

MILESTONE SCIENTIFIC INC/NJ

Form 10QSB

November 13, 2007

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**SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-QSB**

Mark One

QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Quarterly Period Ended September 30, 2007

OR

TRANSITION REPORT UNDER 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
or organization)

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

220 South Orange Avenue, Livingston, New Jersey 07039

(Address of principal executive office)

(973) 535-2717

(Registrant's telephone number, including area code)

Check whether the Issuer (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 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 shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

As of November 6, 2007, the Issuer had a total of 11,787,602 shares of Common Stock, \$.001 par value, outstanding.

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FORWARD LOOKING STATEMENTS

When used in this Quarterly Report on Form 10-QSB, the words may , will , should , expect , believe , anticipate , continue , estimate , project , intend and similar expressions are intended to identify forward-looking statements with 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 Scientific Inc. s (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.

MILESTONE SCIENTIFIC INC.
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MILESTONE SCIENTIFIC INC.
CONDENSED BALANCE SHEETS

	September 30, 2007 (Unaudited)	December 31, 2006
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 44,783	\$ 1,160,116
Accounts receivable, net of allowance for doubtful accounts of \$5,000 in 2007 and \$16,519 in 2006	594,779	346,619
Royalty receivable	28,976	60,107
Inventories	1,657,256	1,323,338
Advances to contract manufacturer	1,020,480	1,077,871
Prepaid expenses	72,278	97,073
 Total current assets	 3,418,552	 4,065,124
Investment in distributor, at cost	76,319	76,319
Equipment, net of accumulated depreciation of \$297,891 in 2007 and \$402,914 in 2006	234,632	459,259
Patents, net of accumulated amortization of \$59,075 in 2007 and \$41,938 in 2006	598,510	526,753
Other assets	27,442	14,153
 Total assets	 \$ 4,355,455	 \$ 5,141,608
 LIABILITIES AND STOCKHOLDERS EQUITY		
Current Liabilities:		
Accounts payable	\$ 2,122,600	\$ 1,196,107
Accrued expenses	98,407	232,076
Deferred compensation payable to officers	130,000	
 Total current liabilities	 2,351,007	 1,428,183
 Long-term Liabilities:		
Line of credit net of discount of \$24,072	375,928	
 Total Long-term liabilities	 375,928	
 Stockholders Equity		
Common stock, par value \$.001; authorized 50,000,000 shares; 11,777,849 shares issued, 337,036 reserved for issuance, and 11,744,516 shares outstanding in 2007; 11,692,636 shares issued, 337,036 reserved for issuance, and 11,659,303 shares outstanding in 2006	12,116	12,031

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Additional paid-in capital	58,220,962	57,720,129
Accumulated deficit	(55,693,042)	(53,107,219)
Treasury stock, at cost, 33,333 shares	(911,516)	(911,516)
Total stockholders' equity	1,628,520	3,713,425
Total liabilities and stockholders' equity	\$ 4,355,455	\$ 5,141,608

See Notes to Condensed Financial Statements

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MILESTONE SCIENTIFIC INC.
CONDENSED STATEMENTS OF OPERATIONS
(Unaudited)

	Three Months Ended		Nine Months Ended	
	September 30, 2007	September 30, 2006	September 30, 2007	September 30, 2006
Product sales, net	\$ 1,134,468	\$ 1,189,988	\$ 5,166,832	\$ 4,176,728
Royalty income	28,977	31,335	112,747	217,645
Total revenue	1,163,445	1,221,323	5,279,579	4,394,373
Cost of products sold	631,584	519,284	2,418,068	1,958,571
Royalty expense	(1,675)	3,760	(3,261)	25,818
Total cost of revenue	629,909	523,044	2,414,807	1,984,389
Gross profit	533,536	698,279	2,864,772	2,409,984
Selling, general and administrative expenses	1,233,234	1,132,776	4,879,676	3,981,988
Research and development expenses	45,574	206,057	345,538	760,239
Total operating expenses	1,278,808	1,338,833	5,225,214	4,742,227
Loss from operations	(745,272)	(640,554)	(2,360,442)	(2,332,243)
Gain/Loss on Disposal of Assets	(232,259)		(232,259)	
Interest expense	(5,599)		(5,599)	
Interest income	1,342	19,497	12,477	71,591
Net loss	\$ (981,788)	\$ (621,057)	\$ (2,585,823)	\$ (2,260,652)
Loss per share basic and diluted	\$ (0.08)	\$ (0.05)	\$ (0.21)	\$ (0.19)
Weighted average shares outstanding and to be issued basic and diluted	12,096,518	11,790,251	12,077,642	11,767,101

See Notes to Condensed Financial Statements

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MILESTONE SCIENTIFIC INC.
CONDENSED STATEMENT OF CHANGES IN STOCKHOLDERS EQUITY
NINE MONTHS ENDED SEPTEMBER 30, 2007
(Unaudited)

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Accumulated Deficit	Treasury Stock	Total
Balance, January 1, 2007	12,029,672	\$ 12,031	\$ 57,720,129	\$ (53,107,219)	\$ (911,516)	\$ 3,713,425
Common stock issued from exercise of stock options	66,667	67	71,134			71,201
Common stock and options issued for consulting services			253,435			253,435
Common stock and options issued for payment of employee compensation	18,546	18	151,707			151,725
Warrants issued in connection with the line of credit			24,557			24,557
Net loss				(2,585,823)		(2,585,823)
Balance, September 30, 2007	12,114,885	\$ 12,116	\$ 58,220,962	\$ (55,693,042)	\$ (911,516)	\$ 1,628,520

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

	NINE MONTHS ENDED SEPTEMBER 30,	
	2007	2006
Cash flows from operating activities:		
Net loss	\$ (2,585,823)	\$ (2,260,652)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation expense	85,604	73,245
Amortization of patents	17,136	17,136
Amortization of debt discount	485	
Common stock and options issued for compensation and consulting	405,160	213,862
Bad debt expense	69,378	10,432
Loss on disposal of equipment	232,259	2,634
Changes in operating assets and liabilities:		
(Increase) decrease in accounts receivable	(317,538)	21,882
Decrease (increase) in royalty receivable	31,131	185,702
Decrease (increase) in inventories	(341,900)	(84,574)
Increase (decrease) in advances to contract manufacturer	57,391	(11,533)
Decrease (increase) in prepaid expenses	24,795	52,193
Decrease (increase) in other assets	(13,289)	7,542
Increase (decrease) in accounts payable	926,493	186,776
Increase (decrease) in accrued expenses	(133,669)	(3,360)
Increase (decrease) in deferred compensation	130,000	162,081
Net cash used in operating activities	(1,412,387)	(1,426,634)
Cash flows from investing activities:		
Purchase of equipment	(85,254)	(13,180)
Payment for patent rights	(88,893)	(28,098)
Net cash used in investing activities	(174,147)	(41,278)
Cash flows from financing activities:		
Proceeds from exercise of stock options	71,201	
Long term borrowing-other	400,000	
Net cash provided by financing activities	471,201	
NET DECREASE IN CASH AND CASH EQUIVALENTS	(1,115,333)	(1,467,912)
Cash and cash equivalents at beginning of period	1,160,116	2,892,679

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Cash and cash equivalents at end of period	\$	44,783	\$	1,424,767
Supplemental disclosure of cash flow information:				
Stock issued to employees in lieu of cash compensation	\$	44,693	\$	51,250
Interest expenses paid in cash	\$	4,000		
Warrants issued in connection with the line of credit	\$	24,557		

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

Note 1 Summary of accounting policies

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, 2006 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, 2006 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, 2007 and the results of its operations for the three and nine months ended September 30, 2007 and 2006.

The results reported for the three and nine months ended September 30, 2007 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 \$2,585,823 and \$1,412,387, respectively for the nine months ended September 30, 2007. At September 30, 2007, the Company had cash and cash equivalents and working capital of \$44,783 and \$1,067,545, respectively.

Additionally, as discussed in Note 12, 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 during September and October 2007. The Company is actively pursuing 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 twelve months. The Company anticipates the need for a higher level of marketing and sales efforts that at present it cannot fund. If the Company is unable to generate positive cash flows from its operating activities it will need to raise additional capital. There is no assurance that the Company will be able to achieve positive operating cash flows or that additional capital can be raised on terms and conditions satisfactory to the Company if at all. If additional capital is required and it cannot be raised, then the Company would be forced to curtail its development activities, reduce marketing expenses for existing dental products or adopt other cost saving measures, any of which might negatively affect the Company's operating results.

On November 6, 2007 Milestone entered into a Collaboration Agreement (the "Agreement") with a global diversified healthcare company (the "Collaborator") to conduct a feasibility study to evaluate the potential application of Milestone's proprietary CompuFlo[®] Injection System for injecting medicaments. The name of the company is not provided pursuant to the confidentiality provisions in the Agreement. Under the terms of the Agreement, Milestone will provide, at no cost to the Collaborator, a mutually agreed to quantity of CompuFlo[®] Injection Systems and training on proper operation of the systems for use in the feasibility study. All other costs and expenses associated with the feasibility study will be the responsibility of the Collaborator. The Collaborator may terminate the Agreement at any time upon at least ten (10) days prior written notice to Milestone, provided that the Collaborator shall be responsible for any reasonable, non-cancelable costs and expenses incurred by Milestone or its approved subcontractors prior to the date of termination. There can be no assurance that the feasibility study will be successfully concluded or, if successfully concluded, that it will lead to any further agreements with the Collaborator for their use of Milestone's technology or products.

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

Note 2 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 receivables, 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. See also the discussion under Summary of Significant Accounting Policies .

Note 3 Receivables and allowance for doubtful accounts

It is critical to Milestone to evaluate the collectibility of payments for products shipped to our customers (see Note 7 below) so as to manage our cash flow to meet all business needs. To make an estimate of what amounts may not be collected we evaluate the credit worthiness of the customer as well as the customer's payment history. Based on these factors it was felt that only a nominal allowance for doubtful accounts was required. Royalty receivable represents the royalty due from United Systems Inc, the licensee of Milestone's proprietary consumer dental whitening product, which is sold under Milestone's distributor's trademark of *Ionic White* .

Note 4 Inventories

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

Note 5 Advances to contract manufacturer

Advances to contract manufacturer represent payments to the Company's contract manufacturer to be recovered upon shipment of finished goods to the Company. The contract manufacturer uses the advances to fund inventory purchases by the contract manufacturer and the advance payments are credited against the purchase price of the finished products when shipped by the contract manufacturer.

Note 6 Basic and diluted net loss per common share

Milestone presents basic earnings (loss) per common share and, if applicable, diluted earnings per common share pursuant to the provisions of Statement of Financial Accounting Standards No. 128, Earnings per Share (SFAS 128). Basic earnings (loss) per common shares are calculated by dividing net income or loss 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, warrants, and the conversion of notes payable and preferred stock were issued during the period.

Since Milestone had net losses for the three and nine months ended September 30, 2007 and 2006, 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 and preferred stock totaled 3,298,413 and 3,380,087 at September 30, 2007 and 2006, respectively.

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(Unaudited)

Note 7 Significant Customers

Milestone had two customers (distributors) with each accounting for approximately 67% and 27%, respectively, of its net product sales for the three months ended September 30, 2007 and 67% and 14%, respectively, of its net product sales for the nine months ended September 30, 2007. For the three and nine months ended September 30, 2006 one customers accounted for 6% and 20%, respectively, of the Company's net product sales. At September 30, 2007, receivables from these two customers were approximately 76% and 23% respectively of Milestone's gross accounts receivable.

Note 8 Stock Option Plans

Milestone adopted Statement of Financial Accounting Standards No. 123(revised 2004), *Share-Based Payment*, an Amendment of FASB Statement No. 123, (SFAS No. 123R) under the modified-prospective transition method on January 1, 2006. SFAS No. 123R requires all share-based payments to employees, including grants of employee stock options, to be recognized in the income statements 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, the Company 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.

Employees: As of September 30, 2007, employees held 109,334 outstanding options granted to them under the Milestone 1997 Stock Option Plan and 282,000 outstanding options granted to them under the Milestone 2004 Stock Option Plan. In accordance with SFAS No. 123R the Company recognized \$9,618 and \$107,033 in share-based compensation expense for the three and nine months ended September 30, 2007 respectively. This share-based compensation expense had a \$0.01 impact on the Company's basic and diluted earnings per share for the three and nine months ended September 30, 2007.

The fair value of each option granted was estimated on the date of the grant using the Black-Scholes option pricing model with the following assumptions used for grants: dividend yield of 0%; expected volatility of 96%; risk free interest rate of 4.97% and expected term of 3.5 years.

Expected volatilities are based on historical volatility of the Company's common stock. The expected term of the option granted is estimated based on historical behavior of employees and represents the period of time that options granted are expected to be outstanding. A summary of option activity under the plan as of September 30, 2007, and changes during the nine months then ended is presented below:

Options	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value
Outstanding, January 1, 2007	427,834	\$ 1.85	3.34	
Granted	80,000	1.68		
Exercised	(66,667)	1.62		
Forfeited or expired	(49,833)	2.54		
Outstanding, September 30, 2007	391,334	\$ 1.77	3.20	\$ 156,900
Exercisable, September 30, 2007	314,334	\$ 1.82	2.91	\$ 138,750

As of September 30, 2007, there was \$57,711 of total unrecognized compensation cost related to non-vested share-based compensation arrangements granted under the plan. That cost is expected to be recognized over a weighted average period of approximately two years.

Non-Employees: As of September 30, 2007, non-employees, including consultants, held 347,466 outstanding options granted to them under the Milestone 1997 Stock Option Plan and 291,667 outstanding options granted to them under the Milestone 2004 Stock Option Plan. The Company recognized a reduction of \$(6,600) and \$220,102 in share-based compensation expense for the three and nine months ended September 30, 2007 respectively.

The fair value of each option granted is estimated on the date of the grant using the Black-Scholes option pricing model with the following assumptions used for the grants in the nine months ended September 30, 2007: dividend yield of 0%; expected volatility of 123%; risk free interest rate of 4.58%; and expected term of 3 years.

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Expected volatilities are based on historical volatility of the Company's common stock. The expected term of the option granted is estimated based on historical behavior of nonemployees and represents the period of time that options granted are expected to be outstanding. A summary of option activity under the plan as of September 30, 2007, and changes during the nine months then ended is presented below:

	Number of Options	Weighted average exercise price of options	Weighted Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value
Outstanding, January 1, 2007	522,466	\$ 3.51	3.17	
Granted	125,000	1.75		
Exercised				
Forfeited or expired	(8,333)	4.92		
Outstanding, September 30, 2007	639,133	\$ 3.15	2.81	\$32,000
Exercisable, September 30, 2007	489,133	\$ 3.49	2.49	\$ 3,000

As of September 30, 2007, there was \$118,130 of total unrecognized compensation cost related to nonvested share-based compensation arrangements granted under the plan. That cost is expected to be recognized over a weighted average period of approximately two years.

Note 9 Agreements to Issue Common Stock and Stock Options

Under an agreement, the Company's marketing associate for a consumer tooth whitening product agreed to purchase, at \$3.00 per share, 500,000 shares of Milestone common stock in quarterly installments of 125,000 shares within 10 days after the end of each of the four fiscal quarters commencing July 1, 2005. Milestone is not required to sell these shares unless the associate has purchased at least 625,000 starter kits in the first quarter, at least 1,250,000 starter kits in the first two quarters and at least 1,875,000 starter kits in the first three quarters. Further, at Milestone's option, all shares previously purchased must be returned to Milestone and all monies paid to Milestone returned to the associate if it has not purchased an aggregate of at least 3,000,000 starter kits for the twelve-month period ending June 30, 2006.

This agreement has been repeatedly extended for the associate's commitment to purchase common stock. As of September 30, 2007, no shares have been sold under this agreement, as the associate did not purchase the minimum amount of starter kits.

Note 10 Recent Accounting pronouncements

In June 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109 (FIN 48). FIN 48 clarifies the accounting for uncertainties in income taxes recognized in a company's financial statements in accordance with Statement 109 and prescribes a recognition threshold and measurement attributable for financial disclosure of tax positions taken or expected to be taken on a tax return. Additionally, FIN 48 provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. We adopted the provisions of FIN 48 as of January 1, 2007. The adoption of FIN 48 did not impact our financial position, results of operations or cash flows for the three and nine months ended September 30, 2007.

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

In February 2007, the FASB issued FASB No. 159, The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of FASB Statement No. 115, (FASB 159) which permits companies to measure many financial instruments and certain other assets and liabilities at fair value on an instrument-by-instrument basis (the fair value option). FASB 159 is effective for us on January 1, 2008. We are currently evaluating the possible impact of adopting FASB 159 on our consolidated financial statements.

In September 2006, the FASB issued FASB No.157, Fair Value Measurements (FASB 157). FASB 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. FASB 157 is effective for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. The Company does not expect adoption of FASB 157 to have a material effect on its results of operations or financial position.

Note 11 Contingent Liabilities

Through December 31, 2006, Milestone paid royalties in connection with its tooth whitening products to a purported holder of patent rights therein. Late in 2006 it 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 but has ceased making cash payments.

On August 24, 2007 Milestone commenced a Declaratory Judgment Action against Milton Hodosh, DMD in the United States District Court for the District of New Jersey seeking a determination by that Court that neither its *Single Tooth Anesthesia (STA)* system nor its *CompuDent*[®] system infringed claims set forth in United States Patent No. 6159161 filed by Dr. Hodosh on July 8, 1998 and issued by the United States Patent Office on December 12, 2000. Milestone's basic patents covering these systems were issued by the United States Patent Office in January 1993. Subsequent to the commencement of Milestone's action for a Declaratory Judgment, Dr. Hodosh commenced a patent infringement suit in the United States District Court for the Southern District of New York. Milestone has received opinions from patent counsel, not involved in the litigations, to the effect that neither the *STA* system nor the *CompuDent*[®] systems infringe any of the claims of Dr. Hodosh's patents. Milestone believes that it has meritorious defenses to Dr. Hodosh's action and it intends to vigorously defend this law suit.

Note 12 Line of credit

On June 28, 2007 we secured a \$1 million line of credit from a stockholder. Borrowings will bear interest at 6% per annum, with one year's interest at 1% payable in advance on each draw. Borrowings and subsequent repayments may be made from time to time, in increments of \$100,000, until the expiration date of the line on December 31, 2008. 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 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 using the Black-Scholes model and are reflected as a discount against the debt incurred under this line of credit.

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

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-QSB. 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, 2006.

On November 6, 2007 Milestone entered into a Collaboration Agreement (the Agreement) with a global diversified healthcare company (the Collaborator) to conduct a feasibility study to evaluate the potential application of Milestone's proprietary CompuFlo® Injection System for injecting medicaments. The name of the company is not provided pursuant to the confidentiality provisions in the Agreement. Under the terms of the Agreement, Milestone will provide, at no cost to the Collaborator, a mutually agreed to quantity of CompuFlo® Injection Systems and training on proper operation of the systems for use in the feasibility study. All other costs and expenses associated with the feasibility study will be the responsibility of the Collaborator. The Collaborator may terminate the Agreement at any time upon at least ten (10) days prior written notice to Milestone, provided that the Collaborator shall be responsible for any reasonable, non-cancelable costs and expenses incurred by Milestone or its approved subcontractors prior to the date of termination. There can be no assurance that the feasibility study will be successfully concluded or, if successfully concluded, that it will lead to any further agreements with the Collaborator for their use of Milestone's technology or products.

During the first three quarters of 2007, the Company made considerable progress in advancing and refining its business strategy primarily focused on the development, commercialization and global marketing and distribution of innovative painless injection products based on its patented technology, *CompuFlo*®. Particular emphasis has been concentrated on bringing our patented and novel *Single Tooth Anesthesia (STA)* delivery system to market, which incorporates the pressure force feedback elements of the *CompuFlo*® technology, allowing dental practitioners to accurately administer injections into the periodontal ligament space, thus effectively anesthetizing a single tooth, and to perform other injection procedures that they may have been reluctant to utilize due to patient discomfort during the procedure.

In January 2007, Milestone finalized an Exclusive Distribution and Supply Agreement with Henry Schein, Inc., one of the world's largest medical and dental distribution companies, to become the exclusive distributor of the *STA* and *CompuDent*® systems (and related ancillary products) in both North America and Canada. We also granted Henry Schein first right of refusal on distribution rights of the same products in the international marketplace, excluding Poland, Norway, Sweden, Denmark and South Africa, where we have already identified other sales and distribution partner.

In February 2007, the *STA* was formally unveiled to market at the 142nd Chicago Dental Society Midwinter Meeting, one of the largest dental trade events held each year in the U.S. In late March, we began fulfilling purchase orders from Henry Schein for the *STA*, with revenue recognition occurring upon receipt of the product at its destination. This resulted in a material improvement in our domestic sales performance during the first three quarters of this year, with the collective impact totaling \$1,260,572 in sales of *STA* systems and \$75,179 in sales of *STA* disposable handpieces.

The initial controlled soft introduction of our *STA* delivery system in the U.S. and Canada was designed to assess and affirm our planned sales, marketing and pricing strategies, as well as develop grass-roots support in the field prior to our full scale launch of the *STA* system scheduled t