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, 2011

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

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

Large accelerated filer ☐	Accelerated filer ☐	Non-accelerated filer ☐ (Do not check if a smaller reporting company)	Smaller reporting company ☑

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

As of May 9, 2011, the Issuer had a total of 15,041,172 shares of Common Stock, $.001 par value outstanding.

MILESTONE SCIENTIFIC INC

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FORWARD-LOOKING STATEMENTS

When used in this Quarterly Report on Form 10-Q, the words "may", "will", "should", "expect", "believe", "anticipate", "continue", "estimate", "project", "intend" and similar expressions are intended to identify forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended and Section 21E of the Security Exchange Act of 1934, as amended (the "Exchange Act") regarding events, conditions and financial trends that may affect Milestone's future plans of operations, business strategy, results of operations and financial condition. Milestone wishes to ensure that such statements are accompanied by meaningful cautionary statements pursuant to the safe harbor established in the Private Securities Litigation Reform Act of 1995. Prospective investors are cautioned that any forward-looking statements are not guarantees of future performance and are subject to risks and uncertainties and the actual results may differ materially from those included within the forward-looking statements as a result of various factors. Such forward-looking statements should, therefore, be considered in light of various important factors, including those set forth herein and others set forth from time to time in Milestone's reports and registration statements filed with the Securities and Exchange Commission (the "Commission"). Milestone disclaims any intent or obligation to update such forward-looking statements.

MILESTONE SCIENTIFIC INC.
CONDENSED BALANCE SHEETS

	March 31, 2011 (Unaudited)	December 31, 2010
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 155,263	$ 627,082
Accounts receivable, net of allowance for doubtful accounts of $202,160 in 2011 and 2010	1,380,195	796,221
Inventories	850,708	986,947
Advances to contract manufacturer, current	728,509	730,491
Prepaid expenses and other current assets	243,304	247,465
Total current assets	3,357,979	3,388,206
Accounts receivable-long term, net of allowance for doubtful accounts of $426,840 as of March 31, 2011 and $438,840 as of December 31, 2010	273,160	361,160
Advances to contract manufacturer, non current	2,227,837	1,713,794
Investment in distributor, at cost	76,319	76,319
Furniture, Fixtures & Equipment net of accumulated depreciation of $431,769 as of March 31, 2011 and $426,482 as of December 31, 2010	63,903	66,936
Patents, net of accumulated amortization of $316,239 as of March 31, 2011 and $294,934 as of December 31, 2010	935,717	944,858
Other assets	41,081	57,750
Total assets	$ 6,975,996	$ 6,609,023
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable — short term	$ 2,885,994	$ 2,883,587
Accrued expenses and other payable	649,771	511,304
Total current liabilities	3,535,765	3,394,891
Long-term Liabilities:		
Accounts payable — long term	710,162	440,376
Notes Payable-net of discount of $7,662 and $8,361, respectively	442,338	441,639
Total long-term liabilities	1,152,500	882,015
Commitments and Contingencies		
Stockholders' Equity		
Common stock, par value $.001; authorized 50,000,000 shares; 15,030,459 shares issued 642,847 shares to be issued and 14,997,126 shares outstanding as of March 31, 2011; 14,915,959 shares issued, 637,013 shares to be issued, and 14,882,626 shares outstanding as of December 31, 2010	15,673	15,552
Additional paid-in capital	62,703,180	62,606,043
Accumulated deficit	(59,519,606)	(59,377,962)
Treasury stock, at cost, 33,333 shares	(911,516)	(911,516)
Total stockholders' equity	2,287,731	2,332,117
Total liabilities and stockholders' equity	$ 6,975,996	$ 6,609,023

See Notes to Condensed Financial Statements

MILESTONE SCIENTIFIC INC.
CONDENSED STATEMENTS OF OPERATIONS
(Unaudited)

	Three Months Ended March 31,	
	2011	2010
Product sales, net	$ 2,425,988	$ 2,562,578
Cost of products sold	879,588	900,712
Gross profit	1,546,400	1,661,866
Selling, general and administrative expenses	1,624,255	1,541,702
Research and development expenses	43,718	88,464
Total operating expenses	1,667,973	1,630,166
(Loss) income from operations	(121,573)	31,700
Other (expense) income		
Other income	—	61,916
Interest expense	(19,386)	(9,343)
Amortization of debt issuance	(699)	(699)
Interest income	14	348
Total other (expenses) income	(20,071)	52,222
Net (loss) income applicable to common stockholders	$ (141,644)	$ 83,922
Net (loss) income per share applicable to common stockholders -		
Basic	$ (0.01)	$ 0.01
Diluted	$ (0.01)	$ 0.01
Weighted average shares outstanding and to be issued -		
Basic	14,875,541	13,875,278
Diluted	14,875,541	14,320,821

See Notes to Condensed Financial Statements

MILESTONE SCIENTIFIC INC.
CONDENSED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
THREE MONTHS ENDED MARCH 31, 2011
(Unaudited)

	Common Stock		Additional Paid-in	Accumulated	Treasury	
	Shares	Amount	Capital	Deficit	Stock	Total
Balance, January 1, 2011	15,552,972	$ 15,552	$62,606,043	$(59,377,962)	$(911,516)	$2,332,117
Options issued to employees and consultants	—	—	53,674	—	—	53,674
Options exercised	100,000	100	24,900	—	—	25,000
Common stock issued for payment of consulting services to settle accounts payable	7,000	7	6,993	—	—	7,000
Common stock issued for payment of employee compensation	7,500	8	7,492	—	—	7,500
Common stock to be issued for payment of consulting services	5,834	6	4,078	—	—	4,084
Net loss	—	—	—	(141,644)	—	(141,644)
Balance, March 31, 2011	15,673,306	$ 15,673	$62,703,180	$(59,519,606)	$(911,516)	$2,287,731

See Notes to Condensed Financial Statements

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

	THREE MONTHS ENDED MARCH 31,	
	2011	2010
Cash flows from operating activities:		
Net (loss) income	$ (141,644)	$ 83,922
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Depreciation expense	5,287	18,651
Amortization of patents	21,305	20,410
Amortization of debt discount	699	699
Common stock and options issued for compensation, consulting and vendor services	72,258	124,718
Loss on sale/disposal of equipment	—	—
Bad debt expense (Reversal)	(12,000)	—
Changes in operating assets and liabilities:		
(Increase) Decrease in accounts receivable	(483,974)	132,524
Decrease (Increase) in inventories	136,239	(160,605)
(Increase) to advances to contract manufacturer	(512,061)	(595,978)
Decrease (Increase) to prepaid expenses and other current assets	4,161	(168,259)
Decrease in other assets	16,669	17,365
Increase in accounts payable	272,193	797,665
Increase (Decrease) in accrued expenses	138,467	(22,675)
Net cash (used in) provided by operating activities	(482,401)	248,437
Cash flows from investing activities:		
Purchases of property and equipment	(2,254)	(19,844)
Payment for patents rights	(12,164)	(39,695)
Net cash used in investing activities	(14,418)	(59,539)
Cash flows from financing activities:		
Proceeds from exercise of stock options	25,000	—
Net cash provided by financing activities	25,000	—
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(471,819)	188,898
Cash and cash equivalents at beginning of period	627,082	1,029,129
Cash and cash equivalents at end of period	$ 155,263	$ 1,218,027
Supplemental disclosure of cash flow information:		
Interest paid	$ 23,000	$ 24,000

See Notes to Condensed Financial Statements

MILESTONE SCIENTIFIC INC.

NOTES TO CONDENSED FINANCIAL STATEMENTS
(UNAUDITED)

ORGANIZATION, BUSINESS AND BASIS OF PRESENTATION

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

The unaudited financial statements of Milestone 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, 2010 included in Milestone's Annual Report on Form 10-K.

In the opinion of Milestone, the accompanying unaudited financial statements contain all adjustments (consisting of normal recurring entries) necessary to fairly present Milestone's financial position as of March 31, 2011 and December 31, 2010 and the results of its operations for the three months ended March 31, 2011 and 2010.

The results reported for the three months ended March 31, 2011 are not necessarily indicative of the results of operations which may be expected for a full year.

The Company had a negative cash flow from operation at March 31, 2011 of $482,401 and positive cash flows from operating activities of at March 31, 2010 of $248,437. At March 31, 2011, the Company had cash and cash equivalents of $155,263 and a negative working capital of $177,786. The Company borrowed $450,000 in 2008 from a 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 is continuing the pursuit 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. The Company may require the need for a higher level of marketing and sales efforts that at present it cannot fund. If the Company is unable to continue 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 traditional capital can be raised on terms and conditions satisfactory to the Company, if at all. If positive cash flow cannot continue to be achieved or 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 historical losses 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.

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.

Accounts Receivable

The realization of Accounts Receivable current and long-term will have a significant impact on the Company. Consequently, Milestone estimates losses resulting from the inability of its customers to make payments for amounts billed. The collectability of outstanding amounts is continually assessed.

Inventories

Inventories principally consist of finished goods and component parts stated at the lower of cost (first-in, first-out method) or market. Inventory quantities on hand are reviewed on a quarterly basis and a provision for excess and obsolete inventory is recorded, if required, based on past and expected future sales.

Patents

Patents are recorded at actual cost to prepare and file the applicable documents with the United States Patent Office, or internationally with the applicable governmental office in the respective country. Although certain patents have not yet been approved, the costs related to these patents are being amortized using the straight-line method over the estimated useful life of the patent. If the applicable patent application is ultimately rejected, the remaining unamortized balance will be expensed in the period in which the Company receives a notice of such rejection. Patent applications filed and patents obtained in foreign countries are subject to the laws and procedures that differ from those in the United States. Patent protection in foreign countries may be different from patent protection under United States laws and may not be favorable to the Company. The Company also attempts to protect our proprietary information through the use of confidentiality agreements and by 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.

Accounts Payable

Current and long term accounts payable represents amounts due to suppliers of the Company. Long term accounts payable is based on an informal payment agreement with the supplier to assist in the purchasing of instruments and handpieces, beyond one year from the balance sheet date.

Revenue Recognition

Revenue from product sales is recognized net of discounts and allowances to the domestic distributor on the date of shipment of the goods, for essentially all shipments, since the terms are FOB warehouse. The Company will recognize revenue on date of arrival where shipments are FOB destination. Shipments to the international distributors are FOB the warehouse and revenue is therefore recognized on shipment. In both cases, the price to the buyer is fixed and the collectability is reasonably assured. Further, Milestone has 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. The only obligation after sale is the normal commercial warranty against manufacturing defects if the alleged defective unit is returned within the warranty 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 evaluation for impairment of long-lived assets and valuation allowances on deferred tax assets. Actual results could differ from those estimates.

Fair Value Measurements: We follow the provisions of ASC 820, *Fair Value Measurements and Disclosures* related to financial assets and liabilities that are being measured and reported on a fair value basis. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the principal market at the measurement date (exit price). We are required to classify fair value measurements in one of the following categories:

Level 1 inputs which are defined as quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

Level 2 inputs which are defined as inputs other than quoted prices included within Level 1 that are observable for the assets or liabilities, either directly or indirectly.

Level 3 inputs are defined as unobservable inputs for the assets or liabilities.

Financial assets and liabilities are classified based on the lowest level of input that is significant to the fair value measurement. Our assessment of the significance of a particular input to the fair value measurement requires judgment, and may effect the valuation of the fair value of assets and liabilities and their placement within the fair value hierarchy levels.

The carrying amounts reported in the balance sheet for cash, accounts receivable, advances to contract manufacturer, accounts payable and accrued expenses approximate fair value based on the maturity of these instruments.

Recent Accounting Pronouncements

Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements. Effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances, and settlements in the roll forward of activity in Level 3 fair value measurements. Those disclosures are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. This statement does not currently impact the financial statement of the company.

In the second quarter of 2010, the FASB issued Accounting Standards Updates (ASU) 2010-09, *Fair Value Measurements and Disclosures: Improving Disclosures about Fair Value Measurements* (ASU 2010-06). ASU 2010-06 amends FASB ASC Topic 820, *Fair Value Measurements and Disclosures*, and requires reporting entities to make new disclosures about recurring or nonrecurring fair-value measurements. ASU 2010-06 also clarifies existing fair-value measurement disclosure guidance about the level of disaggregation, inputs and valuation techniques. Except for the detailed Level 3 rollforward disclosures, we adopted the provisions of ASU 2010-06 in the first quarter of 2010. This adoption did not affect our financial statements. We adopted the provisions of ASU 2010-06 related to the new Level 3 rollforward disclosures in the first quarter of 2011 and this adoption did not materially affect our financial statements.

In the first quarter of 2010, the FASB issued ASU 2010-09, *Subsequent Events: Amendments to Certain Recognition and Disclosure Requirements* (ASU 2010-09). ASU 2010-09 amends ASC 855, *Subsequent Events,* so that SEC filers are no longer required to disclose the date through which subsequent events have been evaluated in financial statements. We adopted the provisions of ASU 2010-09 in the first quarter of 2010.

In December 2010, the FASB issued ASU No. 2010-28, “Intangibles-Goodwill and Other (Topic 350) When to Perform Step 2 of the Goodwill Impairment Test for Reporting Units with Zero or Negative Carrying Amounts.” This guidance clarifies application of Step 2 of the goodwill impairment test. The guidance requires an entity to perform Step 2 if it is more likely than not that an impairment exists. This accounting guidance is effective for fiscal years beginning after December 15, 2010. This statement does not currently impact the financial statements of the Company.

In October 2009, the FASB issued ASU 2009-13, “Revenue Recognition (Topic 605): Multiple-Deliverable Revenue Arrangements — a consensus of the FASB Emerging Issues Task Force,” which amends the criteria for when to evaluate individual delivered items in a multiple deliverable arrangement and how to allocate consideration received. This ASU is effective for fiscal years beginning on or after June 15, 2010, which is January 1, 2011 for the Company. This statement does not currently impact the financial statement of the company.

NOTE — 2 BASIC AND DILUTED NET INCOME (LOSS) PER COMMON SHARE

Milestone presents "basic" and "fully diluted" earnings (loss) per common share applicable to common stockholders, and, if applicable, "diluted" earnings (loss) per common share applicable to common stockholders pursuant to the provisions of FASB ASC Topic 260. Basic earnings (loss) per common share is calculated by dividing net income or loss applicable to common stockholders by the weighted average number of common shares outstanding and to be issued during each period. The calculation of diluted earnings per common share is similar to that of basic earnings per common share, except that the denominator is increased to include the number of additional common shares that would have been outstanding if all potentially dilutive common shares, such as those issuable upon the exercise of stock options and warrants were issued during the period.

NOTE — 3 ACCOUNTS RECEIVABLE — CURRENT AND LONG TERM

The Company sells a significant amount of its product on credit terms to its major distributors. The Company estimates losses from the inability of its customers to make payments on amounts billed. A majority of credit sales are due within ninety days from invoicing. In 2010, the Company shipped a significant order to a major international distributor. At the time of the shipment, regulatory approval to sell the product in the respective country was in process. Obtaining such regulatory approval was not a condition of the purchase order and sale to the distributor. The regulatory approval has been delayed and as such the customer has not paid the full amount of the invoiced shipment. The Company is receiving periodic payments from the international distributor. Based on the periodic payment plan prepared by the international distributor, the Company has recorded a long term net accounts receivable of $273,160 as of March 31, 2011. The current portion of this net accounts receivable is approximately $163,000. The Company reserved $624,000 of the total accounts receivable from this distributor as March 31, 2011.

NOTE — 4 STOCK OPTION PLANS

FASB ASC Topic 505, "*Share-Based Payment"*, 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.

A summary of option activity for employees under the plans as of March 31, 2011, 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, 2011	928,504	$ 1.07	3.92	$ —
Granted	—	—	—	—
Exercised	—	—	—	—
Forfeited or expired	—	—	—	—
Outstanding, March 31, 2011	928,504	1.07	3.68	36,666
Exercisable, March 31, 2011	473,397	0.95	2.49	36,415

Milestone recognizes compensation expense on a straight line basis over the requisite service period. During the three months ended March 31, 2011, Milestone recognized a $50,897 of total compensation cost. As of March 31, 2011, there was $242,242 of total unrecognized compensation cost related to non-vested options which Milestone expects to recognize over a weighted average period of 2.75 years. A six percent rate of forfeitures is assumed in the calculation of the compensation cost for the period.

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

A summary of option activity for non-employees under the plans as of March 31, 2011, 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, 2011	534,999	1.85	1.51	—
Granted	—	—	—	—
Exercised	100,000	0.25	—	—
Forfeited or expired	120,000	1.75	—	—
Outstanding, March 31, 2011	314,999	2.39	1.84	21,700
Exercisable, March 31, 2011	294,998	2.47	1.70	21,700

During the three months ended March 31, 2011, Milestone recognized $16,137 of expenses related to non-employee options that vested during the year. The total unrecognized compensation cost related to non-vested options was $8,002 as of March 31, 2011. A six percent rate of forfeitures is assumed in the calculation of the compensation cost for the period.

In March of 2010, the Company entered an agreement with a public relations firm to supply services to the Company over a three year (cancelable) agreement. The first year of the agreement required 120,000 options to be provided with immediate exercisability. The Black Scholes calculation of approximately $80,000 was recorded as an asset and an addition to additional paid in capital. The entire $80,000 was amortized to expense over the twelve month period. The Company canceled the agreement in September 2010 and the options expired in March 2011.

In accordance with the provisions of FASB ASC 505-50-15, all other issuances of common stock, stock options or other equity instruments to non-employees as consideration for goods or services received by Milestone are accounted for based on the fair value of the equity instruments issued (unless the fair value of the consideration received can be more reliably measured). The fair value of any options or similar equity instruments issued is estimated based on the Black-Scholes option-pricing model, and the assumption that all of the options or other equity instruments will ultimately vest. Such fair value is measured as of an appropriate date pursuant to the guidance, (generally, the earlier of the date the other party becomes committed to provide goods or services or the date of performance by the other party is complete) and capitalized or expensed as if Milestone had paid cash for the goods or services.

NOTE — 5 CONCENTRATION OF CREDIT RISK

Milestone's financial instruments that are exposed to concentrations of credit risk consist primarily of cash and trade accounts receivable, and advances to contract manufacturer. Milestone places its cash and cash equivalents with large financial institutions. At times, such investments may be in excess of the Federal Deposit Insurance Corporation insurance limit. Milestone has not experienced any losses in such accounts and believes it is not exposed to any significant credit risks. Financial instruments which potentially subject Milestone to credit risk consist principally of trade accounts receivable, as Milestone does not require collateral or other security to support customer receivables, and advances to contract manufacturer. Milestone entered into a purchase agreement with a vendor to supply Milestone with 5,000 instruments of *CompuDent* and 12,000 *STA Instruments*. As part of these agreements, Milestone has advanced approximately $2,956,346 and $2,444,285 to the vendor for purchase of materials at March 31, 2011 and December 31, 2010, respectively. The advance will be credited to Milestone as the goods are delivered. Milestone does not believe that significant credit risk exists with respect to this advance to the contract manufacturer.

Milestone closely monitors the extension of credit to its customers while maintaining allowances, if necessary, for potential credit losses. On a periodic basis, Milestone evaluates its accounts receivable and establishes an allowance for doubtful accounts, based on a history of past write-offs and collections and current credit conditions. Management has provided a reserve that it believes is sufficient record accounts receivable at net realizable value as of March 31, 2011 and December 31, 2010.

NOTE — 6 ADVANCES TO CONTRACT MANUFACTURER

The net advances to contract manufacturer represent funding of future STA, CompuDent and Wand Plus inventory purchases. The balance of the net advances as of March 31, 2011 and December 31, 2010 is $2,956,346 and $2,444,285, respectively. The portion of this advance expected to be utilized in the next twelve months is classified as current asset, with the remainder classified as non-current asset. The Company has an outstanding accounts payable of $1,420,324 and $1,521,000 at March 31, 2011 and December 31, 2010, respectively to the contract manufacture specifically related to the advances. The Company is making monthly payments to the contract manufacturer.

NOTE — 7 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. The $1.3 million Line of Credit was converted into shares of Milestone's common stock in December 2009 at a conversion rate of $1.58 per share. A total of 822,785 shares were issued and the debt liquidated at that date. Interest on the Line of Credit of aggregated $66,245 was accrued as of March 31, 2011. This interest will be paid in equal quarterly payments of $23,000 in 2011. 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 twelve percent interest rate, interest compounded quarterly, with interest and principal 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, 2011, the discount was $7,662.

Interest expense on this Line of Credit for the three months ended March 31, 2011 and 2010 is $19,386 and $9,343, respectively. Accrued interest related to the line of credit was $210,443 and $214,824 at March 31, 2011 and December 31, 2010, respectively. The charge for amortization of Debt Discount related to this Line of Credit is $699 and $699 for the three months ended March 31, 2011 and March 31, 2010, respectively.

NOTE — 8 STOCK ISSUANCE

During the three months ended March 31, 2011, the Company issued 7,000 shares of common stock valued at $7,000 to two parties owed in connection with consulting expenses. Additionally, 7,500 shares of common stock valued at $7,500 were issued for payment of employee compensation. 100,000 shares were issued upon exercise of stock options for $25,000 ($0.25 per share).

NOTE — 9 SIGNIFICANT CUSTOMERS

Milestone had net product sales to three customers (distributors) which in the aggregate accounted for approximately 43% and 63% of revenue for three months ended March 31, 2011 and 2010, respectively. Milestone had sales to one of these major customers (a worldwide distributor of Milestone's products based in China) of $494,108 (19%) for the three months ended March 31, 2010. Accounts receivable from these three customers amounted to $1,000,141 and $533,191 representing 60% and 44% of gross accounts receivable as of March 31, 2011 and December 31, 2010, respectively.

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

	Three Months Ended March 31,	
	2011	2010
Instruments	$ 810,998	$ 599,888
Handpieces	1,580,325	1,936,303
Other	34,665	26,387
	$ 2,425,988	$ 2,562,578
United States	$ 1,312,566	$ 1,204,972
Canada	153,124	182,270
Other Foreign	960,298	1,175,336
	$ 2,425,988	$ 2,562,578

NOTE — 10 COMMITMENTS AND OTHER

Contract Manufacturing Arrangement

Milestone has informal arrangements for the manufacture of its products. *CompuDent, STA* and *CompuMed* instruments are manufactured for Milestone by Tricor Systems, Inc. pursuant to specific purchase orders. *The Wand* disposable handpiece without a needle is manufactured for Milestone in Mexico pursuant to scheduled production requirements. *The Wand* handpiece (with and without needles) is supplied to Milestone by a product broker that arranges for its manufacture by manufacturers in China.

The termination of the manufacturing relationship with any of the above manufacturers could have a material adverse effect on Milestone's ability to produce and sell its products. Although alternate sources of supply exist and new manufacturing relationships could be established, Milestone would need to recover its existing tools or have new tools produced. Establishment of new manufacturing relationships could involve significant expense and delay. Any curtailment or interruption of the supply, whether or not as a result of termination of such a relationship, would adversely affect Milestone.

In January 2010, the Company issued a purchase order to Tricor Instruments for the purchase of 12,000 *Wand/STA Instruments* to be delivered over the next three years. The purchase order is for $5,261,640. The Company will be required to make periodic payments over the next eighteen months to purchase the parts necessary to complete this production. As of March 31, 2011, the Company's production and sales of instruments for this commitment has been delayed. Consequently, advances to contractor and accounts payable has been classified as current and long term at March 31, 2011.

Other Events

In December 2009, Milestone announced that it signed an Agreement of Intent with China National Medicines Corporation, Ltd. and Yichang Humanwell Pharmaceutical Co. Ltd., both incorporated in the People's Republic of China (PRC), to develop intra-articular and epidural drug delivery instruments utilizing Milestone's patented *CompuFlo* technology. Milestone and its two PRC joint venture partners agreed to establish a joint venture entity for this purpose in 2010. The required initial funding for the new entity, estimated by the parties at $1.4 million, was to have been provided by the two PRC companies, although Milestone would determine the proposed uses of their contribution. As of March 31, 2011 the joint venture entity, has not been established nor has funding been received.

In March 2011, Milestone entered into a new agreement with a PRC entity to establish a joint venture entity in the PRC to develop intra-articular and epidural drug delivery instruments utilizing Milestone's patented *CompuFlo* technology. The PRC entity agreed to contribute up to $1.5 million to this joint venture entity, based on progress reports from Milestone and subject to refund if the instruments are not developed because of technological problems within 30 months of the inception date. The initial $500,000 capital contribution was to have been made at inception. The PRC joint venture entity has not been established. Therefore, to move the process forward, Milestone organized a domestic research and development corporation to which its joint venture partner made an initial capital contribution of $250,000, $105,000 of which was disbursed to Milestone in March 2011 as reimbursement for previously incurred research and development costs expensed by Milestone in prior years. Such amount ($105,000) is included in accrued expenses and other payable at March 31, 2011 until the PRC joint venture entity is established and the required initial funding by the other party is completed. The domestic corporation will be owned fifty percent by Milestone and fifty percent by the other party. Milestone will account for its investment in the joint venture using the equity method of accounting after an agreement is signed by both parties and the required initial funding by the other party is completed. The Company expects the finalization of this agreement to be accomplished in 2011. The newly formed corporation has net assets of approximately $145,000 of cash as of March 31, 2011. Milestone believes that this new joint venture represents a significant step forward in Milestone's efforts to have its innovative computer-controlled drug delivery technology adapted for medical usage.

ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The following discussions of our financial condition and results of operations should be read in conjunction with the financial statements and the notes to those statements included elsewhere in this Form 10-Q. Certain statements in this discussion and elsewhere in this report constitute forward-looking statements, within the meaning of section 21E of the Exchange Act, that involve risks and uncertainties. Our actual results may differ materially from those anticipated in these forward-looking statements.

OVERVIEW

In 2011, Milestone remains focused on advancing efforts to achieve our two primary objectives; those being:

- Optimizing our tactical approach to product sales and marketing in order to materially increase penetration of the global dental and medical markets with our proprietary, patented Computer-Controlled Local Anesthesia Delivery (C-CLAD) solution, the *STA Single Tooth Anesthesia Instrument* (*STA Instrument*); and
- Identifying and pursing strategic collaborations with third parties to jointly develop new products utilizing our patented *CompuFlo* pressure force technology for novel new medical applications.

STA Instrument Awards — Industry Recognition

Since its market introduction in the spring of 2007, the *STA Instrument* has received favorable reviews and awards from the dental industry. In July 2007, noted industry publication *Dentistry Today* featured the *STA Instrument* as one of the "Top 100 Products in 2007," helping to promote much broader recognition of the instrument and validating the *STA Instrument's* value proposition for dentists and patients alike. In April 2008, *Medical Device & Diagnostic Industry* magazine distinguished the *STA Instrument* as a 2008 Medical Design Excellence Award winner in the "Dental Instruments, Equipment and Supplies" product category. Of the 33 products to receive this coveted award, the *STA Instrument* was one of only two winning products that serve dental practitioners.

In December 2008, the *STA Instrument* was again recognized as one of the dental industry's best technological innovations, winning a "Townie Choice Award" from *Dentaltown Magazine* in the category "Anesthetics: Technique Instrument". This marked the second consecutive year that Milestone won a "Townie Choice Award"; in 2007, we won the same award for our *CompuDent/The Wand.* Also in December 2008, our *Wand/STA Instrument* was named as a *Dental Products Report* "Top 100 2008 Product of Distinction". Each year, *DPR* spotlights the year's Top 100 products. Of these 100 products, 50 are the ones most often inquired about by *DPR's* readers via an online and Product Information Card reader service program. The other 50 represent "New Classics," which recognize both old and newer products and categories chosen by *DPR's* editorial staff for their "perceived impact on driving innovation or helping to establish a new, higher standard of care for patients." The *STA Instrument* was recognized as a "New Classic" in the Technology category.

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

Second Annual Symposium on C-CLAD

On May 1 through 3, 2009, we hosted the Second International Annual Symposium on C-CLAD in Amelia Island, Florida. Stanley Malamed, DDS, Professor of Anesthesia & Medicine at the University of Southern California, School of Dentistry, again served as Chairman of the invitational event. With attendance triple that of 2008, the Second Symposium covered a broad range of C-CLAD related topics including:

- The History of C-CLAD
- Treating with Connection
- Heart Rate Study

- *STA* Compassionate Care in the 21st Century
- Injection Advances and Challenges
- Physiologic and Clinical Characteristics of PDL Anesthesia Delivered by a High Pressure Hand piece and a Computerized Device
- The *STA* for Tots and Teens
- Computerized Local Anesthesia in Dentistry: A Review
- Today's Technology
- Managing a Successful Dental Practice: Why People Keep Coming Back
- *STA* — The Dental School's Perspective
- Futuristic Vistas: The Dentist/Hygienist Partnership

In 2010, the company published and broadly distributed more than 100,000 copies of a comprehensive monograph reflecting the topics discussed at the Symposium and a consensus on the attendees' attitudes, ideas and suggestions relating to promoting global industry adoption of C-CLAD technologies as the new standard of care for administering dental injections.

STA System Growth

Since its market introduction in early 2007, the *STA System,* a prior computerized controlled local anesthesia delivery product, has been used to deliver tens of millions of safe, effective and comfortable injections. The instrument has also been favorably evaluated in numerous peer-reviewed, published clinical studies and associated articles. Moreover, there appears to be a growing consensus among users that the *STA System* is proving to be a valuable and beneficial instrument that is positively impacting the practice of dentistry worldwide. The utility and value of the *STA System* is perhaps best summarized by Dr. Joe Blaes, who wrote in the December 2008 edition of *Dental Economics*, "I tried the *STA System* and my patients absolutely love it. This is a no brainer — go get one ASAP!"

Global Distribution Network

North America Market

The *STA Instrument* and related hand pieces are marketed to the dental industry in the United States and Canada by many of the nation's leading dental supply companies, including Henry Schein, Inc., Patterson Dental Supply, Atlanta Dental, Benco Dental, Burkhart Dental, Cedar Dental, Darby Dental Supply, Dental Health Products, Goetze Dental, Iowa Dental, Nashville Dental, Newark Dental and Parkway Dental. In Canada, our independent distributors include Dental 2000, Mediclub, and Specialty Dental.

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

International Market

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

In April 2009, we signed an Exclusive Distribution and Marketing Agreement with China National Medicines Corporation, d/b/a Sinopharm, which is China's largest domestic manufacturer, distributor and marketer of pharmaceuticals and importer of medical devices and the country's largest domestic distributor of dental anesthetic carpules to the Chinese dental industry. Prior to the end of 2009, China National Medicines issued Milestone a blanket purchase order for 12,000 *STA Instruments* to be delivered over 36 months, thereby marking the Company's initial penetration into China's emerging dental market.

As of March 30, 2011, China National Medicine has not received the appropriate registration approval from the regulatory body in China, therefore, shipment of *Wand/STA Instruments* and handpieces have been suspended pending the approval to sell and distribute these products in China. It is expected that the approval by the appropriate Chinese regulatory body will be received in 2011.

According to a report published by the U.S. Department of Commerce, titled "China's Emerging Markets: Opportunities in the Dental and Dental Lab Industry," China's dental market lags behind other healthcare services and has largely been neglected in the past. In fact, CS Market Research reports that "of China's 1.3 billion plus population, 50% of the adults and 70% of the children are estimated to have decayed tooth problems, and over 90% have periodontal disease." However, with increasing affluence of the Chinese population, as well as increasing attention towards personal care, demand for dental services has been growing. Market research firm Freedonia agrees, noting that demand for dental products in China is expected to climb to 21.5 billion RMB (US$3.15 billion) by 2012, due primarily to escalating personal income levels and government programs promoting awareness of the benefits of good oral care.

Shortly before the end of the second quarter 2009, we announced that we were refining our international marketing strategy to gain greater access to and penetration of the international dental markets for the *Wand/STA Instrument, CompuDent* and related disposable hand pieces. The new sales strategy provides for increasing hands-on oversight and support of our existing international distribution network, while also attracting new distributors throughout Europe, Asia and South America. To assist in this endeavor, Milestone added in the spring of 2010 an International Sales Director to focus on growth of our products outside the USA and Canada. The new addition to the company's staff has proven to be a positive improvement to our sales and marketing effort outside the USA and Canada.

Segmented Sales Performance

The following table shows a breakdown of our product sales (net), domestically and internationally, by product category, and the percentage of product sales (net) by each product category:

	Three Months Ended March 31,			
	2011		2010	
DOMESTIC				
Instruments	$ 355,972	27.1%	$ 251,597	20.9%
Handpieces	936,049	71.3%	929,984	77.2%
Other	20,545	1.6%	23,391	1.9%
Total Domestic	$ 1,312,566	100.0%	$ 1,204,972	100.0%
INTERNATIONAL				
Instruments	$ 455,026	40.9%	$ 348,291	25.7%
Handpieces	644,276	57.9%	1,006,319	74.1%
Other	14,120	1.2%	2,996	0.2%
Total International	$ 1,113,422	100.0%	$ 1,357,606	100.0%
DOMESTIC/INTERNATIONAL ANALYSIS				
Domestic	$ 1,312,566	54.1%	$ 1,204,972	47.0%
International	1,113,422	45.9%	1,357,606	53.0%
Total Product Sales	$ 2,425,988	100.0%	$ 2,562,578	100.0%

The Company earned gross profits of 64% and 65% for the three months ended March 31, 2011 and 2010, respectively. However, our revenues and related gross profits have not been sufficient to support our overhead, new product introduction and research and development expenses. Although the Company anticipates expending funds for research and development in 2011, these amounts will vary based on the operating results for each quarter. The Company has incurred operating losses since its inception. The Company is actively pursuing the generation of sustainable positive cash flows from operating activities through increases in revenue, to be derived from a change in the business model in U.S. and Canada. This change in business model incorporates a team of local dental hygienists training and educating the respective dentist in their territories. The business model replaces the Company's sale force and third party manufactures rep's business model.

New Product Development and Commercialization Utilizing CompuFlo Technology

Over the last decade, the drug delivery industry has evolved to become a key area in the development of value-added pharmaceutical products. According to market research firm Business Insights, "The global market grew from $15 billion to $40 billion during 2000—2006 as companies increasingly turned to drug delivery technologies as a means of expanding product lifecycles, enhancing drug efficacy and maximizing revenues." Moreover, industry analysts agree that as patients live longer and are diagnosed with chronic and often debilitating ailments, the result will be a dramatic increase in self-administration of drug therapies in non-traditional settings for a number of conditions. This trend is creating an increased interest in routes of administration that are patient-friendly and cost-effective. It appears that pharma company decision makers are realizing that new drug product success no longer depends only on the medication itself, but also on achieving a patient-friendly form of delivery.

Central to Milestone's robust IP portfolio, currently comprised of 24 issued patents, is its FDA-approved *CompuFlo®* system for the precise delivery and aspiration of all medicaments. Milestone's patented *CompuFlo®* system and *DPS Dynamic Pressure Sensing®* technology are revolutionary technologies that are relevant for the entire category of subcutaneous drug delivery injections and fluid aspiration — enabling healthcare practitioners to achieve multiple unique benefits that cannot currently be accomplished with existing technologies.

The negative side effects possible when using the manual hypodermic syringe are well documented in the medical and dental literature, and include tissue damage, transient or permanent paralysis, subjective pain response, post-operative complications, and the risk of medical emergencies, which in certain circumstances can result in a patient fatality. Patient pain and tissue damage are a direct physical result of a clinician's inability to accurately control a wide range of variables when using the manual syringe.

In contrast, the technical advantages of the *CompuFlo®* system with *DPS Dynamic Pressure Sensing®* technology are numerous and dramatic. They include precise controlling and monitoring of **all** critical variables during drug delivery, including:

- a true "painless" experience for all injections
- eliminates disruptive injection behavior
- site specific targeting
- controlled needle exit-pressure
- precise flow rate and drug volumes
- patient treatment documentation
- superior ergonomics
- elimination of needle deflection (causing missed injections, lost time and anxiety)
- advanced tactile needle control
- precision fluid metering

The use of Milestone's technology also enables the clinician to receive real-time continuous feedback relating to the local tissue conditions during the injection process. This real-time feedback enables the accurate differentiation and identification of specific tissues types and anatomical locations, making subcutaneous drug delivery safer, easier and more effective, thereby fundamentally transforming what formerly was an "art" into a "science."

Recognized as a world leader in advanced computer-controlled injection technologies, Milestone has spent over a decade developing and perfecting its portfolio of technologies that eliminate pain and enable unequaled precision that can be applied to a wide array of subcutaneous injections routinely used in the practice of Medicine and Dentistry. Moreover, none of Milestone's *C-CLAD* injection products look like a syringe or feel like a syringe, and they perform far better than the antiquated manual syringe, resulting in a much enhanced experience for the patient, the practitioner and the business of dentistry.

Based on an independent 2006 study, the number of potential applications for the *CompuFlo®* technology stands at more than 700. Due to the sizable number of product development opportunities within the medical arena for the technology, Milestone created an internal review committee to assess and analyze the opportunities in a variety of medical sectors. Consequently, the Company has elected to focus on those medical uses of the *CompuFlo®* system which have shown to be most promising for obtaining a return on investment while simultaneously representing new product introductions that will have the greatest impact on patients and the medical profession. Areas of initial interest include developing *CompuFlo®*-based injection/aspiration systems for use in Epidurals, Intra-Articular Injections, Self-Administered Injections, Neurosurgery, Ophthalmic surgery and Derma Filler/Cosmetic surgery.

It should be noted that the *CompuFlo®* system is embedded in an FDA-approved prototype. This technology is currently commercially available in the *STA Single Tooth Anesthesia System®*, which is being sold worldwide in the dental market. Over 40 million patient injections have been given with Milestone's technologies to date.

Milestone's technological innovations have been tried and proven by healthcare providers with over 50 publications validating the efficacy and safety in a variety of medical and dental injection applications. It is anticipated that future devices that are developed utilizing the *CompuFlo®* system will only require a basic 510K approval from the FDA, thus minimizing development cost and time to market.

Intellectual Property

In August 2009, we were issued a Notice of Allowance by the U.S. Patent and Trademark Office for it's a patent application directed for the use of our disposable hand piece for fluid administration. Our award-winning handpiece is an instrument currently utilized in conjunction with the Company's *STA Single Tooth Anesthesia System®, the CompuDent®* instrument and the *CompuMed®* instrument.

In September 2009, the U.S. Patent and Trademark Office issued a Notice of Allowance for our U.S. patent application, titled "Computer Controlled Drug Delivery System with Dynamic Pressure Sensing." This intellectual property represents one of the key technological components of our product development strategy relating to the development of advanced computer-controlled injection products for specific applications in the medical industry — most notably intra-articular injections and epidurals.

During the second quarter of 2010, Milestone was issued a Notice of Allowance by the U.S. Patent and Trademark Office for its U.S. patent application, titled "Self-Administration Injection System." Milestone's innovative computer-controlled drug delivery platform has been designed to reduce the anxiety and pain of self-administration of medications for the rapidly expanding home-use market. The computer-controlled self-administration system provides a less threatening, virtually painless means for patients to safely self-administer a variety of injections.

To date, we have been awarded and presently hold 20 U.S. utility and design patents relating to our *C-CLAD* technologies.

Summary of Significant Accounting Policies, Judgments and Estimates

Our discussion and analysis of our financial condition and results of operations are based upon our financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an on-going basis, we evaluate our estimates, including those related to accounts receivable, inventories, stock-based compensation, and contingencies. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from those estimates under different assumptions or conditions.

Accounts Receivable

The realization of Accounts Receivable current and long-term will have a significant impact on the Company. Consequently, Milestone estimates losses resulting from the inability of its customers to make payments for amounts billed. The collectability of outstanding amounts is continually assessed.

Inventories

Inventory costing, obsolescence and physical control are significantly important to the on-going operation of the business. Inventories principally consist of finished goods and component parts stated at the lower of cost (first-in, first-out method) or market. Inventory quantities on hand are reviewed on a quarterly basis and a provision for excess and obsolete inventory is recorded if required based on past and expected future sales.

Impairment of Long-Lived Assets

The long lived assets of the Company, principally patents and trademarks are the base features of the business. We review long-lived assets for impairment whenever circumstances and situations change such that there is an indication that the carrying amounts may not be recoverable. The carrying value of the asset is evaluated in relation to the operating performance and future undiscounted cash flows of the underlying assets.

Accounts Payable

Current and long term accounts payable represents amounts due to suppliers of the Company. Long term accounts payable is based on an informal financing agreement with the supplier to assist in the purchasing of instruments and handpieces, beyond one year from the balance sheet date.

Revenue Recognition

Revenue from product sales is recognized net of discounts and allowances to domestic distributor on the date of shipment for essentially all shipments, since the shipment terms are FOB warehouse. The company will recognize revenue on date of arrival of the goods at the customer's location where shipments are FOB destination. Shipments to international distributors are FOB the warehouse and revenue is therefore recognized on shipment. In both cases the price to the buyer is fixed and the collectability is reasonably assured. Further, the Company has no obligation on these sales for any post installation, set-up or maintenance, these being the responsibility of the buyer. Customer acceptance is considered made at delivery. Milestone's only obligation after sale is the normal commercial warranty against manufacturing defects if the alleged defective unit is returned within the warranty period

Results of Operations

The consolidated results of operations for the three months ended March 31, 2011 compared to the same three month period in 2010 reflect our focus and development on the *Wand/STA Instruments*, as well as continuing efforts on identifying collaborative partners for new product development utilizing our *CompuFlo* technology.

The following table sets forth for the periods presented 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			
	2011		2010	
Products sales, net	$ 2,425,988	100%	$ 2,562,578	100%
Total revenue	2,425,988	100%	2,562,578	100%
Cost of products sold	879,588	36%	900,712	35%
Gross Profit	1,546,400	64%	1,661,866	65%
Selling, general and administrative expenses	1,624,255	67%	1,541,702	60%
Research and development expenses	43,718	2%	88,464	3%
Total operating expenses	1,667,973	69%	1,630,166	63%
(Loss) income from operations	(121,573)	-5%	31,700	1%
Total other (expenses) income	(20,071)	-1%	52,222	2%
Net (loss) income	$ (141,644)	-6%	$ 83,922	3%

Three months ended March 31, 2011 compared to three months ended March 31, 2010

Total revenues for the three months ended March 31, 2011 and 2010 were $2,425,988 and $2,562,578, respectively. The total decrease in product sales of $136,590 or 5.3%, in 2011 over 2010 is primarily the result of decreased international handpiece revenues. Domestic *STA* instruments sales increased $118,025, in 2011 over 2010. This increase was due to an increased demand at the distributor level in the domestic market. In the domestic market, total handpiece sales increased by $6,065 or, (1%). On the international front, instruments sales increased in the first quarter of 2011 over 2010 by $106,736 or 30.6% principally due to increased market penetration for the *Wand/STA Instruments*. Internationally, handpieces decreased by $362,043, 36% due to a decrease in *STA* handpieces sales to China. China handpiece sales in the first quarter of 2010 were $494,208.

Cost of products sold for the three months ended March 31, 2011 and 2010 were $879,588 and $900,712, respectively.

For the three months ended March 31, 2011, Milestone generated a gross profit of $1,546,400, or 64%, as compared to a gross profit of $1,661,866, or 65%, for the three months ended March 31, 2010. The total decrease in gross profit dollars of $115,466 is due to a decrease in international handpiece sales and a small reduction in gross profit percentage.

Selling, general and administrative expenses for the three months ended March 31, 2011 and 2010 were $1,624,255 and $1,541,702, respectively. This relatively flat change of $82,553, or 5.4%, is described in the following sections of this report. Although the Company continues to focus on controlling expenses, there are a few areas that required additional capital investment in the first quarter of 2011. The first quarter of 2011 noted several increases to continue on our planned business model change to the education hygienist program. First, trade show and related expenses (travel, fees and staffing) increased by $74,000 as the Company targeted this venue as a more cost effective method to present our *Wand/STA Instrument* to a wide array of potential customers. Sales expenses also increased during the first quarter of 2011 principally in travel costs as the Company's two new sales director focus on opening new markets and expanding our distributor sales. Salaries increased by $45,000 in this quarter over the comparable quarter in the prior year, principally due the increased compensation of the two new sales directors (Domestic and International). Legal fees increased by $30,000 in the aggregate for routine litigation and patent annuities. Other expenses for the quarter decreased by approximately $66,000, as compared to the same period in 2010. The principal areas of decrease were; $12,000 reduction on the reserve for bad debts, as the Company reversed a portion of the bad debt reserve based on payments made by a Chinese distributor in the first quarter of 2011. The international commission decreased by $70,000 as the contractual threshold for commission rate was achieved in January 2011.

Research and development expenses for the three months ended March 31, 2011 and 2010 were $43,718 and $88,464, respectively.

The loss from operation for three months ended March 31, 2011 was $121,573 and the net income from operations for the three months ended March 31, 2010 was $31,700, respectively. The $153,273, or 483.5%, decrease is explained above.

Interest expense of $19,386 and amortization of debt issuance was $699 relating to the conversion of the $1.3 million line of credit into common stock in December 2009 was charged for the three months ended March 31, 2011, compared to $9,343 and $699, respectively, for the same period in 2010.

Other Income includes $61,916 in 2010. This represents the balance of the sale of tax credits for 2009, under the New Jersey Technology Business Tax Certificate Program.

For the reasons explained above, net loss for the three months ended March 31, 2011 was $141,644 as compared to a net income of $83,922 for the three months ended March 31, 2010. The $225,566, or 268.8%, decrease in net profit is primarily a result of a decrease in gross margin dollars of $115,466 offset by an increase in selling, general and administrative expenses of $82,553; a significant reduction in research and development expense of $44,745 and a reduction of $61,916 (2010 sale of tax credit) in other income.

Liquidity and Capital Resources

As of March 31, 2011, the Company had cash and cash equivalents of $155,263 and a negative working capital of $177,786. Milestone had a net loss of $141,644 and a net income of $83,922 for the three months ended March 31, 2011 and 2010, respectively. The significant decrease in working capital of $171,101 in 2011 was caused by a delay in obtaining regulatory approval to sell our instruments and handpieces in China. Based on the initial purchase order from our distributor in China in 2009, the Company ramped up purchasing of parts in anticipation of significant sales in 2010 and future years. As a result of the delay in shipping, the advances to contract manufacturer has increased significantly, (current and long term), in 2011 as compared to 2010. Additionally, the accounts payable due to suppliers has also increased and is classified as current and long term. And finally, the accounts receivable from the China distributor has been classified between current and long term net of a reserve of doubtful accounts of $624,000.

As a result of this delay on shipments to China, the decrease in working capital at March 31, 2011, of $171,101, consists of a net current asset decrease of $30,227. The significant current asset changes are; current accounts receivable increased by $583,974, cash decreased by $471,819, utilized in operations and to pay for parts required for the China production and inventory decreased by $136,239. Current liabilities increased by $140,874.

The Company has also incurred increases in non current advances to contract manufacturer of $514,043 and an increase in non current accounts payable of $269,786 as a result of the delay in shipping instruments and handpieces to our distributor in China. The Company continues to take positive steps to maintain adequate inventory levels and advances to contract manufacturers to maintain available inventory to meet our domestic and international sales requirements. Cash flows from operating activities for the three months ended March 31, 2011 was a negative $482,401 and for the three months ended March 31, 2010 was a positive $248,437.

For the three months ended March 31, 2011, our net cash used in operating activities was $482,401. This was attributable primarily to a net loss of $141,644 adjusted for noncash items of $87,549 principally common stock and options issued for compensation, consulting and vendor services and offset by changes in operating assets and liabilities of $428,306.

For the three months ended March 31, 2011, $14,418 was used in investing activities. This was primarily attributable to $12,164 of legal fees related to new patent application. Capital expenditures of $2,254 were primarily for the leasehold improvement.

For the three months ended March 31, 2011, $25,000 was provided by financing activities. This was primarily attributable to the exercising of stock options.

The Company has incurred operating losses and negative cash flows from operating activities since its inception, except for 2009. The Company did not achieve positive cash flow in 2010. The Company is actively pursuing the generation of positive cash flows from operating activities through increases in revenues based upon management's assessment of present contracts and current negotiations and reductions in operating expenses. As of December 31, 2010, the Company believes that it does not have sufficient cash reserves to meet all of its anticipated obligations for the next twelve months. However, if the Company requires a need for a higher level of marketing and sales effort, or if the Company is unable to continue generating 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 continue to achieve positive operating cash flows or that additional capital can be raised on the 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 savings measures, any of which might negatively affect the Company's operating results.

The Company's recurring losses and negative operating cash flows raises substantial doubt about its ability to continue as a going concern. The accompanying financial statements do not include any adjustment that might result from the outcome of this uncertainty.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

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

Item 4. Controls and Procedures

The Company's management, including the Chief Executive Officer and Chief Financial Officer, have evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) as of the end of the period covered by this report. Based upon that evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded that the disclosure controls and procedures as of March 31, 2011 are effective to ensure that information required to be disclosed in the reports the Company files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and that such information is accumulated and communicated to the Company's management, including the Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding disclosure.

There were no changes in the Company's internal control over financial reporting identified in connection with the evaluation that occurred during the Company's last fiscal quarter ended March 31, 2011 that have materially affected, or that are reasonably likely to materially affect, the Company's internal controls over financial reporting.

PART II — OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

None.

ITEM 1A. RISK FACTORS

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

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

Recent Sales of Unregistered Securities

In the quarter ended March 31, 2011, Milestone issued total 120,334 shares valued at $43,584 as follows:

	Shares	$
Shares issued for Employee Compensation	7,500	$ 7,500
Shares issued for services	12,834	11,084
Options exercised	100,000	25,000
	120,334	$ 43,584

These issuances were exempt from registration pursuant to Section 4(2) of the Securities Act of 1933, as amended (the "Act") and a legend restricting the sale, transfer, or other disposition of these shares other than in compliance with the Act was imprinted on stock certificates evidencing the shares.

ITEM 3. DEFAULT UPON SENIOR SECURTIES

None.

ITEM 4. (Removed and Reserved)

None.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

The following exhibits are filed herewith:

31.1 Chief Executive Officer Certification pursuant to section 302 of the Sarbanes-Oxley Act of 2002.

31.2 Chief Financial Officer Certification pursuant to section 302 of the Sarbanes-Oxley Act of 2002.

32.1 Chief Executive Officer Certification pursuant to section 906 of the Sarbanes-Oxley Act of 2002.

32.2 Chief Financial Officer Certification pursuant to section 906 of the Sarbanes-Oxley Act of 2002.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

MILESTONE SCIENTIFIC INC.

/s/ Leonard Osser
Leonard Osser
Chief Executive Officer

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

Date: May 9, 2011

Exhibit 31.1

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

I, Leonard Osser, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Milestone Scientific Inc;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under my supervision, to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report, based on such evaluation; and

    d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and, I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 9, 2011

/s/ Leonard Osser
Leonard Osser
Chief Executive Officer

Exhibit 31.2

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

I, Joseph D'Agostino, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Milestone Scientific Inc;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under my supervision, to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report, based on such evaluation; and

    d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and, I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 9, 2011

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

Exhibit 32.1

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

In connection with the quarterly report of Milestone Scientific Inc (the "Company") on Form 10-Q for the period ending March 31, 2011 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Leonard Osser, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. ss. 1350, as adopted pursuant to ss. 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company

Dated: May 9, 2011

/s/ Leonard Osser
Leonard Osser
Chief Executive Officer

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

Exhibit 32.2

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

In connection with the quarterly report of Milestone Scientific Inc (the "Company") on Form 10-Q for the period ending March 31, 2011 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Joseph D'Agostino, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. ss. 1350, as adopted pursuant to ss. 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company

Dated: May 9, 2011

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

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