MILESTONE SCIENTIFIC INC/NJ
Form 10QSB
November 13, 2006

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-QSB

Mark One

[X] QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Quarterly Period Ended September 30, 2006

OR

[__] TRANSITION REPORT UNDER 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 Small Business Issuer as specified in its charter)

Delaware	13-3545623
State or other jurisdiction or organization)	(I.R.S. Employer Identification No.)

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

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

Check whether the Issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 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 X No

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

Number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date: As of November 11, 2006, the Issuer had a total of 11,868,576 shares of Common Stock, $.001 par value, outstanding.

FORWARD LOOKING STATEMENTS

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

MILESTONE SCIENTIFIC INC.

I N D E X

MILESTONE SCIENTIFIC INC.
CONDENSED BALANCE SHEETS

	September (U
ASSETS	
Current Assets:	
Cash and cash equivalents	$ 1,
Accounts receivable , net of allowance for doubtful accounts of $27,365 in 2006 and $27,117 in 2005	
Royalty receivable	
Inventories	1,
Advances to contract manufacturer	1,
Prepaid expenses	
Total current assets	4,
Investment in distributor, at cost	
Equipment, net of accumulated depreciation of $378,018 as of September 30, 2006 and $307,000 as of December 31, 2005	
Patents, net of accumulated amortization of $36,226 as of September 30, 2006 and $19,090 as of December 31, 2005	
Other assets	
Total assets	$ 5,
LIABILITIES AND STOCKHOLDERS' EQUITY	
Current Liabilities:	
Accounts payable	$
Accrued expenses	
Deferred compensation payable to officers	
Total current liabilities	1,
Stockholders' Equity	
Common stock, par value $.001; authorized 50,000,000 shares; 11,660,850	

shares issued, 207,726 shares to be issued, and 11,627,517 shares outstanding in 2006; 11,550,479 shares issued, 207,726 shares to be issued, and 11,517,146 shares outstanding in 2005	
Additional paid-in capital	57,
Accumulated deficit	(52,
Treasury stock, at cost, 33,333 shares	(
Total stockholders' equity	4,
Total liabilities and stockholders' equity	$ 5,

See Notes to Condensed Financial Statements
* Derived from the audited financial statements as of December 31, 2005

4

MILESTONE SCIENTIFIC INC.
CONDENSED STATEMENTS OF OPERATIONS
THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2006 AND 2005
(Unaudited)

	Three Months Ended	
	September 30, 2006	September 30, 2005
Product sales, net	$ 1,189,988	$ 1,567,382
Royalty income	31,335	252,842
Total revenue	1,221,323	1,820,224
Cost of products sold	519,284	643,426
Royalty expense	3,760	30,341
Total cost of revenue	523,044	673,767
Gross profit	698,279	1,146,457
Selling, general and administrative expenses	1,132,776	1,738,286
Research and development expenses	206,057	53,678
Total operating expenses	1,338,833	1,791,964
Loss from operations	(640,554)	(645,507)
Other income	--	
Interest income	19,497	33,132
Total other income	19,497	33,132

Net loss	(621,057)	(612,375)
Dividends applicable to preferred stock	--	(507)
Net loss applicable to common stockholders	$ (621,057)	$ (612,882)
Loss per share applicable to common stockholders - basic and diluted	$ (0.05)	$ (0.05)
Weighted average shares outstanding and to be issued - basic and diluted	11,790,251	11,366,617

5

MILESTONE SCIENTIFIC INC.
CONDENSED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
NINE MONTHS ENDED SEPTEMBER 30, 2006
(Unaudited)

	Common Stock		Additional	
	Shares	Amount	Paid-in Capital	Accumulat Deficit
Balance, January 1, 2006	11,758,205	$ 11,758	$ 57,172,915	$(49,954,
Common stock and options issued for payment of consulting services	8,491	9	120,582	
Common stock issued for payment of vendor services	53,070	53	57,197	
Common stock and options issued for payment of employee compensation	48,810	49	86,952	
Net loss				(2,260,
Balance, September 30, 2006	11,868,576	$ 11,869	$ 57,437,646	$(52,215,

See Notes to Condensed Financial Statements

6

MILESTONE SCIENTIFIC INC.
CONDENSED STATEMENTS OF CASH FLOWS
NINE MONTHS ENDED SEPTEMBER 30, 2006 AND 2005
(Unaudited)

	2
Cash flows from operating activities:	
Net loss	$(2,
Adjustments to reconcile net loss to net cash used in operating activities:	
Depreciation expense	
Amortization of patents	
Common stock and options issued for compensation, consulting, and vendor services	
Loss on disposal	
Bad debt (recovery) expense	
Changes in operating assets and liabilities:	
Accounts receivable	
Royalty receivable	
Inventories	
Advances to contract manufacturer	
Prepaid expenses	
Other assets	
Accounts payable	
Accrued expenses	
Deferred compensation	
Net cash used in operating activities	(1,
Cash flows from investing activities:	
Payment for capital expenditures	
Payment for patent rights	
Investment in distributor	
Net cash used in investing activities	
Cash flows from financing activities:	
Proceeds from equity financing, net	
Proceeds from exercise of option	
Net cash provided by financing activities	
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(1,
Cash and cash equivalents at beginning of period	2,
Cash and cash equivalents at end of period	$ 1,
Supplemental disclosure of cash flow information:	
Stock issued for deferred compensation	$

See Notes to Condensed Financial Statements

7

MILESTONE SCIENTIFIC INC.
NOTES TO CONDENSED FINANCIAL STATEMENTS

(Unaudited)

Note 1 - Summary of accounting policies

The unaudited financial statements of Milestone Scientific Inc. (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 financial statements should be read in conjunction with the financial statements and notes thereto for the year ended December 31, 2005 included in Milestone's Annual Report on Form 10-KSB. The accounting policies used in preparing these unaudited financial statements are the same as those described in the December 31, 2005 financial statements.

In the opinion of Milestone, the accompanying unaudited financial statements contain all adjustments (consisting of normal recurring entries) necessary to fairly present Milestone's financial position as of September 30, 2006 and the results of its operations for the three and nine months ended September 30, 2006 and 2005.

The results reported for the three and nine months ended September 30, 2006 are not necessarily indicative of the results of operations which may be expected for a full year.

Note 2 - Private placement

The company completed private placements in April and September of 2005 which resulted in aggregate net proceeds of approximately $3.5 million. There have been no further placements beyond September, 2005.

Note 3 - Royalty receivable

Royalty receivable represents the royalty due from United Systems Inc, the licensee of Milestone's proprietary consumer dental whitening product, which is sold under Milestone's distributor's trademark of Ionic White(TM).

Note 4 - Inventories

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

Note 5 - Advances to contract manufacturer

Advances to contract manufacturer represent deposits to the Company's contract manufacturer to fund future inventory purchases.

8

Note 6 - Basic and diluted net loss per common share

Milestone presents "basic" earnings (loss) per common share and, if applicable, "diluted" earnings per common share pursuant to the provisions of Statement of Financial Accounting Standards No. 128, "Earnings per Share" ("SFAS 128"). Basic earnings (loss) per common shares is calculated by dividing net income or loss applicable to common stock by the weighted average number of common shares outstanding 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, warrants, and the conversion of notes payable and preferred stock were issued during the period.

Since Milestone had net losses for the three and nine months ended September 30, 2006 and 2005, the assumed effects of the exercise of outstanding stock options and warrants and the conversion of preferred stock into common stock were not included in the calculation as their effect would have been anti-dilutive. Such outstanding options, warrants and preferred stock totaled 3,380,087 and 3,517,809 at September 30, 2006 and 2005, respectively.

Note 7 - Significant Customer

Milestone had one foreign customer who accounted for approximately 6.0% and 19.0% of its net sales for the three months ended September 30, 2006 and 2005, respectively. At September 30, 2006, receivables from this customer were approximately 62% of Milestone's total accounts receivable.

Note 8 - Employee Stock Option Plan

Milestone adopted SFAS No. 123R, "Share-Based Payment, an Amendment of FASB Statement No. 123", under the modified-prospective transition method on January 1, 2006. SFAS No. 123R requires all share-based payments to employees, including grants of employee stock options, to be recognized in the income statements over the service period, as an operating expense, based on the grant-date fair values. Pro-forma disclosure is no longer an alternative. As a result of adopting SFAS 123R, the Company recognizes as compensation expense in its financial statements the unvested portion of existing options granted prior to the effective date and the cost of stock options granted to employees after the effective date based on the fair value of the stock options at grant date. Prior to the adoption of SFAS No. 123R, the Company accounted for its stock option plans using the intrinsic value method of accounting prescribed by APB Opinion No. 25.

As of September 30, 2006, there were 171,834 outstanding options granted under the Milestone 1997 Stock Option Plan and 171,000 outstanding options granted under the Milestone 2004 Stock Option Plan. As a result of adopting SFAS No. 123R, the Company recognized $27,417 in share-based compensation expense and a corresponding increase in net loss for the nine months ended September 30, 2006. This share-based compensation expense had minimal impact on the Company's basic and diluted earnings per share.

The following table illustrates net loss and loss per share applicable to common stockholders for the nine months ended September 30, 2005, if Milestone had applied SFAS No. 123.

	Nine Months Ended September 30, 2005
Net loss, as reported	(2,282,630)
Deduct total stock-based employee compensation expenses determined under the fair value based method for all awards	228,803
Net loss, pro forma	(2,511,433)
Loss per share applicable to common stock holders:	
Basic and diluted	
As reported	(0.21)
Pro forma	(0.23)

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 nine months ended September 30, 2005: dividend yield of 0%; expected volatility of 119.42%; risk free interest rate of 3.87%; and expected lives of 5 years.

Expected volatilities are based on historical volatility of the company's common stock. The company uses historical data to estimate option exercise and employee termination within the valuation model. The expected term of the option granted is estimated based on historical behavior of employees and represents the period of time that options granted are expected to be outstanding. A summary of option activity under the plan as of September 30, 2006, and changes during the nine months then ended is presented below:

Options	Number of Options	Weighted Average Exercise Price	Weighted Average Remainin Contractu Life (Yea
Outstanding, January 1, 2006	453,167	2.63	3.60
Granted	58,000	1.50	5.00
Exercised	--	--	--
Forfeited or expired	168,333	3.31	2.75
Outstanding, September 30, 2006	342,834	2.10	2.71
Exercisable, September 30, 2006	241,167	2.24	3.30

As of September 30, 2006, there was $90,691 of total unrecognized compensation cost related to nonvested share-based compensation arrangements granted under the plan. That cost is expected to be recognized over a weighted average period of one and a half years.

Note 9 - Agreements to Issue Common Stock and Stock Options

On March 18, 2005, Milestone issued to Ionic White, Inc., its distributor for a consumer tooth whitening product, 3-year options to purchase 100,000 shares of Milestone common stock at $4.89 per share. Under the agreement, the options are not exercisable unless the distributor purchases at least 2,000,000 starter kits for the registrant's consumer tooth whitening system during the twelve month period beginning July 1, 2005. If 2,000,000 starter kits are purchased during that period, options to purchase 10,000 shares become exercisable. If 2,500,000 starter kits are purchased during that period, options to purchase an aggregate of 50,000 shares become exercisable. If 3,000,000 starter kits are purchased during that period, options to purchase all 100,000 shares become exercisable. Upon the options becoming exercisable, Milestone will recognize sales discounts based on the then fair value of the options. During the 12 month period ended September 30, 2006 the purchases by Ionic White were below the specified minimums.

Under a previous agreement, Ionic White, Inc., agreed to purchase at $3.00 per share 500,000 shares of Milestone common stock in quarterly installments of 125,000 shares within 10 days after the end of each of the four fiscal quarters commencing April 1, 2005. Milestone is not required to sell these shares unless Ionic White has purchased at least 625,000 starter kits in the first quarter, at least 1,250,000 starter kits in the first two quarters and at least 1,875,000 starter kits in the first three quarters. The agreement further provides that, at Milestone's option, all shares previously purchased must be returned to Milestone and all monies paid to Milestone returned to Ionic White if it has not purchased an aggregate of at least 3,000,000 starter kits for the twelve-month period ending September 30, 2006.

On September 30, 2005, this agreement was amended to defer, for an additional quarter, the commencement date for Ionic White's commitment to purchase stock. On December 21, 2005, the commencement date for stock purchase was further deferred until January 1, 2006. On June 30, 2006, August 10, 2006, and at November 14, 2006 the commencement date for stock purchase was further deferred for additional successive quarters. The periods during which Ionic White may purchase the required starter kits were similarly extended. At September 30, 2006 no shares have been purchased by Ionic White.

On August 12, 2005, Milestone engaged a special marketing and sales consultant to aid in the international sale and distribution of CoolBlue(TM) Wand dental enhancement system, particularly in its applications for professional tooth whitening. As part of the compensation for a two-year consulting service, Milestone issued 40,000 shares of common stock valued at $100,000 to the consultant, $37,500 of which was expensed in the nine months ended September 30, 2006.

In addition, if as a result of the consultant's efforts, Milestone is able to establish distribution relationships, on terms and conditions satisfactory to Milestone, with one of the four top world-wide distributors of dental products, or other major distributors as are acceptable to Milestone, and Milestone sells such distributors $3,000,000 of product within 18 months commencing August 12, 2005, Milestone will pay the consultant a $20,000 bonus, in shares of Milestone common stock, valued based on the then current market value.

At September 30, 2006, Milestone has not entered into any distribution agreement with any of the distributors.

Note 10- New Accounting Pronouncement

In July, 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes- an interpretation of FASB Statement No. 109" (FIN 48), which prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006. We do not expect the adoption of FIN 48 to have a material impact on our financial reporting, and we are currently evaluating the impact, if any, the adoption of FIN 48 will have on our disclosure requirements.

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

OVERVIEW

The following discussion 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-QSB. This discussion may contain forward-looking statements that involve risks and uncertainties. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of certain factors, such as those set forth in our Form 10-KSB for the year ended December 31, 2005.

Most of our revenues continue to be generated through sales of our CompuDent(R) system and the Wand(R) disposable handpiece used with that system. Revenues have been earned domestically and internationally through sales in more than 25 countries. This is an important measure as it validates the investment made in our domestic sales distribution, particularly as handpiece revenues increased as a result of the increase in CompuDent users. Also, we enjoy significantly higher margins on domestic sales compared to the lower per unit revenues we receive from our wholesale based international distribution network. We believe that our ownership of the SafetyWand (TM) technology, in light of OSHA regulations issued pursuant to federal and state government legislation, mandating needle stick safety standards, positions us to become a leading provider for dentists and other health care professionals in the administration of local anesthesia, thereby providing further revenue growth opportunities.

We have been refocusing the efforts of our sales force to enhance the efficiency and effectiveness of our domestic sales operations. We expect to release our Single Tooth Anesthetic (STA) delivery system to the market in early 2007. This product, currently in development, will allow dentists to perform a predictable single tooth anesthetic injection to achieve total tooth anesthesia, as a primary injection. We expect it to become an invaluable tool as many consider this type of injection to be the most important injection for the dentist and preferred by patients.

We also continue development efforts on our CompuFlo(TM) technology, which is first being targeted for spinal anesthesia, including epidural anesthesia. Our 510 (k) Premarket Notification was cleared by the FDA in July and we are now seeking strategic partners to market the product. The Company has contracted with an outside firm to identify additional clinical applications for this technology in the all important medical space.

In March 2005 Ionic White was launched, through widely broadcast infomercials. We license Ionic White technology and receive a royalty for each unit sold. The product also appeared in retail outlets in September 2005, including Walgreen's, Target and Linens and Things. The consumer tooth whitening market is one of the fastest growing dental market places. We believe it provides significant additional revenue opportunities. However, we have been advised by the Ionic White distributor that significant retail sales are dependent on our obtaining U.S. patent protection for the Ionic White product. Patent application has been filed in the United States and is pending. However, no assurance can be given that such patent will be issued. Towards the end of 2005, Milestone Scientific began a controlled market launch of its CoolBlue Professional Tooth Whitening System, which targets the $1 billion global professional teeth whitening market. As with other Milestone products, the CoolBlue system is designed to maximize long-term revenues from disposable per-patient kits that are utilized in the whitening treatment process. While revenues from the CoolBlue system in the third quarter 2006 were not significant, we believe the product will allow a higher degree of market penetration, which will also provide additional selling opportunities for our CompuDent system.

Selling, general and administrative expenses for the third quarter decreased substantially from last year, reflecting stabilization of the hiring and related costs for the domestic sales organization as well as other cost containment programs. Related research and development expenses for STA and CompuFlo (TM) totaled $206,057 for the third quarter of 2006. While this total represented 16% of the total operating expenses, the continued investment in these development programs is crucial for our future success.

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

	Three Months Ended September 30,				Nine Month	
	2006		2005		2006	
DOMESTIC						
CompuDent	$ 223,698	21.7%	$ 365,306	31.6%	$ 675,560	2
Handpieces	773,673	75.0%	749,800	65.0%	2,250,810	7
Other	33,682	3.3%	39,624	3.4%	157,200	
Total Domestic	$1,031,053	100.0%	$1,154,730	100.0%	$3,083,570	10
INTERNATIONAL						
CompuDent	$ 45,590	28.7%	$ 100,103	24.3%	$ 336,876	3
Handpieces	100,162	63.0%	273,353	66.2%	655,236	6
Other	13,183	8.3%	39,196	9.5%	101,046	
Total International	$ 158,935	100.0%	$ 412,652	100.0%	$1,093,158	10

DOMESTIC/INTERNATIONAL ANALYSIS						
Domestic	$1,031,053	86.6%	$1,154,730	73.7%	$3,083,570	7
International	158,935	13.4%	412,652	26.3%	1,093,158	2
Total Product Sales	$1,189,988	100.0%	$1,567,382	100.0%	$4,176,728	10

Summary of Significant Accounting Policies

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

Inventory

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

Impairment of Long-Lived Assets

We review long-lived assets for impairment whenever circumstances and situations change such that there is an indication that the carrying amounts may not be recovered.

13

Revenue Recognition

Sales revenue is recognized when title passes at the time of shipment and collectibility based on a sales arrangement and the agreed upon price is reasonably assured. Royalty revenue is recognized based upon royalty reports from the licensee.

Stock-Based Compensation

Effective January 1, 2006, the Company adopted SFAS No. 123R, "Share-Based Payment, an Amendment of FASB Statement No. 123". Prior to January 2006, the Company accounted for stock-based compensation by using the intrinsic value method under APB Opinion No. 25. As required by SFAS No. 123R, the Company recognizes in the statement of operations the grant-date fair value of stock options issued to employees and non-employees.

Results of Operations

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

	Three Months Ended September 30				Ni
	2006		2005		September 30, 2
Products sales, net	$ 1,189,988	97%	$ 1,567,382	86%	4,176,728
Royalty income	31,335	3%	252,842	14%	217,645
Total revenue	1,221,323	100%	1,820,224	100%	4,394,373
Cost of products sold	519,284	43%	643,426	35%	1,958,571
Royalty expense	3,760	--	30,341	--	25,818
Total cost of revenue	523,044	43%	673,767	37%	1,984,389
Gross Profit	698,279	58%	1,146,457	63%	2,409,984
Selling, general and administrative expenses	1,132,776	93%	1,738,286	96%	3,981,988
Research and development expenses	206,057	17%	53,678	3%	760,239
Total operating expenses	1,338,833	110%	1,791,964	98%	4,742,227
Loss from operations	(640,554)	-52%	(645,507)	-36%	(2,332,243)
Other income - interest	19,497	2%	33,132	2%	71,591
Net loss	$ (621,057)	-51%	$ (612,375)	-34%	(2,260,652)

Three Months ended September 30, 2006 compared to three months ended September 30, 2005

Total revenues for the three months ended September 30, 2006 and 2005 were $1,221,323 (product sales of $1,189,988 and royalty income of $31,335) and $1,820,224 (product sales of $1,567,382 and royalty income of $252,842) respectively. The $377,394 or 24.1 % decrease in net product sales is primarily related to a domestic decrease of $141,608 or 38.8% in CompuDent sales and an international decrease in CompuDent sales of $54,513 or 54.5%. In addition, domestic handpiece sales increased $23,873 or 3.2% while international handpiece sales declined $173,191 or 64.4%. Royalty income is from granting United Systems Inc. a license to manufacture, market, and sublicense the Ionic White to the consumer market. This area decreased $221,507 or 87.6% reflecting increased retail competition in this increasingly highly competitive market.

14

Cost of products sold for the three months ended September 30, 2006 and 2005 were $519,284 and $643,426, respectively. The $124,142 or 19.3% decrease is attributable to the decrease in units sold. Royalty expense related to the royalty income from the sales of the Ionic White tooth whitening system was

$3,760 for the three months ended September 30, 2006, reflecting a decline of $26,581 or 87.6% due to lower Royalty Income.

For the three months ended September 30, 2006, Milestone generated a gross profit of $698,279 or 59% as compared to a gross profit of $1,146,457 or 63% for the same period in 2005. Excluding the net royalty income (net of royalty expense) of $27,575 in 2006 and $222,501 in 2005, which has a gross profit of 88% both in 2006 and 2005, the gross profit of products sales was $670,704 or 56% in 2006 and $923,956 or 58.9% in 2005.

Selling, general and administrative expenses for the three months ended September 30, 2006 and 2005 were $1,132,254 and $1,738,286, respectively. The $606,032 or 34.9% decrease is pursuant to a plan to decrease salaries, professional fees, and travel. Salaries declined approximately $140,000, professional fees were reduced approximately $281,900 and travel was approximately $48,500 less than third quarter 2005 levels. In addition, media advertising declined approximately $134,400.

Research and development expenses for the three months ended September 30, 2006 and 2005 were $206,057 and $53,678, respectively. These costs are primarily associated with the intensified effort into the development of our Single Tooth Anesthetic (STA) delivery system and continuing efforts on the CompuFlo(TM) technology.

Interest income of $19,497 was earned in the three months ended September 30, 2006 compared to $33,132 earned for the same period in 2005. The decrease of $13,635 or 41% in interest income is the result of lower cash balances than 2005 levels.

For the reasons explained above, net loss for the three months ended September 30, 2006 was $621,057 as compared to a net loss of $612,375 for the same period in 2005.

Nine months ended September 30, 2006 compared to the Nine months ended September 30, 2005

Total revenues for the nine months ended September 30, 2006 and 2005 were $4,394,373 (product sales of $4,176,728 and royalty income of $217,645) and $4,954,068 (product sales of $4,482,016 and royalty income of $472,052) respectively. Total revenues decreased by $559,695 or 11.3%. Contributing to this decrease was primarily a $146,232 or 5.3% increase in worldwide sales of disposable Wand handpieces offset by a reduction in CompuDent sales of $449,945 or 31%. Royalty income is from granting United Systems Inc. a license to manufacture, market, and sublicense the Ionic White to the consumer market. This area decreased $254,407 or 53.9% reflecting increased retail competition in this increasingly highly competitive market.

Gross profit for the nine months ended September 30, 2006 and 2005 was $2,409,984 or 55% and $3,000,686 or 61%, respectively. The $590,702 or 20% decrease in gross profit was due principally to the decrease in CompuDent units sold.

Selling, general and administrative expenses for the nine months ended September 30, 2006 and 2005 were $3,981,516 and $5,194,541 respectively. The decrease of $1,213,025 or 23.4% is pursuant to a plan to decrease salaries, travel and professional fees. Salaries declined approximately $269,400, travel was reduced approximately $102,700 and professional fees were approximately $547,100 less than 2005 levels. Media advertising declined $59,800 from year earlier levels.

Research and development expenses for the nine months ended September 30, 2006 and 2005 were $760,239 and $155,067, respectively. These costs are primarily associated with the intensified effort into the development of our Single Tooth Anesthetic (STA) delivery system and continuing efforts on the CompuFlo(TM) technology.

Interest income of $71,591 was earned for the nine months ended September 30, 2006 compared to $67,814 for the same period of the prior year. This difference was due to increasing interest rates in the 2006 period offset by lower cash balances.

For the reasons explained above, net loss for the nine months ended September 30, 2006 decreased by $20,406 or 0.9% over the net loss for the nine month period ended September 30, 2005.

Liquidity and Capital Resources

Milestone incurred net losses of approximately $2,260,700 and $2,281,100 and negative cash flows from operating activities of approximately $1,426,600 and $2,644,900 during the nine months ended September 30, 2006 and 2005, respectively. On June 16, 2006 we received notice from the American Stock Exchange ("AMEX") that we were not in compliance with AMEX's listing standards related to shareholders' equity and losses as specified in Section 1003(a)(iii) of the AMEX Company Guide, which requires us to have shareholder equity of $6,000,000. Subsequently, after a hearing before AMEX's Listing Qualification Panel, our common stock and warrants commenced trading in the over the counter market on the NASD's over-the-counter bulletin board following suspension of trading on the AMEX, as previously reported in our report on Form 8-K filed on September 1, 2006. On October 16, 2006 Amex filed an application with the Securities and Exchange Commission in accordance with Section 12 of the Securities Exchange Act of 1934 and the rules promulgated thereunder, to strike Milestone's common stock and warrants from listing and registration on the AMEX. At September 30, 2006 our total stockholders' equity was $4.32 million. We continue to seek new sources of equity funding, but can give no assurance that we will be able to find new sources of funding on acceptable terms. The issuance of additional equity securities may impair the value of our stock.

Private Placement

The company completed private placements in April and September of 2005 which resulted in aggregate net proceeds of approximately $3.5 million. There have been no further placements beyond September, 2005.

Cash flow results

As of September 30, 2006, Milestone had cash and cash equivalents of $1,424,767 and working capital of $3,258,500.

For the nine months ended September 30, 2006, Milestone's net cash used in operating activities was $1,426,634. This was attributable primarily to a net loss of $2,260,652 adjusted for noncash items of $366,095 and changes in operating assets and liabilities of $465,459.

For the nine months ended September 30, 2006 Milestone used $41,278 in investing activities for capital expenditures, $28,098 of which was due to legal fees related to new patent applications and $13,180 was for the purchase of equipment.

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

New Accounting Pronouncement

In July, 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes- an interpretation of FASB Statement No. 109" (FIN 48), which prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006. We do not expect the adoption of FIN 48 to have a material impact on our financial reporting, and we are currently evaluating the impact, if any, the adoption of FIN 48 will have on our disclosure requirements.

17

ITEM 3. CONTROLS AND PROCEDURES

a) Evaluation of Disclosure Controls and Procedures. Management, with the participation of our chief executive officer and the chief financial officer, carried out an evaluation of the effectiveness of our "disclosure controls and procedures" (as defined in the Securities Exchange Act of 1934 (the "Exchange Act") Rules 13a-15(e) and 15d-15(e) as of the end of the period covered by this report (the "Evaluation Date"). Based upon that evaluation, our chief executive officer and chief financial officer concluded that, as of the Evaluation Date, our disclosure controls and procedures are effective to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms. Information required to be disclosed by us in the reports we file or submit under the Exchange Act is accumulated and communicated to our management, including our principal executive and principal financial officers, as appropriate to allow timely reporting decisions regarding required disclosure.

b) Changes in internal control over financial reporting. There were no changes in our internal controls over financial reporting, known to the chief executive officer or the chief financial officer that occurred during the period covered by this report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

18

ITEM 6. EXHIBITS

The following exhibits are filed herewith:

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

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

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

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

SIGNATURES

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

MILESTONE SCIENTIFIC INC.

Registrant

/s/Leonard Osser

Leonard Osser
Chairman and Chief Executive Officer

/s/David Cohn

David Cohn
Chief Financial Officer

Dated: November 14, 2006