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MILESTONE SCIENTIFIC INC/NJ  
Form 10QSB  
August 06, 2004

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 June 30, 2004

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 0-26284

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 August 5, 2004, the Registrant had a total of 9,665,012 shares of Common Stock, \$.001 par value, outstanding.

Transitional Small Business Disclosure Format (Check one): Yes  No

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FORWARD LOOKING STATEMENTS

When used in this Quarterly Report on Form 10-QSB, the words "may", "will", "should", "expect", "believe", "anticipate", "continue", "estimate", "project", "intend" and similar expressions are intended to identify forward-looking statements within the meaning of Section 27A of the Securities Act and Section 21E of the Exchange Act regarding events, conditions and financial trends that

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may affect the Company's future plans of operations, business strategy, results of operations and financial condition. The Company wishes to ensure that such statements are accompanied by meaningful cautionary statements pursuant to the safe harbor established in the Private Securities Litigation Reform Act of 1995. Prospective investors are cautioned that any forward-looking statements are not guarantees of future performance and are subject to risks and uncertainties and that actual results may differ materially from those included within the forward-looking statements as a result of various factors. Such forward-looking statements should, therefore, be considered in light of various important factors, including those set forth herein and others set forth from time to time in the Company's reports and registration statements filed with the Securities and Exchange Commission (the "Commission"). The Company disclaims any intent or obligation to update such forward-looking statements.

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### MILESTONE SCIENTIFIC INC. AND SUBSIDIARIES

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MILESTONE SCIENTIFIC INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED BALANCE SHEETS

	June 30, 2004 (Unaudited)
ASSETS	
Current Assets:	
Cash and cash equivalents	\$ 5,234,6
Accounts receivable, net of allowance for doubtful accounts at June 30, 2004 and December 31, 2003 of \$31,910 and \$28,814, respectively	508,5
Inventories	536,3
Advances to contract manufacturer	115,5
Deferred debt financing costs, net	7
Prepaid expenses	120,4
	-----
Total current assets	6,516,1
Deferred registration costs	
Equipment, net	549,8
Other assets	27,4
	-----
Totals	\$ 7,093,5
	=====
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIENCY)	
Current Liabilities:	
Account payable	\$ 633,4
Accrued expenses	314,6
Accrued interest	3,2
Deferred compensation payable to officer/stockholder	75,0
Notes payable, net of debt discount at June 30, 2004 and December 31, 2003 of \$4,006 and \$13,220, respectively	45,9
Notes payable-officer/stockholder	
	-----
Total current liabilities	1,072,3
Notes payable, less current maturities	
	-----
Total liabilities	1,072,3
	-----
Commitments and Contingencies	
Stockholder's Equity (Deficiency):	
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	
Common stock, par value \$.001; authorized 50,000,000 shares; 9,698,345 shares issued and 6,146,011 shares issued at June 30, 2004 and December 31, 2003, respectively	9,6
Additional paid-in capital	52,573,7
Accumulated deficit	(45,546,1
Unearned compensation	(104,6
Treasury stock, at cost, 33,333 shares	(911,5
	-----
Total stockholders' equity (deficiency)	6,021,2
	-----
Totals	\$ 7,093,5

\* Derived from the Company's audited consolidated balance sheet at December 31, 2003.

See notes to Condensed Consolidated Financial Statements.

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MILESTONE SCIENTIFIC INC. AND SUBSIDIARIES  
 CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS  
 THREE AND SIX MONTHS ENDED JUNE 30, 2004 AND 2003  
 (Unaudited)

	Three Months Ended		Six M
	June 30, 2004	June 30, 2003	June 30, 2004
Net sales	\$ 1,188,022	\$ 1,008,965	\$ 2,282,245
Cost of sales	769,383	499,337	1,315,683
Gross profit	418,639	509,628	966,562
Selling, general and administrative expenses	1,211,917	841,435	2,196,785
Charge in connection with the closing of the Deerfield, IL facility	--	13,150	--
Research and development expenses	52,409	51,091	93,621
	1,264,326	905,676	2,290,406
Loss from operations	(845,687)	(396,048)	(1,323,844)
Other income (expense)			
Interest income	28,876	--	41,010
Interest expense	(10,867)	(254,510)	(63,638)
	18,009	(254,510)	(22,628)
Net loss	\$ (827,678)	\$ (650,558)	\$ (1,346,472)
Loss per share - basic and diluted	\$ (.09)	(.15)	\$ (.16)
Weighted average shares outstanding -basic and diluted	9,690,365	4,211,123	\$ 8,591,279

See Notes to Condensed Consolidated Financial Statements.

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Milestone Scientific Inc. and Subsidiaries  
 CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY (DEFICIENCY)  
 Six Months Ended June 30, 2004  
 (Unaudited)

	Preferred Stock		Common Stock		Additional Paid-in Capital	Accumulated Deficit	Un- Comp
	Shares	Amount	Shares	Amount			
Balance January 1, 2004	25,365	\$ 25	6,146,011	\$6,146	\$42,660,349	\$ (44,199,675)	
Proceeds from equity financing, net			2,880,000	2,880	7,617,224		
Common stock and warrants issued for payment of outstanding debt and related interest			492,087	492	1,603,712		
Common stock and warrants issued for payment of accounts payable			61,350	61	199,939		
Common stock and warrants issued for payment of deferred compensation			117,791	118	383,882		
Common stock issued for payment of professional services rendered			1,106	1	2,499		
Issuance of options for consulting services					106,178		
Net loss						(1,346,472)	
Balance June 30, 2004	25,365	25	9,698,345	\$9,698	\$52,573,783	\$ (45,546,147)	\$ (

See notes to Condensed Consolidated Financial Statements.

MILESTONE SCIENTIFIC INC. AND SUBSIDIARIES  
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
 SIX MONTHS ENDED JUNE 30, 2004 AND 2003  
 (Unaudited)

	2004
Cash flows from operating activities:	
Net loss	\$ (1,346,472)
Adjustments to reconcile net loss to net cash used in operating activities:	
Depreciation	17,140
Amortization of debt discount and deferred financing costs	46,294
Amortization of stock options issued to consultants	1,548
Loss on disposal of fixed assets	--

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Changes in operating assets and liabilities:	
Increase in accounts receivable	(119,619)
Increase in inventories	(109,637)
Decrease in advances to contract manufacturer	112,997
(Increase) decrease in prepaid expenses	(3,295)
Increase in other assets	(142)
(Decrease) increase in accounts payable	(604,858)
(Decrease) increase in accrued interest	(82,015)
Increase in accrued expenses	255,084
(Decrease) increase in deferred compensation	(181,000)
Net cash used in operating activities	(2,013,975)
Cash flows from investing activities:	
Payment for capital expenditures	(324,767)
Cash flows from financing activities:	
Proceeds from equity financing, net	7,620,104
Proceeds from note payable - officer/stockholder	--
Payments of note payable - officer/stockholder	(50,000)
Proceeds from issuance of notes payable	--
Payments for deferred financing activities	--
Net cash provided by financing activities	7,570,104
Net INCREASE in cash AND CASH EQUIVALENTS	5,231,362
Cash and cash equivalents beginning of period	3,277
Cash and cash equivalents end of period	\$ 5,234,639
Supplemental disclosures of cash flow information:	
Cash paid during the period for interest	\$ 99,359

See Notes to Condensed Consolidated Financial Statements.

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MILESTONE SCIENTIFIC INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
SIX MONTHS ENDED JUNE 30, 2004 AND 2003  
(Unaudited)

Supplemental schedule of noncash financing activities:

During May 2004, the Company issued 43,335 options to various consultants for current and future services valued at \$106,078 of which \$1,548 was recognized as expense during the period.

In April 2004, pursuant to an agreement to purchase media placement services, the Company issued 1,106 shares of common stock valued at \$2,500.

As part of its payment for services in connection with the February 2004 public offering, the Company 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

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and warrants to purchase 80,000 shares of Common Stock at an exercise price of \$4.89.

In February 2004, in consideration for payment of \$2,188,204 of aggregate accounts payable, deferred compensation, accrued interest and notes payable, the Company issued 335,614 units. Each unit consisted of 2 shares of the Company's Common stock (671,228 shares of common stock) and a warrant.

In June 2003, the Company granted warrants to purchase 53,419 shares of common stock (with an estimated fair value of \$14,423) in connection with a \$50,000 6% note payable provided by an existing investor. This resulted in an initial increase to debt discount and to additional paid-in capital.

During the six months ended June 30, 2003 pursuant to the promissory note agreements, the Company converted \$160,211 of accrued interest into additional principal.

See Notes to Condensed Consolidated Financial Statements.

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### 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, 2003 included in the Company'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, 2003 consolidated financial statements.

In the opinion of the Company, the accompanying unaudited condensed consolidated financial statements contain all adjustments (consisting of normal recurring entries) necessary to present fairly the Company's financial position as of June 30, 2004 and the results of its operations for the three and six months ended June 30, 2004 and 2003.

The results reported for the three and six months ended June 30, 2004 are not necessarily indicative of the results of operations which may be expected for a full year.

On January 6, 2004 the Company filed an amendment to its Certificate of Incorporation effecting a 1 for 3 reverse split of its common stock. Accordingly, all shares and per share information in these consolidated financial statements have been retroactively adjusted to reflect the 1-for-3 reverse stock split.

#### Note 2 - Public Offering:

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On February 17, 2004, the Company completed a \$9.4 million Public Offering (\$7.6 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 the Company may do at any time, beginning 6 months after the effective date of this Offering and once the closing price for the Company's common stock on the principal exchange on which it trades (AMEX) has equaled or exceeded 200% of the price of the Company'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.

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

#### Note 2 - Public Offering (concluded):

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) the Company satisfied \$2,341,000 of obligations due to the Company's CEO and a major investor as required by an October 2003 agreement. These obligations consisted of promissory notes, accrued interest and deferred compensation. The Company satisfied these obligations by issuing to the major investor and the Company'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.

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



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contributions to the February 2004 public offering.

### Note 3 - Inventories:

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

### Note 4 - Basic and diluted net loss per common share:

The Company 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 stock is calculated by the 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. The rights of the Company's preferred and common stockholders are substantially equivalent. The Company has included the 25,365 preferred shares from the date of their issuance in the weighted average number of shares outstanding in the computation of basic loss per share for the three and six month periods ended June 30, 2004 and 2003 in accordance with the "two class" method of computing earnings (loss) per share set forth in SFAS 128.

Since the Company had net losses for the six months ended June 30, 2004 and 2003, the assumed effects of the exercise of 3,249,692 and 1,088,605 outstanding stock options and warrants, and the conversion of notes payable into common stock at June 30, 2004 and 2003, were not included as their effect would have been anti-dilutive.

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

### Note 5 - Significant Customer:

The Company had one foreign customer who accounted for approximately 23% and 21%, of its net sales for the three and six months ended June 30, 2004, respectively, and approximately 22% for the three and six months ended June 30, 2003. At June 30, 2004, receivables from this customer were approximately 73% of the Company's total accounts receivable.

### Note 6 - Notes Payable

Short term notes payable at June 30, 2004 consists of a \$50,000 6% promissory note issued during June 2003 to an existing investor. The note bears interest at 6% and matures on November 27, 2004. At the Company's option, the principal and interest is payable on the maturity date in common stock at a rate of one share of our common stock for every \$.936 of indebtedness. Additionally, the Company granted the investor warrants with an estimated fair value of \$14.423 to purchase 53,419 shares of our common stock at a per share price of \$1.56 at any time or from time to time during the period commencing on June 4, 2003 and ending June 3, 2005. This resulted in an initial increase to debt discount and to additional paid-in

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capital of \$14,423. As of June 30, 2004, the unamortized portion of the debt discount was \$4,006.

During September 2003, the Company issued a \$50,000 promissory note to an existing investor. The note bears interest at 6% and was to mature on March 24, 2005. Additionally, Milestone granted the investor warrants with an estimated fair value of \$10,400 to purchase 5,000 shares of common stock at a per share price of \$6.00 at any time or from time to time during the period commencing from June 4, 2003 through June 5, 2005. This resulted in an initial increase to debt discount and to additional paid-in capital of \$10,400. This note and accrued interest of \$2,033 was paid in full on May 24, 2004.

### Note 7 - Legal Proceedings

On June 10, 2002, a former distributor, Henry Schein, Inc., sued Milestone in the Supreme Court of the State of New York for \$110,851 claimed to be due them for returned merchandise. The Company answered the Complaint denying the material allegations. The action lay dormant until late 2003 when the Company and Schein entered into a settlement in principle whereby the case was dismissed with prejudice and the Company would provide Schein with certain inventory. In April 2004, the settlement was paid in full.

On May 9, 2003, Milestone was served with a Breach of Contract Complaint. In the complaint, the plaintiff, Korman/Lender Management (landlord of the facility formerly used by Milestone in Deerfield, IL) sought damages of \$17,755 plus costs, including attorney's fees, interest and continuing rental obligation. In March 2004, the parties reached an out of court settlement for \$43,500 and exchanged mutual releases.

### Note 8 - Employee Stock Option Plan

As of June 30, 2004, there were 249,780 outstanding options granted under the Milestone 1997 Stock Option Plan. The Company 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 those 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 the Company had applied the fair value recognition provisions of FASB Statement No. 123, Accounting for Stock-Based Compensation, to stock-based employee compensation.

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

### Note 8 - Employee Stock Option Plan (concluded):

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 June 30, 2004 and 2003, respectively: dividend yield of 0%; expected volatility of 90% and 135%; risk free interest rate of 2.5% and 3.75%; and expected lives of 3 years.

For the six months ended June 30, 2004, the Company issued 51,333 stock

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options at an exercise price of \$4.92.

	Three Months Ended June 30,		S
	2004	2003	End
	-----	-----	-----
Net loss, as reported	\$ (827,678)	\$ (650,558)	\$ (1,346,472)
Total stock-based employee compensation expenses determined under the fair value based method for all awards	19,842	56,154	25,373
	-----	-----	-----
Net loss, pro forma	\$ (847,520)	\$ (706,712)	\$ (1,371,845)
	=====	=====	=====
Loss per share: Basic and diluted			
As reported	\$ (.09)	\$ (.15)	\$ (.16)
	=====	=====	=====
Pro forma	\$ (.09)	\$ (.17)	\$ (.16)
	=====	=====	=====

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

OVERVIEW

During the past two years we have operated under significant cash constraints and as a result have not been able to adequately support sales and marketing efforts at the levels required to maintain and increase revenues. These cash constraints were eliminated on February 23, 2004 with the raise of approximately \$9.4 million of gross proceeds (approximately \$7.6 million after underwriter's discount, underwriter's expense allowance and other offering related expenses) in an underwritten public offering.

During our last two fiscal years we have generated most of our revenues 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. During this period handpiece sales have provided a growing portion of our revenues, reflecting a growing base of new customers for our systems internationally and more intensive use of their systems by a relatively stagnant base of customers domestically. Though we have continued to sell new systems domestically, a large part of our domestic sales during this period represented the sale of upgraded units or additional units to our existing customer base. Our limited domestic sale of new systems reflects our limited sales and marketing efforts as a result of cash constraints. We expect to use a portion of the proceeds of the recently completed offering to increase sales and marketing expense and believe these increases should generate additional revenue. 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:

Three Months Ended

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	June 30, 2004		June 30, 2003		June 30, 2004 (1)
	-----		-----		-----
Domestic					
CompuDent	\$ 142,132	17.8%	\$ 187,875	25.8%	\$ 275,753
Handpieces	607,600	76.0%	485,734	66.7%	1,156,769
Other	49,790	6.2%	54,496	7.5%	106,478
-----					
Total Domestic	\$ 799,522	100.0%	\$ 728,105	100.0%	\$1,539,000
-----					
International					
CompuDent	\$ 160,909	41.4%	\$ 166,800	59.4%	\$ 325,249
Handpieces	216,336	55.7%	114,060	40.6%	392,646
Other	11,255	2.9%	--	0.0%	25,350
-----					
Total International	\$ 388,500	100.0%	\$ 280,860	100.0%	\$ 743,245
-----					
Summary:					
Domestic	\$ 799,522	67.3%	\$ 728,105	72.2%	\$1,539,000
International	388,500	32.7%	280,860	27.8%	743,245
-----					
Totals	\$1,188,022	100.0%	\$1,008,965	100.0%	\$2,282,245
=====					

(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.

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, advances to our contract manufacturer, 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

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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 recovered.

### Revenue Recognition

Revenue is recognized when title passes at the time of shipment and collectibility is reasonably assured.

### Results of Operations

The consolidated results of operations for the six months ended June 30, 2004 reflects Milestone's initiation of its strategic plan for a sales and marketing component in the United States. This will include 3 sales managers (2 field, one internal), twenty-two market specific independent representatives and twenty tele-sales people managing unassigned territories, appointment making for representatives and customer contact to improve sales of disposables. Expenses associated with this expansion contribute to the increased selling, general, and administrative expenses compared to previous periods.

Net loss for the three months ended June 30, 2004 primarily reflects Milestone's increased spending on its infrastructure in the areas of sales, marketing, and customer service. The increased loss over the same period of the prior year was also the result of a lower gross margin primarily relating to a physical inventory adjustment of \$101,608 for inventory obsolescence and valuation.

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.

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### Milestone Scientific Inc Results of Operations

	Three Months Ended					
	June 30, 2004		June 30, 2003		June 30, 2002	
Net sales	\$ 1,188,022	100.0%	\$ 1,008,965	100.0%	\$ 2,282,245	
Cost of Sales	769,383	64.8%	499,337	49.5%	1,315,683	
Gross Profit	418,639	35.2%	509,628	50.5%	966,562	
Selling, general and admin expenses	1,211,917	102.0%	841,435	83.4%	2,196,785	
Closing of Deerfield facility	--	0.0%	13,150	1.3%	--	
Research & development	52,409	4.4%	51,091	5.1%	93,621	
Loss from operations	(845,687)	(71.2%)	(396,048)	(39.3%)	(1,323,844)	

Three months ended June 30, 2004 compared to the three months ended June 30, 2003

Net sales for the three months ended June 30, 2004 and 2003 were \$1,188,022 and \$1,008,965, respectively. Total revenues increased by 17.7%.

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Contributing to this increase was a 9.8% increase in domestic revenues and 38.3% increase in international sales. Domestic sales growth was led by a 25.1% increase in handpiece revenues.

Gross profit for the three months ended June 30, 2004 and 2003 was \$418,639 and \$509,628, respectively. The 17.9% or \$90,989 decline in gross profit was largely due to a \$101,608 inventory obsolescence and valuation adjustment, offset in part by gross profit on increased sales. Also contributing to the lower gross margin was a higher mix of CompuDent sales to existing customers and international sales which both have lower margins.

Selling, General and Administrative expenses for the three months ended June 30, 2004 and 2003 were \$1,211,917 and \$841,435 respectively. The 44% increase or \$370,482 is primarily related to costs associated with building our domestic sales organization. Legal and professional fees increased by \$88,757 primarily related to patent filings associated with new product development, marketing and advertising expenses. The increase in these expenses was anticipated and is consistent with management's stated strategy of investing in revenue generating areas of the business.

Research and development expenses for the three months ended June 30, 2004 and 2003 were \$52,409 and \$51,091, respectively. These costs are associated with the development of Milestone's CompuFlo, SafetyWand, and CoolBlue projects.

Interest income of \$28,876 was earned for the three months ended June 30, 2004 compared to no interest income for the same period of the prior year. This difference was due to the change in cash balances related to the February equity placement.

Interest expense of \$10,867 was incurred three months ended June 30, 2004 as compared to \$254,510 for the three months ended June 30, 2003. The decrease is mainly attributable to a \$5 million debt to equity conversion on September 30, 2003 and a \$1.5 million retirement of debt in the first quarter of 2004.

Net loss for the three months ended June 30, 2004 was \$827,678 as compared to net loss of \$650,558 for the three months ended June 30, 2003. The majority of the \$177,120 increase was due to the increases in selling, general and administrative expenses that were anticipated as discussed above.

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Six months ended June 30, 2004 compared to the six months ended June 30, 2003

Net sales for the six months ended June 30, 2004 and 2003 were \$2,282,245 and \$2,134,690, respectively. Total revenues increased by 6.9%. Contributing to this increase was a 10.8% increase in domestic revenues offset by a 0.4% decrease in international sales. Domestic sales growth was led by a 26.2% growth in handpiece revenues.

Gross profit for the six months ended June 30, 2004 and 2003 was \$966,562 and \$1,086,269 respectively. The 11%, \$119,707 decline in gross profit was due principally to the \$101,608 inventory obsolescence and valuation adjustment. Also contributing to the lower gross margin was a higher mix of CompuDent sales to existing customers and sales which have lower margins, combined with sales concessions on handpieces on initial orders.

Selling, general and administrative expenses for the six months ended June 30, 2004 and 2003 were \$2,196,785 and \$1,600,415 respectively. The increase in these expenses was anticipated and is consistent with management's stated strategy of investing in revenue generating areas of the business. Contributing

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to the 37.3% increase (\$596,370), are hiring and employee related expenses related to the development of the Company's national sales force which will benefit the Company with additional revenues. Legal and professional fees increased by \$269,478 related to expenditures for patent filings, accounting fees, marketing and advertising.

For the six months ended June 30, 2003, Milestone incurred costs totaling \$65,873 which relate to the closing of its facility in Deerfield, IL.

Research and development expenses for the six months ended June 30, 2004 and 2003 were \$93,621 and \$83,092, respectively. These costs are associated with the development of Milestone's CompuFlo, SafetyWand, and CoolBlue projects.

Interest income of \$41,010 was earned for the six months ended June 30, 2004 compared to no interest income for the same period of the prior year. This difference was due to the change in cash balances related to the February equity placement.

Interest expense of \$63,638 was incurred six months ended June 30, 2004 as compared to \$495,691 for the six months ended June 30, 2003. The decrease is mainly attributable to a \$5 million debt to equity conversion on September 30, 2003 and a \$1.5 million retirement of debt in the first quarter of 2004.

Net loss for the six months ended June 30, 2004 was \$1,346,472 as compared to net loss of \$1,158,802 for the six months ended June 30, 2003. The \$187,670 increase was due to the increases in cost of goods sold, as well as, selling, general and administrative expenses that were anticipated as discussed above. These increases in expenses were offset by the \$473,063 decrease in net interest expense.

### Liquidity and Capital Resources

As shown in the accompanying condensed consolidated financial statements, Milestone incurred net losses of approximately \$1,346,000 and \$1,159,000 and negative cash flows from operating activities of approximately \$2,014,000 and \$452,000 during the six months ended June 30, 2004 and 2003, respectively. Management believes that initial concerns about the Company's historical cash constraints were eliminated at the closing of the public offering on February 23, 2004, as discussed below.

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### Public Offering

On February 23, 2004, the Company closed a \$9.4 million Public Offering (the "Offering") (\$7.6 after underwriter discount, underwriter non accountable expense allowance and other expenses). The 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 and one warrant. The warrants included in the units are exercisable at any time after they become separately tradable until their expiration date, five years after the date of the closing of the Offering, at an exercise price equal to \$4.89 (150% of the closing market price of our common stock on the pricing date of this 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 the Company may do at any time, beginning 6 months from the effective date of this Offering after the closing price for the Company's common stock on the principal exchange on which it trades (i.e. AMEX) has equaled or exceeded 200% of the price of the Company's common stock on the effective date of this Offering for any five consecutive trading days. The common stock included in the units and the warrants traded

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only as a unit until March 18, 2004, 30 days following the closing date of the Public Offering.

A portion of net proceeds of the Offering were used to pay down promissory notes, the credit facilities, interest and deferred compensation as discussed above. The remainder of the proceeds are being used primarily to expand and support sales and marketing efforts for CompuDent in the United States, including new marketing and advertising campaigns, support the launch of the recently announced SafeyWand product line, expand the international sales effort and develop commercial models of products using other new subcutaneous injection technologies.

Upon the closing of the Offering, the Company, in accordance with an October 2003 agreement, satisfied \$2,341,000 of obligations due to the Company's CEO and a major investor through the issuance of 304,939 units at a price of \$6.52 and approximately \$353,000 in cash. These units were issued with the same terms and price as those in the Offering. The obligations satisfied consisted of promissory notes, accrued interest and deferred compensation.

In February 2004, the Company 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, the Company issued 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 public warrants to purchase 80,000 shares of Common Stock at an exercise price of \$4.89.

In May of 2004 the Company 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.

The Company believes that it has sufficient cash to fund operations for the next 12 months.

### Cash flow results

As of June 30, 2004, the Company has cash and cash equivalents of \$5,234,639 and working capital of \$5,443,860. For the six months ended June 30, 2004, the Company's net cash used in operating activities was \$2,013,975 adjusted for non-cash items. This was principally attributable to the Company's loss and accounts payable decrease.

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### 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 of 1934 (the "Exchange Act") Rules 13a-15(e) and 15-d-15(e)) as of the end of the period covered by this quarterly report (the "Evaluation Date"). Based upon that evaluation, the chief executive officer and the chief financial officer concluded that, as of the Evaluation Date, Milestone's disclosure controls and procedures are effective, providing them with material information relating to Milestone as required to be disclosed in the reports Milestone files or submits under the Exchange Act on a timely basis.

b) Changes in Internal Control over Financial Reporting. There were no changes in Milestone's internal controls over financial reporting, known to the chief



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executive officer or the chief financial officer, that occurred during the period covered by this report that has materially affected, or is reasonably likely to materially affect, Milestone's internal control over financial reporting.

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### PART II

#### ITEM 2. CHANGES IN SECURITIES AND SMALL BUSINESS ISSUER PURCHASES OF EQUITY SECURITIES

##### Recent Sales of Unregistered Securities

On February 23, 2004 we issued 120,994 units to our Chief Executive Officer, Leonard Osser in satisfaction of \$404,877 of debt and interest and \$384,000 of accrued compensation and 183,946 units to K. Tucker Andersen, a major shareholder, in satisfaction of \$1,199,327 of debt and interest. Also, on February 23, 2004, we issued 30,675 units to a service provider in satisfaction of \$200,000 worth of services rendered. All of the above-mentioned units are similar to those offered to the public in the February 2004 public offering, consisting of two shares of common stock and one warrant to purchase one share of common stock at an exercise price of \$4.89 and were valued at \$6.52, the initial price. The units were acquired for investment by accredited investors and may be issued without registration under the Securities Act of 1933, as amended, pursuant to the exemptions provided under sections 4(2) and 4(6). The units, which are restricted securities and bear a restrictive legend, are subject to stop transfer restrictions.

#### ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

##### (a) Exhibits:

- 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.

##### (b) Reports on Form 8-K:

On each of April 12, 2004 and June 16, 2004, the Registrant filed a report on Form 8-K pursuant to Items 5 and 7 and Items 4 and 7, respectively.

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### 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.

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MILESTONE SCIENTIFIC INC.  
Registrant

/s/ Leonard Osser

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Leonard Osser Chairman and  
Chief Executive Officer

/s/ Kevin T. Lusardi

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Kevin T. Lusardi, Vice President and  
Chief Financial Officer

Dated: August 5, 2004