

MILESTONE SCIENTIFIC INC.

Form 10-Q

May 10, 2012

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**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, 2012

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)

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**Delaware** **13-3545623**  
(State or other jurisdiction of **(I.R.S. Employer**  
**incorporation or organization)** **Identification No.)**  
**220 South Orange Avenue, Livingston, New Jersey 07039**  
  
(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 10, 2012, the Issuer had a total of 15,693,678 shares of Common Stock, \$.001 par value outstanding.

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**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 of 1933, as amended and Section 21E of the Securities Exchange Act of 1934, as amended (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.*

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## MILESTONE SCIENTIFIC INC.

## CONDENSED BALANCE SHEETS

|   | March 31, 2012<br>(Unaudited) | December 31, 2011   |
|---|-------------------------------|---------------------|
| <b><u>ASSETS</u></b>  |                               |                     |
| Current Assets:   |                               |                     |
| Cash and cash equivalents   | \$ 112,986                    | \$ 96,324           |
| Accounts receivable, net of allowance for doubtful accounts of \$180,503 in 2012 and \$182,880 in 2011  | 1,069,454                     | 1,154,459           |
| Inventories   | 589,173                       | 790,494             |
| Advances to contract manufacturer, current  | 940,318                       | 952,558             |
| Prepaid expenses and other current assets   | 297,231                       | 304,180             |
| <b>Total current assets</b>   | <b>3,009,162</b>              | <b>3,298,015</b>    |
| Accounts receivable-long term, net of allowance for doubtful accounts of \$332,052 as of March 31, 2012 and \$372,000 as of December 31, 2011   | 230,660                       | 261,256             |
| Advances to contract manufacturer, non current  | 2,358,107                     | 2,453,948           |
| Investment in distributor, at cost  | 76,319                        | 76,319              |
| Investment in Medical Joint Venture   | 46,084                        | 124,179             |
| Furniture, Fixtures & Equipment net of accumulated depreciation of \$450,155 as of March 31, 2012 and \$446,484 as of December 31, 2011   | 47,073                        | 52,309              |
| Patents, net of accumulated amortization of \$363,159 as of March 31, 2012 and \$344,238 as of December 31, 2011  | 689,587                       | 698,357             |
| Other assets  | 20,316                        | 27,819              |
| <b>Total assets</b>   | <b>\$ 6,477,308</b>           | <b>\$ 6,992,202</b> |
| <b><u>LIABILITIES AND STOCKHOLDERS' EQUITY</u></b>  |                               |                     |
| Current Liabilities:  |                               |                     |
| Accounts payable  | \$ 3,407,006                  | \$ 3,931,531        |
| Accrued expenses and other payables   | 766,259                       | 677,419             |
| <b>Total current liabilities</b>  | <b>4,173,265</b>              | <b>4,608,950</b>    |
| Long-term Liabilities:  |                               |                     |
| Notes Payable-net of discount of \$1,532 and \$3,065, respectively  | 448,468                       | 446,935             |
| <b>Total long-term liabilities</b>  | <b>448,468</b>                | <b>446,935</b>      |
| Commitments and Contingencies   |                               |                     |
| Stockholders' Equity  |                               |                     |
| Common stock, par value \$.001; authorized 50,000,000 shares; 15,693,678 shares issued 1,568,124 shares to be issued and 15,660,345 shares outstanding as of March 31, 2012; 15,556,878 shares issued, 1,501,457 shares to be issued, and 15,523,545 shares outstanding as of December 31, 2011 | 17,262                        | 17,058              |
| Additional paid-in capital  | 63,965,072                    | 63,690,837          |
| Accumulated deficit   | (61,215,243)                  | (60,860,062)        |
| Treasury stock, at cost, 33,333 shares  | (911,516)                     | (911,516)           |
| <b>Total stockholders' equity</b>   | <b>1,855,575</b>              | <b>1,936,317</b>    |

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|  |              |              |
|--|--------------|--------------|
| Total liabilities and stockholders' equity | \$ 6,477,308 | \$ 6,992,202 |
|--|--------------|--------------|

See Notes to Condensed Financial Statements

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## MILESTONE SCIENTIFIC INC.

## CONDENSED STATEMENTS OF OPERATIONS

(Unaudited)

|  | Three Months Ended March 31, |              |
|--|------------------------------|--------------|
|  | 2012                         | 2011         |
| Product sales, net   | \$ 1,921,358                 | \$ 2,425,988 |
| Cost of products sold  | 662,946                      | 879,588      |
| Gross profit   | 1,258,412                    | 1,546,400    |
| Selling, general and administrative expenses                             | 1,452,252                    | 1,624,255    |
| Research and development expenses  | 39,311                       | 43,718       |
| Total operating expenses   | 1,491,563                    | 1,667,973    |
| Loss from operations   | (233,151)                    | (121,573)    |
| Other expenses   |                              |              |
| Interest expense   | (42,403)                     | (19,372)     |
| Interest-Amortization of debt issuance                                   | (1,532)                      | (699)        |
| Loss on Earning from Joint Venture                                       | (78,095)                     |              |
| Total other expenses   | (122,030)                    | (20,071)     |
| Net loss applicable to common stockholders                               | \$ (355,181)                 | \$ (141,644) |
| Net loss per share applicable to common stockholders - Basic and diluted | \$ (0.02)                    | \$ (0.01)    |
| Weighted average shares outstanding and to be issued - Basic and diluted | 15,338,367                   | 14,875,541   |

See Notes to Condensed Financial Statements

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## MILESTONE SCIENTIFIC INC.

## CONDENSED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

THREE MONTHS ENDED MARCH 31, 2012

(Unaudited)

|   | Common Stock |           | Additional<br>Paid-in<br>Capital | Accumulated<br>Deficit | Treasury<br>Stock | Total        |
|---|--------------|-----------|----------------------------------|------------------------|-------------------|--------------|
|   | Shares       | Amount    |                                  |                        |                   |              |
| Balance, January 1, 2012  | 17,058,335   | \$ 17,058 | \$ 63,690,837                    | \$ (60,860,062)        | \$ (911,516)      | \$ 1,936,317 |
| Options issued to employees and consultants                                       |              |           | 62,439                           |                        |                   | 62,439       |
| Common stock issued for payment of consulting services to settle accounts payable | 8,824        | 9         | 4,491                            |                        |                   | 4,500        |
| Common stock issued for payment of employee compensation                          | 20,833       | 21        | 7,479                            |                        |                   | 7,500        |
| Sale of Common Stock  | 107,143      | 107       | 149,893                          |                        |                   | 150,000      |
| Common stock to be issued for payment of bonus compensation                       | 66,667       | 67        | 49,933                           |                        |                   | 50,000       |
| Net loss  |              |           |                                  | (355,181)              |                   | (355,181)    |
| Balance, March 31, 2012   | 17,261,802   | \$ 17,262 | \$ 63,965,072                    | \$ (61,215,243)        | \$ (911,516)      | \$ 1,855,575 |

See Notes to Condensed Financial Statements



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## MILESTONE SCIENTIFIC INC.

## CONDENSED STATEMENTS OF CASH FLOWS (Unaudited)

|  | THREE MONTHS ENDED MARCH 31, |              |
|--|------------------------------|--------------|
|  | 2012                         | 2011         |
| Cash flows from operating activities:  |                              |              |
| Net loss   | \$ (355,181)                 | \$ (141,644) |
| Adjustments to reconcile net loss net cash used in operating activities:         |                              |              |
| Depreciation expense   | 5,236                        | 5,287        |
| Amortization of patents  | 18,921                       | 21,305       |
| Amortization of debt discount  | 1,532                        | 699          |
| Common stock and options issued for compensation, consulting and vendor services | 41,439                       | 72,258       |
| Bad debt expense   | (42,326)                     | (12,000)     |
| Loss on Earning on Medical Joint Venture   | 78,095                       |              |
| Changes in operating assets and liabilities:                                     |                              |              |
| Decrease (Increase) in accounts receivable                                       | 157,927                      | (483,974)    |
| Decrease in inventories  | 201,321                      | 136,239      |
| Decrease (Increase) to advances to contract manufacturer                         | 108,081                      | (512,061)    |
| Decrease to prepaid expenses and other current assets                            | 6,949                        | 4,161        |
| Decrease in other assets   | 7,503                        | 16,669       |
| (Decrease) Increase in accounts payable  | (524,525)                    | 272,193      |
| Increase in accrued expenses and other payables                                  | 171,840                      | 138,467      |
| Net cash used in operating activities  | (123,188)                    | (482,401)    |
| Cash flows from investing activities:  |                              |              |
| Purchases of property and equipment  |                              | (2,254)      |
| Payment for patents rights   | (10,150)                     | (12,164)     |
| Net cash used in investing activities  | (10,150)                     | (14,418)     |
| Cash flows from financing activities:  |                              |              |
| Proceeds from exercise of stock options  |                              | 25,000       |
| Proceeds from common stock   | 150,000                      |              |
| Net cash provided by financing activities  | 150,000                      | 25,000       |
| NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS                             | 16,662                       | (471,819)    |
| Cash and cash equivalents at beginning of period                                 | 96,324                       | 627,082      |
| Cash and cash equivalents at end of period                                       | \$ 112,986                   | \$ 155,263   |
| Supplemental disclosure of cash flow information:                                |                              |              |
| Interest paid in cash  | \$                           | \$ 23,000    |

See Notes to Condensed Financial Statements

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**MILESTONE SCIENTIFIC INC.**

**NOTES TO CONDENSED FINANCIAL STATEMENTS**

**(UNAUDITED)**

**March 31, 2012**

**ORGANIZATION, BUSINESS AND BASIS OF PRESENTATION**

Milestone Scientific Inc. ( Milestone or the Company ) was incorporated in the State of Delaware in August 1989.

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, 2011 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, 2012 and the results of its operations for the three months then ended.

The results reported for the three months ended March 31, 2012 are not necessarily indicative of the results of operations which may be expected for a full year.

Milestone had a negative cash flow from operating activities for the three months ending March 31, 2012 and 2011 of \$123,188 and \$482,401, respectively. At March 31, 2012, Milestone had cash and cash equivalents of \$112,986 and a negative working capital of \$1,164,103. Milestone borrowed \$450,000 in 2008 from a shareholder, with a due date of January 2009. This borrowing was refinanced at December 31, 2008 and June 3, 2011 and the due date was extended to July 31, 2013. Milestone is actively pursuing the generation 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. As of March 31, 2012, Milestone does not expect to have sufficient cash reserves to meet all of its anticipated obligations for the next twelve months. Milestone may require the need for a higher level of marketing and sales efforts that at present it cannot fund. If Milestone is unable to generate positive cash flows from its operating activities it will need to raise additional capital. There is no assurance that Milestone will be able to achieve positive operating cash flows or that traditional capital can be raised on terms and conditions satisfactory to Milestone, if at all. If positive cash flow cannot be achieved or if additional capital is required and it cannot be raised, then Milestone 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 Milestone s operating results.

Milestone s recurring losses raise 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**

**Recent Accounting Pronouncements**

In May 2011, the FASB issued ASU No. 2011-04, Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs , which is intended to improve comparability of fair value measurements presented and disclosed in financial statements prepared in accordance with U.S. generally accepted accounting principles and International Financial Reporting Standards. This standard clarifies the application of existing fair value measurement requirements including (1) the application of the highest and best use valuation premise, (2) the methodology to measure the fair value of an instrument classified in a reporting entity s shareholders equity, (3) disclosure requirements for quantitative information on Level 3 fair value measurements and (4) guidance on measuring the fair value of financial instruments managed within a portfolio. In addition, the standard requires additional disclosures of the sensitivity of fair value to changes in unobservable inputs for Level 3 securities. This standard is effective for interim and annual reporting periods ending on or after December 15, 2011. The adoption of this guidance does not currently impact Milestone s financial statements.



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In June 2011, the FASB issued ASU No. 2011-05, Presentation of Comprehensive Income, which requires that comprehensive income be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements. The standard also requires entities to disclose on the face of the financial statements reclassification adjustments for items that are reclassified from other comprehensive income to net earnings. This standard no longer allows companies to present components of other comprehensive income only in the statement of equity. This standard is effective for interim and annual reporting periods beginning after December 15, 2011. The adoption of this guidance does not have a significant impact on Milestone's financial statements other than the prescribed change in presentation.

In September 2011, the FASB amended its guidance for goodwill impairment testing. The amendment allows entities to first assess qualitative factors in determining whether or not the fair value of a reporting unit exceeds its carrying value. If an entity concludes from this qualitative assessment that it is more likely than not that the fair value of a reporting unit exceeds its carrying value, then performing a two-step impairment test is unnecessary. This standard is effective for fiscal years beginning after December 15, 2011 and does not currently have an impact on Milestone's 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 2012 and 2011, the assumed effects of the exercise of outstanding stock options and warrants, and the conversion of convertible debt were not included in the calculation as their effect would have been anti-dilutive. Such outstanding options and warrants totaled 1,607,614 and 1,318,503 at March 31, 2012 and 2011, respectively.

### **NOTE 3 ACCOUNTS RECEIVABLE CURRENT AND LONG TERM**

Milestone sells a significant amount of its product on credit terms to its major distributors. Milestone estimates losses from the inability of its customers to make payments on amounts billed. A majority of credit sales are due within ninety days from invoicing. In 2010, Milestone shipped a significant order to a major international distributor. At the time of the shipment, regulatory approval to sell the product in the respective country was in process. Obtaining such regulatory approval was not a condition of the purchase order and sale to the distributor. The regulatory approval has been delayed and as such the customer has not paid the full amount of the invoiced shipment. Milestone is receiving periodic payments from the international distributor. Based on the periodic payment plan prepared by the international distributor, Milestone has recorded a long term net accounts receivable of \$303,582 as of March 31, 2012. The current portion of this net accounts receivable is approximately \$183,000. Milestone reserved \$474,000 of the total accounts receivable from this distributor as of March 31, 2012.

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In March 2011, Milestone entered into an agreement with a People's Republic of China ( PRC ) entity (Beijing 3H) to establish a Medical Joint Venture entity in the PRC to develop intra-articular and epidural drug delivery instruments utilizing Milestone's patented *CompuFlo* technology. The PRC entity agreed to contribute up to \$1.5 million to this Medical Joint Venture entity, based on progress reports from Milestone and subject to refund if the instruments are not developed because of technological problems within 30 months of the inception date. Milestone evaluates the technological feasibility of the products to be developed using the CompuFlo technology periodically and at every reporting date, to establish if circumstances indicate that the technology continues to be feasible. Based on the available evidence Milestone concluded that the contingency associated with the return of capital to Beijing 3H would be remote as of March 31, 2012 and accordingly no amounts have been accrued in the accompanying financial statements relating to this contingency. Milestone, with the consent of Beijing 3H, organized a domestic research and development corporation to which its Medical Joint Venture partner completed a capital contribution of \$500,000 to the US research and development corporation. The Medical Joint Venture is owned fifty percent by the Beijing 3H and fifty percent by Milestone. Milestone contributed an exclusive worldwide royalty-free license to use CompuFlo technology to the Medical Joint Venture which has been valued at approximately \$245,000 and has accounted for its investment in the Medical Joint Venture using the equity method of accounting.

Milestone will have distribution responsibility in the U.S. and Canada and the rest of the world, while Beijing 3H will distribute products exclusively in the PRC, Macao, Hong Kong and other regions of Asia. As of March 31, 2012, Beijing 3H did contribute \$1,000,000 to the Medical Joint Venture and the development project has been initiated. Additionally, in April 2012, the final payment of \$500,000, (total \$1.5 million received), was made and received by Milestone, by the Joint Venture partners.

The Medical Joint Venture reimbursed Milestone approximately \$105,000 for previously incurred research and development expenses, which has been included as a credit to research and development expenses in the accompanying statement of operations in March 2011. The Medical Joint Venture's expenses for the quarter ending March 31, 2012 were approximately \$156,000 of which Milestone's share of approximately \$78,000 has been included in the accompanying statement of operations as the proportionate share of losses from the Medical Joint Venture. Further, Milestone was authorized by the Medical Joint Venture to manage and oversee the development of the two products for the Medical Joint Venture. In connection with this, Milestone also entered into an agreement with a significant vendor to develop the two instruments included in the Medical Joint Venture.

**NOTE 5 STOCK OPTION PLANS**

A summary of option activity for employees under the plans and changes during the three months ended March 31, 2012, is presented below:

|                              | Number<br>of<br>Options | Weighted<br>Averaged<br>Exercise<br>Price | Weighted<br>Average<br>Remaining<br>Contractual<br>Life<br>(Years) | Aggregate<br>Intrinsic<br>Options<br>Value |
|------------------------------|-------------------------|---|--|--|
| Outstanding, January 1, 2012 | 1,139,282               | \$ 0.89                                   | 3.62   | \$ 1,000                                   |
| Granted                      | 133,333                 | 0.75                                      | 4.78   |  |
| Exercised                    |                         |   |  |  |
| Forfeited or expired         |                         |   |  |  |
| Outstanding, March 31, 2012  | 1,272,615               | 0.88                                      | 3.52   | 12,778                                     |
| Exercisable, March 31, 2012  | 684,291                 | 0.88                                      | 2.68   | 5,333                                      |

Milestone recognizes compensation expense on a straight line basis over the requisite service period. During the three months ended March 31, 2012, Milestone recognized \$28,449 of total compensation cost. As of March 31, 2012, there was \$191,382 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.

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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 and changes during the three months ended March 31, 2012, is presented below:

|                              | Number<br>of<br>Options | Weighted<br>Averaged<br>Exercise<br>Price | Weighted<br>Average<br>Remaining<br>Contractual<br>Life<br>(Years) | Aggregate<br>Intrinsic<br>Options<br>Value |
|------------------------------|-------------------------|---|--|--|
| Outstanding, January 1, 2012 | 414,999                 | 1.87                                      | 1.43   | 12,000                                     |
| Granted                      |                         |   |  |  |
| Exercised                    |                         |   |  |  |
| Forfeited or expired         | 125,000                 | 1.77                                      |  |  |
| Outstanding, March 31, 2012  | 289,999                 | 1.91                                      | 1.76   | 16,000                                     |
| Exercisable, March 31, 2012  | 274,443                 | 1.96                                      | 1.69   | 16,000                                     |

During the three months ended March 31, 2012, Milestone recognized \$990 of expenses related to non-employee options that vested during the year. The total unrecognized compensation cost related to non-vested options was \$1,305 as of March 31, 2012. A six percent rate of forfeitures is assumed in the calculation of the compensation cost for the 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.

**NOTE 6 CONCENTRATION OF CREDIT RISK**

Milestone's financial instruments that are exposed to concentrations of credit risk consist primarily of cash and trade accounts receivable, and advances to contract manufacturer. 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 with a vendor to supply Milestone with 5,000 instruments of *CompuDent*, (722 remaining on the purchase order) and 12,000 *STA Instruments* (9,219 remaining on the purchase order). As part of these agreements, Milestone has advanced approximately \$3,298,000 and \$3,407,000 to the vendor for purchase of materials at March 31, 2012 and December 31, 2011, respectively. 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.

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 has provided a reserve that it believes is sufficient record accounts receivable at net realizable value as of March 31, 2012 and December 31, 2011.

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**NOTE 7 ADVANCES TO CONTRACT MANUFACTURER**

The net advances to contract manufacturer represent funding of future *STA*, *CompuDent* and *Wand Plus* inventory purchases. The balance of the net advances as of March 31, 2012 and December 31, 2011 is \$3,298,425 and \$3,406,506, respectively. The portion of this advance expected to be utilized in the next twelve months is classified as current asset, with the remainder classified as non-current asset. Milestone has an outstanding accounts payable of \$1,494,025 and \$1,752,000 at March 31, 2012 and December 31, 2011, respectively to the contract manufacturer specifically related to the advances. Milestone is making monthly payments to the contract manufacturer.

**NOTE 8 LINE OF CREDIT AND NOTE PAYABLE**

Milestone had secured a \$1.3 million line of credit from a stockholder which was converted into shares of Milestone's common stock in December 2009. Milestone borrowed an additional \$450,000 from the same shareholder in 2008. The loan was originally a short term loan with a maturity date of January 19, 2009. In December 2008 and again on June 30, 2011, this loan was refinanced with the shareholder and the due date has been extended to July 13, 2013. The loan accrues 12% per annum, interest compounds quarterly, and interest and principal is due at the maturity. Further, the lender was granted warrants exercisable for five years at the price of \$0.32 per share for 45,000 shares of common stock. The warrants were valued using the Black-Scholes model and are reflected as a discount against the debt. At March 31, 2012, the discount was \$1,532.

Interest expense for the three months ended March 31, 2012 and 2011 was \$20,839 and \$19,386, respectively. Accrued interest payable, (included in accrued expenses payable), related to these lines of credit were \$290,386 and \$269,547 at March 31, 2012 and December 31, 2011, respectively. The charge for amortization of Debt Discount related to the outstanding line of credit is \$1,532 and \$699 for the three months ended March 31, 2012 and March 31, 2011, respectively.

Additionally, Milestone has an agreement with the manufacturer of the *CompuDent* and *STA* instruments to accrue interest on their outstanding accounts payable balance. For the quarter ending March 31, 2012, the interest expense for this indebtedness was \$20,901.

**NOTE 9 STOCK ISSUANCE**

During the three months ended March 31, 2012, Milestone issued 107,143 shares of common stock in an offshore offering, at \$1.40 per share and raised gross proceeds of \$150,000. Milestone issued 8,824 shares of common stock valued at \$4,500 to one party in connection with the consulting services provided on the sale of common stock. Additionally, 20,833 shares of common stock valued at \$7,500 were issued for payment of employee compensation in the first quarter ending March 31, 2012.

**NOTE 10 RELATED PARTY**

A five percent shareholder of Milestone is also a shareholder of a major supplier of handpieces to Milestone. In addition, he is an investor in the PRC entity, Beijing 3H, which entered into a Medical Joint Venture agreement with Milestone.

Milestone purchased \$269,616 and \$419,726 from the supplier for the three months ended March 31, 2012 and 2011, respectively. Milestone owed \$956,663 and \$1,167,077 to this supplier as of March 31, 2012 and 2011, respectively.

**NOTE 11 SIGNIFICANT CUSTOMERS**

Milestone had two customers (distributors) that had approximately 35% and 43% of its net product sales for three months ended March 31, 2012 and 2011, respectively. Milestone had accounts receivable, current and long term, for three customers that amounted to \$686,498 and \$917,575 representing 53% and 65% of gross accounts receivable as of March 31, 2012 and December 31, 2011, respectively.

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

|               | Three Months Ended March 31, |              |
|---------------|------------------------------|--------------|
|               | 2012                         | 2011         |
| Instruments   | \$ 568,570                   | \$ 810,998   |
| Handpieces    | 1,309,980                    | 1,580,325    |
| Other         | 42,808                       | 34,665       |
|               | \$ 1,921,358                 | \$ 2,425,988 |
| United States | \$ 870,490                   | \$ 1,312,566 |
| Canada        | 143,510                      | 153,124      |
| Other Foreign | 907,358                      | 960,298      |
|               | \$ 1,921,358                 | \$ 2,425,988 |

**NOTE 12 COMMITMENTS AND OTHER***Contract Manufacturing Arrangement*

Milestone has informal arrangements for the manufacture of its products. *STA*, single tooth anesthesia, *CompuDent* and *CompuMed* instruments are manufactured for Milestone by Tricor Systems, Inc. pursuant to specific purchase orders. The *STA* and *The Wand* Handpiece with Needle is supplied to Milestone by a contractor in the United States, which arranges for its manufacture 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.

The technology underlying the *SafetyWand* and *CompuFlo*, and an improvement to the controls for *CompuDent* were developed by the Director of Clinical Affairs and assigned to us. Milestone purchased this technology pursuant to an agreement dated January 1, 2005. The Director will receive additional payments of 2.5% of the total sales of products using certain of these technologies, and 5% of the total sales of products using certain other of the technologies. In addition, the Director is granted, pursuant to the agreement, an option to purchase, at fair market value on the date of the grant, 8,333 shares of the common stock upon the issuance of each additional patent relating to these technologies. If products produced by third parties use any of these technologies (under license from us) then the Director will receive the corresponding percentage of the consideration received by Milestone for such sale or license. Milestone expensed the Director's royalty fees of \$70,122 and \$86,532 for the three months ended March 31, 2012 and 2011, respectively. Additionally, Milestone expensed consulting fees to the Director of \$39,000 for the three months ended March 31, 2012 and 2011.

In January 2010, Milestone issued a purchase order to Tricor Instruments for the purchase of 12,000 *STA Instruments* to be delivered over the next three years. The purchase order is for \$5,261,640. Milestone will be required to make periodic payments over the next eighteen months to purchase the parts necessary to complete this production. As of March 31, 2012, Milestone's production and sales of instruments to this commitment has been delayed. Consequently, advances to contractor has been classified as current and long term at March 31, 2012.

*Other Events*

Milestone entered into a finder's agreements with selected individuals for the purpose of identifying and closing medical device Medical Joint Venture. As of March 31, 2012, none of the potential agreements has been consummated and therefore no expenses have been incurred.



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### **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 Securities Exchange Act of 1934, as amended (the Exchange Act), that involve risks and uncertainties. Our actual results may differ materially from those anticipated in these forward-looking statements.

#### **OVERVIEW**

In 2012, Milestone remains 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 Instrument (STA Instrument)*; 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 Instrument Awards*   *Industry Recognition***

In July 2010, the *STA Instrument* was recognized as one of *Dentistry Today's* Top 100 Products for the third consecutive year. This honor is significant because it is unprecedented in Milestone's history and serves to support our objective of establishing our instrument as the new global standard of care for painless dental injections.

#### ***STA Instrument Growth***

Since its market introduction in early 2007, the *STA Instrument* and a prior computerized controlled local anesthesia delivery product, have been used to deliver over 48 million 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 Instrument* 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 Instrument* is perhaps best summarized by Dr. Joe Blaes, who wrote in the December 2008 edition of *Dental Economics*, "I tried the *STA Instrument* and my patients absolutely love it. This is a no brainer - go get one ASAP!"

#### ***Global Distribution Network***

##### **North America Market**

The *STA Instrument* 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, Darby Dental Supply, Dental Health Products, Goetze Dental, Iowa Dental, Nashville Dental and Newark Dental. In Canada, our independent distributors include Henry Schein Canada, Patterson Dental Canada, Hanasmed, Medclub, and Specialty Dental.

In the third quarter of 2010, Milestone added a Domestic Sales Director to refocus our attention on the USA and Canadian markets. The mission of the Domestic Sales Director is to grow our business through marketing our *STA Instrument* to Dental Group Practices, as well as individual dental practitioners. Through direct marketing to the Dental Group Practices and utilizing a group of independent hygienists, the instrument and handpiece sales should increase substantially in the future. Milestone signed on its first Group Dental Practice in January 2011, Towncare Dental.

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### **International Market**

On the global front, we also have granted exclusive marketing and distribution rights for the *STA Instrument* to select dental suppliers in various international regions in Asia, Africa, South America and Europe. They include Istrodent in South Africa and Unident in the Scandinavian countries of Denmark, Sweden, Norway and Iceland.

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* instruments to be delivered over 36 months, thereby marking Milestone's initial penetration into China's emerging dental market.

As of March 31, 2012, China National Medicine has not received the appropriate registration approval from the regulatory body in China, therefore, shipment of *STA* instruments and handpieces have been suspended pending the approval to sell and distribute these products in China. It is expected that the approval by the appropriate Chinese regulatory body will be received in 2012.

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 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 Instrument*, *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 added in the spring of 2010 an International Sales Director to focus on growth of our products outside the USA and Canada. The new addition to Milestone's staff has proven to be a positive improvement to our sales and marketing effort outside the USA and Canada.

In July 2011, we entered into a definitive medical joint venture agreement (the *Medical Joint Venture*), with Beijing 3H (Heart-Help-Health) Scientific Technology Co., Ltd. (Beijing 3H) for the development, commercialization, manufacture and marketing of epidural and intra-articular injection medical instruments. Milestone and Beijing 3H has a 50% interest in the *Medical Joint Venture*. The shareholders of Beijing 3H are a number of individuals, including a large shareholder in Milestone who is also the principal of a supplier to Milestone.

The *Medical Joint Venture* provides for Milestone's contribution of an exclusive worldwide royalty-free license to use its patents. Beijing 3H will contribute \$1.5 million to the *Medical Joint Venture* to design and develop two commercial instrument and related disposables using Milestone's CompuFlo® technology and disposables. Milestone will have distribution responsibility in the U.S. and Canada while Beijing 3H will distribute products exclusively in the People's Republic of China (PRC), Macao, Hong Kong and other regions of Asia. As of March 31, 2012, Beijing 3H did contribute \$1,000,000 to the *Medical Joint Venture* and the development project has been initiated. Additionally, in April 2012, the final payment of \$500,000, (total \$1.5 million received), was made and received by Milestone, by the joint venture partners.

**Table of Contents****Segmented Sales Performance**

The following table shows a breakdown of Milestone's 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, |               |                     |               |
|--|------------------------------|---------------|---------------------|---------------|
|  | 2012                         |               | 2011                |               |
| <b>DOMESTIC</b>                        |                              |               |                     |               |
| Instruments                            | \$ 156,682                   | 18.0%         | \$ 355,972          | 27.1%         |
| Handpieces                             | 683,080                      | 78.5%         | 936,049             | 71.3%         |
| Other                                  | 30,728                       | 3.5%          | 20,545              | 1.6%          |
| <b>Total Domestic</b>                  | <b>\$ 870,490</b>            | <b>100.0%</b> | <b>\$ 1,312,566</b> | <b>100.0%</b> |
| <b>INTERNATIONAL</b>                   |                              |               |                     |               |
| Instruments                            | \$ 411,888                   | 39.2%         | \$ 455,026          | 40.9%         |
| Handpieces                             | 626,900                      | 59.7%         | 644,276             | 57.9%         |
| Other                                  | 12,080                       | 1.1%          | 14,120              | 1.2%          |
| <b>Total International</b>             | <b>\$ 1,050,868</b>          | <b>100.0%</b> | <b>\$ 1,113,422</b> | <b>100.0%</b> |
| <b>DOMESTIC/INTERNATIONAL ANALYSIS</b> |                              |               |                     |               |
| Domestic                               | \$ 870,490                   | 45.3%         | \$ 1,312,566        | 54.1%         |
| International                          | 1,050,868                    | 54.7%         | 1,113,422           | 45.9%         |
| <b>Total Product Sales</b>             | <b>\$ 1,921,358</b>          | <b>100.0%</b> | <b>\$ 2,425,988</b> | <b>100.0%</b> |

Milestone earned gross profits of 65% and 64% for the three months ended March 31, 2012 and 2011, 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 Milestone anticipates expending funds for research and development in 2012, these amounts will vary based on the operating results for each quarter. Milestone has incurred operating losses since its inception. Milestone is actively pursuing the generation of sustainable positive cash flows from operating activities through increases in revenue, to be derived from a change in the business model in U.S. and Canada. This change in business model incorporates a team of local dental hygienists training and educating the respective dentist in their territories. The business model replaces Milestone's sale force and third party manufacturer's representatives business model.

**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 current and long-term will have a significant impact on us. Consequently, Milestone estimates allowance for doubtful accounts resulting from the inability of its customers to make payments for amounts billed. The collectability of outstanding amounts is continually assessed.

*Inventories*

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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.

**Table of Contents***Investment in Medical Joint Venture*

We entered into a Medical Joint Venture with a third party for the development and commercialization of two medical products. We own fifty percent of the Medical Joint Venture and has recorded its investment on the equity basis of accounting. Milestone proportionate share of expenses incurred by the Medical Joint Venture will be charged to the Statement of Operations on a periodic basis.

*Impairment of Long-Lived Assets*

Our long lived assets consisting 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 domestic distributor on the date of shipment for essentially all shipments, since the shipment terms are FOB warehouse. We will recognize revenue on date of arrival of the goods at the customer's location where shipments are FOB destination. Shipments to international distributors are FOB the 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. Milestone's only obligation after sale is the normal commercial warranty against manufacturing defects if the alleged defective unit is returned within the warranty periods, which have historically been immaterial.

**Results of Operations**

The consolidated results of operations for the three months ended March 31, 2012 compared to the same three month period in 2011 reflect our focus and development on the *Wand/STA Instruments*, 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, the 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 |            |                  |            |
|--|-----------------------------|------------|------------------|------------|
|  | 2012                        |            | 2011             |            |
| Products sales, net                          | \$ 1,921,358                | 100%       | \$ 2,425,988     | 100%       |
| Cost of products sold                        | 662,946                     | 35%        | 879,588          | 36%        |
| <b>Gross Profit</b>                          | <b>1,258,412</b>            | <b>65%</b> | <b>1,546,400</b> | <b>64%</b> |
| Selling, general and administrative expenses | 1,452,252                   | 76%        | 1,624,255        | 85%        |
| Research and development expenses            | 39,311                      | 2%         | 43,718           | 2%         |
| Total operating expenses                     | 1,491,563                   | 78%        | 1,667,973        | 87%        |
| Loss from operations                         | (233,151)                   | -12%       | (121,573)        | -6%        |
| Other income - interest & expenses           | (43,935)                    | -2%        | (20,071)         | -1%        |
| Loss on Earnings from Medical Joint Venture  | (78,095)                    | -4%        |                  |            |
| Net loss                                     | \$ (355,181)                | -18%       | \$ (141,644)     | -7%        |

**Table of Contents*****Three months ended March 31, 2012 compared to three months ended March 31, 2011***

Total product sales for the three months ended March 31, 2012 and 2011 were \$1,921,358 and \$2,425,988, respectively. The total decrease in product sales of \$504,630, or 21%, in 2012 from 2011 is principally the result of decreased domestic revenues. Domestic *STA* instruments sales decreased by \$214,927, in 2012 from 2011. This decrease was due to a longer sales cycle to close a group dental practice in the domestic market. In the domestic market, total handpiece sales decreased by \$252,969, or 27% in 2012 over 2011. This decrease is substantially due to an announced handpiece price increase in April 2011. Therefore, customers purchased a higher level of handpieces in March 2011 to take advantage of the lower price. This event did not occur in the quarter ending March 31, 2012. On the international front, instruments sales decreased in the first quarter of 2012 from 2011 by \$43,138, or 9.5%, principally due to slower market penetration for the *CompuDent/Wand Plus Instruments* in existing international countries. Significant new market countries for the *STA Instruments* have not come on board in the quarter ending March 31, 2012. Internationally, handpiece sales decreased by \$17,376, or 2.7% due to a decrease in *Wand* handpieces sales of \$90,516 in 2012 over 2011. *STA* handpiece sales increased by \$73,140, or 58.6% for the first quarter 2012 over 2011. The decrease in *Wand* handpiece revenues are the result of production issues that are currently being resolved.

Cost of products sold for the three months ended March 31, 2012 and 2011 were \$662,946 and \$879,588, respectively, a decrease of \$216,642, or 24.6%.

For the three months ended March 31, 2012, Milestone generated a gross profit of \$1,258,412, or 65%, as compared to a gross profit of \$1,546,400, or 64%, for the three months ended March 31, 2011. The total decrease in gross profit dollars of \$287,988 is primarily due to a decrease in domestic revenue sales.

Selling, general and administrative expenses for the three months ended March 31, 2012 and 2011 were \$1,452,252 and \$1,624,255, respectively. This reduction in expenses of \$172,003, or 10.6%, is described in the following sections of this report. Milestone continues to focus on controlling expenses in all categories. The first quarter of 2012 noted several decreases to continue on our planned business model change to the training and education hygienist program. First, trade show and related expenses (travel, fees and staffing) decreased by approximately \$49,000 as Milestone targeted this venue as a more costly method to present our *Wand/STA Instrument*. Milestone has decided to focus our attention to the national shows that are more focused on larger attendance by the individual as well as dental practice groups. Sales expenses also decreased during the first quarter of 2012 principally in travel costs as Milestone's two sales director focus on opening new targeted markets and expanding our distributor sales. Salaries decreased by approximately \$13,000 in this quarter over the comparable quarter in the prior year. Legal fees decreased by approximately \$1,600 in the aggregate for routine litigation and patent annuities. Other expenses for the quarter decreased by approximately \$88,000, as compared to the same period in 2011. The decrease was primarily due to an approximately \$30,000 reduction on the reserve for bad debts, as Milestone reversed a portion of the bad debt reserve based on payments made by a Chinese distributor in the first quarter of 2012. In 2011, the contractual threshold was achieved in January. The international commission increased by approximately \$61,000 as the higher contractual threshold commission rate was achieved in February 2012. Stock Based Compensation decreased by approximately \$38,000 and insurance and medical decreased by approximately \$19,000. International travel cost decreased by approximately \$11,000 and officer benefits decreased by approximately \$12,000.

Research and development expenses for the three months ended March 31, 2012 and 2011 were \$39,311 and \$43,718, respectively, a decrease of \$4,407, or 10%.

The loss from operations for three months ended March 31, 2012 and 2011 were \$233,151 and \$121,573, respectively. The \$111,578, or 92%, increase is explained above.

Interest expense was \$42,403 and the amortization of debt issuance cost was \$1,532 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, 2012, compared to \$19,372 and \$699, respectively, for the same period in 2011, (see Note 8 to the financials). Additionally, Milestone accrued interest expense of \$21,901 for the overdue accounts payable balance to the instrument manufacturer at March 31, 2012.

Loss on the Medical Joint Venture of \$78,095 for the quarter ending March 31, 2012 is due to development cost on the medical devices incurred by the Medical Joint Venture during the quarter.

For the reasons explained above, net loss for the three months ended March 31, 2012 was \$355,181 as compared to a net loss of \$141,644 for the three months ended March 31, 2011. The \$213,537, or 150.8%, increase in net loss is primarily a result of a decrease in gross margin dollars of \$287,988 offset by a decrease in selling, general and administrative expenses of \$172,003, a reduction in research and development expense of \$4,407 and the non-cash Loss on the Medical Joint Venture of \$78,095.



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### **Liquidity and Capital Resources**

As of March 31, 2012, Milestone had cash and cash equivalents of \$112,986 and a negative working capital of \$1,164,103. Milestone had net losses of \$355,181 and \$141,644 for the three months ended March 31, 2012 and 2011, respectively. The negative working capital of \$1,164,103 in 2012 was the continued result of delay in obtaining regulatory approval to sell our instruments and handpieces in China. Based on the initial purchase order from our distributor in China in 2009, Milestone ramped up purchasing of parts in anticipation of significant sales in 2010 and future years. As a result of the delay in shipping, the advances to contract manufacturer has decreased, (current and long term), at March 31, 2012 as compared to December 31, 2011. Additionally, the accounts payable due these suppliers has also decreased to \$1,494,025 as of March 31, 2012. This represents a \$257,733 decrease over December 31, 2011. And finally, the accounts receivable from the China distributor has been classified between current and long term net of a reserve of doubtful accounts of \$473,674.

As a result there was a decrease in negative working capital at March 31, 2012, of \$146,832, consisting of a net current asset decrease of \$288,853. The significant current asset changes are: current accounts receivable decreased by \$85,005, cash increased by \$16,662, utilized in operations and to pay for parts required for the China production and inventory decreased by \$201,321. Current liabilities decreased by \$435,685.

Milestone has also incurred a decrease in noncurrent advances to contract manufacturer of \$95,841. Milestone continues to take positive steps to maintain adequate inventory levels and advances to contract manufacturers to maintain available inventory to meet our domestic and international sales requirements. Cash flows from operating activities for the three months ended March 31, 2012 and 2011 were a negative \$123,188 and \$482,401, respectively.

For the three months ended March 31, 2012, our net cash used in operating activities was \$123,188. This was attributable primarily to a net loss of \$355,181 adjusted for noncash items of \$102,897, principally common stock and options issued for compensation, consulting and vendor services, and changes in operating assets and liabilities of \$129,096.

For the three months ended March 31, 2012, \$150,000 was provided by financing activities. 107,143 shares of common stock in an offshore offering of its common stock at \$1.40 per share and raised gross proceeds of \$150,000.

Milestone has incurred operating losses and negative cash flows from operating activities since its inception, except for 2009. Milestone did not achieve positive cash flow in 2011. Milestone 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. As of March 31, 2012, Milestone believes that it does not have sufficient cash reserves to meet all of its anticipated obligations for the next twelve months. However, if Milestone requires a need for a higher level of marketing and sales effort, or if Milestone is unable to continue generating positive cash flows from its operating activities it will need to raise additional capital. There is no assurance that Milestone will be able to continue to achieve positive operating cash flows or that additional capital can be raised on the terms and conditions satisfactory to Milestone if at all. If additional capital is required and it cannot be raised, then Milestone 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 Milestone's operating results.

Milestone's recurring losses and negative operating cash flows 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.



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**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**

Milestone's management, including the Chief Executive Officer and Chief Financial Officer, have evaluated the effectiveness of the design and operation of Milestone'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, Milestone's Chief Executive Officer and Chief Financial Officer have concluded that the disclosure controls and procedures as of March 31, 2012 are effective to ensure that information required to be disclosed in the reports Milestone 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 Milestone's management, including the Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding disclosure.

There were no changes in Milestone's internal control over financial reporting identified in connection with the evaluation that occurred during Milestone's last fiscal quarter ended March 31, 2012 that have materially affected, or that are reasonably likely to materially affect, Milestone's internal controls over financial reporting.

**Table of Contents****PART II OTHER INFORMATION****ITEM 1. LEGAL PROCEEDINGS**

None.

**ITEM 1A. RISK FACTORS**

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

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

Recent Sales of Unregistered Securities

In the quarter ended March 31, 2012, Milestone issued total 136,800 shares valued at \$162,000 as follows:

|   | Shares  | \$         |
|---|---------|------------|
| Shares issued for Employee Compensation | 20,833  | \$ 7,500   |
| Shares issued for services              | 8,824   | 4,500      |
| Sale of Common Stock                    | 107,143 | 150,000    |
|   | 136,800 | \$ 162,000 |

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. MINE SAFETY DISCLOSURES**

Not applicable.

**ITEM 5. OTHER INFORMATION**

None.

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**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 Operating 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 Operating Officer Certification pursuant to section 906 of the 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.LAB**  | XBRL Taxonomy Extension Label Linkbase Document.   |
| 101.PRE**  | XBRL Taxonomy Extension Presentation Linkbase Document.  |
| 101.DEF**  | XBRL Taxonomy Extension Definition Linkbase Document.  |

\*\* Furnished with this report. In accordance with Rule 406T of Regulation S-T, the information in these exhibits shall not be deemed to be filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to liability under that section, and shall not be incorporated by reference into any registration statement or other document filed under the Securities Act of 1933, as amended, except as expressly set forth by specific reference in such filing.

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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 Operating Officer

Chief Financial Officer

Date: May 10, 2012