back

STA The Dental School's Perspective

Futuristic Vistas: The Dentist/Hygienist Partnership

In 2010, we expect to broadly distribute more than 30,000 copies of a comprehensive monograph reflecting the topics discussed at the 2009 Symposium and a consensus on the attendees' attitudes, ideas and suggestions relating to promoting global industry adoption of C-CLAD technologies as the new standard of care for administering dental injections.

***STA System Growth***

Since its market introduction in early 2007, the *STA System*, a prior computerized controlled local anesthesia delivery product, has been used to deliver tens of millions of safe, effective and comfortable injections. The instrument has also been favorably evaluated in numerous peer-reviewed, published clinical studies and associated articles. Moreover, there appears to be a growing consensus among users that the *STA System* is proving to be a valuable and beneficial instrument that is positively impacting the practice of dentistry worldwide. The utility and value of the *STA System* is perhaps best summarized by Dr. Joe Blaes, who wrote in the December 2008 edition of *Dental Economics*, "I tried the *STA System* and my patients absolutely love it. This is a no brainer - go get one ASAP!"

***Global Distribution Network***

The *STA System* and related hand pieces are marketed to the dental industry in the United States and Canada by many of the nation's leading dental supply companies, including Henry Schein, Inc., Patterson Dental Supply, Atlanta Dental, Benco Dental, Burkhart Dental, Cedar Dental, Darby Dental Supply, Dental Health Products, Goetze Dental, Iowa Dental and Nashville Dental. In Canada, our independent distributors include Dental 2000, Medclub and Specialty Dental.

On the global front, we have granted exclusive marketing and distribution rights for the *STA System* to select dental suppliers in various international regions in Asia, Africa and Europe.

In April 2009, we signed an Exclusive Distribution and Marketing Agreement with China National Medicines Corporation, d/b/a Sinopharm, which is China's largest domestic manufacturer, distributor and marketer of pharmaceuticals and importer of medical devices and the country's largest domestic distributor of dental anesthetic carpules to the Chinese dental industry. Prior to the end of 2009, China National Medicines issued Milestone a blanket purchase order for 12,000 *STA* units to be delivered over 36 months, thereby marking the Company's initial penetration into China's emerging dental market.



**Table of Contents**

According to a report published by the U.S. Department of Commerce, titled "China's Emerging Markets: Opportunities in the Dental and Dental Lab Industry," China's dental market lags behind other healthcare services and has largely been neglected in the past. In fact, CS Market Research reports that of China's 1.3 billion plus population, 50% of the adults and 70% of the children are estimated to have decayed tooth problems, and over 90% have periodontal disease. However, with increasing affluence of the Chinese population, as well as increasing attention towards personal care, demand for dental services has been growing. Market research firm Freedonia agrees, noting that demand for dental products in China is expected to climb to 21.5 billion RMB (US\$3.15 billion) by 2012, due primarily to escalating personal income levels and government programs promoting awareness of the benefits of good oral care.

Shortly before the end of the second quarter of 2009, we announced that we were refining our international marketing strategy to gain greater access to and penetration of the international dental markets for the *STA System*, *CompuDent* and related disposable hand pieces. The new sales strategy provides for increasing hands-on oversight and support of our existing international distribution network, while also attracting new distributors throughout Europe, Asia and South America. To assist in this endeavor, Milestone named Shaul Koren, founder and CEO of Istrodent Pty Ltd AB and one of our strongest marketing allies outside of the U.S., as our new International Sales Director. In collaboration with senior management, Mr. Koren will help manage product sales for us in all markets outside of North America.

**Segmented Sales Performance**

The following table shows a breakdown of our product sales (net), domestically and internationally, by product category, and the percentage of product sales (net) by each product category:

	Three Months Ended March 31,			
	2010		2009	
<b>DOMESTIC</b>				
<i>Instruments</i>	\$ 251,597	20.9%	\$ 526,413	35.6%
Handpieces	929,984	77.2%	931,810	63.0%
Other	23,391	1.9%	20,272	1.4%
Total Domestic	\$ 1,204,972	100.0%	\$ 1,478,495	100.0%
<b>INTERNATIONAL</b>				
<i>Instruments</i>	\$ 348,291	25.7%	\$ 265,539	36.6%
Handpieces	1,006,319	74.1%	463,402	63.8%
Other	2,996	0.2%	(2,617)	-0.4%
Total International	\$ 1,357,606	100.0%	\$ 726,324	100.0%
<b>DOMESTIC/INTERNATIONAL ANALYSIS</b>				
Domestic	\$ 1,204,972	47.0%	\$ 1,478,495	67.1%
International	1,357,606	53.0%	726,324	32.9%
Total Product Sales	\$ 2,562,578	100.0%	\$ 2,204,819	100.0%

The Company earned gross profits of 65% and 58% in for the three months ended March 31, 2010 and 2009, respectively. However, our revenues and related gross profits have not been sufficient to support our overhead, new product introduction and research and development expenses. Although the Company anticipates expending funds for research and development in 2010, these amounts will vary based on the operating results for each quarter. The Company has incurred operating losses since its inception. The Company is actively pursuing the generation of sustainable positive cash flows from operating activities through increases in revenue, assessment of current contracts and current negotiations and reduction in operating expenses.



**Table of Contents*****New Product Development and Commercialization Utilizing CompuFlo Technology***

Over the last decade, the drug delivery industry has evolved to become a key area in the development of value-added pharmaceutical products. According to market research firm Business Insights, The global market grew from \$15 billion to \$40 billion during 2000-2006 as companies increasingly turned to drug delivery technologies as a means of expanding product lifecycles, enhancing drug efficacy and maximizing revenues. Moreover, industry analysts agree that as patients live longer and are diagnosed with chronic and often debilitating ailments, the result will be a dramatic increase in self-administration of drug therapies in non-traditional settings for a number of conditions. This trend is creating an increased interest in routes of administration that are patient-friendly and cost-effective. It appears that pharma company decision makers are realizing that new drug product success no longer only depends on the medication itself, but also on achieving a patient-friendly form of delivery.

*CompuFlo* is a revolutionary new technology for injections. *CompuFlo* enables health care practitioners to monitor and precisely control pressure, rate and volume during all injections and can be used to inject all liquid medicament as well as anesthetics. *CompuFlo* can also be used to aspirate body fluids.

Negative side effects from the use of traditional hypodermic drug delivery injection systems are well documented in dental and medical literature and include risk of death, transient or permanent paralysis, pain, tissue damage and post-operative complications. The pain and tissue damage are a direct result of uncontrolled flow rates and pressures that are created during the administration of drug solutions into human tissue. While several technologies have been capable of controlling flow rate, the ability to accurately and precisely control pressure has been unobtainable until the development of *CompuFlo*.

Precisely controlling in-tissue pressure increases patient safety by reducing the risk of tissue damage and post-treatment pain related to excessive pressure that may occur during certain injections. Identification of the tissue, in which the needle tip is imbedded, is believed to be highly important in epidural injections, intra-articular injections and numerous organ, subcutaneous and intramuscular injections.

*CompuFlo*'s pressure sensing technology provides an objective tool that consistently and accurately identifies the epidural space by correctly detecting the difference in pressure between the ligamentum flavum and the extraligamentary tissue. In studies utilizing the *CompuFlo* technology, the epidural space has been correctly identified 100% of the time. Knowing the precise location of a needle during an epidural injection procedure provides a measure of safety not presently available to doctors using conventional syringes, who identify the epidural space by relying on the subjective perception of loss of resistance to air or saline.

In the absence of curative procedures, arthritis patients are obliged to endure painful multiple annual injections for a lifetime. Often these injections are not efficacious, because the doctor using a syringe failed to locate the intra-articular space or did not inject the appropriate volume of hyaluronic acid or other medicament into that space. The *CompuFlo* technology has been successful in administering viscous hyaluronic acid and other medicaments into the intra-articular space in both small and large joints using its computer-controlled pressure sensing capabilities in an independent animal study.

There are a number of injectable drugs routinely self-administered in a home or office setting using spring loaded automatic injection devices by people who suffer from long term chronic conditions such as Multiple Sclerosis and Rheumatoid Arthritis. The *CompuFlo* technology, using pressure sensing capabilities, can serve as a painless subcutaneous injection method for these self-administered drugs. A significant reduction in pain during delivery will have a positive impact on compliance, which is a major consideration when physicians are determining which drugs to prescribe.

The *CompuFlo* technology is patented and embedded in the *STA System* that is being sold worldwide in the dental market. *CompuFlo* technology has been tried and proven in human and animal studies, as well as by dentists in most parts of the world who are using the *STA System* in their practices.

On December 3, 2009, Milestone announced that it signed an Agreement of Intent with China National Medicines Corporation, Ltd. and Yichang Humanwell Pharmaceutical Co. Ltd., both incorporated in the People's Republic of China (PRC), to develop orthopedic and epidural drug delivery instruments utilizing *CompuFlo*. Milestone and its two PRC joint venture partners will establish a new joint venture entity for this purpose in 2010. The required initial funding for the new entity, estimated by the parties at \$1.4 million, will be provided by the two PRC companies,

although Milestone will determine the proposed uses of their contribution. The Company believes that this new joint venture represents a significant step forward in Milestone's efforts to have its innovative computer-controlled drug delivery technology adapted for medical usage worldwide.

**Table of Contents**

The agreement noted above has not been finalized as of March 31, 2010.

***Technology Rights***

The technology underlying our *SafetyWand* and *CompuFlo* technology and an improvement to the controls for *CompuDent* were developed by our Director of Clinical Affairs and assigned to us. We purchased this technology pursuant to an agreement dated January 1, 2005 for 43,424 shares of restricted common stock and \$145,000 in cash, paid on April 1, 2005. In addition, our Director of Clinical Affairs will receive additional contingent payments of 2.5% of our total sales of *CompuDent* and Wand Plus units using some of these technologies, and 5% of our total sales of *STA* units and hand pieces using some of our other technologies. If products produced by third parties use any of these technologies, under a license from Milestone, then he will also receive the corresponding percentage of the consideration received by us for such sale or license.

***Intellectual Property***

In August 2009, we were issued a Notice of Allowance by the U.S. Patent and Trademark Office for its U.S. patent application directed to the use of its disposable hand piece for fluid administration. Our award-winning hand piece is an instrument currently utilized in conjunction with the Company's *STA*, *CompuDent* and *CompuMed* systems.

In September 2009, the U.S. Patent and Trademark Office issued a Notice of Allowance for our U.S. patent application, titled Computer Controlled Drug Delivery System with Dynamic Pressure Sensing. This intellectual property represents one of the key technological components of our product development strategy relating to the development of advanced computer-controlled injection products for specific applications in the medical industry most notably intra-articular injections and epidurals.

Subsequent to the end of the first quarter of 2010, Milestone was issued a Notice of Allowance by the U.S. Patent and Trademark Office for its U.S. patent application, titled Self-Administration Injection System. Milestone's innovative computer-controlled drug delivery platform has been designed to reduce the anxiety and pain of self-administration of medications for the rapidly expanding home-use market. The computer-controlled self-administration system provides a less threatening, virtually painless means for patients to safely self-administer in-home a variety of injections.

To date, we have been awarded a total of 24 U.S. utility and design patents relating to our Computer-Controlled Local Anesthesia Delivery (C-CLAD) technologies.

**Summary of Significant Accounting Policies, Judgments and Estimates**

Our discussion and analysis of our financial condition and results of operations are based upon our financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an on-going basis, we evaluate our estimates, including those related to accounts receivable, inventories, stock-based compensation, and contingencies. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from those estimates under different assumptions or conditions.

***Accounts Receivable***

The realization of Accounts Receivable will have a significant impact on the Company. Consequently, Milestone estimates losses resulting from the inability of its customers to make payments for amounts billed. The collectability of outstanding amounts is continually assessed.

**Table of Contents***Inventories*

Inventory costing, obsolescence and physical control are significantly important to the on-going operation of the business. Inventories principally consist of finished goods and component parts stated at the lower of cost (first-in, first-out method) or market. Inventory quantities on hand are reviewed on a quarterly basis and a provision for excess and obsolete inventory is recorded if required based on past and expected future sales.

*Impairment of Long-Lived Assets*

The long lived assets of the Company, principally patents and trademarks are the base features of the business. We review long-lived assets for impairment whenever circumstances and situations change such that there is an indication that the carrying amounts may not be recoverable. The carrying value of the asset is evaluated in relation to the operating performance and future undiscounted cash flows of the underlying assets.

*Revenue Recognition*

Revenue from product sales is recognized net of discounts and allowances to our domestic distributors on the date of arrival of the goods at the customer's location as shipments are FOB destination. Shipments to our international distributor are FOB our warehouse and revenue is therefore recognized on shipment. In both cases the price to the buyer is fixed and the collectability is reasonably assured. Further, we have no obligation on these sales for any post installation, set-up or maintenance, these being the responsibility of the buyer. Customer acceptance is considered made at delivery. Our only obligation after sale is the normal commercial warranty against manufacturing defects if the alleged defective unit is returned within the warranty period.

**Results of Operations**

The consolidated results of operations for the three months ended March 31, 2010 compared to the same three month period in 2009 reflect our focus and development on the *STA System*, as well as continuing efforts on identifying collaborative partners for new product development utilizing our *CompuFlo* technology.

The following table sets forth for the periods presented statement of operations data as a percentage of revenues. The trends suggested by this table may not be indicative of future operating results.

	Three Months Ended March 31			
	2010		2009	
Products sales, net	\$ 2,562,578	100%	\$ 2,204,819	100%
Total revenue	2,562,578	100%	2,204,819	100%
Cost of products sold	900,712	35%	916,550	42%
Gross Profit	1,661,866	65%	1,288,269	58%
Selling, general and administrative expenses	1,541,702	60%	1,728,815	78%
Research and development expenses	88,464	3%	67,622	3%
Total operating expenses	1,630,166	63%	1,796,437	81%
Income (loss) from operations	31,700	1%	(508,168)	-23%
Other income (expense)	52,222	2%	(53,474)	-2%
Net income (loss)	\$ 83,922	3%	\$ (561,642)	-25%

***Three months ended March 31, 2010 compared to three months ended March 31, 2009***

Total revenues for the three months ended March 31, 2010 and 2009 were \$2,562,578 and \$2,204,819, respectively. The total increase in product sales of \$357,759 or 16.2%, in 2010 over 2009 is primarily the result of increased

handpiece growth. Domestic *STA* unit sales decreased \$279,946, in 2010 over 2009. This decrease is due to a lower demand of inventory levels at the distributor level and lower demand in the domestic market. In the domestic market, handpiece sales decreased by \$1,826 or, (.02%). On the international front, unit sales increased in the first quarter of 2010 over 2009 by \$82,752 or 31.2% principally due to increased market penetration for the *STA System*. Internationally, handpieces also increased, rising \$542,917, 117.2% due to an increase in *STA* handpieces sales to China.

**Table of Contents**

Cost of products sold for the three months ended March 31, 2010 and 2009 were \$900,712 and \$916,550, respectively. For the three months ended March 31, 2010, Milestone generated a gross profit of \$1,661,866, or 65%, as compared to a gross profit of \$1,288,269, or 58%, for the three months ended March 31, 2009. The increase in gross profit percentage is due to the handpiece sales at a higher margin. The total increase in gross profit dollars of \$373,597 is due to an increase in sales volume and higher handpiece margins.

Selling, general and administrative expenses for the three months ended March 31, 2010 and 2009 were \$1,541,702 and \$1,728,815, respectively. The \$187,113, or 10.8%, net decrease is described in the following sections of this report. Although the Company continues to reduce expenses, the 2010 first quarter decrease was due to a reduction in marketing expenses of \$284,000. Decreases in design cost by \$63,000; advertising media by \$80,000 and market research study by \$152,000, offset by small increases in other marketing expenses. The sales expense decreased by \$42,000, principally due to decreased salesmen in the field by \$28,000 and a decrease in third party sales representative commission of \$14,000 corresponding to a decrease in domestic sales. Salaries decreased by \$89,000 in the first quarter of 2010, principally due to decrease in salesman salaries of \$114,000, offset by an increase in Chairman and CEO salaries of \$10,000. Other variable expenses increased by \$227,000. \$138,000 of the increase is due to the accrual of international sales commission, as part of the company's agreement with the international distributor. Royalty fees increased by \$44,000, principally due to increased handpieces business. Also, stock based compensation expenses increased by \$65,000 in the first quarter of 2010, due to a forfeiting of options in the first quarter of 2009 and an increase in stock option accruals in 2009 amortized into 2010 and future years.

Research and development expenses for the three months ended March 31, 2010 and 2009 were \$88,464 and \$67,622, respectively. The increase of \$20,842 was attributable to adjusting STA instruments for the China market.

The income from operations for the three months ended March 31, 2010 was \$31,700 and the loss from operations for the three months ended March 31, 2009 was \$508,168. The \$539,868, or 106%, decrease is explained above.

Interest income of \$348 was earned for the three months ended March 31, 2010 compared with \$1,804 for the same period in 2009. Interest income declined due to lower cash balances and lower interest rates.

Interest expense of \$9,343 and amortization of debt issuance was \$699 relating to the conversion of the \$1.3 million line of credit into common stock in December 2009 was charged for the three months ended March 31, 2010, compared to \$47,403 and \$7,875, respectively, for the same period in 2009.

Other Income includes \$61,916 in 2010. This represents the balance of the sale of tax credits under the New Jersey Technology Business Tax Certificate Program.

For the reasons explained above, net income for the three months ended March 31, 2010 was \$83,922 as compared to a net loss of \$561,642 for the three months ended March 31, 2009. The \$645,564, or 115%, decrease in net loss is primarily a result of the increase in sales and gross margin dollars.

**Liquidity and Capital Resources**

As of March 31, 2010, we had cash and cash equivalents of \$1,218,027 and working capital of \$1,936,993. Milestone incurred net income of \$83,922 and a net loss of \$561,642 for the three months ended March 31, 2010 and 2009, respectively. There was a positive cash flow from operating activities for the three months ended March 31, 2010 of \$248,437 and a negative cash flow from operating activities of \$200,257 for the three months ended March 31, 2009.



**Table of Contents**

For the three months ended March 31, 2010, our net cash provided by operating activities was \$248,437. This was attributable primarily to a net income of \$83,922 adjusted for noncash items of \$164,478 principally common stock and options issued for compensation, consulting and vendor services and changes in operating assets and liabilities of \$37.

The Company's increase in current asset of \$1,039,906 is primarily due to a build up of inventory and advance to contract manufacturer for the 12,000 STA System units purchase order for China. This increase is anticipated to continue in order to deliver the units on time and complete per the purchase order.

On a related basis, current liabilities increased by \$728,986, of which \$501,829 relates to the advance to contract manufactures. Both the advance and payable to contract manufacturer are expected to continue to exist until the 12,000 unit order is delivered to the distributor.

For the three months ended March 31, 2010, Milestone used \$59,539 in investing activities. This was primarily attributable to \$39,695 of legal fees related to new patent application. Capital expenditures of \$19,844 were primarily for the leasehold improvement.

As of March 31, 2010, Milestone had recorded on the Balance Sheet a long term note payable of \$450,000 from a stockholder.

The Company is actively pursuing the generation of sustainable positive cash flows from operating activities through an increase in revenue based upon management's assessment of present contracts and current negotiations and reductions in operating expenses. If the Company is unable to maintain positive cash flows from its operating activities it will need to raise additional capital. There is no assurance that the Company will be able to achieve sustainable positive operating cash flows or that traditional capital can be raised on terms and conditions satisfactory to the Company. If additional capital is required and cannot be raised, then the Company would be forced to curtail its development activities, reduce marketing expenses for existing dental products or adopt other cost saving measures, any of which might negatively affect the Company's operating results.

The Company's historical losses raises substantial doubt about its ability to continue as a going concern. The accompanying financial statements do not include any adjustment that might result from the outcome of this uncertainty.

**Item 3. Quantitative and Qualitative Disclosures about Market Risk**

As a smaller reporting company we are not required to provide the information required by this Item.

**Item 4. Controls and Procedures**

The Company's management, including the Chief Executive Officer and Chief Financial Officer, have evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) as of the end of the period covered by this report. Based upon that evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded that the disclosure controls and procedures as of March 31, 2010 are effective to ensure that information required to be disclosed in the reports the Company files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and that such information is accumulated and communicated to the Company's management, including the Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding disclosure.

There were no changes in the Company's internal control over financial reporting identified in connection with the evaluation that occurred during the Company's last fiscal quarter that have materially affected, or that are reasonably likely to materially affect, the Company's internal controls over financial reporting.

**Table of Contents**

**PART II OTHER INFORMATION**

**ITEM 1. LEGAL PROCEEDINGS**

NONE

**ITEM 1A. RISK FACTORS**

**SMALLER REPORTING COMPANY S ARE NOT REQUIRED TO RESPOND TO THIS ITEM**

The following factors may affect the growth and profitability of Milestone and should be considered by any prospective purchaser or current holder of Milestone s securities:

We have a history of losses from operations. **Continuing losses could exhaust our capital resources and force us to discontinue operations.**

For the three months ended March 31, 2010 and 2009 our revenues were approximately \$2.6 million and \$2.2 million, respectively. In addition, we have had income for March 31, 2010 of \$84,000 and a loss of \$562,000 for the three months ended March 31, 2010 and 2009, respectively. At March 31, 2010, the Company had an accumulated deficit of approximately \$58.7 million. At March 31, 2010, the Company had cash and cash equivalents \$1,218,027 and working capital of \$1,936,993. The Company borrowed \$450,000 in 2008 from the same shareholder, with a due date of January 2009. This borrowing was refinanced at December 31, 2008 and the due date was extended to June 30, 2012. Additionally, the Company is actively pursuing the generation of positive cash flows from operating activities through increases in revenues based upon management s assessment of present contracts and current negotiations and reductions in operating expenses. If the Company is unable to generate positive cash flows from its operating activities it will need to raise additional capital. There is no assurance that the Company will be able to achieve positive operating cash flows or that additional capital can be raised on the terms and conditions satisfactory to the Company, if at all. If additional capital is required and it cannot be raised, then the Company would be forced to curtail its development activities, reduce marketing expenses for existing dental products or adopt other cost savings measures, any of which might negatively affect the Company s operating results.

The Company s recurring historical losses raise substantial doubt about its ability to continue as a going concern.

There are no other changes to our risk factors from those disclosed in our Annual Report on Form 10-K for the year ended December 31, 2009.

**Table of Contents****ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

## Recent Sales of Unregistered Securities

In the quarter ended March 31, 2010, Milestone issued total 30,511 shares valued at \$50,500 as follows:

	Shares	\$
Shares issued for Employee Compensation	4,054	\$ 7,500
Shares issued for services	26,457	43,000
	30,511	\$ 50,500

These issuances were exempt from registration pursuant to Section 4(2) of the Securities Act of 1933, as amended (the Act ) and a legend restricting the sale, transfer, or other disposition of these shares other than in compliance with the Act was imprinted on stock certificates evidencing the shares.

**ITEM 3. DEFAULT UPON SENIOR SECURITIES**

NONE

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

NONE

**ITEM 5. OTHER INFORMATION**

NONE

**ITEM 6. EXHIBITS**

The following exhibits are filed herewith:

- 31.1 Chief Executive Officer Certification pursuant to section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Chief Financial Officer Certification pursuant to section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1 Chief Executive Officer Certification pursuant to section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2 Chief Financial Officer Certification pursuant to section 906 of the Sarbanes-Oxley Act of 2002.

**Table of Contents**

**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.

**MILESTONE SCIENTIFIC INC.**

/s/ Leonard Osser  
Leonard Osser  
Chief Executive Officer

/s/ Joseph D Agostino  
Joseph D Agostino  
Chief Financial Officer

Date: May 12, 2010