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MILESTONE SCIENTIFIC INC/NJ
Form 10QSB
May 20, 2003

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-QSB

Mark One

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

For the Quarterly Period Ended March 31, 2003

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 May 20, 2003, the Registrant had a total of 12,633,370 shares of Common Stock, \$.001 par value, outstanding.

FORWARD LOOKING STATEMENTS

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

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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 files 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

March 31, 2003 and December 31, 2002

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March 31, 2003
(Unaudited)

ASSETS

CURRENT ASSETS:

Cash

Accounts receivable, net of allowance for doubtful accounts at March 31, 2003 and December 31, 2002 of \$49,120 and \$46,152, respectively

Inventories

Advances to contract manufacturer

Deferred debt financing costs, net

Prepaid expenses

Total current assets

EQUIPMENT, net

ADVANCES TO CONTRACT MANUFACTURER-- Long term

OTHER ASSETS

Total

\$ 5
614,4
107,4
300,0
80,5
38,5

1,141,4
213,1
61,8
32,3

\$ 1,448,8
=====

LIABILITIES AND STOCKHOLDERS' DEFICIENCY

CURRENT LIABILITIES:

Account payable, including \$35,150 and \$32,000 to related parties at March 31, 2003 and December 31, 2002, respectively

Accrued expenses

Accrued interest

Note payable

Notes payable--officer/stockholder

Total current liabilities

Accrued interest

Deferred compensation payable to officer/stockholder

Notes payable

Notes payable -- officer/stockholder

Total liabilities

\$ 1,451,8
145,4
207,5
4,877,5
1,2

6,683,6
162,2
400,0
485,0
332,0

8,062,9

COMMITMENTS AND CONTINGENCIES

STOCKHOLDERS' DEFICIENCY:

Common stock, par value \$.001; authorized, 25,000,000 shares; 12,733,370 shares issued

Additional paid-in capital

Accumulated deficit

Unearned compensation

Treasury stock, at cost, 100,000 shares

Total stockholders' deficiency

Total

12,7
36,599,6
(42,295,0
(20,0
(911,5

(6,614,1

\$ 1,448,8
=====

See Notes to Condensed Consolidated Financial Statements.

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MILESTONE SCIENTIFIC INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
THREE MONTHS ENDED MARCH 31, 2003 AND 2002
(Unaudited)

| | Three Months Ended | |
|--|--------------------|----------------|
| | March 31, 2003 | March 31, 2002 |
| Net sales | \$ 1,125,725 | \$ 1,021,588 |
| Cost of sales | 549,084 | 466,015 |
| | ----- | ----- |
| Gross profit | 576,641 | 555,573 |
| | ----- | ----- |
| Selling, general and administrative expenses | 758,981 | 897,276 |
| Charge in connection with the closing of Deerfield, IL facility | 52,723 | -- |
| Research and development expenses | 32,001 | 30,295 |
| | ----- | ----- |
| Totals | 843,705 | 927,571 |
| | ----- | ----- |
| Loss from operations | (267,064) | (371,998) |
| Other income | -- | 24,000 |
| Interest, net | (241,181) | (172,213) |
| | ----- | ----- |
| Net loss | \$ (508,245) | \$ (520,211) |
| | ===== | ===== |
| Loss per share - basic and diluted | \$ (.04) | \$ (.04) |
| | ===== | ===== |
| Weighted average shares outstanding-basic and diluted | 12,633,370 | 12,096,204 |
| | ===== | ===== |

See Notes to Condensed Consolidated Financial Statements.

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MILESTONE SCIENTIFIC INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
THREE MONTHS ENDED MARCH 31, 2003 AND 2002
(Unaudited)

| | 2003 |
|---------------------------------------|--------------|
| | ----- |
| Cash flows from operating activities: | |
| Net loss | \$ (508,245) |

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| | |
|---|-----------|
| Adjustments to reconcile net loss to net cash used in operating activities: | |
| Depreciation | 9,331 |
| Amortization of debt discount and deferred financing costs | 101,701 |
| Loss on disposal of fixed assets | 11,248 |
| Changes in operating assets and liabilities: | |
| Increase in accounts receivable | (374,980) |
| Decrease in inventories | 11,794 |
| Decrease in advances to contract manufacturer | 26,081 |
| (Increase) decrease in prepaid expenses | 26,430 |
| Decrease in other assets | -- |
| Increase (decrease) in accounts payable | 182,290 |
| Increase in accrued interest | 139,480 |
| Increase in accrued expenses | 59,006 |
| Increase in deferred compensation | 80,000 |
| Net cash used in operating activities | (235,864) |
| ----- | |
| Cash flows from investing activities—payment for capital expenditures | (6,500) |
| ----- | |
| Cash flows from financing activities: | |
| Proceeds from note payable - officer/stockholder | 95,537 |
| Payments to note payable - officer/stockholder | (62,322) |
| Proceeds from line of credit | -- |
| Proceeds from issuance of notes payable | 200,000 |
| Net cash provided by financing activities | 233,215 |
| ----- | |
| NET INCREASE (DECREASE) IN CASH | (9,149) |
| Cash, beginning of period | 9,683 |
| ----- | |
| Cash, end of period | \$ 534 |
| ===== | |

See Notes to Condensed Consolidated Financial Statements.

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MILESTONE SCIENTIFIC INC. AND SUBSIDIARIES CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

THREE MONTHS ENDED MARCH 31, 2003 AND 2002
(Unaudited)

Supplemental schedule of noncash financing activities:

In March 2003, pursuant to the 6%/12% promissory note agreements, the Company converted \$78,479 of accrued interest into additional principal.

In January 2002, the Company issued 33,840 units consisting of one share of common stock and one warrant to purchase an additional share of common stock in exchange for payment of accrued interest totaling \$27,072.

In January 2002, in consideration for payment of \$491,346 in deferred compensation, the Company issued 614,183 units (consisting of one share of common stock and one warrant to purchase an additional share of common

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stock).The warrants are exercisable at \$.80 per share through January 31, 2003; at \$1.00 per share through January 31, 2004 and thereafter at \$2.00 per share through January 31, 2007.

In January 2002, pursuant to the 20% promissory note agreements, the Company converted \$63,377 of accrued interest into additional principal.

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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, 2002 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, 2002 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 financial position as of March 31, 2003 and the results of operations for the three months ended March 31, 2003 and 2002.

The results reported for the three months ended March 31, 2003 and 2002 are not necessarily indicative of the results of operations which may be expected for a full year.

Note 2 - Basis of presentation:

The accompanying condensed consolidated financial statements have been prepared assuming the Company will continue as a going concern. However, as shown in the accompanying condensed consolidated financial statements, the Company incurred net losses of approximately \$508,000 and \$520,000 and negative cash flows from operating activities of approximately \$236,000 and \$136,000 during the three months ended March 31, 2003 and 2002, respectively. As a result, the Company had a cash balance of approximately \$500, a working capital deficiency of approximately \$5,542,000 and a stockholders' deficiency of approximately \$6,614,000 as of March 31, 2003. These matters initially raised substantial doubt about the Company's ability to continue as a going concern. Management believes that its initial concerns about the Company's ability to continue as a going concern have been alleviated by recent actions taken by the Company as well as management's plans which are discussed below.

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Further, management believes that, in the absence of a substantial increase in revenue, it is probable that the Company will continue to incur losses and negative cash flows from operating activities through at least March 31, 2004 and that the Company will need to obtain additional equity or debt financing, as well as to continue its ability to defer its obligations, to sustain its operations until it can expand its customer base and achieve profitability, if ever.

The Company has taken certain steps in order to reduce its operating expenses and utilization of cash. These steps include, amongst others, the following:

- o Commencing in 2001 and continuing through 2003, the Company reconfigured its sales force. The Company went from maintaining a large internal sales force to utilizing independent sales representatives and distributors.
- o The Company reduced administrative personnel and telemarketers by approximately ten people.
- o On January 31, 2003, the Company completed the closing of the Deerfield, IL facility. The customer support, service and other back-office functions previously conducted, in whole or in part, at this location were consolidated into the Company's New Jersey location. The receiving,

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MILESTONE SCIENTIFIC INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

shipping and storage functions, which were also previously done at this location, are now outsourced to an independent warehouse located in Pennsylvania.

- o Obtained an agreement from its Chief Executive Officer/Stockholder to defer 2002 and 2003 compensation, aggregating \$640,000 until January 2005.
- o Restructured and extended the maturity dates of its debt obligations. Further, as part of the debt restructuring, the Company obtained agreements from certain of its noteholders enabling it to convert debt and related interest aggregating \$5,008,994 at March 31, 2003 into shares of common stock. It is the Company's intention to have this conversion completed sometime during the third quarter of 2003.
- o Obtained an agreement from one of its attorneys to convert an additional \$160,000 of the amount owed into shares of common stock.
- o During February 2003, the Company received a \$200,000 note payable from an existing investor. The note is convertible into shares of common stock, at the Company's option, which it plans to do during the third quarter of 2003.

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In addition, in April 2003, the Company received an additional \$900,000 line of credit from the same investor, which is scheduled to mature on January 1, 2005, unless extended. \$200,000 was drawn down from the line during April 2003.

The accompanying condensed consolidated financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or the amounts and classifications of liabilities that might be necessary should the Company be unable to continue as a going concern.

Note 3 - Loss per share:

Basic loss per common share is computed using the weighted average number of common shares outstanding.

Options and warrants to purchase 3,145,458 and 4,415,855 shares of common stock were outstanding as of March 31, 2003 and 2002, respectively, but were not included in the computation of diluted loss per share because the effect would have been anti-dilutive.

Note 4 - Notes payable to officer/stockholder:

Notes payable to officer/stockholder represent three obligations payable to the Company's Chief Executive Officer ("CEO"), consisting of (i) \$200,000 note payable, with interest payable at 9% per annum and having an original due date of January 2, 2003, (ii) a \$100,000 line of credit with interest payable at 6% per annum having an original due date of April 2, 2003, and (iii) a \$33,215 note payable on demand with interest payable at 6% per annum. On April 1, 2003, the \$200,000 and \$100,000 notes were extended to April 1, 2004. On April 15, 2003, \$32,000 of the \$33,215 notes payable was extended to January 2, 2005.

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MILESTONE SCIENTIFIC INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

On January 17, 2003, the Company's CEO provided the Company with a \$57,322 short term loan for the express purpose of purchasing Wand(R) handpieces from the Company's supplier. The Company repaid the loan in full by February 7, 2003. On February 12, 2003, the CEO provided the Company with a \$38,215 loan for the same purposes as above. \$33,215 remains outstanding as of March 15, 2003.

Note 5 - Notes payable:

6%/12% Promissory Notes

(A) The 6%/12% Promissory Notes consist of the following issuances:

- (i) On March 16, 2001, the Company restructured its obligations to the holders of its 10% Senior Secured Promissory Notes. Under the terms of the agreement, each of the noteholders agreed to exchange their 10% Notes for a new, zero coupon note (the "Zero Coupon Note").

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As a result of the Company initially restructuring its obligations, the unamortized portion of the debt discount and deferred financing costs were amortized through March 31, 2002. The significant terms of the Restructuring Debt were (i) modification of the interest rate (ii) granting the company the option to pay the debt with shares of common stock and (iii) repricing the warrants which were previously issued to the shareholders back to the initial exercise price of \$1.75 per share.

Subsequently, on April 15, 2002, the holders additionally agreed to extend the promissory notes to July 1, 2003 and to lower the interest rate to 6% if paid in cash or to 12% if paid in common stock. In connection with the extension, the Company recorded \$16,215 in deferred financing charges relating to professional fees and \$140,203 of deferred financing costs relating to consideration to the noteholders valued at \$120 per share of the Company's common stock for each \$1,000 face amount outstanding at maturity which increased the aggregate carry value of the notes by \$140,203. The Company is accruing interest expense at 12%. These deferred financing costs are being amortized through July 1, 2003.

- (ii) In August 2000, the Company borrowed \$1,000,000 which consists of two loans from two funds managed by Cumberland Associates LLC, and bear interest at 20% per year and payable in cash or through the issuance of additional 20% notes on which both interest and principal are payable. The loans are secured by substantially all assets of the Company and are subordinated to the 6%/12% senior secured promissory notes that were amended April 15, 2002. The Company can prepay the loans in cash at any time. The Company can prepay the notes and accrued interest with common stock at its option. Stock issued in lieu of payment of the debt will be valued at 85% of the then market price. For the year ended December 31, 2002, the Company converted \$257,865 of accrued interest into principal. During 2001, the Company had previously converted \$222,417 of accrued interest into principal. On April 12, 2002, Cumberland Associates LLC agreed to extend the maturity date of these loans through July 1, 2003 and to lower the interest rate from 20% to 6%, if paid in cash, or 12% if paid in common stock. The Company recorded \$16,215 of deferred financing charges relating to professional fees and \$189,369 relating to consideration issued to the noteholders valued at \$120 per share of the Company's common stock for each \$1,000 face amount outstanding at maturity. The Company is currently accruing interest expense at 12%. Accordingly, the deferred financing costs and the unamortized financing charges are being amortized through July 1, 2003.

It is currently the Company's intention to satisfy these obligations with shares of common stock upon their maturity.

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(B) 8% Promissory Notes

The 8% promissory notes consist of the following:

On July 31, 2000, the Company established a \$1,000,000 credit facility with a major existing investor. Initially, \$500,000 was borrowed under the line, which was due on June 30, 2003. In December 2000, and January 2001, the Company borrowed under the credit facility an additional \$400,000 and \$100,000, respectively, due on December 31, 2003. In connection with the initial \$500,000, the investor received five-year warrants to purchase 70,000 shares of the Company's common stock, exercisable at \$3.00 per share. In connection with the \$400,000, the investor received five-year warrants to purchase 80,000 shares of the Company's common stock exercisable at \$1.25 per share. In connection with the \$100,000, the investor received five-year warrants to purchase 20,000 shares of the Company's common stock at \$1.25 per share. On April 12, 2002, the investor agreed to extend the maturity date of the \$500,000 to August 1, 2003. At the option of the Company, this \$500,000 can be convertible into common stock. Accordingly, in connection with the extension, the unamortized debt discount is being amortized to August 1, 2003. On April 15, 2003, the investor agreed to extend the maturity date of the \$500,000 and interest originally due December 31, 2003 to January 2, 2005. Accordingly, only \$500,000 of loans have been recorded as long term debt in the accompanying consolidated financial statements.

During 2002, the Company issued a total of \$1,185,000 promissory notes to an existing investor. The notes bear interest at 8% if paid in cash and 10% if paid in stock and mature on August 1, 2003. At the option of the Company, the principal and interest are payable on the maturity date in common stock. Additionally, the note will automatically convert into the Company's common stock if the Company issues 1,000,000 shares or raises at least \$1,000,000 from the sale of equities prior to August 1, 2003, at the market price in that transaction but not less than \$.50 per common share, or more than \$2.00 per share. The Company is accruing interest at 10%.

Note 6 - 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. Milestone denies any liability. The parties are currently engaged in discovery. Milestone believes it has meritorious defense to this complaint based, in part, on its position that the plaintiff had no right to return the goods.

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 in Deerfield, IL) seeks damages of \$17,755 plus costs, including attorney's fees, interest and continuing rental obligation. The Company is in the process of preparing a response.

Note 7 - Employee Stock Option Plan

As of March 31, 2003, there were 698,344 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

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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 date of grant. The following table illustrates the effect on 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)

| | Three Months Ended March 2003 | 2002 |
|--|----------------------------------|--------------|
| | ----- | ----- |
| Net loss, as reported | \$ (508,245) | \$ (520,211) |
| Deduct: Total stock-based employee compensation expenses determined under fair value based method for all awards | 56,154 | 123,121 |
| | ----- | ----- |
| Net loss, pro forma | \$ (564,399) | \$ (643,332) |
| | ===== | ===== |
| Loss per share: | | |
| Basic-as reported | \$ (.04) | \$ (.04) |
| | ===== | ===== |
| Basic-pro forma | \$ (.04) | \$ (.04) |
| | ===== | ===== |
| Diluted-as reported | \$ (.04) | \$ (.04) |
| | ===== | ===== |
| Diluted-pro forma | \$ (.04) | \$ (.04) |
| | ===== | ===== |

Note 8 - Closing of Deerfield, IL Facility

In December 2002, Milestone initiated the transition of its customer service office to its corporate headquarters in Livingston, New Jersey and its distribution and logistics center to a third party, Design Centre of York, Pennsylvania. The resulting closing of the Deerfield location was completed during January 2003. The net book value of the facility's fixed assets transferred or disposed during January 2003 was \$41,425 and \$11,248, respectively.

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

Summary of Significant Accounting Policies

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Our discussion and analysis of our financial condition and results of operations are based upon our condensed 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 receivables, 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.

Overview

Milestone achieved a 28% reduction in its loss from operations for the three months ended March 31, 2003 when compared to the same period in 2002. The results include approximately \$50,000 in expenses relating to the Company's shutdown of its facility and reflect Milestone's concentrated effort to drastically reduce its overhead while slowly growing its user base in the dental market and introducing the Wand(R) technology in a variety of medical disciplines.

The net loss for the three months ended March 31, 2003 was relatively equivalent to the loss reported for the three months ended March 31, 2002 as the strides achieved in operations were primarily offset by higher interest expenses, the majority payable in stock.

Statement of Operations

Three months ended March 31, 2003 compared to Three months ended March 31, 2002

Net sales for the three months ended March 31, 2003 and 2002 were \$1,125,725 and \$1,021,588, respectively. The \$104,137 or 10.2% increase is primarily related to a \$76,900 increase in domestic revenue and a \$27,200 increase in sales to foreign distribution. The increase in domestic revenue include a 28% or \$49,000 increase in CompuDent(TM) sales and a 13% or \$54,000 increase in domestic sales of the Wand(R) handpieces. The domestic sales increase was partially offset by an approximate \$19,300 decrease in CompuMed(TM) sales.

Cost of sales for the three months ended March 31, 2003 and 2002 were \$549,084 and \$466,015, respectively. The \$83,069 increase is attributable primarily to higher sales volume.

For the three months ended March 31, 2003, the Company generated a gross profit of \$576,641 or 51.2% as compared to a gross profit of \$555,573 or 54.4% for the three months ended March 31, 2002. The decrease in gross profit percentage is primarily attributable to increased sales to foreign distributors. Sales to foreign distributors are of higher volume but at a reduced margin.

Selling, general and administrative expenses for the three months ended March 31, 2003 and 2002 were \$758,981 and \$897,276, respectively. The \$138,295 decrease is attributable primarily to an approximate \$116,000 decrease in expenses associated with the sale and marketing of the Wand(R) technology and a \$25,400 decrease in professional and consulting fees.

The Company incurred costs totaling \$52,723 relating to the closure of its Deerfield, IL facility and the transporting of its fixed assets to the Company's corporate office and its logistic company. The loss from the disposal of fixed assets at this location and included in the shutdown cost was \$11,248.

Research and development expenses for the three months ended March 31, 2003 and 2002 were \$32,001 and \$30,295, respectively. These cost are associated with the development of the Company's safety needle.

The loss from operations for the three months ended March 31, 2003 and 2002 were \$267,064 and \$371,998, respectively. The \$104,934 decrease in loss from operations is explained above. The Company generated \$24,000 in other income for the three months ended March 31, 2002 as a result of a consulting contract which expired in October 2002.

The Company incurred interest expense of \$241,181 for the three months ended March 31, 2003 as compared to \$172,213 for the three months ended March 31, 2002. The increase is attributable to higher average borrowings in 2003.

The net loss for the three months ended March 31, 2003 was \$508,245 as compared to a net loss of \$520,211 for the three months ended March 31, 2002. The \$11,966 decrease in net loss is explained above.

Liquidity and Capital Resources

The accompanying condensed consolidated financial statements have been prepared assuming the Company will continue as a going concern. However, as shown in the accompanying condensed consolidated financial statements, the Company incurred net losses of approximately \$508,000 and \$520,000 and negative cash flows from operating activities of approximately \$236,000 and \$136,000 during the three months ended March 31, 2003 and 2002, respectively. As a result, the Company had a cash balance of approximately \$500, a working capital deficiency of approximately \$5,542,000 and a stockholders' deficiency of approximately \$6,614,000 as of March 31, 2003. These matters initially raised substantial doubt about the Company's ability to continue as a going concern. Management believes that its initial concerns about the Company's ability to continue as a going concern have been alleviated by recent actions taken by the Company as well as management's plans which are discussed below.

Further, management believes that, in the absence of a substantial increase in revenue, it is probable that the Company will continue to incur losses and negative cash flows from operating activities through at least March 31, 2004 and that the Company will need to obtain additional equity or debt financing, as well as to continue its ability to defer its obligations, to sustain its operations until it can expand its customer base and achieve profitability, if ever.

To date, the Company has taken certain steps in order to reduce its operating expenses and utilization of cash. These steps include, amongst others, the following:

- o Commencing in 2001 and continuing through 2003, the Company reconfigured its sales force. The Company went from maintaining a large internal sales force to utilizing independent sales

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representatives and distributors.

- o The Company reduced administrative personnel and telemarketers by approximately ten people.
- o On January 31, 2003, the Company completed the closing of the Deerfield, IL facility. The customer support, service and other back-office functions previously conducted, in whole or in part, at this location were consolidated into the Company's New Jersey location. The receiving, shipping and storage functions, which were also previously done at this location, will be outsourced at an independent warehouse located in Pennsylvania. The closure of the Illinois facility will result in reductions in overhead and other costs, while improving operational efficiencies.
- o Obtained an agreement from its Chief Executive Officer/Stockholder to defer 2002 and 2003 compensation, aggregating \$640,000 until January 2005.
- o Restructured and extended the maturity dates of its debt obligations. Further, as part of the debt restructuring, the Company obtained agreements from certain of its noteholders enabling it to convert debt and related interest aggregating \$5,008,994 at March 31, 2003 into shares of

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common stock. It is the Company's intention to have this conversion completed sometime during the third quarter 2003.

- o Obtained an agreement from one of its attorneys to convert an additional \$160,000 of the amount owed into shares of common stock.
- o During February 2003, the Company received a \$200,000 note payable from an existing investor. The note is convertible into shares of common stock, at the Company's option, which it plans to do during the third quarter of 2003.

In addition, April 2003, the Company received an additional \$900,000 line of credit from the same investor, which is scheduled to mature on January 1, 2005, unless extended. \$200,000 was drawn down from the line during April 2003.

For the three months ended March 31, 2003, the Company's net cash used in operating activities was \$235,864. This was attributable primarily to a net loss of \$508,245 adjusted for noncash items of \$122,280 (of which \$101,701 was for amortization of debt discount and deferred financing costs); a \$374,980 increase in accounts receivable; an \$11,794 decrease in inventories; a \$26,081 decrease in advances to contract manufacturer; a \$26,430 decrease in prepaid expenses; an increase in accrued expenses of \$59,006; a \$139,480 increase in accrued interest; a \$182,290 increase in accounts payable; and an \$80,000 increase in deferred compensation.

For the three months ended March 31, 2003, the Company used \$6,500 in investing activities for capital expenditures.

For the three months ended March 31, 2003, the Company generated \$233,215 from financing activities as it issued promissory notes to an existing investor totaling \$200,000, and incurred \$33,215 of net borrowings from its Chief Executive Officer.

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OPERATIONS

The Company believes that CompuDent(TM), CompuMed(TM) and The Wand(R) technology represents a major advance in the delivery of local anesthesia and that the potential applications of this technology extends beyond dentistry. Based on scientific and anecdotal support, the Company contends that CompuMed(TM) could enhance the practices of the estimated 90,000 U.S. based physicians included in such non-dental disciplines as Podiatry, Hair Restoration Surgery, Plastic Surgery, Dermatology, colorectal surgery and procedures in Orthopedics, OB-GYN and Ophthalmology.

Despite limited resources, the Company has continued its efforts to realize the market potential of The Wand(R) and become profitable. These steps include (i) relaunching of The Wand Plus(TM) drive unit domestically, under the name CompuDent(TM), (ii) distribution of CompuDent(TM) through a host of channels (i.e. independent sales representatives, an inside sales group and a major dental distributor), (iii) launching The Wand Plus(TM) drive unit for medical purposes and marketing it as CompuMed(TM), (iv) increasing presence at medical trade shows, (v) advertising to increase the awareness of the product, (vi) implementing cost reduction programs, and (vii) restructuring certain outstanding obligations. Management believes that these steps are critical to the realization of Milestone's long-term business strategy.

In March 2002, Milestone announced an agreement whereby Medical Hair Restoration ("MHR") will equip each of its 21 Surgery centers in the U.S. with CompuMed(TM).

In April 2002, Milestone announced acceptance of an independent clinical study concluding that use of Milestone's computer controlled local anesthetic delivery technology in nasal and sinus surgery produced a "safe, acceptable, tolerable, and cost effective method of sedating patients creates a sense of security and

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adds to the ultimate satisfaction associated with nasal surgery." The study also concluded "Recovery room and expensive hospital costs are avoided, making nasal surgery more affordable and within reach of a greater range of potential nose surgery patients." One of the study's authors, Dr. Pieter Swanepoel, a world-renowned surgeon, presented his study at the 8th International Symposium of the Academy in New York City in May 2002. The new technique is an adaptation of similar regional nerve blocking techniques used by dental surgeons and replaces the need for costly and invasive general anesthesia. Dr. Swanepoel in conducting his research using pre-production prototypes of our CompuFlo(TM) system, since it allowed him to measure flow rate and tissue pressure and determine parameters for optimal results. The core technology embodied in the CompuMed(TM) unit may be used to deliver local anesthesia within the parameters ascertained by Dr. Swanepoel to produce optimal results and then achieve conscious sedation in nasal surgery.

In May 2002, Milestone signed a dental distribution agreement with Benco Dental under which Benco Dental will distribute CompuDent(TM) through their direct sales organization. Benco has the right to become the exclusive dental distributor in selected states within the United States if it achieves certain sales objectives. Milestone is providing the initial sales and product training to the entire Benco sales organization through September 2002. Following these initial training sessions,

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Milestone will support this effort through "Dealer Managers and Technical Support Specialists."

In August 2002, the United States Patent Office issued a patent on Milestone's safety engineered needle technology to be issued to Milestone. When commercialized, this new technology will be used with a plethora of infusion devices, including the Company's CompuDent(TM) and CompuMed(TM) computer controlled local anesthetic delivery systems as well as the CompuFlo(TM), an enabling technology for computer controlled infusion, perfusion, suffusion and aspiration of fluids. It provides features previously unavailable to medical and dental practitioners; fully automated true single-handed activation with needle anti-deflection and force-reduction capability. In addition, practitioners can re-use this safety engineered device repeatedly during a single patient session making it highly functional in a wide variety of medical and dental applications.

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. Milestone denies any liability. The parties are currently engaged in discovery. Milestone believes it has meritorious defense to this complaint based, in part, on its position that the plaintiff had no right to return the goods.

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 in Deerfield, IL) sued for \$17,755 plus costs, including attorney's fees, interest and continuing rental obligation. The Company is in the process of preparing a response.

OTHER MATTERS - AMERICAN STOCK EXCHANGE

On May 2, 2002, Milestone received a letter from the American Stock Exchange advising that the Company have fallen below the stockholders' equity criterion and requesting the submission of a recovery plan detailing any actions taken, or planned to be taken within the next 18 months to bring the Company into compliance. On June 10, 2002, the Company submitted a detailed recovery plan to the American Stock Exchange showing how Milestone expects to achieve stockholder equity of \$4,000,000 by December 31, 2003. In response, the Company received informal advice from the American Stock Exchange that in view of the expected loss in 2002, Milestone needed to demonstrate how the Company will achieve \$6,000,000 in stockholders' equity by the end of 2003. On August 14, 2002, a supplemental plan demonstrating how Milestone expects to meet these requirements was submitted. On August 23, 2002, the American Stock Exchange advised the Company that they had determined that the plan makes a reasonable demonstration

of Milestone's ability to regain compliance with the continued listing standards by the conclusion of the plan period at the end of 2003. The continued listing of Milestone's securities on the American Stock Exchange during this period will be subject to periodic reviews by the Exchange. Failure to show progress consistent with the plan or to regain compliance by the end of the plan period could still result in the Milestone being delisted. In the event that Milestone's securities are delisted from the American Stock Exchange, trading, if any, in the common stock and warrants would be conducted in the over the counter market in the so-called "pink

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sheets" or on the NASD's "OTC Bulletin Board." Consequently the liquidity of the Company's securities could be impaired, not only in the number of securities which could be bought and sold, but also through delays in the timing of transactions, reduction in security analysts and new media coverage of Milestone, and lower prices for Milestone's securities than might otherwise be obtained.

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ITEM 3. CONTROLS AND PROCEDURES

- (a) Evaluation of disclosures. The Company maintains disclosure controls and procedures designed to provide reasonable assurance that information required to be disclosed in the reports filed with the SEC is recorded, processed, summarized and reported within the time periods specified in the rules of the SEC. Within 90 days prior to the filing of this Quarterly Report on Form 10-QSB, an evaluation, was completed under the supervision and participation of management, including the Chief Executive Officer and Chief Financial Officer, of the design and operation of this disclosure controls and procedures pursuant to Exchange Act Rule 13a-14. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective in timely alerting them to material information relating to the company (including the Company's consolidated subsidiaries) required to be included in the periodic SEC filings.
- (b) Changes in internal controls. There were no significant changes in internal controls or other factors that could significantly affect the Company's internal controls subsequent to the date of our evaluation.

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ITEM 6. Exhibits and Reports on Form 8-K

- (a) Exhibits:
 - 10.26 - Letter from Leonard Osser, dated April 15, 2003 deferring payment.
 - 10.27 - Letter from Morse, Zelnick, Rose & Lander LLP deferring payment.
 - 10.28 - Line of Credit for 900,000 and extension of 500,000 line of credit, dated April 15, 2003.
 - 99.1 - Certification of Chief Executive Officer, pursuant to 18 W.S.C. Section 1350
 - 99.2 - Certification of Chief Financial Officer, pursuant to 18 W.S.C. Section 1350
- (b) Reports on Form 8-K:

On April 16, 2003, the Registrant filed a report on Form 8-K regarding its issuance of a press release announcing financial results for the fiscal year ended December 31, 2002.

SIGNATURES

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

MILESTONE SCIENTIFIC INC.
Registrant

/s/ Leonard Osser

Leonard Osser Chairman and
Chief Executive Officer

/s/ Thomas M. Stuckey

Thomas M. Stuckey, Vice President and
Chief Financial Officer

Dated: May 20, 2003

CERTIFICATION

I, Leonard Osser, certify that:

1. I have reviewed this quarterly report on Form 10-QSB of Milestone Scientific Inc. ("the registrant").
2. Based on my knowledge, this quarterly 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 quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly 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 quarterly report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:
 - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - b) evaluated the effectiveness of the registrant's disclosure

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controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

- c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date:
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
- a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: May 20, 2003

/s/ Leonard Osser

Leonard Osser
Chief Executive Officer

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CERTIFICATION

I, Thomas M. Stuckey, certify that:

- 1. I have reviewed this quarterly report on Form 10-QSB of Milestone Scientific Inc. ("the registrant").
- 2. Based on my knowledge, this quarterly 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 quarterly report;
- 3. Based on my knowledge, the financial statements, and other financial information included in this quarterly 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 quarterly report;

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4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:
 - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
 - c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date:
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: May 20, 2003

/s/ Thomas M. Stuckey

Thomas M. Stuckey
Chief Financial Officer