

MILESTONE SCIENTIFIC INC.

Form 10-Q

May 07, 2013

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, 2013

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)

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Delaware

13-3545623

(State or other jurisdiction of incorporation or organization)
220 South Orange Avenue, Livingston, New Jersey 07039

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

(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. x 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). x 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 " Non-accelerated filer " Accelerated filer " Smaller reporting company x
(Do not check if a 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 x No

As of May 6, 2013, the Issuer had a total of 16,806,971 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 , 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 Securities 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, 2013 (Unaudited)	December 31, 2012
ASSETS		
Current Assets:		
Cash and cash equivalents	\$121,604	\$165,249
Accounts receivable, net of allowance for doubtful accounts of \$178,481 as of March 31, 2013 and \$179,259 as of December 31, 2012	1,319,666	978,982
Inventories, net	625,549	638,561
Advances on contracts	429,583	476,969
Prepaid expenses and other current assets	165,942	239,061
Total current assets	2,662,344	2,498,822
Accounts receivable-long term, net of allowance for doubtful accounts of \$112,762 as of March 31, 2013 and \$167,971 as of December 31, 2012	81,098	119,201
Advances on contracts	2,358,107	2,350,477
Investment in Milestone Education LLC	50,000	
Furniture, Fixtures & Equipment net of accumulated depreciation of \$463,109 as of March 31, 2013 and \$458,708 as of December 31, 2012	33,080	36,624
Patents, net of accumulated amortization of \$439,931 as of March 31, 2013 and \$420,556 as of December 31, 2012	638,409	648,662
Other assets	7,317	7,317
Total assets	\$5,830,355	\$5,661,103
LIABILITIES AND STOCKHOLDERS EQUITY		
Current Liabilities:		
Accounts payable	\$2,030,272	\$2,336,594
Accrued interest on Notes Payable	380,982	581,407
Accrued expenses and other payables	551,206	356,563
Total current liabilities	2,962,460	3,274,564
Long-term Liabilities:		
Notes Payable	450,000	450,000
Total long-term liabilities	450,000	450,000
Total liabilities	3,412,460	3,724,564
Commitments and Contingencies		
Stockholders Equity		
Common stock, par value \$.001; authorized 50,000,000 shares; 16,781,726 shares issued 1,655,317 shares to be issued and 16,748,393 shares outstanding as of March 31, 2013; 16,563,306 shares issued, 1,635,709 shares to be issued, and 16,529,973 shares outstanding as of December 31, 2012	18,437	18,199

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Additional paid-in capital	64,890,596	64,560,224
Accumulated deficit	(61,579,622)	(61,730,368)
Treasury stock, at cost, 33,333 shares	(911,516)	(911,516)
Total stockholders' equity	2,417,895	1,936,539
Total liabilities and stockholders' equity	\$5,830,355	\$5,661,103

See Notes to Condensed Financial Statements

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MILESTONE SCIENTIFIC INC.

CONDENSED STATEMENTS OF OPERATIONS

(Unaudited)

	Three Months Ended March 31,	
	2013	2012
Product sales, net	\$2,489,542	\$1,921,358
Cost of products sold	812,043	662,946
Gross profit	1,677,499	1,258,412
Selling, general and administrative expenses	1,387,901	1,452,252
Research and development expenses	121,837	39,311
Total operating expenses	1,509,738	1,491,563
Income (loss) from operations	167,761	(233,151)
Other expenses		
Other income	17,543	
Interest expense	(34,558)	(42,403)
Interest-Amortization of debt issuance		(1,532)
Loss on Earning from Joint Venture		(78,095)
Total other expenses	(17,015)	(122,030)
Net income (loss) applicable to common stockholders	\$150,746	\$(355,181)
Net income (loss) per share applicable to common stockholders		
Basic	\$0.01	\$(0.02)
Diluted	\$0.01	\$(0.02)
Weighted average shares outstanding and to be issued		
Basic	16,351,894	15,338,367
Diluted	16,752,580	15,338,367

See Notes to Condensed Financial Statements

MILESTONE SCIENTIFIC INC.

CONDENSED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY

THREE MONTHS ENDED MARCH 31, 2013

(Unaudited)

	Common Stock		Additional	Accumulated	Treasury	Total
	Shares	Amount	Paid-in Capital	Deficit	Stock	
Balance, January 1, 2013	18,199,015	\$18,199	\$64,560,224	\$(61,730,368)	\$(911,516)	\$1,936,539
Options issued to employees and consultants			18,735			18,735
Common stock to be issued to employee for bonuses	19,608	20	19,980			20,000
Common stock issued for payment of consulting services to settle accounts payable	174,517	174	229,826			230,000
Common stock issued for payment of employee compensation	8,189	8	11,867			11,875
Sale of Common Stock	35,714	36	49,964			50,000
Net income				150,746		150,746
Balance, March 31, 2013	18,437,043	\$18,437	\$64,890,596	\$(61,579,622)	\$(911,516)	\$2,417,895

See Notes to Condensed Financial Statements

MILESTONE SCIENTIFIC INC.

CONDENSED STATEMENTS OF CASH FLOWS (Unaudited)

	THREE MONTHS ENDED MARCH	
	31,	
	2013	2012
Cash flows from operating activities:		
Net income (loss)	\$150,746	\$(355,181)
Adjustments to reconcile net income (loss) net cash used in operating activities:		
Depreciation expense	4,400	5,236
Amortization of patents	19,375	18,921
Amortization of debt discount		1,532
Common stock and options for compensation, consulting, and vendor services	280,610	41,439
Accrued interest expense on notes payable	24,419	20,839
Bad debt reversal	(55,987)	(42,326)
Loss on Earning on Medical Joint Venture		78,095
Changes in operating assets and liabilities:		
(Increase) Decrease in accounts receivable	(246,594)	157,927
Decrease in inventories	13,012	201,321
Decrease to advance to contracts	39,756	108,081
Decrease to prepaid expenses and other current assets	73,119	6,949
Decrease in other assets		7,503
Decrease in accounts payable	(306,322)	(524,525)
(Decrease) Increase in accrued expenses	(80,201)	151,001
Net cash used in operating activities	(83,667)	(123,188)
Cash flows from investing activities:		
Investment in Education Joint Venture	(50,000)	
Purchases of property and equipment	(856)	
Payment for patents rights	(9,122)	(10,150)
Net cash used in investing activities	(59,978)	(10,150)
Cash flows from financing activities:		
Proceeds from the sale of common stock	50,000	150,000
Proceeds from loan from related party	50,000	
Net cash provided by financing activities	100,000	150,000
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(43,645)	16,662
Cash and cash equivalents at beginning of period	165,249	96,324
Cash and cash equivalents at end of period	\$121,604	\$112,986
Supplemental disclosure of cash flow information:		
Shares issued to employees in lieu of cash compensation	\$11,875	\$7,500

See Notes to Condensed Financial Statements

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MILESTONE SCIENTIFIC INC.

NOTES TO CONDENSED FINANCIAL STATEMENTS

(UNAUDITED)

March 31, 2013

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, 2012 included in Milestone s Annual Report on Form 10-K.

In the opinion of management, 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, 2013 and the results of its operations for the three months then ended.

The results reported for the three months ended March 31, 2013 are not necessarily indicative of the results of operations which may be expected for a full year.

Milestone had negative cash flows from operating activities for the three months ending March 31, 2013 and 2012 of \$83,667 and \$123,188, respectively. At March 31, 2013, Milestone had cash and cash equivalents of \$121,604 and a negative working capital of \$300,116. The negative working capital decrease of \$475,626 as compared to 2012 is due to the Company s continued reduction by payment of our commitment for purchasing parts in anticipation of significant sales to our distributor in China. Such sales have been delayed. As a result of this delay, the advances on contracts have been allocated between current and long term. Additionally, the accounts receivable from the China distributor had been allocated between current and long term, with a reserve of \$252,362 provided against the accounts receivable. Milestone borrowed \$450,000 in 2008 from a shareholder, with a due date of January 2009. This borrowing was refinanced at December 31, 2008, June 3, 2011 and March 29, 2013 and the due date was extended to January 5, 2015. The Company is actively pursuing the generation of positive cash flows from operating activities through an increase in revenue based upon management s assessment of present contracts and current negotiations and reductions in operating expenses. As of March 31, 2013, Milestone does not expect to have sufficient cash reserves to meet all of its anticipated obligations for the next twelve months. Milestone may require the need for a higher level of marketing and sales efforts that at present it cannot fund. If Milestone is unable to generate positive cash flows from its operating activities it will need to raise additional capital. There is no assurance that Milestone will be able to achieve positive operating cash flows or that traditional capital can be raised on terms and conditions satisfactory to Milestone, if at all. If positive cash flow cannot be achieved or if additional capital is required and it cannot be raised, then Milestone 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 Milestone s operating results.

Milestone s recurring losses, in prior periods as well as the matters discussed above, raise 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

Recent Accounting Pronouncements

In February 2013, the Financial Accounting Standards Board (the FASB) issued ASU No. 2013-02, which amends the guidance in ASC 220 on Comprehensive Income. Under the revised guidance, companies are required to provide information about the amounts reclassified out of accumulated other comprehensive income (AOCI) by component. In addition, companies are required to present, either on the face of the statement where net income is presented or in the

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notes, the effects on the line items of net income of significant amounts reclassified out of AOCI but only if the amount reclassified is required under U.S. GAAP to be reclassified to net income in its entirety in the same reporting period. This amended guidance is to be applied prospectively and is effective for reporting periods (interim and annual) beginning after December 15, 2012 for public companies, with early adoption permitted. The Company adopted the revised guidance January 1, 2013.

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.

For the quarter ending March 31, 2013, the Company calculated basic and fully diluted earnings per common share as described in the previous paragraph.

Since Milestone had net losses for 2012, the assumed effects of the exercise of outstanding stock options and warrants, and the conversion of convertible debt were not included in the calculation as their effect would have been anti-dilutive. Such outstanding options and warrants totaled 1,607,614 at March 31, 2012.

NOTE 3 ACCOUNTS RECEIVABLE CURRENT AND LONG TERM

Milestone sells a significant amount of its product on credit terms to its major distributors. Milestone 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, Milestone 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. Milestone is receiving periodic payments from the international distributor. Based on the periodic payment plan prepared by the international distributor, Milestone has recorded a long term net accounts receivable of \$81,098 as of March 31, 2013. The current portion of this net accounts receivable is approximately \$100,400 Milestone reserved \$252,362 of the total accounts receivable from this distributor as of March 31, 2013.

NOTE 4 INVESTMENT IN JOINT VENTURES

In March 2011, Milestone entered into an agreement with Beijing 3H Scientific Technology Co., Ltd., a People's Republic of China (PRC) entity (Beijing 3H), to establish a Medical Joint Venture entity in the PRC to develop intra-articular and epidural drug delivery instruments utilizing Milestone's patented CompuFlo technology. Beijing 3H agreed to contribute up to \$1.5 million to this Medical 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. Milestone evaluates the technological feasibility of the products to be developed using the CompuFlo technology periodically and at every reporting date to establish if circumstances indicate that the technology continues to be feasible. Based on the available evidence Milestone concluded that the contingency associated with the return of

capital to Beijing 3H would be remote as of March 31, 2013 and accordingly no amounts have been accrued in the accompanying financial statements relating to this contingency. Milestone, with the consent of Beijing 3H, organized a domestic research and development corporation to which Beijing 3H made a capital contribution of \$1,500,000. The Medical Joint Venture entity is owned fifty percent by shareholders of Beijing 3H and fifty percent by Milestone. Milestone contributed an exclusive worldwide royalty-free license to use CompuFlo technology to the Medical Joint Venture which has been

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valued at approximately \$245,000 and has accounted for its investment in the Medical Joint Venture using the equity method of accounting.

The Medical Joint Venture reimbursed Milestone approximately \$105,000 for previously incurred research and development expenses in 2011. The Medical Joint Venture's cumulative expenses through for the quarter ending March 31, 2013 were approximately \$900,000. Milestone has reduced its investment to the Medical Joint Venture to zero in 2012. The additional amount of the loss on Medical Joint Venture, approximately \$54,000 has not been charged to the statement of operations as of March 31, 2013. This additional loss will not be charged to the statement of operations as Milestone has not guaranteed and has no obligation to fund losses of the Medical Joint Venture in excess of its equity contribution. The accumulative loss that is not recognized on the statement of operations is approximately \$326,000. Further, Milestone was authorized by the Medical Joint Venture to manage and oversee the development of the two products for the Medical Joint Venture. In connection with this authorization, Milestone also entered into an agreement with a significant vendor to develop the two instruments included in the Medical Joint Venture.

Milestone will have distribution responsibility in the U.S. and Canada and the rest of the world, while Beijing 3H will distribute products exclusively in the PRC, Macao, Hong Kong and other regions of Asia.

Milestone established a joint venture, Milestone Education, LLC, in the first quarter of 2013. Milestone contributed \$50,000 as did the other joint venture partner. Each of the partners owns fifty (50) percent of the joint venture. The joint venture is expected to provide training and education to our dentists throughout the world. There were no income and expenses associated with this joint venture in the first quarter of 2013. The Company accounted for its investment in the Education Joint Venture using the equity method of accounting.

NOTE 5 STOCK OPTION PLANS

A summary of option activity for employees under the plans and changes during the three months ended March 31, 2013, is presented below:

	Number of Options	Weighted Averaged Exercise Price \$	Weighted Average Remaining Contractual Life (Years)	Aggregate Intrinsic Options Value \$
Outstanding, January 1, 2013	1,283,741	0.79	3.07	768,692
Granted				
Exercised				
Forfeited or expired	8,333	1.57		
Outstanding, March 31, 2013	1,275,408	0.86	2.84	327,133
Exercisable, March 31, 2013	862,953	0.84	2.25	225,864

Milestone recognizes compensation expense on a straight line basis over the requisite service period. During the three months ended March 31, 2013, Milestone recognized \$18,735 of total compensation cost. As of March 31, 2013, there was \$149,833 of total unrecognized compensation cost related to non-vested options which Milestone expects to recognize over a weighted average period of 2.50 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.

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A summary of option activity for non-employees under the plans and changes during the three months ended March 31, 2013, is presented below:

	Number of Options	Weighted Averaged Exercise Price \$	Weighted Average Remaining Contractual Life (Years)	Aggregate Intrinsic Options Value \$
Outstanding, January 1, 2013	239,999	1.56	1.32	168,166
Granted				
Exercised				
Forfeited or expired				
Outstanding, March 31, 2013	239,999	1.04	1.07	100,700
Exercisable, March 31, 2013	274,443	1.04	1.04	100,672

During the three months ended March 31, 2013, Milestone had no expenses related to non-employee options that vested during the period. There was no unrecognized compensation cost related to non-vested options as of March 31, 2013. A six percent rate of forfeitures is assumed in the calculation of the compensation cost for the period.

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 6 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 on contracts. 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 on contracts. Milestone entered into a purchase agreement with a vendor to supply Milestone with 12,000 STA Instruments (7,935 instruments are remaining on the purchase order as of March 31, 2013). As part of these agreements, Milestone has advanced approximately \$2,788,000 and \$2,827,000 to the vendor for purchase of materials at March 31, 2013 and December 31, 2012, 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, 2013 and December 31, 2012.

NOTE 7 ADVANCES ON CONTRACTS

The advances on contracts represent funding of future STA inventory purchases. The balance of the advances as of March 31, 2013 and December 31, 2012 is \$2,787,690 and \$2,827,446, respectively. The portion of the advance that is expected to be utilized in the next twelve months is classified as current asset, with the remainder classified as non-current asset. Milestone has an outstanding accounts payable of approximately \$430,000 and \$705,000 at March 31, 2013 and December 31, 2012, respectively to the contract manufacturer specifically related to the advances. Milestone is making monthly payments to the contract manufacturer.

NOTE 8 NOTE PAYABLE

Milestone borrowed \$450,000 from a shareholder in 2008. The loan was originally a short term loan with a maturity date of January 19, 2009. In December 2008, May 30, 2012 and again on March 29, 2013, this loan was extended with the shareholder and the due date has been extended to January 5, 2015. The loan accrues interest at 12% per annum, interest compounds quarterly, and interest and principal is due at the maturity. Further, the lender was granted 45,000 warrants exercisable at \$0.32 per share, which expired in 2012.

Interest expense for the three months ended March 31, 2013 and 2012 was \$24,419 and \$20,839, respectively. Accrued interest payable related to the note payable were \$306,313 and \$283,891 at March 31, 2013 and December 31, 2012, respectively. The Company had also secured a line of credit, from this shareholder, for \$1.3 million which was converted into equity in 2009. However, the accrued interest remaining on the line of credit was not converted and the remaining balance at March 31, 2013 and December 31, 2012 was \$74,669 and \$72,672, respectively and accrues interest at 6%, per annum. The charge for amortization of Debt Discount related to the outstanding line of credit is zero and \$1,532 for the three months ended March 31, 2013 and March 31, 2012, respectively.

Additionally, Milestone has an agreement with the manufacturer of the CompuDent and STA instruments to accrue interest on their outstanding accounts payable balance. For the quarter ending March 31, 2013, the interest expense for this indebtedness was \$9,445 and for the quarter ending March 31, 2012, the interest expense was \$20,901.

NOTE 9 STOCK ISSUANCES

During the three months ended March 31, 2013, Milestone issued 35,714 shares of common stock, at \$1.40 per share and raised gross proceeds of \$50,000. Additionally, there is a sixty day option to purchase 35,714 shares at \$1.40 per share. Milestone issued 8,189 shares of common stock valued at \$11,875 for payment of employee compensation in the first quarter ending March 31, 2013 and 174,517 shares valued at \$230,000 were issued for payment of consulting services and reduction on the account payable balance.

NOTE 10 RELATED PARTY

A shareholder of Milestone is also a shareholder of a major supplier of handpieces to Milestone. In addition, he is an investor in the PRC entity, Beijing 3H, which entered into a Medical Joint Venture agreement with Milestone.

In the first quarter of 2013, the CEO of Milestone loaned the Company \$50,000 for use in capitalizing a fifty percent equity portion in the joint venture with Milestone Education LLC. There were no interest to this agreement and the loan will be paid by December 31, 2013.

Milestone purchased \$663,420 and \$269,616 from the supplier for the three months ended March 31, 2013 and 2012, respectively. Milestone owed \$864,326 and \$808,908 to this supplier as of March 31, 2013 and 2012, respectively.

NOTE 11 SIGNIFICANT CUSTOMERS

Milestone had three customers (distributors) for the three months ended March 31, 2013, that had approximately 49% of its net product sales and two customers (distributors) that had approximately 35% of its net product sales for three months ended March 31, 2012. Milestone had accounts receivable for four customers that amounted to \$860,748 representing 61% of gross accounts receivable as of March 31, 2013 and had three customers that amounted to \$421,890 representing 38% of gross accounts receivable as of December 31, 2012, respectively.

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

	Three Months Ended March 31,	
	2013	2012
Instruments	\$517,450	\$568,570
Handpieces	1,925,663	1,309,980
Other	46,429	42,808
	\$2,489,542	\$1,921,358
United States	\$1,300,500	\$870,490
Canada	55,602	143,510
Other Foreign	1,133,440	907,358
	\$2,489,542	\$1,921,358

NOTE 12 COMMITMENTS AND OTHER

Contract Manufacturing Arrangement

Milestone has informal arrangements for the manufacture of its products. STA, single tooth anesthesia, CompuDent and CompuMed instruments are manufactured for Milestone by Tricor Systems, Inc. pursuant to specific purchase orders. The STA and The Wand Handpiece with Needle is supplied to Milestone by a contractor in the United States, which arranges for its manufacture with two factories 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.

The technology underlying the SafetyWand and CompuFlo, and an improvement to the controls for CompuDent were developed by the Director of Clinical Affairs and assigned to us. Milestone purchased this technology pursuant to an agreement dated January 1, 2005. The Director will receive additional payments of 2.5% of the total sales of products using certain of these technologies, and 5% of the total sales of products using certain other of the technologies. In addition, the Director is granted, pursuant to the agreement, an option to purchase, at fair market value on the date of the grant, 8,333 shares of the common stock upon the issuance of each additional patent relating to these technologies. If products produced by third parties use any of these technologies (under license from us) then the Director will receive the corresponding percentage of the consideration received by Milestone for such sale or license. Milestone expensed the Director's royalty fees of \$93,186 and \$70,122 for the three months ended March 31, 2013 and 2012, respectively. Additionally, Milestone expensed consulting fees to the Director of \$39,000 for the three months ended March 31, 2013 and 2012.

In January 2010, the Company issued a purchase order to Tricor Instruments for the purchase of 12,000 STA Instruments to be delivered over the next three years. The purchase order is for \$5,261,640. The Company has a remaining balance of approximately \$399,000 on the advance and will continue to make periodic payments in 2013 to purchase the parts necessary to complete this production. As of March 31, 2013, the Company's production and sales

of instruments to this commitment has been delayed. Consequently, advances on contracts have been classified as current and long term at March 31, 2013.

Other Events

Milestone entered into a finder's agreement with selected individuals for the purpose of identifying and closing a Medical Joint Venture. As of March 31, 2013, none of the potential agreements has been consummated and therefore no expenses have been incurred. There is no expiration to this agreement.

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 Securities Exchange Act of 1934, as amended (the Exchange Act), that involve risks and uncertainties. Our actual results may differ materially from those anticipated in these forward-looking statements.

OVERVIEW

In 2013, 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 pursuing 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

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.

STA Instrument Growth

Since its market introduction in early 2007, the STA Instrument and a prior computerized controlled local anesthesia delivery product have been used to deliver over 48 million 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 Instrument 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 Instrument is perhaps best summarized by Dr. Joe Blaes, who wrote in the December 2008 edition of Dental Economics, "I tried the STA Instrument and my patients absolutely love it. This is a no brainer – go get one ASAP!"

Global Distribution Network

North America Market

In November 2012, Milestone entered an exclusive distribution and marketing agreement with a well known U.S. domestic manufacturer and distribution, for the sale and distribution of the STA instruments and handpieces in United States and Canada

Milestone has 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. Milestone signed on 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 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 Milestone's initial penetration into China's emerging dental market.

In early October 2012, the State Food and Drug Administration (SFDA) of the People's Republic of China approved Milestone's Single Tooth Anesthesia System® (STA System). Unfortunately, the SFDA bifurcated approval of the STA Systems from the Wand® handpieces. SF