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MILESTONE SCIENTIFIC INC/NJ
Form 10QSB
August 14, 2006

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

FORM 10-QSB

MARK ONE

QUARTERLY REPORT UNDER SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE
ACT OF 1934

FOR THE QUARTERLY PERIOD ENDED JUNE 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 AUGUST 11, 2006, THE ISSUER HAD A TOTAL
OF 11,802,273 SHARES OF COMMON STOCK, \$.001 PAR VALUE, OUTSTANDING.

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FORWARD LOOKING STATEMENTS

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

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MILESTONE SCIENTIFIC INC.

I N D E X -----

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MILESTONE SCIENTIFIC INC.
CONDENSED BALANCE SHEETS

June 30, 2006
(Unaudited)

ASSETS

Current Assets:

Cash and cash equivalents	\$ 1,999,019
Accounts receivable , net of allowance for doubtful accounts of \$17,150 in 2006 and \$27,117 in 2005	504,394
Royalty receivable	49,473
Inventories	1,285,771
Advances to contract manufacturer	1,116,111
Prepaid expenses	85,917

Total current assets	5,040,685
Investment in distributor, at cost	76,319
Equipment, net of accumulated depreciation of \$355,452 in 2006 and \$307,000 in 2005	496,432
Patents, net of accumulated amortization of \$30,514 in 2006 and \$19,090 in 2005	496,755
Other assets	19,169

Total assets	\$ 6,129,360
	=====

LIABILITIES AND
STOCKHOLDERS' EQUITY

Current Liabilities:

Accounts payable	\$ 1,031,554
Accrued expenses	177,849
Deferred compensation payable to officers	108,332

Total current liabilities	1,317,735

Stockholders' Equity

Common stock, par value \$.001; authorized 50,000,000 shares; 11,594,547 shares issued, 207,726 shares to be issued, and 11,561,214 shares outstanding in 2006; 11,550,479 shares issued, 207,726 shares to be issued, and 11,517,146 shares outstanding in 2005	11,803
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Additional paid-in capital	57,305,883
Accumulated deficit	(51,594,545)
Treasury stock, at cost, 33,333 shares	(911,516)

Total stockholders' equity	4,811,625

Total liabilities and stockholders' equity	\$ 6,129,360
	=====

See Notes to Condensed Financial Statements

* Derived from the audited financial statements as of December 31, 2005

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MILESTONE SCIENTIFIC INC.

CONDENSED STATEMENTS OF OPERATIONS
THREE AND SIX MONTHS
ENDED JUNE 30, 2006 AND 2005
(Unaudited)

	Three Months Ended		Jun 2
	June 30, 2006	June 30, 2005	
Product sales, net	\$ 1,425,821	\$ 1,456,731	\$ 2,9
Royalty income	49,473	219,210	1
Total revenue	1,475,294	\$ 1,675,941	3,1
Cost of products sold	688,124	538,604	\$ 1,4
Royalty expense	5,637	26,305	\$
Total cost of revenue	693,761	564,909	1,4
Gross profit	781,533	1,111,032	1,7
Selling, general and administrative expenses	1,369,497	1,854,562	2,8
Research and development expenses	390,741	69,844	5
Total operating expenses	1,760,238	1,924,406	3,4
Loss from operations	(978,705)	(813,374)	(1,6
Other income			
Interest income	24,690	23,584	
Total other income	24,690	23,584	
Net loss	(954,015)	(789,790)	(1,6
Dividends applicable to preferred stock	--	(507)	
Net loss applicable to common stockholders	\$ (954,015)	\$ (790,297)	\$ (1,6
Loss per share applicable to common stockholders -			

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basic and diluted	\$ (0.08)	\$ (0.07)	\$
	=====	=====	=====
Weighted average shares outstanding and to be issued -			
basic and diluted	11,768,940	10,931,052	11,7
	=====	=====	=====

See Notes to Condensed Financial Statements

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MILESTONE SCIENTIFIC INC.

CONDENSED STATEMENT OF CHANGES IN STOCKHOLDER S' EQUITY (DEFICIENCY)
SIX MONTHS ENDED JUNE 30, 2006
(Unaudited)

	Common Stock		Additional Paid-in Capital	Accumula Defici
	Shares	Amount		
	-----	-----	-----	-----
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	60,253	
Common stock issued for payment of vendor services	35,577	36	36,964	
Common stock and options issued for payment of employee compensation				
Net loss			35,751	(1,639,
	-----	-----	-----	-----
Balance, June 30, 2006	11,802,273	\$11,803	\$57,305,883	\$(51,594,
	=====	=====	=====	=====

See Notes to Condensed Financial Statements

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MILESTONE SCIENTIFIC INC.

CONDENSED STATEMENTS OF CASH FLOWS
SIX MONTHS ENDED JUNE 30, 2006 AND 2005
(Unaudited)

	2006
Cash flows from operating activities:	
Net loss	\$(1,639,

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Adjustments to reconcile net loss to net cash used in operating activities:	
Depreciation expense	48,
Amortization of patents	11,
Common stock and options issued for compensation, consulting, and vendor services	133,
Loss on disposal	1,
Bad debt (recovery) expense	(19,
Changes in operating assets and liabilities:	
Increase in accounts receivable	(137,
Decrease (increase) in royalty receivable	136,
Decrease (increase) in inventories	85,
Increase in advances to contract manufacturer	(96,
Decrease in prepaid expenses	23,
Decrease in other assets	5,
Increase (decrease) in accounts payable	523,
(Decrease) increase in accrued expenses	(45,
Increase in deferred compensation	108,
-----	-----
Net cash used in operating activities	(861,

Cash flows from investing activities:	
Payment for capital expenditures	(10,
Payment for patent rights	(21,
-----	-----
Net cash used in investing activities	(32,

Cash flows from financing activities:	
Proceeds from equity financing, net	-----
Net cash provided by financing activities	-----

NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(893,
Cash and cash equivalents at beginning of period	2,892,
-----	-----
Cash and cash equivalents at end of period	\$ 1,999,
=====	=====
Supplemental disclosure of cash flow information:	
Cash paid during the period for interest	\$
=====	=====

See Notes to Condensed Financial Statements

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.

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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 June 30, 2006 and the results of its operations for the three and six months ended June 30, 2006 and 2005.

The results reported for the three and six months ended June 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 June of 2005 which resulted in aggregate net proceeds of approximately \$3.5 million. There have been no further placements beyond June, 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.

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MILESTONE SCIENTIFIC INC.
CONDENSED STATEMENTS OF CASH FLOWS (continued)
SIX MONTHS ENDED JUNE 30, 2006 AND 2005
(Unaudited)

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

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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 six months ended June 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 3,539,085 and 3,589,256 at June 30, 2006 and 2005, respectively.

Note 7 - Significant Customer

Milestone had one foreign customer who accounted for approximately 21.5% and 22.4% of its net sales for the three months ended June 30, 2006 and 2005, respectively. At June 30, 2006, receivables from this customer were approximately 69% 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 June 30, 2006, there were 214,167 outstanding options granted under the Milestone 1997 Stock Option Plan and 131,000 outstanding options granted under the Milestone 2004 Stock Option Plan. As a result of adopting SFAS No. 123R, the Company recognized \$35,751 in share-based compensation expense and a corresponding increase in net loss for the six months ended June 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 six and three months ended 2005, if Milestone had applied SFAS No. 123. No options were granted during the six months ended June 30, 2006.

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MILESTONE SCIENTIFIC INC.
CONDENSED STATEMENTS OF CASH FLOWS (continued)
SIX MONTHS ENDED JUNE 30, 2006 AND 2005
(Unaudited)

Three Months Ended

Six Months Ended

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	June 30, ----- 2005 -----	June 30, ----- 2005 -----
Net loss, as reported	(790,297)	(1,669,747)
Deduct total stock-based employee compensation expenses determined under the fair value based method for all awards	27,016	228,188
Net loss, pro forma	(817,313) =====	(1,897,935) =====
Loss per share applicable to common stock holders:		
Basic and diluted		
As reported	(0.07) =====	(0.16) =====
Pro forma	(0.07) -----	(0.18) -----

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 six months ended June 30, 2005: dividend yield of 0%; expected volatility of 123.19%; 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 June 30, 2006, and changes during the six months then ended is presented below:

OPTIONS	NUMBER OF OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE	WEIGHTED AVERAGE REMAINING CONTRACTUAL LIFE (YEARS)
-----	-----	-----	-----
Outstanding, January 1, 2006	453,167	\$ 2.63	3.6
Granted	-	-	-
Exercised	-	-	-
Forfeited or expired	108,000	2.52	3.4
Outstanding, June 30, 2006	345,167	2.66	3.0
Vested or expected to vest, June 30, 2006	345,167	2.66	3.0
Exercisable, June 30, 2006	290,833	2.71	3.3

As of June 30, 2006, there was \$51,972 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 year.

Note 9 - Agreements to Issue Common Stock and Stock Options

On March 18, 2005, Milestone issued to Ionic White, Inc., its marketing partner for a consumer tooth whitening product, 3-year options to

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purchase 100,000 shares of Milestone common stock at \$4.89 per share. Under the agreement, the options are not exercisable unless the marketing partner 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 June 30, 2006 the purchases by Ionic White were below the specified minimums.

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MILESTONE SCIENTIFIC INC.
CONDENSED STATEMENTS OF CASH FLOWS (continued)
SIX MONTHS ENDED JUNE 30, 2006 AND 2005
(Unaudited)

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 June 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, and on August 10, 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 June 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, \$25,000 of which was expensed in the six months ended June 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.

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At June 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.

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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 anticipate that our growing base of new customers will generate increased future sales of our disposable handpiece products. We believe that our ownership of the SafetyWand (TM) technology, in light of OSHA regulations issued pursuant to recent 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.

During the first two quarters of 2006, we took steps to enhance the efficiency and effectiveness of our domestic sales operation. We reduced the total headcount by one national sales manager, our sales trainer and several under-performing inside sales representatives. Our goal is to become, at minimum, cash neutral from our domestic sales of CompuDent units and CoolBlue(TM) Whitening Kits.

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

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provides significant additional revenue opportunities. 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 second 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.

We continue development work on two important technologies. The Single Tooth Anesthetic (STA) delivery system, currently in development, will allow dentists to perform a predictable single tooth anesthetic injection to achieve total tooth anesthesia, as a primary injection. This will become an invaluable tool as many consider this type of injection to be the most important injection for the dentist and preferred by patients. The expected market introduction for the STA device is early 2007.

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.

Selling, general and administrative expenses for the second 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 \$390,741 for the second quarter of 2006. While this total represented 26% of the total operating expenses, the continued investment in these development programs is crucial for our future success.

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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 June 30,				Six ----- 2006
	2006		2005		
	-----	-----	-----	-----	-----
DOMESTIC					
CompuDent	\$ 230,068	22.7%	\$ 377,076	33.6%	\$ 451,862
Handpieces	735,482	72.5%	639,104	57.0%	1,477,136
Other	48,450	4.8%	105,713	9.4%	120,997
	-----	-----	-----	-----	-----
Total Domestic	\$1,014,000	100.0%	\$1,121,893	100.0%	\$2,049,995
	-----	-----	-----	-----	-----
INTERNATIONAL					
CompuDent	\$ 59,378	14.4%	\$ 119,141	35.6%	\$ 291,286
Handpieces	315,585	76.6%	164,585	49.1%	555,074
Other	36,858	9.0%	51,112	15.3%	90,385
	-----	-----	-----	-----	-----
Total International	\$ 411,821	100.0%	\$ 334,838	100.0%	\$ 936,745

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DOMESTIC/INTERNATIONAL ANALYSIS	-----	-----	-----	-----	-----
Domestic	\$1,014,000	71.1%	\$1,121,893	77.0%	\$2,049,995
International	411,821	28.9%	334,838	23.0%	936,745
Total Product Sales	\$1,425,821	100.0%	\$1,456,731	100.0%	\$2,986,740
	=====	=====	=====	=====	=====

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.

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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.

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 revenues. The trends suggested by this table

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may not be indicative of future operating results.

	Three Months Ended June 30				June 30, 2006
	2006		2005		
Products sales, net	\$ 1,425,821	97%	1,456,731	87%	2,986,740
Royalty income	49,473	3%	219,210	13%	186,310
Total revenue	1,475,294	100%	1,675,941	100%	3,173,050
Cost of products sold	688,124	47%	538,604	32%	1,439,286
Royalty expense	5,637	--	26,305	--	22,057
Total cost of revenue	693,761	47%	564,909	34%	1,461,343
Gross Profit	781,533	53%	1,111,032	66%	1,711,707
Selling, general and administrative expenses	1,369,497	93%	1,854,562	111%	2,849,212
Research and development expenses	390,741	27%	69,844	4%	554,183
Total operating expenses	1,760,238	119%	1,924,406	115%	3,403,395
Loss from operations	(978,705)	-66%	(813,374)	-49%	(1,691,688)

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

Total revenues for the three months ended June 30, 2006 and 2005 were \$1,475,294 (product sales of \$1,425,821 and royalty income of \$49,473) and \$1,675,941 (product sales of \$1,456,731 and royalty income of \$219,210) respectively. The \$30,910 or 2.1 % decrease in net product sales is primarily related to a domestic decrease of \$147,008 or 39% in CompuDent sales and was partially offset by \$96,378 or 15.1% increase in domestic handpiece sales; international CompuDent sales decreased \$59,763 or 50.2% and was offset by a \$151,000 or 92% increase in handpiece sales. This increase shows the effect of an expanded base of CompuDent units in service and represents a continuing increase in the revenue stream from the disposable Wand handpieces. 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 \$169,737 or 77% reflecting increased retail competition in this increasingly highly competitive market.

Cost of products sold for the three months ended June 30, 2006 and 2005 were \$688,124 and \$538,604, respectively. The \$149,520 or 27.8% increase is primarily attributable to the increase in units sold due to the CompuDent sales initiatives extended to our existing customer base. Royalty expense related to the royalty income from the sales of the Ionic White tooth whitening system was \$5,637 for the three months ended June 30, 2006, down \$20,668 or 78.6% due to lower Royalty Income.

For the three months ended June 30, 2006, Milestone generated a gross profit of \$781,533 or 53% as compared to a gross profit of \$1,111,032 or 66% for the same period in 2005. Excluding the net royalty income (net of royalty

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expense) of \$43,836, which has a gross profit of 88%, the gross profit of products sales was \$737,697 or 52% in 2006. The decrease in gross profit percentage from the three months last year is the result of sales incentives extended to our existing customer base during the current period.

Selling, general and administrative expenses for the three months ended June 30, 2006 and 2005 were \$1,369,497 and \$1,854,562, respectively. The \$485,065 or 26.2% decrease is pursuant to a plan to decrease salaries, professional fees and travel. Salaries declined approximately \$93,400, professional fees were reduced approximately \$321,800, and travel was approximately \$26,400 less than second quarter 2005 levels.

Research and development expenses for the three months ended June 30, 2006 and 2005 were \$390,741 and \$69,844, 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 \$24,690 was earned in the three months ended June 30, 2006 compared to \$23,584 earned for the same period in 2005. The increase of \$1,106 or 5% in interest income is the result of increased interest rates in 2006.

For the reasons explained above, net loss for the three months ended June 30, 2006 was \$954,015 as compared to a net loss of \$789,790 for the same period in 2005.

Six months ended June 30, 2006 compared to the six months ended June 30, 2005

Total revenues for the six months ended June 30, 2006 and 2005 was \$3,173,050 (product sales of \$2,986,740 and royalty income of \$186,310) and \$3,133,844 (product sales of \$2,914,634 and royalty income of \$219,210) respectively. Total revenues increased by \$39,206 or 1%. Contributing to this increase was primarily a \$295,149 or 17.0% increase in worldwide sales of disposable Wand handpieces offset by a reduction in domestic CompuDent sales of \$252,902 or 36%. 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 \$32,900 or 15% reflecting increased retail competition in this increasingly highly competitive market.

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Gross profit for the six months ended June 30, 2006 and 2005 was \$1,711,707 or 55% and \$1,854,229 or 59%, respectively. The \$142,522 or 8% decrease in gross profit was due principally to the increase in units sold due to the CompuDent sales incentives initiated during the second quarter of 2006 to our existing sales base.

Selling, general and administrative expenses for the six months ended June 30, 2006 and 2005 were \$2,849,212 and \$3,456,255 respectively. The decrease of \$607,043 or 18.0% in these expenses is pursuant to a plan to decrease salaries, travel and professional fees. Salaries declined approximately \$276,400, travel was reduced approximately \$52,900 and professional fees were approximately \$291,100 less than 2005 levels.

Research and development expenses for the six months ended June 30, 2006 and 2005 were \$554,183 and \$101,389, 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.

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Interest income of \$52,094 was earned for the six months ended June 30, 2006 compared to \$34,682 for the same period of the prior year. This difference was due to increasing interest rates in the 2006 period.

For the reasons explained above, net loss for the six months ended June 30, 2006 decreased by \$29,139 or 2% over the net loss for the six month period ended June 30, 2005.

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LIQUIDITY AND CAPITAL RESOURCES

Milestone incurred net losses of approximately \$1,640,000 and \$1,669,000 and negative cash flows from operating activities of approximately \$861,000 and \$1,892,000 during the six months ended June 30, 2006 and 2005, respectively. On June 16, 2006 we received notice from the American Stock Exchange ("AMEX") that we are not in compliance with AMEX's continued 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. Milestone appealed AMEX's determination and requested a hearing before a Listing Qualification Panel. A hearing has been scheduled for August 16, 2006. At June 30, 2006 our total stockholders' equity was \$4.81 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. Further, if we are unsuccessful in our appeal of AMEX's determination, we could be delisted from the AMEX. Any delisting would, in turn, make it more difficult for us to raise capital in the public markets. If our securities are delisted from the Exchange, trading, if any, in our securities would be conducted in the over the counter market on the NASD's "OTC Bulletin Board". Consequently, the liquidity of our securities could be impaired, not only in the number of securities that could be bought and sold, but also through delays in the timing of transactions, reduction in security analyst and news media coverage of Milestone, and lower prices for our securities than might otherwise be obtained.

Private Placement

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

CASH FLOW RESULTS

As of June 30, 2006, Milestone had cash and cash equivalents of \$1,999,019 and working capital of \$3,722,950 .

For the six months ended June 30, 2006, Milestone's net cash used in operating activities was \$861,400. This was attributable primarily to a net loss of \$1,639,594 adjusted for noncash items of \$175,059, and changes in operating assets and liabilities of \$603,135.

For the six months ended June 30, 2006 Milestone used \$32,260 in investing activities for capital expenditures, \$21,544 of which was due to legal fees related to new patent applications and \$10,716 was for the purchase of equipment.

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

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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.

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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.

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PART II

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

Milestone held its 2006 annual meeting of Stockholders on June 20, 2006.

(i) The matters voted on were as follows: Election of Directors. Present below are the voters cast for each director nominee:

NAME	FOR	WITHHOLD AUTHORITY
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Leonard Osser	9,786,034	214,147
Leonard M. Schiller	9,910,134	90,047

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Jeffery Fuller	9,912,467	87,714
Leslie Bernhard	9,911,931	88,250
Pablo Serna C.	9,911,931	88,250

(ii) Approval of the issuance or proposed issuance of 300,000 shares of Milestone's common stock. The results were as follows:

FOR	AGAINST	ABSTAIN	NOT VOTED
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4,030,443	520,722	18,236	5,430,780

(iii) Confirmation of the appointment of Eisner LLP as Milestone's independent auditors for the fiscal year ending December 31, 2006. The results were as follows:

FOR	AGAINST	ABSTAIN
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9,964,971	24,406	10,804

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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.

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SIGNATURES

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

MILESTONE SCIENTIFIC INC.

Registrant

/s/Leonard Osser

Leonard Osser
Chairman and Chief Executive Officer

/s/David Cohn

David Cohn

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Chief Financial Officer

Dated: August 14, 2006