

Edgar Filing: MILESTONE SCIENTIFIC INC/NJ - Form 10QSB

MILESTONE SCIENTIFIC INC/NJ
Form 10QSB
May 17, 2005

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-QSB

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, 2005

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
State or other jurisdiction
or organization)

13-3545623
(I.R.S. Employer
Identification No.)

220 South Orange Avenue, Livingston, New Jersey 07039
(Address of principal executive office) (Zip Code)

(973) 535-2717
(Registrant's telephone number, including area code)

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) or 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

As of May 13, 2005, the Registrant had a total of 10,928,850 shares of Common Stock, \$.001 par value, outstanding.

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 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.

Edgar Filing: MILESTONE SCIENTIFIC INC/NJ - Form 10QSB

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.

2

MILESTONE SCIENTIFIC INC. AND SUBSIDIARIES

INDEX

	PAGE

PART I. FINANCIAL INFORMATION	
ITEM 1. Condensed Consolidated Financial Statements (unaudited)	
Condensed Consolidated Balance Sheets	
March 31, 2005 (Unaudited) and December 31, 2004	4
Condensed Consolidated Statements of Operations	
Three Months Ended March 31, 2005 and 2004 (Unaudited)	5
Condensed Consolidated Statement of Changes in Stockholders' Equity (Deficiency) Three Months Ended March 31, 2005	6
Condensed Consolidated Statements of Cash Flows	
Three Months Ended March 31, 2005 and 2004 (Unaudited)	7
Notes to Condensed Consolidated Financial Statements	9
ITEM 2. Management's Discussion and Analysis or Plan of Operation	12
ITEM 3. Controls and Procedures	17
PART II. OTHER INFORMATION	
ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds	18
ITEM 5. Other Information	18
ITEM 6. Exhibits	18
SIGNATURES	20
CERTIFICATIONS	21

3

Edgar Filing: MILESTONE SCIENTIFIC INC/NJ - Form 10QSB

MILESTONE SCIENTIFIC INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

	March 31, 2005 (Unaudited)	D
	-----	-----
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 3,895,902	\$
Accounts receivable, net of allowance for doubtful accounts of \$28,305 in 2005 and \$24,903 in 2004	522,989	
Stock subscriptions receivable	1,133,041	
Inventories	935,607	
Advances to contract manufacturer	62,034	
Prepaid expenses	107,239	

Total current assets	6,656,812	
Investment in distributor, at cost	69,956	
Equipment, net	588,937	
Patents, net	313,711	
Other assets	18,839	

Total assets	\$ 7,648,255	\$
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	\$ 495,831	\$
Accrued expenses	352,593	

Total current liabilities	848,424	
Deferred compensation payable to officer	187,500	

Total liabilities	1,035,924	

Stockholders' Equity		
Preferred stock, par value \$.001; authorized 5,000,000 shares 8% Cumulative convertible preferred stock, par value \$.001; authorized, issued and outstanding, 25,365 shares	25	
Common stock, par value \$.001; authorized 50,000,000 shares; 10,961,598 shares issued and 10,928,265 shares outstanding in 2005, and 9,824,287 shares issued and 9,790,954 shares outstanding in 2004	10,962	
Additional paid-in capital	55,588,342	
Accumulated deficit	(48,075,482)	
Treasury stock, at cost, 33,333 shares	(911,516)	

Total stockholders' equity	6,612,331	

Total liabilities and stockholders' equity	\$ 7,648,255	\$
	=====	=====

See Notes to Condensed Consolidated Financial Statements

* Derived from the audited financial statements as of December 31, 2004

Edgar Filing: MILESTONE SCIENTIFIC INC/NJ - Form 10QSB

4

MILESTONE SCIENTIFIC INC. AND SUBSIDIARIES
 CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
 THREE MONTHS ENDED MARCH 31, 2005 AND 2004
 (Unaudited)

	March 31, 2005	March 31,
	-----	-----
Net sales	\$1,457,903	\$1,094,
Cost of sales	714,706	546,
	-----	-----
Gross profit	743,197	547,
Selling, general and administrative expenses	1,601,693	984,
Research and development expenses	31,545	41,
	-----	-----
	1,633,238	1,026,
	-----	-----
Loss from operations	(890,041)	(478,
Other income (expense)		
Interest income	11,098	12,
Interest expense	--	(52,
	-----	-----
Other income (expense), net	11,098	(40,
	-----	-----
Net loss	(878,943)	(518,
Dividends applicable to preferred stock	(507)	
	-----	-----
Net loss applicable to common stockholders	\$ (879,450)	\$ (518,
	=====	=====
Loss per share applicable to common stockholders - basic and diluted	\$ (0.09)	\$ (0
	=====	=====
Weighted average shares outstanding - basic and diluted	9,882,041	7,566,
	=====	=====

See Notes to Condensed Consolidated Financial Statements

5

MILESTONE SCIENTIFIC INC. AND SUBSIDIARIES
 CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS'
 EQUITY (DEFICIENCY)
 THREE MONTHS ENDED MARCH 31, 2005
 (Unaudited)

Preferred Stock		Common Stock		Additional	Accumul
-----	-----	-----	-----	Paid-in	Defi
Shares	Amount	Shares	Amount	Capital	-----
-----	-----	-----	-----	-----	-----

Edgar Filing: MILESTONE SCIENTIFIC INC/NJ - Form 10QSB

Balance, January 1, 2005	25,365	\$25	9,824,287	\$ 9,824	\$52,618,913	\$(47,19
Common stock issued for payment of patent rights acquired			43,424	44	69,956	
Common stock issued for payment of vendor services			38,730	39	99,961	
Common stock issued for payment of consulting services			28,691	29	36,971	
Common stock issued for payment of employee compensation			16,026	16	33,317	
Proceeds from equity financing, net			1,010,440	1,010	2,729,224	
Net loss						(87
Balance, March 31, 2005	25,365	\$25	10,961,598	\$10,962	\$55,588,342	\$(48,07

See Notes to Condensed Consolidated Financial Statements

6

MILESTONE SCIENTIFIC INC. AND SUBSIDIARIES
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
 THREE MONTHS ENDED MARCH 31, 2005 AND 2004
 (Unaudited)

	2005	2004
Cash flows from operating activities:		
Net loss	\$ (878,943)	\$ (51
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation expense	24,876	3
Amortization of debt discount and deferred financing costs	--	
Amortization of patents	2,531	
Stock issued for compensation and consulting services	170,333	
Bad debt expense	3,402	
Changes in operating assets and liabilities:		
(Increase) in accounts receivable	(105,052)	(9
Decrease (increase) in inventories	614	(
(Increase) in advances to contract manufacturer	--	(1
(Increase) decrease in prepaid expenses	(2,677)	4
Decrease in other assets	1,569	
Increase (decrease) in accounts payable	21,756	(57
(Decrease) in accrued interest	--	(8
(Decrease) increase in accrued expenses	(56,956)	2
Increase (decrease) in deferred compensation	37,500	(21
Net cash used in operating activities	(781,047)	(1,39
Cash flows from investing activities:		
Payment for capital expenditures	(1,550)	(9
Net cash used in investing activities	(1,550)	(9

Edgar Filing: MILESTONE SCIENTIFIC INC/NJ - Form 10QSB

Cash flows from financing activities:		
Proceeds from equity financing, net	1,637,193	7,82
	-----	-----
Net cash provided by financing activities	1,637,193	7,82
	-----	-----
NET INCREASE IN CASH AND CASH EQUIVALENTS		
	854,596	6,33
Cash and cash equivalents at beginning of period	3,041,306	
	-----	-----
Cash and cash equivalents at end of period	\$3,895,902	\$ 6,33
	=====	=====
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest	\$ --	\$ 9
	=====	=====

See Notes to Condensed Consolidated Financial Statements

7

MILESTONE SCIENTIFIC INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
THREE MONTHS ENDED MARCH 31, 2005 AND 2004
(Unaudited)

Supplemental schedule of noncash investing and financing activities:

On January 27, 2005 we issued 43,424 shares valued at \$70,000 and recorded a \$145,000 liability payable to our outside director of clinical affairs in satisfaction of a technology agreement to provide Milestone with patent rights.

On February 11, 2005 we issued 3,084 shares valued at \$7,000 to ValueRich Inc. in satisfaction of an agreement to provide Milestone with exhibition facilities.

On March 8, 2005 we issued 7,408 shares valued at \$20,000 (of which \$1,667 was expensed in the three months ended March 31, 2005) to Dynamic Decisions, S.r.l. in satisfaction of consulting services to be provided under contract for a 12 month period ending in March, 2006. We also issued 1,852 shares valued at \$5,000 to Investment Connections in satisfaction of professional services rendered.

On March 8, 2005 we issued 9,965 shares valued at \$ 23,333 to a former employee as part of a severance agreement.

On March 22, 2005 we issued 8,811 shares to a consultant for professional business development services valued at \$20,000 to be provided over the next 18 months (of which \$3,333 was expensed in the three months ended March 31, 2005). We also issued 6,061 shares valued at \$10,000 to an employee for payment of bonus.

On March 23, 2005 we issued 38,730 shares to Design Center Inc, in satisfaction of \$100,000 of payables owed in connection with warehousing and fulfillment services rendered.

On March 31, 2005 we issued 7,536 shares to a consultant for professional services rendered during March valued at \$20,000.

Edgar Filing: MILESTONE SCIENTIFIC INC/NJ - Form 10QSB

In March 2005, Milestone entered into binding Subscription Agreements for a \$2,999,996 private placement of 101,044 units. Each unit consists of 10 shares of common stock and two warrants. At March 31, 2005, Milestone had remaining subscriptions receivable of \$1,133,041. Proceeds from the private placements were recorded net of a 7% Placement Agent Fee of \$209,978 and other offering expenses totaling \$59,784 of which \$40,000 was accrued at March 31, 2005.

In February 2004, Milestone issued 335,614 units in consideration for notes payable and accrued interest due to an officer and a shareholder of \$1,604,204, accounts payable due to outside legal counsel of \$200,000 and deferred compensation to an officer of \$384,000. Each unit consisted of 2 shares of Milestone's common stock (671,228 shares of common stock) and a warrant.

As part of its payment for services in connection with the February 2004 public offering, Milestone issued to its outside general counsel 5-year options to purchase 160,000 common shares of at an exercise price of \$3.26 per share and warrants to purchase 80,000 common shares of stock at an exercise price of \$4.89.

8

MILESTONE SCIENTIFIC INC. AND SUBSIDIARIES NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

Note 1 - Summary of accounting policies:

The unaudited condensed consolidated financial statements of Milestone Scientific Inc. and Subsidiaries (the "Company") 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 condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto for the year ended December 31, 2004 included in Milestone's Annual Report on Form 10-KSB. The accounting policies used in preparing these unaudited condensed consolidated financial statements are the same as those described in the December 31, 2004 consolidated financial statements.

In the opinion of Milestone, the accompanying unaudited condensed consolidated financial statements contain all adjustments (consisting of normal recurring entries) necessary to present fairly Milestone's financial position as of March 31, 2005 and the results of its operations for the three months ended March 31, 2005 and 2004.

The results reported for the three months ended March 31, 2005 are not necessarily indicative of the results of operations which may be expected for a full year.

Note 2 - Private Placement:

On April 4, 2005 Milestone completed a \$2,999,996 private placement of 101,044 Units to accredited investors. Each Unit consisted of 10 shares of Common Stock and two Warrants. Each Warrant entitles the holder to purchase a share of Common Stock at \$4.89 per share through the close of business on February 16, 2009. I-Bankers Securities, Inc. acted as Placement Agent for

Edgar Filing: MILESTONE SCIENTIFIC INC/NJ - Form 10QSB

Milestone in this transaction and received a fee of \$ 209,978 and 101,044 Warrants identical in terms to those issued to the investors. The Units, which are restricted securities and bear a restrictive legend, are subject to stop transfer restrictions. Total proceeds to Milestone after commissions and other expenses were \$2,730,234 net of commissions and fees.

Net proceeds from the offering will be used to fund Milestone's operations including ongoing sales and marketing programs, along with the development and bringing to market of new products.

Note 3 - Public Offering:

On February 17, 2004, Milestone completed a \$9.4 million Public Offering (proceeds of \$7.6 million after underwriters' discount, underwriters' non accountable expense allowance and other expenses). The Public Offering consisted of the sale of 1,440,000 units at a price of \$6.52 per unit. Each unit consisted of two shares of common stock (2,880,000 shares of common stock) and one warrant. The warrants included in the units are exercisable at any time after they became separately tradable on March 19, 2004 and until their expiration on February 20, 2009, five years after the date of the closing of the Public Offering, at an exercise price equal to \$4.89 (150% of the closing market price of our common stock on the pricing date of the Offering). Some or all of the warrants may be redeemed by us at a price of \$0.25 per warrant, by giving not less than 30 days notice to the holders of the warrants, which Milestone may do at any time, beginning 6 months after the effective date of the Offering and once the closing price for Milestone's common stock on the principal exchange on which it trades (AMEX) has equaled or exceeded 200% of the price of

9

MILESTONE SCIENTIFIC INC. AND SUBSIDIARIES NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

Milestone's common stock on the effective date of the Offering for any five consecutive trading days. The common stock included in the units and the warrants traded only as a unit until March 18, 2004, 30 days following the closing date of the Public Offering.

A portion of the net proceeds of approximately \$7.6 million of the Public Offering were used to pay down promissory notes, credit facilities, interest and deferred compensation. The remainder of the approximately \$7.6 million net proceeds will be used primarily to expand and support sales and marketing efforts for CompuDent in the United States, including the development of a domestic sales force. New marketing and advertising campaigns will support the launch of the recently announced SafetyWand product line, expand international sales efforts and develop commercial models of products using other new subcutaneous injection technology.

Upon the closing of the Public Offering (February 23, 2004) Milestone satisfied \$2,341,000 of obligations due to Milestone's CEO and a major investor as required by an October 2003 agreement. These obligations consisted of promissory notes, accrued interest and deferred compensation. Milestone satisfied these obligations by issuing to the major investor and Milestone's CEO 304,939 units including 609,878 shares of common stock at a price of \$6.52 per unit and approximately \$353,000 in cash. These units were issued with the same terms and price as those in the Public Offering.

Edgar Filing: MILESTONE SCIENTIFIC INC/NJ - Form 10QSB

In February 2004, Milestone issued to its outside general counsel 30,675 units at a price of \$6.52 per unit for payment of accounts payable for legal fees of \$200,000. Furthermore as part of its payment for services in connection with the February 2004 public offering, Milestone issued to its outside general counsel 5-year options to purchase 160,000 shares of Common Stock at an exercise price of \$3.26 per share and warrants to purchase 80,000 shares of Common Stock at an exercise price of \$4.89.

In May of 2004 Milestone awarded to Dr. Mark Hochman, its Director of Clinical Affairs, a one-time bonus of \$200,000 in recognition of his contributions to the February 2004 public offering.

Note 4 - Stock Subscriptions Receivable:

Stock subscriptions receivable represents the unpaid balance by March 31, 2005 of the stock subscriptions executed in March that were not funded at the end of the quarter. The full balance was received on April 4, 2005.

Note 5 - Inventories:

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

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 is calculated by dividing net income or loss applicable to common stock by the weighted average number of common shares outstanding 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 were issued during the period. Milestone has not included the common shares issuable upon conversion of the outstanding 25,365 preferred shares in the weighted average number of shares outstanding in the

10

MILESTONE SCIENTIFIC INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

computation of basic loss per share because their effect would have been anti-dilutive. This treatment is in accordance with the "two class" method of computing earnings (loss) per share set forth in SFAS 128.

Since Milestone had net losses for the three months ended March 31, 2005 and 2004, the assumed effects of the exercise of 3,595,475 and 1,309,920 outstanding stock options and warrants, and the conversion of notes payable and preferred stock into common stock at March 31, 2005 and 2004, were not included as their effect would have been anti-dilutive.

Note 7 - Significant Customer:

Edgar Filing: MILESTONE SCIENTIFIC INC/NJ - Form 10QSB

Milestone had one foreign customer who accounted for approximately 21.9% and 20.9% of its net sales for the three months ended March 31, 2005 and 2004, respectively. At March 31, 2005, receivables from this customer were approximately 73.3% of Milestone's total accounts receivable.

Note 8 - Employee Stock Option Plan

As of March 31, 2005, there were 317,116 outstanding options granted under the Milestone 1997 Stock Option Plan and no option grants were made out of the Milestone 2004 Stock Option Plan. Milestone accounts for these plans under the recognition and measurement principles of APB Opinion No. 25, Accounting for Stock Issued to Employees, and related Interpretations. No stock-based employee compensation cost is reflected in net loss, as all options granted under these plans had an exercise price equal to the market value of the underlying common stock on the dates of grant. The following table illustrates net loss and loss per share if Milestone had applied the fair value recognition provisions of FASB Statement No. 123, Accounting for Stock-Based Compensation, to stock-based employee compensation.

	Three Months Ended March 31,	
	2005	2004
	-----	-----
Net loss applicable to common stockholders, as reported	\$ (879,450)	\$ (518,793)
Deduct total stock-based employee compensation expenses determined under the fair value based method for all awards	201,172	5,531
	-----	-----
Net loss applicable to common stockholders, pro forma	\$ (1,080,622)	\$ (524,324)
	=====	=====
Loss per share applicable to common stock holders:		
Basic and diluted		
As reported	\$ (0.09)	\$ (0.07)
	=====	=====
Pro forma	\$ (0.11)	\$ (0.07)
	=====	=====

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 quarters ended March 31, 2005 and 2004, respectively: dividend yield of 0%; expected volatility of 119.42 % and 135 %; risk free interest rate of 3.87 % and 2.5 %; and expected lives of 5 years.

During the three months ended March, 31, 2005, Milestone issued 80,000 stock options at an exercise price of \$3.27.

Edgar Filing: MILESTONE SCIENTIFIC INC/NJ - Form 10QSB

OVERVIEW

You should read the following discussions of our financial condition and results of operations 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, 2004.

Milestone has succeeded in improving its liquidity by acquiring the capital necessary to grow our business and seize the market opportunity that our proprietary products have created. During 2004 and continuing in the first quarter of 2005, we have grown our revenue base both with our existing product line and the introduction of new products.

Most of our revenues continue to be generated through sales of our CompuDent system and The Wand disposable handpiece used with that system. Revenues have been earned domestically and internationally through sales in more than 25 countries. While we are growing our revenues throughout the world, domestic CompuDent and handpiece sales have provided a growing portion of our revenues relative to international sales. This is an important metric as it validates the investment made in our domestic sales distribution. Also, we enjoy significantly higher margins on domestic sales compared to the lower per unit revenues we receive from our wholesale based international distribution network. We anticipate that this growing base of new customers will generate increased future sales of our disposable handpiece products. We believe that our ownership of the SafetyWand technology in the light of OSHA regulations issued pursuant to recent federal and state government legislation mandating needle stick safety standards positions us to become a leading provider for dentists and other health care professionals in the administration of local anesthesia thereby providing further revenue growth opportunities. In mid to late March we launched, through widely broadcast infomercials, our consumer tooth whitening product. The consumer tooth whitening market is one of the fastest growing dental market places. Our consumer tooth whitening product and the professional tooth whitening product which we expect to launch within the next 90 days, complement our existing product line. We believe they provide significant additional revenue opportunities. Revenues for the first quarter did not reflect sales of our consumer tooth whitening product since we are still building our productive capacity and have not yet begun shipping product to meet expected demand. We are also aggressively pursuing entrance into the medical arena with our epidural product. During the first quarter we have invested in business development efforts to further our progress in the medical equipment market space.

Selling, general and administrative expenses for the first quarter sharply increased, reflecting the continued planned enhancement of our domestic dental sales capability and increased marketing and promotional efforts, including trade show appearances, for our dental products. The increase also reflects our continuing efforts to complete development of, and find marketing partners for, medical devices using our advanced technology, particularly our Compuflo(TM) epidural injection device.

The following table shows a breakdown of our revenues, domestically and internationally, by product category, and the percentage of total revenue by each product category:

Edgar Filing: MILESTONE SCIENTIFIC INC/NJ - Form 10QSB

	Three Months Ended March 31,			
	2005		2004 (1)	
DOMESTIC				
CompuDent	\$ 327,688	32.5%	\$ 133,620	18.1%
Handpieces	664,391	65.8%	549,169	74.2%
Other	17,096	1.7%	56,689	7.7%
Total Domestic	\$1,009,175	100.0%	\$ 739,478	100.0%
INTERNATIONAL				
CompuDent	\$ 173,067	38.6%	\$ 164,340	46.3%
Handpieces	268,581	59.8%	176,310	49.7%
Other	7,080	1.6%	14,095	4.0%
Total International	\$ 448,728	100.0%	\$ 354,745	100.0%
DOMESTIC/INTERNATIONAL ANALYSIS				
Domestic	\$1,009,175	69.2%	\$ 739,478	67.6%
International	448,728	30.8%	354,745	32.4%
Totals	\$1,457,903	100.0%	\$1,094,223	100.0%

(1) - Note: A portion (\$85,560) of sales of CompuDent units previously reported for the three months ended March 31, 2004 have been reclassified from domestic to international

13

Summary of Significant Accounting Policies

Our discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these consolidated 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.

Inventory

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

Impairment of Long-Lived Assets

We review long-lived assets for impairment whenever circumstances and

Edgar Filing: MILESTONE SCIENTIFIC INC/NJ - Form 10QSB

situations change such that there is an indication that the carrying amounts may not be recovered.

Revenue Recognition

Revenue is recognized when title passes at the time of shipment and collectibility based on a sales arrangement and the agreed upon price is reasonably assured.

Results of Operations

The consolidated results of operations for the three months ended March 31, 2005 reflect growth of our user base and the initial additional expenditures necessary to further expand our customer base both domestically and abroad. The net loss for the three months ended March 31, 2005, represents a 69.6% additional loss from the same period in 2004.

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

	Three Months Ended March 31,			
	2005		2004	
Net sales	\$1,457,903	100.0%	\$1,094,223	100.0%
Cost of Sales	714,706	49.0%	546,300	49.9%
Gross Profit	743,197	51.0%	547,923	50.1%
Selling, general and administration expenses	1,601,693	109.9%	984,868	90.0%
Research & development	31,545	2.2%	41,211	3.8%
Loss from operations	(890,041)	-61.1%	(478,156)	-43.7%

14

Three Months ended March 31, 2005 compared to three months ended March 31, 2004

Net sales for the three months ended March 31, 2005 and 2004 were \$1,457,903 and \$1,094,223, respectively. The \$363,680 or 33.2% increase is primarily related to a 145.2% or \$194,068 increase in domestic CompuDent(R) sales combined with a 5.3% or \$8,727 increase in international sales of CompuDent units. This increase shows the effect of our investment in our domestic sales force and marketing initiatives while maintaining a strong presence internationally. Worldwide hand piece sales increased by \$207,493 or 28.6%. This growth is generated from our expanding base of CompuDent units in service and represents a continuing revenue stream since orders for disposable hand pieces are renewed on a monthly basis.

Cost of sales for the three months ended March 31, 2005 and 2004 were \$714,706 and \$546,300, respectively. The \$168,406 increase is attributable primarily to the additional cost of goods sold for the higher revenues previously discussed.

For the three months ended March 31, 2005, Milestone generated a gross profit of \$743,197 or 51.0% as compared to a gross profit of \$547,923 or 50.1% for the three months ended March 31, 2004. Improvement in gross profit due to

Edgar Filing: MILESTONE SCIENTIFIC INC/NJ - Form 10QSB

higher domestic sales in 2005 was in part offset by discounts related to promotional programs during the quarter.

Selling, general and administrative expenses for the three months ended March 31, 2005 and 2004 were \$1,601,693 and \$984,868, respectively. The \$616,825 or 62.6% increase is attributable primarily to Milestone's continued execution of its strategy to develop our domestic sales force and distribution capacity. Sales headcount increased from 1 manager, 3 sales representatives and 8 independent contractors at March 31, 2004 to 3 sales managers, 22 inside sales representatives and 8 independent contractors at March 31, 2005. Accordingly, hiring and related employee expenses including sales commissions increased by \$382,294 or 114.7%. Selling, marketing and advertising expenses including, related travel and tradeshow, increased by \$100,824 or 222.6%. Professional services and consulting expense increased by \$46,978 or 50.7%, related to an investor relations contract commenced in the second quarter 2004 and business development services during the first quarter 2005 relating to the marketing of our medical product line. These increases reflect both increased spending in 2005 and the effects of cash constraints Milestone operated under prior to the February 2004 Public Offering.

Research and development expenses for the three months ended March 31, 2005 and 2004 were \$31,545 and \$41,211, respectively. These costs are associated with the development of Milestone's SafetyWand(TM), CoolBlue(TM) Tooth Whitening System and CompuFlo(TM) products.

The loss from operations for the three months ended March 31, 2005 and 2004 was \$890,041 and \$478,156, respectively. The \$411,885 increase in loss from operations is the result of planned increases in operating expenses explained above.

Interest income of \$11,098 was earned in the three months ended March 31, 2005 compared to \$12,134 earned for the same period of the prior year.

There was no interest expense for the three months ended March 31, 2005 compared to interest expense of \$52,771 for the three months ended March 31, 2004. The difference is attributable to the extinguishment of debt related to the February 2004 equity placement.

The net loss for the three months ended March 31, 2005 was \$878,943 as compared to a net loss of \$518,793 for the year ended March 31, 2004. The \$360,150 increase in net loss is explained above.

Liquidity and Capital Resources

As shown in the accompanying condensed consolidated financial statements, Milestone incurred net losses of approximately \$879,000 and \$519,000 and negative cash flows from operating activities of approximately \$781,000 and \$1,397,000 during the three months ended March 31, 2005 and 2004, respectively. Milestone improved its liquidity position with the private placement of Units completed in April, 2005, as discussed below. However, although at March 31, 2005 our total stockholders' equity was \$6.61 million, we need a net worth of \$6,000,000 at June 30, 2005 to remain in compliance with continued listing requirements of the American Stock Exchange. We continue to seek new sources of equity funding, but can give no assurance that we will be able to find new sources of funding on acceptable terms. The issuance of additional equity securities may impair the value of our stock. Further, if we fail to satisfy the American Stock Exchange's listing requirements with respect to stockholder

Edgar Filing: MILESTONE SCIENTIFIC INC/NJ - Form 10QSB

equity, we could be delisted from the Exchange after June 30, 2005 or earlier if we fail to make progress consistent with the plan of recovery that we submitted to the Exchange. Any delisting would, in turn, make it more difficult for us to raise capital in the public markets. As of May 10, 2005, the American Stock Exchange has informed us that it has placed us on a "watch list" for companies that fail to reach listing standards of \$6 million of stockholder's equity for two consecutive quarters.

Private Placement

On April 4, 2005 Milestone completed a \$2,999,996 private placement of 101,044 Units to accredited investors. Each Unit consisted of 10 shares of Common Stock and two Warrants. Each Warrant entitles the holder to purchase a share of Common Stock at \$4.89 per share through the close of business on February 16, 2009. I-Bankers Securities, Inc. acted as Placement Agent for Milestone in this transaction and received a fee of \$ 209,978 and 101,044 Warrants identical in terms to those issued to the investors. The Units, which are restricted securities and bear a restrictive legend, are subject to stop transfer restrictions. Total proceeds to Milestone after commissions and other expenses were \$2,730,734.

Cash flow results

As of March 31, 2005, Milestone had cash and cash equivalents of \$3,895,902 and working capital of \$5,808,388.

For the three months ended March 31, 2005, Milestone's net cash used in operating activities was \$781,047. This was attributable primarily to a net loss of \$878,943 adjusted for noncash items of \$201,142 (of which \$24,876 was depreciation expense and \$170,333 was stock and options issued for compensation and consulting); a \$105,052 increase in accounts receivable; a net \$35,200 decrease in accounts payable and accrued expenses; and a \$37,500 increase in deferred compensation.

For the three months ended March 31, 2005, Milestone used \$1,550 in investing activities for capital expenditures.

For the three months ended March 31, 2005, Milestone generated \$1,637,193 from financing activities.

Management believes that it has sufficient resources to meet its obligations over the next twelve months.

ITEM 3. CONTROLS AND PROCEDURES

- a) Evaluation of Disclosure Controls and Procedures. Milestone's management, with the participation of the chief executive officer and the chief financial officer, carried out an evaluation of the effectiveness of Milestone's "disclosure controls and procedures" (as defined in the Securities Exchange Act, Rule 13a-15(e) and 15d-15(e). Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that Milestone's disclosure controls and procedures were effective, as of the date of their evaluation, for purposes of recording, processing, summarizing and timely reporting material information required to be disclosed in reports filed by Milestone under the Securities Exchange Act of 1934.

Edgar Filing: MILESTONE SCIENTIFIC INC/NJ - Form 10QSB

- b) Changes in Internal Control over Financial Reporting. There were no changes in our internal controls over financial reporting that occurred during the period covered by this report that have materially affected, or are reasonably likely to materially affect, Milestone's internal control over fiscal reporting.

17

PART II

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

Recent Sales of Unregistered Securities

On January 27, 2005 we issued 43,424 shares valued at \$70,000 to our outside director of clinical affairs in satisfaction of a technology agreement to provide Milestone with patent rights.

On February 11, 2005 we issued 3,084 valued at \$7,000 to ValueRich Inc. in satisfaction of an agreement to provide Milestone with exhibition facilities.

On March 8, 2005 we issued 7,408 shares valued at \$20,000 to Dynamic Decisions, S.r.l. in satisfaction of consulting services to be provided under contract for a 12 month period ending in March, 2006. We also issued 1,852 shares valued at \$5,000 to Investment Connections in satisfaction of professional services rendered.

On March 8, 2005 we issued 9,965 shares valued at \$ 23,333 to a former employee as part of a severance agreement.

On March 22, 2005 we issued 8,811 shares to a consultant for professional business development services valued at \$20,000 to be provided over the next 18 months. We also issued 6,061 shares valued at \$10,000 to an employee for payment of bonus.

On March 23, 2005 we issued 38,730 shares to Design Center Inc, in satisfaction of \$100,000 of payables owed in connection to warehousing and fulfillment services rendered.

On March 31, 2005 we issued 7,536 shares to a consultant for professional services rendered during March valued at \$20,000.

On April 4, 2005 we completed a private placement of \$2,999,996 of Units to accredited investors. The offering, which was previously reported in Milestone's annual report of Form 10-KSB filed with the Securities and Exchange Commission on April 4, 2005, is described in Note 2 to the financial statements above, and that information is incorporated here by reference.

ITEM 5. OTHER INFORMATION

On March 14, 2005 Milestone announced the March 12th launch of new Ionic White enhanced technology tooth whitening system.

On March 21, 2005 Milestone announced the receipt of its initial order for 500,000 units of its Ionic White tooth whitening system.

ITEM 6. EXHIBITS

The following exhibits are filed herewith:

Edgar Filing: MILESTONE SCIENTIFIC INC/NJ - Form 10QSB

- 4.1 Form of Subscription Agreement used in connection with the private placement of Units, March 2005.
- 4.2 Form of warrant issued in connection with the private placement of Units, March 2005.

18

- 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.

19

SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

MILESTONE SCIENTIFIC INC.

Registrant

/s/ Leonard Osser

Leonard Osser Chairman and
Chief Executive Officer

/s/ Kevin T. Lusardi

Kevin T. Lusardi, Vice President and
Chief Financial Officer

Dated: May 17, 2005

20