MILESTONE SCIENTIFIC INC.
Form 10-K
March 10, 2010

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2009

or

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

For the transition period from _____ to _____

Commission file number 001-14053

Milestone Scientific Inc.

(Exact name of registrant as specified in its charter)

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

45 Knightsbridge Road, Piscataway, NJ 08854

(Address of principal executive offices)

Registrant s telephone number, including area code **973-535-2717**

Securities registered pursuant to Section 12(b) of the Act:

None

Securities registered pursuant to section 12(g) of the Act:

Common Stock, par value $.001 per share

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. o Yes þ No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. o Yes þ No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. þ Yes o No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). o Yes o No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment of this Form 10-K. o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer o	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company þ

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

As of June 30, 2009, the last business day of the Company s most recently completed second fiscal quarter, the aggregate market value of the common stock held by non affiliates of the issuer was $4,186,988. This amount is based on the closing price of $0.45 per share of the Company s common stock as of such date, based on the Nasdaq Over-the-Counter Bulletin Board.

As of March 10, 2010 the registrant has a total of 14,792,528 shares of Common Stock, $0.001 par value outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

None

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FORWARD-LOOKING STATEMENTS

Certain statements made in this Annual Report on Form 10-K are forward-looking statements (within the meaning of the Private Securities Litigation Reform Act of 1995) regarding the plans and objectives of management for future operations. Such statements involve known and unknown risks, uncertainties and other factors that may cause actual results, performance or achievements of Milestone to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. The forward-looking statements included herein are based on current expectations that involve numerous risks and uncertainties. Milestone s plans and objectives are based, in part, on assumptions involving the continued expansion of business. Assumptions relating to the foregoing involve judgments with respect to, among other things, future economic, competitive and market conditions and future business decisions, all of which are difficult or impossible to predict accurately and many of which are beyond the control of Milestone. Although Milestone believes that its assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate. In light of the significant uncertainties inherent in the forward-looking statements included herein, particularly in view of Milestone s early stage operations, the inclusion of such information should not be regarded as a representation by Milestone or any other person that the objectives and plans of Milestone will be achieved. The Company undertakes no obligation to revise or update publicly any forward-looking statements for any reason.

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PART I

Item 1. Description of Business

All references in this report to Milestone, us, the Company, or Milestone Scientific refer to Milestone Scientific I and its former subsidiary, Spintech, Inc. (Spintech), unless the context otherwise indicates. Milestone has rights to the following trademarks: *CompuDent*®, *CompuMed*®, *CompuFlo*®, *The Wand*®, *The Wand Plus*®, *The SafetyWand*®, *Cool Blue Wand*®, *Cool Blue Tooth Whitening System, Dynamic Pressure Sensing Technology*®, *STA Single Tooth Anesthesia*, *Ionic White*® (light emitting diode), and *Ionic White* (whitening toothpaste). Milestone was incorporated in the State of Delaware in 1989.

BUSINESS

Background

Since its public offering in 1995, Milestone has been actively engaged in pioneering proprietary, highly innovative, computer-controlled injection technologies and solutions for the medical and dental markets. From its inception, the Company has focused its energy and resources on redefining the worldwide standard of care for injection techniques by making the experience more comfortable for the patient and by reducing the anxiety and stress of administering injections for the healthcare provider.

Today, Milestone is widely recognized by key opinion leaders, industry experts and medical and dental practitioners as the noted leader in the emerging, high growth, computer-controlled injection industry; and remains intent on expanding the use and application of its proprietary, patented technologies to achieve greater operational efficiencies, enhanced patient safety and therapeutic adherence, and improved quality of care within a broad range of medical disciplines.

In 1997, Milestone first introduced *The Wand*® (*CompuDent*® system) and the disposable *Wand* handpiece. *CompuDent* provides painless injections for all routine dental treatments, including root canals, crowns, fillings and cleanings. Milestone s Computer-Controlled Local Anesthetic Delivery (C-CLAD) system does not look like a syringe. It does not feel like a syringe. And, what s more, it works better than a syringe, resulting in a more pleasant experience for the patient and practitioner. With more than 18,000 *CompuDent* systems sold within four months of its market introduction, this represented the most successful launch in the history of small equipment sales in U.S. dentistry.

Milestone subsequently expanded its product offerings with the introduction of the *CompuMed*® advanced injection system, designed for use in a wide range of applications within the medical industry, including cosmetic surgery, hair restoration surgery, podiatry, colorectal surgery, nasal and sinus surgery, dermatology and orthopedics, among others.

Central to Milestone s intellectual property platform and current product development strategy is its patented *CompuFlo*® technology for the precise delivery of medicaments**.** The *CompuFlo* pressure/force C-CLAD technology is an advanced, patented and FDA-approved medical technology for the painless and accurate delivery of drugs, anesthetics and other medicaments into all tissue types, as well as for the aspiration of bodily fluids or previously injected substances. Its regulation and control of flow rate continues to provide the *CompuDent* and *CompuMed* benefits of painless injections, while its *Dynamic Pressure Sensing*® capability provides visual and audible in-tissue pressure feedback, identifying tissue types to the healthcare provider. This pressure feedback extends the benefit of painlessness from anesthetics with known viscosities to a wide range of liquid drugs and other medicaments with varying viscosities and flow rates. *Dynamic Pressure Sensing* also allows the healthcare provider to know when certain types of tissues have been penetrated and permits the healthcare provider to inject medicaments precisely at the desired location. Thus, pressure feedback can prevent the suffusion of tissue outside the intended target area, a vitally important characteristic in the injection of chemotherapeutics and other toxic substances.

The *CompuFlo* technology consists of two critical elements. One element is the ability to determine exit pressure *In Situ* (in the injection site tissue) at the tip of the needle in real time. This minimizes tissue damage (and eliminates the pain of the injection) because the flow rate and pressure of the injection are controlled. The other critical element of the technology is an integrated injection database of algorithms that have been defined which allow for the measurement of the exit pressure. This database of algorithms contains the critical components of specific drugs, parameters of needles, tubing and syringes and all other pertinent components for the safe and efficacious delivery of medications for all procedures.

The *CompuFlo* technology also consists of a disposable injection handpiece that provides for precise tactile control during the injection, an electromechanical (computer-controlled) fluid delivery system and the ability to record data from the injection event. As confirmed by numerous noted medical and dental experts within academia and the clinical practice arenas, *CompuFlo* has the potential to greatly increase the safety and efficacy of many injection procedures that currently rely upon over 150-year-old hypodermic syringe technology and the tactile senses and delivery expertise of the administrator.

On September 14, 2004, Milestone Scientific was issued United States Patent No. 6,786,885 for the *CompuFlo* technology, entitled Pressure/Force Computer Controlled Drug Delivery System with Exit Pressure. Proprietary software, working with an innovative technology, allows the system to continuously monitor and control the exit pressure of fluid and/or medication during an injection. This same technology also enables doctors to accurately identify different tissue types based on exit pressure during an injection. The technology has numerous applications in both medicine and dentistry, including epidural and intra-articular injections.

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In December 2004, the United States Patent Office issued a Notice of Allowance for patent protection on two additional critical elements of the *CompuFlo* automated drug delivery technology: Drug Delivery System with Profiles and Pressure/Force Computer Controlled Drug Delivery with Automated Charging .

In December 2005, Milestone submitted a pre-market notification to the US Food and Drug Administration (FDA) on its *CompuFlo* technology, which was subsequently cleared by the FDA in July of 2006. This initial submission was critical for Milestone s continuing efforts to develop and commercialize this important technology. Milestone has identified a number of potential applications for *CompuFlo*, including single-tooth dental injections, self-administered drug delivery, osteoarthritis joint pain management and epidurals.

Given the Company s experience and established brand awareness within the dental industry, it elected to focus its initial product development efforts on the integration of *CompuFlo* into its legacy computer-controlled dental injection instrument. As a result, Milestone developed the industry s first solution for painlessly administering a single-tooth injection as the only injection necessary for achieving anesthesia, foregoing the need to administer a traditional nerve branch block. This new instrument, which also provides for use of a disposable handpiece, was trademarked the *STA Single Tooth Anesthesia System*, now more commonly known as the *STA System*.

After receiving FDA 510(k) Pre-market Notification acceptance for the marketing and sale of the *STA System,* Milestone introduced the instrument to market in February 2007 at the Chicago Dental Society s 143rd Midwinter Meeting. The patented *STA System* incorporates the pressure feedback elements of Milestone s patented *CompuFlo* technology, thereby allowing dentists to administer injections accurately and painlessly into the periodontal ligament space, effectively anesthetizing a single tooth. This injection is of significant value in that it allows the dentist to profoundly anesthetize the patient within one or two minutes, versus up to 15-18 minutes for a block injection which numbs. The patient will suffer neither pain nor collateral anesthesia in the cheek, lips or tongue at any time. The *STA System* is capable of performing all of the injections that can be done with a conventional dental syringe, including the palatal-anterior superior alveolar, anterior middle superior alveolar and inferior alveolar nerve block. The *STA System* achieves these injections predictably and reliably.

Initial market response to the *STA System* following its commercial debut in February 2007 proved to be less than robust. Moreover, at that time, the Company had granted exclusive US and Canadian distribution and marketing rights for the *STA System* to Henry Schein, Inc., the largest distributor of healthcare products and services to office-based practitioners in the combined North American and European markets. Following several months of lackluster sales and after making critical senior management changes, Milestone initiated an in-depth market study to reassess its positioning and marketing strategies for the *STA System*. The insight gained from this study led management to define and implement a new messaging platform, created to emphasize key benefits that Milestone discovered are of most value to dental professionals. This refined product messaging was launched in January 2008 and has remained in constant review.

During the second quarter of 2008, Milestone elected not to renew the exclusive marketing and distribution agreement originally signed with Henry Schein, Inc.; instead, the Company granted Schein non-exclusive distribution rights to both market and sell the *STA System* and related disposable handpieces to dental professionals in the U.S. and Canada. In June 2008, Milestone expanded its domestic distribution network with the addition of Patterson Dental Supply as a non-exclusive distributor. Patterson has the largest direct sales force in the industry, totaling approximately 1,400 sales representatives and equipment/software specialists addressing the needs of the U.S. and Canadian dental markets. Later in the year, Benco Dental, Burkhart Dental, Goetze Dental and Atlanta Dental Supply all notable regional distributors were granted non-exclusive distribution and marketing rights to the *STA System*, thereby diversifying and significantly expanding Milestone s domestic distribution network.

Despite being granted CE Mark approval of the *STA System* in June 2007 by European regulatory authorities, Milestone elected to initiate its international launch in the first quarter of 2008. Following implementation of the *STA System* s new messaging strategy in early 2008, Milestone granted exclusive marketing and distribution rights to two foreign distributors: Istrodent Pty Ltd AB, a leading distributor serving the Southern Africa dental market; and Unident AB, a leading supplier of dental products in the Scandinavian countries of Denmark, Sweden, Norway and Iceland.

In 2009, the Company sought to further expand its independent distribution network both domestically and in key international markets. Consequently, Milestone granted non-exclusive distribution and marketing rights in the U.S. to Cedar Dental, Dental Health Products, Iowa Dental, Nashville Dental, Newark Dental and Parkway Dental. To expand and enhance its reach to the dental community in Canada, the Company also signed non-exclusive distribution and marketing agreements with Dental 2000, Mediclub, Specialty Dental and WD Canada.

In the spring of 2009, Milestone signed an Exclusive Distribution and Marketing Agreement with China National Medicines Corporation, dba Sinopharm, which is China s largest domestic manufacturer, distributor and marketer of pharmaceuticals and importer of medical devices and the country s largest domestic distributor of dental anesthetic carpules to the Chinese dental industry. Prior to the end of 2009, China National Medicines issued Milestone a blanket purchase order for 12,000 *STA* units and related handpieces to be delivered over 36 months, thereby marking the Company s initial penetration into China s emerging dental market.

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According to a report published by the U.S. Department of Commerce, titled China s Emerging Markets: Opportunities in the Dental and Dental Lab Industry, China s dental market lags behind other healthcare services and has largely been neglected in the past. In fact, CS Market Research reports that of China s 1.3 billion plus population, 50% of the adults and 70% of the children are estimated to have decayed tooth problems, and over 90% have periodontal disease. However, with increasing affluence of the Chinese population, as well as increasing attention towards personal care, demand for dental services has been growing. Market research firm Freedonia agrees, noting that demand for dental products in China is expected to climb to 21.5 billion RMB (US$3.15 billion) by 2012, due primarily to escalating personal income levels and government programs promoting awareness of the benefits of good oral care.

Shortly before the end of the second quarter of 2009, Milestone elected to refine its international marketing strategy to gain greater access to and penetration of the international dental markets. The new sales strategy provides for increasing hands-on oversight and support of its existing international distribution network, while also attracting new distributors throughout Europe, Asia and South America. To assist in this endeavor, the Company appointed a new International Sales Director, who is presently managing product sales for Milestone in all markets outside of North America.

CompuFlo® Advanced Injection Technology Core Technology

CompuFlo is a revolutionary new technology for injections. *CompuFlo* enables health care practitioners to monitor and precisely control pressure, rate and volume during all injections and can be used to inject all liquid medicaments as well as anesthetics. *CompuFlo* can also be used to aspirate body fluids.

Negative side effects from the use of traditional hypodermic drug delivery injection systems are well documented in dental and medical literature and include risk of death, transient or permanent paralysis, pain, tissue damage and post-operative complications. The pain and tissue damage are a direct result of uncontrolled flow rates and pressures that are created during the administration of drug solutions into human tissue. While several technologies have been capable of controlling flow rate, the ability to accurately and precisely control pressure has been unobtainable until the development of *CompuFlo.*

Precisely controlling in-tissue pressure increases patient safety by reducing the risk of tissue damage and post-treatment pain related to excessive pressure that may occur during certain injections. Identification of the tissue, in which the needle tip is imbedded, is believed to be highly important in epidural injections, intra-articular injections and numerous organ, subcutaneous and intramuscular injections.

CompuFlo s pressure sensing technology provides an objective tool that consistently and accurately identifies the epidural space by correctly detecting the difference in pressure between the ligamentum flavum and the extraligamentary tissue. In studies utilizing the *CompuFlo* technology the epidural space has been correctly identified 100 % of the time. Knowing the precise location of a needle during an epidural injection procedure provides a measure of safety not presently available to doctors using conventional syringes, who identify the epidural space by relying on the subjective perception of loss of resistance to air or saline.

In the absence of curative procedures, arthritis patients are obliged to endure painful multiple annual injections for a lifetime. Often these injections are not efficacious, because the doctor using a syringe failed to locate the intra-articular space or did not inject the appropriate volume of hyaluronic acid or other medicament into that space. The *CompuFlo* technology has been successful in administering viscous hyaluronic acid and other medicaments into the intra-articular space in both small and large joints using its computer-controlled pressure sensing capabilities in an independent animal study.

There are a number of injectable drugs routinely self-administered in a home or office setting using spring loaded automatic injection devices by people who suffer from long term chronic conditions such as Multiple Sclerosis and Rheumatoid Arthritis. The *CompuFlo* technology, using pressure sensing capabilities, can serve as a painless subcutaneous injection method for these self-administered drugs. A significant reduction in pain during delivery will have a positive impact on compliance, which is a major consideration when physicians are determining which drugs to prescribe.

The *CompuFlo* technology is patented and embedded in the *STA System* that is being sold worldwide in the dental market. *CompuFlo* technology has been tried and proven in human and animal studies, as well as by dentists in most parts of the world who are using the *STA System* in their practices.

On December 3, 2009, Milestone announced that it signed an Agreement of Intent with China National Medicines Corporation, Ltd. and Yichang Humanwell Pharmaceutical Co. Ltd., both incorporated in the People s Republic of China (PRC), to develop orthopedic and epidural drug delivery instruments utilizing *CompuFlo*. Milestone and its two PRC joint venture partners will establish a new joint venture entity for this purpose in the first quarter of 2010. The required initial funding for the new entity, estimated by the parties at $1.4 million, will be provided by the two PRC companies, although Milestone will determine the proposed uses of their contribution. The Company believes that this new joint venture represents a significant step forward in Milestone s efforts to have its innovative computer-controlled drug delivery technology adapted for medical usage worldwide.

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Product Platform

Milestone has developed and brought to market a highly differentiated portfolio of industry innovations. Thus far, the Company s proprietary solutions have succeeded in elevating the standard of care in the professional dental arena. The product portfolio includes:

STA Single Tooth Anesthesia System (STA System)

The *STA Single Tooth Anesthesia System (STA System)* is a patented, computer-controlled local anesthesia delivery system that incorporates the pressure feedback elements of Milestone s patented *CompuFlo* technology, thereby allowing dentists to administer injections accurately into the periodontal ligament space, effectively anesthetizing a single tooth. While the periodontal ligament injection has been available for some time, there has been no effective technology that allows dentists to easily perform the procedure painlessly, safely and predictably until now. With this unique procedure dentists can easily and predictably anesthetize a single tooth root tooth in one minute and a multiple root tooth in two minutes, without first administering a general blocking injection and waiting up to 15 minutes (or longer if the blocking injection needs to be re-administered) before proceeding to anesthetize the target tooth. A device which allows dentists to effectively anesthetize a single tooth will greatly enhance the productivity of dental practices and, when combined with the painless injection capabilities already present in the *CompuDent* system, such a device provides a compelling value in the marketplace. The *STA System* will generate recurring revenues from per-patient disposable handpieces.

Since its market introduction in the spring of 2007, the *STA System* has received rave reviews and awards from the dental industry. In July 2007, noted industry publication *Dentistry Today* featured the *STA System* as one of the Top 100 Products in 2007, helping to promote much broader recognition of the instrument and validating *STA* s value proposition for dentists and patients, alike. In early 2008, *Medical Device & Diagnostic Industry* magazine distinguished the *STA System* as a 2008 Medical Design Excellence Award winner in the Dental Instruments, Equipment and Supplies product category. Of the 33 products to receive this coveted award, the *STA* was one of only two winning products that serve dental practitioners. In December 2008, Milestone continued to win broad acclaim for the *STA System* by winning a Townie Choice Award . The Townie Choice awards were originally started by Dr. Howard Darran and Farran Media, publisher of *Dentaltown Magazine*, to assist dentists in making product purchasing decisions, and are considered the people s choice of the products and services available to the dental industry today. That same month, the *STA System* was also named as a *Dental Products Report* Top 100 2008 Product of Distinction.

CompuDent®

CompuDent (also known as the *Wand Plus®* in Europe) is Milestone s proprietary, patented Computer-Controlled Local Anesthetic Delivery (C-CLAD) system and predecessor of the *STA System*. CompuDent delivers anesthesia at a precise and consistent rate below a patient s pain threshold. Over the years, *CompuDent* has been widely heralded as a revolutionary device, considered one of the major advances in dentistry in the 20th Century. The instrument has been favorably evaluated in more than 50 peer reviewed or independent clinical research reports. *CompuDent*, including its ergonomically designed single-use handpieces (*The Wand®)*, provides numerous, well documented benefits:

CompuDent minimizes the pain associated with palatal, mandibular block and all other injections, resulting in a more comfortable injection experience for the patient;

the pencil grip used with *The Wand* handpieces allows unprecedented tactile sense and accurate control;

new injections made possible with the *CompuDent* technology eliminate collateral numbness of the tongue, lips and facial muscles;

bi-directional rotation of *The Wand* handpieces eliminates needle deflection resulting in greater success and more rapid onset of anesthesia in mandibular block injections;

the use of a single patient use, disposable handpieces minimizes the risk of cross contamination; and

the ergonomic design of *The Wand* handpieces makes an injection easier and less stressful to administer, lowering the risk of carpal tunnel syndrome.

Despite *CompuDent s* many benefits, including the administration of less painful and more comfortable injections, dentists in the United States have been slow to give up the use of traditional syringes. Dentists have all been trained to use syringes in dental school and often have become accustomed to and comfortable with their use during many years of clinical practice, in spite of the obvious reluctance and/or fear of the patient in relation to injections administered by hypodermic syringe. There are approximately 40 million dental phobics, those people afraid to visit a dentist, in the United States. Therefore, Milestone believes there is a disconnect in the way dentists perceive their patients attitudes toward injection by hypodermic syringe. The *CompuDent* is used today by thousands of dentists around the world, many of whom have long since abandoned the over 150-year old syringe.

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CompuMed®

CompuMed is a patented computer-controlled injection system geared to the needs of the medical market and providing benefits similar to *CompuDent. CompuMed* allows many medical procedures, now requiring intravenous sedation, to be performed with only local anesthesia due to dramatic pain reduction. Also, dosages of local anesthetic can often be significantly reduced, thus reducing side effects, accelerating recovery times, lowering costs and eliminating potential complications. *CompuMed* has accumulated clinical evidence demonstrating benefits from use in colorectal surgery; podiatry; dermatology, including surgery for the removal of basal cell carcinomas and other oncological dermatologic procedures; nasal and sinus surgery, including rhinoplasty; hair transplantation and cosmetic surgery, among others.

The Wand®

The Wand handpiece is used in conjunction with the *STA, CompuDent* and *CompuMed* systems. It is an ergonomically designed and patented handpieces that enables all traditional and newer injections, such as AMSA, P-ASA and Modified-PDL, to be more comfortable and easier to deliver. Moreover, the pen-like grasp of *The Wand* allows bi-directional rotation during injection, which prevents needle deflection that occurs with a traditional syringe. A straighter path results in a more accurate injection, meaning fewer missed mandibular blocks, and more rapid onset of anesthesia. Missed blocks are reported in the literature to occur 30% of the time. This raises both patient anxiety and difficulties for the dentists in managing their business. While awaiting profound anesthesia, the dentist is losing time and money.

The SafetyWand®

The SafetyWand is the first, patented safety-engineered injection device that conforms to regulatory standards while also meeting the clinical needs of dental and medical practitioners. Following the adoption of the Federal Needlestick Safety and Prevention Act, Milestone developed, and in September 2003 the FDA approved marketing of, Milestone s *SafetyWand* disposable handpiece, a patented injection device that incorporates safety engineered sharp protection features to aid in the prevention of needlesticks. *The SafetyWand* is the first patented injection device to be fully compliant with OSHA regulations under the federal Needlestick Safety Act while meeting the clinical needs of dentists.

The SafetyWand represents the culmination of two years effort to develop a safer injection device for dentists, physicians and hygienists. While safety injection devices have been mandated since 2000 under federal law, OSHA had been unable to enforce this law against dentists because of the inadequacy of existing devices to meet both the requirements of the law and the clinical needs of dentists. The *SafetyWand* meets these requirements and provides dental practitioners with a safer retractable needle device, with single hand activation, which is reusable multiple times during a single patient visit; yet small and sleek enough not to obscure the dentist s sometimes limited field of view. While *SafetyWand* is now available commercially, OSHA has not begun, in a meaningful way, to enforce existing regulations requiring the use of safety engineered devices. OSHA is empowered to levy substantial fines for failure to use these devices.

Competition

Milestone s proprietary, patented Computer-Controlled Local Anesthesia Delivery (C-CLAD) systems compete with disposable and reusable syringes that generally sell at lower prices and that use established and well-understood methodologies in both the dental and medical marketplaces.

Milestone s systems compete on the basis of their performance characteristics and the benefits provided to both the practitioner and the patient. Clinical studies have shown that the systems reduce fear, pain and anxiety for many patients, and Milestone believes that they can reduce practitioner stress levels, as well. The Company s newest product introduction, the *STA System*, can be used for all dental injections that can be performed with a traditional dental syringe. Moreover, the *STA System* can also be used for new and modified dental injection techniques that cannot be performed with traditional syringes. These new techniques allow for faster procedures shortening chair-time, minimizing the numbing of the lips and facial muscles, enhancing practice productivity, reducing stress and virtually eliminating pain and anxiety for both the patient and the dentist.

Milestone faces intense competition from many companies in the medical and dental device industry, possessing substantially greater financial, marketing, personnel, and other resources. Most competitors have established

reputations, stemming from their success in the development, sale, and service of competing dental products. Further, rapid technological change and research may affect the products. Current or new competitors could, at any time, introduce new or enhanced products with features that render the products less marketable or even obsolete. Therefore, the company must devote substantial efforts and financial resources to improve existing products, bring products to market quickly, and develop new products for related markets. In addition, the ability to compete successfully requires that Milestone establish an effective distribution network as well as support this distribution with a strong marketing plan. Historically, Milestone has been unsuccessful in executing the marketing plans for the products, primarily due to resource constraints. New products must be approved by regulatory authorities before they may be marketed. Milestone cannot assure you that it can compete successfully; that competitors will not develop technologies or products that render the products less marketable or obsolete; or, that Milestone will succeed in improving the existing products, effectively develop new products, or obtain required regulatory approval for those products.

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Patents and Intellectual Property

Milestone holds the following U.S. utility and design patents:

	U.S. PATENT NUMBER	DATE OF ISSUE
Computer Controlled Drug Delivery Systems		
Hypodermic Anesthetic Injection Apparatus & Method	5,180,371	1/19/1993
Dental Anesthetic and Delivery Injection Unit	6,022,337	2/8/2000
Design for a Dental Anesthetic Delivery System Holder	D422,361	4/4/2000
Design for a Dental Anesthetic Delivery System Housing	D423,665	4/25/2000
Design for a Dental Anesthetic Delivery System Handle	D427,314	6/27/2000
Cartridge Holder for Injection Device	6,132,414	10/17/2000
Dental Anesthetic Delivery Injection Unit	6,152,734	11/28/2000
Microprocessor-controlled Fluid Dispensing Apparatus	6,159,161	12/12/2000
Pressure/Force Computer Controlled Drug Delivery System	6,200,289	3/13/2001
Dental Anesthetic and Delivery Injection Unit with Automated Rate Control	6,652,482	11/25/2003
Pressure/Force Computer Controlled Drug Delivery System with Exit Pressure	6,786,885	9/14/2004
Pressure/Force Computer Controlled Drug Delivery System with Automated Charging	6,887,216	5/3/2005
Drug Delivery System with Profiles	6,945,954	9/20/2005
Cartridge Holder for Anesthetic and Delivery Injection Device	D558,340	12/25/2007
Design for Drive Unit for Anesthetic	D566,265	4/8/2008
Design for Drive Unit for Anesthetic	D579,540	10/28/2008
Drug Infusion Device with Tissue Identification Using Pressure Sensing	7,449,008	11/11/2008
Computer Controlled Drug Delivery Systems with Pressure Sensing	7,618,409	11/17/2009
Hand Piece for Fluid Administration	7,625,354	12/1/2009
Engineered Sharps Injury Protection Devices		
Handpiece for Injection Device with a Retractable and Rotating Needle	6,428,517	8/6/2002
Safety IV Catheter Device	6,726,658	4/27/2004
Safety IV Catheter Infusion Device	6,905,482	6/14/2005
Handpiece for Injection Device with a Retractable and Rotating Needle	6,966,899	11/22/2005
Other		
Self-Sterilizing Hypodermic Syringe and Method	5,693,026	12/2/1997

During the 2009 and 2008 fiscal years, Milestone expensed $241,318 and $168,516, respectively, on research and development activities. The higher costs incurred in 2009 were primarily associated with the continued development of the Single Tooth Anesthetic (STA) delivery system and continuing efforts on developing medical products utilizing the *CompuFlo* technology.

Milestone relies on a combination of patent, copyright, trade secret, and trademark laws and employee and third party nondisclosure agreements to protect intellectual property rights. Despite the precautions taken by Milestone to protect the products, unauthorized parties may attempt to reverse engineer, copy, or obtain and use products and information that Milestone regarded as proprietary, or may design products serving similar purposes that do not infringe on Milestone s patents. The Company s failure to protect its proprietary information and the expenses of doing so could have a material adverse effect on the operating results and financial condition.

On October 2, 2008, Milestone announced that it had acquired additional patent rights with respect to painless anesthetic injections specifically rights related to controlling the flow rate or pressures used in providing these injections through the issuance of 260,000 shares of restricted common stock. In connection with the acquisition, Milestone also agreed to terminate its Declaratory Judgment action against Dr. Milton Hodosh related to claimed infringements of his patent rights and Dr. Hodosh agreed to terminate his infringement action against the Company.

Each party was responsible for their own legal fees.

In the event that the products infringe upon patent or proprietary rights of others, Milestone may be required to modify processes or to obtain a license. There can be no assurance that Milestone would be able to do so in a timely manner, upon acceptable terms and conditions, or at all. The failure to do so would have a material adverse effect on the Company.

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Government Regulation

The FDA cleared the *CompuDent* system and its disposable handpieces for marketing in the U.S. for dental applications in July 1996; the *CompuMed* system for marketing in the U.S. for medical applications in May 2001; and, the *Safety Wand* for marketing in the U.S. for dental applications in September 2003. For us to commercialize the other products in the U.S., Milestone will have to submit additional 510(k) applications with the FDA. Milestone received FDA 510 (k) approval for the *STA System* in August 2006.

The manufacture and sale of medical devices and other medical products are subject to extensive regulation by the FDA pursuant to the FDC Act, and by other federal, state and foreign authorities. Under the FDC Act, medical devices must receive FDA clearance before they can be marketed commercially in the U.S. Some medical products must undergo rigorous pre-clinical and clinical testing and an extensive FDA approval process before they can be marketed. These processes can take a number of years and require the expenditure of substantial resources. The time required for completing such testing and obtaining such approvals is uncertain, and FDA clearance may never be obtained. Delays or rejections may be encountered based upon changes in FDA policy during the period of product development and FDA regulatory review of each product submitted. Similar delays also may be encountered in other countries. Following the enactment of the Medical Device Amendments to the FDC Act in May 1976, the FDA classified medical devices in commercial distribution into one of three classes. This classification is based on the controls necessary to reasonably ensure the safety and effectiveness of the medical device. Class I devices are those devices whose safety and effectiveness can reasonably be ensured through general controls, such as adequate labeling, pre-market notification, and adherence to the FDA s Quality System Regulation (QSR), also referred to as Good Manufacturing Practices (GMP) regulations. Some Class I devices are further exempted from some of the general controls. Class II devices are those devices whose safety and effectiveness reasonably can be ensured through the use of special controls, such as performance standards, post-market surveillance, patient registries, and FDA guidelines. Class III devices are those which must receive pre-market approval by the FDA to ensure their safety and effectiveness. Generally, Class III devices are limited to life-sustaining, life-supporting or implantable devices.

If a manufacturer or distributor can establish that a proposed device is substantially equivalent to a legally marketed Class I or Class II medical device or to a Class III medical device for which the FDA has not required pre-market approval, the manufacturer or distributor may seek FDA marketing clearance for the device by filing a 510(k) Pre-market Notification. The 510(k) Pre-market Notification and the claim of substantial equivalence may have to be supported by various types of data and materials, including test results indicating that the device is as safe and effective for its intended use as a legally marketed predicate device. Following submission of the 510(k) Pre-market Notification, the manufacturer or distributor may not place the device into commercial distribution until an order is issued by the FDA. By regulation, the FDA has no specific time limit by which it must respond to a 510(k) Pre-market Notification. At this time, the FDA typically responds to the submission of a 510(k) Pre-market Notification within 90 days. The FDA response may declare that the device is substantially equivalent to another legally marketed device and allow the proposed device to be marketed in the U.S. However, the FDA may determine that the proposed device is not substantially equivalent or may require further information, such as additional test data, before the FDA is able to make a determination regarding substantial equivalence. Such determination or request for additional information could delay market introduction of products and could have a material adverse effect on us. If a device that has obtained 510(k) Pre-market Notification clearance is changed or modified in design, components, method of manufacture, or intended use, such that the safety or effectiveness of the device could be significantly affected, separate 510(k) Pre-market Notification clearance must be obtained before the modified device can be marketed in the U.S.. If a manufacturer or distributor cannot establish that a proposed device is substantially equivalent to a legally marketed device, the manufacturer or distributor will have to seek pre-market approval of the proposed device, a more difficult procedure requiring extensive data, including pre-clinical and human clinical trial data, as well as extensive literature to prove the safety and efficacy of the device.

Though the *STA System, CompuDent*, the *Safety Wand* and *CompuMed* have received FDA marketing clearance, there can be no assurance that any of the other products under development will obtain the required regulatory clearance in a timely manner, or at all. If regulatory clearance of a product is granted, such clearance may entail limitations on the indicated uses for which the product may be marketed. In addition, modifications may be made to the products to

incorporate and enhance their functionality and performance based upon new data and design review. There can be no assurance that the FDA will not request additional information relating to product improvements; that any such improvements would not require further regulatory review, thereby delaying the testing, approval and commercialization of product improvements; or, that ultimately any such improvements will receive FDA clearance.

Compliance with applicable regulatory requirements is subject to continual review and will be monitored through periodic inspections by the FDA. Later discovery of previously unknown problems with a product, manufacturer, or facility may result in restrictions on such product or manufacturer, including fines, delays or suspensions of regulatory clearances, seizures or recalls of products, operating restrictions and criminal prosecution and could have a material adverse effect on the Company.

Milestone is subject to pervasive and continuing regulation by the FDA, whose regulations require manufacturers of medical devices to adhere to certain QSR requirements as defined by the FDC Act. QSR compliance requires testing, quality control and documentation procedures. Failure to comply with QSR requirements can result in the suspension or termination of production, product recall or fines and penalties. Products also must be manufactured in registered establishments. In addition, labeling and promotional activities are subject to scrutiny by the FDA and, in certain circumstances, by the Federal Trade Commission. The export of devices is also subject to regulation in certain instances.

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The Medical Device Reporting (MDR) regulation obligates us to provide information to the FDA on product malfunctions or injuries alleged to have been associated with the use of the product or in connection with certain product failures that could cause serious injury. If, as a result of FDA inspections, MDR reports or other information, the FDA believes that Milestone are not in compliance with the law, the FDA can institute proceedings to detain or seize products, enjoin future violations, or assess civil and/or criminal penalties against us, the officers or employees. Any action by the FDA could result in disruption of operations for an undetermined time.

In June 2007, Milestone received a CE mark for the marketing of the *STA System* in Europe. In June 2003 Milestone received a CE mark for marketing of the *Safety Wand* and *The Wand* Handpieces with Needle in Europe. In July 2003, Milestone obtained regulatory approval to sell *CompuDent* and its handpieces in Australia and New Zealand.

Product Liability

Failure to use any of the products in accordance with recommended operating procedures could potentially result in health hazards or injury. Failures of the products to function properly could subject the company to claims of liability. Milestone maintains liability insurance in an amount that Milestone believes is adequate. However, there can be no assurance that the insurance coverage will be sufficient to pay product liability claims brought against the Company. A partially or completely uninsured claim, if successful and of significant magnitude, could have a material adverse effect on the Company.

Employees

On December 31, 2009, Milestone had a total of 14 employees, consisting of two executive officers, a director of International and Professional Relations, a director of engineering, five sales representatives (field and internal), two customer service representatives, a staff accountant, a bookkeeper and an administrative manager. Milestone also has a full time consultant who serves as a Director of Clinical Affairs.

Item 1A. CERTAIN RISK FACTORS THAT MAY AFFECT GROWTH AND PROFITABILITY

The following factors may affect the growth and profitability of Milestone and should be considered by any prospective purchaser or current holder of Milestone s securities:

Milestone has no history of profitable operations. Continuing losses could exhaust capital resources and force us to discontinue operations.

For the years ended December 31, 2009 and 2008, revenues were approximately $8.5 million and $6.6 million, respectively. In addition, Milestone has had losses for each year since the commencement of operations, including net losses of approximately $1.5 million and $1.2 million for 2009 and 2008, respectively. At December 31, 2009, Milestone had an accumulated deficit of approximately $58.8 million. At December 31, 2009, the Company had cash and cash equivalents $1,029,129 and working capital of $1,626,073. Additionally, in 2009, the Company converted the $1.3 million Line of Credit into 822,785 shares of common stock at a conversion price of $1.58 per share. In 2008, the Company had also borrowed $450,000 as a Long Term Note. Both the Line of Credit and the Long Term Note were loaned from a stockholder, as discussed in Note H to the Financial Statements. The Company achieved positive cash flow in 2009 and expects to continue the generation of positive cash flows from operating activities through increases in revenues based upon management s assessment of present contracts and current negotiations and reductions in operating expenses.

As of December 31, 2009, the Company believes that it has sufficient cash reserves to meet all of its anticipated obligations for the next twelve months. However, if the Company requires a need for a higher level of marketing and sales effort, or if the Company is unable to generate positive cash flows from its operating activities, it will need to raise additional capital. There is no assurance that the Company will be able to achieve positive operating cash flows or that additional capital can be raised on the terms and conditions satisfactory to the Company, if at all. If additional capital is required and it cannot be raised, then the Company would be forced to curtail its development activities, reduce marketing expenses for existing dental products or adopt other cost savings measures, any of which might negatively affect the Company s operating results.

The Company s recurring losses raise substantial doubt about its ability to continue as a going concern.

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Milestone cannot become successful unless it gains greater market acceptance for its products and technology. As with any new technology, there is substantial risk that the marketplace will not accept the potential benefits of this technology or be unwilling to pay for any cost differential with the existing technologies. Market acceptance of *CompuDent*, *STA System*, the *SafetyWand*, *CompuMed* and *CompuFlo* depends, in large part, upon the ability to educate potential customers of the product s distinctive characteristics and benefits and will require substantial marketing efforts and expense. More than 30,000 instruments of the *CompuDent* and its predecessors have been sold worldwide since 1998. Since being introduced to market in February 2007, more than 3,974 instruments of the *STA System* have been sold. Milestone cannot assure that its current or proposed products will be accepted by practitioners or that any of the current or proposed products will be able to compete effectively against current and alternative products.

The Company s limited distribution channels must be expanded in order to become successful. Future revenues depend on the Company s ability to market and distribute its computer-controlled injection products successfully. In the U.S., Milestone relies on several independent dental distributors, an outside sales representative group, and a team of clinical product specialists comprised of practicing dental hygienists who help to educate, train and sell our products to dental practitioners in key U.S. markets. Abroad, Milestone lacks appropriate distribution in many markets. To be successful, the Company will need to engage additional distributors, provide for their proper training and ensure adequate customer support. In the spring of 2009, the Company signed an Exclusive Distribution and Marketing Agreement with China National Medicines Corporation, dba Sinopharm, which is China s largest domestic manufacturer, distributor and marketer of pharmaceuticals and importer of medical devices and the country s largest domestic distributor of dental anesthetic carpules to the Chinese dental industry. Prior to the end of 2009, China National Medicines issued Milestone a blanket purchase order for 12,000 STA units to be delivered over 36 months, thereby marking the Company s initial penetration into China s emerging dental market. Milestone cannot assure that it will be able to hire and retain an adequate sales force or engage suitable distributors, or that the sales force or distributors will be able to successfully market and sell the products.

Milestone depends on three principal manufacturers. If the Company cannot maintain its existing relationships or develop new ones, it may have to cease operations. Milestone has informal arrangements with the manufacturer of the *STA System*, *CompuDent* and *CompuMed* instruments and with one of the principal manufacturers of the handpieces, for those instruments, respectively. Pursuant to the informal arrangements, they manufacture these products under specific purchase orders without minimum purchase commitment. However, in November 2009, the Company issued a purchase order to Tricor Corporation to manufacture 12,000 *STA Systems,* over the next three years. Milestone has a manufacturing agreement with one of the principal manufacturers of its handpieces pursuant to which they manufacture products under specific purchase orders but without minimum purchase commitments. Milestone has been supplied by the manufacturer of the *STA System, CompuDent* and *CompuMed* since the commencement of production in 1998, one of the manufacturers of its handpieces since 2002 and the other manufacturer of handpieces since 2003. However, termination of the manufacturing relationship with any of these manufacturers could significantly and adversely affect the ability to produce and sell the products. Though Milestone has established an alternate source of supply for the handpieces in China and other alternate sources of supply exist, Milestone would need to recover its existing tools or have new tools produced to establish relationships with new suppliers. Establishing new manufacturing relationships could involve significant expense and delay. Any curtailment or interruptions of the supply, whether or not as a result or termination of the relationship, would have an adverse affect.

Milestone may be subject to product liability claims that are not fully covered by insurance and that could put the Company under financial strain. Milestone could be subject to claims for personal injury from the alleged malfunction or misuse of the dental and medical products. While Milestone carries liability insurance that is believed to be adequate, the Company cannot assure that the insurance coverage will be sufficient to pay such claims should they be successful. A partially or completely uninsured claim, if successful and of significant magnitude, could have a material adverse effect on the Company.

Milestone relies on the continuing services of the Chief Executive Officer and Director of Clinical Affairs.

Milestone depends on the personal efforts and abilities of the Chief Executive Officer and the Director of Clinical Affairs. Milestone maintains a key man life insurance policy in the amount of $1,000,000 on the life of the Chief Executive Officer. However, the loss of his services or Director of Clinical Affairs, on whom Milestone maintains no insurance, could have a materially adverse effect on the business.

The market price of Milestone s common stock has been volatile and may continue to fluctuate significantly because of various factors, some of which are beyond the Company s control.

Milestone s stock price has been extremely volatile, fluctuating over the last two years between closing prices of $.20 and $1.86. The market price of common shares could continue to fluctuate significantly in response to a variety of factors, some of which may be beyond the Company s control.

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Milestone is controlled by a limited number of shareholders.

Milestone s principal shareholders, Leonard Osser and K. Tucker Andersen, beneficially own 33.6% of the issued and outstanding shares of common stock. As a result, they have the ability to exercise substantial control over the Company s affairs and corporate actions requiring shareholder approval, including electing directors, selling all or substantially all of the assets, merging with another entity or amending its certificate of incorporation. This de facto control could delay, deter or prevent a change in control and could adversely affect the price that investors might be willing to pay in the future for the Company s securities.

Future sales or the potential for sale of a substantial number of shares of Milestone s common stock could cause the trading price of common stock and warrants to decline and could impair the Company s ability to raise capital through subsequent equity offerings.

Sales of a substantial number of shares of Milestone s common stock in the public markets, or the perception that these sales may occur, could cause the market price of the stock to decline and could materially impair its ability to raise capital through the sale of additional equity securities. At December 31, 2009, Milestone had outstanding options and warrants to purchase 1,650,141 shares of common stock at prices ranging from $0.25 to $5.00 per share with a weighted average exercise price of $3.80. Holders of these warrants and options are given the opportunity to profit from a rise in the market price of the common stock and are likely to exercise their securities at a time when the Company would be able to obtain additional equity capital on more favorable terms. Thus, the terms upon which the Company will be able to obtain additional equity capital may be adversely affected, since the holders of outstanding options and warrants can be expected to exercise them at a time when Milestone would, in all likelihood, be able to obtain any needed capital on terms more favorable than the exercise terms provided by such outstanding securities. The market price of the common shares has been volatile and may continue to fluctuate significantly because of various factors, some of which are beyond the Company s control.

In the first and second quarters of 2009, 2,227,946 warrants to issue the equivalent number of shares of the Company s common stock at an exercise price of $4.89 expired.

Implementation of procedures to comply with the Sarbanes-Oxley Act and SEC rules concerning internal controls may be so costly that compliance could have an adverse effect on the Company.

The Management of the Company has assessed the effectiveness of internal control over financial reporting as of December 31, 2009. In making this assessment, management used the criteria established in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company complied with Sarbanes-Oxley requirements to include in the annual report a management report on the effectiveness of the internal control over financial reporting. However, this annual report does not include an attestation report of the Company s registered public accounting firm regarding internal control over financial reporting. In 2005, Milestone hired an outside consultant to assist with the development and implementation of the necessary internal controls and reporting procedures. In 2009 and 2008, the Company utilized the outside consultant on a quarterly basis to review compliance with the internal controls over financial reporting. This expense amounted to $37,773 and $71,478 in 2009 and 2008, respectively and the cost is expected to continue in 2010.

Item 1B. Unresolved Staff Comments

None.

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Item 2. Description of Property

The headquarters for the Company is located at 45 Knightsbridge Road in Piscataway, New Jersey. The Company leases approximately 2,700 square feet of office space. The lease term expires July 14, 2011 at a monthly cost of $4,278 which Milestone believes to be competitive. The Company is currently in the process of reviewing the current lease and negotiating with the landlord for possible extension of the lease term. Additionally, the Company leases approximately 6,300 square feet of office space at 220 South Orange Avenue in Livingston, New Jersey. The lease term expires June 30, 2014 at a monthly cost of $6,942 which Milestone believes to be competitive. Additionally, Milestone leases a corporate apartment in Maplewood, NJ. The lease expires in November 2010 at a monthly cost of $4,000. The leased offices space is in good condition. A third party distribution and logistics center in Pennsylvania handles shipping and order fulfillment on a month-to-month basis.

Milestone does not own or intend to invest in any real property. Milestone currently has no policy with respect to investments or interests in real estate, real estate mortgages or securities of, or interests in, persons primarily engaged in real estate activities.

Item 3. Legal Proceedings

In October 2008, Milestone announced that it acquired additional patent rights with respect to painless anesthetic injections specifically rights related to the flow rate or pressure used in providing these injections through the issuance of 260,000 shares of restricted common stock. In connection with this acquisition, Milestone also agreed to terminate its Declaratory Judgment action against Dr. Milton Hodosh related to claim infringements of his patent rights and Dr. Hodosh agreed to terminate his existing infringement action against the Milestone. Each party is responsible for their own legal fees.

At the present time, the Company is not involved in any significant litigation.

Item 4. (Removed and Reserved)

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PART II

Item 5. Market for Common Equity and Related Stockholder Matters and Small Business Issuer Purchases of Equity Securities

Market Information

Milestone s Common Stock is traded on the OTC Bulletin Board (OTCBB) under the symbol MLSS . Milestone s warrants were traded on the OTCBB under the symbol MLSSW until February 2009, when the warrants expired. The quotations reflect inter-dealer prices, without retail mark-up, mark-down or commission, and may not necessarily represent actual transactions.

Common Stock

The following table sets forth the high and low sales prices of the Common Stock, as quoted by the OTCBB

	HIGH	LOW
2009		
First Quarter	$ 0.75	$ 0.37
Second Quarter	$ 0.70	$ 0.25
Third Quarter	$ 1.30	$ 0.45
Fourth Quarter	$ 1.85	$ 0.83
2008		
First Quarter	$ 1.57	$ 0.75
Second Quarter	$ 1.05	$ 0.56
Third Quarter	$ 0.80	$ 0.30
Fourth Quarter	$ 0.40	$ 0.20

Holders

According to the records of the transfer agent, there were approximately 67 and 54 shareholders of record of the common stock as of December 31, 2009 and 2008. However, the Company believes that there are approximately 2,500 and 2,400 beneficial owners of the Company s common stock at December 31, 2009 and 2008, respectively.

Dividends

The holders of the Common Stock are entitled to receive such dividends as may be declared by Milestone s Board of Directors. Milestone has not paid and does not expect to declare or pay any dividends in the foreseeable future.

For information regarding securities authorized under the equity compensation plan, see Item 12.

Sales of Unregistered Securities

See NOTE I STOCKHOLDERS EQUITY, to the financial statements for the issuance of unregistered securities.

Item 6. Selected Financial Data

Milestone is a smaller reporting company as defined by Regulations S-K and as such, is not providing the information contained in this item pursuant to Regulation S-K.

Item 7. Management s Discussion and Analysis of Financial condition and Results of Operations.

The following discussions of the 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 annual report. Certain statements in this discussion and elsewhere in this report constitute forward-looking statements, within the meaning of section 21E of the Exchange Act, that involve risks and uncertainties. The actual results may differ materially from those anticipated in these forward-looking statements. See Certain Risk Factors on page 11 of this Form 10-K.

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OVERVIEW

During 2009, we remained focused on advancing efforts to achieve our two primary objectives; those being:

Optimizing our tactical approach to product sales and marketing in order to materially increase penetration of the global dental and medical markets with our proprietary, patented Computer-Controlled Local Anesthesia Delivery (C-CLAD) solution, the *STA Single Tooth Anesthesia System* (*STA System*); and

Identifying and pursing strategic collaborations with third parties to jointly develop new products utilizing our patented *CompuFlo* pressure force technology for novel new medical applications.

STA System Awards Industry Recognition

Since its market introduction in the spring of 2007, the *STA System* has received rave reviews and awards from the dental industry. In July 2007, noted industry publication *Dentistry Today* featured the *STA System* as one of the Top 100 Products in 2007, helping to promote much broader recognition of the instrument and validating the *STA System* s value proposition for dentists and patients alike. In April 2008, *Medical Device & Diagnostic Industry* magazine distinguished the *STA System* as a 2008 Medical Design Excellence Award winner in the Dental Instruments, Equipment and Supplies product category. Of the 33 products to receive this coveted award, the *STA System* was one of only two winning products that serve dental practitioners.

In December 2008, the *STA System* was again recognized as one of the dental industry s best technological innovations, winning a Townie Choice Award from *Dentaltown Magazine* in the category Anesthetics: Technique System . This marked the second consecutive year that Milestone won a Townie Choice Award ; in 2007, we won the same award for our *CompuDent/The Wand.* Also in December 2008, our *STA System* was named as a *Dental Products Report* Top 100 2008 Product of Distinction . Each year, *DPR* spotlights the year s Top 100 products. Of these 100 products, 50 are the ones most often inquired about by *DPR* s readers via an online and Product Information Card reader service program. The other 50 represent New Classics, which recognize both old and newer products and categories chosen by *DPR s* editorial staff for their perceived impact on driving innovation or helping to establish a new, higher standard of care for patients. The *STA System* was recognized as a New Classic in the Technology category.

Second Annual Symposium on C-CLAD

In addition to winning noted acclaim among leading dental publications, our award winning *STA System* has also been gaining the support of many of the world s leading dental practitioners and key opinion leaders. In February 2008, we hosted the First International C-CLAD Symposium in New Orleans, welcoming a distinguished panel of dental experts who gathered to discuss advancements in the scientific and clinical practice communities toward the common goal of advancing the science, knowledge and art of C-CLAD in dentistry. The forum yielded a number of ideas on how we can integrate the *STA System* not only into dental school curricula, but also extends messaging regarding its many unique benefits to the dental community and patients alike.

On May 1 through 3, 2009, we hosted the Second International Annual Symposium on C-CLAD in Amelia Island, Florida. Stanley Malamed, DDS, Professor of Anesthesia & Medicine at the University of Southern California, School of Dentistry, again served as Chairman of the invitational event. With attendance triple that of 2008, this year s Symposium covered a broad range of C-CLAD related topics including:

The History of C-CLAD

Treating with Connection

Heart Rate Study

STA Compassionate Care in the 21st Century

Injection Advances and Challenges

Physiologic and Clinical Characteristics of PDL Anesthesia Delivered by a High Pressure Hand piece and a Computerized Device

The *STA* for Tots and Teens

Computerized Local Anesthesia in Dentistry: A Review

Today s Technology

Managing a Successful Dental Practice: Why People Keep Coming Back

STA The Dental School s Perspective

Futuristic Vistas: The Dentist/Hygienist Partnership

In early 2010, we expect to publish and broadly distribute more than 100,000 copies of a comprehensive monograph reflecting the topics discussed at the Symposium and a consensus on the attendees attitudes, ideas and suggestions relating to promoting global industry adoption of C-CLAD technologies as the new standard of care for administering dental injections.

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STA System Growth

Since its market introduction in early 2007, the *STA System,* a prior computerized controlled local anesthesia delivery product, has been used to deliver tens of millions of safe, effective and comfortable injections. The instrument has also been favorably evaluated in numerous peer-reviewed, published clinical studies and associated articles. Moreover, there appears to be a growing consensus among users that the *STA System* is proving to be a valuable and beneficial instrument that is positively impacting the practice of dentistry worldwide. The utility and value of the *STA System* is perhaps best summarized by Dr. Joe Blaes, who wrote in the December 2008 edition of *Dental Economics*, I tried the *STA System* and my patients absolutely love it. This is a no brainer go get one ASAP!

Global Distribution Network

The *STA System* and related hand pieces are marketed to the dental industry in the United States and Canada by many of the nation s leading dental supply companies, including Henry Schein, Inc., Patterson Dental Supply, Atlanta Dental, Benco Dental, Burkhart Dental, Cedar Dental, Darby Dental Supply, Dental Health Products, Goetze Dental, Iowa Dental, Nashville Dental, Newark Dental and Parkway Dental. In Canada, our independent distributors include Dental 2000, Mediclub, Specialty Dental and WD Canada.

Collectively, our domestic network has more than 4,517 independent sales representatives trained to sell the *STA System* and related handpieces to dentists throughout North America.

On the global front, we also have granted exclusive marketing and distribution rights for the *STA System* to select dental suppliers in various international regions in Asia, Africa and Europe. They include Istrodent in South Africa and Unident in the Scandinavian countries of Denmark, Sweden, Norway and Iceland.

In April 2009, we signed an Exclusive Distribution and Marketing Agreement with China National Medicines Corporation, d/b/a Sinopharm, which is China s largest domestic manufacturer, distributor and marketer of pharmaceuticals and importer of medical devices and the country s largest domestic distributor of dental anesthetic carpules to the Chinese dental industry. Prior to the end of 2009, China National Medicines issued Milestone a blanket purchase order for 12,000 *STA* units to be delivered over 36 months, thereby marking the Company s initial penetration into China s emerging dental market.

According to a report published by the U.S. Department of Commerce, titled China s Emerging Markets: Opportunities in the Dental and Dental Lab Industry, China s dental market lags behind other healthcare services and has largely been neglected in the past. In fact, CS Market Research reports that of China s 1.3 billion plus population, 50% of the adults and 70% of the children are estimated to have decayed tooth problems, and over 90% have periodontal disease. However, with increasing affluence of the Chinese population, as well as increasing attention towards personal care, demand for dental services has been growing. Market research firm Freedonia agrees, noting that demand for dental products in China is expected to climb to 21.5 billion RMB (US$3.15 billion) by 2012, due primarily to escalating personal income levels and government programs promoting awareness of the benefits of good oral care.

Shortly before the end of the second quarter, we announced that we were refining our international marketing strategy to gain greater access to and penetration of the international dental markets for the *STA System, CompuDent* and related disposable hand pieces. The new sales strategy provides for increasing hands-on oversight and support of our existing international distribution network, while also attracting new distributors throughout Europe, Asia and South America. To assist in this endeavor, Milestone named Shaul Koren, founder and CEO of Istrodent Pty Ltd AB and one of our strongest marketing allies outside of the U.S., as our new International Sales Director. In collaboration with senior management, Mr. Koren will help manage product sales for us in all markets outside of North America.

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

	Twelve Months Ended December 31,			
	2009		2008	
DOMESTIC				
Instruments	$ 1,786,435	33.2%	$ 914,431	21.1%
Handpieces	3,507,410	65.2%	3,373,159	77.7%
Other	84,577	1.6%	54,097	1.2%
Total Domestic	$ 5,378,422	100.0%	$ 4,341,687	100.0%
INTERNATIONAL				
Instruments	$ 1,390,317	43.8%	$ 695,513	30.9%
Handpieces	1,769,682	55.8%	1,550,992	68.8%
Other	10,639	0.4%	7,333	0.3%
Total International	$ 3,170,638	100.0%	$ 2,253,838	100.0%
DOMESTIC/INTERNATIONAL ANALYSIS				
Domestic	$ 5,378,422	62.9%	$ 4,341,687	65.8%
International	3,170,638	37.1%	2,253,838	34.2%
Total Product Sales	$ 8,549,060	100.0%	$ 6,595,525	100.0%

The Company earned gross profits of 60% in the years ended December 31, 2009 and 2008, respectively. However, the revenues and related gross profits have not been sufficient to support overhead, new product introduction and research and development expenses. Although the Company anticipates expending funds for research and development in 2010, these amounts will vary based on the operating results for each quarter. The Company has incurred operating losses and negative cash flows from operating activities since its inception, except 2009. The Company at December 31, 2009 expects to have sufficient cash reserves to meet all of its anticipated obligations for the next twelve months. The Company achieved positive cash flows from operating activities in 2009, through increase in revenue, assessment of current contracts and current negotiations and reduction in operating expenses. If positive cash flow cannot continue or if additional capital is required and it cannot be raised, then the Company would be forced to curtail its development activities, reduce marketing for existing dental products or adopt other cost saving measures, any of which might negatively affect the Company s operating results.

In 2010, the Company plans to further support increased sales and marketing activity through trade show appearances, refined and directed advertising to dental professionals, and costs associated with supporting of our global distribution network.

Current Product Platform

Milestone has developed and in some cases brought to market a highly differentiated portfolio of industry innovations. Specifically, Milestone s proprietary solutions for application in professional dentistry and a wide range of medical applications include:

STA Single Tooth Anesthesia System (STA System) In February of 2007, Milestone introduced to market the *STA System*, a patented C-CLAD system that incorporates the pressure force feedback elements of Milestone s patented *CompuFlo* technology, thereby allowing dentists to administer injections accurately and painlessly into the periodontal ligament space, effectively anesthetizing a single tooth. The *STA System* is

also capable of performing all of the injections that can be done with a conventional dental syringe, including the palatal-anterior superior alveolar, anterior middle superior alveolar and inferior alveolar nerve block. The *STA System* achieves all of these injections predictably and reliably including the Periodontal-Intraligamentary injection (Single Tooth Anesthesia) that provides an almost immediate onset of profound anesthesia to a single tooth. Milestone received FDA 510(k) Pre-market Notification acceptance in August 2006 and was granted a CE Mark by European regulatory authorities in June 2007.

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The *STA System* has been the subject of numerous articles published in leading trade magazines, dental journals and online blogging sites since its market introduction early in 2007. Since its market introduction in the spring of 2007, the *STA System* has received positive reviews and awards from the dental industry. In July 2007, noted industry publication *Dentistry Today* featured the *STA System* as one of the Top 100 Products in 2007, helping to promote much broader recognition of the instrument and validating *STA* s value proposition for dentists and patients, alike. Earlier this year, *Medical Device & Diagnostic Industry* magazine distinguished the *STA System* as a 2008 Medical Design Excellence Award winner in the Dental Instruments, Equipment and Supplies product category. Of the 33 products to receive this coveted award, the *STA* was one of only two winning products that serve dental practitioners. In December, the STA System was again recognized as one of the dental industry s best technological innovations, winning a Townie Choice Award from Dentaltown Magazine in the category Anesthetics: Technique System . This marked the second consecutive year in a row that Milestone won a Townie Choice Award in 2007, the Company won the same award for its CompuDent/The Wand. Also in December 2008, Milestone s STA System was named as a *Dental Products Report* Top 100 2008 Product of Distinction. Each year, *DPR* spotlights the year s Top 100 products. Of these 100 products, 50 are the ones most often inquired about by *DPR* s readers via an online and Product Information Card reader service program. The other 50 represent New Classics, which recognize both old and newer products and categories chosen by *DPR* s editorial team for their perceived impact on driving innovation or helping to establish a new, higher standard of care for patients. The *STA System* was recognized as a New Classic in the Technology category.

CompuDent® *CompuDent* was distinguished by *Dentaltown Magazine* as the winner of a 2006 Townie Choice Award , *CompuDent* is Milestone s proprietary, patented computer-controlled local anesthetic delivery system which delivers anesthesia at a precise and consistent rate below a patient s pain threshold. *CompuDent* has been widely heralded as a revolutionary device, considered one of the major advances in dentistry of the Twentieth Century and favorably evaluated in approximately 50 peer reviewed or independent clinical research reports. *CompuDent* is the predecessor device to the *STA System*.

CompuMed® *CompuMed* is a patented computer-controlled injection system geared to the needs of the medical market and providing benefits similar to *CompuDent. CompuMed* allows many medical procedures, now requiring intravenous sedation, to be performed with only local anesthesia due to dramatic pain reduction. Also, dosages of local anesthetic can often be significantly reduced, thus reducing side effects, accelerating recovery times, lowering costs and eliminating potential complications. *CompuMed* is now gaining growing clinical evidence demonstrating benefits from use in colorectal surgery; podiatry; dermatology, including surgery for the removal of basal cell carcinomas and other oncological dermatologic procedures; nasal and sinus surgery, including rhinoplasty; hair transplantation and plastic surgery, among others.

The Wand® Used in conjunction with the *STA*, *CompuDent* or *CompuMed* systems, *The Wand* is an ergonomically designed and patented handpiece that enables all traditional and newer injections, such as AMSA, P-ASA and Modified-PDL, to be more comfortable and easier to deliver. Moreover, the pen-like grasp of *The Wand* allows bi-directional rotation during injection, which prevents needle deflection that can occur with a traditional syringe. A straighter path results in a more accurate injection, meaning fewer missed blocks, and more rapid onset of anesthesia.

The SafetyWand® *The Safety Wand* was the first, patented safety-engineered injection device that conforms to standards while also meeting the clinical needs of dental and medical practitioners. The Federal Needlestick Prevention Act (U.S.) has mandated the use of products with engineered safety injury protection to eliminate accidental needle sticks, thus providing Milestone with an invaluable marketing platform to position *The SafetyWand* as a powerful and capable alternative to traditional injection devices. *The SafetyWand* was the first patented injection device to be fully compliant with OSHA regulations under the Act.

In December 2009, Milestone announced that it signed an Agreement of Intent with China National Medicines Corporation, Ltd. and Yichang Humanwell Pharmaceutical Co. Ltd., both incorporated in the People s Republic of China (PRC), to develop intra-articular and epidural drug delivery instruments utilizing Milestone s patented *CompuFlo* technology. Milestone and its two PRC joint venture partners will establish a new joint venture entity for this purpose in 2010. The required initial funding for the new entity, estimated by the parties at $1.4 million, will be provided by the two PRC companies, although Milestone will determine the proposed uses of their contribution. The Company believes that this new joint venture represents a significant step forward in Milestone s efforts to have its innovative computer-controlled drug delivery technology adapted for medical usage worldwide.

Technology Rights

The technology underlying the *SafetyWand* and *CompuFlo* technology and an improvement to the controls for *CompuDent* were developed by the Director of Clinical Affairs and assigned to Milestone. The Company purchased this technology pursuant to an agreement dated January 1, 2005, for 43,424 shares of restricted common stock and $145,000 in cash, paid on April 1, 2005. In addition, the Director of Clinical Affairs will receive additional deferred contingent payments of 2.5% of the total sales of products using some of these technologies, and 5% of the total sales of products using some of the other technologies. If products produced by third parties use any of these technologies, under a license from Milestone, then he will also receive the corresponding percentage of the consideration received by us for such sale or license.

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Summary of Critical Accounting Policies and Significant Judgments and Estimates

Milestone s discussion and analysis of the financial condition and results of operations are based upon its financial statements, which have been prepared in accordance with accounting principles, generally accepted in the U.S. 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, the Company evaluates its estimates, including those related to accounts receivable, inventories, stock-based compensation and contingencies. The Company bases its 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.

While significant accounting policies are more fully described in Note B to the financial statements included elsewhere in this report, the Company believes that the following accounting policies and significant judgments and estimates are most critical in understanding and evaluating the reported financial results.

Accounts Receivable

The realization of Accounts Receivable will have a significant impact on the Company. Consequently, Milestone estimates losses resulting from the inability of its customers to make payments for amounts billed. The collectability of outstanding amounts is continually assessed.

Inventories

Inventory costing, obsolescence and physical control are significant to the on-going operation of the business. Inventories principally consist of finished goods and component parts stated at the lower of cost (first-in, first-out method) or market. Inventory quantities on hand are reviewed on a quarterly basis and a provision for excess and obsolete inventory is recorded if required based on past and expected future sales.

Impairment of Long-Lived Assets

The long lived assets of the Company, principally patents and trademarks are the base features of the business. Milestone reviews long-lived assets for impairment whenever circumstances and situations change such that there is an indication that the carrying amounts may not be recoverable. The carrying value of the asset is evaluated in relation to the operating performance and future undiscounted cash flows of the underlying assets.

Revenue Recognition

Revenue from product sales is recognized net of discounts and allowances to domestic distributor on the date of arrival of the goods at the customer s location as shipments are FOB destination. Shipments to international distributors are FOB the warehouse and revenue is therefore recognized on shipment. In both cases the price to the buyer is fixed and the collectability is reasonably assured. Further, the Company has no obligation on these sales for any post installation, set-up or maintenance, these being the responsibility of the buyer. Customer acceptance is considered made at delivery. Milestone s only obligation after sale is the normal commercial warranty against manufacturing defects if the alleged defective unit is returned within the warranty period.

Royalty income was recognized as earned based on reports received from the licensee and related royalty expense is accrued during the same period.

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Results of Operations

The following table sets forth for the consolidated results of operations for the year ended December 31, 2009 compared to 2008 as a percentage of revenues. The trends suggested by this table may not be indicative of future operating results:

	Twelve Months Ended			
	December 31, 2009		December 31, 2008	
Products sales, net	$ 8,549,060	100%	$ 6,595,525	99%
Royalty income		0%	28,282	1%
Total revenue	8,549,060	100%	6,623,807	100%
Cost of products sold	3,458,279	40%	2,681,116	40%
Gross Profit	5,090,781	60%	3,942,691	60%
Selling, general and administrative expenses	6,952,976	81%	5,502,762	83%
Research and development expenses	241,318	3%	168,516	3%
Operating expenses	7,194,294	84%	5,671,278	86%
Loss from operations	(2,103,513)	-25%	(1,728,587)	-26%
Other income	573,428	7%	541,133	8%
Net loss	$ (1,530,085)	-16%	$ (1,187,454)	-18%

Year ended December 31, 2009 compared to year ended December 31, 2008

Total revenues for the twelve months ended December 31, 2009 and 2008 were $8,549,060 and $6,623,807 (product sales of $6,595,525 and royalty income of $28,282 in 2008), respectively. The total increase in product sales of $1,953,535, or 30%, is a direct result of the continued implementation of the new sales distribution model (non-exclusive distribution) along with improvement in the international market. The increase in sales volume of domestic instruments by $872,004, or 95% in 2009 over 2008, was directly related to a wider distributor base and direct marketing of our product at national and regional industry trade shows. In the domestic market, handpiece sales increased by $134,251, ($177,685 decrease in *CompuDent* sales, $311,936 increase in *STA*) or 4%. The *CompuDent* handpiece sales decrease in the domestic market is not specifically attributable to any marketing or sales deemphasizing of the product category. Rather it maybe attributable to our customers purchasing handpieces on a just in time basis, due the general economic conditions and a shift in purchasing to the *STA System* and handpieces, as a product requires replacement. On the international scene, instrument sales increased in 2009 over 2008 by $694,804, or 100%, principally due to the increase in *STA* instruments ($645,442), while *CompuDent* units also measured an increase of $49,362. The increase in handpiece sales internationally was $218,690 or 14% due to an increase in sales of STA handpieces of $221,868 and a minor decrease in sales of *CompuDent* handpieces ($3,178)

Royalty income resulted from granting United Systems Inc. a license to manufacture, market, and sublicense a Tooth Whitening System to the consumer market. Royalty income for the years ended December 31, 2009 and 2008, respectively, was $0 and $28,282. In January 2009, the Company abandoned its rights to a portfolio of technology centered around the use of blue light emitting diodes (LED) for a variety of dental treatments and diagnostic applications. At the same time, the Company terminated its license agreement for the use of the technology with

United Systems Inc. There were no costs or expenses related to this abandoning of rights or the termination of the licensee agreement.

Cost of products sold for the years ended December 31, 2009 and 2008 were $3,458,279 and $2,681,116, respectively. The $777,163 increase in product cost or 29% is primarily attributable to the market rise in sales volume. Slow moving and overstocked inventories totaling approximately $36,000 and $82,000 were charged off to cost of products sold during the year ended December 31, 2009 and 2008, respectively.

For the year ended December 31, 2009, Milestone s gross profit dollars increased by 29% over the prior year ended December 31, 2008, due to significantly increased sales volume. Milestone generated a gross profit of $5,090,781, or 60% in 2009 as compared to a gross profit of $3,942,691, or 60% in 2008. The total dollar increase in gross profit was $1,148,090 in 2009.

Selling, general and administrative expenses for the years ended December 31, 2009 and 2008 were $6,952,976 and $5,502,762, respectively. The $1,450,214, or 26%, net increase was focused into a several expense categories. Sales and Marketing expense increased in 2009 by $242,446. This increase was primarily in the areas of media placement $65,563, marketing key opinion leaders and also promotions at trade shows (national and regional). Payroll expenses increased by $199,745, principally due to an increase in Achievement Bonus for the Chief Executive Officer of approximately $290,000 and in increase in stock based compensation of approximately $100,000 due to officers stock options issued in December 2009, offset by salary and deferred compensation expense of approximately $104,000. Legal and patent expenses increase by $86,309 in the aggregate due to general litigation expenses and customary patent annuity payments. General and administrative expenses increased by $805,824 due to payment of an international commission of $262,167 (effective July 1, 2009), increased royalties of $194,778 as a result of increased sales volume, an international travel expense increase of $61,317, directly related to our current and future sales growth, business consulting and success fees for domestic and international business of $363,463. In addition, the Company realized expense reductions in the areas of professional accounting and audit fees of $78,797, reduced insurance costs of $28,957, and savings in the area of proxy and regulatory electronic filing expenses of $23,017.

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Research and development expenses for the years ended December 31, 2009 and 2008 were $241,318 and $168,516, respectively. The increase of $72,802 was attributable to research on the development of a C-CLAD device(s) for the medical field and clinical studies on the *STA System.*

The loss from operations for the years ended December 31, 2009 and 2008 was $2,103,513 and $1,728,587, respectively. The $374,926, or 22% increase in loss from operations is explained above.

Interest expense for the years ended December 31, 2009 and 2008 was $154,027 and $116,374, respectively and amortization of debt issuance for the same years was $53,300 and $27,446, respectively. The interest expense is related to the Line of Credit and Long Term Note. See Note H to the Financial Statements.

Other Income includes $777,609 and $675,930 in 2009 and 2008, respectively, and represents the sale of tax credits under the New Jersey Technology Business Tax Certificate Program, for the respective periods.

For the reasons explained above, net loss for the year ended December 31, 2009 was $1,530,085 as compared to a net loss of $1,187,454 for the year ended December 31, 2008. The $342,631, or 29%, increase in net loss is primarily a result of a significant increase in Gross Margin dollars ($1,148,090) offset by an increase in Selling General and Administrative expenses of $1,450,214.

Liquidity and Capital Resources

As of December 31, 2009, the Company had cash and cash equivalents of $1,029,129 and working capital of $1,626,073. The working capital increased by $93,385 from December 31, 2008. Net current assets increased by approximately $446,000, principally in cash ($286,000), accounts receivable ($138,000) and inventories ($85,000) offset by a decrease in advances to contract manufacturers ($98,000). Current liabilities increased by net $353,000, principally due to an increase in accounts payable of approximately $325,000, relating to increases in inventory purchases and advances of approximately $171,000, royalty payments of $113,000 and consulting fees of $69,000, and an increase in accrued expenses, ($28,000). The Company has taken positive steps to maintain adequate inventory levels and advances to contract manufacturers to maintain available inventory to meet our increasing domestic and international sales requirements. Milestone incurred net losses of $1,530,085 and $1,187,454 for the year ended 2009 and 2008, respectively. Cash flows from operating activities for the year ended December 31, 2009 was a positive $402,951 and for the year ended December 31, 2008 was a negative $442,006.

For the year ended December 31, 2009, net cash provided in operating activities was $402,951. This was attributable primarily to a net loss of $1,530,085 adjusted for noncash items of $1,670,764 and changes in operating assets and liabilities of $262,270. The increase in noncash items in 2009 of $1,163,482 as compared to 2008 is principally due the increase in Common Stock issued for compensation; consulting and vendor services ($1,093,821) and amortization of debt discount ($25,854).

For the year ended December 31, 2009, Milestone used $144,353 in investing activities, primarily attributable to legal fees related to payment for patent rights.

As of December 31, 2008, Milestone recorded on the Balance Sheet a $1.3 million, Line of Credit from a stockholder. The borrowings required a one percent fee at the date of borrowing and an interest rate of six percent per annum, payable at the maturity of the note. In December 2009, the Company converted the $1.3 million Line of Credit into 822,785 shares of Common Stock at a price of $1.58 per share. There were no additional expenses related to the conversion of the Line of Credit. The Company borrowed an additional $450,000 from the same shareholder in 2008. In December 2008, the Company refinanced the $450,000 note, extending the due date to June 30, 2012. The $450,000 Note is classified as a Long Term Note Payable on the Balance Sheet at December 31, 2009. See Note H Line of Credit to the Financial Statements.

The Company has incurred operating losses and negative cash flows from operating activities since its inception, except for 2009. However, the Company achieved positive cash flow in 2009 and expects to continue the generation of positive cash flows from operating activities through increases in revenues based upon management s assessment of present contracts and current negotiations and reductions in operating expenses. The Company continues to pursue the generation of positive cash flows from operating activities through an increase in revenue based upon management s assessment of present contracts and current negotiations and reductions in operating expenses. As of December 31, 2009, the Company believes that it has sufficient cash reserves to meet all of its anticipated obligations for the next twelve months. However, if the Company requires a need for a higher level of marketing and sales effort, or if the

Company is unable to continue generating positive cash flows from its operating activities it will need to raise additional capital. There is no assurance that the Company will be able to continue to achieve positive operating cash flows or that additional capital can be raised on the terms and conditions satisfactory to the Company if at all. If additional capital is required and it cannot be raised, then the Company would be forced to curtail its development activities, reduce marketing expenses for existing dental products or adopt other cost savings measures, any of which might negatively affect the Company s operating results.

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The Company s recurring losses and negative operating cash flows raises substantial doubt about its ability to continue as a going concern. The accompanying financial statements do not include any adjustment that might result from the outcome of this uncertainty.

Off-Balance Sheet Arrangements

The Company does not have any off-balance sheet arrangements that are currently material or reasonably likely to be material to the financial position or results of operations.

Contractual Obligations

The impact of the contractual obligations at December 31, 2009, expected on the liquidity and cash flows in future periods, is as follows:

	Payments Due by Period			
	Total	Less than 1 Year	1-3 Years	3-5 Years
Long-term debt obligations	$ 450,000	$	$ 450,000	$
Capital lease obligations				
Operating lease obligations	454,633	156,278	173,397	124,958
Purchase obligations (1)	7,542,499	4,034,739	3,507,760	
Total	$ 8,447,132	$ 4,191,017	$ 4,131,157	$ 124,958

(1) Purchase obligations include agreements for the purchase of units and handpieces.

The agreements are referred as purchase orders.

Recent Accounting Pronouncements

See Note B-19 Summary of Significant Accounting Policies to the financial statements for explanation of recent accounting pronouncements impacting the Company.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

Milestones is a smaller reporting company as defined by Regulation S-K and as such, is not providing the information contained in this item pursuant to Regulation S-K.

Item 8. Financial Statements

The financial statements of Milestone required by this Item are set forth beginning on page F-1.

Item 9. Change in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

The Company s management, including the Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the design and operation of the Company s disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) as of the end of the period covered by this report. Based upon that evaluation, the Company s Chief Executive Officer and Chief Financial Officer have concluded that the disclosure controls and procedures as of December 31, 2009 are effective to ensure that information required to be disclosed in the reports the Company files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC s rules and forms and that such information is accumulated and communicated to the Company s management, including the Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding disclosure.

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Management s Annual Report on Internal Control Over Financial Reporting

Milestone management is responsible for establishing and maintaining an adequate system of internal control over financial reporting. The internal control over financial reporting includes those policies and procedures that:

pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets;

provide reasonable assurance that transactions are recorded as necessary to permit preparation of the financial statements in accordance with generally accepted accounting principles in the United States, and that the receipts and expenditures are being made only in accordance with authorizations of the management and directors; and

provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Because of the inherent limitations of internal control, there is a risk that material misstatements may not be prevented or detected on a timely basis by internal control over financial reporting. However, these inherent limitations are known features of the financial reporting process. Therefore, it is possible to design into the process safeguards to reduce, though not eliminate, this risk.

Milestone management assessed the effectiveness of its system of internal control over financial reporting as of December 31, 2009. In making this assessment, management used the framework in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on the assessment and the criteria set forth by COSO, management believes that the Company maintained effective internal control over financial reporting as of December 31, 2009.

This annual report does not include an attestation report of the Company s registered independent public accounting firm regarding internal control over financial reporting. Management s report was not subject to attestation by the Company s registered independent public accounting firm pursuant to temporary rules of the Securities and Exchange Commission that permit the Company to provide only management s report in this annual report.

There have been no significant changes in the Company s internal control over financial reporting identified in connection with the evaluation that occurred during the Company s last fiscal quarter that have materially affected, or that are reasonably likely to materially affect, the Company s internal controls over financial reporting.

Item 9B. Other Information

None.

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PART III

Item 10. Directors, Executive Officers, Promoters, Control Persons and Corporate Governance; Compliance with Section 16 (a) of the Exchange Act.

Milestone s directors are elected annually by the shareholders and serve for one-year terms until his/her successor is elected and qualified or until such director s earlier death, resignation or removal. The executive officers and key personnel are appointed by and serve as the pleasure of the Board of Directors.

The current executive officers and directors of Milestone and their respective ages as of March 10, 2010 are as follows:

NAME	AGE	POSITION	DIRECTOR SINCE
Leslie Bernhard (2)	66	Chairman of the Board	2003
Leonard A. Osser	63	Chief Executive Officer	1991
Joseph D Agostino	58	Chief Financial Officer	
Pablo Felipe Serna Cardenas (2)	34	Director	2006
Leonard M. Schiller(1)(2)	68	Director	1997
Jeffrey Fuller(1)	64	Director	2003

(1) Member of the Audit Committee

(2) Member of the Compensation Committee

Key Personnel

The following are the names of individuals who are not executive officers of Milestone but are deemed key personnel of Milestone, their respective ages and positions as of March 16, 2010:

NAME	AGE	POSITION
Eugene Casagrande, D.D.S.	66	Director of Professional Relations
Mark Hochman, D.D.S.	52	Director of Clinical Affairs

Leslie Bernhard, Chairman of the Board

In October 2009, Leslie Bernhard assumed the position of Chairman of the Board, filing a position left vacant by Mr. Osser who assumed the position of Chief Executive Officer. Leslie Bernhard has served as an Independent Director of Milestone since May 2003 and was named Chairman of the Board in September of 2009. She co-founded AdStar, Inc. and since 1986 has served as its President, Chief Executive Officer and Executive Director. AdStar is an application service provider for the newspaper classified advertising industry. She served on the Board of Directors of Universal Power Group (AMEX:UPG) of Dallas, Texas and have done so since 2006. Ms. Bernhard s professional experience and background with AdStar and with us, as one of our directors since 2003, have given her the expertise needed to serve as chairman of the Board.

Leonard Osser, Chief Executive Officer

In March of 2009, Mr. Osser assumed the position of Milestone s Acting Chief Executive Officer. Mr. Osser in September 2009 resigned as Chairman of the Company and assumed the position of Chief Executive Officer. He served as the Company s Chairman from 1991 until September of 2009, and from 1991 and 2007, was Chief Executive Officer of the Company. From 1980 until the consummation of Milestone s public offering in November 1995, Mr. Osser was primarily engaged as the principal owner and Chief Executive Officer of U.S. Asian Consulting Group, Inc., a New Jersey-based provider of consulting services specializing in distressed or turnaround situations in both the

public and private markets.

Joseph D Agostino, Chief Financial Officer

Joining Milestone in January 2008 as Acting CFO, Joseph D Agostino brings to Milestone a wealth of finance and accounting experience earned over 25 years serving both publicly and privately held companies. Following a nine month performance assessment by the Board of Directors, Mr. D Agostino was officially named Milestone s Chief Financial Officer in October 2008. A results-oriented and decisive leader, he has specific proven expertise in treasury and cash management, strategic planning, information technology, internal controls, Sarbanes-Oxley compliance, operations and financial and tax accounting. Immediately prior to joining Milestone, Mr. D Agostino served as Senior Vice President and Treasurer of Summit Global Logistics, a publicly traded, full service international freight forwarder and customs broker with operations in the United States and China. Previous executive posts also included Executive Vice President and CFO of Haynes Security, Inc., a leading electronic and manned security solutions company serving government agencies and commercial enterprises; Executive Vice President of Finance and Administration for Casio, Inc., the U.S. subsidiary of Casio Computer Co., Ltd., a leading manufacturer of consumer electronics with subsidiaries throughout the world; and Manager of Accounting and Auditing for Main Hurdman s National Office in New York City (merged into KPMG). Mr. D Agostino is a Certified Public Accountant and holds memberships in the American Institute of CPA s, New Jersey Society of CPA s, Financial Executive Institute, Consumer Electronics Industry Association and Homeland Security Industry Association. He is a graduate of William Paterson University where he earned a Bachelor of Arts degree in Science.

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Mark Hochman, D.D.S., Director of Clinical Affairs

Dr. Hochman has served as Director of Clinical Affairs and Director of Research and Development since 1999. He has a Doctorate of Dental Surgery with advanced training in the specialties of Periodontics and Orthodontics from New York University of Dentistry and has been practicing dentistry since 1984. He holds a faculty appointment as a clinical associate professor at NYU School of Dental Surgery. Recognized as a world authority on Advanced Drug Delivery Systems, Dr. Hochman has published numerous articles in this area, and shares in the responsibility for inventing much of the technology currently available from Milestone.

Dr. Eugene Casagrande, Director of International & Professional Relations

Since 1998, Dr. Casagrande has served as Director of International and Professional Relations, charged with pursuing a broad range of clinical and industry-related strategic business opportunities for the Company. He has also lectured both nationally and internationally at over 35 dental schools and in over 22 countries on Computer-Controlled Local Anesthesia Delivery. Dr. Casagrande is past president of the California State Board of Dentistry and the Los Angeles Dental Society and is a Fellow of the American and International Colleges of Dentists and has served on the faculty of the University of Southern California, School of Dentistry.

Leonard M. Schiller, Director

Mr. Schiller has been a director of Milestone since April 1997. Mr. Schiller has been a partner in the Chicago law firm of Schiller, Klein & McElroy, P.C. since 1977. He has also been President of The Dearborn Group, a residential property management and real estate acquisition company since 1980. Mr. Schiller became a Director of the Gravitas Cayman Corporation in February 2010. Gravitas Cayman Corporation is an Investment Fund. Mr. Schiller s professional experience and background as an attorney and a partner of a law firm and with us, as one of our directors since 1997, have given him the expertise needed to serve as one of our directors.

Jeffrey Fuller, Director

Mr. Fuller has been a director of Milestone since January 2003. Mr. Fuller has been president and owner of two municipal water supply systems, Hudson Valley Water Co. and Lake Lenape Water Co. since 1983 and in addition has been an executive recruiter since 1995. Early in his career, for a period of two years, he was an auditor with Arthur Andersen LLP, and thereafter, for four years, a senior internal auditor with the Dreyfus Corp. Mr. Fuller has been an adjunct professor since 2002-2004 at Berkeley College, NY, teaching several courses including Accounting. Mr. Fuller has not been involved in any legal proceedings and has not been a director of any other business entity in the past 10 years.

Pablo Felipe Serna Cardenas, Director

Mr. Serna Cardenas has been a director of Milestone since June 2006. He is the founder of SPOT Investments, a European-based financial services firm. Previously, from 2001 to 2005, he was a director and Senior Manager at Dynamic Decisions Group Ltd, an equity research and valuation consulting firm. In that capacity, Mr. Serna Cardenas led the corporate finance team at Dynamic Decisions in investment banking and project valuation consulting. Prior to joining Dynamic Decisions, from 1999-2001, Mr. Serna Cardenas served as an associate with Real Options Group. Real Options Group is an international academic research center consulting to business entities. Before joining Real Options Group, Mr. Serna Cardenas was the general manager with Estudios, Consultorias y Asesorias Financieras, a Financial Consulting firm in Columbia. He has been a director of Pairstech Fund, a UK hedge Fund since 2008. Mr. Cardenas professional experience and background as an entrepreneur and as a financial consultant and with us, as one of our directors since 2006, have given him the expertise needed to serve as one of directors.

Milestone s Board of Directors has established compensation and audit committees. The Compensation Committee reviews and recommends to the Board of Directors the compensation and benefits of all the officers of Milestone, reviews general policy matters relating to compensation and benefits of employees of Milestone, and administers the issuance of stock options to Milestone s officers, employees, directors and consultants. All compensation arrangements between Milestone and its directors, officers and affiliates are reviewed by the Compensation Committee; two of the members are independent directors. The Audit Committee meets with management and Milestone s independent auditors to determine the adequacy of internal controls and other financial reporting matters. The Board of Directors has determined that Jeffrey Fuller qualifies as an Audit Committee Financial Expert pursuant to Item 407 (d)(5) of Regulation S-B. Mr. Fuller is independent, as that term is defined in the listing standards of the NYSE Alternext.

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Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934 requires Milestone s officers and directors, and persons who own more than ten percent (10%) of a registered class of Milestone s equity securities to file reports of ownership and changes in ownership with the Securities and Exchange Commission (SEC). Officers, directors and greater than ten percent (10%) stockholders are required by SEC regulations to furnish Milestone with copies of all Section 16(a) forms they file.

To the best of Milestone s knowledge, based solely on review of the copies of such forms furnished to Milestone, or written representations that no other forms were required, Milestone believes that all Section 16(a) filing requirements applicable to its officers, directors and greater than ten percent (10%) shareholders were complied with during 2009.

Code of Ethics

Milestone has adopted a code of ethics that applies to its principal executive officer, principal financial officer and other persons performing similar functions. This code of ethics is filed herewith as an exhibit to this annual report and is posted on Milestone s web site at www.milesci.com. Milestone will also provide a copy of the Code of Ethics to any person without charge, upon written request addressed to the Chief Financial Officer, Joseph D Agostino at the principal executive office, located at 220 South Orange Avenue, Livingston, NJ, 07039.

Item 11. Executive Compensation.

The following Summary Compensation Table sets forth all compensation earned, in all capacities, during the fiscal years ended December 31, 2009 and 2008 by (i) Milestone s CEO and (ii) the most highly compensated executive officers, other than the CEO who were serving as executive officers at the end of the 2009 fiscal year and whose salary as determined by Regulation S-B, Item 402, exceeded $100,000 (the individuals falling within categories (i) and (ii) are collectively referred to as the Named Executive Officers).

SUMMARY OF COMPENSATION TABLE

NAME AND PRINCIPAL POSITION	YEAR	Salary	Bonuses	Other Compensation	Option Awards (2)	Total
Leonard A. Osser						
Chief Executive Officer-effective 9-1-2009	2009	$ 300,000	$ 400,000(1)		$ 298,734	$ 998,734
Chairman of the Board	2008	$ 200,000(1)		$ 18,408(1)	$	$ 218,408
Joe W. Martin	2009	$ (3)	$	$	$	$
Chief Executive Officer	2008	$ 300,000	$ 70,000	$ 3,696	$ 80,000(2)	$ 453,696
Joseph D Agostino	2009	$ 171,600	$ 25,000(4)	$	$ 135,975	$ 332,575
Chief Financial Officer	2008	$ 165,000	$ 28,000	$ 2,737		$ 195,737

(1) Includes $200,000 and $100,000 in deferred compensation in 2009 and 2008, respectively, in accordance with his employment agreement to be paid in common stock and not paid until the

termination of the agreement in 2014 (under new employment agreement) or thereafter, if further extended. Other compensation represents payments made for health insurance coverage.

(2) The amounts in this column reflects the fair value of the options at date of grant. For details used in the assumption calculating the fair value of the option reward, see Note B to the Financial Statements for the year ended December 31, 2009, which is located on pages F-7 through F-11 of the Annual Report on Form 10-K. Compensation cost is generally recognized over the vesting period of the award. See the table below entitled Outstanding Equity Awards at December 31, 2009.

(3) Mr. Martin resigned from the Company effective March 31, 2009.

(4) Includes $25,000 in deferred compensation in 2009, is accordance with agreement to be paid in common stock and not paid until the termination of his employment with the Company.

Employment Contracts

In March 2009, the Chairman assumed the position of Milestone s Acting Chief Executive Officer. In September 2009 The Chairman stepped down as Chairman to fill the position of Chief Executive Officer. The Chief Executive Officer entered into a new employment agreement with the Company effective September 1, 2009. This new agreement suspends the previous agreement scheduled to terminate on December 31, 2012. The new agreement is for five years ending on August 31, 2014. The contract shall be extended for successive one-year periods, unless prior to August 1 of any year, either party notifies the other that he or it chooses not to extend the New Employment Term. As part of this agreement the Chairman relinquished the title and position of Chairman. Under the new agreement, the Chief Executive Officer will receive a base compensation of $300,000 per year. In addition, the CEO, may earn annual bonuses up to an aggregate of $400,000, payable one half in cash and one half in common stock, contingent upon achieving targets set for each year by the Compensation Committee of the Board of Directors of the Company.

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In addition, if in any year of the term of the agreement the CEO earns a bonus, he shall also be granted five-year stock options to purchase twice the number of shares earned. Each such option is to be exercisable at a price per share equal to the fair market value of a share on the date of grant (110%) of the fair market value if the CEO is a 10% or greater stockholder on the date of grant). The options shall vest and become exercisable to the extent of one-third of the shares covered at the end of each of the first three years following the date of grant, but shall only be exercisable while the CEO is employed by Milestone or within 30 days after the termination of his employment.

In accordance with the employment contract, as of September 30, 2009 and January 1, 2008, 676,676 shares and 504,639 shares of common stock are to be paid out at the end of the contract in settlement of $925,000 as December 31, 2009 and $700,000 as of December 31, 2008 of accrued deferred compensation and, accordingly, such shares have been classified in stockholders equity with the common shares classified as to be issued.

Milestone entered into an agreement with a new Chairman effective October 1, 2009. The term of the contract is for a nine month period ending on June 30, 2010. Under this agreement the Chairman will receive a base compensation of $190,000 per year, payable $5,000 per month in cash starting in January 2010 and the remainder in stock issued at the closing price on September 1, 2009. 84,783 shares were issued in September 2009.

Objective of Executive Compensation Program

The primary objective of the executive compensation program is to attract and retain qualified, energetic managers who are enthusiastic about the mission and culture. A further objective of the compensation program is to provide incentives and reward each manager for their contribution. In addition, Milestone strives to promote an ownership mentality among key leadership and the Board of Directors.

The Compensation Committee reviews and approves, or in some cases recommends for the approval of the full Board of Directors, the annual compensation procedures for the Named Executive Officers.

The compensation program is designed to reward teamwork, as well as each manager s individual contribution. In measuring the Named Executive Officers contribution, the Compensation Committee considers numerous factors including the growth, strategic business relationships and financial performance. Regarding most compensation matters, including executive and director compensation, the management provides recommendations to the Compensation Committee; however, the Compensation Committee does not delegate any of its functions to others in setting compensation. Milestone does not currently engage any consultant to advice on executive and/or director compensation matters.

Stock price performance has not been a factor in determining annual compensation because the price of Milestone s common stock is subject to a variety of factors outside of the control. Milestone does not have an exact formula for allocating between cash and non-cash compensation.

Annual executive chief officer compensation consists of a base salary component and periodic stock option grants. It is the Compensation Committee s intention to set totals for the chief executive officer for cash compensation sufficiently high enough to attract and retain a strong motivated leadership team, but not so high that it creates a negative perception with the other stakeholders. The chief executive officer receives stock option grants under the stock option plan. The number of stock options granted to the executive officer is made on a discretionary rather than a formula basis by the Compensation Committee. The chief executive officer s current and prior compensation is considered in setting future compensation. In addition, Milestone reviews the compensation practices of 28 other companies. To some extent, the compensation plan is based on the market and the companies that compete for executive management. The elements of the plan (e.g., base salary, bonus and stock options) are similar to the elements used by many companies. The exact base pay, stock option grant, and bonus amounts are chosen in an attempt to balance the competing objectives of fairness to all stakeholders and attracting/retaining executive managers.

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Outstanding Equity Awards at December 31, 2009

The following table includes certain information with respect to the value of all unexercised options previously awarded to the Named Executive Officers. There were no stock awards granted in 2009.

Name	2009 Options Awards Number of Securities Underlying Unexercised Options Exercisable	2009 Options Awards Number of Securities Underlying Unexercised Options Unexercisable	Option Exercise Price ($)	Option Expiration Date
Leonard Osser	84,388	168,776	$ 1.74	12/17/2014
Joseph D Agostino		60,000	$ 0.40	03/31/2014
		50,000	$ 1.15	09/01/2014
		50,000	$ 1.15	12/28/2014
	10,548	21,098	$ 1.58	12/17/2014

The above amounts for Mr. Osser do not include 666,667 Performance Options reserved for a special bonus for obtaining a three year purchase order for the sale of 12,000 *STA Systems* and related handpieces over a four year period. These options were reserved but will not be granted until specific performance targets are achieved. The options will be issued upon achievement of the specific target on a yearly basis. The exercise price of the options is $1.49 per share.

Compensation of Directors

Milestone paid no cash or stock based compensation to its directors in 2009 and 2008. On June 4, 2009 and June 5, 2008, Milestone awarded to each of its independent directors stock options expiring on June 4, 2014 and June 3,2013, respectively, for the purchase of 25,000 and 20,000 shares for each year respectively, of its common stock, one half of each grant was exercisable immediately and the remaining one half exercisable one year after the grant, at $0.55 and $0.74 per share for the options granted on June 4, 2009 and June 5, 2008, respectively, with respect to the years ending with Milestone s 2009 and 2008 annual meeting.

The following table provides compensation information for the year ended December 31, 2009 and 2008 for each of the independent directors. Milestone does not pay any directors fees. Directors are reimbursed for the costs relating to attending board and committee meetings.

Director Compensation

Name	2009 Option Awards (1)
Leonard M. Schiller	$ 13,750(2)
Jeffrey Fuller	$ 13,750(2)
Leslie Bernhard	$ 13,750(2)
Pablo Felipe Serna Cardenas	$ 13,750(2)

(1) Amounts are calculated using the provisions of FASB ASC 718.

(2)

On June 4, 2009, each of Milestone s independent directors was awarded options exercisable for 25,000 shares of common stock at $0.55 per share.

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Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The following table, together with the accompanying footnotes, sets forth information, as of March 10, 2010, regarding stock ownership of all persons known by Milestone to own beneficially more than 5% of Milestone s outstanding common stock, Named Executives, all directors, and all directors and officers of Milestone as a group:

	March 10, 2010	
Names of Beneficial Owner (1)	**Shares of Common Stock Beneficially Owned (2)**	**Percentage of Ownership**
Executive Officers and Directors		
Leonard Osser	2,283,253(3)	15.44%
Joseph D Agostino	236,700(4)	*
Leonard Schiller	138,228(5)	*
Pablo Felipe Serna Cardenas	75,000(6)	*
Jeffrey Fuller	115,000(7)	*
Leslie Bernhard	189,783(8)	*
All directors & executive officers as group (7 persons)	2,646,572	17.89%
K. Tucker Andersen	2,686,230(9)	18.16%
Tom Cheng	752,852(10)	5.09%

* Less than 1%

(1) The addresses of the persons named in this table are as follows: Leonard Osser and Joseph D Agostino are at 45 Knightsbridge Road in Piscataway, New Jersey 08854; Leonard M. Schiller, c/o Schiller, Klein & McElroy, P.C., 33 North Dearborn Street, Suite 1030, Chicago, Illinois 60602; Pablo Felipe Serna Cardenas, Via

Camillo Golgi 2 Opera, Italy 20090; Jeffrey Fuller, Eagle Chase, Woodbury, NY 11797; Leslie Bernhard, c/o AdStar, Inc., 4553 Glencoe Avenue, Suite 325, Marina del Rey, California 90292; K. Tucker Anderson, c/o Cumberland Associates LLC, 1114 Avenue of the Americas, New York, New York 10036.

(2) A person is deemed to be a beneficial owner of securities that can be acquired by such person within 60 days from March 16, 2010 and 2009, as applicable, upon the exercise of options and warrants or conversion of convertible securities. Each beneficial owner s percentage ownership is determined by assuming that options, warrants and convertible securities that

are held by such person (but not held by any other person) and that are exercisable or convertible within 60 days from the filing of this report have been exercised or converted. Except as otherwise indicated, and subject to applicable community property and similar laws, each of the persons named has sole voting and investment power with respect to the shares shown as beneficially owned. All percentages are determined based on the number of all shares, including those underlying options exercisable within 60 days from the filing of this report held by the named individual, divided by 14,792,528 outstanding shares on March 10, 2010, plus those shares

underlying options exercisable within 60 days from the filing of this report held by the named individual or the group.

(3) March 10, 2010 excludes 666,667 Performance Options reserved for a special bonus for obtaining a three year purchase order for the sale of 12,000 *STA Systems* and related handpieces over a four year period. These options were reserved but not granted until specific performance targets are achieved. The options will be issued upon achievement of the specific target on a yearly basis. Included in this total is 253,164 shares subject to option at $1.74, one third immediately exercisable and one third each year after the grant date. Also

included in March 10, 2010, 676,676 Shares to Be Issued at the termination of his employment agreement.

(4) Includes 29,231 shares held by Mr. D Agostino at March 10, 2010. Additionally, this includes 15,823 Shares to Be Issued at the termination of his employment; 191,646 shares subject to options. 60,000 shares at $0.40, fully vested at October 2010, 100,000 options, one third exercisable one year after the grant date and one third each subsequent years as follows ; 100,000 shares at $1.15; and 31,646 at $1.58, one half immediately exercisable and one half each year after the grant date.

(5) March 10, 2010, includes 125,000 stock options; one half of each grant was exercisable

immediately and the remaining one half exercisable one year after the grant date as follows: 25,000 shares at $0.55 issued in June 2009;: 20,000 shares at $3.27 per share, 20,000 shares at $1.40 per share, 20,000 shares at $0.83 per share and 20,000 shares at $1.68 and 20,000 shares at $0.74. Also included is 13,228 shares held by Mr. Schiller.

(6) March 10, 2010 includes 75,000 stock options; one half of each grant was exercisable immediately and the remaining one half exercisable one year after the grant date as follows: 25,000 shares at $0.55 issued in June 2009, 10,000 shares at $0.83 per share, 20,000 shares at $1.68 and 20,000 shares at $0.74.

(7) March 10, 2010 includes 115,000 stock

options; one half of each grant was exercisable immediately and the remaining one half exercisable one year after the grant date as follows: 20,000 shares at $3.27 per share, 20,000 shares at $1.40 per share, 10,000 shares at $0.83 and 20,000 shares at $1.68 per share and 20,000 at $0.74.

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(8) March 10, 2010 includes 84,783 shares owned by Ms. Bernhard, 105,000 stock options; one half of each grant was exercisable immediately and the remaining one half exercisable one year after the grant date as follows: 20,000 shares at $3.27, 20,000 shares at $1.40, 20,000 shares at $1.68 and 20,000 shares at $0.74 and 25,000 shares at $0.55.

(9) March 10, 2010 includes 175,000 stock options, 130,000 at $5.00 and 45,000 at $0.32.

(10) March 10, 2010 includes 752,852 shares of stock. Mr. Cheng purchased 333,333 shares in August 2009 and 34,783 shares were issued for services provided in October 2009.

Securities Authorized for Issuance Under Equity Compensation Plans

Equity Compensation Plan Information

The following table summarizes the (i) options granted under the Milestone 1997 and 2004 Stock Option Plans, and (ii) options and warrants granted outside the Milestone 1997 and 2004 Stock Option Plans, as of December 31, 2009. The shares covered by outstanding options and warrants are subject to adjustment for changes in capitalization, stock splits, stock dividends and similar events. No other equity compensation has been issued.

	Number of Securities (1) to be issued upon exercise of outstanding options and warrants	Weighted-average exercise price of outstanding options and warrants	Number of securities (1) remaining available for future issuance under equity compensation plan
Equity compensation plan approved by stockholders (1)			
Grants under our 2004 Stock Option Plan	1,000,142	1.16	428,000
Equity compensation plan not approved by stockholders (2)			Not applicable
Aggregate individual option and warrants grants	589,999	2.50	
Total	1,590,141	1.72	

(1) Consisting of the 1997 stock option plan covering a total of 333,333 common shares underlying options issuable to officers and other key employees and excluding 2,333 options, which were exercised in October 2003, 16,667 options, which were exercised in December 2003, 333 options which were exercised in April 2005 and 26,666 shares exercised in

2007. The plan has a term of 10 years and is administered by a committee appointed by the board of directors. The committee, in its sole discretion, determines who is eligible to receive these incentive stock options, how many options they will receive, the term of the options, the exercise price and other conditions relating to the exercise of the options. Stock options granted under the plan must be exercised within a maximum of 10 years from the date of grant at an exercise price that is not less than the fair market value of the common shares on the date of the grant. Options granted to shareholders owning more than 10% of the outstanding common shares must be exercised within five years from the date of grant and the exercise price must be at

least 110% of the fair market value of the common shares on the date of the grant. The plan expired in 2008.

In July 2004 the Board of Directors approved the adoption of the 2004 Stock Option Plan. The 2004 Stock Option Plan provides for the grant of options to purchase up to 500,000 shares of Milestone s common stock. Options may be granted to employees, officers, directors and consultants of Milestone for the purchase of common stock of Milestone at a price not less than the fair market value of the common stock on the date of the grant. In general, options become exercisable over a three-year period from the grant date and expire five years after the date of grant. No options were exercised in 2009.

In March 2008, the Board of Directors authorized an additional 250,000 options to this plan.

(2) The aggregate individual option grants outside the Stock Option Plans referred to in the table above include options issued as payment for services rendered to us by outside consultants and providers of certain services. The aggregate individual warrant grants referred to in the table above include warrants granted to investors in Milestone as part of private placements and credit line arrangements.

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Stock Plan

In 2006 Milestone adopted an equity compensation plan for the issuance of up to 300,000 shares of the common stock in lieu of cash compensation for services performed by employees, officers, directors and consultants (the 2006 Stock Plan). The purpose of the 2006 Stock Plan is to conserve cash while allowing the Company to adequately compensate existing employees, officers, directors and consultants, or new employees, officers, directors and consultants, whose performance will contribute to the long-term success and growth. Milestone believe that the availability of these shares will also strengthen the ability to attract and retain employees, officers, directors and consultants of high competence, increase the identity of interests of such people with those of the stockholders and help maintain loyalty to us through recognition and the opportunity for stock ownership. All shares granted under this plan will be at fair market value, or at a premium to that value, on the date of grant.

During 2009, 45,304 shares of common stock valued at $24,725, were granted under the 2006 Stock Plan as part of Officer s Compensation.

During 2008, no shares were issued under this plan.

As of December 31, 2009 there are no shares remaining under this plan. As of December 31, 2008, shares available to be issued under this plan were 45,304.

In December 2007, the Board of Directors authorized the Company to issue up to $2 million of its Company stock to vendors or employees, and to grant them piggy back registration rights in the usual form, at a value of not less than 90% of the market value on the date of the agreement for the vendor or employee to accept said shares. Such future shares are not included in the above noted shares reserved for future issuance.

In 2009, the Company issued the following shares under this Plan; 151 shares valued at of $275 for Officer Deferred Compensation, 518,367 shares valued at $500,500 for consulting services, 323,009 shares valued at $160,325 for employee compensation, 84,783 valued at $97,500 for advances to the Chairman, 3,333 shares valued at $1,866 for the exercise of options, and 142,405 shares valued at $225,000 for shares to be issued to officers of the Company.

Additionally, the Company with Board of Directors approval, issued 333,333 shares, purchased by a shareholder for $150,000 and 822,785 shares valued at $1.3 million on conversion of the Line of Credit (see Note H to the financial statements). Neither of these transactions was charged against any of the current Stock Plans.

At December 31, 2009 and 2008 there was $143,670 and $1,129,136, respectively, available to be issued under this plan.

The Vendor Shares were issued in reliance upon the exemption from the registration requirements of the Act, as provided in Section 4(6) and thereof, as a transaction by an issuer not involving a public offering. Milestone reasonably believed that each vendor had such knowledge and experience in financial and business matters to be capable of evaluating the merits and risks of the investment, each vendor represented an intention to acquire the securities for investment only and not with a view to distribution thereof and appropriate legends were affixed to the stock certificates. No commissions were paid in connection with such issuances.

Item 13. Certain Relationships and Related Transactions and Director Independence.

On June 28, 2007 the Company secured a $1 million line of credit from a stockholder. This borrowing was amended to $1,300,000 as of September 30, 2008 under the same terms and conditions as the original. Borrowings bear interest at 6% per annum, with one year s interest at 1% payable in advance on each draw. Monies may be drawn by Milestone under the line in multiples of $100,000 upon 5 days written notice to the stockholder from either Milestone s Chief Executive Officer or Chief Financial Officer. Monies under the line in excess of $1,000,000 may be drawn in multiples of $25,000. Borrowings may be prepaid at any time in multiples of $100,000, without penalty. All borrowings and interest thereon must be repaid by June 30, 2010, and after the expiration date of the line, may be repaid by Milestone in cash or, at its option, in shares of common stock valued at the lower of $2.00 per share or 80% of the average closing price of its shares during the 20 trading days ending with December 31, 2008. At December 31, 2008, the conversion price at 80% of the average closing price of the Company s stock was $0.26 per share. After December 31, 2008, and before June 30, 2010, the lender may convert all or any part of the then outstanding balance and interest thereon into shares of Common Stock at $4.00 per share. Three year warrants exercisable at $5.00 per share, in an amount determined by dividing 50% of the amount borrowed by $5.00 will be issued on each drawdown. There is no facility fee on the line. The warrants have been valued as of each draw down using the Black-Scholes

model and are reflected as a discount against the debt incurred under this line of credit. At December 31, 2008 the remaining balance of debt discount was $52,530. The full amount of the line of credit and amendment, $1.3 million, has been drawn at September 30, 2008. This borrowing was amended to $1,300,000 as of September 30, 2008 under the same terms and conditions as the original borrowing. In December 2009, the Company converted the $1.3 million Line of Credit into 822,785 shares of Common Stock at a price of $1.58 per share. Additionally, the interest due on this note is payable over a two year period (quarterly payments of $23,000). The Company borrowed an additional $450,000 from the same shareholder in 2008. The borrowing was originally on short term loan with a maturity date of January 19, 2009. In December 2008, this borrowing was refinanced with the shareholder with a due date of June 30, 2012. The borrowing includes a twelve percent interest rate, interest compound quarterly, with interest and principle due at the maturity. Further, the note provides for the issuance of warrants to the stockholder that is exercisable for five years at the price of $0.32 per share for 45,000 shares of stock. The warrants were valued using the Black-Scholes model and are reflected as a discount against the debt. The Company did not have any other related party transactions pursuant to Item 404 of Regulation S-K of the Exchange Act. Milestone have adopted a policy that, in the future, the Audit Committee must review all transactions with any officer, director or 5% stockholder.

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Director Independence

The Board has determined that Leonard M. Schiller, Jeffrey Fuller and Pablo Felipe Serna Cardenas (the Independent Directors) are independent as that term is defined in the listing standards of the NYSE Alternext. As disclosed above, Leonard M. Schiller, Jeffrey Fuller is the sole member of the Audit Committee and is independent for such purposes, and Leonard M. Schiller, Leslie Bernhard and Pablo Felipe Serna Cardenas are the sole members of the Compensation Committee and are independent for such purposes.

In determining director independence, the Board considered the option awards to the Independent Directors for the year ended December 31, 2009, disclosed in Item 10 Executive Compensation Director Compensation above, and determined that such awards were compensation for services rendered to the Board and therefore did not impact their ability to continue to serve as Independent Directors.

Item 14. Principal Accounting Fees and Services

Audit Fees

Milestone incurred audit and financial statement review fees totaling $148,119 and $137,975, respectively from Holtz Rubenstein Reminick LLP, the principal accountant for 2009 and 2008.

Audit Related Fees

There were no audit related fees to the principal accountant Holtz Rubenstein Reminick LLP in 2009 and 2008.

Tax Fees

There were no fees for services related to tax compliance, tax advice and tax planning billed by the principal accountant in 2009 and 2008.

All Other Fees

There were no other fees billed during 2009 and 2008 by Milestone s principal accountants.

Audit Committee Administration of the Engagement

The engagement with Holtz Rubenstein Reminick LLP, the principal accountants, was approved in advance by the Board of Directors and the Audit Committee. No non-audit or non-audit related services were approved by the audit committee in 2009.

Audit Committee Pre-Approval Policies and Procedures

The Audit Committee charter provides that the Audit Committee will pre-approve audit services and non-audit services to be provided by the independent auditors before the accountant is engaged to render these services. The Audit Committee may consult with management in the decision-making process, but may not delegate this authority to management. The Audit Committee may delegate its authority to preapprove services to one or more committee members, provided that the designees present the pre-approvals to the full committee at the next committee meeting. All audit and non-audit services performed by the independent accountants have been pre-approved by the Audit Committee to assure that such services do not impair the auditors independence from us.

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PART IV

Item 15. Exhibits

(a) Exhibits

Certain of the following exhibits were filed as Exhibits to previous filings filed by Milestone under the Securities Act of 1933, as amended, or reports filed under the Securities and Exchange Act of 1934, as amended, and are hereby incorporated by reference.

EXHIBIT NO.	DESCRIPTION
3.1	Certificate of Incorporation of Milestone (1)
3.2	Certificate of Amendment filed July 13, 1995 (2)
3.3	Certificate of Amendment filed December 6, 1996 (3)
3.4	Certificate of Amendment filed December 17, 1997 (4)
3.5	Certificate of Amendment filed July 23, 2003 (6)
3.6	Certificate of Amendment filed January 8, 2004. (6)
3.7	Certificate of Designation filed January 15, 2004 (6)
3.8	By-laws of Milestone (1)
4.1	Specimen stock certificate (2)
4.2	Intentionally Left Blank
4.3	Form of warrant agreement, including form of warrant (8)
10.1	Lease dated November 25, 1996 between Livingston Corporate Park Associates, L.L.C. and Milestone (3)
10.2	Agreement with DaVinci Systems dated July 30, 2003 (6)
10.3	Agreement with Strider dated September 3, 2003 (6)
10.4	Agreement with Len Osser and K. Tucker Andersen, dated October 9, 2003 (6)
10.5	Agreement with Morse, Zelnick, Rose & Lander dated December 22, 2003 (6)
10.6**	Employment Agreement with Leonard Osser dated December 20, 2003 (6)
10.7	Agreement with United Systems dated October 20, 2004 (9)
10.8	Agreement with Mark Hochman dated as of January 1, 2005 (9)
10.9	Lease amendment dated April 28, 2004 between Livingston Corporate Park Associates, L.L.C. and Milestone (9)
10.10	Agreement with DaVinci regarding exclusive license over patented products dated June 1, 2004 (10)
10.11**	Employment Agreement with Leonard Osser dated January 1, 2008 (11)
10.12**	Employment Agreement with Joe W. Martin dated May 2, 2007 (11)
10.13**	Employment Agreement with Leonard Osser dated September 1, 2009.*
14	Code of Ethics (7)
23.1	Consent of Holtz Rubenstein Reminick LLP*
31.1	Rule 13a-14(a) Certifications Chief Executive Officer*
31.2	Rule 13a-14(a) Certifications Chief Financial Officer*
32.1	Section 1350 Certifications Chief Executive Officer*
32.2	Section 1350 Certifications Chief Financial Officer*

* Filed herewith.

** Indicates management contract or

compensatory
plan or
arrangement

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(1) Incorporated by reference to Milestone s Registration Statement on Form SB-2 No. 33-92324.

(2) Incorporated by reference to Amendment No. 1 to Milestone s Registration Statement on Form SB-2 No. 333-92324.

(3) Incorporated by reference to Milestone s Form 10-KSB for the year ended December 31, 1996.

(4) Incorporated by reference to Milestone s Form 10-KSB for the year ended December 31, 1999.

(5) Incorporated by reference to Milestone s Registration Statement on Form S-2 No. 333-110376, Amendment No. 1.

(6) Incorporated by reference to Milestone s Registration

Statement on Form S-2 No. 333-110376, Amendment No. 3.

(7) Incorporated by reference to Milestone s Form 10-KSB for the year ended December 31, 2003.

(8) Incorporated by reference to Milestone s Registration Statement on Form S-2 No. 333-110367, Amendment No. 5.

(9) Incorporated by reference to Milestone s Form 10-KSB for the year ended December 31, 2004.

(10) Incorporated by reference to Milestone s Form 10-KSB for the year ended December 31, 2005.

(11) Incorporated by reference to Milestone s Form 10-KSB for the year ended December 31, 2007.

(12) Incorporated by reference to Milestone s Form

10-KSB for the year ended December 31, 2008.

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SIGNATURES

In accordance with Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Milestone Scientific Inc.

By: /s/ Leonard Osser
Chief Executive Officer

Date: March 10, 2010

In accordance with the Exchange Act, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Signature	Date	Title
/s/ Leonard Osser	March 10, 2010	Chief Executive Officer
Leonard Osser		
/s/ Joseph D Agostino	March 10, 2010	Chief Financial Officer
Joseph D Agostino		
/s/ Leonard Schiller	March 10, 2010	Director
Leonard Schiller		
/s/ Jeffery Fuller	March 10, 2010	Director
Jeffrey Fuller		
/s/ Leslie Bernard	March 10, 2010	Chairman
Leslie Bernhard		
/s/ Pablo Felipe Serna Cardenas	March 10, 2010	Director
Pablo Felipe Serna Cardenas		

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Report of Independent Registered Public Accounting Firm

Board of Directors and Stockholders
Milestone Scientific Inc.

We have audited the accompanying balance sheets of Milestone Scientific Inc. as of December 31, 2009 and 2008 and the related statements of operations, stockholders equity, and cash flows for the two years then ended. These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Milestone Scientific Inc. as of December 31, 2009 and 2008 and the results of its operations and its cash flows for the two years then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note A to the financial statements, the Company has suffered recurring losses from operations since inception, which raises substantial doubt about its ability to continue as a going concern. Management s plans in regard to these matters are described in Note A. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ Holtz Rubenstein Reminick LLP
New York, New York
March 10, 2010

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MILESTONE SCIENTIFIC INC.
BALANCE SHEETS
December 31, 2009 and 2008

	December 31, 2009	December 31, 2008
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 1,029,129	$ 743,665
Accounts receivable, net of allowance for doubtful accounts of $5,000 in 2009 and 2008	1,063,742	925,742
Inventories	804,736	719,902
Advances to contract manufacturer	151,995	250,110
Prepaid expenses and other current assets	254,501	218,296
Total current assets	3,304,103	2,857,715
Advances to contract manufacturer	311,230	415,780
Investment in distributor, at cost	76,319	76,319
Furniture, Fixtures & Equipment net of accumulated depreciation of $395,630 as of December 31, 2009 and $345,377 as of December 31, 2008	77,353	152,574
Patents, net of accumulated amortization of $211,539 as of December 31, 2009 and $135,406 as of December 31, 2008	947,315	901,045
Other assets	133,674	7,317
Total assets	$ 4,849,994	$ 4,410,750
LIABILITIES AND STOCKHOLDERS EQUITY		
Current Liabilities:		
Accounts payable	$ 1,154,013	$ 829,130
Accrued expenses and other payable	524,017	495,897
Total current liabilities	1,678,030	1,325,027
Long-term Liabilities:		
Accrued Interest - 6% note	92,000	
Line of credit-net of discount of $52,530 in 2008		1,247,470
Notes Payable-net of discount of $11,157 and $11,927, respectively	438,843	438,073
Total long-term liabilities	530,843	1,685,543
Commitments and Contingencies		
Stockholders Equity		
	15,472	13,200

Common stock, par value $.001; authorized 50,000,000 shares; 14,781,295 shares issued 692,498 shares to be issued and 14,747,962 shares outstanding as of December 31, 2009; 12,695,685 shares issued, 504,639 shares to be issued, and 12,662,352 shares outstanding as of December 31, 2008		
Additional paid-in capital	62,300,619	59,531,865
Accumulated deficit	(58,763,454)	(57,233,369)
Treasury stock, at cost, 33,333 shares	(911,516)	(911,516)
Total stockholders equity	2,641,121	1,400,180
Total liabilities and stockholders equity	$ 4,849,994	$ 4,410,750

See Notes to Financial Statements

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MILESTONE SCIENTIFIC INC.
STATEMENTS OF OPERATIONS
YEARS ENDED DECEMBER 31, 2009 AND 2008

	2009	2008
Product sales, net	$ 8,549,060	$ 6,595,525
Royalty income		28,282
Total revenue	8,549,060	6,623,807
Cost of products sold	3,458,279	2,681,116
Gross profit	5,090,781	3,942,691
Selling, general and administrative expenses	6,952,976	5,502,762
Research and development expenses	241,318	168,516
	7,194,294	5,671,278
Loss from operations	(2,103,513)	(1,728,587)
Other income (expense)		
Other income	777,609	675,930
Interest income	3,146	9,023
Interest expense	(154,027)	(116,374)
Amortized debt issuance	(53,300)	(27,446)
Total other income	573,428	541,133
Net loss	$ (1,530,085)	$ (1,187,454)
Net loss applicable to common stockholders	$ (1,530,085)	$ (1,187,454)
Loss per share applicable to common stockholders basic and diluted	$ (0.11)	$ (0.09)
Weighted average shares outstanding and to be issued basic and diluted	13,389,872	12,666,979

See Notes to Financial Statements

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MILESTONE SCIENTIFIC INC.
STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY
YEARS ENDED DECEMBER 31, 2009 AND 2008

	Common Stock		Additional Paid-in	Accumulated	Treasury	
	Shares	Amount	Capital	Deficit	Stock	Total
Balance, December 31, 2007	12,208,878	12,210	58,483,539	(56,045,915)	(911,516)	1,538,318
Options issued to employees and consultants			151,920			151,920
Common stock issued for payment of services to settle accounts payable	156,448	156	262,590			262,746
Common stock issued for payment of consulting services to settle accounts payable	356,063	356	315,743			316,099
Common stock issued for payment of employee compensation	135,602	135	98,284			98,419
Common shares to be issued in settlement of deferred compensation	83,333	83	99,917			100,000
Common stock issued for patents in settlement of lawsuit	260,000	260	93,340			93,600
Warrants issued in connection with amendment to Line of Credit			12,579			12,579
Warrants issued in connection with refinancing of Notes Payable			13,953			13,953
Net loss				(1,187,454)		(1,187,454)
Balance, December 31, 2008	13,200,324	$ 13,200	$ 59,531,865	$ (57,233,369)	$ (911,516)	$ 1,400,180
Options issued to employees and consultants			285,835			285,835
Common stock issued for payment of consulting services to settle accounts payable	518,367	518	499,982			500,500
Common stock issued for payment of employee compensation	323,009	323	160,002			160,325
Common stock issued in advance of services-Chairman	84,783	85	97,415			97,500
Common stock to be issued for settlement of deferred compensation	45,455	45	24,955			25,000
Common stock to be issued for bonus	142,405	142	224,858			225,000

Sale of common stock	333,333	333	149,667			150,000
Proceeds from exercising stock options	3,333	3	1,863			1,866
Conversion of Line of Credit	822,785	823	1,299,177			1,300,000
Proceeds on the sale of stock option agreement			25,000			25,000
Net loss				(1,530,085)		(1,530,085)
Balance, December 31, 2009	15,473,794	$ 15,472	$ 62,300,619	$ (58,763,454)	$ (911,516)	$ 2,641,121

See Notes to Financial Statements

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MILESTONE SCIENTIFIC INC.
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2009 AND 2008

	2009	2008
Cash flows from operating activities:		
Net loss	$ (1,530,085)	$ (1,187,454)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation expense	50,253	71,336
Amortization of patents	76,133	55,908
Amortization of debt discount	53,300	27,446
Common stock and options issued for compensation, consulting, and vendor services	1,444,159	350,339
Loss on sale/disposal of equipment	46,918	2,255
Increase in inventory reserve	36,000	82,000
Changes in operating assets and liabilities:		
(Increase) in accounts receivable	(138,000)	(579,395)
Decrease in royalty receivable		15,358
(Increase) Decrease in inventories	(120,834)	834,842
Decrease to advances to contract manufacturer	202,665	526,694
(Increase) to prepaid expenses and other current assets	(36,205)	(48,569)
(Increase) Decrease in other assets	(126,357)	19,980
Increase (Decrease) in accounts payable	324,883	(891,707)
Increase in accrued expenses	125,120	282,294
(Decrease) in deferred compensation	(5,000)	(3,333)
Net cash provided by (used in) operating activities	402,951	(442,006)
Cash flows from investing activities:		
Purchases of property and equipment	(51,950)	(13,106)
Proceeds on sale of equipment	30,000	7,749
Payment for patent rights	(122,403)	(303,975)
Net cash used in investing activities	(144,353)	(309,332)
Cash flows from financing activities:		
Proceeds from the sale of stock options	25,000	
Proceeds from the exercise of stock options	1,866	
Proceeds from Long term borrowing-other		300,000
Proceeds from Notes Payable		450,000
Net cash provided by financing activities	26,866	750,000
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	285,464	(1,338)
Cash and cash equivalents at beginning of year	743,665	745,003
Cash and cash equivalents at end of year	$ 1,029,129	$ 743,665

Supplemental disclosure of cash flow information:		
Interest expense paid in cash	$	$ 7,500
Income tax paid	$ 8,225	$ 4,720
Supplemental disclosure of non cash activities:		
Warrants issued in connection with Line of Credit	$	$ 12,579
Warrants issued in connection with refinancing notes payble	$	$ 13,953
Shares issued for conversion of note	$ 1,300,000	$
Shares issued to employees in lieu of cash compensation	$ 160,325	$ 98,419
Shares issued to officer in advance of services	$ 97,500	$
Shares issued for patents in settlement of litigation	$	$ 93,600
Shares issued to settle accounts payable	$ 500,500	$ 578,845

See Notes to Financial Statements

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MILESTONE SCIENTIFIC INC.
NOTES TO FINANCIAL STATEMENTS

NOTE A ORGANIZATION, BUSINESS AND BASIS OF PRESENTATION

Milestone Scientific Inc. (Milestone) was incorporated in the State of Delaware in August 1989. Milestone has developed a proprietary, computer-controlled anesthetic delivery system, through the use of *The Wand*, a single use disposable handpiece. The system is marketed in dentistry under the trademark *CompuDent, Wand Plus and STA (Single Tooth Anesthesia)* and in medicine under the trademark *CompuMed. CompuDent* is suitable for all dental procedures that require local anesthetic. *CompuMed* and *Wand Plus* are suitable for many medical procedures regularly performed in Plastic Surgery, Hair Restoration Surgery, Podiatry, Colorectal Surgery, Dermatology, Orthopedics and a number of other disciplines. The systems are sold in the United States and in over 25 countries abroad. Milestone s products are manufactured by a third-party contract manufacturer.

The Company had incurred operating losses since its inception. The company had positive cash flows from operating activities at December 31, 2009 of $402,951 and a negative cash flow from operating activities at December 31, 2008 of $442,006. At December 31, 2009, the Company had cash and cash equivalents and working capital of $1,029,129 and $1,626,073, respectively. Additionally, as discussed in Note H, on June 28, 2007, the Company secured a revolving line of credit in the aggregate amount of $1,000,000 from a stockholder which line was fully borrowed at December 31, 2007. The borrowing was amended to $1,300,000 as of September 30, 2008 under the same terms and conditions as the original borrowing. In December 2009, the Company converted the $1.3 million Line of Credit into 822,785 shares of common stock at a conversion price of $1.58 per share. Additionally, the company borrowed an additional $450,000 in 2008 from the same shareholder, with a due date of January 2009. This additional borrowing was refinanced at December 31, 2008 and the due date was extended to June 30, 2012. The Company is actively pursuing the generation of positive cash flows from operating activities through an increase in revenue based upon management s assessment of present contracts and current negotiations and reductions in operating expenses. As of December 31, 2009, the Company expects to have sufficient cash reserves to meet all of its anticipated obligations for the next twelve months. The Company may require the need for a higher level of marketing and sales efforts that at present it cannot fund. If the Company is unable to generate positive cash flows from its operating activities it will need to raise additional capital. There is no assurance that the Company will be able to achieve positive operating cash flows or that traditional capital can be raised on terms and conditions satisfactory to the Company, if at all. If positive cash flow cannot be achieved or if additional capital is required and it cannot be raised, then the Company would be forced to curtail its development activities, reduce marketing expenses for existing dental products or adopt other cost saving measures, any of which might negatively affect the Company s operating results.

The Company s recurring losses raise substantial doubt about its ability to continue as a going concern. The accompanying financial statements do not include any adjustments that might result from the outcome of this uncertainty.

NOTE B SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. Cash and Cash Equivalents

Milestone considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

2. Accounts Receivable

The realization of Accounts Receivable will have a significant impact on the Company. Consequently, Milestone estimates losses resulting from the inability of its customers to make payments for amounts billed. The collectability of outstanding amounts is continually assessed.

3. Royalty Receivable

Royalty Receivable represents the royalty due from the licensee of Milestone s proprietary consumer dental whitening product, which is sold under Milestone s distributor s trademark of *Ionic White*. The royalties are received on a quarterly basis. As of December 31, 2009, the licensee has not been able to sell any additional dental whiting product.

4. Product Return and Warranty

Milestone does not accept non-defective returns from its customers on a routine basis. Product returns under warranty are accepted, evaluated and repaired or replaced in accordance with the Warranty Policy. Returns not within the

Warranty Policy are charged to the customer. Warranty expense was $45,461 and $20,590 for 2009 and 2008, respectively. Non Warranty repairs are collected from the customers. Non Warranty repair income was $81,913 and $61,198 for 2009 and 2008, respectively.

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5. Inventories

Inventories principally consist of finished goods and component parts stated at the lower of cost (first-in, first-out method) or market. Inventory quantities on hand are reviewed on a quarterly basis and a provision for excess and obsolete inventory is recorded if required based on past and expected future sales.

6. Furniture, Fixture and Equipment

Equipment is recorded at cost, less accumulated depreciation. Depreciation expense is computed using the straight-line method over the estimated useful lives of the assets, which range from five to seven years. The costs of maintenance and repairs are charged to operations as incurred.

7. Investments

Investments in less than twenty percent owned entities are accounted for under the cost basis and are reviewed for impairment periodically.

8. Patents

Patents are recorded at actual cost to prepare and file the applicable documents with the United States Patent Office, or internationally with the applicable governmental office in the respective country. Although certain patents have not yet been approved, the costs related to these patents are being amortized using the straight-line method over the estimated useful life of the patent. If the applicable patent application is ultimately rejected, the remaining unamortized balance will be expensed in the period in which the Company receives a notice of such rejection. Patent applications filed and patents obtained in foreign countries are subject to the laws and procedures that differ from those in the United States. Patent protection in foreign countries may be different from patent protection under United States laws and may not be favorable to the Company. The Company also attempts to protect the proprietary information through the use of confidentiality agreements and by limiting access to the facilities. There can be no assurance that the program of patents, confidentiality agreements and restricted access to the facilities will be sufficient to protect the proprietary technology.

9. Impairment of Long-Lived Assets

Milestone reviews patents and equipment for impairment whenever events or circumstances indicate that the carrying amounts may not be recoverable. The carrying value of the assets is evaluated in relation to the operating performance and future undiscounted cash flows of the underlying assets. Milestone adjusts the net book value of an underlying asset if its fair value is determined to be less than its book value. The Company has reviewed long-lived assets for impairment and concluded no impairment exist as of December 31, 2009 and December 31, 2008, respectively.

10. Revenue Recognition

Revenue from product sales is recognized net of discounts and allowances to the domestic distributor on the date of arrival of the goods at the customer s location as shipments are FOB destination. Shipments to the international distributors are FOB the warehouse and revenue is therefore recognized on shipment. In both cases, the price to the buyer is fixed and the collectability is reasonably assured. Further, Milestone has no obligation on these sales for any post sale installation, set-up or maintenance, these being the responsibility of the buyer. Customer acceptance is considered made at delivery. The only obligation after sale is the normal commercial warranty against manufacturing defects if the alleged defective unit is returned within the warranty period.

Royalty income was recognized as earned based on reports received from the licensee and related royalty expense is accrued during the same period.

11. Shipping and Handling Costs

The Company includes shipping and handling costs in cost of goods sold. These costs are billed to customers at the time of shipment for domestic shipments. International shipments are FOB the warehouse, therefore no costs are incurred by the Company.

12. Research and Development

Research and development costs, which consist principally of new product development costs incurred to third parties, are expensed as incurred.

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13. Advertising Expenses

Milestone expenses advertising costs as they are incurred. For the years ended December 31, 2009 and 2008, Milestone recorded advertising expenses of $333,572 and $268,009, respectively.

14. Income Taxes

Milestone accounts for income taxes pursuant to the asset and liability method which requires deferred income tax assets and liabilities to be computed for temporary differences between the financial statement and tax basis of assets and liabilities that will result in taxable or deductible amounts in the future based on enacted tax laws and rates applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized. The income tax provision or credit is the tax payable or refundable for the period plus or minus the change during the period in deferred tax assets and liabilities.

15. Basic and diluted net loss per common share

Milestone presents basic earnings (loss) per common share applicable to common stockholders and, if applicable, diluted earnings (loss) per common share applicable to common stockholders pursuant to the provisions of Statement of Financial Accounting Standards ASP Topic 260. Basic earnings (loss) per common share is calculated by dividing net income or loss applicable to common stockholders by the weighted average number of common shares outstanding and to be issued during each period. The calculation of diluted earnings per common share is similar to that of basic earnings per common share, except that the denominator is increased to include the number of additional common shares that would have been outstanding if all potentially dilutive common shares, such as those issuable upon the exercise of stock options, warrants, and the conversion of debt were issued during the period.

Since Milestone had net losses for 2009 and 2008, the assumed effects of the exercise of outstanding stock options and warrants, as well convertible debt were not included in the calculation as their effect would have been anti-dilutive. Such outstanding options and warrants totaled 1,650,141 at December 31, 2009 and 3,601,245 at December 31, 2008. The 1,650,151 options and warrants outstanding as of December 31, 2009 does not include 666,667 Performance Options in 2009, that are not granted until earned over the next four years, if such performance targets are achieved. See Note J.

16. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions in determining the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. The most significant estimates relate to the allowance for doubtful accounts, inventory valuation, and cash flow assumptions regarding evaluations for impairment of long-lived assets and valuation allowances on deferred tax assets. Actual results could differ from those estimates**.**

17. Fair Value of Financial Instruments

Fair Value Measurements: We follow the provisions of ASC 820, *Fair Value Measurements and Disclosures* related to financial assets and liabilities that are being measured and reported on a fair value basis. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the principal market at the measurement date (exit price). We are required to classify fair value measurements in one of the following categories:

Level 1 inputs which are defined as quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

Level 2 inputs which are defined as inputs other than quoted prices included within Level 1 that are observable for the assets or liabilities, either directly or indirectly.

Level 3 inputs are defined as unobservable inputs for the assets or liabilities.

Financial assets and liabilities are classified based on the lowest level of input that is significant to the fair value measurement. Our assessment of the significance of a particular input to the fair value measurement requires judgment, and may effect the valuation of the fair value of assets and liabilities and their placement within the fair value hierarchy levels.

The carrying amounts reported in the consolidated balance sheet for cash, accounts receivable, advances to contract manufacturer, accounts payable and accrued expenses approximate fair value based on the maturity of these instruments.

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18. Stock-Based Compensation

Milestone accounts for stock-based compensation under ASC Topic 718, *Share-Based Payment*, an Amendment of FASB Statement No. 123 (SFAS No. 123R). ASC Topic 718 requires all share-based payments to employees, including grants of employee stock options, to be recognized in the statements of operations over the service period, as an operating expense, based on the grant-date fair values.

The weighted-average fair value of the individual options granted during 2009 and 2008 was estimated as $0.91 and $0.84, respectively, on the date of grant. The fair value for 2009 and 2008 was determined using the Black-Scholes option-pricing model with the following weighted average assumptions:

	December 31,	
	2009	**2008**
Volatility	203%	372%
Risk-free interest rate	1.83%	2.86%
Expected life	3 years	3 years
Dividend yield	0%	0%
Forefeiture Rate	6%	6%

In accordance with the provisions of ASC Topic 718, all other issuances of common stock, stock options or other equity instruments to non-employees as consideration for goods or services received by Milestone are accounted for based on the fair value of the equity instruments issued (unless the fair value of the consideration received can be more reliably measured). The fair value of any options or similar equity instruments issued is estimated based on the Black-Scholes option-pricing model, which meets the criteria set forth in ASC Topic 718, and the assumption that all of the options or other equity instruments will ultimately vest. Such fair value is measured as of an appropriate date pursuant to the guidance in the consensus of the party becomes committed to provide goods or services or the date performance by the other party is complete) and capitalized or expensed as if Milestone had paid cash for the goods or services.

Expected volatilities are based on historical volatility of Milestone s common stock over a period commensurate with expected term. Milestone uses historical data to estimate option exercise and employee termination within the valuation model.

19. Concentration of Credit Risk

Milestone s financial instruments that are exposed to concentrations of credit risk consist primarily of cash and trade accounts receivable, and advances to contract manufacturer. Milestone places its cash and cash equivalents with large financial institutions. At times, such investments may be in excess of the Federal Deposit Insurance Corporation insurance limit. Milestone has not experienced any losses in such accounts and believes it is not exposed to any significant credit risks. Financial instruments which potentially subject Milestone to credit risk consist principally of trade accounts receivable, as Milestone does not require collateral or other security to support customer receivables, and advances to contract manufacturer. Milestone entered into a purchase agreement with a vendor to supply Milestone with 5,000 instruments of *CompuDent*. As part of this agreement, Milestone has advanced approximately $463,000 and $666,000 to the vendor for purchase of materials at December 31, 2009 and 2008, respectively. The advance will be credited to Milestone as the goods are delivered. Milestone does not believe that significant credit risk exists with respect to this advance to the contract manufacturer at December 31, 2009 and 2008.

Milestone closely monitors the extension of credit to its customers while maintaining allowances, if necessary, for potential credit losses. On a periodic basis, Milestone evaluates its accounts receivable and establishes an allowance for doubtful accounts, based on a history of past write-offs and collections and current credit conditions. Management does not believe that significant credit risk exists with respect to accounts receivable at December 31, 2009 and 2008.

20. Recent Accounting Pronouncements

In June 2009, the FASB issued SFAS No. 168 (SFAS 168), Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles . The FASB Accounting Standards Codification (Codification) has become the source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities in the preparation of financial statements in accordance with GAAP. All existing accounting standard documents are

superseded by the Codification and any accounting literature not included in the Codification will not be authoritative. However, rules and interpretive releases of the Securities Exchange Commission (SEC) issued under the authority of federal securities laws will continue to be sources of authoritative GAAP for SEC registrants.

SFAS 168 is effective for interim and annual reporting periods ending after September 15, 2009. Therefore, beginning with our quarter ending September 30, 2009, all references made by it to GAAP in its consolidated financial statements now use the new Codification numbering system. The Codification does not change or alter existing GAAP and, therefore, it is not having an impact on the Company s financial position, results of operations and cash flows.

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FASB ASC Topic 350-30-65-2, formerly, Emerging Issue Task Force (EIFT) No 08-7 Accounting for Defensive Intangible Assets, issued in November 2007, provides accounting and reporting guidance when an intangible acquired though a business combination or an asset acquisition that an entity does not intend to use but does intend to prevent others from using, commonly called a defensive asset or a locked up asset, because while the asset is not being actively used, it is likely contributing to an increase in the value of the other assets owned by the entity. This issue is effective for intangible assets acquired on or after the beginning of the first annual period beginning on or after December 15, 2008. This Statement does not currently impact the financial statements of the Company.

FASB ASC Topic 808-10-05, Accounting for Collaborative Agreements, issued in November 2007, defines a Collaborative Arrangement and establishes the reporting requirements for transactions between participants in a collaborative arrangement and between participants in an arrangement with third parties. This issue shall be effective beginning after December 15, 2008 and interim periods within those fiscal years. This Statement does not currently impact the financial statements of the Company.

FASB ASC Topic 805-10-65-1, *Summary No. 141 (revised 2007)* . SFAS No. 141 (revised) provides for improving the relevance, representational faithfulness, and comparability of the information that an entity provides in its financial reports about a business combination and its effects. SFAS No. 141 (revised) applies prospectively to business combinations for which the acquisition date is on or after December 15, 2008. This statement does not currently impact the financial statements of the Company.

FASB ASC Topic 810, *Non controlling Interests in Consolidated Financial Statements- an amendment of ARB No. 51* . SFAS No. 160 establishes accounting and reporting standards for non-controlling interests, sometimes called minority interests for the portion of equity in a subsidiary not attributable, directly or indirectly, to a parent. SFAS No. 160 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2008. This statement does not currently impact the financial statements of the Company.

FASB ASC Topic 815-10-20, Disclosure about Derivative Instruments and Hedging Activities an amendment of FASB No. 133 . This Statement requires enhanced disclosure about an entity s derivative and hedging activities. The effective date for this Statement is for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. This Statement does not currently impact the financial statements of the Company.

In May 2008, the FASB issued FSP Accounting Principles Board (APB) Opinion 14-1, Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement) (FASB ASC 470-20-65-3) which applies to all convertible debt instruments that have a net settlement feature; which means that such convertible debt instruments, by their terms, may be settled either wholly or partially in cash upon conversion. FASB ASC 470-20-65-3 requires issuers of convertible debt instruments that may be settled wholly or partially in cash upon conversion to separately account for the liability and equity components in a manner reflective of the issuer s nonconvertible debt borrowing rate. Previous guidance provided for accounting for this type of convertible debt instrument entirely as debt. FASB ASC 470-20-65-3 is effective for financial statements issued for fiscal years beginning after December 15, 2008 and interim periods within those fiscal years. This statement does not currently impact the financial statements of the Company.

FASB ASC Topic 944, Accounting for Financial Guarantee Insurance Contracts . The Statement requires that an insurance enterprise recognize a claim liability prior to an event of default, when there is evidence that credit deterioration has occurred in an insured financial obligation. This Statement is effective for fiscal years beginning after December 15, 2008, and interim periods within the fiscal year. This Statement does not currently impact the financial statements of the Company.

FASB ASC Topic 855, Subsequent Events (SFAS No. 165) a statement that requires disclosure of events that occur after the balance sheet date, but before the financial statements are issued. The effective date of this statement is for interim or annual financial periods after June 15, 2009. In accordance with the ASC, the Company reviewed the events for inclusion in the financial statements through the filing date.

FASB ASC Topic 860 Accounting for Transfers of Financial Assets (SFAS 166) an amendment of FASB No. 140 was issued in June 2009. The purpose of this Statement was to address practices that developed subsequent to the issuance of SFAS No. 140, that were not consistent with the intent or key requirements of that Statement. This Statement must be applied as of the beginning of each entity s first annual reporting period that begins after

November 15, 2009. This Statement does not currently impact the financial statements of the Company.

Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements. Effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances, and settlements in the roll forward of activity in Level 3 fair value measurements. Those disclosures are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. Early adoption is permitted.

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NOTE C INVENTORIES

	December 31 2009	2008
Inventories consist of the following:		
Finished Goods	$ 775,126	609,279
Component parts and other materials	29,610	110,623
	$ 804,736	719,902

Slow moving and overstocked inventories totaling approximately $36,000 and $82,000 were charged off to cost of products sold during the year ended December 31, 2009 and 2008, respectively.

NOTE D ADVANCES TO CONTRACT MANUFACTURER

The net advances to contract manufacturer represent funding of future STA, CompuDent and Wand Plus inventory purchases. The balance of the net advances as of December 31, 2009 and 2008 totaled $463,225 and $665,890, respectively. The portion of this advance expected to be utilized in the next twelve months is classified as current asset, with the remainder classified as non-current asset.

NOTE E FURNITURE, FIXTURE AND EQUIPMENT

	December 31 2009	2008
Furniture, Fixture and Equipment consist of the following:		
Leasehold improvements	$ 22,317	$ 22,317
Artwork		76,918
Office furniture and equipment	98,268	88,848
Trade show displays	86,121	57,463
Computers and software	179,048	176,276
Tooling equipment-STA	12,377	12,377
STA Trials Units	63,752	63,752
Tooling equipment	11,100	
Total	472,983	497,951
Less accumulated depreciation	(395,630)	(345,377)
	$ 77,353	$ 152,574

Depreciation expense was $50,253 and $71,336 for the years ended December 31, 2009 and 2008, respectively.

NOTE F INVESTMENT IN DISTRIBUTOR

In December 2004, Milestone purchased a 19.9% equity interest in a German distribution company which is an affiliate of Milestone s principal international distributor.

NOTE G PATENTS

Patents are being amortized by the straight-line method over estimated useful lives ranging from 10 to 20 years, with a weighted average amortization period of 16 years. Amortization expense amounted to $76,133 in 2009 and $55,908 in 2008. Estimated amortization expense of existing patents for each of the next five fiscal years amounts to approximately $80,000 per year.

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NOTE H LINE OF CREDIT and NOTES PAYABLE

On June 28, 2007 the Company secured a $1 million line of credit from a stockholder. This borrowing was amended to $1,300,000 as of September 30, 2008 under the same terms and conditions as the original. Borrowings bear interest at 6% per annum, with one year s interest at 1% payable in advance on each draw. All borrowings and interest thereon must be repaid by June 30, 2010, and after the expiration date of the line, may be repaid by Milestone in cash or, at its option, in shares of common stock valued at the lower of $2.00 per share or 80% of the average closing price of its shares during the 20 trading days ending with December 31, 2008. At December 31, 2008, the conversion price at 80% of the average closing price of the Company s stock was $0.26 per share. After December 31, 2008, and before June 30, 2010, the lender may convert all or any part of the then outstanding balance and interest thereon into shares of Common Stock at $4.00 per share. Three year warrants exercisable at $5.00 per share, in an amount determined by dividing 50% of the amount borrowed by $5.00 will be issued on each drawdown. There is no facility fee on the line. The warrants have been valued as of each draw down using the Black-Scholes model and are reflected as a discount against the debt incurred under this line of credit. At December 31, 2008 the remaining balance of Debt Discount was $52,530. The full amount of the line of credit and amendment, $1.3 million, has been drawn at December 31, 2008. The $1.3 million Line of Credit was converted into shares of Milestone s common stock in December 2009 at a conversion rate of $1.58 per share. A total of 822,785 shares were issued and the debt liquated at that date. Interest on the Line of Credit of aggregated $176,655 was accrued as of December 31, 2009. This interest will be paid in equal quarterly payments of $23,000 over the next two years. These payments will represent the initial interest accrued plus and aggregate of $7,335 of interest on the outstanding interest debt. The Company borrowed an additional $450,000 from the same shareholder in 2008. The borrowing was originally on short term loan with a maturity date of January 19, 2009. In December 2008, this borrowing was refinanced with the shareholder with a due date of June 30, 2012. The borrowing includes a twelve percent interest rate, interest compound quarterly, with interest and principle due at the maturity. Further, the note has warrants exercisable for five years at the price of $0.32 per share for 45,000 shares of stock. The warrants were valued using the Black-Scholes model and are reflected as a discount against the debt. At December 31, 2009, the discount was $11,157.

Interest expense on this Line of Credit for the year ended December 31, 2009 and 2008 is $154,027 and $116,374, respectively. Accrued interest related to this line of credit was $245,426 and $98,437 at December 31, 2009 and December 31, 2008, respectively. The charge for amortization of Debt Discount related to this Line of Credit is $53,330 and $27,446 for the year ended December 31, 2009 and December 31, 2008, respectively.

NOTE I STOCKHOLDERS EQUITY

ISSUANCES OF COMMON STOCK

During 2009, Milestone issued 518,367 shares valued at $500,500 for payment of consulting services.

During 2009, Milestone issued 323,009 shares valued at $160,325 for payment of employee compensation.

During 2009, Milestone issued in advance 84,783 shares valued at $97,500 for future services of the Chairman.

During 2009, Milestone issued 333,333 share valued at $150,000 for vendor compensation.

During 2009, Milestone issued 3,333 shares valued at $1,866 for exercising stock options

During 2009, Milestone issued 822,785 shares valued at $ 1,300,000 for the conversion of note.

During 2009, Milestone s to be issued shares are 45,455 valued at $25,000 for the officer s deferred compensation.

During 2009, Milestone s to be issued shares are 142,405 valued at $225,000 for the bonus compensation.

SHARES TO BE ISSUED

As of December 31, 2009 and 2008, there were 692,498 and 504,639 shares that have been deferred from being issued, subject to employment agreements with the Chief Executive Officer and Chief Financial Officer of the Company. Such shares will be issued to each party upon termination of their employment.

OUTSTANDING WARRANTS

At December 31, 2009, there were 175,000 warrants outstanding. Warrants issued in connection with the $1.3 million Line of Credit, 130,000 warrants, exercisable at $5.00 per share expiring on several dates in 2010 and 2011. Additionally, there were 45,000 warrants in connection with the Long Term note of $450,000, exercisable at $0.32 per share, expiring in June 2012.

In first and second quarters of 2009, 2,227,946 warrants at $4.89 per share, to issue the equivalent number of shares of the Company s common stock expired.

There were no warrants issued in 2009.

SHARES RESERVED FOR FUTURE ISSUANCE

At December 31, 2009 and 2008 there were 3,438,974 and 4,853,216 shares reserved for future issuance including 429,667 shares in 2009 and 747,332 shares in 2008 underlying stock options available under the Stock Option Plans, respectively; 1,650,141 and 3,601,245 shares underlying other stock options and warrants that were outstanding at December 31, 2009 and 2008, respectively: 692,498 shares in 2009 and 504,639 shares in 2008 to be issued in settlement of deferred compensation to Officers of the Company; and 666,667 shares in 2009 for Performance Options issued to an Officer of the Company.

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In December 2007, the Board of Directors authorized the Company to issue up to $2 million of its Company stock to vendors or employees, and to grant them piggy back registration rights in the usual form, at a value of not less than 90% of the market value on the date of the agreement for the vendor or employee to accept said shares. Such future shares are not included in the above noted shares reserved for future issuance.

NOTE J STOCK OPTION PLANS

In 1997, the Board of Directors approved the adoption of the 1997 Stock Option Plan. The 1997 Stock Option Plan provides for the grant of options to purchase up to 166,667 shares of Milestone s common stock. In 1999, the Plan was amended, providing for the grant of options to purchase up to 333,333 shares of Milestone s common stock. Options may be granted to employees, officers, and directors of Milestone for the purchase of common stock of Milestone at a price not less than the fair market value of the common stock on the date of the grant. In general, options become exercisable over a three-year period from the grant date and expire five years after the date of grant. The 1997 plan expired in 2008.

In July 2004, the Board of Directors approved the adoption of the 2004 Stock Option Plan. The 2004 Stock Option Plan provides for the grant of options to purchase up to 500,000 shares of Milestone s common stock. Options may be granted to employees, officers, directors and consultants of Milestone for the purchase of common stock of Milestone at a price not less than the fair market value of the common stock on the date of the grant. In general, options become exercisable over a three-year period from the grant date and expire five years after the date of grant.

In November 2009, the Board of Directors authorized 666,667 options be reserved for a special bonus to the Chief Executive Officer of the Company, for obtaining a three year purchase order for the sale of 12,000 STA Systems and related handpieces over a four year period. These options were reserved but not granted until specific performance targets are achieved. The options will be issued upon achievement of the specific target on a yearly basis. The options were valued at $1.49 per share.

A summary of option activity for employees under the plans as of December 31, 2008 and 2009, and changes during the year then ended is presented below:

	Number of Options	Weighted Averaged Exercise Price	Weighted Average Remaining Contractual Life (Years)	Aggregate Intrinsic Options Value
Outstanding, January 1, 2008	391,334	1.86	2.85	108,800
Granted	230,832	0.85	4.20	75
Exercised				
Forfeited or expired	(51,334)	1.19		
Outstanding, December 31, 2008	570,832	1.51	3.01	75
Exercisable, December 31, 2008	366,442	1.83	2.43	
Granted	872,866	1.02	4.59	
Exercised during 2009	(3,333)	0.56		
Forfeited or expired	(380,223)	0.88		
Outstanding, December 31, 2009	1,060,142	1.33	3.61	632,624
Exercisable, December 31, 2009	559,154	1.45	2.62	94,336

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	Number of Options	Weighted Averaged Exercise Price	Weighted Average Grant Date Fair Value
VESTED OPTIONS			
Outstanding, January 1, 2008	314,334	1.94	
Exercised during 2008			
Vested Options during 2008	103,442		
Forfeited during 2008	(51,334)	1.19	
Outstanding, December 31, 2008	366,442	1.83	
Exercised during 2009	(3,333)	0.56	
Vested Options during 2009	232,378	1.45	
Forfeited during 2009	(36,333)	3.62	
Outstanding, December 31, 2009	559,154	1.45	
NONVESTED OPTIONS			
Nonvested, January 1, 2008	77,000	1.56	1.00
Granted during 2008	230,832	0.85	0.84
Vested during 2008	(103,442)	1.19	0.89
Forfeited during 2008			
Nonvested, December 31, 2008	204,390	0.94	0.87
Granted Options during 2009	872,866	1.02	0.41
Vested during 2009	232,378	1.45	0.47
Forfeited during 2009	(343,890)	0.59	0.59
Nonvested, December 31, 2009	500,988	1.20	0.45

Milestone recognizes compensation expense on a straight line basis over the requisite service period. During the years ended December 31, 2009 and 2008 Milestone recognized $193,600 and $100,968 of total compensation cost related to options that vested each year, respectively. As of December 31, 2009 and 2008, there was $362,938 and $111,189 of total unrecognized compensation cost related to non-vested options which Milestone expects to recognize over a weighted average period of 2.5 years and 2 years for December 31, 2009 and December 31, 2008, respectively.

A summary of option activity for non-employees under the plans as of December 31, 2008 and 2009, and changes during the year ended is presented below:

	Number of Options	Weighted Averaged Exercise Price	Weighted Average Remaining Contracted Life (years)	Aggregate Intrinsic Options Value
Outstanding, January 1, 2008	639,133	3.15	2.56	20,667
Exercisable, December 31, 2008	514,133	3.49	2.19	1,667
Granted during 2008				
Forfeited during 2008	(11,666)	3.75		
Outstanding, December 31, 2008	627,467	3.14	1.61	
Exercisable, December 31, 2008	564,967	3.29	1.44	
Granted during 2009	156,666	0.41	3.08	
Forfeited during 2009	(369,134)	3.38		
Outstanding, December 31, 2009	414,999	1.90	2.70	263,083
Exercisable, December 31, 2009	336,387	1.91	2.71	234,638

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	Number of Options	Weighted Averaged Exercise Price
VESTED OPTIONS		
Outstanding, January 1, 2008	514,133	3.49
Exercised during 2008		
Vested during 2008	62,500	1.77
Forfeited during 2008	(11,666)	3.75
Outstanding, December 31, 2008	564,967	3.29
Exercised during 2009		
Vested during 2009	140,554	0.32
Forfeited during 2009	(369,134)	3.38
Outstanding, December 31, 2009	336,387	1.96
NONVESTED OPTIONS		
Nonvested January 1, 2008	125,000	1.77
Exercised during 2008		
Vested during 2008	(62,500)	1.77
Forfeited during 2008		
Nonvested December 31, 2008	62,500	1.77
Granted during 2009	156,666	0.41
Exercised during 2009		
Vested during 2009	(140,554)	0.32
Forfeited during 2009		
Outstanding, December 31, 2009	78,612	1.64

The fair value of the options was estimated on the date of grant using the Black Scholes option-pricing model. For the year ended December 31, 2009, the following weighted average assumptions were used in calculating fair value; excepted life of 3 years; volatility of 222.15% and risk-free interest rate of 1.24%. There were no options granted to non-employees during 2008. During the year ended December 31, 2009 and 2008 Milestone recognized $92,235 and $50,952 of expense related to non-employee options that vested, respectively. The total unrecognized compensation cost related to nonvested options was $14,305 and $59,484 as of December 31, 2009 and 2008.

NOTE K EMPLOYMENT CONTRACT AND DEFERRED COMPENSATION

Employment Contracts

In March 2009, the Chairman assumed the position of Milestone s Acting Chief Executive Officer. In September 2009 The Chairman stepped down as Chairman to fill the position of Chief Executive Officer. The Chief Executive Officer entered into a new employment agreement with the Company effective September 1, 2009. This new agreement suspends the previous agreement scheduled to terminate on December 31, 2012. The new agreement is for five years ending on August 31, 2014. The contract shall be extended for successive one-year periods, unless prior to August 1 of any year, either party notifies the other that he or it chooses not to extend the New Employment Term. As part of this agreement the Chairman relinquished the title and position of Chairman. Under the new agreement, the Chief Executive Officer will receive a base compensation of $300,000 per year payable. In addition, the CEO, may earn annual bonuses up to an aggregate of $400,000, payable one half in cash and one half in common stock, contingent upon achieving targets set for each year by the Compensation Committee of the Board of Directors of the Company.

In addition, if in any year of the term of the agreement the CEO earns a bonus, he shall also be granted five-year stock options to purchase twice the number of shares earned. Each such option is to be exercisable at a price per share equal to the fair market value of a share on the date of grant (110%) of the fair market value if the CEO is a 10% or greater stockholder on the date of grant). The options shall vest and become exercisable to the extent of one-third of the

shares covered at the end of each of the first three years following the date of grant, but shall only be exercisable while the CEO is employed by Milestone or within 30 days after the termination of his employment.

In accordance with the employment contract, as of September 30, 2009 and January 1, 2008, 676,676 shares and 504,639 shares of common stock are to be paid out at the end of the contract in settlement of $925,000 as December 31, 2009 and $700,000 as of December 31, 2008 of accrued deferred compensation and, accordingly, such shares have been classified in stockholders equity with the common shares classified as to be issued.

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Milestone entered into an agreement with a new Chairman effective October 1, 2009. The term of the contract is for a nine month period ending on June 30, 2010. Under this agreement the Chairman will receive a base compensation of $190,000 per year, payable $5,000 per month in cash starting in January 2010 and the remainder in stock issued at the closing price on September 1, 2010. 84,783 shares were issued in September 2009.

In accordance with the respective employment contracts, as of September 30, 2009 and December 31, 2008, 676,676 shares and 504,639 shares of common stock are to be paid out at the end of the contract in settlement of $925,000 as December 31, 2009 and $700,000 as of December 31, 2008 of accrued deferred compensation and, accordingly, such shares have been classified in stockholders equity with the common shares classified as to be issued.

NOTE L INCOME TAXES

The Company s expected federal income tax benefit computed at the statutory rate (34%) on the pre-tax loss amounted to $520,000, in 2009 and $400,000 in 2008. Such benefit was not recognized in the accompanying financial statements due to Milestone s history of past operating losses, which required full valuation allowances for all of Milestone s deferred tax assets at December 31, 2009 and 2008.

Deferred tax attributes resulting from differences between financial accounting amounts and tax bases of assets and liabilities at December 31, 2009 and 2008 are as follows:

	2009	2008
Current Assets		
Allowance for doubtful accounts	$ 2,000	$ 2,000
Inventory allowance	79,000	70,000
Warranty reserve	10,000	10,000
Deferred officers compensation	77,000	40,000
Subtotal	168,000	122,000
Valuation allowance	(168,000)	(122,000)
Current deferred tax asset	$	$