

MILESTONE SCIENTIFIC INC/NJ

FORM 10-Q (Quarterly Report)

Filed 11/14/08 for the Period Ending 09/30/08

Address	220 S ORANGE AVE LIVINGSTON CORPORATE PARK LIVINGSTON, NJ 07039
Telephone	2013793171
CIK	0000855683
Symbol	MLSS
SIC Code	3842 - Orthopedic, Prosthetic, and Surgical Appliances and Supplies
Industry	Medical Equipment & Supplies
Sector	Healthcare
Fiscal Year	12/31

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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 September 30, 2008

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.)

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 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. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company
(Do not check if a 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

APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY
PROCEEDINGS DURING THE PRECEDING FIVE YEARS:

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes No

SEC1296 (02-08) **Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB control number.**

As of November 14, 2008, the Issuer had a total of 12,615,382 shares of Common Stock, \$.001 par value outstanding.



MILESTONE SCIENTIFIC INC

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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 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 that 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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ITEM 1. FINANCIAL STATEMENTS

MILESTONE SCIENTIFIC INC.
CONDENSED BALANCE SHEETS

	September 30, 2008 (Unaudited)	December 31, 2007
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 286,020	\$ 745,003
Accounts receivable, net of allowance for doubtful accounts of \$5,000 in 2008 and 2007	743,763	346,347
Royalty receivable	5,111	15,358
Inventories	845,297	1,636,744
Advances to contract manufacturer	842,401	1,192,584
Prepaid expenses	43,685	169,727
Total current assets	2,766,277	4,105,763
Investment in distributor, at cost	76,319	76,319
Equipment, net of accumulated depreciation of \$328,407 as of September 30, 2008 and \$284,145 as of December 31, 2007	162,174	220,808
Patents, net of accumulated amortization of \$117,367 as of September 30, 2008 and \$79,498 as of December 31, 2007	789,340	559,378
Other assets	9,268	27,297
Total assets	\$ 3,803,378	\$ 4,989,565
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Notes Payable — Short Term borrowing	200,000	—
Accounts payable	\$ 828,374	\$ 1,855,835
Accrued expenses	372,198	201,103
Deferred compensation payable to officers	22,875	15,833
Total current liabilities	1,423,447	2,072,771
Long-term Liabilities:		
Accounts payable-long term	—	443,847
Line of credit-net of discount of \$65,324 and \$65,371 respectively	1,234,676	934,629
Total long-term liabilities	1,234,676	1,378,476
Commitments and Contingencies		
Stockholders' Equity		
Common stock, par value \$.001; authorized 50,000,000 shares; 12,302,524 shares issued; 504,639 shares to be issued, and 12,269,191 shares outstanding as of September 30, 2008; 11,787,572 shares issued, 421,306 shares to be issued, and 11,754,239 shares outstanding as of December 31, 2007	12,807	12,210
Additional paid-in capital	59,365,614	58,483,539
Accumulated deficit	(57,321,650)	(56,045,915)
Treasury stock, at cost, 33,333 shares	(911,516)	(911,516)
Total stockholders' equity	1,145,255	1,538,318
Total liabilities and stockholders' equity	\$ 3,803,378	\$ 4,989,565

See Notes to Condensed Financial Statements

MILESTONE SCIENTIFIC INC.
CONDENSED STATEMENTS OF OPERATIONS
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
Product sales, net	\$ 1,813,103	\$ 1,134,468	\$ 4,741,976	\$ 5,166,832
Royalty income	5,112	28,977	28,282	112,747
Total revenue	<u>1,818,215</u>	<u>1,163,445</u>	<u>4,770,258</u>	<u>5,279,579</u>
Cost of products sold	740,398	631,584	1,798,758	\$ 2,418,068
Royalty expense	—	(1,675)	—	\$ (3,261)
Total cost of revenue	<u>740,398</u>	<u>629,909</u>	<u>1,798,758</u>	<u>2,414,807</u>
Gross profit	<u>1,077,817</u>	<u>533,536</u>	<u>2,971,500</u>	<u>2,864,772</u>
Selling, general and administrative expenses	1,199,353	1,465,493	4,039,137	5,111,935
Research and development expenses	35,181	45,574	119,500	345,538
Total operating expenses	<u>1,234,534</u>	<u>1,511,067</u>	<u>4,158,637</u>	<u>5,457,473</u>
Loss from operations	(156,717)	(977,531)	(1,187,137)	(2,592,701)
Interest expense	(23,863)	(5,599)	(73,455)	(5,599)
Interest — Amortization of debt issuance	(7,926)	—	(21,622)	—
Interest income	1,773	1,342	6,479	12,477
Net loss applicable to common stockholders	<u>\$ (186,733)</u>	<u>\$ (981,788)</u>	<u>\$ (1,275,735)</u>	<u>\$ (2,585,823)</u>
Loss per share applicable to common stockholders — basic and diluted	<u>\$ (0.02)</u>	<u>\$ (0.08)</u>	<u>\$ (0.10)</u>	<u>\$ (0.21)</u>
Weighted average shares outstanding and to be issued — basic and diluted	<u>12,709,260</u>	<u>12,096,518</u>	<u>12,631,311</u>	<u>12,077,642</u>

See Notes to Condensed Financial Statements

MILESTONE SCIENTIFIC INC.
CONDENSED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
NINE MONTHS ENDED SEPTEMBER 30, 2008
(Unaudited)

	Common Stock		Additional Paid-in Capital	Accumulated Deficit	Treasury Stock	Total
	Shares	Amount				
Balance, January 1, 2008	12,208,878	\$12,210	\$58,483,539	\$(56,045,915)	\$(911,516)	\$ 1,538,318
Options issued to employees and consultants	—	—	119,708			119,708
Common stock issued for payment of services to settle accounts payable	156,448	156	262,590			262,746
Common stock issued for payment of consulting services to settle accounts payable	257,188	257	285,842			286,099
Common stock issued for payment of employee compensation	101,316	101	92,443			92,544
Common stock to be issued for settlement of deferred compensation	83,333	83	99,917			100,000
Warrants issued in connection with amendment of Line of Credit			21,575			21,575
Net loss				(1,275,735)		(1,275,735)
Balance, September 30, 2008	12,807,163	\$12,807	\$59,365,614	\$(57,321,650)	\$(911,516)	\$ 1,145,255

See Notes to Condensed Financial Statements

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

	NINE MONTHS ENDED SEPTEMBER 30,	
	2008	2007
Cash flows from operating activities:		
Net loss	\$ (1,275,735)	\$ (2,585,823)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation expense	54,367	85,604
Amortization of patents	37,869	17,136
Amortization of debt discount	21,622	485
Common stock and options issued for compensation, consulting and vendor services	312,252	405,160
Loss on sale/disposal of equipment	2,255	232,259
Bad debt expense	—	69,378
Changes in operating assets and liabilities:		
(Increase) in accounts receivable	(397,416)	(317,538)
Decrease in royalty receivable	10,247	31,131
Decrease (Increase) in inventories	791,447	(341,900)
Decrease to advances to contract manufacturer	350,183	57,391
Decrease to prepaid expenses and other current assets	126,042	24,795
Decrease (Increase) in other assets	18,029	(13,289)
(Decrease) Increase in accounts payable (short & long term)	(922,463)	926,493
Increase (Decrease) in accrued expenses	171,095	(133,669)
Increase in deferred compensation	7,042	130,000
Net cash used in operating activities	<u>(693,164)</u>	<u>(1,412,387)</u>
Cash flows from investing activities:		
Purchases of property and equipment	(5,738)	(85,254)
Proceeds on sale of equipment	7,750	—
Payment for patents rights	(267,831)	(88,893)
Net cash used in investing activities	<u>(265,819)</u>	<u>(174,147)</u>
Cash flows from financing activities:		
Proceeds from exercise of stock options	—	71,201
Notes Payable-Short Term borrowing	200,000	—
Long-term borrowing-other	300,000	400,000
Net cash provided by financing activities	<u>500,000</u>	<u>471,201</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(458,983)	(1,115,333)
Cash and cash equivalents at beginning of period	745,003	1,160,116
Cash and cash equivalents at end of period	<u>\$ 286,020</u>	<u>\$ 44,783</u>
Supplemental disclosure of cash flow information:		
Interest expense paid in cash	3,000	4,000
Income taxes paid	\$ 4,720	—
Warrants issued in connection with Line of Credit	\$ 21,575	24,557
Stocks issued to employees in lieu of cash compensation	\$ 92,544	44,693
Shares issued to settle accounts payable	\$ 548,845	—

See Notes to Condensed Financial Statements

MILESTONE SCIENTIFIC INC.
NOTES TO 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 unaudited financial statements of Milestone Scientific Inc. 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, 2007 included in Milestone’s Annual Report on Form 10-KSB. The accounting policies used in preparing these unaudited financial statements are the same as those described in the December 31, 2007 financial statements.

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 September 30, 2008 and December 31, 2007 and the results of its operations for the three and nine months ended September 30, 2008 and 2007.

The results reported for the three months and nine months ended September 30, 2008 are not necessarily indicative of the results of operations which may be expected for a full year.

The Company has incurred operating losses and negative cash flows from operating activities since its inception, including a net loss of \$1,275,735 and \$2,585,823 for the nine months ended September 30, 2008 and 2007, respectively. At September 30, 2008, the Company had cash and cash equivalents and working capital of \$286,020 and \$1,342,830, respectively. Additionally, as discussed in Note 5, on June 28, 2007, the Company secured a revolving line of credit in the aggregate amount of \$1,000,000 from a stockholder which line was fully borrowed at December 31, 2007. The Line of Credit was increased by \$300,000 to \$1,300,000 as of September 30, 2008. All terms and conditions remain unchanged. The Company borrowed \$200,000 from the stockholder noted above in July 2008. The borrowing requires a one percent fee at the date of borrowing and an interest rate of six percent per annum, payable at the maturity of the note. The note is due in January 2009 and such amount is included as a current liability in the financial statements at September 30, 2008. The Company 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; however, the Company does not now have sufficient cash reserves to meet all of its anticipated obligations for the next twelve months. However, the internal sales growth targets have been achieved for the first nine months of this year and it is anticipated that the future sales growth targets will be achieved. If the future sales growth targets are not achieved, then the Company would be forced to curtail its development activities, reduce marketing expenses for existing dental products and/or adopt other cost saving measures, any of which might negatively affect the Company’s operating results.

The Company’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 adjustments that might result from the outcome of this uncertainty.

Subsequent to September 30, 2008, the Company borrowed an additional \$250,000 from the shareholder noted above with terms and the maturity date the same as the \$200,000 noted borrowed in July 2008.

Subsequent to September 30, 2008, the Company acquired additional patent rights with respect to painless anesthetic injections — specifically rights related to controlling the flow rate or pressure used in providing these injections — through

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the issuance of 260,000 shares of restricted common stock. In connection with this acquisition, Milestone terminated its Declaratory Judgment action against Dr. Hodosh related to claimed infringements of his patent rights and Dr. Hodosh agreed to terminate his existing infringement action against the Company.

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.

Inventories

Inventories principally consist of finished goods and component parts stated at the lower of cost (first-in, first-out method) or market.

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 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.

Royalty income is recognized as earned based on reports received from the licensee and related royalty expense is accrued during the same 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 evaluations for impairment of long-lived assets and valuation allowances on deferred tax assets. Actual results could differ from those estimates .

Recent Accounting Pronouncements

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements." This new standard defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. This statement does not require any new fair value measurements but provides guidance in determining fair value measurements presently used in the preparation of financial statements. This new standard is

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effective for financial statements issued for fiscal years beginning after November 15, 2007. This Standard was adopted as of January 1, 2008 and did not have a significant impact on Milestone's results of operations or financial position.

In February 2007, the Financial Accounting Standards Board (FASB) issued SFAS No.159, "*The Fair Value Option for Financial Assets and Financial Liabilities —Including an amendment of FASB Statement No. 115*". SFAS No.159 permits entities to choose to measure many financial instruments and certain other items at fair value. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. SFAS No.159 is effective as of the first fiscal year that begins after November 15, 2007. This Standard was adopted as of January 1, 2008, and did not have any impact on Milestone's results of operations or financial position.

In December 2007, the Financial Accounting Standards Board (FASB) issued SFAS No.141 (revised), "*Summary No. 141 (revised 2007)*". SFAS No.141 (revised) provides for improving the relevance, representational faithfulness, and comparability of the information that an entity provides in its financial reports about a business combination and its effects. SFAS No.141 (revised) applies prospectively to business combinations for which the acquisition date is on or after December 15, 2008. Milestone is considering the impact of this Statement on its financial statements.

In December 2007, the Financial Accounting Standards Board (FASB) issued SFAS No.160, "*Non-controlling Interest in Consolidated Financial Statements — and amendment of ARB No. 51*". SFAS No.160 establishes accounting and reporting standards for non-controlling interests, sometimes called minority interests, the portion of equity in a subsidiary not attributable, directly or indirectly, to a parent. SFAS No.160 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2008. Milestone is considering the impact of this Statement on its financial statements.

In March 2008, the Financial Accounting Standards Board (FASB) issued SFAS No. 161, "*Disclosure about Derivative Instruments and Hedging Activities — an amendment of FASB No. 133*". This Statement requires enhanced disclosure about an entity's derivative and hedging activities. The effective date for this Statement is for financial statements issued for fiscal year and interim periods beginning after November 15, 2008. This Statement would not currently impact the financial statements of Milestone Scientific.

In March 2008, the FASB, affirmed the consensus of FASB Staff Position (FSP) Accounting Principles Board Opinion No. 14-1 (APB 14-1), Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement), which applies to all convertible debt instruments that have a net settlement feature; which means that such convertible debt instruments, by their terms, may be settled either wholly or partially in cash upon conversion. FSP APB 14-1 requires issuers of convertible debt instruments that may be settled wholly or partially in cash upon conversion to separately account for the liability and equity components in a manner reflective of the issuer's nonconvertible debt borrowing rate. Previous guidance provided for accounting for this type of convertible debt instrument entirely as debt. FSP APB 14-1 is effective for financial statements issued for fiscal years beginning after December 15, 2008 and interim periods within those fiscal years. Milestone is considering the impact of this Statement on its financial statements.

In May 2008, the Financial Accounting Standards Board (FASB) issued SFAS No. 163, "*Accounting for Financial Guarantee Insurance Contracts — an interpretation of FASB NO.60*". The Statement requires that an insurance enterprise recognize a claim liability prior to an event of default, when the evidence that credit deterioration has occurred in an insured financial obligation. This Statement is effective for fiscal years beginning after December 15, 2008, and interim periods within the fiscal year. This Statement would not currently impact the financial statements of Milestone Scientific.

NOTE — 2 BASIC AND DILUTED NET LOSS PER COMMON SHARE

Milestone presents "basic" 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 Statement of Financial Accounting Standards No. 128, "Earnings per Share" (SFAS 128). 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

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common shares that would have been outstanding if all potentially dilutive common shares, such as those issuable upon the exercise of stock options, warrants, and the conversion of preferred stock were issued during the period.

Since Milestone had net losses for the three and nine months ended September 30, 2008 and 2007, 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 3,537,079 at September 30, 2008 and 3,298,413 at September 30, 2007.

NOTE — 3 STOCK OPTION PLANS

Effective January 1, 2006 Milestone adopted SFAS No. 123R, “*Share-Based Payment*”, an Amendment of FASB Statement No. 123” (SFAS No. 123R), under the modified-prospective transition method whereby prior periods will not be restated for comparability. SFAS No. 123R 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. Pro-forma disclosure is no longer an alternative. As a result of adopting SFAS No. 123R, Milestone recognizes as compensation expense in its financial statements the unvested portion of existing options granted prior to the effective date and the cost of stock options granted to employees after the effective date based on the fair value of the stock options at grant date. Prior to the adoption of SFAS No. 123R, Milestone accounted for its stock option plans using the intrinsic value method of accounting prescribed by APB Opinion No. 25.

A summary of option activity for employees under the plans as of September 30, 2008, and changes during the nine months ended is presented below:

	<u>Number of Options</u>	<u>Weighted Averaged Exercise Price</u>	<u>Weighted Average Remaining Contractual Life (Years)</u>	<u>Aggregate Intrinsic Options Value</u>
Outstanding, January 1, 2008	391,334	1.86	2.54	\$108,800
Granted	211,666	0.88	4.65	—
Exercised	—	—	—	—
Forfeited or expired	(51,334)	1.19	—	—
Outstanding, September 30, 2008	<u>551,666</u>	1.55	3.52	—
Exercisable, September 30, 2008	<u>360,888</u>	1.85	2.94	—

The weighted average grant date fair value of options granted to employees during the nine months ended September 30, 2008 was \$0.88. The fair value of the options was estimated on the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions: expected life three years, volatility of 353% and a risk free interest rate of 2.88%. A six percent rate of forfeitures is assumed in the calculation of the compensation costs for the period.

Milestone recognizes compensation expense on a straight line basis over the requisite service period. During the nine months ended September 30, 2008, Milestone recognized \$81,492 of total compensation cost related to options that vested during the period. As of September 30, 2008, there was \$130,700 of total unrecognized compensation cost related to non-vested options which Milestone expects to recognize over a weighted average period of one and one half years.

Expected volatilities are based on historical volatility of Milestone’s common stock over a period commensurate with expected term. Milestone uses historical data to estimate option exercise and employee termination within the valuation model. The expected term of the options granted was estimated using the simplified method as the average of the contractual term and vesting term of the option.

As of September 30, 2008, the Fair Market Value of the Company’s stock was less than the exercise price of the options, therefore there is no aggregate intrinsic value calculated.

A summary of option activity for non-employees under the plans as of September 30, 2008 and changes during the nine months ended is presented below:

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	<u>Number of Options</u>	<u>Weighted Averaged Exercise Price</u>	<u>Weighted Average Remaining Contractual Life (Years)</u>	<u>Aggregate Intrinsic Options Value</u>
Outstanding, January 1, 2008	639,133	3.15	2.56	\$20,667
Granted	—	—	—	—
Exercised	—	—	—	—
Forfeited or expired	(11,666)	—	—	—
Outstanding, September 30, 2008	<u>627,467</u>	3.14	1.86	—
Exercisable, September 30, 2008	<u>564,967</u>	3.29	1.70	—

During the nine months ended September 30, 2008, Milestone recognized \$38,216 of expenses related to non-employee options that vested during the year. The total unrecognized compensation cost related to non-vested options was \$73,035 as of September 30, 2008.

As of September 30, 2008, the Fair Market Value of the Company's stock was less than the exercised price of the options, therefore, there was no aggregate intrinsic value calculated.

In accordance with the provisions of SFAS No.123R, 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, which meets the criteria set forth in SFAS No. 123R, 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 in the consensus of the Emerging Issues Task Force ("EITF") for EITF Issue No. 96-18 (generally, the earlier of the date the other party becomes committed to provide goods or services or the date performance by the other party is complete) and capitalized or expensed as if Milestone had paid cash for the goods or services.

NOTE — 4 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 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 \$842,000 with the vendor for purchase of materials at September 30, 2008. 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 September 30, 2008.

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 September 30, 2008.

NOTE — 5 LINE OF CREDIT

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. Borrowings bear interest at 6% per annum, with one year's interest at 1% payable in advance on each draw. Monies may be drawn by Milestone under the line in multiples of \$100,000 upon 5 days written notice to you from either Milestone's Chief Executive Officer or Chief Financial Officer. Monies under the line in excess of \$1,000,000 may be drawn in multiples of \$25,000. Borrowings may

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be prepaid at any time in multiples of \$100,000, without penalty. All borrowings and interest thereon must be repaid by June 30, 2010, and after the expiration date of the line, may be repaid by Milestone in cash or, at its option, in shares of common stock valued at the lower of \$2.00 per share or 80% of the average closing price of its shares during the 20 trading days ending with December 31, 2008. After December 31, 2008, and before June 30, 2010, the lender may convert all or any part of the then outstanding balance and interest thereon into shares of Common Stock at \$4.00 per share. 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. At September 30, 2008 the remaining balance of Debt Discount was \$65,325. The full amount of the line of credit and amendment, \$1.3 million, has been drawn at September 30, 2008. Interest expense on this Line of Credit for the three and nine months ended September 30, 2008 is \$23,863 and \$73,455, respectively. Accrued interest related to this line of credit was \$6,000 and \$4,000 at September 30, 2008 and December 31, 2007, respectively. Additionally, the charge for amortization of Debt Discount related to this Line of Credit is \$21,622 for the nine month period ended September 30, 2008.

The Company borrowed an additional \$200,000 from the stockholder noted above in July 2008. The borrowing requires a one percent fee at the date of borrowing and an interest rate of six percent per annum, payable at the maturity of the note. The note is due in January 2009 and is included as a current liability in the financial statements at September 30, 2008.

Subsequent to September 30, 2008, the Company borrowed an additional \$250,000 from the shareholder noted above with the same terms and maturity date as the \$200,000 Note from in July 2008.

NOTE — 6 STOCK ISSUANCE

During the nine months ended September 30, 2008, the Company issued 413,636 shares valued at \$548,845 to three vendors owed in connection with advertising, warehousing and exhibition facilities and two outside professional organizations.

Subsequent to September 30, 2008, the Company agreed to issue 260,000 shares of restricted common stock for the acquisition of certain patent rights and the resolution of litigation. See Subsequent Events Note.

NOTE — 7 SIGNIFICANT CUSTOMERS

Milestone had net product sales to two customers (distributors) which in the aggregate accounted for approximately 67% and 84% of revenue for three months ended September 30, 2008 and 2007, respectively, and 77% and 74% of revenue for nine months ended September 30, 2008 and 2007, respectively. Milestone had sales to one customer (a worldwide distributor of Milestone's products based in South Africa) of \$916,714 (19%) for the nine months and \$335,238 (18%) for the three months ended September 30, 2008. Accounts receivable from these two customers amounted to \$504,567 and \$390,666 representing 68% and 79% of gross accounts receivable as of September 30, 2008 and December 31, 2007, respectively.

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

	Three Months Ended September 30,	
	2008	2007
<i>Units</i>	\$ 498,879	\$ 299,019
Handpieces	1,297,654	825,813
Other	16,570	9,636
	<u>\$ 1,813,103</u>	<u>\$ 1,134,468</u>
United States	\$ 1,322,665	\$ 669,158
Canada	111,570	148,978
Other Foreign	378,868	316,332
	<u>\$ 1,813,103</u>	<u>\$ 1,134,468</u>
	Nine Months Ended September 30,	
	2008	2007
<i>Units</i>	\$ 1,061,109	\$ 1,873,007
Handpieces	3,735,200	3,184,761
Other	(54,333)	109,064
	<u>\$ 4,741,976</u>	<u>\$ 5,166,832</u>
United States	\$ 3,209,684	\$ 3,968,837
Canada	428,048	148,978
Other Foreign	1,104,244	1,049,017
	<u>\$ 4,741,976</u>	<u>\$ 5,166,832</u>

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In January 2007, Milestone finalized an Exclusive Distribution and Supply Agreement with Henry Schein, Inc. Henry Schein, Inc. serving as the exclusive distributor of STA and CompuDent systems (and ancillary products) in both North America and Canada, for a one year period. The exclusive period has expired and the Company has entered alternative marketing and distribution agreements.

The Company has informal arrangements with the manufacturer of our STA, CompuDent and CompuMed units, one of the principal manufacturers of our handpieces and for those units pursuant to which they manufacture these products under specific purchase orders but without any long-term contract or minimum purchase commitment. The Company has a manufacturing agreement with one of the principal manufacturers of our handpieces pursuant to which they manufacture products under specific purchase orders but without minimum purchase commitments. The Company has established an alternate source of supply for our handpieces in China and other alternate sources of supply exist.

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 is manufactured for Milestone in Mexico pursuant to scheduled production requirements. The Wand Handpiece with Needle is supplied to Milestone by the licensee of Milestone's proprietary consumer dental whitening product, which 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.

Other Commitments

Milestone acquired the technology underlying our CoolBlue Professional Whitening and Ionic White Consumer Whitening Products. Under the terms of a licensing agreement with a third party manufacturer, we will receive licensing fees resulting from the sales of the consumer whitening product. Through December 31, 2006, Milestone paid royalties in connection with the tooth whitening products to a purported holder of patent rights therein. Late in 2006 Milestone received a copy of a patent office filing which appeared to show that the purported owner had relinquished rights to the patent on which royalties had been paid. It is possible that, never-the-less, the purported owner may claim continuing rights to receive royalties or that others may claim that payments are owed in connection with Milestone's prior sales. Milestone has continued to accrue royalties due, \$20,565 as of September 30, 2008, but has ceased making cash payments. In 2007, Milestone stopped the sale of this product in the United States and has written off the cost of patents relating to this product.

Loss on Disposal of Fixed Assets.

Milestone recorded a loss on disposal of fixed assets of \$2,741 and \$232,259 for the three months ended September 30, 2008 and 2007, respectively, and \$2,255 and \$232,259 for the nine months ended September 30, 2008 and 2007, respectively. The loss on disposal of fixed assets in 2007 represents the write off of net book value of tooling and other assets originally purchased for the cool blue, whitening, safety wand and other products. The amounts noted above are included in the selling, general administrative expenses.

NOTE — 9 SUBSEQUENT EVENTS

The Company borrowed an additional \$250,000 from a stockholder in October 2008. The borrowings agreement requires a one percent fee at the date of borrowing and an interest rate of six percent per annum, payable at the maturity of the note. The note is due in January 2009.

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Subsequent to September 30, 2008, the Company acquired additional patent rights with respect to painless anesthetic injections — specifically rights related to controlling the flow rate or pressure used in providing these injections — through the issuance of 260,000 shares of restricted common stock. In connection with this acquisition, Milestone terminated its Declaratory Judgment action against Dr. Hodosh related to claimed infringements of his patent rights and Dr. Hodosh agreed to terminate his existing infringement action against the Company.

ITEM 2. Management's Discussion and Analysis and Plan of Operation.

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. See "Risk Factors" on Part II. ITEM 1A of this Form 10-Q.

OVERVIEW

The following discussion 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. This discussion may contain forward-looking statements that involve risks and uncertainties. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of certain factors, such as those set forth in our Form 10-KSB for the year ended December 31, 2007.

Through strict expense discipline and the implementation of key operational initiatives during the first nine months of 2008, the Company was able to make considerable progress with its efforts to achieve two primary strategic business goals for the year:

- 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 System* ; and
- Identifying and pursuing strategic collaborations with third parties to jointly develop new products utilizing our *CompuFlo* pressure force technology for innovative new dental and medical applications.

In order to succeed in achieving these goals, it is essential that we have the best people possible. In January of 2008, Joseph D'Agostino joined Milestone as our Chief Financial Officer, bringing our Company the skill, talent and experience that are necessary to help us grow and meet critical business plan objectives. Following a nine month performance assessment by the Board of Directors, Mr. D'Agostino was officially named Milestone's Chief Financial Officer in October of this year.

The addition of Joseph D'Agostino to the senior management team has served to strongly complement the hiring of Robert Presutti, who joined Milestone as Vice President of Sales and Marketing in September 2007. The Board of Directors installed Joe Martin as our new CEO and Director in December 2007. Joe served as an executive of Bayer for 13 years.

The new leadership team has devoted a great deal of energy and focus on improving all areas of operations. Milestone has succeeded in cutting its total operating expenses by 24%, from \$5,457,473 to \$4,158,637, in the first nine months of this year compared to the same nine-month period in 2007. Additionally, the operating losses have been reduced from \$2,592,701 to \$1,187,137. During the first nine months of this year product inventories were reduced by almost 50%, from \$1,636,744 to \$845,297. During the same period, accounts payables have been reduced by 55%, from \$1,855,835 to \$828,374. However, our debt increased by \$500,000 during the nine months ended September 30, 2008.

New Messaging Platform

Milestone has continued to leverage the product and market intelligence we derived from in-depth customer and dental industry surveying that we conducted in late 2007. The insight gained from these studies led management to define and implement a comprehensive new messaging platform for the *STA System* created to emphasize key benefits that Milestone has discovered is of most value to dental professionals. This refined product messaging was launched in January 2008.

Based on the fact that Milestone continues to achieve its month-over-month revenue and cash flow objectives in keeping with management's plan of execution and long term growth strategy, the Company believes its refined product

positioning will continue to resonate with dental professionals worldwide, helping to generate increasingly robust sales within our independent distributor network.

Industry Recognition

A key 2008 event for Milestone was the first International C-CLAD Summit we hosted in New Orleans this past February, where many of the dental industry's most prominent and respected authorities assembled to review, discuss and explore opportunities for the *STA System*. A publication summarizing the Summit's proceedings was issued in early June 2008. Specifically, there was consensus among panel participants agreeing that use of the *STA System* provides the best way to administer a Palatal Injection and Intraligamentary Injection; agreement that the *STA* is the instrument of choice to minimize pain disruptive behavior; and unanimous agreement that the *STA System* should become "the standard of care for administering anesthesia by dental practitioners."

In April 2008, the *STA System* was recognized as a winner of the 2008 Medical Design Excellence Award in the Dental Instruments, Equipment and Supplies product category. Of the 33 products that received an Excellence Award this year, Milestone's *STA System* was one of only two winning products that serve the dental community. This honor followed the *STA System* being named in July 2007 as one of the Top 100 Products of the Year by *Dentistry Today*, one of the dental industry's most respected and widely read publications.

Domestic Dental Distribution Network

In the second quarter of this year, we turned our attention to expanding Milestone's global network of dental distributors, with a goal of increasing market awareness and promoting stronger sales growth of the *STA System*.

On the domestic front, the Company elected to forego renewing the exclusive marketing and distribution agreement originally signed in early 2007 with Henry Schein, Inc., the largest distributor of healthcare products and services to office-based practitioners in the combined North American and European markets. Rather, the Company granted Schein non-exclusive distribution rights to both markets to sell the *STA System* and related disposable hand pieces to dental professionals in the United States and Canada; and in June of this year, welcomed Patterson Dental Supply as a non-exclusive distributor, as well. Patterson has the largest direct sales force in the industry, totaling approximately 1,400 sales representatives and equipment/software specialists addressing the needs of the United States and Canadian dental markets.

On July 16, 2008, Milestone announced that leading independent dental supply companies — Benco Dental, Burkhardt Dental, Inc., and Goetze Dental — also joined the Company's growing domestic distribution network under non-exclusive agreements.

Founded in 1930, Benco is the largest independently owned dental supply company in the U.S., and one of the nation's fastest growing dental distributors. Burkhardt Dental has thrived and prospered as a family owned and managed dental supply company for 120 years, now serving over 5,000 dental customers in the Western U.S. from offices in Alaska, Colorado, Oregon, Arizona, California, Nevada, Texas, Utah and Washington. Originally established in 1884 as the St. Joseph Drug Company, Goetze Dental has also endured as a family-owned and managed independent dental supplier for five generations. Currently, the Company markets a broad range of leading dental products and services to a customer base comprised of more than 10,000 dental professionals operating primarily in nine U.S. Midwestern states.

In August 2008, Milestone added Atlanta Dental Supply to its U.S. distribution network. Atlanta Dental is an industry leading employee-owned dental supply and services company based in Duluth, Georgia that has been serving the U.S. Southeast dental community for 140 years.

We are now actively engaged in training and providing ongoing sales and marketing support to more than 2,450 independent sales representatives serving the U.S. and Canadian markets. As of September 30, 2008, Milestone had completed initial training of approximately 50% of Patterson's national sales force, as well as a majority of the representatives employed by Benco, Burkhardt and Goetze. Training of Atlanta Dental reps commenced in the fourth quarter of 2008.

International Dental Distribution Network

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In June, the Company granted exclusive marketing and distribution rights to two foreign distributors — Istrodent Pty Ltd AB, a leading distributor serving the Southern Africa dental market; and Unident AB, who is now advocating sales of the *STA System* to dentists in the Scandinavian countries of Denmark, Sweden, Norway and Iceland. Both companies have proven to be among Milestone's strongest marketing allies outside of the U.S., achieving notable sales performance in their respective regions while supporting our historical worldwide marketing efforts for *The Wand*.

At the FDI Annual World Dental Congress held in Sweden in late September, Unident formally introduced the *STA System* to the European dental community and enjoyed a strong, favorable response from show attendees.

For the remainder of the year, the Company will continue to focus on expanding Milestone's worldwide sales and marketing resources to accelerate *STA System* sales momentum around the world. Particular emphasis will be on establishing defined distribution channels in Canada and South America. Moreover, we will continue reinforcing and supporting our growing global independent sales and distribution network through training, Milestone-sponsored advertising and marketing campaigns, trade show participation and creative sales incentive programs.

New Product Development and Commercialization

In keeping with the Company's stated 2008 goal for leveraging our patented *CompuFlo* technology in new medical applications, Milestone's management team has also continued to identify and pursue opportunities to form strategic collaborations in the areas of self-administered drug delivery, arthritic joint pain management and epidurals.

In November 2007, we entered into a collaborative agreement with a globally diversified healthcare company to conduct a feasibility study evaluating the potential application of our *CompuFlo* technology for injecting certain medicaments produced by this leading company. We have successfully completed the initial study and are now hoping to leverage its findings to progress strategic partnering and product development opportunities with them.

As we progress through to year end, Milestone will maintain our pursuit of *CompuFlo* -based product development prospects that are deemed the most promising and commercially viable, and offer the greatest potential for allowing us to fully realize our product development and commercialization ambitions.

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 September 30,			
	2008		2007	
DOMESTIC				
Units	\$ 365,887	27.7%	\$ 112,486	16.8%
Handpieces	942,613	71.3%	545,498	81.5%
Other	14,165	1.0%	11,174	1.7%
Total Domestic	<u>\$1,322,665</u>	<u>100.0%</u>	<u>\$ 669,158</u>	<u>100.0%</u>
INTERNATIONAL				
Units	\$ 132,992	27.1%	\$ 186,533	40.1%
Handpieces	355,041	72.4%	280,315	60.2%
Other	2,405	0.5%	(1,538)	(0.3)
Total International	<u>\$ 490,438</u>	<u>100.0%</u>	<u>\$ 465,310</u>	<u>100.0%</u>
DOMESTIC/INTERNATIONAL ANALYSIS				
Domestic	\$1,322,665	73.0%	\$ 669,158	59.0%
International	490,438	27.0%	465,310	41.0%
Total Product Sales	<u>\$1,813,103</u>	<u>100.0%</u>	<u>\$1,134,468</u>	<u>100.0%</u>
	Nine Months Ended September 30,			
	2008		2007	
DOMESTIC				
Units	\$ 621,078	19.4%	\$1,595,579	40.2%
Handpieces	2,635,290	82.1%	2,295,735	50.5%
Other	(46,684)	-1.5%	77,523	2.0%
Total Domestic	<u>\$3,209,684</u>	<u>100.0%</u>	<u>\$3,968,837</u>	<u>100.0%</u>
INTERNATIONAL				
Units	\$ 440,031	28.7%	\$ 277,428	23.2%
Handpieces	1,099,910	71.8%	889,026	74.2%
Other	(7,649)	-0.5%	31,541	2.6%
Total International	<u>\$1,532,292</u>	<u>100.0%</u>	<u>\$1,197,995</u>	<u>100.0%</u>
DOMESTIC/INTERNATIONAL ANALYSIS				
Domestic	\$3,209,684	67.7%	\$3,968,837	76.8%
International	<u>1,532,292</u>	<u>32.3%</u>	<u>1,197,995</u>	<u>23.2%</u>

Total Product Sales

\$4,741,976

100.0%

\$5,166,832

100.0%

The Company earned gross profits of \$1,077,817 and \$2,971,500 for the three and nine months ended September 30, 2008, respectively. However, our revenues and related gross profits have not been sufficient to support our overhead,

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new product introduction and research and development expenses. Although the Company anticipates expending funds for research and development in 2008, these amounts will vary based on the operating results for each quarter. The Company has incurred operating losses and negative cash flows from operating activities since its inception. The Company is actively pursuing the generation of positive cash flows from operating activities through increase in revenue, assessment of current contracts and current negotiations and reduction in operating expenses; however the Company does not have sufficient cash reserves to meet all of its anticipated obligations for the next twelve months.

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 deferred contingent payments of 2.5% of our total sales of *CompDent* and Wand Plus units using some of these technologies, and 5% of our total sales of *STA* units and handpieces 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.

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.

Inventories

Inventory costing, obsolescence and physical control is 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 distributor 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,

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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.

Royalty income is recognized as earned based on reports received from the licensee and related royalty expense is accrued during the same period.

Results of Operations

The consolidated results of operations for the three months and nine months ended September 30, 2008 compared to the same three month and nine month period in 2007 reflect our focus and development on the *STA System* delivery system, as well continuing efforts on the *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 September 30				Nine Months Ended September 30			
	2008		2007		2008		2007	
Products sales, net	\$1,813,103	100%	\$1,134,468	98%	\$ 4,741,976	99%	\$ 5,166,832	98%
Royalty income	5,112	0%	28,977	2%	\$ 28,282	1%	112,747	2%
Total revenue	<u>1,818,215</u>	<u>100%</u>	<u>\$1,163,445</u>	<u>100%</u>	<u>4,770,258</u>	<u>100%</u>	<u>\$ 5,279,579</u>	<u>100%</u>
Cost of products sold	740,398	41%	631,584	54%	1,798,758	38%	2,418,068	46%
Royalty expense	—	—	(1,675)	0%	—	—	(3,261)	0%
Total cost of revenue	<u>740,398</u>	<u>41%</u>	<u>629,909</u>	<u>54%</u>	<u>1,798,758</u>	<u>38%</u>	<u>2,414,807</u>	<u>46%</u>
Gross Profit	<u>1,077,817</u>	<u>59%</u>	<u>533,536</u>	<u>46%</u>	<u>2,971,500</u>	<u>62%</u>	<u>2,864,772</u>	<u>54%</u>
Selling, general and administrative expenses	1,199,353	66%	1,465,493	125%	4,039,137	85%	5,111,935	96%
Research and development expenses	35,181	2%	45,574	4%	119,500	3%	345,538	7%
Total operating expenses	<u>1,234,534</u>	<u>68%</u>	<u>1,511,067</u>	<u>109%</u>	<u>4,158,637</u>	<u>88%</u>	<u>5,457,473</u>	<u>98%</u>
Loss from operations	(156,717)	-9%	(977,531)	-84%	(1,187,137)	-25%	(2,592,701)	-49%
Other income — interest & expense	(30,016)	-2%	(4,257)	0%	(88,598)	-2%	6,878	0%
Net loss	<u>\$ (186,733)</u>	<u>-11%</u>	<u>\$ (981,788)</u>	<u>-84%</u>	<u>\$(1,275,735)</u>	<u>-27%</u>	<u>\$(2,585,823)</u>	<u>-49%</u>

Three months ended September 30, 2008 compared to three months ended September 30, 2007

Total revenues for the three months ended September 30, 2008 and 2007 were \$1,818,215 (product sales of \$1,813,103 and royalty income of \$5,112) and \$1,163,445 (product sales of \$1,134,468 and royalty income of \$28,977), respectively. The total increase in product sales of \$678,635, 60%, is a direct result of the continued implementation of the new sales distribution model that began in the second quarter of 2008. The increase in sales volume of domestic units by \$253,401, or 225% in 2008 over 2007, was due to the expansion of our distributor network. In the domestic market, handpiece sales increased by \$397,115, (\$306,216 increase in *CompuDent* sales, \$90,899 increase in *STA*) or 73%. On the international scene, unit sales decreased in the third quarter of 2008 over 2007 by \$53,541 principally due to the decrease in *CompuDent* units (\$103,297). *STA* unit sales internationally increased by \$49,756 or 68%. Internationally, handpiece sales increased. The increase in handpiece sales internationally was \$74,726, 27% due to increased sales of *CompuDent* (\$61,289) and *STA* (\$13,437) handpieces.

Royalty income resulted from granting United Systems Inc. a license to manufacture, market, and sublicense the *Ionic White*™ to the consumer market. Royalty income for the three months ended September 30, 2008 and 2007, respectively, was \$5,112 and \$28,977. The decrease of \$23,865 or 82 % reflected increased retail competition in this increasingly highly competitive market.

Cost of products sold for the three months ended September 30, 2008 and 2007 were \$740,398 and \$631,584 respectively. The \$108,814 increase in product cost, or 17% is primarily attributable to an increase in sales volume.

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For the three months ended September 30, 2008, Milestone's gross profit increased by 102% over the same three month period in 2007, due to product mix, with higher handpiece sales. For the three month period ending September 30, 2008, Milestone generated a gross profit of \$1,077,817 or 59% as compared to a gross profit of \$533,536 or 46% for the three months ended September 30, 2007. The total dollar increase in gross profit was \$544,281 in 2008. Additionally, included in reduced gross profit for the three months ended September 30, 2007, the Company recorded a write-down of slow moving inventory in the aggregate of \$112,300. Excluding the write down of slow moving inventory, the gross margin would have been 56% for the three months ended September 31, 2007.

Selling, general and administrative expenses for the three months ended September 30, 2008 and 2007 were \$1,199,353 and \$1,465,493 respectively. The \$266,140, or 18 %, net decrease spanned several key areas of the Company. Marketing expense decreased in 2008 by net \$37,000, with an increase of \$36,000 in advertising media placement in 2008, offset by a reduction in the 2007 STA launch program of \$69,000. General expenses decreased by \$257,000, primarily due to a 2007 write-off of molds and tooling (\$233,000), that did not occur in 2008. Professional fees (accounting and legal) decreased by \$69,000, offset by various increases in several expense items. The Company completed the documentation and testing phase of the system of Internal Control in the first quarter of 2008. Sales expenses increased by \$31,535, due to an increase in commissions to an outside sales representative of \$114,000, offset by lower commissions to sales personnel and other lower expenses in this category. Salaries for the three months ended September 30, 2008 were relatively consistent as compared to the same period in 2007.

Research and development expenses for the three months ended September 30, 2008 and 2007 were \$35,181 and \$45,574, respectively. The decrease of \$10,393 was attributable to a reduction in such cost in 2008 after the launch of the STA product in the first quarter of 2007.

The loss from operations for the three months ended September 30, 2008 and 2007 was \$156,717 and \$977,531, respectively. The \$820,814 or 84% decrease in loss from operations is explained above.

Interest expense was \$23,863 and amortization of debt issuance was \$7,926, relating to the line of credit established in June 2007. See Note 5 to the Financial Statements.

For the reasons explained above, net loss for the three months ended September 30, 2008 was \$186,733 as compared to a net loss of \$981,788 for the three months ended September 30, 2007. The \$795,055, or 81 %, decrease in net loss is primarily a result of a significant increase in gross margin dollars and a reduction in selling, general and administrative expenses.

Working capital as of September 30, 2008 was \$1,342,830, a decrease of \$144,793 as compared to June 30, 2008. Current assets declined by \$226,139 (principally in inventory and advances to a contract manufacturer, offset by an increase in accounts receivable). Current liabilities decreased by \$81,346, principally by reducing extended termed accounts payable by payment, offset by an increase of \$200,000 in Note Payable- Short Term borrowing, see Note 5.

Nine months ended September 30, 2008 compared to the nine months ended September 30, 2007

Total revenues for the nine months ended September 30, 2008 and 2007 were \$4,770,258 and \$5,279,579 respectively. Total revenues decreased by \$509,321 or 10%. Contributing to this decrease was STA unit sales of \$608,040 and an increase in STA handpiece sales of \$181,821. *CompuDent* unit sales decreased by \$203,858 and *CompuDent* handpiece sales increased \$368,618. International revenue increased \$334,298 or 28% as compared to the comparable 2007 period. Domestic product revenue decreased \$759,152 in 2008 (19%) caused by an inventory buy in by our then exclusive distributor in 2007. The new Distributor Distribution Model initiated in the second quarter of 2008 has modified the purchasing system by our distributors. Distributors are purchasing to fulfill their sales to their customers on a routine basis. Domestic disposable handpiece sales increased by 339,555 or 15% and international disposable handpiece sales increased \$210,884 or 24%. The amount of \$28,282 is royalty income from granting United Systems Inc. a license to manufacture market and sublicense the *Ionic White* product to the consumer market. Royalty income declined \$84,465 or 75% reflecting retail competition in this increasingly highly competitive market.

Gross profit for the nine months ended September 30, 2008 and 2007 was \$2,971,500 or 62% and \$2,864,772 or 54%, respectively. Gross profit dollars in the nine months of 2008 period was increased by \$106,728 due to the lack of

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an inventory write-down in 2008 as compared to 2007. In the period ending September 30, 2007 the Company recorded an inventory write-down aggregating \$112,300.

Selling, general and administrative expenses for the nine months ended September 30, 2008 and 2007 were \$4,039,137 and \$5,111,935 respectively. The decrease of \$1,072,798, or 21%, crossed essentially all business departments. The following discussion highlights the major areas of savings in 2008 (nine months ended) as compared to the same period in 2007. Marketing expense decreased by \$171,000 due the reduction in the initial *STA* launch expense in 2007 (\$259,000), offset by increased media advertising (\$101,000) focused on refining the Company's messaging platform for the *STA* in 2008. General expenses decreased by \$920,000 principally in the areas of reduced professional fees (\$340,000) based on in house acceptance of certain tasks and lower legal fees. Employment recruiting fees have been reduced by \$76,000 due to direct advertising for open positions; bank fees are lower by \$43,000, due to our change in business model to a direct distributor business model. Bad debt expense is lower by \$69,000, based on lower write-offs of accounts receivable and the Company did not have a loss on disposal of molds and tooling for certain tooth whitening products in 2008 as it did in 2007 (\$233,000). Sales expense in 2008 increased by \$54,000, principally due to the expense of utilizing an outside sales representative. Salaries for the nine months ended September 2008 increased by \$134,000 due the increase of several new positions that did not exist in the same nine month period in 2007.

Research and development expenses for the nine months ended September 30, 2008 and 2007 were \$119,500 and \$345,538 respectively. The decreased costs are primarily associated with the development of our *STA* delivery system product launch in 2007, which is a now complete and continuing effort on the *CompuFlo*™ technology.

Interest income of \$6,479 was earned for the nine months ended September 30, 2008 compared to \$12,477 for the same period in 2007. The decrease of \$5,998 or 48% is the result of lower interest rates and lower available excess and invested cash.

Interest expense for 2008 of \$73,455 and amortization of debt issuance of \$21,622 related to the Line of Credit established in June 2007. See Note 5 to the Financial Statements

For the reasons explained above, net loss for the nine months ended September 30, 2008 decreased by \$1,310,088 or 51% over the net loss for the nine month period ended September 30, 2007.

Working capital as of September 30, 2008 was \$1,342,830, a decrease of \$690,162 as compared to December 31, 2007. Current assets declined by \$1,339,486 (principally in cash, accounts receivable, inventory and advances to contract manufacturer). Current liabilities decreased by \$649,324, principally by reducing extended termed accounts payable (\$1,027,461) by payment, offset by a new Note Payable-Short Term borrowing of \$200,000, see Note 5. Long term accounts payable (\$443,847) was extinguished through the issuance of common stock in the first quarter of 2008. The source of funds to reduce the accounts payable was through the borrowing by the Company on a Line of Credit; see Note 5 to the Financial Statements. Long termed liabilities increased to \$1,300,000 in the third quarter of 2008, as a result of the Company receiving an additional borrowing on the Line of Credit from a shareholder; see Note 5 to the Financial Statements.

Liquidity and Capital Resources

As of September 30, 2008, we had cash and cash equivalents of \$286,020 and working capital of \$1,342,830. The working capital decreased by \$690,162 from December 31, 2007. Net current assets decreased by approximately \$1.3 million, principally in cash, inventories and advances to contract manufacturer, offset by an increase in accounts receivable of \$397,416. Current liabilities decreased by net \$649,324, principally by a reduction in accounts payable of \$1,027,461 offset by an increase in Notes Payable — Short Term of \$200,000 (Note 5). The reduction in cash was attributable to the pay down of accounts payable in the nine months ended September 30, 2008. The Company has taken positive steps to reduce inventory levels and will continue this effort in the future. Milestone incurred net losses of \$1,275,735 and \$2,585,823 and negative cash flows from operating activities of \$693,166 and \$1,412,387 for the nine months ended September 30, 2008 and 2007, respectively.

For the nine months ended September 30, 2008, net cash used in operating activities was \$693,166. This was attributable primarily to a net loss of \$1,275,735 adjusted for noncash items of \$428,365, and changes in operating assets

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and liabilities of \$154,206. The increase in noncash items is principally common stock and options issued for employee compensation, consulting and vendor services.

For the nine months ended September 30, 2008, Milestone used \$265,819 in investing activities, primarily attributable to legal fees related to payment for patent rights.

As of September 30, 2008, Milestone recorded on the Balance Sheet a \$1.3 million Line of Credit from a stockholder. The full credit line was utilized at September 30, 2008. The Company borrowed \$200,000 from the stockholder noted above in July 2008. The borrowings require a one percent fee at the date of borrowing and an interest rate of six percent per annum, payable at the maturity of the note. The note is due in January 2009 and such amount is included as a current liability in the financial statements at September 30, 2008. Subsequent to September 30, 2008, the Company borrowed an additional \$250,000 from the shareholder noted above with terms and maturity the same as the \$200,000 Note borrowed in July 2008.

The Company has incurred operating losses and negative cash flows from operating activities since its inception. The Company is actively pursuing the generation of positive cash flows from operating activities through increase in revenue based upon management's assessment of present contracts and current negotiations and reductions in operating expenses; however, the Company does not have sufficient cash reserves to meet all of its anticipated obligations for the next twelve months. However, the internal sales growth targets have been achieved for the first nine months of this year and it is anticipated that future sales growth targets will be achieved. If the future sales growth targets are not achieved, 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 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.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Reference is made to Item 2 of Part I of this quarterly report. "Management Discussion and Analysis or Plan of Operation-Forward Looking Statements".

Item 4. Controls and Procedures

The Company's management, including the Chief Executive Officer and Chief Financial Officer, has 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 September 30, 2008 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.

Management's Report on Internal Control over Financial Reporting

There have been no significant 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. It should be noted that any system of controls, however well designed and operated, can provide only reasonable assurance and not absolute assurance, that the objectives of the system are met. In addition, the design of any control system is based in part upon certain assumptions about the likelihood of future events. Because of these and other inherent limitations, on control systems, there can be no assurance that any design will succeed in achieving the stated goals under all potential future conditions, regardless of how remote.

PART II — OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

In October 2008, Milestone announced that it acquired additional patent rights with respect to painless anesthetic injections — specifically rights related to the flow rate or pressure used in providing these injections — through the issuance of 260,000 shares of restricted common stock. In connection with this acquisition, Milestone also agreed to terminate its Declaratory Judgment action against Dr. Milton Hodosh related to claim infringements of his patent rights and Dr. Hodosh agreed to terminate his existing infringement action against the Milestone. Each party is responsible for their own legal fees.

ITEM 1A. RISK FACTORS

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 no history of profitable operations. Continuing losses could exhaust our capital resources and force us to discontinue operations.

For the nine months ended September 30, 2008 and 2007 our revenues were approximately \$4.8 million and \$5.3 million respectively. In addition, we have had losses for each year since the commencement of operations, including net losses of approximately \$1,275,735 and \$2,585,823 for the nine months ended September 30, 2008 and 2007, respectively. At September 30, 2008, we had an accumulated deficit of approximately \$57.3 million. At September 30, 2008, the Company had cash and cash equivalents \$286,020 and working capital of \$1,342,830. Additionally, the Company secured a Line of Credit in the aggregate amount of \$1.3 million from a stockholder as of September 30, 2008, as discussed in Note 5. The Company borrowed \$200,000 from the stockholder noted above in July 2008. The borrowings require a one percent fee at the date of borrowing and an interest rate of six percent per annum, payable at the maturity of the note. The note is due in January 2009 and such amount is included as a current liability in the financial statements at September 30, 2008. In October 2008, subsequent to the Financial Statement date, the Company borrowed an additional \$250,000 from the stockholder above. The terms and maturity date of this borrowing is identical to the \$200,000 borrowing in July 2008. 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; however, the Company does not now have sufficient cash reserves to meet all of its anticipated obligations for the next 12 months. However, the internal sales growth targets have been achieved for the first nine months of this year and it is anticipated that the future sales growth targets will be achieved. If the future sales growth targets are not achieved, then the Company would be forced to curtail its development activities, reduce marketing expenses for existing dental products and/or adopt other cost savings measures , any of which might negatively affect the Company’s operating results.

The Company’s recurring losses and negative operating cash flows 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-KSB for the year ended December 31, 2007.

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

Recent Sales of Unregistered Securities

In the quarter ended September 30, 2008, Milestone issued total 76,528 shares valued at \$42,125 as follows:

	<u>Shares</u>	<u>\$</u>
Shares issued for Employee Compensation	21,272	\$ 12,125
Shares issued for services	55,256	30,000
	<u>76,528</u>	<u>\$ 42,125</u>

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.

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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/ Joe W. Martin
Joe W. Martin
Chief Executive Officer

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

Date: November 14, 2008

Rule 13a-14(a)/15d-14(a) Certification

I, Joe W. Martin, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the three months ended September 30, 2008 of Milestone Scientific;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the small business issuer as of, and for, the periods presented in this report;
4. The small business issuer's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the small business issuer and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the small business issuer including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the small business issuer's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report, based on such evaluation; and
 - (d) Disclosed in this report any change in the small business issuer's internal control over financial reporting that occurred during the small business issuer's most recent fiscal quarter (the small business issuer's fourth quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the small business issuer's internal control over financial reporting; and
5. The small business issuer's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the small business issuer's auditors and the audit committee of the small business issuer's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the small business issuer's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the small business issuer's internal control over financial reporting.

Date: November 14, 2008

/s/ Joe W. Martin
Joe W. Martin
Chief Executive Officer

Rule 13a-14(a)/15d-14(a) Certification

I, Joseph D’Agostino, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the three months ended September 30, 2008 of Milestone Scientific;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the small business issuer as of, and for, the periods presented in this report;
4. The small business issuer’s other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the small business issuer and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under my supervision, to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the small business issuer’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report, based on such evaluation; and
 - (d) Disclosed in this report any change in the small business issuer’s internal control over financial reporting that occurred during the small business issuer’s most recent fiscal quarter (the small business issuer’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Company’s internal control over financial reporting; and
5. The small business issuer’s other certifying officer(s) and, I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the small business issuer’s auditors and the audit committee of the small business issuer’s board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the small business issuer’s ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the small business issuer’s internal control over financial reporting.

Date: November 14, 2008

/s/ Joseph D’Agostino

 Joseph D’Agostino
 Chief Financial Officer

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the quarterly report of Milestone Scientific Inc (the "Company") on Form 10-Q for the period ending September 30, 2008 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Joe W. Martin, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. ss. 1350, as adopted pursuant to ss. 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company

Dated: November 14, 2008

/s/ Joe W. Martin

Joe W. Martin
Chief Executive Officer

A signed original of this certification has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the quarterly report of Milestone Scientific Inc (the "Company") on Form 10-Q for the period ending September 30, 2008 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Joseph D'Agostino, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. ss. 1350, as adopted pursuant to ss. 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company

Dated: November 14, 2008.

/s/ Joseph D'Agostino

Joseph D'Agostino
Chief Financial Officer

A signed original of this certification has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.