

MILESTONE SCIENTIFIC INC/NJ

Form 10-Q

May 07, 2009

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

(Mark One)

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

For the quarterly period ended March 31, 2009

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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).  Yes  No

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

Large accelerated filer

Accelerated filer

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

Smaller reporting company

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

**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

As of May 5, 2009, the Issuer had a total of 13,095,127 shares of Common Stock, \$.001 par value outstanding.

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**FORWARD-LOOKING STATEMENTS**

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

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MILESTONE SCIENTIFIC INC.  
CONDENSED BALANCE SHEETS

	March 31, 2009 (Unaudited)	December 31, 2008
<b>ASSETS</b>		
Current Assets:		
Cash and cash equivalents	\$ 500,668	\$ 743,665
Accounts receivable, net of allowance for doubtful accounts of \$5,000 in 2009 and 2008	1,098,529	925,742
Inventories	647,676	719,902
Advances to contract manufacturer	124,950	250,110
Prepaid expenses and other current assets	229,216	218,296
<b>Total current assets</b>	<b>2,601,039</b>	<b>2,857,715</b>
Advances to contract manufacturer	415,780	415,780
Investment in distributor, at cost	76,319	76,319
Furniture, Fixtures & Equipment net of accumulated depreciation of \$360,880 as of March 31 ,2009 and \$345,377 as of December 31, 2008	167,202	152,574
Patents, net of accumulated amortization of \$153,687 as of March 31, 2009 and \$135,406 as of December 31, 2008	895,373	901,045
Other assets	7,317	7,317
<b>Total assets</b>	<b>\$ 4,163,030</b>	<b>\$ 4,410,750</b>
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
Current Liabilities:		
Accounts payable	\$ 1,077,752	\$ 829,130
Accrued expenses and other payable	332,330	495,897
<b>Total current liabilities</b>	<b>1,410,082</b>	<b>1,325,027</b>
Long-term Liabilities:		
Line of credit-net of discount of \$43,328 and \$50,504, respectively	1,256,672	1,249,496
Notes Payable-net of discount of \$13,254 and \$13,953, respectively	436,746	436,047
<b>Total long-term liabilities</b>	<b>1,693,418</b>	<b>1,685,543</b>
Commitments and Contingencies		
Stockholders Equity		
Common stock, par value \$.001; authorized 50,000,000 shares; 13,023,661 shares issued 566,309 shares to be issued and 12,990,328 shares outstanding as of March 31, 2009; 12,695,685 shares issued, 504,639 shares to be issued, and 12,662,352 shares outstanding as of December 31, 2008	13,589	13,200
Additional paid-in capital	59,752,468	59,531,865

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Accumulated deficit	(57,795,011)	(57,233,369)
Treasury stock, at cost, 33,333 shares	(911,516)	(911,516)
Total stockholders' equity	1,059,530	1,400,180
Total liabilities and stockholders' equity	\$ 4,163,030	\$ 4,410,750

See Notes to Condensed Financial Statements



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MILESTONE SCIENTIFIC INC.  
CONDENSED STATEMENTS OF OPERATIONS  
(Unaudited)

	Three Months Ended March 31,	
	2009	2008
Product sales, net	\$ 2,204,819	\$ 1,387,990
Royalty income		14,163
Total revenue	2,204,819	1,402,153
Cost of products sold	916,550	463,924
Total cost of revenue	916,550	463,924
Gross profit	1,288,269	938,229
Selling, general and administrative expenses	1,728,815	1,471,978
Research and development expenses	67,622	48,319
Total operating expenses	1,796,437	1,520,297
Loss from operations	(508,168)	(582,068)
Interest expense	(47,403)	(30,924)
Interest-Amortization of debt issuance	(7,875)	(6,129)
Interest income	1,804	3,236
Net loss applicable to common stockholders	\$ (561,642)	\$ (615,885)
Loss per share applicable to common stockholders - basic and diluted	\$ (0.05)	\$ (0.05)
Weighted average shares outstanding and to be issued - basic and diluted	12,458,115	12,262,256
See Notes to Condensed Financial Statements		

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MILESTONE SCIENTIFIC INC.  
CONDENSED STATEMENT OF CHANGES IN STOCKHOLDERS EQUITY  
THREE MONTHS ENDED MARCH 31, 2009  
(Unaudited)

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Accumulated Deficit	Treasury Stock	Total
Balance, January 1, 2009	13,200,324	\$ 13,200	\$ 59,531,865	\$ (57,233,369)	\$ (911,516)	\$ 1,400,180
Options issued to employees and consultants			22,668			22,668
Common stock issued for payment of consulting services to settle accounts payable	74,634	75	41,925			42,000
Common stock to be issued for payment of consulting services to settle accounts payable	16,216	16	5,984			6,000
Common stock issued for payment of employee compensation	253,342	253	125,071			125,324
Common stock to be issued for settlement of deferred compensation	45,454	45	24,955			25,000
Net loss				(561,642)		(561,642)
Balance, March 31, 2009	13,589,970	\$ 13,589	\$ 59,752,468	\$ (57,795,011)	\$ (911,516)	\$ 1,059,530

See Notes to Condensed Financial Statements

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

	THREE MONTHS ENDED MARCH	
	2009	31, 2008
Cash flows from operating activities:		
Net loss	\$ (561,642)	\$ (615,885)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation expense	15,503	18,740
Amortization of patents	18,281	10,943
Amortization of debt discount	7,875	6,129
Common stock and options issued for compensation, consulting and vendor services	220,992	638,960
Changes in operating assets and liabilities:		
(Increase) Decrease in accounts receivable	(172,787)	1,999
Decrease in royalty receivable		1,195
Decrease in inventories	72,226	298,172
Decrease (Increase) to advances to contract manufacturer	125,160	(967)
Increase to prepaid expenses and other current assets	(10,920)	(34,990)
Decrease in other assets		2,746
Increase (Decrease) in accounts payable (short & long term)	248,622	(833,380)
(Decrease) Increase in accrued expenses	(163,567)	84,197
Increase in deferred compensation		14,543
 Net cash used in operating activities	 (200,257)	 (407,598)
Cash flows from investing activities:		
Purchases of property and equipment	(30,131)	(2,931)
Payment for patents rights	(12,609)	(96,758)
 Net cash used in investing activities	 (42,740)	 (99,689)
 NET DECREASE IN CASH AND CASH EQUIVALENTS	 (242,997)	 (507,287)
Cash and cash equivalents at beginning of period	743,665	745,003
 Cash and cash equivalents at end of period	 \$ 500,668	 \$ 237,716
Supplemental disclosure of cash flow information:		
Income taxes paid	\$ 3,597	\$ 3,140
 Stocks issued to employees in lieu of cash compensation	 \$ 125,324	 \$ 15,832
 Shares issued to settle accounts payable	 \$ 42,000	 \$ 488,847

See Notes to Condensed Financial Statements



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

**ORGANIZATION, BUSINESS AND BASIS OF PRESENTATION**

Milestone Scientific Inc. ( Milestone of the Company ) was incorporated in the State of Delaware in August 1989. The unaudited financial statements of Milestone have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements.

These unaudited financial statements should be read in conjunction with the financial statements and notes thereto for the year ended December 31, 2008 included in Milestone s Annual Report on Form 10-K. The accounting policies used in preparing these unaudited financial statements are the same as those described in the December 31, 2008 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 March 31, 2009 and December 31, 2008 and the results of its operations for the three months ended March 31, 2009 and 2008.

The results reported for the three months ended March 31, 2009 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 \$561,642 and \$615,885 for the three months ended March 31, 2009 and 2008, respectively. At March 31, 2009, the Company had cash and cash equivalents of \$500,668 and working capital of \$1,190,957. 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. This borrowing was amended to \$1,300,000 as of September 30, 2008 under the same terms and conditions as the original. All borrowings and interest thereon must be repaid by June 30, 2010. Additionally, the company borrowed \$450,000 in 2008 from the same shareholder, with a due date of January 2009. This additional borrowing was refinanced at December 31, 2008 and the due date was extended to June 30, 2012. The Company, at March 31, 2009, expects to have sufficient cash reserves to meet all of its anticipated obligations through December 31, 2009. Additionally, 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. 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.

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.

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**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 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 was 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**

EITF Issue No. 08-7, Accounting for Defensive Intangible Assets, issued in November 2007, provides accounting and reporting guidance when an intangible acquired through a business combination or an asset acquisition that an entity does not intend to use but does intend to prevent others from using, commonly called a defensive asset or a locked up asset, because while the asset is not being actively used, it is likely contributing to an increase in the value of the other assets owned by the entity. This issue is effective for intangible assets acquired on or after the beginning of the first annual period beginning on or after December 15, 2008. The Company will determine the impact of this issue in 2009.

EITF Issue No. 07-1, Accounting for Collaborative Agreements, issued in November 2007, defines a Collaborative Arrangement and establishes the reporting requirements for transactions between participants in a collaborative arrangement and between participants in an arrangement with third parties. This issue shall be effective beginning after December 15, 2008 and interim periods within those fiscal years. This Statement does not currently impact the financial statements of the Company.



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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. This statement does not currently impact the financial statements of the Company.

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. This statement does not currently impact the financial statements of the Company.

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 does not currently impact the financial statements of the Company.

In May 2008, the FASB issued FSP Accounting Principles Board (APB) Opinion 14-1, *Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement)* (FSP APB 14-1) 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. This statement does not currently impact the financial statements of the Company.

In May 2008, the Financial Accounting Standards Board (FASB) issued SFAS No. 163, *Accounting for Financial Guarantee Insurance Contracts* an interpretation of FASB N0.60. 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 does not currently impact the financial statements of the Company.

**Reclassifications**

Certain reclassifications have been made to the 2008 balances to conform to the presentation used in 2009.

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

Since Milestone had net losses for the three months ended March 31, 2009 and 2008, the assumed effects of the exercise of outstanding stock options and warrants were not included in the calculation as their effect would have been anti-dilutive. Such outstanding options and warrants totaled 1,454,666 at March 31, 2009 and 3,343,746 at March 31, 2008.





**Table of Contents****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 March 31, 2009, and changes during the three months ended is presented below:

	Number of Options	Weighted Averaged Exercise Price	Weighted Average Remaining Contractual Life (Years)	Aggregate Intrinsic Options Value
Outstanding, January 1, 2009	570,832	\$ 1.51	3.01	\$ 75
Granted	303,056	0.43	4.93	
Exercised				
Forfeited or expired	(235,556)	0.64		
Outstanding, March 31, 2009	638,332	1.32	3.12	2,042
Exercisable, March 31, 2009	377,470	1.81	2.24	555

The weighted average grant date fair value of options granted to employees during the three months ended March 31, 2009 was \$.41. 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 five years, volatility of 337% and a risk free interest rate of 1.69%. 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 three months ended March 31, 2009, Milestone recognized a negative \$3,230 of total compensation cost related to options that vested during the period due to the forfeiture of 235,556 options, partially expensed in previous periods. As of March 31, 2009, there was \$97,427 of total unrecognized compensation cost related to non-vested options which Milestone expects to recognize over a weighted average period of two and three quarter years.

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

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A summary of option activity for non-employees under the plans as of March 31, 2009, and changes during the three months ended is presented below:

	Number of Options	Weighted Averaged Exercise Price	Weighted Average Remaining Contractual Life (Years)	Aggregate Intrinsic Options Value
Outstanding, January 1, 2009	627,467	3.14	1.61	
Granted	35,000	0.40	5.00	
Exercised				
Forfeited or expired	(101,133)	3.49		
Outstanding, March 31, 2009	561,334	2.91	1.85	
Exercisable, March 31, 2009	498,834	3.05	1.72	

During the three months ended March 31, 2009, Milestone recognized \$25,898 of expenses related to non-employee options that vested during the year. The total unrecognized compensation cost related to non-vested options was \$45,933 as of March 31, 2009.

As of March 31, 2009, 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, 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 \$540,730 with the vendor for purchase of materials at March 31, 2009. The advance will be credited to Milestone as the goods are delivered. Milestone does not believe that significant credit risk exists with respect to this advance to the contract manufacturer at March 31, 2009.

Milestone closely monitors the extension of credit to its customers while maintaining allowances, if necessary, for potential credit losses. On a periodic basis, Milestone evaluates its accounts receivable and establishes an allowance for doubtful accounts, based on a history of past write-offs and collections and current credit conditions. Management does not believe that significant credit risk exists with respect to accounts receivable at March 31, 2009.



**Table of Contents****NOTE 5 LINE OF CREDIT AND NOTE PAYABLE**

On June 28, 2007 the Company secured a \$1 million line of credit from a stockholder. This borrowing was amended to \$1,300,000 as of September 30, 2008 under the same terms and conditions as the original. 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 five days written notice to the stockholder 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 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. At December 31, 2008, the conversion price at 80% of the average closing price of the Company's stock was \$0.26 per share. 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 March 31, 2009 the remaining balance of Debt Discount was \$43,328. The full amount of the line of credit and amendment, \$1.3 million, had been drawn at December 31, 2008. The Company borrowed an additional \$450,000 from the same shareholder in 2008. The borrowing was originally on short term loan with a maturity date of January 19, 2009. In December 2008, this borrowing was refinanced with the shareholder with a due date of June 30, 2012. The borrowing includes a 12 percent interest rate, interest compounded quarterly, with interest and principle due at the maturity. Further, the note has warrants exercisable for five years at the price of \$0.32 per share for 45,000 shares of stock. The warrants were valued using the Black-Scholes model and are reflected as a discount against the debt. At March 31, 2009, the discount was \$13,254.

Interest expense on this line of credit and note payable for the three months ended March 31, 2009 and 2008 is \$47,403 and \$30,923, respectively. Accrued interest related to this line of credit and note payable was \$175,467 and \$24,948 at March 31, 2009 and March 31, 2008, respectively. The charge for amortization of debt discount related to this line of credit and note payable is \$7,875 and \$6,129 for the three months ended March 31, 2009 and 2008, respectively.

**NOTE 6 STOCK ISSUANCE**

During the three months ended March 31, 2009, the Company issued 74,634 shares of common stock valued at \$42,000 to three parties owed in connection with public relations and consulting expenses. Additionally, 253,342 shares of common stock valued at \$125,324 were issued for payment of employee compensation and 61,670 shares of common stock valued at \$31,000 are to be issued for consulting services and settlement of deferred compensation.

**NOTE 7 SIGNIFICANT CUSTOMERS**

Milestone had net product sales to two customers (distributors) which in the aggregate accounted for approximately 70% and 93% of revenue for three months ended March 31, 2009 and 2008, respectively. Milestone had sales to one customer (a worldwide distributor of Milestone's products based in South Africa) of \$484,867 (22%) for the three months ended March 31, 2009. Accounts receivable from these two customers amounted to \$780,667 and \$336,905 representing 71% and 98% of gross accounts receivable as of March 31, 2009 and March 31, 2008, respectively. Milestone's sales by product and by geographical region are as follows:

	Three Months Ended March 31,	
	2009	2008
<i>Instruments</i>	\$ 791,952	\$ 219,205
Handpieces	1,395,212	1,151,226
Other	17,655	17,559
	\$ 2,204,819	\$ 1,387,990

United States	\$ 1,478,495	\$ 897,715
Canada	141,279	160,322
Other Foreign	585,045	